Master Thesis

Microfinance in Pakistan: Policies and Practice

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List of acronyms

ADBP	Agriculture Development Bank of Pakistan
AKRSP	Aga Khan Rural Support Programme
ADB	Asian Development Bank
BRAC	Bangladesh Rural Advancement Committee
CARE	Christian Action Research and Education
CODEC	Community Development Center
CGAP	Consultative Group to Assist the Poor
CRR	Cash Reserve Ratio
CAR	Capital Adequacy Ratio
CIF	Community Investment Fund
DPF	Deposit Protection Fund
DFI	Development Finance Institutions
FMFB	First Microfinance Bank
GDP	Gross Domestic Product
GoP	Government of Pakistan
GLP	Gross Loan Portfolio
HDI	Human Development Index
KB	Khushhali Bank
MSDP	Microfinance Social Development Fund
MF	Microfinance
MFP	Microfinance Provider

MFB	Microfinance Bank
MFI	Microfinance Institution
NGO	Non-Governmental Organization
NPL	Non-Performing Loan
NMFB	Network Microfinance Bank Ltd.
NRSP	National Rural Support Programme
OECD	Organization for Economic Co-operation and Development
OPP	Orangi Pilot Project
PMN	Pakistan Microfinance Network
PPAF	Pakistan Poverty Alleviation Fund
PRSP	Punjab Rural Support Programme
PAR	Portfolio At Risk
PKR	Pakistani Rupee
POMFB	Pak Oman Microfinance Bank Ltd.
RMFB	Rozgar Microfinance Bank
ROA	Return On Assets
ROE	Return On Equity
RMF	Risk Mitigation Fund
RSP	Rural Support Programme
ROSCA	ROtating Savings and Credit Association
SRSP	Sarhad Rural Support Programme
SBP	State Bank of Pakistan
SME	Small and Medium Enterprise
SLR	Statutory Liquidity Ratio

SECP	Securities and Exchange Commission of Pakistan
SHG	Self Help Group
TMFB	Tameer Microfinance Bank
UNDP	United Nations Development Programme
UNICIRDAP	United Nations Interagency Committee on Integrated Rural Development for Asia and the Pacific
ZTBL	Zarai Taraqiati Bank Limited

Executive Summary

Microfinance collectively refers to the supply of loans, savings accounts, and other basic financial services like insurance, to the poor. About one billion people globally live in households with per capita incomes of one dollar per day (Morduch J. 1999). As the poor people cannot avail these financial services from the formal commercial banks (because of the collateral requirements), microfinance tends to provide to them exclusive of these conditions. The objective of micro-lending is that the rural people in developing countries are engaged in financial activities but at a very informal level like savings clubs, rotating savings and credit associations and mutual insurance societies, that have a tendency to be erratic and insecure. Microfinance tends to provide them these facilities at a much lower rate than what they get from these informal means and provides a much lesser risk also. Microfinance loans are usually less than $200. Dr. Muhammad Yunus became the first Bangladeshi to win a Nobel Peace Prize in 2006. He achieved this as a result of his phenomenal work in the field of microfinance. Since its introduction in Bangladesh in 1976, microfinance has significantly gained lots of importance in the financial world. The practice of matching small amounts of seed financing with the talents of entrepreneurs is gaining a serious attention all over the world. The nature of this research is to study the concepts of microfinance and then to study the policies that have been made by the State Bank of Pakistan and how they are affecting the practices. State Bank of Pakistan (SBP) is the central bank in Pakistan and is responsible for making guidelines for the financial sector. The central research question that has been answered in this report is: What are the differences between the microfinance policy goals and the realization in Pakistan and which factors influence such differences? SBP established a goal for the year 2010 for the microfinance sector to achieve three million borrowers.

Microfinance has a positive impact far beyond the individual client. Studies show that vast majority of the loans go to women as women are more likely to reinvest their earnings in the business and in their families. When their families cross the poverty line and micro-businesses

expand, their communities benefit. Jobs are created, knowledge is shared, community participation increases, and women are recognized as valuable members of their families and communities.

The microfinance sector in Pakistan consists of regulated and self regulated organizations, depending on the type of organization they are (e.g. MFI, NGO or a Bank). According to the World Bank's Consultative Group to Assist the Poor (CGAP), Pakistan is a late starter but less far behind the sector in other countries in South and South-East Asia. It has made considerable gains after the inception of the MF Ordinance in 2001. The target set out by the Government of Pakistan for MF sector for 2010 is three million borrowers. The sector is building up itself strongly yet there are a few problems that might be a threat to the sustainability of the sector. This report considers a few problems that might occur in practice of microfinance in Pakistan due to the policies.

The Government of Pakistan and the Central Bank are trying their best for growth and progress of the Microfinance Sector on a sound and sustainable basis. As of the issuance of the new Prudential Regulations in October 2002, all licensed MFIs including Khushhali Bank are now under the same regulatory framework and a level playing field is being ensured for all the players. Before that Khushhali Bank had a separate regulatory framework, but now works under the same Prudential Regulations 2002. The policy makers' vision for the sector is to develop a conducive policy environment in which MFIs could establish, flourish, grow and provide a full range of financial services to the poor. The State Bank of Pakistan tries to ensure to have risk management systems fully in placed with efficient treasury management systems to ensure safety of depositors.

Overall the Government along with the Asian Development Bank has been busy making new policies and different ways to enhance the sustainability of this sector. More focused efforts need to be made. Microfinance is not widespread in Pakistan. The aggregate outreach from banks and other institutional sources is less than 5 percent of the potential market of nearly 6.3 million households (World Bank). The microfinance sector in Pakistan is characterized by a narrow institutional base, limited retail capacity and little, if any, financial integration (CGAP). Commercial banks, in general, are neither structured nor geared to extend their microfinance exposure beyond experimental forays and development finance institutions (DFIs) do not target asset less poor. Non-government organizations (NGOs) have shown appreciation of the nature of microfinance demand emanating from the poor through effective targeting, participatory approaches, capacity building and general sensitivity. Yet, their microfinance operations are unlikely to attain financial self-sufficiency. The informal sources are the only window available for the poor. However, informal sources provide services at terms that tend to perpetuate rather than ameliorate poverty.

It is, therefore, a matter of urgent priority for the country that a pro-poor financial system, with the recognition of its business prospects, is established as a critical element for combating the rising incidence of poverty. This is being undertaken in a manner that is consistent with the overall reforms in the banking sector in terms of autonomy, good governance, privatization and sustainability.

Chapter 1 INTRODUCTION

1.1 Introduction to Pakistan's Economic Scenario

Pakistan is a rapidly developing country (Leghari, F., 2007) and a major emerging market with an economic growth rate of 7 percent per annum for four consecutive years up to 2007 (Pakistan Times, 2007). Pakistan has a population of 160 million people (2006), of which 65 percent are living in rural areas. It is a relative outlier in the region, ranking low on both gross domestic product per capita (US$ 840) and the Human Development Index (HDI) (Human Development Report, 2006). Pakistan has suffered from decades of internal political disputes, low levels of foreign investment, and a costly, ongoing confrontation with neighboring India.

However, far-reaching macroeconomic reforms that started in the 1990s are now yielding positive results and have helped transform Pakistan into a relatively stable and resurgent economy. Pakistan's real GDP has grown at an average rate of 7 percent per annum during the last five years (2003-2007) and over 7.5 percent per annum during the last four years (2004-2007) at the back of robust growth in agriculture, manufacturing and services. With the population growing at an average rate of 2 percent per annum, the real per capita income has grown at a satisfactory average rate of 5.6 percent. Medium term prospects for job creation and poverty reduction are the best they have been in more than a decade (The World Bank group, 2007). The small and medium enterprise sector, which constitutes 90% of business in Pakistan, is regarded as an important instrument of employment promotion (State Bank of Pakistan, 2004). The official unemployment rate, which stood at 8.27% in 2001-2002, declined to 6.20% in 2005-2006 (Pakistan Economic Survey, 2006-07).

Inflation remains the biggest threat to the economy. It jumped more than 9% in 2005 because of strong domestic demand and supply price shocks emanating from rising commodity and oil prices. The State Bank of Pakistan (SBP), managed to bring down inflation to 7.5 percent in

2006 by tightening the monetary policy. In October 2007, the inflation trended upwards and stood at 9.3 percent attributed to a sharp pickup in food inflation. Tight monetary policy pursued by SBP was mainly responsible for stability in core inflation (Investors Relations Desk, 2007). Overall inflation in 2006-2007 stood at 7.8 percent (Federal Bureau of Statistics).

Despite the positive macroeconomic developments in recent years, widespread poverty remains a core problem in the country. In response to the rise of poverty during the 1990s, the Government of Pakistan launched two Poverty Reduction Strategy papers (2001 and 2003). The Poverty Reduction Strategy centers on accelerating economic growth and maintaining macroeconomic stability, while investing in human capital, augmenting targeted interventions, expanding social safety nets, and improving governance (CGAP, 2007). Over the last five years, the government spent US$ 22 billion on poverty-related and social sector programs to cater to the needs of the poor and vulnerable sections of the society (Finance Division, 2007).

These efforts helped to reduce the number of people living under the poverty line from 33 percent of the population to the currently reported 24 percent. However, strong differences persist between rural and urban areas: 28% of the rural population lives below the poverty line, compared with 15% of the urban population below the poverty line.

1.2 Reforms in the Financial System

Resilient, well-regulated financial systems are essential for macroeconomic and financial stability in a world of increased capital flows. The financial system in Pakistan mainly changed due to the major reforms made in the late 1990s. The focus of these reforms was to make an efficient and competitive banking system through privatization. Transparency was the main aim of these reforms which meant greater disclosure and financial reporting. Also the supervisory capacity of SBP was strengthened and was given more autonomy from the Ministry of Finance. According to the Financial Sector Assessment Program, the State’s participation in the banking sector has decreased from over 80 percent in 1990 to less than 20 percent today and the banks’ total assets have doubled. These private (commercial) banks have also increased in efficiency in providing the financial services. They have sufficient capital adequacy ratio[1] (slightly above 12%), with a decreased amount of non-performing loans[2] from a high of around 20% in 1999-2000 to a current 6%. Commercial banks have improved their efficiency by reducing their cost/income ratio from 90 percent to 42 percent, and they reported their strongest results in history in 2006 with return on equity (after tax) reaching on average 26 percent. Today the financial sector is one of the main drivers of economic development in the country. Banks have also increased their lending to the small and medium enterprises with 40 percent growth in 2003 alone, placing SME lending growth just after consumer lending growth.

Apart from all these developments in the banking sector of Pakistan, the financial sector has not yet reached sufficient breadth and depth. The banking sector serves only around 5 million borrowers (3 percent of the population) compared with 20 million depositors. The loan portfolio/ GDP ratio of banks is around 30 percent (while OECD countries reach 80-100 percent). Finally, most of the banking activities are carried out in the bigger cities of Pakistan leaving out a majority of the population (which lives in the rural areas) from using these financial services. The banking sector has also not shown any interest in serving the poorer clients (CGAP, 2007). Pakistan Post Savings Bank is the main service provider for elementary savings and payment system in the rural areas. As Pakistan is an agricultural country, the Government of Pakistan GoP, has established the Zarai Taraqiati Bank (formally known as Agricultural Development bank) for providing funding to the people in the rural areas.

Poverty is pervasive in South Asia. In fact, poverty in most of these countries is rising and availability of financial services to these people is becoming harder and harder so as to get them out of the circle of poverty. In Pakistan the establishment of the Agricultural Development Bank of Pakistan (now ZTBL) in the 1970s represents an early effort to advance credit to the poor. The

[1] Capital adequacy ratio is a ratio of a bank's capital to its risk

[2] a loan that is not earning income and: (1) full payment of principal and interest is no longer anticipated, (2) principal or interest is 90 days or more delinquent, or (3) the maturity date has passed and payment in full has not been made.

bank was basically established to provide financial aid to the farmers in the rural areas, but like most of the agricultural banks in the developing world ADBP suffered losses due to low rates of lending and also because of political lending which resulted in major write offs and defaults. Thus the bank required continuous subsidies from the government.

1.3 Micro Finance in Pakistan

Microfinance was started in Pakistan in the early 1980s when the Aga Khan Rural Support Programme (AKRSP) launched its credit operations in the North in 1982 and with the establishment of the Orangi Pilot Project (OPP) in the same year. The model of AKRSP was implemented in the whole country in 1990s with the establishment of National Rural Support Programme (NRSP) and the Sarhad Rural Support Programme (SRSP). These institutions were general support institutions that provided a wide range of social services, including financial services. Financial services that were provided to the poor were often socially driven and were highly subsidized and little efforts were made to recover delinquent loans. To address these shortcomings in 1996 the RSPs established specialized microfinance NGO called as Kashf Foundation. In 1998, this precursor of the Pakistan Microfinance Network (PMN) began to play a role in representing emerging Micro Finance Providers (MFPs). Further developments followed in 2000, when the Pakistan Poverty Alleviation Fund (PPAF) made its first loan to MFPs, and SBP opened a microfinance unit. In 2001, the GoP helped to create a major retail institution, the Khushhali Bank, dedicated to serve the poor.

1.4 Problem Identification and Objective of the Report

The beginning of a new era in microfinance was marked by the 2001 Microfinance Ordinance. The ordinance along with other regulations by SBP, laid some foundations for the development of the financial system. The focus of such a strategy was to realize the importance of the Micro finance Banks (MFBs) and their outreach to the population. By 2007, six MFBs received their licenses. Overall the development of this industry has been rapid and less solid as expected. The total number of loans outstanding is still negligible compared with the total potential demand, and deposit services are not well developed (Microfinance Gateway, 2007).

Thus there is a dire need for an analysis of the microfinance policy and its realization in Pakistan. Such an analysis would retrieve information of what the MFPs or the government lack and what changes need to be made in order to make the MF industry grow.

The central research question that would be answered in the report is:

What are the differences between the Microfinance Policy goals and the realization in Pakistan, and which factors influence such differences?

The derived research questions are:

1. What are the concepts of Microfinance?
2. What is the MF policy in Pakistan?

   2a. What role does government play in the MF industry?

   2b. What are the goals, targets, and expectations in the MF industry?
3. What is MF in literature, and what are the expectations and bottlenecks in this field in Pakistan?
4. What is the reality of MF policy in Pakistan? Are its goals being realized?
5. What are the factors responsible for the differences between 2 & 3?

The major restriction for this report is that only the MF policy of Pakistan is being considered for the current study due to a very limited time period available. Availability of relevant data is also one of the restrictions, due to time constraints. Further research can be done by considering few other developing countries and drawing out a comparative analysis of their MF policies

1.5 Research Methods

This is an exploratory research and would try to identify the factors responsible for the differences in the MF policy and its realization. It is based on secondary data that is collected through various resources mainly literature available over the internet. A few key words that were used for searching such online literature were “microfinance”, “microfinance in Pakistan”, “microfinance in developing countries”, “role of policies in microfinance”. Various reports of the World Bank (CGAP), reports by SBP, various institutes of Pakistan (including Pakistan Microfinance Network), and other world financial institutions (Asian Development Bank, United Nations Development Programme etc) have been studied to gather the relevant information that was used in order to draw conclusions on the subject. Various academic papers regarding microfinance policies in other countries are also consulted. Non- Governmental organizations providing microfinance in Pakistan were also contacted in order to gain more insight into the practical aspects of microfinance. These organizations were contacted mainly through email (number 20) and sometimes through telephone (3). Although the response rate has been almost insignificant (5%) enough to draw concrete conclusions, further study should eliminate these shortfalls.

1.6 Outline of the Study

The outline of the study can be illustrated in figure 1.1.

Chapter 2 of the report defines what microfinance is and tries to explain the need for its implementation in the world especially in the developing countries. Chapter 3 focuses on the MF policy in Pakistan and the role of GoP in making microfinance a success. It focuses on the goals, targets, financial means etc. for the attainment of the objectives set out in the policy. Chapter 4 tries to find out the reality on ground and what the Microfinance Institutions MFIs, are doing in reality in the market. Chapter 5 based on the previous chapters, identifies the factors influencing the differences between the MF policy goals and the realization of these goals and draws some conclusions. Few suggestions to overcome the afore-mentioned issues are provided therewith.

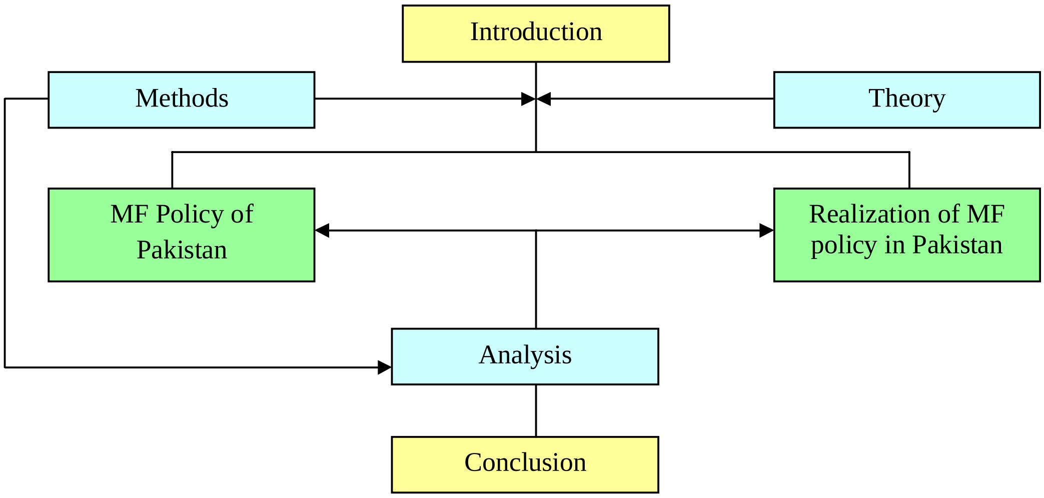

Figure 1.1 Illustration of the outline of the report

Chapter 2 Concepts of Microfinance

2.1 Introduction

In this chapter the concept of microfinance has been mentioned. Microfinance is provided through the Microfinance Institutions (MFIs). The classification of these institutions follows in this chapter. One of the concerns in microfinance sector is the high interest rates being charged to the poor for providing such services. The explanation for charging higher interest rates than normal commercial loans is also elaborated in this chapter. Lastly the benefits/effects of microfinance have been pointed out at the end of the chapter. Apart from other secondary sources of data, information from CGAP and Grameen Foundation has mainly been used for compiling this chapter.

2.2 Concept of Microfinance

Microfinance collectively refers to the supply of loans, savings, and other basic financial services like insurance, to the poor. As the poor people cannot avail these financial services from the formal commercial banks (because of the collateral requirements), microfinance tends to provide to them exclusive of these conditions. For these financial services, the poor people are willing to pay for because of the added advantage they receive for not collateralizing anything. The term also refers to the practice of sustainably delivering such services. More broadly, it is a movement that envisions a world in which as many poor and near poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers (Christen, R. P., Rosenberg, R., and Jayadeva, V., 2004).

Prior to the introduction of microfinance, development projects in 1950s, usually introduced subsidized credit programs targeting at specific communities. Such schemes often met with failure. Poor repayment discipline and subsidized lending rates caused massive capital loss for the rural development banks.

