Shamshad Akhtar: Building inclusive financial system in Pakistan

Speech by Dr Shamshad Akhtar, Governor of the State Bank of Pakistan, at the Financial Inclusion Conference, DfID & HM Treasury, London, 19 June 2007.

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A. Introduction

Supported by high and sustainable economic growth during 2000-2007 Pakistan has made key inroads: poverty incidence has reduced by 10% down to 24%, per capita income doubled to $925, and there has been steady progress in other Millennium Development Goals (MDGs).

Turnaround and transformation in banking sector, supported by privatization and restructuring and market oriented policies, has already shown visible results in broadening, deepening and diversifying financial services in the country. However, the growth of financial sector has, as yet, not penetrated across all segments of population and across different regions. This is not unique to Pakistan as most countries have had to adopt explicit financial policies and affirmative action to redress the inequities and deficiencies of financial system which tend to disproportionately serve businesses and individuals with appropriate net worth backed by assets and collateral or located in prosperous areas.

Recognizing this, the central bank of Pakistan has launched a broad based strategy for enhancing access to development finance. In this paper, I propose to discuss the case for a holistic and broad based strategy for financial inclusion in Pakistan to achieve desired scale and sustainability. In doing so, I intend to first outline:

(i) Impact of financial sector reforms in deepening access to finance;

(ii) Identifying nature and intensity of financial exclusion; and finally

(iii) Discuss the key objectives, goals and principles and major elements of financial inclusion strategy – The strategy is anchored on developing financial and socially sustainable mechanism of credit delivery with particular focus on financially excluded population and regions.

The central bank of Pakistan (the State Bank of Pakistan (SBP)) has now assumed a coordinating and supportive role with the alliance of Government, private sector and partnership with development assistance to evolve and implement the financial inclusion strategy.

B. Impact of financial sector reforms in deepening access to finance

Over the last seven years, Pakistan's banking sector landscape has changed drastically. Principally both ownership and management changed. Financial markets have been fully deregulated. Together these measures resulted in remarkable quantitative and qualitative change. Growth in bank assets, deposits and advances has been unprecedented. Profitability is high, and nonperforming loans are at the lowest etc. Most notable has been

- Rise in private sector credit from Rs18 billion in FY00 to over Rs 400 billion in FY06
- SMEs accounted for 17.4% of the total outstanding advances by December 2006
- Consumer credit accounted for 12% of the total outstanding advances by December 2006 from virtually negligible levels
- Rise in agriculture credit from under Rs40 billion in FY00 to Rs 168 billion in FY07
- Housing loans rose from negligible levels to Rs70 billion by December 2006

- Microfinance loans increased from about Rs3 billion in 2003 to over Rs. 10 billion by December 2006
- Aggregate number of borrowers has risen from 2.7 million borrowers in 2003 to about 5.5 million by December 2006.

Also, now banks are extending their business focus from corporate to household sector. About half of the borrowers have tapped consumer financing which is changing lives of low and middle income households that can now access credit (Table 1).

Table 1. Distribution of Sector Lending

	31-12-2003		31-12-2006		% Growth over Dec 03-Dec 06	
Sectors	Number of Borrowers	Amount in Million Rs.	Number of Borrowers	Amount in Million Rs.	Borrowers	Amount
Corporate	17,743	606,500	25,740	1,269,564	45	109
SMEs	91,663	215,009	168,233	417,873	84	94
Agriculture	1,411,508	104,676	1,480,214	141,856	5	36
Consumer Finance	721,201	61,437	2,665,423	276,037	270	349
Mortgage Loans	NA	4,114	24,313	49,134	-	1,094
Others	135,561	169,035	122,190	246,289	(10)	46
Microfinance Loans	315,000	3,150	997,778	10,743	217	241
Total	**2,692,676**	**1,163,922**	**5,483,891**	**2,411,496**	**104**	**107**

NA: Not Available
Source: SBP except microfinance numbers are from Pakistan Microfinance Network

C. Nature and intensity of financial exclusion

Despite the progress highlighted above, financial penetration in Pakistan is quite low. Pakistan has the highest number of people per bank branch among regional countries except Bangladesh (Table 2).

