MEASURING THE PERFORMANCE AND ACHIEVEMENT OF SOCIAL OBJECTIVES OF MICROFINANCE INSTITUTIONS: INCORPORATING SUBSIDY DEPENDENCE AND OUTREACH INDEX IN PAKISTAN'S CASE

Researcher:
Hina Almas
65-FE/MS (EF)/F13

Supervisor:
Prof. Dr. Asad Zaman

Department of Economics & Finance
International Institute of Islamic Economics
International Islamic University,
Islamabad

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1. Microfinance
2. Financial Services industry

بسم الله الرحمن الرحيم

When the help of Allah and victory come and you see men entering the religion of Allah in troops, then praising Allah glorifies Him and begs His forgiveness. Undoubtedly, He is Most Relenting.

(Surah An-Nasr)

Despite the fact that there is a common understanding on the importance of financial performance and gradual striving towards sustainability, the debate goes on with regard to fulfilling the promise of microfinance in targeting the "poorest" of the poor (Tucker, 2011).Various surveys such as the one conducted in Bolivia show that the majority of households reached by MFIs were near the poverty line. That means that they rather reached the marginally poor than the very or rural poor (Navajas, 2000).

This opened the debate on the depth of outreach and Schreiner (1999) aided discussions by proposing a framework that defines the six dimensions of outreach such as length, breath, scope, cost, depth and worth. Length of outreach can be described as "microfinance supply in a particular time frame". In this time frame present and future both are included. Breath of outreach can be defined as "number of clients". Breath depends upon the funds supplied to the clients, if all other factors are kept constant. Scope of outreach is "number of types of financial contracts supplied". Cost of outreach can be stated as "sum of price cost and transaction cost". Price cost is cost which is directly paid in the form of cash for interests and fee whereas transaction cost is non-price cost for indirect cash expenses Depth of outreach he argues is the preference of society towards recipients of funds. As direct measurement through income or wealth is difficult, Schreiner (1999) proposes indirect proxies for depth such as gender and location. In gender women are given preference and in location, rural are preferred (Schreiner, 1999).

Deepening outreach accordingly means to extend services to women and to remote rural areas. Rural finance, however, usually triggers high transaction costs and increased risk due to dispersion. High transaction cost and risk thus often serve as an argument by those focusing on sustainability against reaching out to remote rural areas. During the past ten years considerable concern arose over the increasing emphasis on financial performance as this often served as legitimization for drifting from the original social mission in servicing the very poor (Buchenau and Mayer, 2007).

The significant development of the Microfinance industry resulted in a broad spectrum of microfinance institutions ranging from organizations that regard social objectives only as byproducts to those who focus on translating their missions into practice. Measurement of success of microfinance institutions accordingly depends on the intent (mission) and design of the MFI, the selection of specific target segments (Dunford, 2000). The design of appropriate methodologies to translate mission into practice while gradually achieving cost recovery and subsidy independence accordingly is of utmost importance (Ledgerwood, 1999; Nitin, 2001).

Cull et al. (2006) studied that to what extent the MFIs can earn profit when they are also targeting the poor. His main objective was to find a relationship between financial performance and poverty outreach of MFIs. He used data between 1999 and 2002. 124 MFIs (village banks, individual-based lenders, and group-based lenders) from 49 developing countries were studied by using FSS, unadjusted measure of OSS and ROA. From this study he found out that when interest rates rise to high levels, it does not cause greater profitability or cost minimization. Individual based lenders which charge higher interest rate and high labor cost earn more profit. No important relationship is found between labor cost and profitability. Designs of institutions play significant relationship between tradeoff between outreach and profitability of institutions (Cull et al. 2006).Stieglitz and Weiss gave similar statement that raising interest rates will undermine portfolio quality due to adverse selection and moral hazard. Further studies proved that individual-based lenders that charge higher interest rates are more profitable than group lenders but only up to some extent. When interest rate reaches threshold level, profitability starts decreasing. In case of group based lenders profit does not increase with the rise in yield. Those individual lenders which charge high labor cost gain more profit. There was no important relationship found between labor cost and profitability for group lenders. They also found that it is not necessary that institutions with smaller loans will earn less profit (Stieglitz and Weiss, 1981).

Zakat (the third pillar of the Islamic faith) is also used for reducing the sufferings of the poor. It is applied 2.5 percent on the wealth of a Muslim, who owns The wealth equal to the Nissab. In order to increase the funding for financial sustainability of Microfinance institutions, capital providers should be increased. Zakat is an important channel for increasing the number of capital providers. (Dimas Baigus Wiranata (2010),Habib Ahmed(2004),Russel Power(2009).Zakat enables the continuous flow of income from rich to the poor people of the society. Zakat based Microfinance institutions provide capital to the poor to motivate the poor people to start their own business and they do not have to pay any additional charges (Ismail and Possumah, 2013).Those microfinance institutions which are loyal and honest in the eyes of the society, can attract more zakat donors to them. In this way they can be more financially sustainable but no working model has yet been found to prove this.

Subsidy is very substantial to measure the sustainability of Microfinance institutions. A large number of microfinance programs in the world are subsidized in different ways, sustainability of the programs poses a question in the mind of academics and researchers. Grameen Bank of Bangladesh has high repayment rate but also depends upon subsidies (Morduch 1999).

Seibel and Torres (1999) stated that sustainability of Grameen type MFI with the substantial increase in outreach is possible but this can be done only by providing subsidies. Yaron (1992) proposed Subsidy Dependence Index (SDI) for the first time. According to Hulme and Mosley (1996), SDI measures subsidy dependence and limit to which lending interest rate should be raised to cover all the operating costs of MFIs. Consequently the notion of a subsidy free break-even rate for MFIs provides the argument for the upward revision in interest rates to poor borrowers.

Yaron (1992) calculated SDI by a ratio of subsidy and loan portfolio and result is multiplied by lending rate of interest. The most interesting calculation part of the index is subsidy where it comprises of a number of cost revenue and cost components. Hulme and Mosley (1996) introduced advanced version of SDI formula by using simpler calculations and new notations. Kahndakar and Khalily (1995) suggested that SDI ratio more clearly explains the financial sustainability of MFIs. According to them SDI index compares subsidy only with revenue from lending however revenue from investments in non-loan assets (treasury bills) should also be considered.

Overall the above literature suggests that there are different techniques for measuring the subsidy dependence of microfinance institutions. Among these techniques, SDI and FSS are commonly used. FSS has many deficiencies as compared to SDI. FSS does not include opportunity cost of capital. It doesn't differentiate between MFIs that target poverty and the MFIs which invest their fund in other businesses and it tends to under estimate the subsidy dependence of microfinance institutions (Yaron and Manos, 2008). Hence we have used SDI for measuring the subsidy dependence and OI for measuring the outreach index of microfinance institutions.

CHAPTER 3: MICROFINANCE INSTITUTIONS (MFIS)

In this section we discuss that how microfinance sector in Pakistan has evolved. We have also presented a detail view of different MFIs of Rawalpindi/Islamabad.

3.1. Evolution of Microfinance Sector in Pakistan:

After the establishment of Grameen bank in Bangladesh in 1984, microfinance sector has been regarded vital for the eradication of poverty from the society. In 1990, International Financial Institutions started providing funds for the microfinance sector. In Pakistan, microfinance sector started gaining importance in the late 90's. Considering importance of microfinance sector for poverty reduction, Government started building microfinance institutions in the formal sector. Microfinance Sector Development Program was launched in 2000. Its objective was to enhance the role of microfinance sector for poverty reduction from the society. Khushali bank was the first microfinance bank, established in 2001. Microfinance ordinance was presented for establishing a regulatory frame work for microfinance sector of the country. State bank of Pakistan monitors the microfinance institutions of the country. State bank of Pakistan provides healthy environment for the private and public coordination between sectors so growth of microfinance sector can be enhanced in the country. After the year of Microfinance ordinance 2001, microfinance institutions in the country were established: First Microfinance Bank Limited, Tameer Microfinance Bank Limited, Rozgar Microfinance Bank Limited and Network Microfinance Bank Limited. In this way microfinance sector in the country evolved and now this sector in Pakistan provides financial services to poor and lower income group for the alleviation of Poverty from society. This sector ranks of the provided financial services that are credit, saving, insurance and money transfer etc.

Large number of NGOs, all which are working for the microfinance sector of the country form a forum called Pakistan Microfinance Network. In this forum issues and problems microfinance sector of the country are discussed.

3.2. MFIs Introduction:

Brief introduction of the microfinance institutions of our study is given below

3.2.1. Khushali Bank:

Khushali bank was established in August 2000.Its headquarter is located in Islamabad. It was the first microfinance institution which was given license by the country. In the beginning, it got funding from Asian Development Bank and paid up capital is subscribed by 16 commercial banks. This is the largest microfinance institution of the country in term of its coverage of areas. It operates across the whole country. In the beginning of its establishment, it was made a part of Government of Islamic Republic of Pakistan's Poverty Reduction Strategy and its Microfinance Sector Development Program. It's one of the product is Khushali cash sahulat. Khushali cash sahulat is an individual loan collateralized through a range of acceptable securities. The loan may be utilized to expand micro-enterprises / small businesses (to meet working capital requirements or purchase of assets) and offers free imbedded credit life insurance. To be eligible for this product, there are some requirements, which should be fulfilled. Age of individual should range between 18 years to 64 years, annual house hold income should be less than 300,000 and individual should have minimum 2 year business experience and individual should have valid CNIC and he should not be defaulter of any bank. Khushali bank also offers term deposits certificate and national saving certificates. Time period of these certificates is 3 to 12 months. Western Union is another facility offered by Khushali bank. This is very quick, easy and economical method of transferring money to anywhere across the globe. Receiver will get money with in just 10 minutes[2].

3.2.2. NRSP:

NRSP has been established under the company ordinance 1984.It operates across the whole country under the microfinance ordinance 2001.Its most famous credit products are agricultural loans, livestock loans and Urban Enterprise Development. Agricultural loans also called small farmer loans. These loans are provided to small farmers of cotton, sugar cane and rice. These loans are provided for payment for land lease, land leveling, any other services associated with agricultural reforms etc. Requirements for eligibility of these loans are: age limit between 18 to 60 and holder of CNIC. Loan amount is Rs 15000 to 150,000.Duration of these loans is 1 to 15 months. It is given on interest rate of 28 percent per annum. These loans are repaid as lump sum on crop harvest. Livestock loans are provided to individuals through credit group channel. These loans are given for the following purposes: livestock flattening live stock trading etc. Requirement of this loan is age limit between 18 years to 60 years and holder of CNIC. Loan amount is Rs 5000 to 150000. Duration of this loan is 1 to 24 month. It is given on interest rate of 30 percent for installment loans on declining basis and 28 percent annually for lump sum on declining basis. It is repaid in 24 installments. Urban enterprise development loan is another product offered by NRSP bank. This loan is granted to urban people who have income generating enterprises. This loan is issued for the following purposes: grocery shops, handicrafts, electrician activities etc. Loan amount is 5000 to 1, 50,000.Loan is granted for 24 months on 30 percent interest rates on declining trends. Eligibility for getting this loan is age between 18 years to 64 years and holder of CNIC.NRSP bank is offering following services: MFBL Bachat Tenzeem

[2] www.khushalibank.com.pk

account,NRSP Behtreen Current account,NRSP Mukamal Sahulat account,Asan Bachat Saving Account,NRSP Ziada Munafa Term Deposit etc[3]

3.2.3 Akhuwat foundation:

Akhuwat was established in 2001.Its foremost mission was to enhance the standard of living of the poor. This organization focuses on those individuals who are lying above the poverty line. This organization fulfills its mission by providing interest free loan to the poor. Akhuwat has its 13 branches across the Punjab and 7150 clients. Akhuwat initiated lending with group methodology in 2001 and individual loans in 2003. Akhuwat is run by Amjad Saqib. He is the executive director as well as chairman of the board. Finance manager and internal auditor supports executive director. Finance advisor and credit advisors work on voluntary basis. Their meeting with branch manager is held on monthly basis. Program manager leads a team of two area manager; each of them is responsible for four branches of Akhuwat. One significant feature of the individual loan is that they are granted in mosques.

Each branch is associated with one mosque and that branch is located near that mosque. No interest is charged on loan granted but five percent is charged as membership fee so that clients will value the loan and utilize it properly. Unit manager evaluates the eligibility of holding loans. Per capita income of the individual should be less than Rs 1000 and applicant should pay membership fee and 1 percent of loan amount to buy insurance. If a client dies, his family is granted Rs 5000 to make arrangements for funeral expenses. Loan products of Akhuwat foundation are family loan, liberation loan, housing loan, health, and marriage and education loans.[4]

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[3] www.nrspbank.com
[4] www.akhuwat.org.pk

3.2.4 First Microfinance Bank Limited:

First Microfinance Bank Limited was established in 2002.It is privately held. It works under the Agha Khan agency for Microfinance. This institution is established under the Agha Khan Development Network. Objective behind the establishment of First Microfinance Bank Limited was to reduce the sufferings of the poor by eradicating poverty from the society. Agha khan agency for microfinance is its 42 percent shareholder, Agha khan rural support program is 22 percent shareholder, International Finance Corporation is 18 percent shareholder, and Japanese International Corporation Agency is 18 percent shareholder of First Microfinance Bank Limited. First Microfinance Bank Limited has 80 branches across the whole country. It has 7 points of links. This microfinance bank has granted 1.34 million loans to the clients. First Microfinance Bank Limited has granted 34 percent loans to women and 61 percent loans to the rural people. Its head quarter is located in Islamabad.1001 to 5000 employee work in this bank.[5]

3.2.5 Pak Oman Microfinance Bank Limited:

Pak Oman Microfinance Bank Limited has been established in May 21, 2006.Both the Sultanate of Oman and Pak Oman investment company has jointly sponsored this bank. This bank provides a lot of services to reduce the sufferings of low income group of the society. This bank is incorporated under the company's ordinance 1984.Initially it was an unlisted company. State bank of Pakistan gave license to it under the company's ordinance 2001. Pak Oman Microfinance bank started mobile van banking in the rural areas of Sindh. This bank is also providing services to the far off places of the country .Pak Oman management company has been established on July 28,2006.It is a non-banking finance company. This company is managing following funds: Pak Oman Advantage Islamic Income Fund, Pak Oman Islamic

[5] www.akdn.org/akam_pakistan.asp

Allocation Fund, Pak Oman Advantage Allocation Fund, Pak Oman Advantage Fund and Pak Oman Government Securities Fund .Pak Oman Microfinance Bank is providing many services like investment banking and corporate banking.

