Pakistan
Microfinance
Review

2008

Mainstreaming Microfinance

Progress, Opportunities and Challenges

Pakistan Microfinance Network

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MAINSTREAMING MICROFINANCE

Pakistan Microfinance Review 2008

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Acronyms

ADB	Asian Development Bank
CGAP	Consultative Group to Assist the Poor
DFI	Development Finance Institution
DFID	Department for International Development (UK)
ECA	Eastern and Central Europe
FIP	Financial Inclusion Programme
FMFB	The First MicroFinanceBank Ltd.
GoP	Government of Pakistan
IAFS	Improving Access to Financial Services Fund
IFAD	International Fund for Agricultural Development
ISF	Institutional Strengthening Fund
KF	Kashf Foundation
KBL	Khushhali Bank Ltd.
KMFB	Kashf Microfinance Bank Ltd.
MCGF	Microcredit Guarantee Facility
MENA	Middle East and North Africa
MFB	Microfinance Bank
MFCG	Microfinance Consultative Group
MFD	Microfinance Division
MFP	Microfinance Provider
MFI	Microfinance Institution
MoF	Ministry of Finance
NRSP	National Rural Support Programme
NWFP	North West Frontier Province
PPAF	Pakistan Poverty Alleviation Fund
PRISM	Program for Increasing Sustainable Microfinance
PRSP	Poverty Reduction Strategy Paper
SBP	State Bank of Pakistan
TAP	Technical Assistance Provider
TMFB	Tameer Microfinance Bank Ltd
USAID	US Agency for International Development

1. The Year in Review

In line with the positive trend in performance achieved by the Pakistan microfinance industry over the last few years, 2007-08 saw continued growth in a number of industry indicators (see **Exhibit 1**). Given the challenging macro-economic environment, the ability of the microfinance industry to maintain a positive growth trajectory raises a number of questions.[1] Firstly, is this growth sustainable over the long-run i.e., is it based on strong industry fundamentals or external catalysts? Secondly, does it indicate that the microfinance industry represents an asset class that is decoupled from the larger economy? Both questions have important implications for the future of the industry in Pakistan.

Exhibit 1: Industry Growth Rates

Growth Rates (%)	2006-07	2007-08
Total Assets	30	45
Total Debt	44	53
Total Equity	6	25
Offices	9	10
Personnel	30	21
Active Borrowers	52	34

Source: Data for Pakistan Microfinance Review (2006, 2007, 2008). Pakistan Microfinance Network

A primary factor contributing to the current growth achieved by the sector is the continued provision of additional debt and equity funds. During 2007-08 overall debt provided to the sector increased by more than PKR 8 billion compared to the previous year. Of this total increase in debt funds, commercial liabilities contributed approximately PKR 3.5 billion; the remainder was accounted for by subsidized debt. Similarly, equity injections showed a record increase of 25 percent, compared to 6 percent for the previous reporting period.

It is also noteworthy that these equity injections were made by a diverse set of investors including socially oriented investors such as the International Finance Corporation (IFC) and Women's World Banking (WWB), as well as private sector investors such as Telenor, the Norwegian telecommunications giant.

Box 1: Peer Groups Comprising the Microfinance Industry

Peer Group	Definition
Microfinance Bank (MFB)	Bank licensed and prudentially regulated by the State Bank of Pakistan to exclusively service the microfinance market
Microfinance Institution (MFI)	Non governmental organization providing only microfinance services
Rural Support Programme (RSP)	Non governmental organization running microfinance operation as part of multi-dimensional development programme with specific focus on rural areas
Other	All organizations that do not fall into the above three categories

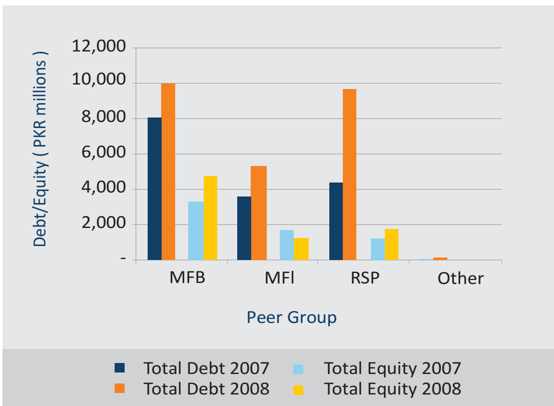
Note: The term MFP stands for Microfinance Provider. This is an inclusive term and includes all of the above peer groups.

Moreover, the additional funds have not been restricted to a particular peer group within the microfinance industry—microfinance providers (MFPs)[2] belonging to the bank as well as non-bank categories have been recipients of these additional funds (for peer groups in the Pakistan microfinance industry see **Box 1**). Commercial liabilities for the national rural support programme (NRSP), the largest non-bank player in terms of outreach, exceeded PKR 3 billion, whereas Kashf Foundation (KF), the third largest non-bank player, received more than PKR 1 billion. The largest equity injections were made into Tameer Microfinance Bank Ltd. (TMFB), and Kashf Microfinance

1. Macro-economic challenges during 2008 included high fiscal and current account deficit, inflationary pressures, monetary tightening, exchange rate vulnerability, and food and energy shortages. These challenges were amplified due to rising militancy in the North West Frontier Province (NWFP).
2. Microfinance Provider (MFP) is an inclusive term and used in the text to refer collectively to all peer groups (organization types) in the microfinance industry

Bank Ltd. (KMFB). Overall, the rural support programme (RSP) peer group reported the largest increase in the amount of debt accessed whereas the microfinance bank (MFB) peer group reported the largest increase in equity (see **Exhibit 2**).

Exhibit 2: Changes in Debt and Equity (by Peer Group)



Source: Data for Pakistan Microfinance Review (2007, 2008). Pakistan Microfinance Network

Another factor that rises to the forefront within this context of continued growth is the improved asset utilization ratio exhibited by the industry. Although still lower than other countries in the region, the asset utilization ratio for MFPs in Pakistan increased from 56 percent in 2007, to 60 percent in 2008 (see **Exhibit 3**). This translated into a voluntary injection of PKR 7.2 billion into loan portfolio by industry players.[3] The willingness to hold a relatively larger proportion of assets as loan portfolio rather than investing in relatively less risky assets such as treasury bills attests to greater confidence among industry players in their lending models, and with increased leverage. In the long-run the messages implicit in these actions are likely to contribute towards engendering greater confidence among investors. However, this will only materialize once improvements in profitability begin to kick in, an achievement that continues to be elusive for the majority of MFPs.

The continued growth has also illuminated the industry's relative insulation from the global financial crisis. Despite the depth and scope of the crisis, until December 2008 the microfinance industry's consolidated performance remained largely unaffected by the ensuing global credit crunch. This can largely be explained by the fact that the commercial liabilities accessed by MFPs are sourced mainly from local commercial banks. The SBP disallowed the microfinance industry to access foreign debt funds in early 2008. The primary aim was to protect the sector from foreign exchange risk (FOREX), a precaution that has served the industry well given the large devaluation of the Pakistan Ruppee in the same year. In addition to muffling the FOREX risk, this move by the SBP lowered the industry's exposure to the credit crunch experienced by sectors more reliant on foreign sources of capital.

The decoupling from foreign financial markets also had an indirect impact by incentivizing industry players to develop alternative funding sources. A key development was the enhancement of deposit-taking services. Total deposits increased by 45 percent during the reporting period. Given that two of the leading non-bank players in the market opted to transform into banks and procured licenses during 2008, this trend is likely to gain further momentum in 2009 and 2010.

The current insulation of the industry from the global financial crisis however, cannot be taken for granted. A study by the Centre for Financial Innovation has also indicated that as the ripple effects of the crisis extend downwards towards clients, inflationary pressures and falling real incomes are likely to increase credit risk (the risk of loss when loans are not repaid). In fact, this risk has already been identified by the report as a rising concern for MFPs in Latin America, Eastern Europe, and Africa.[4] Moreover, it is expected that given the monetary tightening that started from earlier 2008, the liquidity and refinancing risk for the microfinance sector will grow as is being felt by some other sectors whose credit ceilings are being reduced or revoked by commercial banks. Thus, although the lag has provided MFPs with reaction time, this window of time is likely to be limited. This is especially true given the current political and economic challenges that have surfaced within Pakistan. Security challenges, inflation, and chronic power breakdowns are likely to have

3. Pakistan Microfinance Review (2007, 2008). Pakistan Microfinance Network

4. Microfinance Banana Skins 2009: Confronting Crisis and Change. Centre for the Study of Financial Innovation 2009

a significant impact on the repayment capability of the client.

Thus far repayments have remained healthy and write-offs reported for the industry have declined compared to the previous year. However, risk coverage ratios have more than doubled, indicating that some MFPs have started factoring loan delinquencies into their financials. Also worth noting is the decline in outreach in the third and fourth quarters of 2008: growth in active borrowers dropped to negative 7 percent, and positive 1 percent during the third and fourth quarters of 2008, respectively.[5] Moreover, structural changes within the industry that are being introduced in response to increased competitiveness and rapid expansion are also likely to impact growth rates over the next year. For example, the growth rate for KF dropped from 121 percent in 2007, to approximately 8.2 percent in 2008 as the drive to set up its sister concern, KMFB, gained momentum.

The slowdown is likely to impact the ability of the industry to meet its target outreach of 3 million active borrowers by 2010. However, slowing down growth at this juncture may be a prudent decision. This is especially true given the macroeconomic challenges faced on the global as well as national front. Moreover, substantial investment in infrastructure and personnel during 2006-07 has drawn down key industry indicators. To position itself for a second round of rapid growth and to access additional capital it is important for industry players to demonstrate the ability to efficiently utilize existing investments by achieving improvements in financial profitability and efficiency ratios. Modest improvements in overall efficiency and productivity ratios have already been evidenced (see **Exhibit 3**).

Exhibit 3: Selected Efficiency, Productivity, and Profitability Ratios

Indicator	2006	2007	2008
GLP to Total Assets (%)	48.2	55.8	60.3
Borrowers per Staff	114	133	147
Operating Expense to GLP (%)	26.7	24.7	20.4
Return on Equity	(19.0)	(20.9)	(29.4)

Source: Data for Pakistan Microfinance Review (2006, 2007, 2008). Pakistan Microfinance Network

As already stated above however, financial profitability continues to be a challenge for the industry.

Thus, 2009 is likely to be a crucial period not only for individual institutions but for the microfinance industry as a whole. Investors are likely to wait on the sidelines before pumping more money into the sector. This scenario is likely to result in rising liquidity pressures for the industry, pressing individual players to constraint growth. However, it also presents the perfect opportunity for the stars to distinguish themselves from the laggards. Organizations that can demonstrate the financial agility and managerial depth to maintain a strong balance sheet are likely to appear on the industry radar screen as future investment options.

Balanced growth in the future will be a factor of strengthening industry performance on vital productivity, profitability and efficiency indicators which will pave the way for attracting the funds needed for subsequent growth. Given the current scenario, the theme for this year's report is the mainstreaming of microfinance in Pakistan. The aim was to conduct a holistic assessment aimed at identifying areas that need attention so that the sector can continue to access the funds required for healthy growth and expansion.

5. MicroWATCH: A Quarterly Publication of Microfinance Outreach. PMN 2008.

2. The Mainstreaming of Microfinance in Pakistan

As the global microfinance sector has evolved to become a valuable tool in increasing access to finance for the unbanked, a new phenomenon in the industry has emerged: the mainstreaming of microfinance. Although mainstreaming has varied contextual meanings for national microfinance markets across the world, the term largely represents attempts to integrate the microfinance industry into the fold of the mainstream financial landscape of a country. More specifically, mainstreaming represents an attempt to build inclusive financial systems, i.e., financial systems that work for larger numbers of the unbanked while simultaneously being built on principles of financial viability and longevity.

Any form of meaningful integration of the microfinance industry requires changes at all levels of the overall financial landscape of a country, starting with the construction of an enabling policy framework at the macro level and permeating all the way down to the micro level. Thus, the all-encompassing nature of the mainstreaming process means that the rate at which a microfinance industry mainstreams is not solely dependent on the nature of the supply of microfinance by retail organizations. Rather, it is determined by a variety of actors who make up the policy, regulatory, and operating environment of the retail organizations.

To conduct a holistic analysis, this section will track the extent to which Pakistan's microfinance industry has been mainstreamed by using the industry analysis framework developed by the Consultative Group to Assist the Poor (CGAP). The analysis framework broadly segments the financial landscape of a country into three levels. These are macro, which includes the policy makers and regulators for the industry; meso, which constitutes secondary stakeholders such as financial resource providers and industry facilitators such as national networks and technical assistance providers (TAPs); and micro, which includes retail-level sector players (see **Exhibit 4**).

The analysis will look at shifts that have taken the industry towards mainstreaming over the last decade i.e., from 1999 to 2008. It will also briefly touch upon challenges faced by the industry due to macroeconomic and security problems in Pakistan, and the global financial meltdown.

Exhibit 4: Industry Segments in the Mainstreaming Process

Industry Segment	Definition	Players
Macro	Regulatory and policy-making bodies	Ministry of Finance State Bank of Pakistan Others (Securities and Exchange Commission of Pakistan)
Meso	Organizations involved in the provision of financial resources, technical assistance, and industry support functions and infrastructure. Meso-level players engage with the micro- and macro-level	Financial resource providers and facilitators (commercial banks, donors, investors, SBP, MoF) Technical Assistance Providers Industry Association
Micro	Retail institutions directly providing financial services to low-income clients. Includes bank as well as non-bank providers of microfinance	All organizations active at the retail level (banks, non-governmental organizations, leasing companies)

Source: Helms, Bridget. Access for All: Building Inclusive Financial Systems. CGAP, 2006.

2.1 Macro

As stated above, the macro industry segment consists of policy makers and regulators. This segment determines the overall policy and regulatory environment within which retail microfinance organizations function. In Pakistan the policy-making role is housed within the Ministry of Finance (MoF), while the State Bank of Pakistan (SBP) acts in the dual capacity of regulator and market developer.[6] Players at the meso and micro levels have also been able to impact policy and regulatory decisions; final responsibility however, rests within these two public sector bodies.

A government's role in the mainstreaming process is critical. Striking the right balance between a constructive facilitator and a curtailing administrator is extremely important and the MoF together with the SBP, have been fairly successful in playing a constructive role. Specific actions taken by the GoP that have facilitated the integration of microfinance into the overall policy and regulatory framework for the financial sector can be divided into two categories: the creation of the policy and regulatory framework; and the creation of the institutional infrastructure and processes needed to implement, refine and safeguard the chosen framework .

Policy and Regulatory Framework

The mainstreaming process in Pakistan began with the GoP-led recognition of microfinance as a key poverty alleviation tool in its Poverty Reduction Strategy Paper (PRSP-I).[7] This policy decision was reinforced with the passage of the Microfinance Institutions (MFI) Ordinance, 2001 which laid out a regulatory framework for setting up private sector commercial banks geared solely towards the provision of financial services to the low end of the market. As a result, two long-term implications for the industry began to play out. Firstly, commitment by the GoP inspired considerable up-front investments at a sectoral and institutional level. Most notably, these investments resulted in the establishment of a national apex, and the country's first microfinance bank (MFB). Secondly, by placing MFBs under the regulatory and prudential supervision of the SBP, the Ordinance laid the foundation for the long-term involvement of the country's central bank in the microfinance industry. Placing the industry within the purview of the SBP has resulted in sustained access by the industry to technically superior regulatory stewardship, in addition to providing clarity on the role of microfinance in the overall financial industry, as distinct from the role played by social safety net initiatives undertaken from time to time by the GoP.

Continued commitment by the GoP was also demonstrated in 2007 with the Expanding Microfinance Outreach (EMO) strategy.[8] The EMO strategy aims at increasing outreach to 3 million active borrowers by 2010, and 10 million by 2015. The strategy was formulated by the MoF and the SBP in partnership with the Pakistan Microfinance Network (PMN).[9] Input was also taken from global players like CGAP and Grameen Foundation-USA (GF-USA).

Significant policy and regulatory amendments and additions made during 2002-08 are summarized in the exhibit on the following page.

Overall, the policy and regulatory approach adopted by the GoP has been in favor of increased linkages between the microfinance sector and the financial mainstream. The government's policies have generally been favorable and supportive of the growth of microfinance in Pakistan and no major restrictive policies exist that impede the ability of MFPs to make progress toward mainstreaming.[10] The regulatory amendments and additions also indicate the GoP's abiding belief in the ability of microfinance to be a self-sustaining business, and the efficacy of the market

6. So far this role is largely limited to the banking institutions operating within the industry. The debate to regulate the non-bank segment is currently on-going.

7. Poverty Reduction Strategy Paper (PRSP-I) p. 40. GoP 2001 **http://www.imf.org/external/np/prsp/2001/pak/01/113001.pdf**

8. The EMO strategy is also referred to as the National Microfinance Growth Strategy. This title has been taken from the presentation made by the Governor of the SBP to the Prime Minister of Pakistan in February 2007. **http://www.sbp.org.pk/about/speech/governors/dr.shamshad/2007/MF-PM-17-Apr-07.pdf**

9. Pakistan Microfinance Network (PMN) is the national association for MFPs in Pakistan. PMN's members account for approximately 98% of total outreach by MFPs (in terms of active borrowers).

10. Examples of policies that may hamper mainstreaming are interest rate caps and selective, ad hoc, debt-forgiveness programs.

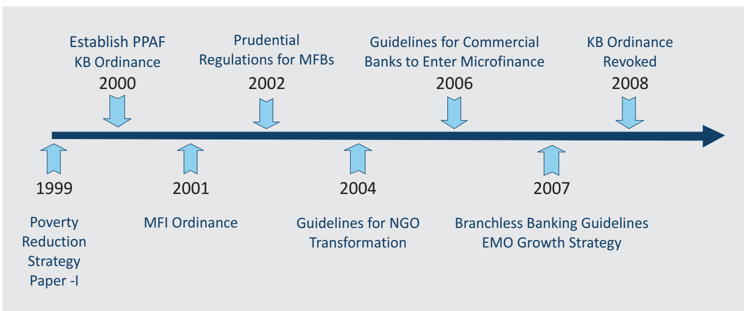
Exhibit 5: Key Policy and Regulatory Amendments and Additions

Regulatory Amendments/Addition	Primary Objective
Amendments to MFI Ordinance, 2001 and Prudential Regulations (2006, 2007)	Distinction between SBP-regulated and non-SBP regulated MFPs. The aim of making this distinction was twofold: firstly, to clearly identify deposit-taking MFPs thereby discouraging unauthorized MFPs from accepting deposits; and secondly, to acknowledging the space occupied by and the role played by non-governmental organizations in microfinance. Facilitate and nurture MFBs by strengthening institutional balance sheets. Regulatory amendments include time-bound tax holidays, additional investment options for MFBs, allowing the use of subordinate debt and revaluation surplus in meeting shortfalls in overall capital requirements, and easing provisioning and write-off requirements. Facilitate and nurture MFBs by strengthening institutional systems and processes. This was provisioned for through additional requirements for governance and management systems. Bring MFB into the financial mainstream by instituting best practice norms applicable to the banking industry at large e.g., Know-Your-Client (KYC) norms.
Guidelines for Commercial Banks to Undertake Microfinance Business	The primary aim of this set of guidelines was to improve access to finance by leveraging the existing banking infrastructure of the country. By utilizing existing financial sector infrastructure, the guidelines aimed at rolling out services for the poor at a faster rate and at lower costs.
NGO Transformation Guidelines	These guidelines were developed to encourage non-SBP licensed MFPs to step into the financial mainstream. The underlying purpose was to facilitate rapid growth in outreach by allowing NGOs that met minimum performance criteria to transform into MFBs in order to access significant commercial capital and mobilize deposits. The ability to access public money and access large amounts of capital however, was made contingent on these organizations placing themselves under the regulatory purview of the SBP.
Branchless Banking Regulations	These regulations are likely to impact the overall cost of business by reducing branch set-up costs without compromising the objective of expanding geographical outreach. Also expected to lower the cost of handling low-value transactions through lower costs of delivery. Thus, costs pertaining to buildings and maintaining delivery channels may be effectively eliminated. Although investment in technology will be required, this is expected to be a one-time outlay with significantly lower maintenance costs. Associated benefits are likely to include greater deposit mobilization of the unbanked population, and a greater scope for partnerships between MFPs and mainstream players such as Telcos and FMCG distributors. Both will provide additional sources of funds for MFBs. A significant development over the past year has been the strategic acquisition of TMFB by the Norwegian telecom company, Telenor, resulting in an equity injection of USD 12.5 million.
Expanding Mirofinance Outreach (EMO) Strategy	In addition to underscoring the GoP's continued commitment to the industry, the strategy also highlighted its abiding belief in the ability of microfinance to be a self-sustaining business, and the long-term efficacy of the market system in reducing costs to the end user by improving productivity and efficiency levels.

