IFAD
Investing in rural people

Independent Office of Evaluation

Project Completion Report Validation

Microfinance Innovation and Outreach Programme (MIOP)
Islamic Republic of Pakistan
Date of validation by IOE: October 2014

I. Basic project data

				Approval (US$ m)		*Actual (US$ m)*	
Region	Asia and Pacific Division		Total project costs	30.54			
Country	Islamic Republic of Pakistan		IFAD loan and percentage of total	26.4	86.7%	27.4	%
Loan number	683 - PK		Borrower				%
Type of project (subsector)	Microfinance development		Co-financiers:				
Financing type	E[1]		Partner Organizations	3.3	10.8%		
Lending terms[a]	Highly concessional		PPAF	0.8	2.5%		
Date of approval	13 December 2005						
Date of loan signature	18 January 2006		Beneficiaries				%
Date of effectiveness	01 September 2006		Other sources	None			
Loan amendments[2]	None		Number of beneficiaries	180,000 rural households (HH)			
Loan closure extensions			Cooperating Institution	World Bank			
Country programme manager	Hubert Boirard (current)		Loan closing date	31 March 2012			
Regional director	Hoonae Kim (current)		Mid-term review	13-27 July 2009			
Project completion report reviewer	Avraam Louca IOE Consultant		IFAD loan disbursement at project completion (%)	100.0%		%	
Project completion report quality control panel	Ashwani Muthoo		Date of the project completion report	Mission dates 28 November - 09 December 2011			

Sources: Report and Recommendation of the President EB 2005/86/R.24/Rev.1; Programme Completion Report, March 2013; Project Status Report (PSR); Project Portfolio Management System (PPMS).

[a] There are four types of lending terms: (i) special loans on highly concessional terms, free of interest but bearing a service charge of three fourths of one per cent (0.75%) per annum and having a maturity period of 40 years, including a grace period of 10 years; (ii) loans on hardened terms, bearing a service charge of three fourths of one per cent (0.75%) per annum and having a maturity period of 20 years, including a grace period of 10 years; (iii) loans on intermediate terms, with a rate of interest per annum equivalent to 50% of the variable reference interest rate and a maturity period of 20 years, including a grace period of 5 years; (iv) loans on ordinary terms, with a rate of interest per annum equivalent to one hundred per cent (100%) of the variable reference interest rate, and a maturity period of 15-18 years, including a grace period of three years.

[1] IFAD-initiated and exclusively financed: financing from IFAD and domestic sources, including government, local private sector, local NGOs and local financial intermediaries.
[2] There have been no amendments to the MIOP loan agreement.

II. Programme outline

1. **Country context.** Pakistan comprises the four provinces of Punjab, Sindh, North West Frontier Province (NWFP) and Balochistan, plus the Federally Administered Tribal Areas (FADA), the Northern Areas, Azad Jammu and Kashmir, and the Federal Capital Area. Pakistan covers an area of about 796,100 km² with a majority of people living in the irrigated Indus River plain in Punjab and Sindh. Sixty-eight per cent of the population is rural. North West Frontier Province and Balochistan, which account for about 20% of the population, are culturally very diverse and among the poorest areas. However, the rural areas of Sindh and southern districts in Punjab are also extremely poor. About one third of the total population lives below the poverty line but, as the Poverty Reduction Strategy Paper (PRSP) notes, a further 20% are classified as "transitory vulnerable".

2. Pakistan has a semi-industrialized economy, which mainly encompasses textiles, chemicals, food processing, agriculture and other industries. The 2012 GDP[3] growth was 4% with USD 2,800 per capita. By sector the GDP comprised: 21.2% agriculture; 25.4% industry; 53.4% services (2010 estimate). The poverty rate[4] at USD 1.25 a day for 2008 was 21%. The unemployment is 5.6% (2012 estimate) and by occupation the labour force is: agriculture 43%, industry 20.3% and services 36.6%.

3. **Programme description.** The Microfinance Innovation and Outreach Programme (MIOP) was approved by the IFAD Executive Board on 13 December 2005 for a total of SDR 18.3 million and the IFAD loan became effective on 1 September 2006. The Programme closed on 31 March 2012. The planned total cost was USD 30.5 million, including an IFAD loan of USD 26.4 million, Partner Organizations (POs) USD 3.3 million, and Pakistan Poverty Alleviation Fund (PPAF) USD 0.8 million. IFAD loan disbursement amounted to 100.0 per cent[5].

4. **Programme area.** The President's Report[6] states that the Programme would be national in scope and geographically would concentrate exclusively on rural areas and poor communities. Criteria for defining rural areas were specified in the Operations Manual. In terms of outreach, the Programme would assist the PPAF's POs in focusing on those communities that either did not come within their operational area or did not have adequate access to microfinance services from the POs.

5. The President's Report states, also, that the **target group** for the Programme would comprise three segments: (i) small farmers, livestock owners, traders and micro-entrepreneurs; (ii) women and women-headed households; and (iii) rural poor households living below the poverty line. In most rural areas, the majority of the first group, small farmers, livestock owners, small traders and micro-entrepreneurs, would be classified as poor. They represent perhaps the largest segment of the target group and the one that is most poorly served by microfinance institutions, especially those who live in the less accessible districts and sub-districts. Participatory processes during programme design indicated that even when households and enterprises do have access to rural finance, the nature, terms and conditions and size of the loans available often do not match their needs or ability to repay. The situation is similar with the second target group – women and women-headed households. Very often the terms of the credit, the repayment structure, the need for them to travel outside their communities and even the tendency for credit officers to be male, constrain them from accessing rural finance – and this is especially true in traditional rural communities. The Programme will focus particularly on this target group and

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[3] World Bank: Pakistan, Country at a glance.
[4] World Bank: World Development Indicators.
[5] IFAD, MIOP: Disbursements, Status of Funds, 7 Feb 2014.
[6] See EB 2005/86/R.24/Rev.1

develop special products and processes for women. To help facilitate this, a new staff member of the PPAF will be financed by the Programme: a gender manager, to stimulate gender debate, develop gender strategies and promote a gender agenda. The third target group, poor rural households below the poverty line, have been shown to be viable recipients of microfinance when it is matched to their potential constraints.

