Strategic Framework for Sustainable Microfinance in Pakistan

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STATE BANK OF PAKISTAN
Microfinance Department

MISSION STATEMENT

Fostering financial inclusion through robust microfinance providers supporting livelihood and entrepreneurship development opportunities thereby contributing to equitable economic growth and prosperity in Pakistan.

VISION STATEMENT

To transform microfinance into a dynamic industry, integrated with the overall financial system, which provides inclusive financial services to the underserved economic and geographic segments through self-sustaining business models and demand driven products, while maintaining high standards of governance and service delivery, supported by agile regulatory environment.

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FOREWORD

State Bank of Pakistan (SBP) has been playing a key role in the development of microfinance sector since 2000. Pakistan's microfinance sector is globally recognized for well-developed legal, regulatory, and strategic framework. To stimulate growth of the sector on sustainable basis, SBP spearheaded the formulation of national microfinance strategy in 2007, which was approved by the Government of Pakistan. The 2007 strategy achieved a number of key milestones, such as:

- Enabling regulations to support Alternative Delivery Channels, access to foreign and local currency funding, upscaling loan limits, microfinance borrower's eligibility criteria, and access to MFB's clearing house, were introduced.
- Innovative models/partnerships were adopted to deploy Branchless Banking solutions.
- Reforms in key institutions (Khushhali Bank, NRSP and PPAF) were initiated.
- New players, such as ASA and BRAC, established operations in Pakistan.
- Mainstreaming of the two largest MFIs (Kashf, NRSP) was completed.
- Funding mechanisms were set up to address the funding and institutional capacity constraints.
- Microfinance-exclusive CIB has been launched on pilot basis to promote risk management

Notwithstanding these significant achievements, the microcredit growth target of reaching out to 3 million borrowers by the end of 2010, set out in the strategy, remained unattained for a variety of reasons. Therefore, SBP initiated the process to re-visit the strategy of 2007 in the present context and develop a medium term strategic framework for sustainable microfinance in Pakistan.

The new strategic framework, based on sector diagnostics, provides a road map for the development of sustainable microfinance to foster financial inclusion. The policy focus remains on promoting market-based financial services that meet the diverse needs of poor and low-income segments. Specifically, the new strategy focuses on:

- improving the quality of growth through promoting inclusive financial services with upscaling credit operations;
- promoting innovations to achieve rapid scale and reduce operating costs
- promoting organizational development through effective governance and professional management at strategic, middle and operational levels; and
- improving sector discipline through consumer protection policies, financial literacy programs, and exploring options to bring non-regulated MFIs under a minimum regulatory framework.

The draft strategy was earlier presented to the Microfinance Consultative Group (MFCG) drawing representation from the key stakeholders including Ministry of Finance (GoP), Pakistan Poverty Alleviation Fund, and Donors. The views/comments of MFCG were incorporated. Subsequently, the strategy was further refined in light of the recommendations of Pakistan Branchless Banking Conference conducted by SBP. The Ministry of Finance, Government of Pakistan, has supported the Strategy.

SBP wishes to acknowledge the contributions by all stakeholders, particularly the MFCG members, in the development of this strategy.

EXECUTIVE SUMMARY

1. Microfinance in Pakistan has come a long way since 2000 and is gradually mainstreaming into the formal banking system. Eight Microfinance Banks (MFBs) have been established, including transformation of three leading Microfinance Institutions (MFIs), and two of the world's largest MFIs have started operations in Pakistan, reflecting private sector participation and institutional diversity. The policy and regulatory environment continues to improve and is recognized as well developed[1]. Furthermore, the industry infrastructure is expanding which includes a pilot microfinance-exclusive CIB to improve risk management practices. Most importantly, the sector's visibility has increased globally due to the launch of transformational branchless banking initiatives which leverage telcos and postal networks and mobile phone technology to expand cost-efficient financial services to the unbanked population.

2. Nonetheless, the industry is yet to make major breakthroughs to become a dynamic participant within the overall financial sector and to reach millions of underserved people. The current outreach of 2 million borrowers is only 7 percent of the potential market. The Microfinance Strategy of 2007 set a target to reach three million borrowers by the end of 2010 from 0.9 million borrowers as of Dec 31, 2006. The sector achieved an impressive growth rate of 43% per annum in 2007 and 2008, however, the microcredit growth decelerated in 2009 and 2010. Although the credit growth remained below its target, the microbanking industry showed progress in deposit mobilization and microinsurance.

3. The recent slow-down in microcredit growth is mainly attributable to the following constraints:
   i. **Funding:** MFIs are largely dependent upon subsidized funding from Pakistan Poverty Alleviation Fund (PPAF) to finance their lending operations which is limited. Similarly MFBs, owing to slow progress in deposit mobilization, have not yet become sustainable in generating internal funding. The sector faced difficulty in accessing commercial funds mainly from the risk averse commercial banks during 2009. However, the SBP's Microfinance Credit Guarantee Facility has been instrumental in mobilizing sizeable wholesale funds from the commercial banks to the microfinance sector recently.
   ii. **High operating costs:** The sector's high operating cost to loans ratio (presently 22%) poses a key challenge to make microfinance a viable business model. A reliance on brick and mortar branches and extensive human resource base has been adding significantly to high operating costs.
   iii. **Credit Risk:** Overall credit portfolio quality of the sector remains satisfactory. However, rapid growth in 2007 and 2008 led to multiple microfinance institutions lending to the same clients in a saturated market. Due to lack of appropriate internal

[1] The Economist Intelligence Unit (EIU) of the Economist magazine, which ranks and provides an analysis of the microfinance business environment in 54 countries, has ranked Pakistan the global leader in microfinance regulations in its 2010 report noting regulatory improvements in 2009.

controls, the phenomenon of over-borrowing by clients has the potential to spread, and create spill-over effects. In addition, high inflation is affecting the repayment capacity of micro-borrowers and the increasing trend in pricing of microcredit may also create default risk.

iv. **Organizational Development:** Sustainable growth and organizational development go hand-in-hand. By and large, the existing quality of governance, management teams, technology, and internal control systems of microfinance players are not conducive to the required level of growth.

v. **External factors:** Challenging macroeconomic environment and the prevailing law and order situation in the country are also inhibiting the growth of microfinance sector.

