



Social Performance Country Report

2016



This report details the state of SPM practice among Pakistan Microfinance Network members in key operational and strategic areas. It is based on self-reported SPI4¹ data collected in 2016, and discusses both successes and challenges alike. This report was developed with the support of the Social Performance Fund, financed by the Ford Foundation and managed by the Microfinance Centre.²

1 For more information about SPI4 please check the www.cerise-spi4.org

2 For more information on the work of the SP Fund, please visit www.mfc.org.pl

For more information about the Social Performance Task Force, please visit www.sptf.info.

EXECUTIVE SUMMARY

Microfinance industry witnessed continued growth and expansion in year 2015-2016. There were notable developments in policy environment which will lead to stronger players and the sector can play a crucial role in furthering financial inclusion in the country.

LAUNCH OF NBMFIs REGULATIONS

SECP issued a regulatory framework for non-bank MFIs, bringing the unregulated majority under its ambit. This will help in levelling the playfield for all MFIs in the country. With the growing focus on responsible finance and consumer protection, a regulatory regime will help with the mainstreaming of non-bank microfinance players.

ACCOMPLISHMENTS

- On the policy front, the launch of National Financial Inclusion Strategy (NFIS) and introduction of regulatory framework for Non-Bank Microfinance Institutions (NB-MFIs) were the major developments.
 - NFIS outlines the roadmap for financial inclusion in the country from year 2015-2020. Charted by the State Bank of Pakistan (SBP), the strategy identifies four key drivers to achieve financial inclusion: a) promoting digital transactions, b) expanding and diversifying access points, c) capacity building of microfinance providers (MFIs), d) and increasing levels of financial literacy. This strategy not only charts a clear way forward but also brings all the major stakeholders together to make unified and concentrated effort for furthering financial inclusion in the country.
 - After years of advocacy and preparation, in the last quarter of 2015, Securities and Exchange Commission (SECP) issued regulations for non-bank microfinance companies. This is a major milestone for the microfinance industry as it will mainstream non-microfinance institutes effacing away the ambiguities and the NB-MFIs will have a chance to mature under the tutelage of SECP.
- Branchless banking transactions increased by 40 percent and crossed the 100 million mark resting at 101 million as of 30th September, 2016.³

³ This information is taken from State Bank of Pakistan's (SBP) Branchless Banking Newsletter. It can be accessed on www.sbp.org.pk

- Microfinance Credit Information Bureau (MF-CIB) became an essential component of credit approval process by practitioners, mitigating the risk of over-indebtedness.
- Three PMN members underwent the SPI4 social audit and two organizations are on the road to be Smart Certified.
- Department for International Development (DFID), Pakistan Poverty Alleviation Fund and Karandaaz Pakistan joined hands with the German Development Bank KfW to create Pakistan Microfinance Investment Company (PMIC). PMIC will help the sector in meeting its funding appetite.

CHALLENGES

- Funding continues to remain a key challenge being faced by the sector. Lack of regulation for the non-bank MFIs and security situation has led to hesitance among commercial lenders.
- Absence of a disaster risk fund is another key challenge as majority of MFPs remain risk averse and tend to play it safe rather than investing in innovative products.
- Savings remain the forgotten half of the microfinance. Although over the last few years, MFBs have begun rolling out savings products, they remain focused mostly on high net worth clients and institutional deposits with micro-savers remaining an untapped segment.

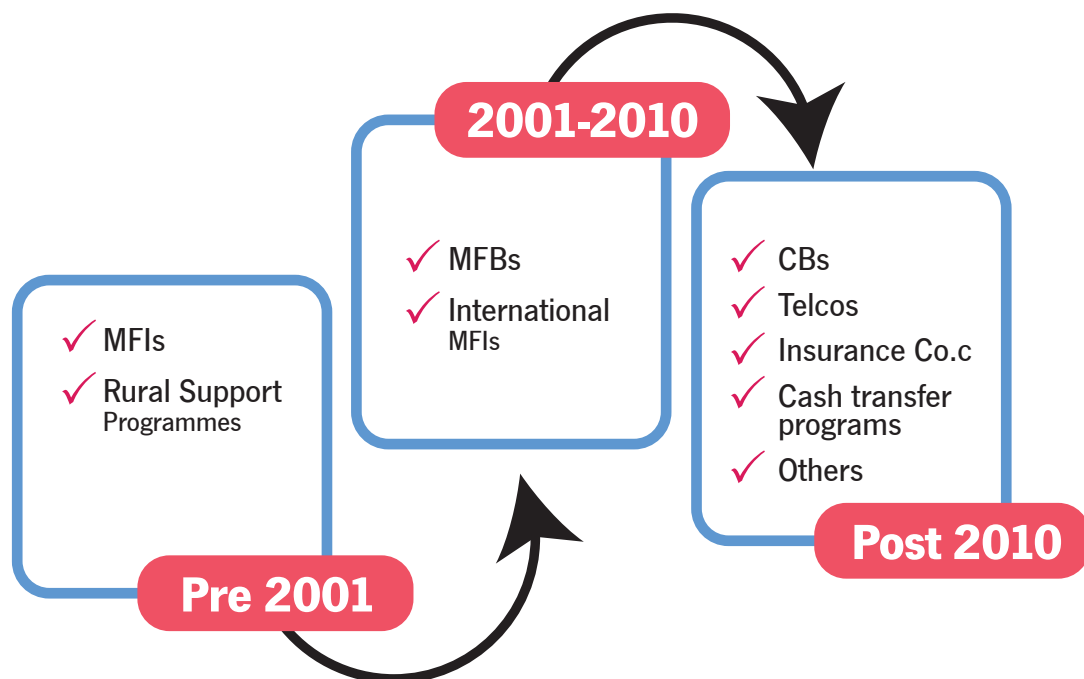
LOOKING AHEAD

- With the creation of Pakistan Microfinance Investment Company (PMIC), it is expected that funding needs of the sector will now be met to a large extent. The Company is expected to attract sufficient funds from private and commercial sources to help the microfinance sector reach 8 million clients by 2018 and create employment for around half a million individuals.
- Additionally, under the SECP regulations for NB-MFIs, institutions with capital over PKR 1 billion can now issue certificate of deposits (CODs) to raise funds.
- With booming Branchless Banking (BB) network in the country, it is expected that digital modalities will now play a greater role in furthering the financial inclusion agenda. Currently, some of the major players in branchless banking network include Telenor easy paisa, UBL Omni, Ufone Upaisa. Majority of the PMN members are offering BB services to its clients. However, mass level awareness campaigns and innovative products are needed to bring about behavioural change among the clients.

1. SECTOR OVERVIEW

Beginning in 2001, the microfinance sector in Pakistan had evolved a great deal in the last decade and a half, in terms of structure, players as well as products and services that it offers (Figure 1). What started as a group of NGOs lending loans to the unbanked, the industry has grown to become a thriving ecosystem constituting of regulated banks, rural support programs, telecom and insurance companies, all joined together with one goal in mind; provision of the services to financially excluded. Today the industry stands at 4.3 million borrowers and gross loan portfolio of PKR 123 million. Current Portfolio at Risk (PAR) for the industry remains at 1.4 percent and floats in the range of 1 – 2 percent.

Figure 1: Evolution of Microfinance Sector in Pakistan

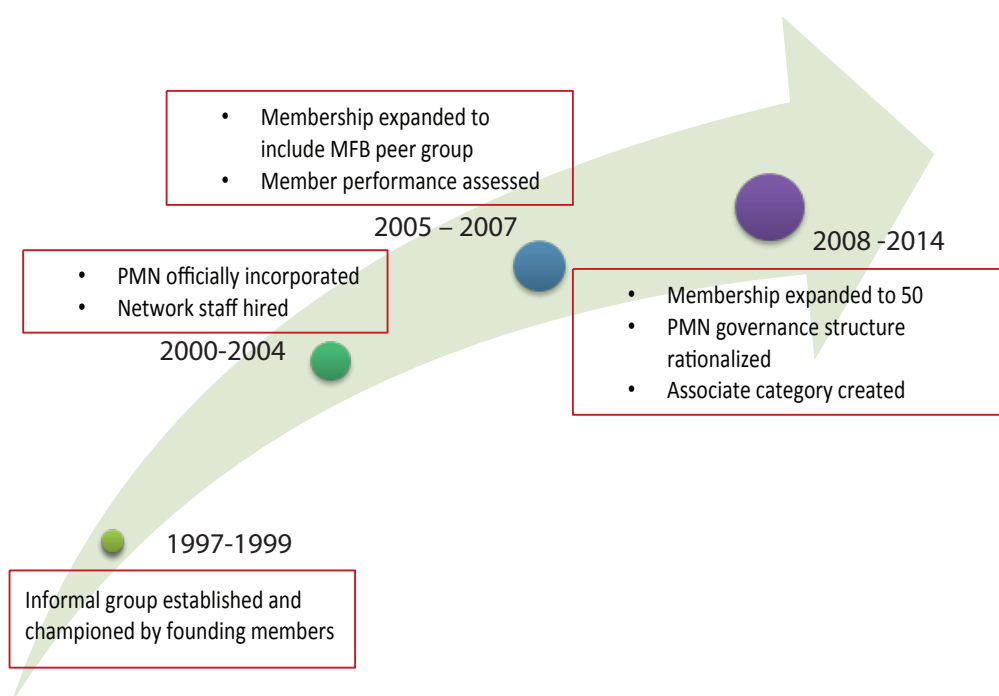


Creation of Microfinance Information Credit Bureau (MF-CIB) and Pakistan Microfinance Investment Company in last couple of years have paved the road to financial inclusion even further, institutionalizing sets of good practices along the way. It is anticipated that with PMIC's help, the microfinance sector will be able to reach 8 million clients by 2018 and create employment for around half a million individuals.

2. ABOUT PMN

The Pakistan Microfinance Network began 1995 as an informal association based on the exchange of thoughts and experiences between microfinance providers operating in Pakistan. In 1999 this loose collaboration, the Microfinance Group Pakistan, sought and received financial support from the Aga Khan Foundation and the Asia Foundation. Through its expanding and more formalised operations, it continued to build confidence and trust amongst donors, government and microfinance institutions. In 2001, it moved successfully to become a separate legal entity under the name of the Pakistani Microfinance Network (PMN). Over the years, it has evolved in its membership and functions (Figure 2).