Table 2. Regional Comparison: Bank's Branch Penetration

Country	Number of People per Branch
Bangladesh	22,348
India	15,864
Indonesia	11,845
Malaysia	10,208
Pakistan	**20,450**
Philippines	12,773
Singapore	10,954
Sri Lanka	14,551
Thailand	13,929

Source: World Bank and SBP calculations

Thus far, 37% of the adults have bank accounts; the number of borrowers, at 5.5 million, constitutes only 3.5% of the population; there are only 171 deposit accounts per 1000 people and 30 loan accounts per 1000 people. Agriculture and SME credit reaches only to 1.5 and 0.16 million borrowers[1], respectively. Furthermore, outreach of documented microfinance sector is 1.13 million as of March 2007.

[1] December 2006

Financial exclusion exists in all economies and markets, whether developed or developing. However, the level and degree of financial exclusion is far more in developing and large countries as both population and size of country introduces their own constraints and challenges (Table 3).

Table 3. Financial Penetration: Rural vs Urban

	Rural	Urban	Total
Population	67.0	33.0	100.0
Poverty Incidence (as estimated by GOP)	28.1	14.9	23.9
Bank Branches	33.0	67.0	100.0
Total population having bank accounts	6.0	37.0	17.0
Adult population (19+ years) having bank accounts *	14.0	75.0	37.0
Deposits (number)	25.0	75.0	100.0
Deposits (amount)	9.9	90.1	100.0
Advances (number)	17.0	83.0	100.0
Advances (amount)	7.1	92.9	100.0

*: this figure may be overstated due to multiple accounts.
Source: SBP and Economic Survey 06-07

In Pakistan financial exclusion manifests itself in different forms:

(i) Exclusion because of geographical constraints since a large proportion of population e.g. almost 67% lives in rural areas and there are pockets of population residing in difficult remote and disadvantaged terrain such as barani and arid areas and tribal areas;

(ii) Exclusion because of lack of enabling environment at provincial level. For instance, banks find it difficult to intermediate agriculture credit in provinces where there are problems such as lack of suitable land records and weak law and order enforcement. Similarly, these problems hinder other sectors including microfinance institutions to increase their penetration which is highly desirable due to prevalence of high headcount poverty.

(iii) Exclusion because of banking behavior and practices either because they are not servicing a large segment of population or they rely on traditional modes of lending which require collateral or documentary requirements or they impose prohibitive transaction costs etc;

(iv) Exclusion because of poverty or illiteracy or cultural and language barriers as a result of which population generally lacks awareness and understanding of financial services and products;

(v) Exclusion because of lack suitability of products like current accounts, which do not offer an overdraft and an easy route to borrowings; and

(vi) Exclusion because of regulatory barriers, such as the money laundering guidelines requiring proof of identification which many poor and vulnerable people find difficult to provide.

Financial inclusiveness is critical as 42% of Pakistan's population is under 15 years of age and about 24% of the population lives below poverty line, both these segments can benefit from economic empowerment. Apart from banks' loan pricing policy and lack of easy availability, financial institutions are reluctant to venture into new areas as they do not have the capacity to assess the demand and deliver their financial services. The lack of availability of the faith based system of financial services, lack of alternate delivery channels and financial innovation, inadequate database and information on borrowers, and weak enforcement of contract etc. are some of the main stumbling blocks that prevent inclusiveness of financial sector.

D. Pakistan – financial inclusive strategy

Objectives, goals and principles. Recognizing the overwhelming size and intensity of financial exclusion in Pakistan, SBP in designing the second generation reforms for financial services industry is placing high priority on developing and implementing an effective strategy for financial inclusion. This section offers some perspectives on this strategy.

