March 2010

ASASAH– Pakistan

Comprehensive Social Rating	BB-

ASASAH was established as an NGO in 2003 and shortly after transformed in a company limited by guarantee. The institution has been collaborating for several years with Save the Children US. ASASAH has received funding both from national and international lenders and donors as PPAF, Deutsche Bank and Kiva. ASASAH operates in urban and rural areas of Punjab, offering credit and saving services, as well as non financial services on a smaller scale. Operations are mainly concentrated in Lahore and in the neighboring districts trough a widespread network of branches. Loans are provided only to women clients and are based on the group solidarity methodology.
ASASAH target clientele are poor but productive clients and micro entrepreneurs.

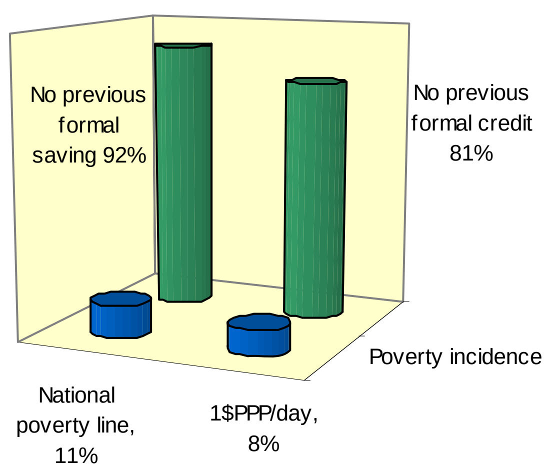
Legal Form	Company Limited by Guarantee
Year of inception	2003
Area of intervention	Urban, rural
Credit methodology	Group solidarity
Financial service	Credit and saving
Non-financial service	Training, lobbying

Social indicators	Dec-09
Female staff	35%
Staff turn-over ratio	34%
Real portfolio yield	20%
Financial awareness: Interest rate	35%
Solidarity group methodology, clients	100%
Rural coverage, clients	51%
Female clients	100%
Female clients without control over the loan	40%
Clients without completed primary education	83%
Dependency ratio	2.41
Financed business in informal sector	99%
Employees in financed activity	1.75
Households owning dwelling	88%
Households owning land	10%
Households without improved water source	52%
Households without improved sanitation	42%
Clients without additional credit	94%
Clients without health insurance	100%
Households without food security	16%
Average outstanding loan amount, USD	83
Average balance per borrower / GNI pc	9%
Client drop-out ratio*	17%
PAR30	0.09%

See annex 2 for more details. *Jul08-Jun09

Organization	Dec-09
Active borrowers	27,561
Active savers	29,636
Gross outstanding portfolio, USD	2,296,399
Total active savings, USD	62,898
Branches	23
Total staff	199

Poverty and financial exclusion, survey on clients



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AREA		Main results of the social rating
Social performance management system	↑	Social orientation of the mission clear at top management and BoD level, and well disseminated among the staff of the head quarter and branches.
	↑	The performance monitoring focus on the growth in the number of clients, portfolio quality and the client drop-out rate presents some elements of alignment to the mission.
	↑	The MIS presents a good potential for social performance monitoring, even if the MIS is not fully functional, and the information flow is not yet completely reliable. The PPI pilot implementation project is on-going. An external impact study has been conducted in 2008.
	↑	Product design is in line with the mission, without significant barriers to the access of the majority of the poor target clients.
	↑	The mission and consumer protection code of conduct is included in operational manual, even if a compliance verification system is not yet in place; induction also covers the mission. Field verification includes some socio-economic data of the clients as well as the client passbooks.
	↓	Improvable transparency at governance level: risk of influence from the CEO on decisions.
	↓	A clear strategy to address the sustainability issues has not been clearly identified yet and the risk of mission drift can not be excluded, as the possibility to implement a strategy which is compatible to the current segment served will need to be proved
	↓	A complete set of social objectives and targets has not been formalized yet, even if a plan to set targets is likely to be done in the 4th quarter of 2010.
	↓	Improvable alignment of the human resource management to the mission, without specific social criteria in the selection and performance appraisal. However, the staff incentive scheme balances the growth in the number of clients and portfolio quality.
Social responsibility	↑	Good gender balance in organization and management positions, positive working environment for female staff in Pakistani context
	↑	Remuneration in line with the sector, participatory approach, good contractual conditions and communication, training, performance appraisal and internal career
	↑	PMN promoted consumer protection code subscribed, reasonable cost applied to clients, even if large room for improvement in efficiency (over-staffing, high staff turn-over, processes)
	↑	Entrepreneur training and market linkages services offered. Free legal advocacy service just introduced; plan about introduction of short term interest free loan and scholarships for the poor.
	↓	Improvable transparency in human resource management due to the internal policy encouraging relatives, that can entail the risk of favoritisms and can affect the professionalism. Complex structure of staff reward system and personnel exposure to risks due to cash handling.
	↓	Risk of clients over indebtedness affecting the microfinance sector, especially high in Lahore. Credit bureau not yet available, weaknesses in the assessment of the repayment capacity. However, the small loan amount and the business financing policy act as mitigating factors.
	↓	Improvable transparency of the products conditions: complex cost structure, key written documents not provided and cash receipts for saving transactions in the field not available.
	↓	Weaknesses in the audit function and fraud risk: cash handling, improvable hierarchical control, vacant internal auditor position, MIS not yet functional.
	↓	Potential pressure risk for female clients originated by the frequent use of the loan by male family members, due to the society set-up. The possible benefit for female clients in terms of an increased role in family decision making could be investigated through appropriate studies.
	↓	Despite the willingness to promote the saving culture among clients, encouraging saving with ASASAH is a risky practice as the MFI is not allowed by the law to collect saving and it has weak systems. However, the amounts collected are small in absolute terms.
	↓	A black list of activities dangerous for the environment or community is mentioned in the funding agreement with PPAF. However, there is currently no verification system to ensure the compliance

Some of the outreach results refer to recent clients (see annex 1). ↑ positive elements of analysis ↓ negative elements of analysis

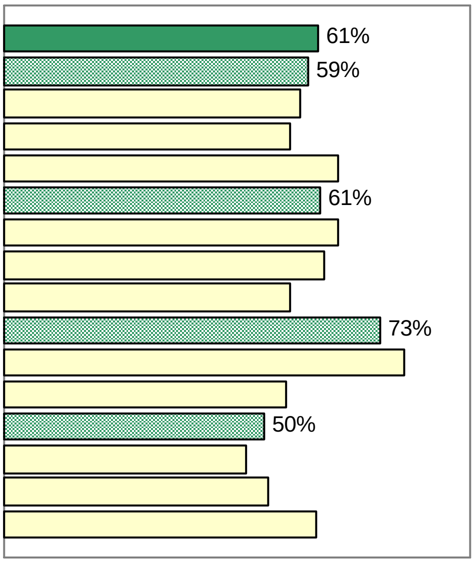
AREA		Main results of the social rating
Outreach	DESCRIPTION	Geographic coverage: limited coverage of Pakistan regions. Operations are concentrate in Punjab and in Lahore and neighboring district.
		100% of clients are married or widowed women on average 38.45 years old. Households are on average formed by 6.6 members and 36% are women headed. 2.52 are the number of constant source of income and the depending ratio states at 2.41.
		Good depth of outreach even if lower poverty incidence compared to the national average: 11% of recent clients below the national poverty line , 59% and 8% below $2PPP and $1PPP a day.
		Elementary occupations involve 2.02 family member per household. Child vulnerability is low with 7% of children between 5-13 years old engaged in economic activities.
		100% of the clients are female; however, according to the survey on clients, 40% of them do not have control over the loan and 36% have partial control. According to MIS 62.9% of loans are managed by the client husband and 15% by the son of the client.
		83% of clients without primary education; 82% children in age 5 - 13 attending school.
		2% start-up activities financed, 99% businesses are informal; service (36%) is the leading sector followed by trade (29%) and manufacture (25%). Loan mainly used for business or agriculture production. Limited contribution to job creation: 1.75 workers only, of which 1.62 family members.
		Vulnerability: only 16% of clients experience shortage of food in the last 12 months, but 38% had difficulties to cover medical expenses. Measure taken are: 22% used saving, 16% borrowed additional loan, 13% received support from relatives, 9% reduced consumption.
		68% of children are delivered at home, 22% in private clinics and 10% in government structure.
		Asset ownership: 88% of clients are dwelling owners, 64.2% of houses are made of bricks, 8% of cement and 18.9% of mud. 85% of household owns a television, 35% own an engine driven vehicle and 34% a refrigerator. Livestock ownership: 5.6 small animals, 2.2 big animals.
		Access to basic services: 52% of households without improved access to water but 88% in rural areas. 42% of clients are without improved sanitation. Electricity is widespread among clients.
		Significant financial inclusion with 81% of clients without previous to formal credit. 92% of clients without previous access to formal credit. 98% without any debit or credit card.
	↑	Overall depth of outreach is good. The mission focus on poor but productive people and micro entrepreneurs is reflected in the outreach results.
	↓	Women are the core target of ASASAH but they have limited control over the loan use, mainly due to the society set-up.
Quality of the services	↑	Adequate variety of financial services provided, including credit, life insurance and savings.
	↑	Plan to introduce loans for larger businesses (small business finance) and livestock.
	↑	Financing start-up businesses is allowed by policy.
	↑	Easy access and procedures, group solidarity and applied cost generally accepted by clients.
	↑	In general good relation with CDO, even if the limited compliance to the policies may create punctual cases of poor customer service and unacceptable practices.
	↑	Frequent micro deposits and withdrawals appreciated by clients, even if high risk due to cash handling and poor operational system
	↓	Limited variety of credit products in place, available for business only. Parallel loans not available.
	↓	Rigid product conditions: 12 months term, bi-weekly repayments, slow increase in loan size ceilings by cycle. Grace period and prepayment with decrease in interest are not available.
	↓	Lengthy loan disbursement process due to funding constraints. House registration requirement for loans higher than US$ 295 seems excessive.
	↓	Training, market linkages and legal advocacy services provided to some of the clients, even if no quality monitoring system in yet in place.

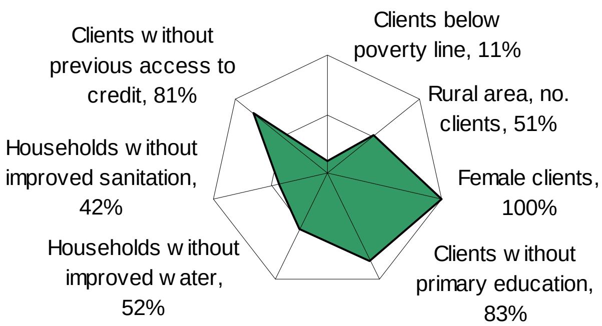
Some of the outreach results refer to recent clients (see annex 1). ↑ positive elements of analysis ↓ negative elements of analysis

Final opinion

The management and governance show a good commitment to the mission, which broadly reflects the intentions and is well disseminated among the staff. Despite the positive evolution in the last years, the governance still presents a gap compared to the best practices in terms of potential conflict of interest. The product design allowing the access to the target clients, the growth focus on the client base and the client profile data collected demonstrate an adequate alignment of the current strategy to the mission, even though a complete set of social objectives is not yet in place. However, the risk prone attitude of the management, entailing a fast growth in the years 2005-07 without proper systems in place has contributed to the current weak financial performance (self-sufficiency not yet achieved, negative equity). The continuity of the operations may be at risk in the medium term unless the MFI succeeds in attracting the necessary external support. Some possible strategies to enhance the financial self-sufficiency may generate some risk of mission drift. The overall internal control system is not adequate due to the weak supervision, the MIS not fully operational and the lack of a proper audit function, leaving room for limited compliance with procedures and fraud risk. However, audit activities also cover some of the client profile data and a consumer protection code of conduct has been recently adopted.
The social responsibility to the staff is overall adequate, with a good remuneration and considerable training provided; however, the lack of a more professional approach, the limited delegation of responsibility and the low productivity in some areas may affect the staff motivation. The cost charged on clients does not appear to be excessive and the risk of client over-indebtedness is medium, even if higher in Lahore city, and yet to be mitigated by the use of a credit bureau and adequate policies. The transparency of the services provided leaves some room for improvement in the cost structure, explanation to the new members of existing groups and documents provided to the clients. Due to the weak control system and the lack of a proper authorization, the collection of client savings does not currently represent a completely responsible practice. No specific internal policies are currently in place for the community and the environment.
The breadth of geographical outreach is intermediate, with a branch network covering the Punjab region. The depth of outreach is overall good and overall in line with the mission, showing considerable levels of client vulnerability and poverty. However, the focus on women is not clearly reflected in the results, partly due to cultural reasons, as a significant share of the female clients does not exert control on the loan use.
The variety of services offered is currently limited, and the credit product conditions are rather rigid in terms of loan size, repayment frequency and loan term. The long disbursement time is perceived as a serious disadvantage by the clients. On the other hand, the limited requirements to access loans, including the group solidarity mechanism, are appreciated by the clients.