Figure 2: Evolution of PMN



2.1 Our Mission

Support the financial sector, especially retail financial service providers, to enhance their scale, quality, diversity and sustainability in order to achieve inclusive financial services

2.2 Our Objectives

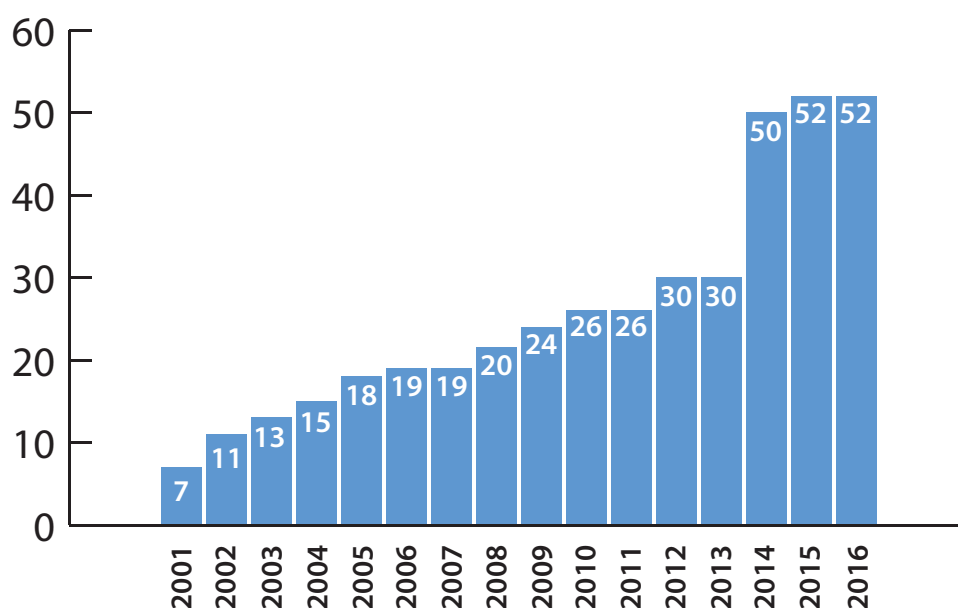
The PMN pursues this mission through three primary objectives:

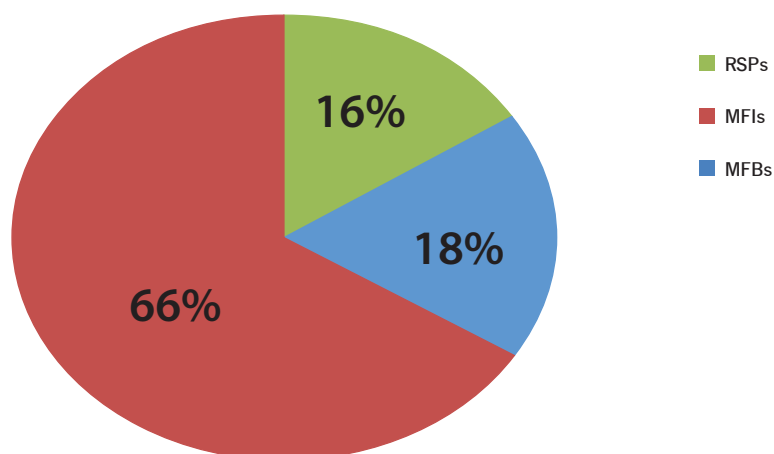
- Promoting an enabling environment that benefits the work of all stakeholders.
- Building the capacity of stakeholders, especially that of retail microfinance institutions.
- Acting as an information gateway by disseminating industry relevant information, improving transparency, promoting benchmarking, and serving as an information hub

3. MEMBER OVERVIEW

PMN's membership has expanded steadily over the years (Figure 3), not only in terms of numbers but also in terms of diversity. Today it stands at 52 retail microfinance providers [MFPs] that collectively account for about 98% of the total microfinance outreach in Pakistan. PMN members form a diverse group of service providers and include microfinance banks (10), microfinance institutions (36), rural support programs (6) and other microfinance providers (Figure 4).

Figure 3: Membership growth of PMN over the years

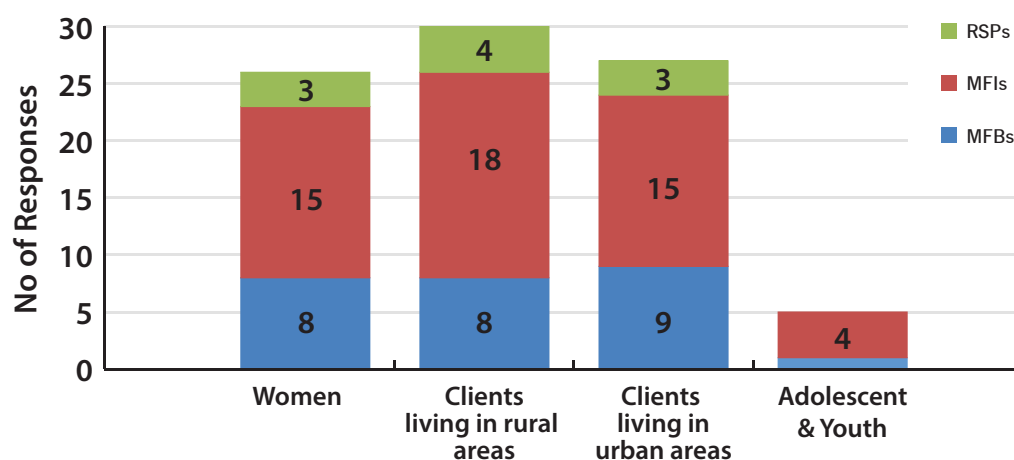




While previously, only microfinance banks were regulated entities in the sector, in 2015, Securities and Exchange Commission of Pakistan (SECP) introduced a regulatory framework for Non-Bank Microfinance Institutions (NBMFIs) which constitute about 84 percent of the total MFPs. A key challenge facing the industry has been the lack of regulatory regime for NBMFIs, but now with the launch of SECP regulations, a level playing field has become possible in the industry, providing the NBMFIs to scale up their operations.

PMN members cater to a diverse array of clients including the financially excluded in urban as well as rural areas. While majority of our members make conscious efforts to serve female clients, services for youth and adolescents are not as prevalent (Figure 5).

Figure 5: MFP Target Clients



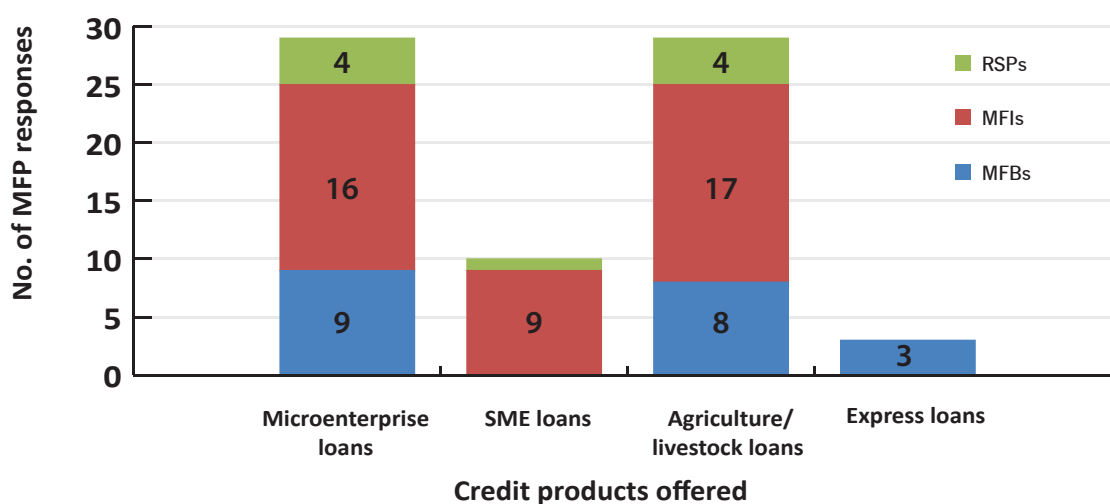
3.1 Members: Operational overview

3.1.1 Product range

Microfinance industry in Pakistan, today, offers a wide range of products and services (including financial as well as non-financial) to serve the needs of a diverse set of clients. Considering that MFPs in Pakistan are categorized into three peer groups; Microfinance Banks, Microfinance Institutions and Rural Support Programs with different missions, organizational structures and regulatory regimes, this is reflected in the product portfolios of the industry (Figure 6). Microcredit is the thread common among all peer groups, though terms and conditions of the products may differ. Last few years saw a surge in gold backed loans among the MFBs, pioneered by the Telenor Microfinance Bank. Another area receiving a lot of attention is Microenterprise (ME lending), which will help in increasing the microfinance outreach as microenterprises constitute 99 percent of the Small and Medium Enterprises (SMEs) in the country.

Owing to regulatory environment, only MFBs are currently mobilizing deposits. Insurance is another area still at a nascent stage. Most of the MFPs remain limited to credit-life insurance, however, with the Securities and Exchange Commission's guidance, we expect the micro insurance segment to experience growth and maturity.

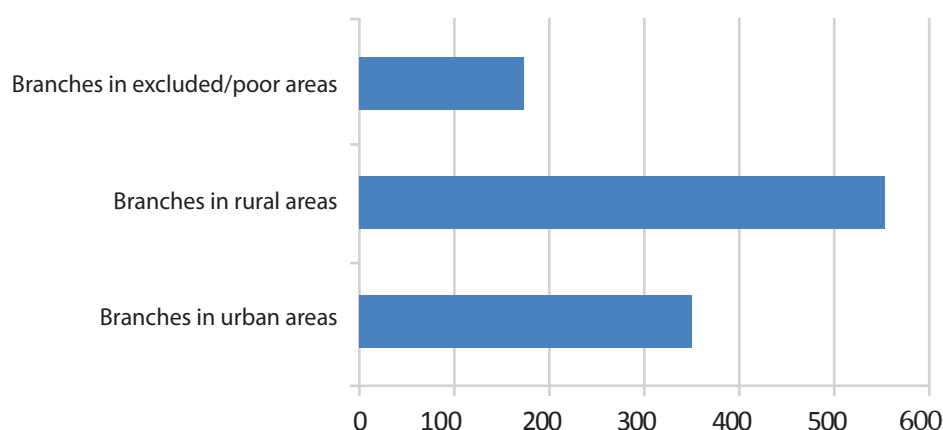
Figure 6: Products and Services offered by MFPs



3.1.2 Geographical coverage

In terms of geographical coverage, rural borrowers continue to dominate the sector as compared to urban borrowers (Figure 7). However, penetration in excluded and provision of microfinance services to poor areas remains low. This can be attributed to the dismal security situation in Balochistan and FATA region, as over the years members have been forced to wrap up the operations in these areas.

