

Conversation between FMFB (Amir Hussain, Head of Social Performance Research and Special Projects) and GiveWell (Natalie Stone) on June 7, 2010

FMFB: We have been operating since 2002 as a regulated microfinance bank under the regulations of the State Bank of Pakistan. Our outreach is now more than 200,000 clients. Our mandate is to contribute to poverty alleviation.

We have also been working to develop a social performance management system in collaboration with researchers at Harvard University. We have been reporting to Mix Market in the format they have developed, but we want to improve on this format and develop indicators that will help us to measure our impact. The monitoring system will include a poverty scorecard which will be used to both assess clients' poverty levels and to track changes in their poverty levels over time. This research is going to be completed by the end of June.

GiveWell: Does FMFB currently have data on clients' standards for living?

FMFB: We have been using the Progress out of Poverty Index used by the World Bank and the Grameen Foundation. Our experience with PPI suggests that this index does not take into account fully the local factors. It is based upon National Household Integrated Survey whose validity is questionable because it is a generic survey carried out of government and is not particularly focused on poverty. We use the PPI in 20 out of our 86 branches. We also have an additional 68 lending with Pakistan Post Office (an example of public-private partnership). These units are located in the far flung rural areas and are the key to providing access to those marginalized sections who do not have access to formal financial services. We selected these 20 branches in order to have geographic, socio-economic, and cultural diversity, as well as to represent branches at a variety of distances from the administrative center. We surveyed mostly existing clients within these branches and sought to include clients of a wide variety of loan products. Savers were not included in the survey.

GiveWell: How does FMFB track its repayment rate? Can it share data on loans disbursed, written off, rescheduled, and in arrears?

FMFB: We have an MIS system, but have not yet been able to track the repayment. We are trying to improve our MIS system. I can get you information of loans dispersed, written off, reschedules, and in arrears.

GiveWell: What interest rates and fees does FMFB charge its loan clients? What is the repayment schedule? Is there a savings requirement?

FMFB: We charge between 11.5%-29% flat rate per year. The interest rate varies based on geographical location and product type. For example, the interest rate on agriculture loans is lower than that on microenterprise loans. In remote mountain regions the rate is lower than in urban areas. In the case of microenterprise loans,

installments are due monthly and the loan is for 6 to 12 months. For agriculture, there are no installments, the loan is repaid in a lump sum, and payment is due 6 to 12 months after it is dispersed— loan repayment is linked with crop maturity. We do not require compulsory savings. I can send you more information about our products.

GiveWell: What percentage of clients have dropped out of the program each year? How does FMFB calculate this rate?

FMFB: I can provide you with the drop out ratio for 2009-2010. The ratio is sometimes as high as 50% but is often less than that. I believe we use the CGAP method to calculate this, but I will ask those in charge of calculating this.

GiveWell: Is there a process for monitoring whether procedures for preventing over-indebtedness are effective?

FMFB: Pakistan Microfinance Network is taking the lead in this area. We are part of the movement to establish a credit bureau, which will include both regulated and non-regulated micro-finance providers. The State Bank of Pakistan has introduced an electronic credit information bureau (ECIB), for loans above Pkr 50,000. FMFB collects the credit history of each applicant from ECIB to check whether or not she/he has obtained loans from other financial institutions. Loans given by NGOs, rural support programs and other institutions which are not registered with the SBP are not visible in ECIB; therefore PMN is trying to capture such information through a more effective information sharing system.

Currently, when our microfinance officers go to new area, they we use an assessment system to evaluate whether potential borrowers are creditworthy—we ask people in the area, visit businesses, and do home visits. We also have specific policies for preventing over-indebtedness. We only give one loan per household, and we make efforts to judge repayment by determining incomes and conducting the checks I just described. We record this information in an electronic form for each borrower. I will try to provide that information for you.

GiveWell: Can FMFB share reports on how client complaints were resolved? Does FMFB have information on how effective this and other practices are at protecting clients from harassment? How is staff performance evaluated and rewarded?

