Commercialisation of Microfinance in Pakistan

Thesis submitted for the degree of

Doctor of Philosophy

at the University of Leicester

by

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School of Management

University of Leicester

2013

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Abstract

This study investigates the growing commercial focus of microfinance institutions in Pakistan. Specifically, the aim of the study is to examine the impact of commercialisation on microfinance institutions and their users or clients – micro borrowers. A selective review of the multidisciplinary literature on microfinance, its commercialisation and its context specifically in Pakistan is used to develop a conceptual framework for the thesis. The study uses mixed methods, where analysis of a series of interviews and focus group meetings is combined with quantitative data analysis to give deeper and more nuanced understanding of the consequences of microfinance's commercialisation. Moreover, particular attention is given to important themes, including: outreach, profitability, mission, and the prevailing practices of microfinance institutions. The principal findings of the study indicate, firstly, that with increased commercialisation, microfinance institutions in Pakistan tend to confined to a few parts of the country, mostly urban; in particular microfinance tends not to reach rural areas where poverty is more widespread. Secondly, it is found that microfinance institutions and some of the borrowers employ unsavoury practices that exploit cultural norms. Finally, this study argues that commercialisation of microfinance has resulted in a negative impact not only on micro borrowers but also on commercial microfinance institutions themselves, which largely fail to achieve their stated objective of profitability and 'sustainability'.

Acknowledgments

In the name of Allah, the Most Merciful and Beneficent

I would like to thanks to numerous people without their help this research could not have been completed.

Firstly, I am eternally grateful to my supervisors, Dr. Geoff Lightfoot and Dr. David Harvie for their invaluable help, providing tremendous guidance and support throughout the PhD process. I could not have done this thesis without their encouragement and motivation. I am fortunate to have had you as my supervisors.

To my family, thank you for your constant support and unconditional love during my academic journey. I would like to express my deepest thank to my mother Sanjeeda Begum whose prayers, love and encouragement is invaluable. She instilled in me the importance of education and hard work. I would like to thank my husband, Mohammad Abrar for his marvellous support, encouragement, and above all the care that he has provided to me. Special thanks to my lovely son, Mohammad Saad Khan for his forbearance. I am sorry for not giving you quality time and attention, what you deserve.

Thanks to all those practitioners of microfinance who participated in this study for providing tremendous support and making my research useful. Thanks to micro borrowers for participating with such enthusiasm and sharing their experiences with me.

Many thanks to Professor Jo Brewis and Mrs. Teresa Bowdrey for their support throughout my PhD. Finally, I would like to thanks to University of Malakand for providing funding for this research and University of Leicester for giving me the opportunity to study for a PhD at the School.

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Chapter One: Introduction

A person gets a deeper understanding of poverty when living in that situation, or when it exists nearby. I was born into a middle class family but, even so, I have seen poverty, and the people who live in poverty, up close. I have seen children picking food from garbage bins, working at workshops or selling newspapers in the middle of road. I remember that when I was little, children between six and ten years came every evening to our door to ask for food. They studied in a local mosque and were known as *talib* (student). They went door-to-door along the street, collecting food for themselves and the other children at the mosque. They had just one bucket into which they put everything that they collected – all different kinds of curries. I always wondered how they would eat this mixture of curry, since in Pakistan, we normally are keen to keep the individual flavours of particular types of curry, and one day I asked my mother about it. My mother said, "They have to eat like that because they do not have any choice, since they are poor. Their parents sent them to the mosque at a young age because they cannot afford to give them food and clothes". My mother's answer raised further questions: I asked why these people are poor; how could they become rich; and other questions. My mother explained to me about *Zakat*, one of the four pillars of Islam, where rich people are expected to give a portion (2.5%) of their savings to poor people. She said that giving the poor financial support could help them out of poverty.

Poverty in my country has not gone away since I was a child, and joining the academy gave me a chance to rethink these questions. In 2008, I started my research, focussing on the topic of microfinance. I chose microfinance because it seemingly is part of a strategy of poverty reduction and appeared to link with *Zakat* in the rich helping the poor.

Muhammad Yunus, an economics professor in Bangladesh, started modern microfinance in the 1970s by lending a small sum of money (around $27) to a group of women, which enabled them to buy stock for their business (making bamboo stools). The women not only repaid his money in full but were also able to make a small amount of profit from putting the loan to good use. His idea was that offering small loans to poor people helped poverty reduction and saved them from moneylenders charging exorbitant interest rates. After his initial success, Yunus made the claim that this model of microcredit was scalable – it could be expanded from small loans by an individual to a large, professional, organisation.

Yunus demonstrated this by starting an experimental programme whereby he borrowed money from state and commercial banks that he lent onwards to the poor. The project grew until it was formed into the first microfinance institution (MFI), the Grameen Bank, in 1983. By 2011, the Bank had 8.4 million borrowers with more than 75 billion Bangladeshi Takka in outstanding loans (Grameen Bank, 2012). Yunus's radical claim about scalable microfinance seemed plausible, with the success of his bank. Consequently, governments of many countries, where poverty is severe and pervasive but there are only limited funds, adopted microfinance as a key tool in poverty reduction.

Grameen Bank was targeted primarily to groups of women because Yunus suggested that by lending to women two objectives could be achieved: it empower those who had been disadvantaged due to patriarchal society; and (Yunus believed) women are more responsible, thus higher repayment rates could be attained by lending just to women. High repayment rates would mean that microfinance could be a sustainable model. Thus, distinctive lending practices of microfinance emerged – lending to women and social collateral (where peer pressure and group monitoring help to recover loans) – helping institution achieve repayment rates that sometimes exceeded 95%.

These high repayment rates made both practitioners and, crucially, investors realise that MFIs could be financially sustainable. It was appealing for investors because high repayment rates minimise risk but the lending still promised good returns. According to economic theory, there should be is a trade-off between risk and return; in that the low risk investments deliver lower returns. However, microfinance seemed to promise high returns with low risks, and commercial finance houses swiftly moved in. On such fund suggested that microfinance was an appealing investment opportunity because it meets investors' needs for: 1) proven returns; 2) portfolio diversification; 3) less correlation with other investment classes; 4) promoting sustainable development and 5) social responsible investment (BlueOrchard, 2009).

As a result, a new wave of funding came into the area. This introduced pressure for commercialisation of microfinance, with the ultimate goal of MFIs to be for-profit institutions, sourcing funding from private commercial investors (rather than via donations or subsidies that had hitherto been the case). MFIs presented themselves as ‘double bottom-line’ institutions, aiming for a mix of social and financial returns. By the early 1990s, the drive towards the market resulted in the transformation of the non-profit MFI PRODEM in Bolivia to a regulated for-profit bank Bancosol (Rhyne, 2009). In 2007, a Mexican medium size microfinance bank, Banco Compartamos, held an initial public offering (IPO) in which the original owners sold 30 percent of their stock. The sale was very successful, the shares were oversubscribed, and the original investors earned millions of dollars. Thus, for MFIs it seemed that there was the possibility of earning profit, being sustainable and still helping the poor. As a consequence, many subsidy-based, non-profit MFIs have turned into regulated, for-profit microfinance institutions, where profitability and efficiency has become ever more important.

This new model has also been strongly supported by international agencies, such as the World Bank and USAID. Both agencies believe in market solutions to reduce poverty – this means a large role for commercial microfinance. The World Bank provides support to MFIs through its subsidiary, the International Finance Corporation (IFC), which focuses exclusively on ‘private sector solutions for development’ (The World Bank, 2013). These international organisations cast the problem in particular ways – they believe that since more than half of the developing world population is still unbanked (Chaia at el, 2009). Therefore, private sector, profit-oriented businesses are the only viable long-term solution within microfinance (Bateman and Cheng, 2009) that allowing the provision of loans to millions of people currently without access to financial services.

The commercialisation of microfinance has created a new debate: should MFIs move towards commercial microfinance as for-profits that serve more borrowers, or should they expand at a slower pace (as non-profits) that serves poorer borrowers? The World Bank, other international agencies and policy makers argue for reaching the largest number of borrowers. Since the demand for microfinance is very high, there are many opportunities for commercial MFIs to further develop and give larger loans to those somewhat less poor. Moreover, they suggest, the profit motive leads MFIs to seek out new markets and to be more efficient (Rhyne, 1998; Christen and Drake, 2002).

However, there are some who believe that there is an inevitable trade-off between outreach and sustainability (Olivares-Polanco, 2005). They argue that small non-profit organisations are best suited to serve the poorest of the poor, since they give small loans and are subsidy-based (Cull, Demirgüç-Kunt, Morduch; 2009; Hulme and Mosley, 1996). Yunus captures this:

> When the institutions with a social mission move towards a commercial mission, the commercial mission will take over and the social mission will get lost (2008: 6).

This can be seen with Compartamos, who believe financial access is dependent on the profitability of institution – in Compartamos's case, high profits. Rosenberg (2007) points out that "the very high profitability of the institution [is] based on interest rates that were around 85% per year plus a 15% government tax" (2007: 4). There is, obviously, some doubt as to whether high interest rates are serving those in poverty but higher interest rates are often supported on the grounds that moneylenders charged much more exorbitant interest rates than these (CGAP, 2006), or that the poor can easily pay because marginal returns are higher in micro-enterprises. Empirical studies reflect this, showing commercial MFIs charge higher interest rates and record higher profits, whereas not for-profit MFIs charge less and are also less profitable (Cull, Demirgüç-Kunt, Morduch; 2007).

Recent impact studies (e.g. Banerjee *et al.,* 2010; Karlan and Zinman, 2010) suggest that the effect of microfinance on poverty reduction is unambiguously negative. Some go further and argue that microfinance does not work at all, even worsening the lives of the poor (Karim, 2001; Roodman and Morduch, 2009) or most notably Bateman (2010) and Karnani (2007). For different reasons, these critiques argue that microfinance work against economic development.

As I mentioned above, my interest in microfinance developed due to its objective of poverty reduction and helping the poor people that resemble it with Zakat – a system of poverty reduction in religion Islam, which my mother told me when I was little. The growing trend of commercial microfinance compels me to think question what will be the consequences of this commercial microfinance model. Therefore, the primary aim of the study is to examine the impact of commercialisation of microfinance. In particular, I was interested to explore the differences between commercial, for profit microfinance institutions and non-profit, non-government organisations, especially as the latter evolve into the former. Most research studies have focused explicitly on poverty reduction and there has been a relative lack of studies on the effects of the commercialisation of microfinance. This study therefore focuses on the impact of commercialisation on microfinance institutions and its users – micro borrowers. Within this, the study also considers; what is the outreach, profitability and financing sources of microfinance institutions; what are the missions of diverse microfinance institutions, and are they changing with commercialisation; and how do the practitioners of microfinance define and perceive the growing trend of commercialisation of microfinance. In addition, how the microfinance institutions works in practice are analysed to give wider understanding about the prevailing practices of microfinance in Pakistan.

The study uses both quantitative and qualitative methodologies. Quantitative analysis, in the form of descriptive statistics, is used to examine indicators such as outreach, profitability, loan size, percentage of women borrowers. Qualitative research, through interviews and focus groups, is used to give a richer and more nuanced understanding of the impact of commercialisation on microfinance institutions and borrowers. Together, the two methods give a comprehensive picture of the effects of commercialisation of microfinance in Pakistan.

1.1 Structure of Thesis

Drawing inspiration from the evolution of microfinance, aim of the thesis is to see the impact of commercialisation of microfinance in Pakistan. Following this introduction, chapter two will present the literature review. This chapter will review and critique the main areas of the thesis which comprise microfinance and commercialisation of microfinance in a global context. My intention is to explore the ways in which these areas have been conceptualising through the extant literature and various academic domains.

In Chapter three, I turn my attention to Pakistan, as a context of this thesis. In this chapter, my aim is to give overview of the history, culture, religion, provinces of Pakistan. How the life of a typical person in Pakistan and what is the economic situation in the country is discussed in the chapter. The chapter will also outline about the poverty in Pakistan. Then, I focus on the development of microfinance in Pakistan in order to provide picture of historical and current developments of the microfinance institution in Pakistan.

Chapter four will go on to develop and justify the methodological design for empirical investigation of the study of commercial microfinance in Pakistan. Chapter will begin by reiterating the research question and will justify my mixed methods research. Further, in this chapter I discuss and rationalise quantitative and qualitative research methods, my sampling and data analysis process of both methods. Finally, I refer to some of the implication of this study when reflecting back on the field.

Chapter five to eight will present and interpret the main findings of the research study. This is where I reproduced, analysed and discussed some of the experiences and feelings of my participants and quantitative data. Analysis part of the thesis is comprised of four chapters that represent some of the key themes evident in my data. Specifically, it will provided a detailed account of the consequences of commercialisation of microfinance via the predominate frames - outreach, profitability, mission drift and the other important attributes of respondents which emerged while the data collection process. Throughout the chapters, links are made with the chapters two and four. Finally, chapter nine concludes this thesis by summarising the research findings in relation to the questions it set out to answer. More precisely this chapter provide a summary of the thesis as a whole and reiterates the contributions of the thesis.

Chapter Two: Microfinance in Global Context

2.1 Introduction

> A Grameen type credit programme opens up the door for limitless self-employment, and it can effectively do it in a pocket of poverty amidst prosperity, or in a massive poverty situation **(Yunus, 1989: 156)**.

Today modern microfinance, which developed in Bangladesh, is widely regarded as a more effective means of fighting global poverty than any other single tool (Armendáriz and Morduch, 2010). The microfinance movement is growing and micro borrowers are increasing, which reflect its success. For instance, between 1997 and 2010, the number of microfinance institutions (MFIs) reporting to the Microcredit Summit Campaign increased from 618 to 3,652, while the number of micro borrowers almost doubled from 13.5 million to 205 million (Maes and Reed, 2012). These figures may even underestimate microfinance's extent: Ahlin and Lin (2006) stated that around more than 10,000 MFIs are operating and serving poor entrepreneurs worldwide.

The move to commercialisation has played a significant role in microfinance development. It has connected the world of microfinance, which was previously primarily donor dependant, with the capital market. This 'new wave' of microfinance also transformed many non-governmental organisations into for-profit organisations. This chapter discusses the development of microfinance and, in particular, how the new wave of commercial microfinance developed.

Therefore, this chapter begins with a definition of microfinance, followed by a brief history of its development, and some recent criticisms. Following this, I explore the context of commercialisation, a Neoliberalism approach (Harvey, 2000). The way Neoliberalism has been experienced by the world will be discuss in this section. I further explore commercialisation of microfinance and the development of two paradigms. I then review investors in microfinance as the entry of commercial MFIs, different kind of investors are investing in the sector. Section 2.5 I explains the intervention of MFIs into the World capital markets, in which I demonstrate diverse financing sources of MFIs. In this section, I also illustrate the rating system, which is the requirement for entering the world financial markets. Finally, I explain how the microfinance institutions work in practice by adopting a new model of commercial microfinance. In this section, I focus on competition crisis and mission of microfinance. I concentrate on the limited but important literature on commercialisation of microfinance.

2.2 Microfinance Overview

The term microfinance implies the provision of wide a range of financial services (micro credit, savings, insurance and remittances) extended to people who are poor and on low-incomes (Roodman and Qureshi, 2006) in order to promote self-employment and entrepreneurship[1] among them (Bateman, 2010). Poverty reduction and giving access to financial services to the poor are the primary aim of microfinance institutions (Mersland and Strøm, 2010; Karlan and Zinman, 2010). The argument is that through

[1] Microloans are sometimes use for meeting the immediate needs of the poor rather than for entrepreneurship activities (Agier, Guérin, and Szafarz, 2012).

having access to microfinance, the poor can get involved in productive entrepreneurial activities, which will result in increased household income and they can escape poverty.

Microfinance that we see today is not a new phenomenon, as some have argued (Seibel, 2005; Helms, 2006; Morduch, 1999). In order to reduce poverty, similar credit programmes were initiated in Europe. For instance, early poverty reduction programmes emerged in Ireland as 'Irish loan funds' in the 1720s (Seibel, 2005). These programmes provided interest free loans and were supported by donations. Peer pressure was also used to enforce repayments such as microfinance today. Later, these credit schemes were transformed by financial intermediaries, where they accept deposits and charge interest rates on loans. A remarkable growth momentum in these programmes came when the government legalised these financial institutions with a special law in 1983. However, their decline started when the government put a cap on their interest rates due to their exorbitant interest rates. These programmes disappear completely in the 1950s. Similar kinds of credit schemes started in the 18th century in Germany with the aim to reduce poverty (Seibel, 2005).

Thus, the microfinance known today is drawn from the inspiration of the model presented by Muhammad Yunus when he returned from US to his home country and started teaching at Chittagong University, Bangladesh (Yunus, 2003). It was the time when Bangladesh was granted independence from Pakistan after a fierce war in 1971. The country, from its birth was a poor country and poverty was endemic. In 1974, Bangladesh had terrible famine that disappointed Muhammad Yunus from the teaching career, so he decided to help poor people by lending small loans (Yunus, 2003).

While researching poor people, he found that poor people in the village were unable to obtain credit at reasonable rates and were exploited by local moneylenders. Initially, he began lending from his own pocket a very small amount (just $27 to 42 workers) and observed that from the tiny loans, poor people do some income generating activities such as weaving chairs and making pots (New York Times, 1997). He saw surprising results of his initial experiment in the sense that poor people not only paid back their loans but also made profit from their businesses.

Thus, later on, Yunus expanded his experiment of lending small loans to poor people in the form of an action research project, which was developed to provide microloans, and banking services to the poor. The programme was based on a unique lending methodology different from the normal conventional banking system, where checking credit history, income sources and bank balances are the main attributes. The model worked on group lending methodology where group members were required to guarantee each other's payments. Thus, social collateral was the core of group lending. Other features include checking credit history, which means rewarding larger loans upon each successful repayment and defaulters were not permitted to apply for future loans. Thus, microfinance managed to grant loans to those, who were denied access to conventional finance and implied new lending practices such as group lending.

After successful experimentation of the programme, the first microfinance institution, the Grameen Bank was formally established in 1983. It is considered as a milestone in the development of the microfinance industry (Dowla and Alamgir, 2003). The core objective of this bank was to give small loans at affordable rates to poor people, especially to women. The higher number of clients and exceptionally high repayments rates about 98%[2] was an impressive achievement for the bank. It proved the notion of Muhammad Yunus that 'poor always pay back' (Yunus, 2007) and microfinance could be financially sustainable.

The success of the Grameen Bank soon created follow-ups not only Bangladesh but micro credit institutions spread all over the World. Today MFIs are providing loans to millions of poor people and wide variety of products and services to the poor. There are numerous studies that witnessed success of microfinance in terms of poverty reduction and positive economic and social change in the life of poor (for example, Razzaque, 2010; Khandker, 2005; Zaman, 1999; Goldberg, 2005; Dunford, 2006; Montgomery, 2005; Noreen *et al.,* 2011; Barnes, 2001).

Microfinance achievement is popularised due to its core objective of poverty alleviation. Besides this, one of its key features is lending mainly to women. The main rationale of providing credit to women is women's empowerment (Kulkarni, 2011). Women are more likely to suffer discrimination and to be excluded from the job market, therefore are less empowered. Thus, lending to women makes them economically independent by putting capital and financial resources in their hands. This results in higher bargaining power for women in their households and communities, and subsequently results in higher prestige and self-esteem (Kulkarni, 2011: 15). Moreover, research has shown that women are more reliable and normally contribute a substantial part of their income to the household than men (Frank, 2008; Hashemi *et al.,* 1996; Pitt

[2] Other banks in Bangladesh at that time were showing 40 – 60% repayments rates (Bateman, 2010)

and Khandker, 1998). For instance, Frank notes that "women tend to prioritize their children's need, spending a greater percentage of disposable income on the children's education, clothing and healthcare than do men, thus catalyzing greater intergenerational benefits" (2008: 12). Therefore, more priority is given to women clients in microfinance.

Many research studies found positive impact of microfinance on women's empowerment (Pitt and Khandker, 1998; Cheston and Kuhn, 2002; Kabeer, 2005; Hashemi, Schuler, and Riley, 1996, Zaman, 1999; Kay, 2003, Sanyal, 2009; Pitt, Khandker, and Cartwright, 2006). Skoufias (2001) and Thomas (1990) reported positive impacts of women focused microfinance programmes in Mexico and Brazil respectively. They found that improvement in health, education and household's income is associated with lending to women.

In relation to this, Hashemi, Schuler, and Riley (1996) investigated the impact of microcredit programme on women's empowerment and selected two microfinance institutions: Grameen Bank and BRAC. They found that participation in credit programmes does empower women on different dimensions such as it increases women's mobility, the likelihood of women making major households decisions, their ownership of productive assets, their legal and political awareness and participation in public campaigns and protest. Others argued that women involvement in microfinance programmes reduces abuse and family violence (Schuler *et al.*, 1996; Kabeer, 1998), increases their self-esteem, power and knowledge (Zaman, 1999). Kabeer notes that "access to financial services can and does make vital contributions to the economic productivity and social well-being of poor women and their households" (2005:4709). Despite from the broader objective of poverty reduction, potential of microfinance programmes go beyond the provision of financial services. For instance, it not only gives empowerment to women but positively impacts on health and children's education of poor households (e.g. Chowdhury and Bhuiya, 2004; Rehman *et al.,* 2000; Barnes *et al.*, 2001; Holvoet, 2004). Thus, the above discussion illustrates that the idea of poverty reduction has numerous success stories.

However, a problem with the proponents of microfinance is they fantasise the poor. They hold the assumption that the poor want to be self-employed. For instance, Prahalad claims, poor are "resilient and creative entrepreneurs" (2005). Yunus goes further he states, "all human being are born as entrepreneurs" (2006). These people need very limited capital in order to become involved in income generating activities. However, microfinance has created very few true entrepreneurs who have created prosperous businesses, Karnani argue (2009). In reality, a vast majority of microfinance clients lack specialised skills and often are engaged in multiple occupations. A majority of the businesses operate at very small scale and have very few assets. Therefore, with low skills and little money, they operate in places with low entry barriers and a lot of competition. This result low productivity and leads to meagre earnings that cannot lift their owners out of poverty (Karnani, 2009: 81). Karnani (2009) suggest that micro credit is not the solution but 'jobs are the solutions'. He said, "creating opportunities for steady employment at reasonable wages is the best way to take people out of poverty" (2009: 82).

Bateman (2010) is even more critical when he argues that microfinance constitutes a primary barrier to sustainable development. He argues that, microfinance ignores the most essential role of economies of scale. It promotes entry of large number of microenterprises that leads to oversupply of inefficient micro businesses. These microenterprises have a low chance of becoming successful in their own locality. He states that the oversupply of microenterprises has weakened the development of most productive SMEs within their own locale, which play a crucial role in the job creation and overall economic growth. Thus, microenterprises are unproductive and cannot reduce poverty. Bateman called microfinance the 'poverty trap' in which once the borrower is entrapped, they never get out of it. According to him, this poverty trap is "an 'anti-development policy' that ultimately destroys the potential for sustainable local economic and social development, and so also for sustainable poverty reduction" (2010: 5). This suggests that, due to lack of skills, experience and scale economies micro borrowers cannot become successful entrepreneurs and in turn, many enterprises fail.

Karim (2011) makes a related criticism. She examined the effect of micro-credit on women in rural Bangladesh and observed the tactics behind loan recovery. She found that in order to keep the recovery rate high Grameen Bank and also other largest MFIs use social violence and abusive language which she referred as the 'shame' for poor women. (Karim, 2011: 61). She illustrated that MFIs use these honour and shame codes as the collateral of these loans. MFIs higher recovery rates (98 percent) and more than that are possible in this kind of situations. She concluded, "microfinance loans have made new forms of subordination and oppression for poor women both at the household and community level" (Karim, 2011: 197).

Thus, the criticism made by the above studies rejects the essential claim of microfinance regarding poverty reduction, economic development and women empowerment. In addition to this, in recent literature some authors are in the middle, for example, they identify the beneficial impacts of microfinance but also argue that microfinance does not help the poorest of the poor (Hulme, 2007; Dunn and Arbuckle, 2001; Sinha, 2007; Hulme and Mosley, 1996; Mosley and Hulme, 1998, Morduch, 2000). For instance, Coleman (2006) studied the impact of two microfinance programs in Thailand. He examines the impact of clients before and after joining the microfinance programmes. His results revealed that the wealthiest people are almost twice more likely to participate in the program than the poorer people of village. Moreover, the wealthiest often become program committee members and borrow substantially more than rank-and-file members. He further noted that microfinance programme positively affects the wealthier villagers than the poor.

In relation to this, Amin, Rai and Topa's (2003) study evaluated whether microcredit programs reach the relatively poor and vulnerable in two Bangladeshi villages. The study was carried out in 1991 and 1992 on three microfinance institutions operating in rural Bangladesh: the Grameen bank, the BRAC (Bangladesh Rural Advancement Committee) and the Association for Social Advancement (ASA). They found that microcredit is successful at reaching the poor, but not for the households most in need of assistance, the vulnerable poor. Thus, the above studies suggest that microfinance programs are helping the poor but are not reaching to the poorest of the poor. Alternatively, this advocates that more wealthy people get more benefits from these services than poor people. In relation to this, Dunn and Arbuckle (2001) carried out a study to measure the impact of microfinance on the income of microfinance clients from 1997 to 1999 in Peru and used a survey method. They concluded that microfinance has positive impact on the microenterprises. However, they do also report that micro borrowers are not the poorest of the poor and most have income near the poverty line. Thus, these studies suggest the advantages of microfinance programmes but also illustrated that microfinance does not reach to the poorest of the poor.

Some research studies illustrates negative effect of microfinance (e.g. Banerjee *et al.*, 2010; Karim, 2010; Weiss and Montgomery, 2005; Maldonado and Gonzalez-Vega, 2008) and negate its claim about women empowerment (Rehman, 1998; Asim, 2008). Banerjee *et al.* (2010) carried out a study to measure the impact of microfinance programmes on poor people in Hyderabad, India. They conducted a comprehensive household survey of 54 households before the introduction of microfinance programmes and then another survey of 65 households after the entrance of microfinance institution, Spandana (a largest non for-profit MFI in India) in that area. They found that new business starter and micro borrowers increase their durable consumption at the expense of non-durable consumption. In addition, those households that do not intend to start a business increase their non-durable consumption instead. Their results also show no impact of microfinance on health, education or women empowerment. Furthermore, their findings suggest that microfinance is not a ‘miracle’ that is sometimes claimed, however, microcredit does allow households to borrow, invest and expand businesses.

Salman (2008) evaluated the impact of micro credit on women’s empowerment in the urban slum of Lahore, Pakistan. He demonstrates that participating in the microcredit program; no positive impact has been found on the women empowerment. He explains that the bargaining power of women within the household for a broad range of decisions including child related, health, and economic and social mobility decisions has not increased. Roodman and Morduch (2009:4) argue that,

> Strikingly, 30 years into the microfinance movement we have little solid evidence that it improves the lives of clients in measurable ways.

Thus, the above studies suggest negative or little positive impact of microfinance programmes. Some studies demonstrated that microfinance helps the poor, but they also noted that it does not reach to the poorest of the poor. The above stories of disempowerment, more poverty, vulnerability and abusive methods illustrate the dark side of microfinance. This suggests that microfinance, which is praised as a poverty reduction and an economic development tool, has also an unpleasant view. This nasty view of microfinance has led the debate whether microfinance works, but sceptics argue that 'microfinance does not work' (Bateman, 2010). On the other hand, there are many who have reported a positive impact of microfinance, as I mentioned above. A further relevant topic in discussing the effects of microfinance on the poor is commercialisation. Before discussing this commercialisation of microfinance, however, I will discuss the political economic context on which it has occurred.

2.3 Neoliberalism: A background to Commercialisation

Commercialisation means to create more efficient, motivated and profitable organisations. As Milton Friedman said, "the sole and only purpose of private business is to maximise profits". The commercialisation philosophy in microfinance was fundamental to the rush towards privatisation of microfinance institutions, profitability and sustainability of MFIs or adopting a Neoliberal approach, which is the agenda of international agencies such as World Bank and International Monetary Fund (IMF). Therefore, in order to understand commercialisation of microfinance, it is important to explain its background – the term 'Neoliberalism'. In this section, I will explain Neoliberalism and the way it has affected the world.

The growing dominance of neoliberal development economics started in the 1980s in the UK. Reagan in US and Thatcher in Britain often consider as primary authors of this movement. The term 'Neoliberalism' was first coined by the German Freiburg School for their moderate program of reviving classical liberal theories of David Ricardo and Adam Smith (Steger and Roy, 2010: ix). Harvey defines Neoliberalism as:

> Mantras of private and personal responsibility and initiative, deregulation, privatization, liberalization of markets, free trade, downsizing of government, draconian cutbacks in the welfare state and its protections (2000:176).

Basic idea emphasised on benefits of the free market and open economies where state interventions in the economy are less. This encourages people to see themselves as individualized and active subjects responsible for improving their own well-being (Larner 2000:13). This doctrine supports Adam Smith's view of the 'invisible hand' of the market, which the economic liberals consider as the best device for mobilizing resources for the collective good of society.

Sanjaya Lall argues that the main elements of the Neoliberalism paradigm are: first, markets are basically efficient and the government is inefficient; secondly, resource allocation is optimised by agents responding to free markets; and thirdly, the best development policy is to remove all interventions which are seen as distortion and counterproductive in the functioning of free market (1996: 1). In developing countries, it calls for the dismantling of public ownership and statist planning. Failure to develop, according to this theory, is not due to exploitative external and internal forces; rather it is primarily the result of too much government intervention and regulation of the economy (Todaro and Smith, 2009: 110). One common point in these arguments is that 'government intervention was the problem rather than the solution' and a stable fiscal policy and major tax cuts would produce a healthier economy (Harvey, 2007: 54). Thus, since the early 1980s, following the doctrine of Neoliberalism, the world has witnessed an immense reduction in the role of the state, the emergence of market-oriented deregulation, liberalization and privatization in both developed, and less developed countries (Chia, 1993).

One of the open advocators of the Neoliberalism was the *Wall Street Journal*, which considers this movement 'as the necessary solution to all ills' (cited in Harvey, 2007). Neoliberals also obtained the support of the world's two most powerful international financial agencies – the World Bank and the International Monetary Fund (IMF) (Todaro and Smith, 2009). To follow the neo-liberal ideology, the World Bank and IMF started Structural Adjustment Programmes (SAPs) in 1980s, in the developing countries. These programmes were economic policies for low-income countries, which these countries must adopt in order to qualify for the soft or subsidised loans from these international agencies (World Health Organisation, 2013). SAPs policies include, removing excessive government controls and promoting market competition. In addition, currency devaluation, reducing tax on high earners, reducing inflation, wage suppression, privatization, lower tariffs on imports and tighter monetary policy, increased free trade were parts of the neo-liberal agenda in the form of SAP programmes. Governments were also encouraged to reduce their role in the economy by privatization of state-owned industries and opening up their economies to foreign competition (World Health Organisation, 2013). It is worth of note that, additional purposes behind these programmes were to reduce the poverty in low-income countries (Killick, 2008). Overall, these programmes were implemented in many developing countries to promote free market, privatisation and deregulation.

Moreover, SAPs policies also include financial liberalisation, which is an important element of Neoliberalism. Financial liberalisation is re9lated to the global integration of the domestic financial markets. Other key features of the financial liberalisation includes freeing interest, deregulating banking and securities markets, the greater access of emerging countries to external financial markets at lower cost of capital due to better risk diversification (Arestis and de Paula, 2008). The development of the financial sector due to the effects of foreign banks entry on the credit supply and operational efficiency, it was argued that the presence of foreign banks in developing countries could bring positive effects by increasing the effectiveness of the domestic financial system (Peek and Rosengren, 2000).

Prior to implementing financial liberalisation, financial sector of developing countries almost shared many similar attributes i.e. interest rate ceilings, high reserve requirement and restrictions in the credit allocation (Khan and Hassan, 1998). A mix of state-led development, politics and corruption were prevailing in the developing countries

(Hanson and Ramachandran, 1990). Therefore, to minimise these problems, the World Bank implemented financial liberalisation. McKinnon and Shaw (1973) are the first who coined the word 'financial repression' for the pursuance of financial liberalisation in developing countries. They argued that limited mobilization and inefficient allocation of financial resources slowed economic growth, therefore these constraints created low savings, low investment and credit rationing. Thus, financial integration was promoted to accelerate the economic growth, efficiency and free capital mobility in the emerging countries.

By following Neoliberalism, developed and emerging countries attain the positive outcomes of economic growth, access to global financial markets, exchange rate stability, huge foreign direct investment and efficient financial services. For instance, in 1991, India carried out major neoliberal reforms such as cutting the tariff rates on imports, exchange rate liberalization, less restrictions on FDIs and privatization of the state owned industries (Steger and Roy, 2010). In addition, India made remarkable economic growth, exchange rate stability and a considerable increase in Foreign Direct Investments (FDIs) after adopting Neoliberalism policies.

However, with its advantages, there are disadvantages, which the countries faced. Such as the gap between the rich and the poor has increased in developing countries who adopted the SAPs policies. India, Pakistan, Bangladesh, many African and Latin American countries are the examples where poor are far from the necessities of life such as land, health and quality education. In addition, many cross-country studies stated detriments of SAPs programmes in developing countries (Maasland and Van der Gaag, 1992; Kakwani *et al*, 1990). These studies suggest that SAPs programmes created worsening conditions for the poor in low-income countries as gap between the rich and poor has risen. Moreover, structural adjustment programmes, forced countries to cut down their social safety nets and stopped them from providing their populations with basic needs such as public health and good education.

Moreover, critics argue that expectations related to financial liberalisations resulted disappointments as costly financial crisis occurred in Mexico, Russia, Brazil, Turkey, Argentina, the East Asian countries, and some Eastern European and African countries. Financial liberalisation was a significant factor behind the crisis (Demirgüç-Kunt and Detragiache 1998; Kaminsky and Reinhart 1999; Radelet and Sachs, 1998). By adopting financial liberalisation, these countries saw immense increase in capital inflows, deposits, and unsustainable booms in imports and GDPs (Hanson and Ramachandran, 1990). However, these countries experienced a reversal in these variables, rapid credit growth and inflows slowed, real growth in the financial sector decline, and interest rates rose (Hanson and Ramachandran, 1990). As a result, these countries plunged into financial crisis and corporate bankruptcies.

The case of East Asian countries[3] remarkable economic growth in 1960s to 1990s is interesting. The World praised their success to market friendly policies, including opening to global trade, sound development policies, huge foreign direct investment, maintaining macroeconomic stability and building an environment that foster private

[3] East Asian countries include Japan, Indonesia, Malaysia, Thailand and Hong Kong, Taiwan, Singapore and South Korea. Four countries Hong Kong, Taiwan, Singapore and South Korea were also known as Asian Tigers.

investment and competition (World Bank, 1993; Ostry 1997; Chen, 1993). The World Bank regarded the fastest economic growth in East Asia as a successful example of Neoliberalism, free market economy and minimizing the role of government interventions (1991; 1993). According to World Bank report (1993) these countries enjoyed double growth rates as compared to rest of the region, three times more than Latin American and South Asia and five times those of Sub Saharan Africa in three decades between 1960s and 1990s. However, these Asian countries, which had long been praised as the driving force of the global economy, had been wrecked by the financial crisis in mid 1997. Some attributed blame to the domestic weaknesses, moral hazard and policy errors (Fischer, 1998a; Alba *et al*., 1999). Nevertheless, essence of the crisis was identical as I noted above financial liberalisation and bulk of the private capital inflows that reflected inherent instabilities in international capital market (Radelet and Sachs, 1998; Eichengreen, 1999; Wade, 2000, Furman and Stiglitz, 1998).

Contrary to the ideas of neoliberal economics, the development state view holds that the market mechanism alone is insufficient, and states intervention is necessary to ensure the market works, through government planning to promote economic growth (Kohli, 2004; Amsden, 1989; Wade, 1990). Wade (1990) and Amsden (1989) argues that tremendous success behind East Asia is not attributed to the free market, as the neo-liberals economists have postulated, but lies in the government policies and intervention. After examining the state and foreign trade and investment, Wade (1990) found a huge role of government in the industrialization process in Taiwan. Hence, he concludes that to increase supply responsiveness and to steer the direction of industrial growth, the state in Taiwan has been doing much more than the neoliberal accounts recognize (Wade, 1990: 73).

Kohli accounts on the state initiatives are noteworthy. He argues that industrialization requires state power and initiatives because it involves social change, rather than merely its narrow outcome – the increase in industrial production from existing or new factories (2004: 8). In addition, Jomo notes that developing international competitiveness requires government protection and support for the infant industry in the form of temporary tariff protection, subsidies, and human resources training (2001). He argued that the governments of East Asia have intervened greatly in their industrialization process, through controlling the structure of the economy and by protecting infant industries (Jomo, 2001: 484).

Further, Chang (2003) argued that almost all of today's rich countries had used tariff protection and subsidies to expand their industries. Interestingly, he notes that, history witnessed that developed countries have achieved their great success through many social mobilisation strategies supported by the state. He illustrates that Britain and the USA, the two developed countries that are supposed to have reached the top of the world economy through their free-market and free-trade policy, are actually the ones that had most aggressively used protection and subsidies. Nevertheless, rich developed countries have regularly discouraged developing countries from using the same polices and interventions, Chang argue. Hence, he strongly favours governments' interventions for the economic development and for the whole welfare of people. Thus, the above discussion suggests Neoliberalism has advantages and drawbacks. Developed and the developing countries have taken advantages of the Neoliberalism model. However, in order to develop the industrialisation process and for the welfare of the people, these countries employed strong state interventions.

Similarly, opponents of the microfinance model also criticises commercial microfinance on the same grounds. Bateman (2010) explains that, the fastest growing countries in the last thirty years such as China, Taiwan, South Korea and Thailand, have achieve remarkable growth by developing small and medium enterprises and hence created jobs. They have emphasis on economic reforms, public services and infrastructure. These countries have reduced poverty successfully and became rich(er) tremendously by using a range of state coordinated interventions and investment strategies (Karnani, 2009).

In relation to this, Mahajan (CEO of Indian MFI Basix) notes that the poor do not wish to be self employed but the reality is they want steady employment which can lift them from the vicious circle of poverty (cited in Tripathi, 2006). Moreover, microcredit is not enough for the poor, but they do need training, identifying opportunities and market linkages for their business to become successful.

Thus, these studies argue that poverty reduction is not possible with the help of microfinance. Microfinance has helped many poor people but the poverty in these countries is still prevalent. They suggested that state interventions has strong role in the development of countries. In addition, development of small and medium enterprises can help in job creation and provide benefits in the long run in the form of poverty reduction. In the following section, I will discuss a recent phenomenon commercialisation of microfinance.

2.4 Microfinance Shift – The Commercialisation of Microfinance

Microfinance institutions extend small loans on low interest rates to poor people, as noted above. Lending small loans involve higher overall transaction costs compared to larger loans. Therefore, microfinance is considered a costly business. Initially, to serve poor people on affordable interest rates, the majority of micro credit programmes depended on donations and government subsidies and their survival was very difficult without constant grants or subsidies. However, gradually microfinance institutions realised the fact that in order to provide microfinance services on a continuous basis, they need profitability. Sustainability of microfinance institutions means covering their full operational, financial and administrative cost and also provide surplus amount called profit in order to finance their daily operations and development of future plans without long lasting financial support on government subsidies or donor funds (Conning, 1999). In the literature the terms ‘sustainability’ and ‘self sufficiency’ are used interchangeably (Brau and Woller, 2004). Christen and Drake (2002) argues that sustainability matter for the institutions because the poor need access to financial services on a continuous basis. Schreiner further explains that unsustainable microfinance institution can help the poor now but they will not help them in the future, as they will disappear (2000: 4).

The other rationale behind sustainable institution was shortage of funds. Schreiner argue that “poor are plenty but the donor dollars are few” (2000: 4). Adams and Von Pischke (1992) argued that many subsidised credit programmes failed in the past because they were not sustainable. In addition, these programs failed because they were expensive, collected little revenue, depended too heavily on subsidised funding, and they often suffered serious default problems (Adams and Von Pischke, 1992: 8). Moreover, much of the credit was often divert to politically favour non-poor households and did little help poor people (Adams, Graham, and Von Pischke, 1984). Simple logic was that subsidised programmes are inefficient and cannot reduce poverty in the long run.

Thus, “in the mid-1980s, donors and governments realised that efficient public interventions in microfinance might help to improve social welfare” (Navajas and Schreiner, 1998:1), there was an inevitable question as to how this might be funded. It was deemed necessary by the policy makers to apply market-based interest rates and earn higher profits (Bateman, 2010) which would enable microfinance institutions to achieve self-sufficiency and access to more poor people. Thus, this has fed through to efforts to commercialise microfinance institutions all over the world.

The term commercialise means ‘to develop commerce in’ or ‘to manage on business bases (Christen and Drake, 2002: 3). Therefore, we can define Commercialisation as the “[m]ovement of microfinance out of the heavily donor dependent arena of subsidised operations into one in which microfinance institutions ‘manage on a business basis’ as part of the regulated financial system” (Christen and Drake, 2002: 4).

Commercialised MFIs adopt a market approach in their operations. Market approach entails standards such as ‘profitability’, ‘sustainability’ and ‘efficiency’ in the provision of financial services (Christen and Drake, 2002). These principles of commercialisation will be discussed in more detail in chapter seven.

Other reasons given for the shift in microfinance include deposit mobilisation, improved customer services and reaching to a larger market (White and Champion, 2002). In many countries, regulatory polices does not allow unregulated, non-profit organisations from collecting savings due to security reasons. Although, some NGOs take deposits from micro borrowers, nonetheless, they keep their money in commercial banks. Therefore, by becoming only registered and regulated institution, an MFI can mobilise savings. White and Champion (2002) argue that by having its own capital base, MFIs can increase its clientele and improve customer satisfaction by offering them better services. Moreover, with more regulations governance of the institution improved since it requires higher level of supervision and oversight from the board and management. In order to achieve all these objectives commercialisation is regarded as the best choice.

Bank Rakayat Indonesia (BRI) was the first microfinance institutions that adopted commercialisation (Bateman, 2010). In 1984, BRI established a wholly profit oriented micro banking division called Unit-Desa. The programme offered microloans to micro borrowers at market interest rate Bateman, 2010). This institution showed rapid growth in term of active borrowers and savers. By the end of 2004, it had 30 million savers and 3.1 million borrowers (Robinson, 2001). BRI also demonstrated good financial performance with return on assets of over 5 percent for many years (Christen and Drake, 2002).

A drastic shift came in the microfinance paradigm during the early 1990s when PRODEM, the leading microfinance NGO in Bolivia transformed into a regulated financial bank (BancoSol) in order to access funding from the financial markets. This first transformation of PRODEM to the BancoSol occurred with the partnership of ACCION International and local business people. ACCION International was a very early supporter of the business-like model. They help NGOs to become regulated and for-profit institutions. BancoSol's gained incredible success through disbursing millions of loans to small and poor households[4] with higher recovery rate (Conning, 1999). The increase in numbers of borrowers and outstanding loan portfolio in short time after its transformation demonstrated its success (Gonzalez-Vega *et al*, 1997). In addition, BancoSol showed good financial performance and self-sufficiency.

The remarkable success of BancoSol persuaded other MFIs to move towards commercialisation. The shift influenced the microfinance sector significantly and most discussion rotated around profitability, 'sustainability' and risk minimization. Profits are viewed as being not only acceptable, but also essential because they are expected to attract private investment to the sector (Conning, 1999). Thus, cost control, operational efficiency, 'market' or 'businesslike' approaches have all been promoted with the

[4] Literature suggests that these poor households are among the poor who are near to poverty line or we can say that 'they were the riches of the poor' (Navajas *et al*, 2000: 333).

mission of double bottom line, means poverty alleviation and achieving sustainability (Charitonenko, 2003)

The incredible growth of commercial microfinance has received interest from various practitioners, academics, donors and investors. The U.S. Agency for International Development (USAID) was among the very early donors who strongly supported commercialisation of microfinance (Bateman, 2010). After USAID, the World Bank also prompted commercialisation and played a significant role to promote this new model. In 1995, World Bank and others multi stakeholders formed the Consultative Group to Assist the Poor (CGAP). CGAP is housed at the World Bank but works as an independent policy and research centre. Its role is diverse e.g. to promote standards, develops innovative solutions and offers advisory services to multi stakeholders of microfinance (CGAP, 2013). Thus, all major stakeholders of microfinance considered the new model as the 'best practice'[5].

In order to enhance funding resources, many NGOs in the World transformed into regulated financial institutions. Other examples apart from BancoSol include K-Rep in Kenya, CARD Rural Bank in the Philippines, Bangladesh Rural Advancement Committee (BRAC) and Association for Social Advancement (ASA) in Bangladesh, Mibanco in Peru, Banco ADEMI in Dominican Republic, First Microfinance Bank (FMFB) in Pakistan and Compartamos in Mexico. Interestingly, the waves of commercialisation also influence the pioneering Grameen Bank. In 2001, Grameen

[5] Best practice implies ideal institutional practices with more focus on institutional self-sufficiency (Brau and Woller, 2004).

Bank also upgraded into Grameen II. The objective of the new model was to attain sustainability with the core objective of poverty reduction. Moreover, there were many other factors behind Grameen's transformation such as is its internal weakness (strict rule) and devastating flood, which occurred in 1998 affected nearly two thirds of the people in Bangladesh. Grameen Bank suffered from recovery problems, which led them to think about sustainability of institution (Yunus, 2007).

Moreover, Yunus also admitted that Grameen I was, 'one size fits all' programme means it normally worked well but could not address the special needs of the borrowers such as in case of natural disasters (Yunus, 2007: 62). Grameen II offered innovative and flexible products and services to its micro borrowers and even made changes in methodology by offering individual lending. Overall, the motive behind all these efforts were to move towards business-like model where the institutions can get the funding on a commercial basis which requires them to be profitable and sustainable. Thus, the above discussion explains the transformation of microfinance from NGOs to regulated financial institutions. The stated objective of the new model is to provide a wide range of microfinance services to poor people, which is not possible on donor dependency. Those MFIs who seek to grow exponentially and want to serve millions of poor, commercialisation is seen as the precondition for them to achieve this mission (Christen and Drake, 2002).

The commercialisation of microfinance opened up a new debate concerning the mission of microfinance poverty reduction. This has developed two contradictory schools of thought – the Welfarists and Institutionalists (Bhat and Tang, 2001; Woller, Dunford and Woodworth, 1999; Robinson, 2001; Morduch, 2000). Morduch (2000) called this as 'the microfinance schism' which created the unresolved disparities within the microfinance community. Those in favour of commercialisation – Institutionalists – argue that microfinance must operate on a commercial (profitable) footing: as subsidised lending is not sustainable, funding restrictions limit potential and an absence of market discipline means increased costs. Further, Institutionalists favour commercialisation as it offers a win-win position in increasing outreach and sustainability while delivering social benefits. The Consultative Group to Assist the Poor states, "microfinance will only realise its potential if it is integrated into a country's mainstream financial system" (2004a: 1).

Moreover, Institutionalists argue, "poor households demand *access* to credit, not 'cheap' credit" (Morduch, 2000: 617). They support the following idea, as poor entrepreneurs earn much higher return on his/her business in the developing world than the interest rate they pay to moneylenders. For example, poor people in the Philippines take '5/6 loans', meaning that moneylenders lend five pesos in the morning to be repaid six pesos in the evening (CGAP, 2002a). This suggests that they pay daily interest rate of 20% or more than 5000% per year. Therefore, if a commercial MFI charge market interest rate between 30 – 50% per year, poor can afford to pay.

Another rationale is the huge demand for microfinance. There are up to three billion people without access to financial services (CGAP, 2006b). Therefore, commercialism is a necessary step to provide financial services to the poor. Institutionalists note that donor and funding agencies have limited resources compared to the potential demand from poor households. In order to encourage a greater inflow of financial resources, the sector has to attract private capital (Byström, 2008). This, in turn, requires that the sector can show a reasonably high return on investment, covering both operational and financial costs. As Akula said (SKS founder, a largest MFI in India) in favour of profitability,

> Why should business among the very poor be different than it is anywhere else? Listen to customers, standardize processes, and do not be afraid to make a profit (2008: 53).

This suggests that an earning profit from the poor is acceptable as long as they are giving good services to their clients. Hence, success of microfinance, both in terms of poverty reduction, through reaching a maximum number of poor households, and in terms of sustainability, depends on its ability to adopt principles of commercialisation in all its operations (Robinson, 2001 and 2002).

A competing Welfarist approach argues that the introduction of the profit motive into microfinance necessarily distorts the actual mission of microfinance institutions — namely reducing poverty. It potentially 'degrades an organization's commitment to the very poor, who will be crowded out by less poor clients' (Christen and Drake, 2002:2). Welfarists believe that many of the poor households who participate in microfinance programmes are not capable of bearing the burden of commercial loans that carry market interest rates. Since the market rates for the target sector can be excruciatingly high. Thus, it is not possible to achieve two opposing objectives simultaneously profitability and poverty reduction. Woller, Dunford and Woodworth (1999) note that if profitability is emphasised more than the outreach and poverty eradication, then the profit motive will take priority over the service motive. Therefore, subsidies and donor funding are the only way to accomplish the poverty-reduction objective (Ledgerwood, 1999).

The debate is ongoing, although with the power of the World Bank who only supports commercial microfinance and tremendous growth of commercialised micro financial institutions, commercialisation is increasingly visible in practice. Many institutions are attracting private and foreign capital and entering the world financial markets. In the next section, I turn attention to the other actors in these markets that have an interest in microfinance.

2.5 Who are the Investors?

Commercialisation of microfinance has gained attention of various investors to invest in microfinance. High repayment rates of MFIs (sometimes above 95%) made investors realise that microfinance is a good investment opportunity. Alternatively, profit can be made from investing in this low risk business. In addition, international investors often look at the new or emerging markets to better diversify their portfolio. Microfinance may provide a good alternative to spread their portfolio because the risk-adjusted returns are likely to show low correlation with the other assets. The rationale often given is that microfinance clients operate in an informal economy, which is less sensitive to global markets. Or put it another way, microfinance has reduced exposure to macroeconomic events.

The literature shows mixed findings on the correlation of microfinance with macroeconomic events. For instance, Herms and Meesters (2009) and Ahlin and Lin (2006) find significant correlation between macroeconomic event and MFI performance. However, Gonzalez (2007) finds that macroeconomic environment only has a weak correlation with microfinance. Kraus and Walter (2010) studied the relationship of microfinance with global and domestic market. Their analysis revealed that MFIs performance is not correlated with global markets but has a strong correlation with domestic market.

Galema, Lensink and Spierdijk (2011) examined whether adding microfinance funds to a portfolio of risky international assets provides diversification benefits. Their study concluded that investing in microfinance is beneficial for institutional investors as it provides risk-return benefits. However, their analysis suggest that investing in more commercialised MFIs such as in Latin America may be more beneficial compared to traditional NGOs that do not provide effective risk return benefits. In addition, the International Association of Microfinance Investors (IAMFI) suggest that for international commercial or private investors, microfinance loans are attractive underlying asset because of their,

> ... low default rates, high granularity, high standardization, high diversification, low prepayment risk, and the limited impact of macroeconomic factors on their performance (IAMFI, 2008).

Therefore, the above stated rationales and literature (which is not entirely explicit) suggest that microfinance is a safe and profitable investment option for international investors. In particular, it suggests that commercialisation of microfinance is more appealing for institutional investors due to high returns.

Foreign investment in microfinance is mainly generated through two types of investors. These two investors are providing largest share of the cross border funding to MFIs (Dieckmann, 2007). These include Development Finance Institutions (DFIs) or public investors, and private investors. Development Finance Institutions (DFIs henceforth) provide more than half of all foreign investment (Reille, Forster, and Rozas, 2011). DFIs mainly focus on development of MFIs by giving capital at favourable rates (below market rates) without seeking economic return (Dieckmann, 2007). DFIs have increased their investment by 350% from $1.7 billion in 2006 to $7.5 billion in 2010. DFIs include multilateral development agencies such as International Finance Corporation (IFC), Kreditanstalt für Wiederaufbau (Kfw), Overseas Private Investment Corporation (OPIC), Agencia Española de Cooperación Internacional para el Desarrollo (AECID), European Bank for Reconstruction and Development (EBRD). These five major DFIs constitute 71 percent of all DFIs funding (Reille, Forster, and Rozas, 2011).

Other major groups of investors are private sector investors. This group include a wide range of institutional investors such as insurance companies, pension funds, international banks, and individual investors. Institutional investors provide 30 percent of the stock of foreign investment (Reille, Forster, and Rozas, 2011). Institutional investors are the fastest growing investor group. Foreign investment from this group showed extensive growth in the last couple of years. Individual investors consist of small retail investors and high net worth individuals. Retail investments in microfinance have tripled during the past four years to reach US$1.8 billion in 2010 (Reille, Forster, and Rozas, 2011). Retail investors represent 16 percent of the total stock of cross-border investment today. Thus, varieties of investors are investing in microfinance. Investment with social return is still dominant but investors seeking financial returns are also rising.

2.6 The Intervention of Capital Markets in Microfinance

As mentioned above, the key reason behind commercialisation was seen to be constraints on funding. In the early days, MFIs were almost entirely dependent on donations and soft debt finance. In the late 1990s, they move towards new funding sources of such as more structured debt financing sources including bonds and securitisation of microfinance portfolio. Alongside with the debt financing options, MFIs good financial performance entered the equity financing market. The development of structured debt finance and equity market was to pave the large amount of commercial driven capital.

Foreign investment in microfinance exceeded $12 billion in 2010 (Reille, Forster, and Rozas, 2011). Nowadays, one of the most common ways to invest in microfinance is through microfinance investment vehicles (MIVs). Most of the funding is channelled through these MIVs, which play the role of financial intermediaries between microfinance institutions and investors. Most investors prefer to invest in MIVs in order to gain advantage of diversification across many MFIs, countries and currencies. In addition, investment in MIVs provides benefit to investors to conduct due diligence and monitoring. In the following sub sections I will explain, these new financing options in more detail. I will explain first MIVs because most of the funding to microfinance institutions is coming through these vehicles. Later, I will explain securitisation and microfinance equity market.

2.6.1 Microfinance Investment Vehicles (MIVs)

The Microfinance Investment Vehicles are the ‘investment entities’ that act as intermediaries between the MFIs and investors (CGAP, 2010). MIVs are vehicles that have been specifically set up to invest in microfinance assets (Goodman, 2005). They are also often called microfinance investment funds (Goodman, 2005). A variety of investors’ social, commercial, institutional and private investors invest largely through these vehicles. More than half of all cross-border investment in microfinance is channelled through MIVs (CGAP, 2012).

ProFund is considered as the first example of microfinance investment funds established by development agencies and some private donors in 1995 (Dieckmann, 2007). It was set up with the dual goal, achieving social and financial returns. The Fund raised $23 million to finance Latin American MFIs (Lensink, 2011). However, the MIV established by Dexia, a Franco-Belgian bank, and BlueOrchard in 1998 was the first commercial MIV. It was reached beyond the pool of socially motivated investors because it offered commercial rates of return and redemption right features (Charities Aid Foundation, 2011). Institutional and individual investors invested huge funds in the MIV and at the end of 2007; it had $233 million under management (Charities Aid Foundation, 2011).

According to the most recent estimate, there are 95 MIVs manage total assets of more than $8 billion (Reille, Forster, and Rozas, 2011). However, only the top 10 MIVs account for 67 percent of the total MIV assets (Reille, Forster, and Rozas, 2011). Oikocredit, European Fund for South-East Europe (EFSE), Dexia Microcredit Fund, responsAbility Global Microfinance Fund are prominent. Thus, MIVs are catering the needs of variety of investors, social, commercial, individual and institutional.

Traditionally, MIVs were largely reliant on debt funding, but for investors to gain more financial return, debt financing became increasingly unattractive. In addition, most MFIs were highly leveraged and they were seeking to decrease the leverage. Therefore, investors as well as MFIs shifted their focus towards equity financing. Recently, MIVs have started to supply more equity funding. However, debt financing is still providing major portfolio of 72% while equity 28% (CGAP, 2010). Now MIVs offer diverse investment options such as some are public placement funds, fixed income private placement funds and Collateralised Debt Obligations (CDOs) more recently.

In order to attract different investors with different risk and return appetite, microfinance institutions moved towards more structured financing sources such as securitisation or CDOs. The emergence of securitisation in microfinance has gained a lot of attention. The following section will give a brief introduction of securitisation and how it works. I will also explain CDOs which is part of securitisation.

2.6.2 Securitisation in Microfinance

Securitisation is the financing source used in more structured finance. Commercial banks employ securitisation mostly in residential mortgages, commercial mortgages and auto loans. Securitisation has played a significant role in the growth of housing mortgages (Shin, 2009). Securitisation is the process of issuance of securities directly backed by pool of bonds, loans or other assets, and started in the early 1970s (Byström, 2008). It has two important characteristics. First, the pooling of a large numbers of assets such as loans that are used as collateral for the issue of securities by the originating firm. Secondly, the credit risk of an asset or a pool of assets is transferred from the originating firm to external undertaking known as special purpose vehicle (SPV). SPV is then issue securities backed by the underlying assets.

Alternatively, in securitisation institutions use their immobile assets such as houses or in case of microfinance loans as tradable instruments. The securities are usually structured in tranches, labelled 'senior', 'mezzanine', and 'junior'. The SPVs organise the tranches to have different seniorities and the risk of asset is split up in to low risk and high-risk securities. Each tranche caters to the need of various investors. Investors who are more risk averse and seek lower returns invest in senior tranches. Senior tranches are less risky securities because in case of default they suffer fewer losses as compared to investors who invest in junior tranche bear higher degree of risk. Therefore, in case of loss, junior tranche serve as a loss cushion while senior tranches remain unaffected (Dieckmann, 2007). In the case of microfinance, development agencies who seek social return invest in junior tranches and bear more risk. On the other hand, senior tranches have higher creditworthiness as compared to average asset in the underlying pool commercial investors invest in senior tranches. Investors who invest in securities receive interest and the principle payments on the underlying assets until maturity of those securities.

Therefore, investors are largely investing in microfinance by securitisation or CDOs. CDOs are particular kind of securitisation or the structured finance securities that are backed by a pool of assets. CDOs became the segment of structured finance in late 1980s and shows tremendous growth (Byström, 2008). CDOs are different from the traditional securitisation in terms of number of assets. CDOs contain smaller number of assets (possibly 50 – 150) than that of securitisation (Byström, 2008). In addition, assets of CDOs are more heterogeneous and innovative than in a usual securitisation deal.

The microfinance sector started employing these structured finance instruments in 2004 (Goodman, 2005). The two first securitisation deals in microfinance were carried out in India by ICICI. The first deal involved Basix, India's oldest MFI, with the securitisation of $1 million crop loans and secondly, the Share, with the securitisation of $4.3 million of microloans. Two recent and important examples of securitisation deals have been done by BRAC Bangladesh in 2006 (Giddy, 2006) and Swayam Krishi Sangam (SKS) microfinance institution India. Both institutions received billions in funds (local money) and were strongly rated (BRAC AAA and SKS A1+).

In microfinance, the first microfinance CDO issued in 2004 named 'BlueOrchard microfinance securities' (Swanson, 2008). BlueOrchard issued the securities in collaboration with the Developing World Markets (Swanson, 2008). CDO maturity life was for seven years. These CDOs became successful, attracted larger and bigger investors and produced higher rates of return. The issuance of CDO in microfinance marked the beginning of a mainstream capital market in microfinance. Many other large MFIs and companies are also involved in CDO transactions in microfinance. Prominent players include Morgan Stanley, BRAC and Citibank. Swanson (2008) argues that entrance of Morgan Stanley (an investment bank) into microfinance gave credibility as a capital markets activity. Creditability in this context indicates security or maturity of the market. Thus, the donor-driven microfinance entered into mainstream capital market, where the investors are investing to earn more profit and MFIs are raising millions of dollars in the name of serving poor people.

However, microfinance institutions are adopting structured financing sources, which conventional financial institutions adopted decades ago. With its advantages of abundant supply of money to institution and to investors, there are also serious flaws, which the conventional financial institutions have borne recently due to this securitisation. One recent example is the subprime mortgages or credit crunch. Bad mortgage loan orientation, slack financial system management and most importantly securitisation were the contributing factors to the credit crisis (Gordon, 2009). Apart from more structured financing sources, there is one other financing option that is becoming popular: equity finance.

2.6.3 Equity Finance

Along with the increasing debt finance, equity investment also became visible in the late 1990s. In the start, investors were more development-focused but similarly as happened with the debt finance, more commercial investors came into the field due to growth in valuations terms. According to the CGAP (2011), MFIs valuation grew by more than 50% during 2006 – 2009 and reached to an average 1.7 times book value. This has led to an abundant supply of equity financing in the sector with high growth prospects. Moreover, in order to reduce leverage and offer investors competitive returns, equity financing considered as significant source. Development of the equity finance received recognition with the success of first initial public offering by Banco Compartamos, the largest MFI in Latin America. On April 20, 2007, Compartamos went public and had its IPO on the Mexican stock exchange. About one third of the shares were floated in the market, and the IPO was well received by the investors as the sale was over-subscribed by 13 times (Rosenberg, 2007).

The reason behind the success of Compartamos IPO was its good financial performance. At the time of IPO Compartamos was charging 86% interest rate annual interest rate on loans that heightened the profits of the company (Rosenberg, 2007). Good financial performance boosted the share price of the company and many investors and the company owners generated millions of dollars. Investors and CEOs of Compartamos celebrated the spectacular success of their company. They regard this IPO as the 'double bottom line' and as the part of the beauty of the commercial microfinance model (Rhyne and Guimon, 2007: 15). Rodriguez, ACCION representative to the Compartamos Board said, "[t]he IPO showed the capital markets that doing business with the poor can be profitable, which open the way for huge amounts of capital to move into the fight against poverty" (cited in Rhyne and Guimon, 2007: 15). Thus, IPO was regarded as the necessary step for the financial inclusion of poor borrowers by its shareholder and the company.

However, IPO of Compartamos was successful in financial terms to its investors but it raises strong ethical concerns, as many criticised from the industry and academia (Bateman, 2010, Cheng, 2011, Harper, 2011; Ashta and Bush, 2009). Muhammad Yunus also did not rejoice the success of Compartamos, IPO. In response to IPO, he said, "I am shocked by the news about the Compartamos IPO. Microcredit should be about helping the poor to get out of poverty by protecting them from the moneylenders, not creating new ones" (2007: 1). Lewis argued that "the recent Banco Compartamos IPO in Mexico raises a red flag, demonstrating how easily well-intentioned MFIs and their investors can shift from micro lending to microloan-sharking" (2008: 55). Both compare Compartamos to moneylenders due to charging extra-high interest rate.

Despite the critique, many large microfinance institutions are holding IPOs. In recent years, institution like BRAC in Bangladesh, Bank Rakyat in Indonesia and SKS in India are the successful examples of lucrative IPOs where the early investors earned enormous returns that were several times more than what they had invested. However, one point here is noteworthy. An IPO is not a simple and easy process that all MFIs can receive the funding in this way. Pursuit of commercial capital requires both high growth and concomitant high profits (Sinha, 2011).

In summary, increased commercialisation of microfinance has opened up doors for new financing sources from the more structured finance to equity financing. These capital market funding sources are becoming important. Microfinance investment vehicles (MIVs) are playing a dominant role. Private and institutional investors appear more and more interested in the microfinance market. Moreover, socially responsible investors who demand social as well as financial returns have started to invest in the sector. However, in order to enter to financial market, mainstream institutions need some criteria and that criterion is rating system, which is discussed in the subsequent section.

2.6.4 Entry requirements to Financial Markets – Rating System

MFIs are involved in different form of funding sources, more formal and structured finance therefore rating has become essential for them. MFIs need to be rated so that they either issue a bond, do securitisations or are involved in MIVs. According to the Deutsch Bank research “ratings constantly gain importance in the investment process as they help to make risk profiles of MFIs comparable across countries and market segments in a standardised manner” (2007: 16).

For securitisations and securities to be successfully traded and sold, they need to be rated so that they can be assessed alongside other investment opportunities. Profits have become central in the attempt to attract commercial finance, typically through the securitisation and bonds issued and sold in the market. Arvelo *et al* (2008) give an exceptional insight into Morgan Stanley’s approach to rating microfinance bonds. They give insight into how a rating is assessed. They identified seven rating factors that are significant to consider assessing institutional risk. These include loan portfolio; profitability, sustainability, operating efficiency; management and strategy; system and reporting; internal/operational and control; Asset/liability management and growth potential (Arvelo *et al,* 2008).

They argue that, as loans are the main assets of the microfinance institutions, therefore thorough analysis of the MFI's loan portfolio is crucial. Quality of the loan portfolio is examined through a number of indicators; however, particular focus is given on the following four: portfolio at risk, write-offs, portfolio size, and loan loss reserve. The second important factor is financial viability of MFIs, which they assess with operational self-sufficiency (OSS), Return on Assets (ROA), operating expense to gross loan portfolio and with the productivity ratio of borrower per loan officer. It is also worth noting that, in the rating process, weight is given to each factor based on its importance. Loan portfolio (24%) and performance in financial terms are given the highest weight (23%) in this proprietary weighting process. Thus, this suggests that more important for the rating agency as Morgan Stanley is financial performance and effectiveness of loan portfolio of MFIs.

In the management and strategy factors, rating agency assess the quality of the senior management, board members because this role is particularly important as decisions made by board and management are influential in determining whether an MFI becomes a thriving business or unsuccessful in its early life cycle. In addition, they also look at strategy and business plan of an MFI whether the strategies set by MFIs are clear and achievable or not as strong business plans makes reference to marketing, attract and retain customers, product and geographical expansion. This category of rating process also examines excellence of shareholders (individuals to international financial institutions) and networks (non-profit organisations) as good reputation of these partners can significantly support an MFI's access to both debt and equity financing (Arvelo *et al,* 2008). They also look at robust human resource policy of microfinance institution. Other areas, which they prefer to analyse, are robust systems and accuracy in reports. Quality of management information system (MIS), efficiency in data feeding process at various level of management and quality of reports and distribution are analysed to check effective systems and reporting.

Moreover, to obtain a higher score in the weighting process, MFIs require well-established operational procedures and internal controls. This implies MFI need good and detailed records of documents of procedures, constant monitoring of cash management and procedures for the detection of fraud. The rating system also examined asset and liability management to examine potential financial risk. For this purpose, they analysed MFI's leverage, exposure to foreign currency and liquidity. The final factor in the rating system is to check growth potential of MFI in a particular country. For instance, a country's regulatory restriction and political climate can effect significantly on an MFI's business.

Thus, all factors mentioned above are significant for the rating agencies, but efficient loan portfolio, profitability and sustainability are a prerequisite to enter into the financial market. Therefore, the higher score MFIs have, the more funding they will obtain from investors. This suggests that with increased commercialisation, more important things are how much profit they are earning and more number of borrowers instead of any social goals. As no weight is given to social goals such as how much poor borrowers MFI serve. This is largely to attract commercial investors who do not need social ratings. Rating agencies such as MicroRate do include social goals and social commitment of MFI in the rating process. However, only social responsible investors and donors require social goals, therefore in order to attract commercial borrowing MFIs need rating agencies such as Standard and Poor or Moody's.

As mentioned above, several larger institutions are involved in the process of issuance of CDOs or securitisation. These MFIs such as Compartamos, Mexico and SKS, India have been strongly rated by specialised International rating agencies such as Fitch Rating or Standard and Poor. For instance, Compartamos bond issued in Mexico in 2002 raised US$20.5 million. The institution used Standard and Poor's (S & P) to rate its bond. The agency gave high marks to this firm due to its operational history, higher profitability and experience in the business (Conger, 2003).

Similarly, in Pakistan MFBs are becoming more commercial and highly rated. For instance, Tameer Microfinance Bank, the first private commercial microfinance bank in Pakistan is employing commercial borrowing. In the beginning of 2013, the bank issued two Term Finance Certificates (TFCs) with different maturity period and raised Rs. 500 million. The CEO of the bank reported to a newspaper that, TFCs are issued to attract retail investors and the response from investors has been overwhelming, as 90% of subscribers are retail investors (The Express Tribune, 2013).

Moreover, bank recently assigned a good credit rating from an affiliate of JCR VIS (Japan Credit Rating Agency) Credit Rating Company (JCR-VIS, 2013). The rating agency upgraded short term and long-term rating of Tameer MFB. They gave good marks on the basis of good growth in deposit base, effective portfolio quality (growth in loan book occurred primarily by the gold backed secured product), credit risk is reduced (mainly securing products), revenue stream is relatively diversified and more important profitability indicators of the bank witnessed improvement (JCR-VIS, 2013). Thus, Tameer MFB attracted retail investors and obtained good credit rating based on showing good financial performance and lowering their risk by secured products[6]. This suggest that, criteria to asses MFB in Pakistan is similar to credit rating of Morgan Stanley, where the more priority is given to financial performance and other company specific factors but no point is given to achievement of any social goals.

This explains that those MFIs which adopt commercial approach in lending, shows consistent profitability and are sustainable can issue the bonds, do securitisation, and vice versa. In addition to these structured financing sources and equity finance, the emergence of crowdfunding and peer to peer lending (P2P) as alternatives financing sources are notable. In the subsequent section, I will illustrate these new platforms of financing transactions.

2.7 Crowdfunding and Peer to Peer Lending (P2P)

New microenterprises or small businesses require resources to thrive, and one of the

[6] Tameer MFB popular product is emergency loan, which is backed by gold. Micro borrower can get the loan amount any time by giving gold as a security.

most critical of these is funding. Lack of access to capital prompts entrepreneurs to seek alternative financing options. In recent years, crowdfunding has emerged as a unique way of fundraising for entrepreneurial ventures. In crowdfunding, funds are generated from the public (the 'crowd') in order to finance a particular project, usually via the internet. Schwienbacher and Larralde (2010:4) define crowdfunding as "an open call, essentially through the internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes". In simple words, crowdfunding is a method of financing from many individuals for a variety of new for-profit, cultural, or social projects, often in return for future products or equity (Mollick, 2013). Kickstarter, Sellaband, Indiegogo, GoFundMe and RocketHub are examples of websites of crowdfunding.

Crowdfunding is related to microfinance or it would not be wrong to say that crowdfunding draws inspiration from notion of microfinance. As in microfinance, microfinance institution plays the role of intermediary between the poor who need capital to start its microenterprise and lender. Here the lender could be interested in social goals, dual goals commercial and social or purely commercial objectives. Similarly, crowdfunding provides a platform to individual seeking capital and crowdfunders (those who provide funds), facilitated by growing number of internet sites. Individuals with a project raise funds and people who invest have different goals. It could be based on humanitarian basis where the investor expects no direct return from their donations or it might be a lending contract where the lender lends to gain social goals (Mollick, 2013). The third approach is reward based lending for instance a fan receive a CD of an artist who initiated crowdfund like Sellaband.com. Finally, crowd funder could be treated as investor as it is legalised in the US by the Jumpstart Our Business Start-ups Act (JOB Act). Investor gain equity stakes or similar consideration in return for their funding (Mollick, 2013).

Kiva founded in 2005 is the example of crowdfunding, who provide loans to microfinance institutions worldwide. Kiva is a non-profit organisation with a mission to connect people through lending to alleviate poverty (Kiva.com). With the help of the internet Kiva lets individuals lend as little as $25 to help poor around the World. Kiva after receiving money from the 'crowd' lend to worldwide networks of microfinance institutions. Now it depends on investor, to donate that loan to Kiva, fund another loan or withdraw it to spend on something else. Currently Kiva is working with 73 countries and has more than $49 million of loans with 99.9% recovery rate (Kiva.com). This suggests that organisations like Kiva could be a better alternative financing choice for microfinance institutions to raise funds.

In addition to crowdfunding, Peer to Peer (P2P) lending has also appeared as a new financing method that bypasses conventional intermediaries such as banks by directly connecting borrowers and lenders. This new mode of financing was also created on the basis of microcredit principles (Magee, 2011) i.e. to offer loans to people in case of microfinance poor without collateral. Purpose behind the creation of P2P lending or benefit of P2P is that borrowers can get rates at a lower rate without collateral, whereas investors can earn better return on their investment (Magee, 2011). This illustrates that P2P lending technique cut out the intermediary role – banks – and offer opportunity to customers to lend money directly and obtain a higher rate. P2P lending has rapidly grown in recent years and as of March, 2008, over US$500 million in loans originated from over twenty P2P lenders worldwide (Ashta and Assadi, 2010a; Yum, Lee and Chae, 2012). Zopa.com, Lending Club, and Prosper.com are the examples of online P2P lending platforms. They do market making, loan processing, enabling investment strategy, and community building activities (Wang, Greiner and Aronson, 2009). According to Renton (2012), combined lending volume of Lending Club, and Prosper.com exceeded US$50 million in February 2012, and represents a more than 100% annual growth rate.

With benefits of P2P lending platforms, there are some countervailing risks, which this method experienced. For example, there is an inherent risk of default on loans made via the online platform to strangers without security (Yum, Lee and Chae, 2012). Moreover, in the online P2P market, the traditional role of examining and screening to determine whether borrowers are trustworthy is left to individual lenders rather than financial institutions (Yum, Lee and Chae, 2012: 470). Hence, there is always the chance of misrepresentation for borrowers in terms of their creditworthiness. On the other side in microfinance, group-lending method, which is based on social ties and networks, is used to monitor the loans and to overcome adverse selection in the lending practices (see more detail in Chapter Four). In order to overcome risk of information asymmetry, online P2P platforms build artificial social relationship. Research studies show that social networking build on the online market has helped to overcome information asymmetries between borrowers and lenders (Freedman and Jin, 2008, Greiner, 2007).

In spite of some of its disadvantages, online platforms such as Crowdfunding and Peer to Peer lending are growing and attracting many individuals to invest, borrow and receive returns. Thus, these online new lending markets could be utilised as an alternative funding channel in microfinance to overcome scarcity of finance what the industry is facing and to reach millions of microfinance consumers to built a new venture or grow their businesses. However, it is still too early to tell as to whether P2P and crowdfunding will face the same risks of mission drift or not.

In the following section, I will explain how commercialisation of microfinance is effecting institution and micro borrower. As heavy foreign capital is coming to microfinance, and microfinance is becoming more commercial, it is important to discuss practical accounts of microfinance. Further to this, I will give a review of the literature on different empirical evidence from researchers.

2.8 Commercialisation of Microfinance in Practice

Microfinance has expanded tremendously over the last decade as, microfinance institutions increased and served millions of micro-borrowers worldwide. It started with a simple idea to provide credit to entrepreneurs but today microfinance is a far dynamic sector that provides savings, remittances, insurance and more recently pensions for their clients. There are many success stories of microfinance so far, as mentioned in the earlier section. Microfinance received widespread international recognition as a poverty reduction tool. Many countries promoted microfinance as a tool to reduce the financial inclusion gap. United Nations Capital Development Fund

(UNCDF) regards microfinance, as "Microfinance is one of the practical development strategies and approaches that should be implemented and supported to attain the bold ambition of reducing world poverty by half" (2005: 5). UN celebrated success of microfinance and its importance as poverty reduction tool, thus declared 2005 as 'The International Year of Microcredit'.

Evolution of commercialisation of microfinance was a major development of microfinance. Donors and investors realised the potential of microfinance both social and financial terms, thus, directed huge flow of funds towards microfinance. Chen, Rasmussen and Reile argue that an increase in commercial funding to the sector enabled microfinance to grow well beyond what could have been possible with just donor and government support (2010: 1). Thus, microfinance and commercialisation are both considered as positive economic development.

One of the arguments that were made in support of commercialisation of microfinance was that commercial microfinance is necessary for the profitability and larger outreach. However, in practice, only 3 to 5 percent MFIs have achieved full financial sustainability, whereas about 10,000 MFIs are operating in the world (Allen, 2007). Tucker and Miles (2004) while examining financial performance of MFIs achieved similar kinds of results. They suggested that only few MFIs have reached financial self-sufficiency. Moreover, these small percentages of sustainable MFIs are mostly large in scale. Allen (2007) notes that, more than 80 percent of clients received microfinance services from fewer than 10 percent of the largest MFIs. In relation to this, Cull, Demirgüç-Kunt, Morduch (2009a) notes that about 10 million just top 20 MFIs in the world holds most of the borrowers. This suggest that commercialisation of microfinance has segmented the microfinance sector between many small community based organisation alongside some very large organisations with largest outreach.

The figures above indicate that few MFIs are profitable, hold the largest assets and serve larger markets. On the other hand, most of the microfinance institutions work as NGOs, serve a small number of people who are poor, and are not profitable. This suggests that, commercialisation of microfinance may increase the availability of funds, and in turn improve profitability and outreach. However, these benefits are for the few MFIs among many small scales, less profitable MFIs. In the following sub section, I will explain how commercialisation of microfinance has affected the microfinance sector.

2.8.1 Commercialisation, Competition and Microfinance Crisis

As mentioned earlier, in order to increase funding, huge foreign investment was injected with more structured financing sources of commercial finance and equity finance. A possible disadvantage of increased involvement of commercialised, regulated MFIs is that they have created intense competition for the traditional small non for-profit NGOs. Christen (2001: 21) argued, "commercialisation and competition go hand in hand, one spurring the other". Increase competition may bring potential benefits for the MFIs such as increased efficiency and self-sufficiency. However, it may reduce the possibility of lending to the poorest clients. Furthermore, increased competition and growing supply of loans may result in higher levels of indebtedness of micro borrowers as they may take multiple loans from different sources at the same time (Lensink, 2011). Increased commercialisation that led over supply of loan and intense competition created many crises in different parts of the world.

The first crisis of microfinance occurred in Bolivia – the pioneer of commercialisation of microfinance. In order to ensure profitability, microfinance institutions in Bolivia started aggressive lending (less monitoring of loans) to micro borrowers and concentrated more on high profit consumer loans. This boosted the competition between the MFIs, in turn certain areas largely saturated. Clients took advantage of the offer of quick and easy loan from the multiple lenders; therefore, they started taking loans from more than one microfinance institutions (Rhyne, 2001). Clients borrowed multiple loans, sometimes they took loans to pay off the previous one. Many clients stopped repayments due to higher debt levels. This resulted in the problem of over-indebtedness of clients and by the end of 2000; the entire financial sector of Bolivia was plunged into an economic crisis (Rhyne, 2001).

Due to the crisis, MFIs loan portfolio and profitability declined and lost considerable number of clients. Between 1999 and 2000, BancoSol and Prodem, the two largest MFIs in Bolivia lost 25% and 45% of their clients respectively (Bateman, 2010). Thus, Bolivia microfinance sector was severely hit by the crisis due to increased competition or massive supply of microfinance. Vogelgesang (2003) examined a Bolivian MFI Caja Los Andes at the time of crisis between 1996 and 2000. In particular, he analysed the effects of the rapidly growing supply of microfinance, the increasing competition and rising level of over indebtedness among micro entrepreneurs. He found that rising competition and over supply of loans increased higher level of indebtedness of clients that created repayments problems. Interestingly, his results showed that clients paid timely repayments in higher competition areas, which he attributed to the strongly enforced repayment.

This suggests that higher competition created problems for the clients but enforced collection methods significantly contributes to higher repayments. Bolivian microfinance has recovered from the crisis and is showing good growth and outreach (Gonzalez-Vega and Villafani-Ibarnegaray, 2011). However, practices and the norms of oversupply of microloans are still prevailing in other parts of the world. Intense competition, huge inflow of foreign capital and lack of management of MFIs has led to a more severe crisis recently in India, Morocco, Nicaragua, Bosnia-Herzegovina and Pakistan.

Before 2008, the microfinance sector of Morocco, Nicaragua, Bosnia-Herzegovina and Pakistan was showing exceptional growth. MFIs maintained good portfolio quality, stable profitability and expanded in outreach (Chen, Rasmussen and Reille, 2010). However, suddenly delinquency crises occurred in all four countries in 2008 – 2009. Causes of the crisis in all these countries were somewhat similar. Increased commercialisation of microfinance pushed MFIs to achieve profit. In order to achieve this objective, MFIs started more aggressive lending and concentrated in certain regions. MFIs in these countries created short cuts and granted loans without proper monitoring and assessment. In turn, micro borrowers' debt burden boosted and as a result, they stopped repayment of loans. Due to low repayments, MFIs in these countries suffered from huge financial loses, outreach and loan portfolio.

Reille, Forster, and Rozas (2011) regard heavy foreign debt dependency as the major cause of the crises. For instance, some of the MFIs in Bosnia-Herzegovina stated that the entry of foreign commercial investment intensified the profit motivation in the sector; therefore, they became more focused on volume of lending rather than more responsible lending (Reille, Forster, and Rozas, 2011). It is worth noting that Bosnia-Herzegovina is the second largest recipients of foreign investment. Heavy commercial foreign investment pushed MFIs to show more profitability and in turn plunged the MFIs into delinquency crises.

Moreover, not only are these specific countries affecting from the oversupply of microfinance, but many top 25 MFIs are also the victim of negative growth. For instance, ten of the top 25 MFIs have shown more than 10 percent portfolio at risk (PAR) greater than 30 days and write-off ratios (Reille, Forster, and Rozas, 2011). This suggests that heavy foreign debt investment, competition and profitability objective negatively affected microfinance growth of these countries. According to the Microfinance Banana Skin[7] recent survey report, over-indebtedness among microfinance borrowers is the top and pressing risk of the microfinance industry (Lascelles and Mendelson, 2012).

[7] Microfinance Banana Skins 2012 describes the risks facing the microfinance industry as seen by an international sample of practitioners, investors, regulators and observers. The report is the publication of Centre for the Study of Financial Innovation (CSFI).

The microfinance crisis in India was more severe. Unable to repay loans and in order to keeps their family honour, more than two hundred micro borrowers committed suicide in the State of Andhra Pradesh (Sharma, 2006). Important causes of the crisis were multiple lending, coercive recovery practices, over-indebtedness of micro borrowers and unseemly enrichment by prompters and senior executives of microfinance institutions (Biswas, 2010). Clients took loans from more than three or four MFIs beyond their repayment capability therefore, they took extreme action – suicide.

In addition, higher foreign investment, uneven distribution of MFIs in certain states and high saturation led to the problem of over indebtedness of clients. Consequently, the government raided and closed down nearly all the branches of microfinance institutions in State of Andhra Pradesh, India (Ghate, 2007). The authorities criticised MFIs on the grounds of usurious interest rates and unethical or forced recovery practices (Hudon, 2007). Indian crises highly criticised by the media, government of India and in academics. For instance, Gokhale (2009) states that Indian households are being "carpet bombed" by loans, which is leading to extreme over-indebtedness. Some argue that microfinance is the 'new subprime', which is riveting the world with stories of loan-shark-style micro financiers driving borrowers to suicide (Kiviat and Morduch, 2010). Thus, the crisis of microfinance in several countries has raised questions about growing development of commercialisation of microfinance that led increased competition.

There are various impact studies, which have highlighted the growing trend of competition (e.g. McIntosh, de Janvry and Sadoulet, 2005; Cull, Demirgüç-Kunt, Morduch, 2011; Vogelgesang, 2003; Krishnaswamy, 2007) or examined the multi borrowing (e.g. Faruqee and Khalily, 2011; Burki, 2010). McIntosh, de Janvry and Sadoulet (2005) analysed the impact of entrance of more commercialised MFIs on clients' behaviours in Uganda. For this purpose, they employed the data of largest MFI of the country between 1998 and 2002. They concluded that growing competition due to commercialisation of microfinance does not lead to an increase in client dropout rate. However, it induces a decline in repayment performance and multiple borrowing in clients. They also found that increased competition between MFIs could hinder a MFI's ability to cross subsidise between poor and less poor borrowers.

In relation to this, Krishnaswamy (2007) examined the impact of increased competition and extent of multiple borrowing in India. The study concluded that competition has positive as well as negative impacts. Positive includes good repayment performance in intense competition as most MFIs suggest that they carry out good risk management, screening and monitoring. On the other hand, the study also demonstrated that increased competition in Indian MFIs has led to concerns about unethical competitive practices. For instance, aggressive lending by MFIs without proper client monitoring that resulted increases multiple borrowing among the clients and rise over indebtedness.

Thus, commercialisation of microfinance started with the same objective of free market and financial liberalisation as the developing countries followed – Neoliberalism. However, the consequences of commercialisation of microfinance are also not much different from those low-income countries where gap between the rich and poor increases. As I mentioned earlier, with increased mainstreaming microfinance,

microfinance sector in different countries plunged into crisis due to increase inflow of foreign investment and growing focus on profitability and self-sufficiency that led intense competition. Empirical studies show that intense competition due to increased commercialisation of microfinance has negatively affected the microfinance sector. These studies reveal that in the time of more competition, loan recovery rates are high due to enforced repayments. In addition, wealthier borrowers are likely to benefit from increasing competition among MFIs, while the poor borrowers receive less welfare services. In the following section, I will discuss the recent literature of commercialisation of microfinance.