Source: Ahmed, Syed Mohsin; Mehr Shah. Amendments to the Microfinance Institutions Ordinance 2001: Implications for the Sector. IRIS Centre, 2007
EMO strategy presented by Governor SBP to Prime Minister of Pakistan (February 2007).
http://www.sbp.org.pk/about/speech/governors/dr.shamshad/2007/MF-PM-17-Apr-07.pdf

system in the long-run. This underlying belief is evidenced in amendments such as the time-bound nature of the tax holiday for MFBs, and the commitment to reducing costs to the end client through improvements in productivity and efficiency as opposed to introducing measures such as interest rate caps. A snapshot of key policy and regulatory interventions is captured in **Exhibit 6**.

Exhibit 6: Timeline of Key Policy and Regulatory Interventions by the GoP and SBP



Regulatory and Supervisory Infrastructure

Since the promulgation of the MFI Ordinance, the SBP has been carrying out the dual responsibility of supervision and promotion of microfinance in Pakistan. In a bid to balance these dual responsibilities a separate department — the Microfinance Division (MFD) — dedicated to the microfinance industry has been established within the SBP. Moreover, to deepen its own understanding of microfinance the SBP has engaged extensively with a range of primary as well as secondary industry stakeholders. While developing and amending regulations for the sector, the SBP adopted a consultative approach that has been institutionalized and formalized through the Microfinance Consultative Group (MFCG). The MFCG was established by the SBP in 2001, and includes key stakeholders from the sector, including multilateral and bilateral donors, the microfinance apex organization, government representatives, all of the MFBs, and the national network.[11] The group is chaired by the SBP and meets on a regular basis to take stock of the changing environment and propose policy and regulatory changes required to enhance the viability of the microfinance sector in Pakistan.

Opportunities and Challenges

Significant opportunities exist due to the policy and regulatory framework put into place by the GoP. By demonstrating consistency in the policy crafted for the industry, microfinance is now well-recognized as a development finance tool under the PRSP-II. Investments through private sources have been encouraged by providing clear guideline for MFIs to transform into MFBs. Moreover, the Branchless Banking Guidelines have provided the regulatory space needed for crafting potential partnerships between non-microfinance industry players and rapidly-growing MFPs. An example of this is the equity injection made by Telenor into Tameer Microfinance Bank Ltd. (TMFB).

Despite the successes, some challenges continue to exist. Given the largely MFB-focused regulatory framework currently in place, a large segment of the industry remains unregulated. Although only MFBs are authorized to accept deposits, these organizations continue to account for only 33 percent of overall outreach and 34 percent of the gross loan portfolio (GLP). Given that two of the top four institutions in the country continue to function outside the purview of the SBP, the ability of these large players to impact the overall outlook for the microfinance industry cannot be ignored. In this situation, the question of regulatory and supervisory oversight for non-bank MFPs becomes ever more important.[12] The absence of a legal framework for non-bank MFPs has a number of implications:

i) It results in ambivalence with regard to ownership of the policy-making and supervisory roles;

ii) Industry players are subject to political interference and issues of contract enforcement in case of delinquency problems; and

iii) All else held constant, attracting private risk capital, even debt, is a bigger challenge for these MFPs.

Developing a regulatory framework for the non-bank

11. Ahmed, Syed Mohsin; Mehr Shah. Amendments to the Microfinance Institutions Ordinance 2001: Implications for the Sector. IRIS Centre, 2007

12. Currently non-MFB peer groups are registered under a variety of regulations including the Companies Ordinance, and the Social Welfare Act, among others.

segment that is housed within the MoF and SBP will enable policy-makers and regulators to assess and influence the sector in its entirety. Moreover, it will provide non-bank MFPs with a degree of risk cover by providing a contract-enforcement framework, resulting in a more enabling investment environment.

Other challenges at the macro level include pending regulatory amendments sought by MFBs. MFBs consistently cite two regulatory constraints which significantly impact their competitive position with regard to the overall banking industry:

i) Unavailability of scheduled bank status, and

ii) Unavailability of membership to the clearing house

MFBs reason that the removal of the former constraint will impact their blend of institutional investors; certain institutions are legally authorized to invest only in scheduled banks. With regard to clearing house membership, MFBs state that the reduced time and cost for interbank clearance transactions is expected to reduce the disadvantage currently faced by MFBs in tapping institutional and large-value depositors.

2.2 Meso

The meso environment constitutes stakeholders that influence multiple actors in the microfinance industry through the provision of funds, technical support, and general industry facilitation. Typical examples of meso-level actors include funding providers (apexes, donors, and commercial financial players), and support institutions that assist the industry in a variety of ways in achieving increased outreach, efficiency, and sustainability. Thus, the meso environment includes a diverse range of organizations, some of which perform multiple functions. Examples are networks, raters, TA firms, auditors and management consultants.

In most cases, the meso landscape is a crucial vertical for the mainstreaming process because in addition to influencing and supporting MFPs, meso-level players are also active upstream of the practitioner cadre, influencing policy decisions by facilitating a deeper understanding of the microfinance market, and the nature of the business.

Financial Resource Providers

The availability and access of MFPs to commercial sources of funds such as non-subsidized loans from apex organizations or banks, voluntary savings, private investment funds, or other market-based funding sources is a critical component of mainstreaming. This 'commercialization' of microfinance is usually associated with an MFP's movement from donor or subsidized funding towards commercial borrowing of debt and equity.

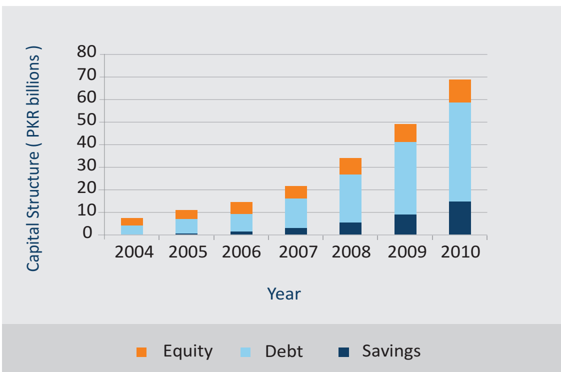
The microfinance industry in Pakistan receives its financial resources from a wide range of sources including donors, the Pakistan Poverty Alleviation Fund (PPAF), commercial banks, investors, and depositors. Despite this variety of funding sources, the availability of funds continues to be a significant concern among sector specialists.[13] Two major factors contribute to this preoccupation with financial resources.

Firstly, the Pakistani industry continues to be significantly dependent on donor funding. As shown in **Exhibit 7**, debt funds constitute a significant share of the overall funding for the sector. Of these debt funds, the PPAF and the Asian Development Bank (ADB) contributed a significant share of subsidized debt until 2007. Given the infancy of the industry during that phase, the subsidized debt was used to set up institutional infrastructure as well as for on-lending. More recently however, additional debt funds provided by the ADB have been used to set up a technical assistance fund housed within the SBP. Moreover, policy changes impacting the utilization and availability of PPAF funds have also been underway. Thus, an increasingly bigger question mark with regard to the continued provision and utilization of subsidized debt, has raised the stakes for a number of MFPs.

13. The Pakistan Poverty Alleviation Fund (PPAF) is the wholesale lender for the microfinance industry in Pakistan. PPAF was established by the GoP in 1999 with funds provided by the World Bank.

The second factor contributing to the continuing concern over the availability of funds is the Expanding Microfinance Outreach (EMO) strategy. The EMO strategy predicated reaching 3 million active borrowers by 2010 on plugging a funding gap of approximately PKR 70 billion.[14] This strategy was centered on accessing significant amounts of commercial funds, with commercial debt replacing subsidized debt in large measure. For the actual and projected capital structure of the industry see **Exhibit 7**.

Exhibit 7: Actual and Projected Capital Structure of the Pakistan Microfinance Industry



Source: Microfinance Industry Funding Facility: A Concept Note. Pakistan Microfinance Network, 2007

The EMO strategy served to further illuminate the need to diversify the sources of capital accessed by the industry. Recognizing the significant financial bottleneck policy makers, donors and regulators came together to draw market-based funding into the sector. As a result a number of initiatives were undertaken in 2007-08. These initiatives aimed at strengthening market linkages and putting in place structures to facilitate greater leveraging capacity for retail level institutions:

- In 2007 the International Fund for Agricultural Development (IFAD) formulated its Program for Increasing Sustainable Microfinance (PRISM). Of the PKR 2.7 billion (USD35 million) available under PRISM, more than half was allocated to setting up a guarantee fund. The aim was to incentivize commercial banks to provide debt funds to MFPs against cash collateral from the fund. PRISM was launched in July 2008 under the administrative oversight of PPAF.[15]

- In 2008 the SBP took on the role of implementing agency for a credit guarantee fund provided under the PKR 5.8 billion (USD 75 million) Financial Inclusion Programme (FIP) funded by the Department for International Development (DFID-UK). Aimed at easing liquidity pressure on MFPs, the Microfinance Credit Guarantee Facility (MFCG) component of FIP was developed to provide incentives to banks and development financial institutions (DFIs) to provide funds to MFPs for on-lending.[16] Under the MFCG lenders can lend to MFPs at the SBP policy discount rate plus two percent. The incentives include a *pari passu* guarantee of 40 percent, or a first loss guarantee of 25 percent.

- The SBP together with the PMN and a donor consortium comprising Kreditanstalt für Wiederaufbau (KfW), the International Finance Corporation (IFC), and DFID are also exploring a long-term fund structure option with credit enhancement through subordination.[17] The aim is to explore possible options to meet the short-term liquidity requirements of the sector. The fund is expected to become operational in 2010.

These initiatives have dedicated a total of PKR 8.6 billion (USD 110 million) to improving access to commercial funding for MFPs. The main aim is to build relationships between MFPs and commercial banks, and assist in developing a risk appetite for the new asset class among bankers. Thus, these are expected to play a significant role in the mainstreaming of the sector.

As of December 2008 however, these initiatives had not

14. Presentation by Governor SBP to Prime Minister of Pakistan (February 2007). The EMO strategy identified bottlenecks to rapid growth in microfinance. The strategy aimed at developing a road map to overcome the bottlenecks identified to enable MFPs to achieve a growth target to 3 million active borrowers by 2010. **http://www.sbp.org.pk/about/speech/governors/dr.shamshad/2007/MF-PM-17-Apr-07.pdf**

15. PPAF is sponsored by the GoP and funded by the WB and other leading donors

16. **http://www.microcapital.org/microcapital-story-state-bank-of-pakistan-launches-three-microfinance-development-funds-with-proceeds-from-the-uk-Government-financial-inclusion-programme-and-the-asian-development-bank/**

17. MF Industry assessment report Sept 2008, pg 25

yielded significant results. In fact, they have reinforced the need for funds from commercial sources. As shown in **Exhibit 8** donor organizations have utilized significant proportions of their funds for market enabling activities, rather than providing subsidized debt for expansion of outreach, as was previously the case. Thus, as donor financing has leveled off, the burden of financing the fiscal gap has been shifted more firmly into the purview of commercial funders. Thus, successfully tapping commercial sources has short-term (survival) as well as long-term (differentiating itself as an asset class) implications for the sector. This is perhaps the underlying reason that a number of sector specialists continue to cite accessing commercial sources of funding as one of Pakistan's greatest challenges in the mainstreaming process.

Exhibit 8: Allocations under PRISM and FIP

Function	Allocation	Timeline
Program for Increasing Sustainable Microfinance (PRISM)		
Equity Contribution	576 million	2007-2011
Guarantee Fund	1,618 million	
Capacity Building (grant)	280 million	
Financial Inclusion Programme (FIP)		
Microfinance Credit Guarantee Facility	778 million	2008-2013
Institutional Strengthening Fund (grant	778 million	
Financial Innovation and Challenge Fund	778 million	

Source: Pakistan Poverty Alleviation Fund, 2009. Haq, Aban; and Maheen Saleem. Funds for Microfinance in Pakistan: An Overview. PMN, 2009.

Apart from commercial banks, there is also a need to attract mainstream investors to the microfinance space. According to the Microfinance Information eXchange (The MIX), there are currently a number of funds focused on the microfinance space in Pakistan. Examples include Triodos, Citi Foundation, and Acumen Fund. Equity deals in Pakistan have been slow, and the large ones have been led by firms with a social mandate. The IFC has been at the forefront of these deals, including a PKR 83 million equity investment in TMFB and a PKR 142.5 million investment in KMFB. However, as with the global scenario, the true nature of equity plays in the microfinance space is yet to garner steam in the Pakistan microfinance sector.

Support Institutions

Support organizations in a microfinance industry undertake a wide range of activities. These could range from data collection and research to training and rating functions. The number and type of support institutions actively functioning within the meso segment of an industry can be a vital indicator of the level of mainstreaming: well-developed industries are likely to be supported by a range of specialized players; industries that have not reached critical mass are more likely to be supported by a smaller number of firms.

Prior to 2005 the microfinance industry in Pakistan was primarily supported by the Pakistan Microfinance Network (PMN). Since its creation in 2001 the Network has played a critical role in building consensus on policy matters, and encouraging best practices through its financial reporting and capacity building efforts. Since 2005 the number and type of support institutions has increased. In addition to the PMN, the industry is now supported by a small but globally recognized set of TAPs such as Acumen Fund, IFC, ShoreBank International, and Women's World Banking (WWB), as well as auditors and raters. Other organizations such as Banyan Global, Micro-Credit Ratings International Limited (M-CRIL) and Intellecap have also undertaken standalone consulting engagements.

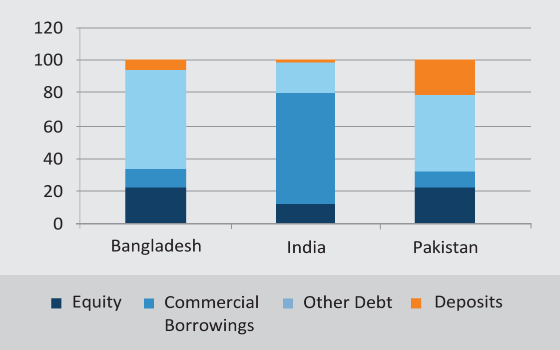
Together these organizations have provided support functions such as research, training, and advocacy. Industry-wide initiatives currently underway include the Consumer Protection Code that was developed in 2008, and the piloting of a credit information bureau. With regard to financial transparency, globally recognized auditors service the microfinance industry. These auditors understand the nuances of auditing the loan books of MFPs. One of the raters, JCR-VIS, has rated a number of MFBs and MFIs. These ratings were conducted in partnership with raters specializing in microfinance organization ratings.

Opportunities and Challenges

The microfinance industry in Pakistan has succeeded in recent years to attract a variety of investors. A particularly heartening revelation yielded by regional comparisons is the relative success of the Pakistan industry in accessing deposits and equity injections (see **Exhibit 9**). In terms of the proportion of total industry funds accessed via deposits and equity investments, India and Bangladesh lag behind Pakistan on both counts. This is mainly accounted for by the existence of a regulatory framework that has enabled the creation of equity-backed deposit-taking institutions—the MFBs. However, it is worth noting that a significant proportion of the deposits in Pakistan are accounted for by institutional depositors; equity investments are led by DFIs and social investors. Moreover, a single institution within the MFB peer group accounts for a significant proportion of the deposits. The MFB peer group is a major recipient of equity investments. Thus, it is prudent to state that despite the regulatory provisions for accessing greater deposits, the industry needs to make a concerted effort to enhance savings services and access small ticket depositors.

Regional comparisons also show the significant dependence by the Pakistan industry on donor funds (other debt), a characteristic surprisingly shared by the Bangladesh industry. Indian MFPs by comparison have succeeded in accessing significant amounts of commercial debt. Although a significant contributor to India's success in accessing commercial liabilities is the preferential sector lending mandated by the Reserve Bank of India, it may still be worthwhile to study the Indian scenario in some detail to identify additional reasons underlying this success.

Exhibit 9: Regional Comparisons of Capital Structures (%)



Source: Asia Microfinance Analysis and Benchmarking Report 2008. The Microfinance Information eXchange, 2009

With regard to support institutions, the mainstreaming process in Pakistan would greatly benefit from the presence of TAPs, especially those involved in training and management consulting expertise. Similarly, linkages with academic institutions that have the potential to provide a steady stream of future industry leaders needs to be harnessed, an initiative that the PMN is in the process of taking forward. Similarly interaction with research firms will help in diversifying the existing knowledge base.

2.3 Micro

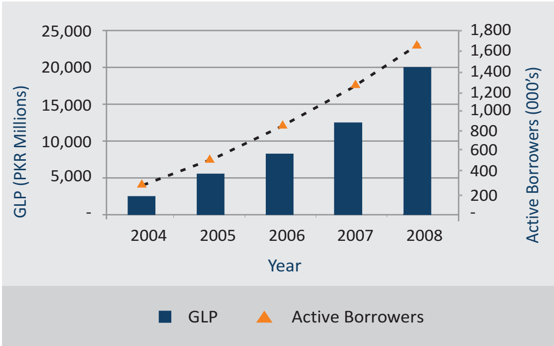
The micro segment of the industry consists of all retail-level players i.e., all those institutions involved in the provision of financial services to low-income clients. Actions and decisions taken at the macro and meso levels are ultimately expected to impact outcomes at the micro level.

Mainstreaming has a number of implications at the micro level. Microfinance providers need to recognize that growth in outreach must be achieved in parallel with institutional strengthening initiatives aimed at financial sustainability, improved productivity and efficiency, establishment of strong corporate governance practices, designing internal control systems, and putting in place a human resource management structure that recruits and nurtures individuals. Thus, to take the mainstreaming initiative forward, what is required is the adoption of an organizational form that allows the absorption of larger amounts of capital that can be used to achieve ambitious growth targets.

Growth in Portfolio and Outreach

A key indicator assessed by policymakers and practitioners alike when considering the extent of mainstreaming, is the growth in portfolio and outreach and juxtaposing this with the overall potential market to keep a tab on achieving the goal of "Access for All". In Pakistan, the sector has achieved significant growth on both counts (see **Exhibit 10**).