Figure 7: Geographical penetration of MFP branches



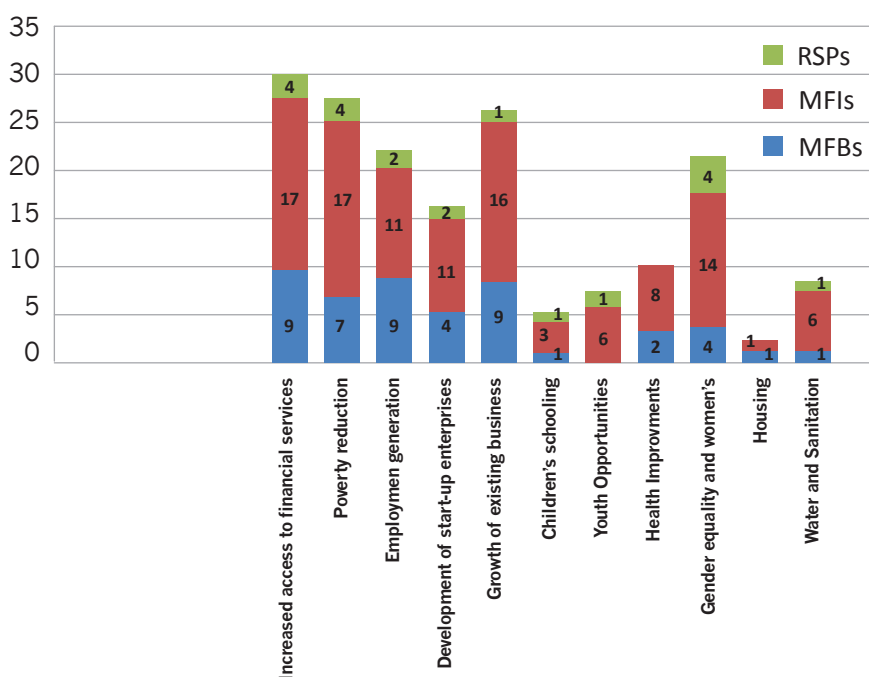
4. SOCIAL GOALS

An analysis of the mission statements of MFPs yield that all MFPs have some social development goals built into their mission with common themes across the peer group spectrum and these rarely change on an annual basis. For example, mission statements of the microfinance banks tend more to focus on expanding access to quality financial service to low income population, employment generation and growth of existing businesses and as a result improve their quality of life, economically and socially. Themes of poverty alleviation, empowerment of the 'marginalized' and expanding economic opportunities emerged as more common amongst the non-bank MFPs. Support to start-up businesses, which is generally considered a risky initiative for microfinance, has also seen growing interest amongst some MFPs. A focus on women is quite common in the sector as well. Majority of MFPs have explicitly designed products, services, and procedures to accomplish these social goals.

The most common objectives were found out to be increased access to financial services and poverty reduction, with 30 and 28 reporting MFPs respectively citing these as their objectives. The other mostly commonly cited development goals across all peer groups are growth of existing businesses, employment generation, and gender equality and women's empowerment (Figure 8).

However, the industry is still struggling with formalizing social performance processes and designing measurable indicators to gauge social outcomes. Although most of the MFPs do set SMART objectives for running their operations, they are at times tilted towards improving financial strength of the organization which resultantly results in indicators that measure financial performance. However, the momentum is now gradually shifting towards gauging social outcomes with players like Khushali Bank and Kashf Foundation playing an active role by improving and formalizing social performance management systems.

Figure 8: MFP Social Goals

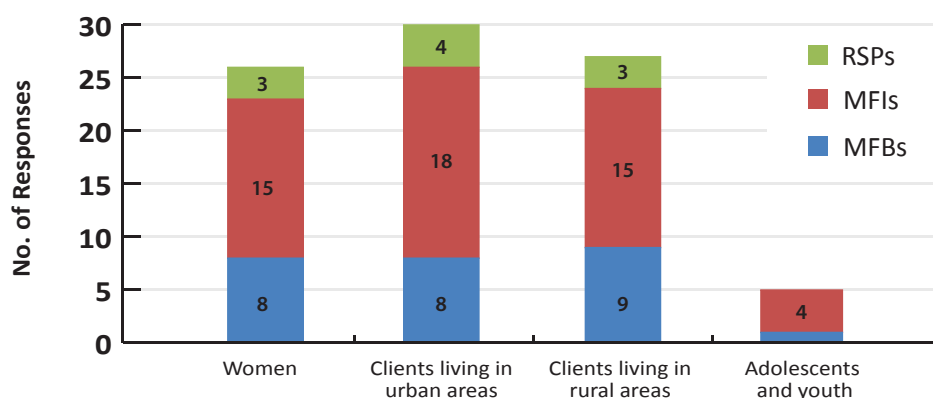


4.1 Target Market

MFPs target markets by peer group are highlighted in Figure 9. Out of 9 reporting MFBs, 8 cited multiple targets, including women and clients living in rural areas and clients living in urban areas, while two MFBs also reported targeting youth and adolescent segment of the society. Of the 19 reporting MFIs, the majority 18, target clients in rural areas. Women and clients in urban areas make the second largest target group with 15 MFIs catering to them, while 4 MFIs also reported targeting the youth.

Overall, clients are targeted based on gender and location. While the focus on rural areas is relatively greater, there is also a growing emphasis on urban clients, particularly among MFIs providing individual loans. In 2016, women clients constituted 37% of Gross Loan Portfolio and this percentage is expected to increase in the coming years. In terms of clients in rural areas,

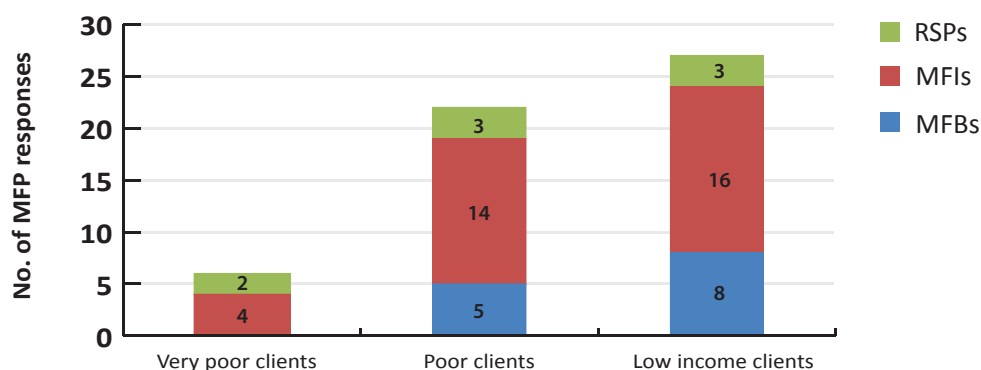
Figure 9: MFP Target market



4.2 Poverty targeting and measurement

In terms of poverty level of targeted clients, almost all of the reporting institutions target more than one segment of the poor. Overall, the most common target market for the sector in terms of income is low income clients, closely followed by poor clients. Only 4 reporting MFIs and 2 RSPs reported targeting very poor clients. MFIs and RSPs are largely targeting both poor and low income clients, while the MFBs tend to cater more to low income clients (Figure 10).

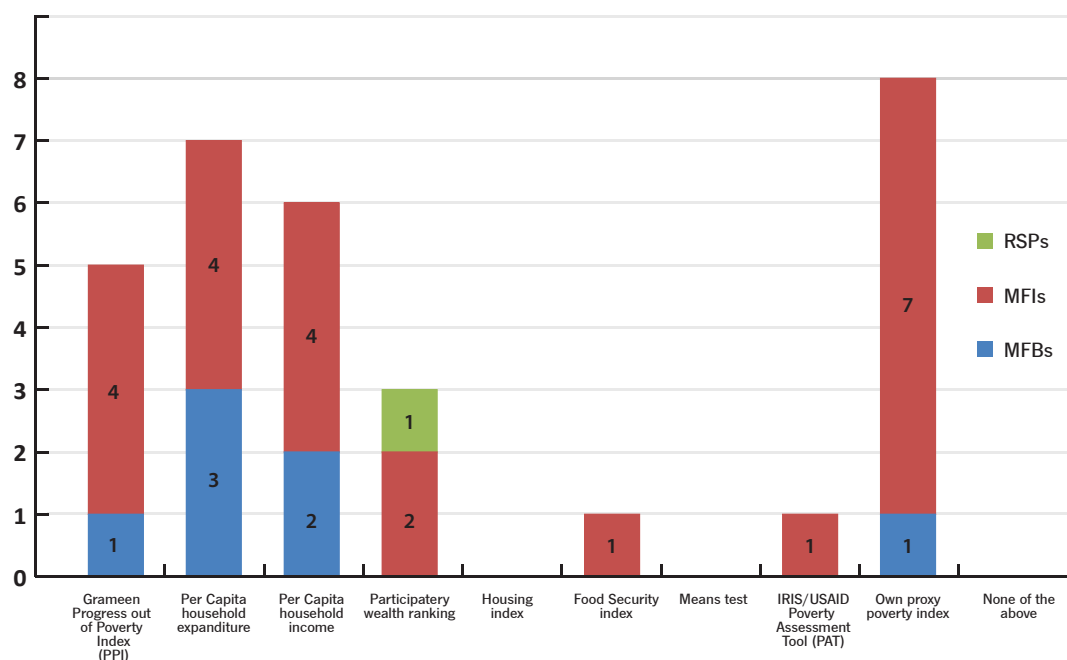
Figure 10: Poverty Targets of MFPs



Many MFPs in Pakistan microfinance sector have institutionalized poverty measuring processes in their operations. They collect economic, social, and/or other types of wellbeing indicators from clients for the express purpose of determining and/or tracking these clients' poverty levels. Assessing the poverty level of clients serve multiple purposes like guide client targeting and selection for MFPs, establish baselines of client poverty for subsequent impact evaluations, appraisal of financial services to better suit needs of clients and overall measurement of the program's effectiveness.