Social performance	Adequate
Social Performance Management system	**Adequate**
Mission and strategy	Adequate
Tracking and monitoring systems	Adequate
Systems consistency to the mission	Adequate
Social Responsibility	**Adequate**
Social responsibility towards personnel	Adequate
Social responsibility towards clients	Adequate
Social responsibility towards community and environment	Adequate
Outreach	**Good**
Alignment of outreach depth to the mission	Good
Breadth of outreach	Adequate
Quality of the services	**Adequate**
Variety of services	Improvable
Appropriateness to clients' needs	Adequate
Non financial services	Adequate





Outreach	Depth	Breadth
	Poverty index	No. clients
MFI	11%	27,561
Benchmark*	25%	17,239
	medium-low	medium-large

*Depth: national poverty index. Breadth: median no borrowers of MFIs in Asia (MIX 2008)

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1. Institutional presentation

Institutional profile

ASASAH was founded in 2003 as an NGO and shortly after transformed in a company limited by guarantee. The company was created with the purpose of replicating the Grameen approach in Pakistan and to provide financial services to low income women. Partnership with Save the Children US started in 2005 with two representatives also seating in the BoD. At the moment only one former StC representative is still Board member. ASASAH is also an active partner of the Pakistan Microfinance Network. The recent expansion strategy has been heavily supported by Pakistan Poverty Alleviation Fund (PPAF). Between 2005 and mid 2006 ASASAH opened several branches in Punjab regions. The portfolio growth rates in the periods Jul04-Jun05, Jul05-Jun06 and Jul06-Jun07 were respectively 99%, 125% and 122%. The number of branches grew from 8 in June 05 up to 32 by the end of 2007, but PPAF funding constrains have forced the institution to gradually reduce operations, close and merge several branches till the actual number of 23. The lack of funds has again affected ASASAH operations between July 2009 and February 2010, with a decrease in the outstanding portfolio and client base. ASASAH operates in urban and rural areas of Punjab, offering credit and saving services, as well as non financial services on a smaller scale. ASASAH provides clients with saving facilities even though it is not allowed by the current regulation. On the other hand a margin of tolerance has *de facto* being demonstrated so far, given the little amount of savings collected. The institution provides group lending facility with group solidarity as main collateral; however bank cheques, representing an additional legal binding, also back loans. The cheque can be issued from the clients' or the client relatives' account. As of December 2009 ASASAH gross outstanding portfolio reflects the shortage of funds registered in the last quarter of 2009 and it is constituted by US$ 2,296,399. Also number of client has declined to 27,561 while the number of saver has almost remained stable, possibly reflecting the waiting lists for loan disbursement. Despite operation resizing, staff has not been reduced.

Asasah	Jun-08	Jun-09	Dec-09
Gross outstanding portfolioUSD	3,306,467	3,202,021	2,296,399
Growth in outstanding portfolio	2%	15%	-10%
Active borrowers	23,730	34,007	27,561
Growth in active borrowers	-14%	43%	10%
Total active savingsUSD	78,764	69,776	62,898
Active savers	27,373	30,077	29,636
Branches	29	23	23
Total staff	233	189	199

Growth in the last period refers to Jan09-Dec09

Financial performance

ASASAH is not yet operationally self-sustainable. Despite the effort to diversify the different source of funding, the institution still largely relies on PPAF as main lender and donor and it is exposed to any liquidity stress. In particular, the shortage of funds registered between July 2009 and February 2010 (both from PPAF and Kiva) has decreased the institution performances[1]. As of March 2009 ASASAH net worth stood at negative USD 101,500 (FY 2008 USD -265,000, FY 2007 USD 68,000)[2]. Furthermore ASASAH current structure -limited by guarantee- do not require funding member to inject additional capital and hampers the institution capacity to attract funds from different lenders and donors. The current strategy in place to solve the sustainability and negative equity constraints as well as the lack of constant sources of funds, do not seem effective in the short term. Management risky approach, has dangerously increased ASASAH exposure to external shocks. In general both top and middle management capacity leave room for improvement. The improvable skills of the personnel as well as duplication of functions hamper ASASAH productivity and follow-up. Staff, in particular at the HQ level, is over-sized leaving room for lax attitudes.
Regarding portfolio performances, ASASAH can rely on a strong repayment culture and benefit from good portfolio performances, even if the allocation of assets in the portfolio is still low.

Financial performance	Jun-08	Jun-09	Dec-09
PAR 30	0.0%	0.1%	0.1%
Write-off ratio	0%	0%	0%
Restructured loans	0%	0%	0%
ROE	na	na	na
ROA*	-6%	-5%	-6%**
Oper. Self-sufficiency (OSS)*	83%	85%	82%**
Fin. Self-sufficiency (FSS)*	83%	85%	70%**
Staff productivity (borrow.)	102	180	138
LO productivity (borrow.)	237	436	300
Operating expense ratio*	36%	19%	27.7%**
Portfolio yield	44.8%	43.5%	42.8%
Cost of funds ratio*	11.6%	11.1%	11.3%**
Debt/Equity ratio*	-7.7	-7.3	-7.1**

Source: * JCR-VIS, Credit Rating report, October 2009. ** data as of Sep09.
na=not available due to negative equity

[1] Due to funding constraints, expansion strategy has been stopped and branches reduced from 32 as of in 2007 to 23.
[2] JCR-VIS, Credit Rating report, October 2009.

2. Context

Socio-economic context

Afflicted by never ending territory disputes with India[3], neighbouring war spill out, coup d' état and natural disaster[4], Pakistan has always strive for economic development and stability.

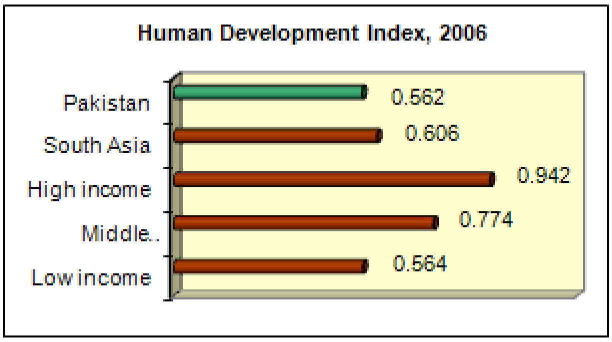
Despite adverse events, the economy kept growing between 4-7% till 2007. Slow down in the world economy, energy and food prices increases, rising in inflation[5] , Pakistani rupee depreciation and country instability external perception, have contributed to fall in the GDP growth. On the other hand the government has introduced several policy[6] to encourage economic growth. The IMF forecast a GDP growth of 3% for 2010. The country resilience has led international lending institutions such as the IMF, World Bank, and the ADB praising Pakistan's performance in the face of adversity. However frequent suicide-bombing attacks, worsening law and order situation in some areas of the country and displacement of the local population have taken a toll on the socio-economic fabric of the country[7].

Human development	Pakistan	South Asia
Population (millions)	**162,480,000**	**1,542,950,000**
Urban population (%)	35%	28%
GNI per capita (US$)	980	986
HDI	**0.562**	**0.606**
life expectancy index	0.665	0.652
education index	0.492	0.618
GDP index	0.528	0.548

Sources: Human Development Report 2008-2009 and WB.

Poverty remains a serious concern in Pakistan, particularly in its rural areas. HDI ranks 139 among medium developed countries with a ratio slightly below the regional performance. Life expectancy index is above regional level, but both education and GDP indexes reflects the persistence of poverty in the country.

Inadequate access to basic services and financial resources; disempowered communities, low social capital and ethnic and religious strife, still heavily affect Pakistan.



The country is divided by income inequalities and geographic disparities. Poverty incidence, equal to 25%, is historically greater in rural areas than in urban with 29% of the rural population falling below the national poverty line compared to 18% of urban areas[8]. Majority of Pakistan's rural poor are neither tenant farmers nor farm owners. A major reason for the large proportion of rural non-farm poor in Pakistan, as well as poverty levels among small farmers, is the prevailing highly unequal distribution of land and access to water[9].

But poverty in Pakistan is also a regional phenomenon with relevant difference between regions with NWFP registering higher poverty incidence. Beside Sidh and Punjab are the best performing.

Furthermore 60% of the Pakistani population falls below PPP/2$ per day[10], and 23% below the PPP/1$ per day.

In general, poverty is a gender related phenomena. Macroeconomic improvements registered in the last years have not led to a commensurate gain for Pakistan women. The incidence of poverty among women

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[3] First Kashmir War started in 1948, second war was in 1965. Indo-Pakistani War started in 1971 and led to Bangladesh secession. Externally, both Afghan wars in 1979 and 2001 influenced the country stability. Pakistan also participated in the First Iraq war in 1990. In terms of political instability, two years after the Republic foundation, General Ayub Khan took the power (1958-69), his successor Yahya Khan ruled till 1971. Overthrow of Zulfikar Ali Bhutto government in 1977 lead General Zia-ul-Haq to power and the consequently introduction of Islamic Sharia legal code. Coup d'état in 1999 lead to power General Pervez Musharraf and overthrow Benzir Bhutto government. Election were held in 2008.

[4] Cyclone in 1970 caused 500,000 deaths, floods all over '70 affected and killed thousands of people and earth quake in 2005 killed 75,000 people.

[5] Inflation rose from 7.7% in 2007 to 20% in 2009. Source ADB

[6] Tax reforms, infrastructures improvement, textile sector liberalization, incentives to the IT sector, etc.

[7] Pak Institute for Peace Studies

[8] M. Schreiner, A simple poverty scorecard for Pakistan, 2009

[9] The World Bank, Pakistan food security

[10] UNDP, Human Development report 2009

remains higher than that for men and female-headed households are particularly vulnerable[11]. Likewise the unemployment rate for males is 6.5% while for females it stands at 9.9%. Women barely represent 20% of the labor force; among them, over 70% are illiterate[12]. Women remain vulnerable to poverty, food and physical insecurities. They also suffer from poor access to services and economic opportunities and mainly excluded from the public sphere. On the other hand, rapid expansion of the microfinance sector is greatly perceived as an important vehicle for poverty reduction and women's empowerment. But still much need to be done, especially on gender policy empowerment implementation[13]. Pakistan GEM ranks 98 out of 108 country considered[14].

Population under poverty line	Urban	Rural	Pakistan
National poverty line	18%	29%	**25%**
National extreme poverty line	0.3%	0.9%	**0.7%**
USAID extreme poverty line*	9%	15%	**13%**
$2 a day (PPP)			**76%**
$1 a day (PPP)			**23%**

World Bank database, 2005/6 PSLM - Schreiner, Pakistan poverty scorecard 2009
* Median expenditure of people below national line

Gini coefficient[15] rates Pakistan at 0.41 (whole country), with 0.35 for rural and 0.43 for urban areas. Punjab rakings is slightly better compare with the national average with 0.39 for rural and 0.42 for urban areas. Despite several government pro-poor strategies, growth in inflation and in particular increase in food price, has offsets improvements in inequality reduction and lead ratio still[16].

Pakistan continues to host 1.7 million registered refugees, one of the largest populations of its kind in the world. Afghan refugee women face gender-related protection problems, including gender based violence, forced marriages and denial of their rights to education or employment. Enrolment of refugee children in primary school is still very low at about 11% in camps and 12% in urban areas, while girls are less often enrolled than boys[17].

Extreme poverty eradication seems an achievable MDG target by 2015. Primary school enrolment rates have improved recently, but poor quality of education, resulting in poor educational outcomes, remains a key constraint to progress. Even though progress has been made gender inequality remains high. In particular female literacy rate is still too low and the target seems unlikely to be achieved. The broader picture on ensuring environmental sustainability is mixed. Access to safe water has improved while sanitation and housing facilities are still lagging behind.