- **Investment Banking:**

Pak Oman investment banking provides financial services like arranging private and listed corporate debt issues, Unsecured Short Term Commercial Paper, Syndicated Long Term Finance Facilities and Project Finance Transactions. Pak Oman also provides financial advisory services for Private Equity and IPO transactions and mergers & Acquisitions.

- **Corporate Banking:**

Corporate Banking is the main Business Area of Pak Oman. The main areas of focus are Term Financing (long, medium and short), Lease Financing and Project Financing. Pak Oman prides itself in maintaining a diversified & well managed portfolio which has been built through aggressive marketing and stringent risk management etc.

Pak Oman Microfinance Company has different departments like support department, information technology department, Finance department, administration department etc. [6]

3.2.6. BRAC Microfinance Bank:

BRAC started its microfinance activities in Pakistan in 2007.They have targeted 2.46 million people by microfinance programs, community-based education and livelihood enhancement and protection institutional development (LEP-ID) in rural area etc.

6 Pakoman.com

- **BRAC Agriculture and Food Security Program:**

BRAC agricultural program works along with the government for the security of food. They developed research programs to search out the better varieties for the farmers. They provide financial support to the farmers and enhance the use of efficient and modern technologies for farming. They are initiating agricultural programs in Bangladesh, Uganda, Tanzania, Sierra Leone, Liberia, South Sudan and Haiti.

- **BRAC Community Empowerment Program**:

BRAC develops community institutions to help the poor and women through local government. Different measures are taken to achieve this target like creating awareness among masses to raise their voice for their rights and making the local government strong for the eradication of the poverty etc.[7]

3.2.7. KASHF Foundation:

KASHF foundation was established in Lahore in 1999.It was established with the objective of providing financial and non-financial services to the low income group people specially the women of the society. KASHF started its microfinance program in Lahore then it expanded it to the other cities like Kasur, Gujranwala, Faisalabad, Karachi, Khushab etc. KASHF replicated the group lending methodology of Germeen bank with some changes. KASHF provides General loan to the women for 12 months at flat interest rate of 20 percent per annum. These women form a group of five members and these groups form one center. These women repay their loan in the meetings arranged by KASHF loan officers. Individuals who have income of 4,000 to 10,000 and have low asset base are eligible to apply. The General loans are also given to the individual so that they can invest in any business. These loans range from 10,000 to 25,000 and these loans are repaid in 24 installments at the

[7] Microfinance.brac,net/

interest rate of 20 percent. These loans are repaid in one year. Emergency loan is given to those individuals who are already receiving general loans. The business Sarmaya loan is given to the men and women who are already running a business but need financial help for working capital. It is necessary for all clients to take KASHF insurance. It is charged at 1.5 percent of the loan amount. In case of death of clients, whole loan amount is written off and his family receives 7500 for the funeral expenses.

3.2.8. KASHF Microfinance Bank:

KASHF microfinance bank was established in 2008.It was formed with the objective of poverty reduction through provision of jobs to people. KASHF microfinance bank was initiated by KASHF foundation. This bank provides small loans to its clients for running their business. This is regulated and licensed microfinance bank so unlike KASHF foundation, it can receive deposit saving. In 2008,it had 18 branches and now it has 50 branches across the 46 cities of the country. This microfinance bank has distributed Rs 5 billion to its 100,000 customers. Its 200,000 deposit customers have 2.5 billion Rs in their accounts. Its loan portfolio is funded by its own deposit base. This bank also provides ATM services to its clients. In 2013, KASHF became part of FINCA's global microfinance network. On Nov 25, 2013, name of KASHF microfinance bank changed to FINCA microfinance bank limited and now it is gaining popularity across the whole world due to FINCA brand. Following are some of the services of KASHF Microfinance bank.

- **Mohafiz Term Deposit:**

  This Mohafiz term deposit is for the old people, retired army person and widows. This deposit service is provided at the 13.80 percent rate of return.

Due to this service, clients can support their families even when they are retired from their services.

- **Tahaffuz Term Deposit:**

  Tahaffuz term deposit account is for individuals, companies and joint stock holders. This deposit is for 1, 3, 6 months and 1, 2, 3 years. Rate of return for this deposit is 13 percent.

- **Kamal Committee**:

  Kamal committee is an instrument, through which clients can fulfill their desires like wedding and education of their children etc. Through Kamal committee; they get a large amount in the time of need.

We can conclude that the above mentioned MFIs are working effectively in surrounding area of Islamabad/ Rawalpindi. These institutions have been working since ordinance 2001 and they are contributing toward poverty alleviation from society. We can say that microfinance sector in Pakistan is currently showing tremendous growth despite of unfavorable economic conditions of country.

CHAPTER 4: DATA AND METHODOLOGY

In this chapter we discuss nature of data, estimation methodologies for measuring the performance of microfinance institutions such as Subsidy dependence index (SDI), Financial self-sufficiency (FSS) ad Outreach Index (OI). We have also presented comparative analysis of different techniques which are used for evaluating the performance of microfinance institutions.

4.1. Data Collection:

Data was collected from financial statements of microfinance institutions, given on mix market website. Data of eight microfinance institutions was used from 2006 to 2012.There are seven conventional and one Islamic microfinance institutions working in Rawalpindi/Islamabad, whose data was used. All of these MFIs have range of ownership pattern, size, management, methodology, source of funding etc.

4.2. Estimation Methodologies:

Microfinance institutions strive to reduce sufferings of poor. This target is difficult to achieve because microfinance institutions have to pay a high cost to reach their poor clients. Only those microfinance institutions may achieve their objectives, which are financially sustainable themselves. It is very necessary to find those MFIs, which are able to reduce poverty while remaining financially sustainable. We will measure the performance of microfinance institutions by SDI and OI.SDI index is used for measuring the self-sufficiency of microfinance institutions and OI is used to measure the outreach of microfinance institutions

4.2.1. SDI:

Microfinance institutions in Pakistan have been given lot of financial support in the last passing years. However among 180 million inhabitants of this country, more than 20 % live below the poverty line. Hence this support is not substantial for people of this country. Here a question arises that how donors can support MFIs in their mission of poverty reduction?

Several Proposals are currently on the table. Subsidies including interest rate, a risk mitigation fund, an emergency liquidity facility and access to liquidity from the Central Bank. Several of these Proposals can help build a resilient industry in the future. The emergency liquidity facility was first tried in Latin America and the Caribbean and has-been regarded a success. The facility is only open to eligible MFIs that meet stringent risk management and financial prudence (Such as 3 years of profits and emergency preparedness plan). Other Proposals may distort incentives and-have the potential to harm progress. For example, the interest rate to customers' subsidy could potentially confuse borrowers and reduce credit discipline. This was a problem in Sri Lanka after the tsunami, when the Subsidies there were announced by the government without clarity on scope and duration.

In measuring the magnitude of subsidy dependence of respective microfinance institutions, this paper uses subsidy dependence model developed by Yaron (1992). For calculation of SDI, it is necessary to aggregate all subsidies received by all MFI and compare it to total loan revenues, being the product of the banks on lending interest rate or profit rate and the average annual loan portfolio(LP). This can be mathematically expressed as

Equation 4.1: $SDI = S/LP*i$

Where S is the index of subsidy dependence; *LP* is the average outstanding loan portfolio and *I* is the weighted average on lending rate paid on loan portfolio. (Yaron and Manos, 2007)

The amount of the annual subsidy received by the MFI is defined as:

Equation 4.2: $S = A (m - c) + [(E * m) - P] + K$

Where:

S = Annual subsidy received by the MFI

A = MFI concessionary borrowed funds outstanding (annual average)

m = The assumed interest rate that the MFI would have to pay for borrowed funds if access to concessionary borrowing was eliminated.

c = Weighted average annual concessionary rate of interest actually paid by the MFI on its annual average concessionary borrowed funds outstanding

E = Average annual equity

P= Reported annual profit before tax.

K= The sum of all other subsidies received by MFIs such as partial or complete coverage by the state of operational cost of the MFIs.

Data was collected from microfinance institutions financial statements available online at Mix Market website and from annual reports. SDI for different years from 2006 to 2012 was calculated .The sample contain seven conventional and one Islamic Microfinance institution.

4.2.2. OI:

Yaron (1992) proposed use of outreach index along with SDI for measuring the outreach of microfinance institutions. OI index measures the output of financial support provided to Microfinance institutions. Use of SDI along with OI is beneficial for measuring both the subsidy dependence and outreach of microfinance institutions. There are different variables which are required to calculate outreach index for example number of loans, amount of loans, income group, total amount per income group etc. The weighted output index *(OIw)* is then expressed as:

Equation 4.3: $OI^{w}=\frac{\sum_{i=1}^{n} Liai}{\sum_{i=1}^{n} Li}$

Where *(Li)*,is income size groups

the non-weighted output index *(OInw)* is expressed as:

Equation 4.4: $OI^{nw} = \frac{1}{n}$

The ratio $Z = OInw / OIw$ should be interpreted as a "discount factor" thus

Equation 4.5: $Z = \frac{\sum_{i=1}^{n} Li}{n \sum_{i=1}^{n} Liai}$

We have first calculated OI index with actual weight ratio (ratio calculated from male and female borrowers and similarly urban and rural borrowers) than we have changed the weight ratio to 0.6 and 0.4 and in the end we have calculated the OI index with fixed 0.5 ratios. Results are shown in chapter 5. We have obtained data from financial statements of microfinance institutions.

4.2.3. FSS:

Financial Self-Sufficiency is an important measure of sustainability of the lending operation. FSS index is also used to measure the self-sufficiency of microfinance institutions. It has helped in giving us a comparison statement between using SDI, OI and FSS. We have followed the formula of FSS

$$FSS = \frac{AdjustedFincialRevenue}{Adjusted\ (FinancalExpense + NetLoanLossProvisionExpense + OperatingExpense)}$$

Data of all variables is obtained from financial statements of microfinance institutions given on mix market website. Results and graphs are given in chapter 5.

Financial Self-Sufficiency indicates whether or not enough revenue has been earned to cover both, direct costs- including financing costs, provision for loan losses and operating expenses and indirect costs including the adjusted cost of capital.

بسم الله الرحمن الرحيم

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Hina Almas

Regd. No. 65-FE/MS (EF)/F13

Submitted in partial fulfillment of the requirements for the
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International Islamic University,
Islamabad

Prof. Dr. Asad Zaman: Supervisor

Muhammad Mubashir Mukhtar: Co- Supervisor

Declaration of Originality

I hereby declare that this thesis, neither as a whole nor as a part thereof, has been copied out from any source. It is further declared that I have carried out this research by myself and have completed this thesis on the basis of my personal efforts under the guidance and help of supervisor. No portion of this thesis has been submitted in support of any application for any other degree or qualification in International Islamic University or any other University.

Hina

Hina Almas

APPROVAL SHEET

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Hina Almas
RegNo:65-FE/MS (EF)/F13

Accepted by the International Institute of Islamic Economics, International Islamic University, Islamabad, as partial fulfillment of the requirements for the award ofdegree ofMS Economics and Finance.

Supervisor:
Prof.Dr. Asad Zaman
Vice- Chancellor, PIDE

Co-Supervisor:
Muhammad Mubashir Mukhtar
Research Associate (PARC),Islamabad.

Internal Examiner:
Dr. Atiquzzafar Khan
Assistant professor
International Institute of Islamic Economics, IIUI

External Examiner:
Dr. Muhammad Mazhar Iqbal
Associate Professor, School of Economics.
Quaid-e-Azam University, Islamabad

Head
International Institute of Islamic Economics
International Islamic University, Islamabad

Director General
International Institute of Islamic Economics
International Islamic University, Islamabad

Date of Viva Voce: 26-05-2015

Dedication

I dedicate my thesis to my loving husband and parents for providing me with a good education and for their unconditional love, prayer and support

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All praises for ALLAH, whose blessings are abundant, WHO is our most beneficial, and WHO guides us in the darkness and help us in all kinds of difficulties. HE is who made us the higher eminent of all created beings. HIS all revelations are source of pure knowledge and to us to think about what is happening around us. In fact there are indications in them for believers. I am very grateful to the individuals who contributed in the preparation of this thesis. I am very grateful to my project supervisor Prof. Dr. Asad Zaman for his guidance, valuable advices and ready assistance at all stages in the completion of this thesis. I am extremely thankful to my Co-Supervisor Mubashir Mukhtar, Dr. Arshad Ali Bhatti, Hafiz Abdur Rehman and Niaz Ali Shah for their valuable technical guidance. I am indebted to him for his constant and unconditional support and his patience during this project. The support of my family has meant a lot to me. Without them, I would not be where I am today. Towards my parents, go my love and respect. Special thanks to my brothers Usman, Imran and my sister Sadia. Their concern, devotion and love can never be paid back. I also thank my husband Zeeshan for his unceasing encouragement, motivation and support. My lovely daughter Rumaisa and my cute nieces Bisma, Alisha and Meerab are specially thanked for making my life beautiful.

Hina Almas

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LIST OF ABBREVIATION

DCF	Discounted Cash Flow
DEA	Data Envelopment Analysis
DID	Difference In Difference
EVA	Economic Value Added
FSS	Financial Self Sufficiency
MFI	Microfinance Institution
NGO	National Government Organization
OI	Outreach Index
OSS	Operational Self Sufficiency
PM	Profit Margin
PTA	Point of Total Assumption
ROA	Return on Assets
ROE	Return on Equity
RR	Reserve Ratio
SDI	Subsidy Dependence Index
SFA	Stochastic Frontier Analysis
SUR	Seemingly Unrelated Regression

ABSTRACT

Microfinance provides credit to boost the economic activities of low-income group people and thus contributes to the eradication of poverty. Thesis has highlighted the role of microfinance institutions in reducing the sufferings of poor. There is a tradeoff between alleviation of poverty and financial sustainability. In this regard Pakistani Microfinance institutions are also facing the problem of their sustainability while serving the poor people. The current thesis investigates the level of subsidy dependence and outreach for measuring microfinance institutions performance and poverty outreach. Moreover, this thesis also compares subsidy dependence index and financial self-sufficiency index, explaining the objectives and limitations of each of them. While, research has been done in different countries to study this issue, but no such study has yet been conducted in Pakistan's context. For this study we have focused on eight microfinance institutions working in Pakistan. The sample institutions comprise of conventional and Islamic microfinance institutions. Data for this research have been drawn from financial statements of microfinance institutions and mix market website, from 2006 to 2012. Findings of this study have thrown some light on microfinance institutions' financial sustainability in addition to looking at fulfillment of their goal of poverty reduction. The combination of subsidy dependence index and outreach index can play a vital role as regulatory tools for microfinance institutions.

