



Client Voices Pakistan Country Report

Fostering a Long-Term Relationship Between
Microfinance Providers and Their Clients

October 2015

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Keeping clients first
in microfinance

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Foreword

At the Smart Campaign, a global campaign to embed a set of client protection principles into the financial inclusion industry, we realized several years ago that there was an important voice missing from the discussions—the clients! In creating the seven Client Protection Principles (CPPs) we had made a series of assumptions of the risks, worries and problems clients experience with financial institutions. It was therefore crucial to address this issue.

We designed a Client Voices project to hear directly from clients in four markets—Benin, Georgia, Pakistan, and Peru. The research was designed to have an initial open-ended qualitative component so as not to prime clients with the CPPs but rather hear what issues and concerns they would bring up spontaneously. Then, with potential issues and problems sufficiently identified, the research team would return with a more targeted quantitative survey to measure the incidence in a larger sample. Going into the study we wondered:

- If asked in an open-ended way, would clients identify issues that aligned with the CPPs?
- Would the main issues identified across the four markets be similar?
- How candid would clients be about their good and bad experiences with financial institutions?
- What percentage of clients would it take to highlight an issue as problematic? 2%? 5% 10%?

The Smart Campaign selected Pakistan as the market in Asia for the Client Voices project for several reasons. A priority was for this research to act as a catalyst for industry discussion, a goal requiring strong and engaged local partners. The Pakistan Microfinance Network (PMN) has long-

demonstrated its leadership and commitment to client protection among its members and were a natural partner for this exercise. PMN assisted the Campaign in convening a diverse group of stakeholders to sit on the National Advisory Council. Additionally, the history of microfinance’s rapid growth in a concentrated geography, the 2008–2009 Punjab delinquency crisis, and the subsequent measures to improve practices and infrastructure (e.g. the Microfinance Credit Information Bureau) provide a fascinating backdrop for client voices.

This report presents issues as relayed to us by 900 current and former microfinance clients in Pakistan. We were especially struck by the relatively high levels of satisfaction among respondents with their microfinance services, but also the short tenure of client-MFP relationships. Clients told us that, compared to other institutions in their community, MFPs do not seem as invested in fostering long-term relationships. Other issues voiced, such as public shaming and humiliation of late-paying clients, contribute to the perception that MFPs are not interested in listening to clients or building relationships. Even if experienced by a small percentage of clients, as was the case in Pakistan, such treatment can damage an entire industry’s reputation.

Each interaction between clients and staff should be marked by honesty, fairness, and respect. This should be the minimum for a pro-client financial service provider. Clients, even when they are having difficulties, should always be treated humanely and not just as a “problem.” Embracing and embedding this attitude will create organizations that naturally attract and retain customers—a win-win for both customers and providers.

The Smart Campaign

Introduction

1

About the Client Voices Project

From March to October 2014, Bankable Frontier Associates (BFA) conducted qualitative and quantitative research on consumer protection issues related to microfinance in Pakistan for the Smart Campaign's Client Voices project. The Client Voices project investigates clients' own understanding of what constitutes good and bad treatment in their dealings with microfinance providers (MFPs) in four markets: Pakistan, Benin, Peru, and Georgia.¹ The Campaign hoped that the project would both affirm and challenge the underlying assumptions made in drafting the Client Protection Principles about the risks, issues, and harms that microfinance clients experience. In addition, the project is designed to act as a catalyst for local actors including regulators, microfinance associations, consumer advocacy groups etc. in each of the four markets to improve the client protection ecosystem. Box 1 shows the guiding research questions identified at the beginning of the project.

First, we carried out qualitative research using focus group discussions and individual interviews to understand what constitutes good and bad treatment from MFPs from the clients' perspective, and to probe widely for the types of problems that might be occurring that are specific to each market. The focus group discussions included a ranking exercise in which clients classified the institutions they interact with on a regular basis (financial and non-financial) by the quality of consumer treatment, as well as a role-playing exercise in which clients acted out good and bad

treatment from providers. Individual interview respondents also took photographs to represent positive and negative experiences with microfinance. Where complementary of the quantitative data, we include some of these photographs in this report. Please see Annex 2 for a description of qualitative and quantitative research methods used in the Client Voices project.

Second, we used a national survey of 900 clients (currently borrowing or who have borrowed in the last three years) and a 100-respondent sample of non-clients to evaluate the prevalence of the problems mentioned in the qualitative research at a national level in Pakistan. Enumerators applied a 45-minute face-to-face survey to clients selected using a random walk methodology in 10 *tehsils* in the two most populous provinces, Punjab and Sindh.^{2,3} Nearly 70 percent of respondents have or had a group loan.

The quantitative study investigated the incidence of bad treatment and consumer protection issues that emerged from the qualitative research. We report key results from both the qualitative and quantitative research here.

Consumer Protection in the Pakistani Microfinance Sector

Pakistan enjoys the reputation of having one of the most enabling regulatory environments for microfinance globally.⁴ Five types of MFPs operate in the country; however, only microfinance banks are regulated by the State Bank of Pakistan (SBP) under the Microfinance

High Level Findings: Consumer Protection in Pakistani Microfinance

1

Clients are satisfied but do not have long-term relationships with microfinance providers (MFPs). In the context of a relatively advanced consumer protection environment, the Client Voices research found that 85 percent of current and former MFP clients in Pakistan are either very satisfied or somewhat satisfied with their borrowing or savings experiences. However, the same survey reveals the short tenure of client engagement with MFPs. Our research suggests that customers perceive MFPs as weak on fostering long-term client relationships compared with most other institutions they interact with. Indeed, current clients had been borrowing from their current MFP for only one year on average.

2

Consumer protection issues arise more among those who pay late. Our survey reveals that consumer protection issues are reported by about 5 percent of respondents. Clients who pay late however, are more likely to experience problematic treatment. 'Shaming' is the most common problem affecting clients who pay late, although this affects only 5 percent of clients. Some clients perceive providers as indifferent between customers who renege on their repayment responsibilities and those who may be late because of circumstances outside clients' control.

3

Consumer recourse options are unclear and often ineffective. The survey reveals that the majority of respondents are uninformed about recourse options; only 34 percent of respondents were told where they could make complaints. Clients also report getting the 'run around' when they do try to lodge complaints.

4

Client comprehension of terms and conditions can be improved, especially regarding insurance. Low literacy rates in Pakistan makes conveying loan terms especially challenging.

5

More investigation is needed into the practices of smaller MFPs in less saturated areas. Findings from focus group discussions of clients of small rural MFPs raised a host of issues such as lack of full disclosure about interest charges and late fees, as well a concentration of power with group leaders. These red flags could not be rigorously explored in the follow-up phase due to the sampling approach but deserve further inquiry.

Client Voices Research Questions

- What do microfinance clients view as their most important worries and most negative experiences in dealing with microfinance providers?
- How common are experiences of consumer protection problems at the national level?
- What attributes are most important to clients in determining a positive customer experience?
- How do these priorities compare to assumptions the industry has made about what clients want (especially as reflected in the Smart Campaign Client Protection Principles)?

Institutions Ordinance of 2001.^{5,6} Non-bank MFPs remain unregulated, but in 2013 the Securities and Exchange Commission of Pakistan (SECP) circulated proposed regulations for comment. In addition, the Microfinance Credit Information Bureau (MF-CIB), launched in 2012, is now operational.

Presently, there is no consumer protection law addressing the microfinance sector exclusively. However, there are concepts of consumer protection, applicable to the industry, in other legislative statutes and regulations including the Islamabad Consumer Protection Act of 1995, the North West Frontier Province (NWFP) Consumer Protection Act of 1997, the Punjab Consumer Protection Act of 2005, and the Consumer Rights Commission of Pakistan (CRCP).⁷

In addition, SBP has established regulations that touch upon consumer protection in microfinance. Prudential Regulations for the MFBs (2003) has the doctrine of Truth in Lending that makes it “incumbent” upon the MFB to “facilitate the borrower in making an informed decision.” This is also supported by a Code of Conduct signed by member institutions of the Pakistan Microfinance Network (PMN) that establishes explicit consumer protection guidelines that ought to be followed by its members. Further, Prudential Regulations for Microfinance Banks (Rule 11) requires that lending institutions develop internal policies for managing their own risk to borrower indebtedness exposure, as well as providing for responsible lending. Lastly, as mentioned above, SBP established a microfinance-

exclusive Credit Information Bureau (MF-CIB) in 2012 following the 2008–09 delinquency crisis.

