

***External Review
of
Financial Sector Strengthening Programme (FSSP)
Pakistan***

Supported by

*Swiss Agency for Development and Cooperation
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Preface and Acknowledgements

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Executive Summary

DAC SUMMARY - MATRIX FOR BIBLIOGRAPHICAL INFORMATION

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REPORT TITLE	External Review of the Financial Sector Strengthening Programme (FSSP) in Pakistan
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SUBJECT DESCRIPTION:

The Financial Sector Strengthening Programme (FSSP) is a project with the objectives to (1) expand sustainable capacity in retail microfinance institutions (MFIs) in Pakistan, (2) promote local service providers' (SPs) capabilities to assist MFIs on (quasi) commercial terms and (3) promote donor coordination.

FSSP has a free-standing project structure governed by a programme steering committee. The project is directly reporting to SDC's Cooperation Office in Islamabad. Its mission would be accomplished once market-type of relationships have become self-propelling between MFIs and SPs.

FSSP has been operating in a difficult policy environment (oversupply of cheap credit-lines by World-bank- and Asian Development Bank supported apex institutions mainly; inadequate donor coordination; use of microfinance as a poverty alleviation tool by both donors and the Government of Pakistan (GoP) rather than a strategy to develop sustainable financial systems for the poor, etc.).

By May 2005, FSSP had facilitated more than 60 contracts between MFIs, networks and training institutions on the one side, and SPs on the other. Technical assistance (TA) and training (HRD measures) have been the main modes of facilitated support. The degree of subsidisation of the transactions by FSSP has been, on an average, at approx. 80%. SPs have also received various forms of assistance.

The project did not have a specific policy to promote and mainstream gender or HIV/AIDS – two dimensions the review mission was also asked to examine.

EVALUATION METHODOLOGY:

The external review analysed the information available from an internal evaluation process and FSSP's planning- and monitoring system (credit proposal as a base-line document; annual plans and reports; minutes of steering committee meetings, MIS of the project).

The internal evaluation was meant to provide insights into the project's efficiency and effectiveness. Hence, the external review was asked to focus its work more on questions related with the future orientation of FSSP (strategy and structure; project cycle management; overriding issues such as gender, poverty and HIV/AIDS).

Apart from document analysis, focus group discussions and interviews with representatives of MFIs, SPs, donors, leading practitioners and policy makers were conducted. Observations in the field and extensive discussions with the FSSP management team complemented the work.

MAJOR FINDINGS AND RECOMMENDATIONS:

FSSP is a well managed project which has established a recognised niche after 18 months of effective operation. Structures, systems and processes are in place to a substantial extent. More than 60 contracts between MFIs, networks and training providers (the clients) with SPs have been promoted. FSSP facilitates "low threshold" access to local (and, in special circumstances, international) technical assistance and HRD support. The responsiveness of the project and a purposeful application of BDS (business development services) principles are important assets. Contributions to donor coordination (participation in an informal donor forum and the State Bank's consultative group and some guidance to new entrants into the microfinance sector [IFAD, EC]) are also noteworthy.

FSSP depends much on its (SDC Cooperation Office's) ability to recruit and retain competent staff. The quality, "weight" and confidence of its leadership and personnel, and the quality and relevance of its processes and products determine the effectiveness of its work. Because SDC has also been involved with the framing of a legal framework for microfinance in Pakistan, and the development of supervisory capacity, the strategy pursued by FSSP (what it does, and how) is critically important.

In trying to promote "business like" (short-term, punctual) relationships between clients and SPs, not enough attention was paid to the conduciveness of the environment, the number and maturity of MFIs around in Pakistan and to policy relevant issues such as gender. Too few of the MFIs supported are or really want to be in the business of sustainable microfinance. The services provided by the SPs have often been too short-term and narrow (focused on financial systems and processes and recommendations hard to implement).

(MFI)assessment methods and monitoring must include minimal levels of information (e.g. outreach, financial sustainability; gender), according generally accepted good practice standards. Facilitated support on a longer-term basis to fewer MFIs with a vision and mission to professional microfinance is recommended as a preferred scenario. - Decision- and review processes should be broadened (sub-project approvals; annual plans and reports), not least to link FSSP better with strategic players in the sector (e.g. Poverty Alleviation Programme, Pakistan Microfinance Network). FSSP should also free (or contract) resources to contribute more to innovation and knowledge management on issues like gender, savings and other products, transformation experience of NGOs, agricultural finance etc.), capitalising practical experiences of its partnership system. The potential of microfinance for women should be promoted more systematically. If HIV/AIDS is to be made a topic in FSSP, pragmatic beginnings should be initiated with the involvement of professional staff. Given the high risk that the policy- and donor environment undermines much of the efforts of a well intended project, FSSP should use its standing and strategic/systemic position to play a greater role in donor harmonisation. A CGAP-CLEAR (Consultative Group to Assist the Poor, Country Level Effectiveness and Accountability Review) is recommended to this effect.

LESSONS LEARNED:

Lessons learned from this evaluation are:

- A free-standing project-structure directly linked to a donor field office is critically dependent on the ability of the donor to recruit and retain (highly) qualified staff.
- There are trade-offs between moving into action (sub-projects) fast and planning a project in some more depth as initially intended in FSSP. If the latter is not done, projects risk to lose strategic orientation and longer-term effectiveness.
- In an environment where politics of Governments and (multilateral) donors are main drivers of micro-finance, bilateral donors must carefully assess where they can add long-term value to the sector and promote donor harmonisation.
- BDS principles can make important contributions to the development of professional relationships between MFIs and local service providers. They must be applied in a pragmatic manner, as a means to an end, without losing sight of the constraints of a local environment and good practices in micro-finance.
- Gender and themes such as HIV-AIDS remain irrelevant or spurious if not clearly strategised right at the beginning of a project.

Section 1: Introduction

1.1 The Financial Sector Strengthening Project (FSSP)

FSSP is an initiative supported by SDC, Pakistan. It has evolved from the Community Services Programme (CSP) and SSEP, the Small Enterprise Promotion Project. Both had a financial services component. FSSP is nurtured by SDCs larger sectoral objective of a substantial intervention dedicated to contribute to building an effective micro finance sector in Pakistan.

FSSP was launched in December 2002. Its three objectives are:

- a) To enhance the human and institutional capacities of microfinance institutions (MFIs) for efficient and sustainable financial services delivery;
- b) To enhance the human and institutional capacities of local expertise providers (Service Providers, SPs) for increasing the resource base for HID services with market oriented approaches;
- c) To facilitate networking and co-ordination towards the creation of an enabling environment for the growth of the microfinance sector.

The project as a whole is based on the business development services paradigm. It has been operating through a separate facilitation unit since December 2002. FSSP has also been supported by a back-stopping arrangement (FACET, a Dutch consultancy firm) starting with the design stage of the project already.

1.2 Background, purpose and ToR of the review

FSSP is completing its first 3 year phase at the end of November 2005. After quite an extensive self-evaluation, the SDC management decided to seek the assistance of an external team to carry out a review, especially to address orientation questions for the forthcoming next phase of the project. The evaluation therefore takes a more strategic and forward looking approach. However this was expected to be built upon FSSP's experience in the first phase.

The TOR of this review identifies these needs in its stated objectives as quoted below;

- i. To critically review the programme's relevance regarding the Pakistani microfinance sector in general and first effects, with a special focus on poverty as well as gender related issues and to draw conclusions
- ii. Based on point (i) develop key elements for the overall strategic orientation of FSSP in its second phase, including its institutional positioning.

The detailed TOR are given as Annex 1.

The team collectively reviewed the TOR and agreed to its content in principle. It also agreed on the methodology outlined under section 1.3. and the contributions of each of its members. These contributions would be integrated into the final report to be written by the team leader.

The TOR asks a few questions in relation to the past performance and future directions of FSSP. The ToR in Annex 1 make indications on the sections under which these questions are dealt with.

1.3 Methodology

Two introductory remarks are important to the mission at this point:

- First, we have termed the mandate that was given to us a "review" rather than an external evaluation. Reasons are instructions to the mission to focus on forward looking aspects of the Financial Sector

Strengthening Programme(FSSP) and the assumption that questions of efficiency and effectiveness had already been covered by a self-evaluation.

- Second, the methodology of the review is to be seen in the context of the overall planning- monitoring and evaluation process of FSSP (references in the ToR to "programme steering") . Hence, the methodological outline of the review given below is preceded by a brief description of the evolving system for the planning, monitoring and evaluation of FSSP (project/programme cycle management).