6. The **development goal** is to reduce poverty and improve livelihoods of rural households. Central to achieving this goal and as the **overall objective**, the Programme would enable active rural poor to increasingly access a wider range of sustainable financial services and products that respond to their needs. The Programme will be an integral part of the Pakistan Poverty Alleviation Fund (PPAF)'s most important operation, its credit and enterprise development programme, and will through the development of new microfinance products and services leverage the sizeable funding already available to POs through the PPAF's regular lending programme (2.5 million beneficiaries). The 180,000 households that are projected to benefit directly from programme funding represent only a portion of the households that should ultimately benefit from the Programme, once successful products and services are mainstreamed.

7. The Programme comprised four components:

   a) **Innovation and Outreach Facility** (USD 20.8 million or 69 per cent of base costs)**.** The objective of the component is to enable POs to develop new approaches/credit packages and other financial products keyed to market demand in order to, as the PPAF states, 'move from microcredit to microfinance', The Facility represents a flexible source of funding, combining grant and credit resources, that could be drawn on by PPAF's partner organizations to facilitate piloting, action research, assessment and initial up-scaling of new microfinance products and approaches in rural areas of the country. The Facility would be a fully demand-driven mechanism. The allocation of grant versus credit resources would be made on a project-by-project basis, guided by simple and transparent criteria, specified in the Operations Manual. Credit would be used to fund the lending/financing element of projects, while the grant portion would cover the costs of setting up the activity, training/systems development and a portion of the operating and capital costs. Any partner organization registered with PPAF would be able to submit a project proposal for financing. Projects must demonstrate that they would: target exclusively households considered poor by PPAF and contribute to the poverty reduction, be implemented in rural areas or have a strong up-scaling potential for rural areas, and reach financial self-sufficiency within the project period. The Facility would comprise two financing windows: (i) the regular window with pilot project sub-loans (and other financial products) up to PKR 100,000 (about USD 1,700) per client; and (ii) a private sector linkage window with sub-loans up to PKR 300,000 (USD 5,000) per client. The first window is geared to individual loans and other financial services. The second window, allocated about 10% of the Facility's loan funds, is aimed primarily at small enterprises and trading/marketing operations that are able to facilitate production increases by a number of linked poor households, thereby improving their economy and that of their communities.

   b) **Young Partner Programme** (USD 6.3 million or 21 per cent of base costs). The objective of the component is to strengthen emerging capacities in the microfinance sector in rural areas to be achieved by helping the PPAF develop new POs and providing young graduates with practical exposure and experience to enhance the availability of professionals for existing and emerging POs at the middle management level, thereby increasing the institutions' capacity for professional management and growth. This will involve three initiatives: (i) Young Partner Development Initiative, (ii) Internationally-Linked Partner Initiative and (iii) Young Professionals Scheme. As with the innovation and outreach (I&O) facility, component investment will involve a combination of grant and credit resources. The first two initiatives combine **grants** for institutional development packages that organizations will access for training and management support with an incremental line of **credit** to allow potential POs to test their skills and capacity in handling loans and other financial service products. The third will finance training and technical support

c) **Support for Partner Organizations** (USD 1.3 million or 4 per cent of base costs). The objective is to strengthen POs' ability to sustainably extend their outreach and expand the scope of current microfinance operations in rural areas. The component investment will involve the financing of technical assistance, studies, training and workshops in support of cross-cutting themes and key areas of focus. Support under the component is focused on six key subjects for the successful implementation of the Programme and I&O facility, and to development of viable microfinance institutions. This will be a demand-driven facility available to POs, with acceptance of proposals based on an agreed and published set of criteria, as specified in the I&O Operations Manual. The six special subjects, or special areas of focus, include: cross-cutting themes of poverty reduction and gender balancing; assistance to facilitate livestock enterprise financing, the financial sustainability of POs' microfinance operations and adoption of risk management strategies; and assistance for POs' development/ preparation of I&O projects. To help the **POs** work with the Programme's cross-cutting themes and special areas of focus, PPAF will make available funding for training sessions, studies and technical support in order to: (i) help POs better understand and 'activate' the themes within their organizational/ management structure and design or adjust I&O projects so that they are responsive to the themes; and (ii) facilitate POs' development of proposals and their participation in the I&O facility prior to submission of projects to the PPAF.

d) **Management Support** (USD 1.7 million or 6 per cent of base costs)**.** The objective is to increase PPAF's capacity to develop innovative microfinance products and approaches and to expand their microfinance operations in rural areas. The **component investment** comprises funding for vehicles and equipment, studies and technical support, training and exchange visits, and workshops plus funding the salaries and allowances for six new staff positions in the PPAF. The Programme would also create a new position of gender manager to provide a gender focal point in PPAF. Rather than creating a Programme Management Unit (PMU) and programme coordinator position, MIOP would be managed within PPAF's management structure with the Chief Operating Officer (COO) having the day-to-day responsibility.

8. **Implementation arrangements**. PPAF[7] was responsible for the Programme and its implementation. The Economic Affairs Division in the Ministry of Economic Affairs and Statistics and the Ministry of Finance provided government oversight, as they did for PPAF through their representation on the PPAF Board of Directors. The systems and bodies in place to provide oversight and coordination for the World Bank-financed PPAF-II, and for the PPAF itself, were used by the Programme: the PPAF's main body provided policy guidance and reviewed

[7] PPAF was established in 1997 as a non-profit semi-autonomous company with public ownership under section 42 of the Companies Ordinance, 1984. Its purpose is to alleviate poverty through empowering poor people and increasing their access to income and opportunities, ensuring a focus on the most vulnerable and marginalized groups. Its main areas of work include: (i) Credit and Enterprise Development; (ii) Human and Institutional Development; (iii) Health, Education and Disability; (iv) Livelihood Enhancement and Protection; and (v) Energy, Infrastructure and Disaster Management.

financial statements and annual budgets; and the PPAF Board of Directors, consisting of representatives from the private sector, NGOs and the Government, was responsible for setting operational policies and procedures, and reviewing and approving annual work-plans and budgets. To facilitate programme implementation, the PPAF employed seven additional staff to assist in managing the Programme, in particular the I&O Facility. Six of these staff became what PPAF refers to as Management Executives (MEs) and the other was a level higher, manager-gender, reporting to the Chief Operating Officer (COO). The staff were fully integrated as part of the PPAF's regular management structure and while the main part of their workload was to implement programme activities, they were also responsible for carrying out other PPAF work. The International Development Association (IDA) of the World Bank was appointed by IFAD as the Cooperating Institution to administer the Loan and supervise the Programme.