CHAPTER 1: INTRODUCTION

1.1 Background of Study:

Poverty has been a significant problem throughout history. Even in this era of development at least one third of the world population is suffering from the problem of poverty. With such a huge number of human beings living in such a deprived situation, it becomes very crucial to target this issue and search out feasible ways to overcome it.

Microfinance has come about to be one of the important tools for reducing poverty. It offers a solution by stimulating economic growth and development. Established microfinance institutions use many instruments to fulfill their promise of poverty reduction. One of those instruments is microcredit. Through this instrument microfinance institutions provides small-scale loans to individuals or groups so that the borrower could initiate their business and break out of poverty cycle.

Historically microfinance institutions have been playing their role in many formal and informal ways. There were many savings and credit groups in Ghana, India, Mexico, Indonesia, Sri Lanka, West Africa etc. locally known as; susus, chit funds, tandas, arisan, cheetu, tontines etc. respectively. In the recent era of economic development the prominence of formal microfinance institutions came in the latter half of twentieth century. With the establishment of ACCION International in Latin America and Grameen Bank of Muhammad Yunus in Bangladesh in 1960's and70's, microfinance approach made its place in economic policies for poverty reduction. Grameen bank has provided loans of $9.1 billion to poor and spread their business to many countries. Muhammad Yunus was given Nobel Prize for his services in 2006.

However, microfinance sector has been currently facing many challenges, especially of mission drift. Institutions started to fulfill social causes slip into the direction of profit maximization. When microfinance institutions focus their attention on social objectives, they face the risk of financial unsustainability. MFIs need to be economically viable and sustainable in the long run but at the same time they must consider economic implications of long-term sustainability (Srinivasan et al., 2006).

The microfinance revolution and the remarkable development of the Microfinance industry in scale and scope raise demands for increased justification on the utilization of scarce public funds. In order to allocate these resources in the most efficient way, performance evaluation should reveal an accurate and meaningful picture of the performance of MFI in terms of reaching the objectives desired by society and the efficiency in developing products and services to the target recipients (Yaron and Manos, 2008).

While a vast amount of literature exists on the trade-off between outreach depth and financial sustainability, much less research has been done in the field of how successful MFIs designed their institutions to bridge this trade-off (Woller, 2004). MFIs must fulfill their promise of poverty reduction but at the same time they should be financially sustainable, as well. Same situation exists in the case of Pakistan, where there is tradeoff between poverty outreach and financial sustainability. Studies show that if preference of MFIs is to serve the poor than financial sustainability will be difficult due to high transaction cost. This research is to investigate these issues in Pakistan's context.

We have taken up the approach of Yaron (1992) in which he has advocated for studying the performance of MFI through the dual concept of outreach and sustainability, seeking the breadth and depth of the institution. For measuring the outreach, Yaron has proposed for Outreach Index (OI) and for measuring the sustainability or self-sufficiency he has proposed the Subsidy Dependence Index (SDI). Thus the combination of OI and SDI gives more reliable measure of performance of MFI. In addition to this we have also used one of the leading methodologies for measuring the performance of MFIs i.e. Financial Self-Sufficiency (FSS) and compared its results with SDI and OI.

1.2 Research Objectives:

The aim of this study is to assess various performance evaluation measures that are commonly used by the Microfinance Industry (MFI) in Pakistan and recommend a more socially aligned performance measurement. Properly measuring the performance of MFIs may yield some important benefits, such as:

- Measuring performance helps in transforming a subsidy-based industry into at least a break even and sustainable one.
- Measuring performance makes the MFI industry more attractive to private suppliers of capital thus increasing access to sustainable sources of funds.
- Measuring performance enhances efficiency and highlights efficient MFIs which are better positioned to achieve goals and improve access of target clientele to a wide range of financial services.
- Overall, measuring and tracking MFI performance helps to channel funds to the most efficient institutions, thus supporting economic growth and poverty reduction.
- Moreover, measuring performance is essential even for evaluating the performance of MFIs that serve the extreme poor and have no desire or plans to become self-sustainable. This is because there are alternative ways to reach and benefit the target clientele. Measuring the performance of MFIs should enlighten those that foot the bill of subsidies, on the cost-effectiveness of this instrument in supporting the target clientele.

1.3 Research Questions:

1. What are the best methods to extend depth while striving for self-sufficiency of microfinance institutions?

2. Which microfinance institutions of Rawalpindi/Islamabad are becoming self-sufficient with passing years?

1.4 Scheme of Study:

This study is further divided in six chapters. Starting from introduction (chapter 1) which elaborates background of study, research objectives and research questions, we come to the literature review (chapter 2) which discusses the theoretical foundation and provides the framework for empirical study. We continue by introducing of MFIs we plan to study in Pakistan (chapter 3). Chapter 4 presents data and methodology. Chapter 5 provides an analysis of data and chapter 6 concludes the study with policy implication and further research direction. Tables of data collected from each microfinance institution are attached as annexure.

CHAPTER 2: LITERATURE REVIEW

Microfinance is an important way of providing credit to the poor who are mostly ignored by other financial institutions. Social objectives of microfinance are defined as "the effective translation of an institution's social goals into practice in line with accepted social values; these include sustainably serving increasing number of poor people, improving the quality and appropriateness of financial services and improving the economic and social conditions of clients"[1]. Social performance is being measured by using some variables as proxies like number of borrowers, average loan size, percentage of female borrowers, etc. Economic performance can be measured by subsidy dependence index (SDI) and financial self-sufficiency (FSS) index. SDI can be measured by subsidy received by microfinance institutions; loan portfolio and weighted average index on loan portfolio whereas FSS can be measured by Adjusted Financial Expense, Adjusted Net Loan Loss Provision Expense, Adjusted Operating Expense and Adjusted Financial Revenue.

The microfinance industry is characterized by a "schism" (Murdoch 2000), which spurs debate between two streams of thought. On the one hand are institutions that focus on achieving financial self-sufficiency by outreaching in scale (targeting more the marginally poor), while, on the other hand, welfarists emphasize outreach in depth and social impact and attribute an important role to subsidies. While some regard "subsidized" institutions as inherently inefficient (Murdoch 1999, Hollis 1998), welfarists argue that all crucial microfinance innovations came from flagship institutions such as Grameen Bank, ACCION and FINCA, which were heavily dependent on donor funding at the time of innovation (Murdoch 1999, Hollis 1998).

[1]http://www.microfinancegateway.org/p/site/m/template.rc/1.11.48260

Despite the fact that there is a common understanding on the importance of financial performance and gradual striving towards sustainability, the debate goes on with regard to fulfilling the promise of microfinance in targeting the "poorest" of the poor (Tucker, 2011).Various surveys such as the one conducted in Bolivia show that the majority of households reached by MFIs were near the poverty line. That means that they rather reached the marginally poor than the very or rural poor (Navajas, 2000).

This opened the debate on the depth of outreach and Schreiner (1999) aided discussions by proposing a framework that defines the six dimensions of outreach such as length, breath, scope, cost, depth and worth. Length of outreach can be described as "microfinance supply in a particular time frame". In this time frame present and future both are included. Breath of outreach can be defined as "number of clients". Breath depends upon the funds supplied to the clients, if all other factors are kept constant. Scope of outreach is "number of types of financial contracts supplied". Cost of outreach can be stated as "sum of price cost and transaction cost". Price cost is cost which is directly paid in the form of cash for interests and fee whereas transaction cost is non-price cost for indirect cash expenses Depth of outreach he argues is the preference of society towards recipients of funds. As direct measurement through income or wealth is difficult, Schreiner (1999) proposes indirect proxies for depth such as gender and location. In gender women are given preference and in location, rural are preferred (Schreiner, 1999).

Deepening outreach accordingly means to extend services to women and to remote rural areas. Rural finance, however, usually triggers high transaction costs and increased risk due to dispersion. High transaction cost and risk thus often serve as an argument by those focusing on sustainability against reaching out to remote rural areas. During the past ten years considerable concern arose over the increasing emphasis on financial performance as this often served as legitimization for drifting from the original social mission in servicing the very poor (Buchenau and Mayer, 2007).

The significant development of the Microfinance industry resulted in a broad spectrum of microfinance institutions ranging from organizations that regard social objectives only as byproducts to those who focus on translating their missions into practice. Measurement of success of microfinance institutions accordingly depends on the intent (mission) and design of the MFI, the selection of specific target segments (Dunford, 2000). The design of appropriate methodologies to translate mission into practice while gradually achieving cost recovery and subsidy independence accordingly is of utmost importance (Ledgerwood, 1999; Nitin, 2001).

Cull et al. (2006) studied that to what extent the MFIs can earn profit when they are also targeting the poor. His main objective was to find a relationship between financial performance and poverty outreach of MFIs. He used data between 1999 and 2002. 124 MFIs (village banks, individual-based lenders, and group-based lenders) from 49 developing countries were studied by using FSS, unadjusted measure of OSS and ROA. From this study he found out that when interest rates rise to high levels, it does not cause greater profitability or cost minimization. Individual based lenders which charge higher interest rate and high labor cost earn more profit. No important relationship is found between labor cost and profitability. Designs of institutions play significant relationship between tradeoff between outreach and profitability of institutions (Cull et al. 2006).Stieglitz and Weiss gave similar statement that raising interest rates will undermine portfolio quality due to adverse selection and moral hazard. Further studies proved that individual-based lenders that charge higher interest rates are more profitable than group lenders but only up to some extent. When interest rate reaches threshold level, profitability starts decreasing. In case of group based lenders profit does not increase with the rise in yield. Those individual lenders which charge high labor cost gain more profit. There was no important relationship found between labor cost and profitability for group lenders. They also found that it is not necessary that institutions with smaller loans will earn less profit (Stieglitz and Weiss, 1981).

Zakat (the third pillar of the Islamic faith) is also used for reducing the sufferings of the poor. It is applied 2.5 percent on the wealth of a Muslim, who owns The wealth equal to the Nissab. In order to increase the funding for financial sustainability of Microfinance institutions, capital providers should be increased. Zakat is an important channel for increasing the number of capital providers. (Dimas Baigus Wiranata (2010),Habib Ahmed(2004),Russel Power(2009).Zakat enables the continuous flow of income from rich to the poor people of the society. Zakat based Microfinance institutions provide capital to the poor to motivate the poor people to start their own business and they do not have to pay any additional charges (Ismail and Possumah, 2013).Those microfinance institutions which are loyal and honest in the eyes of the society, can attract more zakat donors to them. In this way they can be more financially sustainable but no working model has yet been found to prove this.

Subsidy is very substantial to measure the sustainability of Microfinance institutions. A large number of microfinance programs in the world are subsidized in different ways, sustainability of the programs poses a question in the mind of academics and researchers. Grameen Bank of Bangladesh has high repayment rate but also depends upon subsidies (Morduch 1999).

Seibel and Torres (1999) stated that sustainability of Grameen type MFI with the substantial increase in outreach is possible but this can be done only by providing subsidies. Yaron (1992) proposed Subsidy Dependence Index (SDI) for the first time. According to Hulme and Mosley (1996), SDI measures subsidy dependence and limit to which lending interest rate should be raised to cover all the operating costs of MFIs. Consequently the notion of a subsidy free break-even rate for MFIs provides the argument for the upward revision in interest rates to poor borrowers.

Yaron (1992) calculated SDI by a ratio of subsidy and loan portfolio and result is multiplied by lending rate of interest. The most interesting calculation part of the index is subsidy where it comprises of a number of cost revenue and cost components. Hulme and Mosley (1996) introduced advanced version of SDI formula by using simpler calculations and new notations. Kahndakar and Khalily (1995) suggested that SDI ratio more clearly explains the financial sustainability of MFIs. According to them SDI index compares subsidy only with revenue from lending however revenue from investments in non-loan assets (treasury bills) should also be considered.

Overall the above literature suggests that there are different techniques for measuring the subsidy dependence of microfinance institutions. Among these techniques, SDI and FSS are commonly used. FSS has many deficiencies as compared to SDI. FSS does not include opportunity cost of capital. It doesn't differentiate between MFIs that target poverty and the MFIs which invest their fund in other businesses and it tends to under estimate the subsidy dependence of microfinance institutions (Yaron and Manos, 2008). Hence we have used SDI for measuring the subsidy dependence and OI for measuring the outreach index of microfinance institutions.

CHAPTER 3: MICROFINANCE INSTITUTIONS (MFIS)

In this section we discuss that how microfinance sector in Pakistan has evolved. We have also presented a detail view of different MFIs of Rawalpindi/Islamabad.

3.1. Evolution of Microfinance Sector in Pakistan:

After the establishment of Grameen bank in Bangladesh in 1984, microfinance sector has been regarded vital for the eradication of poverty from the society. In 1990, International Financial Institutions started providing funds for the microfinance sector. In Pakistan, microfinance sector started gaining importance in the late 90's. Considering importance of microfinance sector for poverty reduction, Government started building microfinance institutions in the formal sector. Microfinance Sector Development Program was launched in 2000. Its objective was to enhance the role of microfinance sector for poverty reduction from the society. Khushali bank was the first microfinance bank, established in 2001. Microfinance ordinance was presented for establishing a regulatory frame work for microfinance sector of the country. State bank of Pakistan monitors the microfinance institutions of the country. State bank of Pakistan provides healthy environment for the private and public coordination between sectors so growth of microfinance sector can be enhanced in the country. After the year of Microfinance ordinance 2001, microfinance institutions in the country were established: First Microfinance Bank Limited, Tameer Microfinance Bank Limited, Rozgar Microfinance Bank Limited and Network Microfinance Bank Limited. In this way microfinance sector in the country evolved and now this sector in Pakistan provides financial services to poor and lower income group for the alleviation of Poverty from society. This sector ranks of the provided financial services that are credit, saving, insurance and money transfer etc.

Large number of NGOs, all which are working for the microfinance sector of the country form a forum called Pakistan Microfinance Network. In this forum issues and problems microfinance sector of the country are discussed.

3.2. MFIs Introduction:

Brief introduction of the microfinance institutions of our study is given below

3.2.1. Khushali Bank:

Khushali bank was established in August 2000.Its headquarter is located in Islamabad. It was the first microfinance institution which was given license by the country. In the beginning, it got funding from Asian Development Bank and paid up capital is subscribed by 16 commercial banks. This is the largest microfinance institution of the country in term of its coverage of areas. It operates across the whole country. In the beginning of its establishment, it was made a part of Government of Islamic Republic of Pakistan's Poverty Reduction Strategy and its Microfinance Sector Development Program. It's one of the product is Khushali cash sahulat. Khushali cash sahulat is an individual loan collateralized through a range of acceptable securities. The loan may be utilized to expand micro-enterprises / small businesses (to meet working capital requirements or purchase of assets) and offers free imbedded credit life insurance. To be eligible for this product, there are some requirements, which should be fulfilled. Age of individual should range between 18 years to 64 years, annual house hold income should be less than 300,000 and individual should have minimum 2 year business experience and individual should have valid CNIC and he should not be defaulter of any bank. Khushali bank also offers term deposits certificate and national saving certificates. Time period of these certificates is 3 to 12 months. Western Union is another facility offered by Khushali bank. This is very quick, easy and economical method of transferring money to anywhere across the globe. Receiver will get money with in just 10 minutes[2].