1.3.1 Programme planning, monitoring and evaluation

The plan for the Financial Sector Strengthening Programme(FSSP, the Programme) is laid out in the credit proposal dated October 2002. The programme was meant to receive much further focus based on a baseline survey of the microfinance sector and annual plans of operations (YPOs).

The final design and planning work was strongly influenced by the BDS (business development services) approach to service provision for microfinance institutions (MFIs). The baseline survey was not undertaken, for reasons unknown to the mission. Yearly plans of operation for 2003, 2004 and 2005 and an annual report for the year 2004 were available to the mission. These plans and reports are discussed and passed by a Programme Steering Committee (PSC; see also chapter 2.4.1.).

FSSP has been "backstopped" by FACET of Holland who – by May 2005 – had undertaken five missions. FACET was also foreseen for a mid-term review. All missions are documented by detailed reports dealing with programme progress, outputs as well as sectoral and other programme related issues.

The planned external programme evaluation was split into a self-evaluation undertaken by a local management consultant in autumn 2004 and the review of this mission.

1.3.2 Project planning, monitoring and evaluation

FSSP's main activity has been to facilitate capacity building measures in microfinance institutions and networks in "contractual relationships" between MFIs and so called Service Providers (SPs). The convention in this report is to call these measures (and other types of activities supported by FSSP, such as a conferences, or a situation analysis of the microfinance sector in NWFP) a project. This differentiation is important for questions related with the overall steering of the FSSP (chapter 2.4.3.).

Projects (especially those leading to a contractual relationship between a "client", e.g. an MFI, and a Service Provider) are planned and monitored according to an elaborate process outlined in Annex 3. An overview of the eighty projects/activities supported and undertaken during the 18 months of effective operation of FSSP is provided in Annex 4 (FSSP Portfolio).

Projects are approved by the Programme Director, in consultation with his team of two programme officers. A pipeline of projects and the portfolio of "active" or concluded projects can also be reviewed and discussed in the Programme Steering Committee meetings (chapter 2.4.1.).

During the past months, FSSP has developed an electronic Management Information System (MIS) to track progress of technical assistance (TA-) assignments and for input – output monitoring. The MIS also has the capacity to performance information of MFIs.

Monitoring efforts have till date concentrated on tracking project progress (activities) and outputs. First efforts have been underway to include the monitoring of (intermediary) project outcomes (reference is made to the draft Monitoring Matrix, "Monitoring of Results").

1.3.3 Evaluation framework used in the review

Since the planning document of the FSSP, the self-evaluation and the terms-of-reference of this review mission used different understandings of the "classical" evaluation questions of efficiency, effectiveness

and impact, the mission felt a need to clarify its own understanding and working hypothesis of impact, outcome, output and input:

Impact	Expanded access to sustainable, responsive financial services by the poor, notably also women.
Outcome	<ul style="list-style-type: none"> • Improved outreach and performance of MFIs which have benefited from services intermediated and (co-)funded by FSSP. • SPs "business" generated with MFIs (% facilitated by FSSP, % generated autonomously with 3rd. parties, levels of subsidy in both categories) <ul style="list-style-type: none"> ○ Organisational changes that have taken place in SPs to do the business generated/expected with the target market. ○ Programme alignments and harmonisation of procedures that have taken place among donors
Output	<ul style="list-style-type: none"> • FSSP unit established (staff, infrastructure, systems, processes etc.) and in operation. • Transactions that took place, including their degree of subsidisation • CD measures realised in MFIs, MF-Networks and SPs due to FSSP interventions. • Concrete contributions to donor coordination • "Public goods" products of FSSP • PCM system, tools and processes (steering)
Input	Funding – Staffing – Management - Backstopping

For the result levels input, output and outcomes, information was drawn from FSSP's project- and programme management system (project level planning- and monitoring process; MIS; annual plans and reports; backstopping reports; Steering Committee minutes) the self-evaluation, the programme portfolio, a comparative analysis of planned and effective results, interviews and field visits. Any serious assessment of broader socio-economic impact at the level of clients of MFIs is beyond what the mission or indeed the programme could reasonably attempt to assess after 18 months of programme operations (and given the attribution problems which are particularly important given FSSP's approach).

Based on the results observed and identified from the various sources of information, "rough assessments" of the programme's efficiency, "value added", effectiveness, sustainability and relevance had been envisaged.

Since the mission was undertaken with the assumption of the self-evaluation providing insights into FSSP's efficiency and effectiveness, and because its focus was more on future orientations than a detailed analysis of the past, questions of strategy, structure, PCM and overriding issues such as gender and poverty were given priority.

1.3.4 Process of the review

Following a briefing in Karachi by the responsible Swiss Cooperation Office team in Pakistan (SCO-P team), the mission met a substantial number of programme partners, donor- and sector representatives in Karachi, Islamabad and Peshawar as well as the FSSP team (details are given in the itinerary in Annex 2). This programme was complemented by the analysis of programme-, sector- and general policy documents and de-briefings at SCO-P Islamabad and the South Asia Division in Berne.

Given the planning status of FSSP (a decision to go into a 2nd. phase has been taken in principle, subject to pending formal decisions at SDC Headquarters), the mission attempted (in process and content focus) to make a contribution to the design of a 2nd. phase due to start in December 2005. Substantial time was therefore devoted to the discussion of key findings and recommendations with the FSSP management and in the de-briefing at SCO-P Islamabad.

1.4 Limitations

This review was carried out over a period of 10 days by a team of three consultants. It was both intensive and extensive and as explained above received input from sizable cross sections of stakeholders of the Pakistan microfinance sector. The team is of the view that there are several limitations inherent in this review. They are summarized below.

- This is not an impact study – this review did not attempt to assess the impact level of the project at microfinance institutional and client level. The time period the FSSP has been in operation was too short to undertake such an assessment.
- Sample of MFIs may not be the best representative – during a short period of time the team interviewed a large number of MFI representatives. This was done based on a pre-arranged schedule and may have provided little interaction with some key MFI players specially in Punjab.
- Absence of updated sectoral information –During the review SDC and FSSP both provided useful documents for the review. However the industry sources did not have the more recent updates to some of these.
- MIS of FSSP provided limited data.
- This need was particularly felt in the absence of portfolio and outreach data of MFI partners. It was also revealed that some data was available in the data base but not formatted and produced in the form for MIS reports.
- Limited time available – This study was done over a period of 10 days covering three sites in Pakistan. The interview and visit schedule though useful was a very demanding one and provided very little time for team deliberations and interactions with FSSP management, which should have further enriched the results.

Section 2: Review findings

2.1 The microfinance sector: Strength and weaknesses; opportunities and threats

2.1.1 The microfinance sector

In Pakistan, poverty remains high at over 30% below the poverty line and another 20 % are at the margins of poverty. The latter group is vulnerable to natural disasters and economic shocks e.g. drought, inflation. Women are the main sufferers, having very little access to health, unequal access to education and skills training opportunities; women also suffer from various manifestations of socio-economic related violence. Increased access of women to and control over resources has demonstrated an improvement in their socio-economic conditions.

Various studies undertaken in the recent past allude to a large market for micro finance both in the rural and urban areas. Estimates given for the rural market are at 12.3 million and urban market at 3.4 million potential micro credit borrowers. There are many more women in the work force, however they are not covered in the official definition of employed. They are mostly employed in the informal sector as home based workers to whom work is contracted out. In Pakistan, home based work predominantly relates to females. One study reports that 65 % young females who work are doing so from their homes compared to 22 % young males.

Working women's invisibility is further emphasized in the following: women as salaried workers constitute 25 %, self employed are reported at 14 % and 62 % are reported as contributing family workers. Males are greater in number in all categories except the last (17%)¹. The problem with official definitions have left out many rural women from being counted in the labour force, these are primarily involved in agriculture and animal husbandry. This was redefined for the Labour Force Survey in recent years² and apparently applied so far only in one study. The results show improved rural women's participation in agriculture and non-agriculture work. Rural women involved in agriculture constitute nearly 80% compared to rural men (60%) involved in agriculture of the total rural men and women³.

Agrarian work is associated with lower socio economic status particularly in the case of females, only 4% of females from wealthiest households work in agriculture compared to 62 percent from the poorest. Women have limited employment opportunities, especially if they belong to poor and rural households. Apart from household work adolescent girls (30 %) and young women (32%) tend to be more self employed than males in the same age bracket⁴.

In view of the above mentioned situation access to financial services for the poor - although it has increased somewhat - is quoted at 4% by the PMN. However women, especially rural women, still remain disproportionately marginalized from access to financial (credit or saving) services. This is despite forecasts that asset redistribution could reduce rural poverty by up to 55%, which will have significant bearing on improving the condition of women and children in the rural areas⁵.

