The Role of Financial Services in Poverty Alleviation

Microfinance implies financial services of very small magnitude provided to the economically active poor usually for short to medium terms. These financial services include loans, savings, money transfer services and leasing services. The significant feature of microfinance is its reliance on "social collateral" as a means of risk management instead of physical collateral. The concept of Social Collateral merits further explanation.

Collateral tries to solve the information asymmetry problem and reduce costs for the lender. Banks take physical collateral because they realize that their access to information about the borrower’s business and related cash flows is limited and strict borrower monitoring entails costs. However, the lender rests assured that in case of borrower’s failure to make payments, the collateral, value of which is independent of the borrower’s economic condition can be liquidated to cover the default risk. But this risk coverage is not applicable in case of microfinance where the poor cannot provide collateral. The lender in this case has to rely on its estimates of future cashflow and the past repayment behaviour of borrower as a measure of debt capacity as well as the willingness to repay loans.

No one is a better judge of financial habits of a prospective borrower than his friend, neighbour or a family member. This is particularly effective when this social circle itself is a set of prospective borrowers. These potential borrowers provide cross guarantees taking responsibility individually as well as collectively for the repayment of their fellow “group” members. Hence social linkages when tied in mutually guaranteeing loan contracts provide social collateral. This situation is somewhat akin to the joint and several liability clauses in a partnership contract.

Asset Building and Consumption Smoothening

The basic consideration for taking finance to the poor is fairly obvious and with universal applicability. Finance is a scarce resource for the poor. They need to borrow and save in order to build business as well as household assets. These assets bring increased future

---

1 The ensuing discussion draws from “Finance at the Frontier – debt capacity and the role of credit in the private economy; J.D Von Pischke Economic Development Institute; The World Bank”. See also Gary M. Woller and Warner Woodworth “Microcredit as a Grassroots Policy for International Development” Policy Studies Journal Vol. 29 No. 2. 2001 (267 – 282)


The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.
economic returns and improved standards of living while mitigating the myriad risks faced by the economically disadvantaged households specially women. However, not all finance is used to acquire assets; households need to remain liquid over lean periods. A loan or a saving deposit can provide relief during these (temporary) hard times – a situation commonly referred to as “consumption smoothening”. However, grass roots finance is most significantly known for another potential – its ability to nurture entrepreneurship and boost employment creation in an under developed economy.

The International Microfinance Revolution

The Mix Market, an online information portal on the global microfinance industry and its MicroBanking Bulletin has profiles of over 500 MFIs. Consultative Group for Assisting the Poor (CGAP) documents a variety of institutions engaged in provision of financial services to poor.

Global microfinance industry exhibits a variety of institutions. However, a brief profile of two institutions, both worlds apart from each other exemplify the microfinance movement and the two prevalent paradigms – Grameen Bank Bangladesh and BancoSol Bolivia.

Grameen Bank is the brainchild of Dr. Muhammad Younus - a Bengali professor of Economics, who got disillusioned with the elegant world of the textbook economic models and went out to practically use finance as a direct development tool by providing tiny loans (less than US $10) to poor women in rural areas of Bangladesh. The experiment resulted in establishment of Grameen Bank. In little over two and a half decades, the Grameen financial services technology involving “group lending methodology” has spawned a fast growing global network of Microfinance Institutions (MFIs), sharing not only the vision of taking tiny financial services to the poor but also exporting a potent outreach model. In fact, a US Based non – profit organization

---

2 Microfinance specially targets women because of higher impact of poverty found on poor women and their demonstrated history of being good microfinance clients of pioneering institutions such as Grameen Bank (more on it later). Also see for a gender aspect on microfinance; Simeen Mahmud, “Actually How Empowering is Microcredit?”; Development and Change (34)4: 577 – 605(2003) © Institute of Development Studies 2003
3 Stuart Rutherford; The Poor and Their Money, 2000.
4 www.mixmarket.org
5 www.mixmbb.org
9 Resources on “Group Lending Methodology” available in the resource library on www.microfinancegateway.com
10 http://www.grameen-info.org/

Amer Saleem Khan is a Financial Markets Researcher associated with Center of Excellence in Microfinance (CMF), Institute of Management Sciences, Peshawar. Stefan Platteau is Financial Sector Development Specialist with FACET BV(www.facetbv.nl) (An International Consultancy Firm specialising in SME Finance/Microfinance)

The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.
While Dr. Younus was struggling in the mid 1970’s to establish what was to become Grameen Bank, thousands of miles away in Venezuela and Brazil, among other Latin American countries, a student volunteer movement was consolidating their social development organization ACCION International\(^{11}\), established in the early 1960’s. Initial Grameen experiments coincide with ACCION’s first loans given out to Brazilian entrepreneurs in the mid 1970’s. However, it is not known whether there had been any link between the two contemporary pioneers.

In 1989, ACCION in collaboration with Bolivian businessmen started PRODEM - a non profit organization in Bolivia which provided small loans to micro-enterprises. In 1992, PRODEM spun off its microfinance program and created the first commercial bank in Latin America specializing in microfinance – BancoSol\(^{12}\).

Both Grameen model and BancoSol present two different microfinance models with the same spirit. While the Grameen model focuses on the poverty alleviating and social development aspect of microfinance, the Latin American model characterized by BancoSol, blends social objectives with financial sector development, financial markets integration and commercialization. In 1997, BancoSol was the first MFI to issue dividends to its shareholders. Comparative maturity of the Latin American financial sector has probably played a major role in that aspect. In terms of international trends, the Latin American approach seem to be winning as MF sector all over the world, further prodded by the influential donors, promote the “financial systems” approach to MF\(^{13}\).

Over the last, almost sixty years of existence, Pakistan has experimented with many public and private initiatives aimed at expanding the “frontiers of finance” and providing access of poor to financial services. International microfinance initiatives provided the inspiration as well as financial means (mostly donor funding) to these efforts. In other instances, financial support for large scale industrialization was facilitated with the assumption that the related benefits will trickle down to the masses. The ensuing section provides a summary of the key developments related with the grass roots finance initiatives in Pakistan.

\(^{11}\) [www.accion.org](http://www.accion.org)

\(^{12}\) [www.bancosol.com](http://www.bancosol.com)

The microfinance movement in Pakistan followed a unique evolutionary path over the last decades. In the proceeding paragraphs we present the three development phases of the sector. Each phase represents entry of new institutional forms and structures in the Pakistani microfinance sector.

