



Knowledge and Attitudes of Stakeholders on Microfinance in Pakistan

Results of the Stakeholders Awareness Survey
(September 2006)

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For: Widening Harmonized Access to Microfinance (WHAM) Project
United States Agency for International Development (USAID)

Overview

This document summarizes the findings of a recent survey on knowledge and attitudes of stakeholders' involved in the microfinance sector in Pakistan. Conducted by ShoreBank International and the Pakistan Microfinance Network as part of the USAID-WHAM (Widening Harmonized Access to Microfinance) Project, the survey attempted to analyze:

- Level of stakeholders' awareness on microfinance in Pakistan
- Extent of stakeholders' knowledge and attitudes in relation to issues, most of which are believed to be of critical importance for the microfinance sector in Pakistan (such as outreach, specialization, interest rates and sustainability)

This summary aims at presenting key observations based on the results of the survey. While the survey sample indicates broad support for microfinance, responses range from straightforward agreements to ambivalence. The findings, therefore demonstrate an implicit need for greater awareness of facts and understanding of issues on microfinance in Pakistan.

Survey Design and Methodology

a) Type and Size of Sample:

While the sample size was small and may not stand up for the entire community of microfinance in Pakistan, the results represent the views of stakeholders' engaged in a variety of active and support roles - as practitioners, funders and financial experts - in the microfinance sector in Pakistan.

A stratified sample size of 245 participants, representing a cross-section of MF service providers, funding agencies and government was targeted along with a selection of large and small development organizations and commercial financial institutions either partially or fully engaged in microfinance. The rate of response was 31 percent. Responses from the government were minimal despite a consistent effort to get across to potential audience for timely responses.

b) Survey Medium:

The survey was conducted via electronic email. Participants (top/mid-level management) responded to the questionnaire posted through email lists as well as personal emails. A very small sample also responded when contacted in person or via telephone.

c) Type of Questionnaire:

The questionnaire was designed to be completed within ten minutes. Answers to a number of facts and attitude-based statements were requested from a list of multiple choice options. Respondents were only allowed to select 'one' answer from among the given choices.

d) Duration of the Survey:

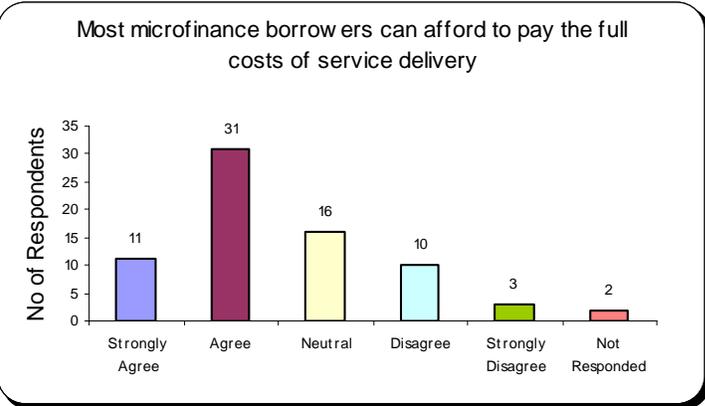
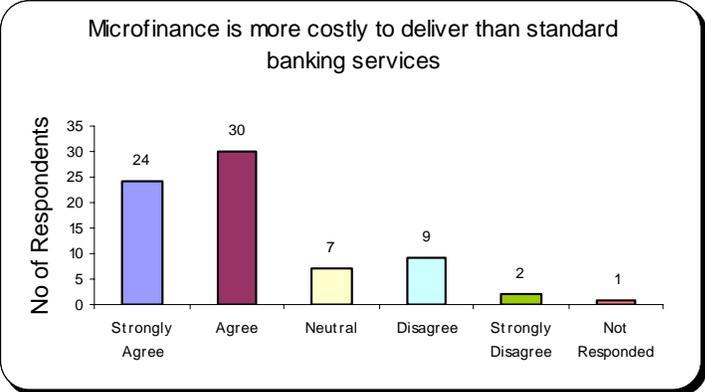
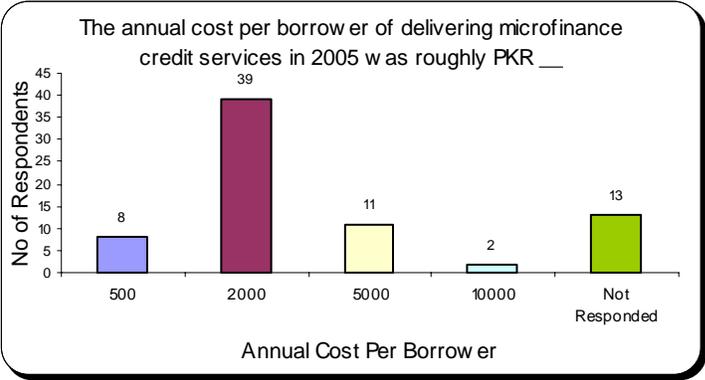
The survey was administered in September 2006 for a period of two weeks. An independent email account (survey@pmn.org.pk) has been created for the survey, which will be reactivated for the second round of assessment scheduled around April/May 2007. ShoreBank will be conducting this assessment approximately after every six months as part of the WHAM project. The results will also be posted at the PMN's website.