The MF Service Providers and related Stakeholders:

One of the Federal Government's main focus for poverty reduction, as provided in the Poverty Reduction Strategy Paper (2002) and the Medium Term Development Framework/Rolling Plan, is through Micro Finance which is primarily understood as micro credit. NGO MFIs have been targeted as one of the main vehicle for delivery of credit by the government. Also the government has planned to increase and upgrade the vocational and skill training facilities available for the youth.

¹ Human Development in South Asia, Mahbub ul Haq Human development Centre, 2002, Oxford, Table 7.2 page 112

² Pakistan NGO Review, Beijing +5, February 2000, NGO Coordinating Committee for Beijing +5

³ Human Development in South Asia, Mahbub ul Haq Human development Centre, 2002, Oxford, Fig 7.1 pages 107, 110.

⁴ Adolescents and Youth in Pakistan 2001-02, A nationally representative Survey, by the Population Council, Islamabad

⁵ Social Development in Pakistan; Annual Review 2002-03; SPDC. See Also Pakistan Microfinance Sector Report submitted to the UN Secretariat, Presented by the Internal Finance Wing < Ministry of Finance GOP 2004.

The strong support from the government for microfinance and NGOs, as a vehicle for poverty reduction, has been further demonstrated when it signed with the World Bank a second line of credit for the PPAF. This credit line includes grants for human and institutional development and productive physical infrastructure to be disbursed through the PPAF.

The role of the State Bank of Pakistan (SBP) has also been supportive yet it has been cautious/ conservative in its approaches towards the development of the micro finance services in Pakistan. The State Bank does not regulate the functioning of NGO MFIs and they are allowed to only disburse credit. The Bank is more informed and interested in learning about the sector and has taken steps to set itself up to deal with this sector and Service Providers e.g. It has a specialized section for micro finance, it has integrated the MF monitoring. The State Bank's regulatory requirements, for an NGO to formalize its micro finance services, remain centralized and costly. NGO MFIs will have to make contact and several visits to Karachi, the head quarters of the State Bank. The regulatory requirements are capital- and cost intensive and not affordable for most NGOs MFIs considering formalisation. The cost implications of the centralized control system and regulation set up by the State Bank are considered to be the same, if a MF Banks is to be set up at the District, Provincial or National Level.

There appear to be sound prospects of profitability for a formalised MF bank. Two commercial/formal Banks, First Women's Bank and Bank of Khyber continue to provide micro credit and savings along with their over all operations. Also there are two new entrants in the formal Banking system the First Micro Finance Bank (AKRSP) and the Network Bank.

There has been a significant growth in the number of NGOs offering micro credit and other non financial services. However, there is no recent primary data available which can give accurate estimates⁶. These are NGOs primarily working in a number of poverty reduction related sectors e.g. health, education, rural development etc. There are only a handful of NGO MFIs having only micro credit programmes. Among these, that have show significant outreach in recent years in terms of numbers of borrowers are Kashf, Damen and Assasa. They are primarily focusing on women borrowers.

The integrated NGO programmes that are offering micro credit, until recently, had no clear mission and policy related to sustainability of their MF operations. Many of these NGOs do not have separate accounting systems for their MF operations and in many cases operational costs for running the MF operations are being subsidized through the NGOs overall organization budgets, since micro credit is primarily considered as a support for their other poverty alleviation related programmes.

Increasingly however NGOs are becoming more sensitive to the issue of making their MF operations more transparent, accountable and sustainable. The NRSP is the most recent example of a large integrated rural development NGO that has separated its MF programme from its other integrated programmes in terms of accounting etc. This has largely been triggered by exploring the need for formalising its MF operations as well as the availability of large credit lines (through the PPAF) available for extending credit.

The MF market in Pakistan is dominated by the Pakistan Poverty Alleviation Fund (PPAF) and the Khushali Bank (KB). The former is largely providing credit lines to 47 7 NGOs having outreach to extend credit services to its clients. The latter has been set up as a public private partnership (between public sector and commercial banks) by the government to provide direct financial services, notably credit. The KB takes the support of NGOs who send their clients or the Bank compensates the NGOs to form groups who are then extended credit from the Bank. Both PPAF and KB are funded through credit agreements signed by the GOP respectively with the World Bank and the Asian Development Bank.

⁶ Mapping of Micro Finance Sector in Pakistan June 30, 2002 by FSSP a project of SDC (pg4) gives details of the credit portfolio of 29 NGOs, RSPs and projects that are the main providers of micro fiancé services at that point in time.

⁷ PPAF has extended credit to 40 NGOs in 2004 as reported in (See Pg 8) Pakistan Micro Finance Sector, submitted by the Ministry of Finance to the UN Secretariat

PPAF and KB are now also getting support from bilateral and multi lateral agencies to disburse funds to NGOs for related financial and non financial services.

In addition a number of leasing companies are also providing micro leasing services either directly or through NGO MFIs. Some leasing companies are offering micro credit as working capital to their lessees along with leased goods as an incentive.

Challenges to the MF Sector:

The MF sector in Pakistan still has a very modest retail capacity compared to other countries, especially in the South Asia region. Most NGO MFIs are inexperienced and do not have fully developed systems and controls to deal with the requirements of effective delivery and accountability of microfinance services, however in comparison there appears to be a very supply driven market with heavy donor involvement (e.g. WB, IFAD, ADB, EU and DFID) through relatively well organized and developed institutions like PPAF and KB. The Pakistan Micro Finance Network (PMN) is also a well organized meso level body having 13 members providing MF services.

Another challenge to this sector is that the MF services are skewed towards credit only. This is largely due to the availability of big funds for this purpose and no incentive towards encouraging savings⁸. The State Bank rules do not allow NGOs to take client savings, commercial banks do not encourage micro savings accounts and the banks are offering only 2 % interest on savings. Also many women who are in need of financial services do not have National Identity Cards, which is compulsory for opening savings accounts in formal banks. The postal services are also offering savings, however this has not been adequately explored as a potential partner for encouraging savings programmes.

In the province of NWFP provision of micro finance services is not as widespread as in Punjab or Sindh. Also there is a strong misconception among policy makers, some NGOs and governing bodies of NGOs offering MF services that MF is linked to directly addressing acute poverty. Combined with this, the current MMA government is non supportive of charging cost-covering interest on credit as it terms it unislamic. It also views service charges on credit suspiciously and is influencing government projects with multi lateral agencies on rural poverty alleviation programmes to set low, non viable interest rates or service charges.

The disincentives towards savings as mentioned above as well as inadequate efforts for innovation and experimentation has affected the overall MF market. Most NGOs are not experimenting on different types of savings and credit products for clients. Also the number of female borrowers of many NGOs, especially NGOs MFIs with integrated programmes, does not exceed 50%. - There does not appear to be significant motivation or incentive for NGOs to try new approaches to boost female access to financial services. In recent years two NGO MFIs⁹ have been able to achieve significant outreach in a short period with female borrowers as they have invested in experimentation, product innovation and approaches to increase their outreach. The relatively low number of women borrowers overall does not compare favourably with achievements in other countries of the region, including (parts of) Afghanistan.

The early development stage of this sector is further highlighted when some of the long term issues continue to remain unaddressed, this is despite the diversity of funding sources and the relatively well developed macro institutional framework; these issues are:

- Cost effective methodologies to reduce interest rates;
- Dormant role of corporate governance and insignificant steps towards development of corporate ethics for MF;
- Inadequate emphasis on savings e.g. role of postal financial services for livestock
- Not enough innovation e.g. sustainable agriculture lending;

⁸ In 2004 total MF generated savings reported are Rs. 23.7 billion compared to Rs. 46.5 billion loans disbursed. As reported (pg 8) in the Pakistan Micro Finance Sector Report prepared by the Ministry of Finance for the UN Secretariat.

⁹ Kashf and Daman

- Low priority to gender issues in micro finance especially with respect to outreach for women;
- Not enough investment in up to date primary research on this sector in Pakistan.

Despite the government's support to promote the growth of MF it is only the FSSP providing funding for TA to (NGO) MFI on MF issues and operations. The HID section of the PPAF focuses on training, emphasising general management and enterprise development. There is additional support in a limited way by a few other donors that include USAID, EC, and the Asian Development Bank .