3.2.2. NRSP:

NRSP has been established under the company ordinance 1984.It operates across the whole country under the microfinance ordinance 2001.Its most famous credit products are agricultural loans, livestock loans and Urban Enterprise Development. Agricultural loans also called small farmer loans. These loans are provided to small farmers of cotton, sugar cane and rice. These loans are provided for payment for land lease, land leveling, any other services associated with agricultural reforms etc. Requirements for eligibility of these loans are: age limit between 18 to 60 and holder of CNIC. Loan amount is Rs 15000 to 150,000.Duration of these loans is 1 to 15 months. It is given on interest rate of 28 percent per annum. These loans are repaid as lump sum on crop harvest. Livestock loans are provided to individuals through credit group channel. These loans are given for the following purposes: livestock flattening live stock trading etc. Requirement of this loan is age limit between 18 years to 60 years and holder of CNIC. Loan amount is Rs 5000 to 150000. Duration of this loan is 1 to 24 month. It is given on interest rate of 30 percent for installment loans on declining basis and 28 percent annually for lump sum on declining basis. It is repaid in 24 installments. Urban enterprise development loan is another product offered by NRSP bank. This loan is granted to urban people who have income generating enterprises. This loan is issued for the following purposes: grocery shops, handicrafts, electrician activities etc. Loan amount is 5000 to 1, 50,000.Loan is granted for 24 months on 30 percent interest rates on declining trends. Eligibility for getting this loan is age between 18 years to 64 years and holder of CNIC.NRSP bank is offering following services: MFBL Bachat Tenzeem

[2] www.khushalibank.com.pk

account,NRSP Behtreen Current account,NRSP Mukamal Sahulat account,Asan Bachat Saving Account,NRSP Ziada Munafa Term Deposit etc[3]

3.2.3 Akhuwat foundation:

Akhuwat was established in 2001.Its foremost mission was to enhance the standard of living of the poor. This organization focuses on those individuals who are lying above the poverty line. This organization fulfills its mission by providing interest free loan to the poor. Akhuwat has its 13 branches across the Punjab and 7150 clients. Akhuwat initiated lending with group methodology in 2001 and individual loans in 2003. Akhuwat is run by Amjad Saqib. He is the executive director as well as chairman of the board. Finance manager and internal auditor supports executive director. Finance advisor and credit advisors work on voluntary basis. Their meeting with branch manager is held on monthly basis. Program manager leads a team of two area manager; each of them is responsible for four branches of Akhuwat. One significant feature of the individual loan is that they are granted in mosques.

Each branch is associated with one mosque and that branch is located near that mosque. No interest is charged on loan granted but five percent is charged as membership fee so that clients will value the loan and utilize it properly. Unit manager evaluates the eligibility of holding loans. Per capita income of the individual should be less than Rs 1000 and applicant should pay membership fee and 1 percent of loan amount to buy insurance. If a client dies, his family is granted Rs 5000 to make arrangements for funeral expenses. Loan products of Akhuwat foundation are family loan, liberation loan, housing loan, health, and marriage and education loans.[4]

[3] www.nrspbank.com
[4] www.akhuwat.org.pk

3.2.4 First Microfinance Bank Limited:

First Microfinance Bank Limited was established in 2002.It is privately held. It works under the Agha Khan agency for Microfinance. This institution is established under the Agha Khan Development Network. Objective behind the establishment of First Microfinance Bank Limited was to reduce the sufferings of the poor by eradicating poverty from the society. Agha khan agency for microfinance is its 42 percent shareholder, Agha khan rural support program is 22 percent shareholder, International Finance Corporation is 18 percent shareholder, and Japanese International Corporation Agency is 18 percent shareholder of First Microfinance Bank Limited. First Microfinance Bank Limited has 80 branches across the whole country. It has 7 points of links. This microfinance bank has granted 1.34 million loans to the clients. First Microfinance Bank Limited has granted 34 percent loans to women and 61 percent loans to the rural people. Its head quarter is located in Islamabad.1001 to 5000 employee work in this bank.[5]

3.2.5 Pak Oman Microfinance Bank Limited:

Pak Oman Microfinance Bank Limited has been established in May 21, 2006.Both the Sultanate of Oman and Pak Oman investment company has jointly sponsored this bank. This bank provides a lot of services to reduce the sufferings of low income group of the society. This bank is incorporated under the company's ordinance 1984.Initially it was an unlisted company. State bank of Pakistan gave license to it under the company's ordinance 2001. Pak Oman Microfinance bank started mobile van banking in the rural areas of Sindh. This bank is also providing services to the far off places of the country .Pak Oman management company has been established on July 28,2006.It is a non-banking finance company. This company is managing following funds: Pak Oman Advantage Islamic Income Fund, Pak Oman Islamic

[5] www.akdn.org/akam_pakistan.asp

Allocation Fund, Pak Oman Advantage Allocation Fund, Pak Oman Advantage Fund and Pak Oman Government Securities Fund .Pak Oman Microfinance Bank is providing many services like investment banking and corporate banking.

- **Investment Banking:**

Pak Oman investment banking provides financial services like arranging private and listed corporate debt issues, Unsecured Short Term Commercial Paper, Syndicated Long Term Finance Facilities and Project Finance Transactions. Pak Oman also provides financial advisory services for Private Equity and IPO transactions and mergers & Acquisitions.

- **Corporate Banking:**

Corporate Banking is the main Business Area of Pak Oman. The main areas of focus are Term Financing (long, medium and short), Lease Financing and Project Financing. Pak Oman prides itself in maintaining a diversified & well managed portfolio which has been built through aggressive marketing and stringent risk management etc.

Pak Oman Microfinance Company has different departments like support department, information technology department, Finance department, administration department etc. [6]

3.2.6. BRAC Microfinance Bank:

BRAC started its microfinance activities in Pakistan in 2007.They have targeted 2.46 million people by microfinance programs, community-based education and livelihood enhancement and protection institutional development (LEP-ID) in rural area etc.

6 Pakoman.com

- **BRAC Agriculture and Food Security Program:**

BRAC agricultural program works along with the government for the security of food. They developed research programs to search out the better varieties for the farmers. They provide financial support to the farmers and enhance the use of efficient and modern technologies for farming. They are initiating agricultural programs in Bangladesh, Uganda, Tanzania, Sierra Leone, Liberia, South Sudan and Haiti.

- **BRAC Community Empowerment Program**:

BRAC develops community institutions to help the poor and women through local government. Different measures are taken to achieve this target like creating awareness among masses to raise their voice for their rights and making the local government strong for the eradication of the poverty etc.[7]

3.2.7. KASHF Foundation:

KASHF foundation was established in Lahore in 1999.It was established with the objective of providing financial and non-financial services to the low income group people specially the women of the society. KASHF started its microfinance program in Lahore then it expanded it to the other cities like Kasur, Gujranwala, Faisalabad, Karachi, Khushab etc. KASHF replicated the group lending methodology of Germeen bank with some changes. KASHF provides General loan to the women for 12 months at flat interest rate of 20 percent per annum. These women form a group of five members and these groups form one center. These women repay their loan in the meetings arranged by KASHF loan officers. Individuals who have income of 4,000 to 10,000 and have low asset base are eligible to apply. The General loans are also given to the individual so that they can invest in any business. These loans range from 10,000 to 25,000 and these loans are repaid in 24 installments at the

[7] Microfinance.brac,net/

interest rate of 20 percent. These loans are repaid in one year. Emergency loan is given to those individuals who are already receiving general loans. The business Sarmaya loan is given to the men and women who are already running a business but need financial help for working capital. It is necessary for all clients to take KASHF insurance. It is charged at 1.5 percent of the loan amount. In case of death of clients, whole loan amount is written off and his family receives 7500 for the funeral expenses.

3.2.8. KASHF Microfinance Bank:

KASHF microfinance bank was established in 2008.It was formed with the objective of poverty reduction through provision of jobs to people. KASHF microfinance bank was initiated by KASHF foundation. This bank provides small loans to its clients for running their business. This is regulated and licensed microfinance bank so unlike KASHF foundation, it can receive deposit saving. In 2008,it had 18 branches and now it has 50 branches across the 46 cities of the country. This microfinance bank has distributed Rs 5 billion to its 100,000 customers. Its 200,000 deposit customers have 2.5 billion Rs in their accounts. Its loan portfolio is funded by its own deposit base. This bank also provides ATM services to its clients. In 2013, KASHF became part of FINCA's global microfinance network. On Nov 25, 2013, name of KASHF microfinance bank changed to FINCA microfinance bank limited and now it is gaining popularity across the whole world due to FINCA brand. Following are some of the services of KASHF Microfinance bank.

- **Mohafiz Term Deposit:**

  This Mohafiz term deposit is for the old people, retired army person and widows. This deposit service is provided at the 13.80 percent rate of return.

Due to this service, clients can support their families even when they are retired from their services.

- **Tahaffuz Term Deposit:**

Tahaffuz term deposit account is for individuals, companies and joint stock holders. This deposit is for 1, 3, 6 months and 1, 2, 3 years. Rate of return for this deposit is 13 percent.

- **Kamal Committee**:

Kamal committee is an instrument, through which clients can fulfill their desires like wedding and education of their children etc. Through Kamal committee; they get a large amount in the time of need.

We can conclude that the above mentioned MFIs are working effectively in surrounding area of Islamabad/ Rawalpindi. These institutions have been working since ordinance 2001 and they are contributing toward poverty alleviation from society. We can say that microfinance sector in Pakistan is currently showing tremendous growth despite of unfavorable economic conditions of country.

CHAPTER 4: DATA AND METHODOLOGY

In this chapter we discuss nature of data, estimation methodologies for measuring the performance of microfinance institutions such as Subsidy dependence index (SDI), Financial self-sufficiency (FSS) ad Outreach Index (OI). We have also presented comparative analysis of different techniques which are used for evaluating the performance of microfinance institutions.

4.1. Data Collection:

Data was collected from financial statements of microfinance institutions, given on mix market website. Data of eight microfinance institutions was used from 2006 to 2012.There are seven conventional and one Islamic microfinance institutions working in Rawalpindi/Islamabad, whose data was used. All of these MFIs have range of ownership pattern, size, management, methodology, source of funding etc.

4.2. Estimation Methodologies:

Microfinance institutions strive to reduce sufferings of poor. This target is difficult to achieve because microfinance institutions have to pay a high cost to reach their poor clients. Only those microfinance institutions may achieve their objectives, which are financially sustainable themselves. It is very necessary to find those MFIs, which are able to reduce poverty while remaining financially sustainable. We will measure the performance of microfinance institutions by SDI and OI.SDI index is used for measuring the self-sufficiency of microfinance institutions and OI is used to measure the outreach of microfinance institutions

4.2.1. SDI:

Microfinance institutions in Pakistan have been given lot of financial support in the last passing years. However among 180 million inhabitants of this country, more than 20 % live below the poverty line. Hence this support is not substantial for people of this country. Here a question arises that how donors can support MFIs in their mission of poverty reduction?

Several Proposals are currently on the table. Subsidies including interest rate, a risk mitigation fund, an emergency liquidity facility and access to liquidity from the Central Bank. Several of these Proposals can help build a resilient industry in the future. The emergency liquidity facility was first tried in Latin America and the Caribbean and has-been regarded a success. The facility is only open to eligible MFIs that meet stringent risk management and financial prudence (Such as 3 years of profits and emergency preparedness plan). Other Proposals may distort incentives and-have the potential to harm progress. For example, the interest rate to customers' subsidy could potentially confuse borrowers and reduce credit discipline. This was a problem in Sri Lanka after the tsunami, when the Subsidies there were announced by the government without clarity on scope and duration.

In measuring the magnitude of subsidy dependence of respective microfinance institutions, this paper uses subsidy dependence model developed by Yaron (1992). For calculation of SDI, it is necessary to aggregate all subsidies received by all MFI and compare it to total loan revenues, being the product of the banks on lending interest rate or profit rate and the average annual loan portfolio(LP). This can be mathematically expressed as

Equation 4.1: $SDI = S/LP*i$

Where S is the index of subsidy dependence; *LP* is the average outstanding loan portfolio and *I* is the weighted average on lending rate paid on loan portfolio. (Yaron and Manos, 2007)

The amount of the annual subsidy received by the MFI is defined as:

Equation 4.2: $S = A (m - c) + [(E * m) - P] + K$

Where:

S = Annual subsidy received by the MFI

A = MFI concessionary borrowed funds outstanding (annual average)

m = The assumed interest rate that the MFI would have to pay for borrowed funds if access to concessionary borrowing was eliminated.

c = Weighted average annual concessionary rate of interest actually paid by the MFI on its annual average concessionary borrowed funds outstanding

E = Average annual equity

P= Reported annual profit before tax.

K= The sum of all other subsidies received by MFIs such as partial or complete coverage by the state of operational cost of the MFIs.

Data was collected from microfinance institutions financial statements available online at Mix Market website and from annual reports. SDI for different years from 2006 to 2012 was calculated .The sample contain seven conventional and one Islamic Microfinance institution.

4.2.2. OI:

Yaron (1992) proposed use of outreach index along with SDI for measuring the outreach of microfinance institutions. OI index measures the output of financial support provided to Microfinance institutions. Use of SDI along with OI is beneficial for measuring both the subsidy dependence and outreach of microfinance institutions. There are different variables which are required to calculate outreach index for example number of loans, amount of loans, income group, total amount per income group etc. The weighted output index *(OIw)* is then expressed as:

Equation 4.3: $OI^{w} = \frac{\sum_{i=1}^{n} Liai}{\sum_{i=1}^{n} Li}$

Where *(Li)*,is income size groups

the non-weighted output index *(OInw)* is expressed as:

Equation 4.4: $OI^{nw} = \frac{1}{n}$

The ratio $Z = OInw / OIw$ should be interpreted as a "discount factor" thus

Equation 4.5: $Z = \frac{\sum_{i=1}^{n} Li}{n \sum_{i=1}^{n} Liai}$

We have first calculated OI index with actual weight ratio (ratio calculated from male and female borrowers and similarly urban and rural borrowers) than we have changed the weight ratio to 0.6 and 0.4 and in the end we have calculated the OI index with fixed 0.5 ratios. Results are shown in chapter 5. We have obtained data from financial statements of microfinance institutions.

