

State Bank of Pakistan

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Brief presentation

The State Bank of Pakistan' mission is to promote monetary and financial stability and foster a sound and dynamic financial system, so as to achieve sustained and equitable economic growth and prosperity in Pakistan. Its primary functions include issue of notes, regulation of the financial system, lender of last resort, and conduct of monetary policy. SBP secondary functions include the management of public debt, management of foreign exchange, advising the Government on policy matters, anchoring payments system, and maintaining close relationships with international financial institutions. Responsibilities of the State Bank of Pakistan go well beyond the conventional functions of a Central Bank, by including the economic growth objective in its statute and supporting the development of new financial institutions to promote financial intermediation. SBP has also directed the use of credit according to development priorities, providing subsidized credit.

Involvement in microfinance

The government's first major involvement in microfinance was the promulgation of the Khushhali Bank Ordinance in 2000, to establish the Khushhali Bank (KB), under joint ownership of 16 commercial banks (3 public sector, 11 private sector, and 2 foreign banks). As Pakistan's financial regulator, SBP has been entrusted by the MFIs ordinance 2001 with the licensing, regulation and supervision of Microfinance Banks (MFBs). SBP is the implementing agency for strengthening supervision and regulation under the Rural Finance Sector Development Program

SBP is also in charge of special funds of more than US\$70 million to lend support to the microfinance sector and provide risk mitigation mechanisms to poor depositors and borrowers of microfinance banks. The Microfinance Sector Development Fund (MSDF), US\$40 million, finances the social mobilization and community capacity building costs of Khushhali Bank/licensed MFIs provided KB/licensed MFIs outsource these functions to eligible NGOs. The MSDF, the largest of the four MSDP funds, does not only finance some of the operational cost of licensed MFIs but also provides an opportunity to NGOs to work in partnership with MFIs and gradually develop their capacity to apply for an MFIs license. The Community Investment Fund (CIF) of a value of US\$20 million provides matching grants to community organizations, availing microcredit facilities from KB/licensed MFIs, for building small infrastructure projects of common interest. Both CIF and MSDF are endowment funds with their resources invested in Government securities and only the interest revenues earned on the funds' investments are used for the objectives and purposes of the funds. The Risk Mitigation Fund (RMF), of a value of US\$ 5 million, provides coverage to KB borrowers against risk of failure of enterprises/loss of income generating assets acquired through KB loans due to natural calamities. The Depositors' Protection Fund (DPF) also valued at US\$ 5 million provides coverage to KB depositors in case of liquidation. Presently all these four funds are opened to microfinance banks.

The Government has also allocated some funds for extending institutional strengthening grants to licensed microfinance banks, under the Microfinance Sector Development program (MSDP) which is funded by a loan from the ADB. Presently, grants equivalent to 2.5% of paid-up capital of licensed MFIs are available to new licensed MFIs on 'first come first serve' basis.

A New Bank Fund (NBF) of US\$15 million has also been established at SBP under the Rural Finance Sector Development Program (RFSDP). Funded through an ADB loan, it extends grants and soft loans to district and province based MFIs. The Fund is likely to be operational by first quarter 2004, and will encourage the emergence of MFIs in rural areas, especially at the provincial and district levels, and to facilitate the delivery of microfinance services to the lowest segment of the rural finance markets.

Still under the RFSDP, the central bank is expected to support Institutional Strengthening which include (i) reviewing the prevailing regulatory policy, systems, and framework for rural finance; (ii) upgrading and formulating guidelines, operational procedures, and standards for off-site and on-site inspection, supervision, and reporting; (iii) assessing human resource, skills, and IT requirements; (iv) installing basic IT infrastructure, facilities and equipment; and (v) providing training and skills development.

The Swiss Agency for Development and Cooperation (SDC) supports SBP's rural finance and microfinance division, as well as the Banking Supervision and Banking Inspection Division, through the project 'State Bank Partnership for Microfinance' (SBPM).

Regulatory framework

The Microfinance Institutions ordinance was enacted in 2001, regulating the establishment of microfinance banks in the private sector. The MFIs Ordinance 2001 stipulates the functions, capital requirements, ownership structure, terms and conditions for establishing microfinance banks (MFBs) or microfinance institutions in the country. The provisions of the ordinance are applicable to microfinance institutions mobilizing savings from the public to finance their operations. The framework allows the establishment of three categories of formal microfinance banks, with minimum paid-up capital required:

- Nation wide MFBs: Rs. 500 million
- Province wide MFBs: Rs.250 million
- District wide MFBs: Rs.100 million

NGOs and other microfinance providers can bring their loan portfolio to contribute to up to 50% to the capital requirements.

The State Bank of Pakistan has also defined a separate set of Prudential Regulations for microfinance banks in consultation with stakeholders and microfinance practitioners, covering various areas of operations of microfinance banks with the objective to ensure sound risk management systems in the microfinance banks as well as requiring them to remain focused on their core market, i.e. the poor and micro enterprises. The prudential regulations prescribe guidelines/limits on capital requirements, creation of reserves, loan & Investments classification and provisioning requirements, exposure limits, reporting requirements and punitive measures on non-compliance of instructions.

Support to microfinance commercialisation

The State Bank of Pakistan has encouraged the entry of private sector institutions into microfinance through an enabling environment. Thanks to the regulatory framework in place, the First Microfinance Bank and the Khushhali Bank have been established.

Distinctive features

As a Central Bank, SBP is very active and involved in microfinance, provides direct on lending to microfinance providers while also assuming the traditional functions of financial regulator.

Moreover, SBP also provides guidelines for mobile banking operations for microfinance banks, as well as for the different forms of financial statements for MFIs.

SBP has also established a Consultative Group as a platform for consulting key players in the sector on policy matters related to microfinance. The members include SBP, the Pakistan Microfinance Network, the Khushhali Bank, The first MicroFinanceBank, the ministry of finance and the ministry of Women Development, Social Welfare and Special Education, and the Swiss Agency for Development and Cooperation.

Sources

- State Bank of Pakistan web site: www.sbp.org.pk
- SBP prudential regulations <http://www.sbp.org.pk/bprd/index.htm>
- State Bank of Pakistan information documents.