In this context of a relatively advanced consumer protection environment, our national survey of 900 current and former Pakistani clients of microfinance providers (MFPs) reveals that 85 percent report being either very satisfied or somewhat satisfied with their borrowing or savings experiences. However, as we will detail below, the survey respondents revealed surprisingly short relationships with MFPs as well as several consumer protection issues and problems. Transparency, Fair and Respectful Treatment of Clients, and Mechanisms for Complaint Resolution emerge as the Client Protection Principles that resonate most as priorities for client protection in Pakistan. Indeed, client claims of harsh treatment and inflexibility in the case of late repayment, confusion regarding terms and conditions, and poor recourse options present challenges. Combined, these issues point to the recommendation that MFPs can improve their overall treatment of consumers, and can do more to make clients feel like they are long-term and equal partners. We also discuss early evidence that clients of small, lesser-known MFPs may experience more frequent and serious consumer rights issues.

2

Key Findings

Most MFP Clients Report Being at Least Somewhat Satisfied. However, MFPs Can Improve at Fostering Long-Term Relationships With Their Clients.

Our national survey of Pakistani clients of MFPs reveals that 85 percent of current and former clients are either very satisfied or somewhat satisfied with their borrowing or savings experiences (Figure 1). Only 5 percent claimed to be either dissatisfied or very dissatisfied.

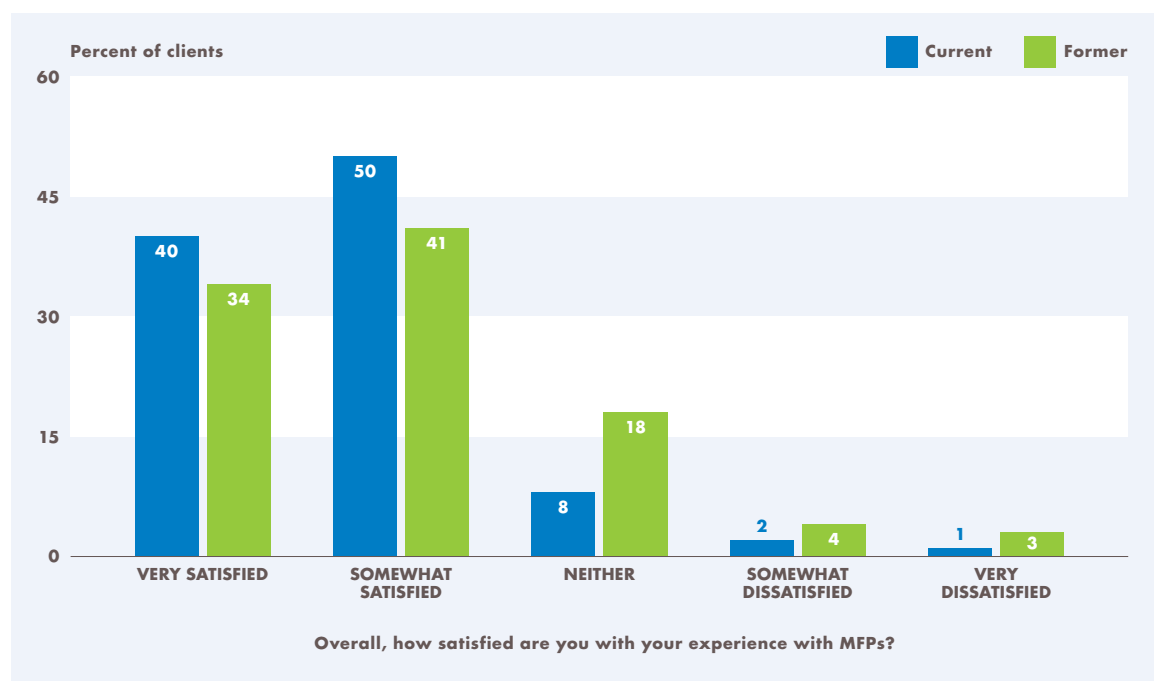
As a woman in Lahore who is a current borrower told us:

“It’s a very good experience for us that we didn’t borrow the money from anywhere else... If we seek help from relatives the news is spread throughout the entire family which doesn’t look good. But this is an institution that helps in such a way that news is not spread anywhere. We have a private relationship with them, and they give respect to us after taking loan.”

However, the same survey reveals a short tenure of client engagement with individual MFPs. Current clients had been borrowing from their current MFP for only one year on

FIGURE 1

Satisfaction Rates Among Current and Former Pakistani MFP Clients



average. And only 22 percent of current clients had completed more than one loan cycle with their current MFP. Similarly, the average former client in the sample completed only 1.4 loan cycles from her last MFP with only 28 percent of former clients having completed more than one loan cycle with their last MFP.

Most clients we spoke with did not want to borrow again from either current or former MFPs. They preferred starting afresh with a new MFP or discontinuing borrowing all together.

As some former clients told us:

MODERATOR: “If you need money, will you borrow [from the MFP] again?”

RESPONDENT # 1: “No, not from them. From somewhere else.”

RESPONDENT #2: “I will never take a loan from [that MFP] again.”

FEMALE, CURRENT USER, LAHORE

When asked directly in the quantitative survey, 58 percent of former clients interviewed said they stopped using MFPs because they no longer needed to borrow. However, when asked what would make them borrow again, 5 percent said they would if loan officers treated them with more respect, and 15 percent cited more flexible repayment schedules (discussed in the next section).

Why would such a high percentage of current and former clients report their engagement with MFPs as satisfactory but at the same time spend so little time as a client? Clients shared that they value long-term relationships with institutions, including but not exclusive to MFPs, and our research suggests that MFPs could do more to give them reasons to stay.

During the qualitative research, we learned that customers perceive MFPs as relatively weak on fostering long-term client relationships compared with most other institutions they interact with. As part of the qualitative ranking exercise, clients ranked MFPs in the middle for quality of consumer treatment, placing them above government, public service providers, and the police, but behind shopkeepers, savings groups, private schools, and NGOs. What attributes did clients value when deciding the ranking? Clients valued organizations that are empathic and respectful, and that invest in long-term relationships with customers. They told us they appreciate interacting

FIGURE 2

An MFP Client’s Good Experience With a Shop Owner



EXPLANATION: “This is the shop where we buy things from.. With [the shopkeeper] I feel great. Even when I see him I feel really happy. Obviously there is no one I have apart from my family. He always talks to me in a very decent manner. He never refuses to sell me anything from the shop. It is definitely a good experience.”

MALE, FORMER BORROWER, KARACHI

with institutions and people with whom they can feel dignity despite their poverty. In contrast, clients mentioned the following attributes when citing negative treatment from organizations: inflexibility regarding payments, lack of empathy, and being publically disparaged in front of their neighbors.

In focus group discussions and individual interviews, clients told us that many MFPs are not interested in retaining them as long-term clients, especially when compared with some other institutions based in the community. In particular, clients explained that some MFPs have limited empathy for the risks they face as low-income individuals who may have irregular incomes and may be particularly susceptible to income and health shocks.

Therefore when MFPs did invest in them as long-term customers, it was sincerely appreciated and helped to build trust. During an individual interview, a female client from Lahore described her satisfaction with her current provider:

RESPONDENT: “Their [the MFP’s] behavior towards their customers is always really good.”

MODERATOR: “Did you ever take a loan from them before this?”

RESPONDENT: “Yes. We took it three or four times...it felt really good. Like there is someone who can help us extend our business. And then they asked me how much installment I can give. I said I can give 6,000 rupees and then they [gave me the loan with 18 installments].”