The adjacent diagram shows some of the highlights of this 30 year old history.

**Phase – I [The 1970’s]**

**Government Directed Credit**\(^{14}\)

The use of finance (mostly credit) as a development tool has a history in Pakistan in the form of government directed/subsidized credit schemes particularly in rural areas. In recent years Small Business Finance Corporation(SBFC), Youth Investment Promotion Society (YIPS), Self Employment Scheme (SES) and Yellow Cab Scheme are typical examples\(^{15}\). While SBFC and YIPS represent a direct institutional intervention through use of public funds and institutional structures, SES and Yellow Cab schemes represent

\(^{14}\) A detailed account of Pakistan’s economic history and public policies can be found in “Pakistan’s Economy at the Crossroads – Past Policies & Present Imperatives” – Parvez Hassan; 1999 Oxford University Press Karachi.


The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.
indirect government pressures on financial institutions, both public and private, to engage in politically motivated directed credit. In the last two initiatives, the government literally forced commercial financial institutions (mostly public sector) to provide concessionary financing especially to unemployed youth and business startups. The loan defaults associated with these schemes affecting the financial institutions profitability has been extensively reported in the popular press\textsuperscript{16}. Although these directed credit programs might have resulted in a temporary transfer of resources to the poorer segments of population, there has been no long term positive impact in terms of creating permanent, long term financial intermediation mechanisms for the poor and the un-banked.

Roots of successful financial intermediation for the poor are to be traced to the financial philanthropy of the NGO. The Pakistani Microfinance Network (PMN) reports performance indicators for 14 leading institutions engaged in microfinance divided into four peer groups. 11 out of these 14 are NGOs\textsuperscript{17}. The PPAF, an apex funding organization, has been whole-selling funds for on-lending as microfinance loans to 28 MFIs. Out of these, 20 are NGO microfinance institutions. Credit lines outstanding against these institutions amounted to over Rs 500 million\textsuperscript{18}. For the NGO – MFI sector PMN PIR for 2004 reports outstanding loan portfolio of Rs 752 million and clients numbering approximately 100,000.

The emergence of the Pakistani microfinance sector is usually traced to two pioneering development institutions – The Aga Khan Rural Support Program (AKRSP) and the Orangi Pilot Project (OPP).

The Early Pioneers

Established in 1982 by the Aga Khan Foundation\textsuperscript{19}, AKRSP was the first Integrated Rural Development Program of its kind, outside the government domain. It has focused its development interventions on the Northern Areas of Pakistan. The later day Rural Support Programs (RSPs), initiated by the government, were inspired by the AKRSP model of rural development. The first large scale practical implementation and conceptualization of development frameworks such as “social mobilization” and “group

\begin{itemize}
  \item \textsuperscript{16} See for example, Pakistan and Gulf Economist, Islamabad, Sep 13 - 19, 1999 http://www.pakistaneconomist.com/issue1999/issue37/f&m2.htm.
  \item \textsuperscript{17} PMN PIR 2002; www.pmn.org.pk ;Non Governmental Organizations (NGOs) are mostly registered under Societies Act 1860 or the Voluntary Social Welfare Agencies (Registration and Control) Ordnance 1961.
  \item \textsuperscript{18} PPAF Annual Report 2004
  \item \textsuperscript{19} AKF is part of a group of nine development agencies, called The Aga Khan Development Network(AKDN), working primarily in Asia and Africa see website: http://www.akdn.org/).
\end{itemize}

The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.
lending methodology” can be traced to AKRSP’s microfinance model initiated in 1982. AKRSP organized and mobilized Village Organizations (VOs) and animated them as partners in developing the health, education and income generating initiatives in the Northern Area of Pakistan. A World Bank Evaluation had reported AKRSP outreach to 900,000 people in 1,100 villages of Northern Area and Chitral District of Pakistan\(^\text{20}\). Most significantly, equal emphasis was placed on savings as well as credit in its microfinance program. Development practitioners used to marvel at the volume of savings generated by the VOs in remote areas where subsistence agriculture was the predominant source of income.

While AKRSP pioneered development service provision in the rural, agrarian frontiers of north Pakistan, OPP took up the challenge of tackling urban poverty in the biggest slum settlement in Pakistan’s port city and commercial capital – Karachi. OPP was established by Akhtar Hameed Khan\(^\text{21}\), the “Comilla Pioneer” and father of rural development in Pakistan. OPP was established in 1987 and its development services include housing, sanitation and education. OPP realized early on that microfinance is a specialized activity not to be mixed up with other development interventions and therefore established Orangi Charitable Trust (OCT)\(^\text{22}\) in 1989. OCT focused exclusively on microfinance. Interestingly, OCT was launched with an initial loan from National Bank of Pakistan branch in Orangi\(^\text{23}\). Unlike many rural focused microfinance programs, OCT is using the “individual lending methodology” and has carefully segmented its market.

**The RSP Model**

AKRSP formulated and implemented integrated development approach whereby rural population was organized into VOs and the needs prioritized by these community organizations were provided for through a broad range of development services such as education, health, sanitation as well as financial services (microfinance). AKRSP endeavoured to develop human, social and financial capital of the communities it worked with. This integrated approach was replicated by government initiated development organizations called Rural Support Programs (RSPs). By 2004, RSPs were working with more than 43,000 community organizations comprising of more than 1,000,000 households\(^\text{24}\).

---


23 97th quarterly report March 2004, as given on OCT website

24 A good account of the role and history of RSPs is given in “Pakistan: Scaling Up Rural Support Programs” Stephen F. Rasmussen, M. Mujtaba Piracha, Rashid Bajwa, Abdul Malik, Aadal Mansoor, a Amer Saleem Khan is a Financial Markets Researcher associated with Center of Excellence in Microfinance (CME), Institute of Management Sciences, Peshawar[www.imsciences.edu.pk]. Stefan Platteau is Financial Sector Development Specialist with FACET BV(www.facetbv.nl) (An International Consultancy Firm specialising in SME Finance/Microfinance)

The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.
Sarhad Rural Support Program (SRSP) was the first RSP to be established in 1989 as a replication of AKRSP model in the North-West Frontier Province of Pakistan. In the same year a Pak German development project was restructured as an RSP and renamed as Balochistan Rural Support Program (BRSP). Later on Punjab Rural Support Program (PRSP) was also launched by the Government of the Punjab province.

