

Asian Development Bank (Pakistan program)

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Brief History

The Asian Development Bank (ADB) is a multilateral development finance institution dedicated to reducing poverty in Asia and the Pacific. Established in 1966 it is funded and owned by 61 member countries. The ADB has been operating in Pakistan since 1966 in a variety of capacities. In Pakistan ADB provides soft loans to the government as well as technical assistance grants implemented by a variety of partners.

The key areas of ADB assistance in Pakistan are defined around the strategic priorities of sustainable pro-poor growth, inclusive social development, and good governance. ADB has first supported microfinance development in Pakistan through the microfinance components of a series of community-based multisectoral area development programs, funded by ADB loans approved between 1996 and 1999

The first ADB stand-alone microfinance initiative was the Microfinance Sector Development Program (MSDP) launched in 2001 and implemented by the Pakistani Poverty Alleviation Program (PPAF). The MSDP comprised two loans, a first loan to support the reform program of the microfinance sector and a second loan to provide services to the poor and institutional strengthening. The most recent initiative, dated 2003, is ADB lending under the Rural Finance Sector Development Program, implemented by the Ministry of Finance, which includes two loans to support the institutional strengthening of the rural development bank, Zarai Taraqati Bank Ltd (ZBTL), the State Bank of Pakistan and the project management unit at the Ministry of Finance.

Country program

Initiated in 2001, the Microfinance Sector Development Program (MSDP) defines a policy, legal, and institutional framework in order to facilitate microfinance service delivery. This project has three main objectives:

1. To support the development of a conducive regulatory framework, which resulted in the promulgation of the Microfinance Institutions Ordinance 2001 enabling the establishment of sustainable microfinance banks.
2. To facilitate the development of a microfinance bank as a public-private partnership, the Khushhali Bank.
3. To initiate the restructuring of Development Finance Institutions, mainly the Agricultural Development Bank of Pakistan, which is now called the Zarai Taraqati Bank Ltd.

In addition, a series of funds managed by the State Bank of Pakistan were set up to support the development of microfinance outreach in Pakistan, such as the Microfinance Social Development Fund, the Community Investment Fund, the Risk Mitigation Fund and the Deposit Protection fund.

The Rural Finance Sector Development Program (RFSDP), started in 2003, has been designed to assist the Government of Pakistan in accelerating rural economic growth by addressing key constraints in rural finance. The program aims at ensuring the permanent access to institutional financial services for a majority of rural households at minimal transaction costs and encourage private sector participation in the rural finance sector. The program has four components:

1. To create a favourable policy environment to the development of a market-oriented, mostly private-owned financial sector.

2. To continue institutional restructuring and reforms, especially to the key rural finance institution, ZBTL.
3. To start a new bank fund, managed by the State Bank of Pakistan, which will be used as capital for lending to rural microfinance institutions.
4. To encourage product and process innovations. A pilot insurance scheme will be proposed to rural borrowers, to cover crop insurance related to natural disasters (floods, droughts).

Area of Operations

ADB programs have a nation-wide outreach in Pakistan.

Partners

As a multilateral development bank, ADB collaborates with the Government of Pakistan and the State Bank of Pakistan. Through the implementation of its microfinance lending and technical assistance, ADB has also entered into partnerships with the Khushhali Bank, the Bank of Khyber, and a number of NGOs involved in microfinance.

Poverty Focus

As stated by the ADB, the key objective of the MSDP is to reduce poverty, and more specifically to develop the microfinance sector to efficiently provide financial and social services to the poor. ADB expects that the microfinance services will have a significant impact on poverty reduction by increasing incomes of poor households, enhancing outreach (especially women), building social capital and reducing risks faced by the poor.

Distinctive Features

ADB microfinance assistance in Pakistan is ADB first experience with a sector development approach, using a public-private partnership. The nature, scope and size of the assistance provided make a substantial impact on microfinance in Pakistan.

Funding

Contract awards for ADB projects in Pakistan have averaged \$376 million annually over the past 5 years. Presently, 53 public sector loans covering 38 projects are under implementation, of which 83% loans are rated satisfactory.

In microfinance the following soft loans have been provided recently to the government of Pakistan:

- Microfinance Sector Development Program: US\$ 70 million
- Rural Finance Sector Development Program: US\$ 250 million

Sources

Web site: www.adb.org/Pakistan and related ABD projects documents in Pakistan.