9. **Changes to the Loan Agreement.** The PCR makes no reference to changes to the loan agreement; indeed, the PCRV was informed that there have been no amendments to the MIOP loan agreement.

III. Review of findings by criterion

A. Programme performance

Relevance

(i) Programme objectives

10. **Policy relevance.** The Programme aimed at complementing ongoing operations of the Pakistan Poverty Alleviation Fund (PPAF) financed by the World Bank and in particular to deepen and expand its microfinance programme. Its goal and objectives have been relevant to the needs of the rural poor[8] and very poor. The Programme was fully aligned with the country's PRSP, which focused on microfinance as an instrument of poverty alleviation. It builds on earlier experiences with Rural Support Programmes, which included microfinance as part of their poverty reduction strategies. The Programme purpose was, also, consistent with IFAD's country and sector assistance strategies. The key programme activities such as increasing outreach through low cost delivery channels, creating value chains, health and livestock insurance and social safety net products were relevant to the needs of productive or potentially productive poor households. The programme objective of increasing agriculture and livestock activities was important to help alleviate poverty in the programme areas and access to micro credit enabled poor households to access agricultural inputs and livestock. Most POs under MIOP have provided clients with livestock and agricultural loans as part of their regular product mix, which contributed to increasing agricultural /livestock production, increased household food security and an increase in household incomes and well-being. While many of the poor do not own land, they work on farms as agricultural labor and depend upon various share cropping arrangements, often with large and feudal absentee landlords. Any increase in crop production leads directly to an increase in their share of the produce and incomes. Additionally, linking repayments to harvesting and providing support in establishment of input and output market linkages and capacity building/ technology transfer have leveraged the economic impact of these loans. Moreover, defying stereotypes of women's involvement in field and staple crop production and providing agricultural loans to women contributed to women's empowerment in their families and communities.

11. One of the most significant investments by the Programme was in the support for the development of the POs. Many initiatives were undertaken to increase

[8] MIOP/ PPAF consider poor households those that fall beneath the State bank of Pakistan poverty line i.e. annual household income worked out on the basis of equivalent to a daily income of USD 1 per household member.

sustainability, transparency, strengthening of systems & procedures, knowledge management, human as well as institutional capacity and a keen focus of the empowerment of disempowered populations especially women.

(ii) Programme design

12. The programme design incorporated lessons learned from World Bank operations on microfinance in the country and by IFAD' independent external evaluations. The MIOP design was very relevant as it was built on five basic principles and six cross-cutting themes and special areas of focus, which proved crucial in safeguarding the achievement of the Programme's desired performance and impact. The five basic principles were: (i) concentration on microfinance; (ii) deepening and expansion of viable financial services in rural areas; (iii) demand responsive to partner organizations and the priorities of their communities; (iv) promoting synergies between enterprise/market development and microfinance; and (v) complementing PPAF's current operations and resource availability. The six cross-cutting themes and special areas of focus were: (i) poverty alleviation; (ii) gender balancing; (iii) financing for livestock enterprise development; (iv) financial sustainability of microfinance operations; (v) improved risk management; and (vi) assistance for POs' development/preparation of I&O projects. Overall, the implementation arrangements provided for by the programme design were consistent with the strengths and witnesses of the implementing partners.

13. **Targeting.** Programme design projected to benefit directly 180,000 households from programme funding, representing only a portion of the households that should ultimately benefit from the Programme, once successful products and services were mainstreamed. The targeted households would include: (i) small farmers, livestock owners, traders and micro-entrepreneurs; (ii) women and women-headed households; and (iii) rural poor households living below the poverty line. MIOP targeted clients using inclusive approaches where women and marginalized groups were reached. Resultantly, MIOP increased the outreach capacity of POs to provide services to underserved rural areas, especially in the provinces of Baluchistan and Sindh with many districts having low Human Development Indices and falling within the especially classified poor districts of the country. Products specifically targeting the poor and vulnerable were the Social Safety Net (SSN) projects working with The Ultra Poor (TUP) and widows, and the Microcredit Disability Project. At the same time, attempts were made by the POs to target other innovative products at the poorer strata, such as Farmer Development Groups where farmers with average landholding of five acres were included. Moreover, many of the POs have particular focus on reaching out to women borrowers. For instance, BRAC and Chenab Development Foundation (CDF) lend only to women borrowers, whereas 99% of the micro credit clients of Aaghe and 47% of the clients of Mojaz are women under the MIOP portfolio. PPAF's gender strategy stated that gender is a cross cutting issue that requires commitment, participation and contribution of every staff member. Similarly, all the POs were required to take into account needs and constraints of both women and men to ensure gender sensitivity while designing their projects. The first aspect of gender strategy was a clear target of female borrowers. PPAF also appointed Gender Focal Persons in all core programme units who were responsible for assessing development of programmes on gender issues and promoting gender awareness and sensitivity within PPAF and its POs. However, due to social barriers on women's utilization of finances, it is perceived that despite the high number of women borrowers, the actual utilization of loans by borrowing women could still be improved. The PCR estimated the number of direct[9] beneficiaries to be 180,000 households.

14. The MIOP relevance is rated *satisfactory (5)*.

[9] As members of Cos.

