

## Khushhali Bank

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### Brief History

Khushhali Bank (KB) was established in August 2000 as part of the Government of the Islamic Republic of Pakistan's Poverty Reduction Strategy. The Pakistan Microfinance Sector Development Program (MSDP) was developed with the technical assistance and funding of the Asian Development Bank, which provided a US\$150 million loan to the government of Pakistan, US\$70 million being used for micro-loans provided by KB. Headquartered in Islamabad, KB operates under the central bank's supervision (State Bank of Pakistan) with several commercial banks operating as its primary shareholders. KB has already provided services to 100,000 customers and aims to reach 700,000 by 2007.

### Methodology

Khushhali Bank is the Pakistani government first major government initiative to bridge the demand for microfinance services. The bank operates on a community-based service delivery mechanism and forms client clusters to reduce transactional costs. The Bank's line of products includes short-term micro loans ranging up to US\$500 for working capital and asset purchase. It also mobilizes deposits and provides counselling services to its clients.

Khushhali Bank has extensive links with existing microfinance NGOs. These alliances have been constructed with the aim of developing a more effective and cohesive microfinance sector in Pakistan.

### Area of Operations

Khushhali Bank has operating branches in four provinces, throughout the 38 districts of the country including Azad Jammu and Kashmir.

### Clients

The Bank now provides microfinance services to over 100,000 poor clients through 38 branches (hubs) and 72 Service Centres (spokes) in urban and rural Pakistan. Approximately 30% of KB's clients and staff members are women (Aug 2003). Two women are present on the board of directors.

Active clients	Active savers	Active borrowers	Gender
100,000 (est.)	n/a	100,000 (est.)	30%

As of 31 December 2003

### Poverty Focus

Khushhali Bank provides MF services to over 100,000 clients, considered one of the fastest growing organisations among microfinance banks operating in Asia.

Average outstanding loan size (US\$)	Average outstanding loan size / GNP per capita	Average deposit size (US\$)
n/a	n/a	n/a

As of 31 December 2003

### Distinctive Features

KB was established from the beginning as a specialised microfinance bank, with ownership spread amongst Pakistan's commercial banks.

KB also directs its financial endowments to partnering NGOs for social mobilization, capacity building of communities and providing small infrastructure projects within the bank's service areas. This unique arrangement allows KB to disseminate specialized social services through NGOs while its delivers financial services to the same market segments.

### Innovations

n/a

### Financial results

KB's Portfolio-at-Risk (past due over 30 days) is maintained under 5 per cent, which is in conformity with international standards. Loan provisioning is assessed in compliance with regulatory standards and based on internal strengths; efforts are being made to further escalate its prudence in loss provisioning to maintain a healthy balance sheet. KB maintains a strong 'follow-up' and has put a robust collections engine in place with an intention to prevent default on loans.

Loan Portfolio (US\$)	Portfolio at risk	Savings Deposits (US\$)	OSS / FSS	RoE / RoA
n/a	< 5%	n/a	n/a	n/a

As of 31 December 2003

### Challenges and development plans

Khushhali Bank recognizes that it operates under highly volatile socio-economic conditions serving fragile customers and manages a high-risk portfolio. KB also recognises the significant challenges posed by adopting the different banking practices required to successfully provide MF services to the poor.

### Inclusion in financial Sector

Khushhali Bank is currently funded through a joint initiative between the Asia Development Bank and the Government of Pakistan. The Khushhali bank is also partly owned by the major Pakistani state and private banks. The bank was established with US\$30 million subscribed by 16 commercial banks, 14 from the private sector (including two foreign banks) and two state-owned banks.

In October 2003, the Khushhali Bank entered into a partnership with the Muslim Commercial Bank (MCB) enabling its microfinance clients to have access to financial services through the MCB network.

### Sources:

- *Credit makes good business sense for Poor Women*, ADB Review, February 2004
- Khushhali Bank public information
- Web site: [www.khushhalibank.pk](http://www.khushhalibank.pk)
- *Khushhali Bank set for growth*. Business and Finance review 18 August 2003