While all 19 reporting MFPs cited using one or more poverty scoring methods, only 5 MFBs reported doing so. Some MFPs employ only one method to measure poverty levels, others use multiple assessment tools, as shown in Figure 11. MFPs report use of their own proxy poverty index, as well as Grameen Progress out of Poverty Index (PPI) and per capita household income and expenditure. While the MIX SP framework does not cover the poverty scorecard prescribed by the Pakistan Poverty Alleviation Fund (PPAF) designed by The World Bank, this is predominantly used by MFIs as partner organizations of PPAF.

Figure 11: Poverty Assessment Tools used by MFPs



5. PRODUCTS AND SERVICES

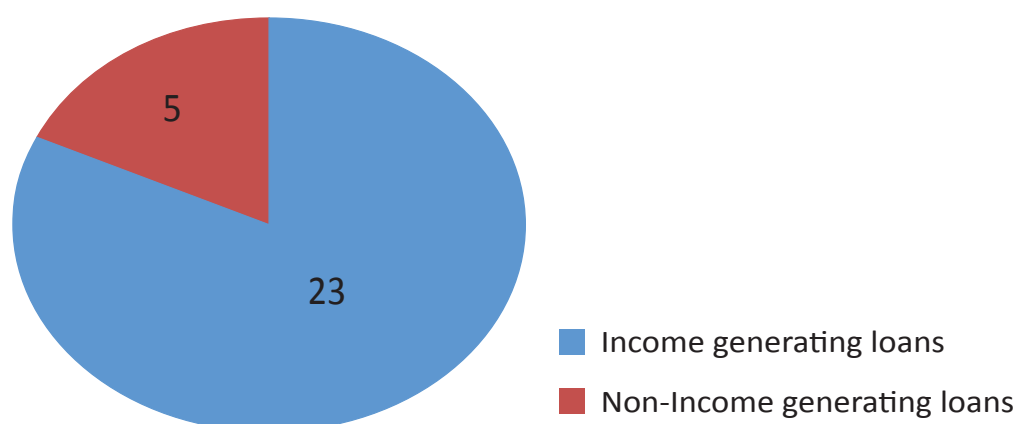
5.1 Financial Services

5.1.1 Credit

All reporting organizations offer microcredit services, for income generating purposes as well as for non-income generating purposes. According to Figure 12, all reporting MFPs offer income generating loans, while a few also offer non-income generating or consumption based loans.

Figure: 12 Type of Credit Products offered by MFPs

Type of Credit Products

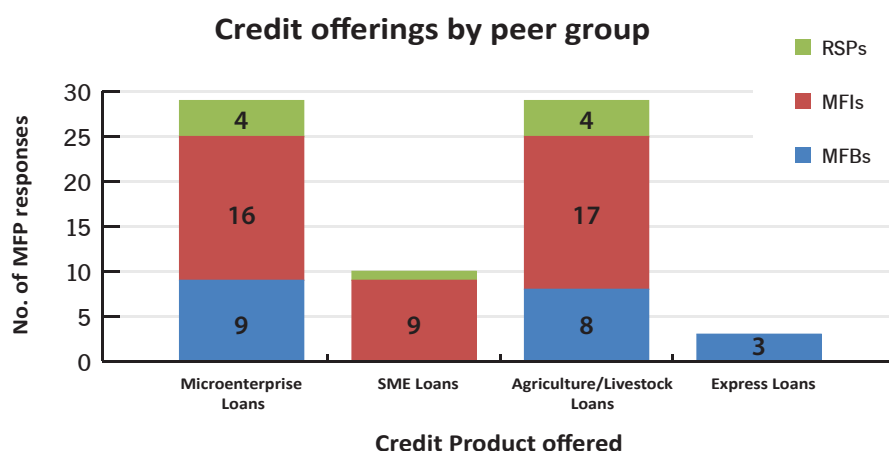


The diverse nature of microfinance clientele with multi-dimensional needs necessitates MFPs to go beyond generic product design and differentiate their products to serve different market segments and customer demands. Figure 13 shows the range of activities for which income-generating loans are available in Pakistan.

Loans for microenterprises and agricultural and livestock microcredit are by far the most common, with 29 out of 32 reporting MFPs offering these. Other activities for which a growing number of MFPs offer credit products include SME loans and express loans. This suggests that product differentiation in credit is under way and MFPs are beginning to offer products beyond the typical microenterprise loan; with some MFPs moving up the market to target MSMEs as well as offer timely express loans.

4 While express loans are generally considered short-term loans intended to help clients take advantage of unexpected business opportunities, there is a need to analyze the increasingly popularity of express loans, as well as their use in financing the MSME sector through microfinance

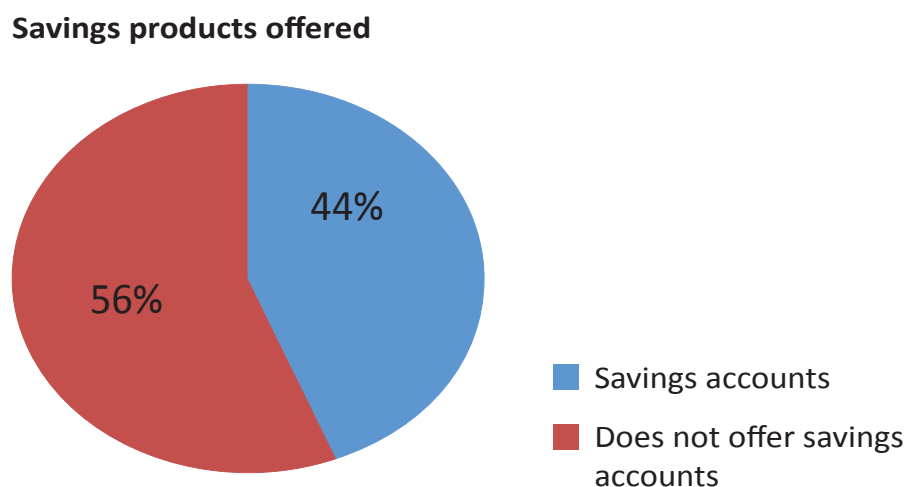
Figure 13: Credit Offerings



5.1.2 Deposits

Only about 43 percent of the reporting MFPs offer savings products. This can be attributed to the fact that the ability to offer this service is largely determined by the legal status of an MFP: all MFBs, by virtue of being regulated banks, are allowed to intermediate client deposits, and thus all reporting MFBs take deposits. Non-bank MFPs can only mobilize deposits. All MFBs offer both demand deposit accounts and time deposit accounts, based on the needs of their clients; though further diversified savings products and access to these savings products would help boost uptake among small-holder savers (Figure 14).

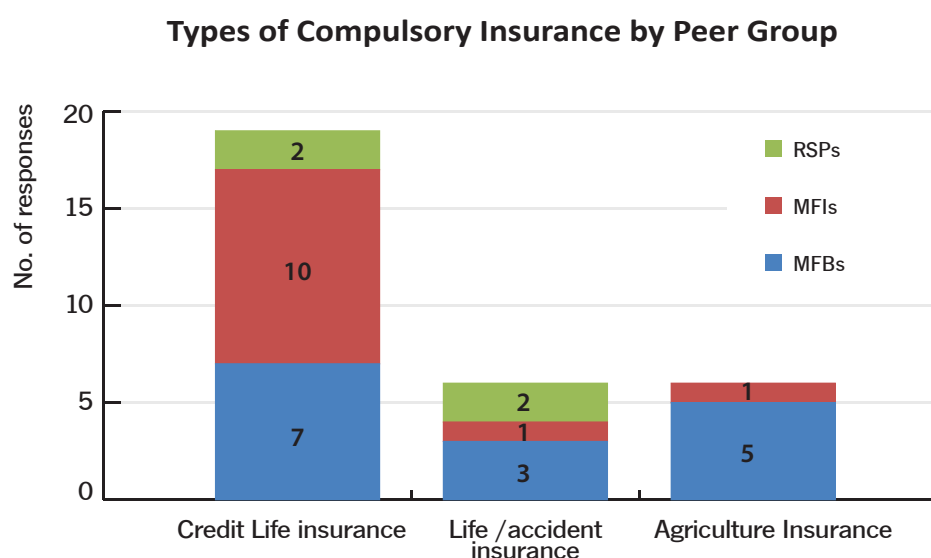
Figure 14: Savings Products Offered



5.1.3 Insurance

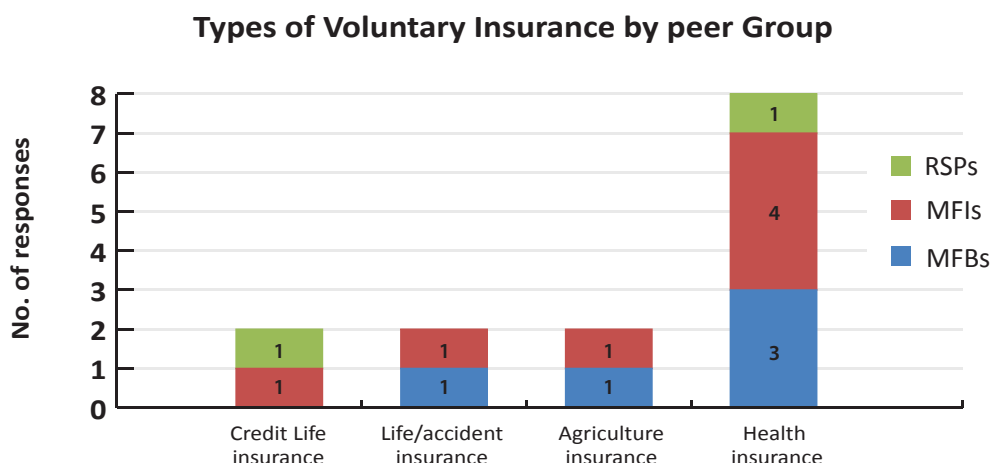
The insurance indicator looks both at compulsory insurance, which is typically clubbed with credit products, and voluntary insurance offered to clients as a stand-alone product. A majority of reporting MFIs offer insurance products to meet clients' needs and to protect them against risk of losses. Out of the reporting MFIs offering compulsory insurance products, the majority offer credit life insurance only, with limited MFIs offering other types of insurance such as life/accident and agriculture etc. (see Figure 15).

