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Microfinance Industry of Pakistan: An Over-view

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I. Introduction

Microfinance industry in Pakistan is categorized into three main groups that include Microfinance Banks (MFBs), Microfinance Institutions (MFIs) and Rural Support Programmes (RSPs). Table below gives a glance of the industry, the associated regulatory body and the legal framework governing it:

Table 1

Microfinance Industry at a Glance			
Industry segments	Dec 2019	Regulatory body	Applicable Laws and Regulations
Microfinance Banks	11	State bank of Pakistan(SBP)	<ul style="list-style-type: none"> • Prudential Regulations for Microfinance Banks 2014 • Microfinance Institution Ordinance 2001
Microfinance Institution	22	Securities and Exchange Commission of Pakistan	<ul style="list-style-type: none"> • NBFC Rules, 2003 • NBFC Notified Entities Regulations, 2008
Rural Support Programs	5		
Others	4		
	39		

Source: Pakistan Microfinance Review 2019 Annual State of The Industry Report by Pakistan Microfinance Network

II. The Categories:

(a) *Microfinance Banks (MFBs):*

A bank is generally licensed and prudentially regulated by the SBP to exclusively service the microfinance market. The first MFB was established in 2000 under a Presidential Decree. Since then, 11 MFBs (listed below) have been licensed under the Microfinance Institutions Ordinance, 2001. MFBs are legally empowered to accept and intermediate deposits from the public¹.

1. ADVANS Pakistan Microfinance Bank Limited (ADVANS)
2. APNA Microfinance Bank Limited (AMFB)
3. FINCA Microfinance Bank Limited (FINCA)
4. The First Microfinance Bank Limited (FMFB)
5. Khushhali Bank Limited (KBL)
6. Mobilink Microfinance Bank Limited (MMFB)
7. National Rural Support Programme Microfinance Bank (NRSP-B)

¹ Source: Pakistan Microfinance Review 2019 Annual State of The Industry Report by Pakistan Microfinance Network

8. Pak-Oman Microfinance Bank (POMFB)
9. Sindh Microfinance Bank Limited (SMFB)
10. Telenor Microfinance Bank Limited (TMFB)
11. U Microfinance Bank Limited (U-bank)

(b) Microfinance Institutions (MFIs):

MFI is a non-bank microfinance company (NBMFC) which only provides microfinance services. With the introduction of the non-bank microfinance regulatory framework by SECP in 2015, the institutions carrying out microfinance services are required to be registered with the SECP as NBMFCs. Presently, 17 MFIs have obtained the NBMFC license: one is an NBMFC operating with an investment finance service license, three are licensed under section 42 of the Companies Act as not-for-profit companies, while six MFIs are in the process of obtaining licenses².

1. ASA Pakistan limited (ASA-P)
2. Agahe Pakistan (Agahe)
3. Akhuwat Islamic Microfinance (Akhuwat)
4. CSC Empowerment & Inclusion Programme (CEIP)
5. Damen Support Programme (DAMEN)
6. . FFO Support Program (FFO)
7. Ghazi Barotha Taraqiati Idara (GBTI)
8. JWS Pakistan (JWS)
9. Kashf Foundation (KF)
10. Mojaz Support Program (MOJAZ)
11. Micro Options Support Program (MO)
12. OPD Support Program (OPD)
13. Organization for Poverty Reduction & Community Training Program (OPRCT)
14. Orix Leasing Pakistan Ltd. (Orix)
15. Rural Community Development Program (RCDP)
16. Saaya Microfinance Company (SMC)
17. Saath Microfinance Foundation Pakistan (Saath)
18. SAFCO Support Foundation (SAFCO)
19. Shah Sami Sachal Foundation (SSSF)
20. Soon Valley Development Program (SVDP)
21. Villagers Development Organisation (VDO)
22. Wasil Foundation (Wasil)

(c) Rural Support Programme (RSP):

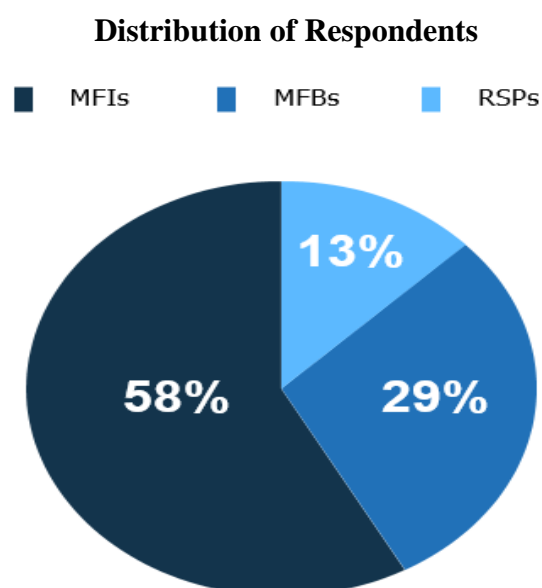
This is also a non-bank microfinance company (NBMFC) which extends microfinance services to the rural areas. Although an NBMFC, a rural support programme (RSP) is differentiated from the

² Ibid

MFI group based on the purely rural focus of its credit operations. As of now, all six PMN members classified as RSPs have obtained the NBMFC license³.