Survey respondents were requested to indicate their knowledge and support for a series of statements (19 in total) addressing a variety of topics which include:

1. Costs of Delivery
2. Interest Rates
3. Size of Market (*Breadth*)
4. Poverty Depth
5. Specialization
6. Sustainability
7. Gender

What follows is an analysis that broadly outlines extent of knowledge and awareness of stakeholders with respect to above issues.

1. COSTS						
FACTS						
1. Annual cost per borrower in 2005						
Options	500 PKR	2,000 PKR	5,000 PKR	10,000 PKR	Not Responded	
Responses	11%	53%	15%	3%	18%	
OPINIONS						
2. MF is more costly to deliver than standard banking services						
Options	Agree	Strongly Agree	Neutral	Disagree	Strongly Disagree	Not Responded
Responses	41%	33%	10%	12%	1%	3%
3. MF borrowers can afford to pay full costs of service delivery						
Options	Agree	Strongly Agree	Neutral	Disagree	Strongly Disagree	N/R
Responses	42%	15%	22%	14%	4%	3%

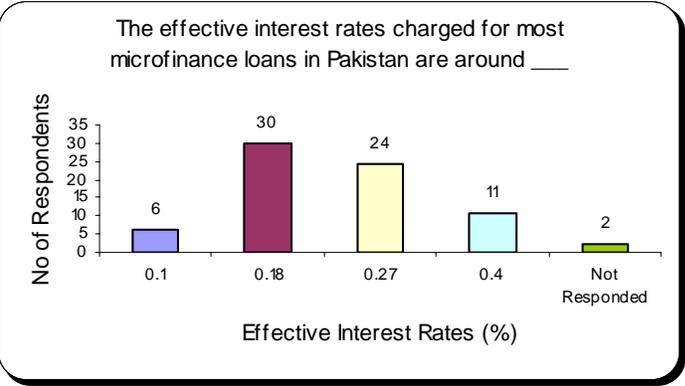


Three questions dealt with costs of delivery of microfinance services.

- Despite widespread general awareness (53%) about the annual cost per borrower, majority of about 47% (almost half) of the respondents are uninformed. It is also interesting to note that 18% did not respond to the question at all.
- At one hand a large group of sample is sensitive towards the high cost of delivery of microfinance services as opposed to standard banking. On the other, there is a degree of disagreement and impartiality claiming attention.
- 42% of the respondents accede to the borrower's capacity to pay the full cost of service delivery, while almost 22% decided to stay impartial

In general, respondents recognize the high costs of delivery of microfinance services. However, one notices a dotted degree of ambiguity in the overall perception.