FMFB: We have a monthly meeting for each group where staff meet clients and listen to their grievances. These meeting are particularly designed for airing of grievances. The monthly meeting minutes are shared with management. In addition, in the first dialogue we have with a community, we provide a clear picture of the consequences of non-repayment.

Our microfinance officers receive performance-based incentives. Evaluation includes performance on whether key topics are discussed in the monthly meetings,

whether monthly meetings occur, client attendance at meetings, and number of clients in relation to a target (in urban areas the target for number of clients is higher than in rural areas).

Our branch, area and head office staff visit the clients regularly and listen to their issues. The president of our bank holds regular meetings with area management to discuss the issues of both field staff and our clients. We also conduct an annual client satisfaction survey to look into client grievances, seek their suggestions on products and services in a participatory manner. We have also been using a participatory need assessment tool to allow clients not only to prioritize their needs but also to highlight the issues that matter to them most. On the basis of the clients' feedback, products, services and delivery channels are realigned

GiveWell: What are the interest/fees offered on FMFB's savings products?

FMFB: The interest rate on savings varies from 7%-10.5%, depending on maturity. Saving is not limited to loan clients and all saving is voluntary. The one exception is that we have launched housing product in some of the branches of Gilgit-Baltistan. Contractual saving is precondition to avail this product. All of our micro-savers are below the poverty line. We have big depositors as well but these savings are used to finance our loan book, hence deposits are being used as a means of financial intermediation. Capacity building is an activity integral to business development and growth. Our micro-savings is in groups only. An individual has to be part of a group to save. We ask people to form their own groups and elect group leader who is responsible for collecting monthly savings and depositing it. All members of groups have to be below the poverty line and our microfinance officers evaluate each group. Those who can save at commercial banks don't come to FMFB because our rates are below those offered by commercial banks.

Our depositors are those who want their money to be used for the noble cause of poverty reduction. We do not compete with commercial banks as our primary objective is not to maximize the profit. We believe it is utmost important for us to be financially sustainable in order to exist and serve the poor and we strive to keep a balance between financial sustainability and social responsibility.

We have different kinds of saving/deposit products to cater different market segments;

- Gharana Bachat Account: This account mainly targets the poor. However, any person can open his/her account with an amount as low as Rs.5/-. Any amount can be deposited with any frequency however only 3 withdrawals are allowed per month. 5% to 6.5% profit per year is given on this account.
- Current Account: Any person can open this account with an amount as low as Rs.5. Transactions can be done with any frequency. No profit applicable on this account.
- Term Deposit: There are various terms ranging from 1, 3, 6 months, 1, 2, 3

- years and so on. Profit increases as client goes for a longer tenure. 6% to 12 % per year profit is given on this account. Profit is payable on monthly basis or on maturity. Deposited amount is withdrawn after maturity. Minimum amount required is Rs.5,000/-
- Micro Cash Maximiser: Transaction can be done any frequency. Profit 3% to 5% per year is given on daily product basis. Minimum amount required to open this account is Rs.25,000/-
 - First Bachat Tanzeem (FBT): Its a contractual saving product made specifically for the poor which helps them in capital formation over the period of time. Client agrees to save a lump sum amount over the specified period of time in the form of equal monthly installment as per his cash flow. A group of 3 to 5 persons is needed to open this account. Minimum installment per month needed are Rs.100, Rs.300, Rs.500 and Rs.1000/-. Client can withdraw his/her amount on maturity of contract, however in certain cases they may withdraw before maturity as well. Life insurance is also given along with this product with addition amount of Rs.5/- to Rs.10/-. In case of natural death family of the client is given the total contractual amount (i.e. saved amount plus balanced amount). In case of accidental death family of the client is given deposited amount plus lump sum Rs.40,000/-.

I can send additional information on our savers.

GiveWell: How much in additional donations could FMFB productively use in the next year? What would such donations be used for?

FMFB: We would use additional donations to build capacity through staff training with a focus on social impact, to conduct more social performance research and integrate this further with the mainstream operations of the bank), to expand our business development services, which include financial literacy and business trainings and to start asset transfer programs for the very poor. We would need about \$500,000 to \$1 million to do this. Capacity building alone would cost about \$100,000-\$200,000.