The establishment of National Rural Support Program (NRSP) in 1992 has a special significance. While SRSP and BRSP had provincial focus, NRSP was meant to be the largest national RSP with development interventions including a very ambitious microfinance program all over Pakistan. The rural focused microfinance operations of NRSP have expanded into urban areas as well under its Urban Poverty Alleviation Program (UPAP). A noteworthy new initiative of the UPAP program is “Urban Market Program in Malakand” whereby a market based NRPSP branch with only two field officers provides small loans to shopkeepers and street vendors. NRSP’s UPAP has also been rated by M-CRIL Rating International and assigned a rating of A-Minus implying “High Safety and Good Systems”. PMN Performance indicators put the NRSP microfinance program as the largest among the PMN members in terms of gross loan portfolio (over Rs 829 million) as well as number of loans (more than 88,000)25.

With the above mentioned perspective, the microfinance strategy during the early 1990’s has certain common elements; the word “microcredit” was used instead of microfinance symbolizing provision of only loans (and compulsory savings) as a social service equivalent to other development needs such as education, health, sanitation etc. Microfinance best practices as we know them today were still in their formative stages and had not crystallized into a coherent set of principles and frameworks even at the international level.

Microfinance activities started receiving considerable donor interest at that stage, probably inspired by the success of the Grameen model and its replications/inspirations around the world. Again, the support mostly focused on the provision of “revolving

25 PMN PIR 2004. Also see NRSP Annual Report 2004 for details on its programs including microfinance; NRSP website: www.nrsp.org.pk; for info on M-CRIL and details on NRSP rating, visit www.ratingfund.org

The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.
funds” for a “credit component” which acted only as a support to some other intervention such as education or health programs.

While microfinance best practices were being established by mid 1990’s, the global microfinance industry was still perceived at that time to be going through an experimental phase; the institutions especially in Pakistan, had not reached a critical mass to have warranted major regulatory activity. Besides, as mentioned earlier, microfinance in Pakistan had not emerged at that time as a distinct “financial service” involving a financial institution.

The involvement of the Leasing Sector

Till the early 1990’s microfinance remained mostly an “NGO Activity”. Pioneers such as AKRSP and OPP had set the stage further taken forward by other RSPs. But essentially, microfinance involves financial intermediation. Some NGOs had taken up one side of this intermediation – loans. While a few, including AKRSP, not only provided loans but also mobilized savings from its clients to be deposited in commercial banks.

The first foray into microfinance by a regulated financial institution was made by a leasing company – Network Leasing Corporation (NLCL), established in 1995, specifically for providing microleasing services to small businesses throughout Pakistan. The latest annual report of NLCL shows credit lines from Deutsche Bank Microcredit Fund, Swiss Agency for Development and Cooperation (SDC), and Pakistan Poverty Alleviation Fund (PPAF). No separate numbers are available for NLCL portfolio in microleasing. However, the 2004 annual report mentions a sum of Rs 229 million as lease portfolio in the sector titled “miscellaneous – including micro leases”. This amount represents around 32% of the total portfolio of Rs 712 million.

While Networking Leasing Corporation is a good example of an indigenous private sector initiative extending financial services to the grass roots population, Orix Leasing Pakistan Limited (OLP) represents the first multinational financial service company to enter into microfinance. Furthermore, while NLCL focuses only on micro and small sector leasing, OLP is a leading financial service company with an array of products.

---


Amer Saleem Khan is a Financial Markets Researcher associated with Center of Excellence in Microfinance (CMF), Institute of Management Sciences, Peshawar[www.imsciences.edu.pk] . Stefan Plateau is Financial Sector Development Specialist with FACET BV(www.facetbv.nl) (An International Consultancy Firm specialising in SME Finance/Microfinance)

The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.
Established in 1986, OLP is a listed Pakistani leasing company sponsored by ORIX Corporation Japan – an integrated financial service company with over $50 billion assets spread over 23 countries\(^{27}\). OLP started its microleasing operations with a $26 million World Bank credit line and its latest annual report shows Swiss Agency for Development Cooperation (SDC) as one of its main funders. It is the first such initiative funded by World Bank in Pakistan. OLP has also launched its microfinance program (apart from its microleasing initiative). In 2005, outstanding portfolio of microfinance amount to Rs 34.2 million\(^{28}\).

OLP and NLCL receive compulsory mention as institutions that have downscaled to the poorer segments of the population, however, there are two more leasing companies which have quietly been trying to reach out to the poor: Crescent Leasing Corporation (CLC) and Al – Zamin Leasing Modaraba\(^{29}\).

The full scale entry of the leasing sector can be attributed to the efforts of the Swiss Agency for Development and Cooperation (SDC) which provided credit lines and technical assistance to NLCL and OLP in 1999. In the same year, SDC also partnered with Leasing Association of Pakistan (LAP) and provided it technical assistance for promoting leasing to micro and small enterprises. The SDC support to LAP and the leasing sector has entered Phase III spanning 2003 – 2007\(^{30}\).

<table>
<thead>
<tr>
<th>Leasing Sector in Microfinance*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network Leasing Co (NLCL)</td>
</tr>
<tr>
<td>Orix Leasing Pakistan (OLP)</td>
</tr>
<tr>
<td>• A global financial house with over US$50 billion assets</td>
</tr>
<tr>
<td>• First multinational financial institution engaged in micro-leasing</td>
</tr>
<tr>
<td>• Latest Annual Report mentions Rs 34 million microfinance portfolio**</td>
</tr>
<tr>
<td>Leasing Association of Pakistan</td>
</tr>
<tr>
<td>• Apex representative body of the leasing sector representing 31 leasing companies in Pakistan</td>
</tr>
<tr>
<td>• Collaboration with SDC since 1999 for capacity building of members engaged in micro – leasing under the MSE Leasing Program.</td>
</tr>
<tr>
<td>• Rs 85 million provided by SDC for micro – leasing under the phase III project (2003 – 2007)</td>
</tr>
<tr>
<td>• This project facilitated launch of micro – leasing programs by Crescent Leasing and Al Zamin Leasing, apart from supporting the above mentioned pioneers</td>
</tr>
</tbody>
</table>