Changes in the last three years:

As mentioned above there is no primary data that can establish the extent of changes in the last three years in this sector. There appears to be significant changes, in terms of outreach of NGO MFIs, considering the amount of funding that has been channelled through the PPAF especially¹⁰. In the recent years PPAF has expanded its operations to include non financial services. It has set up a separate HID department which is involved in providing training to the staff of its client MFI NGOs to improve their field operations for credit disbursement and recovery. This service is provided as a grant and in proportion to the credit extended.

The Microfinance Ordinance has been operationalised and the by-laws, licensing guidelines etc. are now set. These are first and important steps, but measures are required, as reported through our interviews, to make the Ordinance, by-laws and licensing guidelines more supportive and encouraging to growth of formal MF institutions.

An informal donor coordination forum or mechanism has been set up through the PMN (with the support of the FSSP programme) which meets every quarter to share the developments in the sector as well as their respective MF support programmes. According to our information the coordination still requires improvement. Another coordination mechanism is a consultative group set up by the State Bank of Pakistan which includes key donors (including SDC) who are active in this sector as well as representation from the PMN.

The PMN has established itself has a strong organization/network and is recognized among the NGO MFI as a very useful body for:

- Quality training
- Research
- Promoting transparency, standards
- Advocacy.

The State Bank of Pakistan has also recognized PMNs contribution to this sector and has invited it to be part of its Consultative Group on MF. This is the forum where the PMN has the potential to play an advocacy role for making the MF regulation more realistic for the needs of NGO MFIs.

There is an emergence of local regional networks like the Sindh Micro Finance Network, a similar network is set up for the Punjab MFIs. The NWFP network is in the process of being set up.

In recent years MFIs in Pakistan have had more exposure to external expertise, compared to three years back. This exposure has been both in terms of external expertise visiting Pakistan e.g. from Professor Yunus from Bangladesh and MF practitioners from Bolivia. Many MFI practitioners have also been exposed to external MFI experiences from South Asia, Africa and South America.

As mentioned above among the private sector commercial companies the entry of leasing companies into the microfinance sector is also a recent development. Micro leasing and micro credit is a very small part of their overall portfolio, however it is profitable and it has the potential for growth. In addition one

¹⁰ In 2004 PPAF reportedly had the largest borrowers, 312,357 of which only 149,411 were females. See Pg 8 of Pakistan Micro Finance Sector Report prepared by the Ministry of Finance for the UN Secretariat.

bank , the Network Bank, has been set up for MF purposes. Its sister company Network Leasing has been offering micro leasing for a number of years.

In the pipeline are three initiatives towards transformation by the non formal MF institutions for formalization. These are by the Karakorum Cooperative, NRSP and Kashf. The latter two also have taken international inputs to assist them in determining the requirements for transformation. This indicates that there is inadequate local expertise available that understands the dynamics of non formal institutions and can advise appropriately on the complexities and process of transformation towards formal MF institutions.

Among some NGO MFIs, especially those focused on women borrowers, there is more clarity and recognition that MF services to women do empower them especially in decision making, having more respect and opens up more choices to them. However despite the success cases on women focused credit programmes in Pakistan, in the region and in Afghanistan, a lot more work is required by NGO MFIs to bring more parity in terms of number of female borrowers. This means reviewing their systems and strategies as well as investing more in experimentation and innovation.

2.1.2 Donor support, comparative advantages and "harmonisation"

The role of donors and donor coordination have been important topics for the sector in the recent past. The effort under the Pakistan Microfinance Network to lead an informal forum in donor coordination has been a first step. In addition to this, the consultative group of the Central Bank too acts as a forum for stakeholders to get together and share their experience and expertise.

FSSP has experienced that some donors approach the project for consultation during their project design stages. Some donors work directly with stakeholders of FSSP, too.

Overall, however, donor coordination and harmonisation has remained very inadequate, lacking focus and systematic strategies. The roles of PPAF (WB) and Kushali Bank (AsDB) would require particular attention.

2.2 Performance of the FSSP

2.2.1 Management Information System

FSSP has several reports it produces for planning, monitoring and reporting purposes. The main documents produced are summarized below

Purpose	Reports
Planning	Yearly Plan of Operations (YPO)
Reporting	Half yearly/Annual Report
Monitoring	List of contracts (unnamed spread sheet)

These reports focus on the contracts signed under with MFIs and Service Providers detailing the amount spent. Comparative figures of actual as against the planned is given in the annual reports but not on the report used for monitoring.

A major gap is the absence of MFI related information in areas such as outreach and portfolio of MFIs supported by FSSP in any of these reports. This information is an important indicator in determining the project profile.

This may be a sign of lack of focus or understanding of the primary objective of the project or an oversight by all management and technical staff of FSSP. On the other hand we can argue that the project has been monitoring what it was implementing but this is not adequate for the mid- and longer-term. While one may argue that FSSP provides only limited short term support to MFIs, it's important to stress

that the growth and quality in portfolio and outreach are key indicators to measure the main objective of capacity building at the retail level. Further, this information is essential to be collected and reported for monitoring and future evaluation missions too.

During the review mission, portfolio- outreach- and gender related data were not readily available and FSSP had to collect from the MFI partners. This also created some confusions and inaccuracies.

However it was also revealed during the discussion with FSSP staff that some of the data is available in the data base but not updated and processed to produce management reports for reporting or decision making purposes.

The review team identified this as an area for further improvements and recommends that FSSP modify its MIS do produce more timely and relevant information for management decision making and reporting.

Self Evaluation:

The self evaluation carried out by a local consultant highlights several policy and institutional level issues.

In summary, the self evaluation underlines a need to re-state eligibility criteria and redesign TA processing method of TA proposals from MFIs and suggests that MFIs are asked whether they need further training in deciding and drawing up TA TORs. It recommends that evaluation grid used for SP to be revised and FSSP to take a more than equal responsibility in SP contract evaluations as well as monitoring during the TA assignment. Another issue raised is whether the internal capacity and team competency of FSSP is adequate for overall effectiveness, even though the team's main responsibility is facilitating access to TA, and not providing it by themselves. Finally to meet the challenges of the industry FSSP is recommended to develop "clarity of strategic position and focus on a more defined mission".

The complete report of the self evaluation is available with the management of FSSP.

2.2.2 Analysis of FSSP's portfolio

Since its inception FSSP has worked with 54 MFIs and 10 Service Providers. There were 67 contracts signed during this period to provide assistance to partners, including networks and a training institution.

Analysis of Client Profile and Project Contributions:

FSSP inputs in achieving its objectives have been in four areas as per the project design. During the period under review the project has delivered its services as technical assistance and human resource development as primary targets under the objective of expanding retail capacity of MFIs. In addition to this other investments have been in facilitating coordinating efforts and networking and in development Service Provider capacity.

The following table analyses amount spent on TA for building retail capacity by size.

Amount spent on **TA** by size on MFI

MFI Level	No of MFI		Year 1		Year 2	
	No of clients	%	No of clients	%	No of clients	%
Less than 200	2	9%	276	13%		0%
201-500	2	9%	112	5%	130	4%
501-1000	5	22%	180	9%		0%
1001-3000	4	17%	338	16%		0%
3001-5000	1	4%	82	4%		0%
Above	9	39%	1,094	53%	2,959	96%

5000						
Total	23	100%	2,082	100%	3,089	100%

The analysis indicates that in the first year 9 MFIs received 39% of the funds spent. The same MFIs received 96% in the second year. These are MFIs with over 5000 clients. Similarly 9 small MFI with less than 1000 clients each have utilized 27% of funding in the first year but only 4% in the second year.

In grouping the MFIs by size the numbers currently available was used in the absence of information of MFI outreach for previous years. As a result, this analysis does not capture the growth of MFIs over this period.

An analysis of HRD expenses too was carried out in the same lines.

Amount spent on **HRD** by size on MFI

MFI Level	No of MFI		Year 1		Year 2	
	No of clients	%		%		%
Less than 200	2	9%	475	4%	45	1%
201-500	2	9%	1,511	12%		0%
501-1000	5	22%	921	7%	219	4%
1001-3000	4	17%	3,429	27%	539	10%
3001-5000	1	4%		0%		0%
Above 5000	9	39%	6,425	50%	4,500	85%
Total	23	100%	12,761	100%	5,303	100%

As can be seen, in the first year 9 MFIs (or 39%) with over 5000 clients received 50% of assistance in HRD and the same group accounted for 85% in the second year. On the other hand 9 smaller MFIs received 23% in the first year but this share reduced to 5% in the second year.

Both these table indicate that FSSP has been focusing more on high potential or more creditable MFIs in the second year. This could be attributed to lessons after the first year in operation and to some extent the demand coming from more stronger MFIs.