MILLENNIUM DEVELOPMENT GOALS		South Asia	Pakistan	2015 target Pakistan
1: Eradicate extreme poverty	% of the Population below Minimum Level of Dietary Energy Consumption	22%	**23%**	13.0%
2: Achieve universal primary education	Net Enrolment Ratio in Primary Education	79%	**52%**	77.0%
	% of Pupils Starting Grade 1 who Reach Grade 5	n.a.	**72%**	80.0%
	Literacy Rate of 15-24 year-olds	n.a.	**53%**	77.0%
3: Promote gender equality	Ratio of Girls to Boys in Primary, Secondary, and Tertiary Education	71%	**73%**	94%
	Ratio of Literate Women to Men 15-24 years old	84%	**70%**	100%
	% of Women in Wage Employment in the Non-Agricultural Sector	18%	**11%**	14%
4: Reduce child mortality	Under-Five Mortality Rate	78	**80**	52
	Infant Mortality Rate	59	**63**	40
	% of 1 year-old Children Immunised Against Measles	72	**80**	>90
7: Ensure environmental sustainability	% of the Population with Sustainable Access to and Improved Water	87%	**90%**	93%
	% of the Population with Access to Improved Sanitation	33%	**58%**	90%
	Slum population as % of urban population (secure tenure index)	n.a.	**60%**	95%

World Bank, UNDP. *Achieving MDG, 2007. Data refer to the most recent year available during 2005-2007.

[11] UNDP Pakistan, Gender outcome evaluation report, 2009
[12] UNDP Labour force survey 2006.
[13] UNDP Pakistan reports that "policy implementation has remained weak and erratic"
[14] Human development report, 2009
[15] Human development report 2004/2005
[16] UNDP, Income inequality in Pakistan, 2009
[17] UNHCR, Millennium Development Indicators of employment and gender equality of Afghan refugees in Pakistan: Country report 2006

Microfinance sector

Microfinance in Pakistan started in the early 80s and since then the sector never stop growing. Created in 1999 the Pakistan Microfinance Network (PMN) was funded to enable the microfinance environment development, to support the sector capacity building and to promote transparency. In 2000 the Pakistan Poverty Alleviation Fund (PPAF) was set up with the support of the World Bank. PPAF is an apex institution that provides funding (both for on-lending and capacity building) and development facilities to partner organizations[18]. Nevertheless, also due to the low financial revenues and low allocation of assets into loan portfolio, the Pakistani microfinance sector still tends to rely on subsidized funds and, in many cases, remains unprofitable.

The microfinance sector reaches 1,695,412 people of whom 80,795 are women with a gross outstanding portfolio worth USD 237.3 million[19]. Women represent 47.4% of the overall active borrowers with a slightly declining trend over the last years (52% in 2006 and 50.6% in 2007)[20]. The average loan balance per active borrower has slightly increased up to USD 142 per client. Currently 56% of microfinance clients are placed in rural areas, but an increasing trend within urban microfinance providers has been recently registered[21]. Just 33% of all banking sector branches are located in rural areas where 67% of the population resides. 88% of the Pakistan population is unbanked but the average population per branch is one of the highest in the region with 2,450 on average. Pakistan still registers a relatively high demand of financial services and a huge segment of excluded population. Given the socio-economic characteristics and relatively lower income levels of rural Pakistan, the microfinance sector can fill this gap and expand its outreach to the rural unbanked.

In an increasingly competitive environment the State Bank of Pakistan established a Credit Bureau in 1991. As of now Microfinance Banks and Kushali bank also participate in the Credit Bureau, but a limited number of MFI relies on it. On the other hand the State Bank of Pakistan (SBP) has recently launch a pilot Microfinance Credit Information Bureau in collaboration with PMN, Citi Foundation and the UK's Department for International Development (DFID). The pilot will initially gather information from 11 microfinance institutions located in Lahore district only. The pilot will start reporting 'negative' (defaulters) list supplied by these organisations and will serve as a centralised database to store all past and present credit transactions of an individual who has been declared a defaulter.

Repayment crisis hit KASHF, one of the main microfinance providers in Pakistan, between 2008 and 2009. The market was seriously under pressure and several institutions feared to be hit too. The crisis seems to have passed but the international financial crisis and the unstable Pakistan environment has worsen the portfolio quality of several institutions.

The microfinance sector in Pakistan is mainly constituted by Microfinance Banks (MFB), Microfinance Institutions (MFI) and Rural Support Programme (RSP). **Microfinance banks** are regulated under by the SBP under the 2001 **Microfinance Institutions Ordinance and can provide credit and saving services to the microfinance sector only.** This kind of institutions can operate at **district, provincial or national level, with variable minimum capital requirements** (respectively Rs. 100 million - USD 1.1 million –, Rs. 250 million - USD 3 million – and Rs. 500 million – USD 6 million). For microfinance banks, capital adequacy ratio must be at least 15% of the risk-weighted assets of the bank[22].

To **mobilize deposits from the public**, a microfinance institution must be licensed as a bank by the SBP, being submitted to its regulation and supervision. State Bank protects small deposits through the establishment of a compulsory Depositors Protection Fund. Amendments to the 2001 regulation have been enforced in 2006 and 2007. Distinction between SBP-regulated and non-SBP regulate have been strengthen to clearly identify deposit-taking Microfinance providers (MFPs)[23] thereby discouraging unauthorized MFPs from accepting deposits; and secondly, to acknowledging the space occupied by and the role played by non-governmental organizations in microfinance. A NGOs transformation protocol has been also approved. These guidelines were developed to encourage non-SBP licensed MFPs to step into the financial mainstream. The underlying purpose was to facilitate rapid growth in outreach by allowing NGOs that met minimum performance criteria to transform into MFBs in order to access significant commercial capital and mobilize deposits. The ability to access public money and access large amounts of capital however, was made contingent on these organizations placing themselves under the regulatory purview of the SBP[24].

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[18] Organizations are selected on transparency, efficiency and sustainability criteria.
[19] Data as of December 2008, source Pakistan Microfinance Review 2008.
[20] Pakistan Microfinance Review 2008.
[21] Pakistan Microfinance Network
[22] In accordance with the prudential regulations for microfinance banks (2001).
[23] MFPs identify all type of institution (i.e. banks, NGOs, RSPs) operating in the country.
[24] Ahmed, Syed Mohsin; Mehr Shah. Amendments to the Microfinance Institutions Ordinance 2001: Implications for the Sector. IRIS Centre, 2007

3. Social performance management system

Mission, social objectives and strategy

MISSION STATEMENT:

"Improve living standards of people below the poverty line though provision of diverse economic, educational and information services.

Save guard the interest of donors, financial institutions and individuals interest in poverty alleviation.

Improve community well-being and balance the interest of stakeholder by encouraging participation.

Keep employees motivated and ensure continuous achievement of objectivities though staff capacity building."

Social Goals (SG)	Key words in mission statement
SG1: Reaching target clients	People below the poverty line
SG2: Meeting client needs	Provision of diverse economic, educational and information services
SG3: Creating change	Poverty alleviation and community well-being, improve living standard

SOCIAL VALUES:
Human dignity
Honesty
Gender respect
Teamwork
Household promotion

ASASAH mission statement never changed since inception. The statement reflects the NGO attention to different categories of stakeholders namely: clients, donors and partners and personnel; with poverty alleviation as commune denominator.
The statement includes reference to the **social goals** (SG) and reflects ASASAH focus on poverty outreach. Target clientele is defined as poor but productive people below the poverty line and micro entrepreneurs. Not specific reference is made on financial inclusion even if the majority of beneficiaries do not have access to formal services. Great emphasis is placed on the welfare of the household, considered as unit and hub of the Pakistani social life. Target clients are defined as people below the poverty line, even if the reference to a specific poverty line is not clear, hindering the effectiveness of SG1. The SG2 makes explicit reference to economic, educational and information service, even if non-financial services are limited to date. The SG3 focuses on poverty alleviation as well as community well being, including income, education and health improvement as well as women empowerment in management view. However, the key terms utilized in the mission statement do not rely on a formalized definition.
ASASAH mission statement also has a wide-ranging focus that goes beyond the target clientele. The institution also aims at safeguarding all stakeholders interested in poverty alleviation. The personnel is considered as core value of operations and staff capacity building as vehicle for human dignity promotion.

The **awareness of the mission statement is very good, with social goals top-down disseminated** among BOD, management and staff of the different branches, including the clear reference to poverty alleviation and community well-being. Focus on different stakeholders is as well adequately spread at all organizational level, even though all personnel refers to clients as focal point of the mission statement.

ASASAH is a public company limited by guarantees and does not have any share capital[25]. The CEO and her family members initially funded the company in 2003. Throughout the years ASASAH governing structure has developed and family-based control has slowly decreased. External and professional members have gradually joined the institution governing body. Since 2005 two staff of Save the Children (STC) have been sitting in the BoD. At the moment only one former STC member participates in ASASAH meetings. The institution capital still results negative even though ASASAH received several donations from various donors, including PPAF and STC.
Despite last year's effort to smooth and shape the institution governing structure, some issues still need to be solved and streamlined. Even though the composition of the BoD has improved recently in terms of expertise, and the CEO does not exert her voting right on personal related decisions, the key role of the CEO as a board member and the presence of a CEO family member in the BoD may result in a risk of influence on members' decisions. However, the BoD resolved not to hire CEO relatives for the internal audit and CFO positions in 2008. The BoD members form a **well-balanced team in terms of social and financial expertise**, with many members possessing extensive professional experience in microfinance, development

[25] Guarantors are personal liable up to US$ 600

finance and deep knowledge of the context of operations. Social performance reporting to the BoD is not yet available, being the information provided focused on financial performance; nonetheless social commitment is widespread at decision-making level.

The lack of funds[26] and the **unclear legal position on current saving collection** are among the reasons why ASASAH is considering attending clients of a higher segment compared to the current one, and possibly creating a bank. Recent sustainability constrains have contributed to a product diversification with the introduction of the Small Business Finance (SBF)[27] loan, with higher loan size and profitability. This product mainly focuses on the unmet segment of urban micro entrepreneurs with larger business and higher income; Shore Bank provided capacity building[28] for the product design. The strategy to achieve sustainability aims at increasing the SBF portfolio share in urban branches and Livestock product in rural ones. SBF product is conceived as strategy to support the potential transformation into a bank in the medium term, with ASASAH NGO as major shareholder. The NGO would keep on servicing poor and low-income clients while the bank would provide financial services (including SBF) to micro entrepreneurs and higher income client (e.g. both new and graduated from the NGO clients). A clear strategy to address the sustainability issues has not been clearly identified yet and the risk of mission drift can not be excluded, as the possibility to implement a strategy which is compatible to the current segment served will need to be proved in the future years However, a clear strategy about the SBF promotion and the creation of a bank is not in place yet, considering also the actual poor financial performance.
ASASAH is also considering the opportunity to convert into a fully **Islamic financial institution** adapting its current operations to Sharia principles in order to attract an additional market segment. An external consulting company has already conducted a study and the pilot product might be introduced in Lahore in the short term.

Overall ASASAH strategy is in line with the institutional mission; however previous year's risky approach combined with the lack of capital and non financial sustainability, exposes the institution to potential mission drift. **Expansion strategy seems** excessively **ambitious** considering the actual availability of capital. Sustainability constraints have called for a dedicated board meeting in 2008 and board members decided not to open further branches till sustainability is achieved[29]. In the short term the institution should focus more on achieving sustainability and overcome negative equity. A plan to convert negative equity result has already been discussed with PPAF and other donors but the commitment so far is insufficient. On the other hand, despite several problems of sustainability ASASAH has a **relevant commitment towards social mission.** In particular top management addresses strong emphasis on building a social performance management system in the short term.

The BP does **not** include any **specific SMART social objective**. Even though not properly formalized, drop out ratio is expected at zero. The target of 30% of portfolio dedicated to poor households below the poverty line has been reported by the management but it is not included in a formal strategy. Client projected outreach is only provided by loan product, no breakdown by area or district is available. In general the Business Plan addresses growth, sustainability, portfolio quality and staff capacity building as prior medium term objectives. Discrepancies have been found between the portfolio cash flow projections and the BP. Cash flow projections prepared by the Operational Department shows a constant average disbursement loan size (US$ 178), not taking into account the increase in the loan size produced by the SBF as shown in the BP projections. A specific and complete set of **social criteria** is not included in the performance targets at operational level, whose focus is on the growth of the client base and containment of late payment. However, the target related to the reduction of clients' waiting time contributes to the management of the quality of the service. Furthermore, the institution growth focuses more on the **client base** side instead of the portfolio amount denoting a **positive alignment with** the poverty objective of the **mission**. Emphasis is also put on the and zero dropout rate, even if such an objective is not realistic.