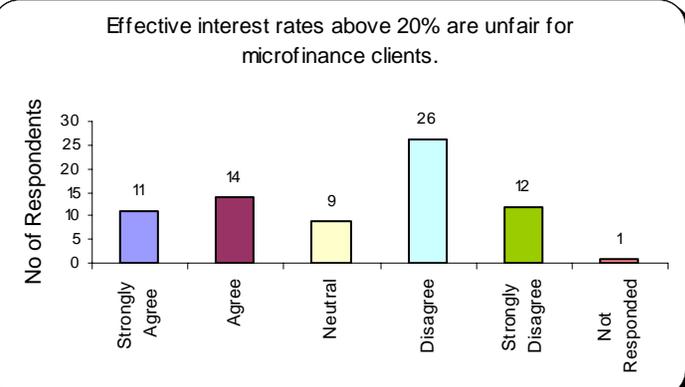
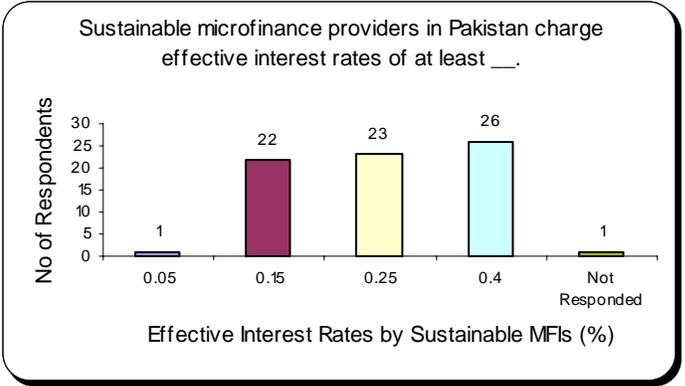
2. INTEREST RATES						
FACTS						
1. Effective interest rates charged for most MF loans in Pakistan are around						
Options	10%	18%	27%	40%	Not Responded	
Responses	8%	41%	33%	3%	-	
2. Effective interest rates charged by sustainable MFIs in Pakistan are						
Options	5%	15%	25%	40%	Not Responded	
Responses	1%	30%	32%	36%	1%	
OPINIONS						
3. Effective interest rates above 20% are unfair for MF clients						
Options	Agree	Strongly Agree	Neutral	Disagree	Strongly Disagree	Not Responded
Responses (%)	19%	15%	12%	37%	16%	1%



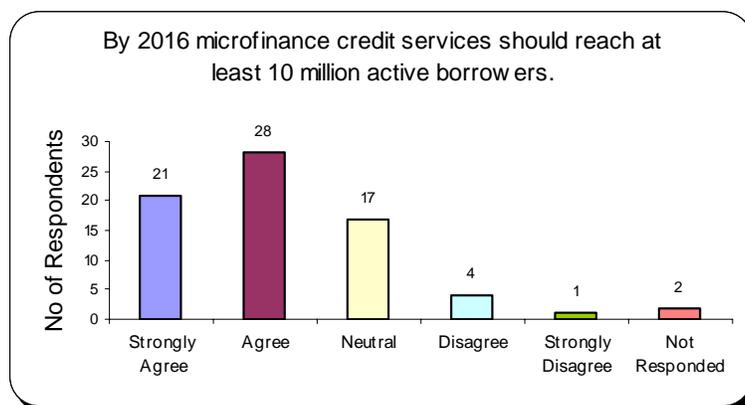
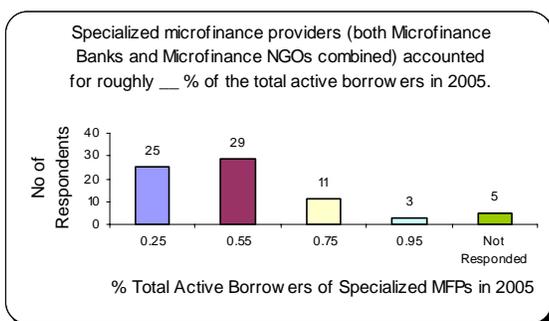
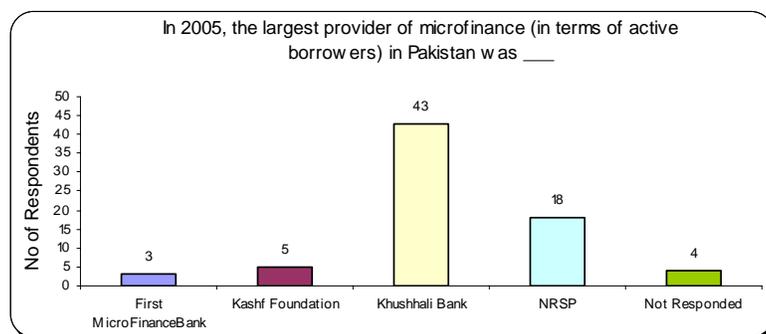
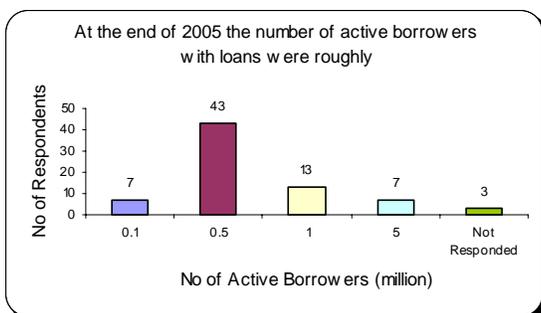
With respect to effective interest rates, respondents manifest a notable degree of ambivalence.