4. To address these challenges, the microfinance sector needs to be more innovative, more efficient, and more transparent. This strategic framework provides a road map for sustainable growth of the sector for the next five years:

i. **Diversity:** There exists a broad based government commitment to financial inclusion to promote inclusive economic growth. It will be important to continue implementation of policy approaches that provide the incentives for sustainable financial access and usage of a broad range of services (savings, credit, payments and transfers, insurance). The industry needs to shift away from the credit-only approach and offer comprehensive financial services such as micro-savings, remittances, and micro-insurance.

ii. **Innovation:** Both the policy makers and microfinance players are keen to promote technological and institutional innovation as a means to expand financial system access and usage. SBP will soon launch a Financial Innovation Challenge Fund under the auspices of the UKAid sponsored “Financial Inclusion Program (FIP)”, to support institutional and technological innovations in the industry. To reduce operating costs and attain rapid scale, microfinance players may leverage mobile phone technology and agents’ networks. Such platforms would also help them undertake specialized business proposals, for instance, financially inclusive Government to Persons (G2P) payments. SBP will encourage models that promote branchless banking. SBP will also establish and lead a formal consultative forum of key stakeholders on branchless banking. The consultative group will create synergies, facilitate sector innovations and market development, and develop collective understanding on critical issues.

iii. **Funding:** Deposit mobilization will be critical for the long-term development of microfinance. However, in the short to medium term, SBP and PPAF, in collaboration with interested donors, will jointly develop funding plans for the sector. The funding base of the existing credit enhancement instruments will be further augmented. To expand deposit operations of MFBs, SBP will consider allowing access to banking payment systems and developing deposit protection schemes.

iv. **Enterprise lending:** Lending operations must extend to different economic and geographic segments. 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. Donor funding can support product development and market surveys. The envisaged growth in portfolio would also require the development of robust risk management systems within microfinance organizations. The pilot MF-CIB in Lahore is expected to be extended to the rest of the country. This would minimize the incidence of clients' over-indebtedness.

v. **Institutional development:** Specific institutional strengthening and capacity development needs of individual players will be identified and assistance provided under the existing "FIP Institutional Strengthening Fund".

vi. **Consumer protection and empowerment:** SBP will review and strengthen its regulatory and supervisory processes to ensure protection of microfinance clients' rights. In addition, SBP in close collaboration with key stakeholders would launch a nation-wide financial literacy program to create awareness amongst clients about banking products and services and their rights.

vii. **Corporate Governance:** The microfinance organizations will have to improve governance standards for better strategic direction, effective oversight, and strong internal controls.

viii. **Minimum regulation of MFIs:** The unregulated microfinance sector still constitutes a significant market share, and hence carries reputational risk owing to potential poor credit decisions and/or undesirable consumer protection practices. Therefore, a feasibility study will be conducted to bring the un-regulated MFIs into a minimum regulatory framework. This will improve the sector-wide discipline, transparency, and governance.

A matrix showing the sector issues, their implications and the suggested policy response together with institutional responsibility is provided in **Table 5**.

5. The strategy's effectiveness and success hinges on growth dynamism fundamentally coming from microfinance operators themselves. The role of SBP is to develop the banking infrastructure, encourage the use of successful global practices, and provide regulatory and supervisory mechanism to enable MFBs to develop viable business models. The sector needs to discontinue dependence on external catalyst and focus on improving its financial and operating performance whilst ensuring high service standards.

BACKGROUND

Microfinance in Pakistan has yet to make major breakthroughs to reach millions of underserved people who require a wide variety of financial services. Pakistan has one of the lowest financial penetration levels in the World with 56% adult population totally excluded, and another 32% informally served. However, despite considerable support from the Government, donors and the State Bank of Pakistan, the microfinance sector has only been able to tap a small fraction of the potential market, with current active borrowers standing at roughly 2 million.

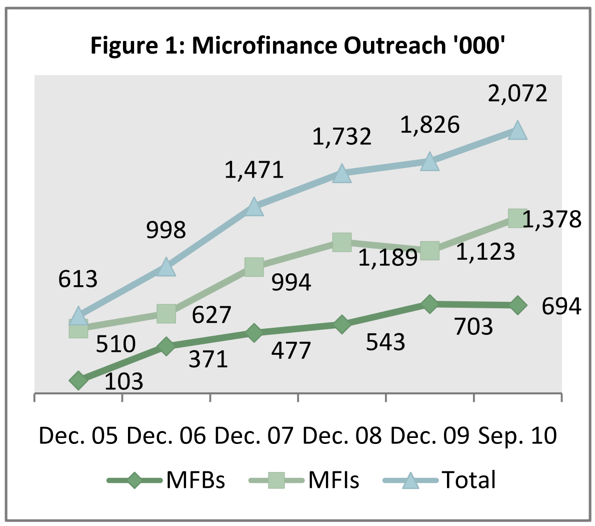
In 1999-2000, various Government initiatives were undertaken to lay the foundation for a national microfinance sector[2]. The year 2007 heralded a second phase, in which policy and strategy focus has been on accelerating growth through scalable and sustainable approaches. In order to promote sustainability and encourage a market-driven formal system, the State Bank of Pakistan (SBP), with broader stakeholder consultation, formulated a national strategy called "Expanding Outreach of Microfinance" (EMO), which was approved by the GoP in February 2007.

The strategy set out a target of three million borrowers to be achieved by the end of 2010 and 10 million by 2015 provided a commercial and sustainable orientation to the sector. From 2007 to 2010, key reforms were implemented under the EMO Strategy and the

TABLE 1: EXPANDING OUTREACH OF MICROFINANCE STRATEGY , 2007

Goal	Promote sustainable growth and institutional reforms
Industry Steps	Cost-Cutting business model, mobilize private capital and develop human resources
SBP Role	Lead sector development through licensing of MFBs, microfinance policy and regulations, and donor-funded SBP initiatives
Target	Reach 3 million borrowers by 2010

sector experienced high annual growth of almost 43% in 2007 and 2008. However, growth rates declined in the last quarter of 2008 and growth has been sluggish since then, stalling at approximately 2 million microfinance borrowers. Figure 1 illustrates microfinance sector growth over the recent



years.

As indicated by Figure 1, there has been growth deceleration since December 2008, attributable to the following factors:

I. **Funding**: Traditionally, funding to microfinance in Pakistan has been supported by donors. This form of funding is limited and unsustainable. In order for the industry

2 To promote the microfinance sector in Pakistan the Government of Pakistan (GoP) in late 90's undertook major initiatives such as the establishment of Khushhali Bank and Pakistan Poverty Alleviation Fund (PPAF) to bolster growth in the sector.

to grow in a financially stable manner, permanent sources of funding are crucial. Unfortunately, there are presently various challenges on availability of appropriate funding sources: *Firstly*, commercial banks are risk-averse due to, *inter alia*, tight liquidity conditions and less know-how of the microfinance sector. *Secondly*, though MFBs have the license to mobilize deposits, these have been unable to do so on a large scale. Even though MFB deposits registered 73% growth in 2009, they only contribute 40% of the entire funding structure. The high growth rate was the result of lower base, and also concentrated in two leading MFBs (FMFB and Tameer) and 74% of the total deposits belong to one MFB. Although potential demand for microsavings is immense in Pakistan[3], MFBs are still largely credit-driven. In addition to deposits, MFBs have been unable to leverage their geographic spread by offering home remittances and inland money transfers. Similarly, the MFBs' interest in providing micro insurance is also limited. Tapping into this market potential will allow MFBs to develop sustainable sources of funding, which is much cheaper than commercial credit. *Thirdly*, in the initial phase of portfolio growth of MFBs, the equity/paid-up capital behaved as a temporary source of funding. Equity, however, cannot act as a major contributor to medium-to-long term loan portfolio growth. *Fourthly*, until recently the largest MFB, Khushhali Bank, has been funded by the GoP-ADB sponsored subsidized financing. This source of funding has now dried up. *Lastly*, the PPAF is an apex funding body for meeting the funding needs of the sector. However, PPAF model is constrained by the following:

1. PPAF funding is restricted to non-regulated MFIs only.
2. At present, PPAF does not have sustainable sources of funding. Its exclusive source is the World Bank's loans obtained by GoP.
3. Due to per party limits prescribed by the PPAF, larger players receive limited funding which restricts their portfolio growth.