*Sources: --Institutional Annual Reports, NLCL and OLP
-- [www.pakistanleasing.org](http://www.pakistanleasing.org)

**No data on micro – leasing portfolio in the latest Annual Report (2005).**

---


\(^{28}\) OLP Annual Report 2005; Information also based on discussion with Orix staff

\(^{29}\) For more info visit [www.alzamin.com.pk](http://www.alzamin.com.pk) and [www.creslease.com](http://www.creslease.com)

\(^{30}\) For more info visit LAP website [www.pakistanleasing.org](http://www.pakistanleasing.org)

Amer Saleem Khan is a Financial Markets Researcher associated with Center of Excellence in Microfinance (CMF), Institute of Management Sciences, Peshawar[www.imsciences.edu.pk]. Stefan Platteau is Financial Sector Development Specialist with FACET BV(www.facetbv.nl) (An International Consultancy Firm specialising in SME Finance/Microfinance)

The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.
community as a tool for poverty alleviation with a unique promise of financial sustainability, hence a “double bottom line”. The global microfinance industry started gaining momentum and best practices started taking shape.

The term “microcredit” gave way to “microfinance” showing a shift in the framework towards sustainable provision of a broad array of financial services to satisfy diverse needs of the poor. This also came to be known as the “financial systems” approach to microfinance whereby poor represented a target market to be catered through financial institutions, very much part of a country’s financial system, but having specially tailored business models and financial products.

Phase – 3 [Late 1990’s till the Present] – Entry of the Specialist MFI

The later part of 1990’s saw the entry of regulated financial institutions such as commercial banks and leasing companies in the microfinance arena. Mostly urban based microfinance – only programs also came up in major cities of Pakistan. Regulatory structures started taking shape, spawning a new microfinance institutional structure – The Microfinance Bank (MFB).

Entry of Commercial Banks

Commercial banks did not fail to join the microfinance bandwagon. Their social finance initiatives took two shapes:
- Banks providing credit lines to NGO MFIs for onlending as microfinance loans
- Banks providing direct/retail finance to poor people.

Habib Bank can be considered a pioneer in the indirect lending strategy. It had provided a credit line of Rs 2.2 billion to NRSP for onlending as microfinance loans to rural communities in 1999 – 2000 period\(^3\). However, the role of commercial banks as wholesalers of funds to MFIs have somewhat waned due to the emergence of the Pakistan Poverty Fund. (PPAF) in 2000, which provides concessionary funding to MFIs for a variety of development interventions including microfinance.

\(^3\) Ruth Goodwin – Groen 1999 “Role of Central Banks in Microfinance in Asia and The Pacific”.

Amer Saleem Khan is a Financial Markets Researcher associated with Center of Excellence in Microfinance (CMF), Institute of Management Sciences, Peshawar[www.imsciences.edu.pk]. Stefan Platteau is Financial Sector Development Specialist with FACET BV(www.facetbv.nl) (An International Consultancy Firm specialising in SME Finance/Microfinance)

The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.
The Bank of Khyber (BOK) and the First Women Bank (FWBL), both public sector banks with a development mandate, established direct microfinance windows. In terms of outreach, expansion and institutional development, BOK was the most aggressive achieving successful linkages with major donors and their multisectoral Area Development Programs such as the Asian Development Bank (ADB) funded Barani Area Development Program (BADP) and Malakand Area Development Project (MRDP) as well as IFAD funded Dir Area Support Program (DASP). BOK also experimented with various microfinance products and methodologies including individual lending, group lending, NGO linkages as well as whole-selling of funds to NGOs. It also provided SRSP a credit line of Rs 10 million for on lending. However, BOK’s microfinance initiative has lost its vigour over the last few years due and there are rumours of the microfinance program being closed down in the near future.

FWBL has a “unique charter” as a commercial bank with a development mandate for the uplift of the women in Pakistan. Its shareholding includes not only all major banks in Pakistan but also The Ministry of Women Development. This shareholder has always been particularly keen on prodding the bank towards taking up social finance activities. Although the latest Annual Report of FWBL does not give latest figures on microfinance activity but it does talk about cumulative micro-lending to more than 31,000 borrowers amounting to Rs 793 million between the years 1999 – 2004.

<table>
<thead>
<tr>
<th>Commercial Banks in Microfinance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Habib Bank Limited (HBL)</strong></td>
</tr>
<tr>
<td>Provided credit line of Rs 2.2 billion to NRSP for rural microfinance</td>
</tr>
<tr>
<td><strong>The Bank of Khyber (BOK)</strong></td>
</tr>
<tr>
<td>Established a retail microfinance window in 1995.</td>
</tr>
<tr>
<td>More than 9,000 active borrowers and outstanding loan portfolio of over Rs 258 million (by end 2004)</td>
</tr>
<tr>
<td>Obtained ADB credit lines for various Area Development Projects in NWFP</td>
</tr>
<tr>
<td>Provided a Rs 10 million credit line to SRSP for rural microfinance</td>
</tr>
<tr>
<td>Microfinance program has lost its retail microfinance tempo in recent years</td>
</tr>
<tr>
<td><strong>First Women Bank Limited (FWBL)</strong></td>
</tr>
<tr>
<td>Share holders include Ministry of Women Development, GoP, which has provided the mandate and funding for microfinance activities.</td>
</tr>
<tr>
<td>Provided loans of Rs 793 million to 31,000 poor women over the period 1999 – 2004</td>
</tr>
<tr>
<td>Achieved funding linkages with ADB, ILO and CIDA for microfinance</td>
</tr>
</tbody>
</table>

Sources:
--Institutional Annual Reports, PMN PIR
--Ruth Goodwin – Groen 1999 “Role of Central Banks in Microfinance in Asia and The Pacific”

The Microfinance Banks (MFB)

While those familiar with the financial sector see limited success of commercial banks in the MF arena, five Microfinance Banks, almost similar in the basic business model to commercial banks, have been established under the new SBP Microfinance Regulatory

---

32 Details of MRDP given on ADB weblink [http://www.adb.org/Documents/Profiles/LOAN/29603013.ASP](http://www.adb.org/Documents/Profiles/LOAN/29603013.ASP)

33 The info related with FWBL taken from FWBL Annual Report 2004

Amer Saleem Khan is a Financial Markets Researcher associated with Center of Excellence in Microfinance (CMF), Institute of Management Sciences, Peshawar[www.imsciences.edu.pk]. Stefan Platteau is Financial Sector Development Specialist with FACET BV(www.facetbv.nl) (An International Consultancy Firm specialising in SME Finance/Microfinance).