The overall responses regarding interest rates reflect diversity of opinion within the sample group.

- While 41% of respondents accounted 18% as effective interest rates for most MFI loans, 33% of respondents, on the other hand lean heavily towards effective interest rates of 25%.
- These views along with a high level of ambiguity regarding effective interest rates charged by sustainable MFIs indicate an obvious need for greater understanding of effective interest rates.
- Regarding whether effective interest rates above 20% are unfair for MF clients, more than half of the respondents disagreed, while a significant proportion (34%) also agreed.

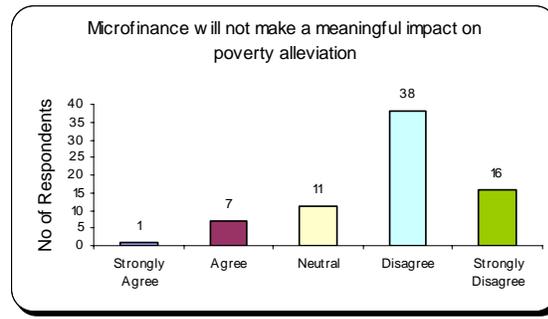
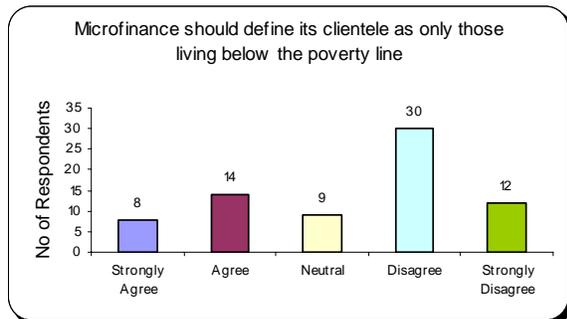


3. SIZE OF MARKET (BREADTH)						
FACTS	1. No of Active Borrowers with Loans (at the end of 2005)					
Options	0.1 million	0.5 million	1 million	5 million	Not Responded	
Responses (%)	10%	58%	18%	10%	4%	
	2. Largest MFP in 2005 in terms of active borrowers					
Options	Khushhali Bank	Kashf Foundation	NRSP	FMFB	Not Responded	
Responses (%)	59%	7%	25%	4%	5%	
	3. Specialized MFIs/MFBs accounted for roughly --% of total active borrowers in 2005					
Options	25%	55%	75%	95%	Not Responded	
Responses (%)	34%	39%	15%	4%	7%	
OPINIONS	4. By 2016 MF credit services should reach at least 10 million active borrowers					
Options	Agree	Strongly Agree	Neutral	Disagree	Strongly Disagree	Not Responded
Responses (%)	39%	29%	23%	5%	1%	3%



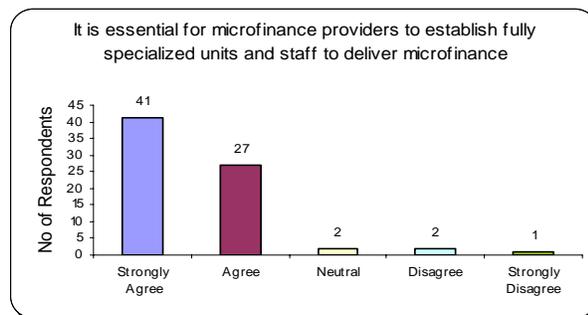
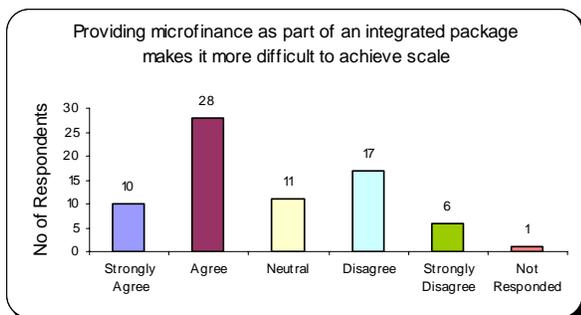
- Almost 58% of respondents were aware of the no of active borrowers of microfinance (in 2005), whereas almost more than a quarter of the sample showed ambivalence. Majority, however, is in favour of the proposition of reaching out to 10 million active borrowers by 2016.
- A large group of sample (59%) was aware of Khushhali Bank as the largest microfinance provider in terms of active borrowers in 2005. However 25% also supported NRSP in this context. One possible explanation could be NRSP's long and established presence in Punjab vs Khushhali Bank's late and very recent entry.
- In terms of percentage of total active borrowers of sustainable MFIs, respondents' awareness level is relatively low. Only 39% comply with the correct answer of 55% of total active borrowers.