A key objective of the financial inclusion strategy of Pakistan is to support the Government's target for halving the income poverty headcount by 2015 and to reduce eventually poverty to a single digit. To realize this objective, the Government and the SBP has for sometime been creating conducive policy, legal and regulatory framework across the board, while adopting multiple approaches and modalities to extend its net of financial services to larger segment of population.

Keeping these perspectives in mind, Pakistan has adopted a holistic strategy for empowering and enhancing the capacity of poor to contribute and participate in economic growth. On one hand, the Government is focusing on enhancing public investment in education and health and a wide variety of poverty alleviation programs. On the other hand, the central bank has been steering a broad-based policy framework for promoting inclusive financial development.

The principle thrust of the approaches and programs designed has been to shift emphasis from directed and subsidized credit to adopting best practices and market based approaches to promoting private sector in financial inclusion. Meanwhile, public expenditure is supporting selective and targeted interventions to stimulate and catalyze action and nurture institutions which leverage public: private partnerships to improve access to financial services for poor.

Most prominent e.g. is the support for the Pakistan Poverty Alleviation Fund (PPAF) and the National Rural Support Program and the recent President's Rozgar Scheme that offers credit to nations young and unemployed.

The PPAF is sponsored by the Government of Pakistan and funded by the World Bank and other leading donors. The PPAF follows a model of public private partnership through lending of wholesale funds to civil society organizations committed to community outreach programs for enhancing income and economic welfare of the disadvantaged people. Specifically, the PPAF provides funding for projects that help generate income, improve physical, social infrastructure, and skills of the vulnerable. On February 28, 2007 the PPAF had a resource base of US$ 826.17 million (Rs. 49,560.2 million)[2].

The NRSP is the largest Rural Support Programme in the country in terms of its outreach, staff and development activities. It is a not-for-profit organization with a mandate to alleviate poverty by helping people to harness their potential and undertake development activities in Pakistan. It has presence in all the four Provinces including Azad Jammu and Kashmir. The NRSP, with more than half a million poor households organized into a network of about 29,000 Community Organizations (COs), manages one of the largest micro-credit portfolios in Pakistan, with 282,421 active loans as of March 2007; it holds 25% of the microfinance market. The NRSP provides various financial services to the members of COs in rural areas to help them implement their Micro Investment Plans (MIPs)[3], including Micro Credit, Micro Insurance and savings products.

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[2] Pakistan Poverty Alleviation Fund

[3] National Rural Support Program and Pakistan Microfinance Network

The National Bank of Pakistan, largest nation-wide bank, is offering small loans to unemployed and poor to finance purchase of auto rickshaws, setting up utility stores under franchise of the Utility Corporation, and setting up public call office etc. Interest on these loans is fixed at 12%: 50% of interest charges are to be borne by the Government and the remaining 6% by the borrowers. The Government will pick up first 10% of all losses and share credit risk insurance. External and internal verification of borrowers, references and guarantees are handled by ICIL – a representative firm of Dun and Bradstreet. This scheme is anticipated to deliver over 5 years period about Rs105 billion (US $ 1.74 billion). Since its launch this year, the scheme has delivered Rs2 billion to about 22,136 borrowers[4] .

Recognizing Pakistan's context, and drawing from other country experiences, it has to be acknowledged upfront that financial exclusion can only be tackled effectively:

(i) If it is well conceptualized, well grounded and well integrated in the overall financial sector policy framework;

(ii) If it is backed by absolute political commitment and cooperative stance of the federal, provincial and local government and relevant sector agencies to create a healthy and conducive environment for financial intermediation at the lower end of population where risks are of different nature;

(iii) If financial institution recognize their corporate social responsibility and work towards financial deepening and credit diversification that is key to financial inclusion as well as to managing banks' health and its systemic risks;

(iv) If there is focus on provision of holistic financial services, whereby savings mobilization is perceived critical and integral to establishing the client on a sound footing and clients have collateral free access to financing with adequate provision for risks mitigated through credit enhancement mechanism and insurance; and

(v) Facilitating reliable and secure payment between different parties.

