PMIC Insight - III

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PMIC's Role as Sector Developer

Objective

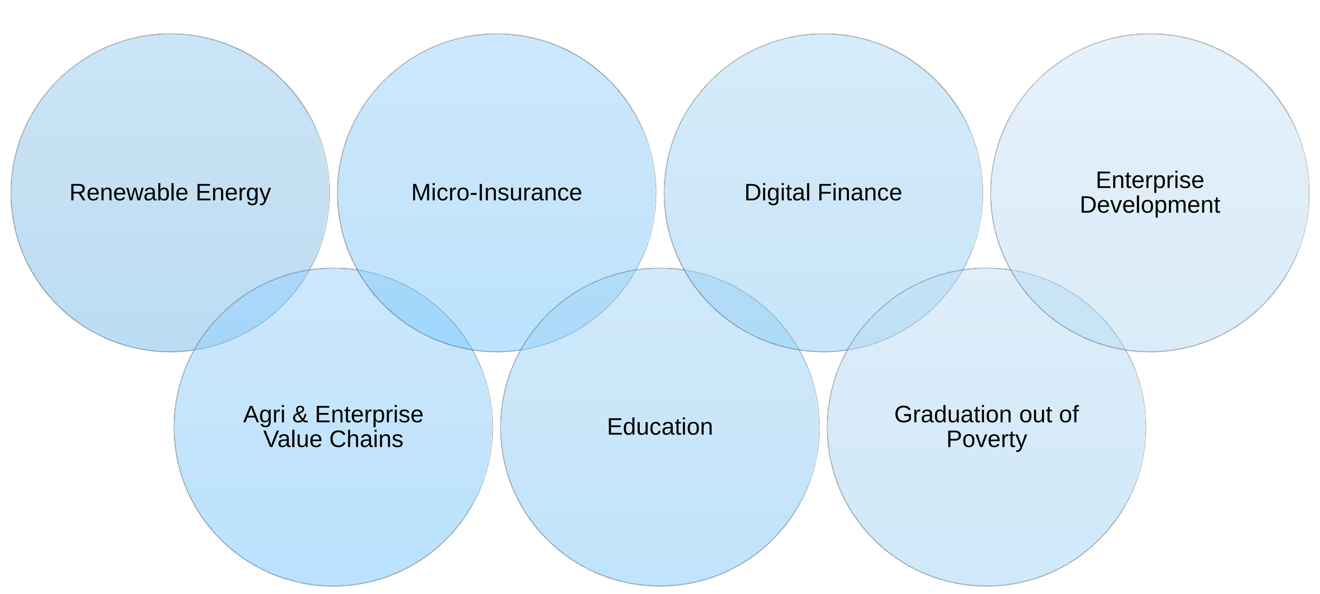
- Create positive social impact among clients
- Contribute to a robust eco system for microfinance

Strategy & Rationale

Strategy:
- Design of innovate Microfinance Plus products
- Facilitating cross sector partnerships and crowding of funds
- Value addition and risk mitigation for clients and MF service providers

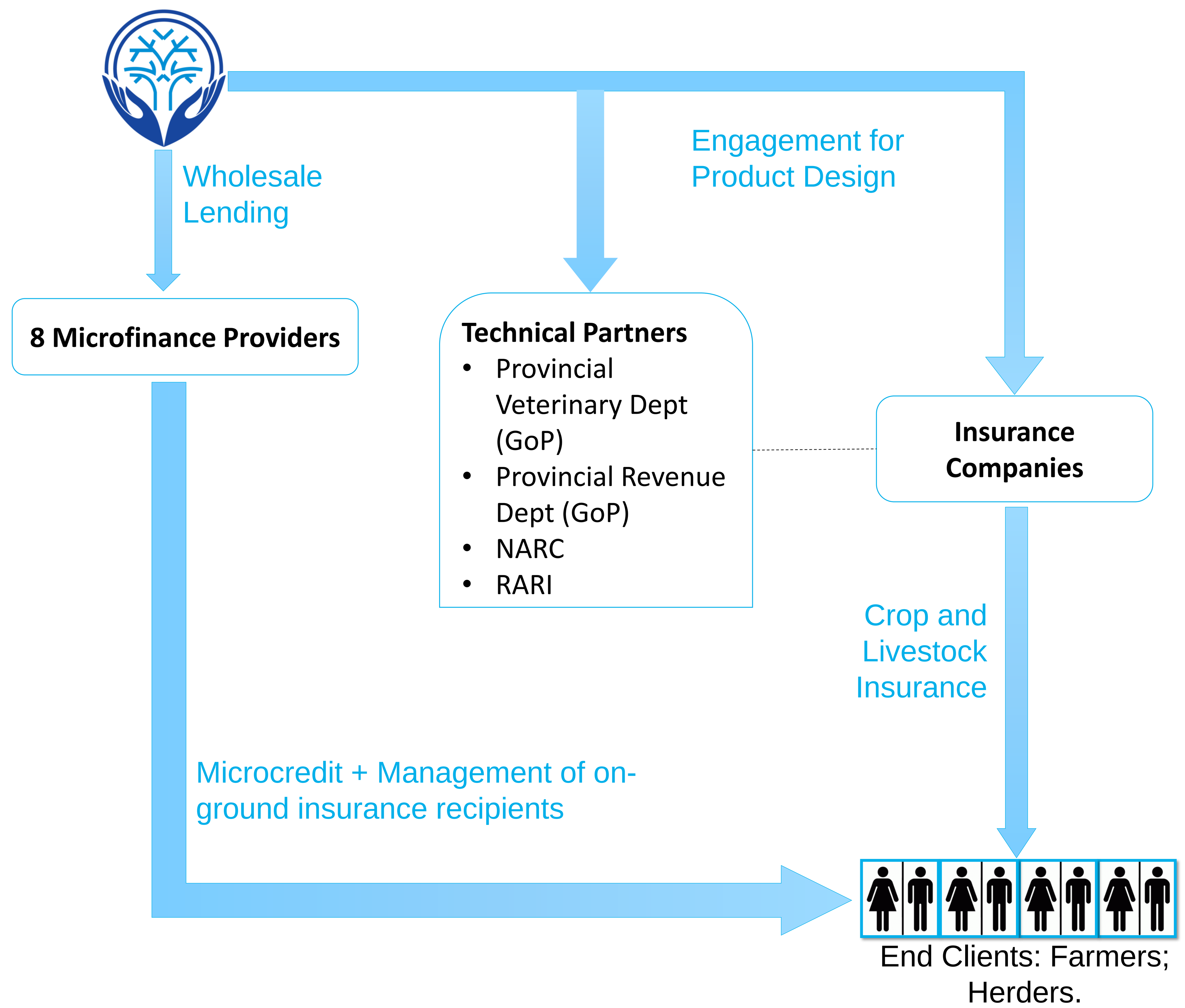
Rationale:
- Creating **socio-economic impact** requires meaningful contribution towards development of **need based financial products and services**, in addition to provision of loans.