Ever since its introduction in Bangladesh in 1976, microfinance has significantly gained lots of importance in the financial world. The practice of matching small amounts of seed financing with the talents of entrepreneurs is gaining a serious attention all over the world. In microfinance, entrepreneurs who are unable to provide appropriate security to the bank for a loan, form a group, called as a Self Help Group,[1] with each other and get the financial services in the form of small loans, usually amounting less than $200.[2] All individuals of such a group forfeit the chance for future loans, if one of them fails to repay his/her loan. This approach uniquely combines peer pressure and mutual support, and has produced pay back rates at approximately 98 percent (Trickle-up Economics, 1997), which is more than the recovery rate of the individual loans.

During 1980s and 1990s, microfinance programs throughout the world improved upon its original methodologies and disapproved conventional wisdom about financing the poor. First, it is well known that poor people, in particular women, had excellent repayment rates among the better programs[3], rates which were far better than the usual financial sectors of most developing countries. Second, the poor were willing and easily able to pay interest rates that allowed microfinance institutions (MFIs) to sustain them by covering their own costs and to attract more clients in huge numbers. Another equally important aspect of microfinance is the recycling of funds. As loans are repaid, usually within six months to a year, they are re-loaned. Such a continuing reinvestment multiplies the impact of each dollar being loaned.[4]

Such unique strategies make microfinance to be often considered as one of the most effective and flexible strategies in fighting against global poverty. Sustainable microfinance can be

[1] Self Help Groups or SHGs represent a unique approach to financial intermediation. The approach combines access to low cost financial services with a process of self management and development for the Men and women who are SHG members.
[2] http://www.grameenfoundation.org/what_we_do/microfinance_in_action/
[3] http://www.smartmoney.com/consumer/index.cfm?story=20080618 bundled-microloans
[4] http://www.grameenfoundation.org/what_we_do/microfinance_in_action/

implemented on a massive scale, necessary to respond to the urgent needs of those people living on less than $1 per day, i.e. the world's poorest.

Microfinance has a positive impact far beyond the individual client. Studies show that vast majority of the loans go to women as women are more likely to reinvest their earnings in the business and in their families. When their families cross the poverty line and micro-businesses expand, their communities benefit. Jobs are created, knowledge is shared, community participation increases, and women are recognized as valuable members of their families and communities. Success stories of such women availing microfinance can be found at the website: www.grameenfoundation.org.[5]

2.3 Microfinance Institutions

A microfinance institution (MFI) is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, methodology, and sustainability. However, all share the common characteristic of providing financial services to a clientele poorer and more vulnerable than traditional bank clients[6].

Quite simply, a micro finance institution is an organization that offers financial services to the very poor. Most MFIs are non-governmental organizations committed to assisting some sector of the low-income population. MFIs build resources by support of government or public institutes or formal/informal NGOs (Sapovadia, V. K., 2003-2004).

Historical context (as discussed previously) shows that experiments in the field of microfinance starting from 1950s till 1980s resulted in the emergence of several non-governmental organizations (NGOs) that provided financial services for the poor. In the 1990s, many of these

[5] http://www.grameenfoundation.org/where_we_work/south_asia/pakistan/kishwar_s_story/
[6] http://www.cgap.org/about/faq05.html

institutions transformed themselves into formal financial institutions in order to access and on lend client savings, thus enhancing their outreach.

2.4 Classification of MFIs

a. Providers

Microfinance institutions have been classified by the PSIA (Oxford Policy Management, 2006) as follows:

(1) *Formal providers* are sometimes defined as those that are subject not only to general laws but also to specific banking regulation and supervision (development banks, savings and postal banks, commercial banks, and non-bank financial intermediaries).
(2) *Semiformal providers* are registered entities subject to general and commercial laws but are not usually under bank regulation and supervision (financial NGOs, credit unions and cooperatives)
(3). *Informal providers* are nonregistered groups such as rotating savings and credit associations (ROSCAs) and self-help groups. To these providers neither the banking laws nor general commercial laws apply.

b. Ownership

Ownership structures of MFIs can be of almost any type imaginable. They can be government owned, like the rural credit cooperatives in China; member-owned, like the credit unions in West Africa; socially minded shareholders, like many transformed NGOs in Latin America; and profit maximizing shareholders, like the microfinance banks in Eastern Europe.

c. Focus

Focus of some providers is exclusively on financial services to the poor. Others are focused on financial services in general, offering a wide range of financial services for different markets. Organizations providing financial services to the poor may also provide non-financial services.

These services can include business-development services, like training and technical assistance, or social services, like health and empowerment training.

d. Services

Services that poor people need and demand are the same types of financial services as everyone else. The most well-known service is non-collateralized "micro-loans," delivered through a range of group-based and individual methods. The menu of services offered also includes other adapted to the specific needs of the poor, such as savings accounts, insurance, and remittances. The types of services offered are limited by what is allowed by the legal structure of the provider. Non regulated institutions are not generally allowed to provide savings or insurance.

There is an almost infinite variety in the type and mix of microfinance service and conditions of delivery: in some countries credit and savings providers are closely regulated and NGOs cannot access deposits. In other countries rules are more relaxed. Some MFIs focus on loans, others have large savings deposits and shares, some provide insurance and/or act as insurance or pension’s brokers (See Annexure for empirical data on the differences in the outreach of various MFIs and has also been dicussed in chapter 4).

Recent innovations include a range of new products: new loan packages, savings facilities, insurance. For specific conditions (e.g. voluntary/ compulsory savings or insurance, repayment schedules, interest rates) some MFIs use individual methods, others group techniques, yet others combine the two for different target groups or products. The nature of group sanctions, types of support and role vary considerably. The group techniques consist of Self Help Groups (SHGs). A Self Help Group is composed of people of similar wavelength in terms of goal, economical and social conditions. The group of such small persons informally works together for some common cause on combining their own strengths and weaknesses. It is desirable that proximity may be considered, as frequent interaction among member is pre-requisite for success of SHG. Optimum number of members in a SHG ranges from 15-20 members (Sapovadia, V. K., 2003-2004).

The precise details of conditions of delivery are likely to be crucial in affecting impact and there are many ways of addressing poverty reduction and empowerment aims without undermining financial sustainability. Where broader development aims are not explicitly taken into account as an integral part of program design, many of the ways in which attempts are made to increase financial sustainability will have negative impacts.

Microfinance programs differ in the types of complementary service they offer. This is partly because of historical differences in their origins with many having developed out of NGO development organizations. In the 1990s there was increasing pressure from donors to separate microfinance from other activities, and even to focus on minimalist microfinance. This is partly because of evidence of marginal impact of many training programs and their high costs.

Recently, however, attention has increasingly focused on the ways in which microfinance can be cost effectively integrated with other types of service and/or link clients with other service providers. A number of programs are now experimenting with ways in which complementary services can be delivered more cost- and impact-effectively for example through group-based training/learning systems (e.g. as in CARE-Niger[7]) and integration of savings and credit with other services (e.g. as in CODEC[8] and BRAC[9] in Bangladesh).[10]

[7] CARE's Training for Women's groups project works in Dosso, Tahoua and Tillaberi districts with the aim to develop the livestock sector by strengthening women livestock producers' access to credit and training in animal husbandry and transformation and marketing techniques for animal products. The project targets 600 women's groups or about 12,000 women. Expected results of the project include:

1. strengthened technical and organizational capacities of women's groups;
2. Improved household food security
3. Improved social capital from social exchanges
4. Increased contact and establishment of production and business
5. Women's enhanced ability to amass and retain capital
6. Reduction of conflicts related to access to natural resources.

(http://www.careinternational.org.uk/2471/niger-food-crisis/care-internationals-longterm-work-in-niger.html)

[8] http://www.codecbd.org/

[9] http://www.brac.net/about.htm

[10] http://www.renewingindia.org/finmicro.html

In Pakistan microfinance networks are being established for group based trainings for the employees of various MFIs, among which Pakistan Microfinance Network is the biggest one. The Pakistan Microfinance Network (PMN) is a network of organizations engaged in microfinance and dedicated to improving the outreach and sustainability of microfinance services in Pakistan**.**

2.5 Objective of Micro lending

Rural people in developing countries are engaged in financial activities but at a very informal level like savings clubs, rotating savings and credit associations, mutual insurance societies that have a tendency to be erratic and insecure. They invest in livestock, jewelry, gold etc and near cash things. They form informal savings groups where every member contributes a specific amount every day, week, and month and successively awarded the pot on a rotating basis. They also keep money with their neighbors or local cash collectors for safe custody.

Although widely prevalent, such practices do have high limitations. They are less secure and more unreliable. Poor people can lose their money in such informal arrangements mainly due to fraud or mismanagement. Also, such savings are subject to fluctuation in market prices, fire, thieves, illness etc. The informal rotating savings groups tend to be small and rotate small amounts of money.

Formal financial services are rather difficult for the poor to access because of their various compulsory requirements such as collaterals, credit history, etc. Formal banks don’t lend out small loans as they can make more money on a larger loan than on a small one and they also don’t hold small savings accounts as they are not usually profitable. Banks can make more money only if they provide financial services to those who already have money. In these conventional financial scenarios, the services provided by the MFIs are the only way to overcome this problem. Grameen bank in Bangladesh is one of the most successful in making such efforts (Matthews, J., 1994). It was formed out of a project of providing small loans to women in the village of Jobra. Muhammad Yunus, the founder of Grameen bank mentions in his book *Banker to the poor:* “Poverty is not created by the poor. It is created by the structures of society and the policies pursued by society. Change the structure as we are doing in Bangladesh, and you will see that poor change their own lives. Grameen’s experience demonstrates that, given the support of financial capital, however small, the poor are fully capable of improving their lives.”

2.6 High Interest Rate

Interest rate charged in microfinance is relatively higher than the usual banking services. It is because the services provided are for a small amount of money. Loans that are extended are small in amount and thus the cost of these loans automatically rises. CGAP has defined three kinds of costs that an MFI has to cover when it makes microloans: the first two, the cost of the money that it lends and the cost of loan defaults, are proportional to the amount lent. For instance, if the cost paid by the MFI for the money it lends is 10%, and it experiences defaults of 1% of the amount lent, then these two costs will total $11 for a loan of $100 and $55 for a $500 loan. An interest rate of 11% of the loan amount thus covers both these costs for either loan.

The third type of cost, transaction cost, is not proportional to the amount lent. The transaction cost of the $500 loan is not much different from the transaction cost of the $100 loan. Both loans require roughly the same amount of staff time for meeting with the borrower to appraise the loan, processing the loan disbursement and repayments, and follow up monitoring. Suppose that the transaction cost is $25 per loan and that the loans are for one year. To break even on the $500 loan, the MFI would need to collect interest of $50+5+$25 = $80, which represents an annual interest rate of 16%. To break even on the $100 loan, the MFI would need to collect interest of $10+1+$25 =$36, which is an interest rate of 36%. Because the interest rates charged by microfinance institutions very often range from 2.5% to a 4% a month (about 31% to 50% a year), it has been subjected to controversial debates.[11]

Muhammad Yunus, the founder of Grameen bank, recently commented that microfinance institutions which charge more than 15% above their long-term operating costs should face penalties. Nevertheless, these interest rates are low compared with those charged by local money lenders (often over 10% a month)[12]. In most cases, without access to microfinance, the poor people would have no access to credit at all. Though, at the first glance, an interest rate this high looks abusive to many people, especially when the clients are poor, but in fact, this interest rate simply reflects the basic reality that when loan sizes get very small, transaction costs gets larger because these costs cannot be cut below certain minimums.

2.7 Effects of Microfinance

The World Bank estimates that of approximately 1.2 billion people who subsisted on less than US$1 a day in 2003, 850 million lived in rural areas (World Bank, 2003). Microfinance is all about small numbers. With a small loan ranging from $50 to $100 and through a range of other microfinance products it is most probable that a village dweller can build assets, have stable access to food and other necessities, and protect his self against risk. Many of the MFIs focus on women. These efforts lead to the economic independence of women; they own assets including land and lodging, empowering them to make decisions of their own in daily life, giving them more confidence than ever before. Women can consequently improve the financial condition of their households. The benefits of microfinance can be broadly categorized as follows:

- Microfinance helps very poor households to meet their basic needs and protect against risk.

[11] http://www.cgap.org/p/site/c/template.rc/1.26.1309

[12] http://www.answers.com/topic/microfinance?cat=biz-fin

• The use of financial services by low-income households is associated with improvements in household economic welfare and enterprise stability or growth.

• By supporting women's economic participation, microfinance helps to empower women, thus promoting gender-equity and improving household well- being.

• For almost all significant impacts, the magnitude of impact is positively related to the length of the time that clients have been in the program.

All these effects on the household level lead to the economic development of a country. It raises the living standard of an average family circle. From a social perspective, raising interest rates would cut into the net returns of borrowers and put credit out of reach for some. Evaluating the consequences requires an explicit characterization of social weights. If a dollar earned by a poor household is weighed sufficiently more than a dollar earned by a richer one, helping fewer but poorer borrowers can deliver greater social benefits than helping a larger number of poorer borrowers. Some poor borrowers, however, may be able to pay higher rates and still retain a meaningful surplus (Morduch J. April 1999)

Chapter 3 Microfinance in Pakistan and the Regulatory Framework

3.1 Introduction

Microfinance in Pakistan has come a long way since the inception of the first NGOs set up in 1980s. Now around 1.78 million of the population is being catered to by the MFIs and this number is growing day by day. In this chapter the overall microfinance sector has been discussed. The microfinance sector is constituted of NGOs, RSPs, microfinance banks and the informal methods. Apart from this, the formal regulatory framework has been dealt with in this chapter, but it is worthwhile to note here that the criticism on the policy would be discussed in Chapter 5.

The information for this chapter has been collected through various secondary sources of data like State Bank of Pakistan, Asian Development Bank, Microfinance Gateway etc.

3.2 Microfinance in Pakistan

The microfinance market in Pakistan is evolving at a rapid pace with new entrants, products, practices and a growing clientele. Generally, in the microfinance sector, we only consider the formal organizations providing services to the poor. Whereas apart from these formal organizations there are also informal ways through which poor people engage themselves in financial activities. The informal sector comprises of ROSCAs (Rotating Savings and Credit Associations), money lenders and the credit people get from stores and being the most popular way amongst the poor population.

Figure 3.1 shows the classification of sources of microfinance. Table 3.1 provides a detailed classification of microfinance providers in terms of being formal or informal.

As described in Figure 3.1 we can divide the formal sector into three major categories. The formal sector involves NGOs (including RSPs and being the biggest part of the MF sector), banks (all banks providing MF services whether commercial or purely microfinance banks), leasing companies (there are only two working for MF sector). These three are discussed in detail in the following sub-sections.

Figure 3.1 Classification of sources of microfinance in Pakistan

Classification of MFPs	*Characteristics*	*Examples*
Formal	Full Service, Broad Spectrum	Bank of Khyber
	Full Service MF specialists	First Microfinance Bank
	Restricted service MF Broad Spectrum	NRSP
	Restricted Service MF specialist	Kashf Foundation
	Apex Institutions	PPAF
Informal	Community- based services	ROSCAs, Accumulating Savings and Credit Associations (ASCAs)
	Commercial Services	Money lenders, Stores
	Family & friends	Mr. & Mrs. Hassan of Mingora

Table 3.1 Classification of microfinance providers

Source: *Poverty and Social Impact Assessment*

3.2.1 NGOs in Microfinance

The NGO sector working for Microfinance in Pakistan can be divided into three groups.

1. Large Regional Rural Support Programs are among the major group of NGOs that are prominent in the sector. The first NGO in this group is the Aga Khan Rural Support Program (AKRSP). Inspired by AKRSP, the Government of Pakistan developed National

Rural Support Programme (NRSP), based on the same model of AKRSP. NRSP operates all over the country. It is further divided based on the geographical provinces of Pakistan.

All these RSPs operate by establishing village or community based organizations of 20 to 40 people that are the distribution channels for a wide range of economic and social development programs.

2. The second group consists of those NGOs that are active in several districts of one province. These include the Orangi Pilot Project (OPP) which is working in slums in Karachi and the Kashf Foundation which is working in Lahore. OPP is the major NGO in Pakistan that does not call for savings by its group borrowers. These borrowers use their discretionary income to build up capital in the projects (UNDP, 1999).

3. Lastly there are thousands of village level development NGOs with little knowledge of microfinance, other than that their beneficiaries need access to credit.

Most of the NGOs undertake real development work while a few use microfinance for their own benefit and have generated a bad reputation for NGOs with government officials. However, there are currently only 50 NGOs that have potential for reaching a wide number of beneficiaries (ADB, 1999). Loan sizes for these NGOs are all below PKR 50,000 and typically below PKR 25,000 for loans of six to 20 months. NRSP’s average loan size is PKR 15,000 and Kashf’s is PKR 4,500.

The estimated number of clients outstanding for all these NGOs together was 800,000 as of June 1998 (Thapa 1999). Whereas the total outreach in terms of micro-credit in June 2006, was 730,960 (an increase of 203,686 in June 2005), and that for micro-savings was 1,052,368 which decreased from 1,073,390 in June 2005 (MicroWatch, 2006).

3.2.2 Banks in Microfinance

According to the prudential regulations of State Bank of Pakistan, banks are able to make uncollateralized or "clean" loans below PKR. 100,000, so the usual barrier of collateral requirements for micro entrepreneurs' access to bank finance is not present. The major banks that are currently providing financial services to micro-entrepreneurs, in some form, are; Habib Bank Ltd, First Women Bank Ltd, First Investment Bank Ltd, Agricultural Development Bank of Pakistan, National Bank of Pakistan, Bank of Khyber, and Bank of Punjab. These banks presume microfinance, principally as, a social obligation rather than a business opportunity (ADB, 1999). More exposure is required (especially international), for Pakistani bankers to understand the capabilities and opportunities of microfinance.

3.2.3 Leasing companies in Microfinance

There are two leasing companies in Pakistan (Orix Leasing and Network Leasing Corp.) that reach the microfinance market and are listed on the stock exchange. Orix is larger with a net cash flow from operations of PKR 134.5 million at June 1998 and a net profit of PKR 103.9 million. It also serves medium-size businesses. Network Leasing Corporation is smaller and focuses only on the micro market with net cash flow from operations of PKR 5.9 million at June 1998 and a net profit of PKR 8.1 million. Network Leasing Corporation is proud of its 10% dividend paid to shareholders as it maintains its small focus. These companies usually lease lathes, fax machines, sewing machines, and refrigerators to micro-entrepreneurs, with a value of around PKR 11,000-40,000 for three years. Specifically, as of June 1999, Network Leasing Corporation's average lease size was PKR 181,000 and 22% of the portfolio was leased to women. Orix Leasing has researched its database extensively by sector, size of business, etc. and found that the larger the lease, the more risky it is.