II. Portfolio Risk: Due to rapid growth in micro-credit up until 2008, instances of multiple and over-borrowing were witnessed in certain pockets of urban/rural markets. According to the Lahore Competition report published by PMN in 2007, increased competition led to client poaching. Taking benefit of such practices, borrowers accumulated small loans from many microfinance players. Multiple borrowing put clients at risk of over-indebtedness and institutional portfolios at credit risk. Moreover, the delinquency report on Punjab by PMN[4], highlighted credit risk challenges again along with some emerging risky practices[5] which include:

1. In certain clusters/regions, microfinance players are vying for the same clients resulting in multiple borrowing.
2. Although microfinance players have begun to expand in new markets, their internal controls and human resource development lag expansion. In certain instances, client acquisition is done through

3 Access to Finance Survey of 2008 shows that 53% of the adult population saves informally

4 "Unraveling the Delinquency Problem (2008/2009) in Punjab—Pakistan. MicroNote No.10. October 2009. PMN.

5 These practices have largely affected a particular MFI, which could have a contagion impact on other portfolios.

external agents, which leads to moral hazard problems.

While MFBs are subject to various regulations on credit, underwriting policy, loan classification provisioning, and borrowers' statement of aggregate portfolio, consumer protection and so forth, MFIs are not subject to any such regulations. Despite the recent transformations, the MFIs still have sizable market share. In the absence of a regulatory / supervisory mechanism for MFIs, the risk remains of MFIs' unchecked and risky practices (if any) transmitting to the entire sector. In addition to credit risk, the existing small average loan size of the sector suggests that the business models are not appropriate enough to generate interest revenues and make an impact on asset creation in the economy.

III. Organizational Development: Good governance is necessary for sound organizational development. Boards of directors of microfinance players have a particular role to provide strategic direction along with close oversight of the management. Commitment of the boards can ensure that the industry breaks the inefficiency bottlenecks and has access to sustainable sources of funding both from depositors and commercial banks. Similarly, human resource development remains a key developmental area for future accelerated expansion. Organizational capacity is a long-term risk and need to be mitigated through smart subsidies that produce tangible results.

IV. Cost-inefficiency: Inefficiency poses a serious risk to viability of the industry. Although the average operating cost to portfolio ratio of the sector has improved in recent years, the present ratio of 22%[6] is still quite high and reflects inefficiencies. Generally MFBs have not been able to capitalize on the existing supportive regulatory framework which allows them cost-effective alternative delivery channels (ADCs). Pakistan has 95 million mobile users and only 26 million bank account holders, creating great potential for Mobile Phone Banking. The fundamental requirements enabling the use of Branchless Banking are management capabilities for handling large operations, managing agents' network and using technology. MFBs need to develop their management capacity to manage the IT-led applications which may be used not only in the MIS, but also support various cost-effective service delivery channels, such as PoS, mobile phone etc.

[6] There are significant variances in operating costs across institutions.

The above risks necessitate the formulation of a well-thought out strategic response to the sector's main challenges. The new strategic framework is intended to help the sector to get back on the high growth trajectory by stressing on new initiatives in the areas of deposit mobilization, up-scaling, developing alternative delivery channels, and institutional development along with improving governance standards within the industry. The new strategy envisages that the sector will take the lead in its growth and development rather than seek external support.

To ascertain the performance gaps, it is important to compare the local microfinance industry with international benchmarks. Table 2 and Table 3 compare Pakistani microfinance sector with leading global players as well as with large and medium sized institutions. Pakistan's institutions are yet to make inroads within the market in terms of depth and breadth of outreach among borrowers and deposits. Moreover, operational self-sufficiency needs to be markedly increased. However, portfolio at risk in Pakistan remains quite low compared to institutions around the globe. **Annexure B & C** provide detailed microfinance indicators for Pakistan.

Table 2: Key Indicators Comparison for 2009

	Gross Loan Portfolio/ Total Assets (%)	Deposits to Total Assets (%)	Operational Self-Sufficiency (%)	Average Loan Balance per borrower/GNI per capita (%)	Portfolio at Risk>30 days (%)
Microfinance Sector in Pakistan	**57**	**21**	**94**	**14**	**1.9**
Large Institutions (Global)	75.4	27.8	118	59.3	4.4
Medium Institutions (Global)	74.8	20.6	109	74.2	5.5

Table 3: Key Indicators Comparison with Global Leading Institutions for 2009

	Gross Loan Portfolio/Total Assets (%)	Deposits to Total Assets (%)	Operational Self-Sufficiency (%)	Average Loan Balance per borrower/GNI per capita (%)	Portfolio at Risk>30 days (%)
Microfinance Sector in Pakistan	**57**	**21**	**94**	**14**	**1.9**
CARD Bank, Philippines	76.98	64.29	108.92	6.06	1.87
ASA, Bangladesh	91.65	31.82*	136.92	16.87	4.44
BRAC, Bangladesh[7]	66.57	23.46*	105.27	21.79	7.69
K-Rep, Kenya	75.67	55.00	76.82	166.56	22.33
BancoSol, Bolivia	77.16	68.63	104.66	212.73	0.95

7 ASA and BRAC collect only members' savings

STRATEGIC FRAMEWORK FOR SUSTAINABLE MICROFINANCE

Following the 2007 Microfinance Strategy, the sector witnessed the launch of several key initiatives. These included, enabling regulations to support technological and institutional innovations, upscaling and growth; improving industry infrastructure, and setting up credit enhancement facilities. The potential benefits of such initiatives are however still far from being realized and the industry has not fully developed critical aspects necessary for its long term and sustainable growth.

The new Strategic Framework complements, rather than replaces, the existing Strategy. There is a new emphasis on inclusive financial services, instead of outreach of borrowers, and demand for the industry to strengthen its fundamentals by developing infrastructure necessary for sustainable and inclusive growth.

The ultimate aim of the Strategic Framework is to develop sound and growth-led institutions. To this end, the strategy will focus on following key components:

- Accelerating outreach of inclusive financial services
- Promoting alternative delivery channels and using branchless banking models
- Deposit mobilization
- Up-scaling for micro-enterprise development
- Improving governance
- Institutional Strengthening and capacity development
- Consumer protection & financial literacy
- Regulatory mechanism for MFIs

SBP in collaboration with other agencies will encourage the industry to take benefits of the recently-launched initiatives such as credit guarantees, branchless banking, partnerships, MF-CIB, institutional support funds, to ensure that long-term results are achieved.

I. ACCELERATING OUTREACH OF INCLUSIVE FINANCIAL SERVICES

The industry needs to shift away from the credit-only approach and offer comprehensive financial services such as micro-savings, remittances, and micro-insurance. All-inclusive services can address the diverse needs of customers and provide additional revenues streams to MFBs.