Figure 15: Compulsory and Voluntary Insurance Provision by Peer Groups



Over the past few years, some MFIs have introduced voluntary insurance products through partnerships with insurance providers, offering life/accident, agriculture/livestock and health insurance products (Figure 16). Selected partner organizations of PPAF have piloted agriculture/crop and livestock insurance products for their clients with explicit monitoring indexes to insure clients' losses to crops or livestock in the event of external risks. While a more diversified range of insurance products is welcome, there is also a need to create greater awareness around benefits of existing insurance products available to clients.

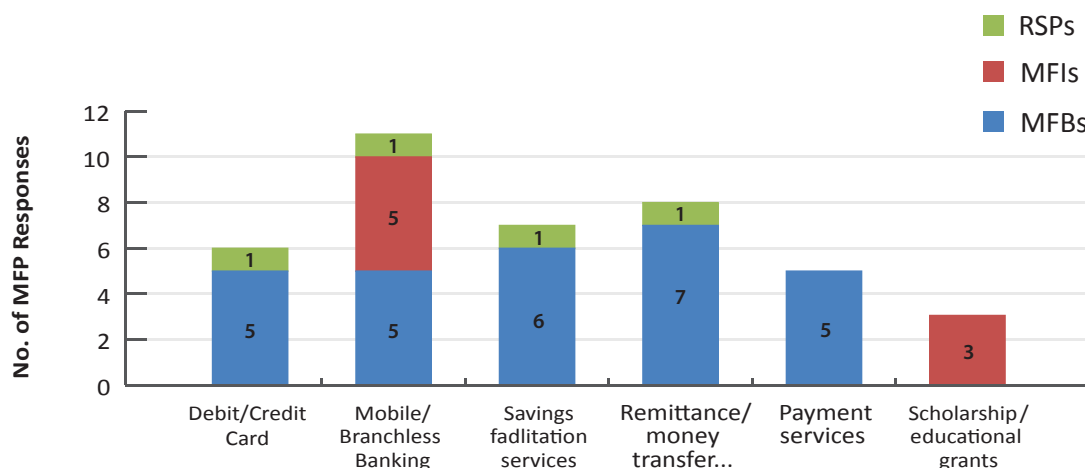
Figure 16: Types of Voluntary Insurance by Peer Groups



5.2 Other Financial Services

Other than traditional credit, savings and insurance products, MFBs tend to dominate other financial services provided by MFPs, offering one or more other financial services amongst the following categories: debit/credit card, mobile banking services, savings facilitation, remittances services/money transfer services, payment services and scholarship/educational grants (as shown in Figure 17). Some MFIs are now offering clients the facility to repay loan installments through branchless banking agents, while some have also supported clients' families through educational grants/scholarships.

Figure 17: Provision of other financial services

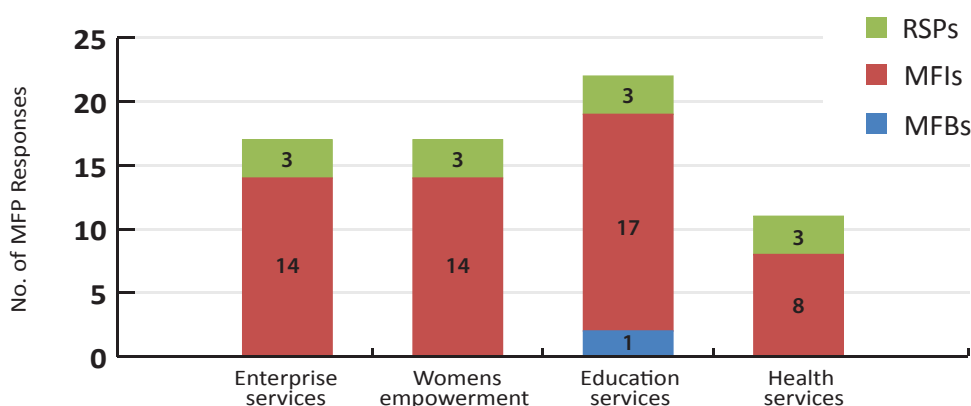


5.3 Non-financial Services

Nonfinancial enterprise services are any nonfinancial services aimed at improving either the entrepreneurial skills of clients or the performance of their enterprises. This category includes education related to running a business but not financial literacy as such. Nonfinancial services can be offered by the institution directly or through a partnership.

In most cases, MFPs offer non-financial services in addition to financial products and services; these services vary according to the capacity and vision of the institution, but the purpose is to develop client skills and/or provide basic services that they are unable to attain due to financial limitations. This can take the form of provision of basic services like health and education or business and/or technical skills training. For the purpose of this analysis, such services are grouped into four main categories: enterprise, education, health and women's empowerment.

Figure 18: Non-Financial Services



Contrary to the MFBs having a lead in provision of other financial services, in this domain, MFIs and RSPs are actively providing all types of non-financial services in the market; especially those committed to a particular social mission (see Figure 18). While MFIs and RSPs are offering at least one (in some cases multiple) non-financial service, only one MFB is offering education services to its clients. Education services like financial literacy education, child and youth education and basic health/nutrition education are the most popular non-financial service being offered by MFPs. Followed by enterprise services, such as enterprise skills development and business development services and women's empowerment including women's rights, education/gender issues training and leadership training. A handful of MFPs also offer health services like basic medical and special medical services for women and children.

6. CLIENT PROTECTION

Pakistan Microfinance Network (PMN) wants to continue playing an important role in promoting best practices and transparency in the sector and has thus taken on an active role in the area of consumer protection (CP) as well. Foundations of CP were laid in early 2009 with the development of a Code of Conduct for Consumer Protection that lays out basic principles for its members' dealings with their clients in line with accepted ethical and operational norms. All PMN members are voluntary signatories to this Code.

Bringing Client to Centre

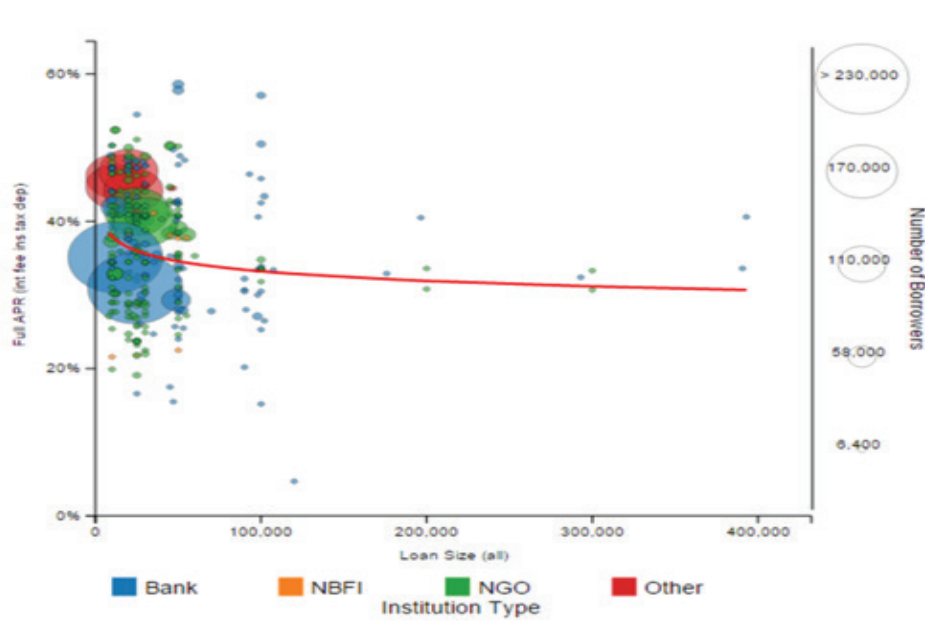
In collaboration with the Smart Campaign, PMN has developed a Grievance Redressal Mechanism (GRM) framework to build a set of acceptable GRM parameters as per size of the organizations.

Furthermore, PMN implemented the Client Protection Initiative (CPI), a 3-year project funded under State Bank of Pakistan (SBP) Financial Inclusion Program (FIP), which advocated client protection processes at industry level. Under the project, 19 PMN members underwent the smart assessment to gauge their client protection and one of our members Kashf Foundation got Smart Certified. Currently two more are in the process of getting certified. Additionally, in collaboration with the MFtransparency, PMN rolled out a pricing transparency initiative in the sector, which entailed annual pricing data collection and publication. According to 2014 data, while the pricing in Pakistan is low relative to loans of similar scale in other countries (Figure 19), the loans with lower prices are advertised with more transparency than the others, necessitating the need to monitor and advocate for responsible pricing in the country (Figure 20).

Figure 19: A comparative analysis of loan prices

Pricing levels in Pakistan relative to other countries		Transparency levels in Pakistan relative to other countries	
Country (Data from 2013)	Range of FULL APR on Loan Sizes less than 40% of GNI of the country	Country (Data from 2013)	Percentage of clients in Highest Category of Pricing Transparency (76-100)
Combolia	35 %	Ghana	2 %
India (2010)	25 - 50 %	India (2010)	19 %
India (2013, Post Legislation on transparency)	30 %	India (2013, Post Legislation on transparency)	98 %
Kenya	25 - 125 %	Malawi	65 %
Pakistan	30 - 50 %	Mozambique	48 %
Philippines	50 - 200 %	Pakistan	67 %
Tanzania	100 - 125 %	Rwanda	14 %
Uganda	50 - 125 %	Tanzania	27 %
		Uganda	1 %
		Zambia	26 %

Figure 20: Comparison of Annual Percentage Rates (APRs) and loan sizes





Case of Best Practice

FINCA Microfinance Bank's Complaint Management System

FINCA Microfinance Bank Ltd. is a large sized microfinance bank (MFB) with Gross Loan Portfolio of PKR 10 billion. Guided by the procedural regulations put forth by the State Bank of Pakistan, FINCA has one of the best developed GRM systems within microfinance industry in Pakistan. FINCA has made multiple avenues of complaint lodging available to its clients: phone, fax, e-mail, written complaint that be put in complaint boxes placed at each branch and ATM cabin's complaint box.