2.8.2 Commercialisation and the Mission of Microfinance

With the commercialisation of microfinance, a rigorous discussion started among the researchers regarding its consequences. Such debate tends to focuses on different aspects. For instance, one important aspect of the debate concerns the achievement of the mission of microfinance – poverty alleviation. As I mentioned above, one camp in support of commercialisation argued that it is possible to achieve poverty reduction and financial sustainability at the same time. However, those on the opposite end – Welfarists, argue that there is clearly a conflict between commercial and development aspirations. Therefore, adopting a commercial approach means MFIs increasingly cater to customers who are better off than their original customers, a process called "mission drift". This shift of mission is often measured using the proxy of average loan size, where lower average loan size indicate reaching to more poor people, and higher means fewer wealthier borrowers (see Bhatt and Tang, 2001; Schreiner, 2002). Moreover, lending to fewer women borrowers is also used as indicator of deviating away from the original mission (Mersland and Strøm, 2010). In spite of increased commercialisation of microfinance, literature on the impact of commercialisation of microfinance is not extensive. A few studies have evaluated this in much detail (Cull, Demirgüç-Kunt, Morduch, 2009a; Christen, 2000; Olivares-Polanco; 2005; Hoque, *et al*, 2011).

Various studies addresses diverse topics related to the commercialisation of microfinance. For example, they tend to focus on: the trade- off between outreach and sustainability (Ayayi and Sene, 2010; Cull, Demirgüç-Kunt and Morduch, 2007; Mersland and Strøm, 2010; Makame and Murinde, 2007; Hermes, Lensink, and Meesters, 2011; Dehejia *et al*, 2008), the trade-off between risk, return and outreach in relation to social investors (Galema and Lensink, 2011), and subsidies and sustainability (Nawaz, 2010; Hudon and Traça, 2011). Several have examined mission drift (Hishigsuren, 2007; Copestake 2007; Armendáriz and Szafarz 2011; Mersland and Strøm, 2010), MFI ownership structure and performance (Mersland and Strøm, 2008), impact of micro credit in relation to commercial MFIs (Karlan and Zaman, 2010; 2009), and regulation and financial performance (Hartarska and Nadolnyak, 2007; Mersland and Strøm, 2009; Cull, Demirgüç-Kunt, Morduch, 2011). I will discuss those studies here that have evaluated commercial microfinance in more detail. Literature regarding trade-offs between sustainability and outreach or outreach and efficiency will be discussed in more detail in Chapter Seven.

Cull, Demirgüç-Kunt, Morduch (2009a) explores the impact of commercialisation of microfinance. They use a large dataset of 346 microfinance institutions that serve nearly 18 million active borrowers. They compared different types of MFIs in which

NGOs comprises 45 percent of the sample, microfinance banks and non-bank financial institutions (NBFIs) 10 percent and 30 percent respectively. They found that NGOs holds 21 percent of assets reach a higher number of borrowers (50% of dataset) and serve three quarter of female borrowers. Microfinance banks have 21 percent of the assets, claim 25 percent of the total borrowers in which serve only 6 percent of the women borrowers. Overall, they concluded that commercial microfinance banks are more likely to have for profit status, are involve in individual lending methods, lend larger loans, serve fewer women clients, higher cost per borrowers, and shows greater profitability. On the other hand, NGOs with non for profit status employ group lending method, gives smaller loans, more focused on women, employ subsidies more heavily, facing higher cost per dollar lent and are less profitable. This suggest that regardless of growing commercialisation of microfinance, NGOs still serving the largest number of borrowers and reaching more poorest borrowers, while microfinance, commercial banks serve less poorer borrowers. This implies that mission drift occurs when MFIs move towards commercialisation.

Christen (2000) studied commercialisation and mission drift of Latin American MFIs at the time of the crisis. He examined different aspects related to commercialisation such as profitability, competition, market penetration. He concluded that the commercial approach of microfinance appears to dominate in Latin America; it reflects a high level of profitability but also shows increasing competitive environment, and in some places market saturation. In addition, he found that commercial, regulated MFIs has shifted from group lending to individual lending and provides larger loans than unregulated NGOs which he argued could support the argument of mission drift of microfinance.

However, he also defended larger loans sizes of commercial MFIs as it could simply be the function of different factors, such as choice of strategy or period of entry to the market.

Karlan and Zaman (2009) conducted a study to measure the impact of credit access on borrower's businesses. They used first randomised trial and then several follow-up surveys to measure the impact of microfinance on households and their businesses. Data was collected from a for profit microfinance bank located in Manila. Their study concludes that expanding access to credit only increases profits for male but not for female micro entrepreneurs. They also found that increased access to credit does not improve the welfare of clients, and their well-being slightly decreased.

Pavlović and Stoyanov's (2011) study explained the meltdown of microfinance in Bosnia and Herzegovina. They noted that commercialisation and privatisation of MFIs negatively affected the microfinance sector. They further said, microfinance programmes left no positive impact on clients and made the situation worse, as unemployment stood at the same level for the last 10 years. Nawaz (2010) also examined the mission drift phenomenon in his study on subsidies and efficiency. By using dataset of 179 MFIs operating worldwide, he supported evidence of mission drift. He noted that due to the commercialisation of microfinance, investors are increasingly directing their funds to those MFIs that serve the relatively less poor or well-off clients who can afford to pay back larger loans. In addition, his findings also show that beneficiaries of larger loans are predominantly male borrowers rather than the women borrowers who require relatively small loans.

Some are even more sceptical about commercialisation of microfinance, notably Bateman (2010). He called commercialisation of microfinance as the 'the death of microfinance' because it has accelerated the negative impact of microfinance (2010: 112). After examining the Indian crises, Augsburg and Fouillet called commercialisation of microfinance as 'profit empowerment' (2010: 327). In their paper, they raise caution against the consequences of the overwhelming drive for microfinance institutions to become financially self-sustainable, where more often international organizations pushed MFIs into this. They argue that such a push can have severe consequences, ranging from mission drift to questionable practices employed by institutions. Thus, the above studies suggest negative consequences of commercialisation of microfinance and existence of mission drift where commercial MFIs lend larger loans to better off clients rather than poor borrowers. Furthermore, these studies suggest that profit based MFIs lend more loans to male borrowers than to women, which implies mission drift.

On the other hand, some studies examined the claim of mission drift and found no deviation in mission of MFIs (e.g. Ghosh and Tassel, 2008; Hishigsuren, 2007; Mersland and Strøm, 2010; Cull, Demirgüç-Kunt and Morduch, 2007). For instance, Mersland and Strøm (2010) investigated mission drift using average loan size as a main proxy and the MFIs lending methodology, main market, and gender bias as further mission drift measures. They utilize a large data set of 379 MFIs of various countries, spanning 11 years (1998 – 2008), and panel data methods. They found that the average loan size has not increased in the industry as a whole, nor is there a tendency towards more individual loans or a higher proportion of lending to urban costumers. They suggest that “[r]ather than concentrating on MFIs ‘‘commercialisation,” attention should be focused on how to reduce costs per client” (2010; 35).

Similarly, Hishigsuren (2007) empirically investigated the scaling-up process in microfinance organization and its effect on their poverty alleviation mission. He used a case study methodology and used Activists for Social Alternatives (ASA), a microfinance organisation that serve rural women in India. He employed mix methodology where he surveyed 420 clients and conducted 20 interviews with practitioners. His results indicate that ASA as a case of MFI has not drifted from its poverty alleviation mission significantly when the drift is measured in terms of depth, quality, and scope of outreach. In addition, he also notes that ASA has not reduced or cut down the variety of financial and nonfinancial services.

Cull, Demirgüç-Kunt and Morduch (2007) also examined mission drift aspect. They found that smaller, financially self-sustaining lenders show smaller average loan sizes and lend more to women, which suggest that “pursuit of profit and outreach to the poor can go hand in hand” (Cull, Demirgüç-Kunt and Morduch, 2007: 131). However, they also illustrated that larger individual-based lenders tend to extend larger loans and lend less frequently to women. While this is not evidence of mission drift in strict sense, they argued. They defended their argument as follows; when clients become mature and develop their businesses their loan sizes should increase and their incomes should rise (Cull, Demirgüç-Kunt and Morduch, 2007). This is called progressive lending where MFI examine good repayments record of client lend larger loans (Armendáriz and Szafarz, 2009). Moreover, Armendáriz and Szafarz (2009) notes that mission drift also does not happen when MFIs carry out cross-subsidisation. Cross-subsidisation means giving larger loans to unbanked wealthier clients in order to finance a larger number of poor clients whose average loan size is relatively small (Armendáriz and Szafarz, 2009). Mission drift take place when MFI increases their loan size by crowding out by less poor clients. Thus, Cull, Demirgüç-Kunt and Morduch (2007) does not regard mission drift when old and larger MFIs loan sizes increases. This is also interesting to note that, the same authors when studied the commercialisation aspect with larger dataset noted mission drift when MFIs move towards commercialisation (Cull, Demirgüç-Kunt, Morduch, 2009a). This suggests that phenomenon of mission drift depend on how exactly it is interpreted.

Thus, the commercialisation of microfinance has clearly created serious debate among microfinance practitioners and researchers. Some point to positive effects of this new wave model, on the other hand, some are much more sceptical. The main problem, despite the increase in the commercialisation of microfinance, few examined this aspect in close detail. Few recent studies are available which I discussed above, but many examined commercialisation of microfinance in various angles. Therefore, further research is needed before the commercialisation of microfinance can be validated (Lensink, 2011).

2.9 Summary

This chapter explored issues around microfinance and the commercialisation of microfinance. The studies discussed above serve to present to the reader, the various nuances associated with development of mainstreaming microfinance. For example, microfinance that was primarily dependant on donor and subsidised funding entered to world financial markets. MFIs started relying on new and more structured financing options to enhance the outreach and institutions sustainability. In addition, commercial investors started investing due to low risk and high returns microfinance market. MFIs move towards profitability, self-sufficiency and efficiency of institutions after adopting a mainstream microfinance model. Hence, the microfinance sector saw a huge growth in the number of MFIs and clients.

However, it became clear from reviewing the literature that after adopting commercial objectives, MFIs started aggressive lending, less monitoring of loans and employed enforced repayments methods to increase repayments. Further, the intense competition, multiple borrowing, over-indebtedness of clients and the microfinance crises in different countries is also evident in the literature. A review of literature on mission drift suggest mix results, as some proved that more commercial focused MFIs are less likely to lend to the poor, women, and provide larger loans which proved mission drift, but some noted no drift in mission. Moreover, microfinance and commercialisation of microfinance literature suggests that the stated primary social goals of microfinance, namely poverty reduction and women's empowerment are partly being met. Furthermore, the Neoliberal model and commercialisation of microfinance suggest that adopting these policies means gaining access to the world capital markets and increase in foreign direct investment. However, drawbacks appeared in the form of crisis in developing countries, crisis in microfinance market and less welfare for the poor people. Thus, the literature suggests state interventions are important and necessary to reduce poverty over the long run. This study is related to Pakistan; therefore it is better to provide the context of Pakistan, which is discussed in the following chapter.

Chapter Three: Pakistan – An Overview

3.1 Introduction

The previous chapter provided an account of the development of commercialisation microfinance. I explained the literature of microfinance, how it has helped millions of poor and in achieving poverty reduction goals. Moreover, I drew the critics of microfinance and the practical issues with it. As this study concentrates on commercialisation of microfinance in Pakistan, therefore it is important to shed light on the context of Pakistan. The context is essential because Pakistan may be an unfamiliar country to many readers; therefore it is necessary to give a brief account of Pakistani history, culture and daily life. Thus, aim of the chapter is to provide overview of demographics, economic, socio economic and microfinance of Pakistan.

The remainder of the chapter proceeds as follows; the first section introduces the overview of Pakistan e.g. its geographical location, history, religion and provinces. In the following section, I will define the lifestyle and culture in Pakistan. In the third section, I will briefly shed light on the major economic problems that are affecting people's life, poor people in particular. Moreover, the type of poor people, and the level of poverty in Pakistan will be focus of discussion in section four. Due to the development of microfinance in different parts of the world, Pakistan has also adopted this model as a poverty reduction tool. Recently, this tool of poverty alleviation has expanded rapidly. Many microfinance institutions, from non-profit, non-government organisations (NGOs) to for profit microfinance banks are operating in Pakistan. Therefore, in the last section of the chapter, I sketch the development of microfinance in Pakistan. In particular, how microfinance developed in Pakistan, how many microfinance institutions are working, and the growing trend of commercialisation of microfinance will be the concentration of discussion in the final section.

3.2 Pakistan: At a glance

Pakistan is located in the South and West Asia region, wedged between central Asia and Indian subcontinent and on the borders of Afghanistan, Iran, China, India and the Arabian Sea. Geographically it occupies a key position. The country is rich in landscape, the north side dominated by high mountain ranges, low laying plains to the east and dry deserts on each side of the plains. The different landscapes have different climates, extremely hot in the plains in summer time while cold in the north but generally, the climate is dry in most of the region. In terms of population, one in every forty human being is Pakistani[8] and it is growing at a 2% per annum (Government of Pakistan, 2012).

Pakistan is officially recognised as 'The Islamic Republic of Pakistan' established in 1947 as a homeland of Muslims. Stephens (1964: 30) called it as 'something very unusual' and 'an exceptional country' because it was set up on ideology, and that doctrine was religion. The country was established for Muslims to fulfil their religious

[8] Estimated population in 2011 – 2012 is 187 million (Government of Pakistan, 2012) which makes it sixth most populous country in the World. Two-third of people around 110 million are under the age of 29 (United States Institute of Peace, 2012).

and cultural duties in a separate state without any discrimination and sectarian violence. However, the country saw severe violence and bloodshed soon after the partition when the Hindus were moving to India and Muslims were shifting to Pakistan. This resettlement of people of India and Pakistan was the largest mass migration in human history where about 10 million people migrated (Bates, 2011). As the region was cut into two borders, newly established governments were incapable of dealing with this large scale migration, therefore, massive riots and local level fighting occurred on both sides. Nearly one million people died during the partition (Bates, 2011). Thus, people of both countries sacrificed their lives, land, and property for the sake of a sovereign state.

Pakistan emerged on the world map as an Islamic state on 1947. However, centuries ago the high level of civilisation in the Indus Valley helped this region to flourish. Due to its geographical location – standing at the crossroads of South Asia and Central Asia, periodically various invaders and migrant Aryans, Greeks, Arabs, Mongols, and various tribes of Central Asia and Persia and the British settled and assimilated in the into the subcontinent (Abbott, 2010). By the sixth-century, Pakistan had a composite and rich history, however, the advent of Islam in the seventh century left a significant and long lasting influence, and since then the country has remained largely Muslim.

At present, a significant part of the population (97%) in Pakistan is Muslim, and it is the second largest Muslim country. People in Pakistan (Muslims) take guidance from its religion in every matter of life. Islam tends to control daily life. Even the constitution of Pakistan reflects the ideology of Islamic law[9]. There are two principal branches of Islam – Sunni Muslims and Shi'a Muslims. The majority of Pakistan consists of about 77% Sunni Muslims, while the Shias are in minority who consist of 20% (Abbot, 2010). The two communities share fundamental beliefs e.g. Allah is the only creator and Mohammad (PBUH) is the last prophet of Allah. However, there are many differences in ritual, law, in doctrine, and even places of worships are separate. Apart from these differences, fundamental values of religion unite every Pakistani. Pakistan is also residence of a small number of Hindus, Christians, Sikhs and other religions. The white portion of the Pakistani flag represents minorities in the country. The minority group is not confined to merely one part of the country, but resides in different provinces of Pakistan.

There are four provinces in Pakistan: Punjab, Sind, Baluchistan and Khyber Pakhtunkhwa previously known as the North West Frontier Province (NWFP). The capital of Pakistan is Islamabad that is a separate federal territory. There are two autonomous territories Azad Jammu and Kashmir (AJ&K) and Gilgit Baltistan. Group of federally administered tribal areas are also a part of Pakistan. Punjab is the most populated province of the country. Among the four provinces, about 56% of the people live in Punjab, 24% in Sindh, 15% in Khyber Pakhtunkhwa and 5% in Baluchistan

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9 The constitution of Pakistan of 1973 explicitly incorporates Islam as a state religion. The constitution of Pakistan states: "Wherein the principles of democracy, freedom, equality, tolerance and social justice as enunciated by Islam shall be fully observed. Wherein the Muslims shall be enabled to order their lives in the individual and collective spheres in accordance with the teachings and requirements of Islam as set out in the Holy Quran and the Sunnah" (2010: 2).

(Pakistan Bureau of Statistics, 2009). Baluchistan has a very small population but it is the largest province.

Pakistan is rich in languages. Around 80 languages are spoken in Pakistan that gives an idea of the culture diversity within the country (Abbot, 2010). English is used as the administrative official language. The national language is Urdu, however a small percentage of people speak Urdu as their first language or as a mother tongue. People who speak Urdu as their first language are mostly 'Mohajir' (immigrants) who migrated from India after partition in 1947. Most of the people speak their mother tongue as their local language. Widely spoken regional/local languages in Pakistan are Punjabi, Sindhi, Pashto, Balochi, Saraiki and many more. Thus, the culture of Pakistan is reflected in multiple languages spoken throughout Pakistan and religion guides them in various aspect of life.

3.3 Typical life in Pakistan

Even though Pakistani shares the same religion – Islam, but their way of life differs in many ways. There are significant differences in the lifestyle and living mode of people who live in cities and villages. In the large cities such as Karachi and Islamabad, the privilege and middle class more or less have more modern standard of living, large houses equipped with modern household facilities. Due to global technological influences and trends in consumption, western influences are visible in the style of their clothing, the music they listen and they food they eat (Malik, 2006). For instance, the food chains of McDonalds, Dominos, Pizza Hut and the plethora of internationally branded stores show changing lifestyle of people in urban areas. In the large cities, there are less gender differences. Men and women both work together in diverse organisations such as medicine, law, teaching and business. Many women are members of the National Assembly. This shows women freedom and liberal view of the modern society of Pakistan.

However, despite some ultra modern lifestyles and liberal views, typical society remains traditionally family oriented and religious. Family play a significant role in the social life of a Pakistani. The majority of people live together in an extended family system, which include grandparents, parents and children. The man is generally considered as the breadwinner and is responsible for taking care of his family financially, while women have a traditional role in the household, taking care of family and housework. Mostly women spend their time at home and in public places, they practice *purdah*[10]. The culture of Pakistan is traditionally patriarchal, where the patriarch (father, husband, or elder brother) has authority over other family members. The patriarch makes decisions of every family matter. Women are often not allowed to make decisions such as who to marry, this is carried out by the patriarch.

People live in either urban or rural areas in Pakistan. Urban areas include cities and towns where population density is more, while rural areas consist of villages and tribal areas. The overwhelming population of Pakistan of about 63% lives in rural areas, where people live very simple lives in mud or clay houses. Many of the rural poor are

[10] Literal meaning curtain. *Purdah* means to hide women from men, either it can be to confined women at home or in public places. Women normally cover their selves with the *chadar or Burkah.*

small scale farmers, whose source of income is mainly related to agriculture, farming and livestock. Mainstream rural farmers are not the landowners but they work as labourers without any rights and protection of owners of large landholdings. More than 70% of the farmers own less than two hectares of land (Garcia, Mahmood and Hemme, 2003). About 65% small farmers hold 15% of the farmland and 5% of landowners' possess 64% of the total farmland (Daily Times, 2013) which shows highly unequal distribution of landownership. These 5% landowners belong to the elite class, sometimes referred as '300' extended families (Prosterman and Vhugen, 2012). Moreover, 4.7 million rural families are landless across rural Pakistan (Prosterman and Vhugen, 2012). Landlessness is a significant factor that causes poverty in the country. While examining the causes of rural poverty, Anwar, Qureshi and Ali (2004) found that poverty in Pakistan is strongly correlated with landlessness and these landless households substantially lives in rural areas.

Mostly rural areas and urban slums of cities are deprived of basic necessities of life – safe drinking water, education, health etc. Many villages particularly, Baluchistan, sandy part of Sindh and some parts of other provinces face severe water shortage. In these areas, collecting water is mostly women's responsibility. They spend three to four hours and sometimes more than that just carrying and fetching water for drinking, livestock and other household responsibilities. They carry the water on their heads, as they do not have any vehicles to carry it, this way these women spend considerable amount of time just collecting and taking water home.

Not only is water scarce in many parts, but it is also of poor quality in rural as well as in urban areas. Basic sources of water on which mostly people depend are bore well, tape water and hand pumps. Approximately, more than 35% people lack access to safe drinking water in Pakistan (Jabeen *et al*, 2011). The poor quality of water results in many waterborne diseases in children and adults. Khan and Javed (2007) found that around 30 and 40 percent diseases and deaths respectively are attributed to poor quality of water in Pakistan. Poor people who live in urban slums and rural areas suffer mainly from these diseases.

Rural people are also less educated than those in urban areas, and the literacy rate is much higher for men than for women. Currently, 58% of the adult population is literate which suggests that nearly half of the people do not receive any education. About 45 percent of female adults are educated, compared with 69% of men (Rana, 2012). Though more than half of the rural population is illiterate, female literacy ratio is only 34% (Rana, 2012)[11]. In the rural areas, women are not sent to school because it is commonly believed that women's responsibility is not to earn the money but their duty is to take care of home and the children. In the villages, parents marry their daughter as soon she enters the adolescence, therefore they do not believe on any benefit a girl can give to them. Some illiterate people of tribal areas give justification of religion for keeping the girls at home, which present misleading interpretation of the status of women in Islam (Qureshi and Rarieya, 2007). Islam gives equal priority of education to

[11] Only 57% of the children (age up to 10) enrol in primary school (Government of Pakistan, 2010), however, with fewer than half of them complete grade five (Perry, 2012).

both man and woman. Thus, parents' lack of awareness of the benefits of education keeps their children outside the school boundary.

Moreover, if parents want to educate their children, feudal culture and landlords in those areas does not allow them to send their children to school because educating poor people means giving them awareness of their rights and power. Therefore, they do not let them have an education. More importantly, it is the government's responsibility to increase the literacy rate and initiate some education development programmes. The Ministry of Education of Pakistan believes that, "education is a fundamental human right and every child is entitled to it" (2011, 2). However, despite of such claims government of Pakistan spend less than 2.5 percent of the GDP on education. Moreover, poor management of education, in many places of Pakistan, the school buildings are used as stables and there are thousands of 'ghosts'[12] and non-functional schools in the country.

Besides these rationales, poverty in Pakistan is the major obstacle that prevents poor people from sending their children to school. For financial reasons, poor parents keep their children out of school. These children help their parents in the fields or do labour intensive work. Thus, due to cultural, religious, lack of government spending on education, and more importantly poverty in the country has kept poor far away from this basic right. In the subsequent section, I will explain the current economic situation in the country.

[12] 'Ghost' school are those, which are only in the Government record, but does not exist in reality (www.Dawn.com).

3.4 Pakistan Economy at a Glance

Pakistan has a low-income economy, but more potential of development (The World Bank, 2013). The country has large and diverse resources, blessed with cultivated land and untapped potential of trade. Agriculture accounted for 22% of the GDP, and half of the work force is associated with farming. Major industries of Pakistan include cotton, textile, cement, fertiliser, steel, sugar, electrical goods and shipbuilding. Pakistan is the major exporter of cotton textile goods, rice, leather items, sports goods, fruit and handicrafts. The growing proportion of the working age population provides the country with a potential demographic surplus. In addition, Pakistan's promising potential lies in a number of attributes Lodhi (2011, 2) notes for example,

> [The country] has a significant industrial base, an elaborate infrastructure of roads and communication links, a modern banking system, a large domestic market and a thriving informal economy, pool of professionals and technically trained people, a hardworking labour force, a growing middle class [and] an enterprising business community.

Despite these characteristics, Pakistan has faced major economic problems in the last 10 years. Real Gross Domestic Product (GDP) growth rate stood at 3.4% and GDP per capita was $1372 in 2012 (Government of Pakistan, 2012). Investment within the country in the form of public and private investment has declined largely, and foreign direct investment (FDI) witnessed a contraction of more than 50% within a year (2011 – 2012). Government borrowing from the banking system for budgetary support and commodity operations has also shown 50% growth in one year and external debts has jumped to $65 billion dollars (Government of Pakistan, 2012).

The inflation rate is persisting in the country. In the year (2011 - 2012), inflation rate is in double-digit of 10.8 percent. A person who could buy some fruit or vegetables in Rs. 100 in 2005 cannot buy in Rs. 1000 in 2013. Moreover, more than half of households in Pakistan are food insecure, according to recent National Nutrition Survey. Less job opportunities available to the people and unemployment is rising. Unemployment official rate stood at 6% in 2010 – 2011 however, some argue that the figure is unreliable and the government is concealing actual unemployment figures. Men are more likely to be employed than women are, and employment to population ratio of men is 80% as compared to 22% of women (Pakistan Bureau of Statistics, 2011).

Various rationales have negatively affected Pakistan's economy. For instance, Pakistan's involvement in the 'War on Terror' led violence and unrest situation in the country. Mainly Federally Administered Areas (FATA), Khyber Pakhtunkhwa (KP), Baluchistan and Karachi are facing a volatile security situation and are on the 'hit list' of terrorist attacks and so far, more than 20,000 people have been killed in the last decade (2003 – 2013) (South Asia Terrorism Portal, 2013). Jalal (2011: 8) argued, "Pakistan has become a veritable killing field", where life of human beings has no value.

Furthermore, the credit crunch in 2008 and increasing oil prices are contributing factors that has raised inflation and increased income inequality. Ali *et al* (2012) found a significant relationship and a positive effect of oil prices on food inflation. Apart from these external factors, there are many internal issues, which have worsened the economy. Endemic corruption in the country is substantial obstacle in the economy growth. According to the National Accountability Bureau (NAB) chairperson, Pakistan is losing Rs. 10 - 12 billion on a daily bases due to corruption (Sher, 2013). The government is involved in huge corruption scandals, which has severely destabilises the country financially.

Electricity and Gas outage in the country is another dominant constraint in its growth. For instance, Pakistan textile industry, which is considered as one of the world's largest textile industries, has shifted their manufacturing operations of 40% from Pakistan to Bangladesh (Sharif, 2012). Key reasons of their relocation are rampant shortage of electricity and gas in Pakistan due to which their operations stay shut for long hours each day. More than 200,000 families have been affected directly and indirectly due to job losses after this relocation (Jafri, 2012). This shows that electricity and gas outage in the country not only adversely affected daily life of common Pakistani but also businesses and job market.

In addition, Lodhi (2011: 2) has highlighted some important insights in her book, 'Pakistan: Beyond the Crisis State'. She said

> While Pakistan has had to navigate multiple challenges, it has always been more than an entity that lurches from crisis to crisis. (...) poor governance, rule without law and short-sighted leadership have mired the country in layers of crises that have gravely retarded Pakistan's progress and development.

Indeed, the poor governance, high level of corruption, terrorism etc is among the many factors, which has badly affected the county. In addition, power crisis, high inflation, and food insecurity are the additional factors which made the economy of Pakistan more fragile. Due to this scenario, poverty levels have increased significantly in Pakistan in the last few years.

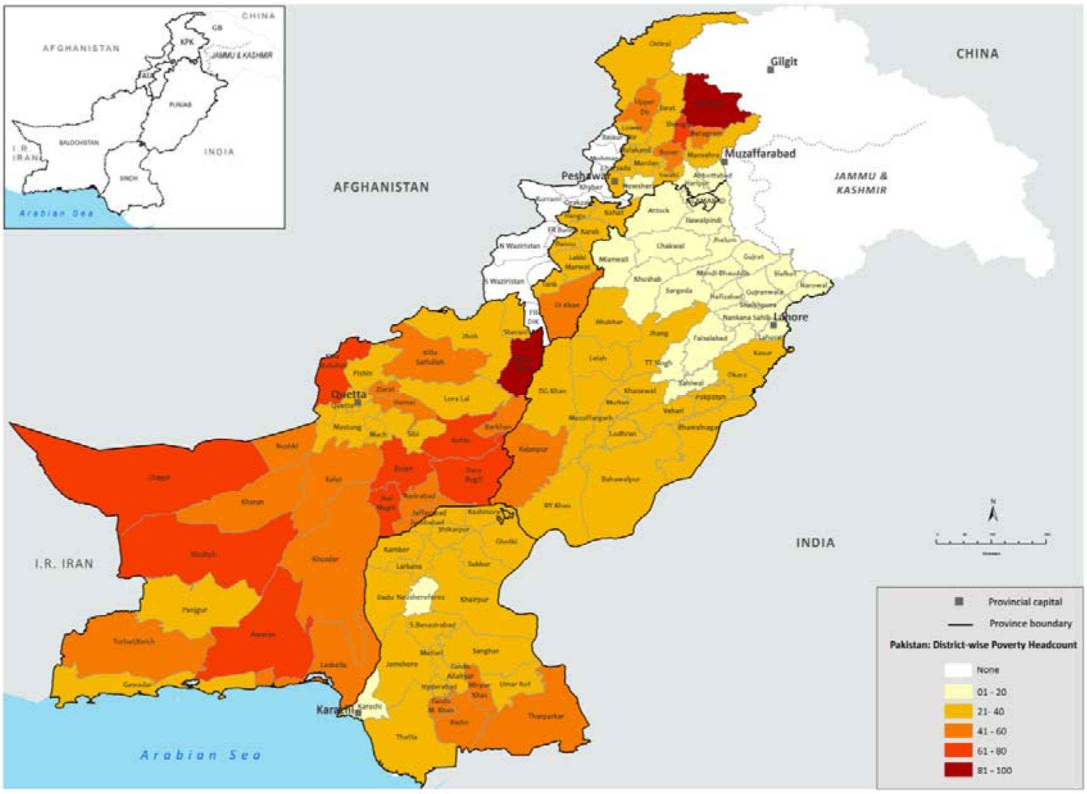
3.5 Poverty in Pakistan

Before presenting the picture of poverty in Pakistan, it is important to define a poor person. According to the World Bank, a person is considered as poor if his or her income level falls below some minimum level necessary to meet basic needs, and this minimum level is usually called the "poverty line". The World Bank has changed this minimum level from $1.08 to $1.25, and people who live on less than $1.25 a day are considered as extremely poor (World Bank Report, 2010).

Pakistan is a poor country, since its independence, poverty is major challenge for the country. However, the poverty level has been raised substantially in recent years. According to official statistics of 2005/2006, 22.3 percent of the country's population lives below the poverty line, 20.5 percent live in vulnerable conditions and only 0.5 percent people live in extreme poverty (Government of Pakistan, 2010). The government of Pakistan has not revealed official poverty statistics since 2008. Nonetheless, poverty is more severe than these figures.

At present, every third Pakistani lives below the poverty line i.e. some 58.7 million out of total population of 180 million (Naveed and Ali, 2012). These results have been shown in a recent study of Sustainable Development Policy Institute[13]. Naveed and Ali, (2012) studied the poverty impact on district and provincial level. They find that poverty is much worse in rural areas where 46% rural households live below the poverty line compared to only 18% of its urban counterparts. Moreover, poverty is not only disparate in rural/urban but it is also unequally distributed across the four provinces (see exhibit 3.1).

Exhibit 3.1 Poverty profile in Pakistan



Source: (Naveed and Ali, 2012), reproduced with permission.

They found the highest incidence of poverty in Baluchistan where more than half of the households (52%) are living under extreme poverty. The poverty level in Khyber Pakhtunkhwa and Sindh is 32% and 33% respectively. However, Punjab is the least

13 Sustainable Development Policy Institute is an independent, nonprofit research institution of sustainable development in Pakistan.

poor province where 19% of the households live below the poverty line. These figures illustrate that poverty is endemic in Pakistan. In particular, Kohistan in Khyber Pakhtunkhwa and Musa Khel in Baluchistan Province are the cities where more than 80% population lives below the poverty line. Thus, poverty is more severe in some parts of Pakistan, rural areas in particular. On the other hand, poverty in some cities and urban areas is less prevalent.

As I mentioned above, most of the people are landlessness and lack necessities of life such as clean drinking water, proper education, health facilities etc. These are the main contributing factors that have led to severe poverty in Pakistan. In addition, recent economic circumstances have had a negative effect on poor households. For instance, according to Asian Development Bank, only ten percent increase in food prices could push 3.5 million more Pakistanis into extreme poverty (Kundi, 2012). Thus, the poor are becoming the poorest due to many of the above-mentioned factors.

Moreover, the poor in Pakistan lack access to financial services, beside other basic needs of life. Larger share of population (40%) is excluded from any form, either formal or informal financial services (Nenova, Niang and Ahmad, 2009). The majority of people (46%) rely on informal financing sources to meet their financing requirement. These informal sources include landlords, moneylenders, Rotating Savings and Credit Associations (ROSCAs)[14], family and friends. The remaining merely 14 percent of

[14] In Pakistan ROSCAs are called committees, where group of people who know each other well, deposit a fixed amount of money in a pool, which is then distributed by rotation to each member on a monthly basis. This is very popular form of informal sources especially among women because it involves no cost. ROSCAs in Pakistan help poor people to meet their savings need.

people are financially served by the formal financial system (Nenova, Niang and Ahmad, 2009).

The formal financial system of Pakistan is comprised of private banks, Islamic banks, public sector banks, foreign banks, microfinance banks, non-bank financial institutions (leasing, housing finance corporations, insurance companies etc.) and the stock exchanges. This formal sector has expanded rapidly in recent years. Major development in the sector came in the 1990s when the structural economic reforms were initiated by the government. These reforms are characterised by the liberalisation and privatisation of public sector enterprises (see detail discussion in Chapter Two). In the banking sector, four out of five large nationalised commercial banks of the country went privatised. Because of these reforms, the market share of the private banking sector has risen significantly.

Since the privatisation of most of the major banks, the banking sector has significantly developed and become financially stronger. Despite their impressive growth, these formal financial institutions give services to the upper and middle class people. These services do not cater for the needs of poor people that comprise of one third of population. As according to Nenova, Niang and Ahmad (2009: xvii), “One third of the population borrows but only 3 percent of them use formal financial institutions to do so while more than half of the population saves, but only 8 percent entrust their money to formal financial institutions”. This illustrates after adopting Neoliberalism policies, the development focus shifted away from large-scale projects e.g. infrastructure to aid mobility or provide clean water or water for irrigation, schools, health centres, etc.

towards more micro-projects. As a result, the larger poor population is far away from the provision of formal financial sector despite of the intervention of financial liberalisation and privatisation of the banking sector in Pakistan.

As I noted above, the majority of the Pakistanis predominately follow Islam. Islamic law '*sharia*' strictly prohibits 'usury' or interest in any form of business of money lending. Many verses of the Quran provide evidence of Islamic thought on charging interest. For instance, "Allah does not bless usury, and He causes charitable deeds to prosper, and Allah does not love any ungrateful sinner" (Al-Quran, 2: 276). However, in spite of its strict prohibition, the banking system in Pakistan is based on interest rate. There are Islamic banks that give Islamic banking services but those are very few. Even microfinance institutions also provide interest based financing to the poor. In the following section, I will explain the context of microfinance in Pakistan in detail.

3.6 Microfinance in Pakistan

Credit programmes such as microfinance in Pakistan can be traced back to the 1960s, when the government initiated subsidised loan for the small farmers. The purpose of these programmes was to provide loans to small farmers on relatively easy terms and low interest rate. In addition, the goal was also to free them from the exorbitant rates offered by local moneylenders. However, formal microfinance programme began in the early 1980s with the launching of the Orangi Pilot Project (OPP). The purpose of the programme was to give financial services to the urban slums of Karachi. In the Northern Areas of Pakistan, the Agha Khan Rural Support Programme (AKRSP) established as a large-scale microfinance project. The AKRSP model was subsequently replicated during the 1990s with the establishment of the National Rural Support Programme (NRSP) and the Sarhad Rural Support Programme. These rural support programmes (RSPs) provided a wide variety of social services such as education, health services, including microcredit services (State Bank of Pakistan, 2001).

Microfinance activities were slow until the late 1990s. However, the sector gained momentum when a number of specialised microfinance institutions were incorporated. In 1996, one of the largest MFIs, Kashf Foundation established as the first specialised microfinance organisation. The Kashf Foundation followed the Grameen Bank model. More development came in 1997 when a group of microfinance practitioners decided to establish an informal platform for the coordination and exchange of ideas. They formed an informal organisation called the Microfinance Group Pakistan, which later evolved into a separate legal entity in 2001 under the name of the Pakistan Microfinance Network (PMN) (PMN, 2013).

The microfinance sector saw a remarkable growth in the start of the twenty-first century. In 2000, an apex-funding organisation for microfinance, named Pakistan Poverty Alleviation Fund (PPAF) was established to provide financial and non-financial support to microfinance the organisation on a subsidised interest rate. This organization now plays the role of financial intermediary between the MFIs and donors. The government also started concentrated efforts for the promotion of the microfinance sector in the year 2000. For instance, the State Bank of Pakistan (SBP) opened a specialised microfinance unit. The purpose was to motivate the development of an inclusive financial system (State Bank of Pakistan, 2001). Further growth was made when the constitution of Microfinance Ordinance came in 2001. Microfinance Ordinance specifies the purpose, capital requirement, ownership structure, term, conditions, and procedures for the establishment, disclosure and winding up for MFIs (Oxford Policy Management, 2006).

The movement of commercialisation of microfinance worldwide, primarily drove the objective of these initiatives where it is believe that microfinance banks can play an important role in the development of microfinance and increasing the outreach of financial services (see detail discussion in Chapter Two). To this effect, first microfinance bank was established in 2001, named Khushhali Bank. The new wave model also affected NGOs. As pioneer NGO Agha Khan Rural Support Programme (AKRSP) transformed into First Microfinance Bank (FMAB) in 2002. This was the first transformation of NGO to a regulated, for profit bank.

Over the last few years, the microfinance sector has grown rapidly. At present, the microfinance sector comprises approximately fifty microfinance organisations of varying sizes and legal structures, serving the Pakistan's poor people in very diverse geographical and social settings (Ahmed, 2011). However, member organisations (registered members) of Pakistan Microfinance Network (PMN) are thirty-one (Pakistan Microfinance Network, 2013). To become registered members of PMN, microfinance institutions have to follow certain pre-requisites such as one year experience, certain number of active borrowers (5,000), timely and accurate disclosure of data for PMN publications etc (PMN, 2008). Therefore, the rest of the microfinance institutions who work on very small-scales and do not fit in their criteria are not registered members of PMN.

Microfinance Providers (MFPs) in Pakistan can be categorised into three groups, Microfinance Banks (MFBs), Microfinance Institutions (MFIs) and Rural Support Programme (RSPs) (see table 3.1).

Table 3. 1 Description of Microfinance Providers of Pakistan

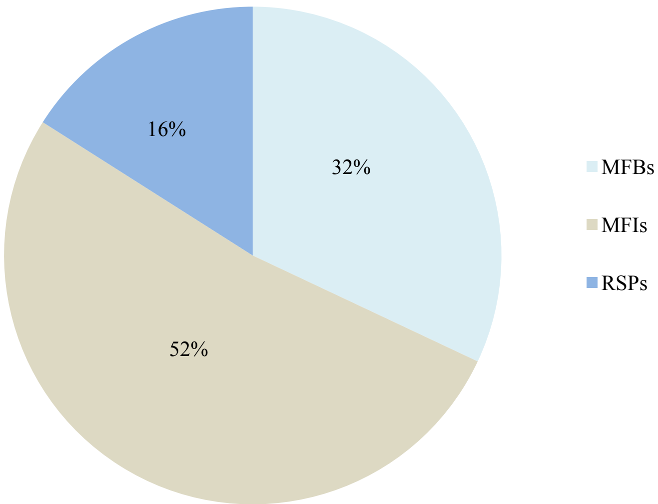
Name	Description
MFBs	MFBs are licensed and prudentially regulated by the state bank of Pakistan (SBP) to exclusively provide services to microfinance sector. These banks are licensed under the Microfinance Institutions Ordinance, 2001.
MFIs	A non-government organization (NGO) that extends microcredit and allied services to the poor through sources than public savings and deposits. Organizations in this group are registered under a variety of regulations, including the Societies Act, Trust Act, and the Companies Ordinance.
RSPs	Rural Support Programmes (RSPs) are NGOs running microfinance operations as part of their integrated rural development programmes. They are registered as a non-profit under section 42 of the Company Ordinance. As a group, the RSPs are registered with and supervised by the Securities and Exchange commission of Pakistan (SECP).

Source: Compiled from Basharat (2011: 9); Microfinance Institution Ordinance (2007: 3)

It is also important to mention that I have used the word MFP above instead of microfinance institution (MFI), which is a commonly use term in the literature of microfinance. For instance, Consultative Group Assist the Poor (CGAP) define the word MFI as an organization that provide financial services to the poor and which includes all range of providers such as NGOs, microfinance banks. Contrary to this, Pakistan Microfinance Network and State Bank of Pakistan define MFIs as NGOs that provide facilities of microcredit and other services such as health, education (see table 3.1). However, they cannot give formal banking services such as deposits. Only microfinance banks can provide these extra services such as deposits. Therefore, these regulatory institutions (PMN and SBP) employ the exclusive term for MFI as Microfinance Providers (MFPs). MFPs include all the institutions who are involved in providing microfinance services such as MFBs, MFIs and RSPs. Thus, I will use the word MFI when I discuss the microfinance literature in general and MFP in context of Pakistan microfinance organization.

Currently, ten MFBs, five RSPs and sixteen MFIs are operating as MFPs (see the exhibit 3.1).

Exhibit 3.2 Distribution of MFPs by Type (2013)



Source: Pakistan Microfinance Network, 2013

MFIs consist of the largest proportion among the sample (52%). MFIs include NGOs specialised MFIs and other organisations such as leasing company and other development institutions. The MFIs group has extended recently with the addition of International NGOs such as ASA-Pak and BRAC-Pak (subsidiary of Bangladesh MFIs).

In addition, Islamic microfinance is also gaining popularity among the micro borrowers, where the MFI lend micro credit without charging interest rate. Besides microcredit, these MFIs are providing Islamic Sharia based products to fulfil the financing as well as religious need of clients. RSPs include one nationwide RSP – National Rural Support Programme, and other four worked at provincial level. RSPs were four until 2011. Recently, the Sindh Rural Support Programme (SRSO) started its operations in 2010. Thus, now five Rural Support Programmes are providing a wide range of financial services to the poor.

In the microfinance-banking sector, two MFBs Khushhali Bank and First Microfinance Bank were the pioneers, as I noted above. Number of MFBs increased when State Bank of Pakistan issued licensed to four new microfinance banks in 2005. These include Tameer Microfinance Bank, Pak Oman Microfinance Bank, Rozgar Bank and Network Microfinance Bank Ltd. Other four microfinance banks have entered the microfinance sector recently these include: Kashf Microfinance Bank, Advans Pakistan Microfinance Bank and Waseela Microfinance Bank (Pakistan Microfinance Network, 2013). Now in total ten microfinance banks are operating in Pakistan.

It is also worth to note that, Kashf Microfinance Bank (KMFB) is the associated company of Kashf Foundation, a leading MFI in Pakistan. Kashf Foundation did not transform their NGO to a bank but it created a separate entity, a KMFB in order to provide diversified range of financial services. In addition, National Rural Support Programme Bank Ltd is the transformation of the largest provider of microfinance services National Rural Support Programme (NRSP). The bank started it operations in

2011. Thus, commercialisation of microfinance is increasing in Pakistan and non-profit organisations are trying to become regulated, microfinance banks.

MFPs are not only transforming but they are also moving towards commercial financing sources. MFBs and few of the MFIs who adopted commercial approach have been successful in tapping financial market (see more detail in Chapter Seven). Moreover, foreign direct investment is coming through acquisition of microfinance bank. For instance, microfinance banking sector pioneer, Khushhali Bank Ltd offered its 67% shares, which United Bank Limited (UBL Pakistan leading private bank) Consortium have acquired in 2012. UBL's Consortium comprising United Bank Limited; Rural Impulse Fund II S.A. SICAV-FIS (represented by Incofin Investment Management Comm.VA), ShoreCap II Limited (represented by Equator Capital Partners LLC), ASN-NOVIB Microkredietfonds (represented by Triple Jump B.V) and Credit Suisse Microfinance Fund Management Company (represented by ResponsAbility Global Microfinance Fund). Further to this, two microfinance banks; Network microfinance bank (new name Apna MFB) and Rozgar microfinance bank have also been acquired by private investors. This suggests a growing trend of commercial investment by the private investors and commercial microfinance. Thus, the above discussion on microfinance serves to present the various developments within the microfinance sector in Pakistan.

3.7 Summary

This chapter has presented the overview of Pakistan. With reference to some of the most important perspective related to Pakistan, my aim was to show a brief history of Pakistan, the languages people speak, and information about the provinces. In this chapter, I draw attention towards how a typical person's life, cultural issues and the problems a person faces. The above discussion suggests that most of the Pakistanis live in rural areas where they lack basic necessities of such as proper education and health. Majority of these rural poor involve in farming but does not hold most of the land. In addition, I explain briefly about the economic situation is Pakistan. As a developing country and with potential to increase many problems such as war and terrorism, high inflation, electricity and gas shortages are badly affecting the economy.

Moreover, figures shows that the poverty level in Pakistan is continuously raising where some parts of Pakistan are poorer than others. A poor person also lacks financial access besides other basic facilities of life. Most of them rely on informal financing sources. Formal financing sources exist but they do not cater for the demands of poor people. Finally, I looked at the microfinance in Pakistan in which I present its brief history and recent developments. The above discussion on microfinance in Pakistan suggests the growing importance of commercial microfinance. Thus, my aim for the current research is to provide an inside-out examination of commercialisation of microfinance in Pakistan – a location that has been ignored and/or dismissed in present research. The majority of research examined different aspect of microfinance such as women empowerment (Salman, 2008; The World Bank, 2012) and the impact of microfinance on poverty reduction in Pakistan (Abbasi, Sarwar and Hussain, 2005; Montgomery, 2006).

However, they seem to ignore the consequences of commercialisation of microfinance. Even global literature is scant on this aspect, except for a few notable exceptions (Cull, Demirgüç-Kunt, Morduch, 2009a; Christen, 2000). In addition, studies related to commercial microfinance largely used quantitative methods. It is interesting to note that this study employed mixed methods, which is mixed of both quantitative and qualitative approaches. The quantification of such constructs provides understanding about a particular aspect, but cannot obtain understanding of the knowledge. Therefore, this study utilises mixed methods in order to provide comprehensive and rich insights into the commercialisation of microfinance in Pakistan. The next chapter presents the methodological design in detail that this research adopted.

Chapter Four: Methodology

4.1 Introduction

The purpose of this chapter is to present and justify the methods chosen for this research. The aim of this study is to investigate the impact of commercialisation of microfinance in Pakistan and to analyse the institutional changes in microfinance institutions in terms of their mission, borrowers, outreach, etc in particular. In order to achieve the aim of the research, mixed method research methodologies are adopted where I used combination of qualitative and quantitative research paradigms, however the larger part of the study is based on data from interviews. Empirical work was conducted for two months (January to March), where I interviewed microfinance practitioners and micro borrowers. Within the quantitative research methods, I used descriptive statistics (in the form of charts) in order to present the quantitative overview of microfinance institutions.

This chapter is organised in the following sections; in the first section 4.2, I discuss mixed methods and the rationale of choosing this research approach. In the second section, I elucidate quantitative research methods in which I critique the sources used for data collection, followed by justification for the range of variables and the process for analysing the data. The third section documents my selection of qualitative research methods. I first justify the use of interviews and focus group interviews in my research, and then I explain the purpose of my sampling, transcription and data analysis. The third section deals with ethical concerns. Finally, this chapter ends with an account of the reflection in the field, in which I reflect my field experience and my role as a researcher in the field.

4.2 Mixed Methods

Mixed methods originate from the work of cultural anthropologists and the fieldwork sociologists (e.g., Hollingshead, 1949; Jahoda, Lazarsfeld, and Zeisel, 1931; Lynd and Lynd, 1929) of the 20th century who blended qualitative and quantitative methods in order to address their research questions (cited in Johnson *et al*, 2007). However, the label 'mixed methods' received formal recognition many years later. Campbell and Fiske (1959) who are considered as the pioneers of mixed method research because they formalised multiple quantitative measures in a single study and referred to this as 'multiple operationalism' (Creswell and Plano Clark 2007; Jonson *et al*. 2007). The idea of Campbell and Fiske (1959) was further extended by Webb, Campbell, Schwartz and Sechrest (1966) and coined the term 'triangulation' in which the combination of methods can be used in order to either validate or strengthen the findings of the underlying phenomenon.

Mixed methods research has developed rapidly in recent years. It is now increasingly used and is an accepted approach among researchers with the passage of time. This third methodological wave that is now known as 'mixed methods' has many names apart from 'multiple operationalism' and 'triangulation'. For example, Thomas (2003) called it blended research, Fielding and Fielding (1986) entitled it as quantitative and qualitative methods. Other labels are integrative research (Johnson and Onwuegbuzie, 2004), multi-method research (Hunter and Brewer, 2003; Morse, 2003), methodological triangulation (Morse, 1991), combine research (Creswell, 1994), mixed research (Johnson, 2006; Johnson and Christensen, 2004), and mixed methodology (Tashakkori and Teddlie, 1998). Creswell (2003) and Tashakkori and Teddlie (2003) named this approach as mixed methods. Writers not only exploit different names but they provide various definitions of mixed method research (e.g. Creswell, 2003; Greene, 2006; Morse, 1991; Patton, 2002). However, Johnson, Onwuegbuzie and Turner provide a comprehensive definition after analysing diverse definitions provided by various key authors (expert in the field of mix method research). They noted:

> Mixed methods research is the type of research in which a researcher or team of researchers combines elements of qualitative and quantitative research approaches (e.g., use of qualitative and quantitative viewpoints, data collection, analysis, inference techniques) for the broad purposes of breadth and depth of understanding and corroboration (2007: 123).

The core to this description of mixed method research is that the combination of both qualitative and quantitative data should take place either in stages or throughout the research process in order to benefit from both methods. Some researchers argue that mixed methods can be a combination within one research paradigm e.g. within qualitative research mixture of method such as ethnography, interviews (see Hunter and Brewer, 2003). However, there is strong consensus among the authors that mixed methods involve combination of both qualitative and quantitative research (Johnson, Onwuegbuzie and Turner, 2007).

Recognition of the mixed method has increased in the last decade. Researchers accept it as a 'third method' and many adopt this methodology in order to grasp the benefits of quantitative as well as qualitative research. As Greene (2007: 20) argues,

> [Mixed methods] actively invite us to participate in dialogue about multiple ways of seeing and hearing, multiple ways of making sense of the social world, and multiple standpoint on what is important and to be valued and cherished.

Hallmark of the mixed method is its 'multiple' benefits to the researcher. Hanson *et al*, (2005) argue that mixed methods allow researchers to generalise the results and at the same time permit them to gain deeper understanding of the phenomenon of interest. An underlying assumption of mixed methods is that it integrates both meaning and quantity in the same project. Mixed methods gives the advantage of qualitative research that is relatively flexible and open-ended (Bryman, 1984) and provides density of information, vividness, and clarity of meaning - characteristics (Weiss, 1968: 344) along with benefits of quantitative data which give generalisation, precision and reproducibility. Creswell and Plano Clark argue that mixed methods "provides comprehensive evidence for studying a research problem than either quantitative or qualitative research alone" (2007: 9). Thus, mixed methods allows researchers to be more confident about their results, lead to thicker and richer data, and by virtue of its comprehensiveness, it may serve as the litmus test for competing theories (Jick, 1979 cited in Johnson *et al*, 2007).

Mixed methods initially started with the objective of validation or confirmation of research. However, the aim and role of this method changes over time. For instance, Green, Caracelli, and Graham (1989: 259) identified different rationales for mixing both qualitative and quantitative approaches in a single study and these rationales were beyond the traditional idea of triangulation. They devised the influential scheme in which they presented five broad purposes or rationales of mixed methods research triangulation, complementarity, development, initiation and expansion. According to Green, Caracelli, and Graham (1989), triangulation means convergence and confirmation of results from different methods. ‘Complementarity’ indicates that a researcher can adopt mixed method for the purpose of elaboration, enhancement, illustration, clarification of the results from one method with results from the other (Green, Caracelli, and Graham, 1989). Rationale of ‘development’ can be employed in order to build up the results from one method to help inform the other method. ‘Initiation’ seeks the discovery of paradoxes and contradiction, and new perspective of a framework that lead to a reframing of the research question. The last justification they outlined is the ‘expansion’, which means, “seeking to expand the breadth and range of inquiry by using different methods for different inquiry components” (Green, Caracelli, and Graham, 1989). Bryman (2006) has presented more comprehensive and numbers of rationales for choosing mixed methods such as triangulation, offset, completeness, process, explanation, enhancement or building upon quantitative/qualitative findings. Bryman (2006) argued that the purpose behind large number of rationales was to capture in finer detail the variety of reasons to conduct mixed method research.

My rationale for choosing both quantitative and qualitative research methods lies with what Greene *et al* called ‘complementarity and development’ or what Bryman describes as ‘completeness’ and ‘explanation’ and ‘enhancement or building upon quantitative/qualitative findings’. The meaning of these approaches is symmetrical e.g., complementarity corresponds to enhancement or building upon quantitative/qualitative findings. The ground of this study is ‘complementarity’ because I was interested in elaboration, illustration and enhancement of the knowledge of commercial microfinance. Moreover, the aim of this study is to give a more comprehensive account of the growing trend of the commercialisation of microfinance, which suggests 'completeness' of knowledge.

Moreover, I found strong articulation/relationship between the quantitative and qualitative data in which one method informs the others; therefore, it was 'development' of the information, as Greene *et al* (1989) notes. According to Sieber (1973) combination of quantitative and qualitative methods can be effective in different stages of the research process. For example, at the data collection stage, quantitative data can play a role in providing baseline information and helps in facilitating the data collection process. During the data analysis stage, quantitative data can assist the valuation of generalisability of the qualitative data and shed light on qualitative results. Conversely, during the analysis stage, qualitative data can play a significant role by interpreting, clarifying, describing, and corroborating quantitative results.

This also happened in this study where both methods facilitate each other in different stages of the research process. For instance, quantitative data on non-payment/repayment led to questions posed of both borrowers and practitioners on collection methods and data on profitability (or lack of it) informed some of my questions to CEOs and other practitioners. On one occasion, when I asked a question to the middle manager of the microfinance bank about whether his institution is 'sustainable'[15] or not, he said, "yes we are sustainable", nevertheless, I knew that his answer is based on false interpretation. The microfinance bank was neither sustainable

[15] Sustainable here means MFB is covering all operating and financial expenses on continuous basis (see more detail in Chapter Two).

nor profitable at the time when I conducted interview. Thus, knowing figures about profitability, sustainability, expenses, assets, percentage of women borrowers gave me an advantage while conducting interviews.

In addition, quantitative data has provided baseline information in the selection of microfinance institutions e.g. their outreach how big and small the institution is, to whom they are lending, only to women borrowers or both men and women (percentage of women borrowers), which helped me in the qualitative sampling process. On the contrary, CEOs and other practitioners' discourse on commercialisation and, in particular, sustainability led me to interrogate quantitative data to assess whether such MFPs were in fact meeting this target. Thus, qualitative data from the interviews assisted me to cross-examine numbers.

Another important rationale for choosing mixed methods was my research questions. Research questions in any study plays central role in the selection of research methods and in mixed methods particularly (Plano Clark and Badiee, 2010). Several authors believe that research questions are the driving force for mixed methods research (Greene, 2007; Johnson and Onwuegbuzie, 2004; Teddlie and Tashakkori, 2009). Greene (2007: 97) noted that methodology is ever the servant of purpose, never the master. Similarly, Tashakkori and Teddlie (1998: 20) described this perspective as the "dictatorship of the research question". This suggests that research questions dictates methods. In fact, my purpose of the study and the research questions directed me to adopt mixed methods. The purpose of this study was to gather two kinds of data: qualitative data that allowed me to gain access to the perspective of the practitioners about microfinance, commercialisation and its increasing trend and to listen micro borrowers' viewpoint about diverse issues such as repayments, loans, staff behaviour, and prevailing stories. Quantitative data allowed me to explore specific issues such as profitability, sustainability, efficiency. Thus, both methods were included in this study to enrich data and to gain a deeper understanding about the commercialisation of microfinance in Pakistan.

4.3 Quantitative Data, Analysis and its Underpinning

The main reason for choosing both qualitative and quantitative data was to enhance my understanding and knowledge of commercialisation of microfinance as explained in the earlier section. In order to answer my quantitative research question and to depict the true picture of commercialisation, I employed quantitative data. Quantitative research questions revolve around four broad themes, profitability, outreach, efficiency and mission drift. I am interested in the findings of these key questions such as what is the overall financial performance of Microfinance Providers (MFPs)? How is the Microfinance Banks (MFBs) financial performance different from the Microfinance Institutions (MFIs) or Rural Support Programmes (RSPs)? Are MFBs more profitable than the other peer groups (MFIs and RSPs) by adopting profitability objective? What are the differences in terms of efficiency in different peer groups? Moreover, is there any mission drift? I measured this with the data for average loan size, and percentage of women borrowers. These sorts of quantitative research questions help me to understand MFPs financial performance, their outreach position, efficiency of MFPs and if there is any mission drift in the form of higher loan size or lower percentage of women borrowers. In the following sections, I will discuss and analyse my source of data.

4.3.1 Source of Data

For the quantitative data analysis, I used a dataset that is assembled from Pakistan Microfinance Network (PMN) reports called *Pakistan Microfinance Review* (PMR) formerly titled the *Performance Indicators Report* (PIR). PMN started issuing these performance reports annually since 1999, in order to provide reliable financial information to different stakeholders about the Pakistan microfinance's sector (Basharat, 2010). Five year data from 2006 – 2010 has been collected, which includes 19 MFPs in 2006 to 23 MFPs in 2010. The quantitative dataset is unbalanced in this chapter due to some new entrants such as ASA Pak, BRAC, RCDS and Kashf Bank that has emerged over the sample period observed. Moreover, dataset is also uneven because PMR have stopped recording data of some of the MFPs. For example, Kashf Foundation data is available in PMRs report until 2008 but 2008 onwards no data is available. Similarly, Rozgar Bank data is available only until 2009.

Before gathering data from PMRs, I collected data from Microfinance Information Exchange, Inc (MIX), which is a popular source of information among microfinance researchers. MIX is a not-for-profit organization, which collect data from microfinance institutions around the world. According to the MIX, they consider themselves as the premier source for relevant and quality information of the microfinance financial and social performance data and analysis covering approximately 2,000 MFIs around the world (MIX, 2010). According to their Annual Report (2010, 07) "MIX's core work centres on transparency. We collect and validate financial, operational, product, client and social performance data from MFIs in all regions of the developing world, standardizing the data for comparability". Indeed, MIX provides number of financial performance indicators, alongside simplified financial statements of MFIs from the globe. Most researchers use MIX datasets for analysis. For instance, Cull, Demirgüç-Kunt and Morduch (2011), Ahlin *et al* (2011), Arun and Annim (2010), Ayayi and Sene (2010) and Cull, Demirgüç-Kunt and Morduch (2007) are amongst many that utilise MIX dataset. However, after careful examination of both datasets I found many discrepancies in the MIX datasets (detailed in the following section); therefore I decided to choose PMR data.

In addition, suggestions from two professionals in the microfinance sector were also helpful in my decision to choose one dataset. For example, the finance associate of PMN advised "I suggest that you use the PMRs that are uploaded on the PMN website for more detailed and in depth analysis". Moreover, the transformation manager recommended, "my suggestion is to choose one data set either MIX or PMN. Comparisons at this stage will cause confusions. PMN can be more helpful for clarifications". Therefore, I decided to choose one source for analysis purpose i.e. PMN dataset, as most of the data was available on PMRs.

4.3.2 Critique of Source

Why I did not follow MIX data apart from their transparency and quality information? There are different reasons for not choosing MIX data. For instance, while comparing both datasets, I found many inconsistencies between PMN and MIX data. Interestingly, the key difference was in the reporting of NGOs. In Pakistan, banks financial year-ends on 31st December and most NGOs close their books of account on 30th June. As far as banks are concerned, there are no differences in year of reporting between PMN and MIX datasets, however, for NGOs PMN and MIX use different years of reporting. For example, PMN considers 01/07/2009 – 30/06/2010 as the year 2010 however, MIX regard this as year 2009. In fact, NGOs whose financial year end on mid-year also regard 01/07/2009 – 30/06/2010 as the year 2010 data.

Apart from these inconsistencies, PMN provides almost complete datasets from 2006 – 2010 however, a disadvantage of MIX is that it does not provide complete datasets, some MFPs record data later than others, while some have stopped recording data altogether. For example, if I take Punjab Rural Support Programme (PRSP), then no data is given for the year 2009 and incomplete data is given for the year 2010 by the time I was carrying out data analysis. This situation is similar to other institutions too, such as SRSP, Akhuwat, Rural Community Development Society (RCDS) and many more institutions where data is not given completely or entire data is missing in some years. This is because participation to MIX Market is open to all MFIs therefore, MFIs decide whether to participate or not. If they participate, they may choose to report some indicators and conceal other and hide some years during a low performance phase. Thus, analyses based on MIX Market can be misleading. However, reporting to PMN is mandatory to all members. In addition, PMN ensures transparency of the data and used audited financial statements for data analysis. Therefore, I have followed PMRs dataset and its timeframe means I will call for instance, 1st July 2009 to 30th June 2010 for the year 2010 data for NGOs and compare this with banks data for 1st January 2010 to 31st December 2010.

After selecting PMN datasets, I started my quantitative analysis. However, again, I faced a problem of omission of data of two years (2009, 2010) from the leading microfinance institution Kashf Foundation. Interestingly, justification is not given in the PMR report about the exclusion of the MFI data. I collected some data from the Kashf Foundation annual reports and tried to present the true quantitative picture of the microfinance sector (see more detail in Chapter Seven). Apart from that, I have thoroughly compared dataset of PMR with the annual report of MFPs and found broad consistency in the data.

4.3.3 Data Analysis

For the purpose of analysis, I have used Microsoft Excel and Statistical Package for the Social Sciences (SPSS) to provide a clear quantitative view of the microfinance sector of Pakistan. In the graphs command function within the SPSS programme, a simple scatter diagram was used to identify the correlation between different variables. For example, I then compared average loan size (ALS) which is the proxy of depth of outreach with the return on assets (ROE) with the help of the scattered diagram to find correlation between these two. Moreover, scatter diagram, also helped me to show the relationship between percentage of women borrowers and repayment efficiency. Regarding the Microsoft Excel software, I have used it largely to analyse data into charts. For instance, the bar chart is used in order to show the productivity and financing structure of MFPs, and pie charts were used to illustrate the division of microfinance providers in different peer groups. In addition, line charts helped me to demonstrate the relationship between different ratios for instance, number of active borrowers and ROE, number of active borrowers and cost per borrower (CPB). Hence, both types of software helped me to analyse the quantitative datasets. In the following section, I will explain the purpose of using different accounting variables.

4.3.4 Rationale of Choosing Accounting Variables

In microfinance, accounting-based indicators are used to measure performance in terms of profitability and sustainability. Most commonly used ratios in microfinance literature are Return on Assets (ROA), Return on Equity (ROE), Operational Self-Sufficiency (OSS) and Financial Self-Sufficiency (FSS) (Armendáriz and Szafarz, 2011; Cull *et al*, 2007; Nawaz, 2010; Zeller and Meyer, 2002; Herms and Lensink, 2011; Mersland and Strom, 2010). These ratios indicate the MFI's profitability and self-sufficiency. For the purpose of this study, I have used return on equity (ROE) as a proxy of MFI performance. The Microfinance Financial Reporting Standards recommends the use of ROA and ROE as measures of profitability rather than financial self-sufficiency (FSS) and operational self-sufficiency (OSS). According to the new Microfinance Reporting Standards (MFRS), they have omitted OSS and FSS which were considered as important sustainability standards because they state "while OSS and FSS were helpful, once an MFI exceeded 100% sustainability or the breakeven, the ratio became less helpful as a measure of profitability" (2010: 2).

However, I also do acknowledge the advantages of ROA. For instance, Olivares-Polanco argued that ROE can be 'distorted by the leverage' or 'differences in the financing structure' of MFIs, which the ROA compensate (2005: 56). Therefore, ROA is good profitability measure instead of ROE. Initially I had taken these two profitability ratios but both were giving similar results, therefore, in order to avoid repetition in results, I prefer to use ROE. Moreover, ROE is a ratio that is considered as "a core measure of profitability. It measures an MFI ability to build equity through retained earnings" (MFRS, 2010: 4).

In order to measure the efficiency of MFPs of Pakistan, I have employed commonly used indicators such as Operating Expense to Average GLP, Cost per Borrower (CPB) and Borrower per Loan Officer (BPLO). Write off ratio and portfolio at risk greater than 30 days were used to analyse the risk of microfinance providers. In addition, two indicators which are commonly used as a proxy to measure the depth of poverty i.e. average loan size and percentage of women borrowers were analysed to see to whom microfinance institutes in Pakistan provide services. For instance, whether they are more poverty focused or not. In total, twenty accounting variables are used for analysis (see detail in Chapter Seven). Along with the quantitative analysis, this study also employed the qualitative research approach, as noted above. In the subsequent section, I will define the qualitative research method in more detail.

4.4 Qualitative Methods

I adopted qualitative research because I was interested in capturing the 'thick description' of commercial microfinance (Geertz, 1973). Denzin and Lincon (2000) argue that qualitative research offers intricate details of phenomena hard to communicate with quantitative methods. Qualitative research methods help me to recognise the broader context of microfinance in detail and provide useful insight for my research aims. This method allows me to discover how my research participants 'understand, experience, interpret, and produce' their social world – microfinance. Qualitative approach allows me to view commercial microfinance through the eyes of research participants. As mentioned in the earlier sections, my choice of mix methods is to capture both numbers and voices of micro borrowers and practitioners to present the understanding of microfinance and its growing trend – commercialisation in Pakistan. The remaining sub-sections will present the choice of methods – interviews, the way I accessed my borrowers, ethical consideration and reflection of my fieldwork.

4.4.1 Interviews

In qualitative research, most widely employed method is interviews (Bryman and Bell, 2011; Mason, 2002; Cassell, 2009). Bryman and Bell (2011) note that if a researcher has a fairly clear focus of study, rather than a very general notion of research topic, then semi structured interviews are more appropriate. My objective in adopting semi-structured interviews was my clear focus of research topic and because I had specific topics to cover in the interview session (Bryman and Bell, 2011; Masson, 2002). Moreover, I was interested in greater depth of knowledge about commercialisation of microfinance in Pakistan, which was only possible by talking to different individual related to this field. As this study is largely based on interview data alongside with some analysis of figures, my epistemological and ontological position state that participants' knowledge, views are 'meaningful properties of the social reality' and 'meaningful way to generate data is to talk interactively with people' (Mason, 2002: 63 -64). This suggests that through interacting with people we can explore greater depth of data.

My fieldwork, which started in Jan 2010, lasted for two months. I talked to practitioners because I was interested in their views about commercialisation of microfinance and key issues such as profitability, sustainability. The reason behind my interest in talking to micro borrowers was to see the difference between NGOs and microfinance banks clients. I wanted to listened micro borrowers' thoughts and opinions about microfinance institution, impact on their lives and prevailing stories.

I interviewed micro borrowers both from urban and rural areas, however, urban group of borrowers were larger. People from urban areas belonged to diverse occupations such as tailoring, shop keeping, and embroidery work. Borrowers from rural areas were mostly involved in farming, keeping livestock and selling milk. I carried out a number of further informal discussions with staff members of different institutions that helped in understanding the practices of institutions more clearly.

In general, discussion with my respondents used to begin with very brief conversations about myself, explaining the purpose of my study and gradually moved towards the topic of research. While talking to micro borrowers, I tried to make them feel that I am one of them by drinking tea with them and sitting on the ground if they were sitting there. At the same time, I always tried to show respect for their opinions and views, even if I sometimes disagreed with them. In case of practitioners, after providing introductory information, the interview started by asking general and open questions. For example, I asked questions about their experience in the microfinance sector. This introductory talk helped my respondents to feel relaxed and speak about different issues and situations that they wanted to highlight. A few practitioners who I contacted earlier via email were informed about my topic and the objective of my study but I reminded them again at the start of the interview.

For the purpose of the interview, I prepared a loose interview guide (see appendix 1) in order to permit interviewees to speak freely about the topic areas. In fact, I prepared two different interview guides, one for the micro borrowers and one for practitioners. Broad issues discussed with practitioners are – defining commercialisation of microfinance, how they perceive this shift, institution's profitability and sustainability, do they think mission drift will happen with increased commercialisation, question of depth and breadth of outreach, issues about high interest rates. In terms of micro borrowers, conversation topics covered largely context of taking microloan and their experience about taking micro loan with particular institution. I discussed issues of repayments and their perception about interest rates. I also tried to explore matters of cultural issues, multi borrowing, and finally prevailing stories within the community.

During the interviews, I raised questions under the specific topics but did not follow any fixed sequence of questions in order to offer my respondents a great deal of freedom in how to respond (Bryman and Bell, 2011: 467). I adopted a style of open-ended interviewing in which I allowed space to my respondents to talk topics of their interest. This kind of interviewing style permits the interviewees to speak through many unanticipated issues and topics that give benefit to both interviewer and interviewee. Interviewee feels comfortable while talking issues which he/she want to discuss and interviewer gets benefit in the form of rich data. Sometimes this two-way dialogue between interviewer and interviewee brings interesting new insights into the topic being explored.

During the conversation with interviewees, my intention was to make them feel relaxed therefore; I tried to avoid interrupting my participants when they were developing their stories especially with micro borrowers. For example, I remember while talking to a micro borrower at her house who was also a member of ROSCAs about a micro loan and how it helps her, she started talking about the role of ROSCAs (Rotating Savings and Credit Associations) and focused more on how ROSCAs helps her. I did not stop her from finishing her point. I let her finish and waited for the opportunity to return to the discussion to the role of micro loan. By listening to whatever they wanted to say about their lives, experiences, and their everyday life problems helped me to build up a relationship in a short period and developed their confidence to talk[16]. For instance, on many occasions micro borrowers complained about microfinance institution problem or staff rude behaviour with me as a friend tells another friend, although I was a stranger. Many times, they were saying "no one listen to our problems. *Baji* [sister] you are very nice" and once at the end of one focus group, a group of women asked me to convey their message to the institution about their problems[17]. Thus, interviews with my respondents were interactive dialogues in which they shared their ideas, thoughts and experiences openly and happily.

[16] As I did interviews with micro borrowers only once and occasionally more than one time.
[17] This group of females complained about small amount of loan and bi-monthly payments.

While giving them the chance to speak topics of their interest, I tried to make sure that I covered key themes of this study and I raised a number of questions with all of my participants. However, in some interviews informants gave more attention on a signal issue, e.g. story of G-fund (see in Chapter four) or their experience with staff members. In such cases, I tailored the questions in such a way that allow me a wealth of data for the specific issues discussed. Thus, semi-structured interviews allowed me to be flexible while keeping focus on the topics of my research agenda.

Each interview was recorded using a high quality digital voice recorder and with a mobile (in order to avoid risk of loss), transferred to computer, back-up taken and transcribed using Microsoft Word. Each interview lasted from 30 to 90 minutes and an average interview length was 60 minutes. Some interviews were longer and some were concise but rich in information. For instance, interview with Retail Head of MFI – G was schedule but due to her daughter illness, she went home earlier. The interview with her lasted only 30 minutes however, it was very rich in terms of data. In some cases, conversation lasted for more than one hour. Some clients were more talkative and sharp than the other, resulting longer interviews. Group interviews of micro borrowers were longer than the individual interviews, on average group interviews were approximately 6,000 – 10,000 words long; nevertheless, individual interviews were between 1,000 – 3,000 words. Collectively, these interviews consist of more than 200,000 words.

Interviews were carried out in four languages – English, Urdu, Punjabi and Pashto. The reason behind conducting interviews in multiple languages was to conduct the interview in the language of the interviewee in which they feel comfortable. Twinn (1997) suggests that it is more appropriate for researchers to use the language of the interviewees to understand the meaning of their social world, perceptions and experiences for the reliability and validity of the data. Thus, I gave the choice of language to my participant to talk freely and without any hesitation.

English and Urdu are the two official languages of Pakistan. People who belong to the elite class prefer to speak English. Urdu is also a national language and is spoken throughout Pakistan. Punjabi and Pashto are the two local and provincial languages of Punjab and Khyber Pakhtunkhwa Provinces respectively among many others. Four CEOs interviews and one with a consultant were in English as they were comfortable in talking in English. Most of the interviews with middle managers were in Urdu. Micro borrowers talked in their local languages – Punjabi and Pashto. My roots belong to Dera Ismail Khan, where people speak Saraiki (similar to Punjabi) and living in Peshawar and its surroundings areas (Pashto speaking area) for last fifteen years gave me an advantage to interact with micro borrowers in their local language. Thus, familiarity with all these languages enabled me to follow up on interviewees' responses and to better understand their views and experiences through their language. I stop talking to my interviewees when further interviews no longer offered me new information and tended to inform the facts that were discussed in previous interviews (Glaser and Strauss, 1967) indicated my data was saturated.

4.4.2 Focus Group

A focus group interview is another method I employed for primary data collection. The objective of the focus group is to obtain information explicitly through the interaction of research participants (Kitzinger, 1995). It is the explicit interaction within a group with specific purpose is the centre of focus group (Kitzinger, 1994; Morgan, 1988; Kreuger, 1988; MacIntosh, 1993) and this "elicit richness of data" (Twinn, 1998: 654).

In addition to my original idea to conduct semi-structured interviews with the micro borrowers I also adopted the method of focus group interviews because group lending is central to many microfinance providers therefore, the group is a sensible and coherent focus for research. I was interested in how clients respond to each other's view and how they interact with each other about the issues with which they are confronted in a group setting. My discussions with the micro borrowers were not just a group discussion but I had a specific theme that I wanted to explore in depth (Bryman and Bell, 2011), therefore it was focused group interviews. I also want to note here that, I conducted focus group interviews only with micro borrowers, but not with the practitioners.

Group lending is considered as the unique lending approach of microfinance (Armendáriz and Morduch, 2005)[18]. Group lending approach works on the bases of

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[18] Microfinance institution has started individual lending; however, group lending methodology is still very popular. A survey conducted by the Micro-Banking Bulletin of 302 institutions reported that about a third of these institutions provide individual lending facilities but only about 12% of their clients take up individual loans. In other words, 88% of the clients of these sample institutions are served through group lending methods (MicroBanking Bulletin, 2005). In Pakistan, at present 83% of all active borrowers are

social collateral, which is based on the principle of joint liability (Brau and Woller, 2004) in which all members are equally responsible for the group repayments. Say for instance, if one member defaults, the other group members may not be able to take out the next loan and, therefore, members of a group monitor the loan performance. Wenner (1995) notes that, this way group members take over the responsibility for monitoring and enforcement of loan repayment from the microfinance institutions. The loan officer usually carries out a bi-weekly or monthly meeting with each group, in order to make the lending process more transparent, avoid frauds and to provide help to micro borrowers. Most of the time clients in a group self select their group members because members have more knowledge about each other (Sharma and Zeller, 1997) which ultimately has a positive effect on the repayments of the loan. Moreover, the key principle behind self-selection of group members is that peers have local information about each other's ability and trustworthiness. In fact, micro borrowers' local knowledge, trust and social homogeneity are the main factors, which make group loans successful.

The group lending approach of microfinance gave me an advantage to conduct group interviews with the micro borrowers. Thus, I did not form the groups by myself but actually, I have chosen to use pre-existing groups; that is, clusters of micro borrowers mostly women who already knew each other, they were part of the microfinance group and shared the same locality. As micro borrowers knew each other, it was arguable easier for them to feel comfortable and talk about different matters related to diverse issues, such as repayments, multi borrowing, staff behaviour, institution.

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engaged in this methodology while 70% of the gross loan portfolio of MFPs consists of group loans (Aslam and Azmat, 2012: 4).

Kitzinger (1995: 3) also favours pre-existing group in focus group because “[u]sing pre-existing groups allows observation of fragments of interaction that approximate to naturally occurring data”. Moreover, she notes that when participants in the group know each other, they relate the topic under discussion to the incident that might have occurred before in their daily life, which build the group a site of ‘collective remembering’ (Kitzinger, 1994: 105). This was evident in my focus group of micro borrowers where they shared their past positive and negative incidents of taking loans, repayments and daily life issues. It was easier for the micro finance clients to relate to or memorize past discussion about microfinance and thus, it seemed easier for them to talk about such issues again.

Since micro borrowers exist in the form of group setting, they like to talk in the group. For instance, while talking to one of the micro borrowers on the group lending approach in focus group interview she said, “I like the group system because it is kind of get together after every 15 days. We meet and take tea together”. Thus, micro borrower favour group lending approach and for me discussion with the micro borrowers in a group setting proved to be an effective way to generate rich data.

Furthermore, the focus group helped me in terms of efficient use of time whereby I was able to interview relatively wide range of participants in a fairly short space of time. Fern (1982) suggested that two focus groups that consist of eight members can produce as many ideas as ten individual interviews (cited in Morgan, 1996). Morgan notes that ability of the focus groups to generate data efficiently make it sound as if they have an almost ‘magical synergy’ that makes them superior to individual interviews (1996: 13).

I agree with both of the authors as focus groups with micro borrowers produced a wide range of information, insight and ideas and the interactive nature of focus group lead to richer and more meaningful data (Morgan, 1988; Wilkinson, 2004).

So the defining characteristics of the focus group method to whom Morgan called "'hall marks of focus groups' is the social interaction between the group members that produce data" (1988: 12). This group interaction sometimes leads the researcher to a new direction that he/she has not even thought about and can provide richer data. It is also worth to mention here that this reduces the power and influence of the researcher over the group as power shifts to the participants from the researcher. The balance of power shift is another advantage of focus groups as it reduced to huge extent the ethical concern regarding control the proceedings, regulates the talk and imposing their own framework of meaning upon participants in one to one interviews (Wilkinson, 2004). Nevertheless, ethical concern does not simply disappear, as the researcher retains control over analysing and writing up the data (Wilkinson, 2004). Sometimes, this more control over the interaction of research participants becomes difficult to handle and require skills from the researcher to manage their responses and make sure that all participants have their chance to air views.

In this study, I faced a problem of control over the voices of micro borrowers in some instances and also to give them equal chance to talk was quite challenging. I tried to give every participant equal opportunity of participation in the discussion. I also confronted a problem in transcription of focus interviews, which I will discuss in the following section.

4.4.3 Sampling

Identifying, selecting and gaining access to sources of data plays a significant role in any qualitative research. Coyne (1997) argues that sample selection has a profound effect on the ultimate quality of the research. Therefore, it is the responsibility of researchers to defend their sampling strategies as reasonable for their purpose (Sandelowski, 2000). Patton (1990) and Sandelowski (1995) note that all type of sampling in qualitative research is purposeful. Lincoln and Guba build on this and purport that "all sampling done with some purpose in mind" (1985, 199). This means that the researcher selects a productive group of people for study because they can purposefully inform an understanding of the research problem and central phenomenon in the study. According to Mason,

> You should have a strategic purpose in selecting your specified relevant range which means that the relationship between your sample and the wider population is not ad hoc (1996: 92).

This suggests that a researcher needs to select participants with clear strategy in mind and with proper planning. Therefore, I followed what Mason (2002: 124) called strategic sampling or commonly known as purposeful sampling.

In the sampling process, decisions such as when and where to start selecting participants play significant role. Coyne (1997) states that sampling should be defined before data collection commence. However, Marshall and Rossman (2006) notes that sampling can change during a study and researchers need to be flexible. I agree with the Marshall and Rossman about flexibility of choosing participant in the research process as this was the case in this study as well. I had to switch from one sampling strategy to another during the course of the research in order to get wealth of information.

At first, I accessed micro borrowers with the permission of the microfinance providers. One of the main issues I had while accessing micro borrowers was that they were spread unevenly throughout Pakistan, and therefore at the start, I enlisted help of the so-called 'gatekeepers' microfinance providers (Seidman, 1998; Bryman and Bell, 2007). Burgess argued that 'access is not a straightforward procedure' therefore it involves 'negotiation' and renegotiation' (1984: 47). After taking permission from the institution to interview their clients, some institutions granted permission for me to visit the clients' houses along with a staff member and few allowed me to carry out an interview within the branch premises when they usually come to repay their loans or apply for a new loan. However, after initial interviews, it was noted that clients felt shy in the presence of field staff during the discussion.

Some clients were not open in the conversation and presented what appeared to be a sanitised picture of the institution and staff behaviour. Furthermore, a problem with conducting interviews in the presence of field staff or at the branch premises was also that they consider the researcher as a personnel of the microfinance institution apart from the fact that I clearly informed my purpose of research in the beginning of each interview. In order to obtain rich information, I realised that my participants – microfinance clients needed a relaxed environment where they can share whatever they want.

Thus, with the help of some micro borrowers and field staff members, I interviewed clients in their houses in the absence of field staff. This way of obtaining access to people in whom a researcher selects people who know other people who cannot only participate in the study but are also information rich cases is commonly known as the snowball technique (Burgess, 1984; Bryman and Bell, 2011; Miles and Huberman, 1994). Thus, snowball sampling came to harmonize purposeful sampling as far as selecting my participant was concerned.

My way of accessing micro borrowers via snowball technique started off when I had met with Shehnaz *baji* in the branch of leading MFI. She helped me to arrange meetings with the other women of the village, this allowed me to interview micro borrowers in a comfortable environment where they could talk freely (see more detail discussion about this group interview in reflection). In another instance, field staff members of MFI – D and MFI – A facilitated me to meet groups of micro borrowers. They gathered a group of women in one of the micro borrower's house and allowed me to talk to micro borrowers without their absence, so that they can feel free to interact with me on different issues. Conversation with these groups of women resulted in rich information.

Another important group of people that were included in my original sample were practitioners and accessing them was not an easy task. Before entering the field, I contacted key practitioners of microfinance sector by email, and more than twenty emails had been sent to senior managers of various MFPs in Pakistan in which I explained the nature and purpose of my research. However, very few responded positively, that includes CEO of MFI – A, area and sales mangers of MFB – G, the general manager of RSP – Y and CEO of PMN. These individuals gave me assurance of cooperation however, rest of the individuals did not reply at all. As a result, I decided to access them after reaching Pakistan. This strategy became successful in a way that many CEOs and senior managers not only allowed me to interview them, but also gave me permission to conduct interviews with their clients, field staff members and middle level managers.

Here, I want to explain that all institutions (except one) cooperated with me, although in the start I faced the problem of access when I contacted them via emails. I accessed most of the CEOs and senior managers by direct contact to them either in person or by emails. During the interviews, I asked some of the CEOs to recommend other people within their organisation and externally, who they consider are appropriate for my study. Through this way, some of the key individuals of microfinance sector such as consultants have been contacted with the reference of the CEO. Hence, I increased my sample of practitioners with the help of Head of microfinance institutions.

I conducted a total of 25 interviews with practitioners, 25 individual interviews and 8 group interviews with micro borrowers and many informal discussions with the field staff members that I did not recorded but it gave me additional, rich data. In group interviews, the number of micro borrowers varies between five to ten individuals. Below is the table in which I mention a list of practitioners to whom I interviewed.

Table 4. 1 Practitioner interviewed

Practitioners	**Position**	**Type of Institution**
MFI – A1	Chief Executive Officer	Microfinance Institution

MFI – A2	Business Development Manager	Microfinance Institution
MFI – B1	Chief Executive Officer	Microfinance Institution
MFI – B2	Senior Research Associate	Microfinance Institution
MFI – C	Chief Executive Officer	Microfinance Institution
MFI – D1	Chief Executive Officer	Microfinance Institution
MFI – D2	Programme Manager	Microfinance Institution
MFI – E	Manager Microfinance Operation	Microfinance Institution
MFB – G1	Regional Business Manager	Microfinance Bank
MFB – G2	Retail Head	Microfinance Bank
MFB – G3	National Distribution Manager	Microfinance Bank
MFB – G4	Operation Manager Branch	Microfinance Bank
MFB – H	Research Manager	Microfinance Bank
MFB – I1	Chief Financial Officer	Microfinance Bank
MFB – I2	Chief Executive Officer	Microfinance Bank
MFB – I3	Product Development Associate	Microfinance Bank
MFB – J	Head of Operations	Microfinance Bank
MFB – K	Branch Manager	Microfinance Bank
RSP – Y1	Transformation Manager	Rural Support Programme
RSP – Y2	General Manager	Rural Support Programme

RSP – Y3	Deputy Programme Manger	Rural Support Programme
RSP – Z	Operation Manager	Rural Support Programme
Consult 1	Managing Director	Consultancy Firm
Consult 2	Head of Microfinance Practices	Consultancy Firm
PMN CEO	Chief Executive Officer	Pakistan Microfinance Network

4.4.3.1 Site and Institution Selection

Choosing to conduct my research in Pakistan is due to the existence of microfinance institutions, practitioners and large number of micro borrowers. Particularly, it was the growing trend of commercialisation in microfinance providers of Pakistan, which developed my interest to study the impact of this on MFPs and their borrowers (see more detail in Chapter Three). Moreover, my local roots to this country gave me an extra advantage to examine this aspect more closely.