*The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.*
environment. Apart from Khushhali Bank and First Microfinance Bank, established under the patronage of Asian Development Bank (ADB) and Aga Khan Fund for Economic Development (AKFED) respectively, two more MF banks are noteworthy – Network Bank and Rozgar Bank. Network Bank’s sponsor, Network Leasing, has an established microleasing program since 1995 and has a presence throughout Pakistan. Rozgar Bank also represents “purely commercial” capital going into the MF sector. While Network Bank and Rozgar Bank have operations restricted to specific districts (i.e. Karachi), Khushhali Bank and First Microfinance Bank are working nationwide. The fifth MF Bank, Tameer Bank, also having equity contributions by International Finance Corporation (IFC) is the last one to enter the market through its Karachi operations. It will expand operations nationally and is reportedly planning to introduce latest technology and automation such as Digital PDAs and ATMs.

The start of the millennium saw maturing of the microfinance initiative of a pioneer Rural Support Program – AKRSP. By 2002 a total of Rs 430 million had been generated by Village Organizations as savings. AKRSP brought a major shift in its microfinance strategy by through spinning off its microfinance operations into First Microfinance Bank (FMFB) – a formal, regulated financial institution established under the new Microfinance Ordinance of the State Bank of Pakistan. AKRSP is FMFB’s major shareholder with 45% stake with the remaining shares are held by Aga Khan Fund for Economic Development (AKFED) (30%) and International Finance Corporation (IFC) (25%). FMFB has not limited its operations to the Northern Area but has expanded to major urban areas of Pakistan such as Lahore and Karachi.

The Urban “Miracles”

---

34 see SBP website for the MFI Ordnance 2001 and regulatory framework for Microfinance Banks (MFBs)
36 [www.tameerbank.com](http://www.tameerbank.com)
39 ADB newsletter Finance for the Poor September 2004 issue and FMFB Annual Reports
40 For a detailed view on AKRSP and its microfinance initiative please refer to: Maliha.H.Hussein, “Savings, mobilization and Microfinance Lessons Learned Exercise” [www.akrsplessons.org](http://www.akrsplessons.org)

Amer Saleem Khan is a Financial Markets Researcher associated with Center of Excellence in Microfinance (CMF), Institute of Management Sciences, Peshawar[www.imsciences.edu.pk] . Stefan Platteau is Financial Sector Development Specialist with FACET BV([www.facetbv.nl](http://www.facetbv.nl)) (An International Consultancy Firm specialising in SME Finance/Microfinance)

The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.
Second half of the 90’s also saw the establishment of a specialist MFI, KASHF (meaning “miracle” in Arabic). It focused on urban/sub-urban target markets in the metropolitan city of Lahore, the provincial capital of Pakistan’s Punjab province. It applied a business – like approach to microfinance loosely following the Grameen style group lending methodology and focusing exclusively on women. In December 2004, KASHF had more than 60,000 clients and it was the best performing PMN member in 2004. The founder of KASHF, a Harvard graduate, seems to have realized the fact at that time that the urban areas of Punjab, buzzing with economic activity, lacked a grass roots financial intervention. Karachi, the biggest industrial city of Pakistan already had OPP.

OPP and KASHF present an interesting comparison. Both OPP and KASHF realized early the specialist nature of microfinance. Accordingly, OPP established a separate sister entity, Orangi Charitable Trust (OCT) to conduct its microfinance operations while KASHF focused exclusively on microfinance.

ASASAH (meaning “asset” in Urdu), although a late entrant (year of establishment: 2003) has quickly established its market as a specialist MFI based mostly in urban areas of Punjab province including cities such as Lahore. Till the end of 2004, its funding came exclusively from commercial sources and hence no funding was obtained from donors.

### Pakistan Microfinance Network (PMN)

By mid 90’s, microfinance institutions lead by KASHF and NRSP realized the need for an “industry association” for the microfinance sector so as to give it a voice and a platform for capacity building activities. This led to the formation of The Microfinance Group which was later converted to a legal entity as Pakistan Microfinance Network (PMN).

---

**A Snapshot of Urban MFIs**

<table>
<thead>
<tr>
<th></th>
<th>KASHF</th>
<th>OPP</th>
<th>ASSASAH**</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Active Borrowers</td>
<td>2,583</td>
<td>67,552</td>
<td>7154</td>
</tr>
<tr>
<td># of Active Women</td>
<td>2,583</td>
<td>67,552</td>
<td>NA</td>
</tr>
<tr>
<td>Borrowers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Loan Portfolio</td>
<td>6,341,000</td>
<td>479,101,234</td>
<td>26,767,000</td>
</tr>
<tr>
<td>(Rs)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No of Savers</td>
<td>2,009</td>
<td>54042</td>
<td>NA</td>
</tr>
<tr>
<td>Total Savings</td>
<td>324,000</td>
<td>7,610,912</td>
<td>NA</td>
</tr>
<tr>
<td>(Rs)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**
- **ASSASAH was established in December 2003.
- *Source: PMN PIR**

---

41 PMN PIR 2004; also see the analysis section below for comparisons with its peers

Amer Saleem Khan is a Financial Markets Researcher associated with Center of Excellence in Microfinance (CMF), Institute of Management Sciences, Peshawar. Stefan Platteau is Financial Sector Development Specialist with FACET BV (An International Consultancy Firm specialising in SME Finance/Microfinance).

The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.
The origins of PMN can be traced to the 1997 Microcredit Summit where a group of leading Pakistani MF practitioners met and realized the need for collective effort to build capacity of the MF sector in Pakistan. This interaction resulted in the creation of The Pakistan Microfinance Group in 1999. After obtaining donor funding, this group converted into a legal entity in the form of PMN. Present PMN members number 13 divided into four categories; financial institutions with MF as separate product lines, specialized MFIs/Banks, rural support programs, NGOs.