Conversely, the lower end is less risky. This is because the micro-entrepreneurs are dependent on the asset for their livelihood. If the asset is repossessed, their means of earning an income for their families is affected too. Micro-entrepreneurs also generate a lot of repeat business, thereby reducing Orix's administrative and operational costs. Therefore, considering the risk and return on their portfolio of leases, Orix needs the smaller loans to reduce the overall risk through portfolio diversification (Groen G.R., 2000). The overall picture of the sector is given in Table 3.2

	Micro-credit		**Micro- Savings**	
Year	**Total outreach No. of Clients**	**Value of Outstanding Portfolio (PKR)**	**Total Number of Savers**	**Value of Savings (PKR)**
Jun- 05	527,275	5,161,601,734.02	1,073,390	1,426,853,203.00
Jun- 06	730,960	7,197,248,764.00	1,052,368	1,659,672,880.00
Increase (net)	203,686	2,035,647,029.98	-21,022	232,819,677.00
Growth (%)	39	39	-2	16

Table 3.2 Pakistan's Microfinance sector

Source: *Microwatch, 2006.*

3.3 Evolution of MF Sector in Pakistan.

Poverty in Pakistan affects around 33% of the population or 52.8 million people.[1] From 1970 till 2002 there have been many reforms in the Microfinance sector in Pakistan. Lending on a small scale started off in 1970, it was provided to small farmers and was highly subsidized by GoP. The first NGOs, Aga Khan Rural Support Program (AKRSP) and Orangi Pilot Project (OPP) started working in the early 1980s. The major developments in the MF sector took place in the 1990s when more organizations started their microfinance services. By the end of 1994 the country also had a leasing network involved in the operations. At the end of this decade and the

[1] http://www.scribd.com/doc/2214878/POVERTY-WITH-REFERENCE-TO-PAKISTAN

starting of the new millennium a lot of developments took place both in the establishment of MFIs but also in the development of the policy.

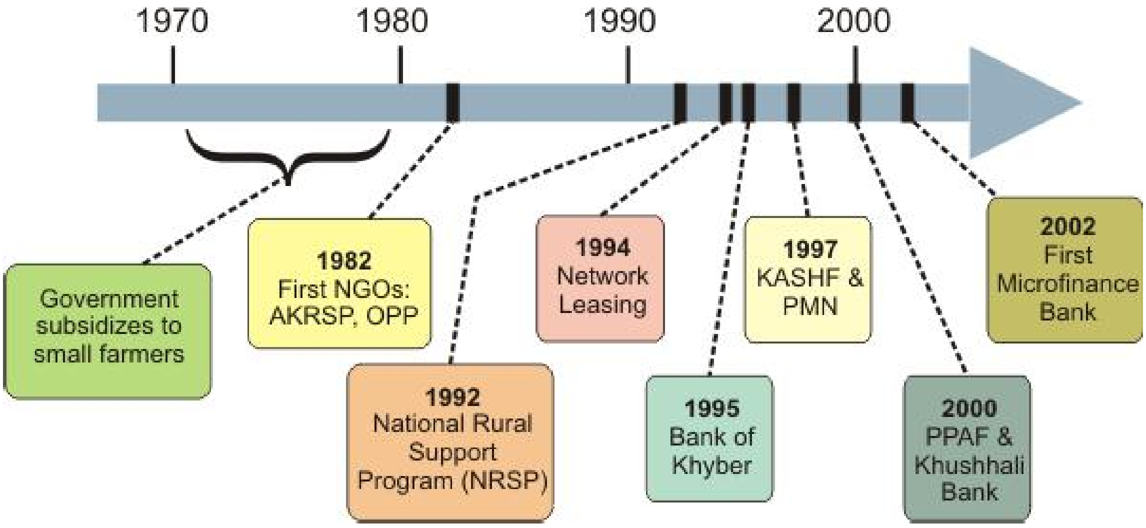

Figure 3.2 Evolution of major suppliers of MF in Pakistan

The First Microfinance bank that was financed by the Aga Khan Development Network commenced operations in 2002. In 2008, it was ranked 14th in the "2007 MIX Global 100: Rankings of Microfinance Institutions".[2] FMFB's sister bank in Afghanistan also scored in the top 100, and was even ranked 1st for the quality of its portfolio (Aga Khan Development Network, 2008). The Khushhali Bank established in August 2000 has 73 branches all over Pakistan. In 2006, Khushhali Bank achieved its expansion into 85 districts covering 535,000 households.[3] The formal Microfinance banks provide a full range of MF services viz. savings, credits and payment transfers etc. and play a pivotal role in achieving manifold increase in the outreach levels in the medium and long term.

[2] The MIX MARKET currently provides data on 1127 Microfinance Institution (MFIs), 97 investors and 165 partners.
[3] http://www.khushhalibank.com.pk/factsheet.html

In 2002, the gross loan portfolio was PKR 5 billion and the number of active borrowers was 510,000. The division of the service providers is shown in Fig. 3.3.[4] It is evident that overall RSPs are the leaders in outreach. They have more borrowers and cover the loan portfolio of around 32%, which is slightly higher than the MF banks. In terms of active borrowers, leasing companies and banks lag behind the RSPs and MF Banks. This clearly shows that leasing companies and banks need to expand their business in the MF sector. The MF sector, in order to develop and expand, has a fair chance that it can do so by developing more products relevant to the population of poor people in the country.

3.4 Microfinance Banks—MFBs.

Prior to the establishment of microfinance banks, the microfinance activities, particularly micro-credit, were performed by the money lenders, merchants, non-governmental organizations (NGOs), friends and family since large proportion of population in rural areas often had less access to the conventional banking system. Whereas microfinance banks have made rapid progress, still the persisting informal channel is dominating this sector. In fact, worldwide recognition of MFIs as one of the effective tools to alleviate poverty following Grameen Bank of Bangladesh as a role model, various countries established MFIs to extend credit facilities to the poor people. The worldwide reorganization of microfinance activities paved the way for the creation of the Pakistan Poverty Alleviation Fund (PPAF) in 1999.

[4] http://www.microfinancegateway.org/files/27141_file_microfinsector.ppt

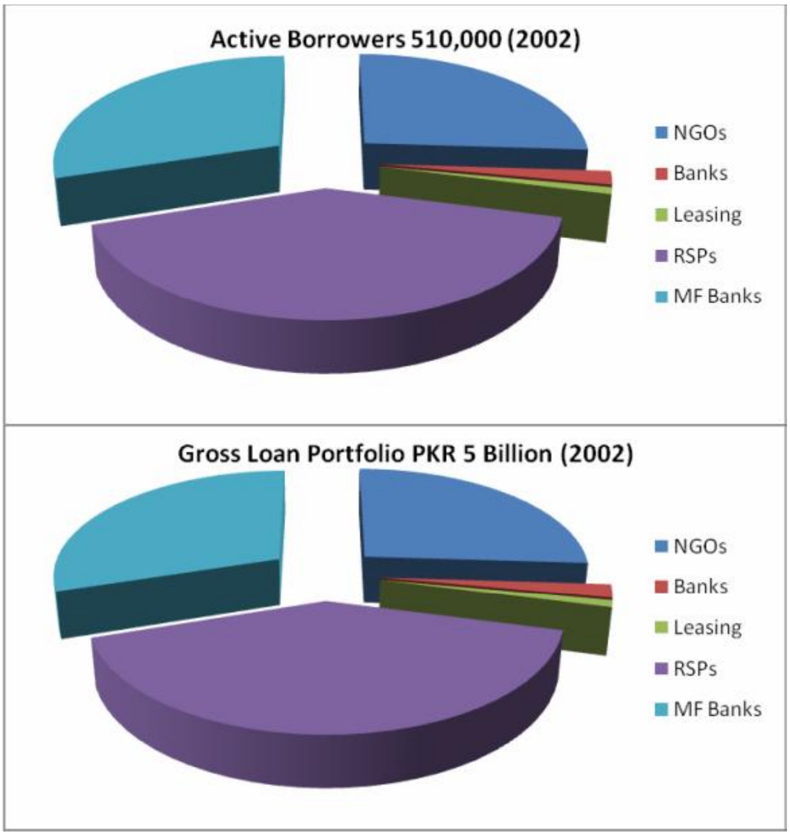

Figure 3.3 Categories of MF service providers and their share in the sector
Source: *Microfinance Gateway*

Besides others, one of the key objectives of PPAF is to improve access of communities to financial services. To achieve this goal, the government established the 'Khushhali Bank' (KB) under 'Khushhali Bank Ordinance, 2000' to carry out microfinance activities in Pakistan. The bank was envisaged to strengthen community-based lending activities in collaboration with the existing well-functioning NGOs and by expanding its own branch network. Now the bank is the largest microfinance bank in Pakistan.[5] Its mandate is to retail microfinance services and act as a

[5] http://www.citibank.com/pakistan/consumer/aboutus/press/current/april07_tameer.htm

catalyst in stabilizing the country's newly formed microfinance sector.[6] Subsequently, these activities were further formalized by promulgating the Microfinance Institutions Ordinance, 2001.

Based on this legal infrastructure, the State Bank of Pakistan (SBP) played a vital role by issuing detailed prudential regulations for safe and sustainable operations of microfinance banks and institutions. Furthermore, the SBP has also developed on-site and off-site surveillance manuals for MFIs with an elaborated consultation process. Recently, government has amended and refined the Microfinance Institutions Ordinance, 2001 through Finance Bill 2006 aimed to increase the business viability, diversity, and financial sustainability of microfinance banks. In order to improve the corporate governance and strengthening the regulatory power of the SBP by introducing the flexibility both at the regulatory cum supervisory level, several amendments and refinements were made in MFI Ordinance, 2001 through finance Bill, 2006. These amendments aimed at increasing the business viability, diversity, and financial sustainability of microfinance banks. The major amendments and refinements of MFIs Ordinance 2001 introduced in Finance Bill 2006 are as follows (Pakistan Financial Sector Assessment, 2005) ;

- To empower SBP to introduce flexibility and broadening of Microfinance Institutions to include Microfinance Banks,
- To give SBP flexibility in the determination of cash reserve ratio (CRR)[7] and statutory reserve ratio (SLR)[8] with flexible monitoring system.

[6] http://www.khushhalibank.com.pk/mandate.html

[7] The cash reserve ratio, refers to a portion of deposits (as cash) which banks have to keep/maintain with the SBP. This serves two purposes. It ensures that a portion of bank deposits is totally risk free and secondly it enables that SBP control liquidity in the system, and thereby, inflation by tying their hands in lending money.

[8] Besides the CRR, banks are required to invest a portion of their deposits in government securities as a part of their statutory liquidity ratio (SLR) requirements. What SLR does is again restrict the bank's leverage in pumping more money into the economy.

- To provide SBP the option of determining the definition/threshold income level of the poor.
- To strengthen provisions to introduce explicit clauses regarding licensing of new MFIs, separate licensing requirements for existing NGO-MFI, new startup MFBs as well as improving provisions related to suspension of licenses, and
- To bring in line with SECP guidelines on corporate governance, the terms of external auditors and extending period of submission of accounts .

The success of these efforts, until 2005, is obvious in the graph shown in Fig. 3.3

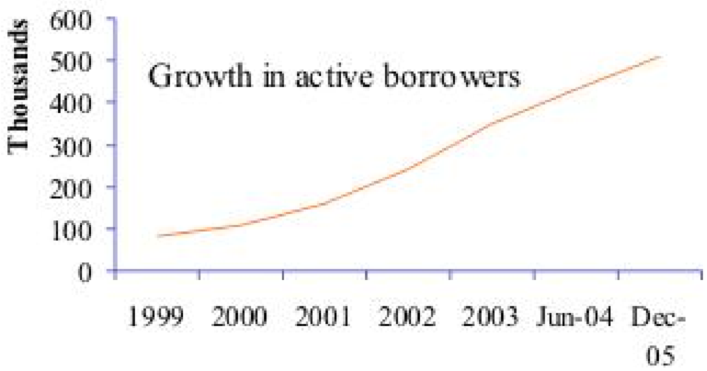

Figure 3.4 Growth in Microfinance sector

Source: *Microfinance Gateway*

3.5 Policy and Regulatory Framework

The government of Pakistan feels the need for an efficient financial system necessary for macroeconomic stability. Thus, the banking sector over the past few years has been strengthened by

- Principally changing the norms for governance
- Restructuring for asset conservation, downsizing and reduction of bad debts

- Applying Debt recovery in recent years
- Improving the prudential regulations and supervisory framework
- Improving the legal and judicial enforcement of banking courts

The ownership of most of the commercial banks has been transferred from the Government of Pakistan to international and national investors and corporations. SBP has been empowered in all matters concerning monetary and banking policies, as well as for management and governance of the financial institutions. Interest rates have been deregulated and loans up to US$ 1,785 (PKR 100,000 or Euro 1000) may not be collateralized. In general, reforms constituted a positive financial environment, but the criticism on the reforms would be dealt in chapter 5. Good governance has been strengthened because of greater authority in banking supervision and greater transparency requirements provided to SBP.

As a first step towards strong determination and commitment to promote and facilitate sustainable growth of the MF Sector, the approval of the microfinance policy with the budget in the year 2000 marked the commencement of the first phase of reforms in the microfinance sector in Pakistan. This facilitated the design of a legal framework for diversification of microfinance markets in the country through the promulgation of the Khushhali Bank Ordinance 2000 and the Microfinance Institutions Ordinance 2001, and the subsequent legislation notified by SBP. This policy clearly sees the microfinance sector as a sustainable commercial activity run by the private sector along with the government, providing enabling policy support under the supervisory framework of SBP.

According to the Pakistan Microfinance Review, 2006, these measures created a favorable environment and attracted private sector investment. As a result there was substantial growth in all fronts such as the increase in the number of microfinance players (MFPs), the entry of greenfield microfinance banks, the entry of commercial banks into microfinance, the diversification of products and a tenfold increase in the number of borrowers to a million. Moreover, distribution networks expanded across some of the most remote and resourceconstrained regions of the country. Today, microfinance in Pakistan is a sector in its own right rather than just a tool for poverty alleviation, with an increasing degree of competition and a high trajectory growth curve (Pakistan Microfinance Network, 2006).

The legal and policy framework of 2000, developed in consultation with MF stakeholders, did not cover the operations of Non Governmental Organizations/Rural Support Programs (RSPs) and was applicable only to the regulated microfinance banks/institutions that are engaged or to be engaged in deposit mobilization from the public to finance their operations. Thus the environment encouraged two types of institutions to provide microfinance services to the poor,

1. the formal microfinance banks that are established or to be established under the MFIs legal framework enacted in 2001, and
2. the NGOs or RSPs that have been extending microcredit and related services for more than two decades with cumulative outreach of less than 200,000 clients.

It is important to mention here that NGOs and RSPs are prohibited from mobilizing deposits for on-lending as they continue to remain unregulated. However, they also remain free to operate as they prefer, determining their own client segment, pricing, money sources and sizes of the loan. Whereas, the prudential regulations on commercial banks for microfinance are the same as they are for the commercial credit and there is no distinction made by SBP on the type / size of the loan. This stops commercial banks from moving downstream towards smaller loans (Oxford Policy Management, 2006).

Recently in 2007, the Government of Pakistan (GoP) embarked upon the second phase of reforms as indicated by the agreement between the GoP and the Asian Development Bank (ADB) for the Access of Financial Services to all loan of US$ 320 million. Under this agreement, funds are made available for sector reforms, innovation in product development and delivery channels and there has been a definite shift towards sustainability by not allowing any subsidized credit lines for the industry . This agreement not only leveled the playing field but also helped in sector’s growth through new delivery channels and new products.

In 2006, there were plenty of positive changes in the regulatory and legal level of the MF sector. First of all the supervisory role of SBP has been strengthened by authorizing it to

1. decide income level below which an individual is qualified for credit services
2. initiate supervision with regards to management and governance
3. manage liquidity and cash reserves
4. extend the time period for the submission of audited financial statements

The first change i.e. the determination of the income level will help SBP to open up the credit markets to MFBs planning to provide different kinds of products e.g. house financing and enterprise financing.

The second major change in the MF sector was that MFBs were allowed to invest surplus funds in both debt and equity instruments in addition to securities issued by GoP. At first they were only allowed to invest in Government securities. Such an effort would certainly increase the returns on investment for the MFBs.

State Bank of Pakistan created a fourth tier for MFBs called the regional tier. This enables MFBs to spread from one district to a maximum of four with an additional paid-up capital of PKR. 50 Million. This allows establishments of MFBs for whom a much greater economies of scale option will be available with a slightly higher paid up capital requirement than setting up of a new district level MFB. Thus MFBs grow naturally beyond one district by bringing in only an additional of PKR. 50 Million.

3.5.1 Role of Subsidies

For rapid growth in the development of the microfinance sector, it is a dire need that MF services should be provided by MFIs that are entirely financially sustainable. This requirement is undermined by subsidies that are passed directly to the borrowers in the form of lower interest rates or by subsidies that are used by MFIs to avoid the need to leverage lending services in order to build adequate capital (Oxford Policy Management, 2006). Considerable amount of resources at subsidized rates have been made available for many NGOs for their capacity building and expansion of their operations through institutes like Pakistan Poverty Alleviation Fund. Many NGOs also receive international donations and grants. The MFIs framework encourages strong NGOs engaged in microcredit and related services, to plan for possible conversion into formal Microfinance Banks and contribute up to 50% of the minimum capital requirements in the form of their existing portfolio of microcredit and other assets. In addition a grant of up to 2.5% of paid-up capital of the proposed MFI/MFB has also been made available for institutional strengthening of the MFIs.[9]

3.5.2 Maximum Loan Size

The regulatory framework requires MFIs to remain focused on their core area of operations and their primary target market, the maximum loan size, the MFIs could extend has therefore, been fixed at Rs.100,000/- as otherwise the MFIs might drift from their primary market and objective of serving the poor. According to a survey conducted under the Oxford Policy Management, 2006, the MFPs argue that it is a disincentive to lending to MF entrepreneurs, and in particular that it prevents an MFI from developing a relationship with a growing enterprise: as a microenterprise grows and requires larger loans, it moves outside the scope of MFIs, but its borrowing requirements are not yet large enough to interest normal commercial banks (Oxford Policy Management, 2006). If this is the case then it would represent a huge constraint on the micro, small and medium enterprise sector in Pakistan and also on the MFIs.

3.5.3 Definition of Poor Persons / Eligible Borrowers

The Microfinance Institutions Ordinance, 2001(Ordinance No. LV of 2001), entails that the eligible borrowers of a MF loan are poor persons defined in the law as “persons who have meager means of subsistence and whose total income or receipt during a year is less than the

[9] “Response to PMN position paper on Pakistan MF sector” http://www.microfinancegateway.org/content/article/detail/3590/?print=1

minimum taxable limit set out in the law relating to income- tax."[10] This definition of *poor persons* should be re-examined as the poverty line defined by PRSP is significantly lower than the MFIO's poverty line. Such a mistake leads to MFIs to believe that they are more poverty focused than they are in practice.

3.5.4 Public Private Partnership

The United Nations Interagency Committee on Integrated Rural Development for Asia and the Pacific (1992) (henceforth UNICIRDAP) provides a formal characterization of NGOs as organizations with six key features: they are voluntary, non-profit, service and development oriented, autonomous, highly motivated and committed, and operate under some form of formal registration. NGOs are run mostly privately. But over the years the Government has made efforts to work with the private sector in partnerships. In this effort, the Government assisted the establishment of Khushhali Bank in August 2000 as a public private venture in the MF sector to significantly increase outreach of MF services in the medium term and also to create an institution, which could be a role model for the private sector and could encourage its entry into banking with the poor.