I chose four cities for the research purpose and there are a number of reasons, which propelled my interest in these four cities. These four cities of Pakistan are Lahore, Rawalpindi, Islamabad and Peshawar (see map in Chapter Five). All four cities are suitable for studying commercial microfinance because all types of MFPs are operating there such as MFIs, MFBs and RSPs. I selected four cities for the research purpose in order to bring diversity; find those people who are more relevant to the study and to obtain rich data. Therefore, I did not rely on one city but tried to reach people that are more appropriate in these four cities. Hamersley and Atkinson (2007) notes that there are diverse factors the researcher needs to consider regarding site selection, these include suitability, feasibility of carrying out research there, readiness and access. As I belong to the country, therefore, was aware of the problems of readiness and feasibility, which give me added advantage to solve this problem.

Lahore was chosen because it is popular as the 'hub of microcredit' due to its largest outreach and intense competition among MFPs. According to MicroWatch, currently fifteen microfinance providers are operating in Lahore out of thirty-one, and serving approximately two hundred thousand people (Arshad, 2012). Various microfinance providers have been operating there for more than a decade such as Kashf Foundation, Damen, Akhuwat, NRSP and Khushhali Bank. Thus, this was a place in which I could find all types of MFPs who are not only experienced MFPs but also known for their unique lending methodology.

Furthermore, Islamabad a capital of Pakistan was selected to meet CEOs, senior managers as some of the MFPs head offices are there. Other organisations who are Islamabad based and with whom interviews were conducted are Head office of Pakistan Microfinance Network and inclusive consulting firms for microfinance. Islamabad is one of the most developed cities of Pakistan, having highest literacy rate, centre of urbanisation and hub of many private and public universities and organisations. Rawalpindi is a few kilometres away from Islamabad. Islamabad and Rawalpindi are also known as 'twin cities'. Few of the MFPs have opened their branches in both cities and some have opened only in Rawalpindi as they are very near to each other. Rawalpindi consists of both rural and urban areas. In addition, poverty prevails more in

Rawalpindi as compared to Islamabad. Thus, these two cities were more relevant to locate both micro borrowers and personnel of MFPs. Peshawar, which is the capital city of Khyber Pakhtunkhwa, was chosen because I wanted to see microfinance operations apart from Punjab (as two other cities Lahore and Rawalpindi comes in Punjab Province) and Federal, Islamabad.

Burgess (1984: 59) notes, "research site may be selected where individuals are willing to cooperate, where the situation is convenient for researcher and where the research has some contacts already established". Therefore, I selected these cities because they are not only representative of the wider population but also due to convenience and willingness of some participants in the beginning of data collection. Moreover, being an insider I had an extra advantage of accessing people and interacting with them confidently. The two provinces – Sindh and Baluchistan – were excluded from the study largely due to security problems and in order to avoid unnecessary travelling due to limitation of time in the field.

Currently thirty-one microfinance providers (MFPs) are working in Pakistan that are involved in microfinance operations and are providing diverse services on small and large levels in the country (Arshad, 2012). These include Microfinance Banks (MFBs), Microfinance Institutions (MFIs) and Rural Support Programme (RSPs) (see detail discussion in Chapter Three). For the interview purpose, eleven MFPs were included in this study: four microfinance banks, two Rural Support Programme, three Specialised Microfinance institutions (NGOs who only operate microfinance activities), one NGO which works with microfinance operations along with other activities and one leasing company which also deals with microfinance as a supplementary business. Selection of these MFPs was based on a number of active borrowers and their unique lending methodology.

4.4.4 Transcription of Interviews

I transcribed all interviews myself. Flick (2007) notes that researchers who transcribe their own interviews will learn much about their own interviewing style because they know about the social aspect of situation and easily understand meaning of what is said which help them in analysis. Indeed, transcribing interviews by myself gave me an advantage in terms of analysis and understand their voices through their own languages. However, transcribing the interviews from tape recorder to a written mode structure was not an easy task. As interviews were recorded in four different languages, more time was required to transcribe the data in English. The few interviews in English were easy to transcribe, however, interviews in Urdu, Punjabi and Pashto took extra time in translation of the data in English. Furthermore, focus group interviews had taken more time than the individual interviews because sometimes interviewees talked over each other that make the transcription more difficult.

I transcribed all interviews of CEOs and micro borrowers' interviews, however, middle manager's interviews were not fully transcribed due to time constraints. I carefully listened all interviews of middle managers, among twenty middle manager interviews, twelve are fully transcribed, and eight partially transcribed. I carefully listened to all the interviews of middle managers and then picked out the sections that seemed important and transcribed only those segments of interviews that are included in this study.

While transcribing interviews I adopted a ‘de-naturalism’ transcription style in which the researcher does not transcribe every utterance of speech (Oliver *et al*, 2005). Therefore, I did not record non-verbal sounds like *um*, *er,* laughter. Cameron (2001) suggests that de-naturalism is valid because what is important in speech are the meanings and perception that construct reality. Miles and Huberman (1994) note that a researcher can carry out transcriptions with different levels of detail because only the researcher has experienced about his/her data gathering therefore, it depends on the researcher’s ‘selective’ process of data collection what to exclude or include in transcription. They argue, “It is not the words themselves but their meaning that matters” Miles and Huberman (1994: 56). Thus, emphasizing the readability and contents of the text from the interviewees is important. In the following section, I will provide details of the ways in which I interpreted the collected data during the research study.

4.4.5 Data Analysis

Lincoln and Guba argue that the data analysis “...involves taking constructions gathered from the context and reconstructing them into meaningful wholes” (1985:333). Indeed as Miles and Huberman (1994) note, core of data analysis is to review the field notes, transcription of interviews, coding, sorting and to analyse the data meaningfully while keeping the relations between the parts intact. In order to construct my data into 'meaningful wholes' and to construct a theory from the data I found grounded theory more appropriate. The key element of the grounded theory is the construction of theory that is grounded in the data. Grounded theory consists of flexible analytical guidelines that engage the researcher in simultaneous data collection and comparative level of analysis to develop inductive categories (Charmaz, 2006).

Many authors suggest that analysis should be ongoing and simultaneous with data collection (Miles and Huberman, 1994; Coffey and Atkinson, 1996) and this is what Charmaz called as the 'open-endedness and flexibility' of the grounded theory method (1990: 1168). Charmaz and Henwood (2008) argue that comparative and interactive process of inquiry in grounded theory leads the researcher to move back and forth between data collection and analysis as each informs the other. I agree with the authors when they argue that data handling and data analysis go hand in hand and that data analysis is not simply an interpretation of data. I believe data analysis starts from the process of collecting the data (Charmaz, 2006), as the analysis reveals how the researcher experienced this process. For me data analysis includes everything from the data gathering to the process of transcription, sorting and coding the data into themes.

Grounded theory allows the researcher to "create theoretical categories from the data and then analyse relationships between key categories" (Charmaz, 1990: 1162). Interaction between the data and the researcher categories emerges. Thus, my data analyses were partly informed by the main themes and issues within my research questions. However, many of the themes that arose were not predefined and were grounded in the responses of my participants. Therefore, although I intended to discuss some of the issues that were established in the literature about commercialisation, however, I had not anticipated the way in which participants interpreted this. A series of categories, such as ‘shame’, ‘commission based agents’, ‘story of G-Fund’, emerged that were not already part of this literature. Hence, grounded theory helped me to construct a broad theory of ‘political economy of microfinance’ and middle range theory of ‘commercial microfinance’.

In the subsequent section, I primarily focus on ethical issues of research; however, while discussing issues of ethics, I will include some of my reflection on the research process and my position as a researcher.

4.5 Research Ethics

Ethics is the most significant part of any research, particularly when a researcher deals with humans. According to Sieber (1992: 3), “Ethics of social research is not about etiquette; nor is it about considering the poor helpless subjects at the expense of science or society; rather, we study ethics to learn how to make social research work for all concerned”. Saunders *et al* also defined it as “the appropriateness of your behaviour in relation to the rights of those who become the subject of your work, or affected by it” (2003: 129). This suggests that researchers must have a sound understanding of the ‘rightness’ or ‘wrongness’ of their action in relation to the research participant whose lives they are studying (Miles and Huberman, 1994 cited in Tracy 2010: 846). Information about research ethics, a researcher can easily deals with the different ethical issues such as the informed consent of the participant, upholding privacy and confidentiality, protection from harm or the truthful presentation of the research topic to participants to avoid deception (Smythe and Murray, 2000).

In terms of informed consent, responsibility lies on the researcher to make sure that research participants are fully aware about the research aims and process before the research process commences. In this study, I tried to make sure that my all respondents are fully aware of the research objectives and the interview process. Moreover, at the beginning of all interviews and group discussions, I reiterated the research objectives and informed them that the interview would be recorded for the purpose of subsequent transcription and analysis of data.

For the purpose of informing my participants about the project and obtaining their consent, I employed several methods. For instance, for the practitioners group, I sent individual explanatory emails to more than twenty top and middle level managers in which I explained the aims and intentions of this study. Few CEOs asked me to send them the research questions of the study and draft questions before meeting, which I provided on their request. Other groups of practitioners who I met by making appointments were informed about the questions at the start of their interview. For micro borrowers, whether they were accessed through the snowball sampling technique or via microfinance institutions, I always introduced myself to the research participants and explained my research objectives at the start of interviews or group discussions. As Saunders *et al* note that “participant consent given freely and based on full information about the participant’s rights and use of data” (2009: 190). I tried to make sure the ‘free consent’ of the participants who were contacted indirectly (with the permission of microfinance providers) by asking about their willingness to participate in this study. I also gave them the choice of withdrawal from the interview or group discussion at anytime.

During fieldwork, when obtaining consent from the research participants, I felt differences between the educated practitioners and uneducated, poor micro borrowers. CEO, middle level managers belongs to a class who have information about the research culture, ethical issues of research and possible benefits and negative consequences of research activity. Therefore, they were in a better position to grant ‘free consent’ to participate in the research. However, micro borrowers who are poor and mostly uneducated were not familiar with their rights of participating in any research process. Thus, for them, I felt extra ethical responsibility as a researcher to protect these participants from any harm and try to avoid any action, which can affect them.

I asked all respondents if they would prefer pseudonyms in place of their real names, but interestingly they prefer to use their real names. Grinyer (2002) notes, not all participants want to be anonymous. While taking permission to use their real names, some of the participants (micro borrowers) said interesting remarks. For instance, one micro borrower of a bank said, “yes you can use my real name in your book [thesis]. It might possible that I get UK visa by publishing my name in your book [thesis]”. This seems to show the micro borrower’s educational background and little awareness about the ethical problem of confidentiality and anonymity. In another occasion, one woman (micro borrower) asked, “why you are not taking our pictures. We want that our pictures should also come whatever you publish". This reveals participant's excitement, as they wanted to show not only their views but also their images to be publishes in the study. However, it was my ethical responsibility to keep their identity confidential and anonymous; therefore, I used pseudonyms instead of their real names and institution name. Furthermore, I reassured all participants about anonymity and confidentiality and that the information they give me would only be used for the purposes of this research or any subsequent publication from the thesis.

In addition, 'harm to participant' is also an important ethical responsibility of the researcher. I was careful in the interviews regarding the wording I used and my behaviour. Thus, I made sure that no participant was harmed from any of my actions. Moreover, research studies provide evidences where research participants were affected by the publications of research findings (e.g. Lieblich, 1996; Wolf, 1996; Hammersley and Atkinson 2007). Hence, I kept confidential names of the people in order to avoid harm to my participants.

Moreover, not only participants might be affected, the researcher can also be at risk during the fieldwork. For instance, a researcher can come across different risks that can harm her/his career, physical or mental health. Mainly a female researcher faces risks that a male researcher does not e.g. sexual harassment. Therefore, many female researchers used their marital status (see Macintyre, 1993; Katz, 1996; Berik, 1996) and some adopted strategies to conceal their true status of marital in order to lessen the potential risk of sexual harassment during the fieldwork (Abu-Lughod, 1988; Wolf, 1996; Warren and Rasmussen, 1977). Moreover, Coffey notes that marriage serves as a ‘source of identity’ for some engaged in fieldwork (1999: 81). My status, as a married woman also gives me advantage in the male dominant society of Pakistan.

In addition, for woman in Pakistan, travelling and conducting interviews alone is not always safe. Therefore, for safety my husband always accompanied me while visiting research participants. I was aware of the fact that his presence undoubtedly could influence responses, so wherever possible, I asked him to leave the room. Nevertheless, in some instances, it was necessary to have his company in the room while conducting interviews with male participants. Moreover, travelling alone in Pakistan was also risky due to the security situation of the country especially when I conducted fieldwork (January – March 2010). My family were particularly concerned for my safety as there were many bombings every day across Pakistan.

4.6 Reflection

Building trust and establishing relationship in the fieldwork play crucial role in any research (Marshall and Rossman, 1999; Patton, 2002). My relationship with research participants differs. As Seidman (1998: 79) suggests, “each interviewing relationship is individually crafted. It is the refection of the personalities of the participants and the interviewer and the way they interact”. I noticed while talking to CEOs who are more confident, powerful and more educated about microfinance, that their style of conversation was more convincing. CEOs treated me similar to a child who knew little about microfinance. They were more confident while discussing different issues, they were more open and at the same time formal. On one occasion, the CEO tried to convince me in the favour of commercialisation of microfinance, similar to a teacher instruct student that he/she should do this. Her way of talking suggested that I must believe microfinance cannot run without commercialisation. During the interview, I tried to offer respect to my participants and their words by not interrupting or challenging their view.

A similar dynamic was played out in many of my interviews with CEOs and other senior microfinance practitioners. It illustrates the importance of taking account of the researcher's status – in terms of class, gender, age, race or origin – vis-à-vis that of her or his research subjects. It is very unlikely, for example, that a Pakistani microfinance CEO would treat a white, Western, male, middle-aged researcher as a child. However, it was not due to my limited knowledge of microfinance but because of status. For example, at the end of interview with one the CEO (PMN), he complimented that 'you interviewed me like a journalist do". This illustrates my attitude of critical elicitation of the information.

Middle managers relationship was different from the CEOs. They gave me respect and cooperated with me. While talking to few middle managers, I felt their authority and confident to speak to a researcher and give their views openly about the organization. However, some interviews with middle level managers did not reveal much information. They were reluctant to talk on some matters such as profitability and sustainability of their institution. For instance, while asking question of institution sustainability one respondents who work as a product development officer in one of the MFB stated that 'I work here as an employee, why you want to sack my job' or another interviewee said ‘I cannot answer this question. You can ask this from our CEO’. It also worth to note that most of middle managers that I interviewed (see the table 1 in this chapter) were from microfinance operations, therefore they talked with confident in their area of expertise. They were more open on discussing their operations such as product development, outreach; therefore, instead of covering all the topics in my research agenda in a more constrained manner I allowed these middle level managers to discuss issues that they considered as more important and interesting.

In terms of micro borrowers, my relationship with them was different from the practitioners. Most of the interviews with micro borrowers were full of information and joy. They talked about diverse issues with me. Many were excited because this was first time they had been asked to take part in an interview. I vividly remember my meeting with the Shehnaz *baji,* a rural woman borrower whom I mentioned earlier in this chapter. After taking permission from the MFI, I came to the branch that was 23km away from the city of Lahore. There were a group of women who came to pay their instalments. After being granted permission from the field officer, I interviewed this group of micro borrowers. In the group discussion, Shehnaz *baji* was more talkative.

What initially drew me to her while interviewing was the way she talked about bold issues such as multiple loaning, and the rude behaviour of staff within the branch premises, while rest of the women seemed uncomfortable. Before I approached her to introduce me to other women of her village, she made my work easier as she told me that “I could arrange meeting for you at my home where you can meet many women of my village who are micro borrowers”. I was happy to obtain access of the other female clients to whom I can meet somewhere else not in the branch area where they do not seem to reveal as much information as I required. I gave Shehnaz *baji* my mobile number and informed her that I will be in Lahore for the next few days. She called me after two days and invited me at her home. I was happy to see more than twelve women at her home who were micro borrowers. Before my arrival, she had already informed them about the purpose of the study. However, at the start of interview I informed them again about the aim of the group discussion. All of the women were very happy to see me, as they were interested in taking part in an interview with a young female who came from abroad for her project.

I believe, discussion with these women who were micro borrowers that had taken loans from multiple microfinance institutions, provided me with richer data. As the group meeting took place at one of the micro borrower's house and in the absence of field staff, the women were more 'comfortable' in their talk. I remember, Shehnaz *baji* words, 'please don't forget us *baji*. We will miss you' as I left her house. The element of request in her talk shows the relationship that I had built up with some of my participants in a very short time.

It is also worth of note that, some of the micro borrowers were conscious of being judged by someone who was perceived to be more educated and intelligent. For instance, when I asked about their consent in the start of interview, an older woman in a group said, '*Beti* [daughter], we would love to share our views if it gives any benefit to you'. Another woman said 'please don't mind if I say something wrong'. The element of 'if' in their talk suggests that they were worried about saying something not right.

However, at the same time they showed their love and respect to me by calling *Beti* [daughter].

Fawcett and Hearn (2004) note that there is generally more than one social relationship between a researcher and researched. I had many similarities with my participants and at the same time many differences. I share with my participants, same culture, ethnicity, clothes, and the same language however, at the same time I was different from them as a researcher. Micro borrowers perceived my identity as someone belonging to a relatively higher social and economic class and as someone educated and more intelligent. However, this status of higher class disappeared when I talked to the practitioner group, but there was still a difference of researcher and the researched. Other differences in status became more apparent, as I discuss above in the example of the CEOs who tended to talk to me as a pupil.

In summary, people in this study constructed my identity in various ways. Due to my shifting identity it was quite demanding for me to build up a relationship with my participants so they can speak explicitly and without any fear, especially with micro borrowers. Due to a good understanding of the broad culture of Pakistan, I knew how to interact with people, how to respond, and how to address them. In addition, familiarity with the local languages helped me to communicate appropriately with the micro borrowers.

The context where the interview took place is very important and affects the outcomes of the interview. All practitioners' interviews were conducted in their offices, which is their comfort zone. I conducted micro borrowers' interviews in an environment where they were familiar such as MFPs branches that they often visited for loan collection and repayments and monthly meetings. As I mentioned earlier, some of the micro borrowers were not comfortable in branch premises and in the presence of field staff, therefore I conducted interviews in their houses. I tried to go where my interviewees were for instance, one of the MFI used mosque for loan distribution (see more detail in Chapter Five). Loans are distributed in the mosque in order to put religious pressure and the fear of God on micro borrowers. CEO invited me to meet at the local mosque in Lahore to see how they distribute their loans. It was a very nice experience to conduct an interview in a mosque. Thus, interviews were conducted where the interviewees felt comfortable.

As I noted earlier, all MFPs cooperated and tried to give me respect. During the study, CEOs and middle level managers were more concerned about the findings of this study. In many instances, they were interested in reading my thesis and asked me to send a copy. However, I also faced a problem of refusal in the field. For instance, in one institution, the head of the microfinance division refused to provide data. I remembered her words she said 'I don't want to give data to any outside person'. For her, I was an 'outside person' because I was a student who was studying abroad and was not part of microfinance sector. In addition, other leading MFI fully cooperated with me in terms of giving interviews, however, they showed concern and refused to give any additional data such as notes of their annual report for more detailed analysis. Moreover, I also faced the problem of exclusion of quantitative data of two years from the Kashf Foundation, by the time when I was carrying out quantitative data analysis.

Overall, my empirical research and quantitative data provided me with deep insights of the microfinance sector of Pakistan. Particularly, both of these methods allow close analysis of the growing trend of commercialisation of MFPs. My fieldwork experience was informative and enjoyable, in which I shared the laugher and sad moments with my micro borrowers and very useful discussions with the practitioners. During the interviews with micro borrowers, I faced very challenging moments, for example, when the eyes of the micro borrowers were full of tears while discussing their painful life stories, which caused further problems such as late loan payments.

4.7 Summary

This chapter has discussed in detail the methodological strategy of this research. In the beginning, I explained the purpose of using mixed methods. I then provided the justification of my choice of research methods as interviews and focus groups with particular attention to the implications as well as the strengths of each method. The sampling process was then discussed, offering a justification regarding how participants (micro borrowers and practitioners) in this research were chosen. I also discussed the process of data collection, transcription of interviews, as well as a discussion of the quantitative and qualitative data analysis were also presented in this chapter. The data analysis section involved a discussion of the use of grounded theory in qualitative data analysis and descriptive statistics in the forms of charts. Moreover, I have considered the ethical issues. Finally, I discussed reflection in the field in which I described my identity and relationship with my participants. In the following chapter, I will present the empirical findings of this research, which reflect the discussions that took place in the interviews and focus groups that I conducted. It also discusses how these findings relate to the concepts and the literature discussed in the previous chapters of the thesis.

Chapter Five: The Organization of Microfinance in Pakistan

5.1 Introduction

This chapter presents the data collected from my fieldwork, which I carried out in Pakistan. The chapter focuses on an analysis of the interviews with practitioners of microfinance. I previously mentioned in the methodology chapter that microfinance practitioners consist of a range of individuals who are actively involved in the microfinance industry either in the top management institution such as CEO, managing director, middle level managers or in the form of consultants who provide technical guidance to microfinance institutions. The objective of the chapter is to uncover some important aspects regarding scale of operations, competition in the microfinance sector and the mission of microfinance. Commercialisation of microfinance is developed to provide microfinance services to the wider population. Therefore, scale of operation of microfinance providers (MFPs) is important because it will give information about the geographical spread of the MFPs.

In addition, with the evolution of microfinance, many players entered to provide services to micro entrepreneurs in Pakistan, which has increased competition among the MFPs. I discuss voices of practitioners on this matter. How they see increasing competition positively or in a negative way. The mission of microfinance is important to analyse, as Welfarists argue that mainstreaming microfinance means drift in the social mission. I also focus on the fragmentation of the microfinance sector, which is the initiative of the Pakistan Microfinance Network. Thus, this chapter focuses on different aspects of microfinance in Pakistan.

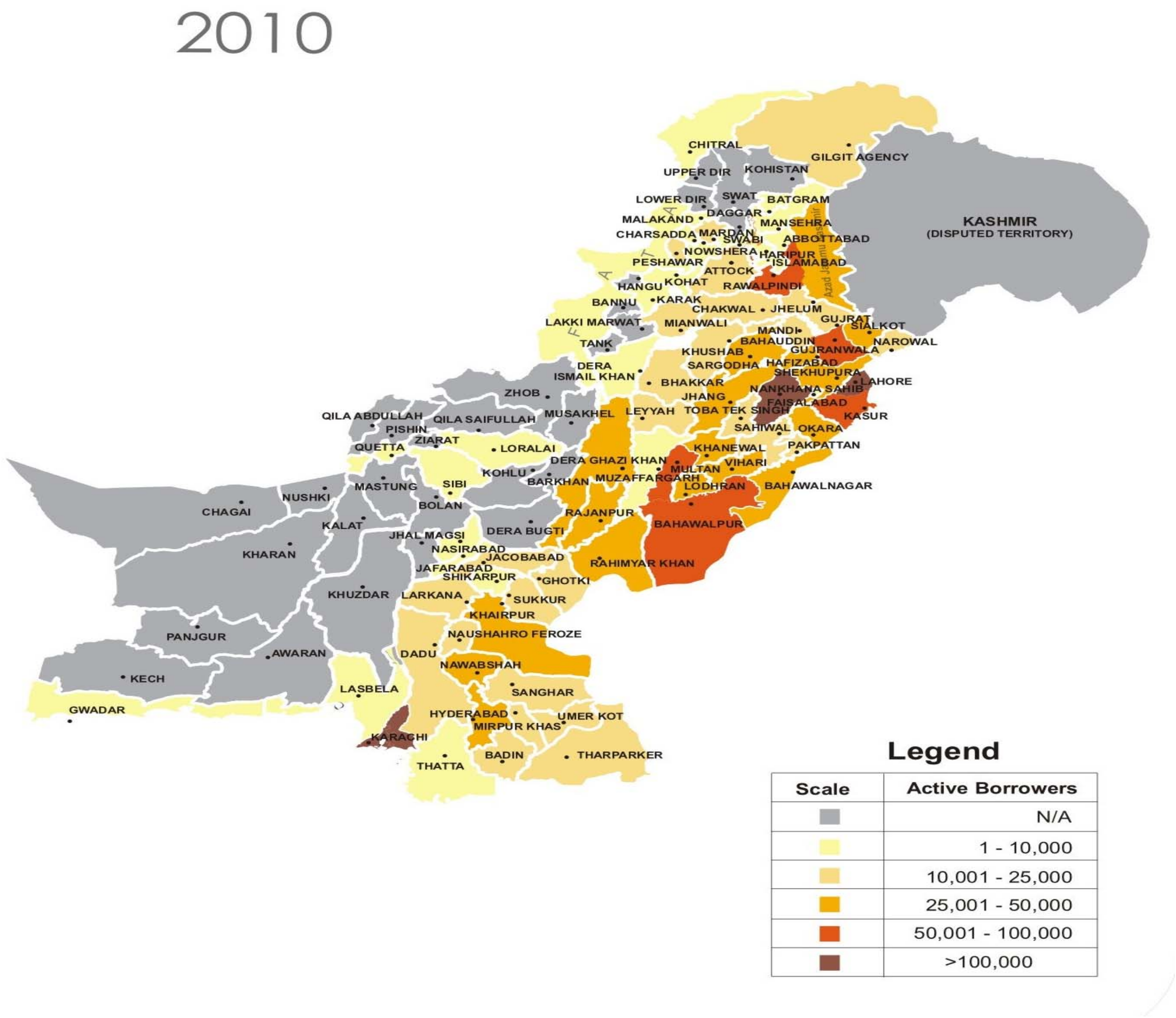
First, I consider the scale of operations of MFPs in Pakistan; where the MFPs are located and how much population has been served so far. After this, I discuss different rationales of practitioners regarding spread of outreach. In the subsequent section, I analyse excerpts of interviews of practitioners related to increasing competition in the microfinance sector of Pakistan. The following section focuses on mission statements of microfinance providers. How they advertised their mission and how increasing commercial concerns effect their mission statement are analysed. After this, categorisation of poor is discussed. Within this section, there is an analysis of what practitioners say about the segmentation of the poor. Finally, concluding comments are drawn from the analysis and a discussion is presented.

5.2 Scale of Operations and Location of MFPs in Pakistan

In Pakistan, various MFPs operate to provide microfinance services to micro entrepreneurs. With the evolution of microfinance in Pakistan, many microfinance banks came to the sector and few NGOs transformed into banks in order to serve a larger population on a continuous basis. Where most of the MFPs provide financial services or put in other words where microfinance clients are located are apparent in the map of Pakistan (see Exhibit 5.1).

Distribution of Active Borrowers

Exhibit 5. 1 Map of Pakistan



Source: Arshad (2012: 2)

The map of Pakistan is depicting a clear image of scale of MFPs. Different colures are given to show the outreach of MFPs from more concentrated areas to less saturated microfinance regions. Density of the institutions from more to less has been represented from the darker colours to lighter colours. Before providing detail about the geographical spread, I want to remind the reader about poverty areas of Pakistan (for detail see chapter three). Among the four provinces of Pakistan, Baluchistan is the poorest province followed by Khyber Pakhtunkhwa, Sindh and Punjab. In the above map, the parts in grey show N/A (not applicable) sign means no MFP operates in those areas.

Baluchistan, a west part of Pakistan and where most of the population is poor illustrated by the colour grey means these areas are not served by any microfinance provider. Some areas of this province such as Quetta, Sibi, Loralai, Gawadar, shows existence of MFPs but the clientele ratio served is very low i.e. less than 10,000. The situation in terms of microfinance scale is little better in provinces Khyber Pakhtunkhwa (a North of Pakistan) and Sindh (on the East). Some MFPs works in some parts of these two provinces but serve less number of clients. Light colours i.e. cream and yellow shows outreach in these provinces. In Khyber Pakhtunkhwa some of the areas are in N/A category such as Kohistan, Dir, Tank, and Lakki Marwat. However, these are the areas where majority of the population is poor. Kohistan is the poorest part of the province but no microfinance provider provides services to this poor area.

Larger concentration of the outreach of the microfinance providers are in Punjab (a northwest area of Pakistan) and the largest populated province. This province is undoubtedly the heart of microfinance activities. For instance, figures shows almost 60% of total active borrowers of microfinance sector lives in Punjab. In particular, Lahore is the 'hub of microfinance operations'. Nearly all major MFPs work there. It is important to note that, in Punjab there are many areas such as Bakhar, Mianwali, and Layya which are poor regions of Pakistan but scale of MFPs is very limited. The situation of Sindh is not different from other provinces where apart from Karachi, most areas are not served by any MFPs.

Cities that I discussed above such as Lahore and Karachi are the big cities of Pakistan and most of the population is urban. This suggests that most of the microfinance provider's expansion focus is on the urban population rather than more rural areas where poverty is more widespread. There is no doubt that, people need microfinance services in urban as well as in rural areas but the demand usually remains more high in rural areas because people receive less financial facilities in these areas and also are more vulnerable than the urban population (see detail in chapter three). However, MFPs priority areas are urban where the population is less poor and more aware about various sources of finance.

In addition, some areas in Pakistan are those that are the parts of country but work independently than these provinces and these are Azad Jammu and Kashmir, Federally Administrated Tribal Areas (FATA) and Islamabad Capital Territory (ICT), which is the capital of Pakistan. Geographical spread in these areas is also very low. Thus, the location of microfinance illustrates the uneven distribution of MFPs in Pakistan. Most of the MFPs are concentrated in certain areas of Punjab while the remainder of the population exist in endemic poverty.

Besides the location of MFPs, the outreach of these institutions is also a significant point. The State Bank of Pakistan's role is important in this regard. They gave license to non for-profit institutions to become commercial microfinance banks and initiated many new commercial microfinance banks. The purpose behind the development of MFBs was to increase the number of clientele. For this reason, the central bank set out the target to reach three million borrowers by the end of 2010 and 10 million at the end of 2015 (see SBP, 2011). However, figures demonstrate low market penetration in the four provinces (see table 5.1).

Table 5. 1 Market penetration in five provinces of Pakistan

Provinces	Active Borrowers	Potential Market	Penetration rate (%)
Baluchistan	19,822	1,656,762	1.2
KP	89,753	4,083,817	2.2
Punjab	1,441,817	15,233,924	9.46
Sindh	468,832	6,357,795	7.37

Source: Compiled from MicroWatch, Quarterly report, 2010

Two points are noteworthy in the above table. One is the more obvious gap between figures of active borrowers and the potential market of four provinces. This gap shows us a depressive picture of the outreach covered by MFPs. Serving the microfinance market of more than three decade; these institutions have served only 7% of the sector, where the demand is much greater. Secondly, MFPs inclination towards two provinces, Punjab and Sindh is higher. Market penetration of these two provinces is much better than the Khyber Pakhtunkhwa and Baluchistan Provinces where it is only 2.2 percent and 1.2 percent respectively. These figures reflect the spread of microfinance operation in the map of Pakistan.

Thus, this suggests lower outreach of MFPs and unequal distribution of microfinance programmes in Pakistan. It is worth to note that, MFBs were developed to reduce this unevenness of scale of operations but figures and graphic presentation of map suggest that they have not fulfilled this promise. Why the MFPs distributed microfinance services in certain areas and have not gone to poor regions are discussed in the following section.

5.3 Outreach: Voices of Practitioners

In the previous sections, I presented the geographical picture of microfinance providers, which illustrated the concentration of MFPs in certain areas. In this section, I discuss the narrative of the practitioners about the outreach of microfinance providers in Pakistan. While carrying out interviews, I asked some of the questions nearly from all of my respondents. One of the important question I was more concerned was the scale of operation. I was more curious about this issue that why these institutions are not going in all Pakistan. Why they are more focus on certain areas and do not go to other parts of Pakistan, which are more remote? Practitioners gave various rationale of this problem. For instance, the Senior Research Associate of a leading MFI replied:

> There are different issues. Main reasons are scarce of resources and it is difficult to manage from here (Lahore). It is hard to go in remote areas and also more cost is involved which we cannot afford due to limited funds (MFI – B2).

The Research manager highlighted the fact of limited funding and difficulty to manage far away from head office. She illustrates that it is not easy to go as more cost and resources required to serve people in distant areas. This suggests that limited funds are hurdles for MFIs. However, it is important to note that the quote above is from the personnel of a leading commercial MFI whose microfinance operations are spread in most parts of Punjab and few areas in Sindh. In addition, they take funding from multiple financers including commercial finance. Their larger access to various financing sources and concentration in urban areas where poverty is comparatively less shows that access to finance could be one justification among many others, which the interviewee has not revealed. In relation to this, the Operation Manager of one of the Rural Support Programme said,

> We have donor dependency and that is an external factor. Due to them, you become very restricted and then you do disbursements after a lot of thinking. Due to the lack of funding and these restrictions, our programme is limited. We worked with different organizations for getting funds to continue our microfinance services (RSP – Z).

She also gives a similar kind of justification of limited funding as the previous interviewee. She explains that disbursement of loans to different areas depends on the funding from donor. As her institution relies on donors' funding, therefore their microfinance programmes are restricted in particular areas. She also notes that to carry on microfinance services, they access funds from different organisation. It is important to note that this RSP (NGO) mainly work in one province of Pakistan. Her assertion in the above quote suggests funding of institution as a problem in expansion of microfinance programmes. This illustrates that for small scale NGOs, financing could be a real problem.

Another interviewee, which is a CEO of MFI explain his institution limited scale of operation in a different way. It is important to note that this MFI primarily work in Lahore that is a more saturated microfinance market. I raised the question why his institution does not work in other parts of Pakistan. He said,

> This is not our job to reach each and everyone. Other MFIs are there too, to help them
>
> **Interviewer:** But those MFIs are interest based?
>
> **CEO:** We have produced and made a model for them. An NGO's work is not to change the whole world or country. To change the country, we need the government sector, private sector and other NGOs cooperation. NGOs work is making a "Creative Model" then testing it. What Grameen Bank did, they presented a model and tested it and people liked it. Like this concept, we presented our model and it is 100% successful. Now it is the responsibility of other society organizations, international donors, private sector and state to see this model on scale (MFI – D1).

In this quote, CEO simply denies going to different areas. He states that it is not only their responsibility to reach every place, but it is also the duty of other institutions to reach in different areas and implement their unique model[19]. Moreover, he demonstrates that it is not only their job to expand themselves on a large scale. It is evident from the excerpt that, MFPs do not feel that it is their responsibility to go to remote areas and serve the poor. They seem to believe that their duty finished after presenting the unique model i.e. providing interest free loans. In addition, he said NGOs, government and other institution should also play their role. His assertion in the above excerpt suggests that every MFP has a responsibility to reach poor clients.

Moreover, there are also some interviewees who drew on different rationales, for example consider the following,

> In Khyber Pakhtunkhwa our all portfolio finished due to bad security condition. We closed our branches and lost major portfolio. No one wants to go to these areas due to bad law and security situation (RSP – Y1).
>
> In some places of Pakistan, we are facing security issues and these areas are dangerous places for our staff. We want our staff security first... We have branches but are few (MFB – J).

[19] This institution unique model is giving loan on interest free rate. They are primarily focus on Lahore and want this city as an interest free city.

These excerpts justify poor law and order situation as a hurdle of lower outreach in those places where poverty is more severe such as Baluchistan and Khyber Pakhtunkhwa. Interviewee (RSP – Y1) explains that they were working in many places of Khyber Pakhtunkhwa but due to security issues, they incurred heavy losses and closed many branches. Personnel of commercial microfinance bank (MFB – J) give the same rationale. He notes that they provide microfinance services in these provinces but their areas of operation are very limited. He calls these areas 'dangerous places' for their staff. However, the Managing Director of a leading consultancy firm in Pakistan demonstrates the scale and outreach of MFPs in the following way,

> Microfinance providers have excluded Khyber Pakhtunkhwa and Baluchistan due to bad law and order... I think these are the excuses. Ok talked about Punjab. Where is the penetration? Even in Punjab they are working only in few pockets. Sindh there is no different situation. I think the growth of microfinance sector has not done in way that it should be and they did not explore the newer markets. Everybody is concentrating in one area. If you go to Lahore, Gujranwala, Sahiwal and Gujrat, you will find every MFP, at least 12 MFPs operate in the same area. Why they cannot go out? There is density of population and some infrastructure available (Consult-1).

He added,

> What they have done is they have confined their area of operation to very few areas and they are not going to very rural areas (Consult-1).

The excerpt shows a mixed of discontent and rationale of limited outreach. This interviewee said that MFPs provide excuses for their limited outreach in two provinces Khyber Pakhtunkhwa and Baluchistan for their poor security. However, he said that in reality these are only excuses. He states, they provide microfinance services primarily in Punjab where the market is already saturated. Every MFP provides microfinance services in certain areas and does not scale their operations in other parts of Pakistan. This shows that all MFPs are more focused on some areas and do not work in rural areas or if so, only in areas where the microfinance market is already developed. This has been evidenced in the map of Pakistan and also from the tables which I discussed earlier in the chapter.

He put responsibility of limited scale on MFPs, as they have not explored newer markets of the microfinance in the country. He notes that microfinance development in terms of scale has not been carried out in way that it should be. Thus, according to the managing director, MFPs are accountable of this uneven growth of microfinance in the country and they should not work in this manner. In the above quote, the interviewee raises the question of limited spread and explains the answer as well. He noted that some infrastructure is available but MFPs have confined their operations in urban areas and do not go out to explore newer market means rural areas. This also shows MFPs preference of urban areas where people are more well off than people in the rural areas.

While discussing the outreach situation in Pakistan, the Region Business Manager of a leading microfinance bank provides an interesting insight of this problem, he said

> I think the problem is that in the last few years, everyone was in the race of clients that whom has more clients on institutional level. Every institution was saying that I have this number of clients. I think very few consider the depth of outreach.

He added more.

> We do not make the targets with closed eyes but in other institutions, we have to race with closed eyes because we know that when we will have monthly meeting then nothing else will be discussed. The only talk will be that how many clients you have. Especially in the last three, four years, this was considered as the achievement that how many more clients they have. Everyone was telling with pride that I have this many

> clients. It was the number game only. The bigger objective was numbers as compared to the poverty reduction objective (MFB – G1).

In this extract, the Regional Business Manager (RBM) clearly describes the picture of scale. According to him, everyone in this sector wanted to achieve more number of clients in order to impress each other. Having more number of clients was a symbol of pride. Here he favours his institution and state that his institution does not make the target blindly means their targets are based on proper assessment of the market. He shared his personal experiences of working in an NGO and a microfinance bank (as previously he worked in NGO (with non-profit status). He said while working in an NGO, he noticed that only one point was important i.e. numbers of clients. However, this happened not with only one MFI, as he illustrate that 'very few consider depth of outreach'.

He explains that more important goal of the MFPs were to target more number of borrowers instead of more poor borrowers, therefore after adopting these objective they left the actual mission and offered loans to people who were not poor. Above excerpt demonstrates the reason of lower outreach i.e. with increased commercialisation of microfinance institutions priorities changed from poverty reduction to outreach and profitability. MFPs were more concentrated on higher clientele to receive the benefits of scale economies that means larger number of active borrowers and profitability. In relation to this, the branch manager of one of the microfinance banks regards lending in urban area as problem of limited outreach. The Microfinance bank's branch was in the mid of bazaar at Rawalpindi. Shops were nearby to that branch and all the shopkeepers were entrepreneurs. She said:

> These shopkeepers do not need a micro loan. They require bigger amount of loan. Our objective should be to serve poor people who reside in rural areas. That is why our branch outreach is so low (MFB – K).

At that time, her branch outreach was only 2,000 active borrowers in the city where potential demand is 327,457 clients (Khalid, 2011). She highlighted that microfinance providers should open the branch in rural areas where poverty is more severe. She explain that low outreach of her branch is due to its poor choice of location. Shopkeepers in the city require larger loans due to their higher expenses. Moreover, as they are better off compared to entrepreneurs in rural areas, they do not need micro loan. Her assertion in the above quote suggests that to increase outreach, microfinance banks need to approach poverty areas. Their outreach will remain limited if they focus on urban parts. Moreover, head of microfinance operations in leading consultancy firm states in relation to this as,

> If you look at Lahore, Lahore is so big but they all focus on one area. Lahore has other parts as well where no one is working. Many parts of the country population is also left they also should go there. No one wants to go there. They do not want to go there because the commission-based women have high-jacked them. Staffs know them (Consult-2).

This consultant also complaint about the problem of market saturation in certain areas similar to the previous interviewee. His explanation about this problem opened up a new discussion. He illustrates that MFPs focus on some regions because they does not wants to go out from these areas and this is because 'commission based women have high-jacked them'. Indeed, commission based women play an important role in some particular regions. These women work on commission bases and built-up the clientele for MFPs (see more detail in Chapter Six). Research in this study and the literature of microfinance in Lahore provides evidence of their existence (see Burki, 2007). In addition, he was annoyed with these MFPs policies and practices. He went on to speak more specifically why these institutions are at one place:

> They do not have the vision and they do not know how to run microfinance operations. The just have taken the position and think that it will happen. It does not work like this. You must understand your business and your market, which they do not know at all, they do not understand the business or the market. Moreover, they do not know the system and procedures needed to operate microfinance operations. That is why all are together at one place (Consult-2).

He was more concerned about the microfinance sector and the problems the sector is facing nowadays. He pointed out the attention towards the lack of clarity of the objective and vision of these MFPs. He said, these MFPs do not know what they are doing, particularly microfinance banks. They do not understand the microfinance sector and its requirements and procedures. He elucidates that, personnel of MFPs 'has taken the positions' which means they are more concerned with their jobs rather than the understanding of the market. He notes that, microfinance does not work in the same way, in order to reach to larger market and poor people, MFPs need to know their clients and their requirements. Thus, according to him, due to lack of vision, understanding about the microfinance market and its procedures, all MFPs are working in certain areas. This suggests that the commercialisation of microfinance in Pakistan and despite the arrival of microfinance banks, outreach of MFPs is concentrated on certain urban areas and they do not spread their operations in poverty regions of Pakistan (see figure 3.1 in Chapter Three).

In summary, personnel of MFPs have provided different rationales for their limited growth. Some note that it is the limited funding and resources, while others point to the poor security. However, consultants of microfinance illustrate that MFPs provides the excuses, in practice the problem is 'they do not wants to go' to more rural areas where poverty is more severe. They explain that limited vision and understating of the market are the reasons that MFPs are working in one place. Moreover, the above discussion demonstrates the 'number game' as the problem of limited depth of outreach. It is also evident that commercialisation of microfinance has not positively affected scale of operations, which is stated aim of this movement (see details in Chapter Two). Their focus on urban population also indicates drift in the mission of microfinance – poverty alleviation. In addition, this situation has created more competition in certain areas. Whether intense competition is beneficial for the microfinance sector or not, is discussed in the following section.

5.4 Competition: A Benefit or a Problem

Generally, competition is considered good for the economy by economists because it results in goods services and lower prices for the customers. However, sometime intense competition also creates problems when it is not directed at reducing costs or increasing customer service. For instance, in microfinance, intense competition has triggered many crises such as we have seen in India, Morocco and Bosnia-Herzegovina (see more discussion in Chapter Two). MFIs seek more clients and this has resulted in clients who take loans from multiple institutions: their chances of default increases and they could also be over indebted (Vogelgesang, 2003). Increased competition induces a decline in repayments performance (Craig *et al*, 2003). Moreover, McIntosh and Wydick (2005) study of competition among MFIs resulted that when the competition increases, it benefits the wealthier borrowers to take multiple loans due to possibility of increasing asymmetric information between lenders. This makes poorest borrowers worse off and being dropped from the loan portfolio. Thus, microfinance literature shows negative consequences of intense competition so far.

My concern about extreme competition forced me to ask questions from my respondents. When asked from Senior Research Associate of a leading MFI about how she sees competition in the market, she responded:

> Competition is a good thing. Competition is never a bad thing but competition needs to be responsible. There should not be irresponsible and bad lending... If you have competition then it is good thing in another way also. It makes you drive to newer markets. Once a market saturated, [institution] want to move to a new market. It will increase the scope of MF services in Pakistan (MFI – B2).

The response was twofold. In the first place, she suggests that competition is always good but warns that institutions should be careful while lending in competitive markets. The advantage of many players in the market is that it gives choice to borrowers and it also makes the interest rate stable. However, she said 'it should not be irresponsible and bad lending' by which she means lending without proper monitoring and assessment of micro borrowers.

Secondly, she exemplifies the advantage of competition that it leads to the newer market. As one area becomes saturated, competition forces microfinance institutions to explore new markets and thus leads to larger outreach. However, the discussion above suggests that competition has not resulted microfinance institutions searching for new markets but instead intensifying work in existing locations. In addition, practitioners of microfinance favour more competition on the interest rate. For instance, consider the following quotes:

> Now when they talk about the rate of interest, you know about perfect competition and imperfect competition. When gradually and slowly competition increases so, it determined the interest rate itself (MFI – A1).

> We are working in a perfect competitive market. There are 30 institutions. You cannot earn abnormal profits. If you are charging an abnormal interest rate then your competitors will come in (CEO – PMN).

Practitioners in the above excerpt explicitly state the economic advantages of competition on interest rates. The first is from one of the CEO of commercial MFIs, she points out that as more competition enters the market, it determines itself the interest rate. CEO of PMN reinforces this, suggesting that the microfinance providers are in a perfectly competitive market and therefore they cannot gain abnormal returns through interest rates. The National Distribution Manager of a leading Microfinance Bank also favours competition on similar grounds. He said,

> When the number of microfinance banks increases then there will be competition. With more competition, there will be a limit on interest rate that how much they can charge. Why would somebody go to organization that is asking 50 percent or 60 percent interest rate? Thus, when there will more institution in the market then you will charge less due to market competition. If there are one or two banks then that will be the case of monopoly and in that case you can charged 80 percent (MFB – G3).

The above interviewee also takes this further and warns of the alternative – monopoly and higher interest rates. Thus, we see many support competition in the market. However, practical evidence still shows in increased interest rate when the microfinance institutions move towards commercialisation. Thus, Compartamos in Mexico, the microfinance sector in India and many more MFIs in the world are examples where commercial institutions are charging high interest rates. In addition, the empirical findings of this study also demonstrate that MFBs in Pakistan and some commercial MFIs charge higher interest rates compared to poverty-focused MFIs. Besides high interest rates, intense competition has created problems of multiple borrowing and over indebtedness of clients in different parts of the world, as I noted above. Microfinance sector in Pakistan is also among the countries where intense competition in certain areas has resulted multiple borrowing. For instance, see the excerpt of CEO of MFI below,

> There should be more and more options in the market for the clients. We accept that there is multi-borrowing but not over indebtedness (MFI – C).

In this quote, CEO shows her support for more competition because it gives benefits to clients in the form of multiple choices. However, on one hand, she accepts the problem of multiple borrowing and on the other she argues that even with multiple borrowing, borrowers are not highly indebted. Some studies suggest that in the time of competition and when clients borrow from multiple sources, they pay back loans (Krishnaswamy, 2007). However, this is largely due to enforce repayments. Other research shows that with competition, multi borrowing increases and their repayment efficiency decline (McIntosh, de Janvry and Sadoulet, 2005; Chen, Rasmussen and Reille, 2010). Intense competition of MFPs in certain regions of Pakistan also created a problem of multiple lending and enforced repayments (see detail in Chapter Six) that has affected the repayment efficiency of borrowers (more discussion in Chapter Seven).

Another instance of 'competition and scale' is evidenced from an interview with head of microfinance practices of a leading consultancy firm. When I asked question about intense competition in the market, he said,

> Players should be there but not in one area (Consult-2).

He suggests that more players are a good thing but the problem is that they concentrate on one particular area, such as Lahore. The excerpt of a branch manager in one of the microfinance banks' in Rawalpindi is interesting in this regard. She explains the problem of multiple lenders this way:

> Microfinance players should focus on rural areas. Urban areas specifically Lahore and Rawalpindi are not the market of microfinance. People are not as poor as they are in rural areas. I can give you the example of Rawat [a town near Rawalpindi]. We reached there first time and opened one service centre there. After us, one microfinance bank and one RSP also came over there but now four other microfinance banks have opened the branches in same area. This kind of situation makes the market saturated. If a person takes a loan from different institutions then poverty cannot be reduced, clients over indebtedness increase (MFB – K).

Interestingly, she was also more concerned with over populated MFPs in one place. She shows her dissatisfaction when one MFB opens a branch, other players also arrive there and make the area saturated. She clearly notes that this is not the poverty reduction when institution focus on certain areas and clients take loans from multiple lenders. In addition, she said, urban areas are not the area to serve poor people, as people are not as poor as they are in rural areas. Her quote supports the previous interviewee's arguments that over-concentration is a problem. MFPs target clients in urban areas but poverty is more widespread in rural areas. The operation manager of one of the RSPs also provides a similar kind of explanation about competition, but she also illustrates the benefit of competition. Take the following quote:

> The advantage of many players is, competition will increase and when competition increases, they [MFPs] will introduce good products. This will ultimately benefit the customers. Then the issue can come of the multi-borrowing, so for this issue credit bureau is required to stop this multi-borrowing. The other thing is that mostly MFIs and MFBs are in Lahore. Lahore does not come in poverty areas but mostly institutions target urban not rural areas. Pakistan's 70 percent population is in rural areas and all poverty is there but very few are approaching those poor people (RSP – Z).

In the above quote, interviewee favours competition because it provides benefit to customers in the form of 'good products'. However, she also shows her concern towards multiple borrowing that due to increase competition, clients will take loans from various lenders concurrently. She suggests that the credit bureau is the solution of this problem. This interviewee also exemplify the problem of concentration of MFPs at limited pockets which is also evident in the quotes of previous interviewees (MFB – K; Cocult-2). She criticises MFBs and MFIs on their restricted scale of operations in urban areas and they left rural parts of Pakistan where poverty is more severe.

In summary, practitioners argue in favour of competition on the grounds of interest rate and for better products and services. However, they also realise it has created many problems such as multi borrowing. It seems that practitioners are aware about the problems of competition and have identified solutions, such as geographical spread to rural areas and the introduction of credit bureau. However, as in Pakistan most of the MFPs are still concentrated in certain areas, the advantages of competition through scale has not been achieved (see the discussion of interest rate in Chapter Seven). In urban areas, competition has not given many advantages but arguably worsened the situation, as institutions focus on more number of borrowers (breadth of outreach) instead of more poor borrowers (depth of outreach). In the following, I will explore what impact commercial microfinance has produced on the mission statements of MFPs.

5.5 Missions as Presented

The main aim of microfinance is to alleviate poverty and the model developed in the last four decades to achieve this objective. However, growth of commercialisation of microfinance has diverted objectives of microfinance from poverty reduction to profitability, sustainability or financial access. This deviation in the mission is called mission drift (see detail in Chapter Two). Different proxies used to measure mission drift aspect such as average loan size, percentage of women borrowers and target market urban or rural. However, this phenomenon can also be enlightened by analysing the mission statements of microfinance institutions. Analysis of mission statements is important to see how microfinance providers in Pakistan advertise themselves. Thus, for the stated purpose, I have taken mission statements of MFPs from their websites. I have included those MFPs that are in my sample of quantitative dataset i.e. twenty-three in total (see Table 5.2).

Table 5. 2 Mission Statements of Microfinance Providers

	Microfinance Providers	Mission Statements
	Microfinance Banks	
1	**Khushhali Bank**	To strengthen the economic base of low-Income populace across Pakistan by improving their accessibility to financial services, by supporting a diverse product suite with exemplary service and by deploying cost efficient next generation delivery system, we intend achieving our core objective of outreach and sustainability.
2	**Network MFB**	To provide access to a complete range of formal banking services to micro entrepreneurs engaged in income generating activities and to under privileged people on an ongoing basis.
3	**Kashf Bank**	KMBL will become the provider of choice by offering a full range of financial services to micro and small entrepreneurs, especially women, to equitably expand economic opportunities and to maximize value for all stakeholders.
4	**Pak Oman MFB**	To create quality sustainable income generating opportunities for the poor people of Pakistan, a focus to bring about visible change in their lives through quality and innovative microfinance.
5	**Tameer MFB**	To set new standards of excellence in value added microfinance and related services through innovative technology and a highly skilled/professional staff for customer convenience and satisfaction. Equal opportunity, Meritocracy, Innovation, Integrity and Respect.
6	**First MFB**	To help strengthen the entrepreneurial base of the economically disadvantaged population across the country by seeking to marry entrepreneurship with capital formation in not only rural areas but also the major population centre. To provide people the scope to expand their economic base, and overtime, to support

		diversification beyond traditional small enterprises. The bank will endeavour to introduce good practice, ethical precept and the highest standard of rectitude in the conduct of business and will remain respectful of the needs of the poorest segment of society.
	Microfinance Institutions	
7	**Kashf foundation**	Kashf's mission is to **alleviate poverty** by providing quality and cost effective microfinance services to low income households, especially women, in order to enhance their economic role and decision-making capacity.
8	**Asasah**	Improve Living standards of people below the poverty line through provision of diverse economic, educational and information services.
9	**Damen**	Mission of DAMEN is to make the people of marginalized communities understand the true notion of development and build their capacity, which would enable them to organize themselves into groups for collective action leading towards self-reliance and empowerment.
10	**Akhuwat**	To alleviate poverty by empowering socially and economically marginalized families through interest free microfinance and by harnessing entrepreneurial potential, capacity building and social guidance.
11	**ASA Pak**	ASA International leverages the expertise and knowledge of ASA to bring the benefits of simple, affordable and need based microfinance to the poor of the world.
12	**Community Support Concern (CSC)**	To provide quality health and social services to underserved and marginalized communities through innovative and participatory approaches.
14	**Centre for Woman Co-operative Development (CWCD)**	To support the potential poor in Pakistan break out of poverty cycle by providing them with necessary borrower friendly credit, business development services and advocating their rights.
15	**Sindh Agricultural and Forestry Workers' Coordinating Organization (SAFWCO)**	SAFWCO's mission is to mobilize the poor under a common platform and to support them to carry out sustainable development.
16	**Orangi Pilot Project (OPP)**	Identify people/institution and support them to enhance their resources, human and finance, in order to empower them and make them self-sufficient.
17	**BRAC-Pak**	Our mission is to empower people and communities in situations of poverty, illiteracy, disease and social injustice. Our interventions aim to achieve large scale, positive changes through economic and social programmes that enable men and women to realise their potential.

18	**Jinnah Welfare Society (JWS)**	Socially, economically and politically develop marginalized communities especially women, children, farmers, through mobilization and group formation, capacity development, information and knowledge building, economic support and advocating their rights and entitlement with an aim to ensure a peaceful and just society; and equal opportunity for all.
19	**Orix Leasing Ltd**	Orix contributes to society through participation in poverty alleviation programmes, provision of financial assistance to grass root level and assistance to charitable institutions.
20	**Sungi Development Foundation**	Our Mission is to bring about policy and institutional changes by mobilizing marginalized communities to transform their lives through equitable and sustainable use of resources without any discrimination against social origin, sex, race, caste and religion.
21	**Rural Community Development Society (RCDS)**	Empower the marginalized communities and strive for the developed society having social justice, economic strength and political freedom and believing in equality, peace and tolerance.
	Rural Support Programme	
22	**National Rural support Programme**	NRSP's mandate is to alleviate poverty by harnessing people's potential and undertake development activities in Pakistan.
23	**Punjab Rural Support Programme**	PRSP mission shall be best achieved through organising the poor household, creating the solidarity groups, building their capacity to explore, creating and grasp the opportunities for the alleviation of poverty. PRSP mission for the rural poor shall be best achieved only with the social guidance, with counselling, advocacy, technical assistance, provided by a specialized organization till such time that the poor acquire the capacity of creating and using the opportunities without such support.
24	**Sarhad Rural Support Programme**	Develop and build Social Capital by mobilizing communities to address Poverty
25	**Thardeep Rural support Programme**	Enlarging the choices of marginalized people, focusing on women and working children and to achieve greater impact on reducing poverty by working with all stakeholders

Source: Taken from each institution website (Accessed on 15 April 2011)

The mission statements above clearly indicate diversity of mission of microfinance banks, MFIs and RSPs. Supporters of the dual mission, microfinance banks are more focused on financial inclusion comparative to poverty reduction. Within MFB peer group, at one end of the spectrum differences are apparent in less commercial microfinance bank such as First microfinance bank whose main mission is to 'strengthen the entrepreneurial base of the economically disadvantaged population' or Pak Oman MFB who gives priority to 'create quality sustainable income generating opportunities for the poor people of Pakistan'. At the other end, MFBs such as Kashf Bank whose main mission is to "become the provider of choice by offering a full range of financial services to micro and small entrepreneurs" and "to maximize value for all stakeholders" shows their status as more commercially focused MFB. Stakeholders here mean their clients, management, board of directors and all other parties interested in their bank. This seems to suggest that poor clients could be potentially included in the stakeholder category but the microfinance bank could value on equitable basis to that of well-off clients.

In addition, most of the banks such as Kashf Bank and Network MFB, want to serve to micro and small entrepreneurs, however, they did not mention poor clients or poverty reduction as their objective. Khushhali Bank claim to serve to low income population by improving their financial accessibility, however, they also asserts that "we intend achieving our core objective of outreach and sustainability" which shows their double bottom-line approach. Nonetheless, their core mission is 'outreach and sustainability', instead of serving poor people.

The Tameer bank mission statement is different as compared to other banks as they did not mention poverty reduction, serving to poor people or even micro entrepreneur. They have revealed "Equal opportunity, Meritocracy, Innovation, Integrity and Respect". From this statement, it is clear that they want to give equal opportunity to all.

They believe in ‘meritocracy’ and ‘innovation’ which means they want to provide new products to those elite groups of people who deserve these services. Moreover, they value their customers and want to provide them ‘value added microfinance’ for their satisfaction. As Tameer MFB is a private commercial MFB, therefore, their mission statement depicts their core objectives, which are not poverty reduction or inclusion of poor clients.

In summary, nearly all microfinance banks have financial and some social principles built into their mission statements, and there are common themes across them. Access to finance, income generation, profitability, sustainability and provision of full range of formal banking services emerge as the most common objectives of microfinance banks. Thus, this suggests that MFBs has diverted to mission of ‘financial inclusion’ from the poverty reduction objective of microfinance. In addition, it is evident that MFBs give key priority to profitability and sustainability of institution and want to provide access of finance to the poor.

Non-bank, non-profit microfinance providers such as MFIs and RSPs peer groups main mission is to achieve social mission of poverty reduction rather than achieving financial goals. Even though, the shift of commercialisation has affected these MFPs and they talk about the financial perspective as well. However, financial goals are less reflected in their mission statements compared to microfinance banks. Poverty reduction, empowerment of the ‘marginalized’ communities, capacity building and expanding their income opportunities are more apparent themes in these institutions especially the specialised micro finance institution. They want to provide services to ‘low income households', 'people below the poverty line' and want to break the 'poverty cycle'. Most of these MFIs mainly work with women and they also consider them more loyal and good in repayments and their mission statements also reflect this notion.

Similarly, within the MFI group, there are NGOs that run multidimensional programmes such as providing services of health and education besides giving microcredit services. They refer to a broader range of development objectives. We can also see the utterance of social justice, economic strength and political freedom in their mission statements. They also believe in a peaceful and justice society and equal opportunity for all. Moreover, we can see the leasing firm is also part of the MFI group, which offer microcredit services in addition with their core business of leasing. The institution also considers microfinance as an important poverty alleviation tool and wants to provide income-generating activities to poor people through microfinance.

Other group of microfinance providers, RSPs are different from other microfinance providers in a way that they do not only provide microcredit but they provide the services what the community need or demand which can be microcredit, 'technical assistance', 'social guidance' health and education services, or any other need. All RSPs believe in the objective of social mobilization and capacity building. We can clearly see the poverty reduction as their main mission and they focus more on 'marginalized communities' such as women. According to the United Nation Development Programme (UNDP) reports women in developing countries are the poorest of the poor (cited in Agier and Szafarz, 2013). Thus, serving to women borrowers is an indicator that depicts MFIs and RSPs are being devoted to their poverty reduction mission.

Overall, we can see that similar language has been used among each type of MFPs. Banks want to achieve objective of double bottom line and more focuses in giving financial access to clients. On the other hand, MFIs and RSPs are more concerned with the poverty and poor as stated in their mission statements. They prefer to achieve social mission of microfinance i.e. poverty reduction. Thus, the above discussion about mission statements clearly shows the differences between the non for-profit MFIs and for-profit microfinance banks. This suggests that legal status seem to appear as a significant determinant of a poverty reduction mission.

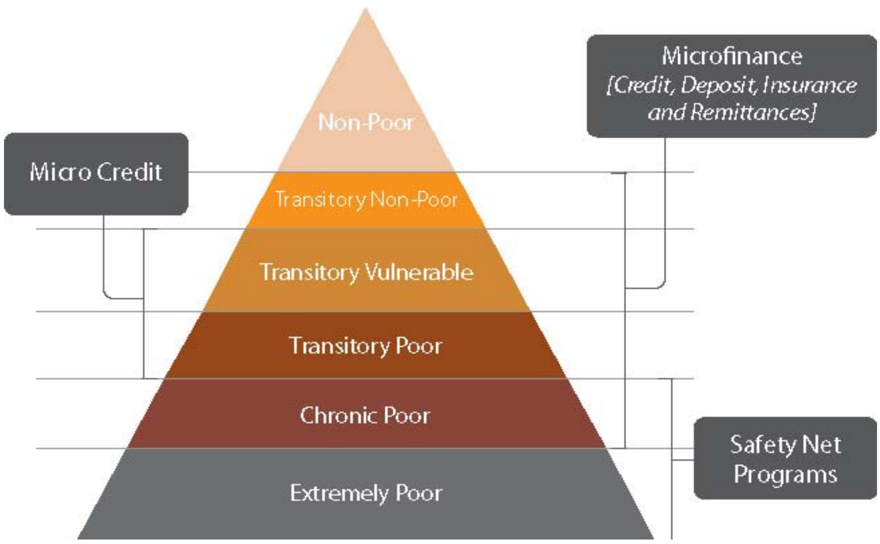
Moreover, commercialisation of microfinance has influenced the mission of commercial MFBs in Pakistan. This implies that mission drift has occurred in the stated mission of MFPs when they move towards non-profit status to for-profit status. Commercialisation of microfinance in Pakistan has affected MFPs in another way i.e. poor are now segmented. In the following section, I will discuss the categorisation of poor people.

5.6 Categorisation of Poor

The poor can be classified into different forms based on distinctive characteristics. Most of the MFIs serve a wide range of clients that fall below and above the poverty line (Sebstad and Cohen, 2001). In the literature, different terms have come into usage to classify those who experience different form of poverty. Among the most common are 'chronic poor' (Hulme, 2003), 'moderately poor' (Sebstad and Cohen, 2001), 'ultra poor' and 'transitory poor'. According to Matin and Hulme (2003: 647), "the poor are not a homogeneous group, such as small farmers or landless people, but have many different characteristics and thus will need different forms of assistance". This implies that the poor are heterogeneous and need different forms of financial and non-financial services therefore, different levels of state subsidy and varied instruments require to different forms of poor people.

Different microfinance providers are working in Pakistan, from regulated and commercial institutions such as banks to less regulated, non-profit organizations. Therefore, in order to fulfil diverse needs of clientele of the microfinance sector, Pakistan Microfinance Network divided the microfinance sector into six different layers, according to its target borrowers or 'market' (see figure 5.2).

Exhibit 5.2 Poverty Pyramid



Source: (Shah, 2010: 9)

The extremely poor and the chronic poor are excluded from microcredit and micro finance services in Pakistan. It is suggests that these categories of poor does not need microfinance but they require safety net programmes. The 'extremely poor' represents those individuals who suffer from several dimensions of poverty. These individuals suffer from food deficiencies, unable to fulfil the basic needs of all family members, or they are unable to give basic education to their children and, in the case of no work, one of the family members beg to support the family.

The academic literature and generalised evidence suggests that these extremely poor remain outside of the conventional microfinance programmes (Zaman cited in CGAP, 2001). This group of poor can come of out of poverty by government and donor subsidies/grants that provide food, employment and other basic requirement (Robinson, 2001). These arguments are consistent with the development state view, which also favours state interventions for the economic growth (Kohli, 2004; Amsden, 1989; Wade, 1990). Notably, Bateman (2010) argue that poverty cannot be reduced without state interventions; therefore, subsidised programmes are important for the poor and for poverty reduction (see detail in Chapter Two).

The chronic poor[20] layer above the extreme poor are people who experience poverty for long periods of time or throughout their lives (see figure 5.2). These are the individuals or households consist of "over half" of the poor, a varied group who commonly lives in

[20] A number of terms have entered the development dictionary to identify those who experience poverty most intensely – ultra poor, extreme poor, hardcore poor, destitute, poorest of the poor, and declining poor (CPRC, 2005).

remote rural areas, suffer from disabilities, lack social networks and/or experience social discrimination in its many and diverse forms (Hulme, 2003: 399). The chronic poor are also often not catered by microfinance services and it has been argued that safety net programmes should serve this class where they can receive basic requirements such as food (CGAP, 2001).

In addition, those in the upper categories such as ‘transitory poor’ and ‘transitory vulnerable’ are part of micro credit as well as microfinance programmes. Transitory or ‘transient poverty’ can be defined as the temporary state of poverty which last for short period of time (Jalan and Ravallion, 2000). They are highly vulnerable people who can slip into the chronic or extreme poor category with a slight adverse shock in their life, such as marriage of a daughter (the expense of providing a dowry) or the death of a sole earner (Remenyi, 1991). Microfinance services can help these groups of people to overcome poverty. The uppermost layer in the pyramid is the non-poor that are excluded from all microfinance and microcredit activities.

Categorisation of poor is also reflected in the interview data. During the data collection, some of the practitioners of microfinance highlighted importance of client’s segmentation. For instance, take the quote below of the CEO and founder of one of the leading MFIs who explained about the categorisation of microfinance sector:

> Thank God that it has been clear now after so many difficulties that where the safety net programs will come and where the others (if you see the pyramid). Yes when there was no distribution, then at that time things were different. For example, there is a poor man; you have given micro credit services to them. He has one bed in his home, you are giving Rs. 5, 000 – Rs.10, 000 loans and charging interest as well, and as

> a result, he is unable to repay. Then the question mark comes on this kind of services. Therefore, we said that categorised the sector (MFI – A1).

She explained that categorisation of poor is important, as poor people needs are different. She explain segmentation of the poor with example i.e. if a microcredit is given to a poor person with limited necessities of life, then it will not benefit to that person, instead it will create a problem for him. Therefore, she suggests that categorisation of the microfinance sector plays a significant role to serve right services to the right person.

The academic literature also suggests that when loans are provided to the extremely poor then they may not be able to use it effectively because of lack of self-employment opportunities (Hulme and Mosley, 1996) and it can result in over indebtedness. In addition, a fear exist that extremely poor households would either consume the loan, or would be unable to make regular payments from activities that do not generate regular income due to extreme poverty (CGAP, 2001). Therefore, these categories of poor need food subsidies, skill transfer and training and micro credit is given to them after when they become eligible to do some income generating activities.

Furthermore, when the similar question has been raised from the CEO of Pakistan Microfinance Network then his argument echoes with the resonance of the previous interviewees about the fragmentation of microfinance:

> For me one of the important functions of microfinance is financial access, providing financial services to the base, people who do not have banking facilities and they need these services. I am not talking about the extreme poor or chronic poor who cannot take credit, who need skill

> transfer, cash transfer or some other kind of direct government subsidy. It is a self-selective process; we need to work with people who are economically active and provide financial services that are required to them, not necessarily, everyone requires credit. May be the number of people in the chronic poor category require insurance services, or they can require saving services. That is all we look at (CEO – PMN).

The same key element of fragmentation of poor appears in the CEO's narrative. The above quote has highlighted various important points. For instance, the CEO notes that important function of microfinance is to give financial access and according to him, this financial access should be provided to 'economically active poor'. By 'economically active poor' means those individuals who are already involved in some income generating activities. For majority of the MFPs, a loan disbursement criterion for a micro borrower is he/she should be an 'economically active poor'. He also notes that 'extreme poor or chronic poor cannot take credit'. According to him, they need 'skill transfer, cash transfer or some other kind of direct government subsidy' which means that in order to serve the extreme poor people, an institution have to give some form of financial or non financial services. He said extremely poor people require subsidised government programmes. Thus, this suggests the importance of subsidised programmes for the poor.

In addition, the pyramid shows that microfinance should be given to four layers of the poor: transitory non-poor, transitory vulnerable, transitory poor and chronic poor. This suggests a conflicting view. On the one side of spectrum, the Pakistan Microfinance Network (PMN) divides the poor and suggests that MFPs can provide services to four layers of poor. On the other hand, the above interviewee state that microfinance should be given to 'economically active poor'. In relation to this, CEO of MFI CEO expresses similar views as mention in the previous excerpt,

> When we talk about the poorest of the poor, they may not need these [Microcredit] financial services. The poorest should be supported by government and subsidised funding, and then they have to be trained well to become eligible for microfinance (MFI – C).

She explain that poorest of the poor need support from the government and they need subsidised services. They do not need services based on commercial sources. In order to become eligible for microfinance services they need training means safety net programmes. Interestingly, one point is common in the above quotes and i.e. extremely or chronic poor does not require microfinance programmes but they require subsidised programmes by the government or donor.

In practice, a number of programmes exist that have provided safety net programmes and microcredit to 'chronic poor' and are successful. One of the most successful programmes among them is 'Income Generation for Vulnerable Groups Development (IGVGD) program of Bangladesh Rural Advancement Committee (BRAC), Bangladesh. According to CGAP, this programme is targeted towards vulnerable rural women who have little or no income earning opportunities. The IGVGD program has provided food subsidies, intensive skill training, savings and microcredit services to nearly a million participants.

There are also lists of programmes which targeted particularly the very poor people and among them most popular are 'Challenging the Frontiers of Poverty Reduction/Targeting the Extreme Poor' of BRAC Bangladesh (CFPR/TUP), Grama Vidiyal, ASA, India and Tshomisano Credit Program, Small Enterprise Foundation, South Africa (Maes and Foose, 2006a) and Grameen Bank's struggling (beggar) members' programme in 2003. Thus, some programmes that mainly targeted extremely poor people demonstrate that it is possible to bring even the most vulnerable households where they can access microfinance services despite the high risk, high transaction costs, and other challenges involved in lending to them.

However, in Pakistan, these kinds of programmes are scant. Few leading NGOs are running safety net programmes. They are providing awareness and carrying out work such as enabling the social mobilization of clients. Some are involved in fee waivers exemption and scholarship programmes. However, the literature suggests that the role of safety nets programmes is beyond that. A majority of the NGOs only provides micro credit and do not offer any safety net programmes. Microfinance banks only offer microfinance services. This suggests that segmentation of the poor has been carried out but in practice MFPs provides microfinance services to the poor who are involved in some form of income generating activities. In addition, most of the MFPs work in urban areas where there are less poor. This suggests that despite segmenting micro borrowers, MFPs mostly work with the upper layers of the pyramid.

Interestingly, interviews with the CEO of MFI open up a new insight in the topic of poor segmentation. She states that everyone in the microfinance sector should realise their own role. Banks and NGOs should know their roles. She enlightens as:

> When the microfinance bank gives the services to the safety net program people then he puts them in over indebtedness and hit them. (NGO) will do the work of safety net programmes. Banks will not give training to the micro women or micro entrepreneur. Banks will not give the market awareness it will be the NGO, who will provide this. Here is the role of NGO and this is very clear. Kindly do not expect from MFBs that he

> will give the services to people below the poverty line. He will not and if he will then he will do wrong. The NGO role is very clear. NGO who is not clear at its role then they are doing wrong in this sector (MFI – A1).

In the above passage, she highlighted the role of microfinance banks and NGOs. Her assertion that it is not the banks' role to provide services to the chronic and extremely poor people is noteworthy. She favoured safety net programmes, which should be run by the NGOs. She notes that MFBs should not give safety net programmes because through this way over-indebtedness of clients increases and it will worsen the situation. It is the duty of NGOs to provide safety net programmes, she suggests. Her assertion of safety net programmes by NGOs not MFBs could be due to higher costs. As MFBs provide loans that are more expensive therefore, poorest of the poor cannot afford these costly loans. Costly and larger loans, which the MFBs provide are more suitable for the micro entrepreneur (see details in Chapter Seven).

More, another possible argument could be that as NGO mostly take subsidised funding, therefore, they are in a better position to provide safety net programmes. This has been found in this study while assessing financing sources of MFPs, that MFIs and RSPs are highly subsidised while MFBs rely on a mixture of financing which includes commercial borrowing (see detail in Chapter Seven). Therefore, due to high cost she notes that microfinance banks will not give services to poor.

Thus, the above discussion about segmentation of poor suggests that practitioners of microfinance are acknowledging the limited role of microfinance. These arguments are in line with the recent literature of microfinance (Bateman, 2010; Karnani, 2009), which suggests that state interventions are important to help poor people. In addition, interviewee's elicitation and pyramid suggests that microfinance is not a 'one size fits all' poverty-alleviation tool as often promoted. There is crucial role of state to help extremely or chronic poor by safety net programmes means skill transfer, training or financial support. Therefore, as the CEO (MFI – A1) said NGOs can do this job in a better way because mostly NGOs take subsidised funding and target poor people. This also advocates the limited scope of MFBs in poverty reduction and providing services to poor.

5.7 Summary

Microfinance in Pakistan is increasingly becoming commercial and numbers of MFPs are increasing. However, despite in the growth in number of institutions, poverty is more prevalent in Pakistan. Analysis of the data (geographical presentation and table) suggested that it is largely because MFPs are located in those areas where poverty is not widespread, graphical presentation provided evident of this. It is found that MFPs particularly focuses on urban areas where population is less poor. In addition, these MFPs concentrate on big cities such as Lahore or Karachi, which has saturated certain areas of these cities. Analysis of the interview transcripts revealed various rationales behind limited growth of MFPs. Limited funding and bad law and order situation in the country are the most common reasons. However, practitioners also argue that it is due to the limited vision and knowledge of the MFPs.

Market saturation in certain areas also leads to intense competition. Regarding this issue, most of the interviewees favour competition on various grounds but they also show their concern about focus on certain pockets and growth in urban areas. Responses of the personnel of the MFBs illustrated that the purpose of the MFBs should be to reach poor people in rural areas instead of focusing on urban areas. Thus, it can be said that commercialisation of microfinance has not fulfilled its stated promise of larger outreach and has made the situation worse. Analysis of the mission statements suggests obvious differences in the mission statements of for profit MFBs and NGOs (MFIs and RSPs). It is found that MFBs' main mission is to provide financial access to micro and small entrepreneurs, while NGOs focuses on poverty alleviation and to serve the marginalised communities. Thus, it is fair to suggest that commercialisation of microfinance has shifted the mission of MFPs.

In addition, placing microfinance on a commercial basis in Pakistan has resulted an important change i.e. the segmentation of poor. It is suggested that microfinance or micro credit facilities should be given to people who are not extremely poor. For the extremely poor, there should be safety net programmes based on government subsidies. Practitioners of microfinance's responses also show resonance with this idea. This suggests the awareness of practitioners about limited role of microfinance in poverty reduction, which the opponents of microfinance also argue. Furthermore, analysis of the interviews data advocate that microfinance banks serve the upper layers of the pyramid and NGOs should give subsidised programmes because the poor need subsidised programmes, which the NGOs can provide at lower cost. However, poverty pyramid state that microfinance should be given to all layers except extreme poor. Limited outreach and analysis of the finding suggest that despite segmenting the poor, MFPs, in particular MFBs are more focused on serving less poor people, and if any safety net programmes are available, it is provided by the NGOs.

Chapter Six: Microfinance in the Community

6.1 Introduction

In the previous chapter, there was a discussion of scale of operations of microfinance providers (MFPs) in Pakistan. A summary of unevenness of geographical spread of microfinance providers and their oversupply in certain areas has been examined through the views of practitioners. Unequal scale of operation of microfinance has resulted in intense competition, which are analysed with the excerpts of practitioners. In addition, it is found that mission statements of micro finance banks (MFBs) focus more on dual mission of microfinance, while NGOs primarily focus on social goals. This chapter focuses on microfinance in the community. What is happening in the sector and who are being served will be the focal point of the chapter. After considering excerpts of the practitioners in the previous chapter, this chapter presents excerpts from interviews with both groups of research participants, microfinance borrowers and personnel from MFPs.

As I previously mentioned in the methodology chapter that the micro borrowers who participated in this study are both, those who take loans through group lending approach and individual micro borrowers. Research participant were from the self-selected groups. It is important to note that, in microfinance, most of the groups are formed by a self-selection process where the borrowers themselves select the group members subject to approval by the bank and in some cases microfinance institution creates the group of micro borrowers. In the group lending methodology, micro borrowers form a group based on pre-existing social relations and shared values. Therefore, a group-lending approach gave me the advantage to understand the culture of microfinance and shared norms of the community. Thus, this chapter focuses on how microfinance works in the community in relation to the existing culture of microfinance and the prevailing broader culture of Pakistan.

In first section, I will analyse a case study of MFI, which shed light on the context of the prevailing practices of microfinance. The following section focuses on how cultural values and norms are used instrumentally to achieve commercial objectives. After this, I will discuss microfinance intermediaries that play significant role in the microfinance community. Within this section, narratives from the microfinance intermediaries is analysed to give insight of their role in microfinance. Moreover, there is analysis of how these intermediaries use the loan is discussed. In subsequent section, excerpts of interviews with micro borrowers are discussed which would show their understanding about the loan repayments. Finally, stories of the successful micro borrowers are analysed, following with concluding comments are drawn from the analysis and discussion presented.

6.2 Story of the Leading MFI – The G Fund

When I started my fieldwork in February, 2010, and commenced interviews with the practitioner and particularly micro borrows in Lahore, almost everyone was telling one story. It was the story of the G- Fund. G Fund is a Grameen style NGO, and the first specialised microfinance provider, started working in 1996 as an action research programme. In the initial years, the focus of the activities was to understand the market and needs of the clients. Later on, they started giving importance to manage growth in terms of more lean and well-organised branch structure and sustainability within a certain time. However, after 2001, the main objective of the NGO was to enhance outreach by entering new markets, deepening access by product development and sustainability of the institution (taken from website: details not shown to maintain anonymity). This suggest that with non for-profit status, institution believes on dual mission i.e. poverty alleviation and sustainability of institution. It is important to note that, G Fund areas of operations are limited to two provinces Punjab and some parts of Sindh and work primarily with women borrowers.

The CEO of G Fund explains the reason why G Fund prefers female borrowers is in their Annual Report of 2008:

> Investment in women is pivotal for economic and social development, as women entrepreneurs register higher repayment rates, and contribute a higher portion of their income to household development. Therefore, microfinance programs such as that of G Fund that lend exclusively to women, not only give low income households access to credit, but are a significant contributor to pro-poor development, gender equality, women's empowerment, and civil society strengthening.

G Fund has been recognised for its work not only locally but also on the global level. The founder was awarded with the Tamgha-i-Imtiaz[21] by Government of Pakistan. Thus, the G Fund achieved success in a few years in terms of providing services to more than one million clients in total; the recovery rate was more than 98% and PAR less than 1% (G Fund Quarterly Report Jan-Mar, 2008).

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[21] It is the fourth-highest award that the state bestowed to any civilian in Pakistan based on their achievements especially in the field of literature, arts, medicine, science, sports, music etc (Ajmal, 2003). Although it is civilian award but it can also be awarded to military officers of the Pakistan Armed forces and foreign citizens for their great services to Pakistan (Ajmal, 2003).

The G Fund largely worked with female borrowers and followed the group lending methodology. Each group had one group leader and it consisted of 25 members. The group of 25 called at one centre. Each centre had one coordinator who was responsible of the recovery of the whole centre. If someone was unable to pay in the group, then the remaining 24 group members had to pay the money on behalf of that client and overall responsibility was of the centre leader or coordinator. In other words, we can say that social collateral was used as a guarantee in order to secure their borrowing.

The G Fund a leading MFI was in its boom phase until middle of 2008. However, suddenly a rumour spread which hit the institution very badly. The rumour was that the managing director of the G Fund had died and just before her death she has written-off all loans. Majority of the borrowers in the Punjab region believed the rumour; they considered it as truth and as a result simply denied repaying loans. This news spread very quickly mainly through social networks of borrowers themselves and affected the institution very badly. The G Fund, which was a profitable and sustainable institution, faced worse situation in terms of recovery of loan, which affected its profitability, sustainability and repayments efficiency. Problem with the G-fund tuned into huge microfinance delinquency crisis in Pakistan. The impact was initially concentrated with G Fund but then it affected some other institutions and they faced significant repayment difficulties.

The rumour about G Fund spread in late 2008 when a woman borrower of G Fund in the central part of Punjab Province asked help from a local politician because she was unable to meet loan-repayments obligations and due to that, she was facing pressure of loan recovery from the loan officer (Burki, 2009). This led other borrowers to approach the same politician for waive off their loans. As a result, the local politician supported borrowers to withhold repayments and their implicit help encouraged them to not payback loan to the institution (Burki, 2009).

This involved other politicians as well, these politicians with the help of their political workers, distributed fictitious loan write-off letters to borrowers, and they obtained proof to support their rejection to repay loans. Moreover, these political groups saw this situation as an opportunity to earn money. They started selling photocopies of an article of local newspaper announcing the death of the managing director of the G Fund and waiving of loans[22]. A loan waiver proclamation by local politicians, and the spread of fake loan waiver news, gave impetus to the huge default in certain some areas of Punjab province. However, these are the indication of underlying weaknesses within the microfinance industry itself and not the root causes of the crisis. The simple reporting of the event misses some underlying factors, which are important to discuss. In the following section, root causes of the crisis are discussed not only in relation with the G Fund but I will explain what the prevailing culture of microfinance is and how these microfinance institutions work in practice.

6.3 Enforced Repayments, Honour and Shame

As I noted above, one rumour promoted by politicians encourage micro borrowers to stop repayments of loans. The interview with the one of manager of microfinance bank

[22] These newspaper articles were sold between PKR 500 (USD 6.25) to PKR 3000 (USD 37.5) a piece per person (Nadeem, 2008).

exemplifies the delinquency crisis. He worked previously in G-Fund and knows well the practices of the institution. He explained:

> There were so many reasons but I think main reason was they oppressed their clients. Like if today is the due date then the client has to pay on that date at every cost. If she says that, I have emergency then they did not considered these factors.
>
> **Interviewer:** How did they pay then?
>
> Like, they have to sell their crockery, or goat or their TV at home, or Fridge or borrow money from someone else. They have to pay money. I was manager and sometime I received the calls at 11.00 pm at night from staff that they are sitting in centre and had not collected the recovery. I said why you are sitting go back but they said no. They were so strict that they said we have to collect the money. They had to press the clients so much. Second thing is the staff issue. They did work a lot. Staff had also pressure of recovery that you must have to bring recovery at any cost and they knew that they could not go without recovery.

He continues the conversation and said,

> When the client got the opportunity against them due to that rumour then they decided that we will not pay because loan was written off (either it is true or not) whatever they can do with us, do it. When they came to know that they have not done anything with the near centre then borrowers encouraged to not repay loans.

Regional Business Manager comments are noteworthy because he has pointed our attention towards the staff strict behaviour and enforced repayment in recovery of loans. He notes that staff behaviour regarding loan repayment was extremely strict, they did not listen to any excuse and enforced clients to repay the loan at any cost and in any condition. He illustrates, even in case of emergency, staff forced micro borrowers to pay back loans, whether they sell any home appliances or ask money from somewhere else. He shared his experience regarding recovery of loan that staff work late night to recover the loans and they did not go to home without collecting payments from the clients, even on the request of their manager. He said, this was largely because staff had pressure of recovery from the institution and it was the policy of institution regarding loan recovery that staff has to bring loans at every cost from the clients on the due date.

He relates staff strict recovery tactics with the delinquency crisis. He demonstrates when the clients saw the opportunity with the loan waiver story, they stopped repayments of loans. Clients were aware about the coercive practices of staff members but when they heard institution has not taken any action with other borrowers, this encouraged more clients to hold repayments of loans. Thus, the assertion in the above quote suggests that it were the coercive recovery methods used by staff that triggered the crisis of microfinance in Pakistan.

Micro borrowers that I had met also recounted the staff's rude behaviour in the G Fund. I met with Neelam. She worked as a tailor at her house. She was a member of one of the leading microfinance banks. This was the first time she was applying for a loan from the bank. Before she used to take a loan from the G Fund but due to shifting to another city, she started taking loans from the bank. She shared her experience with the G Fund like this:

> They had taken the loan bimonthly and their requirements were more.
>
> **Interviewer:** What were their requirements?
>
> They had one date fixed of recovery of loan and they did not let even one day late. Staff of institution did not care about us. They had to take instalment of loan whether dead body is at home.
>
> **Interviewer:** What they did for recovery if suppose someone could not pay the loan amount?
>
> **Neelam:** They pressurised us. They given us so much tension that take money from whatever source you use you have to pay. Once, some problem came in loan repayment. Staff member argued with me and used abusive language then I finished taking loan from them. Our whole effort is always to pay on time even earlier than due date but if we get sometime late for a day or two then these people should understand our problem and does not create problems like G Fund. We know that we have to pay and if they have respect then we have respect as well.