FIGURE 3

Photography Exercise: An Example of a Good Experience With an MFP



“I have a farmer friend in [neighborhood]; this is the picture of that neighborhood’s Microfinance bank. You can see that they are providing good guidance to customers and they are welcoming people to the bank. They welcome people by asking their name and by guiding them properly through procedures.”

MALE, FORMER CLIENT, SHEIKHUPURA

MODERATOR: “How did you feel when they took into account your record [payment history]?”

RESPONDENT: “I felt really good. They said you can take 100,000 rupees because you have a good record...I was really happy. They praised us, so obviously I felt happy.”

FEMALE, CURRENT USER, LAHORE

Similarly, clients appreciated a warm, welcoming service environment. Figure 3 shows an example of a good customer experience with an MFP captured by a respondent in the photography exercise.

The remainder of the report explores additional consumer protection issues uncovered that may contribute to the client perception that MFPs are not interested in long-term relationships. The national survey reveals that about 5 percent of respondents experienced one or more of the issues outlined in Figure 4 when dealing with MFPs.

Our survey reveals that most non-clients are neutral about the reputation of Pakistani microfinance (see Figure 5).⁸ Coupled with the qualitative finding that many current and former clients would borrow again but from a new MFP, it appears that clients do not view poor customer relationships as endemic to the microfinance sector in Pakistan, but rather relegated to individual MFPs’ behavior.

Clients Who Pay Late are More Likely to Experience Problematic Treatment.

During the first stage of qualitative research, the most frequently cited negative experience we heard from clients centered on how they were treated when they paid late. The perceived inflexibility and rude behavior clients experienced when paying late hurt the possibility of a long-term relationship with providers more than other factors. One borrower in Lahore explained why he wouldn’t borrow from his last provider again:

“[The MFP] offered another loan, but I didn’t agree...I told them that just for being late once they have insulted me a lot.”

MALE, FORMER USER, LAHORE

These issues were borne out through the wider quantitative survey—as the most common consumer protection problems that clients experience stemmed from how they are treated after paying late. As Figure 4 shows, the most common harmful practice, experienced by 5 percent of the sample, is being shamed due to a late payment. The second most common consumer protection problem (3 percent) is being shamed because someone else in the group had paid late.

About 10 percent of current and former clients in the quantitative sample admitted to paying late at least once. These clients were more likely to experience problematic treatment compared with clients who paid on time. As seen in the Figure 6, while 41 percent of the late-payers paid a late fee, 30 percent experienced MFP staff “coming to their home and making a scene.” This experience could be harmful because of the public humiliation involved, as explained by a former borrower from Sheikhpura:

FIGURE 4

Problems Experienced by Current and Former Borrowers (Respondents Were Asked About Each Issue Separately N=900)

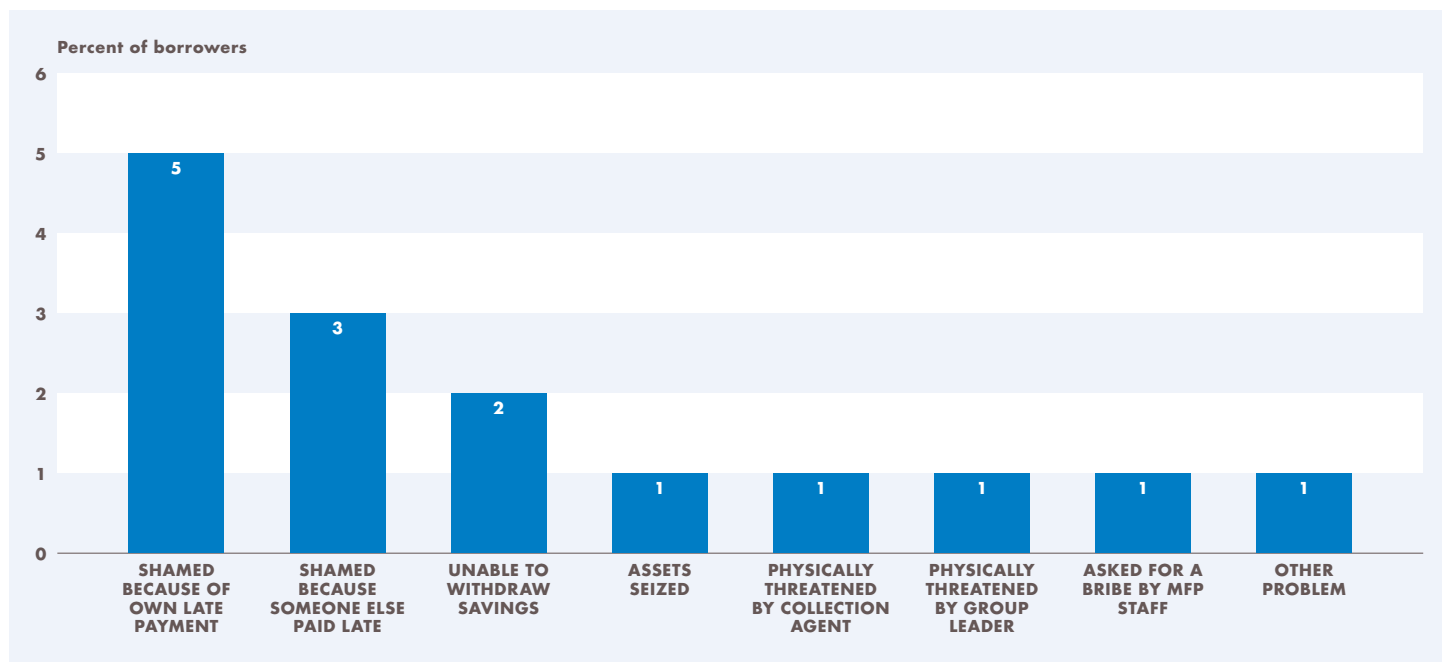


FIGURE 5

View of Microfinance From Non-Clients (N=100)

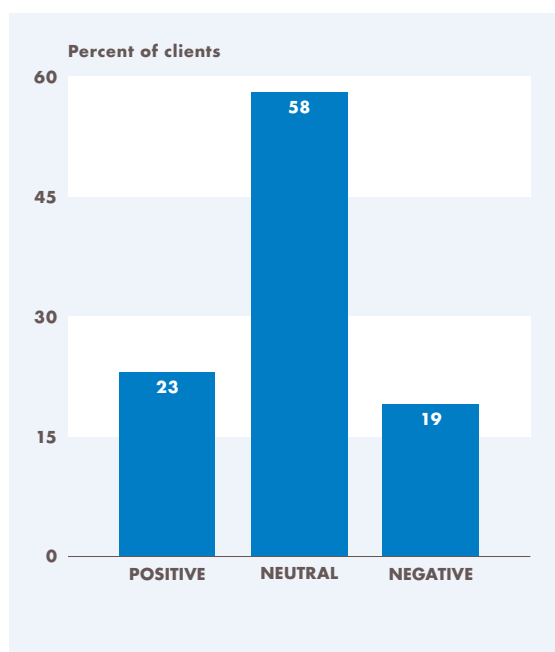


FIGURE 6

Consequences of Late Repayment (N=88)