The KB Board of Directors/ Management takes autonomous decisions regarding pricing and interest rate structures. Decisions are based on its overall cost structure. The delivery of MF services on the basis of full cost recovery including the cost of funds is the primary and fundamental basis of all its MF policies and framework. None of its policies encourages delivery of MF services at subsidized rates, as prior experience of such policies has been dismal.[11] The Prudential Regulations for MFIs/MFBs require MFIs including Khushhali bank to price their products and services in a way, which ensure their operating and financial self-sustainability. Further under the Prudential Regulations for MFIs, the loans in arrears for 30 days or more are

[10] Minimum taxable income according to the Finance Bill 2008, is PKR. 180,000. http://www.dailytimes.com.pk/default.asp?page=2008%5C06%5C12%5Cstory_12 6-2008_pg5_3

[11] http://www.khushhalibank.com.pk/

classified as Non-Performing Loans (NPLs)/Portfolio At Risk (PAR) and KB according to this criterion had PAR of 0.9% as of 30th September 2002.

The Government along with the Asian Development Bank launched the Microfinance Sector Development Program. The Project supports the development of sustainable rural microfinance services through commercial banks and credit unions to finance viable farm and nonfarm economic activities and investments in household improvements, education, and health. About eighty percent of the sub loans financed by the Project are for people living below the poverty line, and approximately 36 percent of the sub borrowers are women. To accomplish this, the Project provides a revolving line of credit and institutional strengthening for the executing agency, commercial banks, NGOs, credit unions, and sub borrowers participating in the Project. This shows another step into accelerating growth of the microfinance sector in the country.

3.6 Conclusion

The Government of Pakistan and the Central Bank are trying their best for growth and progress of the Microfinance Sector on sound and sustainable basis. As of the issuance of the new Prudential Regulations in October 2002, all licensed MFIs including Khushhali Bank are now under the same regulatory framework and a level playing field is being ensured for all the players. The policy makers' vision for the sector is to develop a conducive policy environment in which MFIs could establish, flourish, grow and provide a full range of financial services to the poor. But there are some aspects that are not being controlled and looked upon by the GoP. Such issues need special attention from the government. The MFIs face problems in the sector; these problems are discussed further in the report. These problems need to be focused so as to ensure the growth and sustainability of the MF sector in Pakistan.

Chapter 4 Microfinance Practice in Pakistan

4.1 Introduction

Pakistan's microfinance landscape, though evolved primarily from a non-regulated pattern (NGOs, Rural Support Program etc.) has seen rising penetration of regulated institutions after the year 2000-01 when the formal financial sector was opened to Microfinance Banks (MFBs). This was the first major step towards amalgamating microfinance in the financial sector development strategy. The MFBs established under the Ordinance in the year 2000-01, have been operating within the regulatory and supervisory framework of SBP. Recognizing the challenge to serve a potential market comprising of 25-30 million clients, the microfinance policy framework allowed institutional diversity as both regulated and non-regulated institutions were allowed to cater to financial services needs of the poor.

The continuum of Pakistan MF banking industry in the last seven years presents a series of ownership/sponsorship interests started first by the Government in the form of pioneer public-private partnership model MFB, followed by social investors' initiative of establishing MFBs and entry of commercial investors (both local & foreign) in the market.. In a presentation made by the Governor of State Bank of Pakistan, to the Prime Minister Shaukat Aziz (2007), a strategy for expanding Microfinance outreach from one million borrowers in 2007 to three million borrowers by 2010, was proposed. This target would set a road map for expanding the outreach of the microfinance services. This chapter has been based upon the data available in Pakistan Microfinance Review (Annexure A). The relevant data for this research were taken from there and analyzed so as to gain some more knowledge about the performance of the sector. Also secondary data including various publications has been used. Some information gained via telephonic conversation with some microfinance specialists has also been used.

4.2 Division of the Microfinance Sector

In Pakistan the Micro finance sector can be chiefly divided into two categories/sectors

a) Regulated Sector
b) Self/ Informal Regulated Sector

Both these sectors have been working towards the improvement and more outreach of the sector, the informal sector being older yet the regulated sector is more financially sustainable. Sustainability and profitability are two different things. Sustainability means recovering the costs from credit operations where as profitability is self explanatory. But to be profitable an organization needs to be sustainable first in addition it has to create a cushion to absorb shocks.

According to one of the respondents of a telephonic interview 'There are sustainable institutions in both sectors, but since regulated sector has good governance mechanisms it would be more sustainable in future.' It is evident from the figures in Annexure A that in terms of outreach the RSPs, MFIs and NGOs in 2006, consist of 0.508 million borrowers whereas the number of borrowers for MFBs are 0.326 Million. Thus overall the sector consists of 0.835 million borrowers and according to the target set by SBP for 2010 this outreach number should increase to 3 million borrowers. Progress with respect to this target for 2010 cannot be analyzed yet because of the fact that the target was set in 2007, and also because the figures for 2008 are not yet available.

4.2.1 Regulated sector

a) Organizational Structure

This division of the sector consists of microfinance banks registered under Microfinance Institutions Ordinance 2001. The banks registered under this are subject to provisions of regulatory and supervisory framework of SBP.[1] During the year 2006, market share of the regulated MFBs rapidly increased. Similar growth was also observed in other areas including provision of an enabling policy environment; encouraging infrastructure; institutional improvement through development of alternate delivery channels, human resources, utilization of technology and outreach improvement in the form of number of microfinance banks.

Among all the above mentioned banks KB is the oldest bank and has the highest Gross Loan Portfolio (GLP) of PKR 214 million, but in 2006 it had no saving services for the sector (as can be seen from the financial data provided in Annexure A). Its Debt to Equity ratio is 2.7.

In June 2006, SBP issued guidelines for commercial banks to promote their entry into wholesale and retail microfinance operations. These efforts are expected to allow integration of microfinance into formal financial markets. Regulated sector is authorized to accept savings plus have access to commercial borrowing, however they have maintained Capital adequacy ratio[2] of 15% to their risk weighted average, and this is higher than the requirement of 8% being made available to commercial banks.

The central bank also created a depositor protection fund and each microfinance bank has to contribute 5% of net profit to this fund. As the name says it all that this fund is for the protection of the depositors that keep the money with the MFB and that they can draw that money at any time and to avoid inconveniences in case of liquidity.

[1] There are six such banks in Pakistan that are registered under SBP, Khushhali Bank (KB), First Microfinance Bank (FMFB), Tameer Microfinance Bank (TMFB), Pak Oman Microfinance Bank Ltd. (POMFB), Rozgar Microfinance Bank (RMFB) and Network Microfinance Bank Ltd. (NMFB).

[2] Capital adequacy ratio (CAR), also called as Capital to Risk (Weighted) Assets Ratio (CRAR), is a ratio of a bank's capital to its risk. National regulators track a bank's CAR to ensure that it can absorb a reasonable amount of loss. Capital adequacy ratios are a measure of the amount of a bank's capital expressed as a percentage of its risk weighted credit exposures.

CAR=Capital/Risk, where risk can either be weighted assets (α) or the respective national regulator's minimum total capital requirement.

In the structure of the assets there has been an up and down trend with regards to investments and cash balances. Figure. 4.1 also shows that the advances of the banks have increased in 2006, along with an increase in other assets. Yet the growth remains too small.

b) Outreach of Microfinance Banks

Since the inception of the first microfinance bank in 2001 and the formulation and implementation of the Microfinance Institutions Ordinance, 2001, led to an increase in the growth of the microfinance sector. This is shown in Table 4.1.

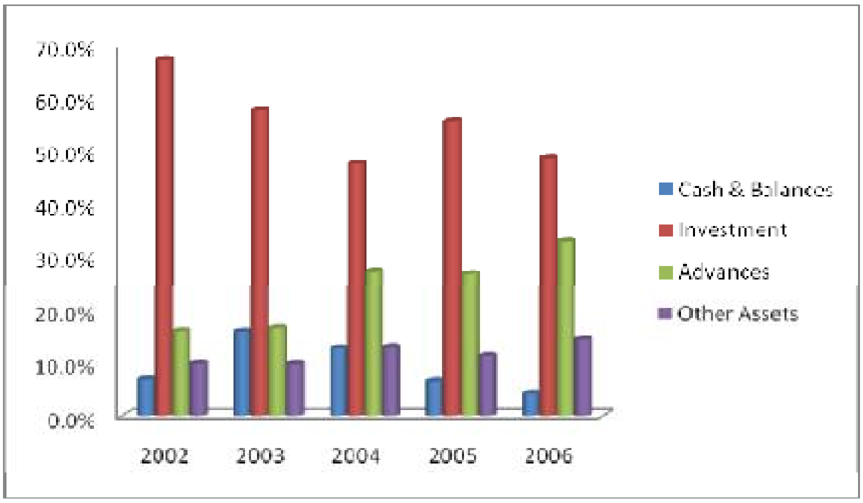

Figure 4.1 Asset structure of MFBs (Percentage of total assets)

Source: *Based on the Figures in Annexure A*

Microfinance Banks' Outreach					
	2002	**2003**	**2004**	**2005**	**2006**
Institution Age (Yrs)	**2**	**3**	**4**	**5**	**6**
No. Of Branches	**39**	**56**	**75**	**91**	**145**
Total No. Of Borrowers	**56,939**	**95,090**	**177,648**	**48,091**	**326,498**
No. Of New Borrowers	**56,939**	**38,151**	**82,558**	**70,443**	**78,407**
Total No. of Depositors	**2,773**	**10,150**	**18,589**	**32,577**	**70,891**
No. of New Depositors	**2,773**	**7,377**	**8,439**	**13,988**	**38,134**
Average Loan Size (PKR)	**6,232**	**7,969**	**7,340**	**9,450**	**8,721**
Average Deposit Size (PKR)	**23,231**	**38,625**	**25,229**	**20,867**	**20,731**

Table 4.1 Outreach of Microfinance banks
Source: *State Bank of Pakistan (2007), Strategic Objectives of SBP*

The banks within the first two years of inception expanded to almost 56,000 borrowers and 2,773 savings accounts. Over their six years of operations there has been almost 6 times increase in the number of borrowers since 2002 and almost 25 times increase in the number of depositors.

Since 2006, SBP has been trying to encourage Pakistan Post Office to engage itself in microfinance activities which would give a significant boost to the outreach. Branchless banking (mobile banking) has been considered as having the potential of breakthrough in up-scaling of microfinance operations.

c) Financial Structure and Performance

In 2005, the overall balance sheet balance of MFBs recorded a 24 percent increase from PKR. 8,458 million to PKR. 10,514. In 2006, the momentum of the growth was rather weak because the largest MFB failed to pursue the previous growth model. This was mainly due to the strategy of the MFB not to start generation of internal funds through deposit mobilization in the beginning of reduced ADB credit lines.

The financing structure consists mainly of equity and borrowings and over the years both these sources remain the major source of financing to the MFBs. The borrowings mainly consist of Asian Development Bank (ADB) funding. As shown in Figure. 4.2, borrowings continued to be a major funding component at 48.9 percent followed by shareholder's equity at 36.1 percent. The figures show that deposit mobilization remained weak over the years. From 2005 to 2006 it merely increased from 8.0 percent to 13.5 percent.

During 2006, two district level microfinance banks also registered a negative trend in deposit mobilization but amongst all the microfinance banks, only two microfinance banks have developed strategies for deposit mobilization whereas the rest lag behind. From the data available it is quite evident that the ROA increased from -8.1percent to -7.2percent. Although the change is not much yet it shows that the MFBs are improving their returns. Similarly the ROE also increased from -20.3 percent to -19 percent.

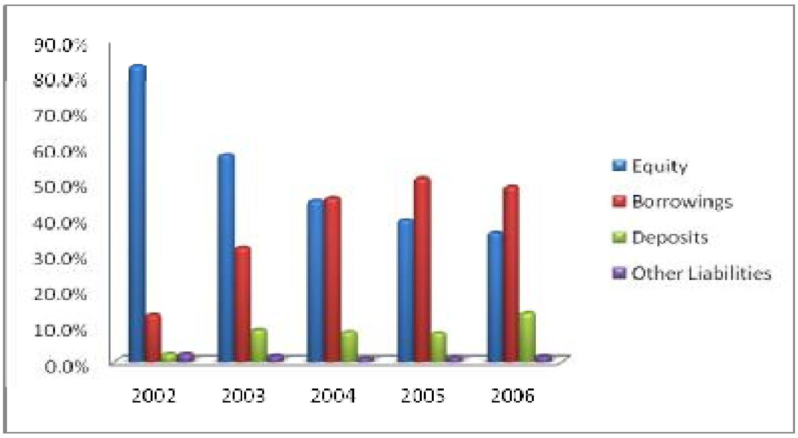

Figure 4.2 Funding structures of Microfinance banks
Source: *Based on the Figures in Annexure A*

Key Performance Indicators (% age)					
	2002	**2003**	**2004**	**2005**	**2006**
Non Performing Loans(NPLs) to Advances	**1.59**	**7.57**	**7.20**	**4.40**	**1.80**
Net NPLs to Net Advances	**(2.94)**	**2.72**	**1.33**	**0.73**	**(0.88)**
Provisions to NPLs	**356.76**	**65.02**	**78.27**	**84.08**	**147.92**
Net NPLs to Capital	**(0.58)**	**0.81**	**0.84**	**0.52**	**(0.84)**
Net Interest Margin	**8.39**	**6.94**	**6.75**	**7.79**	**8.82**
Non Interest Income to Average Assets	**1.19**	**3.46**	**3.81**	**3.21**	**3.28**
Non Interest Exp to Average Assets	**7.68**	**7.50**	**8.13**	**8.84**	**11.05**
Operating Exp to Gross Income	**94.16**	**84.36**	**91.66**	**87.60**	**100.16**
Operating Sufficiency	**91.40**	**75.83**	**71.90**	**84.06**	**76.27**
Financial Sustainability	**45.35**	**39.33**	**42.27**	**51.49**	**61.89**

Table 4.2 Funding structures of Microfinance banks
Source: *State Bank of Pakistan (2007), Strategic Objectives of SBP*

Table 4.2. shows the key performance indicators over the years for the microfinance banks. The financial performance needs more development. The operating expenses over the years remained the same as a percentage to gross income (see Figure. 4.3). But the Net interest income earned by the MFBs increased by almost 5% in 2006. Also the operating income increased by the same percentage as that of the net interest income because these banks were able to maintain their operating expenses.

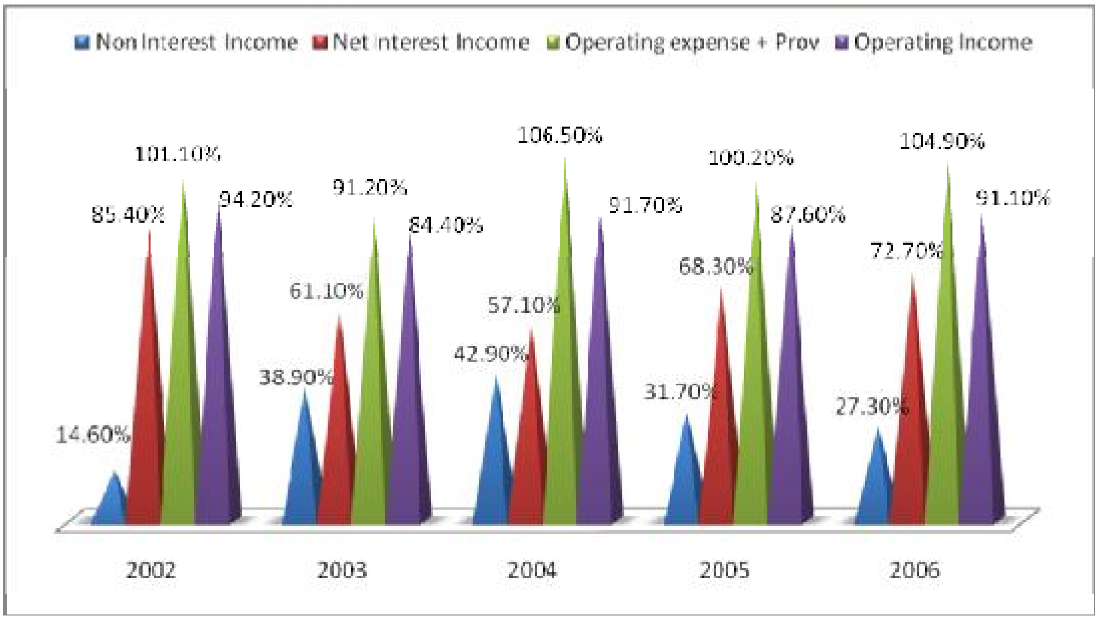

Figure 4.3 Profit and Loss Composition (as % of Gross income)
Source: *Based on the Figures in Annexure A*

4.3 Self/ Informal regulated Sector

This sector is constituted by microfinance institutes, non-governmental organization, rural support programs and some other small organizations that are not registered with State Bank of Pakistan. The infrastructure and performance of this sector are provided in detail as follows.

a) Organizational Structure

These NGOs/ MFIs are not registered with SBP and their boards regulate their affairs. There is an apex body PMN (Pakistan Microfinance Network) that gives technical guidance to their member organizations but their guidance again is subject to the implantation of the Board's intention. PMN is a guidance centre and advocates its policies and issues its quarterly Microwatch that tells about the recent updates in regulated and non regulated sector. The following table shows the infrastructure details of the self regulated sector and shows that the assets grew from PKR 5.25 billion to PKR 20 billion. This shows that this sector has been growing and that there is a demand for their products.

Infrastructure of The Self Regulated Sector		
	2005	2006
Total Assets (PKR,000)	5,254,234	20,436,629
Offices	442	1,246
Personnel	2,321	9,017

Table 4.3 Infrastructure of self regulated sector
Source: *Pakistan Microfinance Review (2006)*

b) Outreach

In order to provide a clear picture on the outreach of the sector, it is wise to divide them into the following categories

- Rural Support Programmes (RSPs) and Other small organizations including Leasing companies
- MFIs, and various NGOs.

The overall outreach of the RSPs is much higher than that of the MFIs and NGOs collectively. Although the assets of the latter are much higher than that of the RSPs yet they remain ahead of the MFIs and NGOs. This shows that the RSPs have been more efficient, another reason could be that the RSPs have been working for more years in the MF sector in Pakistan as compared to the MFIs and NGOs and thus they have a head start on these organizations.

