

grassroots

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one promise

Our 10th anniversary marks the achievement of two million loans to Pakistanis across the country. We strive to support and rebuild ordinary lives by creating the right combination of circumstances through skills and infrastructure development, community empowerment, independence and enterprise. More proof that we're giving common people an uncommon advantage to realize their full potential. Which is why, Khushhalibank is more than a bank. It's a promise.

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President Khushhalibank, along with the Management and Staff on Bank's 10th Anniversary.

Ten Years of Microfinance Banking in Pakistan

On August 11, 2010, Khushhalibank celebrated its 10th Anniversary which also marked the 10 years of microfinance banking in Pakistan. Ghalib Nishtar, President Khushhalibank, expressing his views on the occasion said "We celebrate our anniversary with a resolve to take on new challenges and setting milestones as a pioneer in microfinance banking in Pakistan. We started our journey ten years ago with the intent of developing a new niche within the financial services industry through mainstreaming microfinance for greater financial inclusion. Today, we have made our contribution by making a difference in hundreds and thousands of lives across the country by providing financial service access to the mostly unbanked segments of the population. We continue with our endeavors to pave the way towards a more empowered and self sustained Pakistan.

Elaborating on Khushhalibank's accomplishments, Ghalib Nishtar, further said that since its inception in 2000, Khushhalibank's efforts have been dedicated towards creating a more economically just social order by encouraging the less privileged to come forward and avail opportunities for better livelihoods. "These ten years have truly been fruitful in terms of recognition, prosperity and growth not only for Khushhalibank but also for its customers throughout the country."

Today, Khushhalibank is the largest microfinance institution in Pakistan with 113 branches across the country including AJK and FATA. In order to mark the completion of 10 years of operations, Khushhalibank has launched various new branches in the districts of Rawalpindi, Karachi, Larkana, Pakpattan, Sahiwal, Kasur, Sialkot, Multan, Leyyah and DG Khan.

President's Message



The highlights of the quarter were anniversary celebrations that marked the successful completion of 10 years of operations of the bank. Over the years, not only has the bank established itself as the largest institution within the Microfinance sector but has been able to catalyze the environment for microfinance banking in Pakistan.

The presence and outreach across the country opens up new opportunities for individuals from low income households to access financial services for improving their Incomes and prospects for their families.

Access to finance refers to all types of financial services – deposit service, money transfers, insurance and credit which are fundamentally required by these households to enhance their productive capacity and sustain their incomes. In order to provide a full range of service to our clients, we have launched a number of initiatives in this quarter to strengthen our business units and provide greater support through the conversion of branches to a full service capability and connectivity to integrated banking application.

These initiatives will establish the basis for expansion in terms of products and services and quality of service to our clients and improved revenues and profitability for the bank.

I look forward to successful completion of these initiatives and wish you well in your endeavors.

Team from National Bank of Ethiopia visits Khushhalibank

State Bank of Pakistan hosted a team of five officials of National Bank of Ethiopia from July 12 to July 16, 2010 under its "Exposure visit Program on Microfinance". During the visit the delegation visited various microfinance institutions to gain first hand knowledge of microfinance Industry in Pakistan. Khushhalibank being the pioneer of microfinance banking in

Pakistan also gave a detailed briefing to visiting team with an objective to provide insights on microfinance practices and methodologies along with a concise snapshot of microfinance market in Pakistan. During the visit, the team was briefed about bank's full range of microfinance products and its commitment to provide financial services access to the

large pool of the un-banked in the domestic economy.

A field trip was arranged for the visiting team to meet a group of borrowers to help them assess the significant impact of microfinance in changing people's lives.

Bill & Melinda Gates Foundation Workshop in Kenya

Khushhalibank was invited to participate in "MFI Savings Initiative: Knowledge Sharing Workshop" hosted by Bill & Melinda Gates Foundation. The workshop was held from 29th September to 1st October, 2010 at Nairobi, Kenya. Khushhalibank was represented by Yawar Khan Afridi, National Distribution Manager, and Amina Hassan National Sales Manager. The other participants included the senior executives

of Microfinance Institutions and Microfinance Banks from India, Pakistan and Philippines.

The theme of the workshop was "Change Management" specifically applied to implementing savings mobilization, new delivery channels and technology in microfinance institutions. The participants were encouraged to share their experiences, technical knowledge

and challenges with one another. The workshop was designed to build upon a strong experience of branchless banking in Kenya and illustrate successful applications of savings mobilization through technology in financial services and strategic partnerships between technology platform and financial service institutions.