In order to improve profitability, the sector would require going beyond the traditional products of microcredit and savings. Home remittances are an emerging business opportunity to MFBs with possibilities for significant profits. Foreign remittances have experienced significant growth in last few years, however a substantial proportion is being transmitted through informal channels. Overseas Pakistani workers send their remittances to their families living primarily in remote areas of Pakistan, creating opportunities for MFBs with presence in such markets to capture the remittance business. This will also be consistent with the recent policy actions of promoting channelization of remittances through banking system. **Annexure A** provides a snapshot of regulatory and policy initiatives taken by SBP for promoting microfinance.

Under the Financial Inclusion Program, support is available to MFBs to run pilot tests for innovative products/services. SBP is particularly encouraging new dynamic players (such as established telecommunication companies, mobile operators, and large network organizations) with impressive track record of delivering customer-focused services in remote areas to become 'super agent' of financial institutions under branchless banking.

II. Promoting Alternative Delivery Channels

Microfinance players have a unique opportunity in Pakistan to utilize alternative delivery channels due to the presence of a sound and pro-growth regulatory framework, dense population, and high demand for financial services. The motivation for developing alternative channels for service delivery is twofold: Firstly, there is enormous scope for expanding outreach, especially to hard-to-reach rural areas. The emerging models relying on "banking agents" will greatly extend the distribution of financial services to poor and marginalized segments. Secondly, alternative delivery channels promise significant cost reduction to institutions. The traditional microfinance business is based on personal, one-on-one relationships. Thus, personnel expenses often account for a significant portion of microfinance operating expenses. The use of banking agents will help to reduce the operating costs of the sector.

The role of technology and partnerships is pivotal in the successful use of alternative delivery channels. Comprehensive branchless banking (BB) regulations have been issued to financial institutions for developing partnerships in order to extend financial services to their clients. The regulations support the bank-led model, in which the entire control & responsibility of the product and program rests with the authorized financial institution. Due to inherent risks and existing legal framework, the telco-led model has not been permitted at this stage. The regulations also set out rules for information flow, operational risk, cash management, agents' development, and branding. In Brazil and India, commercial and state banks are forming alliances with a range of non-traditional partners, including post offices, retail outlets and other non-financial partners, self-help groups and community institutions to expand outreach in rural areas.

Consequent upon the issuance of BB Regulations in 2008, the following important developments have taken place in Pakistan:

1. **MFB's kiosks at retailers' premise**s: The First MicroFinance Bank developed a partnership model with Pakistan Post to augment its delivery channels. Under this model, more than 40,000 borrowers have been reached out through 68 offices of Pakistan Post. Similarly, to mobilize deposits Kashf bank is also opening kiosks at the premises of its sister concern Kashf Foundation.

2. **Retailers act as bank's Super-agent:** Under the branchless banking framework, Tameer Microfinance Bank made arrangements with M/s Telenor (as super agent) to offer financial services through the Telco's franchise centers. In October 2009, Telenor and Tameer launched the largest branchless banking initiative "EasyPaisa" in Pakistan. EasyPaisa allows individuals to use services such as utility bills payment, domestic remittances, and a deposit account (M-wallet) by visiting the nearest EasyPaisa authorized shop,

Telenor Franchise, Telenor Sales & Service Center or Tameer Bank branch. Tameer has so far established a network of almost 11,600 agents.

3. **Retailer forming own bank:** A new model is emerging in which a retailer or a telco establishes its own microfinance bank. A few large retail organizations and mobile network operators are currently in the process of establishing their own Microfinance banks to leverage their retail networks and mobile phone technology to extend the distribution of financial services throughout Pakistan. This new model has a potential to expand the frontiers of financial access especially in the far-flung areas.

In addition to supporting payments of microfinance products, the branchless banking channels are also facilitating G2P payments. United Bank Limited is currently providing support to Internally Displaced Persons (IDPs), and beneficiaries of Benazir Income Support Program (BISP) under its model of bank's own agents' network. A number of other commercial banks are also in the process of developing their branchless banking models.

Going forward, SBP will develop a formal consultative mechanism of the industry's key stakeholders to develop mutual trust and seek broader consultation on issues such as interoperability, regulatory support to BB initiatives etc.

III. DEPOSIT MOBILIZATION

While the credit side of microfinance is relatively well-developed, deposit mobilization still has a long way to go. Recently, SBP has taken some regulatory initiatives to help the sector to mobilize deposits at a grass root level. Importantly, SBP allowed the use of alternative delivery channels (ADCs) for MFBs to provide deposit services to their clients. MFBs now have the option to adopt different delivery channels, such as opening service centers within 50 km radius of a licensed branch, establishing kiosks at the outlets of a retail organization, and developing branchless banking models (PoS, Mobile phone etc.). A few MFBs have already taken lead in pioneering the use of these ADCs.

However, effective deposit mobilization requires knowledge of potential demand and supply side constraints. The Access to Finance Survey[8] of 2008, comprising of responses from 10,000 households across Pakistan confirmed the demand for savings services. The Survey results revealed that 56% of the adult population in Pakistan saves whereas only 8% of this segment saves with banks. Moreover, the four most popular ways of savings are all informal, i.e. cash at home, livestock, committees and purchasing lands. The prevalence of these informal asset classes suggests that people require a safe place to invest with a reasonable rate of return. Regardless of availability, the public's lack of familiarity with the banking system is one reason for depositor apprehension in placing their savings in the banking system. The fundamental challenge for MFBs is to create appropriate incentive structures for potential depositors, enabling them to intermediate deposits from the lower end of the market.

8 Access to Finance Survey, 2008. Conducted by AC Neilson and sponsored by the World Bank, DFID and SDC.

Considering the gradual development of banking infrastructure and systems, and the MFBs' need of rapidly mobilizing deposits, SBP has recently approved the request of Tameer Microfinance Bank to become a direct member of a payment system (clearing house). Based on this initiative, SBP is in the process of developing a scheme to encourage other MFBs to develop their infrastructure for gaining access to payment systems. However, access to such an important infrastructure will require appropriate readiness level of concerned MFBs. In this regard, MFBs would need to strengthen the following areas:

1. Strategic direction and oversight of the Board and the management on deposit operations
2. Development of demand-driven savings products
3. Comprehensive operational manual for deposit operations
4. Hiring and training of adequate human resources
5. Reliable and effective technological platform
6. Robust treasury management system and policies
7. Appropriate risk management framework especially to address operational and liquidity risks
8. Setting periodical business targets and develop performance monitoring system

IV. UP-SCALING FOR MICRO-ENTERPRISE DEVELOPMENT

Credit up-scaling through enterprise lending will be a key for moving towards commercialization and cost efficiency. This particularly applies to clients who have graduated from the basic credit product. In order to develop and retain these clients, and scaling up is required which will add to financial deepening of the system.

TABLE 4: REAL AVERAGE LOAN SIZE (RS.)