The review team considers the MFIs over 5000 as a group with high potential to increase the retailing capacity and able to increase outreach by leveraging the inputs it receives. However it is important to caution that though indicative, this should not be the only criterion to be used to identify the potential partners. More comprehensive institutional analysis and (portfolio) monitoring is needed to steer towards a potentially more effective project portfolio.

Therefore it is recommended that FSSP further analyses the MFI profiles to identify the ones in which investments would make a more strategic contribution with regard to achieving the objectives and contributing to enhanced retail capacity.

Cost Analysis

FSSP provides assistance to MFIs and other partners through a mechanism of agreements. These contracts thus become the main unit of interactions between the two parties. In the first two years of operations, that is in 2003 and 2004, FSSP signed 23 and 44 such contracts respectively.

The following table calculates the average cost or contribution per contract.

Contract Analysis for last 2 years

	Technical Assistance		Human Resource Development		Networking and Coordination		SP Capacity Building	
	2003	2004	2003	2004	2003	2004	2003	2004
No of contracts	10	16	8	21	2	3	3	4
Amount Spent Rs. '000	2,082	12,761	3,370	5,303	471	1673	101	4942
Average contract size Rs. '000	208	797	421	306	235	554	33	1270

From this table it can be observed that there is a very significant increase in TA expenditure in the second year. This move towards TA is a natural one as most of the MFIs that received initial assessment opted for TA in the second year (eg. system development). As a result the average contract value too increased in the second year in operation.

2.2.3 Insights from interviews, field-visits and document analysis

In addition to the above analysis of the information available from the project MIS of FSSP, the review team interviewed a number of client MFIs, (that is NGO/MFI that received assistance), industry leaders, policy makers, donors and Service Providers.

It was the common response of all stakeholders that FSSP established a niche for its services.

Partner MFIs expressed their satisfaction with FSSP services in many areas. These include:

- FSSP responses are flexible and timely, access has been easy;
- FSSP opened opportunities to access different types of technical assistance (TA);
- FSSP Interventions provided more clarity in MFI NGOs to separate MF from integrated programmes;
- Making change in mind set towards external technical assistance.

However, MFIs also expressed the view that FSSP could be more effective. Some comments are summarized below:

- FSSP assistance helped introduce operational systems but this alone is not enough, other organizational changes would be required, too;
- Service Providers have been giving many recommendations but MFIs don't have the capacity to implement them;
- To reap benefits of TA, funding is required to expand operations;
- Some of the TA would have been more useful if it came from practitioners.

These are some of the important comments that need to be addressed in the next phase of the project.

2.2.4 Institutional assessment of key partner categories: MFIs and Service Providers

During the review, the team analysed observations in the field and interviews. Based on this, several areas for further improvements were identified. They are categorized in respect of both MFIs and Service Providers. It's the view of the review team that these have caused a drop in performance on the part of FSSP in achieving the stated objectives.

The main areas that need the attention with respect to assistance to MFIs are summarized below.

Weaknesses in MFI capacity building:

- Weak capacity of most MFIs supported to identify own needs;
- MFIs not clear about the type of FSSP support available;
- One time support from FSSP does not solve the implementation problem;
- MFIs demand services from FSSP for overall programme review and improvement; support for financial systems improvement is but one aspect of mostly much broader institutional problems and constraints;
- For a significant number of MFIs supported, the TA provided was too sophisticated ("technical"); many of them have little if any perspective for viability and sustainable outreach;
- Gender issues have not been dealt with in an integrated manner;
- The BDS concept seems to be pre-mature. One can hardly talk of a contractual relationship between market partners (see also section 2.3.).

In reviewing activities with respect to Service Providers (SPs) the team identified several strengths in the programme. They are:

- Mechanism set up by FSSP for hiring SP is good and transparent;
- SPs invited to trainings on cost sharing basis;
- Some SPs have made strategic choice of setting up sections in support of MF, however whether they have made any investment in learning and having MF expert in the team is not clear;
- Backstopper provided TA to SPs (and/or MFIs) on developing TOR.

There are several weaknesses or areas that need further attention of the FSSP management to enhance the effectiveness in achieving the objective of developing a pool of expertise (Service Providers) for the Pakistani microfinance sector.

Weaknesses with pool of Service Providers/in building local TA-capacity:

- SPs lack adequate gender orientation;
- SP support has not been multidisciplinary, the expertise has been overwhelmingly on chartered accountants;
- Development professionals with MF experience have not been adequately engaged in past assignments;
- SPs interested in commercial potential have been brought in, however they have very little field orientation;
- Imbalance between small MFIs and very formal commercial sector SPs;
- Quality SP input is not satisfactory- other funders view.
- The pool of expertise remained a small group of Service Providers dominated by accountants;
- There is no evidence that SPs are approached by other MF support institutes or MFIs independently of FSSP intermediation.

It's important for FSSP to build on its strengths and address the weaknesses and challenges of the "project system" to become more effective in the longer term.

2.2.5 Coordinating and knowledge management; Gender and HIV/AIDS

FSSP's role has been low key - and below its potential - in terms of donor coordination.

The project has facilitated the setting up an informal donor forum which is now coordinated through the PMN. SDC is represented through its programme officer. However, the promotion of coordination through this forum has been intermittent and more effort is required from all participating donors to communicate and share their experiences and know-how in a timely manner to reduce duplication of effort and share relevant information with their respective project staff .

Some positive results, due to the flexibility within the FSSP programme, has been that FSSP has supported (through donor coordination/collaboration efforts) the setting up and strengthening of two local regional MF networks, respectively in the NWFP and Sindh. In both cases the EU has shown keen interest. Another effort at coordination which is ongoing relates to a recent mission of IFAD.

Coordination and transfer of knowledge from FSSP to the EU programme in general has been substantial. The EU is interested in expanding cooperation.

Challenges for coordination and knowledge management

Views on the importance of (donor) coordination and the various roles to be played do not seem to fully converge between the project management and SCO-P.

There has been low emphasis on knowledge management by the project, as a result there is very little information available on project experiences and insights from broader analysis (institutional, sectoral e.g.). FSSP could play a more prominent role, linking micro- (MFI) and meso-(e.g. network)level experiences with the macro level (nurturing policy through practical experiences). Availability of current evidence "from the field" at the macro level can help facilitate improved coordination and policy making, as well as ensure SDC remains current with respect to latest trends in the MF sector. For example the MF sector mapping report undertaken in 2002 through the project has been appreciated and is considered by a number of key stakeholders as useful for understanding the status of the sector and its key players. It would need up-dating and would find an interested audience.

FSSP so far has played a limited role in identifying major issues in the MF sector and then getting support of relevant players to take forward. This role can be strengthened only if the project is active in coordination and knowledge management. There are a number of issues in the MF sector as mentioned in the earlier sections where action based on analysis and experience would be important for MF in Pakistan to progress.

For a more pro-active role in coordination and knowledge management, FSSP may need to re-allocate resources, free up senior staff time.

The review team strongly recommends that the project builds upon its strengths, particularly on its goodwill among the stakeholders and focus more on this coordination and knowledge management efforts in the next phase. (this is discussed further in section 3)

Mainstreaming Gender:

The current strategic frame work of FSSP does not have specific indicators to assess its contributions towards gender mainstreaming. This may have resulted in the project support being skewed and creating a bias towards more support for males¹¹. The data provided by the project staff to the evaluation team does not provide aggregate figures to determine in terms of numbers total males and females who have received training, at what levels of management¹² and type of training provided to them.

There is some anecdotal (from our focus group interviews) information that the FSSP project support has shown positive results towards increasing outreach. FSSP support has helped organizations like Damen and Organization for Participatory Development to increase their outreach significantly. In the case of the former it was focused on increasing their female client base.

Mainstreaming HIV/AIDS

The Pakistan government has not taken any significant steps to prioritise HIV/AIDS as an issue for integration in the main health delivery systems. It is still treated as a donor infused agenda and is driven through projects with the population planning agencies and the NGOs working in health and population issues. Aids prevalence in Pakistan is reported at .07%¹³.

According to a recent newspaper report¹⁴ there are approximately 2500 AIDs patients and free treatment can only be provided to 500 to 600 hundred patients. The government has sent 12 health professionals (doctors and nurses) to India for eight weeks to learn about treatment for HIV/AIDs which will help to set up AIDS treatment in government hospitals. Also the government plans to import AIDs related medication from India as it is affordable compared to drugs marketed by multinational pharmaceutical companies.

¹¹ See SDC policy on Gender Equality, a key for poverty alleviation and sustainable development

¹² Based on one FSSP internal progress report dated April 2004 under activity titled "Capacity Building (National)" 172 males received training compared to 43 females.

