Microfinance in Pakistan:

General Background

- Population: 173.51 mn
- Main towns: Karachi (13.4 mn), Lahore (7.2 mn), Faisalabad (2.9 mn), Rawalpindi (2 mn)
- Currency: Pakistani Rupee (PKR or Rs)
- Exchange rate: 1 USD = Rs 83.80 (period Average for 2009-10)
- Financial year: 1st July – 30th June
- **Development Indicators:**
  - Population below poverty line (National): 22.3% (2006)
  - GNI per capita (Atlas method, USD): 950 (2008) Literacy rate (10 years and above) : 57% (2009)
  - Mortality rate (child<5 years) : 95.2 per 1000 live births (2009)
  - Life Expectancy at birth: 66.5 years (2008)
  - Human Development Index (HDI): 0.572, 141 among in 182 countries (2009)

Historical Evolution

Indicator	**2009-10**
Nominal GDP (USD bn)	177.9
Real GDP Growth (%)	4.1
Consumer Price Inflation (avg, %)	12.7
Exchange rate (avg. vs USD)	85.3
External Debt (year-end, USD bn)	43.5
External Debt (as a % of GDP)	33.5
FDI (USD mn)	2.2
FDI (as a % of GDP)	1.3

During 1980s, the success of the Agha Khan Rural Support Programme (AKRSP) through Community Based Organizations (CBOs) and the Orangi Pilot Project led to the paradigm shift in thinking about addressing the issue of poverty in the country through financial services. In the 1990s, a number NGO-MFIs joined the already existing institutions and therefore contributed in paving the way for the development of policy infrastructure for the microfinance industry in the country. However, a turning point in Pakistan's microfinance sector came in 1996 when microfinance was recognized as a specialized activity and not just a part of multidimensional poverty alleviation programmes.

Besides the formation of many specialised microfinance institutions during the same period, another important step was the establishment of the Microfinance Group-Pakistan in 1998, which later on evolved into a full-fledged meso-level institution, known as Pakistan Microfinance Network (PMN). During 2000, with the help of international agencies, the Pakistan Poverty Alleviation Fund (PPAF) was created as an apex body for wholesale lending to the MFIs.

These developments influenced the government in acknowledging the value of the microfinance sector as an effective poverty alleviation tool in the key government strategy document, ‘Poverty Reduction Strategy Paper’. Following this, an important policy step was taken by introducing the Microfinance Ordinance in 2001 that established a separate legal and regulatory framework to promote formal microfinance institutions in the country known as Microfinance Banks (MFBs).

This is widely recognized in literature as the beginning of the commercial era of the microfinance sector in Pakistan. Though the Khushali Bank (KB) was already established under a separate ordinance in 2000, the first private sector MFB came into being during 2002 by transforming the AKRSP microfinance operations into the First Microfinance Bank Limited (FMFBL). This also heralded the beginning of the NGO-MFIs transformation into MFBs in Pakistan.

Types of MFIs

Presently the microfinance sector has microfinance providers (MFPs) categorized into five peer groups by the industry network PMN as MFBs, RSP, specialised MFIs, multi-dimensional NGOs providing microfinance services, and others.

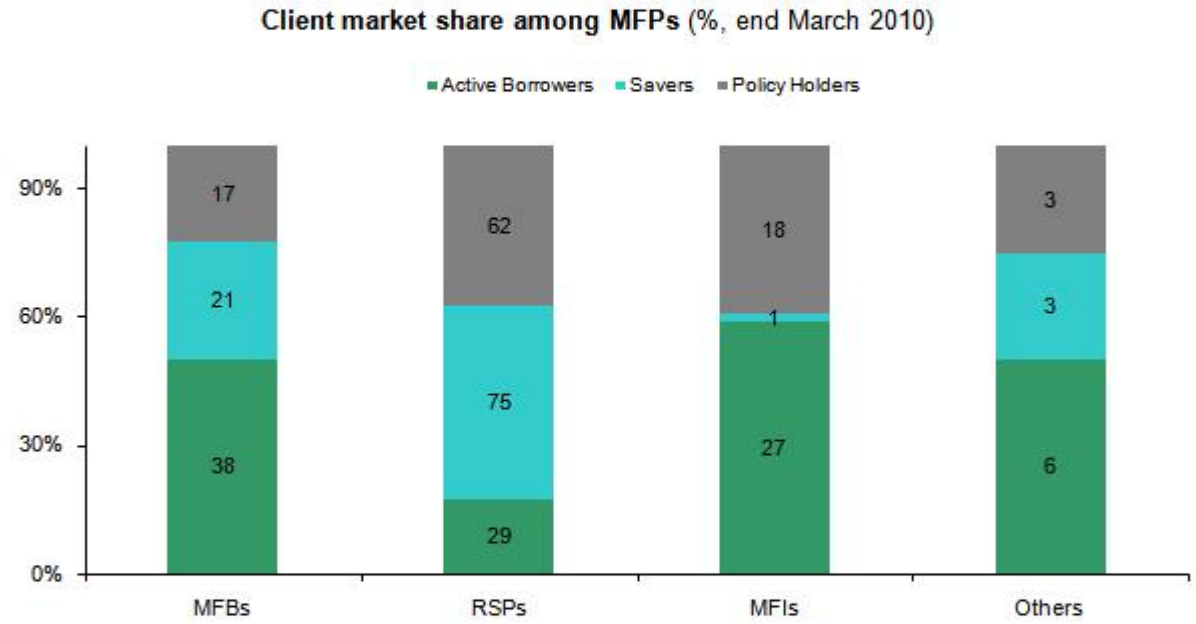
Existing Legal Framework in Microfinance Sector in Pakistan	
Form of Registration	**Regulatory Authority**
The Voluntary Social Welfare Agencies Ordinance 1961 (the " Social Welfare Ordinance")	Provincial Registration Authorities
Societies Registration Act 1860 ("the Societies Act")	Provincial Registration Authorities
Trust Act 1882	Provincial Registration Authorities
Section 42 of The Companies Ordinance 1984 (the "Ordinance")	Security and Exchange Commission of Pakistan (SECP)
Microfinance Institution Ordinance 2001	State Bank of Pakistan (SBP)