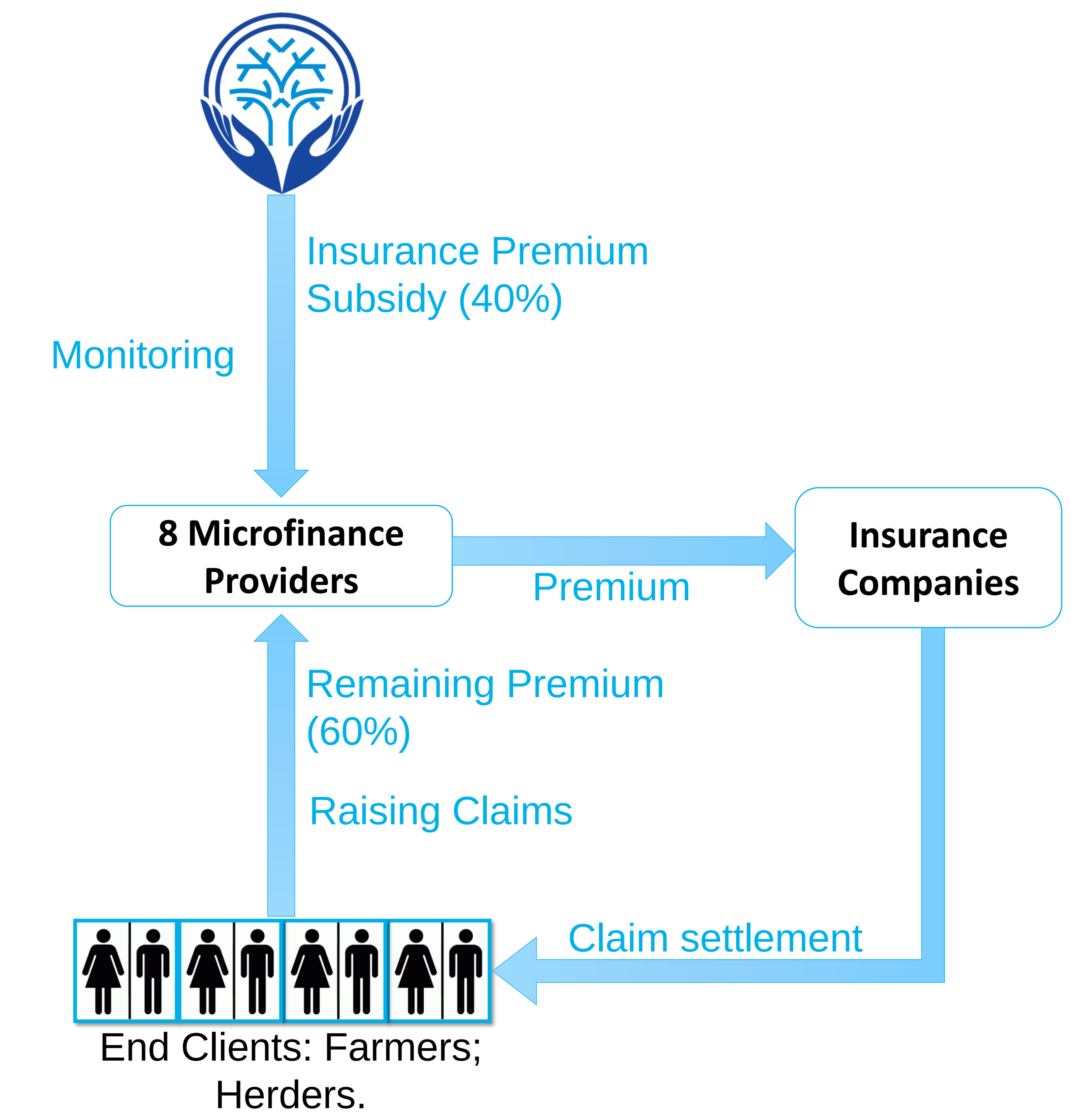
Focus Areas



PMIC's Role

- **Wholesale Lender:** Provision of wholesale funds to microfinance institutions, for on-lending to targeted populations, to achieve desired impact objectives
- **Financial Product Developer:** Development of need based financial products, that take into account the demands of the underlying business activity and/or clients needs
- **Aggregator:** Promoting collaborations between various players in the eco-system
- **Technical Capacity Building:** Bringing together institutions for the technical capacity building of either microfinance institutions or the end clients. E.g., trainings and exposure for staff as well as awareness raising and introduction to modern farming practices for farmers, etc.
- **Technical Assistance Funding:** Provision of funds for capacity building initiatives, as per internal criteria





PMIC's Microinsurance Initiatives

Product Description:

Livestock MI: PMIC team, in collaboration with insurance companies, designed three livestock MI products namely: Conventional livestock insurance, Insurance for Milking Animals and Live weight livestock insurance
Coverage under these products was for animal mortality even due to natural disasters such as floods, drought, excessive rains, disease outbreak, etc.
Crop Insurance: PMIC team, in collaboration with insurance companies, designed two different insurance products: Weather index based insurance coverage and Yield based insurance coverage
These products provided insurance coverage for yield loss due to natural hazards (droughts, excessive rains, hailstorm, floods, etc.), pest attack and fire.
Both livestock and crop insurance products were designed under technical supervision of insurance and agriculture experts and were vetted by insurance and re-insurance companies.