Exhibit 10: Growth in Active Borrowers and Gross Loan Portfolio

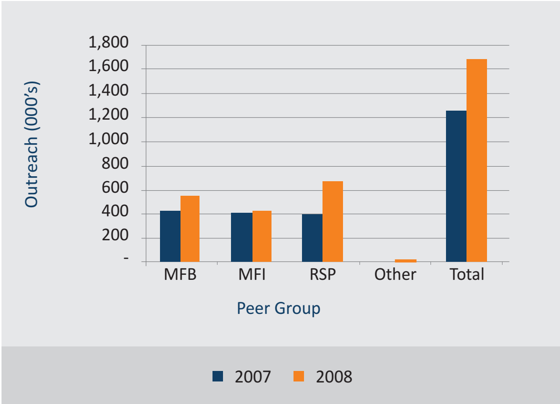


Source: Data for Performance Indicators Report (2004, 2005), and Pakistan Microfinance Review (2006, 2007, 2008). Pakistan Microfinance Network

Overall, the number of borrowers increased to 1,695,421 by December 2008 registering a 34 percent increase over the previous year. Estimates of market potential however, clearly indicate that there is significant room for additional growth.[18]

During the reporting period growth in active borrowers was led by the RSP (69%) and MFB (28%) peer groups. The MFI peer group grew at a significantly slower rate (5%) during this reporting period (see **Exhibit 11**). The exhibit also clearly shows the surge in outreach achieved by the RSP peer group during the reporting period. As a result by December 2008 the RSP peer group accounted for approximately 40 percent of the outreach, compared to 32 percent in 2007

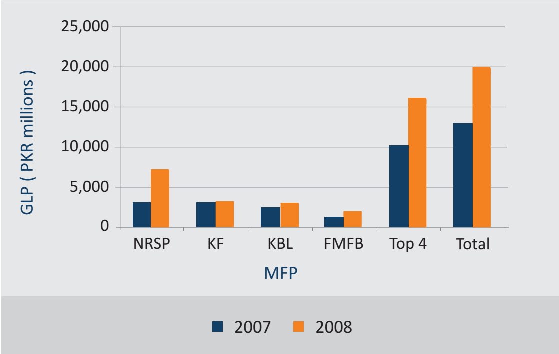
Exhibit 11: Client Outreach by Peer Group



Source: Data for Pakistan Microfinance Review (2008). Pakistan Microfinance Network

This trend was closely mirrored by the growth in GLP. Over 2007–08, the top four institutions achieved a significant rise in GLP, with much of the growth attributed to two MFPs–the NRSP and the FMFB (see **Exhibit 12**). The growth of these institutions was in line with the growth of the microfinance industry as a whole. Despite the fact that growth in GLP was accounted for by two institutions during this reporting period, given the large lead maintained by the top four institutions over the years, these MFPs are likely to continue in their role as market movers and shakers.

Exhibit 12: Top Four Institutions in Terms of Gross Loan Portfolio



Source: Data for Pakistan Microfinance Review (2008). Pakistan Microfinance Network

Financials—Sustainability and Efficiency

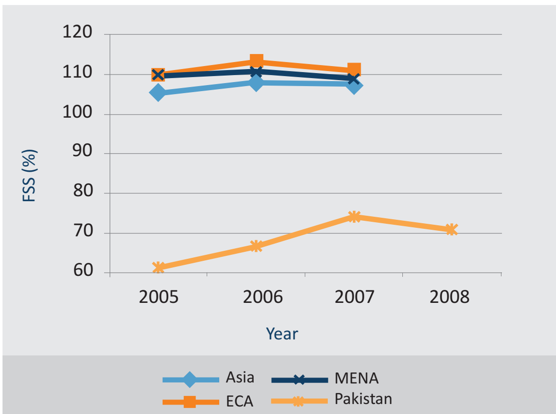
A key prerequisite for mainstreaming is the achievement of financial and operational sustainability. The ability to fully cover its costs enables an MFP to increasingly leverage funds to achieve greater outreach. Thus, the key to achieving substantial outreach is building a sound financial institution, which essentially means that MFPs needs to charge cost-covering interest rates and continually strive for increasing operational efficiency. A profitable MFP not only builds the confidence of the management and board in its business model, but also demonstrates to both private and donor investors to negotiate a business deal along with providing a base to leverage first-tier equity.

A comparison of profitability ratios across regions shows

18. MicroWATCH: A Quarterly Publication of Microfinance Outreach. PMN 2008.

that Pakistan has consistently lagged behind. As shown in **Exhibit 13**, Pakistan lags noticeably below its peers in terms of financial self sufficiency (FSS). This means that the industry is not covering its costs and will be unable to sustain its growth in outreach on a long-term basis.

Exhibit 13: Regional Comparison of Financial Self Sufficiency Ratio



Source: Pakistan Microfinance Review (2005, 2006, 2007). Pakistan Microfinance Network
The MicroBanking Bulletin (No. 16,17,18). Microfinance Information eXchange

Also noteworthy is the drop in the ratio during the last reporting period. This decline in FSS is noteworthy considering its appearance after a three-year trend showing improvements in the FSS ratio for the industry as a whole.

The primary drivers of sustainability include:

i) A pricing structure that covers institutional costs and risks, and

ii) Building an efficient model that results in improving efficiencies and lowering costs, keeping loan size constant.

A closer look indicates that Pakistan has lagged on both these counts. Comparisons with the South Asia region show stark variation (see **Exhibits 14** and **15**).

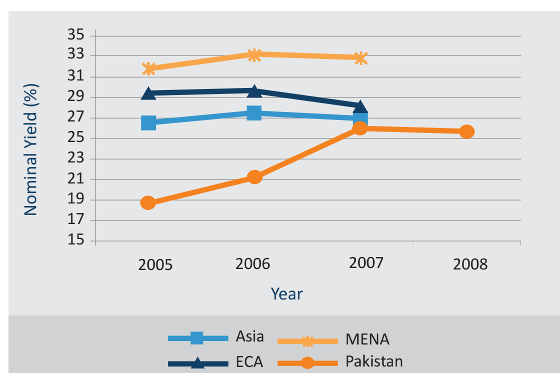
Portfolio yield is a proxy indicator that shows actual returns on the loan book of an MFP. In Pakistan the above graph clearly indicates a trend that interest rates are moving upwards over the last few years from a low of 18 percent in 2005. This is due to a combination of factors:

i) Emergence of players with a focus on commercialization of microfinance operations (without compromising on the mission i.e., providing services to economically active individuals at the low end of the market). These 'specialized' players have been more successful in basing interest rates on risk-adjusted cost-coverage models.

ii) Shift in the focus of existing player that the trade-off between low and high interest rates is not necessarily poverty reduction but reducing financial access since growth requires commercial finance, which in turn requires profitable and robust institutions.

iii) Consistent increase in the interest rate environment due to increasing policy rate by the central bank to ward off increasing inflation.

Exhibit 14: Regional Comparison of Nominal Yield on GLP

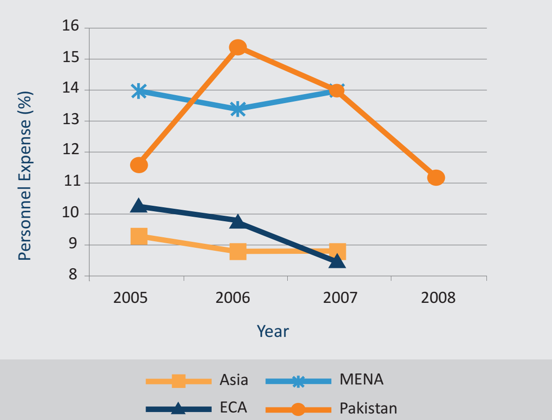


ECA: Eastern Europe and Central Asia **MENA:** Middle East and North Africa

Source: Pakistan Microfinance Review (2005, 2006, 2007). Pakistan Microfinance Network.
The MicroBanking Bulletin (No. 16,17,18). Microfinance Information eXchange

Efficiency is a factor of personnel and administrative costs, thus improved staff productivity and low-cost distribution models help in improving an organization's efficiency and profitability. It is also a factor of the proportion of assets invested in core business (i.e., the loan book), keeping the loan size constant.

Exhibit 15: Personnel Expense to GLP Ratio



Source: Pakistan Microfinance Review (2005, 2006, 2007). Pakistan Microfinance Network.
The MicroBanking Bulletin (No. 16,17,18). Microfinance Information eXchange

Exhibit 15 clearly demonstrates significantly higher personnel expense ratios for Pakistan, especially when compared to the rest of Asia and the ECA region. This is largely because of the following factors:

i) Higher percentage of management staff to total staff

ii) Reasonably high salaries when compared with other regions.

The fact that since 2007 there has been a dip in this ratio despite high inflation rate indicates that there is improvement in these indicators as the average age of the industry increases and more and more players invest a higher percentage of their assets into loan portfolio.

Overall, the microfinance industry has an asset utilization ratio of 60 percent. Although the asset utilization ratio for Pakistan is lower than that achieved by other regions, it is important to note that this ratio has shown consistent improvement over the last few years. Among peer groups MFBs have the lowest asset utilization ratio of 45 percent. This is primarily due to the heavier capital requirements placed on all deposit-taking institutions.

Exhibit 16: Asset Utilization Ratios by Peer Group

GLP to Total Assets	MFB	MFI	RSP	Other	Total
2007	38.5%	76.5%	70.3%	85.8%	55.8%
2008	45.9%	70.0%	73.3%	71.6%	60.3%

Source: Pakistan Microfinance Review (2006, 2007, 2008). Pakistan Microfinance Network

The asset utilization ratios of MFIs, and RSPs are closer to average ratios in the MENA (78.1%) and Asia (74.8%) regions. According to the MIX Market, average GLP to total assets ratio is approximately 80 percent for Indian MFPs and 75 percent for Bangladeshi MFIs (see **Exhibit 17**).

Exhibit 17: Regional Comparison of Performance

Region	Capital/ asset ratio	Debt to equity	Deposits to loans	Portfolio to assets	ROA	ROE
Asia	16.4	5.0	1.4	70.8	0.6	5.0
ECA	23.6	3.2	0.0	86.0	1.1	6.2
MENA	48.6	1.0	0.0	78.1	2.0	7.9
Pakistan	24.2	3.1	25.9	60.3	(7.5)	(29.5)

ECA: Eastern Europe and Central Asia **MENA:** Middle East and North Africa

Source : Pakistan Microfinance Review (2005, 2006, 2007). Pakistan Microfinance Network.
The MicroBanking Bulletin (No.18). Microfinance Information eXchange

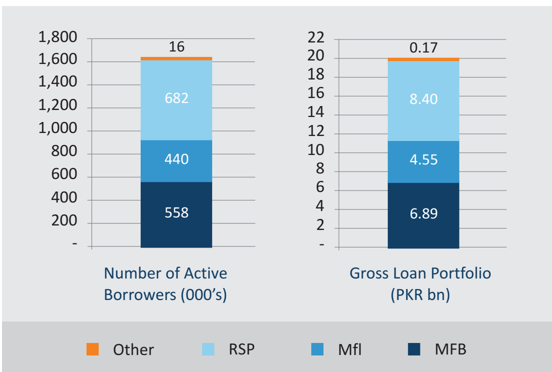
Pakistani MFPs are at par with MFPs from other regions in the world across parameters such as capital-asset ratio and debt-equity ratio, but are lagging behind in returns and sustainability parameters.

Organizational Structure

Operating as a for-profit, formal financial institution may be the most important part of MFP mainstreaming because it implies that MFPs are subject to prudential regulation and supervision, and have become fully integrated into the formal financial system. Pakistan has achieved a solid track record with regard to the establishment of regulated deposit-taking institutions. The country has eight MFBs. This peer group is regulated by the SBP and generally adopts a for-profit outlook. These organizations have shown considerable progress with respect to growth and outreach, despite being relatively new entrants in the microfinance landscape in Pakistan.

However, the heavier capital requirements mandated for these institutions has implications for the overall cost structure of the microfinance industry in Pakistan. Operating costs for this cadre of MFPs are high, and are likely to remain high in the short to medium term. Factors that will contribute to driving down costs include achieving economies of scale in outreach, improving efficiency through the use of technology, building tight systems and processes, and levering their ability to access low-cost deposits for intermediation.

Exhibit 18: Market Share by Peer Group



Source: Pakistan Microfinance Review (2006, 2007, 2008). Pakistan Microfinance Network

Technology and Innovations

The year 2008 was a landmark year in terms of the opportunities for innovation that have been made available through the Branchless Banking Guidelines. Branchless banking coupled with mobile banking present an attractive opportunity for MFPs to achieve scale economically. Strategic acquisitions such as Telenor Pakistan's acquisition of TMFB have highlighted the potential of MFPs in the new business environment. As competitive pressure increases and MFPs are pushed towards improving efficiency, technology-leveraging ventures are likely to gain further momentum.

Opportunities and Challenges

A number of factors have catapulted the microfinance industry of Pakistan onto the global map. As a result, the industry is being closely observed by donors, investors and industry specialists. However, to turn this interest into active engagement, it is imperative for industry players to improve profitability and efficiency measures. Currently, most MFPs are not profitable. Greater focus would need to be laid on the training and development of staff across all levels, especially the management of MFPs. Improvement of internal systems and processes such as risk management systems and a robust internal audit department are implicit in improving internal efficiencies through better systems and rigorous monitoring. A reputed Board of Directors and sound corporate governance practices are also key factors in portraying a professional image of MFPs. These developments are significant to improve internal operations (efficiency and profitability) and are also vital in ensuring continued access to commercial debt and equity.

Another way to improve profitability and efficiency indicators is to leverage technology. However, MFPs need to be well established and mature in their operations to maximize the benefits of such linkages. The introduction of new products and services acts as a challenge to an MFP's front-line staff, its management information system (MIS), and its financial management departments. In addition, MFPs need to ensure that their mission and focus remain well defined so as to avoid the possibility of 'mission drift' where focus shifts from microfinance to the provision of alternate products or services.

2.4 Conclusion

The above analysis shows that the mainstreaming of microfinance in Pakistan is well underway. Although the process is far from complete, a number of important milestones have been achieved. These include the policies of the GoP and the SBP, which have been in favour of increasing linkages between the microfinance sector and the financial mainstream. Regulations such as the Branchless Banking guidelines have been in favour of increasing the outreach of financial services to a vast majority. This commitment by the GoP has resulted in the creation of a vibrant industry structure. Practitioners in Pakistan are supported by a variety of meso-level players such as a national network, national and international financial resource providers, and technical assistance firms. These players have actively become involved in valuable market-enabling initiatives such as the creation of a credit information bureau and a consumer code of protection for the industry. At the micro-level it has incentivized industry players to scale rapidly and offer a diverse range of financial products to clients. However, a key area of concern that continues to plague the industry and is likely to influence the mainstreaming process in the long-term is the continued unsustainability of the sector. Thus, focus on setting sustainable interest rates and improving efficiency along with a strong board and management team needs to be evaluated by all stakeholders as we work towards building a robust microfinance sector that increases penetration of financial services and helps in spurring pro-poor growth. The onus now rests largely on the MFPs to demonstrate their capacity to utilize the funds already made available to them profitably and efficiently.

3. Looking Ahead

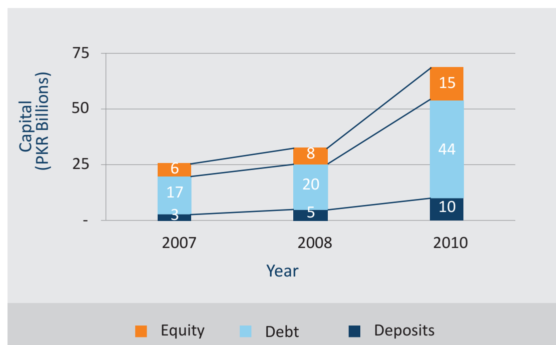
The Pakistan microfinance sector has experienced considerable growth over the last few years. This has been achieved against a backdrop of continuing efforts by retail organizations, regulators, and industry facilitators to make improvements to operating practices, develop the necessary support infrastructure, and improve market responsiveness. The creation of a favorable regulatory framework, the increasing depth of knowledge on microfinance within the SBP, the introduction of diverse and innovative credit and non-credit products, and the entry of international retail players to fill the supply-side gap, have all had a positive effect on the sector. However, some aspects require further input.

3.1 Access to Diversified Funding Sources

The availability of capital continues to be a matter of concern for the sector. Capital projections at the time of the formulation of the EMO Strategy showed that the diversification of funding sources will become a pressing issue as liquidity will need to be raised from a variety of sources to reach out to 3 million active borrowers. Estimates projected the total financial requirement to be PKR 69 billion in 2010 up from an actual of PKR 26 billion in 2007.

Since then, the financing structure of the industry has changed: total assets increased to PKR 33 billion by 2008, a growth of 45 percent. This growth was funded through increasing debt (subsidized and commercial); equity decreased as a proportion of overall financing. These changes matched projections made in 2007. In absolute terms deposits also increased, but contrary to the projections made, they continued to account for 12 percent of the overall financing available to the industry. Projections show that deposits should account for 21 percent of the overall funding available to the sector by 2010 (see **Exhibit 19**).

Exhibit 19: Funds Required to Reach 3 Million Borrowers—Actual and Projected



Source: Data for Pakistan Microfinance Review (2007, 2008), and Industry Funding Facility: A Concept Note. Pakistan Microfinance Network, 2007

Without drawing in a significantly larger proportion of deposits, sector players need to recognize that reliance on debt and equity sources will continue to grow in the coming years. Additional debt and equity are likely to constitute expensive financing sources.

This is especially true given the shifts observed in the utilization of subsidized donor debt, a significant proportion of which is now being utilized for market-enabling activities rather than as a source of liquidity to MFPs. Within this context, assessing the reasons for the lag in performance with regard to deposit-raising becomes an important task.

3.2 Policy Debate

The re-emergence of the interest rate debate in policy circles in Pakistan could potentially influence the performance of the microfinance sector. It is vital therefore, to continue to engage with policymakers in a constructive manner. This translates into a need to shift the debate by clarifying two underlying assumptions:

- There is a clear distinction between the role and applicability of safety nets and microfinance;
- The wider economic scope of microfinance is a means to deepen access to finance thereby leading to pro-poor growth

Thus, efforts to reduce the ultimate cost to the microfinance client should be pivoted on strategies aimed at improving efficiency and productivity, rather than concentrating on putting in place incentive structures that will ultimately result in weak organizations subsisting on state and non-state subsidies.

3.3 Industry Support Initiatives

In addition to the financial transparency practices espoused by the sector, the Consumer Code of Protection (CCP) launched by the PMN is also likely to positively impact the outlook of policymakers and sector commentators. The Code represents a positive move towards better self-governance within the microfinance sector. This initiative is a step towards building investor confidence and could potentially reinforce industry reputation and mitigate exogenous risks of a political nature. The next steps in the process include i) designing a monitoring and compliance framework, and ii) setting up of a grievance redressal system where clients can share concerns and receive a satisfactory response.

Another important initiative being undertaken by the sector is the creation of a credit information bureau (CIB). In addition to serving as a risk mitigating tool for the industry a CIB will also go a long way in reducing transaction cost as client screening procedures become streamlined. Moreover, a CIB will also improve the competitive environment: by helping clients build a credit-history, MFPs will be encouraged to become more market responsive in their products and procedures.

3.4 Microfinance Partnerships

The scope for MFPs to enter into a variety of partnerships is immense. This includes partnerships that enable MFPs to provide core financial services through non-industry players, as well as allowing non-industry players to utilize the industry network as a delivery channel for the provision of non-financial products. Experience from successful partnerships across mature microfinance markets indicates the enormous potential for such partnerships. This is especially true for Bangladesh where organizations like BRAC and Grameen Bank have partnered with a range of players outside the microfinance industry to serve as viable delivery channels. In Pakistan, a similar example is provided by NRSP which has partnered with Adamjee insurance to provide health insurance to its clients. The industry now has a number of MFPs that have reached the scale (nationally as well as internationally) required to experiment with such partnerships. Moreover, the Branchless Banking Guidelines have provided the regulatory space for MFPs to partner with non-bank players for the expansion of financial services.