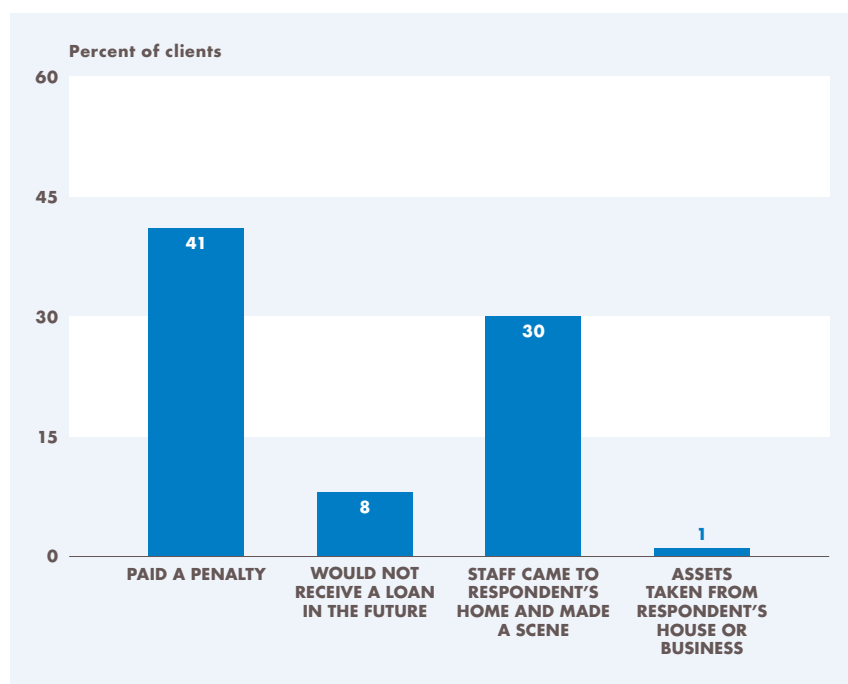
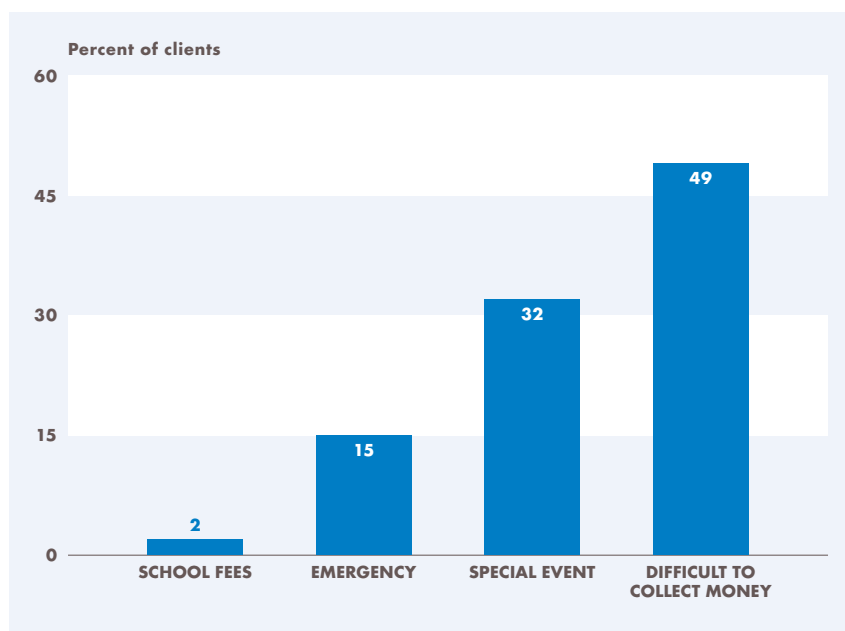


FIGURE 7

Client Reasons for Late Repayments (N=88)



“The worst scenario is when they come to our house. They speak so loudly that people in the area can also hear. They say we will take the installment today no matter what.”

MALE, FORMER USER, SHEIKHUPURA

Clients think MFPs are not differentiating between clients who are willfully late and those who may be late because of extenuating circumstances.

The qualitative results help us dig deeper into the experience that 5 percent of respondents had of being shamed. Focus groups and individual interviews revealed that MFPs do not always differentiate between clients who willfully renege on their repayment responsibilities and those who may be late because of circumstances outside clients’ control. As we illustrate in the three examples from the qualitative research below, clients felt that staff had been inflexible even when tragedies struck a family or community:

“My son was suffering from cancer. He died. They did not leave. They said they just want their money. They insulted me so much. They did not even understand that one brother of five sisters had died—everyone depended on

him! They had no sympathies. Then what’s the use of this bank? They take money from us, and on the top of that they insult us so badly.”

MALE, FORMER USER, KARACHI

“My younger sister’s husband died. We told [the loan officer] it’s her mourning period, and she can’t come. Then she said if she will not come, then we will not give another loan. It’s inhuman.”

FEMALE, CURRENT USER, KARACHI

“I live in Punjab. Somebody died in our village. I was two days late in my payment. They shouted so much at my door that the whole neighborhood got to know.”

FEMALE, CURRENT USER, KARACHI

As we show in Figure 7, when we asked clients about reasons for late repayment in the national survey, almost half cited basic difficulty collecting funds at the required time. However, others had more specific reasons for being late; 32 percent cited special occasions and 15 percent cited emergencies for their inability to pay on time. A male former client in Sheikhupura said:

“They don’t think that we can genuinely have problems...they don’t try to understand.”

Another client told us about her experience during a particularly unstable time in Karachi.⁹ The law and order situation made it difficult for her to pay her installment on time, and she recounted that the staff at her MFP were unsympathetic:

MODERATOR: “What if someone pays the installment late, what happens to that person?”

RESPONDENT: “They [MFP staff] annoy you a lot. Recently the law and order situation of the city wasn’t good. We couldn’t go out [of our homes]. They kept calling and said you haven’t paid your due. They got very rude.”

FEMALE, CURRENT USER, KARACHI

In addition to being the result of their own late payments, the quantitative survey found shaming a consequence of being part of group lending.¹⁰ A current borrower in Lahore told us about his experience as a group leader, and what happened when a fellow group member paid his installment late:

“My neighbor was in my group, but by the second or third installment, his father had died. He came to ask me what he should do, so I suggested that he go to the loan officer and ask for some time to repay. When he went and asked for two to three days of time, the loan officer said it is not a problem. [The loan officer] called to ask me about the installment and why I hadn’t submitted it yet. I told him the story of my neighbor, but he said that he didn’t care and it wasn’t his issue. He said that if my neighbor couldn’t pay, I would have to submit from my pocket. I told him that he should have been clear with my neighbor about this. Then he told me [threatened me that he would]...come to my house, take my belongings and obtain everyone else’s payments this way... Then I went to my neighbor to ask for the money as I didn’t have extra money to give. He couldn’t arrange it, so I had to arrange the extra money and submit the installment the next day. I faced many problems for this. This was the worst experience I’ve had...He [loan officer] didn’t inform us about [what would happen if others in the group paid late]... But my neighbor faced a tragedy which can happen to anyone. They could at least give one or two days of leniency, but they didn’t.”

MALE, LAHORE

Clients request flexibility and empathy in dealing with late payments

During our qualitative research, clients told us that in most cases late payments could be met by an additional one to three days extension. However for those who had tried to negotiate deadlines with their MFPs, they reported indifference and rudeness:

“Sometimes they [our companies] pay us our money really late...[then] we also get late in paying our installments—one day, two days, or three days. They misbehave a lot with us. They get really rude with us. They don’t understand at all.”

MALE, CURRENT USER, LAHORE

“They shouldn’t be so rude to us if we are two or three days late.”

MALE, FORMER USER, SHEIKHUPURA

Role-playing during the qualitative research revealed that clients would appreciate MFPs

that exercised flexibility and empathy in the case of late repayment. During role-playing, respondents were invited to act out positive, negative, and ideal experiences. Most respondents acted out disrespectful treatment when paying a late loan installment as an example of a negative experience. In one such “skit,” two clients acted out the ideal treatment from a loan officer when responding to a request for an extension:

CLIENT ACTING AS BORROWER: “Give me two days. I don’t have money right now. I will let you know after arranging the money.”

CLIENT ACTING AS LOAN OFFICER: “I cannot give you time, but I can talk to the manager. If he is able to give you more time only then can I give you more time. Let me talk to him and let you know.”