Year	MFBs	MFIs	Industry
2005	8,525	7,981	8,163
2006	9,946	9,117	9,312
2007	9,404	9,035	9,302
2008	10,824	9,152	9,976
2009	13,576	11,326	12,131

The loan size has remained relatively stagnant in recent years (**Table 4**). An analysis of average loan size distribution at Annexure-E also reflects that almost 82% portfolio of MFBs is concentrated in loan size below Rs. 20,000. On the positive side, there is some evidence of MFBs' emerging interest in the upper loan sizes. The existing high concentration of small loan sizes is likely to encourage poor households to smooth consumption, but may not directly add value to the development of micro-businesses and improvement in the economic prospects of households. The conclusion that microfinance may in fact be supporting consumption rather than providing business capital is further accentuated by findings of the Pakistan Microfinance Network in 2008, when it studied Microfinance competition in Lahore[9]. The PMN report states that most of the MFI branches in Lahore compete with at least three other branches in the area and clients subscribe to multiple borrowing. One of the reasons cited is the inability of MFIs to fulfill needs for business either due to funding or internal constraints, such as client

9 Burki , Hussan Bano and Shah, Mehr "The Dynamics of Microfinance Expansion in Lahore" PMN, June 2007

assessment, availability of systems and controls to manage large loans and group methodology. These factors mitigate large risks and increases transaction costs for borrowers.

However, small loans do not support enterprise development and the current practices limit the impact of access to credit only to households. Pakistan economy is comprised of a large number of micro and small enterprises which are being served neither by mainstream banks nor the microfinance sector. Hence, the MFBs have an opportunity to tap a potential market of enterprises financing. In this regard, MFBs would need to undertake certain measures, such as strengthening credit policy, developing new products and specialized credit scoring and creating loan monitoring systems. The MFBs would also require focusing on capacity building programs for their credit staff. On a broader level, initiatives such as analyzing and developing value chains and encouraging enterprise development programs would act as a catalyst for promoting individual lending in the sector.

V. IMPROVING GOVERNANCE

Governance for microfinance entities vary with institutional structures. The NGOs are registered in either one of the three forms: most are incorporated as company and regulated by the Securities and Exchange Commission, some as 'societies' under the Societies Act, and the remaining are 'trust' registered with Ministry of Industries. As grant-based welfare organizations, many do not adhere to formal and transparent governance structure and processes. As such, many of these organizations have weak management structures with little board oversight. This may create different risks (in particular credit and reputational risks), which have sector-wide implications. Improving the governance structure of MFIs will also create private investors' confidence in the sector.

The most notable action taken so far to improve governance mechanisms was the introduction of a legal framework for mainstreaming microfinance into the overall financial system. The banking model for MFBs emerged in 2001, when SBP was mandated to supervise them. To strengthen the governance and transparency standards, following measures have been taken:

- Fixing responsibility of Board of Directors for oversight of strategy and operations
- SBP's prior approval of CEO/Directors under Fit & proper criteria
- Specialized supervision system for MFBs:
  - Annual Onsite examination
  - Quarterly offsite surveillance enforcement mechanism
- Independent and effective internal audit
- External Audit, disclosure of financial statements, & Credit Rating

Notwithstanding the comprehensive set of aforementioned requirements, the fact remains that Pakistan's microfinance industry still have to take measures to improve the governance system. Importantly, following measures are required:

1. Board members develop adequate understanding and insight of the dynamics of microfinance.
2. Management should not dominate the Board.
3. The supervision of grants' flows should be on priority.

4. Boards should ensure that a system of management's succession planning is in place.
5. Boards should develop mechanisms for evaluation of management.
6. Boards should ensure that the business models are intrinsically built on economic and commercial merit. The social agenda may not distract the boards to lose sight of sustainability.
7. Boards should enhance the independence and effectiveness of internal audit functions.

The positive trend in the form of increased share of private sector and strategic investors in microfinance banks is likely to add favorable impact in bringing sound governance practices in the sector.

For transformed MFBs, governance tends to be a larger challenge. For years, these institutions have been undertaking operations under an informal governance structure. There remains increased risk that despite transformation, the founders and old management teams continue favoring the old informal culture. In contrast, the transformation is meant to bring commercial and business-like practices, hence the need of a professional board is even more important.

Microfinance institutions can enhance their disclosure practices by publishing their financial and operating results on their websites, newspapers and other media. Public disclosure, transparent governing structures, and internal control processes will improve the credibility of the sector, and give confidence to stakeholders including regulators, clients and investors. The effective governance will result in increased opportunities for future income through availability of deposits, commercial debt, and private equity investment.

VI. Institutional Strengthening and capacity development

As the microfinance sector is moving towards maturity it needs to be strengthened. Internal controls and systems have yet to keep up with growth. The MIS, human resource and marketing have to be strengthened to become comparable with the controls/systems of mature industries and institutions. The FIP Institutional Strengthening Fund[10] aims to address institutional and human resource capacity constraints facing individual microfinance organizations. The GBP 10 million fund, launched in December 2008, has provided grants of up to USD one million to several microfinance banks and institutions. These grants support trainings, MIS development, branchless banking, transformations, deposit mobilization, and product development.

Institutional strengthening remains the core responsibility of microfinance banks and institutions. Management needs to develop and implement concrete plan for developing appropriate management structure, training the human resource base, and strengthening the business processes. Technology plays an important role in building and managing the large retail portfolio and helps in adopting efficient delivery channels and putting in place robust MIS. The microfinance sector needs to move fast to become a technology-driven industry. Furthermore, human

10 Launched under the Financial Inclusion Program sponsored by the United Kingdom's Department for International Development and managed by the State Bank of Pakistan.

resource is critically important as this is a labor intensive industry. The microfinance banks and institutions need to have effective policies for hiring, training, and retaining its staff. Development of banking infrastructure and early adoption of good banking practices are essential to mainstream the microfinance into formal banking system.

VII. CONSUMER PROTECTION AND FINANCIAL LITERACY

As the microfinance industry pursues the high growth objective, it will have to optimize growth while ensuring sustainability with responsibility, to maintain quality. Nevertheless, the industry cannot be left to itself. Without appropriate checks and balances, socially less-responsible lending can jeopardize the efforts of promoting financial inclusion. This risk can be mitigated by adopting sound pro-consumer principles and practices.

Consumer protection is a strong tool to empower poor clients such that they know their rights and make informed decisions. Specifically, clients' protection can be based on widely-accepted principles such as avoidance of over-indebtedness, transparent pricing, appropriate collection practices, ethical staff behavior, mechanisms for redress of grievances, privacy of clients' data, and consumer awareness through financial literacy.