Performance Indicators — Annex A

Sources of Data — Annex B

Adjustments to Financial Data — Annex C

Definitions — Annex D

Annexures

Annex A
Performance Indicators

A-I: Industry (2006-08)

INFRASTRUCTURE

	2006	2007	2008
			(PKR 000)
Total Assets	17,535,983	22,862,066	33,193,784
Offices	1,073	1,165	1,277
Personnel	7,342	9,529	11,499
			Growth Rate
Total Assets	-	30.37%	45.19%
Offices	-	8.57%	9.61%
Personnel	-	29.79%	20.67%

FINANCING STRUCTURE

	2006	2007	2008
			(PKR 000)
Total Assets	17,535,983	22,862,066	33,193,784
Total Equity	6,077,925	6,418,594	8,018,344
Total Debt	11,457,585	16,443,471	25,175,440
Commercial Liabilities	1,475,376	2,723,484	6,252,075
Deposits/Voluntary Savings	1,448,803	2,845,014	4,133,188
Gross Loan Portfolio	8,444,919	12,749,983	20,001,190
			Ratios
Equity-to-Asset Ratio	34.7%	28.1%	24.2%
Commercial Liabilities-to-GLP	17.5%	21.4%	31.3%
Debt-to-Equity Ratio	1.9	2.56	3.1
Deposits-to-GLP	17.2%	22.3%	20.7%
Deposits-to-Total Assets	8.3%	12.4%	12.5%
GLP-to-Total Assets	48.2%	55.8%	60.3%

OUTREACH

	2006	2007	2008
			(PKR 000)
Active Borrowers	835,460	1,267,182	1,695,421
Active Women Borrowers	434,122	640,868	803,795
Gross Loan Portfolio	8,445,099	12,749,983	20,001,190
Annual Per Capita Income	57,000	57,000	81,000
Number of Loans Outstanding	887,108	1,351,462	1,791,688
Number of Savers	1,364,470	1,143,551	1,315,136
Number of Saving Accounts	749,897	494,709	438,624
Number of Women Savers	542,120	508,000	405,614
Savings Outstanding	2,349,383	3,617,332	5,174,346
Proportion of Active Women Borrowers (%)	52.0%	50.6%	47.4%
Average Loan Balance per Active Borrower	10,100	10,100	12,000
Average Loan Balance per Active Borrower/Per Capita Income	17.7%	17.7%	14.6%
Average Outstanding Balance	9,500	9,400	11,000
Average Outstanding Balance/Per Capita Income	16.7%	16.6%	13.8%
Proportion of Active Women Savers (%)	39.7%	44.4%	30.84%
Average Saving Balance per Active Saver	1,700	3,200	3,900
Active Savings Account Balance	3,100	7,300	11,800

* **Source:** Economic Survey of Pakistan "08, 09". Per capita income numbers are available in USD. An average rate for USD/PKR during the year have been taken to convert these numbers into PKR. Currency devalution is the major cause of almost 80% increase in per capita income between 2006 and 2008.

FINANCIAL PERFORMANCE

	2006	2007	2008
			(PKR 000)
Revenue from Loan Portfolio	1,493,902	2,746,985	4,202,506
Revenue from Other Financial Assets	611,657	638,909	831,602
Revenue from Financial Services	16,517	32,347	80,552
Total Revenue	**2,122,076**	**3,418,241**	**5,114,660**
Less : Financial Expense	460,666	876,871	1,556,375
Gross Financial Margin	**1,661,410**	**2,541,370**	**3,558,285**
Less: Loan Loss Provision Expense	302,616	363,353	1,440,324
Net Financial Margin	**1,358,794**	**2,178,018**	**2,117,962**
Personnel Expense	1,084,180	1,476,490	1,828,726
Admin Expense	791,179	1,122,978	1,507,667
Less: Operating Expense	1,875,359	2,599,468	3,336,393
Net Income Before Tax	**(516,566)**	**(421,450)**	**(1,218,432)**
Provision for Tax	(22,401)	75,179	(1,001)
Net Income/(Loss) Before Adjustments	(494,164)	(496,629)	(1,217,431)
Adjusted Financial Expense on Borrowings	199,690	299,219	213,968
Inflation Adjustment Expense	351,898	417,278	669,689
Adjusted Loan Loss Provision Expense	545	64,590	11,699
Adjusted Operating Expense	-	-	-
Total Adjustment Expense	**552,132**	**781,087**	**895,356**
Net Income/(Loss) After Adjustments	**(1,046,297)**	**(1,277,716)**	**(2,112,787)**
Average Total Assets	15,646,074	20,055,650	27,996,183
Average Total Equity	5,509,135	6,115,580	7,177,338
			Ratios
Adjusted Return-on-Assets	(6.7%)	(6.4%)	(7.5%)
Adjusted Return-on-Equity	(19.0%)	(20.9%)	(29.4%)
Operational Self-Sufficiency	80.4%	89.0%	80.8%
Financial Self-Sufficiency	66.5%	74.0%	70.8%

OPERATING INCOME

	2006	2007	2008
			(PKR 000)
Revenue from Loan Portfolio	1,493,902	2,746,985	4,202,506
Total Revenue	2,122,076	3,418,241	5,114,660
Adjusted Net Operating Income / (Loss)	(1,068,698)	(1,202,537)	(2,113,788)
Average Total Assets	15,646,074	20,055,650	27,996,183
Gross Loan Portfolio (Opening Balance)	5,602,086	8,283,941	12,698,918
Gross Loan Portfolio -(Closing Balance)	8,445,099	12,749,983	20,001,190
Average Gross Loan Portfolio	7,023,593	10,516,962	16,350,054
Inflation Rate *	8.9%	7.9%	12.0%
Total Revenue Ratio (Total Revenue-to-Average Total Assets)	13.6%	17.0%	18.3%
Adjusted Profit Margin (Adjusted Profit/(loss)-to-Total Revenue)	(50.4%)	(35.2%)	(41.3%)
Yield on Gross Portfolio (nominal)	21.3%	26.1%	25.7%
Yield on Gross Portfolio (real)	11.4%	16.9%	12.2%

*** Source: http://www.sbp.org.pk/ecodata/pricei.pdf**

OPERATING EXPENSE

	2006	2007	2008
			(PKR 000)
Adjusted Total Expense	3,190,774	4,620,778	7,228,448
Adjusted Financial Expense	1,012,254	1,593,368	2,440,032
Adjusted Loan Loss Provision Expense	303,161	427,943	1,452,023
Adjusted Operating Expense	1,875,359	2,599,468	3,336,393
Adjustment Expense	552,132	781,087	895,356
Average Total Assets	15,646,074	20,055,650	27,996,183
			Ratios
Adjusted Total Expense-to-Average Total Assets	20.4%	23.0%	25.8%
Adjusted Financial Expense-to-AverageTotal Assets	6.5%	7.9%	8.7%
Adjusted Loan Loss Provision Expense-to-Avg Total Assets	1.9%	2.1%	5.2%
Adjusted Operating Expense-to-Average Total Assets	12.0%	13.0%	11.9%
Adjusted Personnel Expense	6.9%	7.4%	6.5%
Adjusted Admin Expense	5.1%	5.6%	5.4%
Adjustment Expense-to-Average Total Assets	3.5%	3.9%	3.2%

OPERATING EFFICIENCY

	2006	2007	2008
			(PKR 000)
Adjusted Operating Expense	1,875,359	2,599,468	3,336,393
Adjusted Personnel Expense	1,084,180	1,476,490	1,828,726
Average Gross Loan Portfolio	7,023,593	10,516,962	16,350,054
Average Number of Active Borrowers/Clients	754,250	1,143,320	1,685,382
Average Number of Active Loans and Deposits	796,604	1,209,237	1,635,342
Adjusted Operating Expense-to-Average Gross Loan Portfolio	26.7%	24.7%	20.4%
Adjusted Personnel Expense-to-Average Gross Loan Portfolio	15.4%	14.0%	11.2%
Average Salary/Per capita	6,700	2,700	2,000
Adjusted Cost per Borrower	2,500	2,300	2,000
Adjusted Cost per Loan	2,400	2,100	2,000

PRODUCTIVITY

	2006	2007	2008
Number of Active Borrowers	835,460	1,267,182	1,695,421
Number of Active Loans	887,108	1,351,462	1,791,688
Number of Active Savers	1,364,470	1,143,551	1,315,136
Number of Saving Accounts	750,077	494,709	438,624
Total Number of Staff	7,342	9,529	11,499
Total Number of Loan Officers	4,513	5,734	6,916
Borrowers per Staff	114	133	147
Loans per Staff	121	142	156
Borrowers per Loan Officer	185	221	245
Loans per Loan Officer	197	236	259
Savers per Staff	186	120	114
Saving Accounts per Staff	102	52	38
Personnel Allocation Ratio	61.5%	60.2%	60.1%

RISK

	2006	2007	2008
			(PKR 000)
Portfolio at Risk > 30 days	194,821	396,159	426,693
Portfolio at Risk > 90 days	109,525	283,676	190,350
Adjusted Loan Loss Reserve	378,716	484,409	1,680,846
Loan Written Off during Year	205,216	209,238	299,986
Gross Loan Portfolio	8,445,099	12,749,983	20,001,190
Average Gross Loan Portfolio	7,023,593	10,516,962	16,350,054
Portfolio at Risk(>30)-to-Gross Loan Portfolio	2.3%	3.1%	2.1%
Portfolio at Risk(>90)-to-Gross Loan Portfolio	1.3%	2.2%	1.0%
Write off-to-Average Gross Loan Portfolio	2.9%	2.0%	1.8%
Risk Coverage Ratio (Adjusted Loan Loss Reserve-to-Portfolio at Risk>30days)	194.4%	122.3%	393.9%

A-II: Individual Institutions and Peer Group (2008)

Peer Groups

Peer Groups	
Microfinance Bank (MFB)	Bank licensed and prudentially regulated by the State Bank of Pakistan to exclusively service the microfinance market
Microfinance Institution (MFI)	Non governmental organization providing only microfinance services
Rural Support Program (RSP)	Non governmental organization running microfinance operation as part of multi-dimensional development programme with specific focus on rural areas
Other	All organizations that do not fall into the above three categories

Infrastructure

MFB

	KBL	TMFB	POMFB	FMFB	RMFB	NMFB	KMFB	Total
								(PKR 000)
Age (years)	8	3	3	7	4	4	1	
Total Assets	6,685,742	2,295,709	459,374	4,094,253	79,410	193,118	1,198,444	15,006,050
Offices	135	31	15	159	11	4	19	374
Personnel	2,008	865	152	1,575	56	72	273	5,001

MFI

	KF	SAFWCO	DAMEN	CSC	OPP	Asasah	Total
							(PKR 000)
Age (years)	12	14	12	8	21	6	
Total Assets	4,959,560	181,648	454,351	309,900	287,110	309,327	6,501,896
Offices	158	18	25	13	6	30	250
Personnel	1,917	143	200	80	89	233	2,662

RSP

	NRSP	PRSP	SRSP	TRDP	Total
					(PKR 000)
Age (years)	15	10	17	11	
Total Assets	8,652,429	2,243,508	110,778	448,367	11,455,081
Offices	537	27	11	61	636
Personnel	3,045	460	64	184	3,753

OTHER

	SDF	OLP	Total
			(PKR 000)
Age (years)	14	16	
Total Assets	29,957	200,800	230,756
Offices	8	9	17
Personnel	31	52	83

Financing Structure

MFB

	KBL	TMFB	POMFB	FMFB	RMFB	NMFB	KMFB	Total
								(PKR 000)
Total Assets	6,685,742	2,295,709	459,374	4,094,253	79,410	193,118	1,198,444	15,006,050
Total Equity	1,871,223	1,194,635	419,910	557,520	49,845	88,350	711,753	4,893,236
Total Debt	4,814,520	1,101,074	39,464	3,536,732	29,565	104,769	486,691	10,112,814
Commercial Liabilities	263,709	340,581	-	100,000	-	-	-	704,290
Deposits/Voluntary Savings	18,169	639,525	23,859	3,304,742	24,180	101,255	-	4,111,730
Gross Loan Portfolio	3,093,336	906,852	125,241	2,111,403	28,235	68,794	552,580	6,886,440
								Weighted Avg.
Equity-to-Asset Ratio	28.0%	52.0%	91.4%	13.6%	62.8%	45.7%	59.4%	32.6%
Commercial Liabilities-to-GLP	8.5%	37.6%	0.0%	4.7%	0.0%	0.0%	0.0%	10.2%
Debt-to-Equity Ratio	2.6	0.9	0.1	6.3	0.6	1.2	0.7	2.1
Deposits-to-GLP	0.6%	70.5%	19.1%	156.5%	85.6%	147.2%	0.0%	59.7%
Deposits-to-Total Assets	0.3%	27.9%	5.2%	80.7%	30.4%	52.4%	0.0%	27.4%
GLP-to-Total Assets	46.3%	39.5%	27.3%	51.6%	35.6%	35.6%	46.1%	45.9%

MFI

	KF	SAFWCO	DAMEN	CSC	OPP	Asasah	Total
							(PKR 000)
Total Assets	4,959,560	181,648	454,351	309,900	287,110	309,327	6,501,896
Total Equity	994,336	39,407	56,905	52,177	165,514	(22,317)	1,286,022
Total Debt	3,965,224	142,241	397,446	257,723	121,596	331,644	5,215,874
Commercial Liabilities	1,566,052	-	-	-	18,752	65,963	1,650,767
Deposits/Voluntary Savings	16,080	-	-	-	-	5,378	21,458
Gross Loan Portfolio	3,483,149	141,602	325,383	184,026	193,429	225,768	4,553,358
							Weighted Avg.
Equity-to-Asset Ratio	20.0%	21.7%	12.5%	16.8%	57.6%	-7.2%	19.8%
Commercial Liabilities-to-GLP	45.0%	0.0%	0.0%	0.0%	9.7%	29.2%	36.3%
Debt-to-Equity Ratio	3.99	3.6	7.0	4.9	0.7	-14.9	4.06
Deposits-to-GLP	0.5%	0.0%	0.0%	0.0%	0.0%	2.4%	0.5%
Deposits-to-Total Assets	0.3%	0.0%	0.0%	0.0%	0.0%	1.7%	0.3%
GLP-to-Total Assets	70.2%	78.0%	71.6%	59.4%	67.4%	73.0%	70.0%

RSP

	NRSP	PRSP	SRSP	TRDP	Total
					(PKR 000)
Total Assets	8,652,429	2,243,508	110,778	448,367	11,455,081
Total Equity	684,548	1,076,661	3,575	25,885	1,790,669
Total Debt	7,967,881	1,166,847	107,203	422,482	9,664,412
Commercial Liabilities	3,174,569	635,024	-	-	3,809,593
Deposits/Voluntary Savings	-	-	-	-	-
Gross Loan Portfolio	7,354,447	653,592	71,965	316,139	8,396,143
					Weighted Avg.
Equity-to-Asset Ratio	7.9%	48.0%	3.2%	5.8%	15.6%
Commercial Liabilities-to-GLP	43.2%	97.2%	0.0%	0.0%	45.4%
Debt-to-Equity Ratio	11.6	1.1	30.0	16.3	5.40
Deposits-to-GLP	0.0%	0.0%	0.0%	0.0%	0.0%
Deposits-to-Total Assets	0.0%	0.0%	0.0%	0.0%	0.0%
GLP-to-Total Assets	85.0%	29.1%	65.0%	70.5%	73.3%

OTHER

	SDF	OLP	Total
			(PKR 000)
Total Assets	29,957	200,800	230,756
Total Equity	29,302	19,115	48,417
Total Debt	655	181,685	182,339
Commercial Liabilities	-	87,426	87,426
Deposits/Voluntary Savings	-	0	0
Gross Loan Portfolio	8,750	156,498	165,248
			Weighted Avg.
Equity-to-Asset Ratio	97.8%	9.5%	21.0%
Commercial Liabilities-to-GLP	0.0%	55.9%	52.9%
Debt-to-Equity Ratio	0.0	9.5	3.77
Deposits-to-GLP	0.0%	0.0%	0.0%
Deposits-to-Total Assets	0.0%	0.0%	0.0%
GLP-to-Total Assets	29.2%	77.9%	71.6%

Outreach

MFB

	KBL	TMFB	POMFB	FMFB	RMFB	NMFB	KMFB	Total
								(PKR 000)
Number of Active Borrowers	312,851	43,791	10,853	168,191	1,601	2,336	18,434	558,057
Number of Active Women Borrowers	31,008	8,471	2,834	61,980	303	537	3,503	108,636
Gross Loan Portfolio	3,093,336	906,852	125,241	2,111,403	28,235	68,794	552,580	6,886,440
Per Capita Income	81,000	81,000	81,000	81,000	81,000	81,000	81,000	81,000
Number of Loans Outstanding	312,851	43,791	10,853	168,191	1,601	2,336	18,434	558,057
Number of Savers	3,477	76,050	16,859	139,517	4,849	8,090	-	248,842
Number of Saving Accounts	3,477	76,050	16,859	139,517	4,849	8,090	-	248,842
Number of Women Savers	357	4,362	2,849	35,784	729	-	-	44,081
Saving Outstanding	18,169	639,525	23,859	3,304,742	24,180	101,255	-	4,111,730
								Weighted Avg.
Active Women Borrowers/Total Active Borrowers	9.9%	19.3%	26.1%	36.9%	18.9%	23.0%	19.0%	19.5%
Avg. Loan Balance per Active Borrower	9,900	20,700	11,500	12,600	17,600	29,400	30,000	12,300
Avg. Loan Balance per Active Borrower/Per Capita Income	12.2%	25.6%	14.2%	15.6%	21.7%	36.3%	37.0%	15.2%
Avg. Outstanding Balance	9,900	20,700	11,500	12,600	17,600	29,400	30,000	12,300
Avg. Outstanding Balance/Per Capita Income	12.2%	25.6%	14.2%	15.6%	21.7%	36.3%	37.0%	15.2%
Percentage of Women Savers-to-Total Active Savers	10.2%	5.74%	16.90%	25.65%	15.03%	0.00%	-	17.71%
Average Saving Balance per Active Saver	5,200	8,400	1,400	23,700	5,000	12,500	-	16,500
Active Savings Account Balance	5,200	8,400	1,400	23,700	5,000	12,500	-	16,500

MFI

	KF	SAFWCO	DAMEN	CSC	OPP	Asssah	Total
							(PKR 000)
Number of Active Borrowers	319,517	18,043	36,897	17,432	23,896	23,730	439,515
Number of Active Women Borrowers	319,219	6,605	36,897	8,075	4,780	23,730	399,306
Gross Loan Portfolio	3,483,149	141,602	325,383	184,026	193,429	225,768	4,553,358
Per Capita Income	81,000	81,000	81,000	81,000	81,000	81,000	81,000
Number of Loans Outstanding	415,669	18,043	36,897	17,432	23,896	23,730	535,667
Number of Savers	99,022	-	-	-	-	23,730	122,752
Number of Saving Accounts	99,022	-	-	-	-	23,730	122,752
Number of Women Savers	99,022	-	-	-	-	23,730	122,752
Saving Outstanding	16,080	-	-	-	-	5,378	21,458
							Weighted Avg.
Active Women Borrowers/Total Active Borrowers	99.9%	36.6%	100.0%	46.3%	20.0%	100.0%	90.9%
Avg. Loan Balance per Active Borrower	10,900	7,800	8,800	10,600	8,100	9,500	10,400
Avg. Loan Balance per Active Borrower/Per Capita Income	13.5%	9.6%	10.9%	13.1%	10.0%	11.7%	12.8%
Avg. Outstanding Balance	8,400	7,800	8,800	10,600	8,100	9,500	8,500
Avg. Outstanding Balance/Per Capita Income	10.4%	9.6%	10.9%	13.1%	10.0%	11.7%	10.5%
Percentage of Women Savers-to-Total Active Savers	100.0%	-	-	-	-	100.0%	100.0%
Average Saving Balance per Active Saver	200	-	-	-	-	200	200
Active Savings Account Balance	200	-	-	-	-	200	200