4. POVERTY DEPTH						
OPINIONS	1. Mf should define its clientele as <u>only</u> those living below the poverty line					
Options	Agree	Strongly Agree	Neutral	Disagree	Strongly Disagree	Not Responded
Responses (%)	19%	11%	12%	42%	16%	-
OPINIONS	2. MF will not make a meaningful impact on poverty alleviation					
Options	Agree	Strongly Agree	Neutral	Disagree	Strongly Disagree	Not Responded
Responses (%)	10%	1%	15%	52%	22%	3%



- A large group of the sample disagrees with the definition of MF clients as only those living below the poverty line. However, responses show an evidence of diversity of opinion, necessitating clear understanding and classification of microfinance clients for a majority of stakeholders.
- The second response meets expectations. Majority sees microfinance making a meaningful impact on poverty alleviation.

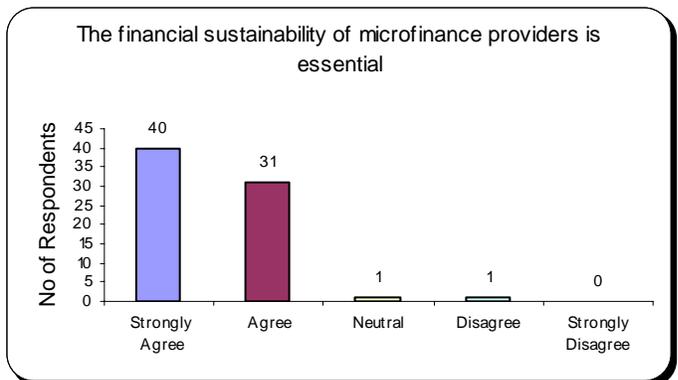
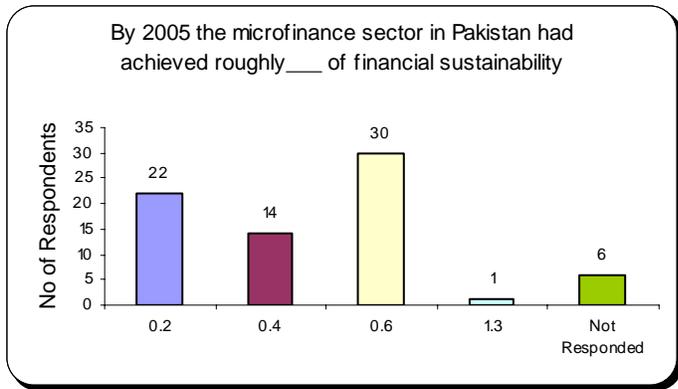
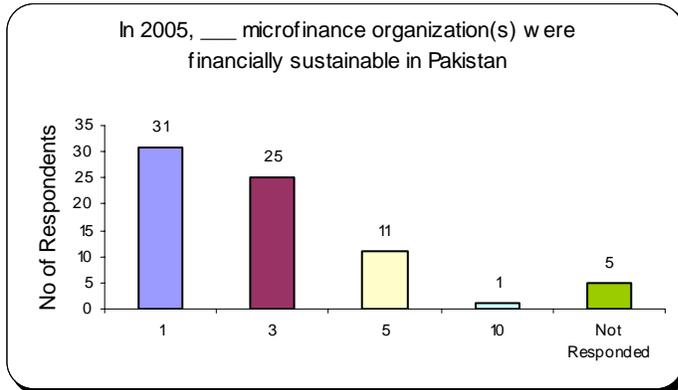
5. SPECIALIZATION						
OPINIONS	1. Provision of micro-credit as part of integrated package by an organization makes it more difficult to achieve scale					
Options	Agree	Strongly Agree	Neutral	Disagree	Strongly Disagree	Not Responded
Responses (%)	39%	14%	15%	23%	8%	1%
OPINIONS	2. It is essential for MFPs to establish fully specialized units and staff to deliver MF					
Options	Agree	Strongly Agree	Neutral	Disagree	Strongly Disagree	Not Responded
Responses (%)	56%	37%	3%	3%	1%	-



- More than one-third of the group agrees that it is difficult for micro-credit to achieve scale as part of an integrated package. Remaining views range from ambivalence to disagreement, making this a critical topic for ensuring better understanding among stakeholders
- There is a strong support for establishing fully specialized units and staff to deliver MF.