Effectiveness

Component A: **Innovation and Outreach Facility (I&O)**

15. The Programme aimed at enabling the active rural poor to increasingly access a wider range of sustainable financial services and products that responded to their needs. By Programme end, 25 new/innovative products were initiated, e.g. Agricultural, Livestock, Dairy and Enterprise Value Chains, Village Banking, Islamic Microfinance, low cost settlement branches, and Branchless Banking, Microcredit Disability Project, establishment of Training Centers supported by microcredit, Social Safety Net, Livestock Rearing project, Women's cooperative livestock farming project, Village Banking, Settlement Branches, Business Social Capital, Health Insurance and Emergency Loans were initiated, of which 16 were up-scaled and a few others are in process of implementation and would be up- scaled. The new products and approaches have been implemented in 172 Tehsil Municipal Areas (TMAs) in 49 districts in four provinces. Three performance indicators were selected at programme design to measure programme progress: (i) increase in the number of active microfinance clients in poor rural areas getting PPAF funds (through POs) by 180,000 (50% women); (ii) increase in the portion of rural clients amongst Pakistan's microfinance clients by 5%; and (iii) increase in the PPAF microfinance portfolio outstanding in poor rural areas by PKR 1.5 billion. Programme achievements exceeded the targets under the first and third indicators by 32% and 400%, respectively, i.e. the number of active rural clients supported by PPAF increased from 2006 to June 2011 by 237,652, of which 52% women; and the PPAF microfinance outstanding portfolio increased by PKR 6.07 million. During the same period October 2006 to June 20011, the percentage of rural clients amongst Pakistan's microfinance clients under indicator 2 decreased by 8%, from 66% to 58%; these estimates, quoted by PCR, were based on data from MicroWatch, Issue 1 (Oct 2006) and Issue 20 (June 2011) of the Pakistan Microfinance Network (PMN). The total number of MIOP borrowers amounted to 73,652.

Component B: **Young Partner Programme (YPP)**

16. The component expanded PPAF's capacity to provide microfinance services to rural areas by developing new partner organizations and in parallel by strengthening the capacity of existing partner organizations through the training of professional officers. The Young Partners' Development Initiative (YPDI) worked with rural organizations that have the potential to become serious microfinance providers, whereas the International Linkage Partner Initiative (ILPI) provided PPAF the opportunity to identify young professionals from the country and link them with MFIs in the region for a period of up to nine months. The young professionals were provided, also, with credit line and technical and capacity building assistance to establish MFIs in rural areas of Pakistan. The Young Professionals Scheme (YPS) initiative supported PPAF's internship programme for young professionals coming out from rural areas with master's degrees and willing to work in the partner organizations of PPAF. A training programme of four months, including one month of class room training and three months attachment with MFIs, was done for selected individuals. Through the Young Partner Development Initiative, a total of 23 YPOs have been supported by the Programme (against a target of 15), 13 of which have graduated and have become regular PPAF POs (against a target of 10). Under the Internationally-Linked Partner Initiative only 2 new POs were established, the Mojaz Foundation in October 2008, focusing on microcredit; and the Buksh Foundation in April 2009, focusing on microcredit and equity financing. Under the young Professional Scheme, 16 young professionals were trained.

Component C: **Support for Partner Organizations**

17. A total of 49 POs have participated in systems development and capacity building activities (against a target of 30) and 2,463 staff was trained, of which 586

(23.8%) women. Support was focused on areas that were critical for the successful implementation of the Programme, development of the sector and institutional development, including: product innovations; business plans; PO's assessments; PO's ratings; external audit support through auditors on the QCR list; operational support for POs internal audit and better risk management; training and exposures of PO staff and BOD; and MIS and FIS of the organization. It also supported international and local trainings, exposure visits and workshops to enhance PO capabilities for designing and running effective organizations. In addition to supporting POs through grant funds, PPAF launched a strategic partnership with the Pakistan Microfinance Network (PMN) for improving PO knowledge management and dissemination of sector and industry data. Additionally, PPAF collaborated with PMN on interventions like the piloting of a Credit Information Bureau (CIB) in Lahore and the mapping of microfinance branches throughout the county.

18. Overall, the tangible results achieved by the Programme can be considered satisfactory. Under the Innovation and Outreach, which represented the largest and most significant component, the Programme achieved, and in most cases exceeded its targets. Only the results of the Young Partner Program and particularly the Internationally-Linked Partner Initiative sub-component are behind the set targets. Apparently, the objective of this sub-component was over-ambitious, and even when targets were revised by MTR, the challenges in implementing this sub-component were probably not adequately taken into consideration.

19. The rating for the programme's effectiveness is *satisfactory (5)*.

Efficiency

20. Efficiency is looked at from two dimensions: implementation efficiency, referring to the time for the loan to become effective, time overrun and the programme disbursement performance; and economic efficiency, referring to ratio between investment and recurrent costs and cost ratio of inputs/outputs.

21. On average, it takes one year and a half for IFAD-funded projects and programmes (across all regions) to achieve effectiveness and an additional six months to start disbursing. In the case of MIOP, effectiveness took only eight and half months from IFAD Executive Board approval, which is far better than the global average. There has been no time overrun for MIOP; the Programme closed as originally planned on 31 March 2012. IFAD loan disbursements were low in the first years however, after the MTR and in particular during the last year of programme implementation the demand increased, such that the original programme targets were achieved. All available funds have been used with a 100% disbursement rate. The 100.0 per cent disbursement of the IFAD loan at closing is strong indicator of high management and coordination efficiency. Additionally, the availability and release of counterpart funding was quite timely and efficient. In terms of investment and recurrent costs, total investment comprised 97% of total base costs against 3% of the recurrent costs, indicating a high efficiency in programme performance. Overall, all programme components have achieved the appraisal or revised targets during MIOP implementation. The portfolio at risk, PAR>30 days, was overall 0.86%, with 1.37% for Young Partner Organizations and 0.12% for LPOs. Management support focused on two concrete outcomes as a proxy for management efficiency. First, the turnaround time for innovation and outreach proposals submitted by Partner Organizations. This was set at six weeks. In reality, approval of facilities was generally secured in less than six weeks, but pending approval of the PPAF board of directors. Quarterly reports were submitted to IFAD on time. However, the slowness in establishing an effective and functional learning and reflective culture and monitoring and evaluation system including a robust MIS, has been a limitation to growth of PPAF.