RSP

	NRSP	PRSP	SRSP	TRDP	Total
					(PKR 000)
Number of Active Borrowers	565,863	74,172	10,847	30,751	681,633
Number of Active Women Borrowers	232,113	40,743	5,574	6,003	284,433
Gross Loan Portfolio	7,354,447	653,592	71,965	316,139	8,396,143
Per Capita Income	81,000	81,000	81,000	81,000	81,000
Number of Loans Outstanding	565,863	74,172	10,847	30,751	681,633
Number of Savers	943,542	-	-	-	943,542
Number of Saving Accounts	67,030	-	-	-	67,030
Number of Women Savers	238,781	-	-	-	238,781
Saving Outstanding	1,041,158	-	-	-	1,041,158
					Weighted Avg.
Active Women Borrowers/Total Active Borrowers	41.0%	54.9%	51.4%	19.5%	41.7%
Avg. Loan Balance per Active Borrower	13,000	8,800	6,600	10,300	12,300
Avg. Loan Balance per Active Borrower/Per Capita Income	16.0%	10.9%	8.1%	12.7%	15.2%
Avg. Outstanding Balance	13,000	8,800	6,600	10,300	12,300
Avg. Outstanding Balance/Per Capita Income	16.0%	10.9%	8%	12.7%	15.2%
Percentage of Women Savers-to-Total Active Savers	25.3%	-	-	-	25.31%
Average Saving Balance per Active Saver	1,100	-	-	-	1,100
Active Savings Account Balance	15,500	-	-	-	15,500

OTHER

	SDF	OLP	Total
			(PKR 000)
Number of Active Borrowers	1,039	15,177	16,216
Number of Active Women Borrowers	706	10,714	11,420
Gross Loan Portfolio	8,750	156,498	165,248
Per Capita Income	81,000	81,000	81,000
Number of Loans Outstanding	1,154	15,177	16,331
Number of Savers	-	-	-
Number of Saving Accounts	-	-	-
Number of Women Savers	-	-	-
Saving Outstanding	-	-	-
			Weighted Avg.
Active Women Borrowers/Total Active Borrowers	67.9%	70.6%	70.4%
Avg. Loan Balance per Active Borrower	8,400	10,300	10,200
Avg. Loan Balance per Active Borrower/Per Capita Income	10.4%	12.7%	12.6%
Avg. Outstanding Balance	7,600	10,300	10,100
Avg. Outstanding Balance/Per Capita Income	9.4%	12.7%	12.5%
Percentage of Women Savers-to-Total Active Savers	-	-	-
Average Saving Balance per Active Saver	-	-	-
Active Savings Account Balance	-	-	-

Financial Performance

MFB

	KBL	TMFB	POMFB	FMFB	RMFB	NMFB	KMFB	Total
Revenue from Loan Portfolio	541,060	213,194	29,958	505,932	12,501	20,238	33,918	1,356,801
Revenue from Other Financial Assets	224,981	44,177	33,737	84,448	4,241	10,657	21,608	423,849
Revenue from Financial Services	39,818	13,352	188	3,160	-	1,070	-	57,588
Financial Revenue	805,859	270,723	63,884	593,540	16,742	31,965	55,525	1,838,237
Less : Financial Expense	216,123	105,969	869	165,468	1,459	4,484	-	494,371
Gross Financial Margin	589,736	164,754	63,015	428,071	15,283	27,481	55,525	1,343,866
Less: Loan Loss Provision Expense / Reversal	80,963	(6,227)	8,723	30,072	12,458	5,163	9,831	140,982
Net Financial Margin	508,773	170,981	54,292	398,000	2,825	22,319	45,695	1,202,884
Personnel Expense	350,365	229,796	52,892	244,894	11,200	21,309	26,307	936,763
Admin Expense	346,482	190,085	29,455	272,726	13,269	16,981	58,279	927,278
Less: Operating Expense	696,847	419,881	82,347	517,621	24,469	38,289	84,586	1,864,040
Net Income before Tax	(188,074)	(248,900)	(28,056)	(119,621)	(21,644)	(15,971)	(38,892)	(661,156)
Provision for Tax	-	-	(1,648)	677	-	(36)	-	(1,007)
Net Income/(Loss) Before Adjustments	(188,074)	(248,900)	(26,407)	(120,298)	(21,644)	(15,934)	(38,892)	(660,149)
Adjusted Financial Expense on Borrowings	207,616	-	-	-	-	223	-	207,839
Inflation Adjustment Expense	198,448	24,903	50,334	60,201	7,256	10,239	-	351,382
Adjusted Loan Loss Provision Expense	-	-	-	-	-	-	-	-
Adjusted Operating Expense	-	-	-	-	-	-	-	-
Total Adjustment Expense	406,063	24,903	50,334	60,201	7,256	10,463	-	559,221
Net Income/(Loss) After Adjustments	(594,137)	(273,803)	(76,741)	(180,500)	(28,900)	(26,397)	(38,892)	(1,219,370)
Average Total Assets	6,694,511	1,775,466	477,480	3,450,708	93,451	197,726	599,222	13,288,564
Average Total Equity	1,841,833	748,073	437,459	614,201	60,104	96,317	355,876	4,153,863
								Weighted Avg.
Adjusted Return-on-Assets	(8.9%)	(15.4%)	(16.1%)	(5.2%)	(30.9%)	(13.4%)	(6.5%)	(9.2%)
Adjusted Return-on-Equity	(32.3%)	(36.6%)	(17.5%)	(29.4%)	(48.1%)	(27.4%)	(10.9%)	(29.4%)
Operational Self-Sufficiency	81.1%	52.1%	69.5%	83.2%	43.6%	66.7%	58.8%	73.5%
Financial Self-Sufficiency	57.6%	49.7%	44.9%	76.7%	36.7%	54.7%	58.8%	60.1%

MFI	KF	SAFWCO	DAMEN	CSC	OPP	Asasah	Total
Revenue from Loan Portfolio	1,075,368	33,579	88,444	26,335	30,221	94,536	1,348,483
Revenue from Other Financial Assets	158,859	29	8,431	1,605	28,996	1,805	199,725
Revenue from Financial Services	2,550	105	-	-	461	167	3,283
Financial Revenue	1,236,777	33,713	96,874	27,940	59,678	96,508	1,551,491
Less : Financial Expense	362,797	7,952	29,346	8,343	4,156	39,117	451,711
Gross Financial Margin	873,981	25,761	67,529	19,597	55,522	57,390	1,099,779
Less: Loan Loss Provision Expense	1,201,455	2,479	1,421	(950)	2,065	66	1,206,536
Net Financial Margin	(327,474)	23,282	66,108	20,547	53,457	57,324	(106,757)
Personnel Expense	293,263	18,274	36,131	14,018	6,265	41,709	409,661
Admin Expense	138,567	17,366	18,729	9,103	8,926	36,865	229,555
Less: Operating Expense	431,830	35,640	54,860	23,121	15,191	78,574	639,216
Net Income before Tax	(759,304)	(12,358)	11,247	(2,574)	38,266	(21,250)	(745,973)
Provision for Tax	-	-	-	-	-	-	-
Net Income/(Loss) Before Adjustments	(759,304)	(12,358)	11,247	(2,574)	38,266	(21,250)	(745,973)
Adjusted Financial Expense on Borrowings	-	2,564	1,511	12,388	1,231	-	17,694
Inflation Adjustment Expense	149,389	2,894	3,171	-	14,117	-	169,571
Adjusted Loan Loss Provision Expense	-	47	379	338	-	-	764
Adjusted Operating Expense	-	-	-	-	-	-	-
Total Adjustment Expense	149,389	5,504	5,062	12,726	15,348	-	188,030
Net Income/(Loss) After Adjustments	(908,693)	(17,863)	6,185	(15,300)	22,918	(21,250)	(934,003)
Average Total Assets	4,511,784	160,235	402,172	276,249	234,817	316,372	5,901,629
Average Total Equity	1,210,418	36,268	48,471	29,104	143,112	(17,821)	1,449,552
							Weighted Avg.
Adjusted Return-on-Assets	(20.1%)	(11.1%)	1.5%	(5.5%)	9.8%	(6.7%)	(15.8%)
Adjusted Return-on-Equity	(75.1%)	(49.3%)	12.8%	(52.6%)	16.0%	(119.2%)	(64.4%)
Operational Self-Sufficiency	62.0%	73.2%	113.1%	91.6%	278.7%	82.0%	67.5%
Financial Self-Sufficiency	57.6%	65.4%	106.8%	64.6%	162.3%	82.0%	62.4%

RSP

	NRSP	PRSP	SRSP	TRDP	Total
Revenue from Loan Portfolio	1,272,297	100,030	15,630	67,213	1,455,170
Revenue from Other Financial Assets	116,734	83,451	48	5,784	206,017
Revenue from Financial Services	12,750	-	3,600	110	16,460
Financial Revenue	1,401,781	183,481	19,278	73,108	1,677,647
Less : Financial Expense	498,933	62,818	6,353	28,492	596,596
Gross Financial Margin	902,848	120,664	12,925	44,616	1,081,052
Less: Loan Loss Provision Expense	44,812	14,942	1,347	31,066	92,167
Net Financial Margin	858,035	105,722	11,578	13,550	988,885
Personnel Expense	367,863	61,737	10,621	32,227	472,448
Admin Expense	242,571	47,842	2,926	49,247	342,586
Less: Operating Expense	610,434	109,579	13,547	81,473	815,034
Net Income before Tax	247,601	(3,858)	(1,969)	(67,923)	173,851
Provision for Tax	-	-	-	-	-
Net Income/(Loss) Before Adjustments	247,601	(3,858)	(1,969)	(67,923)	173,851
Adjusted Financial Expense on Borrowings	-	8,728	-	8,116	16,844
Inflation Adjustment Expense	43,989	101,311	194	-	145,494
Adjusted Loan Loss Provision Expense	-	8,717	-	-	8,717
Adjusted Operating Expense	-	-	-	-	-
Total Adjustment Expense	43,989	118,756	194	8,116	171,055
Net Income/(Loss) After Adjustments	203,612	(122,613)	(2,163)	(76,040)	2,797
Average Total Assets	6,163,048	1,982,024	89,362	378,925	8,613,359
Average Total Equity	559,475	992,421	8,594	(37,892)	1,522,599
					Weighted Avg.
Adjusted Return-on-Assets	3.3%	(6.2%)	(2.4%)	(20.1%)	0.0%
Adjusted Return-on-Equity	36.4%	(12.4%)	(21.1%)	(200.7%)	1.2%
Operational Self-Sufficiency	121.5%	97.9%	90.7%	51.8%	111.6%
Financial Self-Sufficiency	117.0%	59.9%	89.9%	49.0%	100.2%

OTHER

	SDF	OLP	Total
Revenue from Loan Portfolio	526	41,526	42,052
Revenue from Other Financial Assets	2,011	-	2,011
Revenue from Financial Services	3,222	-	3,222
Financial Revenue	5,758	41,526	47,285
Less : Financial Expense	52	13,644	13,696
Gross Financial Margin	5,706	27,882	33,588
Less: Loan Loss Provision Expense	54	584	639
Net Financial Margin	5,652	27,298	32,950
Personnel Expense	2,550	7,304	9,854
Admin Expense	659	7,590	8,249
Less: Operating Expense	3,209	14,894	18,103
Net Income before Tax	2,442	12,404	14,846
Provision for Tax	6	0	6
Net Income/(Loss) Before Adjustments	2,436	12,404	14,840
Adjusted Financial Expense on Borrowings	-	0	0
Inflation Adjustment Expense	-	3,242	3,242
Adjusted Loan Loss Provision Expense	320	1,898	2,217
Adjusted Operating Expense	-	-	-
Total Adjustment Expense	320	5,140	5,460
Net Income/(Loss) After Adjustments	2,116	7,264	9,380
Average Total Assets	28,839	163,792	192,631
Average Total Equity	28,258	23,067	51,325
			Weighted Avg.
Adjusted Return-on-Assets	7.3%	4.4%	4.9%
Adjusted Return-on-Equity	7.5%	31.5%	18.3%
Operational Self-Sufficiency	173.7%	142.6%	145.8%
Financial Self-Sufficiency	158.4%	121.2%	124.8%

Operating Income

MFB

	KBL	TMFB	POMFB	FMFB	RMFB	NMFB	KMFB	Total
								(PKR 000)
Revenue from Loan Portfolio	541,060	213,194	29,958	505,932	12,501	20,238	33,918	1,356,801
Financial Revenue	805,859	270,723	63,884	593,540	16,742	31,965	55,525	1,838,237
Adjusted Net Operating Income / (Loss)	(594,137)	(273,803)	(78,389)	(179,822)	(28,900)	(26,433)	(38,892)	(1,220,377)
Average Total Assets	6,694,511	1,775,466	477,480	3,450,708	93,451	197,726	599,222	13,288,564
Gross Loan Portfolio (Opening Balance)	2,652,916	408,807	93,493	1,221,559	33,630	45,854	-	4,456,259
Gross Loan Portfolio (Closing Balance)	3,093,336	906,852	125,241	2,111,403	28,235	68,794	552,580	6,886,440
Average Gross Loan Portfolio	2,873,126	657,830	109,367	1,666,481	30,933	57,324	276,290	5,671,350
Inflation Rate*	12%	12%	12%	12%	12%	12%	12%	12%
								Weighted Avg.
Financial Revenue Ratio (Financial Revenue-to-Average Total Assets)	12.0%	15.2%	13.4%	17.2%	17.9%	16.2%	9.3%	13.8%
Adjusted Profit Margin (Adjusted Profit/(loss)-to-Financial Revenue)	(73.7%)	(101.1%)	(122.7%)	(30.3%)	(172.6%)	(82.7%)	(70.0%)	(66.4%)
Yield on Gross Portfolio (nominal)	18.8%	32.4%	27.4%	30.4%	40.4%	35.3%	12.3%	23.9%
Yield on Gross Portfolio (real)	6.1%	18.2%	13.7%	16.4%	25.4%	20.8%	0.2%	10.6%

MFI

	KF	SAFWCO	DAMEN	CSC	OPP	Asasah	Total
							(PKR 000)
Revenue from Loan Portfolio	1,075,368	33,579	88,444	26,335	30,221	94,536	1,348,483
Financial Revenue	1,236,777	33,713	96,874	27,940	59,678	96,508	1,551,491
Adjusted Net Operating Income / (Loss)	(908,693)	(17,863)	6,185	(15,300)	22,918	(21,250)	(934,003)
Average Total Assets	4,511,784	160,235	402,172	276,249	234,817	316,372	5,901,629
Gross Loan Portfolio (Opening Balance)	3,178,784	112,250	250,428	145,322	143,821	222,338	4,052,943
Gross Loan Portfolio (Closing Balance)	3,483,149	141,602	325,383	184,026	193,429	225,768	4,553,358
Average Gross Loan Portfolio	3,330,967	126,926	287,906	164,674	168,625	224,053	4,303,151
Inflation Rate*	12%	12%	12%	12%	12%	12%	12%
							Weighted Avg.
Financial Revenue Ratio (Financial Revenue-to-Average Total Assets)	27.4%	21.0%	24.1%	10.1%	25.4%	30.5%	26.3%
Adjusted Profit Margin (Adjusted Profit/(loss)-to-Financial Revenue)	(73.5%)	(53.0%)	6.4%	(54.8%)	(38.4%)	(22%)	(60.2%)
Yield on Gross Portfolio (nominal)	32.3%	26.5%	30.7%	16.0%	17.9%	42.2%	31.3%
Yield on Gross Portfolio (real)	18.1%	12.9%	16.7%	3.6%	5.3%	27.0%	17.3%

RSP

	NRSP	PRSP	SRSP	TRDP	Total
					(PKR 000)
Revenue from Loan Portfolio	1,272,297	100,030	15,630	67,213	1,455,170
Financial Revenue	1,401,781	183,481	19,278	73,108	1,677,647
Adjusted Net Operating Income / (Loss)	203,612	(122,613)	(2,163)	(76,040)	2,797
Average Total Assets	6,163,048	1,982,024	89,362	378,925	8,613,359
Gross Loan Portfolio (Opening Balance)	3,244,991	427,608	42,920	341,924	4,057,443
Gross Loan Portfolio (Closing Balance)	7,354,447	653,592	71,965	316,139	8,396,143
Average Gross Loan Portfolio	5,299,719	540,600	57,442	329,031	6,226,793
Inflation Rate*	12%	12%	12%	12%	12%
					Weighted Avg.
Financial Revenue Ratio (Financial Revenue-to-Average Total Assets)	22.7%	9.3%	21.6%	19.3%	19.5%
Adjusted Profit Margin (Adjusted Profit/(loss)-to-Financial Revenue)	14.5%	(66.8%)	(11.4%)	(104.0%)	0.21%
Yield on Gross Portfolio (nominal)	24.0%	18.5%	27.2%	20.4%	23.4%
Yield on Gross Portfolio (real)	10.7%	5.8%	13.6%	7.5%	10.2%

OTHER

	SDF	OLP	Total
			(PKR 000)
Revenue from Loan Portfolio	526	41,526	42,052
Financial Revenue	5,758	41,526	47,285
Adjusted Net Operating Income / (Loss)	2,123	7,264	9,387
Average Total Assets	28,839	163,792	192,631
Gross Loan Portfolio (Opening Balance)	5,160	127,112	132,272
Gross Loan Portfolio (Closing Balance)	8,750	156,498	165,248
Average Gross Loan Portfolio	6,955	141,805	148,760
Inflation Rate*	12%	12%	12%
			Weighted Avg.
Financial Revenue Ratio (Financial Revenue-to-Average Total Assets)	20.0%	25.4%	24.5%
Adjusted Profit Margin (Adjusted Profit/(loss)-to-Financial Revenue)	36.9%	17.5%	19.9%
Yield on Gross Portfolio (nominal)	7.6%	29.3%	28.3%
Yield on Gross Portfolio (real)	(4.0%)	15.4%	14.5%