In the above excerpt, Neelam further propels staff's misbehaviour. She explains that delay in repayment of loans were not possible no matter whatever the reasons. Drawing on Neelam's words, 'whether the dead body is at home', seem to suggest that how the staff would have harassed the clients for recovery of loans. She explains the coercive practices of staff regarding loan repayment by giving example of 'dead body at home'. Dead body at home implies an extreme form of emergency. However, she notes that staff does not care about any form of emergency whether it is as extreme such as a deceased person at home. This shows the abusive and coercive recovery method used by staff at the microfinance institution.

The interviewee illustrates that once she delayed the loan repayments due to some problem, then a staff member insulted her. After this, she stopped taking loans from G Fund. This suggests that staff use coercive methods for collection of loans. At the end, the interviewee notes that when a person gets delayed for some reason then the staff member should care. She seems to suggest that everyone has respect if the staff has honour then clients are also respectable. She notes that she tries to pay on time in order to avoid shaming herself. This also exhibits the interviewee feelings of shame and responsibility for not paying loans on time.

This suggests that staff make use of shame and honour as an instrument of social control to encourage repayments efficiency. Honour of a person is related with one's respect or reputation in the community. For instance, a person is consider as respectable person in the society if he has good reputation and in case of microfinance if he pays back loan on time, then he will be honoured. On the other hand, a person with bad reputation in society does not get honour and is not trusted. For instance, if a micro borrower does not pay on time then he does not get respect from the staff and the community. In Pakistan, these cultural norms play a significant role in one's life. If a person does not pay on time then it causes shame for the debtor and less honour in community.

Thus, from the above quote it can be said that delay in repayments of loans is associated with the honour and shame of a debtor. Staff visit clients home for the loan monitoring, they develop personal relations with the borrowers to achieve their goals, and when someone does not pay their loan, they use coercive tactics of shaming micro borrowers. They shame clients at their homes, in front of other women or in public. This is interesting to note that, shaming clients and enforced repayments methods are the prevailing practices in microfinance sector in Pakistan. Thus, this is not the story of G Fund but these are the norms of other MFPs whether they are NGOs or a MFB.

Further evidence of this rude behaviour of staff of MFPs can be seen in a dialogue with Nasima and Shehnaz:

> **Interviewer:** Have you also taken a loan?
>
> **Nasima**: Yes, I had taken once but after that I prayed that God save me from loan.
>
> **Interviewer:** Why? What happened?
>
> **Nasima:** I had taken loan one time. Due to some problem, I did not pay the instalment amount on time and I told them that I have this problem but female staff member came to my home and she insulted me a lot. She insulted me in the street in front of many people and she did not see my copy [their repayments record book] and tore up my record book.
>
> **Shehnaz:** They do not listen to any excuse. If someone has died in your home and the dead body is in your home they do not care about it and ask for the money.

> **Interviewer:** How many days you delayed, Nasima?
>
> **Nasima:** It was one month.
>
> **Shehnaz:** If you delay two or four days then it is ok but you cannot delay more than that. This is the problem.
>
> **Nasima:** I thought I will give two instalments in the coming month.

The conversation between Shehnaz and Nasima further exemplifies the point raised by the previous interviewee Neelam regarding misbehaviour of staff members with clients. Nasima shared her story of delay in repayments. She explain that she delayed repayment of loan but staff of MFI came to her home, insulted her in the street and even tore up her loan record book. After this experience, Nasima refused to take the loan again.

People in Pakistan are connected socially and culturally with each other, in the villages particularly. Insulting someone in the street in front of many people is viewed as extreme shame for the person. In villages, if some small event comes it spread quickly and people discuss that matter for ages. People try to avoid making relationship with a person who has a bad reputation. Thus, from the interviewee assertion, it can be said that staff abuse clients in front of other people for the smooth recovery next time. Moreover, staffs also know the norms and culture of the country. Therefore, they know that if they abuse them then the clients will not delay the payments next time due to their self-respect and shame.

Shehnaz also repeats the wording of Neelam that they do not care whatever happens to them, even dead body is at home they will come for collection. As in the above passage, Nasima was helpless that is why she delayed the payments and she thought she will give two payments together in the coming month but she could not manage to pay the loan amount in time. Every MFP wants the payments on time and they usually give a day or two as said by Shehnaz but not more than that. Similar to the response given by Nasima and Shehnaz above, Saiqa (who have two daughters and works a milkmaid) and again Shehnaz spoke of the story of misbehaviour of staff:

> **Interviewer:** Can you pay the instalment amount easily?
>
> **Saiqa:** Yes, I pay it easily and on time. We want that no one come on door for recovery of loan.
>
> **Shehnaz:** Once I have delayed the instalment amount and they misbehave with me and my daughter in law so much and also they said in our street to other people that we are not good people. After that day, I abandon from giving instalment late. Now I pay instalment on time.
>
> **Interviewer:** Does all institutions misbehave when you do not give on time?
>
> **Shehnaz:** Yeah, they all behave the same.

From Saiqa's assertion, it is very clear that they do not make late repayments because they do not want the staff to come to their doors and misbehave that is why they pay the instalment on time. Shehnaz's assertion about the coercive practices of staff echoes with the previous interviewee. She reveals that due to their delay in repayments of loan, staff tell people in the village that "we are not good people" because they have paid the instalment late. Visiting home, insulting clients and telling their neighbourhood is an extreme shame for the clients. Therefore, in the above excerpts, interviewees express their fear and feeling about getting insulted. They feel ashamed when the loan officer comes to their door and demand loan repayments.

In addition, these interviewees have stopped giving loan payments late because they do not want to be insulted in front of others, in particular their neighbour and relatives. This suggest that strategy of the MFPs to enforce repayments is useful for the institution as they show repayment efficiency and also for the staff as their incentives are linked with increasing number of borrowers and recovery of loans. However, for the borrowers these tactics are harmful therefore, they dislike it. According to the discussion of Shehnaz and Saiqa, it seems that behaviour of the staff is disrespectful because it may damage their relation with people with whom they meet daily or has relations e.g. their neighbour or relatives.

As I mentioned earlier that staff use these tactics to achieve their instrumental objectives of timely debt repayments. In addition, women in Pakistan also represent the honour and respect of family. A typical woman normally stays at home and performs households duties (see detail in Chapter Three). Women can cause shame and disgrace for the entire family if her name is defamed in any affair. Losing her honour means sacrifice of her whole family's respectable position in the society. For instance, in different parts of Pakistan, women are killed in the name of family honour, if they are believed to be involved in premarital or extramarital affairs. In case of microfinance, borrowers have taken extreme action – suicide due to shaming and losing their honour in society by not paying the loan back, the case in India is notable (see detail in Chapter Two). Shehnaz notes that 'all the institutions behave the same way if any client delays the payment'. This suggests that enforced repayments, which use the cultural norms of shame and honour are common practices by mostly all MFPs.

Due to increase commercial microfinance and after delinquency crisis, many types of collateral are currently in use by MFPs such as personal guarantor, post dated cheques (PDC), promissory notes, compulsory savings and gold (only MFBs take gold as collateral) (see e.g. Aslam and Azmat, 2012). Post dated cheques (PDC) are the most common type of collateral used by nearly all MFPs. Advance cheques are taken from borrowers to secure their recovery of loans. Staff members inform borrowers that in case of default, the defaulter will be sent to jail. Analysis of the interviews data shows that with increasing use of PDC, staffs threatens clients to involve the police in case of non-repayments of loans. For instance, in an interview with group of women borrowers, they talk about PDC. I raised the question:

> **Interviewer:** Do you know what these cheques mean? Why they have taken from you?
>
> **Hajra:** yes. They said that if you did not pay the amount then we would not come to collect; police will come and put us in jail.

In the above quote, the interviewee is a borrower of MFB. In the excerpt, 'they' represent the bank. She explains the meaning PDC by relating it to the police. She notes that a staff member has warned about the police and informed borrowers that they should repay the loan on time otherwise the staff member will not come to collect the repayment but it will be the police. She uses the combine word 'we' to represent the group of women not only herself. Police visits at someone house is consider extremely negative and creates a bad reputation for people in the community. It is shameful for both men and women but is more disgrace for women when the police get involved. Thus, the above quote seems to suggest that borrowers are threatened not only by using the instrumental cultural norms but also by the police for the time recovery of loans. It can be said that, these actions bring positive outcome in recovery of loans because borrowers try to pay on time to save their family honour.

However, it is worth to note that, the practice of shame has changed over time. For example, a few years back, in Britain borrowing money carried a heavy social stigma a few decades ago and “no wonder debt was commonly referred to as living on the never-never” (Knight, 2004). However, the situation is completely different now. Most people do not feel any shame to borrow money or to be involved in any form of debt activities. Even, if someone goes bankrupt, it is not regarded as a disgrace. From these changing practices of shame, it seems fair to suggest that practice of shaming of micro borrowers for recovery could be devalued over time and if it will remain as the common practice then clients will get used to it and fail to recognise the shame factor later.

6.4 Commission based Agents: The Microfinance Intermediaries

In the above section, staff enforced repayments strategies are discussed in relation to using cultural norms of shame and honour. However, the circumstances in the microfinance sector of Pakistan are a lot more complex. The “situation is as simple as it is explosive: whereas the creditor [MFP] would like to get back as much as possible, the debtor [client] prefers to pay back as little as possible” (Egli, 2000, 275). This suggests that it is not one-sided story but this story has two sides. The MFPs employ frequently aggressive tactics to get their borrowers to repay and exploit cultural norms. However, borrowers also employ tactics to avoid repaying and appeals to politicians – some of these tactics presumably challenge the cultural norms and circumvent them.

The situation becomes more complicated with the role of commission-based agents. They are a group of people especially women borrowers, who act as agents or intermediaries between the clients and staff. As I mentioned earlier that most loans offered to clients are group loans and each group has one leader called a group leader who manages the group, collects and disburses repayments to the institution. This group leader also brings the clients from the community and helps staff members.

However, not all group leaders are commission based agents. Commission based agents are the individuals who are the group leader for the long time and also has strong social network that enable him or her to identify prospective borrowers within the community and convince them to apply for loans from a particular MFP (Burki, 2009). These agents are considered as the key source for MFPs and clients, as they bring more number of borrowers for MFP and clients get access to credit from these agents. Thus, in order to increase clientele, staffs take the help of these intermediaries to meet volume target of loans.

These agents not only help the staff to bring the clients from the community but also assist them to complete the appraisal form of applicants and carry out loan disbursement and repayments apart from the fact that these intermediaries are independent of the MFP (Burki, 2009). Due to their responsible position as a group/centre leader, they can accept and reject the clients as well. This power allows these agents to charge commission from clients ranging from 2 to 10 percent of the loan amount and promise the interested applicant access to loan from MFP (Burki, 2009). These agents are known by various names such as “activists”, “opportunists”, “freelancers” and “touts” (Burki and Shah, 2007: 17).

The head of Microfinance Practices of a consultancy firm reveals interesting facts regarding these commission based agents while discussing loan defaults I asked.

> **Interviewer:** I wanted to meet several time with defaulters but no institution allows me to meet with their borrowers who default.
>
> **Interviewee:** Why they would want you to meet? Most of the loans are *ghost loans*. Women who are sitting in community they do all this. They usually give 40 applications to MFI and among them five or ten people are genuine and all other are suspicious. They are all ghost client. In the start, they pay the instalments and it usually go this way and at the end all burden occur and clients became defaulters. All institutions, MFBs and NGOs take the help of these agents.
>
> **Interviewer:** Why? Is monitoring not proper?
>
> **Interviewee:** It is not just monitoring. Staffs are with them. They give target to the staff and say that you have to achieve it. Now what should the staff do? They do is, they search the easy ways. Their incentive system is linked with it. How much more business they will get the more incentive. Thus, MFPs methodology and system all are not correct. Nobody is reviewing that how can we improve and correct it. Microfinance does not work like this, they way they are running it or trying to run it (Consult – 2).

He notes that MFPs does not allow anyone to meet their defaulter because 'they are ghost clients'. He illustrates women in the community works as commission based agents for the MFPs. In order to complete group members, these agents fill applications by their own on fake names. He explain that initially these commission based agents pay some instalments amount but later when they become unable to pay back loan they becomes defaulters. Interviewee called these loans as 'ghost loans" and clients as 'ghost clients'.

As he spoke to me on these issues, I sensed an air of resentment and frustration, which I believed, was due to his personal experience in the sector. The interviewee worked on top positions in MFB and currently as a consultant knows well about the field matters.

Previously my perception was that clients default due to staff improper monitoring but as he said, it is not only monitoring. In order to meet the volume targets staff try to search the easy ways and give their targets to these commission based agents, he notes. Staffs seek out the easy way because their incentives are linked with the number of active borrowers. The more loans they disburse, the more money they earn, the interviewee explained.

At the end, he illustrates that MFPs do not think to improve their monitoring system or review their previous practices. Therefore, he implies that this is not the correct way to do microfinance. This suggests that increasing commercialisation of microfinance push MFPs to achieve more number of clients to attain profitability and in turn, they focus on more borrowers instead of poor borrowers. Similar to this, another interviewee states:

> You must have heard about the activist. In our rural and town, activist is a woman who has influence in that area or street. Alternatively, we can say other women in that street are in the influence of that woman (activist). So what the loan officer do, they go to the activists and tell her that complete the centre for us. She bring all the women, they filled they form and take the loan (MFI – E).

The above quote is from the Manager Microfinance Operations of an MFI. He discusses the role of commission-based agents, which has similarities to the above excerpt (Consult -2). In the start of quote, 'you must have heard about the activist' shows the notoriety of these agents in the microfinance sector of Pakistan. He states the role of an agent and explains who these people are. He describes an agent as a woman in the community who is powerful and has more influence in the area where she lives. He notes, the loan officer takes the help of these agents or 'activist' to complete his/her target of borrowers. These agents perform the job of staff as they bring the borrowers, fill the application forms and help them in recovery of loans.

Thus, the above quotes suggest that high demanding targets by MFP from staff within short span of time leads them to search for easy ways. They delegate their loan process to these women agents. Agents also create short cuts while filling application forms, they list fake borrowers in the group who do not exist in practice, which head of microfinance practices call 'ghost loans'. From the above it seems fair to say, widespread refusal to repay loans in the delinquency crisis in 2008 was driven by these agents who had gained immense power over the entire lending process. It is worth of note that it is the staff's inadequate screening and monitoring of clients and weak internal control system that led these activists to gain unusual power. Existence of these intermediaries between the staff and micro borrowers has weakened the relationship between loan officer and the borrowers. It reached to such an extent that when these agents revolted against the MFPs, the recovery of loans became much more difficult for the institutions (Burki, 2009). In the following subsection, tales from the group leader to whom we can call 'agents' of MFPs are discussed.

6.4.1 Tales from the Commission-Based Agents

During my field visits, I met with some of the commission based agents. In a focus group discussion of ten borrowers in a branch of MFI (more commercial focused), two women were very talkative. Maryam Bibi was the age of 65 and Safora Begum was aged 50. Both were the centre leaders for a long time with that MFI. They were also centre leaders of the other MFP. I asked Safora:

> Do you take the loan from other institutions as well?
> **Safora Begum:** If they give us the loan then we take it.
> **Interviewer:** Is there any difference you feel in different institutions?

Safora Bibi: Nothing, all are same.

Interviewer: What do you do?

Safora Begum: This is the work, which I do. I collect the instalment amount and give it to centre. My husband has a big shop of dry fruits in the city centre. My sons also work there.

Interviewer: How much is your monthly income roughly?

Safora Begum: Income is sufficient. Thanks to God.

Interviewer: Why you have taken loan, your sons and husband are working.

Safora Begum: I have borrowed to purchase the vehicle (rickshaw) for my son.

I present this excerpt of the focus group discussion primarily because it includes several important points that provide evidence of commission based agents. The above excerpt shows that Safora Begum is a woman who is well off, her husband and sons are running the business. In spite of continuous income of Safora's husband and sons, she takes a loan from several institutions. When I asked her about taking multiple loans then she said, "if they give us the loan then we take it". This suggest that, borrowers take microfinance loans because it is easy money and readily available.

In addition, she uses the word 'we' to emphasise the shared experience of the whole group in this regard. This suggests that she and other members of her group take the loan simply because it is available. Her assertion 'all are same' implies that she has experience of working with many MFPs and also she does not feel any difference, means all provide credit easily even if the borrowers does not need it. It is said that microfinance is for the poor who can use that loan in income generating activities. Analysis of the interviews transcript regarding microfinance segmentation also suggests that microfinance is for 'economically active poor' (see detail in Chapter Six).

However, multiple borrowing and existence of commission-based agents suggest that loans are easy money and anyone can obtain it.

She notes that she does not work but ‘this is the work she does’, which seem to suggest that she operate and manage different groups of borrowers. Moreover, her assertion about her husband business reveals that she does not need to do anything as they are working. She proudly state that they have sufficient income and the purpose of the loan is to buy vehicles for her son. However, as she already notes that her sons do business with their father therefore, the purpose she state does not seems a true reason of taking loan. She added more in discussion on repayments of loan. She said:

> **Safora Begum:** There is no need to tell a lie. If some woman does not give me instalment on time then it is my principle that I pay them on their behalf but I penalised them of Rs. 200. This is my right because I arrange the money from someone else and complete the instalment amount and pays it.
>
> **Shakila:** If they do not charge late penalty fee then these women does not bring the instalment on time.
>
> **Safora Begum:** I want to tell my rule if someone does not pay on time I charge them.

Safora Begum illustrates that when someone in her group delays the loan repayment, she pays the mount on their behalf to the institution but penalise them by Rs. 200. She believes that this is her right because she arranges the money on their behalf. Moreover, she spends her effort that is why she penalises them for late payments. Shakila supports the assertion of Safora Begum and justify her charges, as if they do not charge then the clients does not pay the instalment on time. I found their justifications for charging a late fee quite interesting. Other women in the group also favour charging late penalty and give explanation on Safora's behalf. For them charging late fee by a centre leader is not terrible and they should charge because women does not pay loan amount on time to them. However, only Maryam Bibi in a room denied this action and said:

> **Maryam Bibi**: *Toba Toba Toba* [repentance] I have 7 years experience since I am running the centre. In these 7 years, I have not charge anyone for late payment and neither any of my meetings get late. I have never taken the fee for late payment. You can ask from someone else. In Janipura, I run five centres and each centre I try to manage but I never charge any money. If they cannot pay today, they can pay tomorrow.
>
> **Safora Begum:** You can do but I cannot. I have my own time of recovery that they have to bring the instalment before 12.00 pm. How much they delay then the late charges start. I do not talk wrong things. I cannot put from my own pocket even Rs. 100. I have four sons they are not there to give me money. I take the money from people and then complete their instalment. I even do not pardon my own sons in case of loan recovery. When they go in the morning then I say to them first give me money then go.
>
> **Maryam Bibi**: Yes, you are right. If they do not have fear of late charges then they do not give the instalment on time.
>
> **Safora Bibi**: Daughter, look you will think it is wrong but the fact is what I do is my own will and what other do is their own. This is my principle.
>
> **Interviewer:** Do the institution also charge any late fee or not?
>
> **Safora Begum:** No, they do not charge.

To me, this excerpt contains a number of interesting insights. The first is the way in which Maryam strictly negates the idea of taking any late charge fee. She shared her seven-year experience in which she never took any money from any client on late repayments to her. Interestingly, she ran five centres at the same time in one area of Lahore. As a centre leader of five centres, she is responsible for recovering the repayments from her group members and passes the recoveries to respective MFPs.

However, on the other hand, Safora Begum does not agree what Maryam said. She states that she has her own rules and fixed timing of loans recovery. The more delay a clients does, the more they have to pay late charges. She also says that whatever she is doing is correct because she cannot pay the amount from her own pocket. In money matters, I do not pardon my own son, she notes. Moreover, in the above quote Maryam denied from taking late fee in the start, however, at the end she acknowledges Safora's action of charging late fee as correct. In addition, Safora's use the word 'daughter' to take sympathies from the interviewer that whatever she is doing is correct. Safora also admitted that the institution does not charge any money for late payments. This suggests that MFPs does not charge any late repayment charges because they take the help of agents such as Safora to bring the loan amount on time.

Thus, the above discussion seems evident that Safora Begum is one of the commission-based agents who work on microfinance provider's behalf. She tries her best to make the recoveries of loans smooth and for that she charge them late fee of loans. Another interviewee, Maryam also operate many centres, but she does not charge, as she stated. This also seems apparent from the above excerpts that MFPs take the help of these intermediaries/agents to increase their clientele. These intermediaries do not only help MFPs in increasing outreach but also ensure the timely repayments of loans by enforcing and penalising micro borrowers.

In relation to the above quotes, Aliya, a borrower of MFI quote also provide evidence of lack of assessment,

> **Interviewer:** Do you think that your income has increased from these loans?
>
> **Aliya:** This is Allah blessing and we thanks Allah. Sometimes woman come and say that institution is not giving me loan. Could you please take the loan for me, so I go with her and take the loan on my name? She gives me the instalment amount and I pay to institution. I believe if someone is getting benefit from me, then why not I help her.

The passage is the true picture of the negligence of staff that do not care to whom they are giving the loan. Even though Aliya's intentions are not wrong but indirectly, she is playing the role of intermediary probably not on commission basis. She takes the loan to help other needy woman and believe that if someone gets the benefit from her then why not help her. This suggests the poor monitoring of loans by the field staff. Her assertion in the above quote seems to imply that staff provides the loan to micro borrowers without proper assessment and checking their usage of loan.

Sometimes, these commissions based agents take the money from the micro borrowers and ensure them that they will help them in getting a loan. However, afterwards they deceive clients by either give the loans to someone else or run away from that area. During the data collection, I met with some of the clients who shared their stories of becoming victims of these agents. Hanifa Bibi was among one of the victims with whom one agent played a game.

Hanifa Bibi lives in pre urban area of Lahore and is a client of one of the MFI. She told me that she applied for loan in one of the MFIs. She completed all the documents and paid Rs. 600 to a lady who makes the group but she did not get the loan. I asked her who did not give you money back. She replied with simplicity "I do not know it was centre leader or staff but that Rs.600 gone". This suggests that in some areas, clients are not as sharp as in urban areas therefore clever agents take advantage of their limited knowledge of microfinance and deceive them. Take the quotes below where interviewees tell similar kind of narratives.

> **Noor**: Once one woman has gathered different women of the village and told them that give me Rs.500. I will take the loan for you from the institutions. Many women gave Rs.500 to her but that woman was fraud. There was no institution.
>
> **Shehnaz:** I went to her house and took my money back. Other women went to that woman home and ask for their money, but she nicely excused every time and asked to come next time but I am not like them I went to her house and took my money back.

Noor explains the fact that due to unawareness of these institutions, people to whom I called 'commission agents' deceive people. It is interesting to note that a woman (agent) to whom these group of borrowers did not know properly gave her Rs. 500 each. Later on, they realised that the woman was a fraud, as she did not get the loan for them but also refused to pay that Rs. 500 which these naive women in the village had given to her. Shehnaz was clever therefore, she recovered her money but the other women did not. It seems to advocate the power game; who is powerful and know the tactics to handle the people can betray others like that woman.

In summary, the above discussion suggests commission based agents are group leaders that have been working for a long time for MFPs and operate multiple groups concurrently. They helped staff at MFPs in the recovery of loans by either penalising them or thorough enforced repayments. It is also found from the analysis that these agents charge for every loan they obtain from the institution for clients and even in worse cases deceive them. Most of the time micro borrowers favour these agents because with their help, they can borrow multiple loans. Thus, it can be said that due to these commission based agents and unsavoury collection practices of loan officers has destroyed the microfinance sector in Pakistan.

6.4.2 Loan Selling: New Moneylenders

Commission based agents does not only charge borrowers for late repayments or to obtain a loan. Due to taking out several loans from multiple MFIs, they re- sell these loans at higher interest rates. The head of Microfinance Practices exemplifies the loan selling this way:

> When I talked to defaulters then they say that why we pay back this loan to them [MFPs]. They [clients] are just saying flattery. Everyone has taken a loan from three or four institutions, NGOs as well as MFBs.

He goes on and says,

> They sell the loan regularly. People sell the loan to each other. There is an agent network that is doing all this. Banks and NGOs staffs are involved with them and they do all this. You go and see the staff, how they interact with the client, you will be surprised. Microfinance was not developed for this purpose and it should not be (Consult-2).

According to him, clients who are multiple borrowers and centre or group leaders too, simply refuse to pay back the loan. He said that this is happening because they have the support of staff of institutions and due to this autonomy, they can do whatever they want. For example, they take loans from different places and then further sell it at a higher price. He also pointed out our attention towards the staff behaviour. He also asked me to go and see how staff interact with the clients and he quoted “you will be surprised” to see this entire situation. Giving loan on commission basis to someone else or further selling both is a common prevailing practice in the sector of microfinance. Parveen reveals these loan selling facts when I asked this question:

> **Interviewer:** Are there any women who do not do business and take the loans?
>
> **Parveen:** Yes. Some women take the loan but do not do business.
>
> **Interviewer:** Why do they take the loans if they do not do business?
>
> **Parveen:** we have heard that some women take the loan suppose Rs. 10,000 and then they have to pay Rs. 12,000. What they do they lend that loan to someone else and take Rs.1000 each month, which is interest

> from that borrower and that Rs. 10,000, stays the same. They are giving loan over loan.

Parveen's description about the story of loan selling is interesting. People not only sell it like they take Rs. 10,000 and then further sell it on Rs.12, 000. They take Rs. 10,000 and then sell this loan to someone else on vicious agreement. As Parveen describes it, that loan itself remains on that position but the borrower has to pay certain amount say Rs. 1000 each month and at the end of the year they have to pay the actual principle amount of Rs. 10,000 too. This suggest that commission-based agents also playing the role of moneylender. They take the loan from MFPs and lend it to borrowers on much higher interest rates. Another instance of loan selling put forward by field officer of MFP, who does not charge interest,

> **Shabina:** We go to clients home. We know them well. What people have done in my near street they took the loan from us Rs.10, 000 and then give that loan on Rs 15,000 to other people? What they had done is, they kept Rs.500 with them and pay Rs.1000 to us as instalments each month. We came to know this story from our other client that, that woman has given the loan to someone else on Rs.15, 000. The media has also highlighted this issue, it came on TV, and then we make this area as red light. We are saving them from interest and they are putting our money on interest.

Shabina[23] repertoire supports the statements of previous interviewees (with regard to the loan selling. Her story is interesting because this institution gives the loan without any interest rate and does not charge any processing fee. As I noted that, in Islam interest is prohibited (see Chapter Three), therefore, institution gives loans without any charge. For instance, if borrowers receive Rs. 10, 000 then he/she has to pay that Rs. 10, 000 not more than that. She explains that people in her area took advantage of this facility as some of the women took Rs. 10,000 and sold it further on Rs. 15,000.

[23] This interview was at Shabina home. She was using one part of her house (a guest room) as a service centre where female borrowers were coming to apply for loan.

Further to this, she illustrates that institution was unaware about this loan selling, clients and media highlighted this issue and as a result, MFPs stopped microfinance operation in that area. However, MFI was not aware about this issue, other clients and the media who underline this problem. This shows again poor monitoring and assessment of clients by staff members. In order to achieve clientele target, staff lend to people who does not need these loans and who are well – off people. People such as Safora Begum and many other take the advantage, make this as business and earn huge money from poor people. Thus, it can be said that due to these commission based agents and unsavoury collection practices of loan officers worsen the microfinance sector in Pakistan. These commission-based agents charge exorbitant interest rate from clients; therefore, it is fair to call them new forms of moneylenders, created by microfinance providers itself.

6.5 All are good we are not

In the above sections, narratives of the staff coercive practices for recovery of loans, commission based agents and loan selling were discussed. It is found that MFPs often use hostile tactics to recover the loans on time and borrowers employ different strategies to avoid repayments. Due to all these unsavoury practices employed by MFPs and clients, an extreme repayment problem occurred which hit one institution G Fund severely and showed spill over effect on some other MFIs.

However, not all micro borrowers are same. In the field visits, many borrowers believe that client's attitude regarding loan repayments is not correct. Maqsoda is one of the clients who borrowed from G Fund three times. When the rumour came, that loan has written off then she did not stopped repaying loan to them because she believes:

> I have paid the entire amount does not matter other people pay or not. Look, what we have taken, we should payback. If we do not pay here then we will have to pay it on the Day of Judgment. We have to pay there so why not here. What we know and remember that we have to give this much amount to someone then everyone should have to pay that amount. The amount that you forget, May Allah forgives it.

In the above passage, Maqsoda explains her understating about the loan repayments. She notes that whatever she has borrowed she has paid back, not matter other women clients pay or not. Delay in repayment of loan with intentions is strictly denounced in Islam. There are many references to this in the Quran and Hadith. For example, The Prophet Muhammad (PBUH) said,

> The best of you are those who are best in paying off their debt (Sahih Muslim, 10: 3898).
>
> Delay in repaying debts by a wealthy person is oppression (Sahih al-Bukhari, no. 2270).

These hadith emphasises the importance of repayments of debt. Prophet Muhammad (PBUH) said a person is a good person if he pays off all his debts and condemns the person who delays the payment of his loan without a valid excuse. The above excerpt also shows interviewee understating of the interrelationship of late repayments and religion. In the entire excerpt, she tries to illustrate that loan is not forgivable and everyone should pay loan back. If someone has not repaid loan here, then he/she has to pay back on the Day of Judgement, she notes. It is interesting to note that when the rumour came Maqsoda did not stop repaying loan because as a Muslim, she understands that what is meant by debt and in Islam, debt cannot be pardonable even after your death. Maqsoda also explain that in our life the amount you remember that you have borrowed then you have to pay it and if you forget that amount then Allah forgive us.

This suggests that, interviewee understand the importance of repayments of debt in relation to the religion and believe that should be pay back at every cost.

Many other interviewees also drew on a similar discussion. For instance, consider the following quotes:

> **Shehnaz:** Loan is loan you have to pay it. It cannot forgive in this world as well as in the other world [The Day of Judgement].
>
> **Asma:** Loan is our life and death. This is our duty to take the loan and then repay it. If someone gives you the money as a loan then it is not forgivable. If it was not loan then it can be forgivable. Loan cannot pardonable even when someone is died.

In both excerpt, the interviewees shows the importance of loan repayment and support the arguments of previous interviewee, Maqsoda. They also illustrate loan repayments in relation with the teaching of Islam. They note that loan is not pardonable at every cost, neither in this world, nor on the Day of judgement. Loan cannot forgivable even after the person death, Asma says. Thus, assertions of the above interviewees suggest that they are completely aware about their religion and the teaching of Islam regarding loan repayments. These interviewees strongly condemn non-repayments of loan. In relation to loan repayments, another interviewee Salma who is a micro borrower of microfinance bank states:

> **Salma:** We should pay group instalment on time. They give us loan amount on time. Therefore, it is our responsibility that we should pay back loan on time.

From the above, quote Salma explain that institution (MFB) disburse loan on time to clients, therefore responsibility also comes on the borrowers to repay loan amount on time to the institution. In relation to this, when I asked from Maqsoda that what she think which institution is good then she replied:

> All are good. We are not. They understand us, they give money to us and understand our necessities but we are not good. What we can do, we think that this salary will come so, I will give the instalment, but there are also so many expenses, which we have to pay. In this way, we could not pay the instalment on time. When they come to us for collection then I say that I cannot pay you instalment. I am hungry and also my children. The people who have given the loan they do not listen these excuses. They say that you have to pay the instalment, no matter from where.

To me this excerpt contains a number of interesting insights. The first is the way in which Maqsoda consider that MFPs are good because they give them money and understand their position. She believes that they [clients] are not good because they do not give them instalment amount on time. However, she also explains the problems, which borrowers face regarding loan repayments. She uses 'we' to generalise her statement and illustrates that due to low income and higher expenses 'we' poor people could not pay on time. Maqsoda further demonstrate when the MFPs come for collection then borrowers give various justifications such as 'we are hungry and our expenses are more we cannot pay you'. On the other hand, institutions who provides us money does not listen these excuses. They require money 'no matter from where', she notes.

Thus, form the above excerpts, it can be said that some of the micro borrowers understand that delaying repayments of loan is their fault. They also appreciate microfinance providers who provide them money and help them. Due to higher expenses and lower income, sometimes they could not pay loan instalments on time, but staff does not listen any excuses and the client has to provide the money at every cost. These assertions of the interviewees suggest that borrowers want to pay on time and feel their responsibility regarding loan repayments. However, MFPs, whether they are MFBs or NGOs are more concerned with their money, therefore, they use various techniques, which I mentioned above, for smooth collection. In the following section, success stories of borrowers are discussed.

6.6 Dream of Microfinance is still present

Despite the fact that there are numbers of commission based agents, loan selling is prevalent in the community and staff bullying clients has not stopped. With all these practices microfinance is still alive and people take loans from microfinance institutions and becomes successful. For instance, Khadija Bibi was a very poor woman when she took a loan. She shared her early day's experiences with me,

> After taking loan for the first time, I started business with it. Due to income from my business, I became able to marry my daughters properly. Now I have more than two-tonne Kg iron and I remembered that time when I did not have even 1 kg iron. I thanks to Allah million times. Now I have taken Rs. 50,000 loan.

She explains her story that before taking loan she had limited business but then her business grew and now she is taking larger loans because her business has grown. She talks in favour of microloans because microloans help her to earn not only a sufficient income but also make her financially independent and empowered her. Her assertion about her daughter is significant. She implies that loan has enabled her to marry her daughters properly. Marrying daughters in Pakistan is the parent's responsibility. They give a dowry to her daughter. Giving a good dowry (inclusion of many things) to her daughter increases parents respect in the community. In addition, if they did not manage to give a good dowry then it brings disrespect and shame for the parents. Therefore, in the above quote, the interviewee explains the loan has made it possible to marry her daughters appropriately and her income has increased.

It is advocated that women's ability to borrow money and invest in income generating activities empower women, it helps to increase their confidence, raise their decision making ability and bring less violence at home. For instance, a donor report states that "the ability to borrow, save, and earn income enhances poor women's confidence, enabling them to better confront systemic gender inequities" (2002:2). This suggests that lending loans to poor people, in particular poor women, brings a change into their lives and promotes empowerment. This is supported in the following quote where the interviewee's expresses feelings of increased self reliance after taking a loan. When I asked her will she take the loan again, she replied,

> **Sadia:** Yes. I will take the loan because I get the benefit from it and I get benefit in whole year. Loan we take one time and from that loan we get the benefit whole year then why not we take loan? I buy the clothes, sell it, and earn profit on it. People buy the clothes from me not only this colony, but customer's relatives buy clothes from me. I sell good clothes and I give the facility of exchange as well to my customers. Earning is good and I pay instalment amount and tuition fees of children easily and all other expenses.

This excerpt represents the interviewee's financial gain, self-reliance and empowerment. She states that she takes the advantage of loan not once, but throughout year. The interviewee is involved in selling clothes. She has opened a small shop in a room in her house. She underlines her skills of buying and then selling the clothes for a profit. She describes the reason for the growth of her business is that she sells good clothes and facilitates her customers; therefore, she has attracted many clients. This excerpt is particularly interesting because the woman is expressing herself as someone who has benefited from microfinance, her income increases and she can easily pay back loans.

More, the purpose behind lending to solely women in microfinance was they are more responsible and spend more on households, their children education and on health (see detail in Chapter Two). The above quote also supports this view as the interviewee explains micro credit has given her the ability to pay her children's tuition fees and meet other expenses. Thus, it suggests that micro credit help micro borrowers in income generation and the empowerment of women. Similarly, the interviewees below explain the advantage of taking a loan.

Zainab: We get benefit that is why we take the loans.

Shamsa: Yes. Income has increased that is why we are taking loan again.

The interviewees brief answers explain the advantage of loan i.e. their income has increased therefore, they are taking a loan again. They relate the benefit of micro credit with taking a loan again. This supports the argument often made in favour of microfinance i.e. micro borrowers pays the loan on time and come back for another loan. Further to this, Zuhra, a micro borrower of MFB illustrates the advantage of micro credit she said,

> This is better than we ask from our sister or brother. They do not give it to us. This is very good facility to us. If we put money in ROSCAs then it is also not good. We are hungry today and they say that we will give you bread tomorrow. So we cannot wait for that. Here we are 10 people sitting and all are getting advantage from it.

She favours micro credit while comparing it with the other informal sources of finance such as family or ROSCAs. She underlines the weaknesses of informal sources of finance. She notes that brothers and sisters does not help us, therefore micro loans are better options than even family relations. Her comparison of microfinance with ROSCAs is interesting. As she said 'we are hungry today and they say that we will give you bread tomorrow'. In ROSCAs (Rotating Saving and Credit Associations), money is distributed by rotation to each member on a monthly basis. Every member has equal chance to win the draw. Therefore, she states that they need the loan now but in ROSCAs we get the money later depends on draw and ‘we cannot wait for that’.

She uses the collective ‘we’ to generalise her statement. She then goes on to explain that micro credit is giving benefit not only to her but all the group members are taking advantage from this. Thus, in all the excerpts presented above, microfinance is presented as playing a very important role in the lives of these interviewees. The participants presented microfinance as a vehicle for income generation, developing self-reliance and independence, helping their households, and for a successful life. From the above, it can be concluded that the dream of microfinance is still there – there are success stories and they are not that hard to find.

6.7 Summary

Four decades ago, microfinance developed to eradicate poverty and to help poor people. More development came and microfinance became commercial microfinance with the idea of giving services to poor people on continuous basis means sustainability of institution (see more detail in Chapter Two). Microfinance institution in Pakistan also adopted this new wave model – commercialisation of microfinance. This new microfinance approach not only initiated microfinance banks but non for-profit MFIs and RSPs with mission of poverty alleviation also started focuses on sustainability of institution, larger outreach and efficient recovery of loans.

This chapter focuses on the prevailing practices in the microfinance community. Case of the G Fund is discussed in order to explain current norms and the practices of MFPs. It is found that microfinance providers give volume targets to staff means to increase number of clients in a short time and bring the recovery on time. Staff incentive system is link with these targets. More number of clients they achieve and collect the repayments from clients on time, more incentives they get. Analysis of the above discussion suggest staff use coercive tactics such as they use instrumental cultural norms such as shame and honour to achieve these objective. Shaming of clients at their homes and in the public places has now become an instrument to induce repayments. Micro borrowers are threatened and treated in culturally decadent ways, therefore it can be suggested that microfinance is producing negative consequences in the community.

In addition, it is found that situation is far more complex than just the enforced repayments and unsavoury practices employed by staff. Staffs take the help of commission based agents in order to achieve unattainable targets. Commission based agents control all the lending process; ensure repayments, fill application forms (more often applicants are fake) and even further sell loan and play the role of moneylenders.

Thus, it can be fair to suggest that commercialisation of microfinance is producing negative impact on the community and for the microfinance providers. It can be also suggested that instrumental use of cultural norms, poor monitoring of the staff and commission based agents developed by MFPs itself is destroying the microfinance sector – delinquency crisis provides evidence. In addition, analysis of the data implies that within the community various kind of micro borrowers exit, one who believe that loan should be given on time and delay should not be occur. On the other hand, powerful group leaders/commission based agent's controls micro borrowers due to their immense power given by staff of MFPs. Thus, it can be said that not all micro borrowers are same. Regardless of all these problems, it is found that dream of microfinance is still present. Microfinance gives benefit to the clients; they do business and are generating profit from their businesses.

Chapter Seven: Profitability, Efficiency and Mission of Microfinance

7.1 Introduction

We have seen in the previous chapter, the attitude of microfinance providers (MFPs) and their borrowers in terms of loan repayments. MFPs have adopted hostile tactics such as harassment of clients to obtain the loan recovery on time. However, the borrower's role has also damage the reputation of the sector such as commission-based agents, loan selling and ghost loans has resulted in a lack of trust. In addition, the crisis of delinquency in Pakistan is examined, the case of G-Fund in particular. The microfinance crisis in Pakistan has affected some of the institution very badly. After considering discourses of micro borrowers in the last chapter, this chapter presents an analysis of the quantitative dataset. Outreach, profitability, sustainability, efficiency and mission drift aspect of the MFPs in Pakistan are the core theme of this chapter. With the microfinance evolution, these terms have greater importance to MFPs in Pakistan. The purpose of the chapter is to answer key questions such as what is the number of borrowers of microfinance providers. Are Microfinance Banks (MFBs) more profitable than the other peer groups Microfinance Institutions (MFIs) and Rural Support Programme (RSPs)? What are the differences in terms of efficiency in different peer groups?

The aim of the chapter is also to analyse the mission drift of microfinance providers in two ways: the average loan size and the percentage of women borrowers. The average loan size is often used as a main proxy of how much poor borrowers an MFI has served (Armendáriz and Szafarz, 2011; Mersland and Roy, 2010; Cull *et al*, 2007). The higher the loan size means MFIs lend to less poor people. The lower the loan size indicates that MFIs are more poverty focused. I will look at the MFPs average loan size and compare this with the profitability indicators. Furthermore, lending to women is often considered as achieving the mission of microfinance. Lending to more women borrowers has been the priority since the inception of microfinance. This chapter will also explore that with the entrance of commercial microfinance institution, who are the beneficiaries, more women clients or not. How this affects the repayment efficiency of MFPs or put on another way, if there is any relationship between these variables. Thus, this chapter will discuss several important aspects regarding profitability, efficiency and mission drift of microfinance of MFPs of Pakistan. Moreover, findings of this chapter will inform interviews with practitioners in the subsequent chapter (Chapter Eight).

Data of five years from 2006 to 2010 is included in this study. The dataset is taken from the Pakistan Microfinance Review (PMR), which provides audited financial data and different accounting variables for analyses. The dataset is not consistent in terms of numbers of MFPs over five years. As many new entrants came to the sector (ASA and BRAC, Kashf Bank etc), some did not provide data for some years (Kashf Foundation, Akhuwat, Rozgar MFB) and some withdrew from the market completely (Taraqee Foundation). A total 19 MFPs had reported in 2006 – 2008 and this number has increased to 23 between 2009 and 2010 (see more detail in chapter four).

Different accounting variables are included in the datasets that will provide in-depth analysis of MFPs' profitability, efficiency and productivity. One point is worth of note here. In the PMR dataset, leading MFI Kashf Foundation data of two years (2009 and 2010) is not included. The PMR 2009 report included 2008 data of this MFI and in the year 2010, data of Kashf Foundation has not been included at all. I have not pasted 2008 data into 2009 or 2010 years to avoid biased results.

Kashf Foundation itself had not provided the annual report of these years until 2011- where the MFI gave a combined report of 2009 to 2010 in 2011. Nevertheless, many important variables that I used in the analysis and notes of the report that are essential in any annual report to investigate more detail were omitted. In order to give a true quantitative picture of the microfinance sector, I have picked some of the data and analysed it, which I will discuss at the end of the chapter.

The structure of this chapter is as follows. First, I discuss the outreach of MFPs i.e. how many clients have been served in five years, in total and by each peer groups. After this, I analyse profitability of MFPs. In the profitability subsection, I examine correlation of profitability with outreach, age, size and financing sources of MFPs. In the profitability section, I also explore the interest rate of MFPs. In the subsequent section, efficiency of MFPs are analysed to investigate the efficiency of different peer groups. Following this, productivity of the institutions is considered. I then analyse the mission of microfinance by examining outreach indicators i.e. average loan size and percentage of women borrowers. At the end, I re-evaluate the outreach and profitability indicators after including the Kashf Foundation data to give an unbiased picture of the microfinance sector.

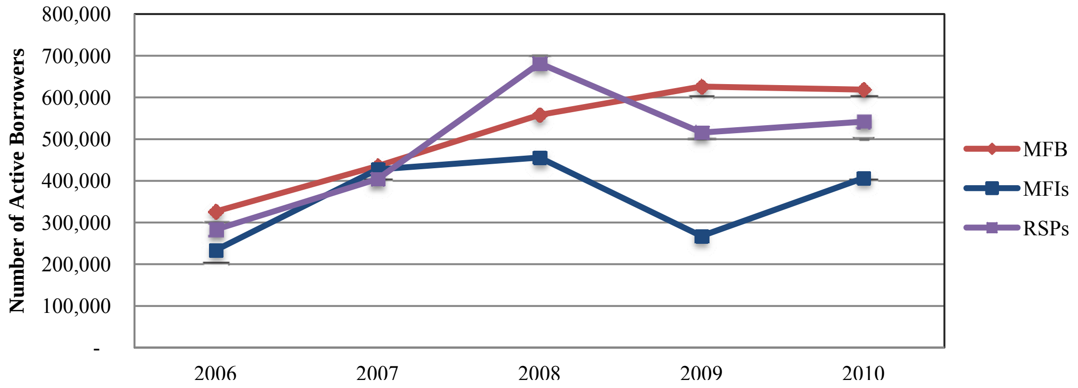
7.2 Outreach of Microfinance Providers

Assessing the outreach is a core performance indicator for a given MFI. The term outreach is generally used to portray the provision of microfinance services to a target market. There are various aspects of outreach[24] but the two most commonly used features are breadth and depth of outreach. Breadth of outreach means the number of clients served with the microfinance services, whereas depth of outreach refers to the more poor clients served (Schreiner, 2001). In this section, I will explain breadth of outreach, which means the scale of microfinance providers in Pakistan.

In the last decade, MFIs outreach has tremendously increased globally (see more detail in chapter two). Donors and social investors all aimed at boosting outreach of MFIs. Serving more number of micro entrepreneurs is also the main priority of MFPs working in Pakistan. Outreach in terms of number of active borrowers has shown almost double growth from a client base of just 842,634 to 1,567,355 over the period 2006 – 2010. However, each peer group of MFPs has shown mix results in outreach over the five years (see exhibit 7.1).

[24]Literature provides different aspect of outreach i.e. worth to clients, cost of clients, depth, breadth, length and scope of outreach (see more detail in Schreiner, 2001).

Exhibit 7. 1 Number of Active Borrowers by peer groups (2006- 2010)



MFBs have shown more than double growth in the 5-year time, which accounted for 120%. Their outreach line is showing an increasing trend. Three MFBs growth is notable, these includes, Khushhali Bank, First MFB and Tameer MFBs. These MFBs are the largest players of the microfinance sector as these three holds 95 present of the total outreach of MFBs. These three banks operate nationally and have branches across Pakistan. The rest of the four MFBs outreach remained flat in the last five years. Network MFB (Regional bank) and Pak Oman MFB (National wise) are serving less than 8,000 numbers of active borrowers since 2006. Rozgar MFB (regional bank), outreach in numbers decreases over time and at the end of 2009, their active borrowers were only 52. After 2010, this bank stopped operations. Kashf Bank outreach is increasing gradually and they served 17, 445 borrowers in 2010. Thus, three leading MFBs constitute major shares and rest of the MFBs are struggling to increase their outreach.

Microfinance institutions have demonstrated good growth in the number of active borrowers. However, their clientele fell off significantly in the year 2009. This is largely due to the delinquency crisis, which occurred at the end of 2008, and some of the MFIs were affected largely due to this crisis (see detail discussion in Chapter Six). In 2010, these MFIs recovered to some extent. Double growth of MFIs in outreach in one year (2009 – 2010) is also largely due to new entrants such as ASA – Pak and BRAC –Pak. These two new players have shown remarkable growth of 88% and 367% respectively in just one year (2009 – 2010). Their outstanding growth in outreach has heightened the overall outreach growth of the sector. Other sizable players, Asasah, Damen and Orangi are the MFIs who have shown considerable growth in clients in last 5-years.

The third peer group – Rural Support Programmes (RSPs henceforth) has also revealed nearly double growth in outreach. National Rural Support Programme (NRSP) is a leading MFP and holds largest share of market in terms of outreach. At the end of 2010, the NRSP numbers of active borrowers stood at 431, 075. Punjab Rural Support Programme (PRSP mainly work in Punjab Province) has illustrated good development in outreach between 2006 – 2009. However, in 2010 their outreach growth has slowed down. Three RSP, PRSP, Sarhad Rural Support Programme and Thardeep Rural Development Programme (TRDP) (work in rural Sindh) has demonstrated negative growth in outreach in 2010. SRSP is a multidimensional organisation that works in five districts of Khyber Pakhtunkhwa. Due to the Taliban existence in the Swat region, it has badly affected SRSP outreach. The institution incurred huge losses in not only outreach but it also affected their loan portfolio and therefore write-off increases. At the end, they closed their branch operations in Swat region. Similarly, NRSP also incurred heavy losses in this area.

In spite of the unstable security position, there are some other contributing factors, which forced the microfinance sector to slow down. These include challenging the macro-economic environment and natural disasters such as unprecedented floods, which occurred in 2010, and affected almost every part of Pakistan. This caused major destruction to life and property. This natural disaster effected repayment capacity of borrowers and as a result, many MFPs suffered severe losses. Larger MFPs such as Khushhali Bank, FMFB and NRSP that were operating at the national level suffered greater losses as compared to smaller organisations working at regional level. According to the PMN assessment report, in the flood-affected areas total losses to microfinance sector in terms of estimated non-performing loans (NPLs) have been calculated at PKR 2.6 billion (Khalid and Arshad, 2012).

In addition, the flooding severely affected a leading and old (working since 2002) microfinance bank called the First Microfinance Bank. In 2010, the institution has shown a huge reduction in clientele. Their number of active borrowers reached to nearly 200,000 borrowers however, it decreased by 48,000 in just one year (2009 – 2010). Another important factor which decreased FMFB' clientele is their unprofitability. This institution has not been profitable since its inception, therefore, in order to become operationally sustainable and to reduce operational risk, they closed eight unprofitable branches in 2010 (www.akdn.org/akam_pakistan.asp).

Thus, outreach of MFPs decreases due to several factors. MFPs experienced many vicissitudes in five-year time. Some have illustrated decline in outreach and few are showing remarkable growth. Overall, leading players have shown some growth despite all the diminishing factors. On the other hand, smaller institutions have been affected severely due to many factors, therefore, revealing slow growth. In 2010, MFBs served more than 600,000 micro borrowers, RSPs stood at second, and MFIs showed the lowest outreach.

7.3 Profitability

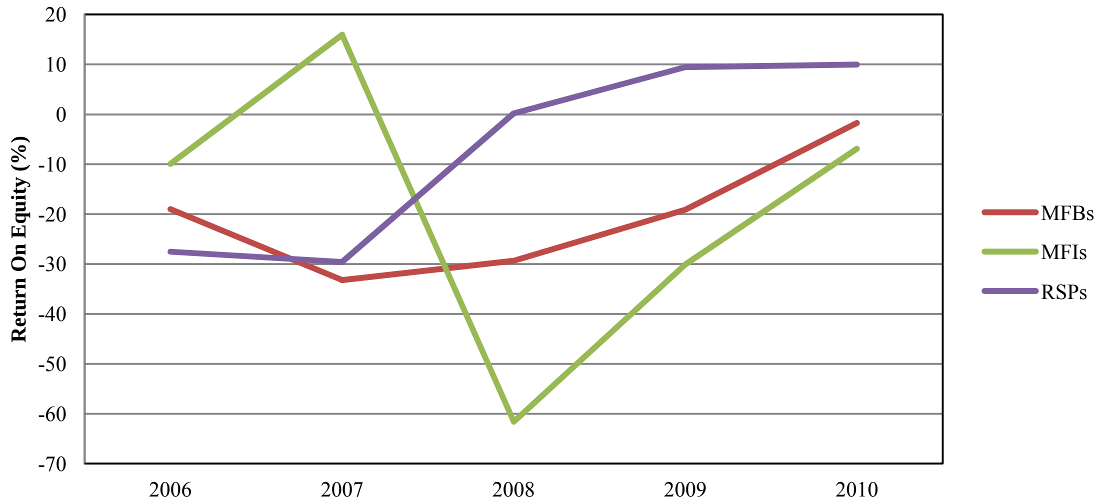
To achieve profitability, the objective was less concerned to MFIs before the advent of commercialisation of microfinance. MFIs were more socially motivated and wanted to serve the more poor people of the community (see detail discussion in chapter two). However, at the end of twentieth century, MFIs shift their focus towards profitability and the sustainability of the institution. Nowadays, the majority of MFIs want to achieve profitability goals regardless of whether they operate as regulated, for-profit banks or non-profit MFIs. However, evidence shows that the majority of the MFIs are still unsustainable and unprofitable (Hudon and Traca, 2011).

In Pakistan, profitability and sustainability of the institution is the priority of MFPs. In order to view the financial performance, Return on Equity (ROE) is taken as a proxy to measure profitability. ROE is an accounting based profitability indicator that captures the return on shareholders' equity. The other profitability indicator Return on Asset (ROA) and sustainability indicators[25]such as Operational Self Sufficiency (OSS) and

[25] Operational self-sufficiency (OSS) requires MFIs to cover all administrative costs and loan losses from operating income. Financial self-sufficiency (FSS) requires microfinance programs to cover all administrative costs, loan losses, and financing costs from operating income after adjustments for inflation and subsidies (Micro Banking Bulletin, 2003).

Financial Self Sufficiency (FSS) are not evaluated in order to avoid repetition in results (see more detail in chapter four). ROE is the summary ratio in financial statements and balance sheet items, which is equal to net operating income less taxes/ Average Total Equity. Net operating income is equal to total operating revenue less all expenses includes operating expense, financial expense and loan-loss provision expense. ROE of MFPs is showing an interesting picture (see exhibit 7.2).

Exhibit 7.2 Return On Equity (ROE) of three peer groups (2006- 2010)



In the five-year period, ROE varies from 89 percent positives to 304.5 percent negative. In 2006 to 2007, MFBs were showing heavy losses and their ROE was declining. After 2007, MFBs have depicted improvement over the last four years. In 2010, their overall ROE is near to breakeven. However, they have not achieved breakeven yet. Notably, this improvement in profitability is in three banks, Khushhali Bank, Tameer microfinance bank and Pak Oman MFB. It is worth to note here that, until 2009 no MFB was profitable. These three banks depicted positive ROE in 2010. Rest of the three MFBs are still showing negative profitability.

A leading MFB, First MFB with greater number of clientele, never demonstrated positive profitability since their inception in 2002. However, within one year, their ROE reached to -25% in 2010 from -8% in 2009. As compared to 2009, their financial performance worsened in 2010 due to heavy losses in flood and closure of many branches. Rozgar MFB (a regional bank) does not also show growth in financial terms or outreach. Due to their high losses and lower outreach, they stopped microfinance operations in 2010.

Three microfinance banks are in profit, Khushhali Bank, Tameer microfinance bank and Pak Oman MFB as noted above. Tameer MFB is showing higher profit largely because they are charging high interest rates (real interest rate 20.3% and nominal yield 38.3%). Higher financial revenue from loan portfolio is the reason behind their positive ROE growth. Pak Oman MFB shows positive ROE in 2010. Interestingly, this bank has a handful of micro borrowers (7,045) and the bank is in profit. The rationale behind their profitability is not because they are lending to poor people. This happens because the bank has placed its liquidity portfolio in public instruments rather than investing it to build a larger credit portfolio. Thus, in order to win the race of profitability and sustainability, and reduce their risk, Pak Oman MFB has diverted their focus to less riskier investments such as public investments on the expense of decreasing their credit portfolio. This suggests that, in order to achieve profitability, MFBs are searching alternative options. Overall growth in ROE of MFBs shows that they are improving in financial terms.

As compared to MFBs, the MFIs profitability position illustrates interesting results. In 2006, overall ROE of MFIs were in negative. However, in 2007, it saw the boom phase where it reached to a positive 15.93%. Four institutions were in profit, whereas rest of the five MFPs were showing negative profitability. These four institutions include, leading MFI Kashf Foundation, Damen, Orangi Pilot Project (OPP) pioneer of microfinance in Pakistan and Orix Leasing. However, the delinquency crisis that hit microfinance sector in 2008 badly affected some of the MFIs and as a result; they incurred huge losses and reduction in outreach. MFIs ROE dropped to as low as -61.61% in 2008.

After 2008, MFIs financial performance started to improve, however many MFIs are still far away from profitability. As I mentioned above, leading MFI Kashf Foundation data is not included for two years (2009, 2010). This also affects the robustness of the results for ROE. Due to the delinquency crisis, this institution outreach, profitability and sustainability severely affected. The ROE position might change if we include data of two years mentioned earlier. Overall, the negative trend of ROE is decreasing, and the financial performance of MFIs is improving.

Rural Support Programmes, that is multidimensional organisations, have shown tremendous growth in profitability over five years. Among four RSPs, three are in profit and are illustrating positives ROE, these includes NRPS, PRSP and TRDP. However, SRSP has showed continuous losses over the same period. This could be due to bad law and order situation in the country, which worsens the SRSP outreach growth.

It is worth to note here that MFBs are the regulated institutions, which are established with the double bottom line mission. Profitability objective is the priority of MFBs. Despite this objective, their financial performance is not promising. Even other peer groups such as RSPs and MFIs that are more poverty-focused institutions are improving their financial performance and attainting profitability. This growing profitability (ROE) in all peer groups suggests an increasing focus of attaining the goal of double bottom line in the microfinance sector. In theory, profitability can be achieved by reaching to more clientele. Larger outreach provides benefits of economies of scale and in turn the institution accomplishes profitability objectives. In the following section, I will discuss how these two indicators are interlinked and identify the empirical evidence in microfinance literature.

7.3.1 Outreach and Profitability

With the development of commercialisation of microfinance, institution offers more importance to sustainability and profitability. However, lending to the poor is more costly as it involves higher transaction costs. For instance, it is more costly to administer and monitor 500 loans of $200 than for a single loan of $100,000. Thus, the shift of microfinance raises a controversial and important debate of whether there is trade-off between profitability and outreach to the poor. Alternatively, it raised the question: can MFIs achieve social performance while focusing on financial performance?

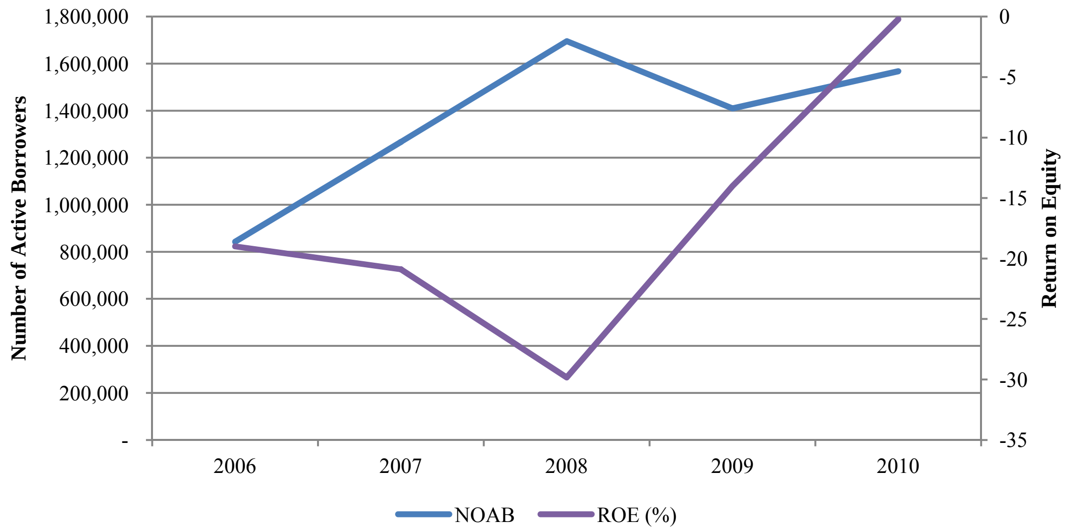
This trade-off has been examined in various ways by researchers (Cull *et al*, 2009; Zeller and Meyer, 2002; Herms and Lensink, 2011; Olivares-Polanco, 2005; Dehejia *et al*, 2008; Tucker and Miles, 2004). Some argue that both objectives are important to achieve because MFIs can attain benefits of economies of scale and minimise their costs (Christen and Drake, 2002; Mersland and Strom, 2010; Woller, 2000; Christen *et al*, 1995; Montgomery and Weiss, 2010). On the other hand, some researchers empirically prove that there is trade off between outreach and sustainability which means that it is not possible to serve the poor segment of the society and remain financially viable (Conning, 1999; Hulme and Mosley, 1996; Cull, Demirgüç-Kunt and Morduch, 2007; Hermes, Lensink, and Meesters, 2011; Olivares-Polanco, 2005). Different researchers adopted different methodologies and examined diverse settings.

Dehejia *et al.* (2008) found that by increasing the interest rate, financial sustainability can be achieved but at a cost of serving the poor clients. Cull, Demirgüç-Kunt and Morduch (2007) empirically examined trade-offs between financial performance and serving the poorest. They used a dataset of 124 institutions in 49 countries. Their study focuses on importance of institutional design in determining the existence and size of such trade-off. Their results show that MFIs that largely provide group loans are less profitable but lend more to poor and women borrowers. On the other hand, individual-based MFIs perform better in terms of profitability but lend to more wealthy borrowers. Further to this, non-profit MFIs still serve poor clients, while for profit, commercial MFIs serve the somewhat less poor. They concluded that there is trade-off between profitability and outreach. Makame and Murinde (2006) examined the trade-off of outreach and sustainability using a balanced panel dataset for 33 MFIs in five East

African countries for the period 2000 – 2005. They employed different measures in the depth (loan size) and breadth (number of borrowers) of outreach. They found strong evidence for a trade-off between outreach, sustainability and efficiency.

In contrast, Gonzalez and Rosenberg (2006) analysed this trade off by using database of 2,600 MFIs. They suggest that there seems to be no divergence between financial sustainability and outreach. Nawaz (2010) also studied this phenomenon and concluded that his study does not support the trade-off between outreach and sustainability. On the other hand, Kereta (2007) did not find any evidence of this relationship. Thus, assessing trade-off between outreach and profitability has shown mix results in the literature. The above discussion, suggests relationship between two indicators: outreach and profitability. If we look at the relationship between ROE and number of active borrowers of MFPs of Pakistan, then these two indicators shows a relatively significant relationship (see exhibit 7.3).

Exhibit 7. 3 ROE and Number of Active Borrowers (NOAB) of MFPs of Pakistan (2006 – 2010)



In fact, profitability and outreach is showing a strong negative relationship. As outreach is increasing from the year 2006 to 2007, from the same point ROE is depicting a downward trend. Interestingly, outreach reaches to its highs of 1.69 million borrowers in 2008. In the same year, losses rose to a maximum of 29.83%. In the year 2009, outreach decreased but ROE illustrated a growing trend. Although, both indictors are showing a rising trend in 2010, that is a sign of improvement in outreach and ROE, however, in the past four years they demonstrated the opposite relationship. The overall relationship between ROE and outreach suggests that there is trade off between these two goals. With increased outreach MFPs depicts negative financial performance and vice versa. Results of this trade off is consistent with the studies which found a strong relationship between outreach and profitability (Hermes, Lensink and Meesters, 2011; Cull, Demirgüç-Kunt and Morduch, 2007; Makame and Murinde, 2006).

Some of the firm specific rationales behind the ups and down of profitability and outreach were discussed in the above sections. Nevertheless, there are many other significant factors, which affect the firm financial performance, for example, age, financing choice (from where they are financing), how much interest they are charging, and most importantly, their operating cost. In order to understand negative and positive financial growth of MFPs of Pakistan, it is important to explain the determinants of profitability of MFPs. In the following sub sections, I will explain some of profitability determinants.

7.3.2 Profitability, Age and Size

The age and size of the institution play a significant role in determining its financial performance. Age is a measure for the MFI, that is, the number of years since its establishment. Size of the institution means how much assets they hold. Cull, Demirgüç-Kunt and Morduch (2011) note that age and size of the MFIs are important in MFI performance because they reflect how well established the MFI is. While studying trade off between outreach and profitability, they found that, an institution's age is significant and positively related to financial performance. This suggests that older MFIs are more profitable than the new entrants. Paxton (2007) examined the efficiency of 190 Mexican Popular Savings and Credit Institutions. They used the Stochastic Frontier technique and concluded that differences in efficiency are linked with differences in technology, average loan size, rural outreach, and the age of the institution.

Contrary to this, some studies show that new institutions perform better as they are more willing to innovate and emerge to enjoy more autonomy in their decision-making. Older institutions perform worse which means that the new players into the market are better able to pursue new profit opportunities (Beck *et al*, 2005). Herms, Lensink and Meesters (2011) study also support this view. They examined the relationship of age with the performance of MFIs. They found a significant relation of age with the financial performance of MFIs. They find that older MFIs are less efficient which suggest that more recently established institutions profit from the knowledge with respect to microfinance practices that has been built-up during the past few decades (Herms, Lensink and Meesters, 2011: 945). Moreover, they concluded that new MFIs based on the existing knowledge may leapfrog older institutions in terms of the efficiency of their activities. Thus, the studies show a strong relationship of age and performance of institutions.

In the microfinance sector of Pakistan, MFIs and RSPs peer groups are more experienced than MFBs. Although new entrants came in the sector, still many MFIs have more than eight year of experience. In MFBs peer group, two banks are mature with more than eight-year experience (Khushhali Bank and FMFB), however, rest of the MFBs are young and less experienced.

Exhibit 7. 4 ROE and Age of MFPs by peer groups (2006 – 2010)

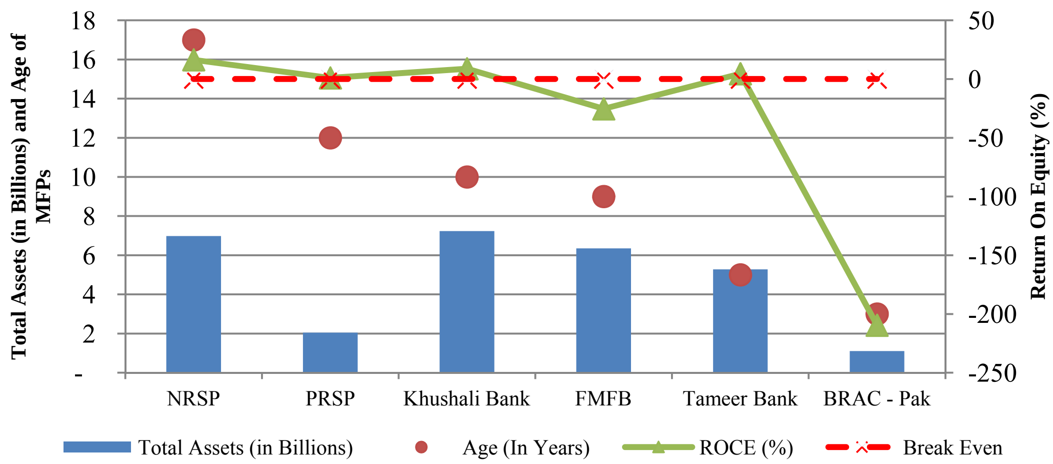
Most of the MFBs are young, as many started operations after 2005. They are not in profit, as their Return on Equity (ROE) varies between negative 66.9% to maximum of 8.8%. Before 2005, only two microfinance banks were working nationwide, Khushhali MFB and First MFB. In 2005, The State Bank of Pakistan issued licenses to four new Microfinance Banks. Tameer Bank, NMFB, and Rozgar bank commenced operations in 2005 and POMFB in March 2006. As in early years, institutions expand and build infrastructure, which is costly. Therefore, in the beginning, when an institution develops their infrastructure, there is higher operating and administrative costs that incurred in the process, therefore, returns of MFBs were low in the initial years. On the other hand, mature, leading and experienced MFBs financial performance is also not very promising. Khashhali Bank started earning in 2010 after nine years, which is a good sign. Nevertheless, FMFB is still struggling to achieve profitability and their financial performance is becoming worse than before. Overall, MFBs financial performance shows a positive and significant relationship with age.

In MFIs group, nearly half of MFIs are profitable, older and experience microfinance institutions. The remainder are mix of less and more experienced MFIs seeking to become profitable. All RSP are older and most of them are profitable. These results are consistent with the results of Cull, Demirgüç-Kunt and Morduch (2011). However, we cannot also neglect the exceptions. For instance, ASA-Pak irrespective of their less experience has showed outstanding performance not only in terms of active borrowers, Gross loan portfolio but also in terms of profitability measures. Interestingly, ASA started their operation mainly in Karachi in September 2008. In 2009, their ROE was -113.6%, however, just in a year (2010) their ROE jumped to 12.53%. ASA-Pak has achieved this growth by its extensive geographical spread in two provinces Punjab and Sindh. One point to note here is about ASA-Pak. This institution is newly established in Pakistan, it has the advantage of its parent company – ASA-Bangladesh that is a leading MFI in Bangladesh having more than 30 years experience. ASA- Pak profitability and widespread outreach reflect the experience of its parent company ASA-

Bangladesh. This suggests that experience plays an important role in the firm performance. In addition, ASA-Pak shows better progress in outreach and financial terms in very few years on the bases of experience of other microfinance practices that has been built-up during the past few decades. This example supports the study of Herms, Lensink and Meesters, (2011) where younger MFIs are more efficient.

As mentioned above, with age, size of the institution also matters in profitability. In microfinance literature, direct impact of size of the firm on financial performance is limited. Mersland and Strøm, (2009) studied the relationship between MFI performance and corporate governance while controlling MFIs size. Using panel data estimations they found that financial performance improves with firm size. These findings are consistent with Cull, Demirgüç-Kunt, and Morduch (2007). In order to see this relationship, I have taken six leading MFPs with larger assets base (see exhibit 7.5). Among these six players, four players NRSP, PRSP, Khushhali Bank and FMFB are mature and larger. Tameer MFB and BRAC-Pak are large but are young microfinance institutions.

Exhibit 7. 5 Return on Equity, Age and Size of leading MFPs in 2010



Four institutions out of six are in profit and are also larger in size. FMFB is the exception here, which is mature, holds larger assets but is not profitable. On the other hand, BRAC – Pak is showing heavy losses despite its larger asset base. Rest of the MFPs (NRSP, PRSP, Khushhali Bank and Tameer MFB) have more experience, and larger assets base are profitable. Thus, the relationship of size and profitability of these institutions reveal mix results but largely consistent with the studies, which suggest that bigger institution in size shows more profit (Cull, Demirgüç-Kunt, and Morduch, 2007; Mersland and Strøm, 2009). In spite of age and size of microfinance institutions, financing choice also matters in the profitability of institutions. In the next section, funding sources of MFPs of Pakistan is discussed.

7.3.3 Financing Sources and Profitability

Before evolution of microfinance, MFIs were largely dependent on grants and subsidies. However, the new wave of commercialisation of microfinance has diverted the typical grant and subsidies into commercial borrowing. Due to increase commercialisation, MFIs moved towards new financing sources such as commercial borrowing and deposit mobilisation as more MFIs get regulated. Thus, MFIs shifted their focus from subsidised donor funding towards commercial funding (see details in chapter two).

The development of MFI funding sources is usually explained by institutional life-cycle theory of MFI development. Traditionally, funding structure of MFI has followed institutional life cycle theory as it grows (Hoque, Chishty and Halloway, 2011). In the initial stage, MFIs start out as NGOs with the social mission of poverty reduction and are largely dependent on subsidies and donations. Overtime, these MFIs evolve into more regulated financial institutions e.g. microfinance banks. A growing number of MFIs use forced saving from clients and public (institutional) deposits as their main funding sources. At maturity phase, these MFIs can access private debt capital on commercial interest rate and with more restrictive covenants or guarantees (Hoque, Chishty and Halloway, 2011). In the final stage, some MFIs can access to capital markets by issuing bonds, equity financing and even securitising their loan portfolio (Dieckmann, 2007).

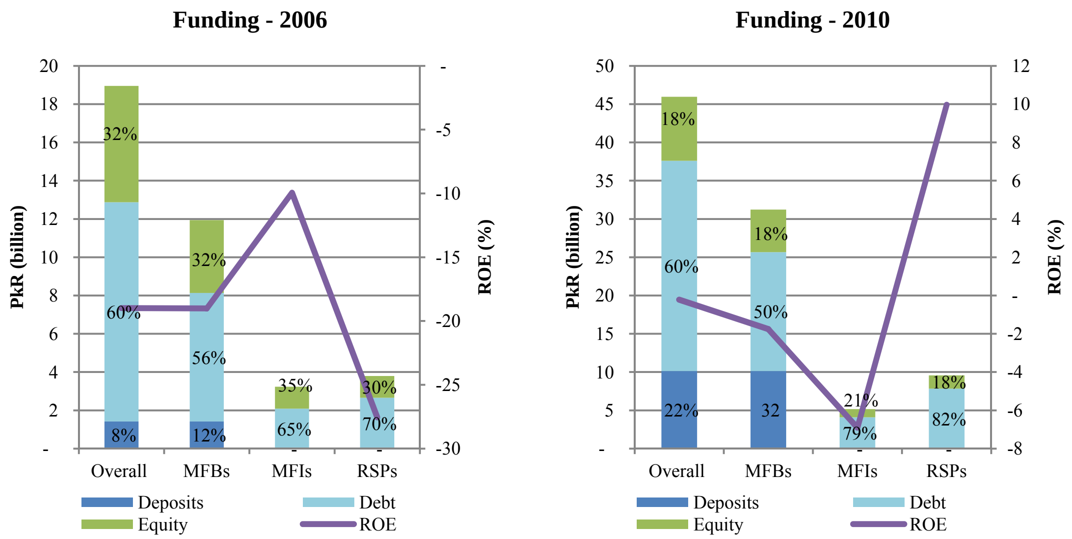
In general, life cycle theory illustrates that financing sources are linked to the different stages of MFIs development. For instance, Farrington and Abrams (2002) support the life cycle theory. They provide evidence that as the MFIs grow in numbers, competition increases, that affects the capital structure of the industry. However, they also argue that increasing number of institutions do not follow this pattern any longer. As some institutions, start as regulated financial institutions and some prefer not to develop into regulated MFI. Therefore, nowadays MFIs are using diverse funding options and the more common financing sources are; debt, deposits and equity.

In microfinance studies of the impact of capital structure is scant. However, few measure this impact and shows mix results (Bogan, 2012; Hoque, Chishty and Halloway, 2011; Kyereboah-Coleman, 2007). Bogan (2012) investigates the impact of existing sources of funding on the efficiency and sustainability of MFIs. He finds causal evidence to the effect that an increased use of grants by MFIs decreases their operational sustainability. Kyereboah-Coleman (2007) investigates the impact of the capital structure on the performance of microfinance institutions. He uses panel data of ten years 1995-2004 by estimating a random and fixed effects linear model. He conclude that highly leveraged microfinance institutions perform better by reaching out to more clientele, enjoy scale economies, and therefore are better able to deal with moral hazard and adverse selection.

Contrary to this, Hoque, Chishty and Halloway (2011) examine the impact of commercialisation on capital structure, mission and performance of microfinance institutions. They employ panel data for six-year period of 2003-2008 and use different estimation techniques ranging from simple OLS to fixed and random effects. They found that leverage adversely affects all the performance variables; namely, outreach, productivity, and the risk. Further to this, their result shows that an increased use of commercial debt and equity financing leads to lower productivity. Their study suggests that MFIs can adopt a non-commercial approach to financing as an alternative to commercialisation. Thus, the empirical evidence shows the impact of capital structure on financial performance of MFIs.

Current source of funding of MFPs in Pakistan are debts, equity and deposits (see exhibit 7.6). According to prudential regulations of Pakistan, only banks are allowed to take deposits. Therefore, one of the reasons behind the establishment of microfinance banks was to mobilise deposits, which is a less costly financing source. MFIs and RSPs also encourage micro borrowers to save but these savings are kept in commercial banks. In PMR dataset, they have not included these deposits, which the MFIs and RSPs take from the micro borrowers. Therefore, only MFBs deposits are included in the dataset.

Exhibit 7. 6 Financing Structure and ROE (2006, 2010)



In the five-year period (2006 – 2010), overall financing structure has not changed very significantly. Debt proportion shows consistency, nonetheless equity and deposits have changed, where equity has shrunken and deposits percentage has risen. Change in deposits has occurred primarily due to MFBs. MFBs equity has decreased from 32% to 18% in these five years, while percentage of debts has slightly dropped off. It is important to note that, two MFBs Pak Oman MFB and Network MFB are largely dependent on equity finance 94% and 87.4% respectively. The rest of the banks use a combination of deposits, debts and equity financing.

On the other hand, MFIs and RSPs rely largely on debt financing and their proportion of equity finance has decreased. High proportion of fixed interest capital of MFPs implies that MFPs are highly geared and leveraged. High leveraging suggests that MFPs may be able to better deal with the moral hazard and adverse selection, enhancing their ability to deal with risk (Kyereboah-Coleman 2007). Higher ratio of debt also means more profitability of MFIs. However, it increases their risks of becoming insolvent.

RSPs and MFIs financing structure with the ROE are interesting. RSPs that rely on highly subsidised debts are showing higher profitability compared to other counterparts. However, this group consist of only four institutions, in which NRSP is the leading player. Contrary to this, MFIs that are also largely based on debt financing (mix of commercial and subsidised debts) reveal negative returns. MFBs with mix financing structure are approaching to profitability. This suggests a weak relationship of profitability and the financing structure of MFPs. Moreover, MFPs negative profitability does not primarily depend on financing structure but many other firm factors such as the mission of the institution, whether it is profitability or to achieve social returns, interest rate, size, age and market factors may also affect the profitability of institutions.

It is noteworthy, out of the total debts of MFIs and RSPs, more than 50% are subsidised debts (Basharat, 2011). These subsidised debts are largely from Pakistan Poverty Alleviation Fund (PPAF), the National Apex for microfinance and from local and international donors. Commercial borrowing is increasing. Due to increased commercialisation, PPAF has also changed its policy of offering subsidised loans. From 2010, PPAF is charging commercial rates for loans of more the PKR 500 million (Basharat, 2011). Another larger source of commercial funding is from Microfinance Credit Guarantee Funds (MCGFs). The first MCGF was established in 2008 with the aim of providing partial risk against loans to MFPs by commercial banks (Ahmed and Basharat, 2013). Since the first initiative, fourteen guarantees have been issued. The State Bank of Pakistan has played a key role in the development of MCGFs and facilitating access to commercial funding for the industry. Through these MCGFs, Commercial banks and development financial institutions (DFIs) provide funds to MFPs at commercial rates.

More, some microfinance institutions have been victorious in tapping the money and capital market. For instance, Kashf Foundation has been successful in issuing term finance certificates (TFC) which secured private placements and were also oversubscribed (Kashf Foundation, 2007). More recently, Tameer MFB (TMFB) issued a commercial paper for PKR 200 million, maturity time 6 months at a mark-up rate of 6 months KIBOR plus 2.25 maturing in May 2012 (Basharat, 2012). The commercial paper was privately placed investment where it has received a good response from the market.

In addition, a proportion of equity remains low for MFIs and RSPs with just 21 and 18 percent of their capital structure. Therefore, in order to increase the equity of MFIs Pakistan Poverty Alleviation Fund (PPAF) is now trying to strengthen their equity position. For this purpose, PPAF has launched an equity fund called PRISM- Equity Fund with the aim of strengthening the financial position of mid tier and smaller players (Basharat, 2012). The aim of this equity fund is also to assist MFPs to expand further and to enable them to access commercial finance (Basharat, 2012). Thus, MFPs are moving towards commercial sources of finance to provide microfinance services to the poor. Subsidised debt make up a major portion of total debt, through its share is gradually decreasing. This impact of commercial borrowing will more apparently come in the financial performance in the near future.

It is also worth of note that, commercial sources are costly. In order to cover this cost, MFPs may charge higher interest rates that might negatively affect micro borrowers. The interest rate is significant factor as it is a larger source of financial revenue for the microfinance institutions. In the subsequent section, I examine differences between the interest rate charged by MFBs, MFIs and RSPs. Moreover, if any change occurred in interest rates when institutions are moving towards commercial funding. Therefore, changes in interest rate over the five years are discussed.

7.3.4 Yield on Gross Loan Portfolio

As mentioned above, commercialisation of microfinance is bringing commercial borrowing to the sector. Cull at el (2009a) argue that commercially funded MFIs give more priority to the profit incentive, therefore they want to increase revenues to cover all operating expenses including cost of capital. On the other hand, donor dependant MFIs may not respond to these pressures to operate efficiently or may deliberately choose outreach over profitability by serving poorer or rural clients with higher delivery costs (Armendáriz and Morduch, 2010). A higher cost of external funds and desire to earn more profit may force the MFI to raise the interest rate it charges to its borrowers. Thus, higher interest rate can contribute to a greater income for microfinance institutions.

Some favour high interest rates of microfinance. As microfinance is a costly business perhaps due to high transaction and information costs, and empirical evidence highlight this fact (Hermes and Lensink, 2007; Gonzalez, 2007), therefore, to maintain the same level of profitability, the interest rates are much higher for MFI loans than for conventional bank loans. Alternatively, another frequent argument is 'access to finance is more important than price'.

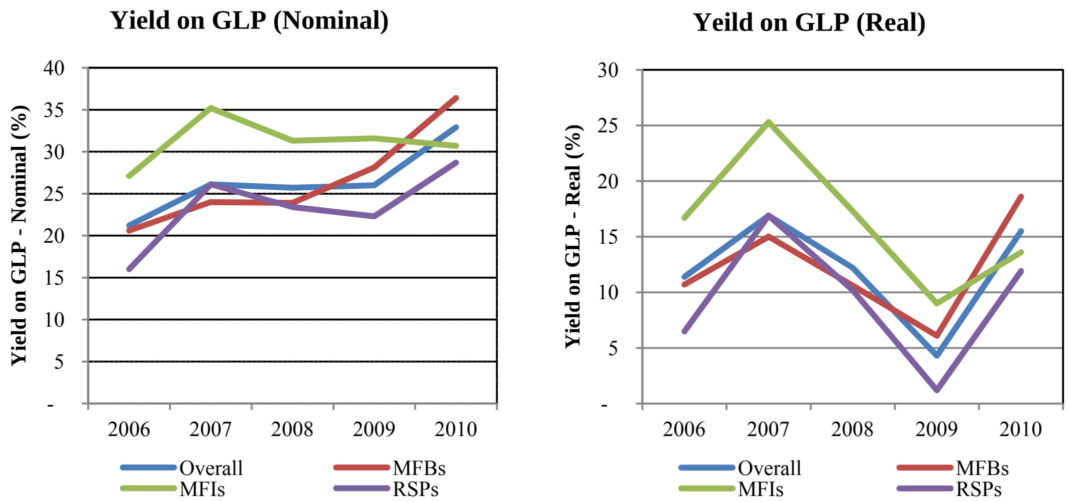
Roberts (2013) analysed the relationship between effective interest rate and profitability. His results indicate that a stronger for profit orientation corresponds with higher interest rate for MFIs clients. Further to this, he concluded that a higher interest rate does not contribute to greater profitability because stronger profitability is also associated with the higher cost. This suggests that, profitability objectives force MFIs to charge higher interest rates but due to higher cost, they do not achieve desired results. Copestake (2007) argued raising interest rate may well improve financial performance of MFIs but it is likely to be at the expense of social performance, as net return to the poor will reduce and also MFIs will lend to less poor clients. Thus, higher interest rate of MFIs recently has raises the question of ethics of microfinance (Hudon, 2011).

There are normally two interest rates, Nominal yield on Gross Loan Portfolio (GLP) and Real yield on GLP. Nominal yield on GLP (nominal interest rate) indicates the actual returns on loan portfolio of MFPs and is usually used as a proxy to look at an effective interest rate (Basharat, 2011). This is equal to total interest income and fees earned divided by the average gross loan portfolio (Basharat, 2011). Real interest rate is an interest rate that has been adjusted to remove the effect of inflation. This represents the real yield to the institution and real cost of funds to the borrowers[26].

[26]Real Interest rate is equal to yield on GLP (Nominal) –inflation/(1+inflation rate)

Thus, inflation has a very strong relationship with the interest rate. Therefore, for analysis purposes, I have taken both interest rates (see exhibit 7.7).

Exhibit 7. 7 Yield on Gross Loan Portfolio (Nominal and Real) (2006 -2010)



Interest rates charge by different peer groups of MFPs of Pakistan illustrate interesting results (see exhibit 7.7). In the four years, (2006 – 2009) non-profit organisation (MFIs) were charging a higher interest rate compared to RSPs and for profit, MFBs (see exhibit 7.7). However, over the recent years MFIs interest rate has declined. Contrary to this, MFBs that were charging less interest rate are now charging highest interest rates. In 2010, RSPs were charging the lowest nominal interest rate of 29%, MFIs 31% and MFBs were charging the highest interest rate of 36%. Overall interest rate of all MFPs is showing an increasing trend. In 2006, combined nominal interest rate was at its lowest level of 21%. In three years (2007, 2008, 2009) it has remained consistent. However, in 2010, it has largely increased.

In the MFBs peer group, Tameer MFB and Kashf MFBs are charging maximum interest rates (nominal) of 38.3% and 46.5% respectively. In microfinance banks, the Khushhali

Bank is charging minimum interest rate of 32.7%. In MFIs group, such as BRAC-Pak (39.8%), Asasah and ASA-Pak (34%) are taking commercial borrowing and charging higher interest rates. On the other hand, MFIs and RSPs who continue to receive grants and subsidies are charging a lower interest rate. Thus, growing trend of commercial borrowing and commercialisation of microfinance institutions is depicting in the rising interest rate of MFPs.

Another rationale for rising interest rate is their lower profitability. According to PMR (2009) report, the core rationale behind low profitability of MFPs is their lower interest rates. Thus, in order to achieve the objective of profitability, interest rates are increasing. However, it is also important to note that MFBs and some MFIs, who are charging higher interest rates, are not always profitable. This is surprising because t MFPs overall tend to be more profitable when their average interest rates are higher.