The MFBs are licensed, supervised and regulated by SBP and are part of the formal banking industry and therefore are licensed, regulated and supervised by the central bank. The central bank has issued separate prudential guidelines for the MFBs. The prudential regulations are issued under the guidance of the Pakistan Microfinance Ordinance 2001 and have set different criterion for microfinance banking operations with respect to paid-up capital, CAR and maximum exposure to single borrower, group etc. The SBP has allowed a separate set of parameters to establish microfinance banks such as:

- Nation-wide MFBs with minimum paid up capital of Rs 500 mn (USD 5.88 mn)
- Province-wide MFBs with minimum paid up capital of Rs 250 mn (USD 2.94 mn)
- District-wide MFBs with minimum paid up capital of Rs 100 mn (USD 1.18 mn)

Out of total 8 MFBs, Rozgar Microfinance Bank and Network Microfinance banks are district wide institutions while the rest are in country wide operations.

The non-bank MFPs (Specialized MFIs, NGO-MFIs and RSPs), are registered with SECP under the Companies Ordinance 1984 or Societies Registration Act 1860 or Trust Act 1882. The non-bank MFPs largely remain unregulated and for this reason are prohibited from providing a full range of financial services. They cannot mobilize deposits from the general public. There is no specific notification by SECP or SBP forbidding non-bank MFPs to mobilize savings from member, and non-bank MFPs are indeed offering saving services to their members, however, the SBP have in recent past have take a negative view of this practice. Non-banks MFIs are negotiating with the SBP to allow them to take deposits, but so far SBP is reluctant to give such permission to non-bank MFIs. The SBP has encouraged these institutions to transform into MFBs and recently two of the largest MFPs have transformed as MFBs, Kashf has already completed the process while NRSP in underway.



Moreover, the SBP has issued guidelines pertaining to NGO-MFIs transformation to full-fledged MFBs and guidelines for commercial banks to start microfinance business along with credit guarantee facilities for commercial banks for onward lending to MFIs in the industry. However very few commercial banks provide microfinance services, with First Women Banks and the SME bank among exceptions. The SBP has issued regulations allowing banks to open microfinance windows, but no banks have yet demonstrated an interest in extending their services down-market.

Among PMN members, 8 are MFBs, 5 RSPs, 8 are specialized MFIs and rest 12 are in other categories.

As per their legal status, all MFBs, 4 RSPs , three specialized MFIs are registered as Section 42 companies. The rest are registered under Societies or Trust acts under various provincial registration authorities.

Under section 42, the institutions are allowed to register as NGO or NBFIs. The later called for specialized operations such as insurance, leasing or investment companies while registration under NGO section allow to carry on multidisciplinary operations along with microfinance. Also NBFIs by regulation are not allowed deposit mobilization and non-specialized activities other than those for which they are registered for.

As per latest data available for March end 2010, RSPs lead in number of savers and insurance policy holder while MFBs have largest share in active borrowers. However, there would be significant shift in the market share of MFBs from 45% to 55% when NRSP's transformation to MFB is complete. The shift in favor of the MFB peer group would continue in the following years culminating in a final 60-40 split in market share by 2015 between MFBs and non-MFBs.

Major highlights of the sector

Outreach

Microfinance Outreach, March 2010								
Province	**Active Borrowers**	**Gross Loan Portfolio (USD mn)**	**Active Savers**	**Value of Savings (USD mn**	**Policy Holders**	**Sum Insured (USS mn)**	**Potential Microfinance**	**Penetration Rate**
Baluchistan	16,041	1.5	44,570	0.3	10,360	1.2	1,656,762	0.97
Khyber	90,134	9.5	199,157	5.3	60,732	7.6	4,083,817	2.21
Pakhtunkhwa								
Punjab	1,331,507	195.0	1,613,237	25.0	3,160,779	533.0	15,233,924	8.74
Sindh	426,430	63.7	646,921	52.4	600,134	91.1	6,357,795	6.71
AJK	23,595	2.2	154,871	0.7	62,022	11.9	-	-
FANA	17,386	4.3	47,503	10.5	17,386	4.3	-	-
FATA	2,005	0.1	-	-	50	0.0	-	-
ICT	2,002	0.5	14,708	4.8	2,053	0.7	74,750	2.68
Total	1,909,100	276.9	2,720,967	99.0	3,913,516	649.9	27,407,048	6.97
Source: PMN MicroWatch Issue 15 Jan-March 2010; for end-March 2010: 1 USD = Rs 84.35								

The microfinance industry has remarkably reached to 1.9 mn active borrowers from an almost negligible base in 2003, out of which nearly half are female clients. The present set of microfinance providers who are members of PMN , reach over 1.9 mn clients as borrowers with GLP of Rs 23,354 mn (~ USD 276.9 mn), 2.7 mn as savers with net savings of Rs 8,354 mn(~ USD 99 mn) and 3.9 mn as insurance clients with sum insured of Rs 54,823 mn (~ USD 649.9 mn). However, despite this high growth rate, the penetration rate is very low at around 7% where potential microfinance clients are over 27 mn. Penetration rates are high in populated states of Punjab (69.7% of active borrowers) and Sindh (22.3% of active borrowers).