In addition to having a detailed and in-depth GRM policy manual that is approved by the board, FINCA also has an efficient in house Complaint Management System (CMS) which has both inbound and outbound calling functions. A team of 8-10 people sits in the head office solely dedicated to taking and resolving complaints. In addition to this, 10% of the total customer base is called for a monthly satisfaction survey. The call center at FINCA is operational for 24 hours throughout the week and call center representatives follow a standardized procedure to receive calls and lodge them. A robust MIS system is in place, with various filters in place which can be used to generate different kinds of analysis and do data mining for each complaint lodged. In terms of categorization, calls are categorized according to the product and nature of complaint/query. A detailed report containing branch level analysis is also sent to the branch by the Head Office every month.

Once a call is received by a CMS representative, it is assigned a unique complaint number, which is then used by the provider for all subsequent processes and communication pertaining to that complaint. After logging in the complaint in the system, the CMS representative sends an acknowledgement of receipt to the complainant with the complaint number and expected resolution time. This information is relayed either verbally or telephonically or through SMS/email, within 48 working hours. If the complaint is received after bank's working hours, acknowledgement will be sent on next working day. The acknowledgement briefly describes the complaint process, the time line to resolve the complaint.

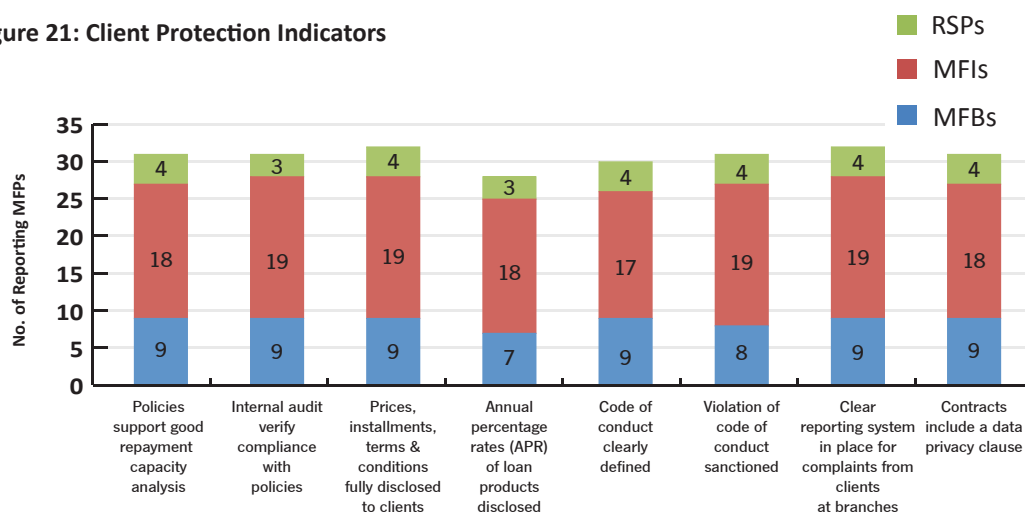
After this process, the contents of complaint are initially analyzed by the CMS to decide about the investigation/resolution route to take using the escalation matrix in place. All complaints are escalated to Head of the relevant Department, in case no response is received from investigator or concerned branch within assigned timeline.

The stipulated resolution time for all complaint is 5-7 working days. However, in fraud related cases, complainant must be issued a reply within 30 working days from the lodging of the complaint. In case a complaint is not genuine or cannot be resolved in stipulated time frame, it is mandatory for FINCA to inform the complainant that his/her grievances cannot be resolved with reasons/justifications. A complaint is not closed before a satisfaction call is made to the complainant.

For the purpose of self-reporting on social performance indicators, MFPs provided information regarding the presence of various institutional-level client protection indicators, including policies supporting good repayment capacity analysis, internal audit compliance, full pricing terms disclosure, APR disclosure, CP code of conduct, sanctions for code of conduct violations, clear reporting systems and data privacy clauses (Figure 21).

Overall, the sector shows positive compliance to CP principles, particularly with all reporting MFPs having in place strong repayment capacity analysis, internal audit systems, full pricing terms disclosure, and defined code of conduct. However, as indicated in the sub-section above, not all pricing is disclosed in Annual percentage rates (APR) format, particularly by the non-Bank MFIs. Due to the regulatory framework under which MFBs fall, all reporting Banks show full compliance to the basic CP indicators. Now with the MFIs coming under the regulatory framework of SECP, any gaps in their compliance are likely to be plugged in near future.

Figure 21: Client Protection Indicators



6.1 Prevention of Client over-indebtedness

To mitigate the risk of client over-indebtedness, PMN with the assistance of various players helped established a Microfinance Credit Information Bureau (MF-CIB). The bureau aims to curtail the practice of multiple borrowing lending to over-indebtedness, moral hazard and adverse selection in the sector. In addition, the bureau's ability to generate both positive and negative reports allows for utilizing credit histories. It has now become an inseparable part of the ecosystem with 80 percent of the players making inquiries from the bureau.

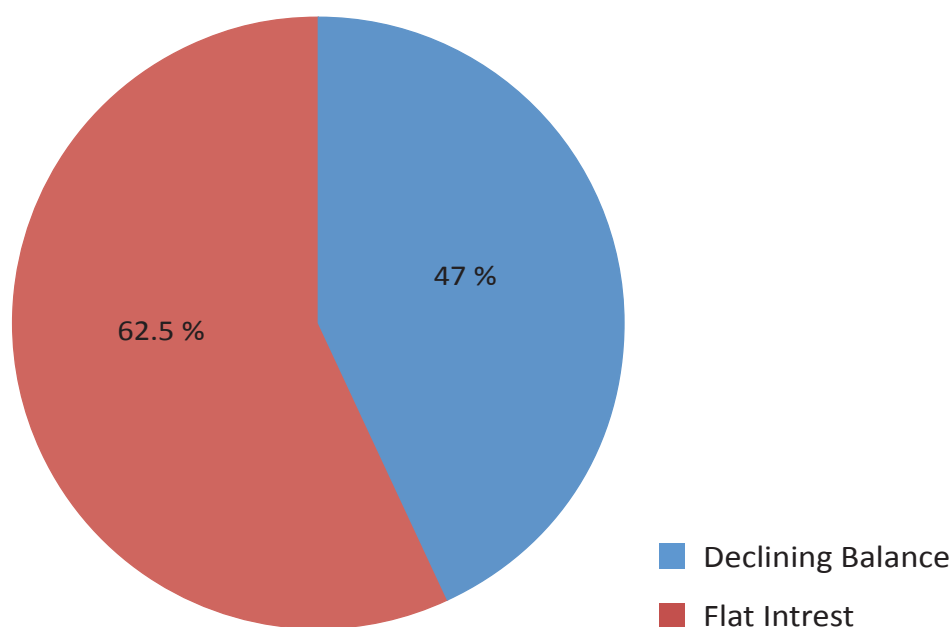
The bureau currently has over 9.5 million records and with the advent of the regulations for non-bank microfinance players requiring an inquiry to be generated for loans over PKR 5000, this is likely to increase.

The industry is making a concentrated effort to promote greater pricing transparency using a standardized pricing methodology for easier understanding and comparison across products and MFPs for decision-making. The Pricing Transparency Initiative conducted in Pakistan in collaboration with MFTransparency led to the publication of standardized APRs of loan products across MFPs in Pakistan. However, after the closure of the MFTransparency this year, PMN is gearing up to take this work forward at sector-level on its own.

While this indicates a positive step towards increased transparency in displaying costs, a majority of MFPs in Pakistan continue to use the flat methodology to communicate prices to clients – where interest rate is communicated on the basis of the stated initial principal amount of the loan irrespective of the payment plan. Around 62 percent of reporting MFPs are using the flat interest rate method; this is primarily due to the simplicity in calculation and marketing. 47 percent use the declining balance method – which means interest is communicated on the amount of the loan principal which the borrower has not yet repaid (as shown in Figure 22).

Figure 22: How Service Cost is communicated

How service cost is communicated



7. PROTECTING AND MANAGING STAFF

7.1 Gender divide

In terms of gender, microfinance industry remains imbalanced much like majority of sectors in Pakistan (Figure 23). This can be attributed to sociocultural aspects which restricts the economic mobility of women. Additionally, association with the financial sector, which is considered a male domain, is frowned upon, hindering more women joining the taskforce.

Discussion with a few members yielded that though they make conscious efforts to hire more women, owing to tough working conditions of field staff as well as security concerns, the gender divide remains. When hiring a loan officer, MFPs encourage females to apply especially in areas where there is easy access of field with proper road links. They do this by encouraging females to apply in their job vacancy advertisements and giving them preference in interviews especially for areas where female clientele is dominant. Some of the members also have day cares in their offices to cater to female staff with children. However, despite these efforts, male to female ratio overall and especially of loan officers remain imbalanced due to absence of safe and well-developed infrastructure in the field and cultural restraints on female mobility.