Operating Expense

MFB

	KBL	TMFB	POMFB	FMFB	RMFB	NMFB	KMFB	Total
								(PKR 000)
Adjusted Total Expense	1,399,996	544,526	142,273	773,362	45,642	58,398	94,417	3,058,614
Adjusted Financial Expense	622,186	130,872	51,202	225,670	8,715	14,947	-	1,053,592
Adjusted Loan Loss Provision Expense / Reversal	80,963	(6,227)	8,723	30,072	12,458	5,163	9,831	140,982
Adjusted Operating Expense	696,847	419,881	82,347	517,621	24,469	38,289	84,586	1,864,040
Adjustment Expense	406,063	24,903	50,334	60,201	7,256	10,463	-	559,221
Average Total Assets	6,694,511	1,775,466	477,480	3,450,708	93,451	197,726	599,222	13,288,564
								Weighted Avg.
Adjusted Total Expense-to-Average Total Assets	20.9%	30.7%	29.8%	22.4%	48.8%	29.5%	15.8%	23.0%
Adjusted Financial Expense-to-Average Total Assets	9.3%	7.4%	10.7%	6.5%	9.3%	7.6%	0.0%	7.9%
Adjusted Loan Loss Provision Expense to Avg Total Assets	1.2%	(0.4%)	1.8%	0.9%	13.3%	2.6%	1.6%	1.1%
Adjusted Operating Expense-to-Average Total Assets	10.4%	23.6%	17.2%	15.0%	26.2%	19.4%	14.1%	14.0%
Adjusted Personnel Expense	5.2%	12.9%	11.1%	7.1%	12.0%	10.8%	4.4%	7.0%
Adjusted Admin Expense	5.2%	10.7%	6.2%	7.9%	14.2%	8.6%	9.7%	7.0%
Adjustment Expense-to-Average Total Assets	6.1%	1.4%	10.5%	1.7%	7.8%	5.3%	0.0%	4.2%

RSP

	NRSP	PRSP	SRSP	TRDP	Total
					(PKR 000)
Adjusted Total Expense	1,198,168	306,095	21,440	149,147	1,674,851
Adjusted Financial Expense	542,922	172,856	6,546	36,608	758,933
Adjusted Loan Loss Provision Expense	44,812	23,659	1,347	31,066	100,884
Adjusted Operating Expense	610,434	109,579	13,547	81,473	815,034
Adjustment Expense	28,297	118,756	194	8,116	171,055
Average Total Assets	6,163,048	1,982,024	89,362	378,925	8,613,359
					Weighted Avg.
Adjusted Total Expense-to-Average Total Assets	19.4%	15.4%	24%	39.4%	19.4%
Adjusted Financial Expense-to-Average Total Assets	8.8%	8.7%	7.3%	9.7%	8.8%
Adjusted Loan Loss Provision Expense to Avg Total Assets	0.7%	1.2%	1.5%	8.2%	1.2%
Adjusted Operating Expense-to-Average Total Assets	9.9%	5.5%	15.2%	21.5%	9.5%
Adjusted Personnel Expense	6.0%	3.1%	11.9%	8.5%	5.5%
Adjusted Admin Expense	3.9%	2.4%	3.3%	13.0%	4.0%
Adjustment Expense-to-Average Total Assets	0.7%	6.0%	0.2%	2.1%	2%

MFI

	KF	SAFWCO	DAMEN	CSC	OPP	Asasah	Total
							(PKR 000)
Adjusted Total Expense	2,145,471	51,575	90,689	43,240	36,760	117,756	2,485,493
Adjusted Financial Expense	512,186	13,409	34,029	20,731	19,504	39,117	638,977
Adjusted Loan Loss Provision Expense	1,201,455	2,526	1,800	(612)	2,065	66	1,207,301
Adjusted Operating Expense	431,830	35,640	54,860	23,121	15,191	78,574	639,216
Adjustment Expense	149,389	5,504	5,062	12,726	15,348	-	188,030
Average Total Assets	4,511,784	160,235	402,172	276,249	234,817	316,372	5,901,629
							Weighted Avg.
Adjusted Total Expense-to-Average Total Assets	47.6%	32.2%	22.5%	15.7%	15.7%	37.2%	42.1%
Adjusted Financial Expense-to-Average Total Assets	11.4%	8.4%	8.5%	7.5%	8.3%	12.4%	10.8%
Adjusted Loan Loss Provision Expense To Avg Total Assets	26.6%	1.6%	0.4%	(0.2%)	0.9%	0.0%	20.5%
Adjusted Operating Expense-to-Average Total Assets	9.6%	22.2%	13.6%	8.4%	6.5%	24.8%	10.8%
Adjusted Personnel Expense	6.5%	11.4%	9.0%	5.1%	2.7%	13.2%	6.9%
Adjusted Admin Expense	3.1%	10.8%	4.7%	3.3%	3.8%	11.7%	3.9%
Adjustment Expense-to-Average Total Assets	3.3%	3.4%	1.3%	4.6%	6.5%	0%	3.2%

OTHER

	SDF	OLP	Total
			(PKR 000)
Adjusted Total Expense	3,636	34,262	37,898
Adjusted Financial Expense	52	16,886	16,939
Adjusted Loan Loss Provision Expense	374	2,482	2,856
Adjusted Operating Expense	3,209	14,894	18,103
Adjustment Expense	320	5,140	5,460
Average Total Assets	28,839	163,792	192,631
			Weighted Avg.
Adjusted Total Expense-to-Average Total Assets	12.6%	20.9%	19.7%
Adjusted Financial Expense-to-Average Total Assets	0.2%	10.3%	8.8%
Adjusted Loan Loss Provision Expense to Avg Total Assets	1.3%	1.5%	1.5%
Adjusted Operating Expense-to-Average Total Assets	11.1%	9.1%	9.4%
Adjusted Personnel Expense	8.8%	4.5%	5.1%
Adjusted Admin Expense	2.3%	4.6%	4.3%
Adjustment Expense-to-Average Total Assets	1.1%	3.1%	2.8%

Operating Efficiency

MFB

	KBL	TMFB	POMFB	FMFB	RMFB	NMFB	KMFB	Total
								(PKR 000)
Adjusted Operating Expense	696,847	419,881	82,347	517,621	24,469	38,289	84,586	1,864,040
Adjusted Personnel Expense	350,365	229,796	52,892	244,894	11,200	21,309	26,307	936,763
Average Gross Loan Portfolio	2,873,126	657,830	109,367	1,666,481	30,933	57,324	276,290	5,671,350
Average Number of Active Borrowers /Clients	300,147	97,680	39,445	243,096	6,506	9,090	9,217	705,179
Average Number of Active Loans /(Deposits)	300,147	97,680	39,445	243,096	6,506	9,090	9,217	705,179
								Weighted Avg.
Adjusted Operating Expense-to-Average Gross Loan Portfolio	24.25%	63.8%	75.3%	31.1%	79.1%	66.8%	30.6%	32.9%
Adjusted Personnel Expense-to-Average Gross Loan Portfolio	12.19%	34.9%	48.4%	14.7%	36.2%	37.2%	9.5%	16.5%
Average Salary/Per capita	2,200	3,300	4,300	1,900	2,500	3,700	1,200	2,300
Adjusted Cost per Borrower	2,300	4,300	2,100	2,100	3,800	4,200	9,200	2,600
Adjusted Cost per Loan	2,300	4,300	2,100	2,100	3,800	4,200	9,200	2,600

MFI

	KF	SAFWCO	DAMEN	CSC	OPP	Asasah	Total
							(PKR 000)
Adjusted Operating Expense	431,830	35,640	54,860	23,121	15,191	78,574	639,216
Adjusted Personnel Expense	293,263	18,274	36,131	14,018	6,265	41,709	409,661
Average Gross Loan Portfolio	3,330,967	126,926	287,906	164,674	168,625	224,053	4,303,151
Average Number of Active Borrowers /Clients	307,457	17,786	34,760	16,343	22,442	25,721	424,508
Average Number of Active Loans /(Deposits)	257,346	17,786	34,760	16,343	22,442	25,721	374,397
							Weighted Avg.
Adjusted Operating Expense-to-Average Gross Loan Portfolio	13.0%	28.1%	19.1%	14.0%	9.0%	35.1%	14.9%
Adjusted Personnel Expense-to-Average Gross Loan Portfolio	8.8%	14.4%	12.5%	8.5%	3.7%	18.6%	9.5%
Average Salary/Per capita	1,900	1,600	2,200	2,200	900	2,200	1,900
Adjusted Cost per Borrower	1,400	2,000	1,600	1,400	700	3,100	1,500
Adjusted Cost per Loan	1,700	2,000	1,600	1,400	700	3,100	1,700

RSP

	NRSP	PRSP	SRSP	TRDP	Total
					(PKR 000)
Adjusted Operating Expense	610,434	109,579	13,547	81,473	815,034
Adjusted Personnel Expense	367,863	61,737	10,621	32,227	472,448
Average Gross Loan Portfolio	5,299,719	540,600	57,442	329,031	6,226,793
Average Number of Active Borrowers /Clients	429,160	70,729	9,011	34,008	542,906
Average Number of Active Loans /(Deposits)	429,160	70,729	9,011	34,008	542,906
					Weighted Avg.
Adjusted Operating Expense-to-Average Gross Loan Portfolio	11.5%	20.3%	23.6%	24.8%	13.1%
Adjusted Personnel Expense-to-Average Gross Loan Portfolio	6.9%	11.4%	18.5%	9.8%	7.6%
Average Salary/Per capita	1,500	1,700	2,000	2,200	1,600
Adjusted Cost per Borrower	1,400	1,500	1,500	2,400	1,500
Adjusted Cost per Loan	1,400	1,500	1,500	2,400	1,500

OTHER

	SDF	OLP	Total
			(PKR 000)
Adjusted Operating Expense	3,209	14,894	18,103
Adjusted Personnel Expense	2,550	7,304	9,854
Average Gross Loan Portfolio	6,955	141,805	148,760
Average Number of Active Borrowers /Clients	751	12,039	12,789
Average Number of Active Loans /(Deposits)	822	12,039	12,860
			Weighted Avg.
Adjusted Operating Expense-to-Average Gross Loan Portfolio	46.1%	10.5%	12.2%
Adjusted Personnel Expense-to-Average Gross Loan Portfolio	36.7%	5.2%	6.6%
Average Salary/Per capita	1,000	1,700	1,500
Adjusted Cost per Borrower	4,300	1,200	1,400
Adjusted Cost per Loan	3,900	1,200	1,400

Productivity

MFB

	KBL	TMFB	POMFB	FMFB	RMFB	NMFB	KMFB	Total
Number of Active Borrowers	312,851	43,791	10,853	168,191	1,601	2,336	18,434	558,057
Number of Active Loans	312,851	43,791	10,853	168,191	1,601	2,336	18,434	558,057
Number of Active Savers	3,477	76,050	16,859	139,517	4,849	8,090	-	248,842
Number of Saving Accounts	3,477	76,050	16,859	139,517	4,849	8,090	-	248,842
Total Number of Staff	2,008	865	152	1,575	56	72	273	5,001
Total Number of Loan Officers	808	630	117	730	16	34	135	2,470
								Weighted Avg.
Borrowers per staff	156	51	71	107	29	32	68	112
Loans per staff	156	51	71	107	29	32	68	112
Borrowers per loan officer	387	70	93	230	100	69	137	226
Loans per Loan Officer	387	70	93	230	100	69	137	226
Savers Per staff	2	88	111	89	87	112	-	50
Saving accounts per staff	2	88	111	89	87	112	-	50
Personnel Allocation Ratio	40.2%	72.8%	77.0%	46.3%	28.6%	47.2%	49.5%	49.4%

MFI

	KF	SAFWCO	DAMEN	CSC	OPP	Asasah	Total
Number of Active Borrowers	319,517	18,043	36,897	17,432	23,896	23,730	439,515
Number of Active Loans	415,669	18,043	36,897	17,432	23,896	23,730	535,667
Number of Active Savers	99,022	-	-	-	-	23,730	122,752
Number of Saving Accounts	99,022	-	-	-	-	23,730	122,752
Total Number of Staff	1,917	143	200	80	89	233	2,662
Total Number of Loan Officers	950	64	100	52	82	100	1,348
							Weighted Avg.
Borrowers per staff	167	126	184	218	268	102	165
Loans per staff	217	126	184	218	268	102	201
Borrowers per loan officer	336	282	369	335	291	237	326
Loans per Loan Officer	438	282	369	335	291	237	397
Savers Per staff	52	-	-	-	-	102	46
Saving accounts per staff	52	-	-	-	-	102	46
Personnel Allocation Ratio	49.6%	44.8%	50.0%	65.0%	92.1%	42.9%	50.6%

RSP

	NRSP	PRSP	SRSP	TRDP	Total
Number of Active Borrowers	565,863	74,172	10,847	30,751	681,633
Number of Active Loans	565,863	74,172	10,847	30,751	681,633
Number of Active Savers	943,542	-	-	-	943,542
Number of Saving Accounts	67,030	-	-	-	67,030
Total Number of Staff	3,045	460	64	184	3,753
Total Number of Loan Officers	2,469	368	29	166	3,032
					Weighted Avg.
Borrowers per staff	186	161	169	167	182
Loans per staff	186	161	169	167	182
Borrowers per loan officer	229	202	374	185	225
Loans per Loan Officer	229	202	374	185	225
Savers Per staff	310	-	-	-	251
Saving accounts per staff	22	-	-	-	18
Personnel Allocation Ratio	81.1%	80.0%	45.3%	90.2%	80.8%

OTHER

	SDF	OLP	Total
Number of Active Borrowers	1,039	15,177	16,216
Number of Active Loans	1,154	15,177	16,331
Number of Active Savers	-	-	-
Number of Saving Accounts	-	-	-
Total Number of Staff	31	52	83
Total Number of Loan Officers	28	38	66
			Weighted Avg.
Borrowers per staff	34	292	195
Loans per staff	37	292	197
Borrowers per loan officer	37	399	246
Loans per Loan Officer	41	399	247
Savers Per staff	-	-	-
Saving accounts per staff	-	-	-
Personnel Allocation Ratio	90.3%	73.1%	79.5%

Risk

MFB

	KBL	TMFB	POMFB	FMFB	RMFB	NMFB	KMFB	Total
								(PKR 000)
Portfolio at Risk > 30 days	68,663	12,028	7,541	27,015	20,386	12,108	6,562	154,303
Portfolio at Risk > 90 days	34,728	5,618	3,081	13,105	13,564	5,435	-	75,530
Adjusted Loan Loss Reserve	80,399	18,445	4,804	43,652	9,716	5,903	9,831	172,749
Loan Written Off During Year	57,495	30,334	9,547	14,370	8,537	3,151	-	123,433
Gross Loan Portfolio	3,093,336	906,852	125,241	2,111,403	28,235	68,794	552,580	6,886,440
Average Gross Loan Portfolio	2,873,126	657,830	109,367	1,666,481	30,933	57,324	276,290	5,671,350
								Weighted Avg.
Portfolio at Risk(>30)-to-Gross Loan Portfolio	2.2%	1.3%	6.0%	1.3%	72.2%	17.6%	1.2%	2.2%
Portfolio at Risk(>90)-to-Gross Loan Portfolio	1.1%	0.6%	2.5%	0.6%	48.0%	7.9%	0.0%	1.1%
Write Off-to-Average Gross Loan Portfolio	2.0%	4.6%	8.7%	0.9%	27.6%	5.5%	0.0%	2.2%
Risk Coverage Ratio (Adjusted Loan Loss Reserve-to-Portfolio at Risk>30days)	117.1%	153.4%	63.7%	161.6%	47.7%	48.8%	149.8%	112.0%

MFI

	KF	SAFWCO	DAMEN	CSC	OPP	Asasah	Total
							(PKR 000)
Portfolio at Risk > 30 days	151,184	3,361	2,540	3,715	1,072	-	161,872
Portfolio at Risk > 90 days	12,019	2,730	1,952	3,392	546	-	20,639
Adjusted Loan Loss Reserve	1,267,865	4,105	7,458	5,678	-	4,515	1,289,622
Loan Written Off During Year	31,433	-	1,748	1,458	2,065	-	36,704
Gross Loan Portfolio	3,483,149	141,602	325,383	184,026	193,429	225,768	4,553,358
Average Gross Loan Portfolio	3,330,967	126,926	287,906	164,674	168,625	224,053	4,303,151
							Weighted Avg.
Portfolio at Risk(>30)-to-Gross Loan Portfolio	4.3%	2.4%	0.8%	2.0%	0.6%	0.0%	3.6%
Portfolio at Risk(>90)-to-Gross Loan Portfolio	0.3%	1.9%	0.6%	1.8%	0.3%	0.0%	0.5%
Write Off-to-Average Gross Loan Portfolio	0.9%	0.0%	0.6%	0.9%	1.2%	0.0%	0.9%
Risk Coverage Ratio (Adjusted Loan Loss Reserve-to-Portfolio at Risk>30days)	838.6%	122.1%	293.7%	152.8%	0.0%	0.0%	796.7%

RSP

	NRSP	PRSP	SRSP	TRDP	Total
					(PKR 000)
Portfolio at Risk > 30 days	54,815	27,144	1,347	23,496	106,801
Portfolio at Risk > 90 days	47,316	24,559	721	18,276	90,871
Adjusted Loan Loss Reserve	123,542	60,718	1,347	32,421	218,027
Loan Written Off During Year	4,466	43,581	859	88,002	136,908
Gross Loan Portfolio	7,354,447	653,592	71,965	316,139	8,396,143
Average Gross Loan Portfolio	5,299,719	540,600	57,442	329,031	6,226,793
					Weighted Avg.
Portfolio at Risk(>30)-to-Gross Loan Portfolio	0.7%	4.2%	1.9%	7.4%	1.3%
Portfolio at Risk(>90)-to-Gross Loan Portfolio	0.6%	3.8%	1.0%	5.8%	1.1%
Write Off-to-Average Gross Loan Portfolio	0.1%	8.1%	1.5%	26.7%	2.2%
Risk Coverage Ratio (Adjusted Loan Loss Reserve-to-Portfolio at Risk>30days)	225.4%	223.7%	100.0%	138.0%	204.1%

OTHER

	SDF	OLP	Total
			(PKR 000)
Portfolio at Risk > 30 days	959	2,759	3,717
Portfolio at Risk > 90 days	762	2,547	3,309
Adjusted Loan Loss Reserve	293	154	447
Loan Written Off During Year	305	2,635	2,940
Gross Loan Portfolio	8,750	156,498	165,248
Average Gross Loan Portfolio	6,955	141,805	148,760
			Weighted Avg.
Portfolio at Risk(>30)-to-Gross Loan Portfolio	11.0%	1.8%	2.2%
Portfolio at Risk(>90)-to-Gross Loan Portfolio	8.7%	1.6%	2.0%
Write Off-to-Average Gross Loan Portfolio	4.4%	1.9%	2.0%
Risk Coverage Ratio (Adjusted Loan Loss Reserve-to-Portfolio at Risk>30days)	30.6%	5.6%	12.0%

Annex B
Sources of Data (2008)

Microfinance Bank (MFB)

Kashf Microfinance Bank Ltd. (KMFB)

- KMFB provided PMN with its audited accounts. The numbers reported in the PMR match these reports.
- All necessary adjustments to KMFB data have been made in order to remove subsidies. Adjustments were not made for loan loss provisioning expense, since KMFB is aggressive in its policies as required by the SBP. Adjustment for cost of borrowing was not made since there are no borrowings. Since the bank has started its operations in 2008 inflation adjustment was also not carried this year.
- KMFB prepares accounts on historical cost basis using the accrual system of accounting.

  The following numbers have been taken from KMFB's MIS:

  i) Rural-urban clients;
  ii) Male-female clients;
  iii) Number of Staff;
  iv) Number of credit officers; and
  v) Number of branches (also available in audited accounts).

Khushhali Bank Ltd. (KBL)

- KBL provided PMN with its audited accounts. The numbers reported in the PMR match these reports.
- All necessary adjustments to the KBL data have been made in order to remove subsidies. Adjustments were not made for loan loss provisioning expense, since KBL is aggressive in its policies, as required by the SBP.
- KBL prepares its accounts on historical cost basis using the accrual system of accounting.
- The following numbers have been taken from KBL's MIS:

  i) Rural-urban clients;
  ii) Male-female clients;
  iii) Portfolio aging;
  iv) Number of Staff;
  v) Number of credit officers; and
  vi) Number of branches (also available in audited accounts).