4.2.3. FSS:

Financial Self-Sufficiency is an important measure of sustainability of the lending operation. FSS index is also used to measure the self-sufficiency of microfinance institutions. It has helped in giving us a comparison statement between using SDI, OI and FSS. We have followed the formula of FSS

$$FSS = \frac{AdjustedFincialRevenue}{Adjusted\ (FinancalExpense + NetLoanLossProvisionExpense + OperatingExpense)}$$

Data of all variables is obtained from financial statements of microfinance institutions given on mix market website. Results and graphs are given in chapter 5.

Financial Self-Sufficiency indicates whether or not enough revenue has been earned to cover both, direct costs- including financing costs, provision for loan losses and operating expenses and indirect costs including the adjusted cost of capital.

4.2.4. Comparison of SDI and FSS:

In table 4.1 we have presented detailed comparison of SDI and FSS.Both SDI and FSS have their own merits and demerit

Table 4 -1: Comparison between FSS & SDI

FSS	SDI
This index ignores the opportunity cost of equity. Hence it cannot evaluate those MFIs, whose opportunity cost of equity changes over time.	It includes all financial resources including opportunity cost of equity. Hence this index gives the exact measurement of opportunity cost of capital without overestimating the self-sufficiency of Microfinance institutions.
It does not include exemptions from RR	It includes exemptions from RR
FSS cannot distinguish between MFIs that invest their assets in loan portfolio and those MFIs, which incorporate their assets in other investments.	SDI can easily differentiate between MFIs that invest their assets in loan portfolio and those MFIs, which incorporate their assets in other investments.
FSS index fails to evaluate the growth of MFIs toward their subsidy independence, when MFIs starts relying on the concessionary borrowing.	SDI index can show the progress of MFIs toward the subsidy independence because this index entirely calculates the subsidies received by MFIs.[8]

4.3: Comparative Analysis of Different Techniques:

In Table 4.2 we have presented a detailed view on some current methodologies for evaluating MFIs performance. Along with it we have discussed the limitations of each technique, to present a comparative analysis of each.

[8]Yaron, J., & Manos, R. (2007).Determining the Self-Sufficiency of Microfinance Institutions. Savings and Development, No 2, pp131-160.

Table 4-2: Methodologies for Evaluating MFI

Techniques	Objective	Limitations
Difference-in-Difference (DID)	To assess the impact of the microfinance program on various outcomes.	Failure to take into account externalities and spillover effects, and the differencing nets out the effect of the comparison group.
Stochastic Frontier Analysis (SFA)	To estimate the cost function for MFIs.	This method inherently renders biased coefficients.
Operational Self-Sufficiency(OSS)	It shows that to cover MFI direct cost, is revenue enough or not? It includes only financial cost but excludes cost of capital	OSS only covers operating income and operating expenses along with the provision of loan loss.
Financial Self - Sufficiency (FSS)	To portray financial health of MFIs.	FSS measure tends to underestimate the subsidy dependence of the MFI
The Break Even Condition	In depth economic analysis of the institution.	It is a simple technique and it can work in only stable economic conditions where revenues and costs do not change with passage of time. Hence it is not effective for volatile conditions.
Data Envelopment Analysis (DEA)	It measures that how much MFIS are cost efficient.	It cannot control measurement errors and other random effects
The Return on Assets (ROA) and the return on equity (ROE)	To measure the performance of MFIs	They ignore the subsidies received by MFIs and opportunity cost of capital
Discounted Cash Flow (DCF) method	To measure the performance of microfinance institutions.	It requires the implementation of a different data collection system to that which the organization uses to generate its financial statements

Economic Value Added (EVA)	It measures the excess of the profit over return required by the suppliers of capital	It requires accounting figures are adjusted to measure the profit more accurately.
SDI	To measure the subsidy dependence of microfinance institutions.	It does not measure the subsidy that MFIs gets by revenue from investments in non-loan assets like treasury bills, etc.
OI	To measure the poverty outreach of microfinance institutions.	NIL

In this chapter we have collected data of eight MFIs from 2006-2012 and discussed estimation methodologies (subsidy dependence index, Outreach index and Financial self-sufficiency) used for evaluating the performance of microfinance institutions. Using these techniques we can study the increasing and decreasing trends of different MFIs of Rawalpindi/Islamabad. We have also presented objectives and limitations of different techniques for measuring the performance of microfinance institutions.

CHAPTER 5: DATA ANALYSIS

In this chapter we discuss results and findings of Subsidy Dependent Index (SDI), Outreach Index (OI) and Financial Self Sufficiency Index (FSS). We use the data of eight MFIs from 2006 to 2012. All of these Microfinance institutions (MFIs) are located in Rawalpindi/ Islamabad. We calculate these three indexes by using their formulae mentioned in chapter 4.

5.1. SDI Measurement Models: Results and Findings:

In this section we discuss the results and findings of SDI. Table 5.1 shows the SDI of different MFIs from 2006 to 2012. SDI of all MFIs range from 0 to 1.0 to 1 range of SDI shows that results are satisfactory. SDI of KASHF bank ranges from 0.01165 to 0.0487.It shows increasing trend. It means that KASHF bank is depending more on subsidies with passing years and its SDI is increasing with time.(fig 5-1)

SDI of NRSP bank ranges from 0 to -0.09. SDI is decreasing with time. NRSP is relying less on subsidies with passing years. (fig 5-2)SDI of Khushali bank ranges from 0.0181 to 0.0714.It shows increasing trend. Khushali bank is become more subsidy dependent with time.(fig 5-3)

SDI of First microfinance bank ranges from -.0.0047 to 0.0006. It shows increasing trend. Subsidy dependence of FMFB is increasing with time.(fig 5-4)(SDI of Pak Oman microfinance bank ranges from 0.0102 to 2.6923.It shows increasing trend. This microfinance bank has to depend more on subsidies with time.(fig 5-5)

SDI of KASHF foundation ranges from -0.01740 to -0.14432.It shows decreasing trend. This microfinance foundation has to depend less on subsidies with time.(fig 5-6)SDI of BRAC bank ranges from 0.00056 to 0.04681.It shows increasing trend.(fig 5-7)BRAC bank has to rely more on subsidies with time.SDI of Akhuwat bank ranges from 0 to 0.00012.It shows decreasing trend.Akhuwat bank is becoming subsidy independent with time.(fig 5-8)

Table 5-1: SDI of Different MFIs from 2006 to 2012

YRS	KASHF Bank	NRSP Bank	Khushali Bank	FMFB	Pak Oman MFB	KASHF Foundation	BRAC-AK	Akhuwat Bank
2006	-		0.0181	-0.0047	0.0102	-0.01740	-	0
2007	-	-	0.0137	0.0073	0.0127	-0.05838	-	0
2008	0.01165	-	-0.050	0.0123	0.0962	0.059511	0.00056	0.0368
2009	0.06086	-	1.1070	0.0051	1.6412	0.342643	-2.6395	0.0244
2010	0.20818	0	0.78179	0.0424	-0.023	0.000629	-0.0200	0.0400
2011	0.12055	0.095	0.1837	0.0276	1.6458	-0.17589	0.04568	0.00012
2012	0.04487	-0.09	0.0714	0.0006	2.6923	-0.14432	0.04681	0.00012

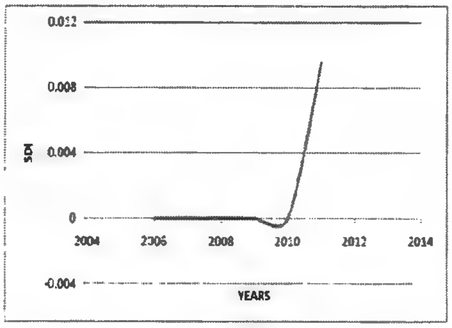

Figure 5- 1 Kashf Bank Increasing Trend

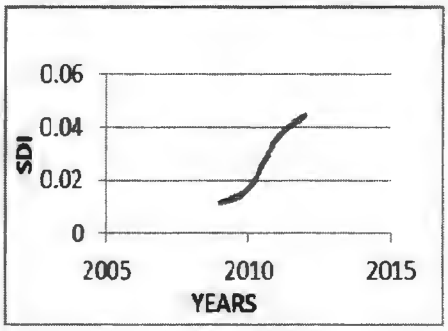

Figure 5- 2 NRSP Increasing Trend

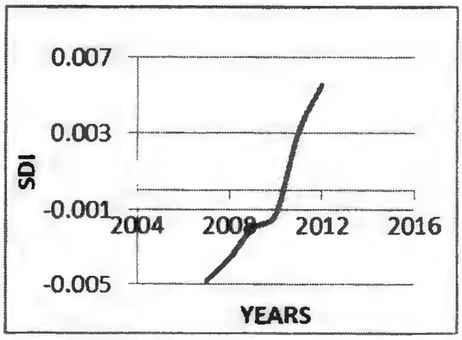

Figure 5- 3 FMFB Bank Increasing Trend

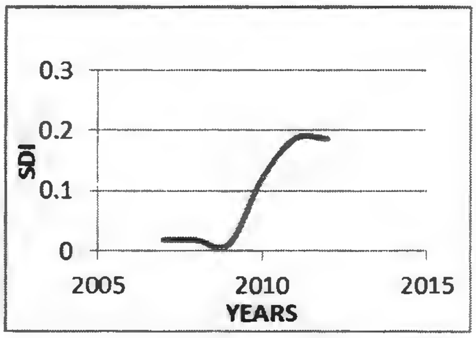

Figure 5- 4 Khushali Bank Increasing Trend

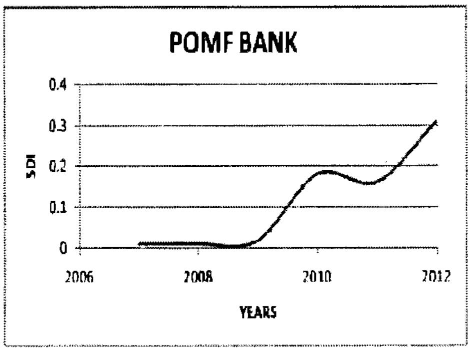

Figure 5- 5 POMF Bank Increasing Trend

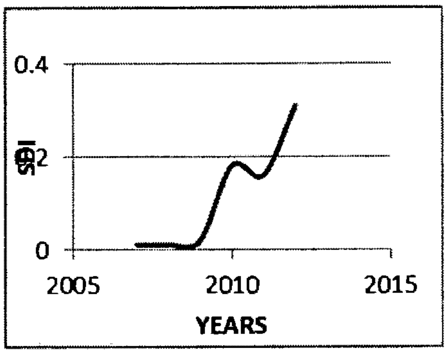

Figure 5- 6 Kashf Foundation Increasing Trend

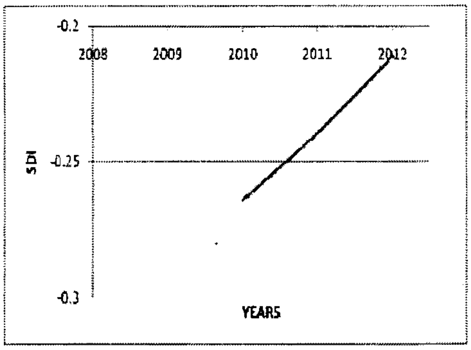

Figure 5- 7 BRAC BANK Increasing Trend

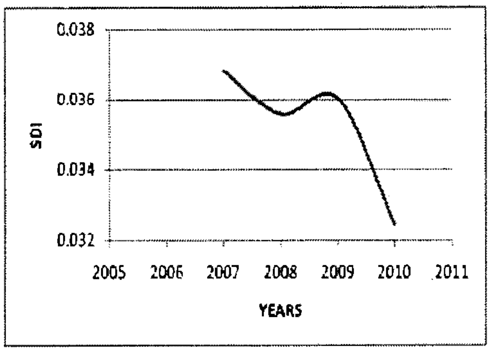

Figure 5- 8 Akhuwat Bank Decreasing Trend

5.2. OI Measurement Models: Results and Findings:

In this section we discuss results and findings of OI.Four cases are considered for this study that is rural, urban, male and female. The society will benefit when subsidy is equally distributed among male, female and rural and urban community. We have calculated OI with weight ratios calculated, 0.6 and 0.4 weight ratios and 0.5 weight ratios.

5.2.1. OI With weight ratio calculated:

In this section we calculate the OI with actual weight ratio. Table 5.2 shows the OI for different MFIs from 2006 to 2012 with actual weight ratio. The results calculated from actual weight ratio are not up to the mark because for actual weight ratio subsidy distributed among other communities are also taken in account but due to nonavailability of data we taken only four categories that's why results are not appropriate.

Table 5-2: OI for different MFIS from year 2006 to 2012 with actual Weight ratio

	2006	2007	2008	2009	2010	2011	2012
Khushali Bank				0.66	0.64	0.62	0.66
				Social benefit	Social benefit	Social benefit	Social benefit
NRSP Bank						0.92	0.83
						Social benefit	Social benefit
KASHF Bank			0.96	0.96	0	0.97	
			Social benefit	Social benefit	Social benefit	Social benefit	
FMFB Bank			0.55	0.57	0.59	0.59	0.54
			Social benefit	Social benefit	Social benefit	Social benefit	Social benefit
POMFB Bank				0.66	0.64	0.60	0.59
				Social benefit	Social benefit	Social benefit	Social benefit
KASHF Foundation						0.75	0.75
						Social benefit	Social benefit
BRAC Bank				0.76	0.81	0.78	0.78
				Social benefit	Social benefit	Social benefit	Social benefit
AKUWAT Bank			0.78	0.78	0.78	0.77	
			Social benefit	Social benefit	Social benefit	Social benefit	

5.2.2. OI With 0.6 and 0.4 weight ratios:

In this section we calculate the OI with 0.6 and 0.4 weight ratios. Table 5.3 shows the OI for different MFIs from 2006 to 2012 with 0.6 and 0.4 weight ratios.0.6 weight ratio is given to male and 0.4 weight ratio is given to female.Similary 0.6 weight ratio is given to rural population and 0.4 weight ratio is given to urban population. The results calculated from 0.6 and 0.4 weight ratio are satisfactory because the MFIs which have better distribution between male and female and similarly rural and urban, will ultimately lead society toward benefit which has also seen from calculation that Khushali, NRSP and FMFB lead society toward benefit.