FEMALES, FORMER USERS, LAHORE

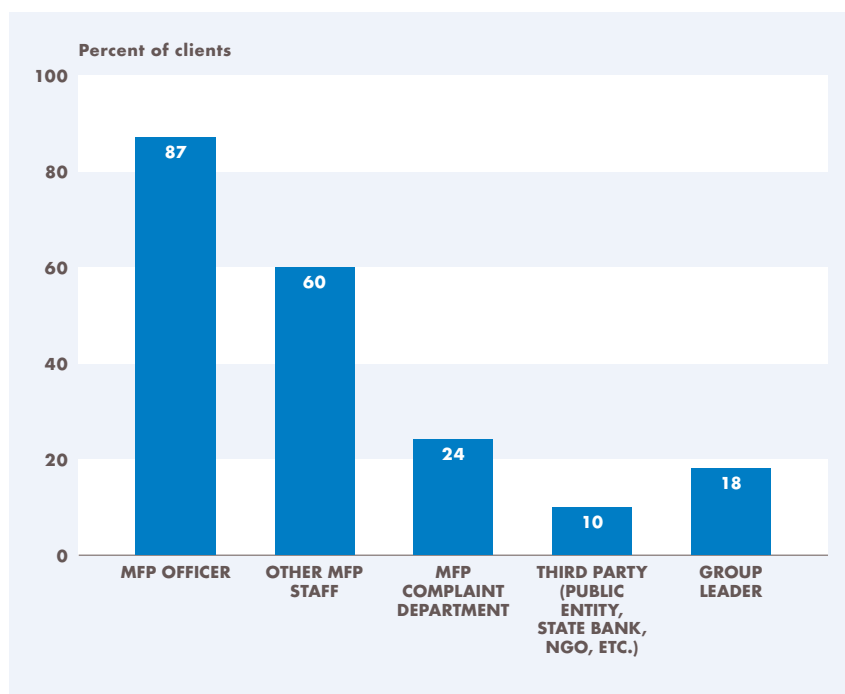
Clients acted out their preferences for more flexibility and a chance to be ‘heard’ rather than simply forgoing payment due. A bit of flexibility and respecting a borrower’s privacy (i.e. not publicly calling them out for late repayment) could go a long way with clients. Indeed, a female client in Lahore told us why she was so pleased with her current provider:

“The thing I like about them is they don’t come to your house or insult you if you are late for your installment.”

Clients Believe That the Complaints Process is Unclear and Ineffective.

In the national survey, while 5 percent of respondents reported experiencing some sort of client protection issue, only 2 percent said they ever had reason to complain. And within that sub-group a very small fraction had actually complained to their MFP. Unpacking this low engagement, we find a combination of low awareness of recourse options as well as the perception that lodging a complaint is an exercise in futility.

The quantitative survey revealed that the majority of respondents were uninformed about recourse options; only 34 percent of respondents were told where they could make complaints. And as seen in Figure 8, less than half of the informed 34 percent of the sample were told of recourse options beyond loan officers, other staff, or the group leader. As

FIGURE 8**Client Complaint Options (N=302)**

many consumer protection problems involve the loan officer or the group leader, those channels may be intimidating or ineffective for clients.

In addition, the qualitative interviews uncovered a perception that lodging a complaint with MFPs is futile:

RESPONDENT: “To whom should we complain? If we complain we will not get the loan. There is no one to complain to.”

MODERATOR: “Did you ever think of going to the office to complain?”

RESPONDENT: “Even the office people don’t listen. The office people say talk to the person you took loan from.”

MALE, FORMER USER, LAHORE

In general, clients told us they are “shuffled around” when visiting branch offices:

“They always give me an appointment for another visit and make me wait for 3 days before the next one, which is really irritating.”

MALE, FORMER USER, SHEILKHUPURA

Incidentally, some clients tried to engage with managers about obtaining a short grace period for payments when emergencies occur, but were unable to reach the right people:

“Well I was a day late and they said that we will charge you for that day. I went to the manager, and they were not letting us go to the manager. They made us wait for an unlimited amount of time. When the manager came, they didn’t let us meet him and sent us to different people.”

MALE, FORMER USER, KARACHI

Instead of complaining when they are treated poorly, our research suggests that clients preferred to discontinue services with the MFPs. We asked one client why he didn’t try to complain after a negative experience with a loan officer:

MODERATOR: “Did you feel it was your right to make a complaint about your bad experience?”

RESPONDENT: “I didn’t make any complaint, whenever I go to [the MFPs] office I always see him and he was not embarrassed by his words...”

MODERATOR: “Does [the MFP] have a complaint center where you could cast your complaint?”

RESPONDENT: “I didn’t get any information about it.”

MALE, CURRENT USER, LAHORE

Clients also reported instances of frustration with the recourse (or lack thereof) systems within other community institutions (see Figures 9 and 10). The apparent lack of concern for recourse among different types of institutions that serve the microfinance demographic in Pakistan could set the bar of service so low that clients do not expect any different from MFPs.

Conversely, when recourse channels are clear and encouraged, clients report feeling valued. A former female client in Karachi told us about her experience at a local hospital where her feedback was actively solicited.

RESPONDENT: “My husband got dengue fever... we took him to [the hospital] and believe me the people there were so nice to me. They were really nice people...they said if you have any complaints, or if no one cooperates with

FIGURE 9

Focus Groups Reveal Poor Service Quality and Lack of Recourse at Other Community Institutions



Schools:

“My neighbor couldn’t give the fees due to some problem at home. The teacher didn’t let her daughter sit in two exams, her final exams. Her mother was crying so much. She went to talk to the principal. She said I will let her sit for the exams if you pay the fees.”

WOMAN, FORMER CLIENT, KARACHI



Hospitals:

“They don’t listen to you. My daughter was in the hospital, she was suffering from pain. She asked me to call the doctor. Blood was supposed to be transfused. The nurse was busy talking on the phone, and I am requesting her to bring the blood bottle. She is looking at us, but she isn’t doing anything. When I asked her again, she says that this is not her job call the doctor. When I went to the doctor, she said take this nurse with you I will come later. When I asked the caretaker she said, ‘Why do you come again and again and disturb us?’ The patient is suffering and she needs blood on time and no one listened to me. I cried so much that day.”

WOMAN, FORMER CLIENT, LAHORE



Government offices:

MODERATOR: “You didn’t like their [public electricity utility’s] service?”

RESPONDENT: “No, we are ladies and we have so much work at home. We have a family; we leave all our work, our children and go their office to register our complaint so at least they should give us some protocol [instructions for complaining].”

WOMAN, CURRENT CLIENT, KARACHI

FIGURE 10

Photography Exercise: When They Do Complain, Respondents Feel Those in Power Do Not Take Action



MODERATOR: “What about this picture?”

RESPONDENT: “It is a transformer.”

MODERATOR: “Why have you taken picture of a transformer?”

RESPONDENT: “Because it is high up there and is not very stable. Every two months is sparks and breaks, and harms people and shops in the entire area. Once it exploded and fell down!... We people in the locality have requested [the government] to solve the matter, but they tried to repair the transformer instead of installing a new one, and then again the incident happened. It causes damage to all of us.”

“These are resourceful people who took part in election as well, and still we have these problems!”

FEMALE CURRENT CLIENT, LAHORE

you, you have to inform us. They cooperated a lot with us.”

MODERATOR: “How did you feel when you learned that you could complain?”

RESPONDENT: “I was really happy. We felt like there was someone who cares about us. We never felt scared about anything.”

Taking the data of low awareness of recourse options and low willingness to engage together with the qualitative stories, we can interpret that instead of trying to rectify issues, clients stop borrowing from the institution and take their business elsewhere. If recourse options and protocol were clear and robust, perhaps clients would be encouraged to maintain longer engagements with their providers.

Client Comprehension of Terms and Fees Can Be Improved.

When asked directly in the quantitative survey, only 5 percent of clients reported that they had been surprised by an aspect of their loan. However, when probed, the survey results show that client understanding of terms and conditions is not ideal. Only 41 percent of respondents understood terms and conditions very well and 11 percent did not understand at all (see Figure 11). Further analysis showed that the level of understanding did not differ based on who offered information (officer, the group leader, or some other entity), the urban-rural location of the clients, or respondent gender. It was, however, correlated with literacy and numeracy. Of those who read very well, 8 percent did not understand terms and conditions at all, compared to 14 percent of those who are illiterate.