Besides the nominal interest rate, real interest rate is also showing similar results. Despite the lower inflation in 2006 (8.9%), the interest rate was high. In two years (2007 and 2008) the inflation rate slightly increased. However, a sharp increase in inflation occurred in 2009, due to which the real interest rate came down to the lowest level of 4%. This suggests important points. First, MFPs were charging low interest rates until 2009. Secondly, they were also earning less because of the high rate of inflation. However, despite the decreasing inflation rate (15%) in 2010, the interest rate is still increasing. MFPs real effective rate (without the effect of inflation) reached to 16% in 2010. It is showing a continuous upward trend, and it is interesting to note that increased competition decreases the prices of goods or services. This is what the proponents of commercialisation of microfinance also claim. For instance, in Bolivia, MFIs interest rates have declined (Gonzalez-Vega and Villafani-Ibarnegaray, 2011). However, in Pakistan despite the increase in competition, interest rates of MFPs are rising, particularly in MFBs.

More recent figure of nominal interest rate of MFPs has reached to 35.2% that is the highest level compared to other MFIs in the world (Basharat, 2012). Thus, this shows that commercialisation of microfinance, the objective of profitability, and commercial borrowing are increasing the interest rate of the MFPs in Pakistan. Further to the profitability objective, efficiency of MFPs also plays a significant role, which is discussed in the subsequent section.

7.4 Efficiency of MFPs

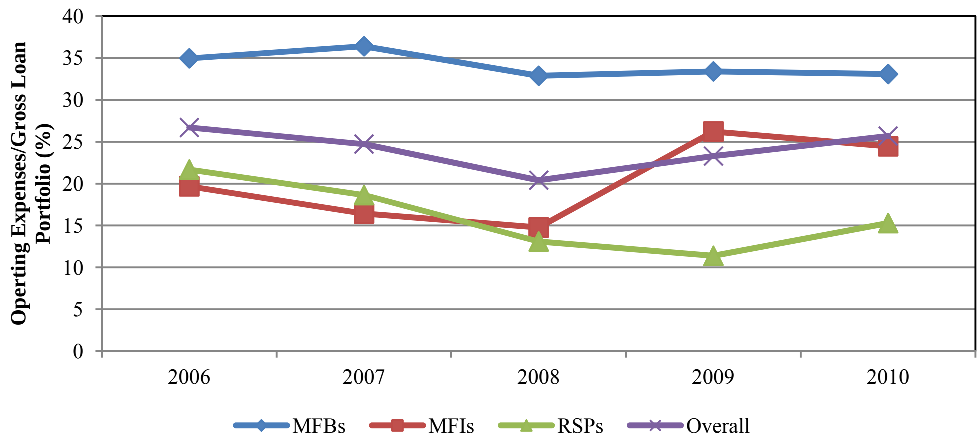
Performance of any institution not only determines in terms of profitability indicators but also how efficient they are in utilising their resources. In economic terms, a firm is efficient if for a given output, it operates with least cost. In microfinance, efficiency means a more effective use of staff, funds and equipment into loans, deposits, and other financial and non- financial services at minimum cost (Hudon and Balkenhol, 2011). Efficiency of MFIs has been examined in different ways. For example, Mersland and Strøm, (2009), Mersland (2009a) and Gutiérrez-Nieto *et al*. (2009) studied the impact of corporate governance on firm efficiency. Herms, Lensink and Meesters (2011), examined the efficiency outreach trade off, and concluded that there is trade-off between these two objectives.

Hudon and Traça (2011) empirically examined the impact of subsidies on MFIs efficiency. They found MFIs that receive subsidies (mostly non-profit MFIs) are actually more efficient until a threshold. This suggests that subsidies allows MFIs to increase the productivity of their staff, to invest in capacity building, develop and expand the infrastructure and quality of services. On the other hand, some found that subsidisation of microfinance leads to cost-inefficiencies and decrease in the staff productivity (Nawaz, 2010). Thus, these studies suggest that cost decisions of MFI management are instrumental in influencing the efficiency of institutions. This also suggests that increasing outreach and subsidies effect on the efficiency of microfinance institutions can be positive and negative.

Efficiency in microfinance is defined mostly as an operating expense to the average gross loan portfolio. Operating expenses of MFIs includes personnel and administrative expenses. Other important efficiency indicators include cost per borrower, personnel expense/loan portfolio and cost per loan. Several studies used these accounting variables in order to measure the efficiency of MFIs across regions (Hermes, 2008; Farrington, 2000; Ejigu, 2009; Lafourcade *et al.* 2005; CGAP, 2003; Jansson *et al.* 2003; Baumann, 2005). These efficiency ratios reflect, "how efficiently an MFI is using its resources, particularly its assets and personnel" (CGAP, 2003: 16).

In order to analyse the efficiency of MFPs of Pakistan, I have employed two commonly used efficiency indicators. These include adjusted operating expense/adjusted average gross loan portfolio and cost per borrower (adjusted operating expense/ adjusted average number of active borrowers). Higher ratios imply a less efficient institution and vice versa. The operating expense/GLP of MFPs by peer groups shows interesting results.

Exhibit 7. 8 Operating Expense/Gross Loan Portfolio by Peer Group and Overall (2006 – 2010)



In particular, MFBs Operating Expense/GLP ratio is higher than the MFIs and RSPs. In 2006 and 2007, it was at the height of 35 to 36% respectively. In 2007 to 2010, it remains consistent but high at 33.0% compared to other peer groups. MFIs and RSPs operating expense/GLP ratio was at a decreasing trend in 2006 to 2008. While MFIs ratio moved up and then again started to fall downwards. This could be due to higher inflation in 2009 and as some of the MFIs were in crisis, the cost was more in that period. However, in 2010 their Operating Expense/GLP ratio started declining.

From 2006 – 2009 RSPs showed constant efficiency by lowering their cost and increasing their outreach, nonetheless, in 2010 their Operating Expense/GLP ratio slightly moved up. This is mainly due to one RSP Sarhad Rural Support Programme (SRSP). SRSP is a small RSP compared to other RSPs since its beginning. I noted earlier (in section 7.2) that this RSP suffered from heavier losses and lower outreach due to the poor law and order situation in North Areas (Swat region). In 2010, its cost per borrower reached to PKR 19, 643 ($229.71), as a substantial decrease of 7,890 occurred in their number of active borrowers. This has affected overall Operating Expense/GLP ratio of RSP peer group. Overall, in 2010, MFIs operating expense/GLP ratio stood at 24.5%, while the RSP ratio was at its lowest level of 15.3%.

This suggests that for profit, MFBs are least efficient due to their higher operating costs. On the other hand, more poverty focused non-profit NGOs and RSPs are more efficient, as their operating cost is less. This is largely due to more personnel expenses of MFBs followed by administrative expenses. Ahmed (2011) did a survey to compare salaries of MFBs with the commercial banks and MFIs with the MFBs. He found that salaries of MFBs staff at all levels (senior management, middle and lower management) are higher than the MFIs staff. Even the CEO salary at MFI is almost a third of MFB salaries (Ahmed, 2011). This suggests that when an institution becomes regulated and commercial, then it compares itself with the existing commercial banks. They would require competitive salaries packages, branches more equipped with modern furniture and more facilities to their borrowers. On the other hand, non-profit organisations work in small offices, which are less equipped and do not pay exceptionally high salaries to staff. This does not indicate that they are lower paid but it reflects their cost minimisation strategy.

During my field visits, I also observed the following differences; for instance, Akhuwat, who provide interest free loans and work on local donation and philanthropist help, the cost per borrower is PKR. 1,293. It is low because the MFI operate on cost minimisation strategy. In the head office visit, I observed that all staff was seated in a large room where there was no furniture. Their loan officers had motorbikes instead of vans (which the MFBs provide to their loan officer). In this way, some of the MFIs minimise cost and increase their efficiency.

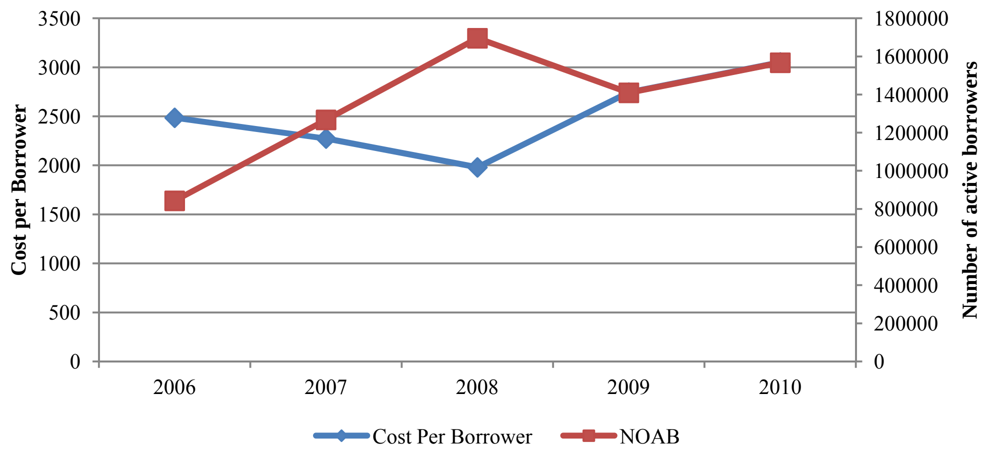
Lending methodology is also vital in gauging the efficiency of microfinance institutions. MFBs have started lending individual loans, while MFI and RSPs work on group lending methodology. In group lending, peer pressure and group monitoring help loan officers in recovery of loans. While in individual lending, more costs incur in monitoring borrowers, assessing information on payment and collection of loan. Therefore, more staffs are required which increases cost.

Thus, MFIs and RSP who are more poverty focused, and utilise group lending methodology are more efficient compared to MFBs which depict higher costs by employing profitability objective and individual lending approach. Moreover, Cull, Demirgüç-Kunt and Morduch (2011) found that NGOs charge interest rates roughly double the size of commercial microfinance banks due to their higher cost. However, MFPs in Pakistan are showing opposing results. NGOs are more efficient and charge less interest rates compared to MFBs.

MFBs are trying to reduce their cost by employing branchless banking. Tameer Microfinance Bank is considered as the pioneer in branchless banking in microfinance. Some other MFPs are also employing branchless banking in order to reduce their personnel and administrative expenses. However, as MFBs and some of the MFIs are moving towards commercial borrowing, this will lead to an increase in financial expenses, especially in the present high-interest rates policy.

Moreover, microfinance efficiency also depends on the cost of the actual number of borrowers. In theory, if the number of active borrowers increases, then the cost per borrower tends to decrease. However, some argue that there is trade-off between these two objectives (Herms, Lensink and Meesters, 2011; Cull, Demirgüç-Kunt and Morduch, 2007). In order to see this relationship I have taken cost per borrower and actual number of active borrowers. MFPs are showing strong relationship between these two indicators (Exhibit: 7.9).

Exhibit 7.9 Cost per Borrower and Number of Active Borrower



In 2006 to 2008, when outreach was increasing, cost per borrower was decreasing; this means MFPs were more efficient. Since 2009, cost per borrower is increasing, while outreach first declined in 2009 and then started rising. This suggests that, in the first three years, MFPs were more efficient while at the same time they were reaching to more number of borrowers. However, in 2008, this showed the opposite, as MFPs outreach increased, their cost per borrower also increased, which shows lower efficiency with lower outreach. Nonetheless, 2010 demonstrated interesting results as outreach was increasing and at the sometime, cost per borrower was also rising which depicted lower efficiency of MFPs. This suggests that before 2009, MFPs outreach and efficiency indicators were showing a strong positive relationship, as one was increasing so another was also rising. However, in 2010, these two indicators reveal a strong trade-off where outreach has increased but efficiency has fallen.

This trade-off is largely due to continuous increasing cost per borrower of all peer groups. Nevertheless, MFBs cost is higher than the other peer groups. In 2010, average cost per borrower of MFB was PKR.4, 908 ($57.40), MFIs PKR.1, 981 ($23.16) and RSPs PKR 1, 734 ($20.28). Within MFBs, Kashf Bank has highest cost per borrower of PKR. 20, 918 ($244.62) in 2010 while the Orangi Pilot project has shown the lowest cost at PKR. 941 ($11.00). Only two MFBs (Khushhali Bank and First MFB) which are experienced and large have lower costs per borrower.

In MFIs and RSPs groups, no significant change has occurred in costs per borrower. Some of the new MFIs such as ASA-Pak[27] and BRAC-Pak cost per borrower decreased from 2009 to 2010. Thus, in terms of cost per borrower (another efficiency indicator) MFBs are less efficient compared to MFIs and RSPs. Furthermore, the results also depict the trade-off between efficiency and outreach indicators.

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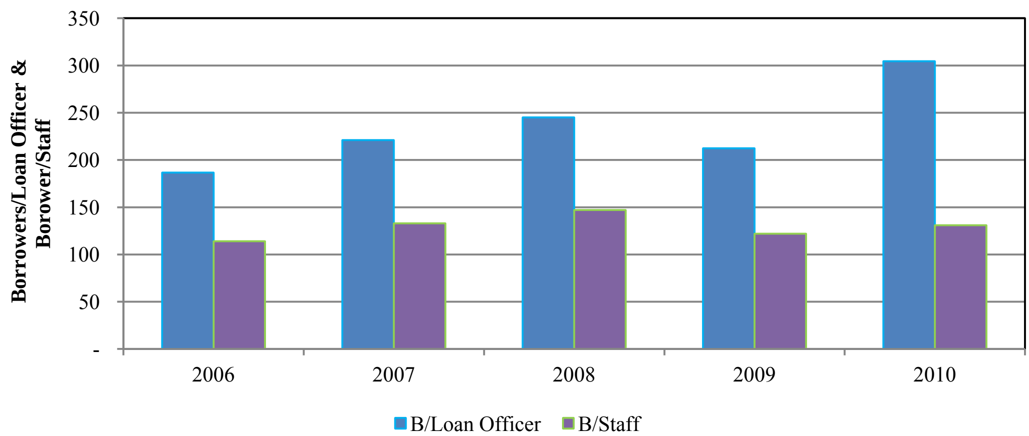
[27]ASA is often praised as a cost-minimization institution, which has managed to be highly efficient while serving massive numbers of poor clients (Armendáriz and Szafarz (2009).

7.5 Productivity

Productivity means a more productive use of staff in a microfinance institution, either as total personnel, loan officers or depositor staff. This also refers to efficiency of staff to serve more number of clients at lower level of input (staff). Hudon and Balkenhol (2011) included staff productivity within efficiency ratios. However, the Pakistan Microfinance Review reports and MiX Market has showed these ratios are separate from efficiency. Common measures of productivity include the number of borrowers per loan officer or credit officer (Number of Active Borrowers/Total Loan Officers), loans per loan officer (Number of Active Loans /Total Loan Officers), borrowers per staff (Number of Active Borrowers/Total Staff) and depositor per staff (Number of Active Depositor/Total Staff). Among these, I have taken two important and commonly used productivity ratios: borrower per loan officers and borrowers per staff. As in the dataset, deposits of only MFBs are included; therefore, depositors per staff ratio are not taken in order to avoid misleading results. An increase in borrower per loan officers and borrowers per staff means higher productivity of a microfinance institution. In the five-year period, productivity of MFPs in Pakistan has increased over the five-year period (see exhibit 7.10).

Exhibit 7. 10 Borrowers per loan Officer and Borrowers per staff



First three years of dataset are illustrating that MFPs were productive on both measures. However, borrower/loan officer reached to 212 from 245 and borrowers/staff at 122 from 147 in 2009. This is mainly because outreach declined considerably in 2009, while loan officers were slightly decreased and few staffs were added in 2009. These outcomes are not unexpected, as in 2009, other indicators such as outreach, profitability and efficiency were also decreasing significantly. Therefore, results of productivity of MFPs are consistent with all other performance indicators.

Interestingly, within one year (2009 – 2010), productivity of MFPs has enhanced drastically, borrower per loan officer ratio in particular. The reason behind this radical change is not that outreach has increased tremendously (see exhibit 7.3) but due to significant decline in total loan officers by 1,489 (29%). On the other hand, overall, 448 new employees have been hired in 2010. In particular, by peer group, MFBs total staff has increased and loan officers have decreased from 2009 to 2010, therefore their productivity improved. This indicates that MFBs new hiring is more towards deposit mobilisation and other administrative areas. Deposits per staff also provided evidence of this as an increase of 60 percent occurred in this ratio in 2010 (Basharat, 2011).

MFIs loan officer and total staff both showed good growth. With increasing outreach, they have demonstrated higher productivity in both measures. There was a considerable decline in RSP staff and loan officers. This also illustrates their increased productivity. The extensive decline in the number of loan officers is mainly due to NRSP, which is one of the largest players. Their loan officer has decreased from 2,469 to 643. It is important to note that, from 2009, the NRSP started a process of transformation and this could be the significant reason for the decline.

Overall, all MFPs were productive in 2010 in the sense that they served large number of borrowers per staff and per loan officer. Contrary to this, higher productivity might negatively affect the quality of portfolio loans, and quality of service delivered to customers. This is mainly because few loan officers will devote less attention to the requirement of each client; thereby the quality of loan portfolio will be affected adversely. Thus, this is what we have analysed in chapter six in the form of delinquency crisis, where the borrowers deliberately stopped repayments of loans. Moreover, this can also be evidenced from loan selling and ghost loans (see more detail in chapter six). In the following section, I will discuss the aspect of mission drift by looking at the average loan size and percentage of women borrowers. In parallel, I will discuss the risk of MFPs over the five years.

7.6 Mission Drift

Microfinance started with the mission of poverty reduction and to help the less privileged and poor households. With increased commercialisation, it is often argued that MFIs will migrate away from their original mission (poverty alleviation and to serve the low-income households) in order to achieve profitability which suggests a mission drift in microfinance (see detail discussion in chapter two). Cull, Demirgüç-Kunt and Morduch (2007; 126) define mission drift as a shift in the composition of new clients, or a re-orientation from poorer to wealthier clients among existing clients.

Armendáriz and Szafarz (2009: 2) states “mission drift may arise because MFIs might find it profitable to reach out to wealthier individuals while at the same time crowding out poor clients”. Both definitions of mission drift illustrate the shift of focus of MFIs to more wealthy borrowers. This shift of focus is often measured in two common ways: average loan size of MFI or lending more or less to women clients (Mersland and Strøm, 2010). Evidence showed that a loan size of around $100 emphasis more sharply on poverty reduction compared to loan size of $500 or more than that because higher loan size means lending to marginally poor or less poor borrowers (Morduch, 2000). On the other hand, if the loan size is small, then borrowers that are poor will bear it easily and also, it will have an effect on timely repayments.

7.6.1 Average Loan Size

For the purpose of analysis, I have used average loan size (gross loan portfolio/number of active borrowers) and average loan size/GNI per capita as a proxy to measure the poverty level of MFIs or depth of outreach. A per capita income of below 20 percent of a country means that MFPs is poverty focus. In terms of value of loan size assumption is that the smaller the loan, the deeper the outreach or poorer the clients.

Exhibit 7. 11 Average Loan Size by peer groups

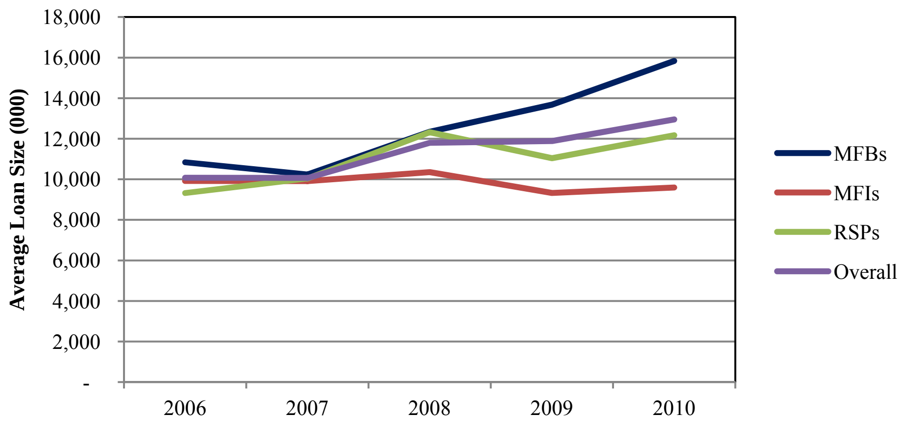
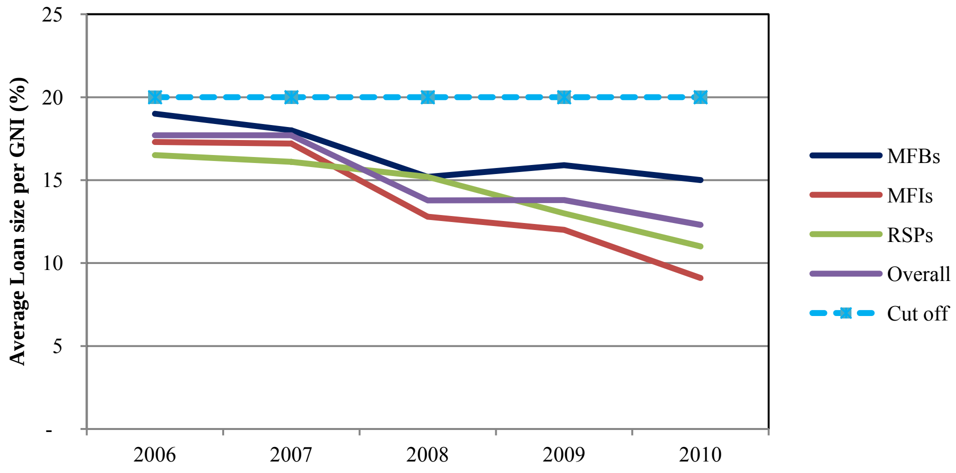


Exhibit 7. 12 Average Loan Size/GNI per Capita by peer groups



In 2006 and 2007, average loan size and average loan size/GNI per capita indicate similar patterns (see exhibits 7.11 and 7.12). This is due to constant GNI/Capita of the country[28]and there was no significant increase in the loan size of all peer groups. Since 2008, GNI/Capita showed considerable growth due to the average loan size/GNI of all MFPs has dropped off. Particularly, MFIs and RSPs as their loan sizes have not increased considerably in the last five years.

Among the peer groups, MFBs are showing a growing trend since 2007 (see exhibit 7.11). Some MFBs average loan size is double or triple than the non-profit organisations (MFIs and RSPs). Average loan size/GNI is also higher of MFBs compared to other peer groups (see exhibit 7.12). The average loan size of MFIs has not increased over the five-year period. It has slightly declined from 2006 to 2010. RSPs outreach depth has moved up but not considerably. Lower average loan size of MFIs and RSP suggests that, they are better in reaching to poor people while MFBs cater to less poor clients, or

[28]GNI/Capita has also taken from the PMR reports.

put it on another way, MFBs provides larger loans to develop entrepreneurs who can absorb larger loans.

More specifically within MFBs, more commercial oriented MFBs such as Tameer and Kashf MFBs average loan sizes are higher than the less commercial MFBs such as Khushhali bank and FMFB. It is also significant to note that Khushhali bank worked as a non commercial bank until 2009, therefore, their loan sizes were less. However, as the commercial investors have acquired Khushhali bank recently, it will influence their lending methodologies, interest rate and their mission. Other MFBs such as Network MFB loan sizes have decreased due to a significant drop off in their loan portfolio.

Moreover, the State Bank of Pakistan (SBP) Prudential Regulations has played an important role in pushing up the average loan size of MFBs. For example, according to the SBP revised prudential regulations (2011), MFB could give maximum loan size of up to Rs. 150,000 to a single borrower with household annual income (net of business expenses) up to Rs. 300,000. SBP revised again the Prudential Regulations in 2012. These new regulations have allowed MFBs to lend to microenterprises up to PKR 500,000 (40% of their loan portfolio). The aim of this substantial increase in loan size is to meet the credit requirements of the microenterprise market and provide MFBs an opportunity to upscale their credit operations (Basharat, 2012).

This up scaling of loan size limits for MFBs also suggest they will focus on lending to small and medium enterprises instead of micro entrepreneurs and their loan sizes will further increase. This larger increase on loan amount will fulfil the credit requirement of more established enterprises that may still play an important role in the development of economy. Lending to small and medium enterprises will create employment opportunity for the poor and will positively affect an economy. However, this growing loan size of MFBs advocate the drifting of microfinance mission related to poverty alleviation. Microfinance banks were not created to serve the small and medium enterprises as, commercialisation of microfinance was imitated to give services to poor segment on large scale.

One important rationale behind larger average loan size of MFBs is segmentation of the microfinance sector (see detail in Chapter Five). Where different peer groups will be serving to different market segments, NGOs will serve a lower niche of the market and banks will serve the upper end of the sector. It is important to note that recent changes in microfinance banking industry in loan size is neither due to progressive lending nor cross subsidisation reasons, as their aim stated (see Armendáriz and Szafarz, 2009).

On the other hand, other two peer groups MFIs and RSPs lower loan size and loan size/GNI indicate that they serve more poor clients. However, "the declining averages of loan size do not necessarily signify a deeper outreach towards the poorer market segment" (Burki, 2010: 7) argued. Burki (2010) used the mixed methods (survey and focus group discussion) to study the purpose of loans, whether borrowers used it for production or consumption purposes. The study was conducted in three cities of Pakistan, Lahore, Bahawalpur and Rawalpindi, and four MFPs (Two MFIs, one RSP and one MFB) participated in the study. The study concluded that due to high inflation, purchasing power of an average loan has decreased in Pakistan. Lower average loan size of MFPs does not fulfil the demand of micro borrowers therefore, this pushed micro borrowers to borrow from multiple lenders. Survey results indicate that 44 percent of overall borrowers take multiple loans due to lower loan size of MFPs. Furthermore, they also found that four in every five borrowers states that they are using loans for enterprise purposes. Burki findings suggest that the lower average loan sizes of MFPs are not sufficient to meet the high demand of microfinance clients.

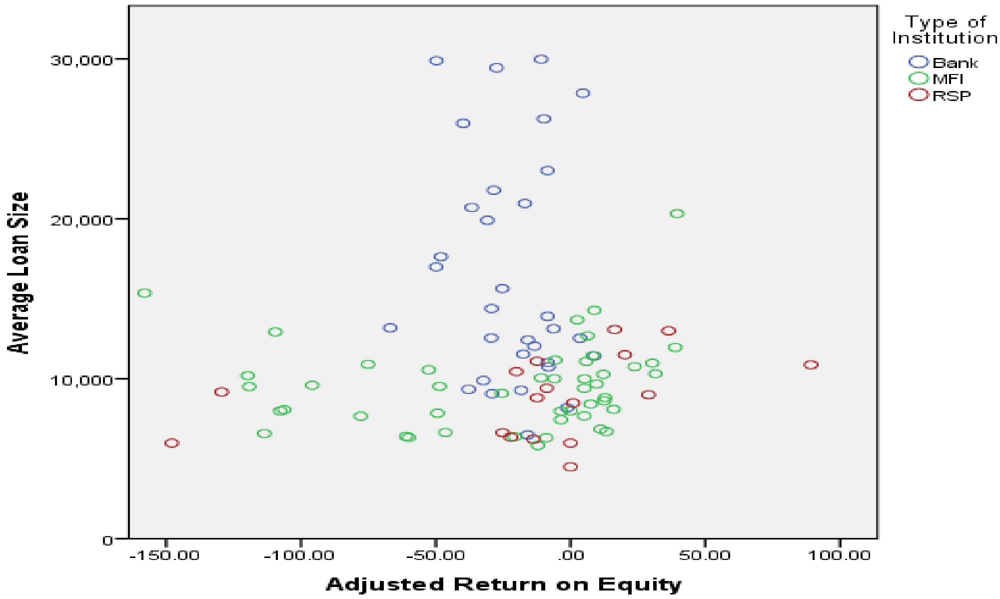
It is interesting to note that, the study was conducted in those cities of Pakistan where multiple MFPs are giving services and microfinance operations are largely concentrated in these urban areas (see detail discussion in Chapter Five). Indeed, micro borrowers in the highly saturated market are also not very poor and are wealthy entrepreneurs, who demand larger loans, as Burki stated. Nonetheless, this does not seem to advocate that MFIs and RSPs also provides larger loans, instead lower loan sizes are important to provide loans to poor people in rural areas where microfinance market is less saturated. As these MFPs give smaller loans to more established entrepreneurs, therefore, it brings multi borrowing.

Overall, MFBs that are more commercial, lend to wealthier borrowers, MFIs, and RSPs lower loan sizes indicate that they focus on more poor people. Huge differences in average loan size of MFIs and MFBs in Pakistan do not support (Olivares-Polanco, 2005; Christen, 2001; Mersland and Strøm, 2010) findings. As these research studies find no significant differences in the average loan size of regulated and non-regulated MFIs with growing commercialisation.

7.6.2 Average Loan Size and Profitability

The basic assumption in the debate of the trade off between outreach and sustainability is that lending smaller loans to the poor people involves higher cost; hence, they cannot achieve profitability. It means that, larger the loan size, the more profitable institution will be (Olivares-Polanco, 2005). MFPs in this regard demonstrate interesting findings (see exhibit 7.13).

Exhibit 7. 13 Average Loan Size and Return on Equity (2006 – 2010)



The exhibit above shows that MFBs with higher loan sizes are less profitable, while some of the MFIs and RSPs who are poverty focused shows profitability. As Schreiner argued that, "greater loan size usually means more profitability for the lender but less depth of outreach for the borrower" (2001: 42). This eventually suggests that a larger loan size benefit MFIs but not the poor people because institution then target richer clients. In case of MFBs one aspect is true they are becoming more commercial and lending larger loans to wealthy entrepreneurs but in terms of profitability results are not pleasing.

Higher loan size and lower profitability of MFBs are indeed surprising as compared to global scenario such as Latin American and other Asian MFIs who are more commercial, charging a market based interest rate but also profitable (see Cull, Demirgüç-Kunt and Morduch, 2009a; Christen, 2000). Among microfinance banks, three MFBs are profitable out of six, while half of MFIs and RSPs that are non-regulated MFPs reveal positive ROE. Higher profitability of MFIs and RSPs suggest their growing focus on profitability objective but with the same time they provide lower average loan size which indicates their depth of outreach.

7.6.3 Women Borrowers

Microcredit programs started in Bangladesh and these programs largely focussed on women in order to empower the less privileged class. Another important ground of lending to women was repayment efficiency of loans by the female borrowers than their male counterparts. Initially Grameen bank lent both to men and women, but later on they focused exclusively on women after encountering some repayment problems with men (Armendáriz and Morduch, 2010). Now most of microfinance institutions specifically focus on women. According to Microcredit Summit Campaign (2012), 74 percent of the micro clients worldwide are women.

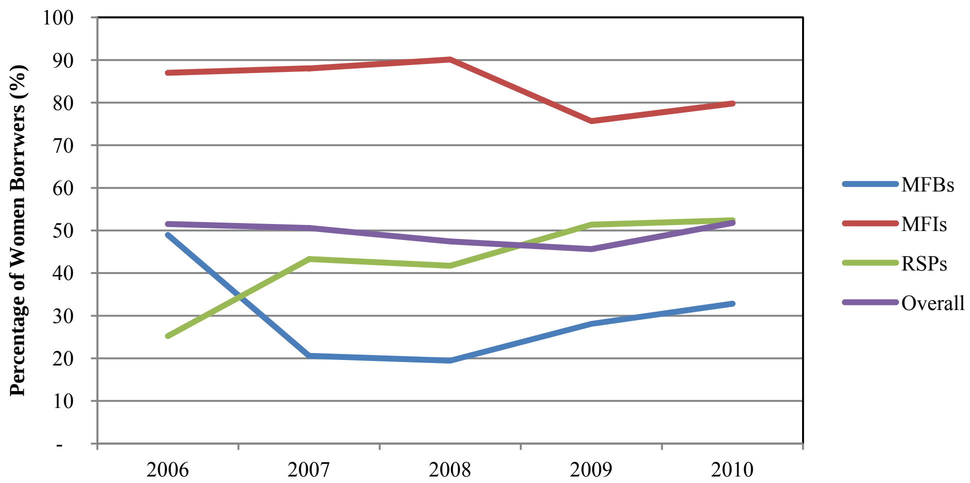
Various studies provided evidence of repayments efficiency of women clients than men (Armendáriz and Roome, 2008a; Kevane and Wydick, 2001; Khandker, Khalily and Khan, 1995; Espallier, Guerin and Mersland, 2011). For instance, a study by Espallier, Guerin and Mersland (2011) reveals that more women clients are associated with lower portfolio-at-risk, lower write-offs, and lower credit-loss provisions. Similarly, Kevane and Wydick (2001) also stated that female groups in Guatemala least often misused loans, therefore show better record of repayments than male groups. Field experience of Mexican MFIs also indicate similar pattern of lower default rates in lending to women (Armendáriz and Roome, 2008a). The above evidence highlights the fact that MFIs achieve better repayment efficiency by lending to women and this is the reason that women are targeted by the microfinance. Thus, these findings also confirm common beliefs that women in general are more responsible clients and lending to them means less risk for MFPs.

However, with increased commercialisation of microfinance regulated commercial institutions shifted their focus from women to more male borrowers. Armendáriz and Morduch (2010: 216) argued "formal-sector commercial banks tend to favour men, mainly because men run the longer businesses that commercial banks favour, men tend to control the assets that bank seek as collateral". This shifting focus from women borrower suggests mission drift in microfinance and more lending to women borrowers used a proxy for the depth of outreach (Bhatt and Tang, 2001; Mersland and Strom, 2010; Cull, Demirgüç-Kunt and Morduch, 2009b).

Specifically, recent literature have revealed a relationship between commercialisation and a decrease in the percentage of women borrowers as a share of total clients (Frank, 2008; Cull, Demirgüç-Kunt and Morduch, 2009b; Nawaz, 2010; Bauchet and Morduch, 2010; Cull, Demirgüç-Kunt and Morduch, 2007). Frank (2008) investigates the aspect of mission drift in which she examines the correlation between outreach to women clients and the transformation of MFIs. She used a five-year dataset (2002 – 2006) and studied 27 transformed MFIs. She found that the percentage of women clients decreased from 88 percent to 60 percent in five years after the transformation. Over the parallel five-year period, NFOs or non-transformed MFIs fraction of women clients showed an increase.

Similarly, Cull, Demirgüç-Kunt and Morduch (2009b), while examining commercialisation of microfinance impact found that NGOs serve more female clients and at least a quarter of the NGOs studied serve women exclusively. On the other hand, non-banking finance institutions and microfinance banks serve less women borrowers. Thus, these studies underlines the fact that commercial microfinance institutions serve less to female clients and more focused on male customers. The situation is also not much different in Pakistan, where microfinance banks lends less to women clients and NGOs (MFIs and RSPs) percentage of women borrowers is very high (see exhibit 7.14).

Exhibit 7. 14 Percentage of Female Borrowers of Microfinance Providers and by Peer Groups



The clients of MFIs are largely women, on average more than 80 percent and half of clients of RSPs are female. In comparison, 30 percent of MFBs clients are women. More specifically in 2010, 38 percent MFIs exclusively lend to women borrowers, 23 percent MFIs lend more than 90 percent to females and the rest of MFIs (39 percent) lend to 20 to 70 percent of women borrowers. RSPs group which consist of only four organisation, among them two RSPs provides 70 percent and other two 50 percent, therefore on average they give loans of 50 percent to female clients. Microfinance banks percentage of women borrowers varies between a minimum of 10 percent to maximum of 60 percent. This seem to suggests that MFBs lend to less women borrowers compared to MFIs and RSPs whose clients are more likely to be women.

Overall, microfinance providers lend half of the loans to female clients. Interestingly, in the five-year data, from 2006 to 2010, no significant increase or decline has occurred in the percentage of women clients. This is largely due to consistency in the women clients of MFIs. RSPs have shown a rise in the percentage of women borrowers and many ups and down have occurred when MFBs lend to women. Initially when MFBs were less commercial such as Khushhali Bank and First MFB, they lent more to women borrowers. This percentage decreased substantially in the year 2007 and 2008 but then slightly increased in 2009 and 2010 (see exhibit 7.14 above).

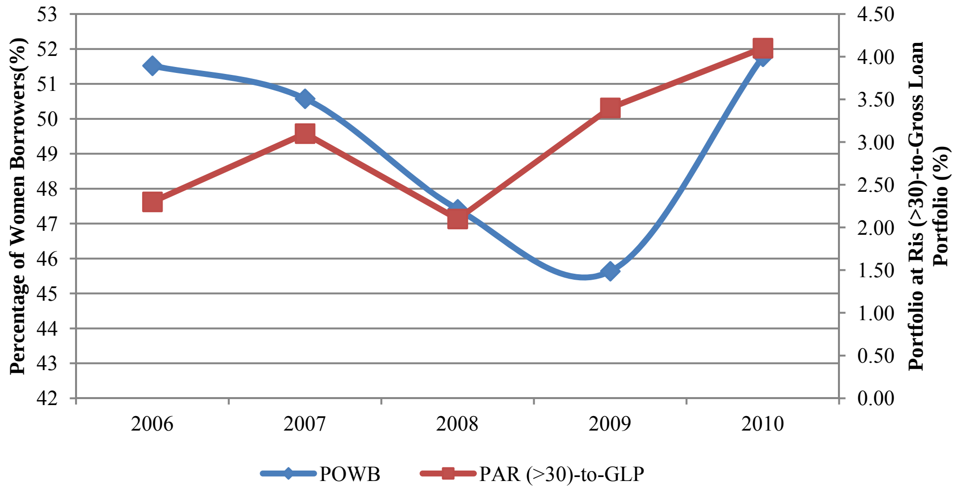
Thus, the trend show obvious differences in the percentage of women borrowers served by MFBs compared to MFIs and RSPs. This also confirms findings in the literature which suggest that increased commercialisation of microfinance, microfinance banks lend less to women borrowers (Frank, 2008; Cull, Demirgüç-Kunt and Morduch, 2009b;

Nawaz, 2010; Bauchet and Morduch, 2010). This also indicates the lower depth of outreach of MFBs on both measures (average loan size and percentage of women borrowers).

Women are regarded as more responsible and good in repayments, as I noted above. Credit risk also reduces when MFIs lend to more women borrowers. However, with increased commercialisation of microfinance and growing focus of profitability objectives have increased risks of MFIs, credit risk and over-indebtedness of clients in particular (see detail discussion in chapter two). According to Banana Skin Report, it is not only concerned for the MFIs but also for the other stakeholder such as practitioners, investors and the depositors (Lascelles and Mendelson, 2012).

Haq and Khalid (2010) analysed the risk of microfinance sector of Pakistan. They illustrated that credit risk is amongst the top three risks to the microfinance sector and the fastest growing risk in Pakistan. I have taken the portfolio at risk (>30)-to-gross loan portfolio to assess the credit risk while comparison has made with the percentage of women borrowers. MFPs of Pakistan reveals mix results while comparing percentage of women clients and credit risk (portfolio at risk (>30)-to-gross loan portfolio (PAR (>30) - to- GLP) (see exhibit 7.15).

Exhibit 7. 15 Percentage of Female Borrowers of Microfinance Providers and Portfolio at Risk (>30) - to- GLP)



Credit risk in terms of portfolio at risk (>30)-to- GLP has substantially increased nearly all MFPs. These values have considerably risen since 2008. Before 2007, risk of MFPs was low. However, since 2008 risk of MFBs, RSPs and MFIs are rising. In particular, 2010 saw extensive increase in risk ratio of portfolio at risk (>30)-to- GLP. The risk coverage ratio of MFPs in terms of PAR>30days/GLP has varied from a high of 72.2% percent (Rozgar MFB) in 2008 to a low 0.2 percent (Orangi Pilot Project) in 2010.

The relationship between the percentage of women borrowers and risk ratio is weak (see exhibit 7.16). MFBs lends less to female clients, while MFIs and RSPs lends more but regardless of lending to more or less women borrowers, almost all MFPs show high portfolio at risk (>30)-to- GLP, in particular in 2010. Surprisingly, this correlation is weaker in RSPs and MFIs as they lend more to women but portfolio at risk (>30)-to-GLP rise. While some MFBs (Tameer MFB) whose percentage of women borrowers increases reveal good repayments efficiency. On the other hand, Khushhali Bank and First MFB percentage of women borrower's decreases, risk ratio also increases.

In fact, growing credit risk of almost all MFPs is largely due to their concentration in certain areas and rapid increase in multiple lending during the last few years. In addition, substantial decrease in loan officers of MFPs could be one of the factors. As it has increased productivity but led weak internal controls and poor monitoring of loans. This weak internal control has encouraged micro borrowers to involve in multiple borrowing, lending ghost loans and in more severe cases loan selling and not repaying loans back intentionally (see more detail in chapter six). The problem has become worse since the emergence of commercialisation of microfinance. MFPs are more focused on their profitability and provide loans to people in urban areas that are highly saturated. Despite MFIs lending to more women borrowers, small average loan sizes are facing higher credit risk. In the following section, I will repeat some of the data for a clear picture of MFPs.

7.7 Anomalies with the Quantitative Data

As I noted above, Kashf Foundation is a leading MFI and a first specialised microfinance institution who exclusively lend to women borrowers. Kashf Foundation is also the largest MFI in terms of number of active borrowers, and their clients at the end of 2008 were 319, 517. Afterwards, the MFI has not reported to the Pakistan Microfinance Review (PMR), therefore PMR has conducted analysis without this MFI. As this institution is a leading player in the microfinance sector, I analysed some of its data, as not all variables were included in the institution's report. I have taken two important variables, a number of active borrowers, and return on equity that shows significant differences.

As we have seen the total numbers of borrowers of the MFI group were 406, 772 and total outreach at the end of 2010 was 1.55 million borrowers (see exhibit 7.16). However, adding outreach of this MFI, the total number of borrowers of MFIs group reaches to more than 7 million and the total number of clients served have crossed 1.8 million borrowers (see exhibit 7.17). This shows an increase of 317, 299 clients which are active borrowers of Kashf Foundation at the end of 2010.

Exhibit 7. 16 Number of Active Borrowers by peer groups without Kashf Foundation data

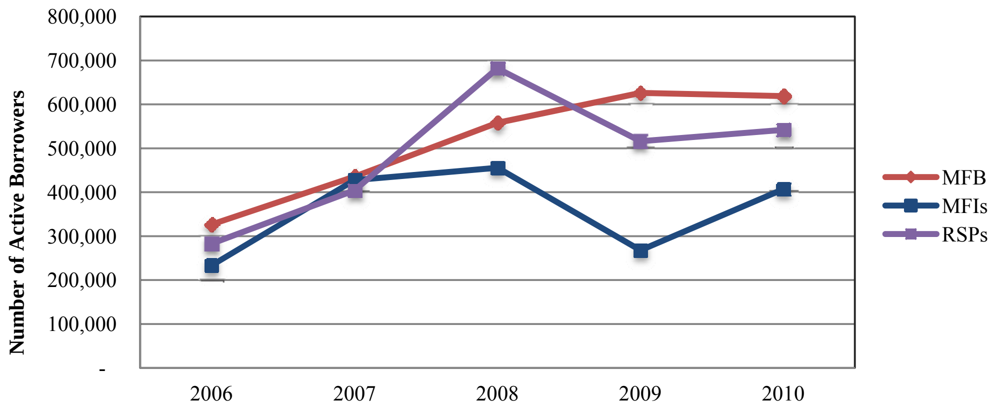
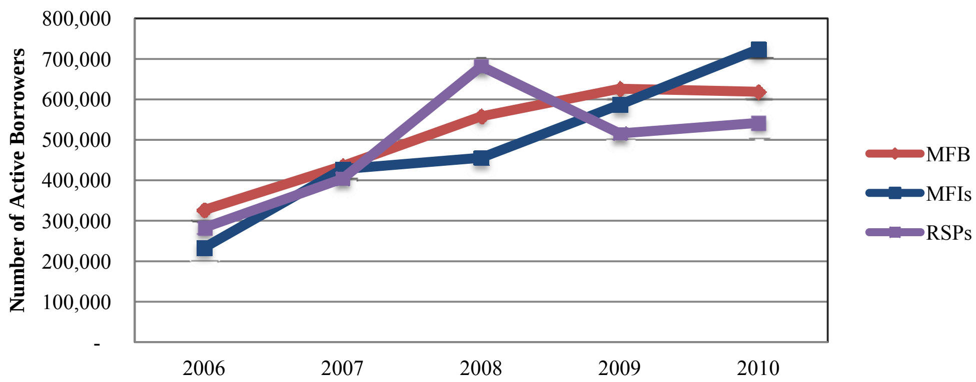


Exhibit 7. 17 Number of Active Borrowers by peer groups with Kashf Foundation data



Before MFB were showing maximum number of active borrowers and MFIs outreach was less than other two groups (see exhibit 7.16). However, with the addition of the largest MFI Kashf Foundation, MFIs outreach demonstrates opposite results, now MFIs shows the highest number of clients compared to MFBs and RSPs. This explains the importance of inclusion of leading MFI in an analysis. Similarly, other indicators also illustrate interesting results. For instance, if outreach and profitability is considered, then profitability variable i.e. return on equity shows a substantial decline in 2009 compared to exhibit 7.19 where this illustrated a rising trend (see exhibit 7.18) .

Exhibit 7. 18 Number of Active Borrowers and Return on Equity with Kashf Foundation Data

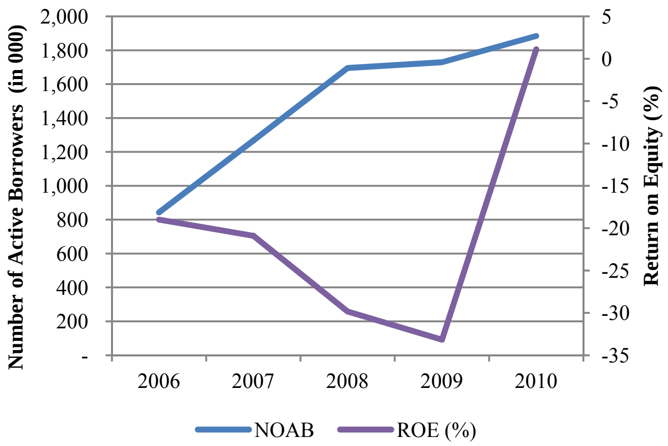
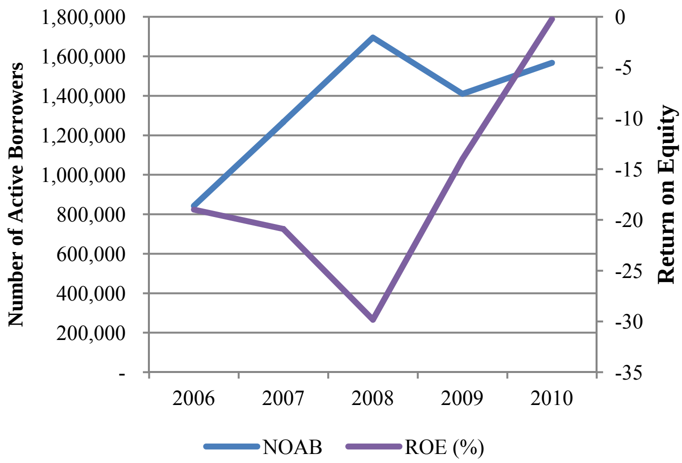


Exhibit 7. 19 Number of Active Borrowers and Return on Equity without Kashf Foundation Data



From 2006 to 2009, overall return on equity demonstrates a continuous declining trend. In particular, Kashf Foundation was a profitable MFI but since 2008 this MFIs showed significant losses, their profitability declined and so did the outreach. From 2010, they again recovered and started depicting positive ROE, which is apparent (see exhibit 7.18). Moreover, their profitability has also illustrated a positive impact on overall profitability of the sector as in 2010 ROE showed a considerable increase. Interestingly, findings of trade-off between outreach and profitability has not changed, even this trade-off between these two variables is more obvious until 2009. Thus, this suggests that omission of just one leading player data significantly changed the important findings.

7.8 Summary

This chapter has presented an analysis of quantitative data over a five-year period. It explored different themes such as outreach, profitability, efficiency and mission of microfinance. The outreach of MFPs has shown almost a doubling in the five-year period. In terms of financial performance, MFPs are approaching profitability. In particular, RSPs out perform in return on equity, while half of the MFBs and MFIs are profitable, the rest are struggling to achieve positive returns. MFBs were established to become profitable and to serve more number of clients: the findings of the data suggest that this dual objective has been partly achieved. However, outreach and profitability variables shows strong negative correlation and the findings are consistent with the recent microfinance literature, which suggest that moving towards commercial microfinance means a trade-off between serving the poor and being self-sufficient.

The study also finds that MFI profitability depend on its size and age. Older and large in size in terms of assets shows more profitability than those MFIs who are less experienced and smaller in size. In addition, profitability and financing structure of MFPs are also analysed. Financing structure suggest that despite of increased commercialisation of microfinance, MFIs and RSPs with not profitability status rely heavily on subsidised funding and debt financing in particular. Equity remains low of these MFPs. MFBs are using mix of debt, equity and deposits in which debts are the largest sources of financing. Commercial borrowing demonstrates rising trend specifically in MFBs and some of the MFIs. Further to this, most of the borrowing is mainly coming on commercial basis where lenders (Pakistan Poverty Alleviation Fund and commercial banks) charge commercial interest rate to MFPs. This has shown counter effect on yield on gross loan portfolio (both real and nominal) which is depicting a rising trend. Thus, this shows that commercialisation of microfinance, profitability objective and commercial borrowing are increasing the interest rate of MFPs.

Moreover, efficiency of the institution was also examined. Efficiency indicators imply that RSPs and MFIs group are most efficient compared to MFBs, which shows higher operating expense to gross loan portfolio and cost per borrower. Analysis suggests that adopting cost cutting strategies and group lending methodologies could be possible reasons that lie behind the improved efficiency of MFIs and RSPs. The relationship between cost per borrower and number of active borrowers reveal a strong positive relationship at the end of 2008. However, in 2009, this shows negative correlation and in 2010 these two indicators reveal strong trade-off where outreach has increased but efficiency has decreased. This suggests that increasing the commercial basis of microfinance has badly affected efficiency of MFPs, MFBs in particular.

Productivity indicators (borrower/loan officer and staff/loan officer) of MFPs have shown good performance in the five-year period. Particularly, 2010 reveals a considerable rise in borrowers per loan officer, and this is largely due to a substantial decrease in loan officers. Higher productivity of MFPs suggest a good sign, however, it could badly affect loan portfolio quality and less monitoring of microfinance clients. The microfinance sector provided evidence of this in the form of delinquency crisis and multiple borrowing of individual clients.

The data also investigated the validity of the hypothesis of mission drift tendency in microfinance. Due to the commercialisation of microfinance, institutions with profit status – MFBs has shown higher average loan sizes compared to MFIs and RSPs. This suggests that MFBs lend larger loans to relatively less poor or well off clients who can afford to pay back larger loans. Moreover, evidence has also been found that beneficiaries of larger loans of MFBs are predominantly male borrowers rather than the women borrowers who require relatively small loans. Thus, the empirical evidence lends some support to the existence of mission drift phenomenon with increase commercialisation of microfinance. Furthermore, the findings also suggest that lending to better off clients through larger loan sizes, and hence gradually drifting from their social mission in expectation of reaping excessive profits, cannot guarantee profitability because it ultimately leads to an increase in costs.

Finally, the study has re-examined two important variables outreach and profitability after adding leading MFI data. The findings suggest a substantial increase in outreach and decline in profitability in 2009 and then an upward trend in 2010. The evidence for the determinants of profitability and outreach of microfinance are largely, in line with the theory of tradeoffs between these two objectives. The next chapter will provide accounts of practitioners on important notions e.g. profitability and sustainability, which I discussed in this chapter. Excerpts of practitioners are examined to show how they talk about their institutions profitability and how they see and define key terms such as commercialisation of microfinance.

Chapter Eight: Commercialisation of Microfinance: Views of Practitioners of the Microfinance Sector

8.1 Introduction

In this chapter, views of practitioners in microfinance are analysed to investigate how microfinance and commercialisation are interlinked together. Evidences has proved that commercial microfinance is similar to the conventional financial system where the institution charge commercial interest rate, secure the lending through collateral and the objective of the institution is to earn profit. In the last chapter, while analysing the quantitative data of the microfinance providers (MFPs) of Pakistan, we have seen that very few microfinance banks (MFBs) are profitable after adopting the commercial financial system. They charge higher interest rates, lend larger loans to well-off clients, serve less women borrowers, and are less efficient on efficiency indicators. After considering the quantitative analysis in the previous chapter, this chapter focuses on analysis of the interviews with the microfinance practitioners to analyse how these people talk about various issues such as commercialisation, profitability and sustainability. What kind of rationales do they give for the institutions not being profitable after having so much experience? Whose sustainability matters to them - clients or institution? This chapter will be focus on these types of questions and its answers.

The structure of the chapter is as follows. First, I analyse the interview excerpts, which informs the understanding of the word 'commercialisation' through the lens of the practitioners' eye. How they see it and talk about it. In this section, it is my intention to explore the ways in which the practitioners understand and define the microfinance commercial system through their experiences. After this, the interviews are analysed to investigate different rationales of negative profitability of MFPs. I then present and analyse excerpts containing sustainability of MFPs and clients. In the following, I evaluate quotes about the consequences of commercialisation. At the end, some dissenting voices from the field are discussed regarding commercial microfinance and microfinance followed by a conclusion.

8.2 Understanding Commercialisation of Microfinance

In the literature, some key rationale behind the need for commercial microfinance are availability of financial services to the poor (Ledgerwood, 1999), increasing outreach (Robinson, 2001), the ability to mobilize local savings (White and Campion, 2002) and offering a wide range of financial services to the clients (Sander, 2003) (see more discussion in chapter two). Although commercialisation of microfinance definition and purpose may very well theoretically argued in these studies, however, my interviewees who are the CEOs or senior managers talk about this new wave in a way that goes beyond these rationales. This will become clear in the following analysis of the transcript where interviewees define commercialisation and its importance through their experiences. Take the example of the following quote, in which the interviewee who is the CEO and founder states:

> In my point of view, commercialisation is when you make your services on the business model approach. If you give commercial point and make your organization on system not person-based organization … Like Sungi, it belonged to Umar Asghar Khan, he died then Sungi disappeared. Now Sungi is struggling hard to come forward. Therefore, from this we can conclude that this is the benefit of commercialisation or business approach. If I am here or not or if I go somewhere else then this institution will exist and grow on its vision and process, it will not be stop (MFI-A1).

Here, the CEO gives a definition of commercialisation that rests upon a 'business model approach'. By this, she means that an institution should give services on a strictly commercial basis, just as any other business. This, she argues, separates the organization from the individual, meaning that the operation is on a much sounder footing, independent from the personal circumstances of the founder. This taps into a long theoretical tradition – Max Weber argued that capitalism required the separation of enterprise and individual (which he saw as originating in the development of capital accounting). And, of course, the same consequences are smuggled in under the guise of a pragmatic solution to a clearly identified problem. Commercialisation turns these organizations into capitalist enterprises.

The CEO of this MFI elucidates difference between 'system' and 'person based organization' through using 'Sungi' as her frame of reference, which asserts that after the death of the founder, NGO is making efforts to come back to normal business operation. This seems to be suggesting that, person based organization is the one whose performance and existence solely rely on the founder, if the founder dies then the organization disappears. However, those organizations that are based on a proper system, process and vision do not fail and vanish after the death of the founder and exist for the longer term. Therefore, the CEO suggests 'this is the benefit of commercialisation' that if a microfinance institution adopts a commercial approach then the institution will run on system not on a particular person.

Towards the end, CEO relates institution development and sustainability with the vision and process. This time she uses herself and her institution as an example and explains that her institution will exist on its mission and practice no matter where she will go. This also shows the CEO concerns about stability and growth of her institution. Another interviewee who is senior personnel of MFI defines commercialisation of microfinance this way:

> Commercialisation itself is a negative connotation. However, in the pretext on the microfinance context, we are talking of increasing the scope, because only something is commercial or only something is viable, can it actually be self-sustaining. The issue with charity for example is that, it turns out until you have funds; you are giving it to the people. When funds turned out then you are back to square one, because you are back to the same place. With commercialisation, where you earn the profit, you will make sure that your program is sustainable and scalable, so you will increase the scope (MFI – B2)

In the start, she explains that word commercialisation itself has come to denote a negative meaning. However, in the microfinance context, she notes that there are number of advantages which commercialisation of microfinance provides such as 'increasing the scope' mean with commercial viability of institution, they can extend more. She further illustrates a problem of fund generation by giving an example of charity. Until an institution is receiving charity or donation, they are running smoothly, when they stop getting it, problems start. However, she exemplifies that the advantage of commercialisation is the institution makes a profit and with that profit, they can expand and give services to a larger market.

Her excerpt shows that, she is very familiar with the negativity linked with the term commercialisation; however, she does not want to consider that but wants to explain the benefits of commercialisation which an institution can receive. The CEO's excerpt below can be seen as within the same plan as the previous interviewee but employing different tactics to support commercialisation.

> Commercialisation necessarily does not mean profitability. From donor driven we have to take microfinance to mainstream. Mainstream is that we have to contact the financial institutions in the country. However, their support will not be subsidised. It will not be a grant. It will be purely on market rate and we might say this is commercialisation. The commercialisation which you are talking, I am saying is mainstream-ism (MFI - C).

The CEO in the above quote raises interesting points. She does not see commercialisation just making money but her exploitation of the word 'necessarily' suggest that she takes commercialisation beyond profitability of the institution. It is quite interesting because it is utterly different from the normal rhetoric of commercialisation where commercialisation is perceived as profitability of the institution. For instance, Yunus states, "commercialisation is a kind of code word and in simple English it means makes money" (2010). One reason could be that she does not want to call commercialisation as profitability is because it holds a negative connotation among diverse stakeholders who consider commercialisation of microfinance as exploitation of the poor (Sharma, 2012; Bateman, 2010; Rosenberg, Gonzalez and Narain, 2009).

The CEO perceives commercialisation as a system where microfinance should work similar to a mainstream financial system[29]. In that system, MFPs will not be dependent on 'subsidised' funding or 'grant' but they will get the money from financial markets on market/commercial rate. In relation to this CGAP states that "microfinance only realise its potential if it is integrated into country mainstream financial system" (2004a: 1). This suggests that, institutions such as CGAP want to see microfinance as a mainstream financial system where the MFIs will be funded from more 'mainstream' sources. In the last line, her statement 'the commercialisation which you are talking, I am saying it mainstream-ism' portrays that these two terms are identical not only in meaning but also in functions. However, making microfinance mainstream financial institutions means that it has to conform to pressures of ordinary banks such as profitability, and there is no space for an independent mission[30].

Another instance, in which the CEO's argument echoes with resonance from the previous CEO's argument:

> I see it as the economic mainstreaming of clients. Positives relate to financial inclusion and access to additional services like deposits (MFI – B1).

The same key element appears in her narrative as with the previous CEO. The CEO states commercialisation of microfinance as 'economic mainstreaming of clients'. By client's mainstreaming, the CEO seem to be suggesting that with commercial

[29] In its most basic incarnation, mainstream means "beliefs/choices that are acceptable by the largest number of people"[29]; or general practice of society, for instance, conventional banking also known as mainstream financial system because it is prevalent banking system in the World.

[30] This also reminds us that microfinance has its own mission separate from the mainstream financial system but this could be lost by competing with the ordinary mainstream banks.

microfinance, microfinance clients will be brought within the same financial system as everyone else – i.e. they can borrow money that eventually comes from the financial market, or deposit money that is then multiplied up and used on the markets by banks. She also notes that benefit of commercialisation is 'financial access' and 'additional services like deposits'. Therefore, from the interviewee talk it can be deduced that in order to gain the positives microfinance institutions should adopt new commercial system.

It is also worth of note that, by mainstreaming micro borrowers, they will get financial services such as credit, deposit, insurance as everyone else in the financial system, which could be a very positive thing for their economic development. Moreover, it is often said that, by having financial access, poor clients will be empowered and poverty will be reduced in the country. However, it also means that potential microfinance borrowers, who climb on the mainstream ladder, will be assessed according to the same criteria as 'mainstream' clients and held to the same repayment conditions.

For instance, mainstream clients are assessed through financial collateral such as property, land, livestock and assets that have monitory value and are saleable. However, borrowers of MFIs are evaluated with a unique mechanism – social collateral where peer pressure utilises to establish the creditworthiness of the borrowers and performs the role of collateral. In addition to collateral, mainstream financial institutions check the credit history of the borrower for the provision of loans, conversely to this, microfinance does not require any credit checks and credit history in order to lend. However, in order to minimise the risk microfinance institution requires informal guarantees from group members. Thus, it can be said that by giving financial access and treating microfinance clients as mainstream client, micro borrowers will be judged on the same grounds of checking the credit history and collateral as mainstream clients.

It is also interesting to note that, mainstream clients having access to financial services pay market interest rate, however, micro borrowers pay double and sometimes triple than the prevailing market rate. Many practitioners argued that charging a higher interest rate should not be viewed as a problem because poor people can afford to pay a high interest rate and their lower default rates are evidence of this (See Helms and Reille, 2004). For instance, take the excerpt below where the CEO presents this kind of arguments in favour of commercialisation,

> Money is the main need of poor people and pricing and costs are not the issue so far. The issue is the accessibility to financial services. If commercialisation of microfinance properly programmed then there will be a great demand for it. Commercial Banks cannot perform well microfinance due to lack of the basic infrastructure for microfinance. Microfinance Banks can perform well and that is a good initiative of the Government (…) if someone say it commercialisation or profitability, so I think it is the distortion of picture. The reality is that people need them and they should be there (MFI - C).

There are several notable features here. First, the CEO's argument supports the Institutionalists view of financial access where they believe that ongoing access to credit is more important for the poor than the actual cost of the credit (Morduch, 2001, Christen *et al* 1995, Robinson, 2001). Therefore, access to finance is essential for the poor people rather than 'pricing and cost'. This, of course, gives license for MFIs to charge any price. In addition, she considers 'great demand' of commercial microfinance – microfinance banks; on the condition of proper implementation of programme. This shows that she is effectively happy with the commercial microfinance but argues that it is just the implementation problem, which has not been carried out properly.

Interestingly, she notes that, commercial banks are not suitable for microfinance because they lack 'basic infrastructure'. One important factor that differentiates microfinance institutions from commercial institutions is the network of agents, which the interviewee called 'basic infrastructure'. Network of agents or loan officers play a significant role in the field of microfinance because they act as an intermediary between MFIs and clients. They find and assess borrowers; make lending decisions and disburse loans; and they collect payments and renew loans. On the other hand, commercial institutions do not offer small loans; therefore they do not hold this basic infrastructure – loan officers. Thus, the CEO suggests that commercial banks cannot perform microfinance programmes efficiently. This also implies that microfinance banks should maximize the competitive advantage that they have in the form of loan officers.

The passage above exemplifies the initiative of microfinance banks as productive in the microfinance sector. The CEO stated that commercial banks are inappropriate for microfinance, suggests that microfinance banks can carry out microfinance in an efficient and effective way. Her excerpt shows that she is very optimistic about microfinance banks and their role in the microfinance sector. She wants to see microfinance banks as a source of financial access to the poor, not to present it as its pure extraction of profit. She thinks it is the misrepresentation of microfinance banks to view them as profit-making institution, that may happen, of course, but the important point to consider is the provision of services.

The excerpt above is not as simple as it may first appear. There seems to be divergence in the talk of the interviewee, as the CEO wants to see microfinance banks working as mainstream financial system and appreciates the role of government for commencing it but, at the same time, she also considers commercial banks as inappropriate for the microfinance. This shows the disconnection in the interviewee talk as on one hand she favours commercialisation but also demonstrates concern about the way microfinance banks works and their lending methodologies.

Towards the end, she depicts microfinance banks a necessary in the life of the people. It is interesting to analyse the interviewee's use of the term 'need' of microfinance banks in this context. The way she talks shows that microfinance banks are as important as basic needs such as food, shelter and clothes for people. It seems she is arguing that poor people also should benefit from this 'need' (microfinance banks). Thus, it can be said that from the interviewees above access to finance for the poor is more important therefore, they justify commercialisation of microfinance and initiation of microfinance banks. Similar to this, another interviewee who is a CEO state:

> Commercialisation is need for microfinance; it should not be taken in very pure capitalist term, which is about increasing wealth, it should be taken as approach in term of providing microfinance services (CEO PMN).

In this quote, CEO also uses the same arguments of 'financial access' and taking commercialisation more than its pure meaning of profitability. Similar to the previous interviewee (MFI-B), he also takes commercialisation as crucial for microfinance. He describe commercialisation more than its basic meaning – 'increasing wealth' depicts the knowledge and understanding of the CEO about this phenomenon. As the CEO knows the meaning of commercialisation – a system where the institution solely exist for achieving the objective of profit, states that it should not be taken in its 'pure' meaning. He implies that commercialisation means providing financial access. The CEO seems to be struggling to justify the negative meaning of commercialisation by using the discourse of 'providing microfinance services'. Indeed, advantage of commercialisation is to provide a wide range of financial services to poor people, which a common person receives in a country. However, similar to the previous CEO (MFI-C) this CEO also does not want to present the negative side of the picture that is making profit from poor people. For them (CEO's of MFI-B, MFI-C and PMN) access to finance is more important – making microfinance mainstream or another way commercial financial system.

As in the previous repertoires, commercialisation has been defined different from its pure meaning. In the following excerpt, another interviewee represents commercialisation of microfinance in a different way:

> When we think commercialisation, it means it is commercial funding (MFI-A2)

The interviewee is a business development manager. Unlike the previous interviewee where the CEO takes commercialisation as more than its basic meaning of profitability, he seems to perceive commercialisation as 'commercial funding'. He defines commercialisation of microfinance in very simple words, which shows his understanding with the word commercialisation. As the word 'commercial' is attached with commercialisation, therefore many people describe it in its basic meaning. He does not state anything else about commercialisation except commercial funding, which suggests that he only wants to use this meaning of commercialisation. By 'commercial funding', he seems to advocate that microfinance institutions that were previously working on grants or subsidised loans, will receive funding from the commercial market. The literature also supports this definition of commercialisation (see Christen and Drake, 2002) where MFIs move towards commercial sources of finance. Moreover, in practice with evolution of this new wave MFIs entered into world financial market, issues bond and securities. A head of operations of a microfinance bank gives more details in the definition. He suggested:

> All my experience is related to commercial banks. Commercialisation means that if you are sustainable and meet all the expenses and giving returns to your stakeholders who have invested money on you (MFB – J).

Before describing the term commercialisation of microfinance, the interviewee first states his previous experience that was related to commercial banking. It advocates that he wants to make an impression about commercialisation as he belongs to commercial banking. He describes commercialisation, as it is commonly perceive – 'sustainability' – long-term continuation of microfinance programme, covering all operational and financial expenses, in other words, profitability. He also shows his concern about stakeholders' returns which is very important in commercial business. This suggests that making microfinance on a commercial basis not only means institutional sustainability and profitability but also their shareholders wealth creation.

The above discussion suggests two extremes of commercialisation of microfinance one who see in a very positive way, in terms of providing access for finance to poor people and as a ‘need’ for them. They do not want to see commercialisation as ‘profitability’ or ‘wealth creation’ but for them most important point is economic opportunity to micro borrowers in the form of microfinance banks. Other groups of people who are middle level managers in MFIs and MFBs portray commercialisation in its general meaning of ‘profitability’ and ‘sustainability’. This may suggest that CEOs and founders of institutions are either very optimistic about the potential or skilled at only presenting the opportunities, while middle class managers are more sanguine and see the whole picture. In the following section, excerpts of the practitioners about their institution negative profitability are presented.

8.3 Identifying Rationales of Profitability and Unprofitability

I noted in the previous chapter that profitability of the institution is important in order to sustain for the longer period, thus, considerable efforts are being made to make it commercially viable through commercial microfinance. Originally, microfinance services have been provided through NGOs that heavily relied on donor and subsidised funding. Objective of the NGOs led programmes was not to become profitable but to give services to poor people on lower cost. However, these non-profitable and subsidised programmes were not self-sufficient, therefore arguments have been made that microfinance institutions should rely on their own funding by making profit. The rationale they give is donor based programmes cannot be sustain in the long run; therefore, market approach is the best option for sustainability and profitability of the institution (see Chapter Two).

In the context of the microfinance industry in Pakistan, institutional profitability also plays a dominant role. However, with an increased focus on profitability, half of the MFPs are still not profitable and many achieved profitability in 2010 (detail discussion in Chapter Seven). Therefore, during my fieldwork, I was more curious to know the rationale of senior managers and CEOs about their institution's profitability position. In the following section, I analyse excerpts of the interview transcripts to examine the rationales of the top management about profitability. The analysis of these quotes helps to provide an understanding of microfinance institutions profitability and unprofitability positions. The subsections below focuses on the question why MFPs are not profitable, particularly microfinance banks because they work as regulated entities. In addition, if they are profitable, then what are the reasons?

8.3.1 Cost and Timeframe

Cost and time play important roles in the institution profitability. Higher cost leads to lower efficiency and profitability of the institution and vice versa. In microfinance, cost is important because it contains higher overall transaction cost. In addition, an institution requires certain timeframe to show profitability. Practitioners of microfinance also relate cost and timeframe with the institution profitability. For instance, CEO of the newly establish bank[31] with more than 30 years commercial and SME banking experience states the rationale of profitably this way.

> One reason is that, this business is not as profitable as it seems due to its higher cost. Second, the profitability can only come when you start reaping at economy of scale. You get to a certain scale, only then you can become profitable and sustainable. So none of these institutions have

[31] Bank establish in 2008. Interview conducted with the CEO in 2010.

> reached to a level where their fixed operating cost would be met by the revenue, which they generate. Customer base is small. Outreach remains small and their inability to reach out to the larger market. I think there is something not right, with the way they target the market (CEO – I2).

I believe there to be a number of important points raised in this passage. The CEO of a newly established bank highlights different problems that have hindered the financial growth of the microfinance sector. He says that, microfinance is not a profitable business due to its higher cost. This assertion of the CEO is notable because he suggests that microfinance is costly. The literature on microfinance also supports this idea. For instance, Herms and Lensink illustrates "microfinance is costly business due to high transaction and information cost" (2007: 6). Therefore, large number of MFIs depends on subsidies to meet high costs. However, commercial microfinance system came with the core idea of profitable institution in order to give services to the poor on sustainable bases.

Thus, the interviewee notion supports the argument of trade-off between objectives of profitability and reaching to the poor. This is interesting because the interviewee is a CEO of a microfinance bank, nonetheless, he believe that institutions are not gaining profitability because microfinance is 'costly business'. Later on, the CEO explains how the MFIs become profitable. In his point of view, MFIs can become profitable 'only' if they achieve economy of scale benefits and that is possible when they 'reach to a certain scale'.

He elucidates that, profitability and sustainability comes through serving the larger markets. However, MFPs in Pakistan have served the limited market so far therefore, no institution has reached to a scale where they can cover its cost by the revenue, CEO argues. It is been noted that microfinance institutions have tapped less than 10% of the market and their outreach is restricted to some areas (see detail in Chapter Five). Therefore, the essence of his talk reveals that reaching to a larger clientele base; an institution can cover its cost and show profitability.

In fact, large institutions of the global microfinance sector, such as Grameen Bank, ASA and BRAC of Bangladesh have witnessed that microfinance institutions can achieve profitability and sustainment for the longer term by reaching to a larger market. However, institutions who achieve the promise of microfinance – reaching to the poor and managed profitability, so far are the exceptions (Cull *et al*, 2007: 132).

Towards the end, the interviewee argues 'I think there is something not right, with the way they target the market'. As an experienced microfinance bank CEO, he discerns that microfinance institutions are not serving the right people. There is something not right with their methodologies or it is their 'inability' that they have not reached to a scale yet and attain profitability. This assertion of the CEO echoes with the previous interviewees that MFPs 'does not know how to run microfinance operations (Consult-2) or 'I think the growth of microfinance sector has not done in way that it should be' (Consult-1) (see Chapter Five). Thus, the above excerpt suggests that, MFPs has not achieved profitability objective due to their limited scale and poor targeting of the sector.

In relation to this, consider the quote below in which the interviewee is talking about high cost and shareholder's mission.

> The reason was that we have opened many branches. Initially, cost of the branch is very high; therefore, we did not achieve profitability. ASD main mission is not profit. We only are concerned with the cost recovery. If we attained any profit then we do not give it to shareholder as other firms do in the form of dividend. ASD provide 85% of the equity, therefore, we do not have any pressure from shareholders that we must show profitability. We want to achieve our social mission of poverty alleviation (MFB – H).

As a senior manager in MFB, he seems to justify his bank's negative profitability through higher costs. The interviewee explains that in the initial years, they were expanding and opening new branches therefore, they did not show a profit. Indeed, this is a genuine justification for not being profitable in the beginning of any business where institutions spend money on building the infrastructure. However, it is worth to mention that, microfinance bank H is not profitable even with experience of more than eight years. Therefore, soon after he explains issues of cost, he switches his talk towards the mission of his shareholding company ASG which is a pseudonym for the company that is main shareholding firm of microfinance bank H. Interviewee states that, our bank mission is not profit, we believe on only cost recovery. Conversely, microfinance banks have been initiated for the purpose to achieve dual objective, profitability plus poverty alleviation. This kind of rationalization can be expected from the personnel of NGOs who are non-profitable organisations with more focus on social mission but not from the bank officer.

Interestingly, this bank outreach is also not limited as they operate in all over Pakistan As the previous interviewee mentioned problem of low outreach as a dilemma for microfinance institution's profitability. This rationale does not fit with microfinance bank H's case. They do not have funding constraints; they do not have any pressure from shareholders that they must show profitability; their outreach is not restricted but they are still unprofitable because this is not their mission. Their mission is social mission – poverty alleviation which is contradictory to the objective of commercial microfinance. It is worth to discuss here that, many non-profit organisations in Pakistan are showing profitability by focusing on social objective. Thus, it is not necessary for an organisation that for generating income they must focus on non-poor or adopt only social mission. Similar to the response given by the previous interviewee, the National Distribution Manager raises further concerns regarding higher cost:

> In microfinance, cost is very high because clients do not come to us, we go to their place, and therefore, their cost of vehicles we have to bear (MFB – G2).

The National Distribution Manager notes important aspect of cost, which differentiates microfinance lending operations from conventional banking. He notes that institution cost of operation particularly their transportation cost increase when they go to the client place. It is worth to note that, in microfinance field officers visit micro borrower's houses for recovery of loan. Moreover, they visit a client's house regularly to follow-up their loans in order to minimise the chance of default. As a result, they encounter more expenses. In another interview, the personnel of MFI also give excuse of high cost:

> Our profitability is negative because our expenses are higher. You see, donor will not donate you everything. Few things you have to take on your own. Our institution has a problem that we did not get the local donor, who can say that ok we want to bear your expenses. That is why we are negative but if you see the negative figure of profitability then you will see it is decreasing because we are increasing our borrowers. If our borrowers will grow then our business will grow and when business will grow then absolutely we will sustain (MFI – A2).

The interviewee response clearly states that the institution is not profitable due to their high expenses. As a middle manager of NGO, he explains the problem of getting funds from the 'local donor'. He makes clear that donors give money for the specific things and they do not bear institutional expenses. Therefore, they were showing negative returns. While discussing a donor's role, he tries to explain implicitly that funding constraints is one of problem that has caused negative growth in his institution.

However, later on he explains that it is decreasing as they are increasing their outreach. He relates his institution's profitability with the growing clientele, which ultimately results in institutional development. His argument is similar to the CEO (MFB – I2), who also consider that failure of the microfinance institution is due to lack of scale economies. Therefore, it would seem that high cost is an important factor behind the negative growth of microfinance institutions however, it can overcome when institution raise their clientele. Another instance of higher cost was evidenced during an interview with CEO:

> In microfinance, the cost is so high. If we bring more deposits then the cost of funds will go down and the interest rate will also go down. If deposits come in, the competition takes place and the technology plays its role in replacing some of the labour intensive work. Hence, this will reduce the cost. At the moment, no one in the microfinance bank have achieved break even (MFB – I2).

In the passage above, the CEO raises issue of higher cost alongside with a suggestion of how to overcome it. He believes that through deposits, an institution can reduce their cost of funds, which ultimately lowers the interest rate on lending. Cost of funds here means the amount of money or interest rate an institution incurs to gain access to capital either through borrowing, issuing debts or deposits. As through deposits institution usually employ less cost as compare to other sources of finance therefore, CEO focuses on generating deposits. In addition, difference between the interest rate charge to borrowers and interest rate paid to lender (known as spread) signifies as the key source of profit for most of the financial institution. Thus, CEO suggests that with more deposits microfinance institutions gain benefits of reducing cost and decreasing their interest rate. This will also affect micro borrowers positively because they will pay less interest rate, interviewee illustrates. CEO also exemplifies the role of technology and competition that can lower the cost of microfinance institution. It is fact that, competition normally perceive positively in the economic literature because it leads to lower the prices for consumers and increase efficiency of the institution (Assefa *et al*, 2010). However, in case of microfinance more competition has played a negative role so far. Intense competition within certain areas has resulted multi borrowing, lending to more rich borrowers (see detail in Chapter Six) and lowers repayment efficiency of MFPs (see Chapter Seven).

I noted earlier that all microfinance were showing negative returns till 2009 (see detailed discussion in Chapter Seven) and as interview was conducted in the start of the year 2010, therefore, CEO states that no microfinance bank has even attained no profit and no loss position. Thus, the above discussion shows that microfinance institutions in Pakistan are not profitable due to their higher cost and reaching to the limited market. While discussing cost factor as a hurdle in institutional profitability, they also suggested that microfinance industry can overcome the cost factor if they reach to larger market, use technology or competition increases which will lower the interest rate.

Take the following quote where the interviewee who is the branch operation manager gives an interesting rationale of negative profitability.

> As far as we have studied, it is like that in five to ten years you can reach to a certain point and after that, you can start earning profit and become sustainable. When we had taken start then we started as MFI not as a commercial bank and in early three to four years poverty alleviation poverty alleviation conversation has been discussed. Now we started focusing on profitability of our institution as we move towards commercialisation (MFB – G4).

In the above quote, the interviewee explains the timeframe of an institution in which it becomes profitable. He demonstrates that any business takes almost a decade in showing profit therefore; similar timeframe should be given to microfinance institution to become profitable. As his bank is among the pioneers of microfinance banking and had started as a non-commercial bank therefore, he notes that in the early years, they focussed on the objective of poverty alleviation but now as they are moving towards commercial microfinance; their focus has shifted from poverty alleviation to institution's profitability.

The interviewee demonstrates 'poverty alleviation' objective as a non-profitable objective. As towards the end, his talk shows that when an institution enters on commercial footing and adopts a profitability motive, then they can show returns. While having the objective of poverty alleviation, an institution can serve social missions. This is contrary to the institutionalists' view who believes on dual objective. Similar to the response given by the branch manager above, this interviewee also has used a timeframe as a ground of negative profitability of the sector.

> I think, that is to do with the fact these are young institutions, with the upfront investment, any industry will take three to four years to become profitable and you don't expect business to become profitable in the first

> year. MF is working with the poor and the market segment where the risks are high. That is why normal business does not go. The infrastructure is limited. Therefore, you give the bigger gestation period to become profitable (CEO PMN).

The passage further exemplifies the point raised earlier regarding the timeframe. What I find interesting is that despite the vast experience of MFPs in the microfinance sector, the CEO believes that 'these are young institutions' and they need more time to show profitability. Contrary to the previous interviewee, this interviewee has given a smaller timeframe (three to four years) for the microfinance institution to show earning. He notes that it is not possible for a microfinance institution to show an income within one year. This notion places further emphasis upon a bigger time cycle for depicting returns.

The CEO further draws attention towards a different rationale of not being profitable such as 'risks are high' or the 'infrastructure is limited'. He illustrates that institutions face more risk as they deal with poor people, therefore for their growth they need extra time than a normal business. It is interesting that microfinance is perceived as a comparatively low risky business due to higher repayment rates, the CEO is depicting it opposite from the normal rhetoric. One reason could be that, microfinance which was a symbol of high repayments rates are now facing different challenges such as over indebtedness of borrowers, and high default rates. Pakistan has also faced delinquency crises, which increase the risk of credit and sustainability of institutions. Therefore, CEO regards risk as the main impediment in profitability of MFPs. In the section below, respondents are relating micro institutional environment of the country with profitability of their institution.

8.3.2 Macro Environment and Profitability

Macro environment condition of the country plays a major role in MFIs profitability. It consists of different external factors such as political and social conditions, and economic factors that influence the growth and performance of the institution. For example, recent studies have pointed to the impact of macro environment conditions on profitability of MFIs. Ahlin *et al*, (2011) argues that the macroeconomic and micro-institutional environment in which MFI is situated significantly affects the success of MFIs specifically in terms of sustainability. Hermes and Meesters (2010) looked at multiple factors such macroeconomics, domestic financial systems and political conditions, and found a strong relationship between the macro economic conditions and the efficiency of MFI. However, Gonzalez (2007) concludes that macroeconomic environments do not persuade MFIs in a significant manner. Thus, impact of a macro environment on the performance of MFIs provides mix outcomes. In the following, my interviewees are also explaining macro environmental factors as an obstruction in institutional growth. Below is in excerpt of the CEO who constructs the rhetoric of macro environment in his talk in the context of profitability of MFPs.

> In normal circumstances, it could take three to five years for the institution to become profitable but Pakistan’s economic and political condition has gone from bad to worse over the last three/ four years. So adjust that (CEO PMN).

The CEO pointed to the terrible economic and political environment the country has faced for the last couple of years. He regards it as a symbol of negative growth and suggests that we should consider these points while discuss profitability. As in the previous quote, he explains that the institution can be profitable in three to four years, but as the country is facing bad macro environment conditions, therefore, we should give more time to MFPs for showing positive returns. Another interviewee who is senior personnel of NGO also justifies their negative profitability on similar grounds:

> The foundation was financially sustainable from 2004 to 2007. Since October 2008, we have had massive inflation, massive energy shortage, massive energy price rise, political uprising started when the President of Pakistan declared emergency at the end of 2007. What we saw, everyone was coming to the streets, and there was political instability along with the bad socio-economic situation.
>
> **Interviewer:** I have heard that one rumour has effected your institution badly.
>
> We do not consider the rumour was the cause of default. It could have been a contributing factor but it was never the cause of default. We have been working for 12 years, during that repayment rate was 100% and then a sudden a rumour cannot affect that. The main reason was socio-economic and the political situation and because of that our institution is no longer financially sustainable (MFI – B2).

It is worth of note that this excerpt is taken from the personnel of G-Fund, the MFI, which suffered from a delinquency problem in 2008 (see detail discussion in Chapter Six). She notes that, the institution was sustainable until 2007, but after that due to 'political uprising', 'higher inflation rate' and 'energy crisis' has affected their borrowers' capability to repay the loan, therefore, they suffered from huge losses and their sustainability decreased. In fact, the country's unstable macro environment has effected to some extent the microfinance institution.

The interviewee does not talk about rumour as a problem as the first instance. Therefore, I stress on the concept of 'rumour' and ask the question again. She neglects this rationale and again focuses on macro environment factors as a main reason for a decline in their growth. In her point of view, her institution has significant experience in the sector and 'at a sudden' one rumour cannot affect them so negatively. Thus, according to her, terrible macroeconomics and the political condition are the major cause due to which the institution is no longer sustainable. Elicitation of the interview data also seems to suggest that rumour about the G Fund was not a major cause of losing outreach, sustainability and efficiency and ground realities are more harsh than a simple rumour (see detail discussion in Chapter Six).

Further evidence of this conversation can be seen in a later dialogue with the transformation manager of the rural support programme.

> Our operational self-sufficiency was 102%, and last year it was 135%. We came down due to two major factors. One factor was our 135,000 customers were written-off, and there was no money in our system for more lending. Second, in Khyber Pakhtunkhwa our all portfolio finished due to bad security condition. Our offices were blasted with bombs. Four staff members were kidnapped. Recently they were released because we gave a ransom. There was no enabling environment. We have written off our four million rupees portfolio but we are still profitable (RSP – Y1).

The excerpt emphasises on Pakistan's unstable law and order situation, which decreases institution sustainability. The interviewee notes that, it is because they lost more than 100,000 clients therefore, they faced funding shortages. Moreover, their huge portfolio in Khyber Pakhtunkhwa province was destroyed due to 'bad security conditions'. It is worth to note that, the law and order condition is worse in Khyber Pakhtunkhwa province as compared to Punjab, therefore, the previous interviewee talks about an unstable macroeconomic condition as a cause of negative profitability because her institution mainly works in the Punjab province. However, the transformation manager of RSP regards delicate law and order situation in Khyber Pakhtunkhwa as a major cause of declining their portfolio.

It is important to note that NRSP had larger clientele in Khyber Pakhtunkhwa province, which was affected more due to poor security conditions, particularly the swat operation.[32] He illustrates that ‘there was no enabling environment’ as the Taliban were carrying out bombings, kidnapping and killing innocent people. Thus, the institution suffered from enormous losses due to this situation. In addition, he notes that institution is still showing profit as this institution areas of operation are not restricted to only one province but are spread to other provinces of Pakistan. Therefore, institution larger outreach and other factors contribute positively in their profit.