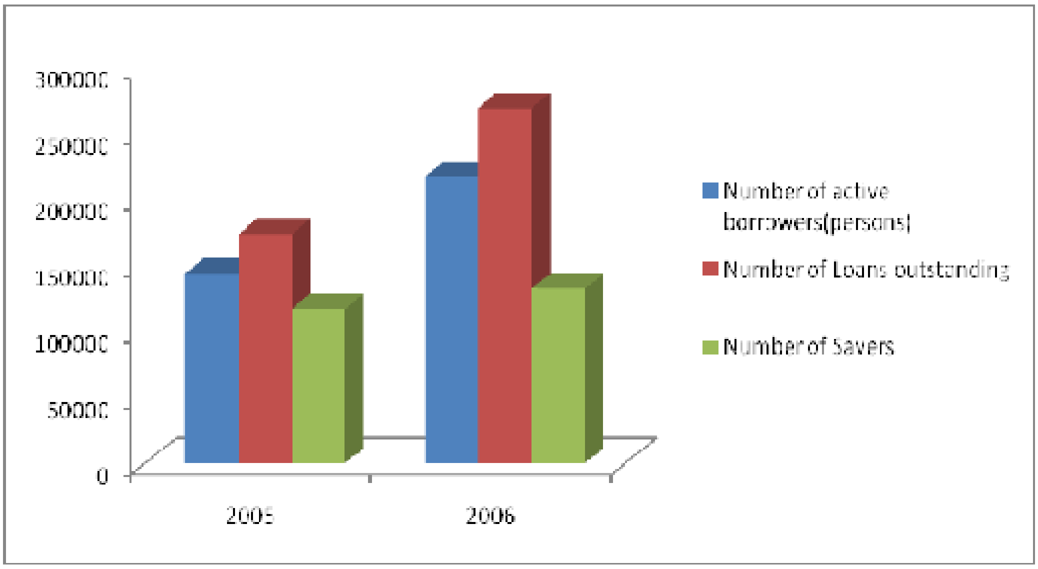

Figure 4.4 Outreach of NGOs and MFIs (PKR 000)
Source: *Based on the Figures in Annexure A*

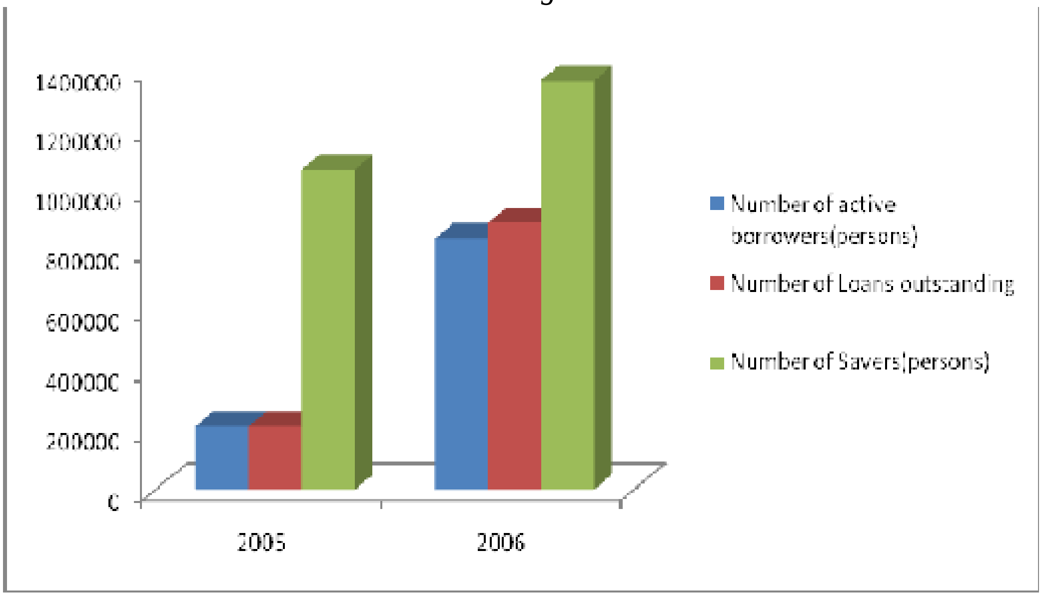

Figure 4.5 Outreach of RSPs and others (PKR 000)
Source: *Based on the Figures in Annexure A*

The figures 4.4 and 4.5 show that RSPs have been successful in increasing the number of borrowers as well as that of savers whereas MFIs and NGOs do not show a considerable increase in the number of savers. The sector needs to improve on the number of savers in order to become sustainable because these organizations can utilize these funds for making more business and expanding their operations. Usually these organizations focus on providing small loans but for future efforts for improving depositor's mobilization must be made.

c) Financial Structure and Performance

Financing is a backbone for the operations of any organization. If it has the proper sources of financing it can stay functional. Sources of financing in the self regulated sector are primarily through funding of various international and national donor agencies. These sources of funding are not permanent and are liable upon many factors e.g. donor's choice of providing funds and their commitment for a particular number of years, political situation of the country etc. This means that these organizations do not have permanent sources of funding and thus this poses a serious threat to their financial sustainability.

State Bank of Pakistan recognized that such organizations should convert into formal sector banks in order to realize the business prospects of this sector. In this way these organizations would be able to generate funds on their own through deposits and income earned. But this option of transformation favors only the big self regulated organizations that have a sufficient capital structure. This issue has been discussed in chapter 5.

The figures 4.6 and 4.7 show that these organizations are mainly raised by debt and equity, whereas only a minute proportion through deposits/voluntary savings made by clients. If these organizations transform into formal banks then they can improve their financing structure by depending more on deposits as in the case of other commercial banks.

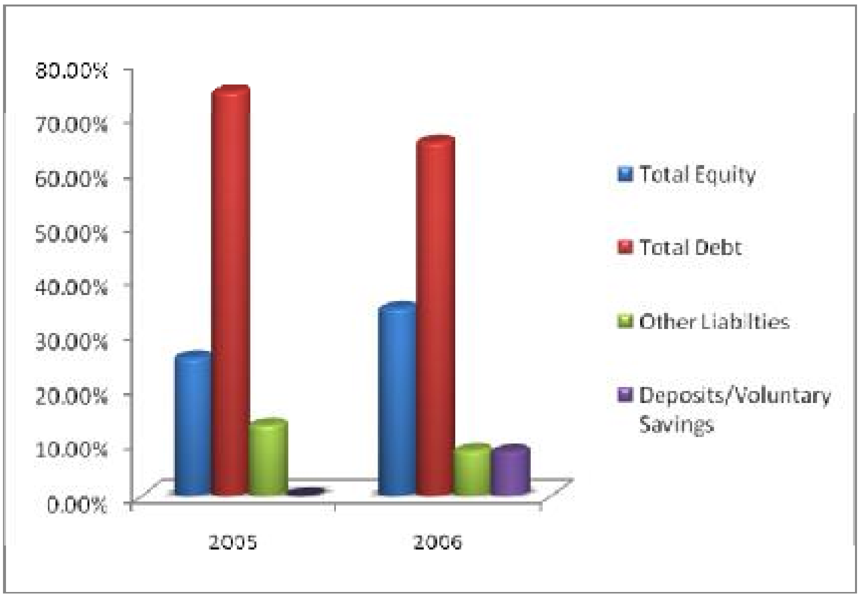

Figure 4.6 Financing structure of RSPs and Leasing (as % of total assets)
Source: *Based on the Figures in Annexure A*

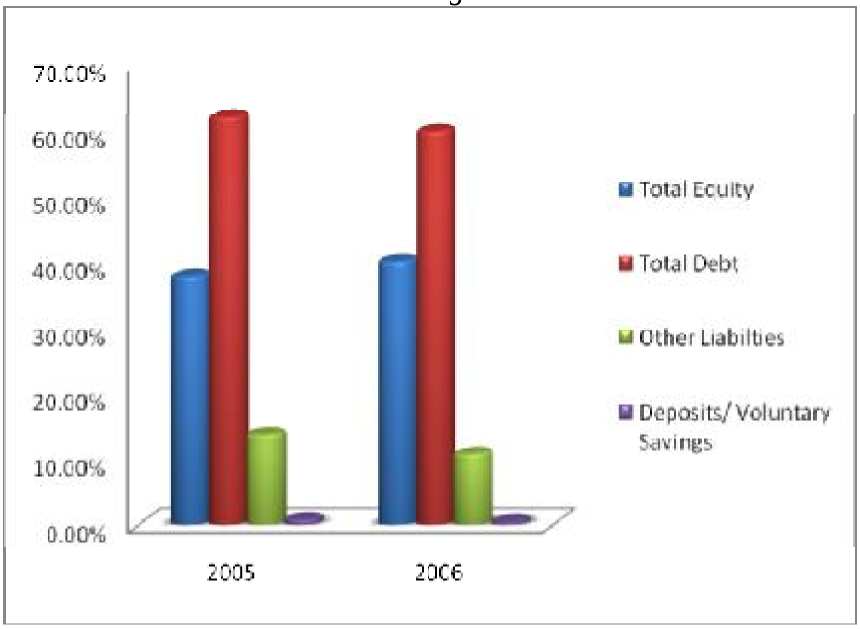

Figure 4.7 Financing structure of NGOs and MFIs (as % of total assets)
Source: *Based on the Figures in Annexure A*

During 2005 and 2006 the ROE of the NGOs and MFIs improved considerably from -78.4 percent to -1.1 percent (Table 4.4). Almost the same trend was shown in the case of RSPs, their ROE increase by almost 3 percent (Table 4.5). These trends show a better return on the equity and similarly the same goes for ROA.

Financial Performance of NGOs and MFIs		
	2005	2006
Weighted Average of ROA	(10.4%)	(0.5%)
Weighted Average of ROE	(78.4%)	(1.1%)

Table 4.4 Financial performance of NGOs and MFIs
Source: *Pakistan Microfinance Review (2006)*

Financial Performance of RSPs and others		
	2005	2006
Weighted Average of ROA	(6.9%)	(6.7%)
Weighted Average of ROE	(21.8%)	(19.0%)

Table 4.5 Financial performance of RSPs and others
Source: *Pakistan Microfinance Review (2006)*

Chapter 5 Conclusions and Recommendations

5.1 Introduction

The major issues relating to the microfinance sector in Pakistan are identified in this chapter. Firstly the efforts made by the Government of Pakistan are mentioned briefly. Then the major issues relating to the microfinance sector, important and salient for the future of the microfinance sector are mentioned based on the knowledge gained from various literatures and based on responses gathered via emails from various microfinance professionals; the questionnaire in Appendix B, has also been used for this purpose. Conclusions are drawn upon these evidences and an attempt is made as to how these and other issues are to be resolved and how it can benefit the microfinance sector in the future

5.2 Contributions made by the Government and the State Bank of Pakistan

The major contribution that the State Bank of Pakistan made was to provide a legal framework for the microfinance sector in 2001. The Finance Bill, 2006 by the Government of Pakistan added to the regulatory framework. The Government established the Khushhali Bank for the development of the sector. The KB was made to enhance outreach in a grossly underserved market. SBP designed a separate regulatory framework for KB and a stringent set of measures to ensure good corporate governance. Though MFB is an indigenous institution responding to the conditions prevalent in Pakistan, experience of other countries where the microfinance sector has developed around a lead institution were taken into account, and KB included the successful microfinance practices elsewhere.

Besides all these efforts SBP also increased the requirements for registering an MFI with the Government. The state bank is depositor’s last resort to return their money in case of bankruptcy. The MFIs, upon becoming banks are entitled to collect deposit from general public and invest this money in their portfolios. In case the portfolio becomes non-performing than question is who will return the hard earned money of depositors. The state Bank asks the bankers to invest and maintain 15% of equity as capital of the risk weighted average this mean for every PKR 100, PKR 15 would be bankers own equity. This is up high task for MFIs as many of MFIs are donor based without their own investment. Further they have to maintain liquidity reserve of 10 % of deposit base again it is good as depositor will not wait for withdrawal until the loan of an MFI is recovered.

The SBP tries to ensure to have risk management systems fully in placed with efficient treasury management systems to ensure safety of depositors.

Deposits are cheaper fuel money for banks to carry their lending business that is one of the reasons that MFIS want to transform. The State Bank has defined some radius for different categories of banks; Small NGOs can be transformed into district regional banks with PKR. 100 million base. There are Provincial banks with PKR. 250 million base requirements and there are National Level banks with Minimum 500 million requirement. It is worth remembering here that the Capital adequacy ratio is required to be maintained at 15 % i.e. 100M or amount greater that 15% C.A.R. whichever is greater.

Microfinance Social Development Fund and a Community Investment Fund were created in 2003 to ensure sustained and assured investment in building social capital. Support was provided for community organizations, skills development, and access to community infrastructure exclusively to the poor, and especially to women, organized in communities to enable them to fully utilize microfinance services.

As part of the policy framework, the following Funds, with a total amount of $70 million, have been created in 2003, by the State Bank of Pakistan and Asian Development Bank, with implementation responsibility of the Kushhali bank[1]

[1] http://www.adb.org/documents/speeches/2003/sp2003004.asp

- Microfinance Social Development Fund (MSDP) establishing mechanisms for enhancing social capital through community mobilization and capacity building;
- Community Investment Fund (CIF) providing access to basic community-based infrastructure for poor households;
- Risk Mitigation Fund (RMF) offering risk mitigation mechanisms for the poor to mitigate risks associated with economic and physical downturns; and
- Deposit Protection Fund (DPF) to protect the poor savers who deposit money

Overall the Government along with the Asian Development Bank has been busy making new policies and different ways to enhance the sustainability of this sector. More focused efforts need to be made.

Microfinance in Pakistan was embedded in a development package of international and national NGOs, i.e. it was one of the activities along with other development activities. Now all of them have realized it as a special activity and are making efforts to make it sustainable. This means slowly and gradually they are recognizing it as a separate cost centre.

5.3 Current Issues

The major issues that persist in the microfinance sector and need special attention in the Government policy can be broadly identified as following;

1. The financial sustainability of the sector is at stake because the NGOs don’t get a continuous flow of funds from donors, because of the political instability and also because of the funding situations of the donors. The funding remains uncertain also because international organizations are usually not willing to go into a long term relation with the local NGOs. Thus nonprofit organizations that are dependent on foreign investment are forced to downsize and curtail their operations once the funding diminishes or ceases (Pasha et.al. 2002) Many small NGOs come into existence due to

some lump sum investment from a particular source and this die once the funding is consumed and there is no replacement.

2. In spite of all the efforts being made, the growth in the sector is comparably slow. This has been shown in Figures 4.4 and 4.5. The overall outreach of the sector remains limited. Only one percent of the population is being catered, which is less than five percent of the potential market.
3. The capital requirement for an NGO to form an MF bank is very high and usually not fit for smaller NGOs. As mentioned earlier small NGOs can be transformed into district regional banks with PKR. 100 million. There are Provincial banks with PKR. 250 million base requirements and National Level banks with Minimum 500 million requirements.
4. Even if NGOs convert to an MFB, it remains unclear as to how to transfer the ownership from and what are the legal issues an institution faces when it "transforms" from an NGO into a for-profit company? Which assets can be transferred? What are the legal limits on ownership? What are the questions around issuing shares to insiders? And what are the possible consequences of future divestiture by the initial shareholders?
5. An MFP argued that the loan size is too small and that as the entrepreneur’s business grows, it needs more financing and PKR 100,000 is too less for meeting that requirement. Such entrepreneurs are not eligible enough to qualify for a commercial loan, because of the collateral requirements by these banks
6. Also the requirement that the prospective client be below the taxable income limit (PKR 180,000), is also non productive since numerous clients who are above the taxable income limit require loans of small size which commercialized banks are unwilling to provide.
7. There is a default culture in the country where people take loans and then avoid paying them back or even if they have political power, they make the lender write off the loan.
8. In a CGAP survey a commercial bank pointed out that ‘commercial banks are unable to meet their existing credit demands in a highly buoyant and expanding credit market, so

going down the stream was not an immediate consideration.' He felt that it was far simpler to give one loan of PKR 20 million than 1,000 loans of PKR 20,000 each.

9. According to the respondents the vast majority of the population utilizes the loans for consumption rather than investment.
10. The poor are likely to use informal financial mechanisms as the outreach of the MFIs remains limited.
11. As an essential part of the microfinance policy support for rigorous and persistent social foundation, principally to enhance outreach to poor women, building capacity of communities and providing access to basic infrastructure has been recognized. Investments in social and gender aspects have been inadequate and their linkages with affordable microfinance services weak. Attempts to provide these services at cost to the poor have neither helped the sustainability of MFIs nor have the intended beneficiaries been able to absorb the cost.

Apart from all the issues in the MF sector, the present policy environment with the GoP is showing strong resolve and commitment and the State Bank formulating and implementing supportive policies and a responsive regulatory framework, can be considered as most conducive for the development of a healthy private sector MF industry. The NGOs need to come forward to play their role in developing the sector. The legal and regulatory framework so far developed has been recognized by both domestic and international MF experts and practitioners as highly responsive and fair and the SBP will continue to work with the MF sector and with experts from around the world, to improve and evolve the policy framework when warranted to support growth.

5.4 Conclusions

Microfinance is not widespread in Pakistan. The aggregate outreach from banks and other institutional sources is less than 5 percent of the potential market of nearly 6.3 million households.[2] The microfinance sector in Pakistan is characterized by a narrow institutional base, limited retail capacity and little, if any, financial integration (CGAP). Commercial banks, in general, are neither structured nor geared to extend their microfinance exposure beyond experimental forays and development finance institutions (DFIs) do not target asset less poor. Non-government organizations (NGOs) have shown appreciation of the nature of microfinance demand emanating from the poor through effective targeting, participatory approaches, capacity building and general sensitivity. Yet, their microfinance operations are unlikely to attain financial self-sufficiency. The informal sources are the only window available for the poor. However, informal sources provide services at terms that tend to perpetuate rather than ameliorate poverty.

It is, therefore, a matter of urgent priority for the country that a pro-poor financial system is established as a critical element for combating the rising incidence of poverty. This is being undertaken in a manner that is consistent with the overall reforms in the banking sector in terms of autonomy, good governance, privatization and sustainability. There has been substantial progress during the last couple of years, especially in year 2000, in implementing banking sector reforms, liberalizing interest rates and restoring financial discipline through prudent lending. Enhancing SBP's authority in banking regulation and supervision, and improving the capital base and management of the nationalized commercial banks to stem the hemorrhage caused by politically-motivated lending have introduced a measure of prudence in the whole system. Greater transparency and financial disclosures have helped to restore confidence in the banks. But more efforts are required in maintaining transparency. Such efforts can only be made with collaboration between the policy makers and the MFPs. Government should play a more active part in improving the sector and its outreach.

[2] Sharma A. *Developing the microfinance sector in Pakistan*. Asian Development Bank. December 2001. http://microfinancegateway.com/files/3308_file_03308.pdf

The reasons for the sector lagging behind in microfinance outreach and performance are numerous, but a few have been identified in this report. Firstly, the sector, in order to become sustainable has to recognize the business prospects in this industry and not rely mostly on external funding. In this regard efforts from both the policy makers and the microfinance providers themselves are required. Secondly, the sector needs to develop its human resource and have good governance. The industry requires some more than 20,000 professionals (field, mid and senior level) and there is no formal specialized institution to look into this issue. Thirdly, a major factor that affects the overall performance indicators of an MFI are the large amounts of loans being written off due to a high ratio of default in the country. Fourthly, the commercial banking sector should realize the need to enter into the microfinance industry. This would take off pressure from the MFIs also and would lead to competition in the market which would lead to a wide range of products at compatible rates. Another important factor that can be a source of the gap between the targets and outcomes could be the fact that the government does not have access to the full information about the semi formal sector. The sources of funding and their usage are not fully disclosed. These facts should be revealed not only to the state but also to all the other stakeholders as well so that there is a fair environment and the future goals can be set in a more realistic way.

5.5 Recommendations

On the basis of the problems identified earlier in this chapter that the MFPs face the following recommendations have been made and efforts both by the Government and the microfinance sector are required.

1. NGOs must comprehend that in order to be sustainable they should realize that providing microfinance is not just a social obligation, it can also be a profit making activity. This is due to the fact that the poor earn more than 100% on the amount they receive from the NGO and so the NGO can charge a higher return so as to stay sustainable. As mentioned in chapter 2, the founder of Grameen Bank, Prof. M. Yunus, mentioned at a conference

that in order for a microfinance provider to be financially sustainable, it should not charge more than 15% above its long-term operating costs. Whether this is a feasible proposal or not, should be studied further.