State Bank of Pakistan Roundtable Discussion on Flood Damages

In September, 2010, the State Bank of Pakistan (SBP), the World Bank and the UK Department for International Development (DFID) organized a round table discussion on "Damage Assessment of Floods and Implications for the Financial Sector". The conference had important deliberations during which SBP provided the post-flood Macroeconomic outlook for 2011 and presented its findings on flood related loan damages and proposed strategies for managing them effectively. Shahid. H. Kardar, Governor SBP, gave a comprehensive overview of the losses country has suffered

due to recent floods particularly in agricultural sector and the manufacturing sector which depends on agricultural output. He also shed light on the upcoming challenges and opportunities for the financial sector in terms of financial inclusion, diversification of products and its role in rebuilding the economy. During the discussion the Governor briefed the stakeholders about the initiatives taken by SBP to assess the damage, and committees it has constituted to develop a strategy for the settlement of existing loans and provision of fresh credit in the affected areas. He urged the financial institutions to

come forward and play their due role in rebuilding the affected areas as it would not be possible for the State Bank and the Government to do it alone. He also called upon the donors and multilateral agencies to help them recover from the huge losses and sought external support to address the flood related issues.

The participating organizations included all financial sector Institutions and comprised feedback from various task forces established by State Bank of Pakistan on Agriculture, SME's and Microfinance.

Quarterly Business Update, July - September, 2010

| | Microcredit | | Savings | | Insurance | |
|---------|------------------|----------------------|---------------|----------------------|----------------|----------------------------|
| | Active Borrowers | Value (PKR Millions) | Active Savers | Value (PKR Millions) | Policy Holders | Sum insured (PKR Millions) |
| 2010-Q1 | 317,080 | 3,631.6 | 105,869 | 130.2 | 317,080 | 3,631.6 |
| 2010-Q2 | 324,444 | 3,779.8 | 154,280 | 231.8 | 324,444 | 3,779.8 |
| 2010-Q3 | 352,743 | 4,131.7 | 173,836 | 198.7 | 352,743 | 4,131.7 |

Priority Counters for the Physically Disabled at all Branches across Pakistan

The inclusion of Physically Disabled Persons within the economic mainstream is important to Khushhalibank. This is done with a view to encourage their effective participation in the process of social change and improve their quality of life. The benefits of development may not equally reach everyone due to the lack of attention to diversity, and deliberate and structural social exclusion have played a role in

creating and fostering marginalization of the Physically Disabled Persons. Khushhalibank recognizes these challenges and is working to reduce the gap of marginalization amongst the physically challenged people. The bank as a responsible corporate citizen shares the concern of the Physically Challenged people of our society and provides Persons with Disabilities (PWDs) access and experience

to the quality services at the bank, which it provides to all its existing and prospective clients. In this context Khushhalibank has laid down guidelines for its branches all over Pakistan that include categorizing PWDs as "Priority" Customers, making sure that these 'Priority Counters' are recognized and services are provided to them on priority.

IFC Pak Study Tour to Clean Energy Markets

Microfinance lending for clean energy holds tremendous potential to reach billions of people with benefits to their health, education and ability to save money. In Pakistan approximately seventy million people, mostly in rural areas, lack access to modern and clean energy services. To assess the viability of microfinance lending for clean energy in Pakistan, the International Finance Corporation sponsored a study tour of key microfinance stakeholders including Khushhalibank to visit two microfinance institutions that have successfully launched clean energy programs namely XacBank in Mongolia and Grameen Shakti in Bangladesh.

A key take away from the study tour is that the Microfinance Institutions stand to achieve strategic and financial returns by launching clean energy product lines as there is a growing need for Asian countries to get access to international finance and technology, especially in the wake of the global economic slowdown, to meet their goals in clean energy and efficiency.

This tour has helped the microfinance stakeholders identify business risks associated with climate change as well as business opportunities in the renewable energy sector.

It was an ideal platform for microfinance institutions to better understand issues related to reducing, managing, and mitigating the impacts of climate change on the businesses and on investing in sustainable energy and carbon finance. The study tour has provided key insights on the clean energy sector to the microfinance stakeholders to develop and roll out clean energy product portfolio suited to the needs of their clients by providing them a better understanding of issues such as growth, operating efficiency, social & environmental performance and carbon capital for the clean energy market. Looking at it from Pakistan's viewpoint this tour helped the country's microfinance Institutions to consider and seriously pursue creative ways of financing renewable energy projects in Pakistan to effectively deal with the existing crippling energy crisis in the country. In our country approximately seventy

million people, mostly in rural areas, lack access to modern and clean energy services. Further, only 59% of Pakistan's population has access to electricity from national grid. In rural areas, the percentage with electricity access falls to 37%.

Microfinance is hence a promising way to bridge the gap of energy crisis in Pakistan. The microfinance sector in Pakistan has grown tremendously in the past few years with estimated potential microfinance market of 10 to 20 million people and about 1.9 million active borrowers. Microfinance institutions have played a vital role in enhancing the economic opportunities available to poor people, but the experience to date with loans for energy services and products is limited. Hence, microfinance institutions can expand access to energy for poor clients by offering credit and loans for energy products and by partnering with local energy companies to help them branch out into new markets that include poor and rural people.