22. The rating for the programme's efficiency is *satisfactory (5)*.

B. Impact

(i) Rural poverty impact

23. Practically, there has been no measurement of Programme outcomes and impact on the lives of the beneficiaries. The PCR does not provide any data on the size by type of investments financed by the Programme nor does it provide data on actual changes in crop and livestock production, or actual changes in household income. Records and data in terms of outcomes from beneficiary activities are generally lacking, making the assessment of the programme progress and achievements at the beneficiary level problematic. **Indication** on rural poverty impact is presented below:

24. **Physical assets, income and food security.** The microfinance loans have been used for income generating activities in livestock, agriculture, and enterprise development and contributed significantly to positive changes at the level of the household income, assets and enterprise profits and assets. Through distribution of livestock, the Programme has helped improve or increase the beneficiary physical asset base however their impact cannot be assessed. The Programme financed five POs (OCT, Baidari, SVDP, RCDS, and NRSP) through introduction of innovative livestock projects[10], in combination with the provision of technical support, which increased the income and food security of the poor women through co-operative livestock farming. The projects were subsequently up-scaled and replicated by two NGOs. A PO piloted in-kind loans (provision of three goats) targeting 50 ultra-poor women headed households, accompanied by training in the management of goats. Recipient households were expected to have up to ten goats within 3 years. Through the selling of mature male goats and the selling of milk the household income and food security has been significantly increased. After the piloting phase, the PO has expanded this model to 150 additional households. The Ultra Poor (TUP) programme supported some 3,100 ultra-poor households across four districts of Sindh and Baluchistan with transfer of cash (PKR 1,000/month) and income generating assets (e.g. livestock, fishing nets, motors for small boats, donkey carts, push carts, sewing machines, etc. for a total value of PKR 25,000), in addition to training and linkages with social services. The NRSP, through initiatives like the 'Housing Scheme', contributed to increase the physical asset-base of the beneficiaries. Similarly, a number of clients of TUP reported re-building or renovating their homes using the increased income as a result of loan or assistance provided by the Project. A survey conducted by BRAC on the impact of 'Increasing Outreach in Underserved Rural Areas' reported that average monthly family income has increased by approximately PKR 3,900.

25. The impact on physical assets (and income) is rated moderately *satisfactory (4)*.

26. **Environment and common resource base.** In all likelihood, the Programme has not had significant direct impact on natural resources and the environment. The emphasis given on improved production systems, particularly livestock production that promoted fattening of animals for the market coupled with appropriate training versus the common practice of maintaining the animals for long periods, because of low turn-off rates of low producing animals on the rangeland, is likely to have had no direct impact on the local environment. Moreover, the Environmental Management Framework (EMF), which was prepared and operationalized by the World Bank in partnership with the Government, PPAF, the POs and the private sector and formed part of the legal agreement between PAAF and the POs,

[10] An example of such project is the "Women's Livestock Cooperative Farming", whose purpose was to provide loans to groups of female borrowers to purchase and fatten goats on commercial basis, with the objective to improve their livelihood and increase their income. The Project won international acclaim by receiving IFAD's 2010 Innovation Marketplace Award.

constituted a comprehensive and effective system for the environmental screening of any project or activity that was financed under MIOP. However, the aggressive grazing behavior of small ruminants like goats is well known to cause degradation of the environment and needs to be checked carefully when up-scaling and replicating some of the pilot activities.

27. The rating for the environment and common resource base is moderately *unsatisfactory (3)*.

28. **Human and social capital and empowerment.** Human assets are capital 'embodied' in people and include the nutritional status, health and knowledge of people. Training and capacity building, conducted at community, POs, and PPAF levels, has been a key element of the Programme. A total of 160 young professionals (102 men and 58 women) were trained under the Young Professional Scheme (YPS) to increase the number of young experts with experience in rural finance operations. The PCR estimated that this figure constitutes a 20% of the human resource with experience in rural finance operations in the microfinance sector in Pakistan. Another 591 women and 1,872 men received training from the POs and PPAF. Capacity building activities were financed by several loan projects: some 5,200 women and 3,500 men were trained in different on farm and off farm enterprise skills. The training had raised the level of PO development capacity, contributed to increasing social capital, empowerment and motivation, improved, physical, human social and personal assets and impacted on interpersonal skills and self-confidence. Several POs provided health insurance facilities to the poor clients, who were exposed to adverse living conditions, diseases as well as other disasters. Similarly, under The Ultra Poor (TUP) programme, different health services were provided to communities, including the induction of Lady Health Workers (LHWs), hygiene and health awareness sessions, laboratory tests, and village-level distribution of first aid boxes. Children school enrollment increased in families who benefitted from Programme's loans. MIOP contributed to the empowerment of women by providing to them equitable access to programme resources and opportunities to participate in trainings to improve their knowledge and technical skills.

29. The rating for human and social capital empowerment is rated *satisfactory (5)*.

30. **Food security and agriculture productivity.** Increase of agricultural productivity was not a primary objective for MIOP however the Programme had an indirect positive impact. Under the Farmer Emancipation Loan, client groups reported that programme assistance in improved management and input linkages led to productivity enhancement and wheat and rice yields have increased by 12.5% and 22% per acre, respectively. Similarly, under the Tunnel Farming Loan, farmers expected to produce off season vegetables to be marketed at higher prices, and harvest their vegetable crop for three to four months longer as compared to open field cultivated vegetables. Livestock loans were integrated with provision of improved livestock breeds. For the Widows Strengthening Project, high yielding, dual purpose, low management local breed of goats were introduced. Also, under the RDLDM, programme credit was associated with purchase of higher yielding animals. All agriculture and livestock specific loan products were associated with management training and, in some cases, client groups were assisted with establishing market linkages. Part of the production is used for home consumption and part for the market, thus increasing household food security and beneficiary incomes. These measures had positive impact on agricultural productivity and food security.

31. The rating for food security and agriculture productivity is moderately *unsatisfactory (3)*.

32. **Institutions and services.** The Programme supported and strengthened 23 Young Partner Organizations through the Young Partner Development Initiative

to build better governance structures, risk management tools, transparent reporting systems (MIS and FIS), business plans, access to external audits, etc., 13 of which have graduated and become regular PPAF POs. Even those POs that have not managed to graduate benefitted from substantial positive impacts as a result of having received institutional development packages through the Programme. Two new POs were established under the Internationally-Linked Partner Initiative. These institutions have derived enriching experiences and acquainted themselves with new approaches, which they have put in good use in the discharge of their daily business. The Programme directly contributed to the inclusion of poor households in the formal financial system by introducing low-cost delivery channels through the establishment of village banking and branchless banking, to establish a system through which local households could easily access loans/financial services.