Partners:

National Agriculture Research Council (NARC): Helped in designing insurance products based on their in-depth knowledge about crops and livestock
Regional Agriculture Research Institute (RARI): Involved in determining exact yield for specific crops in southern Punjab
Provincial Veterinary Departments: Involved in providing vaccination to animals in MI project areas; also facilitated in provision of trainings on livestock best practices
Provincial Revenue Departments: Involved in determining crop yield pertinent data for the last 3 years in Central Punjab districts
Insurance Companies: Provision of insurance products to microfinance clients.
Private Sector Entities: Provision of equipment, inputs and relevant data and information

Focusing Inward

Although financial inclusion has almost doubled over the last few years, Pakistan still remains one of the most unbanked countries; 6th in the world, in terms of lack of access. Of greater concern is the sex-disaggregated data which indicate that improvements in inclusion have been characterized by widening gender gap; 28% in 2017 from 7% in 2011. This implies that the pace with which women are being included into the fold of financial services is significantly lower than that of men. Research puts forth various explanations for this disparity:

1. **Limited Working Opportunities:** Many women are deprived of opportunities of participating in the labor market. Female labor force participation rate was a mere 24.9% in 2017 as per the ILO estimates. This in turn restricts opportunities to access financial services. Findex 2017 notes that those active in the labor force are less likely to be unbanked.

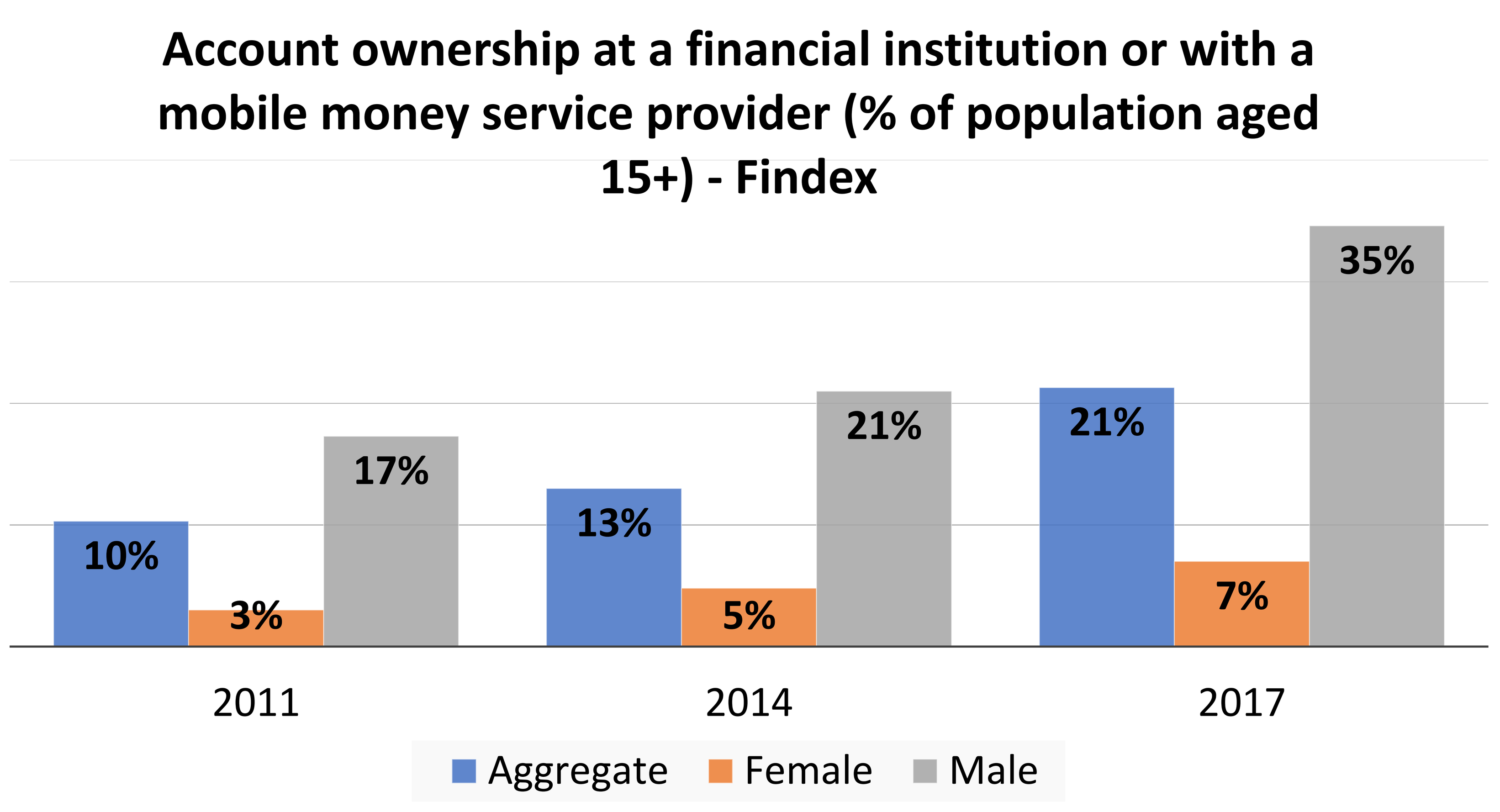
2. **Lack of Financial literacy**: 67% of women living with husbands were found to be unaware of Mobile Financial Services in a study by GSMA; the figure for women living without a husband or a male family member was 97%.

3. **Limited Mobility:** Gaining access to formal financial services, via a bank account or otherwise, often involves physically approaching an institution. Women in Pakistan face varying degrees of limitations when it comes to mobility. CERP surveyed 1,000 households in Lahore, whereby 70% of male respondents said that they would discourage female family members from taking public wagon service. This is just a representation of an urban setting. Female mobility is, presumably, even more restricted in rural settings, adding another constraint to female financial inclusion.

4. **Barriers to Technology:** In the age of digital finance, possessing a cellphone is a pre-requisite for access to digital financial services. UN's Measuring the Information Society Report holds that a Pakistani man is twice as likely to own a cellphone as compared to a Pakistani woman. The Gallup World Poll 2016 corroborates this contention; estimated 27% of women while 86% of men had a cellphone in Pakistan in 2016.