2. A comprehensive survey needs to be done as to why the sector is not growing even though evidence shows that the existing clients are satisfied with the loan conditions and that they are making money from these small loans from domestic activities. It is evident from Table 4.1 that there is a rather slow growth in the number of borrowers and depositors. The number of new borrowers in 2006 was an increase of 8000 more borrowers than the previous year.
3. Since 2006, State Bank of Pakistan has been considering the potential of branchless/mobile banking for this sector. Such kind of banking has the potential of break-through in up-scaling of microfinance operations. Yet there has not been much in practice. With such a potential the Government should realize its importance and speed up the process for launching such an initiative.
4. The capacity of local NGOs to transform their microfinance operations in to regulated sector needs to be build, because once such an organization becomes a regulated body, it can mobilize deposits and invest these deposits and increase outreach.
5. As discussed in chapter 3, the prudential regulations on commercial banks for microfinance services are the same as they are for commercial services. There should be a distinction made by SBP on the type/size of the loan, which would encourage the commercial banks from moving downstream towards smaller loans.
6. The poverty incidence is increasing day by day. In 2005-2006, 24 percent of the population remained under the poverty line[3], which means more than 40 million people. Whereas the population that is being catered by MFIs is just 1 percent of the total population or 1.78 million people, which is a very small number. This shows that there is a vast potential in the market for the MFIs to expand. For this reason the Government

[3] https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html

should encourage the role of World Bank and foreign investments to be brought inside the country. This is can be done by providing flexible terms for investment. But at the end the political and security issues are also very important for foreign investors.

7. Also the definition of poor persons in the Microfinance Institutions Ordinance, should be re-examined as the poverty line defined by PRSP is significantly lower than the MFIOs poverty line. Such a mistake leads to MFIs to believe that they are more poverty focused than they are in practice.
8. The capital requirement for NGOs should be made flexible depending on the target market of the organization. So even if the capital requirements are lowered, the operational, financial and managerial capacity of most of the existing players is too limited for conversion into formal Microfinance Banks. A lot of efforts for this would be required. The legal framework therefore, envisages financially strong microfinance banks, though lesser in number, but having adequate capital base to withstand the shocks of the higher risk MF business, and sufficient cushion for the depositors. The relatively stronger NGOs could either continue to provide the services they have been engaged in for decades or plan for conversion into formal MFB. The small and relatively weak NGOs could gradually build their capacities and systems etc. for ultimate conversion into formal MFB.
9. Currently, MF providers are regulated, or non regulated, according to *what kind of institution they are* (bank, MFI, NGO etc). Consideration might be given regulating MFPs according to the *kind of services provided* (MF loans, deposits, transfers etc). This would mean, e.g., that the regulation of MF services provided by MFIs under the Ordinance would be the same as, or comparable to, the regulation of the same services provided by commercial banks.
10. Proper awareness on the part of the NGOs is required as to the issues that might arise in changing the ownership structure. Government can play a vital role in educating the sector on the possible remedies for facing problems with the change in structure.

11. A thorough assessment of the clients' needs should be made and the loan amount should be disbursed accordingly. The minimum loan amount limit should be revised. The maximum loan amount is just PKR 100,000, which raises the interest rate because of the transaction costs, which are like fixed costs. Once the loan amount is increased the interest rates would also decrease. Also as mentioned in chapter 3, this loan amount is a disincentive to lending to MF entrepreneurs and in particular that it prevents an MFI from developing a relationship with a growing enterprise: as a microenterprise grows and requires larger loans, it moves outside the scope of MFIs, but its borrowing requirements are not yet large enough to interest normal commercial banks. This poses a huge constraint on the micro and small and medium enterprise sector in Pakistan.
12. The limit of the taxable income (PKR 180,000) should be revised so as to cater to the clients who are above the taxable income and yet need small loans which they cannot receive from the commercialized banks.
13. As the sector has a major problem of growth one of the reasons for it can be lack of good governance and lack of skilled human resources. Human Resource is yet another challenge for the sector. The industry requires some more than 20,000 professionals (field, mid and senior level) and there is no formal specialized institution to look into this issue.
14. As there is a need for skilled staff, sales people can be trained into credit assessment officers.
15. The Government should make strict laws against defaulters and such processes should be made transparent and equal for all no matter who the defaulter is whether a poor person or a powerful politician. For doing so the accountability bureau should be an autonomous body, so as to ensure no political pressure of any kind.
16. The Government and State Bank of Pakistan by developing the MF banking sector can take the pressure off the large scale commercial/scheduled banks and to give small MF banks the opportunity to work in this sector.

17. Usually the loan sizes are very small ranging from PKR 20,000-PKR 25,000. Such an amount when spent on consumption diminishes the overall effect on the economy and with a very less effect on the poverty rate. But if, such an amount is invested it has a multiplier effect on the economy. Thus the micro level actions of these individuals can lead to aggregate macroeconomic outcomes. Individuals should hence be encouraged in such small investing activities.
18. The poor are willing to pay interest to the MFIs as the interest they pay to the informal sources is much higher than what an MFI might charge them. So more awareness and outreach is required.
19. The Government should show complete support and protection of these NGOs. For this there should be a proper law enforcement agency and the judicial system should be made robust, which is also an important nowadays in Pakistan.
20. As mentioned in the above problems the MF sector lags behind in making investments in social and gender aspects and that their linkages with affordable microfinance services weak. There is, therefore, need at least in the short to medium term, to segregate social costs from financial intermediation costs so that these can be separately budgeted and provided for.
21. Full disclosure of facts and funding on part of the MFPs is required so that future policies can be made on those grounds. For this purpose the Government should monitor all the donations coming into the country for the MFPs. The donor agencies can provide a comprehensive detail on the funding they are providing and the reasons for which they would be provided.
22. The banks in the country need to be involved in providing smaller loans equivalent to the loans being provided by the microfinance sector. This would enhance the outreach and more and more people would be able to avail the opportunity of improving their standard of living. There is no such policy that encourages the banks to take such steps. Policies need to be made so that the commercial banks are encouraged to enter the MF sector.

These recommendations have been made with very limited information available due to time constraints and an in-depth study needs to be done comparing the microfinance sector and policies of other developing countries and also more extensive data needs to be collected from the MF sector in Pakistan. In this regard, a comprehensive tools of research need to be formulated and interviews of various microfinance professionals must be done in order to gain knowledge about the trends and to get a more clear picture of the reality of microfinance sector. These studies would lead to be of benefit to the policy makers and the microfinance providers in Pakistan.

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Annexure A

1. Infrastructure

Figures in (PKR 000)

Infrastructure	MFBs						
	KB	TMFB	POMFB	FMFB	RMFB	NMFB	SUB
Age	6	1	1	5	2	2	
Total Assets	6,847,474	1,268,606	493,189	1,680,189	109,979	114,293	10,513,729
Offices	119	19	13	53	17	5	226
Personnel	1,791	426	115	527	69	68	2,996

Infrastructure	NGO MFIs							
	Kashf	SAFWCO	DAMEN	CSC	Akhuwat	OPP	Asasah	SUB
Age	10	12	10	6	5	19	4	
Total Assets	2,004,010	108,159	242,779	134,847	48,946	138,046	224,332	2,901,119
Offices	85	14	25	9	10	2	28	173
Personnel	847	110	195	89	58	30	346	1,675

Infrastructure	RSPs					Others			
	NRSP	PRSP	SRSP	TRDP	SUB	TF	ORIX	SUB	TOTAL
Age	13	8	-	9		10	14		
Total Assets	2,247,756	1,193,006	-	351,282	3,792,044	256,858	71,760	328,618	17,535,510
Offices	581	21	-	50	652	16	6	22	1,073
Personnel	1,836	546	-	107	2,489	162	20	182	7,342

2. Financing Structure

Figures in (PKR 000)

Financing Structure	MFBs						
	KB	TMFB	POMFB	FMFB	RMFB	NMFB	SUB
Total Assets	6,847,474	1,268,606	493,189	1,680,189	109,979	114,293	10,513,729
Total Equity	1,872,699	551,864	488,766	720,280	89,305	74,559	3,797,473
Total Debt	4,974,775	716,742	4,422	959,909	20,674	39,734	6,716,256
Commercial Liabilities	522,001	222,998	-	-	-	-	744,999
Deposits/Voluntary Savings	-	473,751	-	924,575	17,788	3,727	1,419,841
Gross Loan Portfolio	2,147,612	526,097	85,292	686,909	40,490	51,433	3,537,832
							Weighted Avg.
Equity-to-Asset ratio	27.3%	43.5%	99.1%	42.9%	81.2%	65.2%	36.1%
Commercial Liabilities-to-GLP	24.3%	42.4%	0.0%	0.0%	0.0%	0.0%	21.1%
Debt-to-Equity ratio	2.7	1.3	0.0	1.3	0.2	0.5	1.8
Deposits-to-GLP	0.0%	90.1%	0.0%	134.6%	43.9%	7.2%	40.1%
Deposits-to-T.Assets	0.0%	37.3%	0.0%	55.0%	16.2%	3.3%	13.5%
GLP-to-T.Assets	31.4%	41.5%	17.3%	40.9%	36.8%	45.0%	33.6%

Financing Structure	NGO MFIs							
	Kashf	SAFWCO	DAMEN	CSC	Akhuwat	OPP	Asasah	SUB
Total Assets	2,004,010	108,159	242,779	134,847	48,946	138,046	224,332	2,901,119
Total Equity	944,608	19,399	25,140	34,592	48,061	108,405	(15,283)	1,164,923
Total Debt	1,059,402	88,760	217,639	100,255	884	29,641	239,615	1,736,196
Commercial Liabilities	94,415	-	-	-	-	-	218,941	313,355
Deposits/Voluntary Savings	8,064	-	-	5,402	-	-	2,481	15,948
Gross Loan Portfolio	1,530,321	88,729	169,332	109,689	38,295	95,806	110,281	2,142,452
								Weighted Avg.
Equity-to-Asset ratio	47.1%	17.9%	10.4%	25.7%	98.2%	78.5%	-6.8%	40.2%
Commercial Liabilities-to-GLP	6.2%	0.0%	0.0%	0.0%	0.0%	0.0%	198.5%	14.6%
Debt-to-Equity ratio	1.12	4.6	8.7	2.9	0.02	0.3	-15.7	1.49
Deposits-to-GLP	0.5%	0.0%	0.0%	4.9%	0.0%	0.0%	2.2%	0.7%
Deposits-to-T.Assets	0.4%	0.0%	0.0%	4.0%	0.0%	0.0%	1.1%	0.5%
GLP-to-T.Assets	76.4%	82.0%	69.7%	81.3%	78.2%	69.4%	49.2%	73.8%

Figures in (PKR 000)

Financing Structure	RSPs					Others			
	NRSP	PRSP	SRSP	TRDP	SUB	TF	ORIX	SUB	TOTAL
Total Assets	2,247,756	1,193,006	-	351,282	3,792,044	256,858	71,760	328,618	17,535,510
Total Equity	529,707	665,665	-	(60,633)	1,134,739	(22,325)	3,115	(19,211)	6,077,925
Total Debt	1,718,049	527,340	-	411,916	2,657,305	279,183	68,645	347,828	11,457,585
Commercial Liabilities	202,693	178,544	-	-	381,238	-	35,784	35,784	1,475,376
Deposits/Voluntary Savings	-	-	-	-	-	13,014	-	13,014	1,448,803
Gross Loan Portfolio	1,993,573	260,389	-	339,502	2,593,464	97,573	73,778	171,351	8,445,099
					Weighted Avg.			Weighted Avg.	Weighted Avg.
Equity-to-Asset ratio	23.6%	55.8%	-	-17.3%	29.9%	-8.7%	4.3%	-5.8%	34.7%
Commercial Liabilities-to-GLP	10.2%	68.6%	-	0.0%	14.7%	0.0%	48.5%	20.9%	17.5%
Debt-to-Equity ratio	3.2	0.8	-	-6.8	2.34	-12.5	22.0	-18.11	1.9
Deposits-to-GLP	0.0%	0.0%	-	0.0%	0.0%	13.3%	0.0%	7.6%	17.2%
Deposits-to-T.Assets	0.0%	0.0%	-	0.0%	0.0%	5.1%	0.0%	4.0%	8.3%
GLP-to-T.Assets	88.7%	21.8%	-	96.6%	68.4%	38.0%	102.8%	52.1%	48.2%

3. Outreach

Figures in (PKR 000)

Outreach	MFBs						
	KB	TMFB	POMFB	FMFB	RMFB	NMFB	SUB
Number of Active Borrowers	236,917	20,038	10,418	52,308	4,363	2,454	326,498
Number of Active Women Borrowers	120,715	827	1,808	35,931	164	424	159,869
Gross Loan Portfolio	2,147,612	526,097	85,292	686,909	40,490	51,433	3,537,832
Per Capita Income	57	57	57	57	57	57	57
Number of Loans Outstanding	236,917	20,038	10,418	52,308	4,363	2,454	326,498
Number of Savers	-	24,461	-	39,154	2,786	4,490	70,891
Number of Saving Accounts	-	24,461	-	39,154	2,786	4,490	70,891
Number of Women Savers	-	-	-	6,648	341	495	7,484
Saving outstanding	-	473,751	-	924,575	17,788	3,727	1,419,841
							Weighted Avg.
Number of Active Women Borrowers/T. Active Borrowers	51.0%	4.1%	17.4%	68.7%	3.8%	17.3%	49.0%
Average Loan Balance per Active Borrower (Rs. In 000)	9.1	26.3	8.2	13.1	9.3	21.0	10.8
Avg. Loan Bal. per Active Borrower/per Capita Income	15.9%	46.1%	14.4%	23.0%	16.3%	36.8%	19.0%
Avg. Outstanding Balance (Rs. In 000)	9.1	26.3	8.2	13.1	9.3	21.0	10.8
Avg. Outstanding Balance/per capita income	15.9%	46.1%	14.4%	23.0%	16.3%	36.8%	19.0%
Percentage of Women Savers-to-Total Active Savers	0.0%	0.00%	0.00%	16.98%	12.24%	11.02%	10.56%
Average Saving Balance per Active Saver (Rs. In 000)	0.0	19.4	0.0	23.6	6.4	0.8	20.0
Active Savings Account Balance (Rs. In 000)	-	19.4	-	23.6	6.4	0.8	20.0

Figures in (PKR 000)

Outreach

	NGO MFIs							
	Kashf	SAFWCO	DAMEN	CSC	Akhuwat	OPP	Asasah	SUB
Number of Active Borrowers	133,690	14,018	25,478	13,722	6,069	12,002	12,512	217,491
Number of Active Women Borrowers	131,491	5,706	25,478	13,722	2,968	1,848	12,512	193,725
Gross Loan Portfolio	1,530,321	88,729	169,332	109,689	38,295	95,806	110,281	2,142,452
Per Capita Income	57	57	57	57	57	57	57	57
Number of Loans Outstanding	181,225	14,018	25,478	13,722	6,069	12,002	16,625	269,139
Number of Savers	106,952	-	-	13,722	-	-	11,884	132,558
Number of Saving Accounts	106,952	-	-	13,722	-	-	11,884	132,558
Number of Women Savers	106,952	-	-	13,722	-	-	11,884	132,558
Saving Outstanding	8,064	-	-	5,402	-	-	2,481	15,948
								Weighted Avg.
Number of Active Women Borrowers/T. Active Borrowers	98.4%	40.7%	100.0%	100.0%	48.9%	15.4%	100.0%	89.1%
Average Loan Balance per Active Borrower (Rs. In 000)	11.4	6.3	6.6	8.0	6.3	8.0	8.8	9.9
Avg. Loan Bal. per Active Borrower/per Capita Income	20.1%	11.1%	11.7%	14.0%	11.1%	14.0%	15.5%	17.3%
Avg. Outstanding Balance (Rs. In 000)	8.4	6.3	6.6	8.0	6.3	8.0	6.6	8.0
Avg. Outstanding Balance/per capita income	14.8%	11.1%	11.7%	14.0%	11.1%	14.0%	11.6%	14.0%
Percentage of Women Savers-to-Total Active Savers	100.0%	0.00%	0.00%	100.0%	0.0%	0.00%	100.0%	100.00%
Average Saving Balance per Active Saver (Rs. In 000)	0.1	-	0.0	0.4	0.0	-	0.2	0.1
Active Savings Account Balance (Rs. In 000)	0.1	-	-	0.4	0.0	-	0.2	0.1

Figures in (PKR 000)

Outreach	RSPs					Others			
	NRSP	PRSP	SRSP	TRDP	SUB	TF	ORIX	SUB	TOTAL
Number of Active Borrowers	190,846	41,860	-	42,932	275,638	12,203	3,630	15,833	835,460
Number of Active Women Borrowers	52,383	6,006	-	12,880	71,269	6,261	2,998	9,259	434,122
Gross Loan Portfolio	1,993,573	260,389	-	339,502	2,593,464	97,573	73,778	171,351	8,445,099
Per Capita Income	57	57	-	57	57	57	57	57	57
Number of Loans Outstanding	190,846	41,860	-	42,932	275,638	12,203	3,630	15,833	887,108
Number of Savers	667,079	270,000	-	196,854	1,133,933	27,088	-	27,088	1,364,470
Number of Saving Accounts	52,506	270,000	-	196,854	519,360	27,088	-	27,088	749,897
Number of Women Savers	223,366	106,896	-	59,056	389,318	12,760	-	12,760	542,120
Saving Outstanding	741,620	51,840	-	107,120	900,580	13,014	-	13,014	2,349,383
					Weighted Avg.			Weighted Avg.	Weighted Avg.
Number of Active Women Borrowers/T. Active Borrowers	27.4%	14.3%	-	30.0%	25.9%	51.3%	82.6%	58.5%	52.0%
Average Loan Balance per Active Borrower (Rs. In 000)	10.4	6.2	-	7.9	9.4	8.0	20.3	10.8	10.1
Avg. Loan Bal. per Active Borrower/per Capita Income	18.3%	10.9%	-	13.9%	16.5%	14.0%	35.7%	19.0%	17.7%
Avg. Outstanding Balance (Rs. In 000)	10.4	6.2	-	7.9	9.4	8.0	20.3	10.8	9.5
Avg. Outstanding Balance/per capita income	18.3%	10.9%	-	13.9%	16.5%	14.0%	35.7%	19.0%	16.7%
Percentage of Women Savers-to-Total Active Savers	33.5%	39.6%	-	30.0%	34.33%	47.1%	0.0%	0.0%	39.73%
Average Saving Balance per Active Saver (Rs. In 000)	1.1	0.2	-	0.5	0.8	0.5	0.0	0.0	1.7
Active Savings Account Balance (Rs. In 000)	14.1	0.2	-	0.5	1.7	0.5	0.0	-	3.1

4. Financial Performance

Figures in (PKR 000)

