

Financial Deepening & Development

Pakistan Development Forum

April 26, 2007

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Case Study- Anopo from Thar



3 micro loans taken over 3 years helped Anopo, a low-caste hindu in interior Sind, reopen his failed grocery store, hire a farmer to grow produce for sale in his shop and expand his services to another village.



“I was losing my self respect because I couldn’t provide for my family. The loan allowed me to restart my business, which brought respect from others and me. I worked hard and success kissed my toes.”-
Anopo, winner Best National Entrepreneur, CMA 2006

Today:

- Highly respected member of his community
- Elected as a councilor of the village union council.
- Provides financial assistance to others
- Provides business training to fellow villagers
- Works with TRDP to establish Adult Literacy Project schools
- Enrolled both his daughters in primary school

Microfinance- the global context



Massive Awareness Campaigns

- The UN Millenium Development Goals aim at reducing by half the amount of people living below the poverty line by 2015.
- Launch of Microcredit Summit Campaigns in 1997
- Nobel Prize for Microfinance
- Over 10,000 MFIs worldwide aiming to provide, est 1 billion poor & low income people with access to credit, other financial services & enterprise development assistance

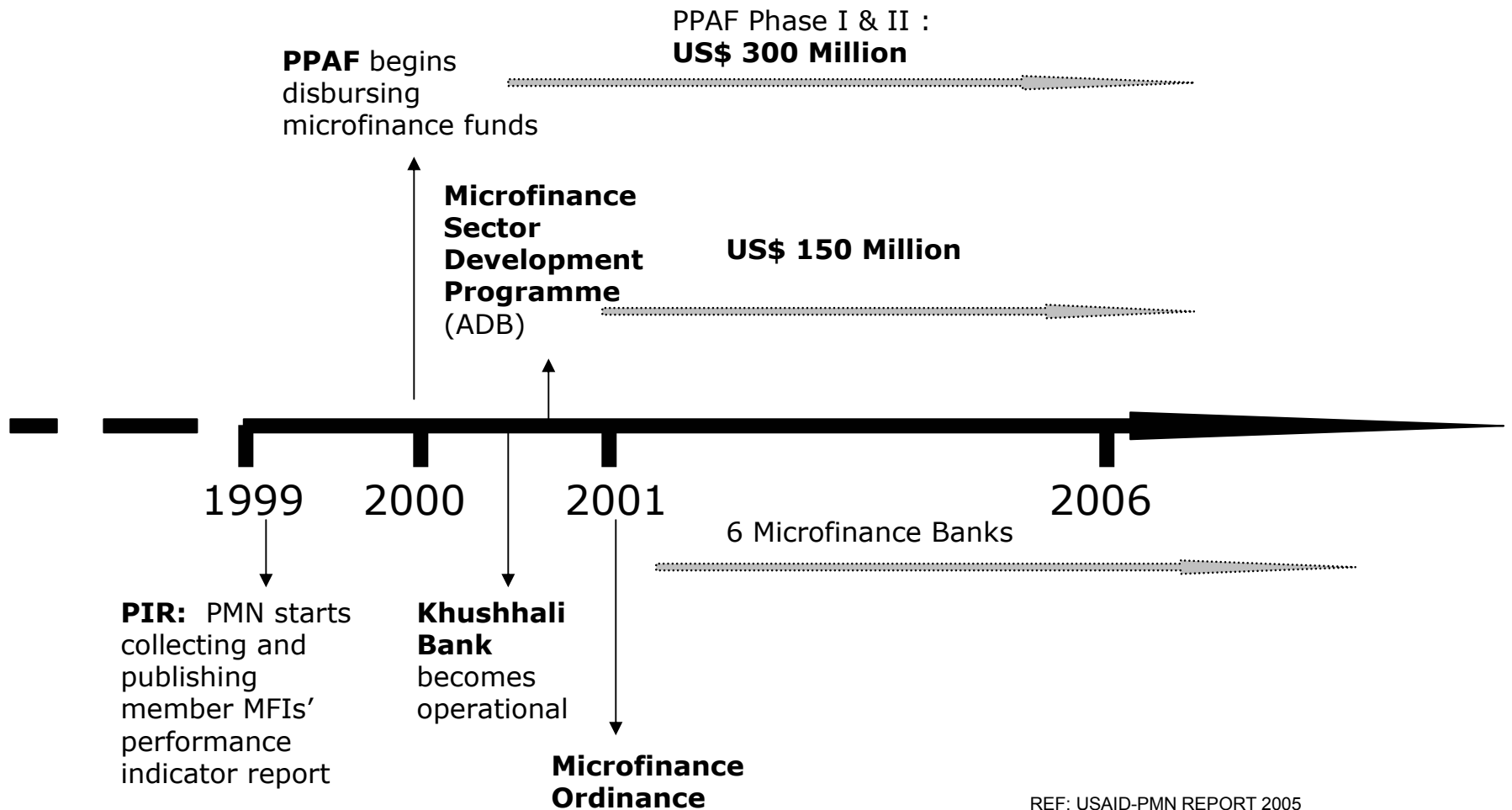
& Success Stories:

- **Bangladesh- Grameen, BRAC account for 40% of poverty reduction in Rural areas**

2006 Estimates suggest:

1. 2 billion people live under the poverty line of 2 dollars per day.
2. 80 % of the world's population does not have access to credit.
3. Only 130 million beneficiaries of Microfinance VS 500 million eligible persons

Evolution of Microfinance



Microfinance in Pakistan



Actual Borrowers Dec 2006 : 1 million, (up from 0.7 m in Jun 06)

Type of Institutions	No. of Active Borrowers (Dec 2006)	Loan Portfolio Rs. Millions (June 06)
MFBs	371,073	2,736
Rural Support Programs	336,393	2,616
MFIs	202,401	1,142
NGOs	68,795	422
Commercial Institutions	12,861	279
TOTAL	991,523	7,195

Potential Borrowers: 25-30 million

Ref: SBP website

Microfinance in Pakistan



Government of Pakistan has worked towards creating a conducive regulatory environment:

- Microfinance Institutions Ordinance 2001 and
- Prudential Regulations 2006
- The State Bank of Pakistan has also issued guidelines for commercial banks to enter microfinance
- Mobile banking guidelines issued

Substantial growth over last 6 years

- Increase in Microfinance players (*20-25 NGOs, 6 MFBs, 4-5 CFI's, 4-6 Rural Support Progs.*)
- Entry of green-field MFBs
- Product diversification (*in addition to credit, insurance, savings products, health insurance, money-transfer services*)
- Growth in active borrowers (*at 1000,000 as at December 2006*)
- Development of branch infrastructure (*400 outlets, 145 service centres nationwide + ATMs*)
- Market expansion, with a shift from predominantly group based lending to individual & smaller group lending.
- Few Entry barriers (*lower paid up capital req & no prohibitions on participation of foreign equity holders, borrowing from foreign sources, and employment of non-citizens in management or technical positions*)

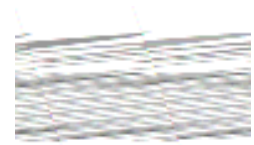
Continuous Refinements:

Amendments in MF Ord announced in Finance Bill 2006 to ensure proper regulatory /supervisory oversight & improved corp. governance of MFBs

Guidelines on mobile banking, NGOs/RSP Transformation

Conservative estimates suggest a huge potential market for MFP's; with 10 million households as the absolute minimum, the current outreach of 1000,000 clearly indicates that our MF sector, in spite of exponential growth rates, has a long way to go

Progress So Far



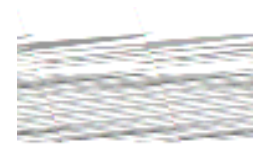
1. Strong Fundamentals Established

- 1. Enabling environment with regulatory & legislative framework in place**
- 2. Active interest in public, private & international sectors**

2. Recurring Deficits:

- 1. Heavy reliance on subsidized funding/ grants**
- 2. Consumption of resources to meet costs**

Challenges



1. **Low coverage** of Microfinance services- 1 million
2. Existing coverage of the formal microfinance sector is only 10% of the estimated **10 million households** in need of Microfinance*.
3. The requirements clearly are above these norms as currently **one fourth of the population of Pakistan is below the poverty line****.
4. **Few Institutions** making major inroads- Khushhali Bank and 19 MFI's on PMN's network provide the bulk of the services
5. Focus on provision of lending facilities vs adequately **tapping the deposit base** of clients.
6. Concentration in **select regions and sectors**..
7. Amongst the **Lowest Female penetration rates** in the world: 84% of borrowers are male.
8. Inadequate loan size: Averaging at Rs 9,300.
9. Difficulty accessing **alternative sources of investment**—particularly equity investment—which is a world wide problem.
10. Low Financial & Accounting **Literacy levels**

*PMN Report 2005

**Economic Survey 2005-2006

Target

3 million borrowers by 2010



The Way Forward?

