

Pakistan Stakeholder Workshop

Islamabad, 29th January 2004, Sharing Microfinance Resources and Knowledge in South Asia

The workshop focused on four sections

1. Cooperation between microfinance and regulated commercial finance
2. Innovations in Pakistan microfinance and benefits for Asia
3. Best practices in Pakistan and regional standards in microfinance
4. Forms of regional cooperation in microfinance

In January 2004, in partnership with the Pakistan Microfinance Network (PMN) the Banking with the Poor Network Secretariat conducted a series of individual consultations with leading practitioners and other supporters (wholesalers, government, central banks, training and networking organisations, commercial banks and regulated companies), which was the opportunity to build the base of a collaborative relationship with local organisations, to integrate them in the regional information sharing platform put in place by the BWTP network, the Asia Resource Centre for Microfinance (ARCM), and to collect essential and updated information.

These consultations focussed on the four topics defined in the workshop organised on the 29 January 2004 in Islamabad and presented below. Local experts and leading practitioners were asked to present relevant papers and to participate to discussion panels. The central theme of the workshop was "Sharing microfinance resources and knowledge in South Asia".

For each topic included in the workshop agenda, two speakers provided their views and perspectives through a short presentation, summarising in some cases a more elaborated paper.

List of workshop speakers

Cooperation between microfinance and regulated commercial finance

- Amjad A. Arbab, Executive Vice President, Bank of Khyber
- Monira Jamshed, VP Area Executive, Punjab region, First Women Bank Ltd

Innovations in Pakistan Microfinance and benefits for Asia

- Muhammad Imaduddin, Assistant Director, State Bank of Pakistan
- Sadaffe Abid, Chief Operating Officer, Kashf Foundation

Best Practices in Pakistan and regional standards in Microfinance

- Agha A. Javad, General Manager, National Rural Support Programme.
- Syed Mohsin Ahmed, Finance Manager, Pakistan Microfinance Network

Forms of regional cooperation in microfinance

- Ayesha Khan, Programme Officer, Swiss Agency for Development and Cooperation
- Zulfiqar Ahmad, Chief Financial Officer, National Commission for Human Development

1. Cooperation between microfinance and regulated commercial finance

As a case study for cooperation between microfinance and regulated commercial finance, the Bank of Khyber (BoK) had presented their story in this area with a focus on the progress in implementing institutional reforms since 1995.

The initial focus of the Bank of Khyber was on socio-economic development with an aim to create economic opportunities for people at the 'grassroots' level. In 1995, BoK initiated the downscale of its methodology, hired staff with development background, and started to provide services more adapted to the needs of SMEs and entrepreneurs. Despite this objective, BoK kept a relatively high average loan size and faced difficulties to reach the microenterprise market on a large scale. In 1997, BoK shifted towards a group lending methodology, which reduced the size of its loans. In 1999, a microfinance unit was created, seen as a profit centre that broke even in 2000 but was back in the red in subsequent years. By 2003 BoK had acknowledged the difficulties for commercial banks to reach the 'grassroots' level, which meant that a further deepening of financial services into the rural areas of Pakistan was needed, through innovative products or partnerships with microfinance institutions. BoK developed its partnership with NGOs and RSPs, through wholesale lending, as funding sources (deposits) is abundant through the bank operations. BoK lending also focused on targeting specific clusters such as eco-friendly tourism at Swat, off-season regional growers, Women Saving and Credit Association, fish vendors, Chappal Maker and Khaddar Weaver Association and tea development at Shinkhari.

The First Women Bank Ltd (FWBL) is a nationalized bank with a mandate to improve the socio-economic status of women in urban and rural areas. Despite the number of microfinance programs in Pakistan, a small proportion of low-income women is reached by microfinance. FWBL has reached almost 20,000 women through credit services, while also providing business development services (computer literacy, legal counselling, tax, marketing) through business centres in Lahore, Karachi and Islamabad. FWBL has also build some strong partnerships with NGOs such as Kashf Foundation, and has received donors funding to support business centres, training and capacity building as well as financial services. With the ILO, FWBL has offered financial services to women of carpet weaving families, with the objective of eliminating child labour. Almost 1,000 women have benefited from these services, and the ILO Director has described the project as a model.