The implementation of above principles requires that:

- Borrowers' repayment capacity is properly assessed to determine loan amounts
- Staff incentives should not encourage their staff to over-lend
- Disclose all pricing and fees to clients in simple language
- Integrate financial literacy programs in their policies to educate consumers on their rights and responsibilities
- Equity investors and donors can also play a significant role by:
  - Incorporating checks on consumer protection practice into due diligence process
  - Requiring investees to demonstrate consumer protection action plans
- An independent director or a BoD's committee may be responsible for compliance of the consumer protection policy.
- The internal audit should look into the compliance issues related to consumer protection
- SBP supervisory processes should ensure the compliance of above recommendations
- Development of consumer protection policies and complaints redressal mechanism for clients of non-licensed MFI members

VIII. REGULATING MFI

Presently, MFIs have the major share for outreach in the sector (see **TABLE 6**). Despite transformation of a few large MFIs, this sub-sector can potentially grow owing to inherent benefits in form of apex fund's support, absence of regulatory/supervisory watch, and entry of international institutions. MFIs are also considered more aligned to a social mission by targeting rural, women, and poorest.

A major limitation for MFIs is the absence of owners, and lack of product diversity. While the absence of regulatory/supervisory regime gives flexibility of doing business to MFIs, the sector also has weak underwriting practices and consumer grievances issues. If these issues are not dealt with, they have the potential to harm the reputation and discipline of the whole sector.

Although MFIs only provide micro-credit, most of them inculcate savings discipline among their clients by opening their savings accounts in the branches of commercial banks. As the market continues to grow, large MFIs are requesting permission to undertake the members' savings on their own. Table six provides a snapshot of the legal status of microfinance institutions in Pakistan.

The introduction of an appropriate minimum regulatory mechanism for MFIs can provide legal permission for MFIs to mobilize members' savings. The State Bank of Pakistan will coordinate with the concerned government agencies and the PPAF to develop feasibility for minimum regulatory standards for MFIs. In this regard, the experiences of other countries will also be looked into. This will help strengthen the governance structure of the microfinance industry and promote transparency and discipline in the sector.

TABLE 5: SECTOR ISSUES, IMPLICATIONS, AND POLICY RESPONSE

	Issues	Implications	Policy Response	Responsibility
1	**Limited Retail Capacity** (Over-reliance on Brick & Mortar Branches)	• High Operating cost • Weak Deposit Mobilization	Leveraging mobile phone technology and agents' networks: i) Forming a national consultative group of key stakeholders on BB developments ii) Co-ordination with NADRA for reducing clients' identification cost iii) Co-ordination with Pakistan Telecommunication Authority (PTA) for developing national platform for BB operations (Inter-operability) iv) Conducting seminars, workshops, using FIP's assistance to strengthen BB-related capacity of performance-oriented players v) Coordination with GoP for using BB network for G2Ps vi) Strengthening partnerships of FMFB-Pakistan Post vii) Developing SBP supervisory systems for retail agents network	i) SBP ii) SBP/NADRA iii) SBP/PTA iv) SBP/PMN/MFBs v) GoP/SBP vi) SBP/FMFB/PPO vii) SBP
2	**Limited capital base of MFBs**	• Weak Institutional development • Lack of Investors' interest • Portfolio growth is restricted due to due to high CAR	i) Rationalizing capital requirement for MFBs ii) Strengthening Fit & proper for sponsors	SBP

3	**Over-dependence on Subsidies**	• Mature players have not yet attained sustainability. • Image of industry as subsidy-dependent	Supporting market development initiatives CIB, staff training, technology solutions etc.) i) Subsidies to be rationalized with the age of recipient institution ii) Recipients have to be performance oriented	SBP/Donors
4	**Smaller loan size**	• Thin revenue stream • High cost per loan amount	i) Regulatory guidelines on enterprise lending (up scaling) ii) Training programs for enterprise lending iii) Financial and technical assistance for undertaking market surveys to identify micro-enterprise clusters and product development	i) SBP ii) SBP/MFBs iii) SBP/MFBs/Donors
5	**Limited Funding Sources**	• Slow portfolio growth • High funding cost • Reluctance for up-scaling loan size	1. <u>Internal Funding - Promoting Deposit Mobilization</u> i) Access to Clearing House for MFBs ii) Feasibility for Deposit Insurance Scheme for depositors of MFBs iii) Market Research, micro-savings product development , and deposit-related infrastructure iv) KYC requirements for micro-savings to be rationalized. v) Linking grants and branches' licensing policy to deposit mobilization targets vi) Encourage establishment of deposits-led MFBs	i) SBP ii) SBP/MFBs iii) SBP/MFBs iv) SBP v) SBP/donors vi) SBP

			2. <u>External Funding</u> 2.1 <u>Strengthening Apex Fund (PPAF)</u> i) PPAF to generate sustainable funding sources ii) Using surplus liquidity for wholesale lending, and iii) Lending to MFBs 2.2 <u>Commercial Lenders</u> i) Augmenting funding base of existing credit enhancement (MCGF) ii) Option of local currency lending from foreign lenders be explored 2.3 <u>Long-term funding vehicle</u> A specialized funding mechanism need to be in place to support wholesale lending to MFBs for building long-term (housing) loan portfolio	i) PPAF ii) SBP iii) GoP/SBP/PPAF/Donors
6	**Weaknesses in governance / management structures, policies, and systems (BoD, management, business policies, operational procedures, MIS)**	Consistent operational losses Lack of vision and business strategy Gaps in succession planning High staff turn-over Use of ad-hoc MIS	<u>Governance System</u> i) Strengthening Fit & Proper Criteria for BoD members. ii) Guidelines on Governance and internal controls. iii) Mandatory trainings on corporate governance iv) Encouraging strategic investors in MFBs; specifically sale of NBP's shareholding in KB v) Weaker MFBs to give time-bound plan, either for revival or exit. <u>Management structure / processes</u> i) Formal Succession planning ii) HR policies offering career development opportunities iii) Hiring professionals with banking	i) SBP ii) SBP iii) SBP/MFBs/MFIs iv) MFBs v) Concerned MFBs/SBP i) MFBs/MFIs ii) MFBs/MFIs iii) PMN/MFBs/MFIs

			knowledge / experience iv) Linkage with universities, research houses, other training institutions v) Guidelines on MIS vi) Examine IT needs of microfinance players, and provide FIP support	iv) SBP v) SBP vi) SBP
7	**Limited Market Research**	• Unknown market opportunities • Concentration in few regions • Limited Products range	i) Access to Finance Survey (updated) ii) Survey for performance assessment of agents iii) Coordination with agencies such as CGAP/Gatts Foundation to conduct 'Country-Level Savings Assessment' iv) Impact assessment studies	i) SBP/Donors ii) SBP/Donors/MFBs iii) SBP iv) SBP/Donors
8	**Regulatory asymmetry**	Non-regulated entities bear reputational risk due to: • Weak internal controls • Multiple loaning / over-indebtedness • Clients grievances	i) Players to improve internal control systems ii) Expand existing Lahore-based MF-CIB to the whole country iii) Undertaking feasibility of minimum regulation / supervision for MFIs to improve credit discipline in the sector	i) SBP/PPAF/SECP ii) MFIs/PMN iii) PMN
9	**Low consumer awareness**	• Lack of understanding of basic financial skills / banking products • Reluctance to go to microfinance branches • Clients do not know where to report grievances	i) Launching Financial Literacy Programs ii) Strengthening consumer protection regulations	i) SBP/Donors ii) SBP