The criteria used to identify the location of the braches and their opening strategy during the last years are aligned with the mission, including the analysis of the social and economic condition of the population in order to identify the low income segment. The donor driven decision to open additional branches is considered in line with the mission due to poverty orientation convergence of both, even though the last years' expansion strategy is considered too risky.

[26] Since inception ASASAH experienced lacks of funds in03, 07 and 09.
[27] Loan size from US$ 356 to US$ 1,1887. The maximum amount is about 3 times higher compared to Productive loan.
[28] According to the product review supported by Shore Bank,, the micro entrepreneurs' minimum turn over is of US$ 475.
[29] The BoD decision was made after the large losses incurred due to the improvable management of the expansion. ASASAH received PPAF funding in 2006 and 2007 to open up 40 branches. However, a downscale of operation and closing/merging of branches (from 32 to 29 and than to 23) was necessary when the funding support was discontinued.

As part of the poverty reduction strategy, the management aims at offering a broad range of financial products as loans, saving, insurance facility and non financial services. For the moment ASASAH purposes have been hindered by legal and funding constraints and lack of organizational capacity. Even though provision of saving facility needs further improvement, it shows some intentions to achieve the mission.
ASASAH targets the household as a whole to avoid any intra family conflicts and to meet local culture rules. The plan to open a Sharia fully compliant branch in Lahore it is in line with both different product promotion and fulfill the local tradition. At the moment the plan is neither formalized nor approved by the BoD yet.

Tracking and monitoring system
MIS functions are partially developed and the system is not fully operating. Portfolio information upload is almost completed but manual data entry leaves room for potential errors and delays. Furthermore **limited network** availability and branches not online hamper both institution promptly decision making and internal control.

SG1 ASASAH endeavoring towards client's poverty assessment is adequate. Together with Plan Pakistan ASASAH is planning to introduce the Progress out of Povety Index (PPI) for client poverty profile tracking in the MIS. In addition to the pilot conducted in Vehari branch (22 clients), in second quarter 2010 a survey will be conducted in 4 branches on all active clients. If successful, PPI would be replicated at all branches and included both in the application form and in the MIS. Some relevant indicators are already gathered, including data useful for the PPI (i.e. household members, level of education, asset property, loan user, etc). Data are entered in the MIS but are not fully reliable and partially compiled for some variables. Furthermore neither data consolidation nor reporting is yet available.

SG2 The monitoring of the satisfaction of client needs is improvable. ASASAH lacks formal tools to monitor client satisfaction (i.e. survey, focus group, grievance box, etc.), mainly relying on the informal bottom up flow of information transmitted to the Operational Department. The number of clients in waiting list (e.g. clients that have already submitted the loan application and are waiting for disbursement) is monitored at branch level but not compiled and consolidated for the whole institution. A monitoring team supervises on disbursement timing and CDO behaviors with clients unit. Drop out ratio[30] is calculated yearly at institutional level, however reason for leaving ASASAH are not systematically tracked.

SG3 In 2008 ASASAH took part in an impact study on several MFI supported by the European Commission At institutional level no internal impact monitoring system is yet available but it is planned to be introduced along with the PPI.

Some social information is included in the annual institutional report such as clients dropout rate, loan breakdown by product and sector, average loan size and saving balance. On the other hand, social findings are not systematically used by the management for decision-making. The institution is also actively reporting its social indicators on the MIX platform and won the silver award for Social Performance Reporting in 2009.

Alignment of the systems to the mission
- Product design
  Products do not present serious barriers to vulnerable clients to join ASASAH. Initial costs (both up-front fee and insurance), documentation requirements, social collateral, minimum saving balance and instalment are suitable to the access of the target clients. In particular **saving account requirements are minimal**[31]. However, ASASAH does not have any formal agreement with banks to support clients while opening a bank account in order to issue security cheques.
  The ineligibility of unmarried women under age of 35 years constitutes a barrier for a small part of the target population; however, the condition is partly justified by the high credit risk due to the fact that, by tradition, once married, women move to the husband house wherever it is placed.

[30] Calculated as new clients – active clients at the end of the period on the cumulative closing balance.
[31] Minimum saving balance required of US$ 0.6 and an opening cost of US$ 1.2.

- Internal control
  - The description of the target market as well as the willingness to develop a social performance management system as a strategic objective are included in the institution quarterly report. The mission statement and the **code of consumer protection** promoted by PMN are incorporated in the Credit Manual. Qualitative audit tool with support of STC has been conducted in 2008.
  - At the moment no Internal Audit department is in place and the Monitoring department carries out verification activities. The accuracy of some socio-economic household data[32] collected in the application form is checked by the monitoring team during loan verification visits. However the information gathered and results are only listed by branch and eventually discussed within the management team. Branch results are not compiled yet in a dedicated reporting system suitable for the whole institution.
  - The monitoring team also reconciles and checks the correctness of passbooks with Credit and Saving resister and the MIS. Direct interviews with clients and surprise filed visits are also done quite regularly by the same team to verify the staff attitude in the field.

- Human resources

  Currently, there is no specific function or position dedicated to social performance management and monitoring. No specific criteria are adopted during the selection process to assure the alignment of the candidate to ASASAH values, but the induction material includes the mission statement, stress on poverty focus and driving ASASAH values.

  Specific social objectives are not considered in the staff evaluation process but, when available, customer satisfaction feedbacks are taken into account.

  The **reward system** in place appraises a broad number of criteria namely the number of clients, quality of portfolio, quality of reporting and client retention. Even though social goals are not considered in the evaluation process, the scheme is adequately aligned with the social mission as focuses on portfolio quality and growth in the number of clients.

  PMN code of consumer protection is in the process of being disseminated in all branches and it is written in Urdu language, while mission statement is displaced only in some branches.

MEDIUM RISK OF VOLUNTARY MISSION DRIFT

- *The risk prone strategy, entailing a fast growth without proper systems n place, has contributed to a weak financial performance; some strategies to enhance the financial self-sufficiency may generate some risk of mission drift.*
- *A clear strategy to address the sustainability issues has not been clearly identified yet and the possibility to implement a strategy which is compatible to the current segment served will need to be proved in the future years*

MEDIUM RISK OF INVOLUNTARY MISSION DRIFT

- *The strategy does not include a complete set of formalized social objectives and targets.*
- *The monitoring system does not provide yet an adequate track of the progress towards the achievement of the social goals (especially client profile and impact provoked).*

[32] Checks includes house structure, loan user, assets, no of children

4. Social Responsibility and Consumer Protection

No specific position is currently in charge of social performance in ASASAH, and a formalized policy providing a socially responsible orientation is not in place yet.

Social responsibility towards personnel

The **total staff** of ASASAH as of December 2009 is **199**, distributed in the headquarters and in 23 branches. The significant **drop** in the number of staff from **233 in June 08** to **189 in June 09** is the result of the high staff turnover combined with the decision to **cancel some positions** after the closure of nine branches and transfer of their operations to other branches in 2008-2009. Despite the decreasing trend in the number of staff, an external study[33] recently revealed some **excess in operational staff** at the headquarters.

Staff	Jul07-Jun08	Jul08-Jun09	Jan09-Dec09
Total staff	**233**	**189**	**199**
Female staff	37%	38%	35%
Female staff in management	45%	47%	39%
Female members of the BoD			50%
Staff turn-over ratio¹	**26%**	**36%**	**34%**
Male	na	39%	31%
Female	na	30%	38%
Management	16%	21%	36%
Loan officers	38%	43%	32%
Administrative staff	15%	20%	31%
Support staff	20%	59%	36%

Calculated with: ¹average number of staff; ²number of staff end of period.

The organization shows a **good gender balance** considering the country context, with females accounting for 35% of the total staff, 39% of the management staff and 50% of the BoD members. In general, there seems to be a positive working environment for female staff in ASASAH, even if encouraging the female staff professional growth is accompanied with the respect of some traditional rules.

The **staff turn-over ratio is high**, increasing from 26% in the period Jul07-jun08 to 36% in Jul08-jun09 and 34% in 2009. The main reasons are related to other working opportunities, education, low performance as well as marriage and relocation of female staff. In the second semester of 2009 9 staff left ASASAH to create another MFI including 2 managers in the business development department. Some staff from two branches was also dismissed in 2009 due to a fraud case.

A complete set of human resource **policies** is in the process of being formalized. The existing **code of conduct** provides the staff with guidelines to protect the confidentiality of ASASAH information.

The overall **labor climate** is quite good, even if the lack of a professional approach may affect the motivation. The limited delegation of responsibilities in some positions, coupled with the **low productivity** level in some areas may **affect the moral** of the staff and create a vicious circle. The internal policy which encourages **staff relatives**[34] to join ASASAH entails the risk of favoritisms and hampers the transparency of the staff performance management. The CEO and the general manager of operations, reporting to the CEO, belong to the same family; however, the commitment made in 2008 by the CEO not to support the hiring of new family members represents a positive evolution.

On the other hand, the **communication** flow is adequate, supported by frequent meetings and an open door management style; decisions are made in a **participatory** manner, including business planning. However, the centralized reporting structure and CEO involvement in solving operational matters is slowing down the decision making process.

Formalized staff **satisfaction** and staff **exit survey** have not been conducted yet; however, a staff satisfaction survey is currently in a pilot stage.

- The **contractual** conditions are **adequate**, providing the employees with undetermined contracts after 2 months of probation period. The **salaries** are **in line** with the market and the package of **additional benefits** is **good**, including scholarships, long weekend options and telephone allowance, salary advances and life insurance. Staff calculates their variable remuneration applying the **reward system** in place, which is actually quite **complex** and only applies to branch staff and area managers. However, the introduction of an additional bonus system[35] for all the staff as well as a health insurance is planned in the short term. As in other cases in the sector, **cash handling**, even if limited to savings in most of the branches, expose the field staff to **risks**; as a partially mitigating measure, the monitoring department is available to travel to the filed in case if the branch staff requires its support to handle security issues.

[33] Staff rationalization, April 2009, Anjum Asim Shahid Rahman Chartered Accountants, Member Firm of Grant Thornton.
[34] Relatives are about 8% of the total staff, and 8% at management level.
[35] Economic reward based on ASASAH overall performance calculated every 6 months.

- A **formalized performance appraisal** is generally provided to the staff, with few exceptions of informal evaluation. The dedicated training position in the HR department contributes to the availability of many **training opportunities** for the staff, even though external training is mainly provided to the management and headquarter staff. Taking into account the large amount of time dedicated to training, the balance between the productivity of operations and the training investments is considered improvable. **Internal promotion** is encouraged and a carrier path has been introduced for some positions.

Consumer protection

ASASAH has recently signed the consumer protection code promoted by PMN, including transparency, fair practices, dignified treatment, privacy and fair disclosure, governance and client satisfaction[36]. The code, translated in Urdu language, is being distributed in branches, even if the systems to check the compliance to it are not in place yet.

1 Prevent over-indebtedness

The risk of **client over-indebtedness** highly varies according to the area of operation, being **medium overall** and **high** in some urban areas of the capital city. Only **6%** of the recent clients interviewed declared to have an **additional** active **loan** borrowed from NGOs (2.4%) or banks (3.3%), with a higher incidence in rural rather in urban areas. Additional credit amount is low in absolute terms (US$ 249), even if it reveals to be quite high compared to MFI loan (138%).The low percentage of declared multiple borrowings, the surprising lower figure in urban centers as well as the fact that no respondent declare to have used credit to repay past loans is partly due to the reticence of clients about disclosing such information. PMN estimates that 21% to 30% of the clients may have multiple loans in The Country[37]. On average, clients with multiple borrowings declare one additional loan, worth 138% the MFI amount.

Risk of client over-indebtedness	Total	Urban	Rural
Clients with additional credit	5.7%	2.9%	11.0%
Moneylenders, providers, family, friends	0.0%	0.0%	0.0%
NGOs, cooperatives, credit and saving associations	2.4%	0.0%	6.8%
Banks and regulated financial institutions	3.3%	2.9%	4.1%
No. additional loans*	1.08	1.00	1.13
Amount additional loans, USD*	249.22	222.52	262.57
Additional loan amount /ASASAH loan amount*	138%	105%	154%
Clients who paied debts with credit (past)	0%	0%	0%

Survey on recent clients, see annex 1 for more details. *Clients with additional credit

MFI policy places a **limit** on the loan installment according to the **client repayment capacity**, while there is no written policy setting a maximum level of client indebtedness or number of additional loans. Multiple borrowings are informally discouraged by the majority of the field staff as a marketing strategy for attracting new clients with active loans in other MFIs through debt consolidation. The credit bureau project launched by the PMN is in a pilot phase and it is expected to be operational in the short-medium term.