5. **Societal Norms:** Possessing an account at a formal financial institution is also, at times, perceived as a way of giving women "undue" independence as it may entail their handling of finances on their own. The social norms constraining female independence, in general, may also manifest themselves in impeding women financial inclusion.

Widening Gender Gap in Financial Inclusion in Pakistan



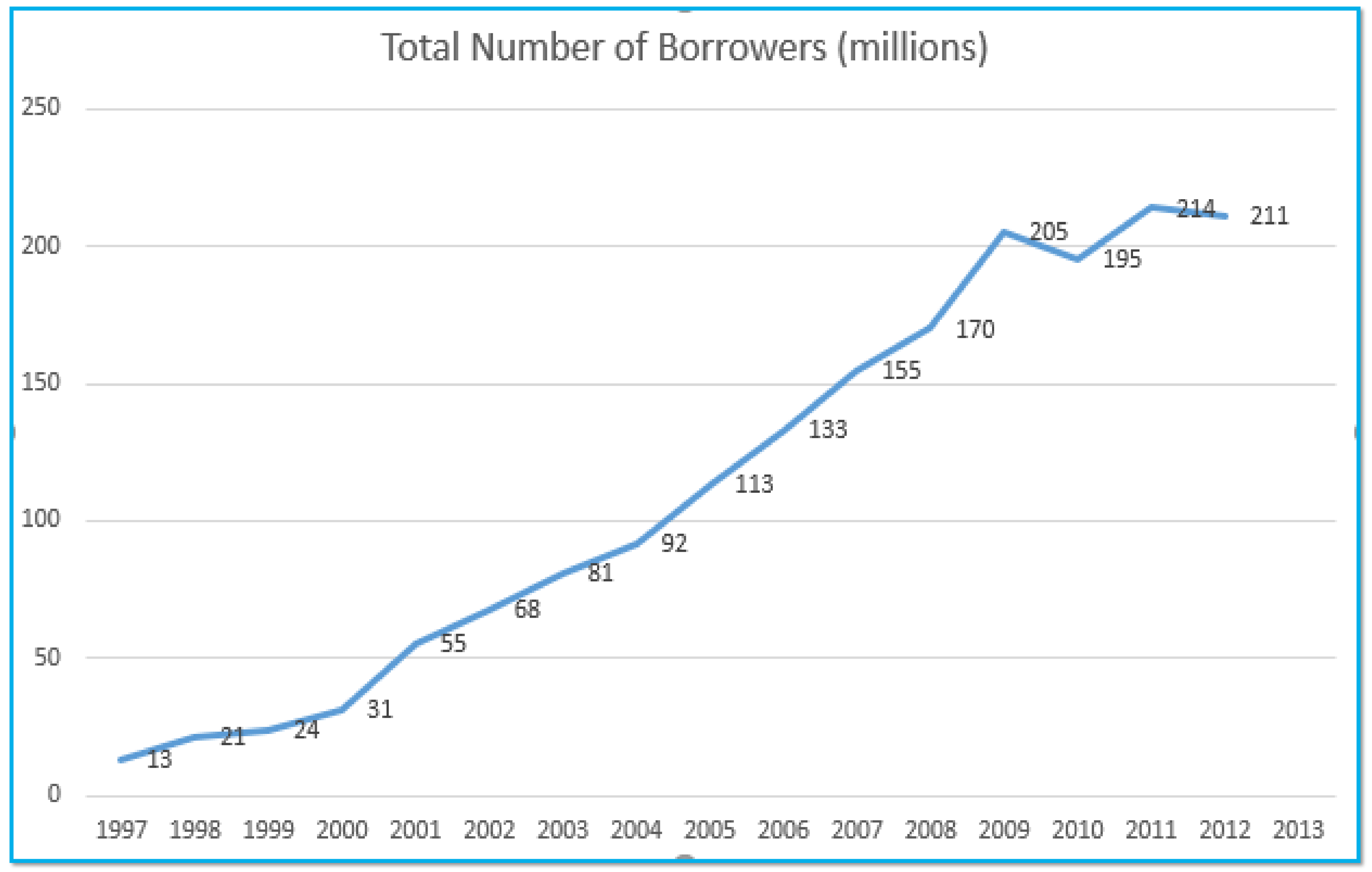
Recommendations

The efforts to enhance financial inclusion for women would require both micro and macro level interventions as some of the factors restricting access also stem from the patriarchal nature of the society. Some recommendations include:

- Incentive mechanisms that cater to the specific interests of women will have to be designed to encourage account ownership
- Targeted financial literacy programs will have to be designed for women
- Greater opportunities for participation of women in the labor force are required.

Focusing Outward

Global Growth Trend



Growth Model

Extensive

- More branches
- Greater geographical and numerical outreach
- Expansion of loan size
- More loans disbursed
- Greater amount of human resource in organizations

Intensive

- Increase in productivity overtime
- Better branch capacity utilization
- Advanced stages of learning curve attained by management
- Greater employee productivity and capacities

Any economy, sector or organization grows in two stages; namely, extensive growth and intensive growth. An organization has to assume the former in order to reach and attain the latter stage of growth.

Key Stats

- Estimated global outreach of microfinance is almost 200 million people as of 2017
- As of December 2013, 92% of borrowers were women and 55.5% were among the poorest worldwide
- South Asia alone was home to 59% of all borrowers, of which, almost 50% were from India, Pakistan and Bangladesh in 2017
- In 2016-2017, global loan portfolio increased by 9.4% and number of borrowers by 9.6%; the respective figures for South Asia were 23.5% and 13.4%.

Challenges Associated with Growth in Microfinance

- Greater communication costs
- New units face difficulty in operating at full capacity
- Transition from dense to marginal populations could be challenging
- Regulatory gaps for a growing sector raise liquidity and insolvency risks
- Switch from donor-funding to market-based liabilities increases average cost of funds
- Mission drift: double bottom-line goals maybe undermined due to reliance on private capital
- More mature organizations require greater amount of reserves under regulation which may increase the proportion of non-loan assets, in turn, increasing cost of funds and decreasing returns.