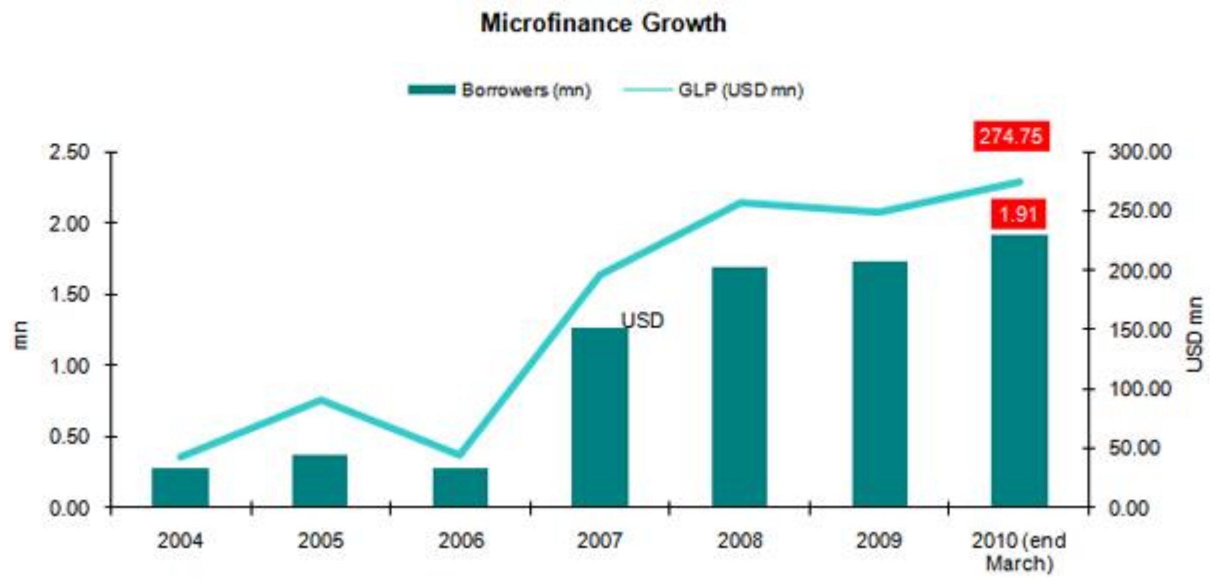
NRSP, Khushali Bank (KB) and Kashf remained the market leaders in terms of both active borrowers and GLP, holding together about 60% of the market. NRSP has the largest market share (22.8%) in terms of active borrowers, followed by KB (20.1%), Kashf (16.2%), FMFBL (11.9%) and TMFB (4.2%). Similarly, in terms of geographic spread, KB covers 80 districts, NRSP 51, FMFBL 46, TMFB 29 and Kashf 25 districts.

As per latest estimates for March 2010, 55% borrowers are rural and female clients.

Growth

Pakistan: Microfinance industry Indicators							
	2004	2005	2006	2007	2008	2009	March-2010
Active Borrowers	278,939	373,617	282,009	1,267,209	1,695,421	1,729,734	1,909100
Gross Loan Portfolio (USD mn)	43296	91,036	44,917	196,154	256,426	249,889	274,753
Total staff	1895	2335	2506	9529	11,039	13,474	13474
OSS (%)	48.45	59.39	24.49	76.72	82.28	94.1	-
PAR>30 days (%)	10.9	1.9	2.5	3.1	2.1	1.9	-

In the five years between 2004-2008, the microfinance sector grew at a Compounded Annual Growth Rate (CAGR) of 67%. Since then growth in the sector has slowed a bit and in 2009, the active borrowers in the microfinance industry increased only by 5% with a 16% increase in Gross Loan Portfolio (GLP), however, active savers and insurance policy holders in the industry continued to show remarkable growth. In 2008-09, savers and saving grew by 35% and 59% respectively, while insurance policy holders and sum-insured increased 48% and 27% respectively. The first quarterly data for 2010 also shows substantial growth in the number of active savers and insurance policy holders.



Products

Savings: As MFBs are authorized to mobilize savings other than credit, their product profile also includes full fledged financial products including different saving products catering to the needs of people with differing income levels. Non-bank, MFPs mostly mobilize voluntary or compulsory savings from their clients and as per law, they are not allowed to hold or intermediate deposit from the public.