Major elements of financial inclusion strategy. Drawing from considerations highlighted above, Pakistan's financial inclusion strategy is broad based and flexible that aims to encourage partnership and social cohesion and mobilization with the objective of empowering and nurturing clients and their businesses. It engulfs all segments of population by offering them holistic and multiple services and products.

Anchoring and weaving these objectives, goals and principles, the SBP and the Pakistan Microfinance Network (PMN) have developed a far reaching Microfinance Strategy that is one of the principal driver's of financial inclusion strategy[5]. In April 2007, the Government has approved this Microfinance Strategy and a time bound Action Plan has been prepared to launch its implementation. Presently, the institutional framework of MF industry includes a set of (i) retail providers such as six MFBs (licensed only recently by central bank), (ii) the national and provincial rural support programs and charitable or specialized NGOs, (iii) the wholesale apex institution, the principal being the PPAF which relies on donor and government financing support to refinance community organization whose number has reached 60,000; and (iv) the NGOs and the cooperatives – later are now mostly closed except for one principal operator, the Punjab Cooperative Bank that has managed to be proactive but it relies on SBP credit lines (quite an unsustainable approach) and provincial government support and has to be eventually restructure to be more financial viable.

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[4] National Bank of Pakistan.

[5] Expanding Microfinance Outreach in Pakistan, www.sbp.org.pk/about/speech/governors/dr.shamshad/2007/MF-PM-17-Apr-07.pdf.

Commercial banks have selectively provided liquidity support to few MFIs. In the last six years, MF industry and beneficiaries have grown (Table 4). Currently the network of MF providers is 239 branches servicing about 1.1 million clients with about Rs5.6 billion portfolio. Among MF providers, Khushali Bank alone accounts for 47% of this network. However, MF-loan portfolio is higher close to Rs73 billion (as of December 2006) if one adds to MF providers programs all the agriculture, National Bank of Pakistan and other banks' small and micro lending.

Table 4. Growth in Microfinance (numbers in thousand)

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 up to March
Borrowers	65	64	67	100	210	315	450	609	998	1130
Savers	240	280	622	915	880	915	1000	1200	1400	1510

Source: Pakistan Microfinance Network

Even though industry has grown and is quite vibrant, its limited scale (both in terms of beneficiaries and region) and impact has recently necessitated stock taking of where we stand and how to transform this sector to meet more aggressively and swiftly country wide requirements. The MF-strategy advocates enhancing scale of MF operations to serve 3 million within 3 years for it to be henceforth extended eventually to 10 million expeditiously. MF ought to provide multiple services and products and sector financing and should include support for the un-banked poor but also those above it.

The strategy aims to encourage a change in vision and mission of MF operators from being charitable and social service providers to sustainable financial service providers. To achieve scale, the strategy underscores that all MF business need to position themselves for scalability and sustainability by augmenting their reach and developing alliances with other players, provision of wide ranging financial services and nurturing both financial and social sustainability. In addition, the strategy aims to unleash the potential of existing MF providers, while enhancing competition by allowing entry of new international players, exploiting greater synergies between public: private institutions and retail-wholesale providers, developing framework for piloting credit unions and developing basic infrastructure for enhancing capacities of industry and borrowers as well as developing credit information bureau.

The strategy further advocates developing effective synergies between the commercial banks and the Microfinance Banks (MFBs) and between the Microfinance Institutions (MFIs)/Nongovernmental organizations (NGOs). This interdependence and integration is perceived critical to encourage commercial banks to provide the desired liquidity to MF providers – which is absolute necessity until deposit mobilization at MF level generates required surpluses. Alliance between formal institutions and MFIs/NGOs is intended to help them access client and achieve desired degree of social mobilization – not a forte of banks. The strategy recognizes that MF providers alone cannot reach the large proportion of poor and low income so proper synergies and partnership among financial institutions will facilitate swifter extension of financial services to the small and micro borrowers across different sectors. The MF providers would have to reorient the way they do business and provide different products including loans, saving and insurance instruments as well as structure safety net schemes. More specifically, MF providers would need to develop capacities to deliver credit to different sector such as agriculture, housing etc.