Learning Hub

Topic of the Quarter

Savings

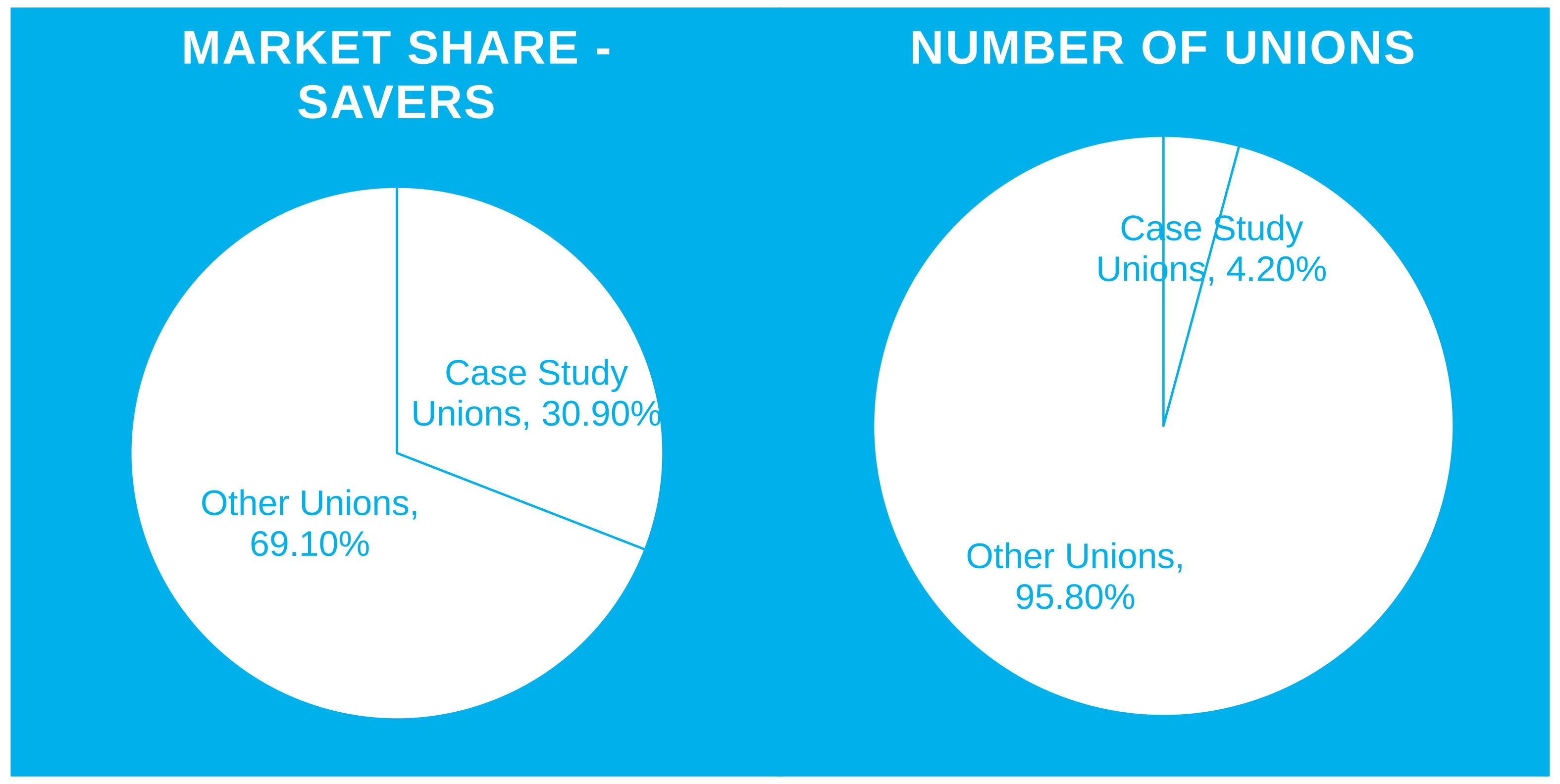
Savings in the Microfinance Context

- Microfinance is not only about the provision of microcredit to the poor. That is only one side of it. A key aspect of financial services at the base of the pyramid also has to be about enabling the marginalized to save – read micro-save – in a financial institution
- CGAP maintains that poor will hold financial savings in savings accounts with financial institutions, if appropriate facilities are available
- UNDP's Special Unit for Microfinance deems savings mobilization as a powerful tool in poverty reduction as it boosts outreach to the poorest of the poor
- Savings allow families to increase their capacity to absorb financial shocks, smooth consumption, accumulate assets, and invest in human capital such as health and education
- Interventions aimed at encouraging savings can allow the poor to guard their savings against inflationary value-loss
- For MFPs, this can reduce the need for external borrowings and contributes to sustainable source of funding
- Savings can help transfer capital from informal economy to the formal sector and build capital bases for developing countries by mobilizing capital at the lowest level
- Savings are closely associated with growth; an economy with a high degree of savings is also characterized by accessible capital for productive investments.

Savings Success – A Case Study

An overview of the savings strategies and practices implemented in 14 credit unions in Ecuador; data that demonstrates the success those institutions achieved in mobilizing savings

Ecuador: Savings Mobilization in 14 Credit Unions*



Challenges and Strategies

1. **Challenges**

- General economic turmoil from 1980s to early 2000s.
- Fall in real income – a serious impediment to mobilizing savings.
- Public mistrust of the financial system – many banks and finance companies had gone bankrupt by 1998.
- Currency devaluation occurred by 179% in 1999 alone – de facto dollarization of the economy had already begun.

2. **Strategies**

- **Institutional image:** The credit unions advertised the impressive management practices of their staff that were from the local market.
- **Rapid service:** Credit unions made strides to reduce the time members spent on transactions. Simplification of procedures and opening more teller windows were the main tools.
- **Competitive Interest Rates:** Most of the unions ensured to keep the interest rates competitive vis-à-vis the local markets. Nevertheless, two unions offered rates higher than the local market to mobilize savings further.
- **Extended Hours of service:** Most of the credit unions extended their service hours, generally from 8:30 a.m. to 6:00 p.m. A few unions also kept teller windows open on Saturdays and Sundays
- **Promotions:** Many unions gave away promotional gifts to attract savers. The gifts typically included bags, shirts, hats, pens, key chains, and school supplies.
- **New Points of Sale:** Within the same service area, new points of sale were established to deepen penetration
- **Publicity and advertising:** Radio, flyers and brochures were used to conduct large-scale advertisement by these unions. Print media and television were employed for advertisement on a smaller scale. Savings services were also promoted and linked to other services and benefits offered by the institutions.