Table 5-3: OI for different MFIS from year 2006 to 2012 with 0.6 & 0.4 Weight ratio

	2006	2007	2008	2009	2010	2011	2012
Khushali Bank				0.60	0.59	0.59	0.59
				Social benefit	Social benefit	Social benefit	Social benefit
NRSP Bank						0.644137	0.63292199
						Social benefit	Social benefit
KASHF Bank			0.44	0.44	0	0.44	
			No social benefit	No social benefit	No social benefit	No social benefit	
FMFB Bank			0.50	0.58	0.59	0.59	0.56
			Social benefit	Social benefit	Social benefit	Social benefit	Social benefit
POMFB Bank				0.47	0.47	0.49	0.49
				No Social benefit	No social benefit	No Social benefit	No Social benefit
KASHF Foundation						0.45	0.44
						No Social benefit	No Social benefit
BRAC Bank				0.42	0.39	0.40	0.40
				No Social benefit	No Social benefit	No Social benefit	No Social benefit
AKUWAT Bank			0.41	0.41	0.42	0.416	
			No Social benefit	No Social benefit	No Social benefit	No Social benefit	

5.2.3 OI With fixed 0.5 weight ratio:

In this section we calculate the OI with 0.5 weight ratios. Table 5.4 shows the OI for different MFIs from year 2006 to 2012 with 0.5 weight ratio. 0.5 weight ratio is given to male and female. Similarly 0.5 weight ratio is given to rural and urban population. The results calculated from 0.5 weight ratio are also not up to the mark because equal distribution among all categories (male, female, rural and urban) is not possible.

ratio of KASHF bank ranges from 0.532 to 0.752.It shows that KASHF bank is becoming more financially self-sufficient with passing years.(fig 5-9)

FSS ratio of NRSP bank rages from 0.000109 to 1.140.It means that NRSP is becoming financially self-sufficient with time(fig 5-10). FSS of Khushali bank ranges from 0.874 to 1.031.This indicates that financial self-sufficiency of Khushali bank is increasing with time.(fig 5-11)

.FSS of POMFB ranges from 0.690 to 0.989.POMFB is becoming financial self-sufficient with time.(fig 5-12) FSS of FMFB ranges from 1.130 to 0.954.This shows decreasing trend. FMFB is becoming less financial self-sufficient with passing years(fig 5-13)

FSS of KASHF foundation ranges from 1.506 to 0.997.This shows decreasing trend. Financial self-sufficiency of KASHF foundation is decreasing with passing years.(fig 5-14).FSS of BRAC ranges from 0.034 to 0.718.This shows increasing trend.(fig 5-15) FSS of Akhuwat bank ranges from0.690 to 0.912.This shows that Akhuwat bank is becoming less financial self-sufficient with passing years(fig 5-16)

Table 5-5: FSS for different MFIs from year 2006 to 2012

YEARS	KASHF Bank	NRSP Bank	Khushali Bank	MFB	POMFB	KASHF Foundation	BRAC Bank	Akhuwat Bank
2006	-	-	0.874	1.130	0.690	1.506	-	0.690
2007	-	-	0.813	0.892	0.642	1.551	-	-
2008	0.532	-	0.834	0.825	0.734	0.586	0.034	0.582
2009	0.516	-	1.033	1.019	0.861	0.097	0.614	0.326
2010	0.547	0.000109	1.139	0.885	1.047	0.775	0.655	0.186
2011	0.650	1.079	1.090	0.931	1.070	0.840	0.637	0.912
2012	0.752	1.140	1.031	0.954	0.989	0.997	0.718	-

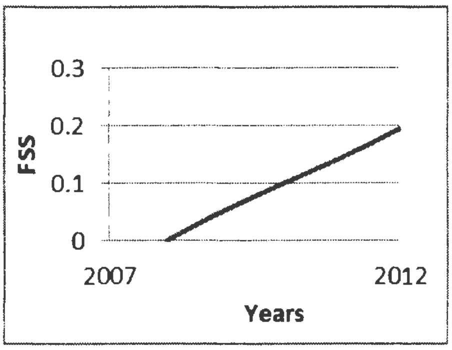

Figure 5- 9 Kashf Bank Increasing Trend

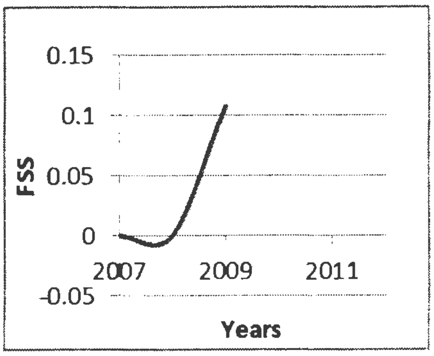

Figure 5- 10 NRSP Increasing Trend

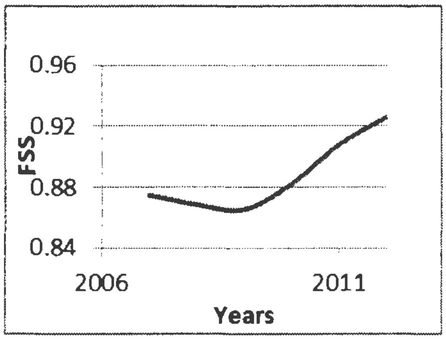

Figure 5- 11 Khushali Bank Increasing Trend

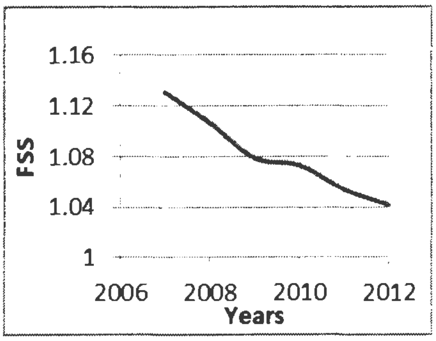

Figure 5- 12 FMFB Decreasing Trend

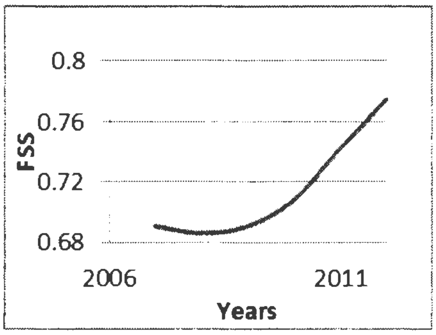

Figure 5- 13 POMFB Increasing Trend

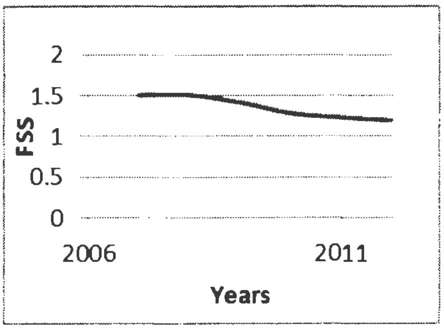

Figure 5- 14 Kashf Foundation Decreasing Trend

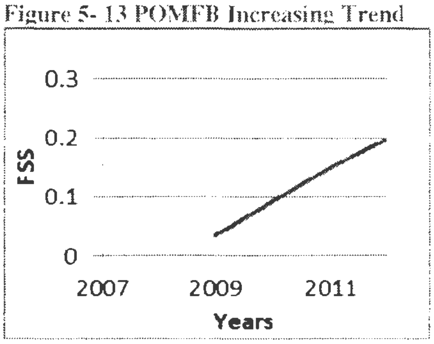

Figure 5- 15 Brac Bank Increasing Trend

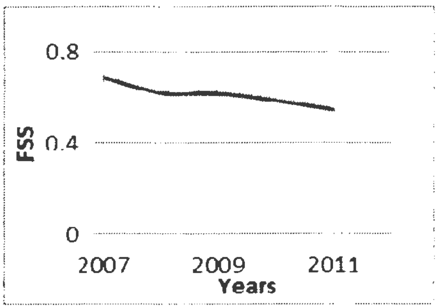

Figure 5- 16 Akhuwat Bank Decreasing Trend

SDI results show that subsidy dependence of Kashf bank, Khushali bank, First Microfinance bank,Pak Oman Microfinance bank and BRAC bank is increasing with passing years where as NRSP,Kashf foundation and Akhuwat foundation are becoming self-sufficient with time. On the other hand FSS results show that KASHF bank, NRSP, Khushali bank, Pak Oman microfinance bank and BRAC bank are becoming financially self-sufficient with passing years where as financial self sufficiency of First Microfinance bank, Kashf foundation and Akhuwat bank is decreasing with passing years. Results calculated from OI with 0.6 and 0.4 weight ratios show that in case of BRAC bank,KASHF foundation.Akhuwat foundation,KASHF bank and Pak Oman Microfinance bank, society does not gain benefit from subsidies whereas in case of Khushali bank, NRSP bank and First Microfinance Bank, society gains benefit from subsidies.

CHAPTER 6: CONCLUSION

In this chapter we discuss conclusion of our results. We also give policy implications of our study and explain the other directions in which this study can be carried out and it can be beneficial for different Microfinance institutions.

6.1 Conclusion:

SDI index shows dependence of Microfinance institutions on subsidies. SDI of 0 shows that a microfinance institution is sustainable or we can say that the MFI is capable of covering all the subsidies (on borrowed funds) from its profit. A negative value of SDI shows that a MFI is completely self-sufficient and this particular MFI is also getting profit after covering its costs. Similarly the positive SDI value shows that MFI is not sustainable and in order to become sustainable, MFI has to increase its lending rate. In our case all the MFIs are showing different trend of their dependence on subsidies. Kashf bank, Khushali bank, First microfinance bank, Pak Oman microfinance bank, BRAC bank, all of these MFIs are showing increasing trend. This indicates that with passing years, they are relying more on subsidies. On the other hand NRSP, KASHF foundation and Akhuwat foundations are showing deceasing trend. It shows that with time, they are become more sufficient and sustainable.

When SW<S, it shows that more subsidies are allocated to lower income group of society, hence society benefit from subsidies. And when SW>S, it shows that targeting the lower income group requires more cost. Therefore society does not benefit from subsidies. We have calculated first OI with actual calculated weight ratios, then with 0.6 and 0.4 ratios and then with 0.5 weight ratio. In first case results show that society benefit from the subsidies. In second case, results show that in case of Khushali bank, NRSP bank, First microfinance bank, more subsidies are allocated to lower income groups of society and society benefit from the subsidies but on the other hand BRAC bank, KASHF foundation, Akhuwat foundation, KASHF bank, Pak Oman microfinance bank, less subsidies are allocated to lower income groups of society and society does not gain from subsidies. In third case, results of all MFIs show that society does not get benefit from the subsidies and fewer subsidies are allocated to lower income group of society.

FSS results show that KASHF bank, NRSP, Khushali bank, POMFB ,BRAC bank are becoming more financially self-sufficient with passing years but First Microfinance bank limited, KASHF foundation, Akhuwat bank are showing decreasing trend. It shows that their financially self-sufficiency is decreasing with time.

Both the FSS and SDI show different results relating to the subsidy dependence of the same microfinance institutions. SDI results show that more MFIs are increasing dependence on subsidy while FSS results show that more MFIs are become financially self-sufficient with time which is not the case in reality because administrative costs are increasing with every year but yield on loan portfolio is not necessarily increasing. Hence we can say that FSS underestimates the subsidy dependence of microfinance institutions and does not depict the exact picture of subsidy dependence of microfinance institutions.

6.2 Policy Recommendations:

SDI-OI frame work should be used for complete assessment of performance of microfinance institutions. In this way we can identify those MFIs which are better able to fulfill their mission of poverty reduction while remaining financially sustainable themselves. Thus measuring and tracking MFI performance may help to channel funds to the most efficient institutions, thus supporting economic growth and poverty reduction.

6.3 Potential Areas for Future Research:

This research can be carried out in another interesting direction. We can focus on Islamic Microfinance institutions and compare their working across the different Islamic countries in term of their performance and financial sustainability or we can also perform this study on countries of South-East Asia. Research on different countries of same continent can be very useful for microfinance institutions of these countries.

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APPENDIX A

MFIs Data for OI Calculations:

1. Khushali Bank

Outreach Indicators							
MFI name	Khushali Bank	Khushali Bank	Khushali Bank	Khushali Bank	Khushali Bank	Khushali Bank	Khushali Bank
Currency	PKR	PKR	PKR	PKR	PKR	PKR	PKR
Fiscal year	2006	2007	2008	2009	2010	2011	2012
- Number of active borrowers	236,917	283,965	312,851	329,421	325,523	440,461	365,718
- Location							
Urban	—	—	—	63,898	67,315	440,461	365,718
Rural	—	—	—	265,523	258,208	—	—
- Gender							
Male	—	—	—	252,036	241,960	108,841	61,310
Female	50,000	43,817	—	77,385	83,563	331,620	304,408

Outreach Indicators							
- Gross Loan Portfolio Gross Loan Portfolio Gross Loan Portfolio	2,147,611,820	2,652,915,785	3,093,335,635	3,630,204,658	3,722,152,797		
- Gender						120,181	8,642
Male	—	—	—	2,981,148,700	2,976,857,309	320,280	357,076
Female	—	—	—	649,055,958	745,295,488	0	0
- Location						—	—
Urban	—	—	—	434,869,455	621,061,347	—	—
Rural	—	—	—	3,195,335,203	3,101,091,450		

2. NRSP

Outreach Indicators

Outreach Indicators			
MFI name	NRSP Bank	NRSP Bank	NRSP Bank
Currency	PKR	PKR	PKR
Fiscal year	2010	2011	2012
- **Number of active borrowers** - Number of active borrowers Number of borrowers with loans outstanding	—	101,870	127,005
- Gender			
Male	—	96,574	109,464
Female	—	5,296	17,541
- Location			
Urban	—	2,770	5,519

Outreach Indicators			
Rural	—	99,100	121,48
+ Products (credit)			
- **Gross Loan Portfolio** - Gross Loan Portfolio Gross Loan Portfolio	0	2,088,951,120	3,062,765,025
- Location			
Urban	—	27,532,055	87,812,430
Rural	—	2,061,419,065	2,974,952,595
- Gender			
Male	—	2,021,547,086	2,715,330,813
Female	—	67,404,034	347,434,212

3. KASHF BANK

Outreach Indicators						
MFI name	Kashf Bank	Kashf Bank	Kashf Bank	Kashf Bank	Kashf Bank	Kashf Bank
Fiscal year	2007	2008	2009	2010	2011	2012
- Number of active borrowers	—	18,221	14,192	17,445	20,014	24,401
- Location						
Urban	—	18,221	14,192	—	20,014	—
- Gender						
Male	—	17,565	13,700	15,700	19,426	—

Outreach Indicators						
Female	—	656	492	1,745	588	—
- Gross Loan Portfolio	—	552,579,844	424,124,652	453,101,817	703,943,694	1,152,299,324
- Location						
Urban	—	552,579,844	424,124,652	—	703,943,694	—
- Gender						
Male	—	535,759,081	412,458,129	—	683,719,658	—
Female	—	16,820,763	11,666,523	—	20,224,036	—