According to the latest SBP Development Finance Review for June 2010, MFBs deposits increased by 46% (year-on-year) basis and underscore the importance of self funding among the MFBs. The composition of deposits further reveals the dominance of fixed deposits with a share of 55% in overall deposits, followed by Profit and Loss Sharing (PLS) and current accounts with a share of 22% and 24% respectively. According to latest issue of MicroWatch, average saving amount is Rs 3, 607 per saver, with high of Rs 13,987 for saving under intermediation and Rs 626 under mobilization.

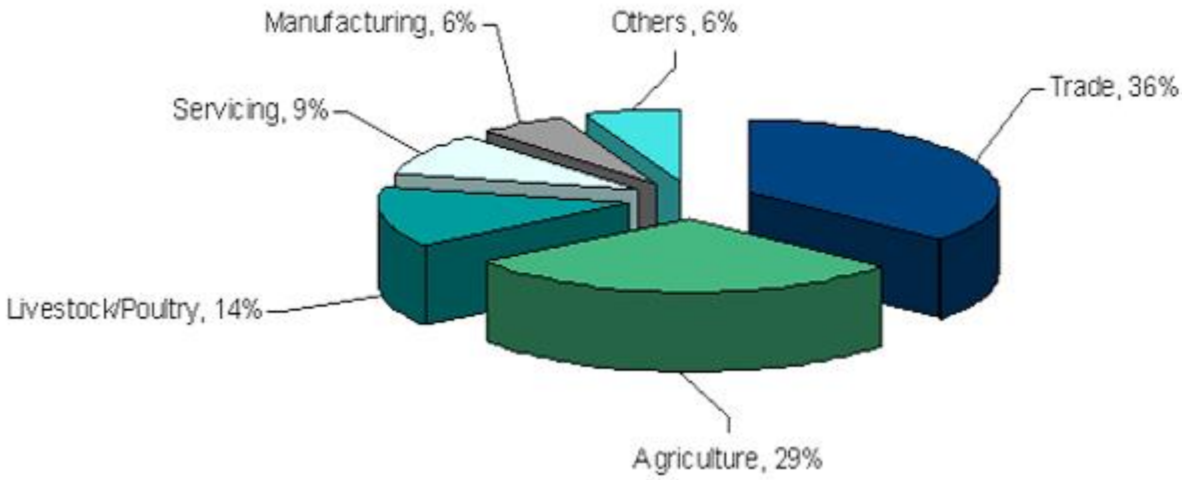
Credit: The majority of lending is either individual or group lending based on conventional and Islamic microfinance models. The repayments begin more or less immediately and repayments are made generally on a weekly or bi-monthly basis. According to the latest estimates for January to March 2010, group methodology accounted for 89% of borrowers and 85% of GLP. The average loan size for group lending is Rs 15,812 (USD 186) while for individual loans it is Rs 24,308 (USD 286). The individual based lending is generally availed by productive small-scale business people for working capital. Mostly the sector offers a general loan or an agricultural loan of just under USD 200 for a year. The most common use of loans is for trade (36%), agriculture (26%), livestock (15%) and manufacturing (7%).

The most recent quarterly data for 2010 shows a decline of 3% in the agriculture sector share in active borrowers while the share of livestock/poultry sector active borrowers has increased by almost 1% basis points reaching to 15% share.

Recently, the sector is seeing product diversification. For example, Akhuwat offers microfinance loans based on Islamic principles to its clients along with business development, insurance and health related services while a few MFIs such as CWCD, Asasah and SAFWCO are offering asset based lending through Islamic financial instruments such as Modaraba, Murabaha etc. Recently the FMFBL signed an MoU with Agha Khan Planning and Building Services to launch microfinance housing loans for poor people. FMFBL also in partnership with Pakistan Post Office is offering its microfinance products though Post Office network of branches to poor clients.

Insurance:

Active borrwers by sector (2009)

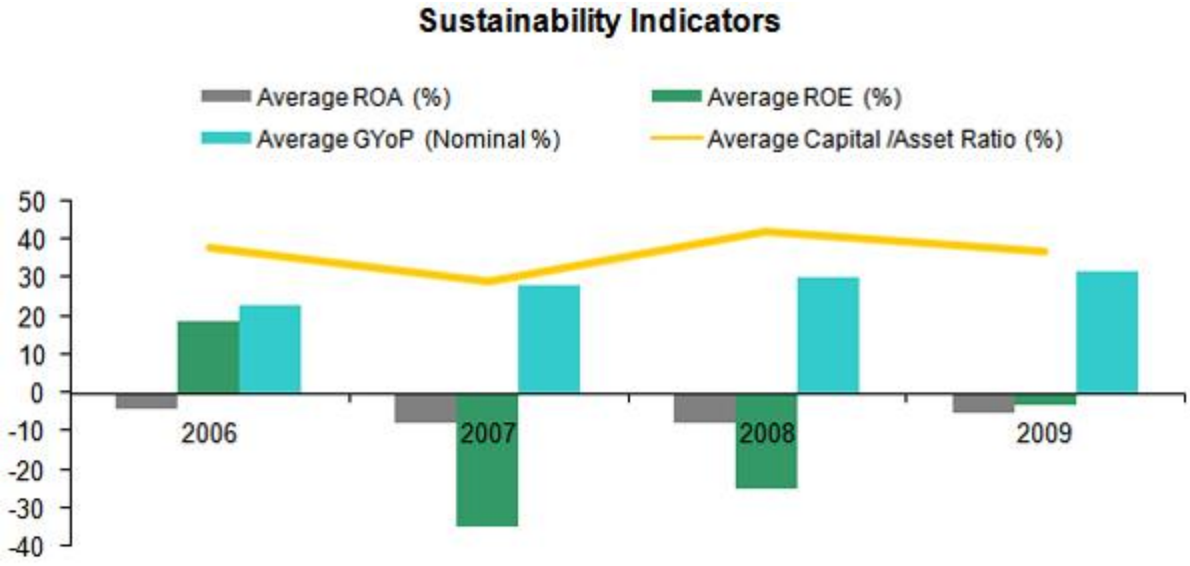


Many MFIs have clubbed micro insurance products with their credit products. Among insurance policies, 57% are health policies whole rest are life insurance policies.