Outcome

- These 14 credit unions were only 4.2% of all the 332 unions in Ecuador in 2001. Still, they were able to enlist 30.9% of all the members in the country which demonstrates their massive market share; this was a direct consequence of the innovative strategies employed by these unions.

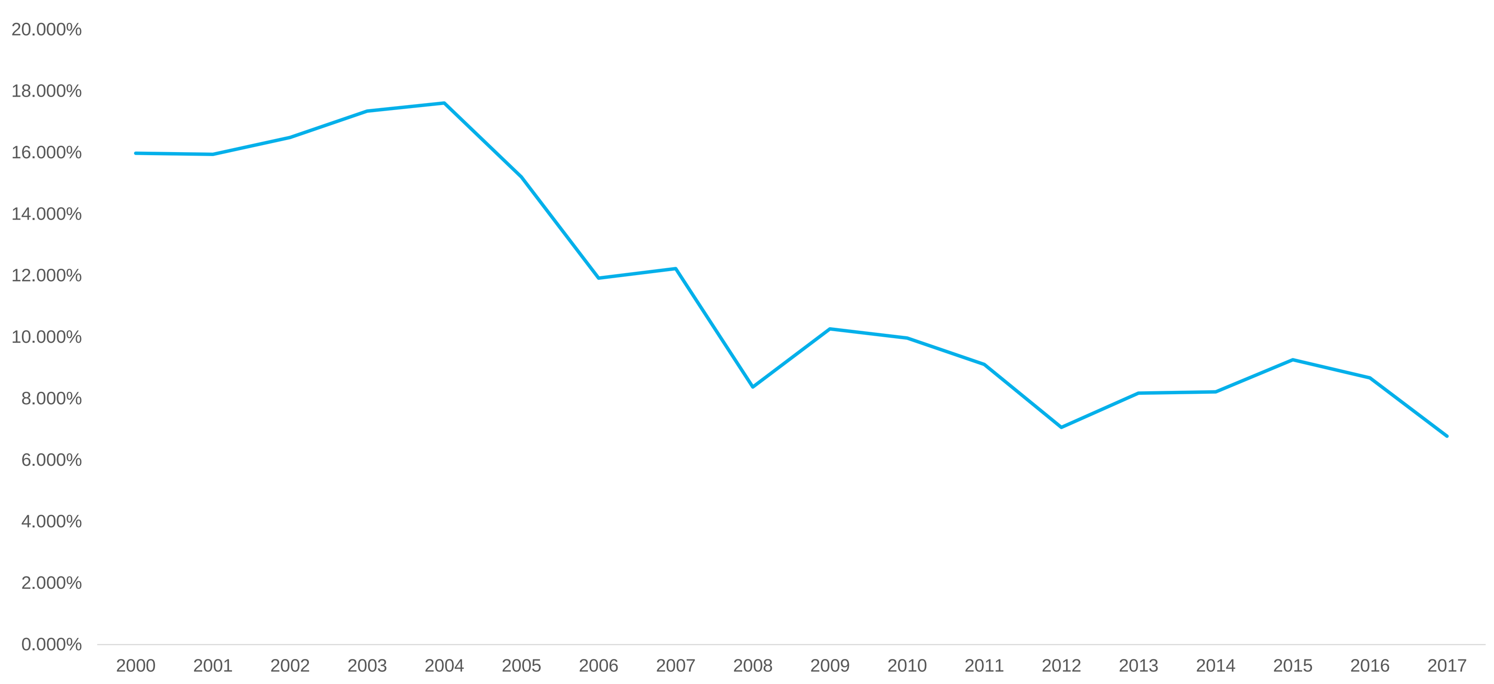
Profile of Savers

- As per the survey of 500 randomly selected members, monthly average income of females who were now saving was as low as $179; for males it was $243.
- 61% of the respondents were earning less than $200/month
- 56% of the respondents were women

→ **Principal Reasons for Saving:**

- The foremost reasons cited by respondents were emergencies, health expenditure, housing, education, and future commitments.

Savings Landscape – Pakistan *(Savings % GDP)*



Domestic savings in Pakistan have featured a declining trend; the main reasons associated with this trend are:

1. Low interest rate environment
2. A consumption-led growth model post-9/11, which stimulated influx of FDI and imports, consumption and discouraged savings
3. Disinclination towards savings via financial institutions out of religious reasons
4. Low income for the poorest of the economy – who happen to be vast in numbers – disallowing them to save at all
5. Lack of financial depth, inclusion and penetration
6. Double digit inflation from FY08-FY12 exerting downward pressures on savings.

Link to Economic Development

- A research paper published by the World Institute of Development Economics Research found that savings “Granger-caused” poverty reduction in Ghana. Granger-causation implies an event in the past has predictive information about the future above and beyond the information contained in the past value alone**
- Another paper, co-authored by researchers from London School of Economics and Yale, indicates that financial sector expansion between 1977 and 2000, which mainly focused on rural areas, significantly lowered poverty and increased non-agricultural output in the period. The period also characterizes a general increase in rural credit and saving in Indian states***
- Effective savings mobilization encourages capital accumulation on one hand and financial intermediaries engaged in mobilization improve resource allocation via exploiting economies of scale on the other, thereby, driving long-term economic success****

