

Can private sector commercial banks play a significant role in microfinance

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March 15, 2005

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Preamble:

- Simply; Yes-Private commercial banks can play a significant role in micro finance:

In terms of:

- Capacity building
- Liquidity
- Retailing of services

key questions -Is microfinance a value proposition for the private sector -

- Is there a potential market for microfinance
- What are the envisaged challenges
- Is it a sustainable proposition

Looking at the Khushhalibank experience

Is there a potential market for microfinance

- Financial sector is in transition with envisaged expansion across new frontiers and new market segments
 - This will requires the pre-valance of a conducive policy environment, requisite financial infrastructure & development of products & services customized to the needs of these segments
 - By lowering the segment threshold there exists a large potential market for micro finance clients - Nearly, 900 million households
- Experience of the 80's: the emergence of consumer finance where commercial banks were able to see this as a value proposition for investment, the market segment thresholds were lowered; financial & technology infrastructure were put in place, new products were developed and and sustainable outreach was enhanced to millions of middle income households across the globe.

What are the envisaged challenges

- Policy environment
- Financial infrastructure
- Retail level institutional capacity

Is it a sustainable proposition

Microfinance is a sustainable a proposition over a defined timeline; determinants of sustainability are:

- Institutional aspects
- Operational aspects
- Operating and full self sufficiency

Lessons Learnt

- Institution
- A facilitating policy, regulatory and legal environment is a prerequisite to encourage entry of institutions in the micro finance sector
- Strong Institutional commitment to outreach and sustainability
- MFI's require up-front investment in capacity building

- Clients
- Access to service is more important than cost of services
- Demand for saving is equally or stronger than demand for credit
- Demand for microfinance from the poorest is accompanied with the need for value added services

Khushhalibank experience

The mandate

- Sector Overview
- Institution overview
 - Strategy
 - Challenges
 - Status update
 - Sustainability Timeline

Our Mandate

- **Sectoral-Catalyze** an environment by working with & leveraging upon International best practices that will enable private sector microfinance institutions to emerge in the country.
- **Institutional**
A lead retail microfinance bank providing sustainable microfinance access to 1m clients by 2010

Sector Overview

- International

- Fast emerging sector within the financial services industry
- International and bilateral support
- International benchmarks & best practices
- Large commercial banks showing keen interest

- Domestic

- A large potential market exist
- Conducive & enabling policy environment in Pakistan with a proactive role of Central bank through consultative process and development of regulations
- Four banks operational in less than 48 months.
- More banks on the anvil
- Accelerated outreach

Institutional Strategy

- Enhance accessibility to Bank's financial services in marginalized areas & segments to harness their potential by providing access to capital and create opportunity for economic growth.
- Raise awareness of formal banking services and build financial discipline amongst clients to safeguard sustained service availability.
- Forge relationships with clients by providing value-added, non-financial services necessary for strengthening occupational activities.

Institutional Challenges

- High demand for microfinance services prompting for rapid expansion.
- Mobilize funding and resources to support requisite expansion.
- Achieve portfolio stability for new operations in the shortest time span, extremely crucial to financial sustainability.
- Maintaining distribution efficiency in terms of delivery & cost
- Others: market Development, regulatory, operational, stakeholders expectations etc

Institutional status update (as of December 31, 2004)

- Loans serviced: 371,000
- Disbursements: Rs 3.8 billion (US\$63 million)
- Deposits: Nil (Voluntary deposit mobilization will commence from 2006)
- Gross Loans outstanding: Rs 1.4 billion (US\$24 million)
- Total Assets: Rs 4.5 billion (US\$75 million)
- Active Clients: 175,000
- PAR: 30 days plus 6.2%
- Net write off's: 2.5%
- Districts Covered: 64 nationwide (Total districts are around 100)
- Network: 130 Service Outlets
- Client Mix: 33% women

Institutional Sustainability Timeline



The Way Forward

- Leveraging upon & Integrating with work already done by leaders,practioners and innovators within the micro finance industry
- Introduction of new actors within the industry such as technology, business & financial experts
- Focus on technical innovation that leverage upon the most appropriate technology i.e. considering high tech systems where priority is global access & combination of high and low tech workarounds where the priority is local access

Catalyze the development and implementation of standards & infrastructure that will mainstream micro finance i.e. making small loans & savings and other financial instruments available to all types of people everywhere, regardless of their economic status

Thank you.