

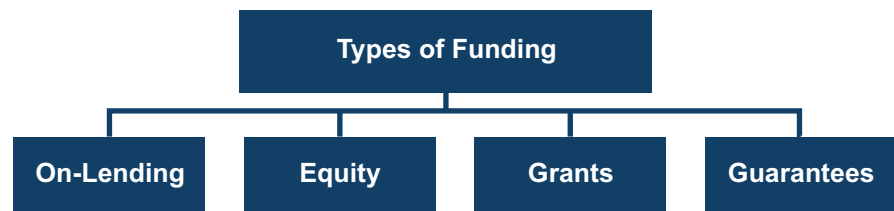
# FUNDS FOR MICROFINANCE IN PAKISTAN: AN OVERVIEW

By ABAN HAQ & MAHEEN SALEEM

## BACKGROUND

There has been considerable interest from the donor and investor community in the microfinance sector in Pakistan. As a result, various types of funding have been made available to the sector stakeholders. This paper gives a brief overview of these different funds, their purpose, size and source. Although the major focus is to highlight existing and future initiatives, the more important past initiatives are also included. Figure 1 shows the types of funding covered in the paper.

**Figure 1: Different Types of Funding for Microfinance in Pakistan**



Information has been obtained through interviews with relevant staff of the donors/investors and other sector stakeholders such as the Pakistan Poverty Alleviation Fund (PPAF) and State Bank of Pakistan (SBP).

The chart below summarizes information on these types of funding for Pakistan. Some information on initiatives which are not country-specific but have implications for the sector are also included towards the end.

PMN thanks its members for contributing to this study. Our gratitude also extends to our donors for their continued support.

NOTE: Considerable effort has been made to corroborate the information presented. If any errors remain, kindly email corrections to [info@pmn.org.pk](mailto:info@pmn.org.pk)

## ON-LENDING

Type of Funding	Source	Purpose	Volume	Period	Implementing Agency	Terms & Conditions	Contact Information	Additional Information
	The World Bank [PPAF-III] <sup>1</sup>	For increasing penetration in low penetration areas, and/or poor districts of Pakistan	\$ 33 million	2009–2013	PPAF	Sets targets for doubling outreach in selected hard to access and/or poor districts of Pakistan	Mr. Imtiaz Alvi at WB; Email: alvi@worldbank.org Mr. Yasir Ashfaq at PPAF; Email: yasir.ashfaq@ppaf.org.pk PPAF website: www.ppaf.org.pk	WB is currently looking into what role it should play in the sector, besides its PPAF-III project
	KfW	For on-lending to NRSP and setting up a commercial apex (final distribution of resources between the two is undecided to date)	€ 13 million	To be launched	KfW	Undecided to date	Ms. Claudia Schmerler at KfW; Email: Claudia.Schmerler@kfw.de	Also see section on grants
	Italian Government	For poverty alleviation in Balochistan and NWFP provinces, FATA and neighboring areas. Funds will be used for on-lending	Through a € 40 million soft loan to GoP. € 10 million is expected to be	See 'additional information'		Targeted to Balochistan and NWFP provinces, FATA and neighboring areas		Modalities of use of this loan are not final at this point, but in principle it is agreed that this amount will be channeled as parallel financing to the WB funded PPAF-III

1. The World Bank's previous engagements through PPAF I and II have been more microfinance centric. Of the \$ 90 million under PPAF-I, \$ 45 million was earmarked for on-lending in microfinance plus some mixed funding for TA and infrastructure whereas under PPAF-II \$135 million was allocated for on-lending out of the total \$238 million along with \$23 million for capacity building of partner organizations. PPAF-III however is not so focused on microfinance – of the total \$250 million under the project, \$ 40 million (\$33 million for lending and \$7 million for TA) has been allocated for microfinance in low penetrated areas. It is expected that PPAF will use existing resources to fund on-going microfinance lending.