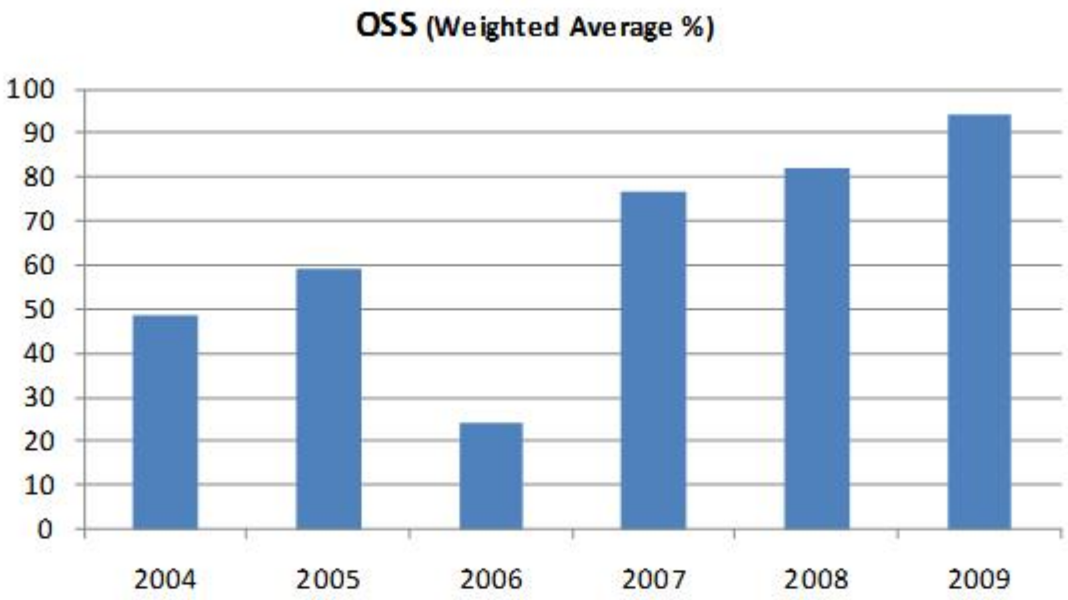
Leasing: Some MFIs also offer micro leasing products for the purchase of equipment or vehicles and loans for education purposes or for school building.

Sustainability

On the sustainability front, the microfinance industry in Pakistan is still striving hard. The industry average financial revenue/asset ratio stood just above 80% with an increasing trend during 2009. The average operating expense/asset ratio was stable around 20% for the whole industry but its average operating expense/loan portfolio did increase from 33% to 44% during 2009. Based on the MFI reporting to the MIX Market for 2009, the success of the sustainability strive has been constrained by rising delinquency profile of the industry during 2009 with a record write-off ratio of about 15% (showing over 100% increase from the previous year's level of 7%).



The ratio of gross loan portfolio to total assets in USD terms stood at 49%.



<u>Meso level infrastructure</u>

The Pakistan Microfinance Network (PMN) is a registered network of MFPs in Pakistan representing over 95% of the sector outreach through its members. The network is significantly contributing to the sector through industry benchmarks for transparency, performance indicators, capacity building support, research and advocacy for policy support and networking with national and international stakeholders. Its efforts as a network have been widely recognized domestically as well as globally. A few provincial level networks are also operating in the country but except for Sindh Microfinance Network that was established through the efforts of the local NGOs, others have failed to move forward.

PMN in collaboration with SBP and other industry stakeholders recently established the Credit Information Bureau (CIB) for the microfinance industry in the country. The CIB is in its nascent stages and its operations have been taking place on a pilot project basis only in Lahore, however, it is expected to include all PMN members in future.

The only microcredit rating company in the country is the JCR-VIS which is a joint venture between Japan Credit Rating Agency Limited (JCR) and Vital Information Services (Pvt.) Limited (VIS) and which provides ratings for the MFBs and MFIs. MFBs under the regulation of the SBP have to rate themselves in order to ascertain their standing relative to standard benchmarks. Some MFIs also rate themselves to improve their transparency and to have access to commercial funding.

The Pakistan Poverty Alleviation Fund (PPAF) is the only apex wholesale funding body in the country established by the government. Currently there are six multilateral, bilateral and international institutions, which are funding PPAF activities in the country. The PPAF has been making disbursement through its different windows of operations such as lending for micro credit and enterprise development, community physical infrastructure, health and education, human and institutional development, social mobilization and rehabilitation and reconstruction. The funding under micro credit and enterprise development comprised about 74% of its total funding. By June 2009, the PPAF has disbursed around USD 996 mn to different MFIs. The main beneficiaries of PPAF funding are RSPs, MFIs and NGOs, though the share of RSPs in terms of access to PPAF funding has been declining gradually to around 32% in 2009 as compared with its share of around 92% and 74% in total funding provided by PPAF during 2001 and 2002 respectively.