A client in Karachi described her confusion about various fee deductions related to her loan.

“They gave us a loan, and told us now you have to pay extra money for it. They charged 700 rupees (US \$6.85) for insurance and they took extra money, too. They gave 15 thousand rupees instead of 20 thousand rupees after deducting their charges (approximately US \$150 instead of US \$200).”

Focusing on the fees in particular, 75 percent of respondents reported paying at least one type of fee for their most recent loan (the various

types are shown in Table 1). On average, they reported paying a total of 615 rupees worth of fees (US \$6; median—500 rupees, US \$5).¹¹ Although only 5 percent of clients reported paying a fee they were given no reason for (miscellaneous fee), it is concerning that some clients are being charged without understanding the purpose of the fee.

Our survey shows that clients lacked knowledge about insurance in particular. A little over one-third of respondents reported being required to buy insurance—we show the types of insurance purchased in Table 2. It is concerning that 7 percent of these clients did not even know what type of insurance product they had purchased.

Clients rarely used the insurance—4 percent had made a claim, and very few would even know how to use it if needed. And, as we see in Figure 12, only 13 percent of clients who bought insurance but never used it think they would know what steps they would have to take to avail its services.

Juxtaposing what clients understand with what they report MFPs have disclosed, about one-quarter of former and current clients claimed not to have received any information, either written or verbal, about fees and interest terms associated with the loan. For those who did report receiving information, it was offered by MFP staff (90 percent) or by group leaders (10 percent).

Low literacy rates in Pakistan make conveying loan terms especially challenging. As seen in Table 3, only 34 percent of clients who read Urdu well reported receiving written information. The percentage of respondents who reported receiving written information was lower among rural respondents (17 percent) than for urban respondents (29 percent).

Taken together, the research suggest that while major surprises to clients regarding fees and terms are uncommon, client comprehension could be improved. In an environment like Pakistan with low literacy, this poses a challenge to MFPs and a broader question of whether simply checking the box on disclosure is enough. In the next section, we discuss early evidence that clients of smaller MFPs may face serious surprises when it comes to full disclosure about interest charges and late fees, as well as other issues.

TABLE 1

Various Fee Types and Associated Amounts (Median Loan Value is Rs. 25,000, or US \$243)

	RESPONDENTS WHO PAID FEE	AMOUNT (AVERAGE/MEDIAN IN RUPEES)	AMOUNT (AVERAGE/MEDIAN IN US \$)
Application fees	50%	₹ 394/200	US \$3.86/1.96
Insurance fees	42%	₹ 650/600	US \$6.37/5.88
Miscellaneous (no definition of what cost is for)	5%	₹ 637/400	US \$6.25/3.92

More Investigation is Needed Into the Practices of Smaller MFPs in Less Saturated Areas.

During our qualitative research in rural areas of Sheikhpura, Punjab, MFP clients in both focus groups and individual interviews told us about graver worries and negative experiences with providers that extended beyond the trends and issues observed to date. The clients in the rural research area, which was less penetrated in general by microfinance, had borrowed from small MFPs that were not known to the research team. These clients claimed that MFPs lied about interest rates and fees and group leaders with too much power, and who are sometimes corrupt. We did not encounter these issues during the qualitative interviews of clients in the more saturated, urban and peri-urban qualitative sites near Karachi and Lahore, nor in the follow-up quantitative survey.

Unfortunately, we were unable to interview clients of smaller MFPs during the follow-up quantitative survey due to the specific sampling methodology employed. Areas with low concentrations of MFP clients were removed from the sample out of necessity to be able to locate enough clients, which may explain why clients of less well-known and smaller MFPs were not among the respondents sampled (see Annex 2 for an explanation of the sampling approach).

FIGURE 11

Level of Understanding About Fees and Interest (N=900)

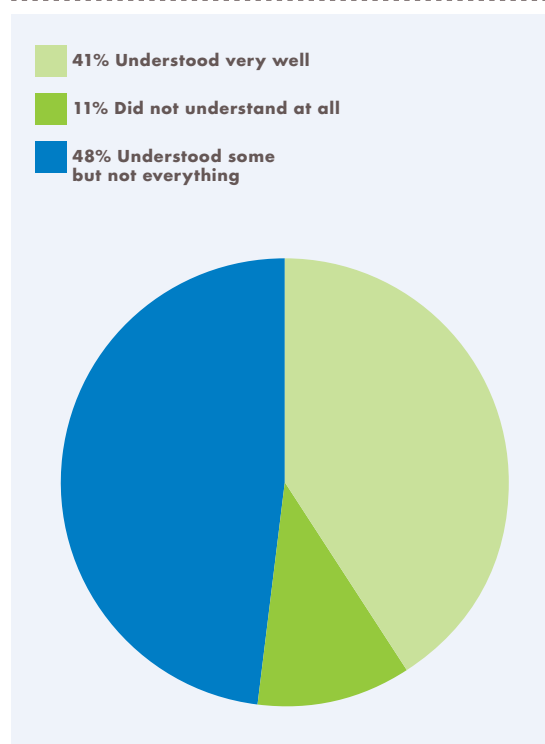


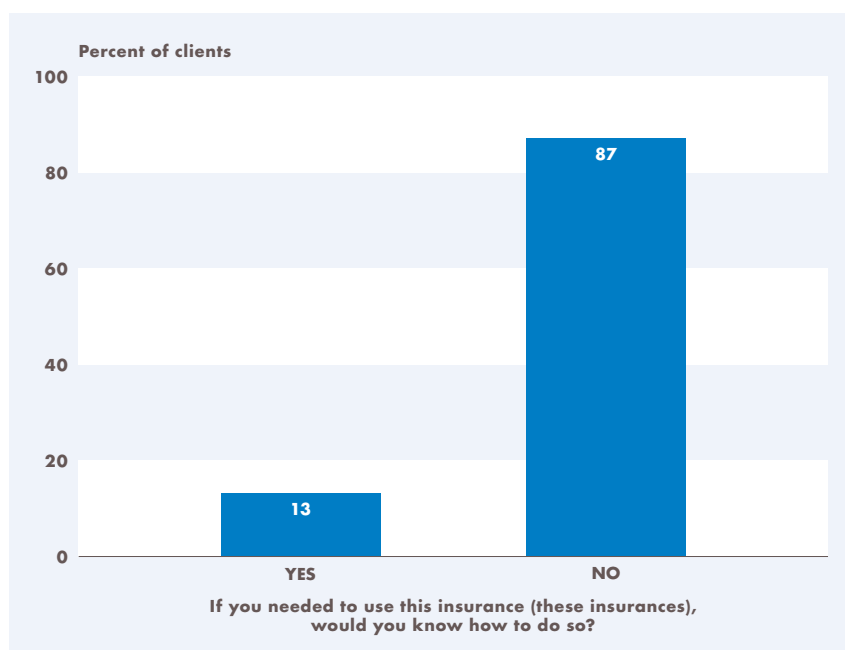
TABLE 2

Type of Insurance Bought by Respondents (Multiple Responses)

INSURANCE TYPE	RESPONDENTS WHO BOUGHT INSURANCE
Credit	36%
Life	33%
Funeral	11%
Health	8%
Don't know what type	7%

FIGURE 12

Knowledge of How to Make a Claim Against Insurance (N=314)



Nonetheless, our qualitative research indicates that there may be important differences between the treatment of clients by smaller MFPs we encountered in the rural focus groups and larger, well-known MFPs. More follow-up is needed to verify this initial, troublesome evidence.

Transparency regarding interest: The most worrying and problematic issues clients cited related to transparency around the charging of interest. Clients in Sheikhpura told us that they were not told that they would be charged interest, or were not told the exact amount. As a former borrower explained during a focus group:

RESPONDENT: “First they [the MFP] said there is no interest involved.”

MODERATOR: “Did they use the word ‘interest?’”

RESPONDENT: “Yes, that there is no interest. Later they said there is interest.”