Type of Funding	Source	Purpose	Volume	Period	Implementing Agency	Terms & Conditions	Contact Information	Additional Information
EQUITY	IFAD Equity Fund under the Programme for Increasing Sustainable Microfinance (PRISM) <sup>2</sup>	For equity injection in selected MFIs with proven microfinance models and low equity and endowment	\$ 7.4 million	2007–2011	PPAF	Amount not to exceed 50% of net loan portfolio or Rs. 150 million, whichever is lower. 3 year lock in period	Mr. Yasir Ashfaq at PPAF; Email: <a href="mailto:yasir.ashfaq@ppaf.org.pk">yasir.ashfaq@ppaf.org.pk</a> PPAF website: <a href="http://www.ppaf.org.pk">www.ppaf.org.pk</a>	
	Asian Development Bank Improving Access to Financial Services (IAFS) Fund]	To be utilized for training and capacity building, and financial literacy	Set up as an endowment fund of \$ 20 million, income from which is to be used to fund the activities	20 years, starting 2008	State Bank of Pakistan		For details, and application procedure please see <a href="http://www.sbp.org.pk/MFD/Improving-Access.htm">http://www.sbp.org.pk/MFD/Improving-Access.htm</a>	Given the similarities between this fund and the Institutional Strengthening Fund (ISF) under the Financial Inclusion Programme (FIP), the State Bank of Pakistan (SBP) is looking into options of either using this just for financial literacy or merging it with the ISF
GRANTS	DFID Institutional Strengthening Fund (ISF) under the Financial Inclusion Programme (FIP)]	Increasing the capacity of MFIs in human resources, management, governance, internal controls, business development, cost reduction mechanisms, product innovation, and technology implementation	£ 10 million	2008–2013	State Bank of Pakistan	Limit: \$1 million per year per recipient, and subject to at least a 25% matching grant from the MFP. Focus on regulated MFIs, or those in process of seeking a license, or with solid plans for restructuring in the near future	For details and application procedure please see <a href="http://www.sbp.org.pk/MFD/Fund.htm">http://www.sbp.org.pk/MFD/Fund.htm</a>	

2. IFAD's PRISM aims to facilitate sustainable growth in microfinance in order to give the rural poor greater access to financial services in order to reduce poverty, promote economic growth and improve livelihoods of rural households

Type of Funding	Source	Purpose	Volume	Period	Implementing Agency	Terms & Conditions	Contact Information	Additional Information
	World Bank [PPAF-III]	For technical assistance	\$ 7 million	2009-2013	PPAF		Mr. Yasir Ashfaq at PPAF; Email: yasir.ashfaq@ppaf.org.pk PPAF website: www.ppaf.org.pk	Linked to expanding outreach in low penetration areas
	IFAD [PRISM]	Provide necessary professional support to enable PPAF partners to enter into an agreement and receive lending from commercial bank	\$ 2.5 million	2007-2011	PPAF	MFPs will be expected to contribute 20% of the costs. Per partner limit: 10% of the total funding for this component	Mr. Yasir Ashfaq at PPAF; Email: yasir.ashfaq@ppaf.org.pk PPAF website: www.ppaf.org.pk	
	IFAD The Innovation & Outreach facility under the Microfinance Innovation and Outreach Programme (MIOP)	Combines grants and credit resources. To be used to facilitate piloting, action research, assessment and initial up-scaling of new mf products and approaches in rural areas	\$ 20.8 million	2006-2011	PPAF	The POs would contribute about 20% of the grant portion of I&O Facility funded projects	Mr. Yasir Ashfaq at PPAF; Email: yasir.ashfaq@ppaf.org.pk PPAF website: www.ppaf.org.pk	Allocation of grant vs. credit to be made on a project-to-project basis; with credit being used to fund the lending element in a project, and grants being used to cover start-up cost, training and systems development, and part of operating costs