The role of PMN is akin to a combination of an industry representative body on the lines of a “Chamber of Commerce and Industry” and a training institute. Performance Indicator Report (PIR) – a compendium of industry performance statistics prepared on international standards and a training calendar boasting leading international practitioners have placed PMN as a globally recognized, apex microfinance support institution in the country. By the year 2000, PMN was well positioned to raise a voice in policy making forums in the country including towards the State Bank of Pakistan

**Pakistan Poverty Alleviation Fund**

At the start of the millennium an apex institution, Pakistan Poverty Alleviation Fund (PPAF), was formed by the Federal Government and funded by The World Bank and other donors. Its resource base includes Rs 500 million endowment fund of GOP and World Bank credit of $90 million. PPAF channelled donor funding, which was pouring in to the fledgling microfinance sector and acted as a wholesale lender to the NGO – MFIs. Main PPAF funding sources include International Development Association (IDA)/World Bank and Government of Pakistan. (source: Annual Report 2004). During the period April 2000 – March 2005, PPAF provided microfinance funding to 52 partner organizations, provided credit amounting to more than Rs 8.3 billion which reached out to more than 3 million beneficiaries. PPAF has four “core” program components; Credit and Enterprise Development, Community Infrastructure, Human and Institutional Development and Social Sector Development Program. The Credit and Enterprise Development with disbursement amounting to Rs 1.4 billion in 2004 has the maximum resource allocation among all core components.

---

43 [www.microcreditsummit.org](http://www.microcreditsummit.org)
44 [www.pmn.org.pk](http://www.pmn.org.pk), PMN PIR 2004
45 [www.ppafo.org.pk](http://www.ppafo.org.pk)
46 PPAF website [www.ppafo.org.pk](http://www.ppafo.org.pk) and PPAF Annual Report 2004

Amer Saleem Khan is a Financial Markets Researcher associated with Center of Excellence in Microfinance (CMF), Institute of Management Sciences, Peshawar[www.imsciences.edu.pk]. Stefan Platteau is Financial Sector Development Specialist with FACET BV([www.facetbv.nl](http://www.facetbv.nl)) (An International Consultancy Firm specialising in SME Finance/Microfinance)

The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.
During the nineties, MFI s specially the RSPs, facing credit dem and in excess of funding supply went to banks for credit lines. NBP, HBL, FWBL and BOK provided credit lines against “cash collaterals” - The MFI s provided their long term financial instruments as securities against these credit lines. However, stringent compliance rules such as provision of securities and high interest rates put constraints on these “commercial” funding resources. In this situation, PPAF came up to fulfil the funding need of MFI s by coming up as a whole seller of finance for not only microfinance activities but also for social service provision such as physical infrastructure, health and education.

<table>
<thead>
<tr>
<th>Snapshot of the Microfinance Support Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pakistan Microfinance Network (PMN)</strong></td>
</tr>
<tr>
<td>- Umbrella organization formed in 1999 for collective sector development efforts</td>
</tr>
<tr>
<td>- 13 member MFI s ranging from Regulated Financial Institutions, RSPs and NGOs.</td>
</tr>
<tr>
<td>- Performance Indicator Report (PIR) the most well recognised initiative</td>
</tr>
<tr>
<td>- Brought in international training expertise and established itself as the voice of the sector in policy forums.</td>
</tr>
</tbody>
</table>

| **Pakistan Poverty Alleviation Fund (PPAF)** |
| - Established in 2000 by a Govt. of Pakistan endowment of Rs 500 million and World Bank credit of $90 million. |
| - “core program components” include Credit & Enterprise Development and Community Infrastructure |
| - Credit & Enterprise Development dominate operations with maximum resource allocation of Rs 1.4 billion (2004) |
| - So far provided funding to 52 partner organizations including wholeselling of microfinance funding of Rs 8.3 billion. |
| - Ultimate beneficiaries exceed 3 million. |

| **Regional MFI Networks** |
| - Regional Networks have been established by mostly through efforts of smaller NGO MFI s |
| - Sind Microfinance Network (SMN) and Sarhad Microfinance Network (SMFN) represent the MFI s of Sind and NWFP respectively |
| - Punjab microfinance sector is represented by two networks. One mostly represents the rural microfinance initiatives outside the provincial metropolis of Lahore while the second includes urban MFI s based in Lahore. |

Sources:
- PMN and PPAF websites
- Interaction with microfinance practitioners.

Amer Saleem Khan is a Financial Markets Researcher associated with Center of Excellence in Microfinance (CMF), Institute of Management Sciences, Peshawar[www.imsciences.edu.pk]. Stefan Platteau is Financial Sector Development Specialist with FACET BV(www.facetbv.nl) (An International Consultancy Firm specialising in SME Finance/Microfinance).

The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.
Asian Development Bank (ADB)\textsuperscript{47}

The Microfinance strategy of ADB is founded on the need for building permanent institutional access to financial services for the poor. Under ADB’s Microfinance Sector Development Program (MSDP) a sum of $ 150 million was approved in 2000. This amount had two components - $70 million for “social capital enhancement” which involved building the capacity of poor communities to access microfinance services while $ 80 million as investment in MFIs to fund financial services to the poor. Under MSDF, ADB has supported the establishment and capacity building of Khushhali Bank. Four endowment funds have also been established at the State Bank of Pakistan to support the poor with periodic contributions from both, the government and Khushhali Bank to ensure sustained ownership.

ADB is also helping in restructuring of Zarai Taraqiati Bank of Pakistan (formerly Agricultural Development Bank of Pakistan).

Swiss Agency for Development Cooperation (SDC)

SDC has four main development programs in Pakistan; Human and Institutional Development (HID), Human Rights (HR), Natural Resource Management (NRM) and Micro & Small Enterprise Development (MSE). The last program includes SDC’s microfinance initiatives with special focus on Northern Areas and NWFP. Furthermore, it is also supporting SBP so as to enhance the latter’s capacity for supervision of Microfinance sector in Pakistan\textsuperscript{48}.

SDC can be considered as one of the oldest microfinance supporters in Pakistan. It animated the leasing sector through support to microleasing programs of Orix Leasing Pakistan (OLP), Network Leasing (NLCL) and Leasing Association of Pakistan (LAP). Under its Financial Sector Strengthening Program (FSSP) it is building capacity of MFIs and other stakeholders in the microfinance sector.