The above section discussed various rationales (e.g. higher cost, limited scale, macroeconomic condition etc.) in relation to profitability. Some accepted their mistake of not being profitable for so long due to serving a limited market, however, others regards it as being a young institution and the terrible political and economic situation microfinance institutions need longer time to become profitable. Furthermore, one argued that they want to focus on poverty alleviation not profitability however; the mission of the microfinance bank indicates that profitability plays a significant role and sustainability is a priority to them. Based on these finding, it can be suggested that in order to achieve the objective of profitability and sustainability, a microfinance bank should carefully devise their policies for example to whom and where they have to lend.

[32] Particularly they lost main clientele in the Swat district where Taliban had taken control of the whole city and Army did operation later on to take the control of city. Army started operation in May 2009, and ordered to vacate all area. Nearly 2.2 million people migrated to different parts of the country.

8.4 Whose Sustainability matter

8.4.1 Microfinance Bank Perspective

The last section raises the question about the profitability of the microfinance institution, particularly banks, which play a significant role in the development of regulated commercial institutions. Not only profitability of the institution has attracted more attention from the mainstream market but they also focus on sustainability of the microfinance institutions (see detail in Chapter Two).

Sustainability matters for the institution in order to provide financial services to the poor on a long-term basis because poor access to credit is more important rather than cheap credit (Morduch, 2000). Robinson (2001) argued that microfinance demands can be met on a global scale only through the provision of financial services by self-sufficient institutions. This shows that institutions on donor dependence do not meet the demand on a large scale; therefore, financial viability of the institution is important in order to deliver services on sustainable basis (Khandker, Khalily and Khan, 1995).

In addition, Armendáriz de Aghion and Morduch (2010, 18) describe the Institutionlist view on sustainability as:

> Once free of subsidy, the [microfinance] programs can grow without the tether of donor support... Programs will need to mobilize capital by taking savings deposits or by issuing bonds, or institutions must become so profitable that they can obtain funds from commercial sources, competing in the marketplace with computer makers, auto manufacturers, and large, established banks.

Armendáriz de Aghion and Morduch (2010) in the above quote are talking about benefits of sustainable microfinance institutions. Armendáriz de Aghion and Morduch (2010) has stated that once the institution becomes sustainable, then it will not need any donor support and will compete in the capital market by issuing bonds and shares where their competitors will be large companies. Although the above quote is based on anecdotal evidence, therefore briefly, in all such claims institutions' viability plays a significant role. Thus, microfinance success is measured through profits or in terms of numbers of clientele and little attention is paid to important issues such clients' sustainability and their viability as Kantor and Andersen illustrates that "interest in MFI viability often overshadowed that in client viability[33] (2010:3).

In the following, I analyse interview excerpts to see how practitioners talk about the issue of sustainability. I will present arguments from the microfinance bank and NGOs separately in order to clearly identify different perceptions of these institutions. Below is an excerpt from an interview with a CEO of a bank who constructs the rhetoric of sustainability in his talk in this way.

> My priority No.1 is to get sustainability by the end of the year. My all efforts are directed towards cutting costs and to improve the productivity. Through sustainability, we will be able to reach out to more customers. To reach every one, we need resources to provide them the financial services. So from where these resources will come from? So ultimately, all the resources come from sustainability and profitability of operations. Therefore, if the business is not profitable, you are not going to survive and your own mission and vision becomes jeopardised. If you want to reach out to these people, you need resources and long-term resources come from only sustainable operations (MFB – I2).

[33] Borrowers are viable when the benefits from projects funded by the programme meet the costs of borrowing and when the borrowers have an incentives to repay their loans (Khandker, Khalily and Khan, 1995:36)

In this passage, the CEO of a bank says that he is more concerned with his bank's sustainability and his priority is to make his bank sustainable. His bank was a new bank with less than three years' experience, and not sustainable at the time when the interview was conducted. He explains that, in order to become sustainable, he wants to cut costs and increase productivity. He highlights two rationales of becoming sustainable. According to him, only through sustainability, institution can reach to a larger market and grasp resources. Certainly, this is what the Institutionalists think about sustainability (Robinson, 2001). However, it is also important to note that, many MFIs are still dependent on subsidies for reaching financial sustainability (Hudon, 2010; Nawaz, 2010; Hudon and Traca, 2011) and according to recent estimates, only less than 1% among 10,000 worldwide microfinance institutions have achieved full financial sustainability (Allen, 2007; Callaghan *et al*, 2007). Similarly, in Pakistan few MFPs are profitable and self-sufficient (see more detail in Chapter Seven).

As the CEO's indicates, his efforts are directed towards 'cutting cost and increasing productivity' that ultimately means achieving economies of scale which means reduction in unit cost from expanding the scale of operations in the long run. In sustainable microfinance, the driver of economy of scales means increasing outreach/reaching to a larger market. As Tucker (2001: 111) argued that, "for profit making businesses, gaining market share has been the most certain route to economies of scale while simultaneously overcoming the competition".

Indeed, by reaching to more clients, institutions can achieve benefits of economies of scale for instance, gain market share or cost reduction. However, with the advantages, there are drawbacks of attracting more clients and one possible drawback is tendency towards monopolisation of MFI. Economy of scale might be used to develop monopoly power in the microfinance sector and this might lead to ultimately lessening of client's welfare by increasing interest rates or other charges in the long-run, which is evident in chapter seven. In addition, increasing outreach at one place can result repeat lending to the same clients. It is found in this study that in one city more than 10 MFPs operates and focuses on urban areas where the poverty is less prevalent (detail discussion in chapter five).

The CEO in the above excerpt states that without profitability institution cannot survive and their mission and vision will be at a higher risk. However, it is important to identify the mission and vision of an institution. If the institution mission is to become profitable and sustainable as the CEO regards then yes it will be 'jeopardised'. On the other hand, if the institution mission is poverty reduction then it will not be in danger. Towards the end, the CEO focuses again on institutional sustainability; therefore, it could be construed from the CEO's assertion that sustainability is important in order to get larger resources and the market. Similarly, another interviewee has used the term sustainability in the context of commercial viability and the ability to earn profit,

> The MFIs are NGOs; they get grants, donations, charities etc. We are a commercially viable microfinance bank. We do not have any grants; in our bank different stakeholders have invested their money. Moreover, wherever someone invests their money, they do so for some return, not for helping others or charity. Therefore, we need to be commercially viable and should be able to pay returns to the stakeholders. If our bank's not going to earn, so how we will pay to our stakeholders and no one will come to invest in our bank (MFB – J).

The excerpt is taken from the interview of a Head of Operations (HO) of a microfinance bank. This bank has five years of experience and became sustainable in 2010. He notes that they are not dependant on grants or donor funding ‘various stakeholders’ has invested their money and they require returns. It is noteworthy that as in microfinance, various investors from social to commercial investors are investing. Currently, due to the growing trend of commercialisation, commercial investors are increasingly investing in commercial MFIs. Thus, as the interviewee (HO) is personnel of a private, commercial MFB, therefore, investors who are investing in this bank are commercial investors who want to maximise their financial returns (see more detail in Chapter Two).

In addition, my interviewee focuses on the word ‘return’ and ‘commercial viability’ of his bank in order to show profit and sustainability to their stakeholders. He also shows his concern about the losses and said ‘no one will come to invest in our bank’ if the bank does not make a profit. Certainly, commercial investors will not come if the bank does not make a profit because they only seek financial returns, therefore, profitability and sustainability of a microfinance bank is important to attract commercial investors. Moreover, I was also interested in how the microfinance bank measures their performance and what kind of targets they set for their bank. Therefore, I continue my talk with the HO and ask,

> **Interviewer:** What are the targets of your bank? How do you measure your bank’s performance?
>
> **Interviewee:** Our target is mainly that for a branch to be commercially viable because earning source is our branch and treasury. Our first priority is that our branch overcomes its expenses and then meets the head office and other expenses... If we set the targets blindly then the loans may be dirty loans. So we do not do like this in setting the targets. Giving loan is so easy but recovery is much more difficult. Therefore, we only give the loans to eligible people that could be recovered easily (MFB – J).

It is interesting to note that HO again focuses on the 'commercial viability' of the bank. He states that the branch and treasury are the earning sources of the bank. Interviewee talk revolves around the bank profitability and viability, which shows their commercial focus. In addition, he explains that they set the target carefully but not 'blindly' in order to avoid 'dirty loan'. Dirty loan means those loans that the clients cannot pay back. Therefore, he stresses on the point that we give loans to those who can pay back easily. This shows the reflection of the mission drift, as institutions are more concerned with the sustainability and profitability, instead of reaching to the poor and want to serve those who pay them back easily. This also reminds us the Welfarists argument that commercialisation will result in the crowding out of poor borrowers (Morduch, 2000). Here is another excerpt from the interview transcript in which the interviewee represents sustainability of microfinance in a quite similar way,

> If you want to reduce or alleviate poverty then for that you need to be sustainable. It is not bait ul maal or Zakat funds from where you will get money. In order to survive you have to be commercial and you have to charge interest. Our main objective is poverty alleviation but our objective is to provide financial services to people who would not be able to get financial services from other institutions (MFB – G3).

Here the interviewee is a National Distribution Manager of one of the three leading microfinance banks in Pakistan. He exemplifies that, if an institution wants to reduce poverty, then he has to become sustainable. He gives the example of *bait ul maal* and *Zakat* in order to compare it with the microfinance institution and loan respectively. In fact, he wants to clarify the difference between these two.[34] Bait ul maal is a financial institution, which deals with taxes and revenue similar to HM Revenue and Custom in the UK. In Pakistan, this department works as an autonomous body, and receives

[34] *Bait ul maal* is an Arabic word that is translated as 'house of money'. Bait means house and maal means money.

funding from the government to help poor people. This department also deals with the distribution of Zakat[35]. His comparison between the loan and Zakat means a loan a person takes and then he has to pay back that amount, however, Zakat does not require the money to be paid back. His assertion that our loan is not Zakat is significant because this ultimately is depicting the importance of recovery of a loan. Indeed, recovery of loan is important and it is the responsibility of borrowers to pay back loan on time.

He portrays that, for sustainability an institution has to become commercial and charge interest rate. This represents the notion that for sustainability an institution can charge a higher interest rate. However, if interpreted in the context of poor people, then ultimately they will suffer from exorbitant interest rates from commercialised microfinance banks. In addition, he believes the objective of poverty alleviation, but suddenly his sentence changes and he moulded his words to say a different objective, which was financial access. This suggests that MFB believes on poverty alleviation and financial access. When I inquired further into his perception of commercial microfinance that has created two paradigms; one prefers institution sustainability – Institutionalists and the other – Welfarists who want to seek borrower's right, the National Distribution Manager responded:

> Look, they see only to borrowers but this is short-term approach. Up to what time you will receive funding, one year, two year or five years. When you think, you should think long term sustainability. If you are dependent on funding then up to six years you are getting money but in seven years international community shift their focus

[35] Zakat is one of the five pillars of Islam. This is an obligation upon the rich people (who have money) to distribute certain portion of his/her income to the needy people.

> to some other things then you will leave and your borrowers are also left. Poverty will not reduce (MFB – G3).

He added more,

> Poverty will finish when the provider is sustainable then he will sustain the borrowers. If he is not sustainable and dependant on other factors then there will come a time when the donors will come and say that, we do not have funds to give to you. If you are not financially sustainable then how can you think to make others financially sustainable? (MFB – G3).

Here the interviewee adopts a convincing style and says 'look' in order to persuade the interviewer that sustainability is an important factor for poverty reduction. He regards the Welfarists view as a 'short term approach' because they only focus on the borrowers. According to him, sustainability of the institution should be a long-term objective of the institution because donor support is limited and up to what time an institution can get donor funding. He highlights the fact that international community means donors can shift their focus to some other objectives at anytime. Through this way, both the institution and the borrower will suffer from their decision and ultimately poverty will not be reduced. RBM favours Institutionalists view on donor funding which they believe is limited to cover the demand of poor people. In addition, he rhetorically constructed his argument and states that 'poverty will finish when the provider is sustainable then he will sustain the borrowers'. This shows that borrowers can only be sustained if the institution is sustainable. Towards the end, he notes that institution that is not sustainable cannot make their clients sustainable.

From the above, it can be concluded from the interviewee's view that sustainability of the institution is an important matter because only sustainable institutions can reduce poverty and help poor people accomplish their objective of life. Moreover, institution sustainability entirely depends on the profitability of the institution with no funding constraints. If the institution funding is their own and they do not rely on donors or subsidised loans then an institution can stay in the business for a longer period of time. Therefore, Institutionalists focus on the point that to obtain sufficient funding to serve this large market of poor people, the microfinance sector has to show reasonably high returns in order to attract commercial finance.

8.4.2 NGOs preferences and Sustainability

In the discussion above, I have presented discourse of sustainability where microfinance banks' senior managers talk about sustainability of the institution, commercial viability and regard it as a first priority for the microfinance bank. They give importance to the institution sustainability for the long- term survival of institution and poverty reduction. In this section, I present views of NGOs about sustainability where senior personnel talk about clients' sustainability in order to sustain the institution. Take the example of the quote below in which the interviewee is presenting clients sustainability as an important objective of institution,

> Our focus is on sustainability of poor households. For how long you can help someone? He has to sustain as well. Our institution's main objective is sustainability of the entrepreneur, women and poor household whoever they are. We want that he have to stand on his own feet. We should give his loan to someone else who also needs it. This is our objective that we have to sustain our borrowers financially that he can run his business (MFI – A2).

Unlike the previous interviewees from the microfinance bank who focuses on institution sustainability, in this excerpt the interviewee who is a senior manager of NGO, emphases the sustainability of the clients. He stresses upon clients sustainability because of two reasons. First, the institution want that their clients to stand on their own feet and not rely on long term loans. He says that, his NGO – A-Foundation's (which is a pseudonym) key purpose is to sustain clients whoever they are 'women', 'entrepreneur' or 'poor household'. Secondly, if one person has taken a loan for four years and then he does not need a loan because now his business is making profit and he is sustainable, therefore, NGO will give a loan to someone else who requires it. Thus, through clients' sustainability, the institution wants to achieve social returns instead of financial returns. However, with increased commercialisation, the institution also wants financial returns. Therefore, I raise questions to the interviewee that how an institution can achieve the sustainability of the client and institution, both at the same time? He replied,

> If the members of the institutions are sustained then it means that the institution is also sustained. If you are in profit then it means I am in profit. Like, if you have taken the loan from us and purchased the raw materials, earn the profit, and return money back to us. Therefore, from this institution has also earned something. Through this way, the institution also becomes sustained. I am talking about MFIs. However, if you talk about the commercial microfinance banks then they drift from the poverty mission (MFI – A2).

It is interesting to note that the interviewee regards clients' sustainability as the institution sustainability. This suggests that, if the client made the profit it means institution is also getting profit. He explains his assertion like this: if a client takes a loan from an institution and invests that money in his business. When his business starts making profit, then he will be able to pay that loan amount back to the institution and this makes an institution sustainable. On the other hand, if his business makes loss then he would not be able to return that money to the institution, therefore, institution sustainability will be at risk. This leads us to the common thought that if the loan repayments are being made and institution loan write-offs are low, this shows that clients are making profit and an institution is working efficiently. From the interviewee assertion, it is suggested that timely recovery of loans means client and institution sustainability In addition, the interviewee explicitly state that these are the MFIs who focus on clients' sustainability, microfinance banks have drifted from the original mission of poverty alleviation.

It is notable in the above quote the interviewee's talk revolves around client sustainability and his profitability. This is an absolutely different way of observing how business is carried out. Above assertion of the interviewee suggest that microfinance institutions who seek social returns are utterly different from a system based on accounting logics because their system is based on social values and achieving social benefits by providing microfinance services. Therefore, commercialisation cannot work with their system or the other way around. These institutions cannot exist in commercialise environments because commercialise environments do not operate on these basis. In order to exist in the commercialised world, an institution needs to be profitable and sustainable. However, my interviewee presents a radically different way of thinking that is based on social goals and return rather than normal financial returns. This utterly different way of looking at sustainability is further exemplified in the following excerpt:

> We want that our clients first to become profitable, sustainable and then we become sustainable. That is our mission. In Bangladesh, that is not a welfare approach. If you think, it is a business and to earn money then it goes toward mission drift. Therefore, in this case it becomes financial services providers. Hence, there comes no Poverty Alleviation. At least we are providing interest free loans that save about 30% of our clients (MFI – D1).

This quote is taken from an interview with the CEO of an NGO who provide loans without any charges (which normally includes interest and processing fees). They solely operate on the Islamic teachings – the principle of Qard-e-Hasna means helping needy or poor people with interest free loans because interest is strictly prohibited in Islam. Their funding is based on charities and donations. This CEO's point of view is slightly different from the previous CEO in terms of sustainability. They want to achieve both clients and institution sustainability however; priority is given to the client's profitability and sustainability. He regards it as the institution's mission. As an interest free organization, CEO criticizes the pioneer of microfinance – Bangladesh and calls them the non-welfarists because they charge interest rate to the borrowers and earn profits from them.

According to him, earning money through the clients is similar to business and regards it as a mission drift. Pushing the idea of mission drift further, the CEO explicitly states that a profit based institution becomes a 'financial service provider' not an institution who seeks the objective of poverty alleviation. The CEO's statement suggests that he perceives the microfinance institution as a source of poverty reduction and helping poor people by giving them financial services without any charges. This institution's roots are based on Islamic philosophy of Zakat (charity) and mwakhaat (brotherhood) (Ghaffari *et al*, 2011). Mwakhaat (Brotherhood) is linked to Muslim history where it was first exhibited by the 'Ansaar' (citizens of Madina) and 'Muhajireen' – immigrants of Makkah when the Muslims of Makkah migrated to Madina to escape religious persecution. Muslims of Madina gave a warm welcome to 'Muhajireen' and shared their all wealth and properties with them. This widely quoted story of Islam suggests that through mutual support in society, a system can be created where the rich can share their resources with the poor and needy. This implies that poverty can be eliminated through the system based on 'mwakhaat' (brotherhood).

From the above discussion of sustainability of clients and the concept of brotherhood, it can be understood that sustainability of clients can come when the institution charges are lower, or when there is no cost involved as in the case of this institution. Therefore, towards the end, the CEO says that the minimum benefit they can give to their clients is saving of their interest amount. Generally, MFPs charge interest rate between 20% - 30% on a flat basis. Through this way, this institution is saving clients' income of nearly 30% which they can invest in their business and help their households. In the above excerpt, the CEO mentions that client and institution sustainability matter for the institution therefore, I enquired about his institution sustainability. His answer is presented below,

> There are three things: Will charity ends, will volunteerism ends, necessity compensation for work force. If we look at the history, all these three things have been grown up with the passage of time. Until these three things are available, until then AHK Foundation will survive and be sustainable.

He added more,

> If a person wants to donate voluntarily and returns his loan, so it means that person is sustainable and hence this sustainability comes to us. If we were not sustainable then how it could possible for the 99.9% recovery? (MFI – D1).

This is interesting excerpt because CEO sees his institution's sustainability in donations and volunteerism instead of profit, operational self-sufficiency or return on equity ratios, which are the common indictors to measure sustainability. He believes that 'charity', 'volunteerism, and reward for people will never end and history has proved that these things have grown with the passage of time. Therefore, based on these principles their institution will grow and be sustainable. In the second excerpt, he seeks his institution's sustainability in his client's sustainability, quite similar to the previous interviewee reply. He states that, if a client pays back his loan on time then this is sustainability of the institution. However, in reality, institutions' profitability figures are negative and sustainability is less than 100, which shows that the institution is not sustainable. This suggests that the CEO considers institution sustainability in client repayment of loan and does not consider the accounting indicators of profitability or sustainability.

Similar to the above interviewee, the interviewee below also seems to focus on clients' sustainability and objective of poverty reduction,

> MFPs are approaching poor because they have to increase their borrowers. We are not increasing the loan size. We are not concerned about the money. If I lend more then I will earn more but our focus is on poor people. How much poor people we lend and sustain them this is poverty alleviation (MFI – A1).

Here the interviewee is a CEO of MFI who works primarily with female clients. She tries to explain her organisation objective in a comparison with other MFPs. She says that, other MFPs lend to poor because they want to increase the number of clients. As the smaller average loan size is considered as proxy of reaching to the poor people therefore, in the second line of the excerpt she mention that 'we are not increasing loan size' and want to serve the poor people. Money does not matter to her institution, what is important for her institution is lending to the poor. She also regards lending to the poor and sustaining them as the achievement of the microfinance mission – poverty reduction.

She states that she can earn more if she starts giving larger loan amounts, as by lending larger amounts to many people means the institution's return will also increase because cost will be less on larger loans. However, the CEO stresses that she wants to focus on the poor instead of money. The above excerpts shows the relationship between the sustainability of clients and poverty reduction and points to the clear differences among microfinance banks' and NGOs' perspective. She continues her talk and explains how it works,

> I will say this as poverty reduction as compared to give PKR.50,000 to one person. It is much better to give this PKR. 50,000 to five people in order to run their household as compared to lend Rs. 50,000 to one person. If a person has a cart of [Gol Gappa] or [Samosa] then Rs. 15,000 is good amount for him. Through that, he can purchase raw materials. However, if we talked about a shopkeeper, a good shopkeeper, then Rs. 15,000 is nothing for him. He cannot do anything with money. He needs products of up to PKR. 100,000 that can support him (MFI – A1).

In her point of view, it is much better to give PKR. 50,000 to five people instead of one person. She mentions two kinds of individuals. One who has small business such as a cart of Gol Gappa (watery bread) or Samosa (fried pastry) then a small loan of PKR 15,000 is enough for him. However, if we talk about a shopkeeper who has a grocery shop and he earned enough income from that shop then he does not need a small amount of PKR 15,000. He will need a bigger loan. Evidence shows that unregulated NGOs provide smaller loans to their clients than regulated microfinance institutions in Latin America (Christen, 2000). Therefore, for her, a smaller loan size has importance for the small shopkeeper because he can expand his smaller business with a smaller loan however, a tailor who employ two workers in his shop and earns monthly PKR 30,000 then he definitely needs a larger loan.

Certainly, by taking a smaller loan initially a person who sells 'samosas' can convert his small cart to a shop with the passage of time and this small loan can change his life. For instance, Armendáriz and Morduch (2004) argue that a small loan of $100 can make a difference to a small-scale shopkeeper or craftsperson in developing countries such as Nepal or Uganda. Thus, as the CEO suggests, a small loan is better for reducing poverty compared to larger loans.

In the light of the of the discussion above, it seem fair to suggest that sustainability in the context of microfinance banks' personnel has been used as a mechanism to attain the benefits of economies of scale. Microfinance banks focus on institutions sustainability and profitability in order to reach more borrowers. Thus, commercialisation, competition and economies of scale play a significant role for microfinance banks. However, the NGOs' perspective regarding sustainability is utterly different from the commercial perspective of microfinance banks. They seem their success is based on their clients' success and their higher recovery rates. In the following section, I will discuss practitioners' views on the consequences of commercialisation of microfinance.

8.5 Consequences of Commercialisation

In the previous section, the importance of commercialisation is discussed. In all of the above quotes, interviewees (practitioners) favour commercialisation along side with the microfinance banks. They argue that mainstream microfinance is important because: to give 'financial inclusion' to the poor, 'commercial banks do not allow poor', 'social responsibility' and 'awareness' will increase among borrowers, and 'this is the beauty of microfinance' to have both in the sector means MFIs and MFBs. In this section, various interview segments are discussed in which interviewees presents what will happen when we move microfinance on commercial footing. Take example of the excerpt below:

> An NGO can be open in a room, they can work with one computer and they do not need staffs that are very high qualified. However, with formal institutions, especially with the regulatory banks who work under the State Bank of Pakistan (SBP), we have to follow the rules and regulation of SBP and we cannot deviate from it. There is also a long list of mandatory requirements to open any financial institution. Institutions also spend money to fulfil those entire requirements (MFB – G2).

The Retail Head explicitly draws the comparison between NGOs and MFBs with the resonant echo of the State Bank of Pakistan's role in the regulation of microfinance banks. From her assertion, it becomes plain that NGOs are cost effective; do not need big buildings; requires less technology and they do not need very competent staff to carry out microfinance operations. Conversely, microfinance banks who work under the regulations of the State Bank of Pakistan have to pursue their strict guidelines and there is no divergence. Her description of the 'rules and regulation' and 'we cannot deviate from it' is shown to be, at best, complaining; an unwilling capitulation to necessity. There is no doubt; she is telling us that there is no flexibility, as a regulated institution they must work within the parameters of the Central Bank.

Furthermore, she explains the cost and prerequisites of setting up a bank, which advocates that it is not easy to start a formal financial institution. Indeed, according to prudential regulation, a microfinance bank who wants to operate at national level in

Pakistan is requires minimum paid up capital of PKR.1 billion (SBP, 2011). The MFBs also needs to maintain capital adequacy ratio (CAR) equivalent of at least of 15% of their risk-weighted assets (see detail in chapter seven). Thus, arguments centred on MFBs' and NGOs' differences, presents microfinance banks as either very costly or as the harbinger of following 'rules and regulations' rather than lending to the poor.

In addition, as there are certain requirements to become a MFB, there are more regulations to become a micro client. The procedures have changed and become stricter for the microfinance clients when they apply for a loan in MFB as compared to NGO. The Regional Business Manager of the microfinance bank has explained this as:

> When we were lending then [when I was in an NGO], CNIC (Computerised National Identity Card) was not compulsory. We just seen that four or five people has given guarantee of a woman and we had to make sure that this woman is living in this village or in this street. If she shows us her wedding snaps then that proof were enough but here we have more strict criteria. In a bank, we must see CNIC (computerised national identity card) and it should not be old NIC (manual national identity card) (MFB – G1).

He illustrates the NGO and microfinance bank's lending criterion. The above extract shows that NGOs are more flexible in lending as compared to their counterparts – microfinance banks. They need fewer documents and work more on social guarantee. Conversely, microfinance bank as a regulated institution needs more verification of clients such as interviewee says 'in a bank, we must have to see CNIC and it should not be old NIC'. It is notable that, banks regulations are more in order to avoid fraud, which is important for the bank and for the borrowers, as the right person will be offered a loan. However, more scrutiny sometimes leads to problems. For instance, in remote areas of Pakistan where people are less educated, they use their other identities such as woman use their marriage certificate as evidence that she is the wife and daughter of this man. They do not prepare CNIC because they think it is not important or it has no use. These regulations let them out of taking financial services. Another interviewee sheds the light on some more consequences of commercialisation. Take the excerpt below:

> Now when we have started commercial banking we have started charging loan processing fee and offering them current account. Individual loans are planned in this year. Now we are going to launch product in which we will target different market segments and through that, we can earn money. Mission will drift in a way that before we were focusing on core poverty but now we have to become sustainable otherwise we will close.

She added more,

> You have to because if you do not fight for survival then you will become lost. Now after launching 110 branches, we cannot end our institution. We have so many client and outreach. We have name in the market. We cannot wind up overnight. To continue we have to generate funds otherwise how will we sustain our self? (MFB – G2).

This example has been included as it is one, which makes visible the outcomes of commercial microfinance. It is notable that by the time of the interview, this bank was in the transformation phase towards commercialisation as this has been mentioned by the interviewee at the start of the excerpt too. The bank was not charging any processing fee but soon they moved towards this new trail, they have started charging loan processing fee from the clients. In addition, now the bank offers facilities such as opening a bank account and individual lending (before they were based on group lending methodology).

It is very important to note, the interviewee explains that the bank will target 'different segment of the market' to 'earn money'. Interestingly, soon after she talks about moving to different market, she notes the fact that mission drift will happen. As she illustrates before they were targeting 'core poor' now they will aim to achieve sustainability of the institution. This seems to suggest practitioners are aware about the element of mission drift, which will happen when they will lend to less poor and this is apparent from their talk.

However, as lending to poor cannot be sustainable therefore, the above interviewee shows her anxiety about the closure of her bank. She said 'we cannot wind up overnight' because now our bank has 'name in the market' and having larger outreach. This shows that, after establishing market name and a large clientele base, the bank does not want to leave the sector; therefore, the bank is entering the commercial footing in order to obtain sustainability. Moreover, it also suggests that for sustainability, they can 'deviate' from the 'core poverty' objective and it does not matter if the mission drift occurs.

Towards the end, she raises the question of 'funding' for the long-term survival of the bank. She argues 'to continue we have to generate funds' this implies that when they come on commercial grounds, for that, they need to generate their own funding like deposits, by charging higher interest rate, loan processing fee and some other charges such as late penalty fee. In addition, they will rely on funding sources such as bonds, and issuing of shares that also requires paying interest or dividends to investors.

Thus, the above two excerpts are important because they explain key consequences of 'new wave' model of microfinance and comparison of MFBs and NGOs. Another interviewee explains the differences of 'cost factor' between MFB and NGO in the quote below:

> The cost of three or four branches of NGO is equal to only rent of this branch. The reason is when we go to commercialisation we need the building at the main location. As I was in NGO, we had PKR.8, 000 – PKR. 10,000 budget in which we had to take the branch and here this branch rent is more than PKR.100, 000 because it is in the main location (MFB – G1).

This excerpt demonstrates how the MFBs are more costly than the NGO. As having experience of both MFB and an NGO, the Regional Business Manager of the microfinance bank explicitly states that 'cost of three or four branches' of NGO is equivalent to 'rent' of a one bank branch. This is because when an institution (NGO) becomes a bank then they need 'building at main location'. By main location, he means 'central location' or 'main bazaar' where most of the shops situate, other commercial bank's branches operate and where customers can access their services easily. For instance, in the UK, every city has a 'main location' known as the 'town centre' where nearly all the banks' branches are located such as Barclays, Lloyds TSB, NatWest, and a shopping mall, as well as different sorts of food stores. Similarly, in Pakistan the 'main location' is known as the 'main bazaar' where different kinds of shops and commercial bank branches are located. Therefore, in order to become commercial, a bank needs a branch in the 'main location', which is more costly than the branch not located in the main location.

He illustrates that the rent of a bank's branch is almost 10 times greater than the rent of NGO. The Retail Head of MFB demonstrates that 'NGO can be open in a room' however, a bank needs the branch in 'main location' suggests that microfinance banks are costly due to their higher operating cost. As figures also evidenced that bank operating expenses and cost per borrowers are much higher than the cost of NGO (see detail in chapter seven). More explicitly, in the following extract, Chief Financial Officer (CFO) of a microfinance bank after admitting the higher cost involve with microfinance banks suggests alternatives for reducing it,

> When you become regulated, then your operating cost goes up. In this case either you increase the price or change the market segment. On Rs.10, 000 loans we cannot sustain, even no bank can sustain it. Our minimum loan size is Rs.40, 000, so we will go beyond this, not below because we cannot bear losses (MFB – I1).

The idea of higher cost is further propelled by the CFO's comment that when a microfinance institution becomes a regulated bank, then their operating expenses increase. He suggests two options for reducing the cost and become profitable either by an institution charging higher prices which means high interest rates, processing fee etc, or shift the 'market segment'. In light of this, it could be understood from his statement that for profitability a microfinance bank can move his focus to more wealthy borrowers where they can pay the loan easily without any fear of the higher costs. Therefore, he explains that his institution also shifted to a new market segment by increasing loan sizes because without doing this they cannot becomes sustainable. The CFO states in the end, 'we cannot bear losses' advocates that it is more important for a microfinance bank to earn money. Thus, it is fair to suggest that for profitability, the microfinance bank has shifted focus to wealthier borrowers, which mean mission drift.

However, what is mission drift also depends on the mission of institution. For instance, while talking about mission drift, the CFO said:

> This is a very difficult question, because how do you define a mission drift? That is itself a big subject. Some people say microfinance is poverty alleviation; the second will say it is the financial inclusion; third will say it is just banking with some different segment of market. Therefore, it depends on your thinking that how you defined microfinance. If your mission is to bank the unbanked, then there is no mission drift. (MFB – I1).

He added more,

> We are giving that economic opportunity to the poor sector. MF should be transparent rather than setting with older definition that it is Poverty Alleviation or not (MFB – I1).

The CFO suggests that mission drift occurs when the institution mission is poverty alleviation. However, when the institution mission is not poverty reduction, instead they focus on 'financial access' or 'to unbanked people' then it is not drift in the mission. It is evident in the analysis of mission statements where the bank's mission is to give financial access and to achieve sustainability rather than poverty alleviation. Poverty reduction, woman empowerment and capacity building are terms found in NGOs' mission statement but these have been dropped from Microfinance banks. Therefore, the CFO notes that it is not mission drift. Similar to this, the transformation manager of RSP also offers similar views,

> We believe that due to commercialisation there is no mission drift. Many people say that this is mission drift, your market shift and your clients shift but we do not consider this mission drift. The main difference is coming in for profit business model where profit is not an end but a means to an end or means to achieve social objective (RSP – Y1).

This interviewee also considers that 'shift in the market' or 'clients' is not mission drift. He sees shift of NGO towards commercialisation as a means to achieve dual goals – social and financial goals. However, these assertions of above interviewees seem to suggest opposite to what definition of mission drift suggest i.e. shift towards poor to wealthier clients (Cull, Demirgüç-Kunt and Morduch, 2007; Armendáriz and Szafarz, 2009). See the passage below, which further exemplifies this discussion.

> Mission drift only come if we start working with the non-poor. If through commercialisation, you start working with non-poor then it is mission drift (CEO PMN).

He explains mission drift, which is consistent with the definition that means lending to less poor. Thus, larger loan size and lending less to women borrowers (which are used as a proxy of mission drift) suggest that mission drift has occurred. For instance, CEO of MFI in the excerpt below admits the fact of mission drift and states:

> There could be increase in loan sizes and to a certain extent mission drift may happen especially in the early part of the institutions life cycle (MFI – B1).

She believes that commercialisation increases the loan size of institution and institution can deviate from their original mission in the earlier stages of their development. In relation to this, the Regional Business Manager of a leading microfinance bank also supports the idea of mission drift. When I asked will mission drift happen with the commercialisation of microfinance, he said:

> Yes absolutely. The reason is mindset is changing. Mindset is coming towards commercialisation from the social objective (MFB – G1).

Manager fully supports the existence of mission drift. In his point of view, mission drift is occurring because 'mindset' is shifting towards commercialisation from the social objective. This is interesting because a personnel of MFB admits that when the institution moves towards mainstreaming microfinance, deviation in the mission comes. In this regard, the head of Microfinance Practices by a leading consultancy firm shows his grouses when I asked him about mission drift.

> **Interviewee:** What is mission? Have you asked from these institutions what your institution mission is?

> **Interviewer:** Yes so many times. Banks says that our first mission is to achieve profitability and then poverty alleviation. We want to achieve double bottom line objectives.
>
> **Interviewee:** What is double bottom line? Do they know or just heard about the word double bottom line?
>
> **Interviewer:** Microfinance banks say that we want to achieve both objectives.
>
> **Interviewee:** Say to banks that you are not achieving any objective. Neither you are profitable and sustainable and nor you are giving services to micro finance client. What services they want, you do not give those services.

The above quote is interesting. When I asked question about the mission drift, the interviewee asked counter questions from me about the mission of MFB. After my answer, the head of Microfinance Practices illustrates that microfinance banks do not know 'what is double bottom line' objective because they have not achieved any objective i.e. poverty reduction and profitability. He exemplifies, the services micro borrowers want, they do not provide them those services. This suggests that MFB have adopted the dual mission but they have not fulfilled this promise.

Thus, the above discussion regarding consequences of commercial microfinance suggests mix findings. Some of the practitioners illustrate that with increased commercialisation change will come and mission drift will happen. On the other hand, some denied and explain that drifting in market segment is not mission drift or it depends on mission of institution whether it is poverty alleviation or not. Critique from the head of microfinance practices goes beyond this and he illustrates that MFB in Pakistan has not achieved any objective. In the following section, I will discuss some more dissenting voices of practitioners regarding commercialisation of microfinance and the role of microfinance itself.

8.6 Dissenting Voices

In the above sections, we have seen most of the practitioners support commercial microfinance on various grounds. While there are some dissenting voices that repudiate the fundamental claim of commercial microfinance. This section will highlight these dissenting voices in more detail about commercialisation of microfinance and in particular microfinance regarding poverty alleviation. For instance, head of Microfinance Practices explicates commercialisation of microfinance as:

> In my point of view, commercialisation is that where an institution has much earning to earn profit. From that, they can expand their area of operation or become sustainable and that is why NGOs has been asked to become Microfinance Banks…but no MFB is sustainable. Sustainability is far away from them, they are losing their and their investor money like hell. No one is profitable. MFB are even worse than NGOs. NGOs were giving micro credit only and were performing in limited area and MFB are doing the same. They are giving NGO type services with the only addition of acceptance of deposits…so I don't think it is commercialisation…since last 8 years in Pakistan after the emergence of this, I would say commercialisation has badly failed (Consul-2).

In the above quote, the Head of Microfinance Practices criticises commercialisation of microfinance on different grounds. He explains the purpose of commercialisation of microfinance i.e. to earn profit and attain scale of operations. However, he notes that MFBs have not achieved these objectives. He compared MFB with the NGOs and illustrates that MFBs are 'even worse than the NGOs'. He said, NGOs were giving limited services in limited areas on subsidies funding, MFBs are also giving these services and losing their investors money. Interviewee illustrates that MFBs have moved towards commercialisation but they have not succeeded in their dual objectives of profitability and larger outreach. More, they are not giving any innovative services and losing investors money. This study also analyses these aspects. It is found that

MFBs are less profitable and offer loans to wealthy borrowers. He continues his discussion on this matter and said:

> Now you can ask the question why it has happened. It is just because the vision at the board and CEO level is zero. They do not know how to run microfinance operations. They all came from a commercial banking background. They are not the top class bankers of the commercial banking who are consider as cream of the bank and who run the bank. No one is cream of the bank. They all were on low positions, they get the offer, and came here.

He added,

> They are running the show. They have their own policies and I do not think that they have commitments to the sector… This how they want to create the industry? Industry could not be established like this. Where are the standards?... Therefore, almost commercialisation of microfinance is failed (Consult -2).

In this excerpt, he illustrates that why commercialisation of microfinance is failed. He illustrates that it is due to CEOs and the board limited vision, they do not know how to operate microfinance. He said, top management in the bank came from the commercial banking sector, where they were not on higher positions, therefore, they know less about the practices and operation of microfinance. In addition, he demonstrates that they seem to be less committed to the sector. According to him, these are the contributing factors behind the failure of the commercialisation of microfinance in Pakistan. Indeed, this is one of the significant reasons, with many others, which are discussed in this study. He suggested, it is not the correct way to do microfinance. Thus, the above quotes from the head of microfinance practices illustrates that commercialisation of microfinance has not achieved its stated goals so far.

In addition to commercialisation of microfinance, some of the practitioners criticises microfinance on different grounds. For instance,

> We cannot reduce the poverty only through microfinance. You can reduce the poverty there where state has also the responsibility. Ok through lending, we can increase their income. Let us suppose their income was Rs. 2,000 before, now he has Rs. 7,000 income but we have to consider other things. Like, his family, usually in our class children are also more, if he has four or five children then for their children school is necessary in the area and free education is must. Health facilities should be there. Clean drinking water is necessary for them and not all things microfinance can do (MFB – G1).

Regional Business Manager (RBM) highlights the important role of the state in poverty reduction. He said, with microfinance we can increase their income but poverty cannot be reduced a whole. Other factors of poverty are important such as good education, proper health facilities and clean drinking water. He notes these things microfinance cannot do, the state's role is important in this regard. These arguments are interesting and reflect what I have mentioned in the literature about the role of the state. Many argue that state developments are important for the economic growth (Kohli, 2004; Amsden, 1989; Wade, 1990). In addition, state interventions played significant role behind the remarkable economic growth and poverty reduction in developing and developed countries (Bateman, 2010; Chang, 2003).

I also mentioned in chapter three about problems poor people face in their daily life, such as what the RBM notes i.e. lack of health, education and clean drinking water facilities. As the interviewee suggested, to reduce the poverty these basic necessities of life should be given priority in order to reduce poverty over the long-run. For this, the role of microfinance is limited, it can increase the income of a person but microfinance cannot do everything, state role is significant in this regard. Another interviewee supports this view as:

> MF cannot reduce poverty on its own. We are providing one instrument of poverty reduction; there are so many other factors that lead to increase

> poverty in a region, or in a country or in a state. For me MF is not an end. MF is a means to achieving an end (PMN CEO).

CEO also presents microfinance as just one tool, but ‘not an end’. He suggests that microfinance institutions are trying to reduce poverty with microfinance i.e. lending loan and it is one instrument. Many other factors in a country increase poverty, which the previous interviewee and this study noted (lack of education, health, clean drinking water etc). Therefore, at the end he said, ‘for me MF is not an end. MF is a means to achieving an end’. This suggests the practitioners are aware about the limited role of microfinance, which I also discussed in chapter five. In relation to this, the CFO quote is very appealing. He said.

> The poverty could be alleviated through different things and microfinance is one of the tools. If your state corrects the Zakat and tax system then there is no need of microfinance. The state has to fulfil its responsibilities ((MFB – I1).

His views are similar to the previous interviewees that microfinance’s role is restricted and state interventions are important in order to reduce poverty. He highlights the fact of proper tax and Zakat system in a country, which is significant. He states that if these things are corrected then ‘there is no need of microfinance’. Indeed, the poor system of tax in a developing courtiers and improper system of Zakat and tax in Islamic countries are the crucial factors of increasing poverty. At the end, his assertion about state responsibilities suggests what the proponents of microfinance argue: a strong role of government in poverty reduction (Bateman, 2010; Karnani, 2009).

8.7 Summary

This chapter focused on the commercialisation of microfinance. I explored how the practitioners define and see this new model of microfinance. Analysis from the interviews suggests that interviewees are aware about the negative connotation of commercialisation therefore, they define commercialisation in its actual meaning but also support this model on different grounds. In the chapter, rationales of practitioners are discussed regarding positive and negative profitability of the MFPs. Justification of cost, timeframe and macro environmental factors are given by various practitioners.

Analysis of the sustainability factor is discussed to give an insight of the differences between MFBs and NGOs' perspectives. Head of the NGOs and senior managers favour sustainability of their clients. They suggest that if their clients are sustainable it means the institution is sustainable and relate institution sustainability with the repayments of loans. They note that if the clients pay back, it means an institution is sustainable. Although this rationale is opposite in accounting terms, this suggests the importance of social goals and priority to their clients. On the other hand, staff at MFBs prioritised the institution's sustainability, and for them social goals and clients' sustainability are secondary goals. They supported this view as institution sustainability means clients sustainability while NGOs note the opposite i.e. client's sustainability signify institution sustainability. Thus, the analysis of this view demonstrates clear differences in the MFBs and NGO's perspective regarding sustainability.

Analysis of the consequences of commercialisation of microfinance reveals that significant differences will occur when the institution moves towards commercialisation of microfinance. Practitioners suggest that higher cost, larger loan sizes, more regulations will happen when an NGO moves towards commercial footings. In addition, they note that mission drift will also occur with commercial microfinance, market segment will change and MFBs will give loans to less poor people. On the other spectrum, some of the heads of institutions regard deviation in the market segment as no mission drift. They suggest that it depends on the mission of the institution and we should not highlight this issue, whether emergence of MFBs should be positive. Thus, the result is mix findings on this matter.

At the end, dissenting voices from the field are analysed. The analysis in this regard suggests that development of commercialisation of microfinance has not fulfilled its promise of dual objectives. In fact, MFBs have not achieved any objectives of poverty reduction and profitability. Rationales are given that commercial bankers operate microfinance banks with limited vision and experience of microfinance. Therefore, commercialisation of microfinance is a failure of microfinance. Some more critical views state that microfinance is just a tool to alleviate poverty and it cannot provide basic necessities of life to poor. They suggest that state interventions are important in this regard. In summary, these findings mirror the literature (discussed in Chapter Two) of state interventions and the limited role of microfinance.

Chapter Nine: Conclusion

9.1 Introduction

This thesis has sought to explore the impact of commercialisation of microfinance on microfinance institutions and its clients – micro borrowers. As it is suggested in the thesis, there is increasing focus of microfinance institutions to be regulated, commercial entities and growing importance to become profitable and sustainable microfinance institutions. However, despite of its rising importance only a limited amount of research has explored this new model of microfinance and its consequences in much detail. Therefore, this study has aimed to contribute in this respect to the field of the microfinance.

The thesis asked: how the commercialisation of microfinance affects microfinance institutions and its clients in Pakistan. What is the outreach, profitability and financing sources of microfinance institutions; what are the missions of diverse microfinance institutions, and are they changing with commercialisation. I have explored this through analysis of the qualitative data i.e. interviews of people who are at different managerial positions at microfinance institutions and related institutions to microfinance. Interviews with receiver of microfinance services – micro borrowers have also done to see impact more closely. In addition, quantitative data with the help of descriptive statistics is also analysed to give the comprehensive and rich data. I explored how do the practitioners of microfinance define and perceive the growing trend of commercialisation of microfinance. In addition, what are the prevailing practices of non-profit, non-government organisations and for profit, commercial microfinance institutions? These key questions were investigated in chapter five to eight of the study.

The study showed that commercialisation of microfinance has significantly affected microfinance institutions and its clients. Further, we have seen that commercial approach not only has influenced for profit institutions but non for-profit institutions also persuaded from this approach. It is evidence from enforced recovery methods and unsavoury practices adopted by both NGOs and microfinance banks to achieve their instrumental objectives. However, it is also apparent that differences still exist between non-profit and for-profit commercial microfinance institutions such as their mission and targeting to micro borrowers (poor to rich entrepreneur). The aim of this chapter is to further explores these findings and relate it to the academic literatures and previous studies reviewed in chapter two and three.

9.2 Outreach and Commercialisation of Microfinance

Microfinance became commercial on various grounds (see Chapter Two). One of the significant rationales behind this approach is demand of microfinance. It is argued that as demand of microfinance is more i.e. some 2.7 billion people worldwide need microfinance services (CGAP, 2010), therefore to achieve this immense demand MFIs are require to become regulated, commercial microfinance institutions. Commercial microfinance is considered as precondition for MFIs who seek to grow on larger scale and want to serve millions of poor. Microfinance providers in Pakistan also became commercial to serve millions of poor people who are excluded from formal financial system (see Chapter Three). The demand of commercial finance for the poor can be shown through the analysis of location and scale of operations of microfinance providers (MFPs) (Chapter Five). It is found that despite of increased commercialisation of microfinance, MFPs are located mostly in urban areas where poverty is less widespread. On the other hand, areas, particularly rural areas where majority of population is poor, NGOs and microfinance banks do not exist in these areas. If some institutions exist in these regions, they serve very limited microfinance market. In addition, it is also illustrated that concentration in certain areas such as Lahore and Karachi are made more saturated. Furthermore, in spite of the huge potential demand of microfinance, gap between the number of borrowers served (outreach) and the potential market is very high. Figures of outreach also demonstrated that MFPs has not attained the target set by State Bank of Pakistan i.e. three million micro borrowers at the end of 2010 where MFPs has achieved two third of this objective. Thus, growth in commercial microfinance and development of many microfinance banks, unevenness of scale of operations, limited geographical spread in certain areas and lower outreach is still apparent, which suggest that MFPs of Pakistan have not fulfilled the stated promise of scale of operations.

Practitioners are found to draw on various rationales to justify the limited outreach of microfinance institutions. Some interviewees suggested limited funding and bad security situation in the country as hurdle in wider scale. One CEO argued as it is the job of not only his institution but also other institutions is responsible to give financial services on wider scale. Other interviews demonstrated that to achieve outreach MFPs focuses more on number of clients rather than poor clients, therefore, they have opened the branches in urban areas where poverty is less severe. Practitioners, in particular consultants, stated that this largely happened due to the limited vision and knowledge of the top management that has made some areas more saturated and left others without microfinance services. Thus, the discussion on limited outreach of practitioners reveals mix findings. However, it is evident from the analysis that increased commercial microfinance adversely affects the microfinance sector in terms of outreach. MFPs get involved in 'number game' and MFPs priorities changed towards more wealthy borrowers to achieve profitability and efficiency in loan repayments.

In addition, limited scale and focus of MFPs in urban areas, led intense competition in those areas where multiple lenders exist. Therefore, micro borrowers took loan from more than one institution, which resulted increase in multiple borrowing. However, analysis of this study illustrated that practitioners consider increasing competition positively. Lower interest rate and good services were common arguments in favour of competition. Some practitioners support more lenders but they noted that MFPs should not be at one place, and should explore new areas (Chapter Five, Section 5.4).

Analysis of the quantitative data regarding outreach demonstrated strong negative correlation between outreach and profitability variables (Chapter Seven). These findings suggest that moving towards commercial microfinance means a trade-off between serving the poor and being self-sufficient. These results are consistent with the recent microfinance literature (see Cull, Demirgüç-Kunt and Morduch, 2007; Hermes, Lensink, and Meesters, 2011; Olivares-Polanco, 2005) that advocates trade-off between outreach and sustainability. Commercial microfinance were developed to achieve the dual objective of sustainability of institution and serving the poor borrowers, as suggested by its proponents, however, my analysis suggest that MFPs has not attained this dual objectives. As Welfarists argued commercialisation of microfinance will result in the crowding out of poor borrowers (Morduch, 2000), analysis of this study evident that to increase the twin goals MFPs lend to more wealthy borrowers who reside in urban areas. Therefore, it is fair to suggest that MFPs has crowded out poor and focused more on rich entrepreneurs.

9.3 Reflection on the Consequences of Commercial Microfinance

Review of the literature illustrated that microfinance sector of some countries plunged into crisis after adopting commercial approach (Chapter Two). Countries such as Bolivia, India, Bosnia Herzegovina, Morocco, Nicaragua and Pakistan suffered from crisis more severely. Causes of the microfinance crises in these countries are to large extent analogous to each other such as intense competition, multi borrowing of clients, over indebtedness, increased inflow of commercial investment. Commercialisation of microfinance is considered as main ground of the crisis.

I demonstrated delinquency crisis of microfinance in Pakistan through a case study of one prominent microfinance institution, which affected largely due to repayment crisis, occurred in Pakistan. We saw in Chapter Six how the crisis, which affected one institution in the start, spread over to others microfinance institutions and at the end turned into a delinquency crisis. I also illustrated the prevailing practices of MFPs i.e.

how MFPs are efficient in recovery of their loans and how the borrowers became powerful to avoid and stop repayments of loans. We have seen that apparently microfinance institutions suffered from repayments problem due to one rumour spread by local politicians with the help of micro borrowers i.e. founder of the G fund is died and she has waived off all loans. However, analysis of the interviewees and literature (Burki, 2010; Chen, Rasmussen and Reille, 2010) suggest that ground realities are far more complex than a simple rumour.

It is found that microfinance providers give targets to field staff such as to increase number of borrowers and bring the time recovery of loans at every cost. Staffs salaries are linked with these commercial objectives, more borrowers they bring in and recover the loans on time, more incentives they obtain. Therefore, we have seen that to achieve these commercial objectives staff employed unsavoury practices such as threatening micro borrowers and asking loan repayments at every cost. For example, in Chapter Six, section 6.3 micro borrowers demonstrated that the staff of MFPs asked loans even in severe circumstances such as 'a dead body at home'.

Yet we also saw, borrowers and personnel of MFPs frequently talk about selling personal possessions of debtors in case of delay in repayment. This suggests that staff of MFPs can use any tactics to recover the loan repayment and these tactics are justifiable act as microfinance is commercial. These acts are also acceptable because microfinance is not a charity; it is loan, which the borrower has to repay at any cost, some interviewees argued. In the context of Islam, a repayment of loan on time is considered as good act and the person as best person (Chapter Six, Section 6.5).

However, selling debtor's assets also discouraged in Islam. For the lender, it is advised that wait until the debtor becomes able to repay the loan amount easily. Nevertheless, it is apparent from the interview data that threatening borrowers for recovery of loan is common practice.

Micro borrowers were also found talking about instrumental use of various cultural norms and obligations employ by staff and powerful micro borrowers (often group leaders). It is also illustrated that people in Pakistan are more socially connected with each other. Social values, shame and honour play significant role in people lives, as it employs as powerful instrument to encourage or discourage certain behaviours or attitudes. Micro borrowers and practitioners provided evidence of transgression of these cultural norms and obligations. It is found that shaming clients at their homes, in public places and threatening them by police are prevalent practices. As a result, micro borrowers repay loans on time due to fear of insult and disgrace and some micro borrowers refused to take loan again to avoid disgrace by MFPs. Hence, this suggests that through this way, microfinance institutions achieve their commercial objectives of timely recovery of loans but also discourage those who need micro loans.

Participants of the study were not only found talking about instrumental use of various cultural norms and obligations but to achieve commercial objective MFPs made some of the micro borrowers – mostly group leaders and more influential person in community as commission based agents. It is evident that some powerful clients who worked as commission based agents of MFPs control all the lending process; ensure repayments, fill application forms (more often applicants are fake), charge clients in case of delay in repayments. Even further, it is apparent that micro borrowers take loan from one institution and sell loan on higher price. I argued that these micro borrowers are new moneylenders in microfinance.

Interestingly, excerpts of the micro borrowers illustrated that not all clients are commission-based agents who controls micro borrowers due to their immense power given by staffs of MFPs make ghost loans and play the role of moneylenders. However, it is found that most of the micro borrowers do feels their responsibility to repay loan. They believe loan should be given on time and delay should not be occurred. Thus, I argued there are some micro borrowers who are commission based agents; they are powerful, control lending process, take multiple loans and for them microfinance is easy money. For these micro borrowers microfinance is a business from where they can earn sufficient income. Other group consist of micro borrowers who are responsible debtors, repay loans on time and do not want their self to be shamed. Moreover, some are those who are not commission-based agents but they take loans for consumption purposes and are not in income generating activities.

More, in Chapter Five I looked at mission statements of microfinance providers of Pakistan to see how the different microfinance providers (more commercial to less commercial) advertise their mission. It is found that MFBs' main mission is to provide financial access to micro and small entrepreneurs. In addition, 'access to finance', 'income generation', 'profitability', 'sustainability' and 'provision of full range of formal banking services' emerged as the most common objectives of microfinance banks. On the other hand, NGOs mission statements 'poverty alleviation' and to serve the ‘marginalised communities’ were more frequently apparent. Thus, analyses of the mission statements suggest obvious differences in the mission statements of for-profit MFBs and NGOs (MFIs and RSPs). Therefore, I argued that commercialisation of microfinance has shifted the mission of MFPs of Pakistan.

In Chapter Seven, I examined loan size of MFBs, MFIs and RSPs. Quantitative data analysis suggests that microfinance banks have higher average loan sizes compared to MFIs and RSPs. Micro borrowers who take larger loans from MFBs are predominantly male borrowers rather than the women borrowers. This implies that MFBs lend larger loans to relatively less poor or well off clients who can afford to pay back larger loans. Moreover, NGOs lend larger portfolio of their loans to female borrowers. This show that mission of microfinance that is often promoted as poverty reduction is deviated with the emergence of commercialisation of microfinance. As these two indicators, average loan size and more woman borrowers are often used as a proxy for reaching the poor (Chapter Two).

Practitioner’s views on mission drift shows mix findings as some practitioners regard deviation in the market segment as no mission drift (Chapter Eight). They suggest that it depends on the mission of the institution whether it want to achieve poverty alleviation or not therefore, commercialisation of microfinance should be perceived in its positive terms. Their repertoires are similar to how practitioners who favours commercial microfinance defined this phenomenon. Some of CEOs believes that commercialisation and mission drift concepts should be taken positively and must not look at its negative connation. This show that, how different repertoires can be employed in the favour of this new model. It also demonstrates that commercial microfinance is good and everyone should look at its positives. However, some interviewees argued that commercialisation of microfinance mean deviation in the original mission as the shift in the market will occur and commercial institutions will loans to less poor clients. Few interviewees were more critical. For instance, Head of microfinance practices criticises as commercial of microfinance has not achieved any objectives of poverty reduction and profitability. Therefore, commercialisation of microfinance is regarded as a failure of microfinance. In addition, practitioners also noted that consequences of commercialisation are higher cost, more regulations and larger loan sizes.

Thus, the above discussion suggest that initiative of mainstream banking in Pakistan has not fulfilled the promise of larger outreach and lending to more poor borrowers in particular women borrowers. Moreover, the new model of commercial microfinance also adversely influenced on the micro borrowers and microfinance institution.

9.4 Profitability, Sustainability and Efficiency of Microfinance Providers

Commercial microfinance emerged to attain the objective of profitability and sustainability i.e. to provide services on continuous basis over the long run. Microfinance institutions that were mostly donor dependant move towards commercial sources of borrowing. Commercial investors now largely invest in microfinance to achieve financial and social returns. It is demonstrated that in Pakistan, commercial borrowing has increased (Chapter Seven). Some of the NGOs and commercial microfinance banks borrow on commercial interest rate and some MFPs became successful to attract commercial investors. However, it is found that yet MFIs and RSPs largely depend on subsidised financing sources.

In terms of financial performance, not all MFPs, particularly microfinance banks became fully successful to attain profitability. Some of them are approaching profitability. Among three peer groups, Microfinance Banks (MFB), Microfinance Institutions (MFIs) and rural support programme (RSP), RSPs out performed in return on equity, which is used as profitability indicator. While half of the MFBs and MFIs are profitable, the rest are struggling to achieve financial returns. Thus, the findings of the data suggest that despite increased focus on commercial microfinance, MFBs has not completely fulfilled the promise of profitability.

Various contributing factors of profitability are analysed to see how the financial performance of MFPs increase or decrease. Findings show that MFP's age and size are contributing factors in profitability. Older and large MFPs in terms of assets show more profitability than those MFPs who are less experienced and smaller. Interestingly, it is apparent that MFBs charge more interest rate than the MFIs and RSPs. In addition, MFBs are less efficient compared to other peer groups in terms of efficiency indicators (operating expense to gross loan portfolio and cost per borrower). Thus, the quantitative results show that mainstreaming microfinance has made the loan more costly for the poor borrowers and commercial lenders less efficient. Therefore, it can be said that promise made by commercial microfinance to give financial access to poor people is unmet. As this study argued, MFPs provides financial access but this financial inclusion is very costly which the poor borrowers cannot afford.

Practitioners identified various rationales to justify the lower profitability of MFPs (Chapter Eight, Section, 8.3). Common reasons are: microfinance is more costly, as the overall transaction cost of each loan is higher; microfinance industry in Pakistan needs bigger timeframe to become profitable as country is facing terrible political and economic situation and limited scale of microfinance providers. Thus, these grounds were regarded as hurdle to attain financial returns. Based on these finding, I argued that in order to achieve the objective of profitability and sustainability, MFPs in particular MFBs a microfinance bank should rethink their current strategies whether they are achieving their dual mission of poverty alleviation/financial access. They should carefully devise their policies for example to whom and where they have to lend in order to achieve their dual objectives.

As mentioned above, with advent of commercial microfinance priorities of microfinance institutions changed towards sustainability of institution rather to serve more poor borrowers and sustaining them. Sustainability of institution is supported as once the institution becomes sustainable, then it will not need any donor support (Armendáriz de Aghion and Morduch, 2010) or global demand of microfinance can only be met with sustainable microfinance institutions (Robinson, 2001). I presented arguments of practitioners on sustainability to illustrate the difference between microfinance banks and NGOs (Chapter Eight, Section 8.4). For instance, microfinance bank's personnel regards sustainability of the institution is an important matter. As they argued, only sustainable institutions can reduce poverty and help poor people accomplish their objective of life. On the other hand, the NGOs' perspective regarding sustainability is utterly different from the commercial perspective of microfinance banks. They seem their success is based on their clients' success and relate institution sustainability with the repayments of loans. Thus, the distinction was obvious in the practitioners talk regarding sustainability which indicate the deviation of the focus in for-profit, commercial institutions and non for-profit, NGOs.

9.5 Microfinance, Poverty Alleviation and the State Role

The fundamental concept behind microfinance was that poor people who are promoted as 'born entrepreneurs' would invest money in income generating activities. This would then help poor people to lift themselves out of poverty and create jobs. This study show that with commercial microfinance9-l; this poverty alleviation mission has left behind and more commercial objectives came in such as profitability and sustainability of institution that has worsened the microfinance sector and poverty has not reduced.

I also review the literature on Neoliberalism, which is the background of commercialisation of microfinance (see Chapter Two). Neoliberalism approach view holds that state interventions are less efficient and market is more capable. Literature demonstrated both positive and negative outcomes of Neoliberalism. Positive outcomes include economic growth, access to global financial markets, exchange rate stability, huge foreign direct investment and efficient financial services. On the other hand, huge inflow of investment and Neoliberalism also created crises in the world and gap between the rich and poor remains high. Therefore, development view noted that state interventions are important to help poor and labourer and in job creation.

Similarly, with the recent developments in microfinance, critics not only condemn commercialisation of microfinance but microfinance itself, notably (Bateman, 2010; Karnani, 2009; Karim, 2011). It is argued as microfinance lacks the benefits of economies of scale therefore poverty cannot be reduced with microfinance, jobs are the long-term solution to reduce poverty (see more discussion in Chapter Two). In addition, it is argued that poverty reduction is not possible with the help of microfinance. Opponents of microfinance suggested that state interventions has strong role in the development of countries and development of small and medium enterprises can help in job creation and provide benefits in the long run in the form of poverty reduction.

In this study, practitioners also illustrated the importance of state/government initiatives (Chapter Eight). They noted that microfinance is just a tool and it cannot reduce the poverty completely. For instance, practitioners argued that necessities of life to poor such as proper health and education, clean drinking water and sewerage system is more important than giving just micro credit (see Chapter Three). They explained microfinance could help poor in income generation but poverty reduction could be possible when they have access to necessities of life. Therefore, some Head of MFPs suggested that state interventions are important in this regard. They highlighted the significance of proper Zakat and tax system in the country. As CFO of microfinance bank noted that 'if state corrects the Zakat and tax system then there is no need of microfinance'. He suggests that to reduce the poverty state has to fulfil its responsibilities. This confirm the importance of state role which Bateman (2010) and people who holds development view focused.

More in Chapter Five, Practitioners talking on segmentation of poor explained that it is the state role to give services such as food, education and training to extremely poor. Microfinance duty is to give services to entrepreneurs who have already some skill or involve in income generating activities. Some CEOs also noted that microfinance banks should serve the upper layers of the pyramid and NGOs should give subsidised programmes because the poor need subsidised programmes, which the NGOs can provide at lower cost.

Thus, the above discussion about segmentation of poor suggests that practitioners of microfinance are acknowledging the limited role of microfinance. Analysis of the practitioners talk suggests that microfinance is not a 'one size fits all' poverty-alleviation tool as often promoted. There is crucial role of state to help extremely or chronic poor by safety net programmes means skill transfer, training or financial support. NGOs role is also significant in providing services to the poor, as they can give subsidised programmes, which the commercial microfinance institutions cannot.

In addition, it also suggests that without the support of state poverty cannot reduce over the long-tem. It is the duty of state to provide basic facilities of life and develop a system where a poor can get job easily. Developed countries also employed strong state intervention to help their people in job creation and poverty reduction, literature illustrated (Chapter Two). Therefore, it can be said that in developing countries, state led programmes can play an important role.

9.6 Implications of the Research

Commercial microfinance is a system that focuses on profitability and sustainability of institution. This study found that commercial approach significantly affected microfinance providers in Pakistan. They focus more on wealthy borrowers who resided in urban areas where poverty is less severe and excluded the poor and marginalised community such as women borrowers. This new wave increases multiple borrowing, develops intense competition in certain saturated markets and weakens the internal control system of microfinance providers. Development of mainstreaming microfinance also led staff to look at the short cuts, monitor the loan poorly and made the borrowers as commission- based agents who can control the lending process, sell the loans and do business on micro loans.

Moreover, increasing commercial borrowing, increases cost of funds, which led microfinance banks to charge higher prices on lending to the poor. However, it is also found that despite of charging higher interest rates commercialisation of microfinance has failed to achieve its dual mission of reaching to the poor and profitability, even they are less efficient compared to other counterparts MFIs and RSPs.

Based on the findings, this study makes the following recommendations:

Microfinance providers in Pakistan are more focused on urban areas where they serve wealthy entrepreneurs and poor people are excluded from their services. Therefore, this research argued that microfinance providers, in particular commercial microfinance banks needs to re-evaluate their strategies to whom and where they have to serve. Lower scale of operations in poverty regions also suggest that microfinance Providers need to consider not locating their new operations where multiple players already operate. Rather, they should expand microfinance services into under-served areas and less saturated potential markets where poverty is widespread. In particular, MFBs are required to focus on poor borrowers besides lending larger loans to more wealthy entrepreneurs. Larger loans would help well-off entrepreneurs to develop their businesses and would also help MFBs to reduce their cost and attain profitability. However, only providing larger loans may end up in complete exclusion of poor.

Commercial objectives such as efficient recovery of loans, greater number of borrowers and profitability may benefit microfinance providers but it negatively impact on poor micro borrowers. As staff and powerful micro borrowers (agents) use coercive means to enforce repayments and employ instrumental use of cultural norms and obligations such as shaming micro borrowers, insulting home at their homes and public places. Therefore, proper targeting and adequate monitoring and assessment of loan can improve the lending practices of MFPs. This will also lessen the role of 'agents' from the microfinance sector. A decentralised delivery system also could help staff of microfinance institutions to develop adequate internal control to screen out multiple-borrowers. Loans should be given after a more intensive assessment of the borrower's debt absorption capacity. In addition, micro borrowers also play their role and need to be careful in their loan repayments. Narratives of the loan selling, frauds by some clients are the lessons for the micro borrowers i.e. they should made groups whom they can fully trust and avoid any middle woman/man.

In addition, an adequate and sound human resource system is required where staff salaries are not linked with attaining commercial objectives. Rather, there is need to build a system which focus on quality services and staff retention. Moreover, larger groups in group lending system has damage the cultural norms therefore, smaller loan sizes are required which the borrowers could pay easily.

Reduction in staff could benefit microfinance providers as their productivity increases but it also increase credit risk, which negatively affects microfinance providers and micro borrowers. Therefore, microfinance providers need to rethink whether they want to give quality services to the poor or augment their credit risk and weaken the internal control. Correct balance between the productivity, growth and risk management is required for efficient microfinance operations, future growth and micro borrowers.

Commercialisation of microfinance means access to commercial borrowing and entrance to world capital market. However, commercial borrowing increases cost of capital, which the MFPs recover from micro borrowers by charging higher yield. It is found that microfinance banks and commercial focused MFIs charged higher interest rates compared to less commercial NGOs. Therefore, they offer their services to well-off borrowers, which can afford to repay larger loans and higher interest rate. To serve the poor borrowers MFPs are require to re-consider the role of subsidies. Donor and government play significant role in this regard to provide subsidised loans for the poor and poverty reduction. Analysis of study also found strong role of safety net programmes for extremely poor which is possible on subsidised basis with the help of government. The research also indicates a need for utilisation of local money that is less costly compared to commercial foreign investment.

In addition, practitioners talk about deposit mobilisation, commercial financing sources such as raising funds through equity and more structured finance. However, interestingly no one spoken about new financing platforms such as ‘Crowdfunding’ and ‘Peer to Peer’ (P2P) lending (see Chapter Two). The online fundraising sources that emerged recently can play important role in generation of funds and could help poor on low cost. Head of the microfinance institutions should look at these unique fundraising platforms for low cost fund generation.

State Bank of Pakistan role is also important in this regard. They could help regulated institutions i.e. microfinance banks on cost minimisation strategy. For example, allowing them to open more service centres where they can handle loan transactions instead of full fledge branches which are more costly. They could also foster them to give considerable importance to social goals such as serving to poor rather than adopting pure commercial approach. As the current policies of State Bank of Pakistan (SBP) for microfinance banks advocate commercial approach. For example, recently

SBP has increased the limit maximum loan size and minimum paid up capital requirements (Chapter Six) which shows their support of commercial microfinance.

9.7 Suggestion for Future Research and Limitations

This study used mixed methods research where qualitative and quantitative research approaches are employed to give wider impact of commercialisation of microfinance. However, due to omission of some of the MFPs quantitative data may slightly affect the conclusion of this research. In addition, this study employed quantitative data from 2006 – 2010, where number of MFPs were less than thirty. Therefore, this research has done descriptive analysis of the quantitative data. Recently, addition of new players has increases the number MFPs, hence, for the future research; more rigorous technique of quantitative methods could be employed for better results.

In recent commercial microfinance literature, mixed methods studies are scant. Mixed methods research approach would be useful to see the affects of commercial microfinance in other parts of the world such as Latin America, Asia and Africa. In addition, one of the ways around the weaknesses of existing research is to broaden the scope of the interviews. This appears to be more valid to include donors, policy makers such as individuals from the State Bank of Pakistan and sole apex funding body Pakistan Poverty Alleviation Fund (PPAF). This expansion will broaden out the material and positively contribute findings.

9.8 Final Thoughts

The research in this study, by analysing quantitative data and the repertoires of practitioners and micro borrowers raise critical perspective on commercialisation of microfinance. I argue that microfinance institutions, regulated in particular have failed to achieve their stated objective of profitability and larger outreach to poor people of Pakistan. Many players came in the market in the last decade; however, they developed in limited areas instead of spreading their selves to areas where poverty is more widespread. Moreover, increasing commercial focus of MFPs led them to concentrate on commercial objectives instead of social goals which this study show adversely affected the microfinance sector of Pakistan. For example, MFPs adopted bad lending practices to achieve commercial goals and few suffered from delinquency crisis. Therefore, I argue that commercialisation of microfinance in Pakistan has not only attain their promise of 'dual' objective, however, also badly affected the norms of microfinance, culture and community.

Of course, there are success stories of many individuals, who foster their businesses with micro loans. However, it is also fact there are many poor who still live in severe poverty and are powerless and helpless. Higher interest rate of commercial microfinance has not brought positive in their lives instead created over-indebtedness, shame and losing honour.

So finally, I believe if some poverty reduction and helping to the poor is possible with microfinance, then it is with the NGOs who are based on subsidies and can provide services to the poor. Local money and microfinance programmes led by NGOs could still bring positive change. As commercialised institutions move from serving poorer clients as they seek larger, more profitable customers, we may see microfinance return by default to this position.

Appendices

Appendix 1: Financial Data of Microfinance Institutions without Kashf Foundation

Name	Int Type	Year	Age	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita	Adj Equity
				PkR				PkR	PkR	PkR	PkR			%	PkR	Income	%	PkR
FMFB	Bank	2010	9	6,352,778,202	147	1,544	562	2,373,880,297	753,883,000	5,598,896,000	5,344,198,000	151,797	50,907	33.54	15,639	105,300	14.9	669,032,000
KASHF BANK	Bank	2010	3	1,228,338,566	30	448	226	453,101,817	350,543,000	877,796,000	776,401,000	17,445	1,745	10.00	25,973	105,300	24.7	437,663,000
KHUSHHALI BANK	Bank	2010	10	7,238,672,439	109	2,163	764	3,722,152,797	2,215,782,000	5,022,890,000	1,000,329,000	325,523	81,381	25.00	11,434	105,300	10.9	2,146,118,000
NMFB	Bank	2010	6	251,858,520	5	111	68	61,618,872	220,124,000	31,735,000	29,027,000	5,734	-	0.00	10,746	105,300	10.2	229,356,000
POMFB	Bank	2010	5	745,413,522	14	151	65	88,348,053	700,477,000	44,936,000	27,724,000	7,045	2,111	29.96	12,541	105,300	11.9	688,294,000
TAMEER MFB	Bank	2010	5	5,279,389,000	40	786	524	3,096,044,000	1,323,754,000	3,955,635,000	2,954,653,000	111,153	66,983	60.26	27,854	105,300	26.5	1,198,832,000
AKHUWAT	MFI	2010	10	223,099,000	33	215	150	150,039,000	219,185,000	3,914,000	-	20,158	6,048	30.00	7,443	105,300	7.1	167,192,000
ASA Pak	MFI	2010	2	806,230,045	100	596	411	736,038,387	285,616,000	520,614,000	-	85,380	84,820	99.34	8,621	105,300	8.2	147,356,000
ASASAH	MFI	2010	8	421,310,000	23	219	96	286,028,000	- 46,880,000	468,189,000	-	29,806	29,806	100.00	9,596	105,300	9.1	- 31,302,000
BRAC Pak	MFI	2010	3	1,105,046,493	94	899	505	702,521,013	29,652,000	1,075,395,000	-	84,411	84,411	100.00	8,323	105,300	7.9	41,421,000
CSC	MFI	2010	10	193,843,000	17	158	56	183,903,000	11,506,000	182,337,000	-	11,975	10,862	90.71	15,357	105,300	14.6	20,984,000
CWCD	MFI	2010	19	210,306,894	22	174	68	131,516,884	2,871,000	207,436,000	-	12,897	4,030	31.25	10,197	105,300	9.7	7,151,000
DAMEN	MFI	2010	14	521,056,000	20	200	80	368,824,620	73,254,000	447,802,000	-	38,145	38,145	100.00	9,669	105,300	9.2	69,866,000
JWS	MFI	2010	19	200,942,000	10	84	38	165,225,000	33,714,000	167,228,000	-	13,019	12,319	94.62	12,691	105,300	12.1	30,787,000
Orangi	MFI	2010	23	627,751,000	14	132	46	505,215,000	273,079,000	354,672,000	-	49,155	9,831	20.00	10,278	105,300	9.8	241,114,000
RCDS	MFI	2010	16	286,719,000	22	201	63	193,613,000	37,974,000	248,745,000	-	17,638	12,498	70.86	10,977	105,300	10.4	37,974,000
ORIX LEASING	MFI	2010	18	224,240,000	9	57	35	212,838,000	44,840,000	179,400,000	-	15,553	14,800	95.16	13,685	105,300	13.0	398,836,000
SAFWCO	MFI	2010	16	296,886,000	16	191	79	231,347,774	65,457,000	231,428,000	-	23,123	11,483	49.66	10,005	105,300	9.5	58,347,000
SUNGI DF	MFI	2010	16	45,748,124	4	35	24	36,959,320	38,212,000	7,536,000	-	5,512	5,512	100.00	6,705	105,300	6.4	35,717,000
NRSP	RSP	2010	17	6,980,066,000	502	2,396	643	5,638,524,000	995,709,000	5,984,357,000	-	431,027	225,048	52.21	13,082	105,300	12.4	915,749,000
PRSP	RSP	2010	12	2,050,152,000	78	978	448	662,612,000	627,523,000	1,422,629,000	-	78,091	35,550	45.52	8,485	105,300	8.1	617,046,000
SRSP	RSP	2010	19	22,933,000	10	30	17	10,756,000	7,599,000	15,333,000	-	1,121	862	76.90	9,595	105,300	9.1	7,658,000
TRDP	RSP	2010	13	513,434,000	86	237	180	284,809,000	95,387,000	418,047,000	-	31,647	22,366	70.67	9,000	105,300	8.5	78,345,000
FMFB	Bank	2009	8	6,068,006,777	88	1531	1005	2,778,352,175	593,210,000	5,474,797,000	5,219,008,000	199,792	69,563	34.82	13,906	86,000	16.2	579,860,000
KASHF BANK	Bank	2009	2	1,191,855,586	27	443	218	424,124,652	524,782,000	667,073,000	318,473,000	14,192	492	3.47	29,885	86,000	34.8	618,268,000
KHUSHHALI BANK	Bank	2009	9	6,587,779,000	107	2002	647	3,630,204,658	2,076,920,000	4,510,859,000	190,033,000	329,421	77,385	23.49	11,020	86,000	12.8	1,978,198,000
NMFB	Bank	2009	5	351,410,595	5	94	48	92,073,938	238,587,000	112,823,000	110,906,000	4,000	-	0.00	23,018	86,000	26.8	163,469,000
POMFB	Bank	2009	4	721,826,000	14	150	37	100,570,623	678,459,000	42,367,000	24,547,000	8,092	2,119	26.19	12,428	86,000	14.5	553,599,000
ROZGAR BANK	Bank	2009	5	70,831,297	9	27	6	883,570	36,978,000	33,853,000	30,838,000	52	12	23.08	16,992	86,000	19.8	43,250,000
TAMEER MFB	Bank	2009	4	2,799,484,000	39	791	544	1,539,841,000	1,125,152,000	1,674,332,000	1,267,829,000	70,671	26,345	37.28	21,789	86,000	25.3	1,135,372,000
AKHUWAT	MFI	2009	9	117,346,874	22	91	67	95,711,000	115,321,000	2,025,000	-	15,013	4,503	29.99	6,375	86,000	7.4	98,826,000
ASA Pakistan	MFI	2009	1	149,417,753	35	233	141	120,300,304	9,457,000	139,961,000	-	18,283	18,231	99.72	6,580	86,000	7.7	13,993,000
ASASAH	MFI	2009	7	417,674,000	23	191	78	260,611,000	- 15,724,000	433,397,000	-	34,007	34,007	100.00	7,663	86,000	8.9	- 19,020,000
BRAC PAK	MFI	2009	2	851,710,000	88	826	495	363,183,203	- 53,190,000	904,900,000	-	45,011	45,011	100.00	8,069	86,000	9.4	- 32,801,000
CSC	MFI	2009	9	316,597,000	17	177	75	197,086,000	30,462,000	286,135,000	-	15,241	14,784	97.00	12,931	86,000	15.0	40,396,000
CWCD	MFI	2009	18	260,673,000	19	168	56	153,196,000	11,431,000	249,243,000	-	8,910	2,408	27.03	17,194	86,000	20.0	16,170,000
DAMEN	MFI	2009	13	529,613,615	20	202	98	422,704,136	66,478,000	463,135,000	-	44,912	44,912	100.00	9,412	86,000	10.9	61,692,000
JWS	MFI	2009	18	169,875,000	6	57	24	103,747,000	27,860,000	142,015,000	-	9,358	8,719	93.17	11,086	86,000	12.9	22,738,000
ORANGI	MFI	2009	22	408,945,000	6	116	18	348,606,000	209,149,000	199,795,000	-	34,874	2,516	7.21	9,996	86,000	11.6	187,331,000
ORIX LEASING	MFI	2009	17	315,541,000	8	49	33	195,332,000	34,832,000	280,709,000	-	16,326	14,575	89.27	11,964	86,000	13.9	26,974,000
SAFWCO	MFI	2009	15	245,268,000	17	171	65	212,928,091	58,665,000	186,603,000	-	23,430	10,974	46.84	9,088	86,000	10.6	45,321,000
SUNGI DF	MFI	2009	15	39,368,197	5	31	24	21,332,990	33,222,000	6,146,000	-	2,121	1,774	83.64	10,058	86,000	11.7	31,262,000
NRSP	RSP	2009	16	5,963,775,000	516	3019	2389	4,601,408,000	835,789,000	5,127,986,000	-	399,969	208,071	52.02	11,504	86,000	13.4	808,669,000
PRSP	RSP	2009	11	2,276,685,000	78	916	448	769,620,000	606,568,000	1,670,117,000	-	81,754	36,194	44.27	9,414	86,000	10.9	591,433,000
SRSP	RSP	2009	18	77,617,000	12	44	29	32,451,000	- 7,716,000	85,333,000	-	7,218	3,322	46.02	4,496	86,000	5.2	- 2,071,000
TRDP	RSP	2009	12	542,897,000	60	228	92	293,759,000	61,153,000	481,744,000	-	27,010	17,375	64.33	10,876	86,000	12.6	43,579,000

Name	Int Type	Year	Net Income	Adj ROE	Adj OE	Avg GLP	OE_LP	Avg NOAB	CPB	B_Satff	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
			PkR	%	PkR	PkR	%	PkR	PkR			Nominal	Real	%	PkR	%
FMFB	Bank	2010	- 169,559,000	-25.3	698,009,000	2,576,116,000	27.10	151,797	4,598	98	270	38.0	20.0	5.62	125,113,000	4.9
KASHF BANK	Bank	2010	- 174,240,000	-39.8	364,917,000	438,613,000	83.20	17,445	20,918	39	77	46.5	27.4	3.3	24,790,000	5.7
KHUSHHALI BANK	Bank	2010	188,138,000	8.8	1,028,220,000	3,676,179,000	27.97	325,523	3,159	150	426	32.7	15.4	3.9	85,720,000	2.3
NMFB	Bank	2010	- 18,464,000	-8.1	50,497,000	76,846,000	65.71	5,734	8,807	52	84	39.8	21.6	52.31	11,209,000	14.6
POMFB	Bank	2010	24,367,000	3.5	92,252,000	94,459,000	97.66	7,045	13,095	47	108	37.8	19.8	8.78	5,277,000	5.6
TAMEER MFB	Bank	2010	55,351,000	4.6	802,386,000	2,317,943,000	34.62	111,153	7,219	141	212	38.3	20.3	0.5	951,000	0
AKHUWAT	MFI	2010	- 5,796,000	-3.5	26,069,000	123,470,000	21.11	20,158	1,293	94	134	-	- 13.0	1	409,000	0.3
ASA Pak	MFI	2010	18,479,000	12.5	94,550,000	428,169,000	22.08	85,380	1,107	143	208	34.1	16.6	1.14	-	0
ASASAH	MFI	2010	- 29,983,000	-95.8	83,393,000	273,319,000	30.51	29,806	2,798	136	310	34.2	16.7	2.3	-	0
BRAC Pak	MFI	2010	- 86,770,000	-209.5	232,678,000	532,852,000	43.67	84,411	2,756	94	167	39.8	21.6	4.19	7,759,000	1.5
CSC	MFI	2010	- 33,146,000	-158.0	58,959,000	190,495,000	30.95	11,975	4,924	76	214	31.9	14.7	13.4	13,417,000	7
CWCD	MFI	2010	- 8,560,000	-119.7	60,509,000	142,356,000	42.51	12,897	4,692	74	190	31.9	14.7	49.48	14,185,000	10
DAMEN	MFI	2010	6,775,000	9.7	72,440,000	395,764,000	18.30	38,145	1,899	191	477	37.2	19.3	3.4	38,604,000	9.8
JWS	MFI	2010	1,966,000	6.4	34,140,000	134,486,000	25.39	13,019	2,622	155	343	35.0	17.4	0	-	0
Orangi	MFI	2010	29,514,000	12.2	46,275,000	426,910,000	10.84	49,155	941	372	1,069	21.4	5.6	0.2	141,000	0
RCDS	MFI	2010	11,562,000	30.4	19,798,000	191,693,000	10.33	17,638	1,122	88	280	18.3	2.9	1.1	-	0
ORIX LEASING	MFI	2010	10,008,000	2.5	23,802,000	204,085,000	11.66	15,553	1,530	273	444	25.2	8.9	5.7	3,001,000	1.5
SAFWCO	MFI	2010	- 3,473,000	-6.0	47,240,000	222,138,000	21.27	23,123	2,043	121	293	31.6	14.4	4.5	4,398,000	2
SUNGI DF	MFI	2010	4,745,000	13.3	5,858,000	29,146,000	20.10	5,512	1,063	157	230	35.6	18.0	1.2	490,000	1.7
NRSP	RSP	2010	149,910,000	16.4	754,945,000	5,119,966,000	14.75	431,027	1,752	180	670	30.3	13.3	4.3	-	0
PRSP	RSP	2010	6,372,000	1.0	121,505,000	716,116,000	16.97	78,091	1,556	80	174	17.8	2.4	7	-	0
SRSP	RSP	2010	- 17,588,000	-229.7	22,020,000	21,604,000	101.93	1,121	19,643	37	66	28.8	12.0	0	-	0
TRDP	RSP	2010	22,695,000	29.0	41,244,000	289,194,000	14.26	31,647	1,303	134	176	27.4	10.8	5.8	-	0
FMFB	Bank	2009	- 49,489,000	-8.5	601,081,000	2,444,871,000	24.59	183,992	3,267	130	199	32.9	10.0	0.9	31,614,000	1.3
KASHF BANK	Bank	2009	- 307,563,000	-49.7	295,604,000	488,352,000	60.53	16,207	18,239	32	65	26.5	4.7	1	76,266,000	15.6
KHUSHHALI BANK	Bank	2009	- 165,911,000	-8.4	984,331,000	3,361,770,000	29.28	321,136	3,065	165	509	24.5	3.1	0.7	101,423,000	3
NMFB	Bank	2009	- 13,915,000	-8.5	45,148,000	80,434,000	56.13	3,168	14,251	43	83	33.3	10.4	16.9	4,701,000	5.8
POMFB	Bank	2009	- 87,575,000	-15.8	86,185,000	112,906,000	76.33	9,473	9,098	54	219	33.2	10.2	4.3	4,961,000	4.4
ROZGAR BANK	Bank	2009	- 21,532,000	-49.8	13,412,000	14,559,000	92.12	827	16,218	2	9	14.6	- 5.1	9.6	19,131,000	131.4
TAMEER MFB	Bank	2009	- 323,440,000	-28.5	554,122,000	1,223,347,000	45.30	70,671	7,841	89	130	28.4	6.3	0.9	1,182,000	0.1
AKHUWAT	MFI	2009	- 20,423,000	-20.7	15,964,000	82,642,000	19.32	11,703	1,364	165	224	-	- 17.2		-	0
ASA Pakistan	MFI	2009	- 15,894,000	-113.6	34,233,000	65,583,000	52.20	9,713	3,524	78	130	39.5	15.5	0.011	-	0
ASASAH	MFI	2009	- 14,794,000	-77.8	72,400,000	243,190,000	29.77	28,899	2,505	178	436	41.1	16.8	0.3	-	0
BRAC PAK	MFI	2009	- 34,821,000	-106.2	121,950,000	296,209,000	41.17	36,281	3,361	54	91	35.9	12.5	1.1	6,067,000	2
CSC	MFI	2009	- 44,246,000	-109.5	53,627,000	175,199,000	30.61	16,141	3,322	86	203	29.1	6.9	4	28,988,000	16.5
CWCD	MFI	2009	- 27,889,000	-172.5	37,086,000	134,765,000	27.52	7,336	5,055	53	159	29.2	6.9	12	18,826,000	14
DAMEN	MFI	2009	3,166,000	5.1	60,608,000	374,043,000	16.20	40,905	1,482	222	458	28.7	6.5	1.8	6,324,000	1.7
JWS	MFI	2009	1,337,000	5.9	20,517,000	81,985,000	25.03	7,517	2,729	164	390	32.3	9.5		-	0
ORANGI	MFI	2009	9,707,000	5.2	31,202,000	174,303,000	17.90	28,281	1,103	301	1,937	30.2	7.8	0.25	-	0
ORIX LEASING	MFI	2009	10,481,000	38.9	27,459,000	175,915,000	15.61	15,752	1,743	333	495	29.6	8.9	1.9	-	0
SAFWCO	MFI	2009	- 11,569,000	-25.5	45,139,000	177,265,000	25.46	20,737	2,177	137	360	25.4	3.8	0.2	4,549,000	2.6
SUNGI DF	MFI	2009	- 3,396,000	-10.9	3,119,000	15,041,000	20.74	1,267	2,462	68	88	29.2	5.8	5.48	207,000	1.4
NRSP	RSP	2009	163,674,000	20.2	660,270,000	5,977,927,000	11.05	482,916	1,367	132	167	22.4	1.4	1.8	255,299,000	4.3
PRSP	RSP	2009	- 52,313,000	-8.8	57,493,000	711,624,000	8.08	77,963	737	89	182	19.3	- 1.2	0.3	-	0
SRSP	RSP	2009	- 14,040,000	0.0	23,802,000	52,208,000	45.59	7,218	3,298	164	249	48.2	22.7	7.2	8,163,000	15.6
TRDP	RSP	2009	38,862,000	89.2	60,706,000	304,859,000	19.91	25,370	2,393	118	294	21.7	0.7	1.7	34,812,000	11.4