Capacity Building of Audit Teams for Core Banking

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the bank's operations. It helps the bank to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of internal control, governance processes, risk management and ensuring compliance of policy and regulatory requirements implemented in all branches and different

functions. Capacity building of internal audit staff is continuous objective of the bank's audit department. To strengthen the internal controls bank has invested through hiring skilled resources coupled with comprehensive training program to deal with changing business dynamics.

In order to improve the skill set of internal auditors aligned with core Banking Operations

a number of trainings and internal workshops were conducted over the year to strengthen the understanding of Branch Banking Operations and to familiarize the audit staff with the updates in the policies and procedures. Such trainings were conducted by the Functional Heads, even from some other banks who shared their knowledge and experience for branch banking and effective auditing.

A Glance into Khushhalibank's Promise of "Changing Lives"

Firdous - Entrepreneur from Sahiwal whose Loan Officer (Khushhalibank) is Mohammad Ali



Entrant Information

| | |
|--------------------|---------|
| Full Name | Firdous |
| Gender | Female |
| Marital Status | Widow |
| Dependents | 04 |
| No. of Loan Cycles | 04 |

Business Information

| | |
|----------------------|----------------------|
| Location of Business | Gallah Mandi Sahiwal |
| Type of Business | Cloth Selling |
| Monthly Sales | PKR 165,000 |
| Total Employees | None |

What have been some of the micro entrepreneur's greatest challenges and how they have been overcome?

Firdous and her children were left with a life full of sorrows, grief and hardships when her husband died in an accident about four years ago. Her husband left her only a house with no other asset to fall back on. With her eldest child only 12 and the youngest still expecting, everything seemed to be falling apart. However, very soon she realized that unless she takes up the challenge of providing a livelihood to her children, she would very soon lose them too. Thus, she must fight for their survival so that they don't wither away in poverty and despair.

With this resolve, she started to work as a maid at different places to earn money for her family, but this came hard on her self-respect as people treated her very badly. She wanted to quit this work and desired to adopt a respectful profession. Incidentally, one day when she had no money she decided to sell her old clothes. Since she was good at stitching and embroidery and made her clothes herself, a woman from her locality liked her designs and bought the clothes at a reasonable rate. This gave Firdous an idea of starting her own business and showed her a window of opportunity.

With this thought in mind she decided to

start the business of cloth trading on a small scale. She knew that she can get cloth at very low rates from a wholesale market in Faisalabad which she can sell on profit in Sahiwal. Though it was not easy for a mother of four with the eldest child only 12 years old to travel that far to buy cloth but she didn't let the distance come in her way. She was determined to do whatever she could for the survival of her kids and didn't shy away from any effort it would take. She did everything to make things going for her children and also stitched clothes and did the embroidery work for local boutiques to earn whatever she could for the children. Thus, she took up the challenge and God paved her way to success when she heard about Khushhalibank and its micro-credit facility which gave a tremendous boost to her business and significantly increased her profit margins. Her increased profits also allowed her to invest her own capital in the business which resulted in even higher profits thus increasing her income many times in a few years.

What has been the key to this micro entrepreneur's success?

Firdous is one of those courageous women who change their destinies with their hard work and determination and do not let their misfortunes engulf their future. She did everything to make things going for her children. It was not easy for a woman with her circumstances to achieve what she has, but her conviction and unfaltering faith in Allah made her sail through the most difficult situations and come out much stronger and even more determined.

How has Khushhalibank contributed towards the economic uplift of the micro-entrepreneur?

When Firdous conceived the idea of starting her own business the greatest obstacle in her way was the lack of funds. To overcome this hurdle she borrowed money from a local money lender but the exuberant rate of interest left her with very little profit margins. Her work was laborious and the income very meager which was insufficient

to sustain her family for long. It was then when she was advised to take a loan from Khushhalibank. In 2006 she approached the bank to avail the loan facility. Since then she has not looked back and with every new loan and her relentless efforts the profits have been soaring high and today she makes a monthly sale of Rs. 165, 000, an amount which she couldn't even imagine when she ventured into this business.

What future plans does the micro entrepreneur have for the business?

Firdous plans to extend her cloth selling business by setting up a shop in the local market. She also plans to purchase a van as presently she rents a vehicle to bring cloth from Faisalabad. This will decrease her cost of transportation and would also provide her the ease of travelling. As she is now well aware of the markets in Faisalabad where she can get very low rates for different products she also plans to trade other items like tea and detergents from Faisalabad to the local merchants of Sahiwal.

How has this business and/or micro entrepreneur had a positive impact on her family and community?

Her story is truly an inspirational one where a woman started from a scratch and made a phenomenal success. This business has totally turned around her life and changed her family's destiny. Before she started the business she was not even sure if she could feed her children three times in a day. But with this business, today, she is not only feeding her children well but also taking care of their finer needs like education and saving for their future.

Her success has not only earned her the respect and admiration of her community, but it also inspires other females to contribute positively towards their household incomes and improve their quality of life.

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