The loan **repayment capacity assessment** done by the loan officers presents **room for improvement** in the calculation method[38], actual application in all loan cycles and compliance to the minimum repayment capacity policy, partly related to the high loan officers' turn-over (average 38% in the last three years). The financing of **start-up businesses**, which is allowed by policy, is not object of a specific analysis. 3% of the recent clients interviewed who had invested the loan in a new business reported a business failure and got a job as an alternative source of income. The SBF repayment analysis, with significantly higher loan amounts, is done only by branch managers who received a specific training, even if it the detailed form is not uniformly used. However, some elements of the lending policy act as **mitigating factors** for the risk of client indebtedness, notably the **small loan amounts** and the loan use limited to **business** reasons.

2.a Transparent pricing

The **transparency** of MFI services leaves some **room for improvement**. The overall cost structure is rather complex with interest calculated through the flat method, up-front commission, cost to open bank account and insurance fee. Financial services conditions are explained at initial unit meetings, however written explanation are not properly displayed in branches and **new members** joining **existing units do**

[36] For instance, the code binds the MFIs to provide the written explanation in a language that is understood by the client, avoiding technical and legal terminology; disclose to clients the effective service charge; avoid inappropriate occasions such as bereavement in the family or other such calamitous occurrences for making calls/visits to collect dues.

[37] Growth and vulnerability focus note, CGAP, February 2010.

[38] The maximum loan installment is reduced twice according to the client net income (first 25% and then 30%, resulting in 7.5%), resulting in an excessively restrictive policy not reflecting the actual client repayment capacity.

not receive adequate information. Along with the **consumer protection code,** a new passbook as well as a detailed repayment schedule has recently been introduced, increasing the availability of information.. Passbooks are most of the time **updated** and **security cheques** are **returned** upon loan closure. The use of savings to offset a loan repayment can not be done automatically and requires the client's signature. However, the copy of the **agreement** including the loan, saving and insurance conditions are **not available** at **unit** or **individual** level. **No cash receipts** for credit and saving movements are available other than the passbook, which is signed by the loan officer.

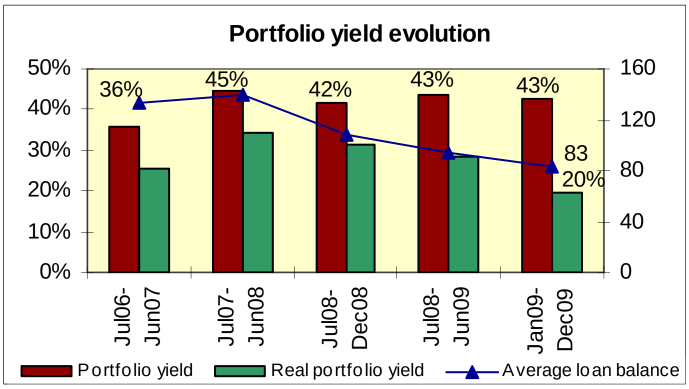
The **clients' financial awareness** is overall **quite good**, even if there is a large difference in the knowledge of the **amount of interest** and **fees** (**81-85%**) compared to the **interest rate** and **saving balance** (**35%**). The lower result about the saving balance may be justified by the frequent movements of the clients' saving accounts. The limited awareness of the interest rate reflects on one hand the **low education level of clients** (83% did not finish the primary school) and on the other hand the limited focus on such information in MFI service delivery system as well as the absence of specific activities to enhance clients financial literacy after the initial meetings. The results by area are mixed, with a **lower awareness** of **interest rate** and amount of fee in **rural areas**, as opposed to the higher awareness of interest amount and saving balance.

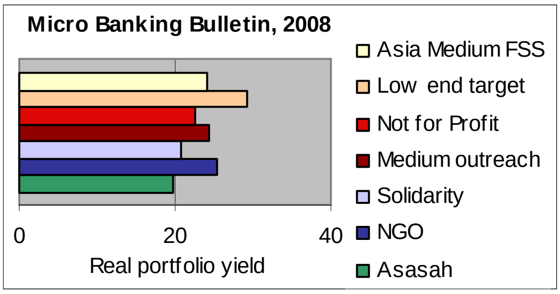
Financial awareness of clients	**Total**	**Urban**	**Rural**
Interest rate	35.3%	40.2%	26.2%
Interest amount	81.3%	78.7%	86.2%
Amount of fees	84.9%	92.6%	70.3%
Saving balance	34.6%	23.1%	51.6%
Clients without completed primary education	*82.5%*	*77.7%*	*91.8%*

Survey on recent clients, see annex 1 for more details.

2.b Fair pricing

MFI **portfolio yield** is equal to **43%** in 2009 and it shows a constant trend since 2007. The large increase registered in jul07-jun08, from 36% to 45% was due to the higher commission applied since 2007 in order to enhance sustainability. Due to the **high** and increasing **inflation rate** (8% in jul07-jun08, 12% in jul07-jun08 and 19 in 2009), the **real portfolio yield** is significantly **lower**, decreasing down to 20% in 2009. The high inflation is among the reasons why MFI real portfolio yield is the **lowest among the peer groups** considered: 21% in solidarity lending methodology, 25% in NGOs and 29% in low end target MFIs. Considering the very low average loan balance (US$ 83 as of December 2009) and the time consuming methodology with bi-weekly meetings, savings collection and a partial coverage of rural areas (51% of clients), the **cost charged on clients does not seem to be excessive.** Even if MFI costs are not yet fully covered by the revenues, the management does not plan to increase the price of the services, which is set based on the competitors on the market. However, MFI **high operating costs** also reflect the **low staff productivity** and **lack** of properly **streamlined processes**, showing the room for improvement in the cost charged on clients as well.





MFI clients are exposed to a **limited foreign currency risk** as the loans are disbursed in local currency.

3. Appropriate collection practices

The operation manual makes reference to the consumer protection principle of avoiding exerting excessive pressure during collection; however, the specific steps to be taken in order to deal with delinquency cases are not formalized. Some risk of inappropriate collection practices is involved in the zero tolerance policy and in the fact that the peer pressure methods used within the group are directly monitored by the MFI.

4. Ethical staff behavior
The operation manual displays the institutional values as well as the consumer protection principle of the PMN code of conduct related to non-discrimination, appropriate language and grief respect.

5. Mechanisms for redress of grievances
Currently there are **no formal channels for clients' complaints** besides the informal communication with field staff.

6. Privacy of client data
The MIS weaknesses and the absence of a privacy policy do not fully ensure the respect of privacy of clients' data.

- ASASAH **internal control system is not adequate**. The **MIS** does not provide reliable and timely information, hampering the control of the operations in the branches. Loan disbursement is done through bank cheques; however, **cash handling** is still taking place in all branches for saving, and it is allowed only in some branches for loan repayment. The internal control environment is not fully in line with the best practices, **with a weak hierarchical supervision,** and **limited segregation of functions**. The **internal audit position** is currently **vacant** after the person in charge resigned due to low performance at the beginning of 2010. Some audit functions regarding the operation department are carried out by the **monitoring unit**, reporting to the operations manager. However, some progress has been done at BoD level, which formed an audit committee and took the decision not to accept relatives in financial and audit positions. The weak internal control leads to a generally **limited compliance** to the policies as well as to **fraud risk**. Two fraud cases were detected in 2005 and 2009[39]; irregularities in the field include cash misuse by the loan officer and the unit leader as well as undue payments collected by the loan officers. On the other hand, ASASH has been regularly undertaking **external evaluations** of its operations and external **audit** of its **financial statements**.

Client benefit

Control over loan use by cycle	Total	Loan cycle 1	2	3	>3
Member	**16%**	**17%**	**15%**	**15%**	**13%**
Husband	63%	62%	64%	66%	65%
Son	15%	15%	15%	16%	18%
Brother	3%	3%	3%	2%	1%
Other	3%	3%	3%	1%	2%
Total	100%	100%	100%	100%	100%

Source: MIS, sample of 14 branches, 47% of active clients. Control refers to exclusive control from the member only.

- ASASAH approach towards clients shows at the same time **some socially responsible intentions** and **some risks**. The promotion of client saving for poverty reduction is implemented through a scheme which does not minimize clients' exposure to risks. **Encouraging clients to save with ASASAH is not a responsible practice at the moment** due to the weak internal control system and to the lack of a legal permission to collect saving. Despite the higher proximity and accessibility of the saving service offered by ASASAH as compared to banks, the saving promotion advantages for clients saving with ASASAH are unclear due to the lack of a sound system to guarantee the safety of the savings management in ASASAH[40]. The **eligibility of women only** is part of ASASAH strategy for women empowerment even if the policy does not limit the loan use to the female client and it does not encourage female clients to keep the control over the loan. Moreover, the loan disbursement to the female clients is subject to the **approval of a male representative** of the family (husband or father), who is made responsible of the liability together with the woman. Such practice adds substantial operating costs to ASASAH and partly leaves room for male appropriation of the loan due to cultural reasons; however, it is also quite an effective mechanism to make male members of the family responsible for the loan, reducing the conflict risk. As a result, a large part of the **female clients do not have control over the loan use**: according to the MIS data available (14 branches only, of which 10 are rural), only 16% of the female borrowers directly use the loan, while in the majority of cases the husband (63%) or the son (13%) get the control over the loan. Moreover, the female member control over the loan is decreasing along with the loan cycles, possibly due to the increasing loan amounts. It is worth mentioning that the availability of data about the loan user in the MIS at least shows ASASAH awareness of such a situation. On one hand, such scheme partly contributes to the improvement of women condition as it **improves their mobility** and provides a **space for social interactions other than the family**, without creating conflicts in the family and community. On the other hand, the partial control over the loan entails a conservative effect of the social constraints faced by women and exposes

[39] About US$ 77,000, with fake loans in two branches involving loan officers and branch managers; the loss has been partially recovered.
[40] Apart the fraud cases already mentioned, the limited compliance to the policies includes the requirement from some loan officers of a minimum mandatory saving amount per installment.

them to the potential risk of bearing an excessive repayment pressure in some cases without having a corresponding power on the income generation activity. The possible benefit for female clients in terms of an increased role in family decision making could be investigated through appropriate studies.
It is worth mentioning that ASASAH provides **entrepreneur training** and **market linkages services** to some clients, and that a **free legal advocacy** service has recently been launched (see chapter 6 for details). Moreover, the introduction of interest free loans, scholarship for very poor households and grants for extremely poor households is planned in the short term with the support of Plan Pakistan.

- The **impact study** carried out in **2008** with the support of the European Union shows some mixed results for ASASAH. **The higher per capita income** and **expenditure** of active clients (including health) compared to a control group of non-clients suggests a positive effect of being member of ASASAH, while **no significant differences** are found in **housing conditions**. The active clients perceive themselves as **more economically empowered** than the other respondents on average. On the other hand, the **education expenditure** and the **saving capacity** are found to be **lower** for households of active clients, possibly due to loan repayment out-flows.

<u>Social responsibility towards community and environment</u>

The **PPAF** loan agreement details a **list of activities**[41] with a **negative impact** on the **community** and **the environment**, which can not be financed by ASASAH. However, the list is not reported in the credit manual, and there is currently no monitoring and verification system in place to ensure the compliance. ASASAH does not have an internal **resource saving** policy in place and **has not** recently carried out **any additional activity** to benefit the community and the environment beyond the clients reached. Mainly due to the small size of the income generating activities financed, the **job supporting effect** of ASASAH is **rather limited**, with **1.75 employees** working in the financed activity on average, 1.65 part of the client household and only 0.13 not part of the household. The operation manual includes some guidelines of an internal anti money laundering and financing terrorism policy, even if ASASAH does not have specific reporting obligations to the SBP.

[41] The list includes armaments, poppy cultivation, poaching, toxic chemicals, tanneries, timber, logging and deforestation.

5. Outreach

Operational areas

ASASAH operates through a **wide spread network of branches** located in Punjab region only. The **breadth of the geographic outreach is intermediate** considering the region extension. Most clients are concentrated in Lahore (23%) and in the neighbouring districts. Operation drop off in 2009 pushed ASASAH to close 5 urban and 1 rural branch[42]. Urban clients slightly decreased and now are homogeneously divided between rural[43] (51%) and urban (49%) areas.