Network Microfinance Bank Ltd. (NMFB)

- NMFB has provided PMN with its audited accounts. The figures reported in the PMR match these reports.
- All necessary adjustments to NMFB data have been made in order to remove subsidies. Adjustment for cost of borrowing was not made since NMFB is only accessing commercial sources of borrowing. Similarly, no adjustment was made on loan loss provisioning expense; NMFB is aggressive in its policies, as required by the SBP.
- NMFB prepares accounts on historical cost basis using the accrual system of accounting.
- Data on distribution of clients in terms of the urban-rural mix is not available in the disclosures. However, given that NMFB only works in Karachi and its peri-urban areas, the actual numbers can be deduced accurately.

  Numbers taken from the bank's MIS include:

  i) Male-female clients;
  ii) Portfolio Aging and Write-Offs (verified from audited accounts);
  iii) Number of Staff;
  iv) Number of credit officers; and
  v) Number of branches (also available in audited accounts).

Pak Oman Microfinance Bank Ltd. (POMFB)

- POMFB reported its audited accounts in newspapers, from whence the accounts were obtained. The numbers reported in the PMR match these reports.
- All necessary adjustments to the POMFB data have been made in order to remove subsidies. No adjustments were made to financial cost since POMFB was not using any concessional or commercial borrowing during the reported period. Similarly, no adjustment was made on loan loss provisioning expense; POMFB is aggressive in its policies, as required by the SBP.
- POMFB prepares accounts on historical cost basis using the accrual system of accounting.
- The following numbers have been taken from POMFB's MIS:

  i) Rural-urban clients;
  ii) Male-female clients;
  iii) Portfolio Aging and Write-Offs (verified from audited accounts);
  iv) Number of Staff;
  v) Number of credit officers; and
  vi) Number of branches (also available in audited accounts).

Rozgar Microfinance Bank Ltd. (RMFB)

- RMFB has provided PMN with its audited accounts. The figures reported in the PMR match these reports.
- All necessary adjustments to RMFB data have been made in order to remove subsidies. No adjustments were made to financial cost since RMFB was not using any concessional or commercial borrowing during the reported period. Similarly, no adjustment was made on loan loss provisioning expense; RMFB is aggressive in its policies, as required by the SBP.

- RMFB prepares accounts on historical cost basis using the accrual system of accounting.
- Data on distribution of clients in terms of the urban-rural mix is not available in the disclosures. However, given that RMFB only works in Karachi and its peri-urban areas, the actual numbers can be deduced accurately.
- Numbers taken from the bank's MIS include:
  - i) Male-female clients;
  - ii) Portfolio Aging and Write-Offs (verified from audited accounts).
- Data on the number of staff, proportion of credit officers, and the number of branches is available in the audited accounts.

Tameer Microfinance Bank Ltd. (TMFB)

- TMFB provided PMN with its audited accounts. The numbers reported in the PMR match these reports.
- All necessary adjustments to TMFB data have been made in order to remove subsidies. Adjustments were not made for loan loss provisioning expense, since TMFB is aggressive in its policies as required by the SBP. Adjustment for cost of borrowing was not made since these are all commercial borrowings. TMFB prepares accounts on historical cost basis using the accrual system of accounting.
- The following numbers have been taken from TMFB's MIS:
  - i) Rural-urban clients;
  - ii) Male-female clients;
  - iii) Number of Staff;
  - iv) Number of credit officers; and
  - v) Number of branches (also available in audited accounts).

The First Microfinance Bank Ltd. (FMFB)

- FMFB provided PMN with its audited accounts. The numbers reported in the PMR match these reports.
- All necessary adjustments to FMFB data have been made in order to remove subsidies. No adjustments were made to financial cost since FMFB was not using any concessional or commercial borrowing during the reported period. Similarly, no adjustment was made on loan loss provisioning expense; FMFB is aggressive in its policies, as required by the SBP.
- FMFB prepares accounts on historical cost basis using the accrual system of accounting
- The following numbers have been taken from FMFB's MIS:
  - i) Rural-urban clients;
  - ii) Male-female clients;
  - iii) Portfolio Aging and Write-Offs (verified from audited accounts);
  - iv) Number of Staff;
  - v) Number of credit officers; and
  - vi) Number of branches (also available in audited accounts).

Microfinance Institution (MFI)

Akhuwat

Akhuwat did not report in the PMR 2008.

Asasah

- Asasah provided PMN with its audited accounts. The numbers reported in the PMR match these reports.
- All necessary adjustments to Asasah data have been made in order to remove subsidies.
- The following adjustments were not made:
  - i) Adjustment on inflation since Asasah has negative equity;
  - ii) Cost of borrowing since Asasah's actual cost is more than the adjusted cost; and
  - iii) Loan loss provisioning expense since Asasah is aggressive in its policies.
- Asasah prepares its financial statements under the historical cost convention, in conformity with accepted accounting practices.
- The following numbers have been obtained from the organization's MIS:
  - i) Rural-urban clients;
  - ii) Male-female clients;
  - iii) Aging on number of loans and value of portfolio (not verifiable from audited accounts);
  - iv) Number of Staff;
  - v) Number of credit officers; and
  - vi) Number of offices.
- There is proper disclosure on movement in portfolio, loan loss provisioning, and write-off

BRAC-Pakistan

BRAC-Pakistan did not report in the PMR 2008

Community Support Concern (CSC)

- CSC provided PMN with its audited accounts. The numbers reported in the PMR match these reports.
- All necessary adjustments to CSC data have been made in order to remove subsidies. There is no adjustment on cost of borrowing since CSC's actual cost is higher then the adjusted cost. Similarly, no adjustment was made to loan loss provisioning expense; CSC is aggressive in its policies.
- CSC prepares its financial statements under the historical cost convention and in conformity with accepted accounting practices.

- The following numbers have been taken from the organization's MIS:
  i) Rural-urban clients;
  ii) Male-female clients;
  iii) Aging on number of loans and value of portfolio (not verifiable from audited accounts);
  iv) Number of Staff;
  v) Number of credit officers; and
  vi) Number of offices.
- There is proper disclosure on the balance sheet of loan portfolio, and loan loss provision; expense charged during the year is disclosed on the income statement.

Centre for Women Cooperative Development (CWCD)

CWCD did not report in the PMR 2008.

Development Action for Mobilization and Emancipation (DAMEN)

- DAMEN provided PMN with its audited accounts. The numbers reported in the PMR match these reports.
- Although DAMEN is a multi-dimensional development organization accounts for its microfinance function are kept separate.
- All necessary adjustments to DAMEN data have been made in order to remove subsidies. There is no adjustment on cost of borrowing since DAMEN's actual cost is higher then the adjusted cost. Similarly, no adjustment was made to loan loss provisioning expense; DAMEN is aggressive in its policies.
- DAMEN prepares its financial statements under the historical cost convention and in conformity with accepted accounting practices.
- The following numbers have been taken from the organization's MIS:
  i) Rural-urban clients;
  ii) Male-female clients;
  iii) Aging on number of loans and value of portfolio (verifiable from audited accounts);
  iv) Breakup for the number of loans doubtful;
  v) Number of Staff;
  vi) Number of credit officers
- DAMEN has proper disclosure in terms of movement in portfolio, loan loss provisioning and write off.

Kashf Foundation (KF)

- KF provided PMN with its audited accounts. The numbers reported in the PMR match these reports.

- All necessary adjustments to KF data have been made in order to remove subsidies. No adjustments were made to financial cost since FMFB was not using any concessional or commercial borrowing during the reported period. No adjustment was made to loan loss provisioning expense; KF is aggressive in its policies.
- KF prepares its financial statements under the historical cost convention and in conformity with accepted accounting practices.
- The following numbers have been taken from the organization's MIS:
  - **i)** Rural-urban clients;
  - **ii)** Male-female clients;
  - **iii)** Aging on number of loans and value of portfolio (verified from audited accounts);
  - **iv)** Number of Staff;
  - **v)** Number of credit officers; and
  - **vi)** Number of branches (also available in audited accounts).
- There is proper disclosure on movement in portfolio, loan loss provisioning, and write-off. The notes clearly disclose loans considered good and those considered doubtful.

Orangi Pilot Project (OPP)

- OPP provided PMN with its audited accounts. The numbers reported in the PMR match these reports.
- Although OPP is a multi-dimensional development organization, accounts for its microfinance function are kept separate.
- OPP prepares four separate sets of audited accounts for four different credit projects. It will be more useful if consolidated audited accounts of the four projects are prepared.
- Revenue and expenditure are recognized on cash basis.
- All necessary adjustments to OPP data have been made in order to remove subsidies. There is no adjustment on cost of borrowing since OPP's actual cost is higher then the adjusted cost. Similarly, no adjustment was made to loan loss provisioning expense; OPP is aggressive in its policies.
- OPP prepares its financial statements under the historical cost convention, in conformity with accepted accounting practices.
- The following numbers have been taken from the organization's MIS:
  - **i)** Rural-urban clients;
  - **ii)** Male-female clients;
  - **iii)** Aging on number of loans and value of portfolio (not verifiable from audited accounts);
  - **iv)** Loan Loss provisioning and Write-Off;
  - **v)** Number of Staff;
  - **vi)** Number of credit officers; and
  - **vii)** Number of offices.

- There is proper disclosure on movement in loan portfolio; however there is no disclosure on loan loss provisioning and write-off.

Rural Community Development Society (RCDS)

RCDS did not report in the PMR 2008.

Sindh Agricultural and Forestry Workers Coordinating Organization (SAFWCO)

- SAFWCO provided PMN with its audited accounts. The numbers reported in the PMR match these reports.
- Although SAFWCO is a multi-dimensional development organization accounts for its microfinance function are kept separate.
- Income and expense are booked on an accrual basis.
- All necessary adjustments to SAFWCO data have been made in order to remove subsidies.
- SAFWCO prepares its financial statements under the historical cost convention and in conformity with accepted accounting practices using the principles of fund accounting.
- The following numbers have been taken from the organization's MIS:
  - i) Rural-urban clients;
  - ii) Male-female clients;
  - iii) Aging on number of loans and value of portfolio (not verifiable from audited accounts);
  - iv) Number of Staff; and
  - v) Number of credit officers.
- There is no proper disclosure on movement in loan portfolio, loan loss provisioning and write-off. However, figures on loan loss provisioning, OLP, and loan loss reserve are disclosed in the financial statements.
- SAFWCO has substantially improved its disclosures compared to previous years, which is highly appreciable.

Rural Support Programmes (RSP)

National Rural Support Programme (NRSP)

- NRSP has provided its audited accounts for the reporting period to PMN and the figures tally with the reported data.
- NRSP has prepared separate financial statements for its microfinance operations for the first time.
- All necessary adjustments to SAFWCO data have been made in order to remove subsidies. Adjustments have also been made for financial cost, and inflation on equity. There is no adjustment on loan loss provisioning expense, since NRSP is aggressive in its policies and all loans > 90 days past due are 100% provisioned for.
- NRSP prepares its financial statements under the historical cost convention, in conformity with accepted accounting practices.

- Data on distribution of clients in terms of the urban-rural mix is not provided in the disclosures. However, given that NRSP has a separate program for urban areas and rural areas and their information is available separately, the disaggregation can be made quite accurately. The data on gender segregation was taken from the MIS and is not available in notes to the accounts.
- The ageing of portfolio in rupee value is not verifiable from audited accounts. Both ageing on the number of loans and value of portfolio was obtained from the MIS. There is proper disclosure on movement in portfolio and write-offs. It will be valuable if from next year NRSP could provide separate disclosure on movement in provisioning of portfolio.
- Data on the number of total staff, loan officers and branches has been drawn from audited accounts.

Punjab Rural Support Programme (PRSP)

- PRSP has provided its audited accounts for the reporting period to PMN.
- Since PRSP is an integrated programme; the following resource allocation process was followed:
  - **a)** The identified accounts for credit and non-credit functions were directly transferred to the respective programs.
  - **b)** All other accounts that were common to the institution were transferred in the ratio of 60% to credit and 40% to non-credit functions.
  - **c)** 60% of PRSP's investment income was credited to its credit operations
- All necessary adjustments to PRSP data have been made in order to remove subsidies. This also includes writing of all the GLP 360 days past due.
- PRSP prepares its financial statements under the historical cost convention, in conformity with accepted accounting practices.
- Data on distribution of clients in terms of the urban-rural mix is not provided in the disclosures. However, given that PRSP only works in rural Punjab the information can be accurately deduced. The data on gender segregation was taken from the MIS and is not available in notes to the accounts.
- The ageing of portfolio in rupee value is not verifiable from audited accounts. Both ageing on the number of loans and value of portfolio was obtained from the MIS. There is proper disclosure on movement in portfolio, loan loss provisioning and write-offs.
- Data on number of staff for PRSP as a whole is available. These numbers have been allocated between credit and non-credit functions of PRSP on the basis mentioned above. Data for credit officers has been obtained from the organization's MIS.
- The PMN cannot rely 100% on the numbers quoted for active borrowers.

Sarhad Rural Support Programme (SRSP)

- SRSP is a multi-dimensional development organization. It has provided its integrated audited accounts for the reporting period to PMN and has also extracted accounts for its microfinance operations from the consolidated audited statements.

- All necessary adjustments to SRSP data have been made in order to remove subsidies. Adjustments have also been made for financial cost, and inflation on equity. There is no adjustment on loan loss provisioning expense, since SRSP is aggressive in its policies and all loans > 90 days past due are 100% provisioned for.
- SRSP prepares its financial statements under the historical cost convention in conformity with accepted accounting practices.
- The ageing of portfolio in rupee value is not verifiable from audited accounts. Both ageing on number of loans and value of portfolio was obtained from the MIS. However, there is proper disclosure on movement in portfolio and write-offs. It will be valuable if SRSP could provide separate disclosure on movement in provisioning of portfolio as suggested previously.
- Data on the number of total staff, loan officers and branches has been drawn from audited accounts.

Thardeep Rural Development Programme (TRDP)

- TRDP has provided its audited accounts for the consolidated program (inclusive of credit and non-credit functions).
- Since TRDP is an integrated programme; the following resource allocation process was followed:
  a) From consolidated accounts for TRDP, allocations for the organization's microfinance function were made based upon the assumptions provided by the management.
  b) Income, expense and liability items only relevant to microfinance operations were separately identifiable. All other accounts that were common to the institution were transferred in the ratio of 55% to credit and 45% to non-credit functions.
  c) Except for loan portfolio, which was directly identifiable, other assets were also separated on the basis of 55% for microfinance and 45% for other functions.
- All necessary adjustments to TRDP data have been made in order to remove subsidies.
- TRDP prepares its financial statements under the historical cost convention in conformity with accepted accounting practices.
- The following numbers have been taken from the organization's MIS:
  i) Rural-urban clients;
  ii) Male-female clients;
  iii) Number of Staff; and
  iv) Number of credit officers.
- The ageing of portfolio (in rupee value and number of loans) is taken from audited accounts.

Other

Bank of Khyber (BOK)

BOK did not report in the PMR 2008.

Sungi Foundation (SF)

- SUNGI has provided PMN with its audited accounts for its entire organization as well as un-audited financials for its micro-credit component.
- The PMN cannot own the quality of this data.
- SF is urged to hire renowned audit firms in addition to preparing a separate set of audited accounts for its microfinance operations.

Orix Leasing Pakistan Ltd. (OLP)

- OLP has provided its audited accounts for the reporting period to PMN.
- However, given that OLP's audited accounts do not disclose figures related to its Microfinance Division (MFD), the data reported in the PMR is not verifiable with audited accounts.
- OLP has separate staff and offices for microfinance. OLP's MFD has provided data specific to its microfinance operations.
- OLP prepares its financial statements under the historical cost convention in using accrual system of accounting.
- Adjustments to the data have been made as per the PMN's adjustment policies. These adjustments are in line with international practices being followed by The MIX.

Reporting MFPs

Category	MFP	Reporting Record					Reporting Period	
		2008	2007	2006	2005	2004	Start	End
MFB	Kashf Microfinance Bank Ltd. (KMFB)	✓	✗	✗	✗	✗	Jan 2008	Dec 2008
	Khushhali Bank Ltd. (KHB)	✓	✓	✓	✓	✓	Jan 2008	Dec 2008
	Network MicroFinance Bank Ltd. (NMFB)	✓	✓	✓	✓	✗	Jan 2008	Dec 2008
	Pak-Oman Microfinance Bank Ltd. (POMFB)	✓	✓	✓	✗	✗	Jan 2008	Dec 2008
	Rozgar Microfinance Bank Ltd. (RMFB)	✓	✓	✓	✓	✗	Jan 2008	Dec 2008
	Tameer Microfinance Bank Ltd. (TMFB)	✓	✓	✓	✗	✗	Jan 2008	Dec 2008
	The First MicroFinance Bank Ltd. (FMFB)	✓	✓	✓	✓	✓	Jan 2008	Dec 2008
MFI	Akhuwat	✗	✓	✓	✓	✗	-	-
	Asasah	✓	✓	✓	✓	✓	Jul 2007	June 2008
	Community Support Concern (CSC)	✓	✓	✓	✗	✗	Jan 2008	Dec 2008
	Centre for Women Cooperative Development (CWCD)	✗	✗	✗	✗	✗	-	-
	Development Action for Mobilization and Emancipation (DAMEN)	✓	✓	✓	✓	✓	Jan 2008	Dec 2008
	Kashf Foundation	✓	✓	✓	✓	✓	Jan 2008	Dec 2008
	Orangi Pilot Project (OPP)	✓	✓	✓	✓	✓	Jul 2007	June 2008
	Sindh Agricultural and Forestry Workers Cooperative Organization (SAFWCO)	✓	✓	✓	✓	✓	Jul 2007	June 2008
RSP	National Rural Support Programme (NRSP)	✓	✓	✓	✓	✓	Jul 2007	June 2008
	Punjab Rural Support Programme	✓	✓	✓	✓	✓	Jul 2007	June 2008
	(PRSP)	-	-	-	-	-	-	-
	Sarhad Rural Support Programme (SRSP)	✓	✗	✗	✓	✓	Jul 2007	June 2008
	Thardeep Rural Development Programme (TRDP)	✓	✓	✓	✓	✓	Jul 2007	June 2008
Other	Bank of Khyber (BOK)	✗	✗	✗	✓	✓	-	-
	ORIX Leasing Pakistan (OLP)	✓	✓	✓	✓	✓	Jul 2007	June 2008
	Sungi Development Foundation (SDF)	✓	✗	✗	✓	✓	Jan 2008	Dec 2008

Annex C
Adjustments to Financial Data

Rationale

Adjustments to financial statements are made when doing benchmark analysis. Adjustments are made for two primary reasons:

- To give an institution a more accurate picture of its financial position, by accounting for factors unique to an MFP including the predominance of below-market-rate funding sources. Such factors distort an MFP's on-going performance.
- To make the data of various MFPs comparable. Thus, adjustments are made in order to bring organizations operating under varying conditions and with varying levels of subsidy onto a level playing field.

The following adjustments are made to data used for the PMR:

A. Inflation Adjustment

Adjusts for the effect of inflation on an MFP's equity and non-monetary assets i.e., fixed assets. Inflation decreases the real value of an MFP's equity. Fixed assets are capable of tracking the increase in price levels; their monetary value is increased. The net loss (or gain) is considered to be a cost of funds, and results in a decrease (or increase) in net operating income.