MALE, FORMER USER, SHEIKHPURA

During an individual interview, a current client corroborated the MFP’s lack of clear information on interest:

MODERATOR: “When did you learn that you would have to pay interest on your loan?”

RESPONDENT: “When I went to pay the first installment, they said you have to give Rs. 2200 instead of Rs. 2000 (approximately US \$21 instead of US \$19).”

MODERATOR: “They didn’t inform you before?”

RESPONDENT: “No.”

MODERATOR: “Not while filling the forms or signing the papers?”

RESPONDENT: “No, they didn’t tell us. Later they said you have to give an extra 200 (US \$1.96) rupees on each installation.”

FEMALE, CURRENT USER, SHEIKHPURA

Another client asserted that the MFP initially told her the loan was a free ‘scheme’:

RESPONDENT: “When I was in need, I went to take a loan. Then they started taking money from us themselves.”

MODERATOR: “Was it clear to you that this would happen? What did they tell you?”

RESPONDENT: “This is a scheme for free [implying that the client would not pay ‘extra’ or ‘interest’].”

Disclosure of late fees: Clients also noted that were not told about the possibility of late fees (ranging from 200 to 500 rupees, or US \$1.96 to \$4.90, for each late payment) until they were fined. As a former client in Sheikhpura related:

RESPONDENT: “[The staff at the MFP] said that I paid late, so I have to pay a fine of 200 rupees for last month.”

MODERATOR: “When did you find out about the late fee?”

RESPONDENT: “After four to five months [of borrowing].”

MODERATOR: “Did they tell about the late fees during the first meeting?”

RESPONDENT: “No.”

This particular client paid late because his wife fell ill. He described how the MFP staff informed him about the late fee. The harsh treatment he experienced is in line with the unsympathetic treatment described in the previous sections:

MODERATOR: “When did [the MFP] tell you about the late fee?”

RESPONDENT: “When I went to their office the next month [to explain that my wife was very sick]. I told them that I needed the money [for her treatment], but I am paying it back now. They said that in any case you still have to pay 200 rupees.”

MODERATOR: “How was their behavior?”

RESPONDENT: “It was not good...I told them all that I am the only breadwinner.”

MODERATOR: “How did you feel?”

RESPONDENT: “I started crying.”

MODERATOR: “You started crying there in front of them?”

RESPONDENT: “Yes.”

MODERATOR: “What was their reaction?”

RESPONDENT: “They had no reaction.”

MALE, FORMER USER, SHEIKHPURA

Concentration of power with group leaders:

Clients in Sheikhpura also described the

TABLE 3

Percentage of Clients Who Received Written Information by Their Ability to Read in Urdu (Self-reported)

LEVEL OF READING IN URDU	% WHO REPORTED RECEIVED WRITTEN INFO
Very well	34%
With some difficulty	16%
Not at all	16%

lack of control they feel with group leaders in particular. Some clients explained that the group leaders, who were not staff of the MFP, were their only connections with providers. A male former borrower explained:

RESPONDENT: “The group leader finalizes everything and takes your money.”

MODERATOR: “Do you trust him?”

RESPONDENT: “Yes, but the group leader has all the copies and papers. But he doesn’t give it to us or show us what is there.”

Others complained of group leaders cheating them and asking for bribes:

RESPONDENT: “The group leader over there asked for money to have some sweets, so he took 500 rupees from us.”

MODERATOR: “How did you feel?”

RESPONDENT: “I was shocked, as I went there to take a loan..”

FEMALE, FORMER USER

Given that clients of larger, more well-known MFPs, both in the qualitative and quantitative phases, did not mention harms related to disclosure of interest, late fees, and concentration of power with group leaders, an important topic for the industry to consider may be a deeper exploration of client experiences with smaller MFPs.

3

Recommendations

The Client Protection Principles that emerge as the priority areas for creating a more protective microfinance industry in Pakistan include Transparency, Fair and Respectful Treatment of Clients, and Mechanisms for Complaint Resolution. Additionally, more research into small MFPs and areas where few MFPs are operating is needed to further explore problems found in rural areas. We present our initial recommendations for the five top consumer protection issues in microfinance in Pakistan

in Table 4. Addressing these concerns requires a market-level approach that takes into consideration the unique role that regulators, industry, and clients themselves each must play. The Smart Campaign and its partners have identified three pillars that are necessary for building protective client protection ecosystem in individual markets: regulation for client protection and supervision, financial education and capability, and standards and codes of conduct for the industry.

FIGURE 13

The Smart Campaign's and Partners' Pillars for Client Protection



TABLE 4

Problems and Recommendations

CONSUMER PROTECTION PROBLEM	RECOMMENDATION
<p>Inflexibility and harsh treatment in the case of late repayment</p>	<p>MFPs can train loan officers and revisit their incentive structures to reduce occurrences of problematic treatment of clients who are late. They can also design avenues for reconsolidation or at least one renegotiation of the due date in case of an emergency. Similarly, if clients anticipate major expenses during the year due to special occasions such as a wedding, financial counseling and planning sessions may help.</p> <p>Offering more flexibility to clients who have paid well over a few loan cycles would make clients feel that MFPs are more understanding in the case of emergencies, and that clients have the potential to prove themselves and build a good reputation over time. This may translate to ameliorated effects on reputation.</p> <p>Although it will take time, the new Microfinance Credit Information Bureau (MF-CIB) should deter clients from default and late repayments, hopefully reducing the pressure on loan officers that may contribute to harmful treatment of clients during collection. We recommend supporting efforts to increase usage of and accelerate the completeness of the credit bureau.</p>
<p>Disrespect and poor service</p>	<p>As discussed in the findings, a welcoming and supportive customer service environment can go a long way. MFPs may want to consider sensitivity training and mystery shopping to promote more customer-centricity in their institutions.</p>
<p>Unclear complaints processes</p>	<p>MFPs can consider user-centered and transparent complaints mechanisms (customer satisfaction ratings via text message after loan repayment, for example) to empower clients. Clients who are able to give feedback and obtain a response may be less likely to discontinue borrowing from an MFP after experiencing issues.</p>
<p>Suboptimal client comprehension of terms and fees</p>	<p>MFP should present clients with information verbally or using other innovative tools. Clear and simple explanation of the total cost of the loan, all fee amounts and what they are for, and the consequences of late payments or default should be the priority. In addition to disclosing the total repayment amount compared to the principal, explaining how much clients will pay in total per PKR 100, including fees, could be an effective way to permit clients to compare offers from MFPs.</p>
<p>Lack of transparency, corruption, and elite capture at lesser known MFPs</p>	<p>More research on and supervision of smaller, lesser-known MFPs to verify that disclosure is happening and clients have a contact besides their group leader would be beneficial. The industry can explore mechanisms to help ensure that such MFPs are registered and to counterbalance any exploitative practices. Building on the proposed regulations of non-bank MFPs circulated by the Securities and Exchange Commission of Pakistan (SECP), accelerating regulation of these types of providers is advisable.</p>

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Description of the Research Methodology

Qualitative research methods

As shown in Table 5, BFA designed and implemented a variety of research methods in the qualitative phase, relying heavily on our local partner TNS Aftab for execution. The target population for this research was current and former microfinance clients who had either saved or borrowed at MFPs. In practice, all respondents had borrowed, and just a few saved as well as borrowed.

Qualitative research involved focus group discussions and individual interviews. Nine focus groups (of 9–10 individuals each) and 10 individual interviews were conducted in three locations: two in the Punjab province (urban Lahore and rural Sheikhpura) and one in the

Sindh province (urban Karachi). Urban Lahore and urban Karachi were selected due to their high concentrations of MFI clients, and the Sheikhpura district was selected to explore rural themes.

Quantitative survey

The main objective of the quantitative survey was to understand how common problems with MFPs are at the national level in Pakistan.