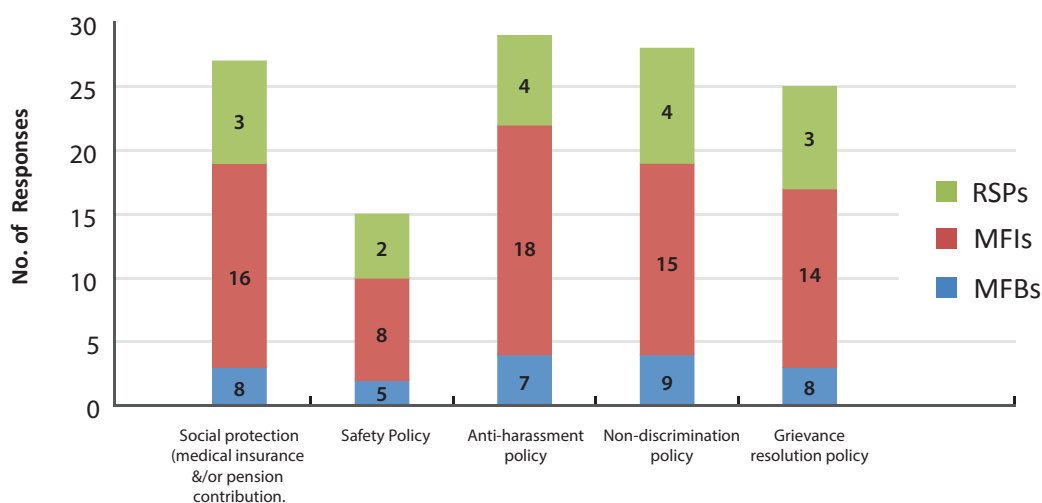
Figure 23: Gender divide



7.2 Staff Protection Policies

The USSPM necessitates an MFP to treat its employees responsibly. Building upon that Human resource policies related to SP include the presence of social protection (medical insurance and/or pension contribution), safety policy (protecting staff members from external harm while in the field), anti-harassment policy, non-discrimination policy (explicit policy against discrimination based on sex or ethnicity in matters of hiring, firing, and payment of staff members) and a grievance resolution policy (a formal channel or channels for communicating and redressing problems staff may have on the job). Figure 24 shows that all reporting MFPs have strong reporting on having social protection, anti-harassment policy in place, a grievance resolution policy for staff, and non-discrimination policy. However, there appears a gap in policies pertaining to safety of the staff members while out in the field with only 15 out of 32 reporting MFPs having any safety mechanism in place.

Figure 24: HR policies related to SP



7.3 Staff Incentives

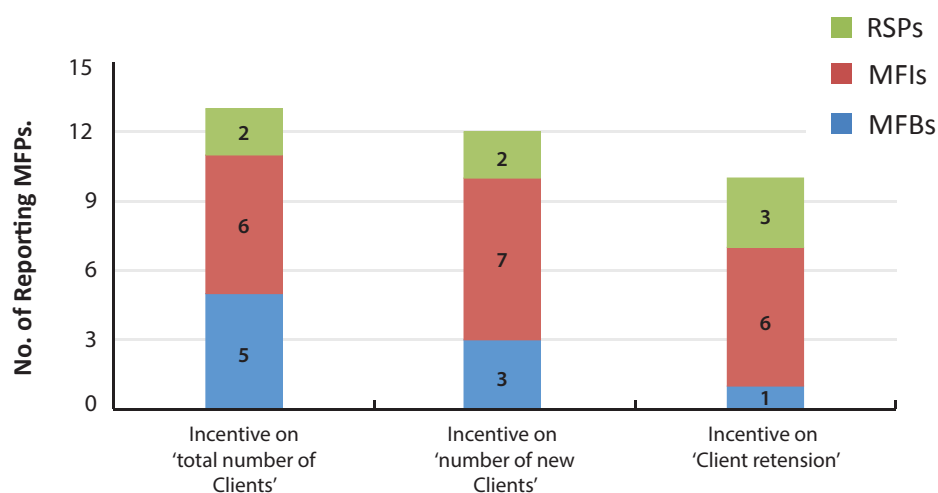
Staff incentives at MFPs relate to the number of clients entertained by the field staff, the quality of interaction with clients based on client feedback mechanisms, quality of social data collected and/or the portfolio quality maintained by field staff. Figure 25 shows that across the Pakistan microfinance industry, portfolio quality is the most cited factor for staff incentives, both for MFBs and non-Bank MFIs. This means that MFPs have incentives and/or bonus systems designed to reward staff based (in whole or in part) on whether staff members consistently collect loan payments on time. The second most

prevalent factor is number of clients, which means MFPs have incentives and/or bonus systems designed to reward staff based (in whole or in part) on the number of clients in field officers' portfolios. These can be based on total number of clients, number of clients meeting specific criteria (e.g. new clients, returning clients, etc.), or both. Figure 26 shows that all MFPs use a combination of these measures for calculating staff incentives, with the most common being total number of clients, followed by number of new clients.

Figure 25: Staff Incentives related to SPM



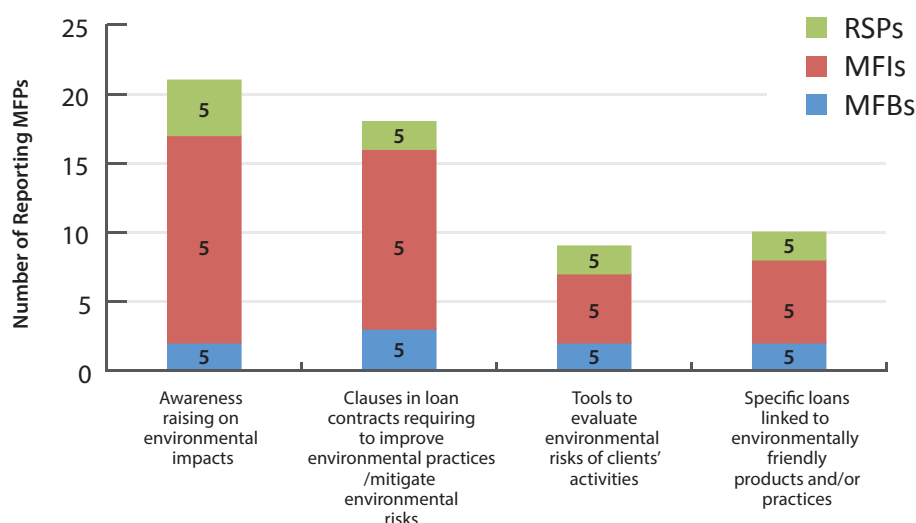
Figure 26: Method for incentivizing number of clients



8. GREEN MICROFINANCE

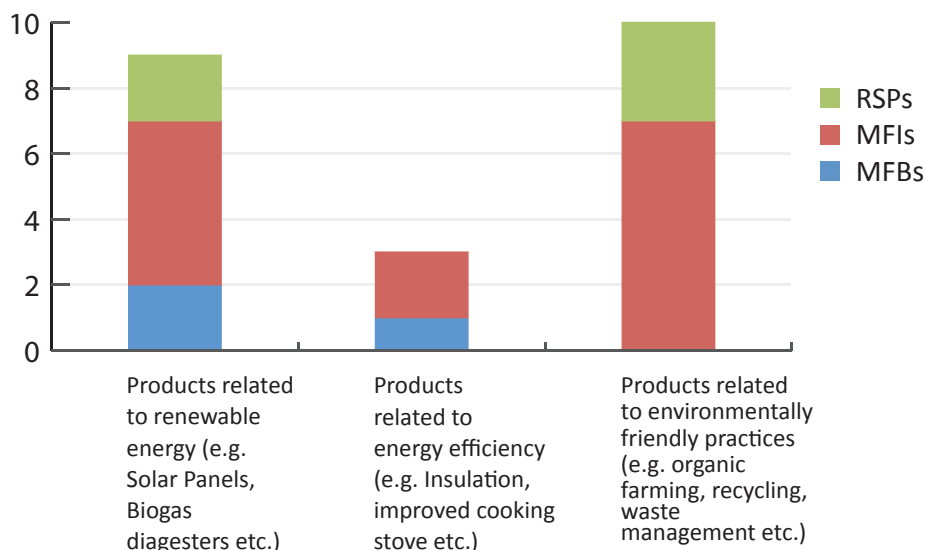
Over the past couple of years, SP reporting has included MFPs providing information regarding elements of their environmental policies, often considered to be the ‘triple bottom-line’ for microfinance. These environmental policies refer to MFPs promoting awareness on environmental impacts, having tools to evaluate environmental risks’ of clients activities and including clauses in loan contracts to ensure mitigation of environmental risks through the clients’ businesses (see Figure 27).

Figure 27: Environmental Policies in Place



In addition to this, a few MFPs reported on various types of environmentally friendly products and/or practices that they are currently piloting, including products related to renewable energy, for example solar panels, biogas digesters and so on. Some MFPs are also engaged in financing environmentally friendly businesses, for example organic farming, recycling and/or waste management (see Figure 28).

The strong performance of the MFI peer group in this area reflects the efforts carried out by the PPAF, to ensure compliance of all its partner organizations to the ‘Environment and Social Management (ESM) Framework. As PPAF-funded institutions, these MFIs are trained on the ESM framework and required to provide quarterly progress update on ESM compliance. External environmental and/or social performance audits are commissioned by PPAF to monitor and physically verify PO compliance of the ESMF. Finally, MFIs are encouraged to incorporate ESM objectives into the Terms of Partnership that they signs with their respective community based institutions.

Figure 28: Environmentally friendly Products/Services Offered

While the reporting is relatively new in this respect, the industry is taking positive steps in moving towards supporting/financing more environmentally sustainable businesses. There is still a need for more comprehensive work in this area, specifically a natural disaster risk mitigation strategy not just to protect MFPs but also clients and their businesses.

9. STRENGTHS AND AREAS OF IMPROVEMENT

Although the microfinance sector is gradually inculcating the social performance standards in its operations, standardization of data for reporting purposes remains at a nascent stage. Social performance standards, though informally considered, are still not formalized due to which robust measurable data is not available. PMN hopes to continue working on the availability of measurable data on SP standards. Following is the summary of some of the strengths and weaknesses of the microfinance industry in regards to social performance.

Strengths:

- Microfinance industry in Pakistan, today, offers a wide range of products and services (including financial as well as non-financial) to serve the needs of a diverse set of clients. Although majority of the MFPs are focused on providing microcredit services, the industry is moving towards products such as insurance products and savings products. In addition to that, microfinance industry is also

piloting innovative products in renewable energy. MFPs are also offering non-financial services but these are limited to non-bank microfinance institutions.