Table 6: LEGAL STATUS OF MFIs

Category	MFP	Borrowers (June 2010)	Total Market Share	Legal Status
Microfinance Banks (licensed and regulated by the State Bank of Pakistan to exclusively service microfinance market)	Khushhali Bank	389,383	17.8%	MFI Ordinance 2001, BCO
	The First Microfinance Bank	225,204	11.2%	
	Tameer Microfinance Bank	94,211	4.0%	
	Network Microfinance Bank	6,224	0.2%	
	Pak-Oman Microfinance Bank	8,113	0.5%	
	Kashf Bank	14,194	0.8%	
	NRSP Bank	-	0.0%	
	Rozgar Microfinance Bank	14	0.0%	
	Total MFBs	**737,343**	**34.5%**	
Specialized Microfinance Institutions	Kashf Foundation	323,864	17.3%	Society Act 1860
	Akhuwat	20,158	0.9%	Companies Ordinance, 1984 Section 42 (non-profit)
	Asasah	27,414	1.4%	Companies Ordinance, 1984 Section 32 (for profit)
	ASA	46,478	1.6%	Companies Ordinance, 1984 Section 42 (non-profit)
	Buksh Foundation	400	0.0%	Society Act 1860
	Community Support Concern	11,975	0.6%	Society Act 1860
	Development Action for Mobilization and Emancipation	46,478	2.7%	Companies Ordinance, 1984 Section 42 (non-profit)
	Orangi Pilot Project	47,396	2.7%	Trust Act 1882
	Total Specialized MFI Borrowers	**524,163**	**27.2%**	
Rural Support Programs running microfinance operation as part of multi-dimensional program	National Rural Support Program	440,902	24.7%	Companies Ordinance, 1984, Section 42
	Punjab Rural Support Program	78,091	4.4%	Companies Ordinance,1984 , Section 42
	Sarhad Rural Support Program	3,533	0.2%	Companies Ordinance, 1984, Section 42
	Thardeep Rural Development Program	31,467	1.7%	Society Act 1860
	Total Rural Support Program Borrowers	**553,993**	**31.0%**	
Multi-Sectoral NGOs	BRAC	70,521	3.2%	Companies Ordinance, 1984
	Sindh Agricultural and Forestry Workers Cooperative Organization	24,800	27.2%	Societies Act, 1860
	Centre for Women Cooperative Development	11,713	0.6%	Social Welfare 1961
	Rural Community Development Society	17,638	1.1%	Society Act 1860
	Sungi Development Foundation	5,335	0.2%	Society Act 1860
	Bank of Khyber	-	0.0%	BCO, 1962
	Jinnah Welfare Society	13,091	0.1%	Society Act 1860
	ORIX Leasing Pakistan	15,500	0.9%	Companies Ordinance, 1984-NBFC
	Total Others	**160,,321**	**7.4%**	
	Total Microfinance Borrowers in Pakistan	**1,975,820**	**100.0%**	

ANNEXURE A: POLICY AND REGULATORY FRAMEWORK FOR MICROFINANCE

SBP has followed an innovative and liberal approach towards continuous improvement in its regulatory framework for microfinance.

Branchless Banking Regulations: SBP has been a pioneer in Branchless Banking (BB) in order to increase financial access. The branchless banking regulations incentivized the leading Telco M/s Telenor to acquire majority share of a Tameer Microfinance Bank in November 2008. Tameer has now deployed 'Banking 2.0 Solution' as the primary operating system for outreach and service in its branchless banking network. Branches are now able to use "branchless banking" modules to offer real-time banking services at a low financial overhead cost, not only within their geographic vicinity but also in the far flung and wide spread community locations. In last half of year 2009, the Tameer also initiated its BB model namely 'Easypaisa'. Under this model, the bank offers easy money transfer and convenient bill payment solutions through a network of easy paisa shops, Telenor franchises, Telenor Sales & Service Centers and branches of Tameer Microfinance Bank. Tameer has started bills payment, inland remittances services, P2P payments, and home remittances. The BB framework has attracted interest not only from the existing MFBs but also new investors who see the branchless banking model as the way forward to set up profitable and scalable models in microfinance.

FMFB-Pakistan Post Partnership: Another model for scalable microfinance that emerged in 2008 was the First Micro Finance Bank initiative for partnering with Pakistan Post for scaling up of microfinance services to vulnerable populations in rural and urban parts of the country. This innovative public-private partnership marks a breakthrough in the microfinance sector by addressing the key issue of microfinance inaccessibility to the poor. The FMFB has outstanding borrowers of more than 40,000 which are being served through 68 different offices of PPO.

Kiosks/Service Centres: A third development with regard to new and cost effective delivering channels was SBP decision to allow MFBs to open kiosks at third party premises. The MFBs will have to apply for opening of kiosks at the time of submitting its annual branch expansion plan. Kashf microfinance bank has already planned to open kiosks at the premises of its sister concern i.e. Kashf Foundation. These kiosks will especially augment the Kashf's strategy for mobilizing deposits from the target market.

Access to local and foreign funding: Cognizant to the sector's constraints in accessing the funding, SBP facilitated the opening of diverse sources of funding for the sector. Firstly, MFBs were allowed to raise sub-debt in local currency that would be considered as the tier-II capital. Secondly, to channelize wholesale lending from commercial banks, SBP firstly issued guidelines to banks delineating mechanism of lending to MFB/Is, then launched Microfinance credit guarantee facility to give comfort to banks in venturing on this initiative. Thirdly, SBP recently allowed microfinance players to access foreign currency debt from the foreign lenders and is looking into ways to increase access to lending in local currency by foreign sorces. Fourthly, SBP is also engaged with donors in their efforts for structuring of an apex fund namely Pakistan Microfinance Fund to meet the long term demand of funding of the sector. Finally, PPAF is also considering not only to expand its funding sources but also to widen the set of its partner organizations by also facilitating MFBs. The SBP is committed for facilitation to PPAF in this regard.

Revisions in Prudential Regulations: In addition to above, SBP has recently amended the Prudential Regulations for Microfinance Banks (MFBs) to remove the regulatory bottlenecks that were identified by the industry in its various interactions with SBP. Aimed at encouraging sustainable up-scaling of microfinance services, MFBs have an increased ceiling on their loan limits and relaxed borrower criteria to allow for client graduation. MFBs can now extend micro loans of up to Rs. 150,000 for general purpose and Rs.500,000 for housing-loan. In addition, to facilitate the graduating and missing middle clients, microfinance banks can now general and housing loans to clients with an annual income up to Rs.300,000 and Rs.600,000 respectively. To minimize the instance of over-indebtedness, SBP has also introduced the condition of CIB report for the loans exceeding Rs. 50,000. Another revision in the regulations pertains to the rationalization of loans classification and provision criteria in accordance with the industry trend in the local context. This revision will provide cushion to MFBs in the maintenance of capital adequacy ratio. SBP is also looking into coordinating mechanisms to help develop minimum regulatory framework for microfinance institutions to help improve the governance structure of the industry.