Works Cited

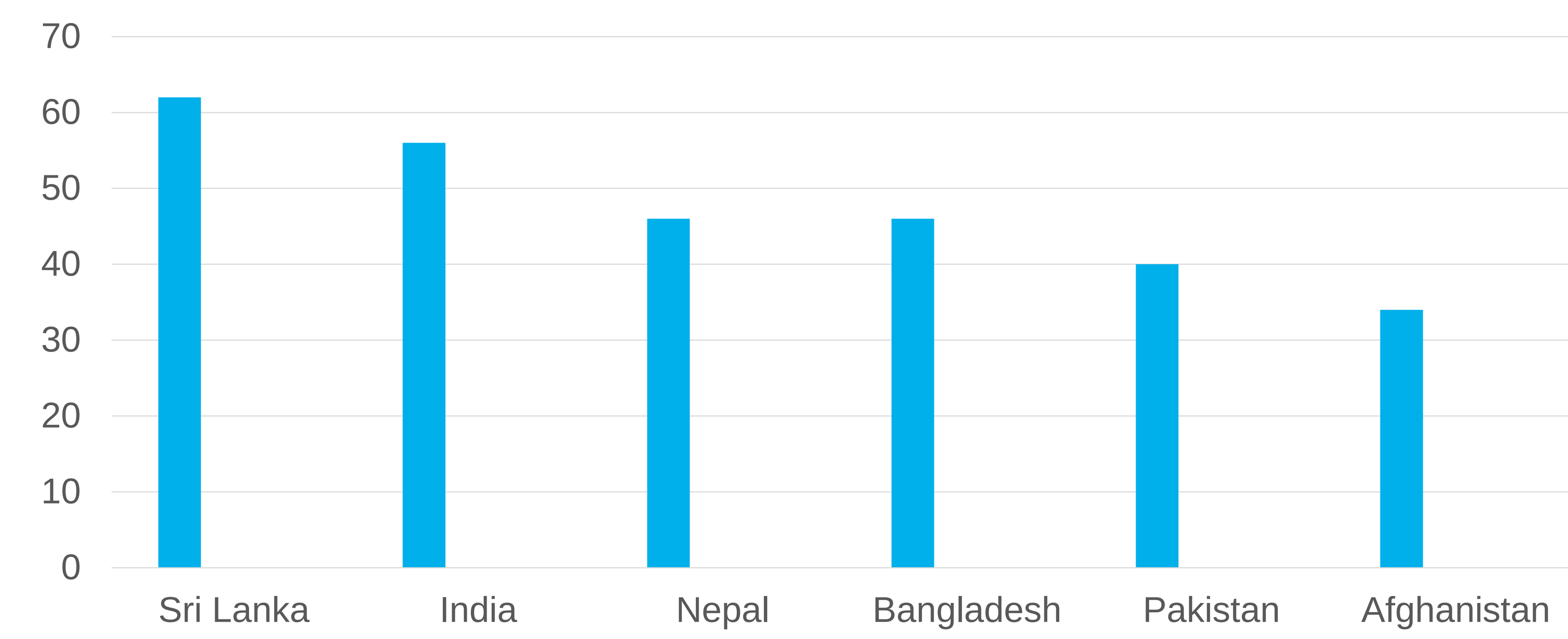
- Case Study: **Ecuador: Savings Mobilization in 14 Credit Unions -** Printed and published by the World Council of Credit Unions
- **Financial Sector Development, Savings Mobilization and Poverty Reduction in Ghana (UNU-WIDER)
- ***Do Rural Banks Matter? Evidence From The Indian Social Banking Experiment (Burgess and Pande)
- **** International Financial Liberalization and Economic Growth (Ross Levine)

SDG 3: Ensure healthy lives and promote wellbeing for all at all ages

Sustainable Development Goal 3

- **GOAL:** By 2030, reduce the global maternal mortality ratio to less than 70 per 100,000 live births, end preventable deaths of newborns and children under 5 years of age, end the epidemics of communicable diseases, reduce by one third premature mortality from non-communicable diseases and promote mental health and well-being.
- Strengthen the prevention and treatment of substance abuse, including narcotic drug abuse and harmful use of alcohol.
- Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.
- As per the Universal Health Care (UHC) Service Coverage Index of 2015 by WHO, only around 40% of the world's population enjoys universal health coverage.
- According to UNICEF, nearly 44% of all children are stunted and 9.6 million experience chronic nutrition deprivation.
- **PAKISTAN:** Life expectancy at birth in Pakistan is at a low of 66.5 years; only above Afghanistan in the region.
- Premature death is the leading cause of deaths of children under 5 years of age in the country.
- Approximately 40% of children in Pakistan aged under 5 years were stunted in 2015.
- National TB Control Program aspires to reduce the prevalence of TB by 50% by 2025 in comparison to 2012. WHO's estimated TB + HIV incidences were 140 per 100,000 people globally in 2016; the estimated figure for Pakistan was 268 while for South-East Asia, it was 240.

Regional Comparison (Universal Health Service Coverage Index, 2015)



Service Coverage Index – Pakistan and Regional countries

Good Health and Well-being – Achieving SDGs

Attaining the goal of good health and well-being is deeply connected with the realization of other SDGs. Health happens to play a key role in ensuring that other goals stand a chance by 2030. Poverty alleviation, economic growth, and gender equality are just a few salient ones that could be swiftly achieved if the target populace was in good health.

Health Services in Pakistan

- The National Health Vision Pakistan 2016-2025 envisions to improve the health of all Pakistanis via universal access to affordable and quality healthcare services.
- Prime Minister's National Health Insurance Programme, launched in 2014, offers cashless schemes for families living below the 32.5 Proxy Means Test (PMT) score in the Benazir Income Support Program (BISP) database. It is in its initial stage of implementation with coverage of about 20 districts only, so far.
- Lady Health Workers Programme, instituted in 1994, targets to reduce poverty and improve national health indicators via the provision of essential primary health care services.
- Epidemics Prevention and Control Program, initiated in 2011, aims to combat Dengue and other significant vector-borne diseases via disease and vector surveillance, health education, advocacy and social mobilization.
- The Extended Program on Immunization is a disease prevention scheme that targets 8 easily curable diseases that are the cause of millions of disabilities and deaths each year in Pakistan.

