

*Cooperation between  
Microfinance  
and  
Regulated Commercial Finance*

# *The Bank of Khyber*

- **Established in 1991 as a Provincial Commercial Bank through an Act of NWFP Assembly**
- **29 branches with head office in Peshawar. Presence in all provincial capitals including AJK**
- **Attained Schedules status in 1994**
- **Focuses on socio-economic development aimed at creating economic opportunities at the grassroots level**
- **Redeployment of provincial resources for promoting agriculture, trade and industry**

# 1995 ... towards Proactive Banking

- **Scaling down of conventional banking**
- **Linkages with bilateral funded projects**
- **Focus: Small and micro enterprises**
- **Experienced staff hired from development projects**
- **Individual Loans**
- **Average Loan Size Rs. 218,000**

## Lessons Learnt:

1. **The nature and scale of SMEs' needs were too complex**
2. **Little focus and understanding of the sector**
3. **Reorientation of the staff**
4. **Limited outreach**
5. **Little awareness of microfinance**

# 1997: Rural Finance

- ADB financed area development projects
- Intermediation / Facilitation through RSPs/NGOs/CBOs
- Linking up with social capital of RSPs
- Group lending to communities
- Determination of roles
- Modification in systems and procedures
- Peer pressure Vs tangible security
- Loan Size Rs. 25,000 (Average loan size Rs. 96,000)

## Lessons Learnt

1. Lending through Groups provides scale
2. Community based groups were not focused on credit
3. Joint liability of Group Members had mixed results
4. Disintegration of VOs at termination of Dev. Projects

## **1999: Micro Finance Unit... a profit center**

- **More know-how of international best practices**
- **Operational autonomy and Decentralization**
- **TA for program review and capacity building**
- **Reduction in Loan Size and Term**
- **Sensitivity towards cost and arrears**
- **Average Loan Size Rs. 49,000**

### **Lessons Learnt**

- **Lending to individuals is not cost effective, yet necessary**
- **Motivation & capacity building of staff is crucial**
- **Smaller loan size and shorter terms lead to healthy portfolio**
- **Dependence on outside fund creates disabilities**

## **2003... Revisiting outreach methodology**

- **Group lending is a must for scale & financial viability**
- **Disintegration of VOs at termination of ADPs**
- **Commercial banks cannot go down to grassroots**

### **Exploring new vistas**

... more cohesive and responsive groups

... specific credit groups

... interface between field and HO... a new tier of regional monitoring

- **Further deepening of microfinance**
- **Wholesaling to RSPs/NGOs**
- **Need for more cost effective, flexible but focused partners**

# Cluster based interventions

