

## **Yaseen Anwar: Promoting an inclusive financial sector in Pakistan**

Speech by Mr Yaseen Anwar, Governor of the State Bank of Pakistan, at the Closure Ceremony of Term Sarmaya Certificate (TFC) issued by Tameer Microfinance Bank, Karachi, 24 January 2013.

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Mr. Nadeem Hussain, President/CEO of Tameer Microfinance Bank

Ladies and Gentlemen – Good afternoon!

It is a pleasure for me to witness the successful closure of the first ever Term Finance Certificate (TFC) issued by any microfinance bank in Pakistan. This is indeed a significant achievement for the microfinance industry and capital markets that has been made possible by collaborative efforts of the diverse stakeholders involved in such a complex transaction. As someone once said:

“Coming together is a beginning, staying together is progress, and working together is success.”

Therefore, I would like to congratulate Tameer Microfinance Bank, Standard Chartered Bank, IGI Investment Bank, JCR VIS, Karachi Stock Exchange, SECP, and my colleagues at SBP, for collaborating together to make this TFC issuance a success under the SBP’s Microfinance Credit Guarantee Facility.

I sincerely hope that this first issuance of TFC by Tameer Bank would open up new funding avenues for microfinance providers and would give further impetus to our efforts in promoting an inclusive financial sector in the country, thereby enhancing the financial sector’s stability and viability in the long-run.

The importance of financial services in the development of any economy cannot be overemphasized. There is no denial of the fact that access to finance has positive impact on economic growth as it promotes entrepreneurship, generates employment, fosters innovation, reduces poverty levels and enhances social equality.

The financial sector in Pakistan remains restricted in its outreach both in terms of its depth and breadth. According to the Access to Finance Study of 2008, hardly 12% of the population has access to formal banking services and another 32% is informally served whereas 56% of the adult population is totally excluded. Similarly in Pakistan, the estimated size of the microfinance market is in the range of 25–30 million clients which indicates that the current level of microfinance access at 2.4 million clients is only 10% of the potential market.

Financial Inclusion has progressively assumed greater priority in SBP’s financial sector development strategy. SBP is pursuing a multi-pronged approach to tackle the challenge of high financial exclusion in our country. In particular, SBP is aiming to develop an efficient and sustainable market-based financial structure meeting the financial needs of the marginalized population including women and young people.

Let me be clear that the estimated microfinance market of 25–30 million clients may not necessarily just need credit services. It is of utmost importance that the industry should aim to provide holistic and appropriate financial services, including deposit, credit, insurance and remittance services. SBP is well aware of the fact that the industry is beset with a number of challenges in the way of achieving this high objective. SBP is actively engaged with all stakeholders to address the sector specific challenges in a sustainable manner.

One of the fundamental challenges faced by microfinance providers is how to match the massive scarcity of funding to scale up microcredit services to the majority of the microfinance market. SBP had launched the Microfinance Credit Guarantee Facility (MCGF)

to achieve this very objective through a sustainable market based mechanism. Prior to the MCGF launch in Dec 2008 and apart from one-off funding deals between the few MF providers and Commercial Banks, the commercial funding market was non-existent for microfinance providers. Therefore, the microfinance industry was severely handicapped and highly donor dependent for its funding needs.

The MCGF was initially started with the help of the UK Department of International Development (DFID) grant amount of GBP 10 million which has been recently increased to GBP 15 million. The MCGF is a credit enhancement facility to attract long term commercial funding for microfinance providers. The objective of the facility is to incentivize commercial banks through a risk sharing mechanism to provide wholesale funds to microfinance banks and institutions for on-lending to the poor and marginalized groups. Recently, the scope of the facility has been enhanced to allow microfinance providers to mobilize non-bank financing from capital markets, further diversifying sources of financing for micro borrowers. It is heartening to see that a number of microfinance providers, including Tameer microfinance bank, while benefitting from the MCGF, has helped the facility to attain this objective.

Let me briefly share with you that the facility has been instrumental in relaxing funding constraints of the microfinance sector in Pakistan:

- So far, 25 guarantees have been issued under MCGF, mobilizing over Rs. 7 billion for 5 leading MF providers, enabling microcredit access to around 350,000 new micro borrowers.
- The facility, due to its risk sharing structure has achieved a leverage of 3 times, mobilizing an additional Rs. 5 billion from private capital markets, establishing that microfinance may not be that risky as a business proposition, and
- Most of all, the facility has engaged 16 commercial banks and recently retail investors in funding the microfinance providers.

In doing so, the facility has accomplished the following key long-term development objectives:

*First*, the Guarantee has helped build links between micro borrowers and Banks/DFIs. The familiarization of the Banks/DFIs with the client will eventually lead to mainstreaming and graduation of the micro borrower;

*Second*, the facility has introduced microfinance business to Banks/DFIs as Banks have to evaluate the microfinance providers which must have helped them develop their own sense of the risks involved in microfinance. As a result, banks are now more willing to invest in micro banking; and

*Finally*, and more importantly, the facility has helped microfinance providers to offer small ticket sizes for retail investors. This has offered small retail investors an alternate channel for investing their savings and earning relatively higher returns, encouraging the concept of micro-savings.

I would like to conclude by saying that the MCGF has attained most of its developmental objectives. Moreover, I firmly believe that this TFC issuance will go a long way in diversifying funding for the microfinance sector. I strongly encourage all the financial market players to develop a long term vision for making the financial sector in Pakistan more inclusive.

Thank you!