Furthermore, strategy recognizes that MFIs and MFBs would need to develop commercially viable and financially sustainable operation. This requires appropriate availability and blending of financing: equity support, debt raising mechanisms, leveraging funding through credit enhancement, and exploiting more aggressively resource mobilization from depositors. Furthermore, MFIs need to enjoy flexibility in charging interest rates that fully recover costs – administration and supervision as well as risk perceptions – public acceptability of this is critical as eventually financial services would be priced effectively with enhanced competition. To realize these goals, Government is

(i) Introducing level playing field among the MFBs by bringing all MFIs under one legislative and regulatory framework – this requires bringing the Khushali Bank, the largest branch network, established under special ordinance and supported by subsidized funding that distorts level playing field in the industry.

(ii) Encouraging MFIs to upgrade themselves to a full-fledged bank by offering a 5 years tax break to MFBs.

(iii) Developing special funding/financing arrangements for MFIs which have potential for exploiting scale but cannot do so without resource constraints. MFIs (such as NRSP) are facing difficulty in extending their reach in difficult terrain such as barani and un-irrigated areas and rural areas without effective liquidity to conduct business. To address this issue, central bank is exploring mechanisms to encourage relationships and alliance between the commercial banks and MF providers with the objective of former providing the desired level of liquidity with and without credit guarantees or acquiring MFI to nurture such institutions. At the same time, the NRSP will be transforming itself from MFI to MFB and is working on a strategy to restructure with the objective of achieving scale in its operations.

(iv) Facilitating entry of new international players such as BRAC, Shore bank, etc. and encouraging setting up a Build-Own-Trust Model supported by the Grameen Trust.

(v) Encouraging restructuring of First Women Bank Ltd. to enhance its role in serving microcredit requirements of women. Restructuring would involve bringing in strategic partner in this bank and encouraging enhancement of its capital to allow it to leverage itself properly for augmenting its outreach.

(vi) Enhancement of capacities of PPAF to offer credit enhancement to leverage resources for microfinance industry and supporting other industry-wide initiatives.

(vii) PMN further positions itself to serve as a think tank, advocacy group and collate trends and analysis of industry and has played an instrumental role in steering the industry and strategy.

Central bank's special initiatives to enhance outreach and scale

SBP's Annual Branch Licensing and Basic Accounts Policy. SBP has introduced the Annual Branch Licensing Policy with a road map for 2008 and beyond. This policy requires commercial banks with 100 branches or more to open at least 20% of their branches outside big cities and set up branches in Tehsil Headquarters where no branch of any bank exists.

Table 5. Proportion of Rural vs Urban Bank Branches

	% age of Rural Branches	% age of Urban Branches	Total Branches
Foreign Banks	0	100	49
Five Big Banks	41	59	5,448
Private Banks	7	93	1,575
Islamic Banks	0	100	93
Specialized Banks	33	67	539

Source: SBP

The branch licensing policy has had a significant impact on braches of the five large banks with more than 40% branches in the rural areas (Table 5). In contrast, the private banks, despite having a considerable number of total branches are lagging behind in rural branches leaving much to be improved. This could be due to the fact that private banks mostly comprise of smaller banks with less than 100 branches. Similarly, Islamic banks and foreign banks will have to open rural branches once they reach the threshold of 100 branches.

In addition, SBP has allowed banks to establish sub branches, booth and service centre of commercial banks in inner regions where it is costly to maintain a full fledged branch. These sub branches can be managed by skeleton staff and can act as an extended arm of the near by branch for performing limited banking functions such as deposits, withdrawals, issuance of demand draft, telegraphic transfer etc. and also facilitate payment of home remittances to their beneficiaries.