The client distribution by regions of operation shows a **good depth of geographical outreach**. In fact 30% of ASASAH clients are located in areas were the poverty rate is in line the national average, while 19% of clients are placed in heavily poverty affected areas where poverty incidence is considerably above the national average.

Finally 51% of clients are located in areas where poverty incidence is below the national benchmark of 29%. Due to the low product diversification, the portfolio distribution almost coincides with clients positioning.

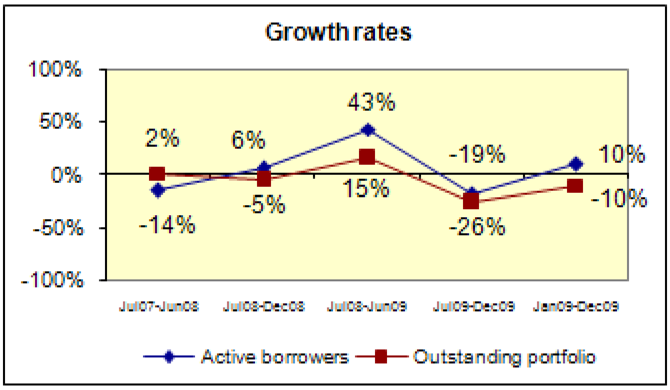
Regions of operation	Poverty	Asasah Active clients	Asasah Outstanding portfolio
Lahore	11%	23%	23%
Kasur	28%	11%	14%
Okara	30%	8%	7%
Sahiwal	22%	12%	12%
Pak Pattan	37%	4%	3%
Vehari	30%	11%	11%
Khanewal	39%	11%	12%
Multan	38%	4%	3%
Gujranwala	19%	7%	6%
Faisalabad	20%	9%	8%
Zone			
Urban Punjab	29%	49%	48%
Rural Punjab	18%	51%	52%
Pakistan	**25%**	**100%**	**100%**

Punjab 2004/05 data, source: SPDC,2005-0'

Clients reached[44]

ASASAH fluctuating outreach trend is affected by unstable sources of funds and improvable planning capacity. The actual **breath of the outreach is quite good**[45] but in line with ASASAH previous years performances with 27,561 active clients and US$ 2,229,399 loan portfolio.

Rocketing trend both for active borrowers and outstanding portfolio registered during FY 2009 has been followed by drastic plunge in performances[46]. Due to local banking constraints[47] Kiva funds have been blocked since May 2009. At the same time new funding agreement with PPAF has been postponed. Combination of both funding rationing has resulted in a drastic drop of outstanding portfolio (-26%) and active borrowers (-19%) in the second half of 2009.



With 29,636 active saver and US$ 68,898 ASASAH saving trend has almost remained stable and has not been affected by portfolio variation.

The short term ASASAH strategy is in line with the mission as it aims at growing with the existing branches and products, increasing the client base.

Even if poverty incidence (11%) is quite below the national level both on national and regional base[48], the absolute poverty rate (59% under the 2$PPP/day compared to 76% and 57% as for Pakistan and Punjab region) shows that ASASAH is reaching local low-income population. The **overall depth of outreach is good** and reflects ASASAH prominence toward the vulnerable segment (83% of the clients have not completed the primary education) of poor but productive people and micro entrepreneurs, **in line with its mission**. However, the focus on women empowerment is not clearly reflected in the results, as 40% of the female clients do not exert any control on the loan, which is most frequently used by husbands and sons.

[42] 3 branches have been closed in Lahore district, one in Okra, one in Multan and one in Sialkot
[43] ASASAH identifies rural branches based on the lack of infrastructure, remoteness and agricultural activities.
[44] The information is mainly based on a survey on recent clients integrating, when relevant, data from MIS. See annex 2 for more details.
[45] Median number of borrowers in Asia region (medium size, NFSS) is equal to 36,628 in MIX Benchmark 2008.
[46] From June 2009 to December 2009 outstanding portfolio drop of almost US$ 900,000.
[47] The NBP raised several exceptions of international payment transactions and blocked ASASAH money shift to USA.
[48] Poverty incidence at national level is 25% while for Punjab stays at 30%. Source: PSLM 2005/2006

Social vulnerability and household profile

- ASASAH **target clients** consists in all **married or widowed women**[49] who are on average 38.45 years old (median 40). The average household size is formed by 6.6 members and it is in line with the national average (i.e. 6.6) but slightly higher compared to 6.3 of the Punjab region[50]. The number of constant source of income is 2.52 with 3.97 family depending members. The dependency ratio is intermediate and stays at 2.41. 2.33 household members are involved in a full time job while only 0.4 in part-time and seasonal occupations. The major source of income (51%) is represented by business activities (i.e. service, trade and manufacturing[51]) while wage employment stays at 14%. 5% of the households gets additional income also from house or land ranting. Household members involved in elementary occupation[52] represent 2.02 of the overall family labor force. Only 7% of children between 5 and 13 years old are engaged in economic activities, suggesting a limited level of child vulnerability.

Social vulnerability	Asasah	Urban	Rural
Clients head of household	**36%**	41%	28%
Clients without completed primary education	**83%**	78%	92%
Household members in age 6-12 attending school	**82%**	82%	82%
Household members in age 6-12 working	**7%**	4%	11%
Household members in age 13-17 attending school	**45%**	51%	30%
No. of household members	**6.6**	7.0	5.8
No. of members contributing to household income	**2.5**	2.6	2.5
No. of members depending on household income	**4.0**	4.3	3.3
Dependency ratio	**2.4**	2.6	2.0
No. of constant sources of household income	**2.5**	2.6	2.3

Households of recent clients. See annex 1 for more details. na: not available

GENDER, Dec-09	
Female clients	100%
Female clients, portfolio	100%
Female clients head of household	36%
Female clients without control over the loan*	40%
Female clients without completed primary education	83%
Dependency ratio, Female clients	2.4

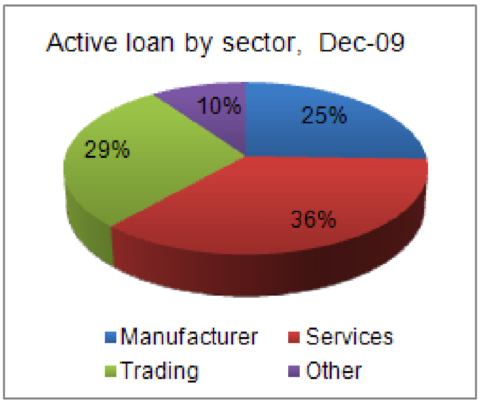
Source: survey on recent clients. *Clients without any control over the loan use (as opposed to shared and exclusive control)

- Even though ASASAH only considers women as target clientele, **40% of female do not have control over the loan,** 36% reported to have partial control and only 25% have the exclusive control of the loan. Women empowerment results even lower when MIS data are analyzed. According to the database[53] 62.9% of loans are managed by the client husband and 15% by the son. On the other hand the NGO gender composition reflects the Pakistani society men-leading culture. Furthermore it is worth mentioning that women empowerment over the loan decreases along with the loan cycle with less women managing larger credit amount. Female head of the household are 36% that is slightly below the Punjab regional level that states at 41%[54].
- The **education** level of ASASAH clientele is poor compared to the national average and suggests the vulnerability of the segment, with 83% of clients without primary education compared to 53% of Pakistan. Punjab region has the highest primary enrollment rate in the country with 50% of the population that has completed primary education[55]. However a higher percentage of household members currently receive education with 82% of children between 5 and 13 years old attending school compared to 64% of the national level and 69% of Punjab. School enrollment decrease to 45% for children between 13 and 17 years old but it is still above the national (21%) and regional (24%) level.

Business activities and employment support

- ASASAH supports **start-up** activities but only 2% has been reported during the survey. According to the survey majority of clients (87%) have been in business between 1 and 3 years, 10% have been operating between 6 months and 1 year while only 2% of clients have been running their business for less than 6 months.
- Furthermore **99% of activities** financed by ASASAH fall in the **informal sector** reflecting potential client's business vulnerability.

[49] Single women can join ASASAH only if are at least 35 years old. Unmarried women over 35 are also included in the program but not tracking is provided in the database.
[50] PSLM 2007/2008
[51] Information gathered from ASASAH database
[52] Elementary occupation means all occupations which are not skilled. See also PSLM 2005/2006
[53] ASASAH database is only available for 14 branches of which 10 are rural.
[54] PSLM 2004/2005
[55] PSLM 2007/2008. Women that have completed primary education are 42% of the Punjab region while men are 58%.



- Loans can be utilized to finance any activity as long as it is not illegal. ASASAH clients are mainly engaged in service activity (36%) followed by trading (29%) and manufacture (25%)[56]. As per the survey, most of the clients utilize loans for business or agricultural production only (89%), 3.3% has used part of the money for health expenses, 3.3% for house improvement or construction and only 2.3% for household expenses. A very small portion (0.5%) declared to have used the loan to pay a debt.
- Due to the small dimensions of clients' activities, the **contribution to job creation** is very limited with only 1.75 workers (including the client) of which 1.62 are family members (including the client) and 0.13 are non family members. However, it is important to note that some activities are transport services (e.g. rickshaw) or are ran in the household premise (e.g. manufactory and trading).

Economic poverty

Poverty incidence	Asasah	Urban	Rural	Pakistan
National poverty line	11%	11%	11%	25%
National extreme poverty line	0%	0%	0%	1%
USAID Extreme poverty line	0.2%	0.2%	0.2%	13%
$2 a day (PPP)	59%	57%	64%	76%
$1 a day (PPP)	8%	8%	8%	23%

Households of recent clients. See annex 1 for more details. na: not available

- Survey results show that ASASAH clients **poverty incidence** is lower than the national average with 11% of clients below the national poverty line compared to 25%. Poverty incidence is also lower compare to the Punjab regional value that states at 30%. Last Plan Pakistan assessment[57] on ASASAH clients reported that 26% of clients are below the national poverty line; however, the result can not be generalized due to the sample characteristics.
- Clients' poverty incidence results more in line with international standards with 59% of recent clients falling below the **PPP2$/day**. Higher incidence is reported in rural areas with 64% compared to 57% of urban. As for PPP1$day frequency is lower (8% both rural and urban) compared to the national average. Indeed, the **depth of outreach in absolute terms is good** and the lower incidence of poverty compared to the national average can partly be explained by the presence of a segment of the bottom of the pyramid in Pakistan in conditions of extreme poverty and not eligible for the microfinance sector.
- In terms of vulnerability, only 16% of ASASAH clients experience shortage of food in the last 12 months due to limited amount of income in the household, but 38% of the clients interviewed reported they had problems in covering medical expenses over the same period. Fever is the mostly frequent sickness with 47% followed by malaria and respiratory infections at 38%. Further more nobody reported to be entitle of any health insurance. Clients' strategy to cope with food and health security shows that 22% used savings, 16% borrowed an additional loan, 13% received support from relatives and only 9% reduced consumption. Even though ASASAH **saving** promotion leaves room for improvements it seems to be perceived by clients **as** useful **safety net** to cope with financial predicament.
- All over Pakistan 68% of children are delivered at home followed by 22% in private clinic and 10% in government structures[58]. ASASAH clients are almost in line with the national average with 63% of women given birth at home, 16% in government structure and 16% using private hospitals.

Asset property
- **88%** of clients **own** their **dwelling** while only 10% own a piece of land. According to the MIS 64.2% of houses are made of bricks and 8% of cement, while 18.9% are made of mud. The result is almost in line with the Punjab region where 81.2% are brick houses and 17.16% made of mud.
- Television is a wide spread asset with 85% of share. Only 35% of clients reported to own an engine driven vehicle, while 34% owned at least one refrigerator or freezer.
- Given the balance of urban and rural clients, livestock ownership is adequately disseminated among clients (20%). Household owns on average 5.62 small animals (e.g. poultry, goat, etc.), while big animals (e.g. bullock, horse, etc.) are on average 2.23.

[56] Data gathered from ASASAH MIS.
[57] Simple size: 22 clients, 100% in the rural area of the Vehari branch, with a high poverty incidence.
[58] PSLM 2006/2007

- As of December 2009, client's savings account for US$ 62,898, corresponding to a low average saving balance (US$ 2.1) per saver.