Name	Int Type	Year	Age	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita	Adj Equity
				PkR				PkR	PkR	PkR	PkR			%	PkR	Income	%	PkR
FMFB	Bank	2008	7	4,094,253,000	159	1575	730	2,111,402,804	557,520,000	3,536,732,000	3,304,742,000	168,191	61,980	36.85	12,554	81,000	15.5	614,201,000
KASHF BANK	Bank	2008	1	1,198,443,803	19	273	135	552,579,844	711,753,000	486,691,000	-	18,434	3,503	19.00	29,976	81,000	37.0	355,876,000
KHUSHHALI BANK	Bank	2008	8	6,685,742,412	135	2008	808	3,093,335,635	1,871,223,000	4,814,520,000	18,169,000	312,851	31,008	9.91	9,888	81,000	12.2	1,841,833,000
NMFB	Bank	2008	4	193,118,316	4	72	34	68,793,957	88,350,000	104,769,000	101,255,000	2,336	537	22.99	29,449	81,000	36.4	96,317,000
POMFB	Bank	2008	3	459,374,013	15	152	117	125,240,876	419,910,000	39,464,000	23,859,000	10,853	2,834	26.11	11,540	81,000	14.2	437,459,000
ROZGAR BANK	Bank	2008	4	79,409,821	11	56	16	28,235,333	49,845,000	29,565,000	24,180,000	1,601	303	18.93	17,636	81,000	21.8	60,104,000
TAMEER MFB	Bank	2008	3	2,295,709,000	31	865	630	906,852,000	1,194,635,000	1,101,074,000	639,525,000	43,791	8,471	19.34	20,709	81,000	25.6	748,073,000
ASASAH	MFI	2008	6	309,327,000	30	233	100	225,768,000	- 22,317,000	331,644,000	-	23,730	23,730	100.00	9,514	81,000	11.7	- 17,821,000
CSC	MFI	2008	8	309,900,000	13	80	52	184,026,000	52,177,000	257,723,000	-	17,432	8,075	46.32	10,557	81,000	13.0	29,104,000
DAMEN	MFI	2008	12	454,350,898	25	200	100	325,382,861	56,905,000	397,446,000	-	36,897	36,897	100.00	8,819	81,000	10.9	48,471,000
KASHF Foundation	MFI	2008	12	4,959,560,470	158	1917	950	3,483,149,223	994,336,000	3,965,224,000	-	319,517	319,219	99.91	10,901	81,000	13.5	1,210,418,000
ORANGI	MFI	2008	21	287,110,000	6	89	82	193,429,000	165,514,000	121,596,000	-	23,896	4,780	20.00	8,095	81,000	10.0	143,112,000
ORIX LEASING	MFI	2008	16	200,800,000	9	52	38	156,498,000	19,115,000	181,685,000	-	15,177	10,714	70.59	10,312	81,000	12.7	23,067,000
SAFWCO	MFI	2008	14	181,648,295	18	143	64	141,602,126	39,407,000	142,241,000	-	18,043	6,605	36.61	7,848	81,000	9.7	36,268,000
SUNGI DF	MFI	2008	14	29,956,695	8	31	28	8,750,328	29,302,000	655,000	-	1,039	706	67.95	8,422	81,000	10.4	28,258,000
NRSP	RSP	2008	15	8,652,429,000	537	3045	2469	7,354,447,000	684,548,000	7,967,881,000	-	565,863	232,113	41.02	12,997	81,000	16.0	559,475,000
PRSP	RSP	2008	10	2,243,508,000	25	460	368	653,592,000	1,076,661,000	1,166,847,000	-	74,172	40,743	54.93	8,812	81,000	10.9	992,421,000
SRSP	RSP	2008	17	110,778,000	11	64	29	71,965,000	3,575,000	107,203,000	-	10,847	5,574	51.39	6,635	81,000	8.2	8,594,000
TRDP	RSP	2008	11	448,367,000	61	184	166	316,139,000	25,885,000	422,482,000	-	30,751	6,003	19.52	10,281	81,000	12.7	- 37,892,000
FMFB	Bank	2007	6	2,807,162,394	92	1045	651	1,221,559,254	670,881,000	2,136,281,000	2,035,584,000	101,394	42,819	42.23	12,048	57,000	21.1	685,613,000
KHUSHHALI BANK	Bank	2007	7	6,703,280,398	120	1865	616	2,652,915,785	1,812,443,000	4,890,837,000	-	283,965	43,817	15.43	9,342	57,000	16.4	1,781,989,000
NMFB	Bank	2007	3	202,334,652	5	54	26	45,853,660	104,284,000	98,050,000	83,338,000	2,303	395	17.15	19,910	57,000	34.9	89,422,000
POMFB	Bank	2007	2	495,587,000	16	201	70	93,493,000	455,008,000	40,579,000	23,189,000	14,397	356	2.47	6,494	57,000	11.4	471,887,000
Rozgar Bank	Bank	2007	3	107,492,202	21	76	42	33,630,168	70,364,000	37,128,000	32,360,000	2,337	1,181	50.53	14,390	57,000	25.2	79,176,000
TAMEER MFB	Bank	2007	2	1,255,222,000	41	658	461	408,807,000	301,510,000	953,712,000	648,373,000	31,011	978	3.15	13,183	57,000	23.1	415,927,000
AKHUWAT	MFI	2007	6	63,831,000	15	70	61	50,953,000	62,872,000	959,000	-	8,734	6,565	75.17	5,834	57,000	10.2	55,467,000
ASASAH	MFI	2007	5	323,417,000	33	280	177	222,451,000	- 13,325,000	336,742,000	-	27,711	27,711	100.00	8,028	57,000	14.1	- 14,304,000
CSC	MFI	2007	7	242,598,000	11	101	49	145,322,000	25,769,000	216,829,000	-	15,254	15,254	100.00	9,527	57,000	16.7	20,238,000
DAMEN	MFI	2007	11	349,993,303	25	198	99	250,428,235	40,036,000	309,957,000	-	32,623	32,623	100.00	7,676	57,000	13.5	31,945,000
KASHF Foundation	MFI	2007	11	4,064,007,797	159	1567	913	3,178,784,275	1,426,500,000	2,637,508,000	-	295,396	283,288	95.90	10,761	57,000	18.9	1,179,816,000
ORANGI	MFI	2007	20	182,523,000	2	43	15	143,821,000	120,711,000	61,813,000	-	20,987	734	3.50	6,853	57,000	12.0	109,703,000
ORIX LEASING	MFI	2007	15	126,785,000	9	37	25	127,112,000	27,018,000	99,766,000	-	8,900	6,283	70.60	14,282	57,000	25.1	15,067,000
SAFWCO	MFI	2007	13	13,822,000	14	115	47	112,250,000	33,128,000	105,694,000	-	17,529	3,841	21.91	6,404	57,000	11.2	24,448,000
SUNGI DF	MFI	2007	13	27,374,000	2	5	3	5,160,000	26,866,000	508,000	-	462	63	13.64	11,169	57,000	19.6	26,177,000
NRSP	RSP	2007	14	3,673,667,000	499	2469	1968	3,244,991,000	434,403,000	3,239,264,000	-	292,456	124,996	42.74	11,096	57,000	19.5	433,555,000
PRSP	RSP	2007	9	1,720,541,000	27	551	397	427,608,000	908,182,000	812,359,000	-	67,285	35,186	52.29	6,355	57,000	11.1	786,924,000
SRSP	RSP	2007	16	67,946,000	14	63	20	42,920,000	13,613,000	54,333,000	-	7,174	4,382	61.08	5,983	57,000	10.5	3,683,000
TRDP	RSP	2007	10	309,482,000	60	131	94	341,924,000	- 101,668,000	411,151,000	-	37,264	10,396	27.90	9,176	57,000	16.1	- 81,151,000

Name	Int Type	Year	Net Income	Adj ROE	Adj OE	Avg GLP	OE_LP	Avg NOAB	CPB	B_Satff	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
			PkR	%	PkR	PkR	%	PkR	PkR			Nominal	Real	%	PkR	%
FMFB	Bank	2008	-180,500,000	-29.4	517,621,000	1,666,481,000	31.06	243,096	2,129	107	230	30.4	16.4	1.28	14,370,000	0.9
KASHF BANK	Bank	2008	-38,892,000	-10.9	84,586,000	276,290,000	30.61	9,217	9,177	68	137	12.3	0.2	1.19	-	0
KHUSHHALI BANK	Bank	2008	-594,137,000	-32.3	696,847,000	2,873,126,000	24.25	300,147	2,322	156	387	18.8	6.1	2.22	57,495,000	2
NMFB	Bank	2008	-26,397,000	-27.4	38,289,000	57,324,000	66.79	9,090	4,212	32	69	35.3	20.8	17.6	3,151,000	5.5
POMFB	Bank	2008	-76,741,000	-17.5	82,347,000	109,367,000	75.29	39,445	2,088	71	93	27.4	13.7	6	9,547,000	8.7
ROZGAR BANK	Bank	2008	-28,900,000	-48.1	24,469,000	30,933,000	79.10	6,506	3,761	29	100	40.4	25.4	72.2	8,537,000	27.6
TAMEER MFB	Bank	2008	-273,803,000	-36.6	419,881,000	657,830,000	63.83	97,680	4,299	51	70	32.4	18.2	1.33	30,334,000	4.6
ASASAH	MFI	2008	-21,250,000	-119.2	78,574,000	224,053,000	35.07	25,721	3,055	102	237	42.2	27.0	1.98	-	0
CSC	MFI	2008	-15,300,000	-52.6	23,121,000	164,674,000	14.04	16,343	1,415	218	335	16.0	3.6	2	1,458,000	0.9
DAMEN	MFI	2008	6,185,000	12.8	54,860,000	287,906,000	19.05	34,760	1,578	184	369	30.7	16.7	0.78	1,748,000	0.6
KASHF Foundation	MFI	2008	-908,693,000	-75.1	431,830,000	3,330,967,000	12.96	307,457	1,405	167	336	32.3	18.1	4.3	31,433,000	0.9
ORANGI	MFI	2008	22,918,000	16.0	15,191,000	168,625,000	9.01	22,442	677	268	291	17.9	5.3	0.6	2,065,000	1.2
ORIX LEASING	MFI	2008	7,264,000	31.5	14,894,000	141,805,000	10.50	12,039	1,237	292	399	29.3	15.4	1.8	2,635,000	1.9
SAFWCO	MFI	2008	-17,863,000	-49.3	35,640,000	126,926,000	28.08	17,786	2,004	126	282	26.5	12.9	2.37	-	0
SUNGI DF	MFI	2008	2,116,000	7.5	3,209,000	6,955,000	46.14	751	4,273	34	37	7.6	4.0	11	305,000	4.4
NRSP	RSP	2008	203,612,000	36.4	610,434,000	5,299,719,000	11.52	429,160	1,422	186	229	24.0	10.7	0.7	4,466,000	0.1
PRSP	RSP	2008	-122,613,000	-12.4	109,579,000	540,600,000	20.27	70,729	1,549	161	202	18.5	5.8	4.2	43,581,000	8.1
SRSP	RSP	2008	-2,163,000	-25.2	13,547,000	57,442,000	23.58	9,011	1,503	169	374	27.2	13.6	1.9	859,000	1.5
TRDP	RSP	2008	-76,040,000	-200.7	81,473,000	329,031,000	24.76	34,008	2,396	167	185	20.5	7.5	7.4	88,002,000	26.7
FMFB	Bank	2007	-92,071,000	-13.4	268,234,000	954,234,000	28.11	136,191	1,970	97	156	27.4	18.2	2.05	5,167,000	0.5
KHUSHHALI BANK	Bank	2007	-674,103,000	-37.8	768,332,000	2,400,264,000	32.01	260,441	2,950	152	461	21.7	12.7	1.51	69,771,000	2.9
NMFB	Bank	2007	-27,518,000	-30.8	35,081,000	48,643,000	72.12	7,348	4,774	43	89	28.4	19.0	10.39	551,000	1.1
POMFB	Bank	2007	-74,984,000	-15.9	83,431,000	89,393,000	93.33	18,532	4,502	72	206	24.2	15.2	9.4	3,156,000	3.5
Rozgar Bank	Bank	2007	-23,235,000	-29.3	24,657,000	37,060,000	66.53	6,851	3,599	31	56	27.0	17.7	22.43	7,180,000	19.4
TAMEER MFB	Bank	2007	-278,460,000	-66.9	274,741,000	467,452,000	58.77	47,778	5,750	47	67	28.8	19.4	18.54	47,905,000	10.2
AKHUWAT	MFI	2007	-6,695,000	-12.1	7,767,000	44,624,000	17.41	7,402	1,049	125	143	11.1	2.9	7.7	291,000	0.7
ASASAH	MFI	2007	-32,846,000	-229.6	67,444,000	166,435,000	40.52	20,112	3,353	99	157	37.0	27.0	0	-	0
CSC	MFI	2007	-9,836,000	-48.6	33,585,000	103,834,000	32.34	14,488	2,318	151	311	35.8	25.9	2.1	-	0
DAMEN	MFI	2007	1,633,000	5.1	48,456,000	209,880,000	23.09	29,051	1,668	165	330	34.8	24.9	2.07	4,128,000	2
KASHF Foundation	MFI	2007	281,294,000	23.8	310,557,000	2,354,552,000	13.19	214,543	1,448	189	324	36.2	26.2	0.73	3,132,000	0.1
ORANGI	MFI	2007	12,276,000	11.2	12,362,000	118,570,000	10.43	16,495	749	488	1,399	19.7	11.0	1	542,000	0.5
ORIX LEASING	MFI	2007	1,319,000	8.8	8,611,000	100,445,000	8.57	6,265	1,374	241	356	20.4	11.6	2.9	-	0
SAFWCO	MFI	2007	-14,905,000	-61.0	32,733,000	77,720,000	42.12	15,774	2,075	152	373	39.2	29.0	4.9	-	0
SUNGI DF	MFI	2007	-1,489,000	-5.7	1,032,000	4,190,000	24.63	231	4,468	92	154	18.0	9.4	30.2	693,000	16.5
NRSP	RSP	2007	-53,590,000	-12.4	408,787,000	2,619,282,000	15.61	241,651	1,692	118	149	21.7	12.8	0.75	7,290,000	0.3
PRSP	RSP	2007	-174,223,000	-22.1	120,291,000	343,999,000	34.97	54,573	2,204	122	169	13.6	5.3	19.3	56,376,000	16.4
SRSP	RSP	2007	-5,448,000	-147.9	13,934,000	35,672,000	39.06	5,500	2,533	114	359	23.6	14.5	1	3,054,000	8.6
TRDP	RSP	2007	-105,035,000	-129.4	79,433,000	340,713,000	23.31	40,098	1,981	284	396	17.3	8.7	22.9	-	0

Name	Int Type	Year	Age	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita	Adj Equity
				PkR				PkR	PkR	PkR	PkR			%	PkR	Income	%	PkR
FMFB	Bank	2006	5	1,680,188,555	53	527	270	686,908,751	720,280,000	959,909,000	924,575,000	52,308	35,931	68.69	13,132	57,000	23.0	707,273,000
KHUSHHALI BANK	Bank	2006	6	6,847,473,825	119	1791	644	2,147,611,820	1,872,699,000	4,974,775,000	-	236,917	120,715	50.95	9,065	57,000	15.9	1,876,588,000
NMFB	Bank	2006	2	114,293,238	5	68	15	51,432,681	74,559,000	39,734,000	3,727,000	2,454	424	17.28	20,959	57,000	36.8	78,212,000
POMFB	Bank	2006	1	493,188,673	13	115	57	85,291,644	488,766,000	4,422,000	-	10,418	1,808	17.35	8,187	57,000	14.4	244,383,000
ROZGAR BANK	Bank	2006	2	109,978,930	17	69	34	40,489,919	89,305,000	20,674,000	17,788,000	4,363	164	3.76	9,280	57,000	16.3	92,623,000
TAMEER MFB	Bank	2006	1	1,268,606,000	19	426	319	526,097,000	551,864,000	716,742,000	473,751,000	20,038	827	4.13	26,255	57,000	46.1	577,811,000
AKHUWAT	MFI	2006	5	48,946,000	10	58	53	38,295,000	48,061,000	884,000	-	6,069	2,968	48.90	6,310	57,000	11.1	34,307,000
ASASAH	MFI	2006	4	224,332,000	28	346	252	110,281,000	- 15,283,000	239,615,000	-	12,512	12,512	100.00	8,814	57,000	15.5	- 11,775,000
CSC	MFI	2006	6	134,847,000	9	89	58	109,689,000	34,592,000	100,255,000	-	13,722	13,722	100.00	7,994	57,000	14.0	24,649,000
DAMEN	MFI	2006	10	242,778,735	25	195	150	169,331,922	25,140,000	217,639,000	-	25,478	25,478	100.00	6,646	57,000	11.7	21,724,000
KASHF Foundation	MFI	2006	10	2,004,010,226	85	847	557	1,530,320,510	944,608,000	1,059,402,000	-	133,690	131,491	98.36	11,447	57,000	20.1	774,949,000
ORANGI	MFI	2006	19	138,046,000	2	30	14	95,806,000	108,405,000	29,641,000	-	12,002	1,848	15.40	7,983	57,000	14.0	91,918,000
ORIX LEASING	MFI	2006	14	71,760,000	6	20	10	73,778,000	3,115,000	68,645,000	-	3,630	2,998	82.59	20,325	57,000	35.7	2,066,000
SAFWCO	MFI	2006	12	108,159,000	14	110	44	88,729,000	19,399,000	88,760,000	-	14,018	5,706	40.70	6,330	57,000	11.1	17,583,000
TARAQEE	MFI	2006	10	256,858,000	16	162	63	97,573,000	- 22,325,000	279,183,000	-	12,203	6,261	51.31	7,996	57,000	14.0	- 10,418,000
NRSP	RSP	2006	13	2,247,756,000	581	1836	1495	1,993,573,000	529,707,000	1,718,049,000	-	190,846	52,383	27.45	10,446	57,000	18.3	386,589,000
PRSP	RSP	2006	8	1,193,006,000	21	546	398	260,389,000	665,665,000	527,340,000	-	41,860	6,006	14.35	6,220	57,000	10.9	631,647,000
SRSP	RSP	2006	15	67,946,065	14	63	0	42,920,359	-	-	-	7,174	-	61.08	5,983	57,000	10.5	-
TRDP	RSP	2006	9	351,282,000	50	107	80	339,502,000	- 60,633,000	411,916,000	-	42,932	12,880	30.00	7,908	57,000	13.9	- 30,997,000

Name	Year	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita	Adj Equity
All Institutions - 2006	**2006**	17,603,456,247	1,087	7,405	4,513	8,488,019,606	6,077,924,000	11,457,585,000	1,419,841,000	842,634	434,122	52	10,073		17.70	5,509,132,000
All Institutions - 2007	**2007**	22,737,065,746	1,165	9,529	5,734	12,749,983,377	6,418,595,000	16,443,470,000	2,822,844,000	1,267,182	640,868	51	10,062		17.70	6,115,582,000
All Institutions - 2008	**2008**	33,193,785,723	1,275	11,499	6,916	20,001,188,987	8,018,344,000	25,175,442,000	4,111,730,000	1,695,421	803,795	47	11,797		13.78	7,177,338,000
All Institutions - 2009	**2009**	30,474,196,694	1,221	11,557	6,637	16,758,026,340	7,297,845,000	23,175,348,000	7,161,634,000	1,409,657	643,292	46	11,888		13.80	7,006,508,000
All Institutions - 2010	**2010**	35,826,212,805	1,405	12,005	5,148	20,295,915,834	8,359,261,000	27,466,950,000	10,132,332,000	1,567,355	811,518	52	12,949		12.30	8,213,536,000

Name	Int Type	Year	Net Income	Adj ROE	Adj OE	Avg GLP	OE_LP	Avg NOAB	CPB	B_Satff	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
			PkR	%	PkR	PkR	%	PkR	PkR			Nominal	Real	%	PkR	%
FMFB	Bank	2006	- 44,248,000	-6.3	146,088,000	524,801,000	27.84	68,163	2,143	99	194	25.6	15.3	0.8	2,934,000	0.6
KHUSHHALI BANK	Bank	2006	- 545,625,000	-29.1	613,039,000	2,035,429,000	30.12	232,045	2,642	132	368	18.8	9.1	2.17	146,520,000	7.2
NMFB	Bank	2006	- 13,244,000	-16.9	25,055,000	45,413,000	55.17	4,578	5,473	36	164	28.5	18.0	7.91	1,146,000	2.5
POMFB	Bank	2006	- 3,154,000	-1.3	43,689,000	42,646,000	102.45	5,209	8,387	91	183	9.8	0.8	0	-	0
ROZGAR BANK	Bank	2006	- 16,938,000	-18.3	19,053,000	30,056,000	63.39	4,463	4,269	63	128	24.2	14.0	18.03	731,000	2.4
TAMEER MFB	Bank	2006	- 57,111,000	-9.9	181,127,000	263,049,000	68.86	22,250	8,141	47	63	24.7	14.5	0	46,000	0
AKHUWAT	MFI	2006	- 3,104,000	-9.0	4,576,000	28,241,000	16.20	4,546	1,007	105	115	12.0	2.9	0.7	35,000	0.1
ASASAH	MFI	2006	- 21,165,000	-179.7	35,306,000	79,479,000	44.42	9,460	3,732	36	50	30.3	19.6	0	-	0
CSC	MFI	2006	- 26,558,000	-107.7	40,660,000	86,017,000	47.27	9,765	4,164	154	237	25.3	15.1	1.1	-	0
DAMEN	MFI	2006	- 10,088,000	-46.4	36,073,000	131,185,000	27.50	20,523	1,758	131	170	32.4	21.6	6.68	3,307,000	2.5
KASHF Foundation	MFI	2006	63,815,000	8.2	173,888,000	1,152,375,000	15.09	104,605	1,662	158	240	28.4	17.9	0.1	2,126,000	0.2
ORANGI	MFI	2006	- 3,196,000	-3.5	13,730,000	79,916,000	17.18	9,494	1,446	400	857	8.7	- 0.1	0.5	1,896,000	2.4
ORIX LEASING	MFI	2006	819,000	39.6	4,541,000	74,182,000	6.12	3,822	1,188	182	363	16.3	6.8	2.7	-	0
SAFWCO	MFI	2006	- 10,548,000	-60.0	18,493,000	65,960,000	28.04	11,492	1,609	127	319	22.3	12.3	3.4	521,000	0.8
TARAQEE	MFI	2006	- 83,971,000	0.0	43,638,000	187,905,000	23.22	18,710	2,332	75	194	15.9	6.4	43.6	-	0
NRSP	RSP	2006	- 77,744,000	-20.1	300,098,000	1,612,885,000	18.61	142,537	2,105	104	128	20.0	10.0	0.78	2,251,000	0.1
PRSP	RSP	2006	- 87,404,000	-13.8	101,934,000	271,064,000	37.61	44,858	2,272	77	105	14.1	4.8	2.6	-	0
SRSP	RSP	2006	-	0.0	-	-	0.00	-	-	114	359			1.02	-	0
TRDP	RSP	2006	- 106,832,000	-344.7	74,370,000	313,260,000	23.74	37,735	1,971	401	537	14.5	5.2	13.7	23,704,000	7.6

Name	Net Income	Adj ROE	Adj OE	Avg GLP	OE_LP	Avg NOAB	CPB	B_Satff	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
All Institutions - 2006	- 1,046,296,000	- 18.99	1,875,358,000	7,023,863,000	27	754,255	2,486	114	187	21.2	11.4	2.3	185,217,000	2.6
All Institutions - 2007	- 1,277,916,000	- 20.90	2,599,468,000	10,516,962,000	25	1,143,324	2,274	133	221	26.1	16.9	3.1	209,236,000	2.0
All Institutions - 2008	- 2,141,197,000	- 29.83	3,336,392,000	16,350,054,000	20	1,685,388	1,980	147	245	25.7	12.2	2.1	299,986,000	1.8
All Institutions - 2009	- 981,583,000	- 14.01	3,905,458,000	16,768,997,000	23	1,423,473	2,744	122	212	26.0	4.3	3.4	602,513,000	3.6
All Institutions - 2010	- 17,697,000	- 0.22	4,781,706,000	18,621,919,000	26	1,567,355	3,051	131	304	32.9	15.5	4.1	335,464,000	1.8

Name	Int Type	Year	Age	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	GLP_TA	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita	Adj Equity
-	-	-	-	PkR	-	-	-	PkR	PkR	PkR	PkR	%	-	-	%	PkR	Income	%	PkR
FMFB	Bank	2010	9	6,352,778,202	147	1,544	562	2,373,880,297	753,883,000	5,598,896,000	5,344,198,000	37.37	151,797	50,907	33.54	15,639	105,300	14.9	669,032,000
KASHF BANK	Bank	2010	3	1,228,338,566	30	448	226	453,101,817	350,543,000	877,796,000	776,401,000	36.89	17,445	1,745	10	25,973	105,300	24.7	437,663,000
KHUSHHALI BANK	Bank	2010	10	7,238,672,439	109	2,163	764	3,722,152,797	2,215,782,000	5,022,890,000	1,000,329,000	51.42	325,523	81,381	25	11,434	105,300	10.9	2,146,118,000
NMFB	Bank	2010	6	251,858,520	5	111	68	61,618,872	220,124,000	31,735,000	29,027,000	24.47	5,734	-	0	10,746	105,300	10.2	229,356,000
POMFB	Bank	2010	5	745,413,522	14	151	65	88,348,053	700,477,000	44,936,000	27,724,000	11.85	7,045	2,111	29.96	12,541	105,300	11.9	688,294,000
TAMEER MFB	Bank	2010	5	5,279,389,000	40	786	524	3,096,044,000	1,323,754,000	3,955,635,000	2,954,653,000	58.64	111,153	66,983	60.26	27,854	105,300	26.5	1,198,832,000
FMFB	Bank	2009	8	6,068,006,777	88	1,531	1,005	2,778,352,175	593,210,000	5,474,797,000	5,219,008,000	45.79	199,792	69,563	34.82	13,906	86,000	16.2	579,860,000
KASHF BANK	Bank	2009	2	1,191,855,586	27	443	218	424,124,652	524,782,000	667,073,000	318,473,000	35.59	14,192	492	3.47	29,885	86,000	34.8	618,268,000
KHUSHHALI BANK	Bank	2009	9	6,587,779,000	107	2,002	647	3,630,204,658	2,076,920,000	4,510,859,000	190,033,000	55.11	329,421	77,385	23.49	11,020	86,000	12.8	1,978,198,000
NMFB	Bank	2009	5	351,410,595	5	94	48	92,073,938	238,587,000	112,823,000	110,906,000	26.20	4,000	-	0	23,018	86,000	26.8	163,469,000
POMFB	Bank	2009	4	721,826,000	14	150	37	100,570,623	678,459,000	42,367,000	24,547,000	13.93	8,092	2,119	26.19	12,428	86,000	14.5	553,599,000
ROZGAR BANK	Bank	2009	5	70,831,297	9	27	6	883,570	36,978,000	33,853,000	30,838,000	1.25	52	12	23.08	16,992	86,000	19.8	43,250,000
TAMEER MFB	Bank	2009	4	2,799,484,000	39	791	544	1,539,841,000	1,125,152,000	1,674,332,000	1,267,829,000	55.00	70,671	26,345	37.28	21,789	86,000	25.3	1,135,372,000
FMFB	Bank	2008	7	4,094,253,000	159	1,575	730	2,111,402,804	557,520,000	3,536,732,000	3,304,742,000	51.57	168,191	61,980	36.85	12,554	81,000	15.5	614,201,000
KASHF BANK	Bank	2008	1	1,198,443,803	19	273	135	552,579,844	711,753,000	486,691,000	-	46.11	18,434	3,503	19	29,976	81,000	37.0	355,876,000
KHUSHHALI BANK	Bank	2008	8	6,685,742,412	135	2,008	808	3,093,335,635	1,871,223,000	4,814,520,000	18,169,000	46.27	312,851	31,008	9.91	9,888	81,000	12.2	1,841,833,000
NMFB	Bank	2008	4	193,118,316	4	72	34	68,793,957	88,350,000	104,769,000	101,255,000	35.62	2,336	537	22.99	29,449	81,000	36.4	96,317,000
POMFB	Bank	2008	3	459,374,013	15	152	117	125,240,876	419,910,000	39,464,000	23,859,000	27.26	10,853	2,834	26.11	11,540	81,000	14.2	437,459,000
ROZGAR BANK	Bank	2008	4	79,409,821	11	56	16	28,235,333	49,845,000	29,565,000	24,180,000	35.56	1,601	303	18.93	17,636	81,000	21.8	60,104,000
TAMEER MFB	Bank	2008	3	2,295,709,000	31	865	630	906,852,000	1,194,635,000	1,101,074,000	639,525,000	39.50	43,791	8,471	19.34	20,709	81,000	25.6	748,073,000
FMFB	Bank	2007	6	2,807,162,394	92	1,045	651	1,221,559,254	670,881,000	2,136,281,000	2,035,584,000	43.52	101,394	42,819	42.23	12,048	57,000	21.1	685,613,000
KHUSHHALI BANK	Bank	2007	7	6,703,280,398	120	1,865	616	2,652,915,785	1,812,443,000	4,890,837,000	-	39.58	283,965	43,817	15.43	9,342	57,000	16.4	1,781,989,000
NMFB	Bank	2007	3	202,334,652	5	54	26	45,853,660	104,284,000	98,050,000	83,338,000	22.66	2,303	395	17.15	19,910	57,000	34.9	89,422,000
POMFB	Bank	2007	2	495,587,000	16	201	70	93,493,000	455,008,000	40,579,000	23,189,000	18.87	14,397	356	2.47	6,494	57,000	11.4	471,887,000
Rozgar Bank	Bank	2007	3	107,492,202	21	76	42	**33,630,168**	**70,364,000**	**37,128,000**	**32,360,000**	31.29	2,337	1,181	50.53	14,390	57,000	25.2	79,176,000
TAMEER MFB	Bank	2007	2	1,255,222,000	41	658	461	408,807,000	301,510,000	953,712,000	648,373,000	32.57	31,011	978	3.15	13,183	57,000	23.1	415,927,000
FMFB	Bank	2006	5	1,680,188,555	53	527	270	686,908,751	720,280,000	959,909,000	924,575,000	40.88	52,308	35,931	68.69	13,132	57,000	23.0	707,273,000
KHUSHHALI BANK	Bank	2006	6	6,847,473,825	119	1,791	644	2,147,611,820	1,872,699,000	4,974,775,000	-	31.36	236,917	120,715	50.95	9,065	57,000	15.9	1,876,588,000
NMFB	Bank	2006	2	114,293,238	5	68	15	51,432,681	74,559,000	39,734,000	3,727,000	45.00	2,454	424	17.28	20,959	57,000	36.8	78,212,000
POMFB	Bank	2006	1	493,188,673	13	115	57	85,291,644	488,766,000	4,422,000	-	17.29	10,418	1,808	17.35	8,187	57,000	14.4	244,383,000
ROZGAR BANK	Bank	2006	2	109,978,930	17	69	34	40,489,919	89,305,000	20,674,000	17,788,000	36.82	4,363	164	3.76	9,280	57,000	16.3	92,623,000
TAMEER MFB	Bank	2006	1	1,268,606,000	19	426	319	526,097,000	551,864,000	716,742,000	473,751,000	41.47	20,038	827	4.13	26,255	57,000	46.1	577,811,000

Name	Year	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	GLP_TA	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita	Adj Equity
All Institutions - 2006	**2006**	10,513,729,221	226	2,996	1,339	3,537,831,815	3,797,473,000	6,716,256,000	1,419,841,000	33.65	326,498	159,869	49	10,836		19.0	3,576,890,000
All Institutions - 2007	**2007**	11,571,078,646	295	3,899	1,866	4,456,258,867	3,414,490,000	8,156,587,000	2,822,844,000	38.51	435,407	89,546	21	10,235		18.0	3,524,014,000
All Institutions - 2008	**2008**	15,006,050,365	374	5,001	2,470	6,886,440,449	4,893,236,000	10,112,815,000	4,111,730,000	45.89	558,057	108,636	19	12,340		15.2	4,153,863,000
All Institutions - 2009	**2009**	17,791,193,255	289	5,038	2,505	8,566,050,616	5,274,088,000	12,516,104,000	7,161,634,000	48.15	626,220	175,916	28	13,679		15.9	5,072,016,000
All Institutions - 2010	**2010**	21,096,450,249	345	5,203	2,209	9,795,145,836	5,564,563,000	15,531,888,000	10,132,332,000	46.43	618,697	203,127	33	15,832		15.0	5,369,295,000

Name	Int Type	Year	Net Income	Adj ROE	Adj OE	Avg GLP	OE_A	OE_LP	Avg NOAB	CPB	B_Satff	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
-	-	-	PkR	%	PkR	PkR	%	%	PkR	PkR	-	-	Nominal	Real	%	PkR	%
FMFB	Bank	2010	- 169,559,000	-25.3	698,009,000	2,576,116,000	20.8	27.1	151,797	4,598	98	270	38.00	20.00	5.62	125,113,000.00	4.9
KASHF BANK	Bank	2010	- 174,240,000	-39.8	364,917,000	438,613,000	30.2	83.2	17,445	20,918	39	77	46.50	27.40	3.3	24,790,000.00	5.7
KHUSHHALI BANK	Bank	2010	188,138,000	8.8	1,028,220,000	3,676,179,000	14.87	27.97	325,523	3,159	150	426	32.70	15.40	3.9	85,720,000.00	2.3
NMFB	Bank	2010	- 18,464,000	-8.1	50,497,000	76,846,000	16.74	65.71	5,734	8,807	52	84	39.80	21.60	52.31	11,209,000.00	14.6
POMFB	Bank	2010	24,367,000	3.5	92,252,000	94,459,000	12.58	97.66	7,045	13,095	47	108	37.80	19.80	8.78	5,277,000.00	5.6
TAMEER MFB	Bank	2010	55,351,000	4.6	802,386,000	2,317,943,000	19.9	34.62	111,153	7,219	141	212	38.30	20.30	0.5	951,000.00	0
FMFB	Bank	2009	- 49,489,000	-8.5	601,081,000	2,444,871,000	11.83	24.59	183,992	3,267	130	199	32.90	10.00	0.9	31,614,000.00	1.3
KASHF BANK	Bank	2009	- 307,563,000	-49.7	295,604,000	488,352,000	24.43	60.53	16,207	18,239	32	65	26.50	4.70	1	76,266,000.00	15.6
KHUSHHALI BANK	Bank	2009	- 165,911,000	-8.4	984,331,000	3,361,770,000	14.83	29.28	321,136	3,065	165	509	24.50	3.10	0.7	101,423,000.00	3
NMFB	Bank	2009	- 13,915,000	-8.5	45,148,000	80,434,000	16.58	56.13	3,168	14,251	43	83	33.30	10.40	16.9	4,701,000.00	5.8
POMFB	Bank	2009	- 87,575,000	-15.8	86,185,000	112,906,000	14.39	76.33	9,473	9,098	54	219	33.20	10.20	4.3	4,961,000.00	4.4
ROZGAR BANK	Bank	2009	- 21,532,000	-49.8	13,412,000	14,559,000	17.85	92.12	827	16,218	2	9	14.60	- 5.10	9.6	19,131,000.00	131.4
TAMEER MFB	Bank	2009	- 323,440,000	-28.5	554,122,000	1,223,347,000	21.75	45.3	70,671	7,841	89	130	28.40	6.30	0.9	1,182,000.00	0.1
FMFB	Bank	2008	- 180,500,000	-29.4	517,621,000	1,666,481,000	14.96	31.06	243,096	2,129	107	230	30.40	16.40	1.28	14,370,000.00	0.9
KASHF BANK	Bank	2008	- 38,892,000	-10.9	84,586,000	276,290,000	14.12	30.61	9,217	9,177	68	137	12.30	0.20	1.19	-	0
KHUSHHALI BANK	Bank	2008	- 594,137,000	-32.3	696,847,000	2,873,126,000	10.42	24.25	300,147	2,322	156	387	18.80	6.10	2.22	57,495,000.00	2
NMFB	Bank	2008	- 26,397,000	-27.4	38,289,000	57,324,000	19.36	66.79	9,090	4,212	32	69	35.30	20.80	17.6	3,151,000.00	5.5
POMFB	Bank	2008	- 76,741,000	-17.5	82,347,000	109,367,000	17.06	75.29	39,445	2,088	71	93	27.40	13.70	6	9,547,000.00	8.7
ROZGAR BANK	Bank	2008	- 28,900,000	-48.1	24,469,000	30,933,000	26.16	79.1	6,506	3,761	29	100	40.40	25.40	72.2	8,537,000.00	27.6
TAMEER MFB	Bank	2008	- 273,803,000	-36.6	419,881,000	657,830,000	23.51	63.83	97,680	4,299	51	70	32.40	18.20	1.33	30,334,000.00	4.6
FMFB	Bank	2007	- 92,071,000	-13.4	268,234,000	954,234,000	11.96	28.11	136,191	1,970	97	156	27.40	18.17	2.05	5,167,000.00	0.5
KHUSHHALI BANK	Bank	2007	- 674,103,000	-37.8	768,332,000	2,400,264,000	11.34	32.01	260,441	2,950	152	461	21.70	12.70	1.51	69,771,000.00	2.9
NMFB	Bank	2007	- 27,518,000	-30.8	35,081,000	48,643,000	22.16	72.12	7,348	4,774	43	89	28.40	19.00	10.39	551,000.00	1.1
POMFB	Bank	2007	- 74,984,000	-15.9	83,431,000	89,393,000	16.85	93.33	18,532	4,502	72	206	24.20	15.20	9.4	3,156,000.00	3.5
Rozgar Bank	Bank	2007	- 23,235,000	-29.3	24,657,000	37,060,000	22.68	66.53	6,851	3,599	31	56	27.00	17.70	22.43	7,180,000.00	19.4
TAMEER MFB	Bank	2007	- 278,460,000	-66.9	274,741,000	467,452,000	21.77	58.77	47,778	5,750	47	67	28.80	19.40	18.54	47,905,000.00	10.2
FMFB	Bank	2006	- 44,248,000	-6.3	146,088,000	524,801,000	9.33	27.84	68,163	2,143	99	194	25.60	15.30	0.8	2,934,000.00	0.6
KHUSHHALI BANK	Bank	2006	- 545,625,000	-29.1	613,039,000	2,035,429,000	9.63	30.12	232,045	2,642	132	368	18.80	9.10	2.17	146,520,000.00	7.2
NMFB	Bank	2006	- 13,244,000	-16.9	25,055,000	45,413,000	22.51	55.17	4,578	5,473	36	164	28.50	18.00	7.91	1,146,000.00	2.5
POMFB	Bank	2006	- 3,154,000	-1.3	43,689,000	42,646,000	17.7	102.45	5,209	8,387	91	183	9.80	0.80	0	-	0
ROZGAR BANK	Bank	2006	- 16,938,000	-18.3	19,053,000	30,056,000	17	63.39	4,463	4,269	63	128	24.20	14.00	18.03	731,000.00	2.4
TAMEER MFB	Bank	2006	- 57,111,000	-9.9	181,127,000	263,049,000	19.2	68.86	22,250	8,141	47	63	24.70	14.50	0	46,000.00	0

Name	Net Income	Adj ROE	Adj OE	Avg GLP	OE_A	OE_LP	Avg NOAB	CPB	B_Satff	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
All Institutions - 2006	- 680,320,000	- 19.02	1,028,051,000	2,941,394,000	10	35	336,708	3,053	109	244	20.60	10.70	1.80	151,377,000	5.15
All Institutions - 2007	- 1,170,371,000	- 33.21	1,454,476,000	3,997,046,000	13	36	477,141	3,048	112	233	24.00	15.00	3.60	133,730,000	3.35
All Institutions - 2008	- 1,219,370,000	- 29.36	1,864,040,000	5,671,351,000	12	33	705,181	2,643	112	226	23.90	10.60	2.20	123,434,000	2.18
All Institutions - 2009	- 969,425,000	- 19.11	2,579,883,000	7,726,239,000	15	33	605,474	4,261	124	250	28.10	6.10	1.00	239,278,000	3.10
All Institutions - 2010	- 94,407,000	- 1.76	3,036,281,000	9,180,156,000	14	33	618,697	4,908	119	280	36.40	18.60	3.60	253,060,000	2.76

Name	Int Type	Year	Age	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	GLP_TA	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita	Adj Equity
-	-		-	PkR	-	-	-	PkR	PkR	PkR	PkR	%	-	-	%	PkR	Income	%	PkR
AKHUWAT	MFI	2010	10	223,099,000	33	215	150	150,039,000	219,185,000	3,914,000	-	67.25	20,158	6,048	30	7,443	105,300	7.1	167,192,000
ASA Pak	MFI	2010	2	806,230,045	100	596	411	736,038,387	285,616,000	520,614,000	-	91.29	85,380	84,820	99.34	8,621	105,300	8.2	147,356,000
ASASAH	MFI	2010	8	421,310,000	23	219	96	286,028,000	- 46,880,000	468,189,000	-	67.89	29,806	29,806	100	9,596	105,300	9.1	- 31,302,000
BRAC Pak	MFI	2010	3	1,105,046,493	94	899	505	702,521,013	29,652,000	1,075,395,000	-	63.57	84,411	84,411	100	8,323	105,300	7.9	41,421,000
CSC	MFI	2010	10	193,843,000	17	158	56	183,903,000	11,506,000	182,337,000	-	94.87	11,975	10,862	90.71	15,357	105,300	14.6	20,984,000
CWCD	MFI	2010	19	210,306,894	22	174	68	131,516,884	2,871,000	207,436,000	-	62.54	12,897	4,030	31.25	10,197	105,300	9.7	7,151,000
DAMEN	MFI	2010	14	521,056,000	20	200	80	368,824,620	73,254,000	447,802,000	-	70.78	38,145	38,145	100	9,669	105,300	9.2	69,866,000
JWS	MFI	2010	19	200,942,000	10	84	38	165,225,000	33,714,000	167,228,000	-	82.23	13,019	12,319	94.62	12,691	105,300	12.1	30,787,000
Orangi	MFI	2010	23	627,751,000	14	132	46	505,215,000	273,079,000	354,672,000	-	80.48	49,155	9,831	20	10,278	105,300	9.8	241,114,000
RCDS	MFI	2010	16	286,719,000	22	201	63	193,613,000	37,974,000	248,745,000	-	67.53	17,638	12,498	70.86	10,977	105,300	10.4	37,974,000
ORIX LEASING	MFI	2010	18	224,240,000	9	57	35	212,838,000	44,840,000	179,400,000	-	94.92	15,553	14,800	95.16	13,685	105,300	13.0	398,836,000
SAFWCO	MFI	2010	16	296,886,000	16	191	79	231,347,774	65,457,000	231,428,000	-	77.92	23,123	11,483	49.66	10,005	105,300	9.5	58,347,000
SUNGI DF	MFI	2010	16	45,748,124	4	35	24	36,959,320	38,212,000	7,536,000	-	80.79	5,512	5,512	100	6,705	105,300	6.4	35,717,000
AKHUWAT	MFI	2009	9	117,346,874	22	91	67	95,711,000	115,321,000	2,025,000	-	81.56	15,013	4,503	29.99	6,375	86,000	7.4	98,826,000
ASA Pakistan	MFI	2009	1	149,417,753	35	233	141	120,300,304	9,457,000	139,961,000	-	80.51	18,283	18,231	99.72	6,580	86,000	7.7	13,993,000
ASASAH	MFI	2009	7	417,674,000	23	191	78	260,611,000	- 15,724,000	433,397,000	-	62.40	34,007	34,007	100	7,663	86,000	8.9	- 19,020,000
BRAC PAK	MFI	2009	2	851,710,000	88	826	495	363,183,203	- 53,190,000	904,900,000	-	42.64	45,011	45,011	100	8,069	86,000	9.4	- 32,801,000
CSC	MFI	2009	9	316,597,000	17	177	75	197,086,000	30,462,000	286,135,000	-	62.25	15,241	14,784	97	12,931	86,000	15.0	40,396,000
CWCD	MFI	2009	18	260,673,000	19	168	56	153,196,000	11,431,000	249,243,000	-	58.77	8,910	2,408	27.03	17,194	86,000	20.0	16,170,000
DAMEN	MFI	2009	13	529,613,615	20	202	98	422,704,136	66,478,000	463,135,000	-	79.81	44,912	44,912	100	9,412	86,000	10.9	61,692,000
JWS	MFI	2009	18	169,875,000	6	57	24	103,747,000	27,860,000	142,015,000	-	61.07	9,358	8,719	93.17	11,086	86,000	12.9	22,738,000
ORANGI	MFI	2009	22	408,945,000	6	116	18	348,606,000	209,149,000	199,795,000	-	85.25	34,874	2,516	7.21	9,996	86,000	11.6	187,331,000
ORIX LEASING	MFI	2009	17	315,541,000	8	49	33	195,332,000	34,832,000	280,709,000	-	61.90	16,326	14,575	89.27	11,964	86,000	13.9	26,974,000
SAFWCO	MFI	2009	15	245,268,000	17	171	65	212,928,091	58,665,000	186,603,000	-	86.81	23,430	10,974	46.84	9,088	86,000	10.6	45,321,000
SUNGI DF	MFI	2009	15	39,368,197	5	31	24	21,332,990	33,222,000	6,146,000	-	54.19	2,121	1,774	83.64	10,058	86,000	11.7	31,262,000
ASASAH	MFI	2008	6	309,327,000	30	233	100	225,768,000	- 22,317,000	331,644,000	-	72.99	23,730	23,730	100	9,514	81,000	11.7	- 17,821,000
CSC	MFI	2008	8	309,900,000	13	80	52	184,026,000	52,177,000	257,723,000	-	59.38	17,432	8,075	46.32	10,557	81,000	13.0	29,104,000
DAMEN	MFI	2008	12	454,350,898	25	200	100	325,382,861	56,905,000	397,446,000	-	71.61	36,897	36,897	100	8,819	81,000	10.9	48,471,000
KASHF Foundation	MFI	2008	12	4,959,560,470	158	1,917	950	3,483,149,223	994,336,000	3,965,224,000	-	70.23	319,517	319,219	99.91	10,901	81,000	13.5	1,210,418,000
ORANGI	MFI	2008	21	287,110,000	6	89	82	193,429,000	165,514,000	121,596,000	-	67.37	23,896	4,780	20	8,095	81,000	10.0	143,112,000
ORIX LEASING	MFI	2008	16	200,800,000	9	52	38	156,498,000	19,115,000	181,685,000	-	77.94	15,177	10,714	70.59	10,312	81,000	12.7	23,067,000
SAFWCO	MFI	2008	14	181,648,295	18	143	64	141,602,126	39,407,000	142,241,000	-	77.95	18,043	6,605	36.61	7,848	81,000	9.7	36,268,000
SUNGI DF	MFI	2008	14	29,956,695	8	31	28	8,750,328	29,302,000	655,000	-	29.21	1,039	706	67.95	8,422	81,000	10.4	28,258,000

Name	Int Type	Year	Net Income	Adj ROE	Adj OE	Avg GLP	OE_A	OE_LP	Avg NOAB	CPB	B_Satff	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
-	-		PkR	%	PkR	PkR	%	%	PkR	PkR	-	-	Nominal	Real	%	PkR	%
AKHUWAT	MFI	2010	- 5,796,000	-3.5	26,069,000	123,470,000	15.3	21.11	20,158	1,293	94	134	-	- 13.00	1	409,000.00	0.3
ASA Pak	MFI	2010	18,479,000	12.5	94,550,000	428,169,000	19.79	22.08	85,380	1,107	143	208	34.10	16.60	1.14	-	0
ASASAH	MFI	2010	- 29,983,000	-95.8	83,393,000	273,319,000	19.9	30.51	29,806	2,798	136	310	34.20	16.70	2.3	-	0
BRAC Pak	MFI	2010	- 86,770,000	-209.5	232,678,000	532,852,000	23.8	43.67	84,411	2,756	94	167	39.80	21.60	4.19	7,759,000.00	1.5
CSC	MFI	2010	- 33,146,000	-158.0	58,959,000	190,495,000	23.1	30.95	11,975	4,924	76	214	31.90	14.70	13.4	13,417,000.00	7
CWCD	MFI	2010	- 8,560,000	-119.7	60,509,000	142,356,000	25.7	42.51	12,897	4,692	74	190	31.90	14.70	49.48	14,185,000.00	10
DAMEN	MFI	2010	6,775,000	9.7	72,440,000	395,764,000	13.8	18.3	38,145	1,899	191	477	37.20	19.30	3.4	38,604,000.00	9.8
JWS	MFI	2010	1,966,000	6.4	34,140,000	134,486,000	18.4	25.39	13,019	2,622	155	343	35.00	17.40	0	-	0
Orangi	MFI	2010	29,514,000	12.2	46,275,000	426,910,000	8.9	10.84	49,155	941	372	1,069	21.40	5.60	0.2	141,000.00	0
RCDS	MFI	2010	11,562,000	30.4	19,798,000	191,693,000	6.9	10.33	17,638	1,122	88	280	18.30	2.90	1.1	-	0
ORIX LEASING	MFI	2010	10,008,000	2.5	23,802,000	204,085,000	8.8	11.66	15,553	1,530	273	444	25.20	8.90	5.7	3,001,000.00	1.5
SAFWCO	MFI	2010	- 3,473,000	-6.0	47,240,000	222,138,000	17.4	21.27	23,123	2,043	121	293	31.60	14.40	4.5	4,398,000.00	2
SUNGI DF	MFI	2010	4,745,000	13.3	5,858,000	29,146,000	13.8	20.1	5,512	1,063	157	230	35.60	18.00	1.2	490,000.00	1.7
AKHUWAT	MFI	2009	- 20,423,000	-20.7	15,964,000	82,642,000	15.8	19.32	11,703	1,364	165	224	-	- 17.20	0	-	0
ASA Pakistan	MFI	2009	- 15,894,000	-113.6	34,233,000	65,583,000	40.6	52.2	9,713	3,524	78	130	39.50	15.50	0.011	-	0
ASASAH	MFI	2009	- 14,794,000	-77.8	72,400,000	243,190,000	19.83	29.77	28,899	2,505	178	436	41.10	16.80	0.3	-	0
BRAC PAK	MFI	2009	- 34,821,000	-106.2	121,950,000	296,209,000	20.5	41.17	36,281	3,361	54	91	35.90	12.50	1.1	6,067,000.00	2
CSC	MFI	2009	- 44,246,000	-109.5	53,627,000	175,199,000	18.9	30.61	16,141	3,322	86	203	29.10	6.90	4	28,988,000.00	16.5
CWCD	MFI	2009	- 27,889,000	-172.5	37,086,000	134,765,000	15.1	27.52	7,336	5,055	53	159	29.20	6.90	12	18,826,000.00	14
DAMEN	MFI	2009	3,166,000	5.1	60,608,000	374,043,000	12.32	16.2	40,905	1,482	222	458	28.70	6.50	1.8	6,324,000.00	1.7
JWS	MFI	2009	1,337,000	5.9	20,517,000	81,985,000	15.9	25.03	7,517	2,729	164	390	32.30	9.50	0	-	0
ORANGI	MFI	2009	9,707,000	5.2	31,202,000	174,303,000	8.93	17.9	28,281	1,103	301	1,937	30.20	7.80	0.25	-	0
ORIX LEASING	MFI	2009	10,481,000	38.9	27,459,000	175,915,000	10.6	15.61	15,752	1,743	333	495	29.60	8.90	1.9	-	0
SAFWCO	MFI	2009	- 11,569,000	-25.5	45,139,000	177,265,000	21.1	25.46	20,737	2,177	137	360	25.40	3.80	0.2	4,549,000.00	2.6
SUNGI DF	MFI	2009	- 3,396,000	-10.9	3,119,000	15,041,000	9	20.74	1,267	2,462	68	88	29.20	5.80	5.48	207,000.00	1.4
ASASAH	MFI	2008	- 21,250,000	-119.2	78,574,000	224,053,000	24.8	35.07	25,721	3,055	102	237	42.20	27.00	1.98	-	0
CSC	MFI	2008	- 15,300,000	-52.6	23,121,000	164,674,000	8.4	14.04	16,343	1,415	218	335	16.00	3.60	2	1,458,000.00	0.9
DAMEN	MFI	2008	6,185,000	12.8	54,860,000	287,906,000	13.64	19.05	34,760	1,578	184	369	30.70	16.70	0.78	1,748,000.00	0.6
KASHF Foundation	MFI	2008	- 908,693,000	-75.1	431,830,000	3,330,967,000	9.6	12.96	307,457	1,405	167	336	32.30	18.10	4.3	31,433,000.00	0.9
ORANGI	MFI	2008	22,918,000	16.0	15,191,000	168,625,000	6.5	9.01	22,442	677	268	291	17.90	5.30	0.6	2,065,000.00	1.2
ORIX LEASING	MFI	2008	7,264,000	31.5	14,894,000	141,805,000	9.01	10.5	12,039	1,237	292	399	29.30	15.40	1.8	2,635,000.00	1.9
SAFWCO	MFI	2008	- 17,863,000	-49.3	35,640,000	126,926,000	22.2	28.08	17,786	2,004	126	282	26.50	12.90	2.37	-	0
SUNGI DF	MFI	2008	2,116,000	7.5	3,209,000	6,955,000	11.1	46.14	751	4,273	34	37	7.60	4.00	11	305,000.00	4.4

Name	Int Type	Year	Age	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	GLP_TA	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita	Adj Equity
-	-		-	PkR	-	-	-	PkR	PkR	PkR	PkR	%	-	-	%	PkR	Income	%	PkR
AKHUWAT	MFI	2007	6	63,831,000	15	70	61	50,953,000	62,872,000	959,000	-	79.82	8,734	6,565	75.17	5,834	57,000	10.2	55,467,000
ASASAH	MFI	2007	5	323,417,000	33	280	177	222,451,000	-13,325,000	336,742,000	-	68.78	27,711	27,711	100	8,028	57,000	14.1	-14,304,000
CSC	MFI	2007	7	242,598,000	11	101	49	145,322,000	25,769,000	216,829,000	-	59.90	15,254	15,254	100	9,527	57,000	16.7	20,238,000
DAMEN	MFI	2007	11	349,993,303	25	198	99	250,428,235	40,036,000	309,957,000	-	71.55	32,623	32,623	100	7,676	57,000	13.5	31,945,000
KASHF Foundation	MFI	2007	11	4,064,007,797	159	1,567	913	3,178,784,275	1,426,500,000	2,637,508,000	-	78.22	295,396	283,288	95.9	10,761	57,000	18.9	1,179,816,000
ORANGI	MFI	2007	20	182,523,000	2	43	15	143,821,000	120,711,000	61,813,000	-	78.80	20,987	734	3.5	6,853	57,000	12.0	109,703,000
ORIX LEASING	MFI	2007	15	126,785,000	9	37	25	127,112,000	27,018,000	99,766,000	-	100.26	8,900	6,283	70.6	14,282	57,000	25.1	15,067,000
SAFWCO	MFI	2007	13	13,822,000	14	115	47	112,250,000	33,128,000	105,694,000	-	812.11	17,529	3,841	21.91	6,404	57,000	11.2	24,448,000
SUNGI DF	MFI	2007	13	27,374,000	2	5	3	5,160,000	26,866,000	508,000	-	18.85	462	63	13.64	11,169	57,000	19.6	26,177,000
AKHUWAT	MFI	2006	5	48,946,000	10	58	53	38,295,000	48,061,000	884,000	-	78.24	6,069	2,968	48.9	6,310	57,000	11.1	34,307,000
ASASAH	MFI	2006	4	224,332,000	28	346	252	110,281,000	-15,283,000	239,615,000	-	49.16	12,512	12,512	100	8,814	57,000	15.5	-11,775,000
CSC	MFI	2006	6	134,847,000	9	89	58	109,689,000	34,592,000	100,255,000	-	81.34	13,722	13,722	100	7,994	57,000	14.0	24,649,000
DAMEN	MFI	2006	10	242,778,735	25	195	150	169,331,922	25,140,000	217,639,000	-	69.75	25,478	25,478	100	6,646	57,000	11.7	21,724,000
KASHF Foundation	MFI	2006	10	2,004,010,226	85	847	557	1,530,320,510	944,608,000	1,059,402,000	-	76.36	133,690	131,491	98.36	11,447	57,000	20.1	774,949,000
ORANGI	MFI	2006	19	138,046,000	2	30	14	95,806,000	108,405,000	29,641,000	-	69.40	12,002	1,848	15.4	7,983	57,000	14.0	91,918,000
ORIX LEASING	MFI	2006	14	71,760,000	6	20	10	73,778,000	3,115,000	68,645,000	-	102.81	3,630	2,998	82.59	20,325	57,000	35.7	2,066,000
SAFWCO	MFI	2006	12	108,159,000	14	110	44	88,729,000	19,399,000	88,760,000	-	82.04	14,018	5,706	40.7	6,330	57,000	11.1	17,583,000
TARAQEE	MFI	2006	10	256,858,000	16	162	63	97,573,000	-22,325,000	279,183,000	-	37.99	12,203	6,261	51.31	7,996	57,000	14.0	-10,418,000
All Institutions - 2006			**2006**	3,229,736,961	195	1,857	1,201	2,313,803,432	1,145,712,000	2,084,024,000	-	72	233,324	202,984	87	9,917		17.3	945,003,000
All Institutions - 2007			**2007**	5,394,351,100	270	2,416	1,389	4,236,281,510	1,749,575,000	3,769,776,000	-	79	427,596	376,362	88	9,907		17.2	1,448,557,000
All Institutions - 2008			**2008**	6,732,653,358	267	2,745	1,414	4,718,605,538	1,334,439,000	5,398,214,000	-	70	455,731	410,726	90	10,354		12.8	1,500,877,000
All Institutions - 2009			**2009**	3,822,029,439	266	2,312	1,174	2,494,737,724	527,963,000	3,294,064,000	-	65	267,486	202,414	76	9,327		12.0	492,882,000
All Institutions - 2010			**2010**	5,163,177,556	384	3,161	1,651	3,904,068,998	1,068,480,000	4,094,696,000	-	76	406,772	324,565	80	9,598		9.1	1,225,443,000

Name	Int Type	Year	Net Income	Adj ROE	Adj OE	Avg GLP	OE_A	OE_LP	Avg NOAB	CPB	B_Satff	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
-	-		PkR	%	PkR	PkR	%	%	PkR	PkR	-	-	Nominal	Real	%	PkR	%
AKHUWAT	MFI	2007	- 6,695,000	-12.1	7,767,000	44,624,000	13.8	17.41	7,402	1,049	125	143	11.10	2.90	7.7	291,000.00	0.7
ASASAH	MFI	2007	- 32,846,000	-229.6	67,444,000	166,435,000	24.6	40.52	20,112	3,353	99	157	37.00	27.00	0	-	0
CSC	MFI	2007	- 9,836,000	-48.6	33,585,000	103,834,000	20.73	32.34	14,488	2,318	151	311	35.80	25.90	2.1	-	0
DAMEN	MFI	2007	1,633,000	5.1	48,456,000	209,880,000	16.35	23.09	29,051	1,668	165	330	34.80	24.90	2.07	4,128,000.00	2
KASHF Foundation	MFI	2007	281,294,000	23.8	310,557,000	2,354,552,000	10.2	13.19	214,543	1,448	189	324	36.20	26.20	0.73	3,132,000.00	0.1
ORANGI	MFI	2007	12,276,000	11.2	12,362,000	118,570,000	7.9	10.43	16,495	749	488	1,399	19.70	11.00	1	542,000.00	0.5
ORIX LEASING	MFI	2007	1,319,000	8.8	8,611,000	100,445,000	8.7	8.57	6,265	1,374	241	356	20.40	11.60	2.9	-	0
SAFWCO	MFI	2007	- 14,905,000	-61.0	32,733,000	77,720,000	32.4	42.12	15,774	2,075	152	373	39.20	29.00	4.9	-	0
SUNGI DF	MFI	2007	- 1,489,000	-5.7	1,032,000	4,190,000	3.9	24.63	231	4,468	92	154	18.00	9.40	30.2	693,000.00	16.5
AKHUWAT	MFI	2006	- 3,104,000	-9.0	4,576,000	28,241,000	13.49	16.2	4,546	1,007	105	115	12.00	2.90	0.7	35,000.00	0.1
ASASAH	MFI	2006	- 21,165,000	-179.7	35,306,000	79,479,000	25.1	44.42	9,460	3,732	36	50	30.30	19.60	0	-	0
CSC	MFI	2006	- 26,558,000	-107.7	40,660,000	86,017,000	38.2	47.27	9,765	4,164	154	237	25.30	15.10	1.1	-	0
DAMEN	MFI	2006	- 10,088,000	-46.4	36,073,000	131,185,000	19.38	27.5	20,523	1,758	131	170	32.40	21.60	6.68	3,307,000.00	2.5
KASHF Foundation	MFI	2006	63,815,000	8.2	173,888,000	1,152,375,000	10.86	15.09	104,605	1,662	158	240	28.40	17.90	0.1	2,126,000.00	0.2
ORANGI	MFI	2006	- 3,196,000	-3.5	13,730,000	79,916,000	11	17.18	9,494	1,446	400	857	8.70	- 0.10	0.5	1,896,000.00	2.4
ORIX LEASING	MFI	2006	819,000	39.6	4,541,000	74,182,000	6.2	6.12	3,822	1,188	182	363	16.30	6.80	2.7	-	0
SAFWCO	MFI	2006	- 10,548,000	-60.0	18,493,000	65,960,000	21.6	28.04	11,492	1,609	127	319	22.30	12.30	3.4	521,000.00	0.8
TARAQEE	MFI	2006	- 83,971,000	0.0	43,638,000	187,905,000	15.2	23.22	18,710	2,332	75	194	15.90	6.40	43.6	-	0

All Institutions - 2006	- 93,996,000	- 9.95	370,905,000	1,885,260,000	11	20	192,417	1,928	126	194	27.10	16.70	0.80	7,885,000	0.42
All Institutions - 2007	230,751,000	15.93	522,547,000	3,180,250,000	10	16	324,361	1,611	177	308	35.20	25.30	1.00	8,786,000	0.28
All Institutions - 2008	- 924,623,000	- 61.61	657,319,000	4,451,911,000	10	15	437,299	1,503	166	322	31.30	17.30	3.60	39,644,000	0.89
All Institutions - 2009	- 148,341,000	- 30.10	523,304,000	1,996,140,000	14	26	224,532	2,331	116	228	31.60	9.00	3.30	64,961,000	3.25
All Institutions - 2010	- 84,679,000	- 6.91	805,711,000	3,294,883,000	16	24	406,772	1,981	129	246	30.70	13.60	4.50	82,404,000	2.50

Name	Int Type	Year	Age	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	GLP_TA	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita
-	-		-	PkR	-	-	-	PkR	PkR	PkR	PkR	%	-	-	%	PkR	Income	%
NRSP	RSP	2010	17	6,980,066,000	502	2,396	643	5,638,524,000	995,709,000	5,984,357,000	-	80.8	431,027	225,048	52.21	13,082	105,300	12.4
PRSP	RSP	2010	12	2,050,152,000	78	978	448	662,612,000	627,523,000	1,422,629,000	-	32.3	78,091	35,550	45.52	8,485	105,300	8.1
SRSP	RSP	2010	19	22,933,000	10	30	17	10,756,000	7,599,000	15,333,000	-	46.9	1,121	862	76.9	9,595	105,300	9.1
TRDP	RSP	2010	13	513,434,000	86	237	180	284,809,000	95,387,000	418,047,000	-	55.5	31,647	22,366	70.67	9,000	105,300	8.5
NRSP	RSP	2009	16	5,963,775,000	516	3,019	2,389	4,601,408,000	835,789,000	5,127,986,000	-	77.2	399,969	208,071	52.02	11,504	86,000	13.4
PRSP	RSP	2009	11	2,276,685,000	78	916	448	769,620,000	606,568,000	1,670,117,000	-	33.8	81,754	36,194	44.27	9,414	86,000	10.9
SRSP	RSP	2009	18	77,617,000	12	44	29	32,451,000	7,716,000	85,333,000	-	41.8	7,218	3,322	46.02	4,496	86,000	5.2
TRDP	RSP	2009	12	542,897,000	60	228	92	293,759,000	61,153,000	481,744,000	-	54.1	27,010	17,375	64.33	10,876	86,000	12.6
NRSP	RSP	2008	15	8,652,429,000	537	3,045	2,469	7,354,447,000	684,548,000	7,967,881,000	-	85.0	565,863	232,113	41.02	12,997	81,000	16.0
PRSP	RSP	2008	10	2,243,508,000	25	460	368	653,592,000	1,076,661,000	1,166,847,000	-	29.1	74,172	40,743	54.93	8,812	81,000	10.9
SRSP	RSP	2008	17	110,778,000	11	64	29	71,965,000	3,575,000	107,203,000	-	65.0	10,847	5,574	51.39	6,635	81,000	8.2
TRDP	RSP	2008	11	448,367,000	61	184	166	316,139,000	25,885,000	422,482,000	-	70.5	30,751	6,003	19.52	10,281	81,000	12.7
NRSP	RSP	2007	14	3,673,667,000	499	2,469	1,968	3,244,991,000	434,403,000	3,239,264,000	-	88.3	292,456	124,996	42.74	11,096	57,000	19.5
PRSP	RSP	2007	9	1,720,541,000	27	551	397	427,608,000	908,182,000	812,359,000	-	24.9	67,285	35,186	52.29	6,355	57,000	11.1
SRSP	RSP	2007	16	67,946,000	14	63	20	42,920,000	13,613,000	54,333,000	-	63.2	7,174	4,382	61.08	5,983	57,000	10.5
TRDP	RSP	2007	10	309,482,000	60	131	94	341,924,000	101,668,000	411,151,000	-	110.5	37,264	10,396	27.9	9,176	57,000	16.1
NRSP	RSP	2006	13	2,247,756,000	581	1,836	1,495	1,993,573,000	529,707,000	1,718,049,000	-	88.7	190,846	52,383	27.45	10,446	57,000	18.3
PRSP	RSP	2006	8	1,193,006,000	21	546	398	260,389,000	665,665,000	527,340,000	-	21.8	41,860	6,006	14.35	6,220	57,000	10.9
SRSP	RSP	2006	15	67,946,065	14	63	-	42,920,359	-	-	-	63.2	7,174	-	61.08	5,983	57,000	10.5
TRDP	RSP	2006	9	351,282,000	50	107	80	339,502,000	60,633,000	411,916,000	-	96.7	42,932	12,880	30	7,908	57,000	13.9

Name	Year	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	GLP_TA	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita
All Institutions - 2006	2006	3,859,990,065	666	2,552	1,973	2,636,384,359	1,134,739,000	2,657,305,000	-	68.3	282,812	71,269	25	9,322		16.5
All Institutions - 2007	2007	5,771,636,000	600	3,214	2,479	4,057,443,000	1,254,530,000	4,517,107,000	-	70.3	404,179	174,960	43	10,039		16.1
All Institutions - 2008	2008	11,455,082,000	634	3,753	3,032	8,396,143,000	1,790,669,000	9,664,413,000	-	73.3	681,633	284,433	42	12,318		15.2
All Institutions - 2009	2009	8,860,974,000	666	4,207	2,958	5,697,238,000	1,495,794,000	7,365,180,000	-	64.3	515,951	264,962	51	11,042		13.0
All Institutions - 2010	2010	9,566,585,000	676	3,641	1,288	6,596,701,000	1,726,218,000	7,840,366,000	-	69.0	541,886	283,826	52	12,174		11.0

Name	Int Type	Year	Adj Equity	Net Income	Adj ROE	Adj OE	Avg GLP	OE_A	OE_LP	Avg NOAB	CPB	B_Satff	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
-	-		PkR	PkR	%	PkR	PkR	%	%	PkR	PkR	-	-	Nominal	Real	%	PkR	%
NRSP	RSP	2010	915,749,000	149,910,000	16.4	754,945,000	5,119,966,000	11.7	14.75	431,027	1,752	180	670	30.30	13.30	4.3	-	0
PRSP	RSP	2010	617,046,000	6,372,000	1.0	121,505,000	716,116,000	5.6	16.97	78,091	1,556	80	174	17.80	2.40	7	-	0
SRSP	RSP	2010	7,658,000	- 17,588,000	-229.7	22,020,000	21,604,000	43.8	101.93	1,121	19,643	37	66	28.80	12.00	0	-	0
TRDP	RSP	2010	78,345,000	22,695,000	29.0	41,244,000	289,194,000	7.8	14.26	31,647	1,303	134	176	27.40	10.80	5.8	-	0
NRSP	RSP	2009	808,669,000	163,674,000	20.2	660,270,000	5,977,927,000	9	11.05	482,916	1,367	132	167	22.40	1.40	1.8	255,299,000	4.3
PRSP	RSP	2009	591,433,000	- 52,313,000	-8.8	57,493,000	711,624,000	3	8.08	77,963	737	89	182	19.30	- 1.20	0.3	-	0
SRSP	RSP	2009	- 2,071,000	- 14,040,000	0.0	23,802,000	52,208,000	25.3	45.59	7,218	3,298	164	249	48.20	22.70	7.2	8,163,000	15.6
TRDP	RSP	2009	43,579,000	38,862,000	89.2	60,706,000	304,859,000	12.2	19.91	25,370	2,393	118	294	21.70	0.70	1.7	34,812,000	11.4
NRSP	RSP	2008	559,475,000	203,612,000	36.4	610,434,000	5,299,719,000	9.9	11.52	429,160	1,422	186	229	24.00	10.70	0.7	4,466,000	0.1
PRSP	RSP	2008	992,421,000	- 122,613,000	-12.4	109,579,000	540,600,000	5.43	20.27	70,729	1,549	161	202	18.50	5.80	4.2	43,581,000	8.1
SRSP	RSP	2008	8,594,000	- 2,163,000	-25.2	13,547,000	57,442,000	15.2	23.58	9,011	1,503	169	374	27.20	13.60	1.9	859,000	1.5
TRDP	RSP	2008	- 37,892,000	- 76,040,000	-200.7	81,473,000	329,031,000	21.5	24.76	34,008	2,396	167	185	20.50	7.50	7.4	88,002,000	26.7
NRSP	RSP	2007	433,555,000	- 53,590,000	-12.4	408,787,000	2,619,282,000	13.8	15.61	241,651	1,692	118	149	21.70	12.80	0.75	7,290,000	0.3
PRSP	RSP	2007	786,924,000	- 174,223,000	-22.1	120,291,000	343,999,000	8.3	34.97	54,573	2,204	122	169	13.60	5.30	19.3	56,376,000	16.4
SRSP	RSP	2007	3,683,000	- 5,448,000	-147.9	13,934,000	35,672,000	22.9	39.06	5,500	2,533	114	359	23.60	14.50	1	3,054,000	8.6
TRDP	RSP	2007	- 81,151,000	- 105,035,000	-129.4	79,433,000	340,713,000	24	23.31	40,098	1,981	284	396	17.30	8.70	22.9	-	0
NRSP	RSP	2006	386,589,000	- 77,744,000	-20.1	300,098,000	1,612,885,000	15.1	18.61	142,537	2,105	104	128	20.00	10.00	0.78	2,251,000	0.1
PRSP	RSP	2006	631,647,000	- 87,404,000	-13.8	101,934,000	271,064,000	8.6	37.61	44,858	2,272	77	105	14.10	4.80	2.6	-	0
SRSP	RSP	2006	-	-	0.0	-	-	0	0	-	-	114	359	-	-	1.02	-	0
TRDP	RSP	2006	- 30,997,000	- 106,832,000	-344.7	74,370,000	313,260,000	22.4	23.74	37,735	1,971	401	537	14.50	5.20	13.7	23,704,000	7.6

Name	Adj Equity	Net Income	Adj ROE	Adj OE	Avg GLP	OE_A	OE_LP	Avg NOAB	CPB	B_Satff	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
All Institutions - 2006	987,239,000	- 271,980,000	- 27.55	476,402,000	2,197,209,000	12	22	225,130	2,116	111	143	16.00	6.50	2.70	25,955,000	1.18
All Institutions - 2007	1,143,011,000	- 338,296,000	- 29.60	622,445,000	3,339,666,000	11	19	341,822	1,821	126	163	26.10	16.90	4.60	66,720,000	2.00
All Institutions - 2008	1,522,598,000	2,796,000	0.18	815,033,000	6,226,792,000	7	13	542,908	1,501	182	225	23.40	10.20	1.30	136,908,000	2.20
All Institutions - 2009	1,441,610,000	136,183,000	9.45	802,271,000	7,046,618,000	9	11	593,467	1,352	123	174	22.30	1.20	1.70	298,274,000	4.23
All Institutions - 2010	1,618,798,000	161,389,000	9.97	939,714,000	6,146,880,000	10	15	541,886	1,734	149	421	28.70	11.90	4.60	-	-

Appendix 2: Financial Data of Microfinance Institutions with Kashf Foundation

Name	Int Type	Year	Age	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	GLP_TA	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita
				PkR				PkR	PkR	PkR	PkR	%			%	PkR	Income	%
FMFB	Bank	2010	9	6,352,778,202	147	1,544	562	2,373,880,297	753,883,000	5,598,896,000	5,344,198,000	37.37	151,797	50,907	33.54	15,639	105,300	14.9
KASHF BANK	Bank	2010	3	1,228,338,566	30	448	226	453,101,817	350,543,000	877,796,000	776,401,000	36.89	17,445	1,745	10.00	25,973	105,300	24.7
KHUSHHALI BANK	Bank	2010	10	7,238,672,439	109	2,163	764	3,722,152,797	2,215,782,000	5,022,890,000	1,000,329,000	51.42	325,523	81,381	25.00	11,434	105,300	10.9
NMFB	Bank	2010	6	251,858,520	5	111	68	61,618,872	220,124,000	31,735,000	29,027,000	24.47	5,734	-	0.00	10,746	105,300	10.2
POMFB	Bank	2010	5	745,413,522	14	151	65	88,348,053	700,477,000	44,936,000	27,724,000	11.85	7,045	2,111	29.96	12,541	105,300	11.9
TAMEER MFB	Bank	2010	5	5,279,389,000	40	786	524	3,096,044,000	1,323,754,000	3,955,635,000	2,954,653,000	58.64	111,153	66,983	60.26	27,854	105,300	26.5
AKHUWAT	MFI	2010	10	223,099,000	33	215	150	150,039,000	219,185,000	3,914,000	-	67.25	20,158	6,048	30.00	7,443	105,300	7.1
ASA Pak	MFI	2010	2	806,230,045	100	596	411	736,038,387	285,616,000	520,614,000	-	91.29	85,380	84,820	99.34	8,621	105,300	8.2
ASASAH	MFI	2010	8	421,310,000	23	219	96	286,028,000	- 46,880,000	468,189,000	-	67.89	29,806	29,806	100.00	9,596	105,300	9.1
BRAC Pak	MFI	2010	3	1,105,046,493	94	899	505	702,521,013	29,652,000	1,075,395,000	-	63.57	84,411	84,411	100.00	8,323	105,300	7.9
CSC	MFI	2010	10	193,843,000	17	158	56	183,903,000	11,506,000	182,337,000	-	94.87	11,975	10,862	90.71	15,357	105,300	14.6
CWCD	MFI	2010	19	210,306,894	22	174	68	131,516,884	2,871,000	207,436,000	-	62.54	12,897	4,030	31.25	10,197	105,300	9.7
DAMEN	MFI	2010	14	521,056,000	20	200	80	368,824,620	73,254,000	447,802,000	-	70.78	38,145	38,145	100.00	9,669	105,300	9.2
KASHF Foundation	MFI	2010	14	3,211,441,988	152	1380	745	3,461,072,674	- 215,586,342	3,427,028,330	-	107.77	317,299	317,299	100.00	10,908	105,300	10.4
JWS	MFI	2010	19	200,942,000	10	84	38	165,225,000	33,714,000	167,228,000	-	82.23	13,019	12,319	94.62	12,691	105,300	12.1
Orangi	MFI	2010	23	627,751,000	14	132	46	505,215,000	273,079,000	354,672,000	-	80.48	49,155	9,831	20.00	10,278	105,300	9.8
RCDS	MFI	2010	16	286,719,000	22	201	63	193,613,000	37,974,000	248,745,000	-	67.53	17,638	12,498	70.86	10,977	105,300	10.4
ORIX LEASING	MFI	2010	18	224,240,000	9	57	35	212,838,000	44,840,000	179,400,000	-	94.92	15,553	14,800	95.16	13,685	105,300	13.0
SAFWCO	MFI	2010	16	296,886,000	16	191	79	231,347,774	65,457,000	231,428,000	-	77.92	23,123	11,483	49.66	10,005	105,300	9.5
SUNGI DF	MFI	2010	16	45,748,124	4	35	24	36,959,320	38,212,000	7,536,000	-	80.79	5,512	5,512	100.00	6,705	105,300	6.4
NRSP	RSP	2010	17	6,980,066,000	502	2,396	643	5,638,524,000	995,709,000	5,984,357,000	-	80.78	431,027	225,048	52.21	13,082	105,300	12.4
PRSP	RSP	2010	12	2,050,152,000	78	978	448	662,612,000	627,523,000	1,422,629,000	-	32.32	78,091	35,550	45.52	8,485	105,300	8.1
SRSP	RSP	2010	19	22,933,000	10	30	17	10,756,000	7,599,000	15,333,000	-	46.90	1,121	862	76.90	9,595	105,300	9.1
TRDP	RSP	2010	13	513,434,000	86	237	180	284,809,000	95,387,000	418,047,000	-	55.47	31,647	22,366	70.67	9,000	105,300	8.5
FMFB	Bank	2009	8	6,068,006,777	88	1531	1005	2,778,352,175	593,210,000	5,474,797,000	5,219,008,000	45.79	199,792	69,563	34.82	13,906	86,000	16.2
KASHF BANK	Bank	2009	2	1,191,855,586	27	443	218	424,124,652	524,782,000	667,073,000	318,473,000	35.59	14,192	492	3.47	29,885	86,000	34.8
KHUSHHALI BANK	Bank	2009	9	6,587,779,000	107	2002	647	3,630,204,658	2,076,920,000	4,510,859,000	190,033,000	55.11	329,421	77,385	23.49	11,020	86,000	12.8
NMFB	Bank	2009	5	351,410,595	5	94	48	92,073,938	238,587,000	112,823,000	110,906,000	26.20	4,000	-	0.00	23,018	86,000	26.8
POMFB	Bank	2009	4	721,826,000	14	150	37	100,570,623	678,459,000	42,367,000	24,547,000	13.93	8,092	2,119	26.19	12,428	86,000	14.5
ROZGAR BANK	Bank	2009	5	70,831,297	9	27	6	883,570	36,978,000	33,853,000	30,838,000	1.25	52	12	23.08	16,992	86,000	19.8
TAMEER MFB	Bank	2009	4	2,799,484,000	39	791	544	1,539,841,000	1,125,152,000	1,674,332,000	1,267,829,000	55.00	70,671	26,345	37.28	21,789	86,000	25.3
AKHUWAT	MFI	2009	9	117,346,874	22	91	67	95,711,000	115,321,000	2,025,000	-	81.56	15,013	4,503	29.99	6,375	86,000	7.4
ASA Pakistan	MFI	2009	1	149,417,753	35	233	141	120,300,304	9,457,000	139,961,000	-	80.51	18,283	18,231	99.72	6,580	86,000	7.7
ASASAH	MFI	2009	7	417,674,000	23	191	78	260,611,000	- 15,724,000	433,397,000	-	62.40	34,007	34,007	100.00	7,663	86,000	8.9
BRAC PAK	MFI	2009	2	851,710,000	88	826	495	363,183,203	- 53,190,000	904,900,000	-	42.64	45,011	45,011	100.00	8,069	86,000	9.4
CSC	MFI	2009	9	316,597,000	17	177	75	197,086,000	30,462,000	286,135,000	-	62.25	15,241	14,784	97.00	12,931	86,000	15.0
CWCD	MFI	2009	18	260,673,000	19	168	56	153,196,000	11,431,000	249,243,000	-	58.77	8,910	2,408	27.03	17,194	86,000	20.0
DAMEN	MFI	2009	13	529,613,615	20	202	98	422,704,136	66,478,000	463,135,000	-	79.81	44,912	44,912	100.00	9,412	86,000	10.9
KASHF Foundation	MFI	2009	13	3,817,559,894	158	1447	950	3,483,149,223	- 332,109,675	4,149,669,569	-	91.24	319,517	319,219	99.91	10,901	86,000	12.7
JWS	MFI	2009	18	169,875,000	6	57	24	103,747,000	27,860,000	142,015,000	-	61.07	9,358	8,719	93.17	11,086	86,000	12.9
ORANGI	MFI	2009	22	408,945,000	6	116	18	348,606,000	209,149,000	199,795,000	-	85.25	34,874	2,516	7.21	9,996	86,000	11.6
ORIX LEASING	MFI	2009	17	315,541,000	8	49	33	195,332,000	34,832,000	280,709,000	-	61.90	16,326	14,575	89.27	11,964	86,000	13.9
SAFWCO	MFI	2009	15	245,268,000	17	171	65	212,928,091	58,665,000	186,603,000	-	86.81	23,430	10,974	46.84	9,088	86,000	10.6
SUNGI DF	MFI	2009	15	39,368,197	5	31	24	21,332,990	33,222,000	6,146,000	-	54.19	2,121	1,774	83.64	10,058	86,000	11.7
NRSP	RSP	2009	16	5,963,775,000	516	3019	2389	4,601,408,000	835,789,000	5,127,986,000	-	77.16	399,969	208,071	52.02	11,504	86,000	13.4
PRSP	RSP	2009	11	2,276,685,000	78	916	448	769,620,000	606,568,000	1,670,117,000	-	33.80	81,754	36,194	44.27	9,414	86,000	10.9
SRSP	RSP	2009	18	77,617,000	12	44	29	32,451,000	- 7,716,000	85,333,000	-	41.81	7,218	3,322	46.02	4,496	86,000	5.2
TRDP	RSP	2009	12	542,897,000	60	228	92	293,759,000	61,153,000	481,744,000	-	54.11	27,010	17,375	64.33	10,876	86,000	12.6