1. National Rural Development Programme (NRSP)
2. Punjab Rural Support Programme (PRSP)
3. Sindh Rural Support Organisation (SRSO)
4. Sarhad Rural Support Programme (SRSP)
5. Thardeep Microfinance Foundation (TMF)

The following graph captures the distribution of micro-finance industry which clearly indicates the pre-dominant share of MFI, followed by MFBs and then RSPs.



Source: Pakistan Microfinance Review 2019 Annual State Of The Industry Report by Pakistan Microfinance Network

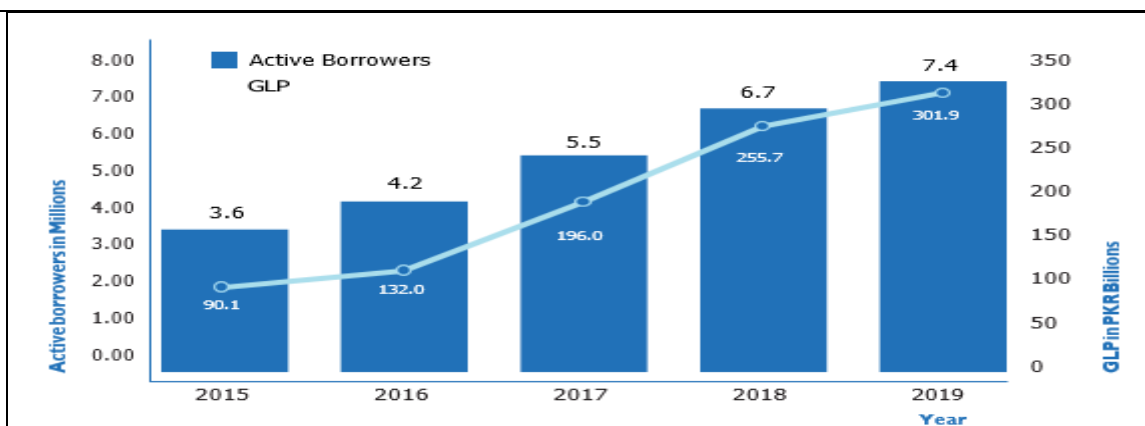
II. Scale & Outreach

The outreach of the Industry witnessed growth in all key indicators in 2019. Microfinance borrowers increased by 11 percent from 6.69 million in 2018 to 7.44 million, while GLP (Gross Loan Portfolio) grew from PKR 256 billion to PKR 302 billion, an increase of 18 percent (see the following Figure). Comparatively, the commercial banking GLP stood at PKR 8,147 billion with 3.2 million borrowers. This surge comes on the back of the top ten MFPs (Microfinance Providers) once again, which performed better despite adverse economic conditions⁴.