Access to basic services

Survey results show that **access to basic services is rather limited**. In general ASASAH clients have a better access to water compared to the national average with 52% of household without improved water source compared to 64%. On the other hand rural areas are heavily vulnerable with 88% of clients excluded from improved water supply. Access to improved sanitation is also poor with 42% of clients barred compared to 34% of the national average. In this case urban population is mostly affected. None ASASAH client reported to do not have toilet[59]. Finally electricity infrastructures are widespread in the country and among ASASAH clients' even if power supply is poor.

Access to basic services	Asasah	Urban	Rural	Pakistan
Households without improved water source	52%	33%	88%	64%
Households without improved sanitation	42%	55%	18%	34%
Households without electricity	1%	1%	1%	n.a.

Source: PLSM 2007/2008 n.a. not available

Access to financial services

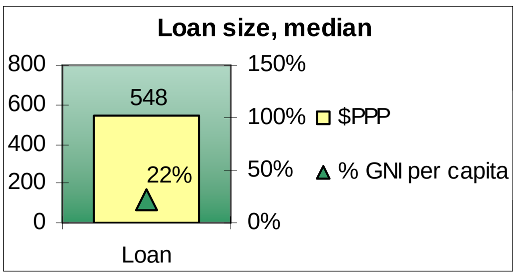
- ASASAH **financial inclusion capacity results significant** with 81% of clients without previous access to formal credit, in particular in rural areas (86%). Only 4% of clients had previous access to the formal financial sector. . As for the survey, 92% of members are without previous access to formal saving. 23% reported to currently have an additional saving account in ROSCAs and only 3% with a formal financial institution. Credit and debit card are very rare with 98% never owning one. Majority of ASASAH clients reported not to have additional credit (94%).

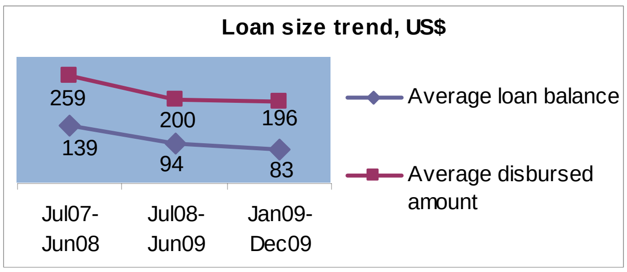
Access to financial services	Asasah	Urban	Rural
Clients without previous access to formal credit*	81%	78%	86%
Clients without additional credit	94%	97%	89%
Clients without previous access to formal saving	92%	93%	89%
Clients without current / savings account	74%	79%	63%
Clients without credit/debit card	98%	98%	99%
Previous access to credit			
None	80%	78%	84%
Moneylenders, providers, family, friends	1%	0%	3%
NGOs, cooperatives, credit and saving associations	15%	19%	8%
Banks and regulated financial institutions	4%	3%	5%

Households of recent clients. See annex 1 for more details. na: not available
*Includes: None, Moneylenders, providers, family, friends

Loan size analysis

- ASASAH's average loan disbursed is worth US$ 223 with a median value of US$ 214 compared with the average value in US$PPP 548. The median disbursed amount represent 21.8% of the GNI per capita and point out a **good depth of outreach**, confirming that the institution is providing credit facility to vulnerable clients.
- Loan size has constantly declined in the last three years. Due to funding restriction in the second half of 2009, ASASAH has strongly reduced loan disbursements.
- Clients' average saving balance is US$ 2.1 reflecting the small size of clients' transactions.





[59] 24% of the Pakistani population reported not to have toilet facility.

6. Quality of the services

Variety

- The **variety of financial services** offered by ASASAH is **quite good**, including credit, saving and life insurance, even if the lack of a legal permit to collect savings is a matter of concern.

- The credit products currently available present a **limited variety**. As of December 2009 the productive loan represents 99% of the active loans and 97% of the outstanding portfolio, while Small Business Finance (SBF) and livestock products are marginal and account for 2.7% and 0.4% of the portfolio. The scale of small business finance and livestock loan has not been increased so far due to the fact that a specific training has not been conducted yet to all the staff and due to funding reasons[60].
    - The current policy limits the use of the productive loan to **income generation** activities. The **lack of educational loans** represents a competitive disadvantage in the market. The high demand of housing finance and emergency loans is not met with suitable products.
    - The relatively short maximum term is adequate for **working capital** needs, but it **hampers** the loan use for **investments** in fixed assets, as they require a longer time to produce returns.
    - The main reason for the **absence** of an **agricultural product** is the management adversity to take the higher risk of agriculture financing in terms of sector exposure to production and market shocks, as well as lower repayment frequency.
    - **Group lending** is the only methodology available, without possibility of receiving parallel loans. On the other hand, **start-up businesses** are allowed by policy.
    - The product development pipeline includes **loans for very poor households** characterized by **small loan amounts** and **zero interest**, with the support of Plan Pakistan.

Credit products

USD	Productive	SBF
Methodology	Group	Group
Currency	PKR	PKR
Type of interest	Flat	Flat
Min. interest rate	20%	20%
*Commissions**	150 PKR, 1%, 2%	1%, 2%
Min. amount	95	356
Max. amount	419	1,187
Max amount (first loan)	178	593
Min. maturity (months)	12	12
Max. maturity (months)	12	12
Interest payment	Bi-weekly	Bi-weekly
Principal payment	Bi-weekly	Bi-weekly
Grace period (months)	-	-
Collateral	Group solidarity	Guarantor
Obligatory savings	-	-

*150 PKR if loan<US$178; 1% if loan US$178-297; 2% if loan >297US$.

A **leasing** product was introduced few years ago and it is still available; however, the product conditions are not attractive and the number of clients has always been very marginal (none as of December 2009). **Life insurance**[61] is mandatory for clients as well as for a male relative; the service is provided by the EFU insurance company, with the intermediation of ASASAH. A simple and flexible **saving** service is available to all clients on a **voluntary** basis, with the only condition of maintaining a minimum balance of US$0.6; No specific saving plans have been designed to suite specific needs such as education and housing.

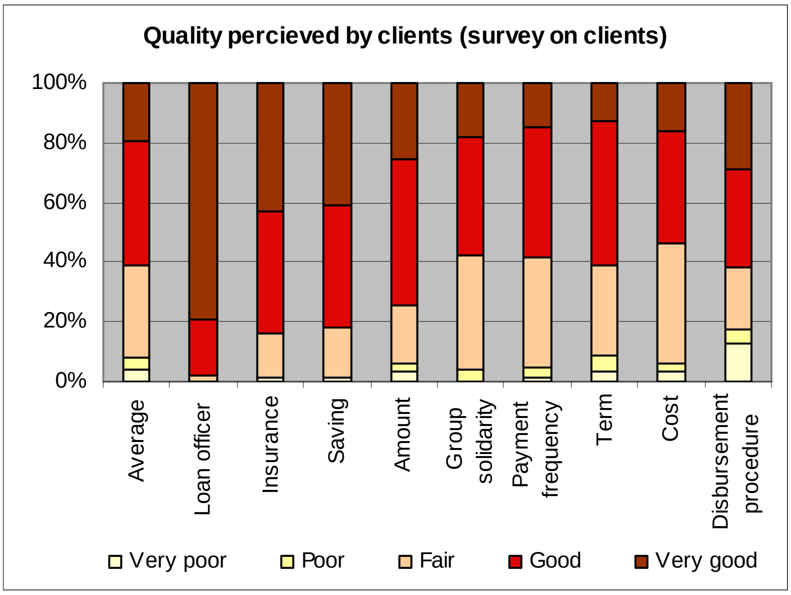
Adequacy

The credit product **conditions** are **rather rigid** in terms of **loan size**, **repayment frequency** and **loan term**. The **long disbursement time** is perceived as a **serious disadvantage** by the clients. On the other hand, the **limited requirements to access loans**, including the group solidarity mechanism, are **appreciated** by the clients. **42%** and 19% of the clients judge the overall quality of the services **good** and very good; however, the service is only **fair** for **31%** of the clients, while it is poor or very poor for 8% of the clients.

- The **service delivery** system is **adequate**; the group **meetings** to collect the loan repayment receipts issued by the bank and to realize saving movements are held in the **communities** where clients live. The documents and **procedures** to access the services are **simplified**. All the written materials handled by the client are in Urdu and illiterate members are supported by literate members or by the loan officers.

[60] PPAF, whose loan would be used to finance such products, has not yet formally approved the increase of the maximum loan size from US$356 to at least US$830 in the current loan agreement with ASASAH.
[61] The premium is worth US$1.78 per person, including loan clearance and US$41 for funeral expenses.

- The **lengthy process** for the **loan disbursement** is creating **client dissatisfaction** and is the aspect of the service receiving the lowest score by clients. The lack of streamlined processes contributes to the long disbursement time, ranging from two to six weeks on average for first cycle loans, up to a maximum 3 months. The lack of funds further slowed down the operations during the second half of 2009, until the disbursements where suspended for 2 months at the end 2009. On the other hand, the higher transaction cost related to the fact that loan repayments have to be **deposited in banks is generally accepted by the clients**, whose group representatives go to the bank and deposit the group repayment on a rotation base.



- The **group solidarity** is generally **accepted** by the clients and constitutes one of the few alternatives to access credit, as the majority of them would not be able to offer physical collateral. **Social bounds**, including peer and family pressure, still seem to be **effective** even if punctual **conflict situations** exist. On the other hand, the **title deed** of the **house** required for loans higher than US$ 297 seems to be **excessively demanding** for clients, especially considering the difficulty in getting such a formal document in rural areas. Even if clients are required to provide a **bank cheque**[62] as a security for their loan, ASASAH has not finalized yet any bank agreement to facilitate clients opening accounts, exposing the clients to the risk of getting refused by banks (a share of clients is illiterate) and go through a **cumbersome process**. However, also due to the flexibility applied in the identity of the person signing the cheque[63], **clients do not seem to perceive it as an issue**.
- Loan term and repayment frequency are among the characteristics of the service which are **least appreciated by the clients**, as the limited flexibility of condition does not suite well the variety of business cash-flows of clients. The availability of a **unique option** for **loan term**, equal to **one year**, together with the **absence of interest reductions** in case of **prepayment** makes the term condition very rigid. Moreover, **bi-weekly installments** are perceived as a **disadvantage** by some clients compared to competitors, offering monthly repayments. Grace periods are not available.
- The **loan size** is considered **small** and its **range** is quite **narrow** in the productive loan (from US$95 toUS$419), partly justified as a risk mitigation measure in absence of physical collateral. This, coupled with the gradual increase in the **loan amount** by cycle and the minimum term of one year before getting a subsequent loan, represents an element of **rigidity** from the clients' perspective, whose financial needs are larger in many cases. The very low credit product diversification, together with the excessive repayment capacity limits[64], is one of the main reasons why ASASAH is not able to meet the higher financial needs of a part of the target segment.
- Not surprisingly, the **cost** is among the less appreciated aspects of the credit products, even if **clients do not** seem to **attach** a very large **importance** to it. The overall cost of the service is overall **in line** with the average of the other **microfinance providers** working with ASASAH market segment, even if it is higher than the cost charged by microfinance banks and NRSP. No cost reductions are available for repeated clients with good repayment records.
- Overall, clients express a **high** degree of **satisfaction** with the service offered by the **loan officers**, even if there is no system in place to ensure a uniform quality in the customer care. However, loan officers misuse of cash and fraud cases have a very bad impact on the image and the service in punctual cases.

[62] Requirements to open an account (US$ 1.2 cost) and issue a cheque book are minimal in many banks in Pakistan.
[63] The cheque can be issued by the client, by another group member, or by the client/ the group members' families.
[64] The loan installment can be equal to maximum 7.5% (25%*30%) of the client net income.

Client drop-out	Dec-09
Client drop-out ratio*	17%
PAR30	0.1%
Loans by cycle	
First cycle	52.7%
Second cycle	25.0%
Third cycle	17.1%
> third cycle	5.2%

* Jul08-Jun09

- The **client drop-out rate**[65] in the period July 2008 - June 2009 is quite limited, equal to 17%. However, even if data are not yet available, an increase in the drop out of clients is possible in the period July09 - March 2010 due to the **shortage of funds** and subsequent slow down and suspension of disbursements, which caused the exit of a considerable number of clients. The low percentage of **clients** in the **third or higher loan cycle** (**22.3%**) as of December 2009 seems to suggest a relatively high client drop-out rate. The reasons of client exit are not internally tracked, even if the main ones seem to be "resting periods", better opportunities with competitors, internal default and relocation. During the As of the end of January 2010, the share of "**pending**" **members** is **high**, equal to **29%** of the total and including members who have submitted a loan application but have not received yet the disbursement, as well as members who have finished a loan cycle and have not submitted any subsequent loan application[66].