ANNEXURE B: MICROFINANCE INDUSTRY INDICATORS

Indicators	Dec-07			Dec-08			Dec-09			Sep-10		
	MFBs	MFIs	Total	MFBs	MFIs	Total	MFBs	MFIs	Total	MFBs	MFIs	Total
Number of MFPs	6	24	30	7	20	27	8	21	29	8	23	31
Number of Branches	232	870	1,102	271	1,186	1457	284	1,159	1,443	289	1,309	1,598
Total No. of Borrowers	435,407	831,775	1,267,182	558,057	1,137,364	1695421	626,219	1,199,826	1,826,045	694,249	1,378,062	2,072,311
Number of Male Borrowers	65,391	560,923	626,314	449,421	442,205	891626	449,114	347,363	796,477	496,614	435,962	932,540
Number of Female Borrowers	370,016	270,852	640,868	108,636	695,159	803,795	253,930	775,638	1,029,568	197,635	942,136	1,139,771
Gross loan portfolio (Rs. in '000)	4,456,259	8,293,724	12,749,983	6,886,440	13,114,749	20,001,190	9,004,000	12,719,000	21,723,000	10,789,543	15,584,457	26,374,000
Average Loan Balance (Rs)	10,235	9,971	10,062	12,340	11,531	11,797	12,807	11,326	11,896	14,524	12,429	12,727
Total No. of Depositors	146,258	-	146,258	254,381	-	254,381	459,024	-	459,024	724,647	-	724,647
Deposits (Rs. In '000)	2,822,845	-	2,822,845	4,115,667	-	4,115,667	7,099,206	-	7,099,206	8,328,789	-	8,328,789

Annexure C: Performance indicators of Microfinance Banks in Pakistan, as of end September 2010

MFBs	Branches	Borrowers	Advances (PKR 000)	Deposits (PKR 000)	Assets (PKR 000)	Borrowing (PKR 000)	Equity (PKR 000)	NPL (%)	OSS (%)*
KBL	113	352,743	4,129,635	198,782	6,620,837	4,019,160	2,230,746	1.96%	118.90%
FMFB	83	204,301	3,181,759	5,291,011	6,051,049	-	523,428	4.97%	103.10%
Tameer	40	104,726	2,835,506	2,296,135	4,136,529	513,379	1,089,686	0.92%	85.50%
Kashf	27	18,142	449,178	474,050	1,271,234	300,000	402,065	3.65%	52.2%
Pak Oman	17	8,113	109,214	28,125	719,455	-	677,340	9.09%	90.9%
Network	5	6,224	84,251	40,686	278,122	-	230,747	38.51%	101.01%
Rozgar	4	14	726	23,221	122,826	-	96,963	64.46%	45.60%
Total	289	694,263	10,790,269	8,352,010	19,200,052	4,832,539	5,250,975	3.00%	99.2%

***OSS is available for the year 2009 (Source: PMR 2009 by PMN)**

Annexure D: Global comparison of Microfinance

Country	Industry Players	Supervisory Structure	Products/Channels	Funding Sources
Pakistan	• 8 MF Banks • 5 specialized MFIs • Multi-sector NGOs	• Central bank for MFBs • No supervision of MFIs	• Largely micro credit • Some experiments in mobile banking	• Apex • Donors • Commercial • Deposits
Bangladesh	• 4 largest NGOs have sister banks • State-owned commercial banks • Grameen Bank • NGO-MFI	• No specific framework for banks • Micro- credit Regulatory • Authority (MRA- for NGO-MFIs)	• Apex funding and regulatory structure disincentive for deposit mobilization • MFIs intermediate savings	• Apex funds • Donors • Commercial
India	• Commercial banks • NGOs • Cooperative banks • Regional Rural Banks	• No MF specific regulatory structure • Govt. Agency	• Savings and partnerships b/w NGOs and commercial banks	• Commercial • Donors
Bolivia	• Commercial Banks and NGOs are predominant. • Private Finance Funds are non-bank microfinance companies	• MF dept at central bank	•	• Deposit • Government and private apex funds
Philippines	• Cooperatives are pre-dominant followed by rural banks and NGOs • Non-bank finance companies	• Central Bank • Co-op Development Authority • Securities and Exchange Commission	• Rural and thrift banks have deposit protection • NGOs encouraged to transform	• Deposits • Apex funds • Donors
Indonesia	• BRI and regional development banks are predominant players • Cooperatives sponsored by NGOs are	• Non-Bank Financial Institutions regulated by Central Bank/Registered under state	• Deposit protection scheme available • Village banking highly	• Deposits • Apex funds • Donors
Kenya	• Banks • Post Office Savings Bank • NGOs	• Central Bank • Government institutions	• Mobile money scheme caters to 7 million users	• Donors

Annexure E: Portfolio distribution of microfinance banks* as of end September, 2010

Rs. in '000'

Sr.No.	Loan Ranges (Rs.)	Number of borrowers	Outstanding amount	Cumulative % age (No. of Borrowers)	Cumulative % age (Outstanding Amount)
1	**upto 10,000**	252,238	1,585,923	26.7%	10.9%
2	**11,000-20,000**	521,046	7,220,099	82.0%	60.5%
3	**21,000-30,000**	122,093	2,917,646	94.9%	80.6%
4	**31,000-40000**	17,000	573,290	96.7%	84.5%
5	**41,000-50,000**	9,397	392,590	97.7%	87.2%
6	**51,000-60,000**	4,716	250,721	98.2%	88.9%
7	**61,000-70,000**	3,103	196,353	98.6%	90.3%
8	**71,000-80,000**	2,630	187,846	98.8%	91.6%
9	**81,000-90,000**	1,708	140,146	99.0%	92.6%
10	**91,000-100,000**	2,057	178,701	99.2%	93.8%
11	**101,000-150,000**	6,988	859,986	100.0%	99.7%
12	**Above 150,000**	188	44,515	100.0%	100.0%
Total Portfolio		**943,164**	**14,547,815**		

* Data consolidated from 7 MFBs including Khushhali Bank, First Micro, Tameer, Kashf, Pak-Oman, Network, and NRSP

ACRONYMS

CGAP	Consultative Group to Assist the Poor
DFID	Department for International Development (UK)
FIP	Financial Inclusion Programme
FMFB	First Microfinance Bank Ltd.
GoP	Government of Pakistan
IAFS	Improving Access to Financial Services Fund
ISF	Institutional Strengthening Fund
KBL	Khushhali Bank Ltd.
KF	Kashf Foundation
KMFB	Kashf Microfinance Bank Ltd.
MCGF	Microfinance Credit Guarantee Facility
MF	Microfinance
MFB	Microfinance Bank
MFCG	Microfinance Consultative Group
MFD	Microfinance Department, SBP
MFI	Microfinance Institution
MFP	Microfinance Provider
MoF	Ministry of Finance
NRSP	National Rural Support Programme
PPAF	Pakistan Poverty Alleviation Fund
PRSP	Poverty Reduction Strategy Paper
SBP	State Bank of Pakistan
SDC	Swiss Agency for Development and Cooperation
TA	Technical Assistance
TMFB	Tameer Microfinance Bank Ltd