4. FMFB

Outreach Indicators							
MFI name	FMFB-Pakistan	FMFB-Pakistan	FMFB-Pakistan	FMFB-Pakistan	FMFB-Pakistan	FMFB-Pakistan	FMFB-Pakistan
Currency	PKR	PKR	PKR	PKR	PKR	PKR	PKR
Fiscal year	2006	2007	2008	2009	2010	2011	2012
- Number of active	52,308	101,394	168,191	199,792	151,797	119,204	123,239

Outreach Indicators							
borrowers							
- Location							
Urban	—	—	51,142	56,455	37,792	29,432	45,685
Rural	—	—	117,049	143,337	114,005	89,772	77,554
- Gender							
Male	—	—	106,179	130,229	100,890	79,320	82,972
Female	35,931	42,819	62,012	69,563	50,907	39,884	40,267
- Gross Loan Portfolio	686,908,751	1,221,559,254	2,111,402,804	2,778,352,175	2,373,880,297	2,407,144,186	3,056,662,303
- Gender							
Male	—	—	—	2,060,711,985	1,815,545,297	1,837,568,351	2,352,784,676
Female	—	—	2,111,402,804	717,640,190	558,335,000	569,575,835	703,877,627
- Location							
Urban	—	—	432,252,169	574,430,331	327,000,000	383,485,279	995,619,763
Rural	—	—	1,679,150,635	2,203,921,844	2,046,880,297	2,023,658,907	2,061,042,540

5. POMFB

Outreach Indicators							
MFI name	POMFB	POMFB	POMFB	POMFB	POMFB	POMFB	POMFB
Currency	PKR	PKR	PKR	PKR	PKR	PKR	PKR
Fiscal year	2006	2007	2008	2009	2010	2011	2012

Outreach Indicators							
- Number of active borrowers	10,418	14,397	10,853	8,092	7,045	6,569	6,127
- Location							
Urban	—	—	—	6,685	5,840	4,905	4,279
Rural	—	—	—	1,407	1,205	1,664	1,848
- Gender							
Male	—	—	—	5,973	4,934	4,680	4,528
Female	1,808	1,181	—	2,119	2,111	1,889	1,599
- Gross Loan Portfolio	85,291,644	397,705,772	125,240,876	100,570,623	88,348,053	101,230,700	119,164,853
- Gender							
Male	—	—	—	78,321,300	67,039,645	79,176,633	97,032,850
Female	—	—	—	22,249,323	21,308,408	22,054,067	22,132,003
Legal entity	—	—	—	—	0	—	—
- Location							
Urban	—	—	—	73,199,100	63,360,472	61,395,246	76,680,732
Rural	—	—	—	27,371,523	24,987,581	39,835,454	42,484,121

6. KASHF FOUNDATION

Outreach Indicators								
MFI name	Kashf Foundation	Kashf Foundation	Kashf Foundation	Kashf Foundation	Kashf Foundation	Kashf Foundation	Kashf Foundation	Kashf Foundation
Currency	PKR	PKR	PKR	PKR	PKR	PKR	PKR	PKR
Fiscal year	2006	2007	2008	2008	2009	2010	2011	2012

Outreach Indicators								
- Number of active borrowers	133,690	295,396	313,512	—	317,299	224,140	286,443	312,182
- Gender								
Male	—	—	0	—	—	—	—	—
Female	131,491	295,396	313,512	—	317,299	—	286,443	312,182
- Location								
Urban	—	277,672	—	—	—	—	131,864	163,237
Rural	—	17,724	—	—	—	—	154,579	148,945
- Gross Loan Portfolio	1,530,320,510	3,178,784,275	3,483,149,223	561,327,666	1,474,798,598	2,115,412,478	2,948,994,332	3,543,154,794
- Gender								
Male	—	—	882,629	—	—	—	—	—
Female	—	3,178,784,275	3,482,266,594	—	1,474,798,598	—	2,948,994,332	3,543,154,794
- Location								
Urban	—	—	—	—	—	—	1,361,849,955	1,806,267,730
Rural	—	—	—	—	—	—	1,587,144,377	1,736,887,064

7. BRAC

Outreach Indicators					
MFI name	BRAC - PAK	BRAC - PAK	BRAC - PAK	BRAC - PAK	BRAC - PAK

Outreach Indicators					
Currency	PKR	PKR	PKR	PKR	PKR
Fiscal year	2008	2009	2010	2011	2012
- Number of active borrowers	29,200	45,011	83,797	98,095	68,192
- Location					
Urban	—	27,375	62,606	69,991	50,091
Rural	—	17,636	21,191	28,104	18,101
- Gender					
Male	—	—	0	729	1,431
Female	29,200	45,011	83,797	97,366	66,761
- Gross Loan Portfolio	229,234,870	363,183,203	702,521,013	979,860,892	820,199,232
- Gender					
Male	—	—	0	4,842,826	40,077,346
Female	229,234,870	363,183,203	702,521,013	975,018,066	780,121,886
- Location					
Urban	—	230,536,449	533,004,729	712,748,202	618,218,719
Rural	—	132,646,754	169,516,284	267,112,690	201,980,513

8. AKUWAT

Outreach Indicators						
MFI name	Akhuwat	Akhuwat	Akhuwat	Akhuwat	Akhuwat	Akhuwat

Outreach Indicators						
Currency	PKR	PKR	PKR	PKR	PKR	PKR
Fiscal year	2006	2007	2008	2009	2010	2011
- Number of active borrowers	8,734	—	15,013	20,158	31,543	63,085
- Location						
Urban	—	—	15,009	20,158	31,543	63,085
Rural	—	—	0	0	0	—
- Gender						
Male	—	—	10,506	14,110	22,080	41,636
Female	6,565	—	4,503	6,048	9,463	21,449
- Gross Loan Portfolio	50,953,044	—	96,660,949	150,038,908	244,226,832	761,493,855
- Location						
Urban	—	—	95,216,949	150,038,908	244,226,832	761,493,855
Rural	—	—	—	0	0	—
- Gender						
Male	—	—	66,503,570	104,365,954	170,958,783	502,585,944
Female	—	—	28,713,379	45,672,954	73,268,049	258,907,911

APPENDIX B

1. KASHF BANK

Institutional characteristics						
Title						
MFI ID	104311	10431	104311	104311	104311	104311
MFI Name	Kashf Bank	Kashf Bank	Kashf Bank	Kashf Bank	Kashf Bank	Kashf Bank
Fiscal year	2007	2008	2009	2010	2011	2012
MFI Count	1	1	1	1	1	1
Assets	0	1,198,443,803	1,191,855,586	1,228,338,566	1,452,272,679	2,118,007,594
+ Gender						
Female	1,743					
Male	41,605					
+ Deposits	318,472,892	776,401,092	1,141,614,208	1,727,059,710		
+ Gender						
Female	46,521,719					
Male	268,054,057					
Total expense/ assets	15.76 %	33.84 %	37.75 %	39.10 %	35.51 %	
Provision for loan impairment/ assets	1.64 %	6.74 %	2.08 %	0.22 %	0.42 %	
Operating expense/ assets	14.12 %	24.43 %	30.16 %	33.61 %	27.49 %	
Assets	0	1,198,443,803	1,191,855,586	1,228,338,566	1,452,272,679	2,118,007,594
Net loan portfolio	542,749,119	408,791,588	430,381,676	692,494,267	1,140,998,131	
+ Gender						
Female		46,521,719				

Male		268,054,057			
Borrowings	0 0	300,000,000	0	0	0
Equity	0 711,752,967	524,782,353	350,542,661	204,846,387	268,428,119
Income statement					
Financial revenue	55,525,247	208,858,150	250,330,445	341,137,279	477,859,689
+ Interest income on loan portfolio	31,205,242	129,471,626	178,6 23,330	267,9 92,613	374,5 96,542
+ Products Credit					
Retail Loans	31,205,242	129,471,626			
Financial expense	0	31,877,238	66,649,477	70,728,381	135,679,781
Interest expense on borrowings	0	28,627,068	41,178,227	0	0
+ Interest expense on deposits	0	1,732,970	24,607,651	70,562,618	127,978,287
+ Products Deposits					
Retail Deposits		1,732,970			
Operating expense	84,586,098	291,984,907	364,917,245	450,464,919	490,668,812
Net Income before taxes and donations	-38,891,576	-195,579,463	-206,282,980	-182,949,421	- 155,975,761

2. NRSP

Institutional characteristics			
Title			
MFI ID	133068	133068	133068
+ Gender			
Female		5,296	17,541
Legal Entity		0	

Male	96,574	109,464
+ Location		
Rural	99,100	121,486
Urban	2,770	5,519
+ Gender		
Female	67,404,034	347,434,212
Legal Entity	0	
Male	2,021,547,086	2,715,330,813
+ Location		
Rural	2,061,419,065	2,974,952,595
Urban	27,532,055	87,812,430

Title			
MFI ID	133068	133068	133068
MFI Name	NRSP Bank	NRSP Bank	NRSP Bank
Fiscal year	2010	2011	2012
MFI Count	1	1	1
Total expense/ assets			20.05 %
Provision for loan impairment/ assets			0.37 %
Operating expense/ assets			10.18 %

Assets	61,163,221	4,099,292,414	6,343,172,724
Net loan portfolio	0	2,068,083,405	3,026,774,520
+ Gender			
Female		67,404,034	347,434,212
Legal Entity		0	
Male		2,021,547,086	2,715,330,813
+ Location			

Rural	2,061,419,065	2,974,952,595	
Urban	27,532,055	87,812,430	
Income statement			
Financial revenue	4,678	663,812,172	1,171,817,588
Interest income on loan portfolio	0	357,861,296	808,372,654
Financial expense	0	277,600,172	495,658,086
Interest expense on borrowings	0	241,465,715	413,347,088
Interest expense on deposits	0	19,894,457	55,945,998
Operating expense	42,854,670	337,548,614	531,461,991
Net Income before taxes and donations	-42,849,992	27,129,171	125,160,311

3. KHUSHALI BANK

Institutional characteristics							
Title							
MFI ID	100391	100391	100391	100391	100391	100391	100391
MFI Name	Khushali Bank	Khushali Bank	Khushali Bank	Khushali Bank	Khushali Bank	Khushali Bank	Khushali Bank
Fiscal year	2006	2007	2008	2009	2010	2011	2012
MFI Count	1	1	1	1	1	1	1
Assets	6,847,473,825	6,703,280,398	6,685,742,412	6,589,254,525	7,238,672,439	8,221,482,025	9,953,616,111
+ Gender							
Female						135	132

+ Gender						
Female			77,385	83,563	111,195	98,411
Legal Entity				0		
Male			252,036	241,960	329,266	267,307
+ Location						
Rural			265,523	258,208	331,620	304,408
Urban			63,898	67,315	108,841	61,310
One Year Or More	23,609	0 0	0	0	85,693,868	0
Renegotiated Loans	0	0 0	0	0	0	17,936,956
+ Gender						
Female			649,055,958	745,295,488	889,877,587	1,288,405,522
Legal Entity				0		
Male			2,981,148,700	2,976,857,309	3,383,924,790	4,517,170,020
+ Location						
Rural			3,195,335,203	3,101,091,450	3,624,120,406	4,953,533,460
Urban			434,869,455	621,061,347	649,681,971	852,042,082
+ Retail Deposits			74,995	205,962	300,762	457,617
Compulsory Deposits			0	0	0	0
+ Voluntary Deposits			74,995	205,962	300,762	457,617
Demand Deposits			644	203,919	299,610	456,523
Time Deposits			74,351	2,043	1,152	1,094
+ Deposits		18,168,500	190,032,590	1,000,328,625	1,677,010,488	4,040,646,992
+ Gender						
Female			43,707,495			
Male			146,325,095			
+ Products Deposits						

Deposits From Corporations				112,816,897	696,408,536
Deposits From Financial Institutions					302,292,545
+ Retail Deposits	18,168,500	190,032,590	1,000,328,625	1,564,193,591	3,041,945,911
Compulsory Deposits	0	0	0	0	0
+ Voluntary Deposits	18,168,500	190,032,590	1,000,328,625	1,564,193,591	3,041,945,911
Demand Deposits		56,610,000	802,734,625	1,129,038,752	2,450,949,892
Time Deposits		133,422,590	197,594,000	435,154,839	590,996,019

Total expense/ assets	13.72 %	14.30 %	14.40 %	19.47 %	20.28 %	24.50 %	19.65 %
Provision for loan impairment/ assets	1.66 %	0.28 %	0.84 %	0.75 %	1.62 %	2.24 %	1.16 %
Operating expense/ assets	9.63 %	11.34 %	10.42 %	14.83 %	14.87 %	14.47 %	14.56 %

Assets	6,847,473,825	6,703,280,398	6,685,742,412	6,589,254,525	7,238,672,439	8,221,482,025	9,953,616,111
Net loan portfolio	2,082,483,915	2,596,521,585	3,012,936,737	3,555,947,451	3,621,410,320	4,167,113,455	5,717,031,631
+ Gender							
Female				43,707,495			
Male				146,325,095			
+ Products Deposits							
Deposits From Corporations						112,816,897	696,408,536
Deposits From Financial Institutions							302,292,545
+ Retail Deposits			18,168,500	190,032,590	1,000,328,625	1,564,193,591	3,041,

							945,911
Compulsory Deposits	0	0	0	0	0	0	0
+ Voluntary Deposits			18,168,500	190,032,590	1,000,328,625	1,564,193,591	3,041,945,911
Demand Deposits	0	0		56,610,000	802,734,625	1,129,038,752	2,450,949,892
Time Deposits	0	0		133,422,590	197,594,000	435,154,839	590,996,019
Borrowings	4,886,754,322	4,718,926,822	4,628,462,756	4,158,660,916	3,637,294,792	3,273,565,312	3,009,835,832
Equity	1,751,535,395	1,812,443,111	1,871,222,552	2,076,453,665	2,215,782,332	2,365,779,881	2,489,028,105
Income statement							
Financial revenue	686,488,115	771,978,031	766,041,539	1,293,563,856	1,491,670,178	1,577,872,935	1,758,496,793
+ Interest income on loan portfolio	382,107,695	469,917,932	443,813,192	824,491,361	1,026,548,025	1,091,852,711	1,289,974,152
+ Products Credit							
Retail Loans			443,813,192	824,491,361			
Financial expense	158,542,627	181,032,810	210,212,759	257,834,620	261,411,166	292,837,338	356,130,104
Interest expense on borrowings			210,212,759	256,205,113	255,047,492	257,510,883	249,992,291
Interest expense on deposits				669,960	5,504,090	28,276,996	103,457,104
Operating expense	626,235,854	768,331,810	697,493,136	984,321,009	1,028,219,597	1,121,733,752	1,323,490,868
Net Income before taxes and donations	-206,338,516	-196,574,221	10,813,142	1,555,725	89,834,403	-10,463,591	-27,494,815