Since November 2005 all commercial banks operating in Pakistan are required to offer Basic Banking Accounts (BBA) to facilitate and provide basic banking facilities to the low income people in Pakistan. A typical BBA can be opened with a minimum deposit of Rs1000 carrying no fee, no limit of minimum balance and full ATM facility. As of March 2007, about 120,000 BBAs were opened.

Hesitation in mobilizing BBAs has been there as the banks complain of high transaction costs associated with these accounts. While BBA is relatively a new product, the current and savings account are almost 47% of total deposit base and remain sticky despite the low returns offered by the bank. Central bank has introduced substantive competition by allowing entry of new and foreign banks and it is likely that this competition will eventually drive interest rates up for small depositors over time and would serve in turn as an incentive to clients to bank more aggressively. Special products offering different schemes for car loans and insurance etc. are already attracting urban small depositor, who were earlier out of the net, to bank.

Promotion of Post Office network. SBP and Post Office (PO) are exploring how 12,343 field office network of PO can be used to provide financial services by encouraging alliances between MFBs/MFIs and PO. So far, PO manages over 4 million saving accounts with 70% of such accounts holding savings below Rs10, 000 (or $165). PO is now working with a few MFBs/MFIs to develop viable arrangements for PO to sublet premises to MF providers or to partner with them to launch wide range of financial services. PO recognizes that it would have to rely on MFIs for financial intermediation, though local POs have over the years developed an understanding of local communities that they service.

SBP's Sector Prudential Regulatory Framework catalyzed to service under-served. Dedicated prudential regulations have been developed for specific sectors. In 2001 SBP issued *Microfinance Ordinance and supportive Prudential Regulations* as well as guidelines to allow setting up of national and regional MFBs and now 6 national level MFBs are licensed. The MF ordinance has been amended last year to ensure that minimum loan size being offered by MF be raised to Rs150,000 to allow providers to service MF business requirement and now MF are allowed to engage in remittances businesses. Banks are allowed to lend to small and medium enterprises clean i.e. without collateral up to Rs3 million and now SBP is considering broadening it to include small enterprises.

In parallel, there are several initiatives to extend financial services to small borrowers. These include: SBP's-SME financing Strategy that advocates promotion of Credit Guarantee Schemes and Venture Capital Funds, establishment of SME training centers and capacity building of banks' SME Loan Officers, SME Credit Risk Scoring and Competitiveness Benchmarking and Triennial Survey on SMEs to estimate their demand for the financing. In tandem, SBP has introduced *Prudential Regulations for Agricultural Financing and Guidelines for Livestock and Fisheries financing*; estimated agricultural credit demand for complete value chain from production to export by the farmers/growers; and simplified and standardized loan documents, and offered three years revolving credit scheme with one time documentation and automatic renewal on annual cleanup of principal plus markup for production loans to farmers. SBP has further allowed banks to finance against market/realizable/forced sale value of the agriculture land, urban properties, gold/silver ornaments, etc. and also against two personal sureties (up to Rs.500,000 – US$8,333) in addition to passbook of the land etc. These initiatives have contributed significantly in enhancing formal institutional agricultural credit disbursement for small borrowers.

Besides allowing commercial banks and removing caps on house loans and bank based exposure limits for housing finance, the House Building Finance Corporation (HBFC) is being corporatized to deal with the back log and demand for new housing units in Pakistan, estimated at 19.3 million including back log of 6 million low income housing units. HBFC, with support of the Government, has announced to promote low income housing on sound banking principles.

Islamic banking, which carries appeal for Shariah compliant clients, is being promoted to cater for underserved sectors such as SMEs, agriculture sector and micro enterprises through Shariah compliant products. Besides six full fledged Islamic Banks and permission to conventional banks to render such services, a full fledged Islamic Microfinance Banks (IMFB) would be encouraged also.