Name	Int Type	Year	Adj Equity	Net Income	Adj ROE	Adj OE	Avg GLP	OE_A	OE_LP	Avg NOAB	CPB	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
			PkR	PkR	%	PkR	PkR	%	%	PkR	PkR		Nominal	Real	%	PkR	%
FMFB	Bank	2010	669,032,000	- 169,559,000	-25.3	698,009,000	2,576,116,000	20.8	27.10	151,797	4,598	270	38.0	20.0	5.62	125,113,000	4.9
KASHF BANK	Bank	2010	437,663,000	- 174,240,000	-39.8	364,917,000	438,613,000	30.2	83.20	17,445	20,918	77	46.5	27.4	3.3	24,790,000	5.7
KHUSHHALI BANK	Bank	2010	2,146,118,000	188,138,000	8.8	1,028,220,000	3,676,179,000	14.87	27.97	325,523	3,159	426	32.7	15.4	3.9	85,720,000	2.3
NMFB	Bank	2010	229,356,000	- 18,464,000	-8.1	50,497,000	76,846,000	16.74	65.71	5,734	8,807	84	39.8	21.6	52.31	11,209,000	14.6
POMFB	Bank	2010	688,294,000	24,367,000	3.5	92,252,000	94,459,000	12.58	97.66	7,045	13,095	108	37.8	19.8	8.78	5,277,000	5.6
TAMEER MFB	Bank	2010	1,198,832,000	55,351,000	4.6	802,386,000	2,317,943,000	19.9	34.62	111,153	7,219	212	38.3	20.3	0.5	951,000	0
AKHUWAT	MFI	2010	167,192,000	- 5,796,000	-3.5	26,069,000	123,470,000	15.3	21.11	20,158	1,293	134	-	- 13.0	1	409,000	0.3
ASA Pak	MFI	2010	147,356,000	18,479,000	12.5	94,550,000	428,169,000	19.79	22.08	85,380	1,107	208	34.1	16.6	1.14	-	0
ASASAH	MFI	2010	- 31,302,000	- 29,983,000	-95.8	83,393,000	273,319,000	19.9	30.51	29,806	2,798	310	34.2	16.7	2.3	-	0
BRAC Pak	MFI	2010	41,421,000	- 86,770,000	-209.5	232,678,000	532,852,000	23.8	43.67	84,411	2,756	167	39.8	21.6	4.19	7,759,000	1.5
CSC	MFI	2010	20,984,000	- 33,146,000	-158.0	58,959,000	190,495,000	23.1	30.95	11,975	4,924	214	31.9	14.7	13.4	13,417,000	7
CWCD	MFI	2010	7,151,000	- 8,560,000	-119.7	60,509,000	142,356,000	25.7	42.51	12,897	4,692	190	31.9	14.7	49.48	14,185,000	10
DAMEN	MFI	2010	69,866,000	6,775,000	9.7	72,440,000	395,764,000	13.8	18.30	38,145	1,899	477	37.2	19.3	3.4	38,604,000	9.8
KASHF Foundation	MFI	2010	- 273,848,009	106,048,633	-38.7	472,793,831	3,472,110,949	13.5	13.62	318,408	1,485	426	32.3	18.1	4.3	31,433,000	0.9
JWS	MFI	2010	30,787,000	1,966,000	6.4	34,140,000	134,486,000	18.4	25.39	13,019	2,622	343	35.0	17.4	0	-	0
Orangi	MFI	2010	241,114,000	29,514,000	12.2	46,275,000	426,910,000	8.9	10.84	49,155	941	1,069	21.4	5.6	0.2	141,000	0
RCDS	MFI	2010	37,974,000	11,562,000	30.4	19,798,000	191,693,000	6.9	10.33	17,638	1,122	280	18.3	2.9	1.1	-	0
ORIX LEASING	MFI	2010	398,836,000	10,008,000	2.5	23,802,000	204,085,000	8.8	11.66	15,553	1,530	444	25.2	8.9	5.7	3,001,000	1.5
SAFWCO	MFI	2010	58,347,000	- 3,473,000	-6.0	47,240,000	222,138,000	17.4	21.27	23,123	2,043	293	31.6	14.4	4.5	4,398,000	2
SUNGI DF	MFI	2010	35,717,000	4,745,000	13.3	5,858,000	29,146,000	13.8	20.10	5,512	1,063	230	35.6	18.0	1.2	490,000	1.7
NRSP	RSP	2010	915,749,000	149,910,000	16.4	754,945,000	5,119,966,000	11.7	14.75	431,027	1,752	670	30.3	13.3	4.3	-	0
PRSP	RSP	2010	617,046,000	6,372,000	1.0	121,505,000	716,116,000	5.6	16.97	78,091	1,556	174	17.8	2.4	7	-	0
SRSP	RSP	2010	7,658,000	- 17,588,000	-229.7	22,020,000	21,604,000	43.8	101.93	1,121	19,643	66	28.8	12.0	0	-	0
TRDP	RSP	2010	78,345,000	22,695,000	29.0	41,244,000	289,194,000	7.8	14.26	31,647	1,303	176	27.4	10.8	5.8	-	0
FMFB	Bank	2009	579,860,000	- 49,489,000	-8.5	601,081,000	2,444,871,000	11.83	24.59	183,992	3,267	199	32.9	10.0	0.9	31,614,000	1.3
KASHF BANK	Bank	2009	618,268,000	- 307,563,000	-49.7	295,604,000	488,352,000	24.43	60.53	16,207	18,239	65	26.5	4.7	1	76,266,000	15.6
KHUSHHALI BANK	Bank	2009	1,978,198,000	- 165,911,000	-8.4	984,331,000	3,361,770,000	14.83	29.28	321,136	3,065	509	24.5	3.1	0.7	101,423,000	3
NMFB	Bank	2009	163,469,000	- 13,915,000	-8.5	45,148,000	80,434,000	16.58	56.13	3,168	14,251	83	33.3	10.4	16.9	4,701,000	5.8
POMFB	Bank	2009	553,599,000	- 87,575,000	-15.8	86,185,000	112,906,000	14.39	76.33	9,473	9,098	219	33.2	10.2	4.3	4,961,000	4.4
ROZGAR BANK	Bank	2009	43,250,000	- 21,532,000	-49.8	13,412,000	14,559,000	17.85	92.12	827	16,218	9	14.6	- 5.1	9.6	19,131,000	131.4
TAMEER MFB	Bank	2009	1,135,372,000	- 323,440,000	-28.5	554,122,000	1,223,347,000	21.75	45.30	70,671	7,841	130	28.4	6.3	0.9	1,182,000	0.1
AKHUWAT	MFI	2009	98,826,000	- 20,423,000	-20.7	15,964,000	82,642,000	15.8	19.32	11,703	1,364	224	-	- 17.2		-	0
ASA Pakistan	MFI	2009	13,993,000	- 15,894,000	-113.6	34,233,000	65,583,000	40.6	52.20	9,713	3,524	130	39.5	15.5	0.011	-	0
ASASAH	MFI	2009	- 19,020,000	- 14,794,000	-77.8	72,400,000	243,190,000	19.83	29.77	28,899	2,505	436	41.1	16.8	0.3	-	0
BRAC PAK	MFI	2009	- 32,801,000	- 34,821,000	-106.2	121,950,000	296,209,000	20.5	41.17	36,281	3,361	91	35.9	12.5	1.1	6,067,000	2
CSC	MFI	2009	40,396,000	- 44,246,000	-109.5	53,627,000	175,199,000	18.9	30.61	16,141	3,322	203	29.1	6.9	4	28,988,000	16.5
CWCD	MFI	2009	16,170,000	- 27,889,000	-172.5	37,086,000	134,765,000	15.1	27.52	7,336	5,055	159	29.2	6.9	12	18,826,000	14
DAMEN	MFI	2009	61,692,000	3,166,000	5.1	60,608,000	374,043,000	12.32	16.20	40,905	1,482	458	28.7	6.5	1.8	6,324,000	1.7
KASHF Foundation	MFI	2009	331,113,163	- 1,451,523,862	-438.4	260,915,976	3,483,149,223	5.95	7.49	319,517	817	336	32.3	18.1	4.3	31,433,000	0.9
JWS	MFI	2009	22,738,000	1,337,000	5.9	20,517,000	81,985,000	15.9	25.03	7,517	2,729	390	32.3	9.5		-	0
ORANGI	MFI	2009	187,331,000	9,707,000	5.2	31,202,000	174,303,000	8.93	17.90	28,281	1,103	1,937	30.2	7.8	0.25	-	0
ORIX LEASING	MFI	2009	26,974,000	10,481,000	38.9	27,459,000	175,915,000	10.6	15.61	15,752	1,743	495	29.6	8.9	1.9	-	0
SAFWCO	MFI	2009	45,321,000	- 11,569,000	-25.5	45,139,000	177,265,000	21.1	25.46	20,737	2,177	360	25.4	3.8	0.2	4,549,000	2.6
SUNGI DF	MFI	2009	31,262,000	- 3,396,000	-10.9	3,119,000	15,041,000	9	20.74	1,267	2,462	88	29.2	5.8	5.48	207,000	1.4
NRSP	RSP	2009	808,669,000	163,674,000	20.2	660,270,000	5,977,927,000	9	11.05	482,916	1,367	167	22.4	1.4	1.8	255,299,000	4.3
PRSP	RSP	2009	591,433,000	- 52,313,000	-8.8	57,493,000	711,624,000	3	8.08	77,963	737	182	19.3	- 1.2	0.3	-	0
SRSP	RSP	2009	- 2,071,000	- 14,040,000	0.0	23,802,000	52,208,000	25.3	45.59	7,218	3,298	249	48.2	22.7	7.2	8,163,000	15.6
TRDP	RSP	2009	43,579,000	38,862,000	89.2	60,706,000	304,859,000	12.2	19.91	25,370	2,393	294	21.7	0.7	1.7	34,812,000	11.4

Name	Int Type	Year	Age	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	GLP_TA	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita
				PkR				PkR	PkR	PkR	PkR	%			%	PkR	Income	%
FMFB	Bank	2008	7	4,094,253,000	159	1575	730	2,111,402,804	557,520,000	3,536,732,000	3,304,742,000	51.57	168,191	61,980	36.85	12,554	81,000	15.5
KASHF BANK	Bank	2008	1	1,198,443,803	19	273	135	552,579,844	711,753,000	486,691,000	-	46.11	18,434	3,503	19.00	29,976	81,000	37.0
KHUSHHALI BANK	Bank	2008	8	6,685,742,412	135	2008	808	3,093,335,635	1,871,223,000	4,814,520,000	18,169,000	46.27	312,851	31,008	9.91	9,888	81,000	12.2
NMFB	Bank	2008	4	193,118,316	4	72	34	68,793,957	88,350,000	104,769,000	101,255,000	35.62	2,336	537	22.99	29,449	81,000	36.4
POMFB	Bank	2008	3	459,374,013	15	152	117	125,240,876	419,910,000	39,464,000	23,859,000	27.26	10,853	2,834	26.11	11,540	81,000	14.2
ROZGAR BANK	Bank	2008	4	79,409,821	11	56	16	28,235,333	49,845,000	29,565,000	24,180,000	35.56	1,601	303	18.93	17,636	81,000	21.8
TAMEER MFB	Bank	2008	3	2,295,709,000	31	865	630	906,852,000	1,194,635,000	1,101,074,000	639,525,000	39.50	43,791	8,471	19.34	20,709	81,000	25.6
ASASAH	MFI	2008	6	309,327,000	30	233	100	225,768,000	- 22,317,000	331,644,000	-	72.99	23,730	23,730	100.00	9,514	81,000	11.7
CSC	MFI	2008	8	309,900,000	13	80	52	184,026,000	52,177,000	257,723,000	-	59.38	17,432	8,075	46.32	10,557	81,000	13.0
DAMEN	MFI	2008	12	454,350,898	25	200	100	325,382,861	56,905,000	397,446,000	-	71.61	36,897	36,897	100.00	8,819	81,000	10.9
KASHF Foundation	MFI	2008	12	4,959,560,470	158	1917	950	3,483,149,223	994,336,000	3,965,224,000	-	70.23	319,517	319,219	99.91	10,901	81,000	13.5
ORANGI	MFI	2008	21	287,110,000	6	89	82	193,429,000	165,514,000	121,596,000	-	67.37	23,896	4,780	20.00	8,095	81,000	10.0
ORIX LEASING	MFI	2008	16	200,800,000	9	52	38	156,498,000	19,115,000	181,685,000	-	77.94	15,177	10,714	70.59	10,312	81,000	12.7
SAFWCO	MFI	2008	14	181,648,295	18	143	64	141,602,126	39,407,000	142,241,000	-	77.95	18,043	6,605	36.61	7,848	81,000	9.7
SUNGI DF	MFI	2008	14	29,956,695	8	31	28	8,750,328	29,302,000	655,000	-	29.21	1,039	706	67.95	8,422	81,000	10.4
NRSP	RSP	2008	15	8,652,429,000	537	3045	2469	7,354,447,000	684,548,000	7,967,881,000	-	85.00	565,863	232,113	41.02	12,997	81,000	16.0
PRSP	RSP	2008	10	2,243,508,000	25	460	368	653,592,000	1,076,661,000	1,166,847,000	-	29.13	74,172	40,743	54.93	8,812	81,000	10.9
SRSP	RSP	2008	17	110,778,000	11	64	29	71,965,000	3,575,000	107,203,000	-	64.96	10,847	5,574	51.39	6,635	81,000	8.2
TRDP	RSP	2008	11	448,367,000	61	184	166	316,139,000	25,885,000	422,482,000	-	70.51	30,751	6,003	19.52	10,281	81,000	12.7
FMFB	Bank	2007	6	2,807,162,394	92	1045	651	1,221,559,254	670,881,000	2,136,281,000	2,035,584,000	43.52	101,394	42,819	42.23	12,048	57,000	21.1
KHUSHHALI BANK	Bank	2007	7	6,703,280,398	120	1865	616	2,652,915,785	1,812,443,000	4,890,837,000	-	39.58	283,965	43,817	15.43	9,342	57,000	16.4
NMFB	Bank	2007	3	202,334,652	5	54	26	45,853,660	104,284,000	98,050,000	83,338,000	22.66	2,303	395	17.15	19,910	57,000	34.9
POMFB	Bank	2007	2	495,587,000	16	201	70	93,493,000	455,008,000	40,579,000	23,189,000	18.87	14,397	356	2.47	6,494	57,000	11.4
Rozgar Bank	Bank	2007	3	107,492,202	21	76	42	33,630,168	70,364,000	37,128,000	32,360,000	31.29	2,337	1,181	50.53	14,390	57,000	25.2
TAMEER MFB	Bank	2007	2	1,255,222,000	41	658	461	408,807,000	301,510,000	953,712,000	648,373,000	32.57	31,011	978	3.15	13,183	57,000	23.1
AKHUWAT	MFI	2007	6	63,831,000	15	70	61	50,953,000	62,872,000	959,000	-	79.82	8,734	6,565	75.17	5,834	57,000	10.2
ASASAH	MFI	2007	5	323,417,000	33	280	177	222,451,000	- 13,325,000	336,742,000	-	68.78	27,711	27,711	100.00	8,028	57,000	14.1
CSC	MFI	2007	7	242,598,000	11	101	49	145,322,000	25,769,000	216,829,000	-	59.90	15,254	15,254	100.00	9,527	57,000	16.7
DAMEN	MFI	2007	11	349,993,303	25	198	99	250,428,235	40,036,000	309,957,000	-	71.55	32,623	32,623	100.00	7,676	57,000	13.5
KASHF Foundation	MFI	2007	11	4,064,007,797	159	1567	913	3,178,784,275	1,426,500,000	2,637,508,000	-	78.22	295,396	283,288	95.90	10,761	57,000	18.9
ORANGI	MFI	2007	20	182,523,000	2	43	15	143,821,000	120,711,000	61,813,000	-	78.80	20,987	734	3.50	6,853	57,000	12.0
ORIX LEASING	MFI	2007	15	126,785,000	9	37	25	127,112,000	27,018,000	99,766,000	-	100.26	8,900	6,283	70.60	14,282	57,000	25.1
SAFWCO	MFI	2007	13	13,822,000	14	115	47	112,250,000	33,128,000	105,694,000	-	812.11	17,529	3,841	21.91	6,404	57,000	11.2
SUNGI DF	MFI	2007	13	27,374,000	2	5	3	5,160,000	26,866,000	508,000	-	18.85	462	63	13.64	11,169	57,000	19.6
NRSP	RSP	2007	14	3,673,667,000	499	2469	1968	3,244,991,000	434,403,000	3,239,264,000	-	88.33	292,456	124,996	42.74	11,096	57,000	19.5
PRSP	RSP	2007	9	1,720,541,000	27	551	397	427,608,000	908,182,000	812,359,000	-	24.85	67,285	35,186	52.29	6,355	57,000	11.1
SRSP	RSP	2007	16	67,946,000	14	63	20	42,920,000	13,613,000	54,333,000	-	63.17	7,174	4,382	61.08	5,983	57,000	10.5
TRDP	RSP	2007	10	309,482,000	60	131	94	341,924,000	- 101,668,000	411,151,000	-	110.48	37,264	10,396	27.90	9,176	57,000	16.1

Name	Int Type	Year	Adj Equity	Net Income	Adj ROE	Adj OE	Avg GLP	OE_A	OE_LP	Avg NOAB	CPB	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
			PkR	PkR	%	PkR	PkR	%	%	PkR	PkR		Nominal	Real	%	PkR	%
FMFB	Bank	2008	614,201,000	- 180,500,000	-29.4	517,621,000	1,666,481,000	14.96	31.06	243,096	2,129	230	30.4	16.4	1.28	14,370,000	0.9
KASHF BANK	Bank	2008	355,876,000	- 38,892,000	-10.9	84,586,000	276,290,000	14.12	30.61	9,217	9,177	137	12.3	0.2	1.19	-	0
KHUSHHALI BANK	Bank	2008	1,841,833,000	- 594,137,000	-32.3	696,847,000	2,873,126,000	10.42	24.25	300,147	2,322	387	18.8	6.1	2.22	57,495,000	2
NMFB	Bank	2008	96,317,000	- 26,397,000	-27.4	38,289,000	57,324,000	19.36	66.79	9,090	4,212	69	35.3	20.8	17.6	3,151,000	5.5
POMFB	Bank	2008	437,459,000	- 76,741,000	-17.5	82,347,000	109,367,000	17.06	75.29	39,445	2,088	93	27.4	13.7	6	9,547,000	8.7
ROZGAR BANK	Bank	2008	60,104,000	- 28,900,000	-48.1	24,469,000	30,933,000	26.16	79.10	6,506	3,761	100	40.4	25.4	72.2	8,537,000	27.6
TAMEER MFB	Bank	2008	748,073,000	- 273,803,000	-36.6	419,881,000	657,830,000	23.51	63.83	97,680	4,299	70	32.4	18.2	1.33	30,334,000	4.6
ASASAH	MFI	2008	- 17,821,000	- 21,250,000	-119.2	78,574,000	224,053,000	24.8	35.07	25,721	3,055	237	42.2	27.0	1.98	-	0
CSC	MFI	2008	29,104,000	- 15,300,000	-52.6	23,121,000	164,674,000	8.4	14.04	16,343	1,415	335	16.0	3.6	2	1,458,000	0.9
DAMEN	MFI	2008	48,471,000	6,185,000	12.8	54,860,000	287,906,000	13.64	19.05	34,760	1,578	369	30.7	16.7	0.78	1,748,000	0.6
KASHF Foundation	MFI	2008	1,210,418,000	- 908,693,000	-75.1	431,830,000	3,330,967,000	9.6	12.96	307,457	1,405	336	32.3	18.1	4.3	31,433,000	0.9
ORANGI	MFI	2008	143,112,000	22,918,000	16.0	15,191,000	168,625,000	6.5	9.01	22,442	677	291	17.9	5.3	0.6	2,065,000	1.2
ORIX LEASING	MFI	2008	23,067,000	7,264,000	31.5	14,894,000	141,805,000	9.01	10.50	12,039	1,237	399	29.3	15.4	1.8	2,635,000	1.9
SAFWCO	MFI	2008	36,268,000	- 17,863,000	-49.3	35,640,000	126,926,000	22.2	28.08	17,786	2,004	282	26.5	12.9	2.37	-	0
SUNGI DF	MFI	2008	28,258,000	2,116,000	7.5	3,209,000	6,955,000	11.1	46.14	751	4,273	37	7.6	4.0	11	305,000	4.4
NRSP	RSP	2008	559,475,000	203,612,000	36.4	610,434,000	5,299,719,000	9.9	11.52	429,160	1,422	229	24.0	10.7	0.7	4,466,000	0.1
PRSP	RSP	2008	992,421,000	- 122,613,000	-12.4	109,579,000	540,600,000	5.43	20.27	70,729	1,549	202	18.5	5.8	4.2	43,581,000	8.1
SRSP	RSP	2008	8,594,000	- 2,163,000	-25.2	13,547,000	57,442,000	15.2	23.58	9,011	1,503	374	27.2	13.6	1.9	859,000	1.5
TRDP	RSP	2008	- 37,892,000	- 76,040,000	-200.7	81,473,000	329,031,000	21.5	24.76	34,008	2,396	185	20.5	7.5	7.4	88,002,000	26.7
FMFB	Bank	2007	685,613,000	- 92,071,000	-13.4	268,234,000	954,234,000	11.96	28.11	136,191	1,970	156	27.4	18.2	2.05	5,167,000	0.5
KHUSHHALI BANK	Bank	2007	1,781,989,000	- 674,103,000	-37.8	768,332,000	2,400,264,000	11.34	32.01	260,441	2,950	461	21.7	12.7	1.51	69,771,000	2.9
NMFB	Bank	2007	89,422,000	- 27,518,000	-30.8	35,081,000	48,643,000	22.16	72.12	7,348	4,774	89	28.4	19.0	10.39	551,000	1.1
POMFB	Bank	2007	471,887,000	- 74,984,000	-15.9	83,431,000	89,393,000	16.85	93.33	18,532	4,502	206	24.2	15.2	9.4	3,156,000	3.5
Rozgar Bank	Bank	2007	79,176,000	- 23,235,000	-29.3	24,657,000	37,060,000	22.68	66.53	6,851	3,599	56	27.0	17.7	22.43	7,180,000	19.4
TAMEER MFB	Bank	2007	415,927,000	- 278,460,000	-66.9	274,741,000	467,452,000	21.77	58.77	47,778	5,750	67	28.8	19.4	18.54	47,905,000	10.2
AKHUWAT	MFI	2007	55,467,000	- 6,695,000	-12.1	7,767,000	44,624,000	13.8	17.41	7,402	1,049	143	11.1	2.9	7.7	291,000	0.7
ASASAH	MFI	2007	- 14,304,000	- 32,846,000	-229.6	67,444,000	166,435,000	24.6	40.52	20,112	3,353	157	37.0	27.0	0	-	0
CSC	MFI	2007	20,238,000	- 9,836,000	-48.6	33,585,000	103,834,000	20.73	32.34	14,488	2,318	311	35.8	25.9	2.1	-	0
DAMEN	MFI	2007	31,945,000	1,633,000	5.1	48,456,000	209,880,000	16.35	23.09	29,051	1,668	330	34.8	24.9	2.07	4,128,000	2
KASHF Foundation	MFI	2007	1,179,816,000	281,294,000	23.8	310,557,000	2,354,552,000	10.2	13.19	214,543	1,448	324	36.2	26.2	0.73	3,132,000	0.1
ORANGI	MFI	2007	109,703,000	12,276,000	11.2	12,362,000	118,570,000	7.9	10.43	16,495	749	1,399	19.7	11.0	1	542,000	0.5
ORIX LEASING	MFI	2007	15,067,000	1,319,000	8.8	8,611,000	100,445,000	8.7	8.57	6,265	1,374	356	20.4	11.6	2.9	-	0
SAFWCO	MFI	2007	24,448,000	- 14,905,000	-61.0	32,733,000	77,720,000	32.4	42.12	15,774	2,075	373	39.2	29.0	4.9	-	0
SUNGI DF	MFI	2007	26,177,000	- 1,489,000	-5.7	1,032,000	4,190,000	3.9	24.63	231	4,468	154	18.0	9.4	30.2	693,000	16.5
NRSP	RSP	2007	433,555,000	- 53,590,000	-12.4	408,787,000	2,619,282,000	13.8	15.61	241,651	1,692	149	21.7	12.8	0.75	7,290,000	0.3
PRSP	RSP	2007	786,924,000	- 174,223,000	-22.1	120,291,000	343,999,000	8.3	34.97	54,573	2,204	169	13.6	5.3	19.3	56,376,000	16.4
SRSP	RSP	2007	3,683,000	- 5,448,000	-147.9	13,934,000	35,672,000	22.9	39.06	5,500	2,533	359	23.6	14.5	1	3,054,000	8.6
TRDP	RSP	2007	- 81,151,000	- 105,035,000	-129.4	79,433,000	340,713,000	24	23.31	40,098	1,981	396	17.3	8.7	22.9	-	0

Name	Int Type	Year	Age	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	GLP_TA	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita
				PkR				PkR	PkR	PkR	PkR	%			%	PkR	Income	%
FMFB	Bank	2006	5	1,680,188,555	53	527	270	686,908,751	720,280,000	959,909,000	924,575,000	40.88	52,308	35,931	68.69	13,132	57,000	23.0
KHUSHHALI BANK	Bank	2006	6	6,847,473,825	119	1791	644	2,147,611,820	1,872,699,000	4,974,775,000	-	31.36	236,917	120,715	50.95	9,065	57,000	15.9
NMFB	Bank	2006	2	114,293,238	5	68	15	51,432,681	74,559,000	39,734,000	3,727,000	45.00	2,454	424	17.28	20,959	57,000	36.8
POMFB	Bank	2006	1	493,188,673	13	115	57	85,291,644	488,766,000	4,422,000	-	17.29	10,418	1,808	17.35	8,187	57,000	14.4
ROZGAR BANK	Bank	2006	2	109,978,930	17	69	34	40,489,919	89,305,000	20,674,000	17,788,000	36.82	4,363	164	3.76	9,280	57,000	16.3
TAMEER MFB	Bank	2006	1	1,268,606,000	19	426	319	526,097,000	551,864,000	716,742,000	473,751,000	41.47	20,038	827	4.13	26,255	57,000	46.1
AKHUWAT	MFI	2006	5	48,946,000	10	58	53	38,295,000	48,061,000	884,000	-	78.24	6,069	2,968	48.90	6,310	57,000	11.1
ASASAH	MFI	2006	4	224,332,000	28	346	252	110,281,000	- 15,283,000	239,615,000	-	49.16	12,512	12,512	100.00	8,814	57,000	15.5
CSC	MFI	2006	6	134,847,000	9	89	58	109,689,000	34,592,000	100,255,000	-	81.34	13,722	13,722	100.00	7,994	57,000	14.0
DAMEN	MFI	2006	10	242,778,735	25	195	150	169,331,922	25,140,000	217,639,000	-	69.75	25,478	25,478	100.00	6,646	57,000	11.7
KASHF Foundation	MFI	2006	10	2,004,010,226	85	847	557	1,530,320,510	944,608,000	1,059,402,000	-	76.36	133,690	131,491	98.36	11,447	57,000	20.1
ORANGI	MFI	2006	19	138,046,000	2	30	14	95,806,000	108,405,000	29,641,000	-	69.40	12,002	1,848	15.40	7,983	57,000	14.0
ORIX LEASING	MFI	2006	14	71,760,000	6	20	10	73,778,000	3,115,000	68,645,000	-	102.81	3,630	2,998	82.59	20,325	57,000	35.7
SAFWCO	MFI	2006	12	108,159,000	14	110	44	88,729,000	19,399,000	88,760,000	-	82.04	14,018	5,706	40.70	6,330	57,000	11.1
TARAQEE	MFI	2006	10	256,858,000	16	162	63	97,573,000	- 22,325,000	279,183,000	-	37.99	12,203	6,261	51.31	7,996	57,000	14.0
NRSP	RSP	2006	13	2,247,756,000	581	1836	1495	1,993,573,000	529,707,000	1,718,049,000	-	88.69	190,846	52,383	27.45	10,446	57,000	18.3
PRSP	RSP	2006	8	1,193,006,000	21	546	398	260,389,000	665,665,000	527,340,000	-	21.83	41,860	6,006	14.35	6,220	57,000	10.9
SRSP	RSP	2006	15	67,946,065	14	63	0	42,920,359	-	-	-	63.17	7,174	-	61.08	5,983	57,000	10.5
TRDP	RSP	2006	9	351,282,000	50	107	80	339,502,000	- 60,633,000	411,916,000	-	96.65	42,932	12,880	30.00	7,908	57,000	13.9

Name	Year	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	GLP_TA	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita
All Institutions - 2006	**2006**	17,603,456,247	1,087	7,405	4,513	8,488,019,606	6,077,924,000	11,457,585,000	1,419,841,000	48.22	842,634	434,122	52	10,073		17.70
All Institutions - 2007	**2007**	22,737,065,746	1,165	9,529	5,734	12,749,983,377	6,418,595,000	16,443,470,000	2,822,844,000	56.08	1,267,182	640,868	51	10,062		17.70
All Institutions - 2008	**2008**	33,193,785,723	1,275	11,499	6,916	20,001,188,987	8,018,344,000	25,175,442,000	4,111,730,000	60.26	1,695,421	803,795	47	11,797		13.78
All Institutions - 2009	**2009**	34,291,756,588	1,379	13,004	7,587	20,241,175,563	6,965,735,325	27,325,017,569	7,161,634,000	59.03	1,729,174	962,511	56	11,706		13.80
All Institutions - 2010	**2010**	39,037,654,793	1,557	13,385	5,893	23,756,988,508	8,143,674,658	30,893,978,330	10,132,332,000	60.86	1,884,654	1,128,817	60	12,605		12.30

Name	Int Type	Year	Adj Equity	Net Income	Adj ROE	Adj OE	Avg GLP	OE_A	OE_LP	Avg NOAB	CPB	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
			PkR	PkR	%	PkR	PkR	%	%	PkR	PkR		Nominal	Real	%	PkR	%
FMFB	Bank	2006	707,273,000	- 44,248,000	-6.3	146,088,000	524,801,000	9.33	27.84	68,163	2,143	194	25.6	15.3	0.8	2,934,000	0.6
KHUSHHALI BANK	Bank	2006	1,876,588,000	- 545,625,000	-29.1	613,039,000	2,035,429,000	9.63	30.12	232,045	2,642	368	18.8	9.1	2.17	146,520,000	7.2
NMFB	Bank	2006	78,212,000	- 13,244,000	-16.9	25,055,000	45,413,000	22.51	55.17	4,578	5,473	164	28.5	18.0	7.91	1,146,000	2.5
POMFB	Bank	2006	244,383,000	- 3,154,000	-1.3	43,689,000	42,646,000	17.7	102.45	5,209	8,387	183	9.8	0.8	0	-	0
ROZGAR BANK	Bank	2006	92,623,000	- 16,938,000	-18.3	19,053,000	30,056,000	17	63.39	4,463	4,269	128	24.2	14.0	18.03	731,000	2.4
TAMEER MFB	Bank	2006	577,811,000	- 57,111,000	-9.9	181,127,000	263,049,000	19.2	68.86	22,250	8,141	63	24.7	14.5	0	46,000	0
AKHUWAT	MFI	2006	34,307,000	- 3,104,000	-9.0	4,576,000	28,241,000	13.49	16.20	4,546	1,007	115	12.0	2.9	0.7	35,000	0.1
ASASAH	MFI	2006 -	11,775,000	- 21,165,000	-179.7	35,306,000	79,479,000	25.1	44.42	9,460	3,732	50	30.3	19.6	0	-	0
CSC	MFI	2006	24,649,000	- 26,558,000	-107.7	40,660,000	86,017,000	38.2	47.27	9,765	4,164	237	25.3	15.1	1.1	-	0
DAMEN	MFI	2006	21,724,000	- 10,088,000	-46.4	36,073,000	131,185,000	19.38	27.50	20,523	1,758	170	32.4	21.6	6.68	3,307,000	2.5
KASHF Foundation	MFI	2006	774,949,000	63,815,000	8.2	173,888,000	1,152,375,000	10.86	15.09	104,605	1,662	240	28.4	17.9	0.1	2,126,000	0.2
ORANGI	MFI	2006	91,918,000	- 3,196,000	-3.5	13,730,000	79,916,000	11	17.18	9,494	1,446	857	8.7	- 0.1	0.5	1,896,000	2.4
ORIX LEASING	MFI	2006	2,066,000	819,000	39.6	4,541,000	74,182,000	6.2	6.12	3,822	1,188	363	16.3	6.8	2.7	-	0
SAFWCO	MFI	2006	17,583,000	- 10,548,000	-60.0	18,493,000	65,960,000	21.6	28.04	11,492	1,609	319	22.3	12.3	3.4	521,000	0.8
TARAQEE	MFI	2006 -	10,418,000	- 83,971,000	0.0	43,638,000	187,905,000	15.2	23.22	18,710	2,332	194	15.9	6.4	43.6	-	0
NRSP	RSP	2006	386,589,000	- 77,744,000	-20.1	300,098,000	1,612,885,000	15.1	18.61	142,537	2,105	128	20.0	10.0	0.78	2,251,000	0.1
PRSP	RSP	2006	631,647,000	- 87,404,000	-13.8	101,934,000	271,064,000	8.6	37.61	44,858	2,272	105	14.1	4.8	2.6	-	0
SRSP	RSP	2006	-	-	0.0	-	-	0	0.00	-	-	359			1.02	-	0
TRDP	RSP	2006 -	30,997,000	- 106,832,000	-344.7	74,370,000	313,260,000	22.4	23.74	37,735	1,971	537	14.5	5.2	13.7	23,704,000	7.6

Name	Adj Equity	Net Income	Adj ROE	Adj OE	Avg GLP	OE_A	OE_LP	Avg NOAB	CPB	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
All Institutions - 2006	5,509,132,000	- 1,046,296,000	- 18.99	1,875,358,000	7,023,863,000	11	27	754,255	2,486	187	21.2	11.4	2.3	185,217,000	2.6
All Institutions - 2007	6,115,582,000	- 1,277,916,000	- 20.90	2,599,468,000	10,516,962,000	11	25	1,143,324	2,274	221	26.1	16.9	3.1	209,236,000	2.0
All Institutions - 2008	7,177,338,000	- 2,141,197,000	- 29.83	3,336,392,000	16,350,054,000	10	20	1,685,388	1,980	245	25.7	12.2	2.1	299,986,000	1.8
All Institutions - 2009	7,337,621,163	- 2,433,106,862	- 33.16	4,166,373,976	20,252,146,223	12	21	1,742,990	2,390	228	26.0	4.3	3.4	633,946,000	3.1
All Institutions - 2010	7,939,687,992	88,351,633	1.11	5,254,499,831	22,094,029,949	13	24	1,885,763	2,786	320	32.9	15.5	4.1	366,897,000	1.7

Name	Int Type	Year	Age	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	GLP_TA	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita
-	-	-	-	PkR	-	-	-	PkR	PkR	PkR	PkR	%	-	-	%	PkR	Income	%
FMFB	Bank	2010	9	6,352,778,202	147	1,544	562	2,373,880,297	753,883,000	5,598,896,000	5,344,198,000	37.37	151,797	50,907	33.54	15,639	105,300	14.9
KASHF BANK	Bank	2010	3	1,228,338,566	30	448	226	453,101,817	350,543,000	877,796,000	776,401,000	36.89	17,445	1,745	10	25,973	105,300	24.7
KHUSHHALI BANK	Bank	2010	10	7,238,672,439	109	2,163	764	3,722,152,797	2,215,782,000	5,022,890,000	1,000,329,000	51.42	325,523	81,381	25	11,434	105,300	10.9
NMFB	Bank	2010	6	251,858,520	5	111	68	61,618,872	220,124,000	31,735,000	29,027,000	24.47	5,734	-	0	10,746	105,300	10.2
POMFB	Bank	2010	5	745,413,522	14	151	65	88,348,053	700,477,000	44,936,000	27,724,000	11.85	7,045	2,111	29.96	12,541	105,300	11.9
TAMEER MFB	Bank	2010	5	5,279,389,000	40	786	524	3,096,044,000	1,323,754,000	3,955,635,000	2,954,653,000	58.64	111,153	66,983	60.26	27,854	105,300	26.5
FMFB	Bank	2009	8	6,068,006,777	88	1,531	1,005	2,778,352,175	593,210,000	5,474,797,000	5,219,008,000	45.79	199,792	69,563	34.82	13,906	86,000	16.2
KASHF BANK	Bank	2009	2	1,191,855,586	27	443	218	424,124,652	524,782,000	667,073,000	318,473,000	35.59	14,192	492	3.47	29,885	86,000	34.8
KHUSHHALI BANK	Bank	2009	9	6,587,779,000	107	2,002	647	3,630,204,658	2,076,920,000	4,510,859,000	190,033,000	55.11	329,421	77,385	23.49	11,020	86,000	12.8
NMFB	Bank	2009	5	351,410,595	5	94	48	92,073,938	238,587,000	112,823,000	110,906,000	26.20	4,000	-	0	23,018	86,000	26.8
POMFB	Bank	2009	4	721,826,000	14	150	37	100,570,623	678,459,000	42,367,000	24,547,000	13.93	8,092	2,119	26.19	12,428	86,000	14.5
ROZGAR BANK	Bank	2009	5	70,831,297	9	27	6	883,570	36,978,000	33,853,000	30,838,000	1.25	52	12	23.08	16,992	86,000	19.8
TAMEER MFB	Bank	2009	4	2,799,484,000	39	791	544	1,539,841,000	1,125,152,000	1,674,332,000	1,267,829,000	55.00	70,671	26,345	37.28	21,789	86,000	25.3
FMFB	Bank	2008	7	4,094,253,000	159	1,575	730	2,111,402,804	557,520,000	3,536,732,000	3,304,742,000	51.57	168,191	61,980	36.85	12,554	81,000	15.5
KASHF BANK	Bank	2008	1	1,198,443,803	19	273	135	552,579,844	711,753,000	486,691,000	-	46.11	18,434	3,503	19	29,976	81,000	37.0
KHUSHHALI BANK	Bank	2008	8	6,685,742,412	135	2,008	808	3,093,335,635	1,871,223,000	4,814,520,000	18,169,000	46.27	312,851	31,008	9.91	9,888	81,000	12.2
NMFB	Bank	2008	4	193,118,316	4	72	34	68,793,957	88,350,000	104,769,000	101,255,000	35.62	2,336	537	22.99	29,449	81,000	36.4
POMFB	Bank	2008	3	459,374,013	15	152	117	125,240,876	419,910,000	39,464,000	23,859,000	27.26	10,853	2,834	26.11	11,540	81,000	14.2
ROZGAR BANK	Bank	2008	4	79,409,821	11	56	16	28,235,333	49,845,000	29,565,000	24,180,000	35.56	1,601	303	18.93	17,636	81,000	21.8
TAMEER MFB	Bank	2008	3	2,295,709,000	31	865	630	906,852,000	1,194,635,000	1,101,074,000	639,525,000	39.50	43,791	8,471	19.34	20,709	81,000	25.6
FMFB	Bank	2007	6	2,807,162,394	92	1,045	651	1,221,559,254	670,881,000	2,136,281,000	2,035,584,000	43.52	101,394	42,819	42.23	12,048	57,000	21.1
KHUSHHALI BANK	Bank	2007	7	6,703,280,398	120	1,865	616	2,652,915,785	1,812,443,000	4,890,837,000	-	39.58	283,965	43,817	15.43	9,342	57,000	16.4
NMFB	Bank	2007	3	202,334,652	5	54	26	45,853,660	104,284,000	98,050,000	83,338,000	22.66	2,303	395	17.15	19,910	57,000	34.9
POMFB	Bank	2007	2	495,587,000	16	201	70	93,493,000	455,008,000	40,579,000	23,189,000	18.87	14,397	356	2.47	6,494	57,000	11.4
Rozgar Bank	Bank	2007	3	107,492,202	21	76	42	**33,630,168**	**70,364,000**	**37,128,000**	**32,360,000**	31.29	2,337	1,181	50.53	14,390	57,000	25.2
TAMEER MFB	Bank	2007	2	1,255,222,000	41	658	461	408,807,000	301,510,000	953,712,000	648,373,000	32.57	31,011	978	3.15	13,183	57,000	23.1
FMFB	Bank	2006	5	1,680,188,555	53	527	270	686,908,751	720,280,000	959,909,000	924,575,000	40.88	52,308	35,931	68.69	13,132	57,000	23.0
KHUSHHALI BANK	Bank	2006	6	6,847,473,825	119	1,791	644	2,147,611,820	1,872,699,000	4,974,775,000	-	31.36	236,917	120,715	50.95	9,065	57,000	15.9
NMFB	Bank	2006	2	114,293,238	5	68	15	51,432,681	74,559,000	39,734,000	3,727,000	45.00	2,454	424	17.28	20,959	57,000	36.8
POMFB	Bank	2006	1	493,188,673	13	115	57	85,291,644	488,766,000	4,422,000	-	17.29	10,418	1,808	17.35	8,187	57,000	14.4
ROZGAR BANK	Bank	2006	2	109,978,930	17	69	34	40,489,919	89,305,000	20,674,000	17,788,000	36.82	4,363	164	3.76	9,280	57,000	16.3
TAMEER MFB	Bank	2006	1	1,268,606,000	19	426	319	526,097,000	551,864,000	716,742,000	473,751,000	41.47	20,038	827	4.13	26,255	57,000	46.1

Name	Year	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	GLP_TA	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita
All Institutions - 2006	**2006**	10,513,729,221	226	2,996	1,339	3,537,831,815	3,797,473,000	6,716,256,000	1,419,841,000	33.65	326,498	159,869	49	10,836		19.0
All Institutions - 2007	**2007**	11,571,078,646	295	3,899	1,866	4,456,258,867	3,414,490,000	8,156,587,000	2,822,844,000	38.51	435,407	89,546	21	10,235		18.0
All Institutions - 2008	**2008**	15,006,050,365	374	5,001	2,470	6,886,440,449	4,893,236,000	10,112,815,000	4,111,730,000	45.89	558,057	108,636	19	12,340		15.2
All Institutions - 2009	**2009**	17,791,193,255	289	5,038	2,505	8,566,050,616	5,274,088,000	12,516,104,000	7,161,634,000	48.15	626,220	175,916	28	13,679		15.9
All Institutions - 2010	**2010**	21,096,450,249	345	5,203	2,209	9,795,145,836	5,564,563,000	15,531,888,000	10,132,332,000	46.43	618,697	203,127	33	15,832		15.0

Name	Int Type	Year	Adj Equity	Net Income	Adj ROE	Adj OE	Avg GLP	OE_A	OE_LP	Avg NOAB	CPB	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
-	-	-	PkR	PkR	%	PkR	PkR	%	%	PkR	PkR	-	Nominal	Real	%	PkR	%
FMFB	Bank	2010	669,032,000	- 169,559,000	-25.3	698,009,000	2,576,116,000	20.8	27.1	151,797	4,598	270	38.00	20.00	5.62	125,113,000.00	4.9
KASHF BANK	Bank	2010	437,663,000	- 174,240,000	-39.8	364,917,000	438,613,000	30.2	83.2	17,445	20,918	77	46.50	27.40	3.3	24,790,000.00	5.7
KHUSHHALI BANK	Bank	2010	2,146,118,000	188,138,000	8.8	1,028,220,000	3,676,179,000	14.87	27.97	325,523	3,159	426	32.70	15.40	3.9	85,720,000.00	2.3
NMFB	Bank	2010	229,356,000	- 18,464,000	-8.1	50,497,000	76,846,000	16.74	65.71	5,734	8,807	84	39.80	21.60	52.31	11,209,000.00	14.6
POMFB	Bank	2010	688,294,000	24,367,000	3.5	92,252,000	94,459,000	12.58	97.66	7,045	13,095	108	37.80	19.80	8.78	5,277,000.00	5.6
TAMEER MFB	Bank	2010	1,198,832,000	55,351,000	4.6	802,386,000	2,317,943,000	19.9	34.62	111,153	7,219	212	38.30	20.30	0.5	951,000.00	0
FMFB	Bank	2009	579,860,000	- 49,489,000	-8.5	601,081,000	2,444,871,000	11.83	24.59	183,992	3,267	199	32.90	10.00	0.9	31,614,000.00	1.3
KASHF BANK	Bank	2009	618,268,000	- 307,563,000	-49.7	295,604,000	488,352,000	24.43	60.53	16,207	18,239	65	26.50	4.70	1	76,266,000.00	15.6
KHUSHHALI BANK	Bank	2009	1,978,198,000	- 165,911,000	-8.4	984,331,000	3,361,770,000	14.83	29.28	321,136	3,065	509	24.50	3.10	0.7	101,423,000.00	3
NMFB	Bank	2009	163,469,000	- 13,915,000	-8.5	45,148,000	80,434,000	16.58	56.13	3,168	14,251	83	33.30	10.40	16.9	4,701,000.00	5.8
POMFB	Bank	2009	553,599,000	- 87,575,000	-15.8	86,185,000	112,906,000	14.39	76.33	9,473	9,098	219	33.20	10.20	4.3	4,961,000.00	4.4
ROZGAR BANK	Bank	2009	43,250,000	- 21,532,000	-49.8	13,412,000	14,559,000	17.85	92.12	827	16,218	9	14.60	- 5.10	9.6	19,131,000.00	131.4
TAMEER MFB	Bank	2009	1,135,372,000	- 323,440,000	-28.5	554,122,000	1,223,347,000	21.75	45.3	70,671	7,841	130	28.40	6.30	0.9	1,182,000.00	0.1
FMFB	Bank	2008	614,201,000	- 180,500,000	-29.4	517,621,000	1,666,481,000	14.96	31.06	243,096	2,129	230	30.40	16.40	1.28	14,370,000.00	0.9
KASHF BANK	Bank	2008	355,876,000	- 38,892,000	-10.9	84,586,000	276,290,000	14.12	30.61	9,217	9,177	137	12.30	0.20	1.19	-	0
KHUSHHALI BANK	Bank	2008	1,841,833,000	- 594,137,000	-32.3	696,847,000	2,873,126,000	10.42	24.25	300,147	2,322	387	18.80	6.10	2.22	57,495,000.00	2
NMFB	Bank	2008	96,317,000	- 26,397,000	-27.4	38,289,000	57,324,000	19.36	66.79	9,090	4,212	69	35.30	20.80	17.6	3,151,000.00	5.5
POMFB	Bank	2008	437,459,000	- 76,741,000	-17.5	82,347,000	109,367,000	17.06	75.29	39,445	2,088	93	27.40	13.70	6	9,547,000.00	8.7
ROZGAR BANK	Bank	2008	60,104,000	- 28,900,000	-48.1	24,469,000	30,933,000	26.16	79.1	6,506	3,761	100	40.40	25.40	72.2	8,537,000.00	27.6
TAMEER MFB	Bank	2008	748,073,000	- 273,803,000	-36.6	419,881,000	657,830,000	23.51	63.83	97,680	4,299	70	32.40	18.20	1.33	30,334,000.00	4.6
FMFB	Bank	2007	685,613,000	- 92,071,000	-13.4	268,234,000	954,234,000	11.96	28.11	136,191	1,970	156	27.40	18.17	2.05	5,167,000.00	0.5
KHUSHHALI BANK	Bank	2007	1,781,989,000	- 674,103,000	-37.8	768,332,000	2,400,264,000	11.34	32.01	260,441	2,950	461	21.70	12.70	1.51	69,771,000.00	2.9
NMFB	Bank	2007	89,422,000	- 27,518,000	-30.8	35,081,000	48,643,000	22.16	72.12	7,348	4,774	89	28.40	19.00	10.39	551,000.00	1.1
POMFB	Bank	2007	471,887,000	- 74,984,000	-15.9	83,431,000	89,393,000	16.85	93.33	18,532	4,502	206	24.20	15.20	9.4	3,156,000.00	3.5
Rozgar Bank	Bank	2007	79,176,000	- 23,235,000	-29.3	24,657,000	37,060,000	22.68	66.53	6,851	3,599	56	27.00	17.70	22.43	7,180,000.00	19.4
TAMEER MFB	Bank	2007	415,927,000	- 278,460,000	-66.9	274,741,000	467,452,000	21.77	58.77	47,778	5,750	67	28.80	19.40	18.54	47,905,000.00	10.2
FMFB	Bank	2006	707,273,000	- 44,248,000	-6.3	146,088,000	524,801,000	9.33	27.84	68,163	2,143	194	25.60	15.30	0.8	2,934,000.00	0.6
KHUSHHALI BANK	Bank	2006	1,876,588,000	- 545,625,000	-29.1	613,039,000	2,035,429,000	9.63	30.12	232,045	2,642	368	18.80	9.10	2.17	146,520,000.00	7.2
NMFB	Bank	2006	78,212,000	- 13,244,000	-16.9	25,055,000	45,413,000	22.51	55.17	4,578	5,473	164	28.50	18.00	7.91	1,146,000.00	2.5
POMFB	Bank	2006	244,383,000	- 3,154,000	-1.3	43,689,000	42,646,000	17.7	102.45	5,209	8,387	183	9.80	0.80	0	-	0
ROZGAR BANK	Bank	2006	92,623,000	- 16,938,000	-18.3	19,053,000	30,056,000	17	63.39	4,463	4,269	128	24.20	14.00	18.03	731,000.00	2.4
TAMEER MFB	Bank	2006	577,811,000	- 57,111,000	-9.9	181,127,000	263,049,000	19.2	68.86	22,250	8,141	63	24.70	14.50	0	46,000.00	0

Name	Adj Equity	Net Income	Adj ROE	Adj OE	Avg GLP	OE_A	OE_LP	Avg NOAB	CPB	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
All Institutions - 2006	3,576,890,000	- 680,320,000	- 19.02	1,028,051,000	2,941,394,000	10	35	336,708	3,053	244	20.60	10.70	1.80	151,377,000	5.15
All Institutions - 2007	3,524,014,000	- 1,170,371,000	- 33.21	1,454,476,000	3,997,046,000	13	36	477,141	3,048	233	24.00	15.00	3.60	133,730,000	3.35
All Institutions - 2008	4,153,863,000	- 1,219,370,000	- 29.36	1,864,040,000	5,671,351,000	12	33	705,181	2,643	226	23.90	10.60	2.20	123,434,000	2.18
All Institutions - 2009	5,072,016,000	- 969,425,000	- 19.11	2,579,883,000	7,726,239,000	15	33	605,474	4,261	250	28.10	6.10	1.00	239,278,000	3.10
All Institutions - 2010	5,369,295,000	- 94,407,000	- 1.76	3,036,281,000	9,180,156,000	14	33	618,697	4,908	280	36.40	18.60	3.60	253,060,000	2.76

Name	Int Type	Year	Age	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	GLP_TA	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita
-	-	-	-	PkR	-	-	-	PkR	PkR	PkR	PkR	%	-	-	%	PkR	Income	%
AKHUWAT	MFI	2010	10	223,099,000	33	215	150	150,039,000	219,185,000	3,914,000	-	67.25	20,158	6,048	30	7,443	105,300	7.1
ASA Pak	MFI	2010	2	806,230,045	100	596	411	736,038,387	285,616,000	520,614,000	-	91.29	85,380	84,820	99.34	8,621	105,300	8.2
ASASAH	MFI	2010	8	421,310,000	23	219	96	286,028,000	- 46,880,000	468,189,000	-	67.89	29,806	29,806	100	9,596	105,300	9.1
BRAC Pak	MFI	2010	3	1,105,046,493	94	899	505	702,521,013	29,652,000	1,075,395,000	-	63.57	84,411	84,411	100	8,323	105,300	7.9
CSC	MFI	2010	10	193,843,000	17	158	56	183,903,000	11,506,000	182,337,000	-	94.87	11,975	10,862	90.71	15,357	105,300	14.6
CWCD	MFI	2010	19	210,306,894	22	174	68	131,516,884	2,871,000	207,436,000	-	62.54	12,897	4,030	31.25	10,197	105,300	9.7
DAMEN	MFI	2010	14	521,056,000	20	200	80	368,824,620	73,254,000	447,802,000	-	70.78	38,145	38,145	100	9,669	105,300	9.2
KASHF Foundation	MFI	2010	14	3,211,441,988	152	1,380	745	3,461,072,674	- 215,586,342	3,427,028,330	-	107.77	317,299	317,299	100	10,908	105,300	10.4
JWS	MFI	2010	19	200,942,000	10	84	38	165,225,000	33,714,000	167,228,000	-	82.23	13,019	12,319	94.62	12,691	105,300	12.1
Orangi	MFI	2010	23	627,751,000	14	132	46	505,215,000	273,079,000	354,672,000	-	80.48	49,155	9,831	20	10,278	105,300	9.8
RCDS	MFI	2010	16	286,719,000	22	201	63	193,613,000	37,974,000	248,745,000	-	67.53	17,638	12,498	70.86	10,977	105,300	10.4
ORIX LEASING	MFI	2010	18	224,240,000	9	57	35	212,838,000	44,840,000	179,400,000	-	94.92	15,553	14,800	95.16	13,685	105,300	13.0
SAFWCO	MFI	2010	16	296,886,000	16	191	79	231,347,774	65,457,000	231,428,000	-	77.92	23,123	11,483	49.66	10,005	105,300	9.5
SUNGI DF	MFI	2010	16	45,748,124	4	35	24	36,959,320	38,212,000	7,536,000	-	80.79	5,512	5,512	100	6,705	105,300	6.4
AKHUWAT	MFI	2009	9	117,346,874	22	91	67	95,711,000	115,321,000	2,025,000	-	81.56	15,013	4,503	29.99	6,375	86,000	7.4
ASA Pakistan	MFI	2009	1	149,417,753	35	233	141	120,300,304	9,457,000	139,961,000	-	80.51	18,283	18,231	99.72	6,580	86,000	7.7
ASASAH	MFI	2009	7	417,674,000	23	191	78	260,611,000	- 15,724,000	433,397,000	-	62.40	34,007	34,007	100	7,663	86,000	8.9
BRAC PAK	MFI	2009	2	851,710,000	88	826	495	363,183,203	- 53,190,000	904,900,000	-	42.64	45,011	45,011	100	8,069	86,000	9.4
CSC	MFI	2009	9	316,597,000	17	177	75	197,086,000	30,462,000	286,135,000	-	62.25	15,241	14,784	97	12,931	86,000	15.0
CWCD	MFI	2009	18	260,673,000	19	168	56	153,196,000	11,431,000	249,243,000	-	58.77	8,910	2,408	27.03	17,194	86,000	20.0
DAMEN	MFI	2009	13	529,613,615	20	202	98	422,704,136	66,478,000	463,135,000	-	79.81	44,912	44,912	100	9,412	86,000	10.9
KASHF Foundation	MFI	2009	13	3,817,559,894	158	1,447	950	3,483,149,223	- 332,109,675	4,149,669,569	-	91.24	319,517	319,219	99.91	10,901	86,000	12.7
JWS	MFI	2009	18	169,875,000	6	57	24	103,747,000	27,860,000	142,015,000	-	61.07	9,358	8,719	93.17	11,086	86,000	12.9
ORANGI	MFI	2009	22	408,945,000	6	116	18	348,606,000	209,149,000	199,795,000	-	85.25	34,874	2,516	7.21	9,996	86,000	11.6
ORIX LEASING	MFI	2009	17	315,541,000	8	49	33	195,332,000	34,832,000	280,709,000	-	61.90	16,326	14,575	89.27	11,964	86,000	13.9
SAFWCO	MFI	2009	15	245,268,000	17	171	65	212,928,091	58,665,000	186,603,000	-	86.81	23,430	10,974	46.84	9,088	86,000	10.6
SUNGI DF	MFI	2009	15	39,368,197	5	31	24	21,332,990	33,222,000	6,146,000	-	54.19	2,121	1,774	83.64	10,058	86,000	11.7
ASASAH	MFI	2008	6	309,327,000	30	233	100	225,768,000	- 22,317,000	331,644,000	-	72.99	23,730	23,730	100	9,514	81,000	11.7
CSC	MFI	2008	8	309,900,000	13	80	52	184,026,000	52,177,000	257,723,000	-	59.38	17,432	8,075	46.32	10,557	81,000	13.0
DAMEN	MFI	2008	12	454,350,898	25	200	100	325,382,861	56,905,000	397,446,000	-	71.61	36,897	36,897	100	8,819	81,000	10.9
KASHF Foundation	MFI	2008	12	4,959,560,470	158	1,917	950	3,483,149,223	994,336,000	3,965,224,000	-	70.23	319,517	319,219	99.91	10,901	81,000	13.5
ORANGI	MFI	2008	21	287,110,000	6	89	82	193,429,000	165,514,000	121,596,000	-	67.37	23,896	4,780	20	8,095	81,000	10.0
ORIX LEASING	MFI	2008	16	200,800,000	9	52	38	156,498,000	19,115,000	181,685,000	-	77.94	15,177	10,714	70.59	10,312	81,000	12.7
SAFWCO	MFI	2008	14	181,648,295	18	143	64	141,602,126	39,407,000	142,241,000	-	77.95	18,043	6,605	36.61	7,848	81,000	9.7
SUNGI DF	MFI	2008	14	29,956,695	8	31	28	8,750,328	29,302,000	655,000	-	29.21	1,039	706	67.95	8,422	81,000	10.4

Name	Int Type	Year	Adj Equity	Net Income	Adj ROE	Adj OE	Avg GLP	OE_A	OE_LP	Avg NOAB	CPB	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
-	-	-	PkR	PkR	%	PkR	PkR	%	%	PkR	PkR	-	Nominal	Real	%	PkR	%
AKHUWAT	MFI	2010	167,192,000	- 5,796,000	-3.5	26,069,000	123,470,000	15.3	21.11	20,158	1,293	134	-	- 13.00	1	409,000.00	0.3
ASA Pak	MFI	2010	147,356,000	18,479,000	12.5	94,550,000	428,169,000	19.79	22.08	85,380	1,107	208	34.10	16.60	1.14	-	0
ASASAH	MFI	2010	- 31,302,000	- 29,983,000	-95.8	83,393,000	273,319,000	19.9	30.51	29,806	2,798	310	34.20	16.70	2.3	-	0
BRAC Pak	MFI	2010	41,421,000	- 86,770,000	-209.5	232,678,000	532,852,000	23.8	43.67	84,411	2,756	167	39.80	21.60	4.19	7,759,000.00	1.5
CSC	MFI	2010	20,984,000	- 33,146,000	-158.0	58,959,000	190,495,000	23.1	30.95	11,975	4,924	214	31.90	14.70	13.4	13,417,000.00	7
CWCD	MFI	2010	7,151,000	- 8,560,000	-119.7	60,509,000	142,356,000	25.7	42.51	12,897	4,692	190	31.90	14.70	49.48	14,185,000.00	10
DAMEN	MFI	2010	69,866,000	6,775,000	9.7	72,440,000	395,764,000	13.8	18.3	38,145	1,899	477	37.20	19.30	3.4	38,604,000.00	9.8
KASHF Foundation	MFI	2010	- 273,848,009	106,048,633	-38.7	472,793,831	3,472,110,949	13.453	13.62	318,408	1,485	426	32.30	18.10	4.3	31,433,000.00	0.9
JWS	MFI	2010	30,787,000	1,966,000	6.4	34,140,000	134,486,000	18.4	25.39	13,019	2,622	343	35.00	17.40	0	-	0
Orangi	MFI	2010	241,114,000	29,514,000	12.2	46,275,000	426,910,000	8.9	10.84	49,155	941	1,069	21.40	5.60	0.2	141,000.00	0
RCDS	MFI	2010	37,974,000	11,562,000	30.4	19,798,000	191,693,000	6.9	10.33	17,638	1,122	280	18.30	2.90	1.1	-	0
ORIX LEASING	MFI	2010	398,836,000	10,008,000	2.5	23,802,000	204,085,000	8.8	11.66	15,553	1,530	444	25.20	8.90	5.7	3,001,000.00	1.5
SAFWCO	MFI	2010	58,347,000	- 3,473,000	-6.0	47,240,000	222,138,000	17.4	21.27	23,123	2,043	293	31.60	14.40	4.5	4,398,000.00	2
SUNGI DF	MFI	2010	35,717,000	4,745,000	13.3	5,858,000	29,146,000	13.8	20.1	5,512	1,063	230	35.60	18.00	1.2	490,000.00	1.7
AKHUWAT	MFI	2009	98,826,000	- 20,423,000	-20.7	15,964,000	82,642,000	15.8	19.32	11,703	1,364	224	-	- 17.20	0	-	0
ASA Pakistan	MFI	2009	13,993,000	- 15,894,000	-113.6	34,233,000	65,583,000	40.6	52.2	9,713	3,524	130	39.50	15.50	0.011	-	0
ASASAH	MFI	2009	- 19,020,000	- 14,794,000	-77.8	72,400,000	243,190,000	19.83	29.77	28,899	2,505	436	41.10	16.80	0.3	-	0
BRAC PAK	MFI	2009	- 32,801,000	- 34,821,000	-106.2	121,950,000	296,209,000	20.5	41.17	36,281	3,361	91	35.90	12.50	1.1	6,067,000.00	2
CSC	MFI	2009	40,396,000	- 44,246,000	-109.5	53,627,000	175,199,000	18.9	30.61	16,141	3,322	203	29.10	6.90	4	28,988,000.00	16.5
CWCD	MFI	2009	16,170,000	- 27,889,000	-172.5	37,086,000	134,765,000	15.1	27.52	7,336	5,055	159	29.20	6.90	12	18,826,000.00	14
DAMEN	MFI	2009	61,692,000	3,166,000	5.1	60,608,000	374,043,000	12.32	16.2	40,905	1,482	458	28.70	6.50	1.8	6,324,000.00	1.7
KASHF Foundation	MFI	2009	331,113,163	- 1,451,523,862	-438.4	260,915,976	3,483,149,223	5.9454	7.49	319,517	817	336	32.30	18.10	4.3	31,433,000.00	0.9
JWS	MFI	2009	22,738,000	1,337,000	5.9	20,517,000	81,985,000	15.9	25.03	7,517	2,729	390	32.30	9.50	0	-	0
ORANGI	MFI	2009	187,331,000	9,707,000	5.2	31,202,000	174,303,000	8.93	17.9	28,281	1,103	1,937	30.20	7.80	0.25	-	0
ORIX LEASING	MFI	2009	26,974,000	10,481,000	38.9	27,459,000	175,915,000	10.6	15.61	15,752	1,743	495	29.60	8.90	1.9	-	0
SAFWCO	MFI	2009	45,321,000	- 11,569,000	-25.5	45,139,000	177,265,000	21.1	25.46	20,737	2,177	360	25.40	3.80	0.2	4,549,000.00	2.6
SUNGI DF	MFI	2009	31,262,000	- 3,396,000	-10.9	3,119,000	15,041,000	9	20.74	1,267	2,462	88	29.20	5.80	5.48	207,000.00	1.4
ASASAH	MFI	2008	- 17,821,000	- 21,250,000	-119.2	78,574,000	224,053,000	24.8	35.07	25,721	3,055	237	42.20	27.00	1.98	-	0
CSC	MFI	2008	29,104,000	- 15,300,000	-52.6	23,121,000	164,674,000	8.4	14.04	16,343	1,415	335	16.00	3.60	2	1,458,000.00	0.9
DAMEN	MFI	2008	48,471,000	6,185,000	12.8	54,860,000	287,906,000	13.64	19.05	34,760	1,578	369	30.70	16.70	0.78	1,748,000.00	0.6
KASHF Foundation	MFI	2008	1,210,418,000	- 908,693,000	-75.1	431,830,000	3,330,967,000	9.6	12.96	307,457	1,405	336	32.30	18.10	4.3	31,433,000.00	0.9
ORANGI	MFI	2008	143,112,000	22,918,000	16.0	15,191,000	168,625,000	6.5	9.01	22,442	677	291	17.90	5.30	0.6	2,065,000.00	1.2
ORIX LEASING	MFI	2008	23,067,000	7,264,000	31.5	14,894,000	141,805,000	9.01	10.5	12,039	1,237	399	29.30	15.40	1.8	2,635,000.00	1.9
SAFWCO	MFI	2008	36,268,000	- 17,863,000	-49.3	35,640,000	126,926,000	22.2	28.08	17,786	2,004	282	26.50	12.90	2.37	-	0
SUNGI DF	MFI	2008	28,258,000	2,116,000	7.5	3,209,000	6,955,000	11.1	46.14	751	4,273	37	7.60	4.00	11	305,000.00	4.4

Name	Int Type	Year	Age	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	GLP_TA	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita
-	-	-	-	PkR	-	-	-	PkR	PkR	PkR	PkR	%	-	-	%	PkR	Income	%
CSC	MFI	2007	7	242,598,000	11	101	49	145,322,000	25,769,000	216,829,000	-	59.90	15,254	15,254	100	9,527	57,000	16.7
DAMEN	MFI	2007	11	349,993,303	25	198	99	250,428,235	40,036,000	309,957,000	-	71.55	32,623	32,623	100	7,676	57,000	13.5
KASHF Foundation	MFI	2007	11	4,064,007,797	159	1,567	913	3,178,784,275	1,426,500,000	2,637,508,000	-	78.22	295,396	283,288	95.9	10,761	57,000	18.9
ORANGI	MFI	2007	20	182,523,000	2	43	15	143,821,000	120,711,000	61,813,000	-	78.80	20,987	734	3.5	6,853	57,000	12.0
ORIX LEASING	MFI	2007	15	126,785,000	9	37	25	127,112,000	27,018,000	99,766,000	-	100.26	8,900	6,283	70.6	14,282	57,000	25.1
SAFWCO	MFI	2007	13	13,822,000	14	115	47	112,250,000	33,128,000	105,694,000	-	812.11	17,529	3,841	21.91	6,404	57,000	11.2
SUNGI DF	MFI	2007	13	27,374,000	2	5	3	5,160,000	26,866,000	508,000	-	18.85	462	63	13.64	11,169	57,000	19.6
AKHUWAT	MFI	2006	5	48,946,000	10	58	53	38,295,000	48,061,000	884,000	-	78.24	6,069	2,968	48.9	6,310	57,000	11.1
ASASAH	MFI	2006	4	224,332,000	28	346	252	110,281,000	- 15,283,000	239,615,000	-	49.16	12,512	12,512	100	8,814	57,000	15.5
CSC	MFI	2006	6	134,847,000	9	89	58	109,689,000	34,592,000	100,255,000	-	81.34	13,722	13,722	100	7,994	57,000	14.0
DAMEN	MFI	2006	10	242,778,735	25	195	150	169,331,922	25,140,000	217,639,000	-	69.75	25,478	25,478	100	6,646	57,000	11.7
KASHF Foundation	MFI	2006	10	2,004,010,226	85	847	557	1,530,320,510	944,608,000	1,059,402,000	-	76.36	133,690	131,491	98.36	11,447	57,000	20.1
ORANGI	MFI	2006	19	138,046,000	2	30	14	95,806,000	108,405,000	29,641,000	-	69.40	12,002	1,848	15.4	7,983	57,000	14.0
ORIX LEASING	MFI	2006	14	71,760,000	6	20	10	73,778,000	3,115,000	68,645,000	-	102.81	3,630	2,998	82.59	20,325	57,000	35.7
SAFWCO	MFI	2006	12	108,159,000	14	110	44	88,729,000	19,399,000	88,760,000	-	82.04	14,018	5,706	40.7	6,330	57,000	11.1
TARAQEE	MFI	2006	10	256,858,000	16	162	63	97,573,000	- 22,325,000	279,183,000	-	37.99	12,203	6,261	51.31	7,996	57,000	14.0

Name	Year	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	GLP_TA	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita
All Institutions - 2006	**2006**	3,229,736,961	195	1,857	1,201	2,313,803,432	1,145,712,000	2,084,024,000	-	72	233,324	202,984	87	9,917		17.3
All Institutions - 2007	**2007**	5,394,351,100	270	2,416	1,389	4,236,281,510	1,749,575,000	3,769,776,000	-	79	427,596	376,362	88	9,907		17.2
All Institutions - 2008	**2008**	6,732,653,358	267	2,745	1,414	4,718,605,538	1,334,439,000	5,398,214,000	-	70	455,731	410,726	90	10,354		12.8
All Institutions - 2009	**2009**	7,639,589,333	424	3,759	2,124	5,977,886,947	195,853,325	7,443,733,569	-	78	587,003	521,633	89	10,184		12.0
All Institutions - 2010	**2010**	8,374,619,544	536	4,541	2,396	7,365,141,672	852,893,658	7,521,724,330	-	88	724,071	641,864	89	10,172		9.1

Name	Int Type	Year	Adj Equity	Net Income	Adj ROE	Adj OE	Avg GLP	OE_A	OE_LP	Avg NOAB	CPB	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
-	-	-	PkR	PkR	%	PkR	PkR	%	%	PkR	PkR	-	Nominal	Real	%	PkR	%
CSC	MFI	2007	20,238,000	- 9,836,000	-48.6	33,585,000	103,834,000	20.73	32.34	14,488	2,318	311	35.80	25.90	2.1	-	0
DAMEN	MFI	2007	31,945,000	1,633,000	5.1	48,456,000	209,880,000	16.35	23.09	29,051	1,668	330	34.80	24.90	2.07	4,128,000.00	2
KASHF Foundation	MFI	2007	1,179,816,000	281,294,000	23.8	310,557,000	2,354,552,000	10.2	13.19	214,543	1,448	324	36.20	26.20	0.73	3,132,000.00	0.1
ORANGI	MFI	2007	109,703,000	12,276,000	11.2	12,362,000	118,570,000	7.9	10.43	16,495	749	1,399	19.70	11.00	1	542,000.00	0.5
ORIX LEASING	MFI	2007	15,067,000	1,319,000	8.8	8,611,000	100,445,000	8.7	8.57	6,265	1,374	356	20.40	11.60	2.9	-	0
SAFWCO	MFI	2007	24,448,000	- 14,905,000	-61.0	32,733,000	77,720,000	32.4	42.12	15,774	2,075	373	39.20	29.00	4.9	-	0
SUNGI DF	MFI	2007	26,177,000	- 1,489,000	-5.7	1,032,000	4,190,000	3.9	24.63	231	4,468	154	18.00	9.40	30.2	693,000.00	16.5
AKHUWAT	MFI	2006	34,307,000	- 3,104,000	-9.0	4,576,000	28,241,000	13.49	16.2	4,546	1,007	115	12.00	2.90	0.7	35,000.00	0.1
ASASAH	MFI	2006	- 11,775,000	- 21,165,000	-179.7	35,306,000	79,479,000	25.1	44.42	9,460	3,732	50	30.30	19.60	0	-	0
CSC	MFI	2006	24,649,000	- 26,558,000	-107.7	40,660,000	86,017,000	38.2	47.27	9,765	4,164	237	25.30	15.10	1.1	-	0
DAMEN	MFI	2006	21,724,000	- 10,088,000	-46.4	36,073,000	131,185,000	19.38	27.5	20,523	1,758	170	32.40	21.60	6.68	3,307,000.00	2.5
KASHF Foundation	MFI	2006	774,949,000	63,815,000	8.2	173,888,000	1,152,375,000	10.86	15.09	104,605	1,662	240	28.40	17.90	0.1	2,126,000.00	0.2
ORANGI	MFI	2006	91,918,000	- 3,196,000	-3.5	13,730,000	79,916,000	11	17.18	9,494	1,446	857	8.70	- 0.10	0.5	1,896,000.00	2.4
ORIX LEASING	MFI	2006	2,066,000	819,000	39.6	4,541,000	74,182,000	6.2	6.12	3,822	1,188	363	16.30	6.80	2.7	-	0
SAFWCO	MFI	2006	17,583,000	- 10,548,000	-60.0	18,493,000	65,960,000	21.6	28.04	11,492	1,609	319	22.30	12.30	3.4	521,000.00	0.8
TARAQEE	MFI	2006	- 10,418,000	- 83,971,000	0.0	43,638,000	187,905,000	15.2	23.22	18,710	2,332	194	15.90	6.40	43.6	-	0

Name	Adj Equity	Net Income	Adj ROE	Adj OE	Avg GLP	OE_A	OE_LP	Avg NOAB	CPB	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
All Institutions - 2006	945,003,000	- 93,996,000	- 9.95	370,905,000	1,885,260,000	11	20	192,417	1,928	194	27.10	16.70	0.80	7,885,000	0.42
All Institutions - 2007	1,448,557,000	230,751,000	15.93	522,547,000	3,180,250,000	10	16	324,361	1,611	308	35.20	25.30	1.00	8,786,000	0.28
All Institutions - 2008	1,500,877,000	- 924,623,000	- 61.61	657,319,000	4,451,911,000	10	15	437,299	1,503	322	31.30	17.30	3.60	39,644,000	0.89
All Institutions - 2009	823,995,163	- 1,599,864,862	- 194.16	784,219,976	5,479,289,223	10	14	544,049	1,441	276	31.60	9.00	3.30	96,394,000	1.76
All Institutions - 2010	951,594,992	21,369,633	2.25	1,278,504,831	6,766,993,949	15	19	725,180	1,763	302	30.70	13.60	4.50	113,837,000	1.68

Name	Int Type	Year	Age	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	GLP_TA	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita
-	-	-	-	PkR	-	-	-	PkR	PkR	PkR	PkR	%	-	-	%	PkR	Income	%
NRSP	RSP	2010	17	6,980,066,000	502	2,396	643	5,638,524,000	995,709,000	5,984,357,000	-	80.8	431,027	225,048	52.21	13,082	105,300	12.4
PRSP	RSP	2010	12	2,050,152,000	78	978	448	662,612,000	627,523,000	1,422,629,000	-	32.3	78,091	35,550	45.52	8,485	105,300	8.1
SRSP	RSP	2010	19	22,933,000	10	30	17	10,756,000	7,599,000	15,333,000	-	46.9	1,121	862	76.9	9,595	105,300	9.1
TRDP	RSP	2010	13	513,434,000	86	237	180	284,809,000	95,387,000	418,047,000	-	55.5	31,647	22,366	70.67	9,000	105,300	8.5
NRSP	RSP	2009	16	5,963,775,000	516	3,019	2,389	4,601,408,000	835,789,000	5,127,986,000	-	77.2	399,969	208,071	52.02	11,504	86,000	13.4
PRSP	RSP	2009	11	2,276,685,000	78	916	448	769,620,000	606,568,000	1,670,117,000	-	33.8	81,754	36,194	44.27	9,414	86,000	10.9
SRSP	RSP	2009	18	77,617,000	12	44	29	32,451,000	7,716,000	85,333,000	-	41.8	7,218	3,322	46.02	4,496	86,000	5.2
TRDP	RSP	2009	12	542,897,000	60	228	92	293,759,000	61,153,000	481,744,000	-	54.1	27,010	17,375	64.33	10,876	86,000	12.6
NRSP	RSP	2008	15	8,652,429,000	537	3,045	2,469	7,354,447,000	684,548,000	7,967,881,000	-	85.0	565,863	232,113	41.02	12,997	81,000	16.0
PRSP	RSP	2008	10	2,243,508,000	25	460	368	653,592,000	1,076,661,000	1,166,847,000	-	29.1	74,172	40,743	54.93	8,812	81,000	10.9
SRSP	RSP	2008	17	110,778,000	11	64	29	71,965,000	3,575,000	107,203,000	-	65.0	10,847	5,574	51.39	6,635	81,000	8.2
TRDP	RSP	2008	11	448,367,000	61	184	166	316,139,000	25,885,000	422,482,000	-	70.5	30,751	6,003	19.52	10,281	81,000	12.7
NRSP	RSP	2007	14	3,673,667,000	499	2,469	1,968	3,244,991,000	434,403,000	3,239,264,000	-	88.3	292,456	124,996	42.74	11,096	57,000	19.5
PRSP	RSP	2007	9	1,720,541,000	27	551	397	427,608,000	908,182,000	812,359,000	-	24.9	67,285	35,186	52.29	6,355	57,000	11.1
SRSP	RSP	2007	16	67,946,000	14	63	20	42,920,000	13,613,000	54,333,000	-	63.2	7,174	4,382	61.08	5,983	57,000	10.5
TRDP	RSP	2007	10	309,482,000	60	131	94	341,924,000	101,668,000	411,151,000	-	110.5	37,264	10,396	27.9	9,176	57,000	16.1
NRSP	RSP	2006	13	2,247,756,000	581	1,836	1,495	1,993,573,000	529,707,000	1,718,049,000	-	88.7	190,846	52,383	27.45	10,446	57,000	18.3
PRSP	RSP	2006	8	1,193,006,000	21	546	398	260,389,000	665,665,000	527,340,000	-	21.8	41,860	6,006	14.35	6,220	57,000	10.9
SRSP	RSP	2006	15	67,946,065	14	63	-	42,920,359	-	-	-	63.2	7,174	-	61.08	5,983	57,000	10.5
TRDP	RSP	2006	9	351,282,000	50	107	80	339,502,000	60,633,000	411,916,000	-	96.7	42,932	12,880	30	7,908	57,000	13.9

Name	Year	TA	Offices	Personnel	L/Officers	GLP	T. Equity	Debt	Deposits	GLP_TA	NOAB	NOWB	POWB	ALS	Anl. Capita	ALS/Capita
All Institutions - 2006	**2006**	3,859,990,065	666	2,552	1,973	2,636,384,359	1,134,739,000	2,657,305,000	-	68.3	282,812	71,269	25	9,322		16.5
All Institutions - 2007	**2007**	5,771,636,000	600	3,214	2,479	4,057,443,000	1,254,530,000	4,517,107,000	-	70.3	404,179	174,960	43	10,039		16.1
All Institutions - 2008	**2008**	11,455,082,000	634	3,753	3,032	8,396,143,000	1,790,669,000	9,664,413,000	-	73.3	681,633	284,433	42	12,318		15.2
All Institutions - 2009	**2009**	8,860,974,000	666	4,207	2,958	5,697,238,000	1,495,794,000	7,365,180,000	-	64.3	515,951	264,962	51	11,042		13.0
All Institutions - 2010	**2010**	9,566,585,000	676	3,641	1,288	6,596,701,000	1,726,218,000	7,840,366,000	-	69.0	541,886	283,826	52	12,174		11.0

Name	Int Type	Year	Adj Equity	Net Income	Adj ROE	Adj OE	Avg GLP	OE_A	OE_LP	Avg NOAB	CPB	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
-	-	-	PkR	PkR	%	PkR	PkR	%	%	PkR	PkR	-	Nominal	Real	%	PkR	%
NRSP	RSP	2010	915,749,000	149,910,000	16.4	754,945,000	5,119,966,000	11.7	14.75	431,027	1,752	670	30.30	13.30	4.3	-	0
PRSP	RSP	2010	617,046,000	6,372,000	1.0	121,505,000	716,116,000	5.6	16.97	78,091	1,556	174	17.80	2.40	7	-	0
SRSP	RSP	2010	7,658,000	- 17,588,000	-229.7	22,020,000	21,604,000	43.8	101.93	1,121	19,643	66	28.80	12.00	0	-	0
TRDP	RSP	2010	78,345,000	22,695,000	29.0	41,244,000	289,194,000	7.8	14.26	31,647	1,303	176	27.40	10.80	5.8	-	0
NRSP	RSP	2009	808,669,000	163,674,000	20.2	660,270,000	5,977,927,000	9	11.05	482,916	1,367	167	22.40	1.40	1.8	255,299,000	4.3
PRSP	RSP	2009	591,433,000	- 52,313,000	-8.8	57,493,000	711,624,000	3	8.08	77,963	737	182	19.30	- 1.20	0.3	-	0
SRSP	RSP	2009	- 2,071,000	- 14,040,000	0.0	23,802,000	52,208,000	25.3	45.59	7,218	3,298	249	48.20	22.70	7.2	8,163,000	15.6
TRDP	RSP	2009	43,579,000	38,862,000	89.2	60,706,000	304,859,000	12.2	19.91	25,370	2,393	294	21.70	0.70	1.7	34,812,000	11.4
NRSP	RSP	2008	559,475,000	203,612,000	36.4	610,434,000	5,299,719,000	9.9	11.52	429,160	1,422	229	24.00	10.70	0.7	4,466,000	0.1
PRSP	RSP	2008	992,421,000	- 122,613,000	-12.4	109,579,000	540,600,000	5.43	20.27	70,729	1,549	202	18.50	5.80	4.2	43,581,000	8.1
SRSP	RSP	2008	8,594,000	- 2,163,000	-25.2	13,547,000	57,442,000	15.2	23.58	9,011	1,503	374	27.20	13.60	1.9	859,000	1.5
TRDP	RSP	2008	- 37,892,000	- 76,040,000	-200.7	81,473,000	329,031,000	21.5	24.76	34,008	2,396	185	20.50	7.50	7.4	88,002,000	26.7
NRSP	RSP	2007	433,555,000	- 53,590,000	-12.4	408,787,000	2,619,282,000	13.8	15.61	241,651	1,692	149	21.70	12.80	0.75	7,290,000	0.3
PRSP	RSP	2007	786,924,000	- 174,223,000	-22.1	120,291,000	343,999,000	8.3	34.97	54,573	2,204	169	13.60	5.30	19.3	56,376,000	16.4
SRSP	RSP	2007	3,683,000	- 5,448,000	-147.9	13,934,000	35,672,000	22.9	39.06	5,500	2,533	359	23.60	14.50	1	3,054,000	8.6
TRDP	RSP	2007	- 81,151,000	- 105,035,000	-129.4	79,433,000	340,713,000	24	23.31	40,098	1,981	396	17.30	8.70	22.9	-	0
NRSP	RSP	2006	386,589,000	- 77,744,000	-20.1	300,098,000	1,612,885,000	15.1	18.61	142,537	2,105	128	20.00	10.00	0.78	2,251,000	0.1
PRSP	RSP	2006	631,647,000	- 87,404,000	-13.8	101,934,000	271,064,000	8.6	37.61	44,858	2,272	105	14.10	4.80	2.6	-	0
SRSP	RSP	2006	-	-	0.0	-	-	0	0	-	-	359	-	-	1.02	-	0
TRDP	RSP	2006	- 30,997,000	- 106,832,000	-344.7	74,370,000	313,260,000	22.4	23.74	37,735	1,971	537	14.50	5.20	13.7	23,704,000	7.6

Name	Adj Equity	Net Income	Adj ROE	Adj OE	Avg GLP	OE_A	OE_LP	Avg NOAB	CPB	B_PLO	Y on GL	Y on GL	PAR>30/GLP	Write Offs	WOR
All Institutions - 2006	987,239,000	- 271,980,000	- 27.55	476,402,000	2,197,209,000	12	22	225,130	2,116	143	16.00	6.50	2.70	25,955,000	1.18
All Institutions - 2007	1,143,011,000	- 338,296,000	- 29.60	622,445,000	3,339,666,000	11	19	341,822	1,821	163	26.10	16.90	4.60	66,720,000	2.00
All Institutions - 2008	1,522,598,000	2,796,000	0.18	815,033,000	6,226,792,000	7	13	542,908	1,501	225	23.40	10.20	1.30	136,908,000	2.20
All Institutions - 2009	1,441,610,000	136,183,000	9.45	802,271,000	7,046,618,000	9	11	593,467	1,352	174	22.30	1.20	1.70	298,274,000	4.23
All Institutions - 2010	1,618,798,000	161,389,000	9.97	939,714,000	6,146,880,000	10	15	541,886	1,734	421	28.70	11.90	4.60	-	-

Appendix 3: Interview Guide: Micro Borrowers

General information: Name, Work, Marital Status, Family members

Microfinance Miscellaneous Questions

Where did you heard about microloans?

How do you perceive loan?

Why did you take loan?

How many loans you currently have?

How long you are taking micro loan.

Do you think your income have increased after taking loan?

How do you spend your loan money?

Will you take loan again?

Do you feel this loan amount is sufficient for your business?

Have you ever felt to take loan from other institution while having one loan?

Repayment

Do you pay loan easily?

In time of difficulty, what you do?

What is microfinance institution bank/NGO policy regarding later or non payers?

Does the institution charge any late payers?

Have you ever missed loan instalment? Why?

In case of default, who is responsible for loan repayment?

Does the institution or group leader enforce client for recovery of loan?

- If yes, what action they take for timely recovery of loans?
- If someone genuinely cannot repay loan then what action staff or group leader take?

Group and individual lending

How you have taken loan in group lending system or it is individual loan.

If you are member of group then

- How old is your group
- How many members are in your group?
- Do you know your group members?
- Do you take responsibility of each other loan?

If you have taken individual loan then what is the lending procedure

Has someone given your guarantee?

Does institution ask anything else such as collateral?

Appendix 4: Interview Guide: Practitioners of Microfinance

General information: Name, Work, Experience in the microfinance sector

Commercialisation of Microfinance

How you define commercialisation or how you perceive commercialisation of microfinance?

Do you think with commercial approach microfinance institutions will focus on poverty reduction objectives or any differences come when an institution become commercial.

What will be the consequences of commercialisation of microfinance?

- Will the target market shift if an institution become regulated, commercial institution?
- How it will affect average loan size, cost and pricing?
- Do you think with commercialisation of microfinance mission drift will occur?

Do you think with commercialisation of microfinance poverty reduction is possible?

Competition

How you perceive competition in microfinance industry?

What do you think many players should exist?

How more competition affects microfinance institution and micro borrowers?

Outreach

What are your institution targets in terms of outreach, more borrowers or more poor borrowers?

Do you think with increased commercialisation of microfinance institution will still focus on poor?

Objectives

What are the priorities objectives of your institution?

If it is institution sustainability then do you think your institution is sustainable?

If it is not sustainable, then how your institution could achieve sustainability?

Profitability

Is your institution profitable?

If not then what are the reasons behind negative profitability of your institution?

What you say about overall profitability of microfinance institutions particularly microfinance banks?

Do you think institution can achieve dual objectives of profitability and poverty reduction concurrently?

Repayment

How you deal with late payer?

What is institution bank/NGO policy regarding later or non-payers?

Do you charge any late penalty? If not then how you ensure time recovery of loan repayments.

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