Financial Performance	MFBs						
	KB	TMFB	POMFB	FMFB	RMFB	NMFB	SUB
Financial Revenue from Loan Portfolio	382,108	65,013	4,183	134,382	7,273	12,862	605,821
Financial Revenue from Other Financial Assets	302,763	38,995	31,577	82,819	7,261	9,444	472,859
Other Revenue from Financial Services	-	795	6	676	28	-	1,505
Financial Revenue	684,871	104,803	35,766	217,877	14,562	22,307	1,080,185
Less : Financial Expense	158,543	9,423	-	39,347	597	1,707	209,617
Gross Financial Margin	526,328	95,380	35,766	178,530	13,964	20,599	870,567
Less: Loan Loss Provision Expense	136,028	7,941	1,279	6,660	3,885	2,729	158,523
Net Financial Margin	390,300	87,439	34,486	171,870	10,079	17,870	712,045
Personnel Expense	339,138	125,607	25,618	74,341	9,077	13,670	587,450
Admin Expense	273,901	55,520	18,071	71,747	9,977	11,385	440,601
Less: Operating Expense	613,039	181,127	43,689	146,088	19,053	25,055	1,028,051
Net Income before taxation	(222,739)	(93,688)	(9,202)	25,782	(8,974)	(7,185)	(316,006)
Provision for Taxation	9,343	(36,577)	(6,049)	10,550	68	121	(22,544)
Net Income/(Loss) Before Adjustments	(232,082)	(57,111)	(3,154)	15,232	(9,042)	(7,306)	(293,462)
Adjusted Financial Expense on Borrowings	165,698	-	-	-	-	-	165,698
Inflation Adjustment Expense	147,845	-	-	59,480	7,896	5,938	221,159
Adjusted Loan Loss Provision Expense	-	-	-	-	-	-	-
Adjusted Operating Expense	-	-	-	-	-	-	-
Total Adjustment Expense	313,543	-	-	59,480	7,896	5,938	386,857
Net Income/(Loss) After Adjustments	(545,625)	(57,111)	(3,154)	(44,248)	(16,938)	(13,244)	(680,320)
Average Total Assets	6,505,497	943,518	246,594	1,570,417	112,301	111,305	9,489,632
Average Total Equity	1,876,588	577,811	244,383	707,273	92,623	78,212	3,576,892
							weighted avg.
Adjusted Return-on-Assets	-8.4%	-6.1%	-1.3%	-2.8%	-15.1%	-11.9%	-7.2%
Adjusted Return-on-Equity	-29.1%	-9.9%	-1.3%	-6.3%	-18.3%	-16.9%	-19.0%
Operational Self-Sufficiency	75.5%	52.8%	79.5%	113.4%	61.9%	75.6%	77.4%
Financial Self-Sufficiency	56.1%	52.8%	79.5%	86.6%	46.3%	63.0%	60.6%

Figures in (PKR 000)

Financial Performance	NGO MFIs							
	Kashf	SAFWCO	DAMEN	CSC	Akhuwat	OPP	Asasah	SUB
Financial Revenue from Loan Portfolio	326,835	14,707	42,554	21,771	3,398	6,988	24,065	440,318
Financial Revenue from Other Financial Assets	32,245	33	2,774	413	87	14,163	234	49,948
Other Revenue from Financial Services	651	56	-	48	-	150	3,516	4,420
Financial Revenue	359,731	14,795	45,328	22,232	3,485	21,301	27,814	494,686
Less : Financial Expense	42,094	4,148	11,256	6,046	-	2,338	12,296	78,178
Gross Financial Margin	317,636	10,647	34,072	16,186	3,485	18,963	15,518	416,508
Less: Loan Loss Provision Expense	16,958	1,167	7,405	1,222	189	1,884	1,235	30,061
Net Financial Margin	300,678	9,480	26,667	14,964	3,295	17,078	14,284	386,447
Personnel Expense	120,669	12,396	24,301	19,704	3,242	4,393	22,229	206,935
Admin Expense	53,219	6,097	11,772	20,957	1,333	9,337	13,077	115,793
Less: Operating Expense	173,888	18,493	36,073	40,660	4,576	13,730	35,306	322,727
Net Income before taxation	126,790	(9,014)	(9,405)	(25,696)	(1,281)	3,348	(21,023)	63,720
Provision for Taxation	-	-	-	-	-	-	143	143
Net Income/(Loss) Before Adjustments	126,790	(9,014)	(9,405)	(25,696)	(1,281)	3,348	(21,165)	63,577
Adjusted Financial Expense on Borrowings	13,433	86	-	-	-	-	-	13,519
Inflation Adjustment Expense	49,542	905	682	862	1,824	6,544	-	60,359
Adjusted Loan Loss Provision Expense	-	545	-	-	-	-	-	545
Adjusted Operating Expense	-	-	-	-	-	-	-	-
Total Adjustment Expense	62,975	1,535	682	862	1,824	6,544	-	74,422
Net Income/(Loss) After Adjustments	63,815	(10,548)	(10,088)	(26,558)	(3,104)	(3,196)	(21,165)	(10,845)
Average Total Assets	1,617,097	85,694	185,491	106,500	35,093	124,921	140,607	2,295,403
Average Total Equity	774,949	17,583	21,724	24,649	34,307	91,918	(11,775)	953,356
								weighted avg.
Adjusted Return-on-Assets	3.9%	-12.3%	-5.4%	-24.9%	-8.8%	-2.6%	-15.1%	-0.5%
Adjusted Return-on-Equity	8.2%	-60.0%	-46.4%	-107.7%	-9.0%	-3.5%	-179.7%	-1.1%
Operational Self-Sufficiency	154.4%	62.1%	82.8%	46.4%	73.1%	118.6%	57.0%	114.8%
Financial Self-Sufficiency	121.6%	58.4%	81.8%	45.6%	52.9%	87.0%	57.0%	97.9%

Figures in (PKR 000)

Financial Performance	RSPs					Others			
	NRSP	PRSP	SRSP	TRDP	SUB	TF	ORIX	SUB	TOTAL
Financial Revenue from Loan Portfolio	321,955	38,320	-	45,554	405,828	29,845	12,090	41,935	1,493,902
Financial Revenue from Other Financial Assets	19,028	68,764	-	1,058	88,850	-	-	-	611,657
Other Revenue from Financial Services	10,592	-	-	-	10,592	-	-	-	16,517
Financial Revenue	351,574	107,084	-	46,612	505,270	29,845	12,090	41,935	2,122,076
Less : Financial Expense	96,926	34,667	-	22,040	153,633	13,295	5,942	19,237	460,666
Gross Financial Margin	254,648	72,417	-	24,573	351,637	16,550	6,148	22,698	1,661,410
Less: Loan Loss Provision Expense	4,133	8,010	-	51,431	63,573	49,762	697	50,459	302,616
Net Financial Margin	250,515	64,407	-	(26,858)	288,064	(33,212)	5,451	(27,761)	1,358,794
Personnel Expense	179,988	56,853	-	27,265	264,107	23,051	2,638	25,689	1,084,180
Admin Expense	120,110	45,080	-	47,105	212,296	20,587	1,903	22,490	791,179
Less: Operating Expense	300,098	101,934	-	74,370	476,402	43,638	4,541	48,179	1,875,359
Net Income before taxation	(49,584)	(37,526)	-	(101,228)	(188,339)	(76,850)	910	(75,940)	(516,566)
Provision for Taxation	-	-	-	-	-	-	-	-	(22,401)
Net Income/(Loss) Before Adjustments	(49,584)	(37,526)	-	(101,228)	(188,339)	(76,850)	910	(75,940)	(494,164)
Adjusted Financial Expense on Borrowings	10,172	-	-	3,180	13,352	7,121	-	7,121	199,690
Inflation Adjustment Expense	17,988	49,877	-	2,424	70,289	-	90	90	351,898
Adjusted Loan Loss Provision Expense	-	-	-	-	-	-	-	-	545
Adjusted Operating Expense	-	-	-	-	-	-	-	-	-
Total Adjustment Expense	28,160	49,877	-	5,604	83,641	7,121	90	7,212	552,132
Net Income/(Loss) After Adjustments	(77,744)	(87,404)	-	(106,832)	(271,980)	(83,971)	819	(83,152)	(1,046,297)
Average Total Assets	1,985,165	1,183,906	-	332,549	3,501,620	286,748	72,673	359,420	15,646,074
Average Total Equity	386,589	631,647	-	(30,997)	987,240	(10,418)	2,066	-8,352	5,509,135
					weighted avg.			weighted avg.	weighted avg.
Adjusted Return-on-Assets	-3.9%	-7.4%	-	-32.1%	-7.8%	-29.3%	1.1%	-23.1%	-6.7%
Adjusted Return-on-Equity	-20.1%	-13.8%	-	344.7%	-27.5%	0.0%	39.7%	-	-19.0%
Operational Self-Sufficiency	87.6%	74.0%	-	31.5%	72.8%	28.0%	108.1%	35.6%	80.4%
Financial Self-Sufficiency	81.9%	55.1%	-	30.4%	65.0%	26.2%	107.3%	33.5%	66.5%

5. Operating Income

Figures in (PKR 000)

Operating Income	MFBs						
	KB	TMFB	POMFB	FMFB	RMFB	NMFB	SUB
Financial Revenue from Loan Portfolio	382,108	65,018	4,183	134,382	7,273	12,862	605,821
Financial Revenue	684,871	104,803	35,766	217,872	14,562	22,307	1,080,185
Adjusted Net Operating Income / (Loss)	(536,202)	(93,600)	(9,202)	(33,699)	(16,070)	(13,120)	(702,054)
Average Total Assets	6,505,497	943,518	246,594	1,570,417	112,301	111,305	9,489,832
Gross Loan Portfolio, Opening Balance	1,923,245	-	-	302,090	19,622	30,053	2,344,414
Gross Loan Portfolio, Closing Balance	2,147,612	526,097	85,292	606,909	40,490	51,433	3,537,832
Average Gross Loan Portfolio	2,035,429	263,049	42,646	524,601	30,056	45,143	2,941,123
Inflation Rate	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.90%
							weighted avg.
Financial Revenue Ratio (Financial Revenue-to-Average Total Assets)	10.5%	11.1%	14.5%	13.9%	13.0%	20.0%	11.4%
Adjusted Profit Margin (Adjusted Profit/(loss)-to-Financial Revenue)	-78.3%	-89.4%	-25.7%	-15.5%	-115.8%	-58.8%	-65.1%
Yield on Gross Portfolio (nominal)	18.8%	24.7%	9.8%	25.6%	24.2%	28.5%	20.6%
Yield on Gross Portfolio (real)	9.1%	14.5%	0.8%	15.3%	14.0%	18.0%	10.7%

Operating Income	NGO MFIs							
	Kashf	SAFWCO	DAMEN	CSC	Akhuwat	OPP	Asasah	SUB
Financial Revenue from Loan Portfolio	326,835	14,707	42,554	21,771	3,308	6,988	24,065	440,318
Financial Revenue	359,731	14,795	45,320	22,232	3,405	21,301	27,014	494,606
Adjusted Net Operating Income / (Loss)	63,815	(10,548)	(10,088)	(26,558)	(3,104)	(3,198)	(21,023)	(10,703)
Average Total Assets	1,617,097	85,694	185,491	106,500	35,093	124,921	140,607	2,295,403
Gross Loan Portfolio, Opening Balance	774,430	47,191	93,079	62,746	10,187	64,027	40,677	1,100,096
Gross Loan Portfolio, Closing Balance	1,530,321	86,729	169,332	109,689	38,295	95,806	110,281	2,142,452
Average Gross Loan Portfolio	1,152,375	65,960	131,165	86,017	20,241	79,916	79,479	1,620,174
Inflation Rate	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.90%
								weighted avg.
Financial Revenue Ratio (Financial Revenue-to-Average Total Assets)	22.2%	17.3%	24.4%	20.9%	9.9%	17.1%	19.6%	21.6%
Adjusted Profit Margin (Adjusted Profit/(loss)-to-Financial Revenue)	17.7%	-71.3%	-22.3%	-119.5%	-89.1%	-15.0%	-75.6%	-2.2%
Yield on Gross Portfolio (nominal)	28.4%	22.3%	32.4%	25.3%	12.0%	8.7%	30.3%	27.1%
Yield on Gross Portfolio (real)	17.9%	12.0%	21.6%	15.1%	2.9%	-0.1%	19.6%	16.7%

Figures in (PKR 000)

Operating Income	RSPs					Others			
	NRSP	PRSP	SRSP	TRDP	SUB	TF	ORIX	SUB	TOTAL
Financial Revenue from Loan Portfolio	321,955	38,320	-	45,554	405,828	29,845	12,090	41,935	1,493,902
Financial Revenue	351,574	107,084	-	46,612	505,270	29,845	12,090	41,935	2,122,076
Adjusted Net Operating Income / (Loss)	(77,744)	(87,404)	-	(106,832)	(271,980)	(83,971)	819	-83,152	(1,068,698)
Average Total Assets	1,985,165	1,183,906	-	332,549	3,501,620	286,748	72,673	359,420	15,646,074
Gross Loan Portfolio, Opening Balance	1,232,198	281,739	-	287,019	1,800,955	278,236	74,585	352,821	5,602,086
Gross Loan Portfolio, Closing Balance	1,993,573	260,389	-	339,502	2,593,464	97,573	73,778	171,351	8,445,099
Average Gross Loan Portfolio	1,612,885	271,064	-	313,260	2,197,210	187,905	74,182	262,086	7,023,593
Inflation Rate	8.9%	8.9%	-	8.9%	8.90%	8.9%	8.9%	8.90%	8.9%
					weighted avg.			weighted avg.	weighted avg.
Financial Revenue Ratio (Financial Revenue-to-Average Total Assets)	17.7%	9.0%	-	14.0%	14.4%	10.4%	16.6%	11.7%	13.6%
Adjusted Profit Margin (Adjusted Profit/(loss)-to-Financial Revenue)	-22.1%	-81.6%	-	-229.2%	-53.8%	-281.4%	6.8%	-198.3%	-50.4%
Yield on Gross Portfolio (nominal)	20.0%	14.1%	-	14.5%	18.5%	15.9%	16.3%	16.0%	21.3%
Yield on Gross Portfolio (real)	10.2%	4.8%	-	5.2%	8.8%	6.4%	6.8%	6.5%	11.4%

6. Operating Expense

Figures in (PKR 000)

Operating Expense	MFBs						
	KB	TMFB	POMFB	FMFB	RMFB	NMFB	SUB
Adjusted Total Expense	1,221,153	198,491	44,968	251,575	31,431	35,429	1,783,048
Adjusted Financial Expense	472,086	9,423	-	98,827	8,493	7,645	596,475
Adjusted Loan Loss Provision Expense	136,028	7,941	1,279	6,660	3,885	2,729	158,523
Adjusted Operating Expense	613,039	181,127	43,689	146,088	19,053	25,055	1,028,051
Adjustment Expense	313,543	-	-	59,480	7,896	5,938	386,857
Average Total Assets	6,505,497	943,518	246,594	1,570,417	112,301	111,305	9,489,632
							Weighted avg.
Adjusted Total Expense-to-Average Total Assets	18.8%	21.0%	18.2%	16.0%	28.0%	31.8%	18.8%
Adjusted Financial Expense-to-AverageTotal Assets	7.3%	1.0%	0.0%	6.3%	7.6%	6.9%	6.3%
Adjusted Loan Loss Provision Expense-to-Avg Total Assets	2.1%	0.8%	0.5%	0.4%	3.5%	2.5%	1.7%
Adjusted Operating Expense-to-Average Total Assets	9.4%	19.2%	17.7%	9.3%	17.0%	22.5%	10.8%
Adjusted Personnel Expense	4.5%	13.3%	10.4%	4.7%	8.1%	12.3%	6.2%
Adjusted Admin Expense	4.9%	5.9%	7.3%	4.6%	8.9%	10.2%	4.6%
Adjustment Expense-to-Average Total Assets	4.8%	0.0%	0.0%	3.8%	7.0%	5.3%	4.1%

Figures in (PKR 000)

Operating Expense

	NGO MFIs							
	Kashf	SAFWCO	DAMEN	CSC	Akhuwat	OPP	Asasah	SUB
Adjusted Total Expense	295,916	25,343	55,416	48,791	6,589	24,497	48,837	505,389
Adjusted Financial Expense	105,070	5,139	11,939	6,908	1,824	8,882	12,296	152,056
Adjusted Loan Loss Provision Expense	16,958	1,711	7,406	1,222	180	1,884	1,235	30,605
Adjusted Operating Expense	173,888	18,493	36,073	40,660	4,576	13,730	35,306	322,727
Adjustment Expense	62,975	1,535	682	852	1,824	6,544	-	74,422
Average Total Assets	1,617,097	85,694	185,191	106,500	35,093	124,921	140,607	2,295,403
								Weighted avg.
Adjusted Total Expense-to-Average Total Assets	18.3%	29.6%	29.9%	45.8%	18.8%	19.6%	34.7%	22.0%
Adjusted Financial Expense-to-AverageTotal Assets	6.5%	6.0%	6.4%	6.5%	5.2%	7.1%	8.7%	6.6%
Adjusted Loan Loss Provision Expense-to-Avg Total Assets	1.0%	2.0%	4.0%	1.1%	0.5%	1.5%	0.9%	1.3%
Adjusted Operating Expense-to-Average Total Assets	10.8%	21.6%	19.4%	38.2%	13.0%	11.0%	25.1%	14.1%
Adjusted Personnel Expense	7.5%	14.5%	13.1%	18.5%	9.2%	3.5%	15.8%	9.0%
Adjusted Admin Expense	3.3%	7.1%	6.3%	19.7%	3.8%	7.5%	9.3%	5.0%
Adjustment Expense-to-Average Total Assets	3.9%	1.8%	0.4%	0.8%	5.2%	5.2%	0.0%	3.2%

Operating Expense

	RSPs					Others			
	NRSP	PRSP	SRSP	TRDP	SUB	TF	ORIX	SUB	TOTAL
Adjusted Total Expense	429,318	191,488	-	153,444	777,250	113,817	11,271	125,087	3,190,774
Adjusted Financial Expense	125,086	81,544	-	27,644	237,274	20,416	6,033	26,449	1,012,254
Adjusted Loan Loss Provision Expense	4,133	8,010	-	51,431	63,573	40,762	697	50,450	303,161
Adjusted Operating Expense	300,098	101,934	-	74,370	476,402	43,638	4,541	48,179	1,875,359
Adjustment Expense	38,100	49,677	-	5,004	83,641	7,121	90	7,213	352,132
Average Total Assets	1,985,166	1,183,906	-	332,549	3,501,620	286,748	72,673	359,420	15,646,074
					Weighted avg.			Weighted avg.	Weighted avg.
Adjusted Total Expense-to-Average Total Assets	21.6%	16.2%	-	46.1%	22.2%	39.7%	15.5%	34.8%	20.4%
Adjusted Financial Expense-to-AverageTotal Assets	6.3%	6.9%	-	8.3%	6.8%	7.1%	8.3%	7.4%	6.5%
Adjusted Loan Loss Provision Expense-to-Avg Total Assets	0.2%	0.7%	-	15.5%	1.8%	14.2%	1.0%	14.0%	1.9%
Adjusted Operating Expense-to-Average Total Assets	15.1%	8.6%	-	22.4%	13.6%	15.2%	6.2%	13.4%	12.0%
Adjusted Personnel Expense	9.1%	4.8%	-	8.2%	7.3%	8.0%	3.0%	7.1%	6.9%
Adjusted Admin Expense	6.1%	3.8%	-	14.2%	6.1%	7.2%	2.6%	6.3%	5.1%
Adjustment Expense-to-Average Total Assets	1.9%	4.2%	-	1.5%	2.4%	2.5%	0.1%	2.0%	2.3%

