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NOTE FROM THE FIELD

Conference on Commercial Capital

USAID-sponsored stakeholder meeting explores commercial capital investment in microfinance



Photo courtesy of Pakistan Microfinance Network

Roshaneh Zafar, Chief Executive Officer, Kashf Foundation, speaks at a seminar about commercial capital investment in the microfinance sector in Pakistan.

“I always considered microfinance as a charitable activity run on donations and subsidies,” said a conference participant from Pakistan’s banking sector. “I never realized that microfinance could be a profitable line of business like corporate, consumer or retail banking.”

Despite tenfold growth in outreach over the past seven years, the microfinance sector in Pakistan has only reached six percent of its estimated market of 10 million individuals. In a drive to increase outreach, leaders in Pakistan’s microfinance and mainstream financial industries joined government representatives and international donors at a seminar on June 6 at the National Institute of Banking and Finance, Islamabad. The seminar, “Beyond Charity: Commercial Opportunities in Micro & Small Business Lending,” explored ways to advance involvement by the commercial sector in the delivery of microfinance services. It was part of USAID/Pakistan’s three-year, US\$5 million Widening Harmonized Access to Microfinance (WHAM) Program managed by ShoreBank International, Ltd.

Launched in May 2005, the WHAM project is increasing access to financial services for microentrepreneurs through MFI upscaling and reaching the low end of the underserved SME sector through commercial bank downscaling. The project’s third goal is to increase microfinance industry capacity, knowledge, and understanding of Pakistan’s MSME sector in order to increase outreach and impact of the industry as a whole.

The commercial capital seminar was convened in support of WHAM’s third goal and focused on mobilizing commercial capital to fund microfinance. The seminar explored three key questions:

1. How can Pakistani financial sector actors drive scale and profitability in microfinance with new kinds of financing and relationships?
2. What are the challenges and alternatives for greater scale of outreach and profitability?
3. How can the participants give credibility to new kinds of credit-worthy transactions and partnerships between the financial sector and traditional microfinance providers?

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FACTORS FOR SCALE AND SUSTAINABILITY

Conference discussions identified several key factors for increasing scale and outreach to microentrepreneurs:

1. Improving the external operating environment for microfinance, including policy, regulation, access to capital and money markets, and ancillary institutions
2. Advancing MFI commitment to sustainability
3. Diversifying the sources of funding
4. Strengthening and increasing the transparency of internal systems, such as governance, accountability, and internal control

ACCESSING FUNDS FROM COMMERCIAL FINANCIAL INSTITUTIONS

MFIs must win the confidence of commercial financial institutions in order to secure financing from them, as observed by Asasah, a partner MFI of ShoreBank International that has repeatedly accessed commercial funding. “It took me six months of relationship building with the first commercial bank that funded us,” says Asasah CEO and conference presenter, Tabinda Jaffrey. “Banks don’t have experience with MFIs, so the most interesting thing for banks is the MFI’s recovery rate and outreach. If the MFI has a high recovery rate and is sustainable and transparent, commercial funding is available. I think the main obstacle [to commercial funding of MFIs] is on the side of the MFIs. Many MFIs are afraid to take a loan—the problem is more one of vision.”

The conference highlighted factors that can help prospective commercial institutions gain confidence in an MFI. In addition to a viable competitive and regulatory environment, the MFI itself must demonstrate quality management at the middle and board level, profitable and efficient operations, a high ratio of equity to assets, and strong internal control and management information systems. Bigger also tends to be better, with large-scale MFIs tending to instill more confidence in prospective commercial funders. Finally, Pakistani lenders and MFIs both expressed a need for credit information sharing systems at the MFI level.

The seminar seemed to have at least aroused the interest of commercial banks in funding microfinance. The day after the conference, a bank approached Asasah with a proposal for the MFI to conduct rural agricultural lending for them. Another conference participant from Pakistan’s banking sector stated: “I always considered microfinance as a charitable activity run on donations and subsidies. I never realized that microfinance could be a profitable line of business like corporate, consumer or retail banking.”

Seminar participants included representatives of the State Bank of Pakistan, Citigroup, Grameen Foundation USA, the World Bank,

IFC, Pakistan Poverty Alleviation Fund, Khushhalibank, Asasah, and the Kashf Foundation. For session proceedings and presentations, visit <http://www.pmn.org.pk/link.php?goto=proceedings>.

The WHAM project has provided direct technical assistance to Asasah, Kashf Foundation, the First Microfinance Bank, the National Bank of Pakistan, Tameer Bank, and Standard Chartered Bank, and has provided training to many other Pakistani banks and MFIs. With the assistance of ShoreBank advisors, new MSME loan products have been introduced in Pakistan and are successfully rolling out to reach its MSME market. As of June 30, 2006, over \$1.5 million has been disbursed. For more information on USAID Pakistan’s microfinance strengthening projects, go to <http://www.usaid.gov/pk/ecgrowth/background/index.htm>.

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