Pakistan Financial Services Sector Reform Program (PFSSRP)

PFSSRP is European Union’s (EU) financial sector development initiative. It is providing support to meso level organizations (Microfinance Networks) in the microfinance sector and strengthening institutional capacity of NGOs as well as Community Based Organizations through trainings and systems development. It has also opened a support window at SBP for NGOs converting to regulated MFI’s\textsuperscript{49}.


\textsuperscript{48} \texttt{www.sdcpakistan.org} visited on November 24, 2005.

\textsuperscript{49} EU websites: \texttt{http://europa.eu.int/comm/europeaid/projects/asia/sector_refo_en.htm#econ} and \texttt{http://www.delpak.cce.eu.int/WHATSNEW/strategy.htm}.


\textit{The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.}
“Scale and Sustainability”- that’s how Roshaneh Zafar, CEO of KASHF summarizes the key challenges faced by the microfinance sector in Pakistan. Like in other other countries, reaching large numbers of clients is part of building an inclusive financial system that provides more and more quality services to those traditionally excluded from access. Inclusive also means that the services are being offered in a sustainable way, that the financial institution and the client build up a real relationship.

Scale and sustainability are interlinked. MFIs unable to reach sufficient number of clients cannot achieve the economies of scale needed to attain sustainability. In the case of Pakistan, these key challenges are further accentuated by other factors which constrain the development of the microfinance sector. As a matter of fact, our research and interviews with leading professionals in the field point to a number of limiting factors: lack of clear vision about the future direction of microfinance among many MFIs, weak governance structures and transparency, poorly developed market knowledge and lack of adjusted financial products. ………

Vision

MFI’s struggle with the question- what micro finance is about? Despite over twenty years of history and experimentation with a variety of institutional structures, the microfinance practitioners are still debating whether financial service provision to the poor is charity, a financial business or a social enterprise. In their mission statements, MFIs take up the challenge of “empowering the poor”, “promoting income generation activities” and “alleviating poverty” but the ultimate shape of their institutional effort, specially in the long run, does not achieve clarity neither in program documents nor in conversations.

Transparency and Governance

NGO type MFIs have no real owners. Funding is from external sources and board nor management suffer directly from poor performance. Besides most of the Pakistani MFIs are NGOs with lax financial and operational transparency requirements as well as little or no regulatory oversight. This deters potential investors in microfinance as there is lack of information about decision making processes and/or about the financial situation and the state of the microfinance operations.

Management and personnel

Amer Saleem Khan is a Financial Markets Researcher associated with Center of Excellence in Microfinance (CMF), Institute of Management Sciences, Peshawar[www.imsciences.edu.pk]. Stefan Platteau is Financial Sector Development Specialist with FACET BV(www.facetbv.nl) (An International Consultancy Firm specialising in SME Finance/Microfinance)

The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.
The growth of the microfinance sector is also being influenced by the lack of experienced managers who combine understanding of the development issues with a professional and even commercial approach to microfinance. The critical issues of management and personnel is raised by the MFIs who express their need for more human resource development initiatives for the sector.  

Adequate products and market knowledge

Group lending methodology is the microfinance mantra being followed by almost all MFIs. Group lending methodology and its underlying Solidarity Lending Framework needs appropriate adjustments to cater to the unique cultural realities of Pakistan. Besides the emphasis on loans needs to shift to micro-savings, insurance and remittances which provide as much developmental promise as credit provision. Most of the MFIs are by law not allowed to mobilize deposits, which makes the focus on micro-savings understandable. Eventually they will need to broaden their product base in view of the increasing competition of regulated financial institutions (FMB, Khushhali Bank, Tameer Bank, and others in the future).

Market research is almost absent. In a way this is understandable given the limited resources available to the MFIs and the lack of understanding about the need and the nature of market research required. Often MFIs try to “force” their clients to follow a financial service delivery mechanism that suits the MFIs, irrespective of the actual demand and circumstances of the market. Rarely have the MFIs tried to assess the actual financial aspirations of their target clients.

Delinquency Problem

The high delinquency numbers also portray a situation contrary to the reputation of microfinance. International experiences show very low arrears from lending to the poor. Pakistani MFIs show a different picture. This also constraints growth and sustainability as MFI staff gets bogged down in putting out fires of delinquency and focus less on institutional building and long term strategy implementation.

Funding Problem

Constrained funding also inhibits scale and sustainability. Most of the MFIs are NGOs looking up to donors for the constantly shrinking donor funding line for microfinance. Pakistan Poverty Alleviation Fund (PPAF) is the apex funding body, doing excellent job as sole funding tap but much begrudged by the microfinance sector for its strict conditionality and compliance procedures. MFIs need other sustainable sources of funding apart from PPAF so as to diversify their resource pool and expand outreach.

---

50 Source: “MFI Sector Mapping” Center of Excellence in Microfinance, Peshawar, A survey of 25 MFIs based in NWFP showed human resource development as top most need of the sector.

51 Interview with Roshaneh Zafar, KASHF.

Amer Saleem Khan is a Financial Markets Researcher associated with Center of Excellence in Microfinance (CMF), Institute of Management Sciences, Peshawar[www.imsciences.edu.pk] . Stefan Platteau is Financial Sector Development Specialist with FACET BV(www.facetbv.nl) (An International Consultancy Firm specialising in SME Finance/Microfinance)

The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.
Formal financial institutions such as commercial banks and leasing companies are another potential source of funding, tapped by some MFIs. But the strict security and documentation requirements have also deterred the MFIs from realising the full potential of this funding source. All major Rural Support Programs (RSPs) such as NRSP and SRSP accessed credit lines from commercial banks but later switched to PPAF funding. ASSASAH is a pioneering exception which reportedly started out without donor funding and accessed credit lines from commercial financial institutions including leasing companies. Both high costs and stringent security requirements have been issues in accessing commercial source of funding. PPAF funding is cheaper and requires no collateral. However, PPAF funding has its own set of compliance requirements. Pakistani commercial financial institutions as well as MFIs need to learn from India where ICICI Bank has a successful MFI financing program and because of the success of this MFI financing success, other commercial banks are also jumping into the field of whole sale credit line provision to MFIs.