33. The rating of the institutions and services is *satisfactory (5)*.

34. The rating for the overall Programme's rural poverty impact is moderately *satisfactory (4)*.

(ii) Impact on the microfinance sector

35. The Programme, in addition to the impact on rural poverty, impacted highly on the whole microfinance sector and on the microfinance institutions. It supported the development of new POs, and helped building additional institutional capacity. Through PPAF, MIOP has exerted a significant role as a sector developer and informal regulator in helping to strengthen the sector institutions, launch innovative products, services, approaches, enhanced industry standards, improved transparency and performance. Key performance indicators such as the operational self-sufficiency, the operating expense ratio, the number of active clients and related gross loan portfolio, and the PAR suggest a positive impact on the MFIs that benefited from MIOP. PPAF has launched the Code of Conduct for Consumer Protection to promote best practices and transparency in the sector and has signed an MOU with the State Bank of Pakistan (SBP) and PMN to expand the Credit Information Bureau, following a successful pilot implemented through the Programme. Lower income groups, perceived by formal financial institutions as 'un-bankable', due to their inherent inability to comply with conventional loan collateral requirements, were included in the financial sector through the development and introduction of low cost delivery channels and technology based products that reduced delivery costs for partners and lower charges for clients.

36. The rating of the Programme's impact on the microfinance sector is highly *satisfactory (6)*.

37. Based on the above, a more thorough assessment of the Programme's rural poverty impact would be an issue to be addressed by the forthcoming Programme Performance Assessment of MIOP.

C. Other performance criteria

Sustainability

38. <u>Social sustainability (Empowerment)</u>. PO activities resulted in a gradual build-up of confidence and trust between the beneficiaries, ability to resolve conflicts, empowerment and motivation. The emphasis on the establishment and building of capacities of partner organizations (POs) to manage microfinance development investments is one of the hallmarks of IFAD successes in MIOP that increases beneficiary ownership and contributes to sustainability.

39. <u>Institutional sustainability /Exit strategy</u>. MIOP has successfully met its development objective of enabling the active rural poor to increase access to a wider range of sustainable financial services and products. It has facilitated the piloting and up-scaling of a number of innovations with significant potential for

expanding access to financially underserved, ultra-poor and marginalized rural communities, development of human resources for the sector through training and young professional programme as well as strengthening new partner organizations which would expand outreach. The new products and approaches developed by MIOP are most likely to be continued as the POs are committed to provide loans on a continuing basis in their areas of coverage. The institutional support packages, and also the additional access to refinancing at the favourable below market terms of PPAF have helped POs to strengthen their operational and financial base. Similarly the experience gained through introduction of audit services and MIS had a far reaching effect on enhancing the sustainability of the POs. The CIB pilot that is going to be up-scaled nationally with support from the still ongoing IFAD-funded project, PRISM, has excellent long term viability prospects. The sustainability of several POs has increased, as expressed in improved operational self-sufficiency (OSS) indicators. Finally, MIOP had a positive financial impact on PPAF. With the net spreads at different levels, it is possible for PPAF to operate a Programme like MIOP without incurring losses and in a sustainable manner i.e., with adequate reserves generated out of operational business. Altogether, the assessment of sustainability at all levels for MIOP, starting from the Executing Agency PPAF, to the Partner Organizations and their clients plus meso institutions such as C.I.B. is very positive. All actors have increased their sustainability prospects on account of participating in MIOP. Usefully, the IFAD-funded PRISM and WB-funded PPAF III that are under implementation provide complementarity and pick up some challenges such as loan funding for MFIs operating in very poor districts and community mobilization activities.

40. The overall rating for sustainability is moderately *satisfactory (4)*.

Innovation and scaling up

41. The Programme introduced a number of innovative approaches at different levels, including: **product innovations** of the kind that were introduced through the Innovations and Outreach component of MIOP, **process innovations** evidenced through introducing new and modern processes and standard operating procedures in PO MFIs; and to a minor extent **institutional innovations,** specifically the two LPOs that were built up by MIOP. The approach of using a private-sector managed public company to address poverty is not unique, neither is PPAF's approach of working with a broad range of community-focused NGOs that deliver microfinance to poor households and small enterprises; what is quite remarkable is to do so successfully, to do it profitably and to achieve the growth rates that PPAF has achieved. MIOP has taken considerable, but still manageable risks in introducing these innovations, which have paid off and MIOP is rightly viewed as a success story in Pakistan.

42. Of the 25 new/innovative products and approaches introduced /up-scaled by MIOP, 16 were up-scaled or replicated elsewhere and outside of the original sponsoring PO; in 172 Tehsil Municipal Areas (TMAs) in 49 districts in four provinces. This is a highly satisfactory result.

43. The two main actors at the crucial levels in the innovation process, the POs operating in the field and PPAF, the apex financing institution and Programme implementing agency, have done well in promoting and testing product innovations with clear vision and new management approaches that have deviated significantly from the customary corporate orientation.

44. The overall rating for innovation and scaling up is *satisfactory (5).*

Gender equality and women's empowerment

45. The Programme targeted clients using inclusive approaches where women and marginalized groups were reached. PPAF's gender strategy stated that gender is a cross cutting issue that required commitment, participation and contribution of

every staff member. Recognizing the challenges faced by women in Pakistan (e.g. cultural issues, women's restricted mobility), PPAF appointed Gender Focal Persons in all core programme units who were responsible for assessing development programmes on gender issues and promoting gender awareness and sensitivity within PPAF and its POs. All the POs were required to take into account needs and constraints of both women and men to ensure gender sensitivity while designing their projects. Many I&O innovative products were designed to specifically work with women or women dominated enterprises, including various Value Chain Finance products, Women's Livestock Cooperative Farming, Livestock Dairy Management, and Linkages for Enhanced Income, etc. Similarly, some community level trainings were targeted at women-dominated areas, including vocational skills training in tailoring and beautician courses, poultry management, etc. Moreover, many of the POs have particular focus on reaching out to women borrowers. For instance, BRAC and Chenab Development Foundation (CDF) lend to only women borrowers, whereas under the MIOP portfolio, 99% of the micro credit clients of Aaghe and 47% of the clients of Mojaz are women. However, due to social barriers on women's utilization of finances, it is perceived that utilization of loan amount by the women clients/women headed businesses is a challenge in Pakistan. At the institutional level, Gender has been mainstreamed in various activities: under the Young Professional Scheme (YPS) preference was given to women in the programme eligibility criteria. Resultantly, 36% of the enrolled participants and 40% of those who graduated and found employment, were women; similarly, women trainees on 'Gender and Development' comprised 24% of PPAF and PO staff and 60% of community representatives. MIOP contributed to the empowerment of women by providing to them equitable access to programme resources and opportunities to participate in trainings to improve their knowledge and technical skills. The relatively high percentage of women participation in programme activities reflects the intentional efforts made by PPAF, as well as the prevailing situation in the country where women are highly active in the daily running and the survival of the households.