Type of Funding	Source	Purpose	Volume	Period	Implementing Agency	Terms & Conditions	Contact Information	Additional Information
	IFAD [The Young Partner Program (YPP) under the Microfinance Innovation and Outreach Programme (MIOP)]	To help develop new MFIs and strengthen the capacity of existing organizations through the training of professional officers	\$ 6.3 million	2006-2011	PPAF	POs would contribute 42% of the grant portion of the YPP's Young Partner Development Initiative and the International Linkage Partner Programme	Mr. Yasir Ashfaq at PPAF; Email: yasir.ashfaq@ppaf.org.pk PPAF website: www.pfaf.org.pk	Three components: (i) Young Partner Development Initiative to support existing PPAF Partners (ii) International Linkage Partner Initiative to link young professionals from the country to regional MFIs and provide them resources (including a credit line) to establish an MFI in rural areas, and (iii) Young Professionals Scheme to support the PPAF's internship scheme
	IFAD [Support to Partner Organizations under the Microfinance Innovation and Outreach Programme (MIOP)]	To strengthen PPAF POs' ability to sustainably extend their outreach and expand the scope of current microfinance operations in rural areas	\$ 1.3 million	2006-2011	PPAF		Mr. Yasir Ashfaq at PPAF; Email: yasir.ashfaq@ppaf.org.pk PPAF website: www.pfaf.org.pk	Support focused on 6 subjects: a) poverty alleviation b) gender balancing; c) livestock enterprise financing d) financial sustainability of POs' microfinance operations e) adoption of risk management strategies f) assistance for development/preparation of I&O projects
	KfW	For technical assistance and development of mf	€ 2 million	To be launched	KfW	To be decided	Ms. Claudia Schmerler at KfW; Email: Claudia.Schmerler@kfw.de	

Type of Funding	Source	Purpose	Volume	Period	Implementing Agency	Terms & Conditions	Contact Information	Additional Information
	UNDP	"Deepen" branchless banking in Pakistan, particularly to facilitate outreach to female microfinance clients	\$ 16 million	To be launched			Ms. Faiza Effendi at UNDP; Email: faiza.effendi@undp.org	Detailed modalities of the grants undecided to date
	Italian Government	See on-lending section above.						
	IFAD [PRISM]	Credit enhancement facility	US\$ 31.1 million, of which US\$ 20.8 million will be from this facility and US\$ 10.3 million from commercial banks co-financing	2007-2011	PPAF	Will be used for cash collateral, letter of credit and guarantees. Transaction size cap: Rs. 250 million	Mr. Yasir Ashfaq at PPAF; Email: yasir.ashfaq@ppaf.org.pk PPAF website: www.ppaf.org.pk	
	DFID [The Microfinance Credit Guarantee Facility (MCGF) under FIP]	To fund the estimated resource gap to reach 3 million borrowers by 2010	£ 10 million	2008-2013	PPAF	Will provide Partial Guarantees (pari passu) to cover the principal amount in default or First Loss Default Guarantees to cover the first loss to banks/DFIs MFBs/MFI. Licensed MFBs and MFIs in transformation to MFBs are eligible	For details see <a href="http://www.sbp.org.pk/MFD/PDF/Micro-Facility.pdf">http://www.sbp.org.pk/MFD/PDF/Micro-Facility.pdf</a>	

Type of Funding	Source	Purpose	Volume	Period	Implementing Agency	Terms & Conditions	Contact Information	Additional Information
<b>OTHER FUNDS</b>	DFID Financial Innovation & Challenge Fund under FIP]	Test innovative products, technologies and delivery channels that lower costs and are well-suited to the target market	£ 10 million		DFID	The modalities of the fund will be decided soon and its launch is expected later this year		
	Islamic Development Bank	There is a US\$ 10 million provision for microfinance in the IDB Work Program 2010 for Pakistan. The allocation of this amount within the microfinance sector will be decided by the Ministry of Finance, Government of Pakistan. Negotiations for more funding are also underway and it is anticipated that a decision will be made in this regard by next year.						