¹³ ICPD Ten Years on, Pakistan Report (2005) by Khawar Mumtaz et.al.

¹⁴ DAWN May 30th, 2005 Pg 18,

FSSP has not treated HIV/AIDS as an issue in its work – except that some of the multi-purpose NGOs engaged in health- and population issues.

2.3 Sustainability and the BDS paradigm underlying FSSP

FSSP's strategy is to develop service markets between Service Providers (SPs, like management consultants, chartered accountant companies, fee-charging training providers etc.) and client groups such as MFIs and microfinance networks.

The concern for sustainability and outreach ("self-propelling markets") have been the key drivers behind the development of the BDS (business development services) paradigm in small enterprise development. Its application in FSSP deserves, therefore, some analytical attention under a sustainability perspective. Four aspects shall be looked at below: (1) Conceptual considerations (2) The enabling environment for a BDS approach (3) Transaction levels and partners involved (4) Achievements and risks; looking beyond the BDS-approach.

2.3.1 Conceptual considerations

The process of market development for service provision to MFIs can be broken down in sequences between the extremes "fully government/donor (subsidy) driven service provision" and "fully market driven service provision", with various degrees of subsidy- and market dependencies in between:

(1) Capacity development "supplied" by GoP/donor programmes because it is considered "good, in any case..." >>>> (2) "Need" for a technical or training service in an NGO (MFI) because credit lines for microcredit activities are easily available from large GoP/donor programmes >>>> (3) Clearly understood need for capacity building in MFI >>>> (4) Need of MFI linked to organisational mission, strategy and (absorption) capacity >>>> (5) Expressed demand for capacity development service >>>> (6) Demand expressed for capacity building support from like-minded (NGO) or (7) commercially oriented (e.g. chartered accountant) Service Provider >>>> (8) Demand and ability to pay from own or other donor resources >>>> (9) Demand and willingness to pay out of MFI generated resources,>> (10) determined, by expected efficiency gains.

Not all of FSSP's clients would go through all the sequences outlined above, given their great institutional variety (from small NGOs whose focus has been health or another social service, to large integrated rural development programmes willing to transform their savings- and credit operations into a licensed microfinance bank, to a commercial bank. But we can safely say that many FSSP clients have not reached stage three of the continuum (they essentially want to experiment with microcredit for reasons of survival as a social service NGO, and due to a strong credit-line supply push from the PPAF (Poverty Alleviation Fund), MSDP (Microfinance Sector Development Programme) and other donors (USAID, EC etc.). Other FSSP "clients" may be between stages (3) and (4), and few – if any – beyond stage (6). Under such a perspective, the 70 – 80% level of (FSSP only) subsidisation is but one (weak) indicator of sustainable market development. For the latter, the policy environment becomes a very important parameter.

2.3.2 The enabling environment for a BDS approach

According to competent Pakistani sources and our own assessment, the policy environment (including donor policies and -coordination) **is not very conducive** for the development of sustainable financial institutions (see also chapter 2.1.). Volumes of funding, the lack of (financial) transparency and the instrumentalisation of microfinance as an exclusive poverty alleviation tool (rather than a strategy to build inclusive financial systems **contributing** to poverty reduction) make the design of sustainable interventions an extremely demanding challenge. September 11 is a key cause for donors like the Worldbank, the Asian Development Bank, USAID, the EC, IFAD and others channelling large amounts of aid-money into microfinance programmes, be it for re-financing or for capacity development. Among the other factors contributing to a difficult environment are: (1) a scarcity of competent institutions and leaders in the

sector (2) ambiguity with respect to interest rate policies, especially in the NFW Province (3) an inadequate level of donor coordination and (4) the regulatory environment.

2.3.3 Transaction levels and partners involved

Chapters 2.2.2. and 2.2.3. and our conceptual considerations under 2.3.1. have shown that the qualitative level of transactions has remained modest – even if we consider that the programme has been operational for 18 months only. Our analysis of the partners involved (many of them social service NGOs on the one side, commercial providers such as chartered accountants on the other) has shown that the gap to reach truly contractual relationships has remained too large to be bridged by single point interventions facilitated by a donor such as SDC.

2.3.4 Achievements and risks; looking beyond the BDS-approach

Through its "demand-led" approach to service provision for MFIs, FSSP has reached an impressive level of (eighty!) activities. It has also gained much respect and become a contact point for other donors (EC, IFAD etc.) working or willing to work in the microfinance sector. This is a major achievement in less than 2 years of operation!

The **facilitation** of service provision, notably "**technical assistance**"; the responsiveness of the programme, including easy access to national and international exposures; the cost-sharing and cost (consultancy rate) control principles (even if client contributions mostly come from another donor); some coordination with other key players such as the PPAF; other elements of the BDS approach: All these are "assets" a 2nd. phase of FSSP can and should capitalise upon.

However, findings outlined above (e.g. non-adoption of good microfinance practices, tools and systems; unclear strategies and weak governance and management for credit and savings operations in MFIs), together with a very difficult and challenging environment, make "single point" interventions highly unlikely to be effective (i.e. to build efficient and sustainable microfinance retail capacity). FSSP needs to look beyond building "contractual relationships" (without a chance of becoming sustainable during the next 10 years or more), use BDS principles as a means, not an end in itself, and be guided by clearer choices (re. financial system's development, partners; target groups, gender; use of subsidies; role of innovation and knowledge management etc.).

2.4 Management and institutional set-up

2.4.1 FSSP programme structure and mission/strategy

FSSP is a "**stand-alone**" (**temporary**) **programme structure** with the strategy to facilitate "market" transactions between microfinance institutions and Service Providers for the strengthening of microfinance retail capacities in Pakistan. It would, as such, become superfluous over time since these transactions would one day take place on their own (or, under a less interventionist mode, be facilitated by targeted subsidies, e.g. vouchers).

The FSSP Facilitation Unit (FU) is staffed with 3 professionals (Project Director and 2 Programme Officers), 3 administrative staff members and 3 support staff. The FU is responsible for the operational activities of FSSP and for advise and support to SCO-P on matters of policy, strategy and (donor) coordination. **Decisions** to enter into, end or continue a **project** are taken by the Programme Director, advised and supported by the Programme Officers.

The strategic guidance and "governance" of the programme is provided by a **Programme Steering Committee (SC)**, consisting of representatives of the Swiss Government (SCO-P) and the FSSP Management (Programme Agreement Art. 6.2.).

The programme "backstopper", Adrian Loeff of FACET Holland, provides (operational) support to the FU. In practice, he normally also attends Programme Steering Committee meetings.

The **major challenges** the FU and SC have been confronted with are:

- High staff turnover (gaining and retaining qualified/experienced staff in a segment of the labour market which is competitive: financial sector professionals);
- Little time spent on strategic issues, e.g. (1) key partnerships and synergies (2) taking-on issues of a longer-term and sectoral significance (up-date of sector mapping; gender; agricultural lending; savings etc.) (3) Systematically drawing lessons from projects and analysing the project portfolio for purposes of knowledge management, intervention design and reflections on policy/strategy;
- SC deliberations and decisions to enter/end/continue a project (at the level of the Programme Director) are thinly anchored in the local expertise- and stakeholder environment.

These challenges, together with the high number of activities and the time that was needed to build an operational infrastructure, systems and processes of a good quality are among the main factors that have limited the "authority" of FSSP in the sector and a more systematic role covering strategic issues and functions.

Although the mission got the impression that informal information flows between the FSSP management and SCO-P is good, supported by good personal relationships, there's certainly scope for improvement of processes and role clarity between the various actors involved, including the backstopper.

2.4.2 Effectiveness of backstopping support

FACET of Holland has shaped the (BDS) paradigm of the FSSP. It has also provided efficient implementation support and continuity in programme steering when SCO-P staff was rotating and a new director had to be appointed shortly after the approval of the programme. In this environment, FACET has played both, operational and strategic support roles; it has ascertained that the BDS principles got a chance for implementation.

2.4.3 Project- and programme steering

Chapters 1.3.1. and 1.3.2. provide a description of the project (activity)- and programme level planning-, monitoring and evaluation systems developed and applied during FSSPs current programme phase. Chapter 2.2.1. draws information from FSSP's monitoring system and self-evaluation to arrive at some key findings on FSSP's performance.

This chapter focuses on the **instruments and processes** for project- and programme cycle management as such.

At the **programme level**, FSSP moved directly from a modest analytical base (on the policy environment and other strategic issues; see Credit Proposal, October 2002) to activity planning and implementation. This meant that an opportunity for a more focussed and policy oriented programme right from the start was not taken up (see also chapter 1.3.1.).