There are different technical assistance (TA) providers in the form of individual consultants, small consultancy firms and a few renowned institutions who are involved in providing consultancy and capacity building services. Among these institutions are Lahore University of Management Sciences, Social Enterprise Development Centre (LUMS-SEDC), ShoreBank International and National Institute of Banking and Finance (NIBAF), a subsidiary of SBP.

Competition

Before 2000, the microfinance sector was viewed as commercially un-viable and therefore there was no competition in a grant driven atmosphere. The promulgation of the Microfinance Ordinance in 2001, the establishment of new MFBs, and the setting up of the regulatory framework gave a new direction to the microfinance sector and underscored the commercial viability of the sector in the country. This in turn led to competition among the MFPs to achieve scale and gain access to commercial and socially-driven funds and revise their business strategies in order to reach more potential microfinance clients.

The competition can be observed in highly penetrated areas in Punjab and Sindh. In order to have expanded client outreach, the institutions compete with new and innovative products and services and different client mobilization strategies. Due to the absence of a regulatory set up for MFIs and weak credit information sharing systems in the industry, the competition is aggravating the already high risk profile of the microfinance industry by increasing the multiple borrowing and average loan sizes.

Risks

The industry specific risks include macroeconomic shocks in the form of weak economic fundamentals, high inflation, energy failures and economic shocks created by natural calamities such as earthquakes and floods. These in turn affect the livelihood and income level of the rural and urban poor differently, therefore affecting the portfolio quality of the MFIs.

The concentration of microfinance market is another risk as much microfinance activities are taking place in Punjab and Sindh with a lower penetration in Khyber Pakhtunkhwa and Baluchistan. This high concentration encourages multiple borrowing in the market.

Since unregulated MFIs are not entitled to mobilise deposits, they have to seek funding through donors or commercial channels. Given that most of the institutions still haven't reached performance standards to attract the commercial capital and find it extremely difficult in having access to funding other than PPAF. This lack of funding poses a potential threat to microfinance industry performance in terms of achieving social and commercial viability.

The recent devastating flooding in the country not only led to human casualties but also resulted in wide scale human displacements and damaged crops, livestock, rural infrastructure and affecting over 17 mn people and 1.38 mn acres of agricultural land (30% of agricultural land). Of the total 124 districts, 79 districts are severely affected by the floods. This has direct impact on rural clients as most of the MFIs have been lending to the people attached to the farm sector in one way or other. There could be a possible impact on urban clients as well if food shortages arise and kick up inflation. Though the farm experts are of the opinion that the fertile layer will result in good yields in the coming year but for the time being the microfinance sector would see a rise in delinquency ratio in months to come.

Regulations

Regulation in Pakistan is relatively a nascent phenomenon and applies only to MFBs which are licensed by the Central Bank and can provide full-fledged financial services to their clients. Other than MFBs the microfinance sector in the country is unregulated and for this very reason they are not allowed to provide a full range of financial services.

The Central Bank has been encouraging these MFIs to transform themselves into MFBs and has issued regulatory guidelines and assists them through funding for institutional restructuring and achieving sustainability. The regulations allow the MFBs to provide full fledge financial services to their customers including having access to cheap funding in the form of deposit mobilization form the general public. From the financial stability point of view, the MFBs in Pakistan are required to keep 15% of CAR for which they are also allowed to raise subordinated debt in the local currency. The equity requirements vary with respect to extent of geographical spread such as operations at district level, province level and country level. Moreover, the MFBs are required to keep general provisioning at 1.5% net of outstanding advances along with specific provisioning with a write-off of loans after one month of it being categorized as loss (the loss category requires 100% specific provisioning).

A number of regulations and guidelines, pertinent to microfinance sector, issued by the Central Bank are , Microfinance Ordinance 2001, Microfinance Prudential Regulations for MFBs, Branchless Banking Regulations, Guidelines for commercial banks to undertake microfinance business, Prudential regulations for commercial banks to undertake microfinance business, Fit and proper criteria for CEOs/member of boards of MFBs and MFIs/NGOs transformation guidelines among others. The SBP regularly updates and revises these regulations from time to time through various circular letters.

Financing

The primary funding sources for MFPs in Pakistan are grants or concessional loans, commercial loans and client deposit with significant dependence on donor funding mostly from PPAF, ADB and DFID.

In 2008, savings, equity and borrowing account for 15%, 23% and 62% of total assets respectively. PPAF roughly owns 50% of all micro-credit given out in Pakistan. Most donor funds in Pakistan are channeled through the PPAF with the exception of a small percentage of donors who loan out directly to various MFP. The commercial borrowing in low at 15% of gross loan portfolio.

Industry Finance Structure				
	2005	2006	2007	2008
Total Assets (USD mn)	160	209	273	396
Gross Loan Portfolio (USD mn)	68	100	153	239
Deposit and Voluntary Savings (USD mn)	8	17	35	49
Deposits to total assets (%)	5.2	8.6	12.7	12.3
Deposit to Gross Loan Portfolio (%)	12.3	17.9	22.7	20.5

Savings: In the context of funding requirements of MFPs, savings and consequently deposit mobilization will need to grow at a substantial rate in order to meet the growing funding needs of MFPs. This is an arduous task given currency high inflation in the country that have negative impact on the available pool of deposits that could be mobilized from the market as a greater percentage of income is devoted to expenditures rather than savings.