7. Operating Efficiency

Figures in (PKR 000)

Operating Efficiency	MFBs						
	KB	TMFB	POMFB	FMFB	RMFB	NMFB	SUB
Adjusted Operating Expense	613,039	181,127	43,689	146,088	19,053	25,055	1,028,051
Adjusted Personnel Expense	339,138	125,607	25,618	74,341	9,077	13,670	587,450
Average Gross Loan Portfolio	2,035,429	263,049	42,646	524,801	30,056	45,143	2,941,123
Average Number of Active Borrowers/Clients	232,045	22,250	5,209	68,163	4,463	4,578	336,706
Average Number of Active Loans/(Deposits)	232,045	22,250	5,209	68,163	4,463	4,578	336,706
							weighted avg.
Adjusted Operating Expense-to-Average Gross Loan Portfolio	30.12%	68.9%	102.4%	27.8%	63.4%	55.5%	35.0%
Adjusted Personnel Expense-to-Average Gross Loan Portfolio	16.66%	47.8%	60.1%	14.2%	30.2%	30.3%	20.0%
Average Salary/Per capita	5.5	12.1	2.5	7.1	7.5	10.8	7.9
Adjusted Cost per Borrower (Rs. In 000)	2.6	8.1	8.4	2.1	4.3	5.5	3.1
Adjusted Cost per Loan (Rs.in 000)	2.6	8.1	8.4	2.1	4.3	5.5	3.1

Operating Efficiency	NGO MFIs							
	Kashf	SAFWCO	DAMEN	CSC	Akhuwat	OPP	Asasah	SUB
Adjusted Operating Expense	173,888	18,493	36,073	40,660	4,576	13,730	35,306	322,727
Adjusted Personnel Expense	120,669	12,396	24,301	19,704	3,242	4,393	22,229	206,935
Average Gross Loan Portfolio	1,152,375	65,960	131,185	86,017	28,241	79,916	79,479	1,623,174
Average Number of Active Borrowers/Clients	104,605	11,492	20,523	9,765	4,546	9,494	9,460	169,884
Average Number of Active Loans/(Deposits)	143,512	11,492	20,523	9,765	4,546	9,494	12,559	211,890
								weighted avg.
Adjusted Operating Expense-to-Average Gross Loan Portfolio	15.1%	28.0%	27.5%	47.3%	16.2%	17.2%	44.4%	19.9%
Adjusted Personnel Expense-to-Average Gross Loan Portfolio	10.5%	18.8%	18.5%	22.9%	11.5%	5.5%	28.0%	12.7%
Average Salary/Per capita	7.4	5.6	2.3	1.9	3.3	3.3	7.0	8.6
Adjusted Cost per Borrower (Rs. In 000)	1.7	1.6	1.8	4.2	1.0	1.4	3.7	1.9
Adjusted Cost per Loan (Rs.in 000)	1.2	1.6	1.8	4.2	1.0	1.4	2.8	1.5

Figures in (PKR 000)

Operating Efficiency	RSPs					Others			
	NRSP	PRSP	SRSP	TRDP	SUB	TF	ORIX	SUB	TOTAL
Adjusted Operating Expense	300,098	101,934	-	74,370	476,402	43,638	4,541	48,179	1,875,359
Adjusted Personnel Expense	179,988	56,853	-	27,265	264,107	23,051	2,638	25,689	1,084,180
Average Gross Loan Portfolio	1,612,885	271,064	-	313,260	2,197,210	187,905	74,182	262,086	7,023,593
Average Number of Active Borrowers/Clients	142,537	44,858	-	37,735	225,129	18,710	3,822	22,532	754,250
Average Number of Active Loans/(Deposits)	142,537	44,858	-	37,735	225,129	18,710	4,170	22,880	796,604
					weighted avg.			weighted avg.	weighted avg.
Adjusted Operating Expense-to-Average Gross Loan Portfolio	18.6%	37.6%	-	23.7%	21.7%	23.2%	6.1%	18.4%	26.7%
Adjusted Personnel Expense-to-Average Gross Loan Portfolio	11.2%	21.0%	-	8.7%	12.0%	12.3%	3.6%	9.8%	15.4%
Average Salary/Per capita	5.5	4.0	-	14.3	5.3	3.7	5.3	14.5	6.7
Adjusted Cost per Borrower (Rs. In 000)	2.1	2.3	-	2.0	2.1	2.3	1.2	2.1	2.5
Adjusted Cost per Loan (Rs.in 000)	2.1	2.3	-	2.0	2.1	2.3	1.1	2.1	2.4

8. Productivity

Figures in (PKR 000)

Productivity	MFBs						
	KB	TMFB	POMFB	FMFB	RMFB	NMFB	SUB
Number of Active Borrowers	236,917	20,038	10,418	52,308	4,363	2,454	326,498
Number of Active Loans	236,917	20,038	10,418	52,308	4,363	2,454	326,498
Number of Active Savers	-	24,461	-	39,154	2,786	4,490	70,891
Number of Saving Accounts	-	24,461	-	39,154	2,786	4,490	70,891
Total Number of Staff	1,791	426	115	527	69	68	2,996
Total Number of Loan Officers	644	319	57	270	34	15	1,339
							weighted avg.
Borrowers per staff	132	47	91	99	63	36	109
Loans per staff	132	47	91	99	63	36	109
Borrowers per loan officer	368	63	183	194	128	164	244
Loans per Loan Officer	368	63	183	194	128	164	244
Savers Per staff	-	57	-	74	40	66	24
Saving accounts per staff	-	57	-	74	40	66	24
Personnel Allocation Ratio	36.0%	74.9%	49.6%	51.2%	49.3%	22.1%	44.7%

Productivity	NGO MFIs							
	Kashf	SAFWCO	DAMEN	CSC	Akhuwat	OPP	Asasah	SUB
Number of Active Borrowers	133,690	14,018	25,478	13,722	6,069	12,002	12,512	217,491
Number of Active Loans	181,225	14,018	25,478	13,722	6,069	12,002	16,625	269,139
Number of Active Savers	106,952	-	-	13,722	-	-	11,884	132,558
Number of Saving Accounts	106,952	-	-	13,722	-	-	11,884	132,558
Total Number of Staff	847	110	195	89	58	30	346	1,675
Total Number of Loan Officers	557	44	150	58	53	14	252	1,128
								weighted avg.
Borrowers per staff	158	127	131	154	105	400	36	130
Loans per staff	214	127	131	154	105	400	48	161
Borrowers per loan officer	240	319	170	237	115	857	50	193
Loans per Loan Officer	325	319	170	237	115	857	66	239
Savers Per staff	126	-	-	154	-	-	34	79
Saving accounts per staff	126	-	-	154	-	-	34	79
Personnel Allocation Ratio	65.8%	40.0%	76.9%	65.2%	91.4%	46.7%	72.8%	67.3%

Figures in (PKR 000)

Productivity	RSPs					Others			
	NRSP	PRSP	SRSP	TRDP	SUB	TF	ORIX	SUB	TOTAL
Number of Active Borrowers	190,846	41,860	-	42,932	275,638	12,203	3,630	15,833	835,460
Number of Active Loans	190,846	41,860	-	42,932	275,638	12,203	3,630	15,833	887,108
Number of Active Savers	667,079	270,000	-	196,854	1,133,933	27,088	-	27,088	1,364,470
Number of Saving Accounts	52,686	270,000	-	196,854	519,540	27,088	-	27,088	750,077
Total Number of Staff	1,836	546	-	107	2,489	162	20	182	7,342
Total Number of Loan Officers	1,495	398	-	80	1,973	63	10	73	4,513
					weighted avg.			weighted avg.	weighted avg.
Borrowers per staff	104	77	-	401	111	75	182	87	114
Loans per staff	104	77	-	401	111	75	182	87	121
Borrowers per loan officer	128	105	-	537	140	194	363	217	185
Loans per Loan Officer	128	105	-	537	140	194	363	217	197
Savers Per staff	363	495	-	1,840	456	167	-	149	186
Saving accounts per staff	29	495	-	1,840	209	167	-	149	102
Personnel Allocation Ratio	81.4%	72.9%	-	74.8%	79.3%	38.9%	50.0%	40.1%	61.5%

9. Risk

Figures in (PKR 000)

Risk	MFBs						
	KB	TMFB	POMFB	FMFB	RMFB	NMFB	SUB
Portfolio at Risk > 30 days	46,674	-	-	5,482	7,299	4,067	63,523
Portfolio at Risk > 90 days	26,058	-	-	2,526	3,288	1,286	33,157
Adjusted Loan Loss Reserve	65,120	7,095	1,279	12,693	3,546	3,424	93,966
Loan written off during the year	146,520	46	-	2,984	731	1,146	151,377
Gross Loan Portfolio	2,147,612	526,097	85,292	686,509	40,490	51,483	3,537,832
Average Gross Loan Portfolio	2,005,429	263,049	42,646	524,001	30,056	45,140	2,941,120
							weighted avg.
Portfolio at Risk(> 30)-to-Gross Loan Portfolio	2.2%	0.0%	0.0%	0.8%	18.0%	7.9%	1.8%
Portfolio at Risk(> 90)-to-Gross Loan Portfolio	1.2%	0.0%	0.0%	0.4%	0.1%	2.5%	0.9%
Write off-to-Average Gross Loan Portfolio	7.2%	0.0%	0.0%	0.6%	2.4%	2.5%	5.1%
Risk Coverage Ratio (Adjusted Loan Loss Reserve-to-Portfolio at Risk >30days)	139.5%	0.0%	0.0%	231.5%	48.6%	84.2%	147.9%
Non earning liquid assets-to-total assets	0.1%	0.6%	0.6%	0.6%	0.9%	2.9%	1.1%

Risk	NGO MFIs							
	Kashf	SAFWCO	DAMEN	CSC	Akhuwat	OPP	Asasah	SUB
Portfolio at Risk > 30 days	709	3,043	11,306	1,207	251	470	-	17,074
Portfolio at Risk > 90 days	-	1,943	7,887	239	-	-	-	10,069
Adjusted Loan Loss Reserve	30,904	1,711	6,890	2,194	291	-	2,208	44,190
Loan written off during the year	2,126	521	3,307	-	35	1,896	-	7,885
Gross Loan Portfolio	1,530,321	88,729	165,332	109,689	38,295	95,806	110,281	2,142,452
Average Gross Loan Portfolio	1,152,375	65,960	131,165	86,017	28,241	79,016	79,479	1,623,174
								weighted avg.
Portfolio at Risk(> 30)-to-Gross Loan Portfolio	0.1%	3.4%	6.7%	1.1%	0.7%	0.5%	0.0%	0.8%
Portfolio at Risk(> 90)-to-Gross Loan Portfolio	0.0%	2.2%	4.7%	0.2%	0.0%	0.0%	0.0%	0.5%
Write off-to-Average Gross Loan Portfolio	0.2%	0.0%	2.5%	0.0%	0.1%	2.4%	0.0%	0.5%
Risk Coverage Ratio (Adjusted Loan Loss Reserve-to-Portfolio at Risk >30days)	5916.6%	56.2%	60.9%	181.8%	115.1%	0.0%	0.0%	258.9%
Non earning liquid assets-to-total assets	3.7%	0.1%	0.6%	0.6%	12.5%	18.5%	11.9%	9.3%

Figures in (PKR 000)

Risk	RSPs					Others			
	NRSP	PRSP	SRSP	TRDP	SUB	TF	ORIX	SUB	TOTAL
Portfolio at Risk > 30 days	16,294	6,874	-	46,505	69,662	42,560	2,002	44,562	194,821
Portfolio at Risk > 90 days	14,240	-	-	19,375	33,615	30,646	1,939	32,585	109,525
Adjusted Loan Loss Reserve	78,019	76,324	-	34,428	188,771	49,762	2,018	51,781	378,716
Loan written off during the year	22,251	-	-	23,704	45,955	-	-	-	205,216
Gross Loan Portfolio	1,993,573	260,389	-	339,502	2,593,464	97,573	73,778	171,351	8,445,099
Average Gross Loan Portfolio	1,612,885	271,064	-	313,260	2,197,210	187,905	74,182	262,086	7,029,593
					weighted avg.			weighted avg.	weighted avg.
Portfolio at Risk(>30)-to-Gross Loan Portfolio	0.8%	2.6%	-	13.7%	2.7%	43.6%	2.7%	26.0%	2.3%
Portfolio at Risk(>90)-to-Gross Loan Portfolio	0.7%	0.0%	-	5.7%	1.3%	31.6%	2.5%	19.1%	1.3%
Write off-to-Average Gross Loan Portfolio	1.4%	0.0%	-	7.6%	2.1%	0.0%	0.0%	0.0%	2.9%
Risk Coverage Ratio (Adjusted Loan Loss Reserve-to-Portfolio at Risk >30days)	479.1%	1110.4%	-	74.0%	271.0%	116.9%	100.8%	116.2%	194.4%
Non earning liquid assets-to-total assets	12.3%	33.1%	-	0.0%	26.3%	13.9%	0.0%	0.0%	18.1%

Annexure B

Questionnaire Format

Issues relating to MFIs in Pakistan

(The provided information to this questionnaire will be kept confidential.)

Age:	Sex:
Organization:	Date:
Email:	Contact No. (Optional):

1) What is the legal status of your organization?

a) Private and Registered
b) Private & non registered
c) Public- Private Partnership
d) Non-Governmental Organization
e) Other: ____________________

2) Is your organization

a) for profit private
b) not for profit private
c) not for profit public
d) for profit public

3) Is the Tax handling by the Government of Pakistan for private funding affecting the effectiveness of your MFI?

Low		**Importance**		**High**
1	**2**	**3**	**4**	**5**

4) If your answer is 3 or above please give a brief answer as to why and any suggestions.

____
____
____
____

5) What is the impact of the legal status of your organization on your performance?

Please choose the appropriate one of the options

I. Expansion of Portfolio

a) ++
b) +
c) +-
d) –
e) No effect
f) No opinion

II. Introduction of new products

a) ++
b) +
c) +-
d) –
e) No effect
f) No opinion

6) What is the impact of the legal status of your organization on Government dealings?

Please choose the appropriate one of the options

I. Availability of benefits/subsidies

g) ++
h) +
i) +-
j) –
k) No effect
l) No opinion

7) How do you assess the legalization processes (e.g. registration)?

a) Very complex
b) A little complex
c) Neutral
d) Relaxed
e) Very relaxed

8) Any suggestions for improving this situation?

____
____
____
____

9) Are there any reductions in Government support over the past?

a) Yes
b) No

If your answer is “Yes”, then please answer the next question, otherwise move to question 11.

10) Did reductions in government support hinder your performance in past or present?

Low		**Importance**		**High**
1	**2**	**3**	**4**	**5**

11) How important is the Government control for the better performance of your MFI?

Low		**Importance**		**High**
1	**2**	**3**	**4**	**5**

12) If your answer is below 3, please specify how is it not good. If not, please answer question 13.

____
____
____
____

13) If your answer is 3 or above, please specify how Government control helps your performance?

____
____
____
____

14) Are the Government policies effective for non-profit/profit competition?

Low		**Importance**		**High**
1	**2**	**3**	**4**	**5**

15) If your answer is less than 3 please give suggestions for improving the policy.

____
____
____
____

16) How important is the influence of international organizations (World Bank) for your organization?

Low		**Importance**		**High**
1	**2**	**3**	**4**	**5**

17) Please specify how?

____

____

18) How important are the following sources of funding for your MFI?

a) Individual giving

Low		**Importance**		**High**
1	**2**	**3**	**4**	**5**

b) Corporate support

Low		**Importance**		**High**
1	**2**	**3**	**4**	**5**

c) Foundation Giving

Low		**Importance**		**High**
1	**2**	**3**	**4**	**5**

d) International support

Low		**Importance**		**High**
1	**2**	**3**	**4**	**5**

19) If it is a Non Profit organization, how much competition do you have to face with the for-Profits organizations?

Low		**Competition**		**High**
1	**2**	**3**	**4**	**5**

20) If it is a Profit organization; how much competition you have to face with Not-for-profits organizations?

Low		**Competition**		**High**
1	**2**	**3**	**4**	**5**

21) What is the share of the next income means for your total income?

a) Fee Income

Low		**Importance**		**High**
<10%	**10%-20%**	**20%-40%**	**40%-70%**	**>70%**

b) Sales and other business income

Low		**Importance**		**High**
<10%	**10%-20%**	**20%-40%**	**40%-70%**	**>70%**

22) What is the percentage of subsidy you receive from the government as a part of the total portfolio?

<10%	**10%-20%**	**20%-40%**	**40%-70%**	**>70%**

23) What is your opinion on subsidies on the sustainability of the MF sector?

____
____
____
____
____

24) With the sources of funding you have how much is your organization Financially Sustainable?

Not Sustainable			**Very Sustainable**	
1	**2**	**3**	**4**	**5**

25) Does your MFI have problems with recruitment?

Few				**Many**
1	**2**	**3**	**4**	**5**

26) If your answer is 3 or above, please provide how you deal with such a problem?

____
____
____
____

27) How important is the need for training and professionalism in the MF sector?

Low		**Importance**		**High**
1	**2**	**3**	**4**	**5**

28) How important is training in your organization?

Low	Importance			High
1	**2**	**3**	**4**	**5**

29) Is there a proper training plan for employees in your organization?

a) Yes
b) No

30) What percentage of your employees goes through a training program in a year?

____
____

31) What laws, by-laws and regulations, impact your management and personnel departments?

(i.e. are there any legal issues relating to your personnel or management departments?)

____
____
____
____

32) Provide any suggestions for improvements of these legalities

____
____
____
____

33) Is there Accountability within the MF sector?

a) Yes
b) No

34) How important is the accountability and disclosure of full facts by the MFIs important for the overall effectiveness of the sector?

Low		Importance		High
1	**2**	**3**	**4**	**5**

35) Please provide suggestions for improvement of accountability & disclosure to the stakeholders by the MFIs.

____
____
____
____

36) If your organization is an NGO, then how much effect do ideological/political attacks have on your organization?

Less		Effect		More
1	**2**	**3**	**4**	**5**

37) Is there a lack of information available with the Government about the existing market and potential market?

a) Yes
b) No

38) If yes, then do you think MFIs and NGOs need to have a full disclosure to the Government?

a) Yes
b) No

39) Please provide suggestions for the improvement of Government policies in this regard

40) What role can the government play in order to reduce conflicts between MFIs, NGOs and itself?

Annexure C

List of Organizations Contacted

First Microfinance bank Ltd

Development Action for Mobilization and Emancipation

Kashf Foundation

National Rural Support Programme (NRSP)

Orangi Pilot Project (OPP)

Punjab Rural Support Programme (PRSP)

Sarhad Rural Support Programme (SRSP)

Sindh Agricultural & Forestry Workers' Cooperative Organization (SAFWCO)

Sungi Development Foundation

Taraqee Foundation (TF)

Thardeep Rural Development Programme (TRDP)

The Bank of Khyber (BOK)

Orix Leasing Pakistan Ltd.

Rozgar MicroFinance Bank

Community Support Concern

Asasah

Akhuwat

Khushhali Bank

Tameer Microfinance Bank