- The **flexible and easy procedures** for **saving** services, allowing frequent deposits and withdrawals of very small amounts during group meetings, are **highly appreciated by the clients**. No additional cost is applied to saving operations. On one hand, the proximity is certainly a significant added value of the service as compared to the banks; on the other hand the poor control system in ASASAH **exposes clients' savings to a high risk**. The risk is partly limited by the **very small saving balance per client**, worth US$2.1 on average and reflecting the use done by some clients to repay part of the installment amount anticipated by the group leaders. Compared to competitors, ASASAH does not currently offer **health insurance**, even if it is considering such possibility for the medium term.

<u>Non-financial services</u>

The **variety of non-financial services** offered is **quite good** and includes **entrepreneurial training**, **market linkages** and **legal advocacy**. Compared to the provision of financial services, the **scale** of non-financial services provided is still **limited** to date, even if the offer is gradually increasing: 550 clients have received entrepreneurship training since 2005, and 69 clients have been provided with national and international market linkages since 2008. The first meeting organized to provide information about the opportunity to get free legal advocacy from volunteer lawyers was attended by 600 women in early 2010. It is important to mention that **no additional cost** is charged to the clients for non-financial services. However, **no formal reporting** and **quality audit system** are currently **in place** for non-financial services, also due to recent restructuring of business development department in charge.

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[65] Drop out is calculated as: (number of active clients at the beginning of the period + number of new (first time) clients entering during the period – clients written-off during the period – number of active clients at the end of the period) / (number of active clients at the beginning of the period). Numerator provided by the institution.

[66] The latter category includes clients who will submit a loan application and clients who will exit, as the membership expires and savings must be withdrawn after 6 months from the end of a loan cycle, if no further loan request is made.

Annex 1 - Statistics

Poverty lines

The following table presents the value, in local currency, of the national and international poverty lines used to assess the profile of clients.
The national extreme poverty line is defined as people below 50% of the national poverty line.
The national poverty line is defined in terms of the food and non-food expenditure observed by households whose food consumption is close to a guideline of 2,350 calories per day per adult equivalent[67].
USAID Extreme poverty line is defined by U.S Congress (2002) as the median expenditure of people below 100% of the national line.

Poverty lines

Consumption per capita per day,	Base year	Value	Most recent period		Value adjusted for inflation
National poverty line	2005	31.05	Jan-09	Dec-09	49.28
$2 a day (PPP)	2005	51.78	Jan-09	Dec-09	82.18
$1 a day (PPP)	2005	25.89	Jan-09	Dec-09	41.09

1$PPP and 2$PPP refer to 1.25 and 2.5 at 2005 PPP respectively

Loan size

To increase the relevance of the most commonly used proxy of outreach depth, the loan size analysis includes the following adjustments:

- Dividing the loan size by the GDP per capita
- Expressing the loan size in $PPP
- Normalizing the loan size to one year term
- Considering not only the average loan size, but also the median and other moments of the distribution (1st and 3rd quartile)

The analysis is based on the complete list of disbursed loan amounts as of December 2009 for the following branches: Arifwala, Burewala, Chichawanti, Depalpure, Kamoki, Khanewal, Mian Channu, Mugalpura, Multan, Papakpattan, Shaiwal, Samundari, Shalimar and Vehari.

Loan size	USD		$PPP		% of GNI per capita	
	Loan	Annualized loan	Loan	Annualized loan	Loan	Annualized loan
Average	**230.081051**	**230.081051**	**572**	**572**	**22.8%**	**22.8%**
Mode	293.6836	293.6836	730	730	29.1%	29.1%
Minimum	44.05254	44.05254	110	110	4.4%	4.4%
1st quartile	**176.21016**	**176.21016**	**438**	**438**	**17.4%**	**17.4%**
Median	**220.2627**	**220.2627**	**548**	**548**	**21.8%**	**21.8%**
3rd quartile	293.6836	293.6836	730	730	29.1%	29.1%
Maximum	734.209	734.209	1,825	1,825	72.7%	72.7%
Standard deviation	66.2069347	66.2069347				

Active loans as of Dec-09, amounts disbursed.

[67] See World Bank, 2004

Survey on clients

In order to provide a complete description of the poverty outreach, a survey on recent clients has been realized. Recent clients are defined as those clients with an active status at the date of the evaluation, who took their fist loan with the MFI in the 12 months preceding the social rating (January 2009-December 2009).

The formula used to calculate the sample size, based on the binomial theorem, is the following:

$(z^2)\ (r)(1-r)\ (f) / e^2$

z: level of confidence

r: estimate of the key parameter

f: design effect

e: margin of error

Sample characteristics:

- Design: multiple steps cluster
- Size: 212 clients
- Branches included: Shalimar, Mughal Pura, Raiwind, Sahiwal, Burewala, Mian Channu, Vehari

Definitions applied:

- *Household:* one person or a group of persons with or without a family relationship, who live in the same housing unit, share meals and make joint provision of food and other essentials of living , for at least 6 months per year.
- *Head of the household*: person who mainly contributes to the income of the household and takes major decisions in the household.
- *Household members depending on the household budget*: members not having any income or not earning enough money to be independent from the household budget.

In addition to those included in the report, some other findings of the survey on clients are presented below.

BASIC SERVICES	Absolute frequency	Relative frequency
Water supply		
Dugwell or other	15	7%
Handpump, covered/closed well, motoirized pump, tube well	95	45%
Piped water	102	48%
Total	**212**	**100%**
Sewage system		
Flush connected to public seware	122	58%
Flush connected to pit/septic tank or open drain	90	42%
No toilet or other	0	0%
Total	**212**	**100%**
Electricity		
No	3	1%
Yes	208	99%
Total	**211**	**100%**
FINANCIAL SERVICES		
Previous access to credit		
None	171	81%
Money lender, landlord, local gps, relatives, friends, provider	1	0%
Microfinance insitutions, NGO, RSPs	32	15%
None	8	4%
Banks	0	0%
Total	**212**	**100%**
Additional source of credit		
None	200	94%
Money lender, landlord, local gps, relatives, friends, provider	0	0%
Microfinance insitutions, NGO, RSPs	5	2%
Microfinance banks	6	3%
Banks	1	0%
Total	**212**	**100%**

The lack of access to improved sources of water is considered in the following cases: Dugwell or other, Handpump, covered/closed well, motoirized pump, tube well. The lack of access to improved sanitation is considered in the following cases: Flush connected to pit/septic tank or open drain, No toilet or other

Annex 2 – Social indicators

SOCIAL RESPONSIBILITY	
Female staff*	35%
Female staff in management*	39%
Staff turn-over ratio* [1]	33.7%
Portfolio yield*	42.8%
Real portfolio yield*	19.7%
Financial awareness of clients: Interest rate	35.3%
Financial awareness of clients: Interest amount	81.3%
Financial awareness of clients: Amount of fees	84.9%
Clients with additional credit	6%

OUTREACH	
Active clients*	27,561
Growth in active borrowers*	10%
Growth in outstanding portfolio*	-10%
Rural coverage, clients*	51%
Female clients*	100%
Female clients head of household	36%
Female clients without control over the loan	40%
Clients without completed primary education	83%
Household members in age 6-12 attending school	82%
Household members in age 6-12 working	7%
Household members in age 13-17 attending school	45%
No. of household members	6.60
No. of members contributing to household income	2.54
No. of members depending on household income	3.97
Dependency ratio	2.41
No. of constant sources of household income	2.52
Financed business in informal sector	99%
Start-up business	2%
Employees in financed activity (avg, including client)	1.7
Employees in financed activity (avg, family, including client)	1.6
Employees in financed activity (avg, non-family)	0.1
Clients below the national poverty line	10.8%
Clients below the national extreme poverty line	0.0%
Clients below the 2$PPP/day international poverty line	59.2%
Clients below the 1$PPP/day international poverty line	8.5%
Households owning dwelling	88%
Households owning land	10%
Households without improved water source	52%
Households without improved sanitation	42%
Clients without previous access to formal credit	81%
Clients without previous access to formal saving	92%
Clients without health insurance	100%
Households without food security	16%
Average outstanding loan amount, USD*	83
Average balance per borrower / GNI pc*	9%
Median loan disbursed ($PPP)**	548

[1]Calculated with average number of staff. [2]Calculated with average exchange rate

QUALITY OF THE SERVICES	
Client drop-out ratio*	17%
PAR30 *	0.09%
Clients at ≥ fourth loan cycle*	5%
Quality perceived by clients	Good

Sources: survey on recent clients; *MIS; **Database of active loans. See annex 1 for more details. Drop-out relative to Jul08-Jun09

Annex 3 – Definition of acronyms and indicators

	Acronym / indicator	Definition / formula
Financial Performance	Operational self-sufficiency (OSS)	(Financial revenue + Other operating revenue) / (Financial expenses + Loan loss provision expenses + Operating expenses).
	Financial self-sufficiency (FSS)	(Adjusted financial revenue + Other operating revenue) / (Adjusted financial expenses + Adjusted loan loss provision expenses + Adjusted operating expenses)
	Return on equity (ROE)	Net income before donations / Average equity
	Return on assets (ROA)	Net income before donations / Average assets
	Portfolio at Risk (PAR30)	Portfolio at Risk > 30/ Gross outstanding portfolio
	Write-off ratio	Write-off of loans / Average gross portfolio
	Risk coverage ratio (>30 days)	Accumulated reserve / Portfolio at risk >30 days
	Loan loss reserve ratio	Accumulated reserve / Gross portfolio
	Funding expense ratio	Interests and fee expenses on funding liability / Average gross portfolio
	Operating expenses ratio	Operating expenses / Average gross portfolio
	Loan officer productivity – Borrowers	Number of active borrowers / Number of loan officer
	Staff productivity – Borrowers	Number of active borrowers/ Number of staff
Context	HDI	Human Development Index
	GDP	Gross Domestic Product
	GNI	Gross National Income
	GDI	Gender-related Development Index
	WB	World Bank
	FMI	International Monetary Fund
	UNDP	United Nations Development Program
	MDG	Millennium Development Goals
	$PPP	International dollar, based on Purchasing Power Parity
Social Performance Management system	SG	Social Goal. Social goal 1 = reaching target client; Social goal 2= meeting clients' needs; Social goal 3 = creating change
	SMART	Specific, Measurable, Achievable, Realistic, Time-bound
Social responsibility	Staff turn-over rate	Staff who left during the period / Average staff at in the period
	Portfolio yield	Interest income from portfolio / Average net portfolio
	Real portfolio yield	(portfolio yield – inflation) / (1 + inflation)
Outreach	Dependency rate	No household (hh) members depending/No hh members contributing
	Average outstanding loan	Outstanding portfolio / number of active loans
	Average disbursed loan	Amount issued in the period / Number of loans issued
	Average outstanding loan on per capita GNI	(Outstanding portfolio / number of active loans) / GNI per capita
	Median loan disbursed on GDP pc	50th percentile of loans issued in the period / GDP per capita
	Annualized disbursed loan	Amount disbursed * (12 / months of loan term)
	Disbursed loan, $PPP	Amount disbursed in local currency * $PPP conversion factor
Quality of the services	Client drop –out rate	(number of active clients at the beginning of the period + number of new (first time) clients entering during the period – clients written-off during the period – number of active clients at the end of the period) / (number of active clients at the beginning of the period)

Annex 4 – Social rating scale

Rating grade	Definition
SAAA	Excellent capacity to effectively translate its mission into practice and to promote social values. Very high likelihood to achieve social goals.
SAA	Very good capacity to effectively translate its mission into practice and to promote social values. Very high likelihood to achieve social goals.
SA	Good capacity to effectively translate its mission into practice and to promote social values. Very high likelihood to achieve social goals.
SBBB	Completely adequate capacity to effectively translate its mission into practice and to promote social values. High likelihood to achieve social goals.
SBB	Adequate capacity to effectively translate its mission into practice and to promote social values. High likelihood to achieve social goals.
SB	Fairly adequate capacity to effectively translate its mission into practice and to promote social values. Reasonable likelihood to achieve social goals.
SC	Moderate capacity to effectively translate its mission into practice and to promote social values. Reasonable likelihood to achieve social goals.
SD	Inadequate capacity to effectively translate its mission into practice and to promote social values. Low likelihood to achieve social goals.

The rating grade can be corrected with a + or – sign, which implies a slight positive or negative variation respect to the main grade.