While development of the market in terms of sustainable institutions is the need of the hour, this would not happen without a healthy macro economic environment and a prudent regulatory framework. Tamed inflation would result in expansion in spending power and stable and positive real interest rates; both most essential for the sustainability of the MFIs and their clients. Pakistan is seeing galloping inflation and a rising cost of living, impacting most at the grassroots level.

Regulatory environment established by the State Bank of Pakistan in the form of special Prudential Regulations for Microfinance Banks (MFBs) as well as Rules for establishing of MFBs and NGO-MFI transformation to MFBs are considered by the sector as too stringent. These rules have set high entry requirements in the microfinance sector specially in terms of minimum capital requirements. SBP requires minimum capital of Rs 500 million, 250 million and 100 million respectively for a country – wide, province – wide and district – wide operations. From the risk management point of view, SBP’s concerns and their translation into rules are understandable. However, the sector has expressed a need for a less stringent regulatory environment. A few large MFIs have been considering the idea of transforming into MFBs but they seem to have postponed the idea apparently because they perceived the regulatory environment to be too rigid so as to allow for outreach expansion and operational flexibility.

Furthermore, self regulation of MFIs could contribute to the institutional development of MFIs. Even though it does not guarantee proper functioning, the fact that an independent body supervises the operations and obliges the MFI to comply with standards and provide information on a regular basis has shown to be effective in several countries.

---

52 See CGAP document on MFI – Bank Linkages including info on Indian experience by visiting website: http://www.cgap.org/docs/bank_profiles_retail.pdf
53 See SBP website http://www.sbp.org.pk/about/micro/criteria.htm

Amer Saleem Khan is a Financial Markets Researcher associated with Center of Excellence in Microfinance (CMF), Institute of Management Sciences, Peshawar[www.imsciences.edu.pk]. Stefan Platteau is Financial Sector Development Specialist with FACET BV(www.facetbv.nl) (An International Consultancy Firm specialising in SME Finance/Microfinance)

The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.
Lastly, a big issue underlying all other issues is the need for entrepreneurial spirit. The sector is often accused of being led, less by the spirit of enterprise and initiative and more by a scramble to access donor funding. This has made microfinance more of a “fad” than a developmental mission or a business opportunity. The recent rise of the specialist MFIs, restructuring in leading RSPs and the establishment of regulation MFIs with private capital are a few positive developments. These developments can been seen in the perspective of global evolution of microfinance whereby the market share of traditional NGO type MFIs might decrease in favor of more commercial oriented providers.

The bustling urban markets and the vibrant rural agriculture indicate a vast untapped demand for financial services. In quantitative terms the potential market comprises more than 10 million Pakistanis while the supply has reached approximately one million MFI clients.

In response to this market potential, MF in Pakistan has recently started picking up with the setting up of specialist financial institutions and the aggressive expansion of leasing companies through introduction of micro-leasing services. Specialist NGO – MFIs as well as Rural Support Programs are also playing a crucial role in expanding the frontiers of finance at the grassroots. Many of these programs show tremendous potential for expansion and evolution. MF specialists are particularly watching the specialized microfinance-only MFIs (both regulated financial institutions as well as NGO – MFIs)

The sector also has international experiences available as useful lessons. Presently numerous success stories and literature are available and the Pakistani MF sector can benefit from this wealth of experience. The successful international MF business models can be adapted and synthesised to create the locally suitable MF structures. The international emphasis on sustainability and commercialization has provided an early inspiration to Pakistani MFIs.

Adequate financial resources in the form of donor funding is also available for capacity building of the MF sector. This should facilitate experimentation and innovation on the part of MFIs. Strategic donors like ADB, SDC and the EU provide a broad range of funding windows which facilitate various capacity building activities ranging from international exposure visits to trainings. However, donor funding is by nature fickle and the Pakistani MFIs need to develop sustainable mechanisms for funding if it wants to ensure long term sustainability. PPAF is the only apex source of funding for the MFI sector. However, funding sources need to be innovatively diversified. ASSASAH is a good example of an MFI that has broken the tradition of looking at concessionary funding sources, financing its operations mostly through commercial sources. Other MFIs


Amer Saleem Khan is a Financial Markets Researcher associated with Center of Excellence in Microfinance (CMF), Institute of Management Sciences, Peshawar[www.imsiences.edu.pk]. Stefan Platteau is Financial Sector Development Specialist with FACET BV(www.facetbv.nl) (An International Consultancy Firm specialising in SME Finance/Microfinance)

The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.
need to learn from the ASSASAH experience and strategise on similar lines. Regulated MFIs, such as Khushhali Bank, Rozgar Bank, Tameer Bank and the like, established under SBP regulatory umbrella are well positioned in this regard.

Given below is the crystal gazing on the Pakistani microfinance done by microfinance practitioners55

- In the long run only specialized MFIs with adequate governance, professional management and a practice of product innovation and differentiation, will survive.
- Innovation will particularly take place among the regulated MFIs, specially in the area of micro-savings and remittances.
- Smaller NGO MFIs and NGOs working in multi-sector interventions are not seen to sustain the rigours of MF. It may also be noted that MF is a risky activity requiring adequate resources to absorb the stress particularly associated with credit risks. It also requires the institutional focus and resilience to facilitate sustained learning.
- Microfinance Banks established under the SBPs supervisory umbrella will be able to access cheaper sources of funding in the form of client’s deposits and hence will be able to have an edge over other MF institutional structures
- The number of NGO – MFIs will reduce over the next decade
- If the sector does not show good performance over the coming years the SBP might make the regulatory norms for microfinance more stringent.

It remains to be seen whether microfinance will follow other development fads and gets buried in multilateral donor reports or establishes a presence of its own on the financial landscape of Pakistan. Only the strength of the leadership in the sector will decide the fate of grassroots financial services in Pakistan.

---

55 Based on questionnaire filled out by key people in the Pakistan microfinance sector. Amer Saleem Khan is a Financial Markets Researcher associated with Center of Excellence in Microfinance (CMF), Institute of Management Sciences, Peshawar[www.imsciences.edu.pk]. Stefan Platteau is Financial Sector Development Specialist with FACET BV(www.facetbv.nl) (An International Consultancy Firm specialising in SME Finance/Microfinance)

The views expressed in this writeup are those of the authors only and may not reflect the views of the institutions they are associated with.