Proposal

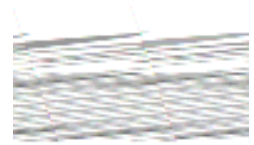


1. Government to Play Role of Enabler/ Facilitator

- Moving away from subsidization of microfinance services; Subsidizing only the smaller MFIs which have potential to grow
- Continuing to develop a microfinance regulatory regime that supports the growth of the industry e.g giving tax breaks to encourage entry
- Encouraging the use of savings within the microfinance industry. Savings are a key way for MFIs to become sustainable by providing cost effective funding.
- Encouraging the local capital markets to play an increasingly active funding role with creative structures. It is here where the government can provide first loss guarantees as an example. Set up a microfinance fund through the grants the GOP gets from international financial sources but only use it to support those MFIs that meet good governance and business model requirements.
- Setting aggressive yet achievable goals for outreach and report progress annually.

Refraining from managing vs regulating MFIs.

2. Optimize Public-Private partnerships



Commercial banks can work with SBP to :

- **Build institutions and introduce standards, processes, infrastructure within MFIs**
- **Build Capacity through Training & Development initiatives required to support outreach plan of 3 million borrowers**
- **Share Best practices: Improved Disclosures, Audits by good firms and Credit Ratings for MFIs**
- **Allow use of branch /ATM network especially from awareness standpoint**
- **Fund Research-based initiatives**

3. Improved Access to Capital markets- Equity investments



Strategy

Create commercially viable MFIs to attract private capital

Ensure long-term profitable growth of MFIs

- develop capital markets linkages
- launch product innovation
- promote corporate governance and regulatory reform



Implementation Tools

Establish Greenfield private sector MFIs

Transform NGOs into regulated entities

Encourage commercial banks in MF: direct/agency model

Leverage capital through pooled investment vehicles

Promote MF as attractive asset class to capital markets investors

Eg: Commercial Funding Transaction worth US\$22 m allows Kashf to tap new sources of funding, previously only available from donors or subsidized financing. In addition, this financing will mobilize commercial bank and investor appetite for the microfinance sector.

4. Improved Existing Organizational Effectiveness

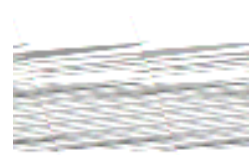


The effectiveness of wholesale funds/apex institutions, like the PKSF in Bangladesh, and the PPAF here, in supporting microfinance programs with financial and technical assistance at different stages of their development is well established.

Such institutions have the resources and capacity to reduce MFI reliance on subsidized funding by:

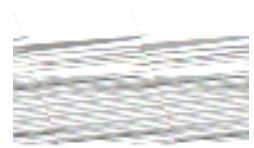
- 1. Providing Equity vs Grants**
- 2. Linking Government Standards to Equity Injections**

5. Use of Existing Infrastructure



- 1. Use of Government channels** such as the Pakistan Post Office infrastructure may be used to:
 1. Provide Microfinance services particularly in remote areas
 2. Organize financial training initiatives
 3. Spread Awareness
- 2. Institutionalize/ Introduce Awards Programs**
 1. Linked to Micro entrepreneurial achievement
 2. MFI successes
- 3. Use of booming electronic media industry** to reach out on mass level to those who benefit from MF services the most (e.g. Tameer Bank's Radio campaign)
- 4. Encourage large banks with extensive branch infrastructure to participate both in microfinance** wholesale and retailing. They many have separate staff and windows to serve the poor without collateral. They may also link own campaigns to microfinance awareness
- 5. Large NGOs like TCF** with more than 300 schools servicing poor/low income people across the country may include microfinance as part of its final year curriculum

Other Measures



1. Availability of diverse Products and value added services
2. Effective Pricing
3. Establishing Credit Bureaus and statistical risk-scoring techniques.

Conclusion



- 1. Government to Play Role of Enabler/ Facilitator**
- 2. Optimize Public Private Partnerships**
- 3. Improved Access to Capital markets- Equity investments**
- 4. Improving Existing Organizational Effectiveness**
- 5. Use of Existing Infrastructure to Expand Outreach**
- 6. Generating Awareness**
- 7. Spreading Financial Literacy**

Thank you

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