- Many MFPs in Pakistan microfinance sector have institutionalized poverty measurement processes in their operations. They collect data on economic, social, and/or other types of wellbeing indicators from clients for the express purpose of determining and/or tracking these clients' poverty levels. These assessments of poverty levels help MFPs to target their clients better. Some of the MFPs also do an analysis of client's poverty level when he/she graduates from microfinance services.
- The Human Resource practices of PMN members are quite well developed and there is robust data available in this regard. Majority of the MFPs have policies designed for social protection (medical insurance and/or pension contribution), safety (protecting staff members from external harm while in the field), anti-harassment, non-discrimination (explicit policy against discrimination based on sex or ethnicity in matters of hiring, firing, and payment of staff members) and a grievance resolution (a formal channel or channels for communicating and redressing problems staff may have on the job). Staff incentives are also well designed along the lines of performance and minimum wage policy is not violated.

Areas for Improvement:

- One of weaknesses of microfinance industry is low penetration rate. Due to dismal security situation in Balochistan and FATA (which constitute a large part of Pakistan in terms of area and economically excluded population), most of the MFPs have closed down their microfinance operations, resulting into over saturation of existing microfinance target markets. As the players move towards scaling new horizons and with advancements in delivery channels like branchless banking, there is a need to pay a concentrated attention to these areas.
- Although microfinance providers are piloting innovative products to cater to diverse needs of clients, there is still a lack of products to cater to excluded segmented like the youth and the elderly. Under the National Financial Inclusion Strategy, discussions are underway to bring the youth in financial mainstream; a lot needs to be done to translate that in reality.
- Green microfinance is one of the weaker areas of the industry. Although non-bank microfinance institutions have inculcated PPAF's Environmental and Social Management (ESM) framework in their operations, there is still a lack of innovative green microfinance products. There is also a lack of robust measurable data on environmental indicators.

ANNEXURE - I

About the Pakistan Microfinance Network

The Pakistan Microfinance Network began in 1995 as an informal association based on the exchange of thoughts and experiences between microfinance providers operating in Pakistan. In 1999 this loose collaboration, the Microfinance Group Pakistan, sought and received financial support from the Aga Khan Foundation and the Asia Foundation. Through its expanding and more formalised operations it continued to build confidence and trust amongst donors, government and microfinance institutions. In 2001 it moved successfully to become a separate legal entity under the name of the Pakistani Microfinance Network (PMN). Over the years, it has evolved in its membership and functions. Today its membership stands at 52 MFIs.

The microfinance sector in Pakistan has shown an increasing focus on balancing social performance and financial sustainability among microfinance providers (MFPs). There are several tools and resources falling under the umbrella of social performance management that have been implemented by PMN over the past few years, including the following:

1. Implementation of the Universal Standards for Social Performance Management (USSPM). The Standards were developed by the global Social Performance Task Force (SPTF) as a roadmap to improving SPM within MFPs. [<http://sptf.info/spmstandards/universal-standards>]. The PMN has been engaged in numerous efforts to promote the USSPM in Pakistan, including facilitation of members for annual data collection on social performance, dissemination of relevant material, managing a social performance working group, facilitating members to participate in the annual SPTF task force meeting and general awareness raising efforts on USSPM. In 2013, the PMN also conducted a USSPM implementation project with its members in a bid to implement selected sections of the USSPM. This initiative encompassed both facilitation and support for MFPs to achieve full compliance to the USSPM, as well as awareness rising for key stakeholders to understand the value of the USSPM. The PPAF has also been engaged in promoting the USSPM through trainings on 'Social Performance Management'. International experts have been engaged to conduct SPM training workshops for members of Board of Directors (BODs) and Chief Executive Officers from PPAF Partner Organizations and Microfinance Banks. The trainings aimed at creating awareness and understanding for the Board of Directors and senior management on various SPM tools and techniques to ensure effective compliance with double bottom line objectives.
2. Since 2009, the industry has been reporting to Microfinance information eXchange (MIX) Market on social performance indicators, in addition to the annual financial indicators already collected by the MIX Market. The MIX market collects and validates financial, operational, product, client, and social performance data from MFPs around the globe. These data provide the basis for many of the benchmarks and standards that the industry is currently using. The PMN has facilitated its members/MFPs to report on social performance indicators to the MIX Market since 2009. PMN has also conducted validation of this data to ensure quality control of data provided in 2011. On the basis of the social performance data gathered for MIX, the PMN published the first social performance report for the industry in 2011, and has subsequently included social performance as a distinct section of the annual Pakistan Microfinance Review (PMR). This publication aims to highlight sector level trends in terms of social objectives and social performance management practices.
3. The Pakistan Poverty Alleviation Fund (PPAF) took part in a global initiative to launch Truelift in 2012. Truelift (formerly known as the Seal of Excellence for Poverty Outreach and Transformation) is a global initiative to recognize those MFPs doing the most of help poor households lift

themselves out of poverty. Through beta testing, Truelift established a set of indicators to evaluate MFPs on their ability to deepen outreach and create positive, lasting change for poor clients of MFPs. Following assessments, MFPs receive accreditation against their performance. Pakistan participated in the beta test of through a strategic partnership with the Microcredit Summit Campaign, along with three other countries, Jordan, Bolivia and India. In this context, PPAF conducted the beta test with two partner organizations, with the aim of ultimately ensuring compliance of all their partner organizations (POs) against the indicators established, vis-à-vis targeting and impact of PPAF's work. The PPAF is committed to measure impact of PO operations in terms of "client protection, alignment of financial and social goals, poverty alleviation and transparency in terms of products and systems".

4. The Pakistan Microfinance Network (PMN) has conducted a client protection initiative in partnership with the Smart Campaign, with funding from the State Bank of Pakistan under DFID's Financial Inclusion Program (FIP), since 2013.⁶ The initiative encompassed monitoring of client protection measures in place at MFPs in accordance with globally accepted benchmarks (Smart Campaign's client protection principles), as well as building local capacity of consultants/social rating firms to conduct third-party assessments using the Smart Campaign's Smart Assessment tool. To date, 18 assessments have been conducted, covering over 60 percent of the market in terms of overall outreach to active borrowers. The assessments provide a unique opportunity for the sector to observe the state of practice in client protection among member MFPs. For participating MFPs, the assessments provide an opportunity to evaluate their practices in comparison with globally accepted standards of client protection, and seek recommendations for institutional improvements to better comply with the standards. They also indicate whether an institution is ready to pursue Smart Certification, a designation recognized across the global market that an institution successfully integrates the Client Protection Principles into their practices. After undergoing an assessment and acting on its results, one leading MFI in Pakistan became the first microfinance institution in Pakistan to achieve Smart Certification in October 2014.
5. A pricing transparency initiative was undertaken in the industry through a partnership between PMN and MFTransparency International, funded by State Bank of Pakistan under the DFID's Financial Inclusion Program (FIP) and PPAF. MFTransparency (MFT) promotes transparent pricing standards and prices of microfinance products and publishes interest rates and materials to increase understanding of pricing. Pakistan is the thirty-first country that MFTransparency conducted pricing analysis for. This initiative was aimed at providing more information to determine whether the sector is providing 'smart loans' that benefit the poor, are affordable to clients and also cover the MFPs costs. Pricing information was collected and standardized calculation methods employed to calculate Annualized Percentage Rate (APR) interest rates for all products of the 31 participating MFPs in 2013 and 2015. This was the first sector-led move towards greater transparency and standardization in pricing calculations and disclosures in the local industry. The results of the exercise are published on MFTransparency's website, including pricing data for all credit products offered by the participating MFPs. Complete data can be accessed from the following link: <http://www.mftransparency.org/microfinance-pricing/pakistan/>

6. The Smart Campaign is a global consortium of microfinance stakeholders that came together to formalize a set of client protection principles (CPP) that MFPs would need to follow in order to ensure that their business does no harm to clients. The CPPs include minimum standards on prevention of over-indebtedness, appropriateness product design and delivery channels in view of the client, transparency in all communications including pricing information, responsible pricing of products keeping in view the vulnerability of target clients, ensuring fair and respectful treatment of clients, ensuring privacy of client data and offering mechanisms for complaints resolution. www.smartcampaign.org

ANNEXURE - II

PMN Members reporting data

S. #	MICROFINANCE PROVIDERS (MFPs)	PEER GROUPS
1	Advans Microfinance Bank Ltd. (APMBL)	Microfinance Bank
2	FINCA Microfinance Bank Ltd. (FMBL)	Microfinance Bank
3	Khushali Bank Ltd. (KBL)	Microfinance Bank
4	Mobilink Microfinance Bank Ltd. (MMFB)	Microfinance Bank
5	National Rural Support Program Bank (NRSP-B)	Microfinance Bank
6	Pak-Oman Microfinance Bank (POMFB)	Microfinance Bank
7	Tameer Microfinance Bank (TMFB)	Microfinance Bank
8	The First Microfinance Bank (FMFB)	Microfinance Bank
9	U-Microfinance Bank Ltd. (UBANK)	Microfinance Bank
10	Akhuwat	Microfinance Institution
11	Community Support Concern (CSC)	Microfinance Institution
12	Farmers Friend Organization (FFO)	Microfinance Institution
13	Jinnah Welfare Society (JWS)	Microfinance Institution
14	KASHF Foundation	Microfinance Institution
15	MicroOptions (MO)	Microfinance Institution
16	MOJAZ Foundation	Microfinance Institution
17	NAYMET Trust	Microfinance Institution
18	Orangi Charitable Trust	Microfinance Institution
19	SAFCO Support Foundation (SSF)	Microfinance Institution
20	Soon Valley Development Program (SVDP)	Microfinance Institution
21	Badbaan Enterprise Development Foundation (BEDF)	Microfinance Institution
22	Association for Gender And Human Empowerment (AGAHE)	Microfinance Institution
23	BRAC Pakistan	Microfinance Institution
24	National Rural Development Program (NRDP)	Microfinance Institution
25	Organization for Participatory Development (OPD)	Microfinance Institution
26	Organization for Social Development Initiatives (OSDI)	Microfinance Institution
27	Orix Leasing Pakistan (OLP)	Microfinance Institution
28	Rural Community Development Program (RCDP)	Microfinance Institution
29	National Rural Support Program (NRSP)	Rural Support Program
30	Thardeep Microfinance Foundation (TMF)	Rural Support Program
31	Punjab Rural Support Program (PRSP)	Rural Support Program

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