46. PCRV assesses gender equality and women's empowerment as *satisfactory (5).*

D. Performance of partners

47. **Government and MIOP Executing Agency (PPAF).** The Government of Pakistan was the borrower of the loan from IFAD; and PPAF was the Executing Agency for MIOP. Programme co-financiers were the POs and PPAF. Collaboration with MIOP POs was on the whole highly satisfactory. After initial delays, PPAF has managed MIOP in an excellent manner. The PPAF top Management was committed to the goal and objectives of MIOP and the Credit and Enterprise Development (CED) unit gave strong support and supervision to the POs. However, records and data in terms of outcomes from beneficiary activities are generally lacking, making the assessment of the programme progress and achievements, at the level of the beneficiary, problematic. The estimates on Programme achievements presented by PCR were based not on Programme's M&E data but on data from MicroWatch, Issue 1 (Oct 2006) and Issue 20 (June 2011) of the Pakistan Microfinance Network (PMN). Furthermore, the slowness in establishing an effective and functional learning and reflective culture and monitoring and evaluation system including a robust MIS, has been a limitation to growth of PPAF.

48. The overall performance of Government and MIOP Executing Agency is rated *satisfactory (5)*.

49. **IFAD.** The Fund designed a Programme, which was in line with the policies and strategic objectives of the Government of Pakistan as well as with the COSOP of 1998 updated and expanded in 2002. MIOP implementation arrangements were apt and well suited to the needs of the fledgling Pakistani microfinance sector and consistent with the strengths and weaknesses of the implementing partners. The

PCR states that the appropriateness of design constitutes a reflection of the fact that all targets of MIOP could be achieved; quite a few surpassed the original targets. In particular, IFAD and the Cooperating Institution should have provided a larger degree of support to resolve weakness of monitoring and evaluation and develop a more effective and functional M&E / MIS system.

50. The performance of IFAD is rated *satisfactory (5)*.

51. **Cooperating institution.** The International Development Association (IDA) of the World Bank was appointed by IFAD as the Cooperating Institution to administer the Loan and supervise the Programme. There were 10 supervision missions including the MTR and PCR missions over the life of the Programme. The Supervision Missions were generally timely. Notwithstanding some delays in disbursements that were resolved after the MTR in 2009, IDA/WB provided effective support for programme administration and financial management. The World Bank was committed to the success of MIOP as reflected by the comparatively high frequency of supervision missions and the pro-active involvement of experienced rural finance specialists from the WB country office and the head Office in the USA.

E. Overall Programme achievements

52. Based on the assessments of the three core programme performance criteria (relevance, effectiveness and efficiency), the Programme has been largely successful and yielded, overall, positive results. Notwithstanding delays and inefficiencies in the early years of implementation, the Programme made fast progress towards achieving most of its targets with exemplary success in Innovation and Outreach, which represented the largest and most significant programme component. In addition to the impact on rural poverty, the Programme impacted highly on the whole microfinance sector and on the microfinance institutions. It supported the development of new POs, and helped building additional institutional capacity. Through PPAF, MIOP has exerted a significant role as a sector developer and informal regulator in helping to strengthen the sector institutions, launch innovative products, services, approaches, enhanced industry standards, improved transparency and performance.

IV. Assessment of PCR quality

(i) Scope

53. The PCR covered all the key aspects of the programme performance and results; its structure follows, by and large, the IFAD Guidelines for PCR preparation (2006) and its content and analysis broadly correspond to the requirements of IFSD's evaluation methodologies. The annexes are useful in providing supplementary information, particularly the Programme's financial and economic analysis. PCRV assesses PCR scope as *satisfactory (5).*

(ii) Quality (data, methods, participatory process)

54. The methods used in the analysis are pertinent and in line with IFAD's evaluation methodologies, such as the analysis on relevance, effectiveness and efficiency. However, records and data in terms of outcomes from beneficiary activities are generally lacking, making the assessment of the programme progress and achievements, at the level of the beneficiary, problematic. The general lack of data did not allow for a credible assessment of Programme's results and achievements at the beneficiary level, nor did it allow consideration of attribution issues. PCRV assesses PCR quality as moderately *satisfactory (4).*

(iii) Lessons

55. The PCR has produced several lessons, all consistent with the analysis and focused on enhancing or sustaining the Programme's benefits, therefore are pertinent and valid. PCRV assesses PCR lessons as *satisfactory (5).*

(iv) Candour

56. The PCRV recognizes that the PCR's content, analysis and lessons are consistent and candid. The PCR presents the number of successes and the number of failures experienced by the Programme and provides constructive criticism throughout the document. PCRV assesses PCR candour as *satisfactory (5).*

V. Final remarks

Lessons learned

57. **Managing innovations, challenges and opportunities.** MIOP has been largely successful because it filled a product, outreach and PO capacity building (e.g. establishment of the Credit Bureau, village banking, low cost outreach programs including the use of intermediary organizations, pro-poor banking etc.) void in what was a moribund microfinance industry. The two main actors at the crucial levels in the innovation process, the POs operating in the field and PPAF, the apex financing institution and Programme implementing agency, have done well in promoting and testing product innovations with clear vision and new management approaches that comprised a significant deviation from the customary corporate orientation.

58. **Institutional development and implementation efficiency.** The benefits of sustained institutional development for PPAF are reflected in the strong and cost effective implementation of MIOP. Institutional behavioral change takes time and that needs to be factored into project/programme duration at both the PPAF and the PO level especially for younger and smaller POs. Additionally, the need to understand the real support requirements of implementing partners and to analyze, what out of these requirements/expertise is available in the market and what capacity needs to be developed by the programme /project is of paramount importance. It should also be recognized that this capacity needs to be developed locally, as capacity building by peers (mentoring and "learning by seeing and doing") has proved to be most effective.