³ Ibid

⁴ Ibid

Growth in Number of Active Borrowers and GLP

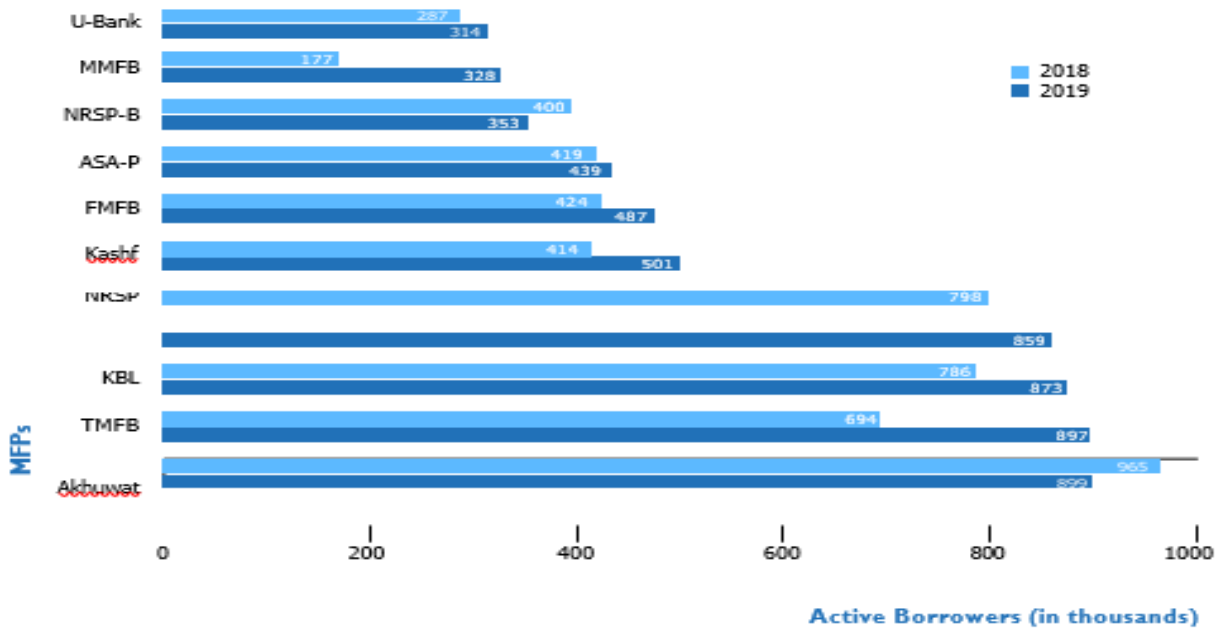


Source: Pakistan Microfinance Review 2019 Annual State Of The Industry Report by Pakistan Microfinance Network

Among the MFPs, growth in borrowers was once more led by Telenor Microfinance Bank (TMFB) which contributed over 202,000 additional borrowers. Mobilink Microfinance Bank (MMFB) and Khushhali Microfinance Bank (KBL) also recorded significant growth by adding over 151,000 and 88,000 new clients respectively. By their respective year-ends, the largest MFPs in terms of active borrowers were: Akhuwat (over 898,000), TMFB (over 896,000), KBL (over 873,000) and the NRSP (over 858,000).

The year-end figures indicated that the largest 10 MFPs continue to hold 80 percent of the total outreach of the industry, a decrease of two percent compared to the prior year (shown in the following figure). The top five are comprised of Akhuwat, TMFB, KBL, NRSP and Kashf Foundation with a combined outreach of 54 percent of the industry. The year also saw Kashf replace First Microfinance Bank (FMFB) as the fifth largest MFP in terms of borrowers.

Active Borrowers of Largest MFP

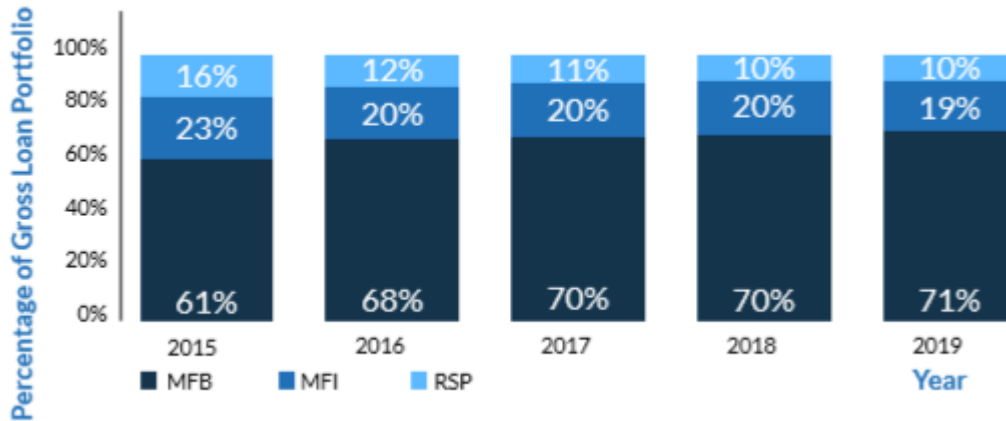


Source: Pakistan Microfinance Review 2019 Annual State Of The Industry Report by Pakistan Microfinance Network

Among the groups, MFBs remained market leaders and witnessed an increase in their market share in terms of active borrowers from 48 percent in the prior year to 50 percent by the end of 2019. This was the result of both MFIs and RSPs experiencing a decline of one percent in their market shares which saw them close at 34 percent and 16 percent respectively (see the following figure). The surge in the proportion of MFBs is courtesy of the telco-led banks, TMFB and MMFB, which aim to improve outreach via digital means by providing nano and micro loans under their respective brands EasyPaisa and JazzCash. These products have exhibited wide reach to a large customer base by leveraging the high teledensity in the country while offering the convenience of m-wallet acquisition⁵.

⁵ Ibid

Share of GLP by Microfinance Industry



Source: Pakistan Microfinance Review 2019 Annual State Of The Industry Report by Pakistan Microfinance Network

III. Opportunities and Challenges

Pakistan's Microfinance Industry is facing many challenges like inadequate regulatory framework, ad hoc competitiveness, lack of innovative and diversified products, profitability, market stability, limited management capacity of micro finance institutions (MFIs) etc.

Unemployment and poverty has rapidly increased in Pakistan which, inter alia, provide opportunities for the growth of this sector to offer attractive microfinance package for increasing employment and income. This could in turn provide the basis for this sector to, for instance, stimulate growth of economy, empower women, increase the volume of finances and facilitate accessibility etc. The Industry must respond to and avail the opportunities with the State Bank Pakistan and government to provide lead and incentives