## **1. ASIAN DEVELOPMENT BANK (ADB):**

ADB has been one of major providers of funds for the microfinance sector in Pakistan. The Microfinance Sector Development Program (MSDP), which was launched in 2001 and ended in 2008, consisted of two loans. Under the first loan, US\$ 74 million was provided to Khushhali Bank (KB) to support its small and micro lending activity, and approximately US\$ 10 million was provided for operational and technical support to KB. Under the second loan, US\$ 70 million of budgetary support was provided to the Government of Pakistan. The disbursement of part of this second loan was conditioned upon the enactment of a law providing a legal and regulatory framework for microfinance (the Microfinance Ordinance, 2001). For complete information on the MSDP, please see <http://www.adb.org/Projects/project.asp?id=29229>

ADB's Improving Access to Financial Services Program (IAFSP), initiated in 2006 and completed in 2009, aimed to expand access to sustainable institutional financial services for poor and low-income households at competitive prices. IAFSP consisted of a US\$ 300 million policy loan, a US\$ 2 million technical assistance program, and a US\$ 20 million loan used to create a fund administered by the State Bank of Pakistan (SBP). The income of this fund is to be utilized for institutional strengthening, capacity building, and financial literacy programs (see table above for details of this fund).

Another ADB initiative was the New Bank Fund created under the Rural Finance Development Program and administered by SBP. The fund was created to provide funding for provincial cooperative banks (PCBs) which transformed into microfinance banks (MFBs). However, since no PCBs have transformed into MFBs, no monies have been disbursed from the fund.

## **2. INTERNATIONAL LABOR ORGANIZATION (ILO)**

ILO's current theme of 'promoting decent work' cross cuts its initiatives in microfinance as well. Most of the funding under its microfinance programs is available for: a) Action research through MFPs to identify deficits in achieving decent work standards at their clients' level. The first round of projects is currently underway and the second round is anticipated next year. b) The micro-insurance facility: this facility pools ILO resources with US\$ 33 million donated by the Bill and Melinda Gates Foundation to funds pilots in micro-insurance. Proposals under this facility are currently being solicited.

ILO does not provide funding for on-lending purposes. All funding by ILO is in grants.

## **3. SWISS AGENCY FOR DEVELOPMENT AND COOPERATION (SDC)**

Although the SDC has been actively engaged in the microfinance sector in the past, this involvement is expected to be rolled back significantly post 2011. Decisions regarding development aid to Pakistan will be clearer by September 2009 after the Swiss parliament decides on the issue. SDC's involvement in microfinance in the near future will fall under: a) honoring current commitments b) creating linkages between NGOs and the private sector as part of corporate social responsibility (CSR) initiatives, and c) under the Afghanistan and Pakistan Stabilization Programme, which is a long term engagement for supporting development in the border areas.



#### **4. UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)**

Microfinance is one of the activities to be supported under the Kerry-Lugar Bill, which commits \$ 1.5 billion per year in assistance to Pakistan for fiscal years 2010 through 2013 (see section 102–(3)-C of the Bill) . Focus is to be on programs to improve lives of girls and women. USAID thus plans to play a major role in the microfinance sector in Pakistan in the coming years. Currently, USAID is working on a strategy and engaging with different stakeholders to understand how it can compliment existing initiatives in the sector.

## ACRONYMS

DFID	Department for International Development (UK)
FATA	Federally Administered Tribal Areas
GoP	Government of Pakistan
IFAD	International Fund for Agricultural Development
MFB	Microfinance Bank
MFI	Microfinance Institution
MFPs	Microfinance Providers
MIOP	Microfinance Innovation and Outreach Programme
NWFP	North West Frontier Province
PPAF	Pakistan Poverty Alleviation Fund
PRISM	Programme for Increasing Sustainable Microfinance
SBP	State Bank of Pakistan
TA	technical assistance
UNDP	United Nations Development Programme
WB	The World Bank

### **EXCHANGE RATES (9TH JUNE 2009):**

PKR/1US\$ = 81.43

PKR/1€ = 113.73





## Pakistan Microfinance Network

### **MicroNOTE: Funds for Microfinance in Pakistan: An Overview**

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