Calculation

Inflation Adjustment Revenue

Multiply the prior year's Net Fixed Assets by the current year's average annual inflation rate (Average Core CPI for 2007-2008 as reported on the SBP website) Net Fixed Assets (Prior Year) x Average Annual Inflation Rate (Current Year)

Inflation Adjustment Expense

Multiply the prior year's Equity by the current year's average annual inflation rate, (Average Core CPI for 2003-2004 as reported on the SBP website) Equity (Prior Year) x Average Annual Inflation Rate (Current Year)

Net Inflation Adjustment Expense

Subtract the Inflation Adjustment Revenue from the Inflation Adjustment Expense

Inflation Adjusted Revenue – Inflation Adjusted Expense

B. Subsidies Adjustment

Adjustments for three types of subsidies are made:

- A cost-of-funds subsidy from loans at below-market rates
- Current year cash donations to fund portfolio and cover expenses
- In-kind subsidies, such as rent-free office space or the services of personnel not paid by the MFP and thus not reflected on its income statement.

Additionally, for multipurpose MFPs, an attempt to isolate the performance of the financial services program is made by removing the effect of any cross-subsidization. Cash donations flowing through the income statement are accounted for by reclassifying them below net operating income on the income statement. Thus, adjustments for cash donations are not made since these are handled through a direct reclassification on the income statement. This year no MFP has disclosed receipt of in-kind subsidy.

B.1. Cost-of-Funds Subsidy

The cost-of-funds adjustment reflects the impact of soft loans on the financial performance of an MFP. The analyst needs to calculate the difference between what an MFP actually paid in interest on its subsidized liabilities and a shadow market rate for each country. This difference represents the value of the subsidy, considered an additional financial expense. Only funds received as loans need to be adjusted. Client deposits are not adjusted. Only loans that have a finite (1-5 years) term length are adjusted. Subordinated debt and other quasi-equity accounts are reclassified as 'other equity' on the balance sheet.

The analyst must be careful in the choice of an appropriate shadow rate. The PMN has used an average lending rate on outstanding loans as reported by the State Bank of Pakistan on its website (8.94%) to make this adjustment.

Calculation

1/ Calculate average balance for all borrowings. Borrowings do not include deposits or "other liabilities". If MFI has given an average balance, see if this is more appropriate to use; if not, calculate average from last year's ending balance.

2/ Multiply the average balance by the shadow market rate.

3/ Compare with the amount actually paid in interest and fees. If less "market" rate, impute the difference (market price minus Financial Expense paid on Borrowings) to the Subsidized Cost of Funds Adjustment Expense

B.2. Cash Donations

Funds donated to cover operational costs constitute a direct subsidy to an MFP. The value of the subsidy is therefore, equal to the amount donated to cover expenses incurred in the period reported. Some donations are provided to cover operating shortfall over a period greater than one year. Only the amount spent in the year is recorded on the income statement as revenue. Any amount still to be used in subsequent years appears as a liability on the balance sheet (deferred revenue). This occurs because theoretically if an MFP stopped operations in the middle of a multi-year operating grant, it would have to return the unused portion of the grant to the donor. The unused amount is therefore, considered as a liability.

Funds donated to pay for operations should be reported on the income statement separately from the revenue generated by lending and investment activities. This practice is meant for accurately reporting the earned revenue of an MFP. Donated funds are deducted from revenue or net income prior to any financial performance analysis because they do not represent revenue earned from operations.

Note: Costs incurred to obtain donor funds (fundraising costs) should also be separated from operating expenses, because the benefit of receiving the funds is not included.

B.3. In-kind Subsidy

Imputed cost (book value) of donated/loaned-out vehicles, machinery and buildings need to be included in operating expenses. Expatriate staff salaries paid by donor or parent company, or other technical assistance, need to be accounted for. Here, imputed salaries are used instead of salaries actually received by them i.e., the salary range that a local hire would get for the same level of work-load/position is used.

Note: The analyst must use his/her judgment in deciding whether or not the in-kind donation represents a key input to the on-going operations of the MFP. An appropriate basis for valuation is important. This could include selecting a percentage of the total cost and attributing it to program expense. The percentage may be selected on the basis of sales proportion, management input, etc.

Calculation

Sum of in-kind subsidies by operating expense account, added to unadjusted numbers for each account

C. Loan Loss Provisioning

The PMN standardizes loan loss provisioning for MFPs to a minimum threshold or risk. MFPs vary tremendously in accounting for loan delinquency. Some count the entire loan balance as overdue the day a payment is missed. Others do not consider a loan delinquent until its full term has expired. Some MFPs write off bad debt within one year of the initial delinquency, while others never write off bad loans, thus carrying forward a default that they have little chance of ever recovering.

The analyst applies a standard loan loss provisioning to all MFPs and adjusts, where necessary, to bring them to the minimum threshold. In some cases, these adjustments may not be precise. Portfolio aging information may only be available on different aging scales.

Calculation

Step 1: Multiply the PAR age categories by the following reserve factors:

PAR up to 89 days no provisioning

PAR 91 – 180 x 0.50

PAR 181 – 360 x 1.00

Renegotiated loans x 0.50

Step 2: Sum above reserve calculations. If sum is more than current reserves make calculated reserve new Loan Loss Reserve. If not, keep current reserves.

Step 3: Add the Unadjusted Loan Loss Provision Expense to the difference between the Adjusted Net Loan Portfolio and the Unadjusted Net Loan Portfolio.

This is the Adjusted Loan Loss Provision Expense.

Annex D
Definitions of Terms and Indicators

Age

Indicates the number of years an organization has been functioning as a microfinance provider.

Active Saving Account Balance

Indicates the average balance of saving per account (not per depositor).

Adjustment Expense

Refers to the total adjustment cost related to inflation, subsidized cost of borrowing, loan loss provisioning and in-kind subsidies.

Adjusted Financial Expense Ratio

Adjusted Financial Expense/ Adjusted Average Total Assets

Adjusted Loan Loss Reserve

Loan loss reserve calculated by PMN using standardized adjustment tool i.e., ageing of portfolio technique. The analyst follows the principle of conservatism which is why loan loss provision shown in the audited accounts is more than the one computed by the PMN.

Adjusted Operating Expense

Total of Personnel Expense and Administrative Expense

Also includes, Imputed cost (book value) of donated/loaned vehicles, machinery and buildings need to be included in the operating expenses. Expatriate staff salaries paid by donor or parent company, or other technical assistance, need to be accounted for. The imputed salaries are used instead of salaries actually received by such persons. For imputation, the salary range that a local hire would get for the same level of work-load/position should be used. Similarly, the analyst must use judgment in deciding whether or not the in-kind donation represents a key input to the on-going operations of the MFP.

Adjusted Operating Expense Ratio

Adjusted Operating Expense/ Adjusted Average Total Assets

Adjusted Portfolio at Risk> 90 Days

Indicates the credit risk of a borrower above the specified number of days (30, 60, 90) past his/her due date for installment payment.

Outstanding balance, loans overdue> (30 or 90) Days/ Adjusted Gross Loan Portfolio

Adjusted Cost per Borrower

In case of loan size differentials, generally operating expense ratio is lower (more efficient) for institutions with high loan size, ceteris paribus. This indicator discounts the affect of loan size on efficient management of loan portfolio.

Adjusted Operating Expense/ Average Number of Active Borrowers

Adjusted Cost per Loan

Adjusted Operating Expense/ Average Number of Active Loans

Adjustment Expense Ratio

Net inflation, in kind, loan loss provision and subsidized cost-of-funds adjustment expense/ Adjusted Average Total Assets

Adjusted Financial Expense

Includes actual cost of borrowing and shadow cost of subsidized funding.

Adjusted Financial Expense on Borrowing

The cost-of-funds adjustment reflects the impact of soft loans on the financial performance of the institution. The analyst calculates the difference between what the MFP actually paid in interest on its subsidized liabilities and what it would have paid at a shadow market rate for each country. This difference represents the value of the subsidy, considered an additional financial expense.

Adjusted Loan Loss Provision Expense Ratio

Adjusted Net Loan Loss Provision Expense/ Adjusted Average Total Assets

Adjusted Loan Loss Provision Expense

Loan loss provision expense calculated by PMN. Done through standardized adjustment tool using ageing of portfolio technique. It is however ensured that if the actual loan loss provision expense is higher than the adjusted then we follow the conservatism principle.

Adjusted Operating Expense

Includes actual operational expenses and in-kind subsidy adjustments.

Adjusted Operating Expense Ratio

Indicates the efficiency of the loan portfolio.

Adjusted Operating Expense/ Average Gross Loan Portfolio

Adjusted Personnel Expense

Includes actual personnel expenses (Salaries and benefits) and in-kind subsidy adjustments.

Adjusted Personnel Expense Ratio

Adjusted Personnel Expense/ Average Gross Loan Portfolio

Adjusted Profit Margin

Adjusted Net Operating Income/ Adjusted Financial Revenue

Adjusted Return on Assets

Adjusted Net Operating Income, net of taxes/ Average Total Assets

Adjusted Return on Equity

Adjusted Net Operating Income, net of taxes/ Average Total Equity

Adjusted Total Expense

Includes all types of actual and adjusted expenses related to operations, cost of borrowings, loan losses and inflation adjustment.

Adjusted Total Expense Ratio

Adjusted (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)Cost/ Average Total Assets

Average Gross Loan Portfolio

Average of opening and closing balance of Gross Loan Portfolio (GLP).

Average Loan Balance per Active Borrower

Indicates average loan balance outstanding.

Average Loan Balance per Active Borrower to Per Capita Income

Used to measure depth of outreach. The lower the ratio the more poverty-focused the MFP.

Average Number of Active Borrowers

Average of opening and closing balance of active borrowers.

Average Number of Active Loans

Average of opening and closing balance of active loans.

Average Outstanding Balance

Indicates the average balance of loans outstanding.

Adjusted Gross Loan Portfolio/Adjusted Number of Loan Outstanding

Average Outstanding Balance to Per Capita Income

Measure of depth of outreach. The lower the ratio the more poverty-focused the MFP.

Average Outstanding Balance/Per Capita Income

Average Saving Balance per Saver

Indicates average amount of saving balance per saver.

Average Total Assets

Average of opening and closing balance of total assets.

Average Total Equity

Average of opening and closing balance of total equity.

Borrowers per Loan Officer

A measure of loan officer productivity. Indicates the number of borrowers managed by a loan officer.

Number of Active Borrowers/ Number of Loan Officers

Borrowers per Staff

A measure of staff productivity. Indicates the number of borrowers managed by the staff on average.

Number of Active Borrowers/ Number of Personnel

Commercial Liabilities

Principal balance of all borrowings, including overdraft accounts, for which the organization pays a nominal rate of interest that may be greater than or equal to the local commercial interest rate.

Commercial Liabilities-to-Gross Loan Portfolio Ratio

All liabilities with "market" price/ Gross Loan Portfolio

Deposits (Voluntary Savings)

Demand deposits from the general public and members (clients) held with the institution. These deposits are not conditional to accessing a current or future loan from the MFP and include certificates of deposit or other fixed term deposits.

Deposit-to-Gross Loan Portfolio Ratio

This is an inverse to the advance-to-deposit ratio

Voluntary Savings/Gross Loan Portfolio

Deposit-to-Total Asset Ratio

Indicates the percentage of assets financed through deposits.

Voluntary Savings/Total Assets

Equity-to-Asset Ratio

This is a simple version of the capital adequacy ratio as it does not take in to account risk weighted assets. The ratio is calculated as follows:

Equity to Asset Ratio = Total Equity/Total Assets

This ratio indicates the proportion of a company's equity that is accounted for by assets.

Financial Expense

Total of financial expense on liabilities and deposits.

Financial Revenue

Total of revenue from loan portfolio and other financial assets, as well as other financial revenue from financial services.

Financial Revenue from Other Financial Assets

Net gains on other financial assets.

Financial Revenue from Loan Portfolio

Total interest, fees and commission on loan portfolio.

Financial Revenue Ratio:

Indicates the efficiency with which an MFP is utilizing its assets to earn income from them.

Financial Revenue/ Average Total Assets

Financial Self-Sufficiency

Financial Revenue/ Adjusted (Financial Expense + Net Loan Loss Provision Expense + Operating Expense + Inflation Adjustment)

Gross Loan Portfolio

All outstanding principal for all outstanding client loans, including current, delinquent and restructured loans. It does not include: 1). Loans that have been written-off, 2). Interest receivable, and 3). Employee loans. For accounting purposes GLP is categorized as an asset.

Gross Loan Portfolio-to-Total Asset Ratio

Indicates the efficiency of assets deployed in high yield instruments/core business of an MFP.

Gross Loan Portfolio/Total Assets

Inflation Adjustment Expense

PMN adjusts for the effect of inflation on an MFP's equity and its non-monetary assets—essentially fixed assets—on its balance sheet. Inflation decreases the real value of an MFP's equity. Fixed assets are considered to track the increase in price levels, and their value is considered increased. The net loss (or gain) is treated as a cost of funds, is disclosed on the income statement, and decreases net operating income.

Inflation Rate

Latest annualized consumer price index (CPI) as reported by the State Bank of Pakistan.

Liabilities-to-Equity Ratio (debt-equity ratio)

The formula to calculate this ratio is as follows:

Liabilities-to-Equity Ratio = Total Liabilities/Total Equity

Loan Loss Provision Expense

Sum of loan loss provision expense and recovery on loan loss provision.

Loans per Loan Officer

Number of Active Loans/ Number of Loan Officers

Loans per Staff

Number of Active Loans/ Number of Personnel

Net Adjusted Loan Loss Provision Expense

Sum of loan loss provision expense and recovery on loan loss provision. MFPs vary tremendously in accounting for loan delinquency. Some count the entire loan balance as overdue the day a payment is missed. Others do not consider a loan delinquent until its full term has expired. Some MFPs write off bad debt within one year of the initial delinquency, while others never write off bad loans, thus carrying forward a defaulting loan that they have little chance of ever recovering. The PMN applies a standard write-off and loan loss provisioning to all MFPs, and adjusts, where necessary, to bring them to the minimum threshold

Number of Active Borrowers

Number of borrowers with loan amount outstanding.

Number of Active Loans

The number of loans that have been neither fully repaid nor written off, and thus that are part of the MFP's gross loan portfolio.

Number of Active Women Borrowers

Number of women borrowers with loan amount outstanding.

Number of Active Women Borrowers to total Active Borrowers

Indicates percentage of women borrower to total active borrowers.

Number of Loans Outstanding

Number of loans outstanding at the end of the reporting period. Depending upon the policy of an MFP one borrower can have two loans outstanding; hence, the number of loans could be more than the number of borrowers.

Number of Savers

Number of depositors maintaining voluntary demand deposit and time deposit accounts with an MFP.

Number of Saving Accounts

One depositor can have more than two deposit accounts. Hence, the number of deposit accounts could be more than the number of depositors.

Number of Women Savers

Number of women savers with voluntary demand deposit and time deposit accounts.

Offices

The total number of staffed points of service (POS) and administrative sites (including head office) used to deliver or support the delivery of financial services to microfinance clients.

Operating Expense

Total of Personnel Expense and Administrative Expense.

Operational Self-Sufficiency

Financial Revenue/ (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)

Other Revenue Related to Financial Services

Other revenue from provision of financial services, including revenue from insurance or transfer services or non-financial revenue from the provision of financial services, such as the sale of passbooks or SmartCards. This account includes net exchange gains.

Per Capita Income

Average income per person.

Percentage of Women Savers to Total Savers

Indicates the percentage of women in the total saving portfolio.

Personnel

The number of individuals actively employed by an MFP. This number includes contract employees and advisors who dedicate of their time to the organization, even if they are not on the MFP's roster of employees. This number is expressed as a full-time equivalent, such that an advisor who spends 2/3 of his/her time with the MFP is accounted for as 2/3 of a full-time employee. the majority of their time to the organization, even if they are not on the MFP's roster of employees. This number is expressed as a full-time equivalent, such that an advisor who spends 2/3 of his/her time with the MFP is accounted for as 2/3 of a full-time employee.

Personnel Allocation Ratio

The higher the indicator the more lean the head office structure of the organization. This indictor is used to measure organizational efficiency.

Loan Officers / Total Staff.

Risk Coverage Ratio

Indicates the provision created by an MFP against its credit risk.

Adjusted Loan Loss Reserve/ PAR > 30 Days

Saving Outstanding

Total value of voluntary demand deposit and time deposit accounts.

Savers per Staff

Number of Savers/ Number of Personnel

Total Assets

Total net asset accounts i.e., all asset accounts net of any allowance. The one exception to this is the separate disclosure of the gross loan portfolio and loan loss reserve.

Total Equity

Equity represents the worth of an organization net of what it owes (liabilities). Equity accounts are presented net of distributions, such as dividends.

Total Equity = Total Assets – Total Liabilities

Total Liabilities

Liabilities represent the borrowings of an organization i.e., the amount owed. Examples of liabilities include loans, and deposits. This number includes both interest and non-interest bearing liabilities of an MFP.

Total Number of Loan Officers

The number of staff members who dedicate the majority of their time to direct client contact. Front office staff include more se typically qualified as credit or loan officers. They may also include tellers, personnel who open and maintain accounts—such as savings accounts—for clients, delinquent loan recovery officers, and others whose primary responsibilities bring them in direct contact with microfinance clients

Loan Written Off during Year

Value of loans written off during the year

Write-Off Rate

Loans written off during the year / Average Gross Loan Portfolio

Yield on Gross Portfolio (Nominal)

Indicates the yield on an MFPs loan portfolio and is usually used as a proxy to look at MFPs (realized) effective interest rate.

Financial Revenue from Loan Portfolio/ Average Gross Loan Portfolio.

Yield on Gross Portfolio (Real)

(Yield on Gross Portfolio (nominal) - Inflation Rate)/ (1 + Inflation Rate)

Pakistan Microfinance Review

The Pakistan Microfinance Review (PMR), formerly titled the Performance Indicators Report (PIR), is an annual publication of the Pakistan Microfinance Network (PMN). The report tracks the financial performance of organizations accounting for approximately 95% of the outreach achieved by the microfinance industry of Pakistan. The aim of publishing the PMR is to provide a reliable information gateway to the microfinance industry in Pakistan. By providing detailed analysis based on sector-wide as well as institutional-level financial data, the PMN aims to positively influence the landscape of the microfinance sector by facilitating greater competitiveness, the establishment of stronger retail institutions, and improved financial transparency.

The PMR 2008 focuses on **Mainstreaming of Microfinance in Pakistan** i.e., the integration of the industry into the mainstream financial landscape of the country. A tiered approach based on the performance of macro, meso and micro level players in the sector has been adopted to develop the analysis. The approach was adopted in order to develop a holistic assessment of the mainstreaming process, instead of keeping the discourse limited to increases in outreach and portfolio numbers. The report also identifies some opportunities and challenges that continue to face the industry.

Pakistan Microfinance Network

The Pakistan Microfinance Network (PMN) is an association of retail microfinance providers in Pakistan. As a network its mission is to provide support to the sector to enhance scale, quality, diversity and sustainability in order to build an inclusive financial services sector in Pakistan.

For more information on the PMN, please visit our website:
www.microfinanceconnect.info

Intellectual Capital Advisory Services Pvt. Ltd.

Intellectual Capital Advisory Services Pvt. Ltd (Intellecap) is an Indian consultancy firm for the development sector. It areas of expertise involve business innovation, capacity development, and investment initiatives. In addition to these, Intellecap is involved in strategic advisory roles, and the direct design of initiatives aimed at leveraging profit-orientated solutions to resolving poverty.

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Performance Reports by PMN

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(Jan – Dec 1999)

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Pakistan Microfinance Network