The central bank is working with the Government to develop adequate and commercially viable credit enhancement mechanism to support lending to MFIs which have now developed their niche and have potential to enhance their outreach but are constrained because of lack of funding or financing for capacity support. Similarly there is need for credit guarantee mechanisms to support evolution of small businesses. For these areas it is arranging for technical support from international service providers such as Grameen Foundation of USA will help in development of credit enhancement mechanism and establishing a poverty monitoring mechanism to assess the credit delivery to vulnerable population.

The central bank is encouraging promotion of insurance products to support micro and small lending. For instance, SBP plans to play a proactive role in development of Islamic micro-insurance products and has already worked with private sector insurance companies to develop non collaterized lending and crop loan insurance products which should help leverage MFBs and other institutions interest in supporting agriculture lending for small borrowers.

The central bank has promoted electronic banking which should lay the foundation for country wide connectivity of financial institutions. Already about half of the bank branches are now engaged in electronic fund transfer which is eventually to be supported by the legal coverage provided by the *Payment and Electronic Fund Transfer Act, 2007*. In parallel, efforts are underway in collaboration with ADB to launch mobile banking. The central bank has already laid out a *Policy Paper on Regulatory Framework for Mobile Banking in Pakistan* for public comments. Under this, central bank will promote both branchless as well as bank and non-bank focused models of mobile banking.

The central bank has restructured itself in September 2006 and established a full fledged Development Finance Group. This is now headed by an Executive Director – who is a important member of the Banking Cluster, with independent sector finance departments which steer and help implementation of policy, legal and regulatory framework for Small and Microfinance businesses, agriculture and rural credit, housing and infrastructure finance and Islamic finance. This Group has been entrusted with the Mission to steer and implement the financial inclusion strategy, launch development programs and analyze and monitor issues and progress in access to development finance in collaboration with the stakeholders and Government agencies. The Banking Services Corporation – a subsidiary of SBP – is now being restructured to engage through Local Advisory Committees to disseminate the financial inclusion architecture at field level and to provide us feedback on problems of development access while raising awareness and understanding of financial solutions offered by various providers and providing feedback on the problems public faces.

The central bank with the support of its two principal training institutions i.e. National Institute of Banking and Finance and the Institute of Bankers Pakistan is implementing financial literacy and capacity building for financial institution and public to leverage available financial services while building momentum for them to appreciate that pricing of formal delivery channels while high would be competitive vis-à-vis informal and other lending opportunities they may have.

E. Conclusion

In conclusion, given the nature and intensity of financial exclusion in Pakistan, we can ill afford to delay sound and quick implementation of the financial inclusion strategy that has been developed by the central bank with support of all stake holders. It is critical to recognize that this broad based strategy aims to unleash the potential of both public and private sector financial intermediaries and agencies and channel them more coherently and systematically to launch an all round aggressive campaign on financial inclusion.

The central bank on its part is not in business of directing or supporting itself financial intermediation but is in the business of performing its public role and responsibility leveraging policy, legal and institutional standing and strength to act as a principal agent for motivating, mobilizing and using moral suasion with industry to serve the people. Its role is more to empower the industry and its agents and to empower public through financial literacy to position themselves to access wide range of financial services in a cost effective and efficient manner. Political commitment, the passion and power of MF providers and banks at large will be able to help us reach every household and individual to transform the lives of those currently excluded from financial system.

The central bank has entered into a partnership with DfID to coordinate and help implement this financial inclusion package. SBP will work with DfID to establish Financial Inclusion Fund to structure credit enhancement mechanisms and facilities for industry to develop required governance structure, infrastructure/IT to facilitate MF lending and provide business entrepreneurial development support including development of capacities for accounting/financial literary, corporate governance and launching special studies/surveys to help support development of inclusive financial system groups and its impact.

Finally, it is important to recognize that providing poor and vulnerable groups access to financially and sustainable development finance is the most effective and respectable way of poverty alleviation.