PPAF: PPAF was established in late 1990s by the World Bank. The Bank's previous engagement under PPAF-I (USD 90 mn) and PPAF-II (USD 238 mn) were more focused on microfinance, technical assistance and infrastructure development. The financing under the on-lending facility has been provided by the World Bank under PPAF-III (USD 33 mn) for the period 2009-2013. PPAF currently has a differentiated interest rate policy with regard to its partner organizations. Funding to NGOs took place at a fixed rate of 8% while funding to private sector leasing companies were provided at a flat rate of 10%. To move towards a market rate based lending mechanism, PPAF has recently linked its interest rates to the interbank rates and for the MFIs having a particular exposure limit (Rs 500 mn), the rate charged by PPAF would be linked with KIBOR. With these loans now being pegged with the KIBOR (around 13% in August) this will greatly impact the cost of PPAF borrowing in Pakistan. It is also expected that such a move by PPAF towards market interest rates will push the MFIs to pass on the cost to the clients and therefore their sustainability would improve as well.

PPAF can not provide loans to MFBs since PPAF requires MFI/MFBs to give a charge on their loan book, and as per the prudential regulations for MFBs, they cannot give such a charge unless approved by the central bank. The PPAF offers a one year line of credit for microfinance providers. This credit line requires the pledge of loan portfolios, which leaves only NGOs and RSPs eligible for this financing as MFBs can not pledge their loan portfolio as per Prudential Regulations for MFBs.

Commercial Funds: in Pakistan, the commercial funding is scarce and MFPs are unable to tap funds from the formal banking sector due to several institutional, and market related reasons. Though some of the Tier-I MFPs have access to commercial banks' funds; this is available only for working capital needs with a very low maturity period. According to the MIX Market, all financing in the microfinance sector in the last few years were from development programs and took place in the local currency with a fixed interest rate in the range of 6-9% per annum. Medium-to-long-term debt funding is available on a limited basis and banks are hesitant to lend to microfinance providers because of their lack of knowledge about the sector but also because MFPs are not profitable and lack lengthy track records. For MFBs, they cannot access commercial debt by pledging their assets or loan book without prior permission of the SBP. A typical MFP borrows at a rate of 13-15% per annum from commercial loans, making it a very expensive form of financing for MFIs and underscoring the needs to tap into the deposit market.

In the funding structure of MFPs , the commercial liabilities are limited to very few MFIs. For example in the case of MFBs, only Khushhali Bank and Tameer Microfinance Bank have commercial liabilities and the average 'commercial liability to GLP' ratio for all MFBs taken together is 13%. For RSPs, only National Rural Support Program (NRSP) and Punjab Rural Support Program (PRSP) have commercial liabilities and the average 'commercial liability to GLP ratio' for all RSPs is 21.4%. For NGO MFIs, only Orangi Pilot Project and ASASAH have commercial liabilities and for this group of MFIs 'commercial liabilities to GLP' the average is 28.2%. This clearly shows that not much commercial debt has come to MFPs.

Tier II MFIs

There is no unanimity over the definition of Tier-II MFIs among the microfinance industry stakeholders but most of the definitions are revolving around some common factors such as low sustainability and unregulated and limited access to capital. Grameen Foundation labelled MFIs which are approaching sustainability but have shortage of capital as Tier-II. Based on the above premise, a general definition may be derived by which those mature and regulated MFIs can be classified as Tier-I, as they can have access to commercial funds in the market.

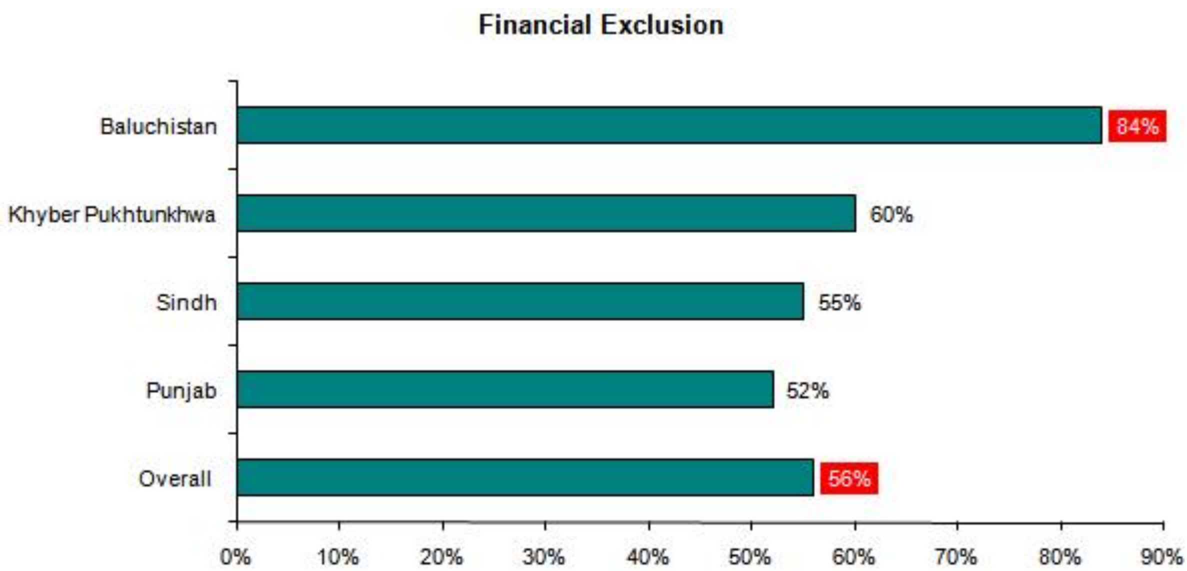
Number of MFIs Matrix based on Regulations and Sustainability