The Annual Report 2004 and the YPO 2005 have become important instruments to synthesise experiences and lessons.

Resources (time, expertise) spent and documented evidence linking project level planning- and monitoring with programme level objectives and effectiveness, general financial sector policies and issues such as gender and poverty have remained modest and inconclusive.

Project level planning and monitoring (mainly activity- and output tracking) has been adequate for the (BDS-) approach and type of activities supported during the past

2 years (short "contractual" relationships for single inputs). The monitoring of outcomes has not yet been taken-up.

A more selective, focused and structured approach towards capacity development in MFIs (and Service Providers), however, would need to be accompanied by much deeper **institutional assessments** and monitoring arrangements. Furthermore, given the importance of the broader policy- and institutional environment (see chapter 2.3.2.), its analysis in the Annual Reports and YPOs has remained too descriptive.

2.5 Some conclusions for the future

This review of the FSSP brings out several key findings and lessons. They should be considered when designing the next programme phase.

Firstly, microfinance has the potential to contribute towards poverty reduction and gender responsive development in Pakistan. This is supported by many local and international experiences. But there are a few limitations in the local context

- In Pakistan, microfinance has contributed less than in other countries and the policy environment remains a major constraint and challenge (chapter 2.3.2.).
- The government of Pakistan and major funding organisations (e.g. multilateral development banks) use MF more as a poverty alleviation tool and less as a strategy to build pro-poor financial systems.

Secondly, it's imperative that the government of GoP, donors and MFI need to make clearer strategic choices with regard to future of microfinance in the country.

Thirdly, despite potential of microfinance the capacity at retail level remains main constraint in Pakistan

Fourthly, the potential of sustainable MF for poverty reduction and gender are far from being utilised effectively.

Fifthly, BDS approach has limitations for MFI strengthening and sustainability. It needs greater selectivity and complementary strategies for greater effectiveness and sustainability.

We believe that learning from these lessons will lay the foundation for successful follow-up phase for the programme.

Section 3:

Overall conclusions, recommendations and scenarios for future programme development

3.1 Potential contribution of microfinance for poverty reduction

International experience and evidence from Pakistan have demonstrated that poverty is a multi-facet phenomenon. Microfinance can significantly **contribute** to poverty reduction and the empowerment of women, but has done so less in Pakistan than in other countries of the South Asia region (sustainable outreach stands at 5%, with outreach to women being lower than in parts of Afghanistan).

GoP and various donors have been using microfinance as a dominant poverty reduction strategy, without due consideration of the fact that what poor people want is sustainable and varied financial services, not just credit for a certain period. The policy- and donor environment prevailing in Pakistan (chapter 2.3.2.) has led to varied distortions (high and in-transparent levels of undirected subsidisation; lots of credit only driven NGOs in the “financial market” whose core competency is NOT microfinance; low levels of innovation and prospects of a critical number of sustainable MFIs emerging after 10 years of promotion and several hundred million dollars of investment).

In this environment, much clearer differentiation is needed between financial sector development strategies to include the poor and multi-pronged strategies needed to eradicate poverty.

3.2 Mainstreaming Gender and HIV/AIDS

Mainstreaming Gender:

The FSSP project in the future could develop specific gender mainstreaming indicators for reporting progress on an annual basis. This could be with reference to the specific training programmes it has supported or generally in steps taken towards supporting gender mainstreaming in the organizations it has supported. It could also provide an analysis of the where it sees gaps e.g. lack of parity at the borrower level, absence of qualified women in senior management levels or female field workers in NGO MFI programmes, absence of a gender mainstreaming policy in the NGO MFIs. In its dialogue with clients, FSSP could facilitate access to assistance for the reduction of gender biases and disparities.

Mainstreaming HIV/AIDS

The integrated NGO MFIs that are undertaking health programmes also include HIV AIDs awareness programmes for their target clients. However they do not have any treatment and testing facilities for potential AIDS patients. The UNAIDS has been working with the government as well as NGO that are working on population and sexual health issues to include AIDS awareness in their programmes. There is potential to collaborate with NGOs MFIs and to access their client groups. An area that the FSSP may provide input/influence for mainstreaming HIV/AIDS and which has not been addressed specifically is the “internal sphere” of the NGO MFIs. FSSP provides or facilitates contact with relevant agencies/resource persons to help NGO MFIs develop policies and support systems for their staff for HIV/AIDS awareness and treatment etc.¹⁵

3.3 Main scenarios for the future:

Potential roles, institutional set-up and exit strategies for FSSP

The mission has identified essentially two main scenarios for the future:

3.3.1. Fast Exit Scenario

¹⁵ See SDC policy document on HIV/AIDS, section IV How to do Mainstreaming HIV/AIDS

The scenario Fast Exit would essentially phase out present operations of the FSSP during the period 2006 – 2007. Successful interventions may be complemented, replicated or scaled-up for greater effectiveness in promising institutions and with motivated clients. Relevant experiences could be evaluated and shared broadly among donors and local stakeholders. This scenario would be relatively easy to plan and implement. FSSP's role would remain that of a facilitator, but with greater focus on MFIs and Service Providers having a mission, potential and demonstrated capacities to remain in the market over the longer-term.

3.3.2. Impact Scenario

Under the **recommended scenario Impact**, FSSP's main role would remain that of a facilitator under an SDC supported "stand-alone" institutional set-up, but a facilitator for long-term development processes in cooperation with institutions that have a mission, management and potential to succeed as a sustainable microfinance institution. The facilitator role should be complemented with that of a knowledge manager, innovator and risk taker for issues with a clear development policy content and longer-term relevance (e.g. gender; savings; agricultural credit; local or international commercial re-finance for mature MFIs; transformation experiences and implications on regulation and supervision etc.). A subsidy policy would help in the definition of the assistance that SDC may provide.

This longer-term, more strategic scenario should aim at spin-offs (over time) as main exit strategy: Knowledge management functions may be transferred to R&D- and networking institutions; technical assistance functions to Service Providers; HRD functions to training institutions; coordination functions to advocacy- and government institutions, and to "lead donors" with technical staff capacity.

Under an Impact scenario, clearer and more committing alliances with local stakeholders (including like-minded donors) are recommended.

Chapter 3.4 proposes strategic thrusts and objectives of a Phase II FSSP.

3.4 Thrusts and objectives of a more strategic FSSP Phase II (Impact Scenario)

The planning platform for a five year Phase II FSSP may recommend to consider part or all of the following thrusts and objectives:

3.4.1. Financial sector development: Promotion of systematic graduation processes

FSSP has established and applied systematic and transparent processes for the coordinated strengthening of MFIs. It has contributed to significant (financial and social) performance improvements of 10 MFIs, out of which 5 have been admitted to the PMN.

3.4.2. Financial sector development: (Action) research, knowledge management and demand-side measures

FSSP has facilitated and supported 3 significant and professionally recognised initiatives for innovation and change in the microfinance sector in Pakistan, including one in Gender. Other options include savings, agricultural lending, the promotion of self-help groups (and their association and linkage with MFIs) and an analysis of transformation experiences (including implications on the legal and supervisory framework).

3.4.3. Donor coordination (harmonisation)

FSSP has contributed to donor coordination in established fora (Forum; CG; PMN), systematically aligned its operations with other (like-minded) key-players in the sector for visible benefits at the MFI level, and initiated and participated in a CGAP-CLEAR exercise.

3.5 Programme steering and backstopping for an Impact Scenario

3.5.1. Programme- and project cycle management

The mission recommends developing the existing system further, considering the future design of FSSP II. Issues to consider are, e.g: (1) institutional information (including assessment data from agencies such as PPAF) and institutional performance data over time, following minimal good practices for support to MFIs (2) outcomes at the levels of MFIs and Service Providers. For significant projects in the portfolio, a small and flexible Operations Committee should comment and recommend (parameters) of approval, thereby broadening the knowledge base beyond the Project Director/Programme Officers.

Programme level planning and monitoring should be enhanced, including analytical annual reports with regular portfolio reviews for discussion and policy direction in a professionally and technically enlarged Programme Steering Committee.

In case the Impact option is pursued over a period of 5 years, a mid-term review should be planned (internal, teamed-up with (a) critical “outsider(s)”).

3.5.2. Backstopping

An operational backstopping is recommended in future, too, with a focus on advising/supporting the implementation of the planned programme and of PSC decisions. A particular emphasis should be placed on enhancing the PCM-system.

The know-how base of the backstopping should be deepened and diversified, in accordance with the future orientations of FSSP II (option Impact).

