

Innovation in Pakistan Microfinance and Benefits for Asia

Presented by

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Why Innovate?

- **There is general agreement among researchers and practitioners that the poorest of the poor are yet to benefit from microfinance programs in most countries partly because most MFIs do not offer products and services that are attractive to this category.**
- **To make it possible for microfinance institutions (MFIs) to reach a greater number of poor households on a sustainable basis.**

The Nature of Innovations

Innovations in microfinance are changes in:

- Banking technology,
- Type of financial services offered,
- Strategic behavior of the institution
- Institutional arrangement or the structure of incentives that result in improved viability and/or outreach.

Importance of Innovations

- Formal financial markets are notorious for shutting out poor people from accessing financial services
- Informal credit markets have filled the gap by providing credit to small scale borrowers.
- Microfinance in developing countries has emerged as an alternative to the traditional moneylender and other informal sources of credit for the poor households.

Types of Innovations

Broadly there are five categories of innovations in the area of microfinance:

- Technological innovations
- Product innovations
- Strategic innovations
- Institutional arrangement innovations and
- Donor-incentive innovations.

Focus of this Presentation

Institutional arrangement innovations:

- Conducive Policy Environment
- Regulatory & Supervisory framework for MFBs/MFIs.

Policy Initiatives for Development of MF Sector in Pakistan

- **Establishment of Pakistan Poverty Alleviation Fund with the assistance of World Bank**
- **Microfinance Sector Development Program of ADB**
- **Conducive Legal & Regulatory Framework, which encourages private sector entry into the banking with the poor**
- **Establishment of Khushhali Bank with a capital Base of Rs 1705 Million**
- **Creation of Microfinance Sector Development Funds**
- **Development of Regulatory Framework through active Consultation with the stakeholders**



Innovations

Two Dimensional Approach for Provision of Microfinance

- PPAF- Wholesale window for NGO-MFIs
- MicroFinance Banks- Retailing institutions, mobilize savings for provision of sustainable financial services

MFIs Framework

Establishment three types of MFBS/MFIs

- District Based MFIs- Minimum Capital Rs100 million
- Province Based MFIs- Minimum Capital Rs250 million
- Country-wide MFIs - Minimum Capital Rs500 million

Microfinance Sector Development Funds

- MSDF- To provide credit for social mobilization efforts of NGOs
- CIF- To provide credit for small infrastructure projects
- RMF- To protect borrowers in case of natural calamity
- DPF- To protect borrowers interest in case of liquidation of KB

Regulatory & Supervisory Framework for MFIs/MFBs

- **Criteria and conditions for grant of establishing of MFIs/MFBs.**
- **Prudential Regulation for MFIs/MFBs**
- **Guidelines for Mobile Banking Operations for MFIs/MFBs**
- **Forms of financial statements for Microfinance Institutions / Banks**
- **Development of off-site Surveillance Mechanism.**

Thank You