6. SUSTAINABILITY

FACTS	1. In 2005, -- MF organization (S) were financially sustainable in Pakistan					
Options	1	3	5	10	Not Responded	
Responses	43%	34%	15%	1%	7%	
OPINIONS	2. By 2005, the microfinance sector in Pakistan had achieved roughly --of financial sustainability.					
Options	20%	40%	60%	130%	Not Responded	
Responses	30%	19%	42%	1%	8%	
OPINIONS	3. The financial sustainability of MF providers is essential					
Options	Agree	Strongly Agree	Neutral	Disagree	Strongly Disagree	Not Responded
Responses (%)	52%	56%	1%	1%	-	-



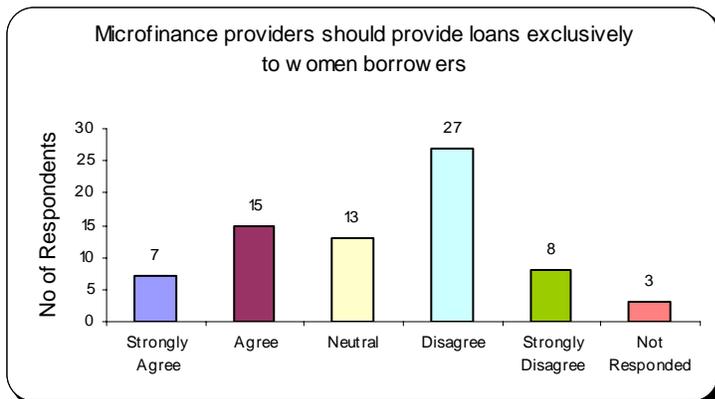
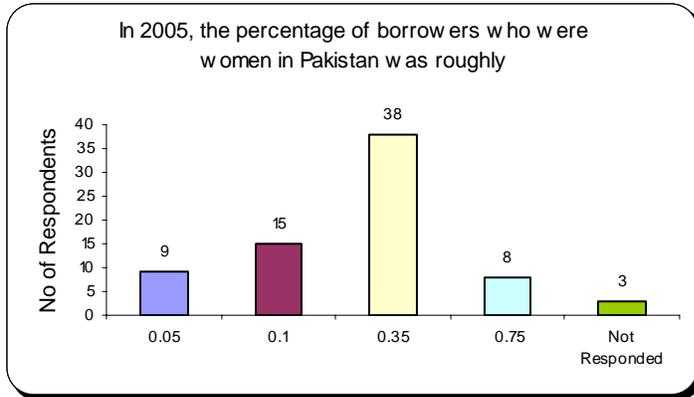
Issue of sustainability emerged as one of the major concerns.

- Knowledge of respondents about the no. of financially sustainable organization(s) in 2005, fluctuate between 1 (43%) and 3 (34%).
- 15% consider 5 organizations as financially sustainable in 2005 and 7% failed to respond.
- Majority, however, considers the sector had reached nearly 60% of financial sustainability in 2005, while the rest waver between 20% and 40%.
- On the whole, the sample placed much stress on the financial sustainability of microfinance providers as an essential.

Variety of views with respect to sustainability, raise the concern regarding how well-aware stakeholders are of the dynamics involved for achieving financial sustainability by microfinance organizations.

7. GENDER

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FACTS	1. In 2005, the percentage of borrowers who were women in Pakistan was roughly				
Options	5%	10%	35%	75%	Not Responded
Responses	12%	21%	52%	11%	4%
OPINIONS	2. MFPs should provide loans exclusively to women borrowers				
Options	Agree	Strongly Agree	Neutral	Disagree	Strongly Disagree
Responses (%)	21%	10%	18%	36%	11%



There has been fairly general consensus for a microfinance sector geared towards women empowerment.

A greater support is, however, for an MF sector that should not exclusively empower women borrowers, but also creates conditions and enabling environment to encourage outreach and direct provision of loans for male borrowers.