2. Innovations in Pakistan microfinance and benefits for Asia

In Muhammad Imaduddin's presentation, made on behalf of the *State Bank of Pakistan*, four aspects of innovation were identified. Innovation was in banking technology, types of financial services being offered, strategic behaviours and incentive packages. Mr Imaduddin saw these changes coming out of five areas: technology, product, strategy, institutional arrangements and donor incentives. Focusing on innovations in institutional arrangements, he looked at the favourable policy environment and the regional and supervisory framework for microfinance institutions in Pakistan.

Like the Bank of Khyber, the *Kashf Foundation* used their operations as a case study. Two points stressed during the presentation was the need to keep the focus on people needs in providing microfinance services, and the need to continue innovations in microfinance, as Kashf Foundation was 'born again' each time it expanded into a new area, needing to train staff and clients. Kashf Foundation also worked on the further customization of their products and services to their target market and the standardisation and efficiency of their systems and processes.

One particular area of interest for Kashf Foundation was their credit risk management structure. This structure looked at three areas in risk management – economic risk, health risk and death risk. Each area had a specialised area of mitigation. For example in the area of economic risk they looked to mitigate micro credit and savings, in the area of death risk they implemented life insurance policies in order to moderate life cycle risks, and in the area of health risk the focus was to train clients on reproduction and health issues.

Kashf Foundation saw the management of innovation coming through highly customer focussed decision-making processes, performance reward systems, a competence development system in training, overall work and client performance, and a keen focus on knowledge management.

3. Best practices in Pakistan and regional standards in microfinance

In the Performance Indicator Report (PIR) of the Pakistan Microfinance Network (PMN), PMN used it as an opportunity to make progress on the overall performance of microfinance institutions and banks, and also to see that there was a move towards the commercialisation of current practices. The objectives that they saw for having bi-annual PIR was to increase transparency, build a culture of both healthy competition and self-regulation, track progress, standardise practices, and set benchmarks. The first PIR for PMN was done in 1999, since then the impact of compiling the reports has given MFIs an increase in credibility within the private and public sector. The other benefit that has come out of the PIRs is that MFIs have been able to use it as a tool for decision-making at their executive level, which also drive changes in their operations.

Agha A. Javad, General Manager of National Rural Support Programme (NRSP) highlighted the success of the urban arm of the NRSP, called the Urban Poverty Alleviation Project (UPAP). This program has reached financial sustainability, despite displaying lower efficiency levels than the reported institutions in the MCRIL Top 10 in South Asia. UPAP has established innovative practices, for example by keeping a low profile in running low-budget settlement offices close to their clients, and by encouraging transparency within the organisation by discussing and reporting openly frauds and management problems.

4. Forms of regional cooperation in microfinance

Ayesha Khan, of the Swiss Agency for Development Cooperation (SDC), saw that one of the biggest problems in developing countries was that they lacked the microeconomic infrastructure to be able to implement economic reforms. This meant that the disparity was stunting the potential for progress in developing countries. Other problems that she saw were, “the existing regulations and processes, their effectiveness and transparency, and the corruption associated with them” (Khan 2004, p.9). Her personal view was that the success criteria for measuring the performance of microfinance institutions in Pakistan, was to look at it in terms of a client-based success measurable.

What she saw lacking in current cooperation regulations was the continual and transparent sharing of experiences amongst members and the appropriate support to institutional mechanisms for knowledge management in MFI's. She also saw that coordinated mechanisms had failed so far because of the continual production of short-term hybrid projects instead of something with a longer-term benefit. She also saw that they had failed because they didn't currently represent a wide range of interests and didn't commit to allow assets to thrive.

Khan had identified that the greatest benefits of countries being in a regional cooperation agreement came when the socio-economic realities of member countries are similar. However the problems that would come from this were finding appropriate resource allocation and benefits sharing. In order for this to happen Khan believed that international organisations needed to make available technological expertise, strategic funding, have agreements finalised by an external mediator, and also involve international organisations in order to provide a level of neutrality in the decision making process for regional cooperation.

Zulfiqar Ahmad took on a very similar approach to Khan when he looked at the forms of regional cooperation in microfinance. As the Chief Financial Officer for the National Commission for Human Development he saw that the key objectives in strengthening regional cooperation was to build government-to-government cooperation, build MFI-to-MFI cooperation, gain exposure to different programs both in and outside of the region, build the capacity of membership, form financial consortiums, build public-private partnerships, and develop strong and effective regional networks.