4. FMFB

Institutional characteristics							
Title							
MFI ID	100374	100374	100374	100374	100374	100374	100374
MFI Name	FMFB Pakistan	- FMFB Pakistan	- FMFB Pakistan	- FMFB Pakistan	– FMFB Pakistan	- FMFB Pakistan	- FMFB Pakistan -
Fiscal year	2006	2007	2008	2009	2010	2011	2012
MFI Count	1	1	1	1	1	1	1
Assets	1,680,188,555	2,807,162,394	4,097,031,156	6,068,006,777	6,352,778,202	6,977,977,642	8,263,599,143
+ Gender							
Female						116	136
+ Gender'							
Female			62,012	69,563	50,907	39,884	40,267
Legal Entity					0		
Male			106,179	130,229	100,890	79,320	82,972
+ Location							
Rural			117,049	143,337	114,005	89,772	77,554
Urban			51,142	56,455	37,792	29,432	45,685
+ Gross Loan Portfolio	686,908,751	1,221,559,254	2,111,402,804	2,778,352,175	2,373,880,297	2,407,144,186	3,056,662,303
+ Gender							
Female			2,111,402,804	717,640,190	558,335,000	569,575,835	703,877,627
Legal Entity					0		
Male				2,060,711,985	1,815,545,297	1,837,568,351	2,352,784,676

+ Location							
Rural	1,679,150,635	2,203,921,844	2,046,880,297	2,023,658,907	2,061,042,540		
Urban	432,252,169	574,430,331	327,000,000	383,485,279	995,619,763		
+ Products Credit							
+ Gender							
Female	36,772						
Legal Entity	5,381						
Male	102,74 5						
+ Products Deposits							
+ Gender							
Female	342,896,359						
Legal Entity	1,033,825,984						
Male	1,928,020,039						
Total expense/ assets	12.27 %	17.32 %	20.63 %	20.65 %	22.62 %	21.26 %	18.52 %
Provision for loan impairment/ assets	0.43 %	0.91 %	0.87 %	0.80 %	3.61 %	1.80 %	1.44 %
Operating expense/ assets	9.33 %	11.96 %	14.96 %	11.83 %	11.16 %	10.71 %	10.13 %
Assets	1,680,188,555	2,807,162,394	4,097,031,156	6,068,006,777	6,352,778,202	6,977,977,642	8,263,599,143
Net loan portfolio	674,215,332	1,193,609,274	2,067,750,648	2,725,562,041	2,221,769,813	2,169,034,204	2,971,730,910
+ Gender							
Female	342,896,359						
Legal Entity	1,033,825,984						
Male	1,928,020,039						

Borrowings	0	0	100,000,000	0	0	0	383,403,781
Equity	718,784,346	670,880,966	557,520,391	593,441,016	744,551,614	787,019,080	978,912,358
Income statement							
Financial revenue	217,876,822	351,354,961	592,391,129	1,078,339,941	1,247,719,417	1,251,834,624	1,356,298,180
+ Interest income on loan portfolio	122,937,730	233,855,623	443,284,100	804,264,149	879,064,217	724,615,562	825,055,297
Operating expense	146,087,991	268,234,063	516,473,200	601,081,430	693,203,425	715,941,378	771,828,877
Net Income before taxes and donations	17,682,333	-44,985,140	-119,621,976	28,753,305	-156,973,990	-86,701,621	-55,378,460

5. POMFB

Institutional characteristics							
Title							
MFI ID	101362	101362	101362	101362	101362	101362	101362
MFI Name	POMFB	POMFB	POMFB	POMFB	POMFB	POMFB	POMFB
Fiscal year	2006	2007	2008	2009	2010	2011	2012
MFI Count	1	1	1	1	1	1	1
Assets	493,188,673	497,211,149	459,374,013	721,242,372	745,413,522	753,774,797	746,798,223
+ Gender							
Female						2	2

Financing structure				
+ Age				
+ Gender				
Female	2,119	2,111	1,889	1,599
Legal Entity		0		
Male	5,973	4,934	4,680	4,528
+ Location				

Rural					1,407	1,205	1,664	1,848
Urban					6,685	5,840	4,905	4,279
+ Delinquency								
+ Gender								
Female					22,249,323	21,308,408	22,054,067	22,132,003
Legal Entity						0		
Male					78,321,300	67,039,645	79,176,633	97,032,850
+ Location								
Rural					27,371,523	24,987,581	39,835,454	42,484,121
Urban					73,199,100	63,360,472	61,395,246	76,680,732
+ Products Credit								
+ Gender								
Female					3,625			
Male					12,346			
+ Products Deposits								
+ Gender								
Female					5,571,572			
Male					18,975,618			
Assets	493,188,673	497,211,149	459,374,013	721,242,372	745,413,522	753,774,797	746,798,223	
Net loan portfolio	84,012,269	392,077,245	120,436,772	96,610,793	84,916,023	98,900,532	116,544,628	
+ Gender								
Female				5,571,572				
Male				18,975,618				
Borrowings	0	0	0	0	0	0	0	
Equity	488,766,269	455,007,854	419,910,352	676,110,755	697,981,093	705,429,009	700,254,517	
Income statement								

Financial revenue	35,765,827	58,691,296	66,696,004	77,576,946	102,045,423	108,903,568	108,456,114
+ Interest income on loan portfolio	4,182,828	53,818,766	56,975,961	37,442,765	33,340,419	33,078,324	39,321,085
+ Products Credit							
Loans To Financial Institutions			29,004,274				
Retail Loans			56,975,961				
Interest expense on borrowings		331,985	868,826	0	0	0	0
Interest expense on deposits				35,464	0	358,230	201,542
Operating expense	51,769,113	83,430,538	81,611,825	84,925,824	92,251,859	99,573,700	104,284,085
Net Income before taxes and donations	-17,282,661	-36,530,636	-24,507,715	-10,451,464	5,016,688	7,111,931	1,311,521

6. KASHF FOUNDATION

Institutional characteristics							
Title							
MFI ID	100305	100305	100305	100305	100305	100305	100305
MFI Name	Kashf Foundation	Kashf Foundation	Kashf Foundation	Kashf Foundation	Kashf Foundation	Kashf Foundation	Kashf Foundation
Fiscal year	2006	2007	2008	2008	2009	2010	2011
MFI Count	1	1	1	1	1	1	1
Assets	2,004,010,226	4,064,007,797	4,959,560,470	3,810,261,713	3,205,737,669	2,986,129,174	3,834,470,531
+ Gender							
Female							449
Financing structure							

+ Gender							
Female	131,491	295,396	313,512		317,299		286,443
Male			0				
+ Location							
Rural		17,724					154,579
Urban		277,672					131,864
+ Delinquency							
+ Gender							
Female		379,64	411,320		317,299		286,443
Male			389				
+ Location							
Rural							154,579
Urban							131,864
+ Relationship							
External Customers		379,649					
+ Gross Loan Portfolio	1,530,320,510	3,178,784,275	3,483,149,223	561,327,666	1,474,798,598	2,115,412,478	2,948,994,332
+ Gender							
Female		3,178,784,275	3,482,266,594		1,474,798,598		2,948,994,332
Male			882,629				
+ Location							
Rural							1,587,144,377
Urban							1,361,849,955
+ Deposits	8,063,948	12,699,177	16,080,203	3,598,320		5,495,699	5,321,343
Assets	2,004,010,226	4,064,007,797	4,959,560,470	3,810,261,713	3,205,737,669	2,986,129,174	3,834,470,531
Net loan portfolio	1,499,416,837	3,080,941,315	2,215,284,098	561,327,666	1,474,798,598	1,435,020,447	2,273,687,125

+ Products Deposits							
+ Retail Deposits	8,063,948	12,699,177	16,080,203				5,321,343
Compulsory Deposits	0	3,577,320	3,598,320				0
+ Voluntary Deposits	8,063,948	9,121,857	12,481,883				5,321,343
Demand Deposits	8,063,948		12,481,883				5,321,343
Time Deposits	0	9,121,857					
Borrowings	987,696,440	2,411,187,499	3,763,257,406	3,704,840,090	3,055,915,279	2,961,882,082	3,747,717,021
Equity	933,131,014	1,457,862,969	1,037,132,612	-290,539,389	-77,483,260	-127,711,590	-73,340,800
Income statement							
Financial revenue	359,730,652	805,837,282	1,236,777,379	269,131,188	657,092,439	696,957,646	904,571,568
+ Interest income on loan portfolio	317,932,503	747,950,822	1,004,369,970	107,615,613	310,677,055	447,855,030	699,665,613
+ Products Credit							
Retail Loans		747,950,822	1,004,369,970				
Interest expense on borrowings		131,291,235	319,782,661	243,856,669	458,026,511	93,571,011	131,780,573
Interest expense on deposits						0	0
Operating expense	175,585,193	278,372,866	468,295,815	260,915,976	472,793,831	481,727,421	507,506,527
Net Income before taxes and donations	123,092,031	306,960,706	-731,084,390	-1,562,660,245	-208,235,377	-127,157,356	1,995,852

7. BRAC

Institutional characteristics

Title					
MFI ID	113688	113688	113688	113688	113688
MFI Name	BRAC – PAK	BRAC - PAK	BRAC - PAK	BRAC - PAK	BRAC - PAK
Fiscal year	2008	2009	2010	2011	2012
MFI Count	1	1	1	1	1
Assets	327,416,807	859,623,953	1,105,046,493	1,130,823,605	1,182,131,185
+ Gender					
Female				475	400

+ Gender					
Female	29,200	45,011	84,411	97,366	66,761
Legal Entity			0		
Male			0	729	1,431
+ Location					
Rural		17,636	21,362	28,104	18,101
Urban		27,375	63,049	69,991	50,091
+ Delinquency					
+ Less Than One Month		357,015,782	673,082,987	927,589,094	752,066,795
From One To 30 Days					0
Not Overdue					752,066,795
+ One Month Or More				52,271,798	68,132,437
From One To Three Months		3,921,481	6,795,916	5,100,212	11,914,276
+ More Than Three Months				47,171,586	56,218,161

From Three To Six Months		2,042,432	6,450,488	3,305,324	18,614,602
+ More Than Six Months				43,866,262	37,603,559
From Six To Twelve Months		203,508	867,089	1,344,409	8,099,440
One Year Or More		0	15,324,533	42,521,853	29,504,119
Renegotiated Loans		0	0	0	0
+ Gender					
Female	229,234,870	363,183,203	702,521,013	975,018,066	780,121,886
Legal Entity			0		
Male			0	4,842,826	40,077,346
+ Location					
Rural		132,646,754	169,516,284	267,112,690	201,980,513
Urban		230,536,449	533,004,729	712,748,202	618,218,719
Total expense/ assets		28.41 %	34.49 %	44.39 %	45.11 %
Provision for loan impairment/ assets		2.13 %	2.68 %	3.12 %	2.99 %
Operating expense/ assets		21.08 %	23.69 %	32.72 %	35.23 %
Assets	327,416,807	859,623,953	1,105,046,493	1,130,823,605	1,182,131,185
Net loan portfolio	221,871,510	349,330,488	670,137,916	915,894,186	756,918,366
+ Deposits	36,280,918	62,228,254	120,295,957	164,143,154	142,734,725

+ Products Deposits					
+ Retail Deposits		62,228,254	120,295,957	164,143,154	142,734,725
Compulsory Deposits		62,228,254	120,295,957	164,143,154	142,734,725
Voluntary Deposits		0	0	0	0
Borrowings	175,007,250	624,862,950	782,084,800	744,557,000	770,616,548
Equity	-11,381,865	-54,220,543	29,651,964	-48,379,873	-15,447,919
Income statement					
Financial revenue	2,197,634	107,124,092	224,127,017	316,796,695	375,165,440
+ Interest income on loan portfolio	29,254,908	106,317,047	208,208,346	313,773,508	369,895,820
+ Products Credit					
Retail Loans		106,317,047			
Interest expense on borrowings	4,590,022	30,909,822	79,858,880	95,556,240	79,623,136
Interest expense on deposits	0	0	0	0	0
Operating expense	58,344,039	125,109,161	232,677,862	365,798,011	407,453,458
Net Income before taxes and donations	-67,635,226	-61,271,252	-114,698,753	-179,466,589	-146,487,915

8. AKHUWAT NGO

Institutional characteristics				
+ Age				
Adults		20,158	31,543	
+ Gender				
Female	4,503	6,048	9,463	21,449
Legal Entity		0	0	
Male	10,506	14,110	22,080	41,636
+ Location				
Rural		0	0	
Urban	15,009	20,158	31,543	63,085
+ Gender				
Female	28,713,379	45,672,954	73,268,049	258,907,911
Legal Entity		0	0	
Male	66,503,570	104,365,954	170,958,783	502,585,944
+ Location				
Rural		0	0	
Urban	95,216,949	150,038,908	244,226,832	761,493,855
Overall financial performance				
Revenues				

Total expense/ assets	14.67 %	15.55 %	22.01 %	10.84 %		
Provision for loan impairment/ assets	0 .90 %	0 .55 %	0 .60 %			
Operating expense/ assets	13.49 %	15.31 %	20.95 %	10.84 %		
Assets	63,830,849		117,346,874	223,098,696	323,179,341	1,479,712,102
Net loan portfolio	50,446,614		95,711,262	143,889,864	241,835,425	761,493,855
+ Deposits	0		0	0	0	0
+ Products Deposits						
Deposits From Corporations					0	
Deposits From Financial Institutions					0	
Deposits From Governments					0	
+ Retail Deposits			0	0	0	0
Compulsory Deposits	0		0	0	0	0
+ Voluntary Deposits			0	0	0	0
Demand Deposits	0				0	
Time Deposits	0				0	
Borrowings	0	0	500,000	0	0	1,000,000,000
Equity	62,871,689	82,331,355	115,321,499	219,184,811	317,004,157	460,243,816
Income statement						
Financial revenue	5,362,918	9,145,322	8,336,432	11,264,342	97,185,865	
Interest income on loan portfolio	4,942,398	8,826,478	5,507,226	7,945,254	8,715,409	

Interest expense on borrowings		0	0	0	
Interest expense on deposits		0	0	0	
Operating expense	7,606,667	15,687,540	26,069,296	57,232,087	97, 678,603
Net Income before taxes and donations	-2,910,689	-5,902,480	-17,620,701	-48,460,442	-492,738