59. **Young professionals programme support**: To link up the IFAD funded MIOP with the PPAF initiative that was small at the time has been one of the superior design features of the Programme, and it is important to derive the appropriate lessons, since many of the IFAD microfinance programmes operate in difficult regions or countries with very little human capacity on the ground. The success of the YP is due largely to the commitment and readiness of the PPAF partner to put such an ambitious initiative in motion.

VI. List of sources used for PCR validation

60. Programme documents:

i. IFAD. Appraisal Report, March 2006

ii. IFAD. Report and Recommendation of the President, December 2005

iii. IFAD. Programme Loan Agreement, January 2006

iv. IFAD. Aide Memoire, Mid-Term Review Mission, July 2009

v. Joint World Bank/IFAD. Aide Memoire, Project Completion Mission, 28 Nov – 2 Dec 2011

vi. IFAD. Programme Completion Report, January 2012

61. IFAD strategies and policies:

i. IFAD. COSOP 1998

62. General references:

    i. CIA: World Factbook for Pakistan, 2012
    ii. World Bank: World Development Indicators
    iii. World Bank: Pakistan, Country at a glance

Rating comparison

Criteria	*PMD rating* [a]	*IOE rating*[a]	*Net rating disconnect (IOE PCRV – PMD)*
Programme performance			
Relevance	5	5	0
Effectiveness	5	5	0
Efficiency	5	5	0
Programme performance [b]	**5**	5	**0**
Rural poverty impact			
Household income and assets	5	4	-1
Human and social capital and empowerment	5	5	0
Food security and agricultural productivity	4	3	-1
Natural resources and environment	NA	3	NA
Institutions and policies	5	5	0
Rural poverty impact[c]	5	4	**-1**
Other performance criteria			
Sustainability	**4**	4	0
Innovation and scaling up	**5.5**	5	-0.5
Gender equality and women's empowerment	**5**	5	0
Overall programme achievement [d]	**5**[1]	5	**0**
Performance of partners [e]			
IFAD	NA	5	NA
Government	5	5	0
Average net disconnect			**-0.25**

[1] IOE assigned a 5 based on the above PMD ratings.

Ratings of the PCR quality

Ratings of the PCR document quality	*PMD rating*	*IOE PCRV rating*	*Net disconnect*
Scope	NA	5	NA
Quality (methods, data, participatory process)	NA	4	NA
Lessons	5	5	0
Candour	5	5	0
Overall rating of PCR	NA	5	NA

[a] Rating scale: 1 = highly unsatisfactory; 2 = unsatisfactory; 3 = moderately unsatisfactory; 4 = moderately satisfactory; 5 = satisfactory; 6 = highly satisfactory; n.p. = not provided; n.a. = not applicable.

[b] Arithmetic average of ratings for relevance, effectiveness and efficiency.

[c] This is not an average of ratings of individual impact domains.

[d] This is not an average of ratings of individual evaluation criteria but an overarching assessment of the project, drawing upon the rating for relevance, effectiveness, efficiency, rural poverty impact, sustainability, innovation and scaling up, and gender.

[e] The rating for partners' performance is not a component of the overall assessment ratings.

Definition of the evaluation criteria used by IOE

Criteria	*Definition*[a]
Project performance	
Relevance	The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, institutional priorities and partner and donor policies. It also entails an assessment of project design in achieving its objectives.
Effectiveness	The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.
Efficiency	A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results.
Rural poverty impact[b]	Impact is defined as the changes that have occurred or are expected to occur in the lives of the rural poor (whether positive or negative, direct or indirect, intended or unintended) as a result of development interventions.
• Household income and assets	Household income provides a means of assessing the flow of economic benefits accruing to an individual or group, whereas assets relate to a stock of accumulated items of economic value.
• Human and social capital and empowerment	Human and social capital and empowerment include an assessment of the changes that have occurred in the empowerment of individuals, the quality of grassroots organizations and institutions, and the poor's individual and collective capacity.
• Food security and agricultural productivity	Changes in food security relate to availability, access to food and stability of access, whereas changes in agricultural productivity are measured in terms of yields.
• Natural resources, the environment and climate change	The focus on natural resources and the environment involves assessing the extent to which a project contributes to changes in the protection, rehabilitation or depletion of natural resources and the environment as well as in mitigating the negative impact of climate change or promoting adaptation measures.
• Institutions and policies	The criterion relating to institutions and policies is designed to assess changes in the quality and performance of institutions, policies and the regulatory framework that influence the lives of the poor.
Other performance criteria	
• Sustainability	The likely continuation of net benefits from a development intervention beyond the phase of external funding support. It also includes an assessment of the likelihood that actual and anticipated results will be resilient to risks beyond the project's life.
• Innovation and scaling up	The extent to which IFAD development interventions have: (i) introduced innovative approaches to rural poverty reduction; and (ii) the extent to which these interventions have been (or are likely to be) replicated and scaled up by government authorities, donor organizations, the private sector and others agencies.
• Gender equality and women's empowerment	The criterion assesses the efforts made to promote gender equality and women's empowerment in the design, implementation, supervision and implementation support, and evaluation of IFAD-assisted projects.
Overall project achievement	This provides an overarching assessment of the project, drawing upon the analysis made under the various evaluation criteria cited above.
Performance of partners • IFAD • Government	This criterion assesses the contribution of partners to project design, execution, monitoring and reporting, supervision and implementation support, and evaluation. It also assesses the performance of individual partners against their expected role and responsibilities in the project life cycle.

[a] These definitions have been taken from the OECD/DAC *Glossary of Key Terms in Evaluation and Results-Based Management* and from the IFAD Evaluation Manual (2009).
[b] The IFAD Evaluation Manual also deals with the "lack of intervention", that is, no specific intervention may have been foreseen or intended with respect to one or more of the five impact domains. In spite of this, if positive or negative changes are detected and can be attributed in whole or in part to the project, a rating should be assigned to the particular impact domain. On the other hand, if no changes are detected and no intervention was foreseen or intended, then no rating (or the mention "not applicable") is assigned.