Sampling methodology

The aim of this study was to explore the universe of current and former MFP clients: savers and/or borrowers, 18 years or older, who currently have engagements with MFPs, or

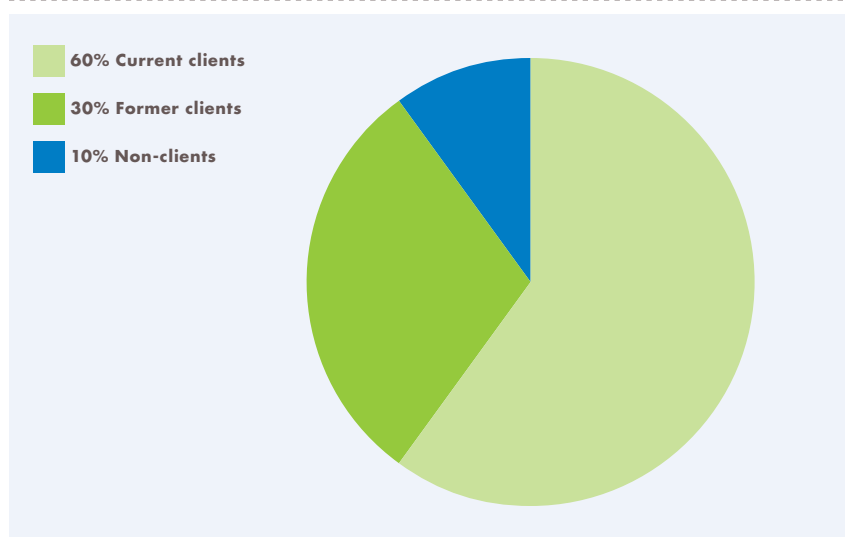
TABLE 5

Research Tools in Qualitative Research

RESEARCH TOOL	OBJECTIVES
Focus group discussions	To understand clients' perspectives and reasons about what they view as good or bad treatment, and to rank the attributes of such treatments and various institutions (financial and non-financial) using a variety of exercises.
Individual in-depth interviews	To gain a deep understanding of individuals' interactions with MFPs, and how experiences are shaped by circumstances. A secondary objective was to obtain personal details and information about the financial situation not appropriate for discussion in a group context.
Photography exercise	To incite discussion and better understand clients' views of good and bad treatment, through images and metaphors, contextualized by information from interviews with the individuals.

FIGURE 14

Respondent Types in Quantitative Survey



whose engagement with MFPs ended less than three years ago. We included former clients in the sample based on the hypothesis that some former clients may have faced problems or poor treatment during their tenure with MFPs, and then decided to stop borrowing or saving. Non-clients were included in the sample since we wanted to understand their perception of MFPs, and assess if rumors and concern about poor treatment could be a factor that prevents them from becoming clients. See the Figure 14 for a breakdown of respondent types:

Respondent type definitions

CURRENT MFI USER: Currently has or in the past six months had a loan or savings with an MFP.

FORMER MFI USER: Not a current user, but had savings or loans with an MFP, between six months and 3 years ago.

MFI NON-USER: Not a current or former user, but has heard of MFPs

Due to political instability and a very low density of MFP borrowers in some areas of Pakistan, only two of the four provinces of Pakistan were covered by interviews. However, these two provinces—Sindh and Punjab—are Pakistan’s most populous,

comprising 78 percent of the total population and 94 percent of active microfinance borrowers in the country.¹²

The concentration of microfinance clients in Pakistan is low (less than 3 percent of the population), and there is no centralized repository of exact addresses for clients. Obtaining detailed client information from all MFPs would have been difficult and very time consuming and could have compromised respondents’ trust in the confidentiality of answers. Thus, we employed data provided by the Pakistan Microfinance Network (PMN) to determine the concentration of current microfinance clients at the *tehsil* level.¹³ For each of the two provinces, we dropped out of consideration the 20 percent of *tehsils* with the lowest relative concentration of MFP clients. We recognize that this strategy may introduce a certain degree of bias, given that a lower concentration of borrowers could mean fewer MFPs and issues specific to low competition among providers. However, the alternative would not have been practical to implement.

In the first stage of sampling, a total of 100 *tehsils* were randomly selected from the remaining eligible ones, using the proportional to size sampling method. Punjab was allocated a number of 71 *tehsils* to be interviewed, while Sindh was allocated 29 *tehsils*, based on the distribution of Pakistani current MFP borrowers. The urban-rural allocation of *tehsils* within each province was reflective of the actual administrative distribution. Overall, 58 *tehsils* classified as urban and 42 *tehsils* classified as rural.

In each *tehsil*, 10 interviews were conducted for a total of 1,000 interviews. During the second stage of sampling, the interviewers used the random walk method to select households in the field. Using two starting points per *tehsil*, and a step of five, interviewers applied a screener to determine the eligibility of adults 18 years old or older. In the event that one household contained more than one eligible member, the respondent was selected using the Kish grid.

A quota for client type (current, former, or non-client) was applied at the *tehsil* level. No gender quota was employed, however the resulting sample had a nearly exact 50 percent gender breakdown. In addition, in the resulting sample, 69 percent have had or had a group loan and 31 percent had individual loans.

Endnotes

1 The Smart Campaign Client Protection Principles are: 1. Appropriate Product Design and Delivery; 2. Prevention of Overindebtedness; 3. Transparency; 4. Responsible Pricing; 5. Fair and Respectful Treatment of Clients; 6. Privacy of Client Data; 7. Mechanisms for Complaint Resolution.

2 A *tehsil* in Pakistan is an administrative unit below the province and district, and above the union council.

3 94% of Pakistani active microfinance borrowers live in Punjab and Sindh. See: Pakistan Microfinance Network, "MicroWATCH: A Quarterly Update on Microfinance Outreach in Pakistan," Issue 35, January–March 2015.

4 Economist Intelligence Unit, *Global Microscope on the Microfinance Business Environment 2013* (London: EIU, 2013)

5 Pakistan Microfinance Network, *Pakistan Microfinance Review 2014* (Islamabad: PMN, 2014).

6 Microfinance providers in Pakistan can be divided into five groups: (1) Microfinance Banks (MFBs), which are regulated by the Central Bank under the Microfinance Ordinance of 200; (2) specialized Microfinance Institutions, which are NGOs providing microfinance services only; (3) multidimensional NGOs that run microfinance operations as part of integrated development programs; (4) Rural Support Programs, which provide microfinance as a part of rural development initiatives and; (5) commercial financial institutions. In this focus note, the five types are grouped together under the umbrella term Microfinance Providers (MFPs). Among these institutions, only MFBs can take deposits from the general public.

7 Arsala Kidwai, "Pakistan: A Protected Microfinance Borrower," (2009), available at www.idlo.int/MF/Documents/Publications/66E.PDF

8 See quantitative slide deck for more details, available at www.smartcampaign.org.

9 Karachi has at times seen prolonged periods of unrest, mostly to gang warfare: see: Al Jazeera, "Karachi Gang Warfare Kills at Least a Dozen," available at www.aljazeera.com/news/asia/2014/03/karachi-gang-warfare-kills-at-least-dozen-2014312751359479.html

10 Nearly 70% of respondents have or had a group loan.

11 The average loan size reported is 23,065 rupees (US \$226; median–20,000 rupees, US \$196).

12 Pakistan Microfinance Network, "MicroWATCH: A Quarterly Update on Microfinance Outreach in Pakistan," Issue 35: Quarter 1, Jan–Mar 2015.

13 PMN had partial data, regarding only registered MFPs.

The Smart Campaign is a global effort to unite microfinance leaders around a common goal: to keep clients as the driving force of the industry. The Smart Campaign consists of microfinance leaders from around the world who believe that protecting clients is not only the right thing to do but the smart thing to do. By providing microfinance institutions with the tools and resources they need to deliver transparent, respectful, and prudent financial services to all clients, the Smart Campaign is helping the industry maintain a dual focus on improving clients' lives while attaining financial sustainability. The Campaign is headquartered at the Center for Financial Inclusion at Accion. Learn more at www.smartcampaign.org.

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CENTER for
FINANCIAL
INCLUSION

ACCION



Keeping clients first
in microfinance