Microfinance and Health

- Views surveyed from 60,000 respondents show that illness and inability to access health care both induces and results from poverty[1].
- Among 15 causes of the downward slide to poverty, illness has been reported as the most frequent one by thousands of respondents in another study[2].
- At a larger level, Microfinance tries to achieve poverty alleviation, implying it indirectly serves to mitigate health crises. Conversely, if it just directly aims to provide healthcare services, it in effect, assists in fighting poverty.
- Microfinance has reportedly been instrumental in capacity building of health systems in Uganda by providing micro-loans and skills training to small health providers[3]. In Dominican Republic, it was shown that the provision of microcredit and education, in combination, lead to a 43% reduction in Diarrhea incidence[4].
- Several microfinance practitioners have initiated health insurance in Pakistan; this facility reduces the spend on health related expenditures which can in extreme cases prevent the downward spiral into poverty.

1 Narayan D, Patel R, Schafft K, Rademacher A, Koch-Schulte S. Voices of the poor: can anyone hear us. New York: Oxford University Press for the World Bank; 2000.
2 Dying for change: poor people's experience of health and ill-health. World Health Organization and World Bank; 2002.
3 Seiber EE, Robinson AL. Microfinance investments in quality at private clinics in Uganda: a case-control study. BMC Health Serv Res 2007; 7: 168-
4 Dohn AL, Chávez A, Dohn MN, Saturria L, Pimentel C. Changes in health indicators related to health promotion and microcredit programs in the Dominican Republic. Rev Panam Salud Publica 2004; 15: 185-93.

The Economics

The Economy

Moody's recently revised the Outlook on Pakistan's rating to "Negative" while maintaining the rating at B3. The rating agency's decision was driven by the heightened external vulnerability risk. Pakistan has experienced a gradual depletion of foreign exchange reserves (FX) from $20.2b in July'17 to $16.1bn by early July'18. Moreover, trade deficit has widened considerably in the backdrop of rising CPEC related imports while exports have not been able to keep pace. For 9MFY18, trade deficit was recorded at $26b versus $31b for FY17. These indicators combined with a gradual upward trend in public external debt in relation to GDP raise concerns with regards to the external liquidity position of the country.

Challenges on the external front are somewhat balanced by the positive growth story on the domestic front. It is expected that on-going investments in energy and physical infrastructure will address the bottlenecks in the economy and keep it going on an upward trajectory. Inflation has started to creep up; oil price rise internationally could exert further pressure on both domestic inflation and the import bill. The Rupee has also experienced steep depreciation of almost 18-19% in the out-going fiscal year, most of it realizing in the second half of the year.

Ability to expand revenue base and block resource-leakage in government spending have been limited and this is associated with the budget deficit expansion. The Tax Amnesty scheme is projected to fetch an ambitious $3-4b in FX reserves; as per SBP Governor, $300m had been collected by June 30th.

Item	Amount
GDP per capita (current) - FY17	$1,800
GDP (at current market prices) – Mar'18	$297.8b
Trade Balance – 9MFY18	($26.2b)
Public External Debt % GDP – Mar'18	24.5%
Liquid FX Reserves – July 6, '18	$16.1b
CPI – Jun'18 (YoY)	5.2%
6-month KIBOR – July 13, '18	7.24%

Commercial Banking Sector

Growth momentum in private sector credit was maintained in FY18. Credit to the private sector increased by 16.7% over the period July'17 to May'18; the increase is attributable to greater economic activity arising from domestic demand, curtailment of energy crisis and general optimism as to the risk associated with private lending.

While as such the demand for credit may remain strong in the near to medium term if the growth in economy continues; interest rates have experienced major reversal in recent period. Impact of the same on credit growth will become evident over time.

The government has targeted to increase its borrowings from banks to Rs. 1 tr in FY19. In view of the budget deficit, the government continues to rely on the commercial banking sector as a source of funding, which has the potential downside of crowding out the private sector. Credit growth in the near term could also be affected by the on-going political developments and the forthcoming elections.

Profitability of the banking sector has fallen by 16% to Rs. 41 b in the first quarter of the current year. The foremost reason cited by analysts is the shrinking of margins owing to lower interest rates. The reversal in interest rates may widen margins somewhat if deposit cost does not catch up.

The super tax of 3% on banks for the fiscal year starting July, 2018 will also eat into the profits of those banks which make more than Rs. 500m in annual earnings.

Item	Amount
Advances – June'18	Rs. 7.4tr
Deposits – June'18	Rs. 13.1tr
ADR – June'18	56%
Net Infection Ratio – Mar'18	1%
Risk Weighted CAR – Mar'18	15.9%
Credit to Private Sector % Total Scheduled Banks' Credit – May'18	66%
Credit to SMEs % Loans to Private Sector Business – May'18	8.2%
Agriculture Credit % Loans to Private Sector Business – May'18	6.5%

Microfinance Sector

Over the last 5 years, the gross loan portfolio (GLP) of the microfinance sector has increased at a cumulative annual growth rate of 44%. Growth in the sector has lately been led by microfinance banks. Of the aggregate GLP of Rs. 224b at the end of 1Q18, the share of MFBs was Rs. 153b (68%) while that of MFIs was Rs. 45b (20%). However, given that the average outstanding loan size of MFBs is much larger at Rs. 54k versus Rs. 21k for MFIs, the share of MFBs in active borrowers is much smaller at 45% versus 35% for MFIs.

This is only one of the factor that distinguishes the lending profile of MFBs versus MFIs; the former being more urban centric and having greater proportion of male clients.

As to the provision of microcredit on an aggregate basis, females accounted for 36% of GLP while males accounted for 64%. Interestingly, of the total number of active borrowers, females were 53% and males were 47%. This implies that on average, women get smaller loans than men.

Access to credit remains restricted beyond Sindh and Punjab as depicted by the geographical distribution of loan portfolio. Punjab has predominant presence of microfinance, with 77% of GLP outstanding in the province, followed by about 18% in Sindh. The remaining 5% is spread across the remainder of the country.

	Q1-2018	2017	2016	2015	2014
Penetration Rate (%)	30.4	28.3	22.3	13.7	11.5
Active Borrowers (In m)	6.2	5.8	4.6	3.8	3.1
Gross Loan Portfolio (Rs. in b)	224.5	202.7	136.9	93.0	66.8
PAR-30 (%)	0.1	0.1	1.4	1.4	1.1
Value of Savings (Rs. in b)	190.2	186.9	121.4	64.7	43.5
Number of Policy Holders (In m)	7.9	7.3	5.9	4.6	3.8