Special efforts are needed to ascertain role clarity and process quality with respect to operational versus strategic/policy level steering.

3.6 Final Conclusions

The FSSP is completing a very challenging first phase of 3 years at the end of 2005. Despite many challenges the programme has been able to achieve a niche role for its services, one that’s appreciated by many local stakeholders. Some of the internal weaknesses and external challenges have slowed down progress towards stated objectives, however.

The review team is of the view that FSSP should become more strategic (with a thrust to visibly expand sustainable microfinance retail- and technical assistance capacity) and self-confident when moving towards a next phase. This would mean to complement its present role and agenda with that of a knowledge manager, innovator and risk taker for issues with a clear development policy content and longer-term relevance to microfinance in Pakistan, and to strengthen its coordinating role in the microfinance sector.

The team also believes that the FSSP with a revised and refocused agenda has an important role in development of the microfinance sector in Pakistan.

**Terms of Reference
for the
External Evaluation of Financial Sector Strengthening Programme(FSSP), Pakistan
May 7 – 18, 2005**

1) Background

FSSP, takes its roots from SDCs two core and long term initiatives in the field of financial services for Micro and Small Enterprise (MSE) promotion- Small Scale Enterprise Promotion project (SSEP) and the Community Services Programme(CSP), as well as SDCs larger sectoral objective of a substantial intervention dedicated to building the micro finance sector in Pakistan. FSSP aims to bring together the best practices of CSP and SSEP, to mainstream the core attributes of capacity building, resource mobilization, linkages and networking with the potential of going to scale. Both CSP and SSEP had primarily focused upon providing institutional development support to the financial and non-governmental sector, for improved service provision to MSEs.

The FSSP aims to develop the Microfinance sector to better provide microfinance services to MSEs and the disadvantaged poor on a sustainable basis. The project strategy is to catalyse sector growth by enhancing the human and institutional capacities of: a) the MFIs for efficient financial services delivery and, b) that of the local expertise providers for increasing the resource base for HID services with market oriented approaches. The second thrust of its strategy is on facilitating networking and co-ordination towards the creation of an enabling environment for the growth of the microfinance sector.

The FSSP became effective as of Dec 1, 2002. Due to its unique BDS approach in a challenging market, international technical backstopping was anticipated at different stages of project implementation; i.e. at the project operationalisation stage, at its mid term review and upon phase completion. The backstopping firm identified is FACET, Netherlands, a consultancy firm specialised in microfinance and involved in Pakistan for several years. FACET has played a vital role in project design and assisted FSSP and SCOP in further developing and operationalising its strategy through a backstopping mission in February 2003. The purpose of the missions were to assess the internal capacities of the FSSP team and suggest the necessary activities for support and other backstopping requirements. Adriaan Loeff of FACET also took part in the steering committee meeting which is one of SDC's programme management tool for steering projects.

2) Orientation and scope of review:

FSSP is completing its first 3 year phase at the end of November 2005. Between September and October 2004 an extensive self – evaluation was conducted by the FSSP team. While the scope of this exercise (mainly efficiency and effectiveness issues) was appropriate for a self evaluation, the process was conducted according to procedures of a classical external review led by a consultant. In light of the forthcoming new phase as per December 2005 a complementary external review is deemed meaningful in order to add to the development of key elements of an overall strategic framework for the forthcoming 3-4 years. Hence the scope of this external review is twofold: e.g. assessing the relevance and effects of the project thus far (looking back) and -based on the conclusions drawn and taking into account the changes in the context- looking at a possible next phase (forward looking),

3) Objectives of external review

The objectives of the External Evaluation mission are twofold:

- iii. to critically review the programme's relevance regarding the Pakistani micro finance sector in general and first effects, with a special focus on poverty as well as gender related issues and to draw conclusions
- iv. Based on point (i) develop key elements for the overall strategic orientation of FSSP in its second phase, including its institutional positioning.

4) Key questions

Backward looking review questions

- a) What are the main characteristics of Pakistan's MF sector (changes since inception of FSSP, key promoting actors, present and future challenges)? -2.1
- b) To what extent has FSSP achieved its major objectives and expected results? -2.2
- c) Related to question a): what are the changes produced as a direct or indirect result of the project's activities at the individual¹⁶ and institutional level (MFI, Service Providers, State Bank, apex bodies) ? 2.2
- d) How effectively has the programme dealt with poverty and gender related issues so far, including geographical focus on NWFP? What possibilities of becoming more effective in this regard exist? 2.2
- e) How effective has the FSSP approach been in strengthening the MF providers market? How effectively and sustainably has it linked supply and demand while simultaneously building their capacities? 2.2
- f) Is the wide range of demand generated by the "easy access to local TA" approach reasonably manageable by the project ? How consequently has the cost-shearing principle been applied and to what extent does it enhance sustainability? -
- g) How effective has the FSSP backstopping support and the SDC/SCO-P steering through PCM and other mechanisms been? -
- h) What have been the experiences with the present institutional arrangement made for FSSP in realising its objectives for sustainable MF development? -
- i) What are the major lessons learnt and what conclusions do the evaluators draw from them for the future? – 2.5

Forward looking review questions

- a) Looking at present and future challenges of the MF sector, what contribution can MF make for poverty reduction and gender-responsive development? Potentials and limitations? Which is the specific role FSSP could play in this process, considering possible complementarities and the potential of synergies, but also obstacles arising from other donors' interventions? What could meaningful objectives of a new phase be? -3.1
- b) FSSP is currently a meso-level located match making mechanism in the Pakistani MF skills and capacity development market. How would the programme strategically best be positioned in order to not only be responsive to the MF sector needs , but also to plan ahead for sectoral growth in light of the MF sector trends? What can be done to further facilitate the growth of the MF sector in Pakistan especially in extending and deepening outreach? -3.2
- c) How can FSSP best mainstream the issues of Gender and HIV/AIDS? -3.3
- d) What are the advantages/disadvantages of integrating the programme in an existing Pakistani institutions as for instance into a MF apex-body. Identify and discuss (e.g. under ownership considerations) the options available in the current institutional scenario and show the major implications these would have for a second phase. Show possible solutions for institutional arrangements including possibilities to enlarge (Pakistani) ownership in the entire endeavour. -3.4

¹⁶ Not an in-depth scientific impact analysis is required, but a first rough assessment based on a few MF-clients' interviews

- e) Taking into account the evaluators' recommendation related to the above question: how should FSSP's institutional setting look like, including backstopping and SDC/SCO-P project steering? -3,4
- f) Being that option considered a possible stepwise and smooth exit-strategy, what other medium term exit options can be considered? - 3.5

5) Methodology

The methodology is to be designed by the evaluators themselves. At the beginning of the mission a briefing session will be held and at the end of the mission a debriefing session. The debriefing will be held at SCO-P and will include some key sector stakeholders, before the experts proceed to drafting of the final report.

6) Expected results

A final report consisting of an executive summary (DAC-format) and a maximum of 25 pages, including major findings, conclusions and recommendations, plus annexes. A concise power point presentation for the debriefing session at the end of the mission.

7) Review mission

The review mission consists of two MF-experts, one regional, the other from SDC HQ, income & employment division, and one local gender specialist. The team will be lead by the regional consultant.

8) Timing

The external evaluation will take place between May 7th-18th 2005, according to the annexed mission programme, excluding travelling and final report writing days.

The regional and national consultants will keep a time utilization record. The number of the 3 consultants' working days in the field may not exceed a maximum of 14 days, excluding final report writing (2 days) for the team leader. The regional consultant / teamleader is conceded 3 additional days for international travelling.

The international consultant/ SDC HQ staff member will be in charge of the debriefing at SDC HQ in Berne, Switzerland.

May 6, 2005	Arrival in Karachi
May 7, 2005	Briefing with SCO-P staff in Karachi
May 9-20th:	Field Visits, Evaluation work, draft report writing and power point presentation preparation,
May 16 th / 17 th	Submission of draft aide memoire by end of day on May 16 th or morning of May 17 th
May 17 th	Debriefing
May 20	1 st Draft Report
May 31	Final report

Preparation for evaluation	2 days
Briefing in Karachi and team building	1 day
Field Evaluation and draft report	10 days
Wrap-up meeting & De-briefing in SCO-P Islamabad	1 day
International Travel	3 days
Finalize External Evaluation Report	2 days
TOTAL	19 days

9) Reference documents

- FSSP project document
- FSSP credit proposal, agreement
- FSSP YPO's
- FSSP progress reports
- FSSP backstopping reports
- FSSP self evaluation / mid-term review report 2004