Regulated & Sustainable No of MFIs 3	**Unregulated & Sustainable** No of MFIs 8
Regulated & Unsustainable No of MFIs 4	**Unregulated & Unsustainable** No of MFIs 9

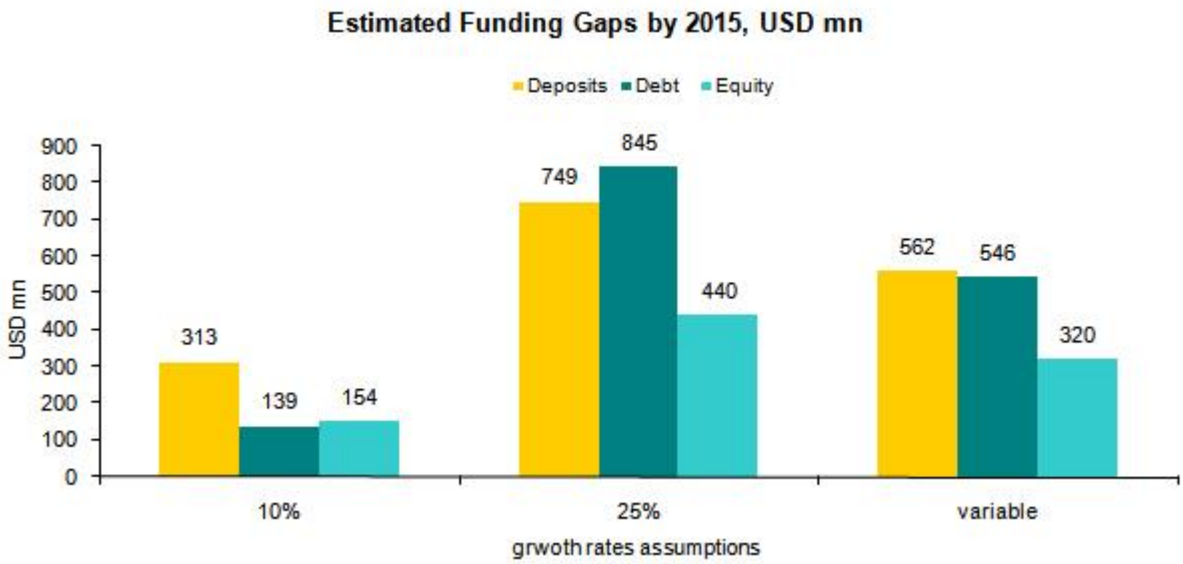
Tier-II can be defined as those MFIs which have a reasonable age in terms of its presence in the market, are presently growing and approaching sustainability but have limited access to market funds. PMN, based on the domestic microfinance market context, has classified MFIs having OSS over and above 90% as sustainable. Taking into account regulations and OSS as benchmark criteria for classification, very few MFBs and MFIs can qualify as Tier-I. In a nutshell, most of the MFIs in the microfinance sector in Pakistan can be classified as Tier-II organizations as most of them are approaching sustainability, are unregulated and have limited access to commercial funds.

All those MFPs which can be classified as Tier-II, based on outreach and limited access to funds, mostly rely solely on external endowment funds, and subsidised funding provided by the PPAF.

Market Gaps and Challenges



The current outreach of the microfinance industry stood at 1.9 mn active clients with overall penetration rate of 6.7%. On the contrary, there are 27 mn potential microfinance clients in the country. Punjab has the highest potential clients (15 mn), followed by Sindh (6.4 mn), Khyber Pakhtunkhwa (4.1 mn) and Baluchistan (1.7 mn). Other estimates highlight that there are approximately 9.7 mn poor households and 66.3 mn poor people in Pakistan, out of which 29.5 mn people are potential clients of credit. Based on these estimates, the presence of unmet demand is apparent. To reach 3 mn people by 2010 and 10 mn by 2015 as planned by the government would therefore require not only significant up-scaling of the current level of services but also need an increase in the volume of funds.



Thus, if the microfinance industry grows at 10% annually, the total funding gap for 2010–2015 is estimated at Rs 50.77 bn (USD 0.6 bn). The gap increases to Rs 172.29 bn (USD 2.03 bn) at 25%. At a variable growth rate the funding gap is estimated at Rs 121.38 bn (USD 1.43 bn)3. The incremental amount required through debt, deposit mobilization, and equity investments is shown in the figure.

Key Contacts

- **Ministry of Finance Pakistan**
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- **Pakistan Microfinance Network (PMN)**
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- **Pakistan Poverty Alleviation Fund (PPAF)**
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