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MicroNOTE

CLIENTS' PERCEPTIONS OF CONVENTIONAL AND NON-CONVENTIONAL FORMS OF MICROFINANCE IN PAKISTAN

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INTRODUCTION AND BACKGROUND

Recent estimates indicate that the potential market size for micro-credit in Pakistan is over 20 million borrowers[2]. However, the existing micro-finance providers (MFPs) in the country have only been able to tap one-fourth of this market, with outreach in terms of active clients standing at 4.34 million as of September 2016[3]. In line with the broader National Financial Inclusion Strategy that aims at increasing access to financial services country-wide, the microfinance industry has set itself a target of reaching 10 million borrowers by 2020[4]. In this context, there is a need to explore if a more diversified product base can help increase outreach. In particular, it would be interesting to know if there is untapped demand for Shariah compliant products that the providers can cater to. This is because Pakistan is an overwhelmingly Muslim majority country where religion is steeped in culture, and the culture in Pakistan encompasses all spheres of public and private life of the individuals. As such, Islam prohibits charging of interest on financial transactions, there is need to ascertain what portion of potential Pakistani clients consider it important to go for Shariah compliant products while seeking microfinance.

Conventional forms of Islamic Banking have been a success story in Pakistan since the first license of Islamic Banking was awarded to Meezan Bank in 2002. The Islamic Banking sector in the country presently comprises of 22 banks, with market share of Islamic banking assets and deposits in overall banking industry standing at 11.4 percent and 13.2 percent respectively, for the year ending June 2016[5]. With a large untapped micro credit market, Islamic microfinance can potentially help break socio-religious barriers to the uptake of micro-credit. Presently, the share of Islamic Microcredit in Pakistan stands at 8 percent of the industry's gross loan portfolio, with its share in terms of number of active borrowers at 15 percent of the 4.34 million active clients[6].

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1 Support extended by Dr. Lubna Shahnaz and Mr. Shahid Naeem in conducting focus group discussions is acknowledged.

2 Pakistan Microfinance Network; Estimating Potential Market Size for Microcredit in Pakistan, 2015.

3 Pakistan Microfinance Network; Microwatch, Issue 40, 2016.

4 Pakistan Microfinance Network, Microfinance Growth Strategy,2015.

5 State Bank of Pakistan, Islamic Banking Bulletin April – June,2016.

6 Pakistan Microfinance Network; Microwatch, Issue 40, 2016.

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The objective of the present study is to better understand client perceptions with regards to the conventional and non-conventional (interest free and Islamic) forms of microfinance as well as capture the notions clients attach with the different forms of microfinance prevalent in the industry. The analysis of the study would seek to disentangle the service delivery aspect from the product features, whether a client or potential client prefer non-conventional modes of microfinance because the product adheres to certain cultural or religious principles, or is it lower cost of borrowing or better customer service delivery that sets the product of one organization apart from another. The focus of the study would only be on micro-credit products and the analysis would also encompass clients' experiences with the use of different loan products as well as their recommendations for improvement in product design.

The study is divided into four sections. Section 2 following the introductory background presents a mapping of the main micro-credit products of the top ten micro-finance providers in Pakistan. On the basis of the important product features, a classification into conventional and non-conventional products is developed. The main highlights from the client level focus group discussions (FGDs) held with borrowers of different microfinance providers across five districts in the provinces of Punjab, Sindh and Khyber Pakhtunkhwa (KPK) to better understand client perceptions about micro-credit products are presented in Section 3. Important policy recommendations that emerge from the analysis, in terms of better product design are presented in Section 4.

PRODUCT MAPPING

In order to get a picture about the different types of micro-credit products available in the market, an analysis of the products of the top ten micro-finance providers (MFPs) in terms of active clients and gross loan portfolio was carried out. This analysis is based on outreach data for September 2016. The top two products of these ten MFPs were examined in detail, in terms of the different characteristics, i.e., loan size and duration, effective interest rate, collateral and guarantee requirements and repayment schedule, with a view to developing a categorization of products into conventional and non-conventional types.

Based on the detailed product analysis, the following two criteria were developed for classifying micro-credit products presently available in the market into conventional and non-conventional categories:

1. Payment of interest rate on the amount borrowed – additional amount of money over and above the amount of loan that a borrower has to return and/ or
2. No service charge on loan processing

Products that were being provided free of interest and/ or with no service charges were classified as non-conventional products. The products that did not meet any one of these two criteria were categorized as conventional products. The product mapping exercise for each of the ten MFPs was carried out in terms of the provision of conventional and non-conventional products. Apart from Akhuwat, whose complete portfolio of products was classified as non-conventional, the only type of non-conventional product that was being served by some of these ten MFPs was the Prime Minister's Interest Free Loan scheme (see Box 1 for details). The details of the 10 MFPs along with figures on their active clients under both conventional and non-conventional micro-credit products, as of September 2016, is presented in Table 1. The salient features of the micro-credit products of these MFPs are given in Annex A.

Table 1: Main characteristics of various microfinance products of Top Ten MFPs

			Conventional			Non-conventional	
1.	NRSP	**Products**	Agriculture/ livestock	Enterprise mgmt	% of total clients	PMIFL	% of total clients
		No. of active clients	242,167	231,922	71.3	20,968	3.2
2.	Akhuwat	**Products**[1]	CM SES	Enterprise & social		PMIFL	
		No. of active clients	500,000	50,000	91.3	27,000	4.5
3.	KB	**Products**	Khushhali qarza	Khushhali cash sahulat		-	-
		No. of active clients	446,127	37,982	88.7	-	-
4.	NRSP-B	**Products**	Agriculture group loan	Enterprise loan		-	
		No. of active clients	252,569	27,513	82.8	-	-
5.	ASA Pakistan	**Products**	Enterprise loan	Livestock loan		-	-
		No. of active clients	302,186	5,490	101.0	-	-
6.	KF	**Products**	Kashf karobar karza	Kashf M		PMIFL	
		No. of active clients	206,263	7,162	97.8	2,173	1.0
7.	TRDP	**Products**	Enterprise loan	Livestock loan		-	-
		No. of active clients	42,000	35,000	74.9	-	-
8.	FINCA	**Products**	FINCA karobari karza	FINCA kashtkar karza		-	-
		No. of active clients	59,313	30,590	76.7	-	-
9.	RCDS	**Products**	CED	Enterprise devel-opment facility		PMIFL	
		No. of active clients	55,542	3,802	81.3	10,792	14.8
10.	PRSP	**Products**	Enterprise loan	Livestock loan		PMIFL	
		No. of active clients	19,267	32,872	83.6	1,729	2.8

NRSP	National Rural Support Program
KB	Khushhali Bank
NRSP-B	National Rural Support Program – Bank
KF	Kashf Foundation
TRDP	Thardeep Rural Development Program
FINCA	FINCA Microfinance Bank
PRSP	Punjab Rural Support Program
RCDS	Rural Community Development Society

Overall, the top ten MFPs reviewed served 3.09 million active borrowers, which accounts for 71.2 percent of the industry's total active clients, as of September 2016. In terms of the product mix, it is seen that top two conventional products of these providers were being availed by 2.04 million borrowers (47 percent of all active clients). On the other hand, 0.62 million borrowers (14.3 percent of the industry's active borrowers) were being provided with non-conventional micro-credit products by Akhuwat and 4 other providers, with Akhuwat leading in non-conventional products having an outreach of 0.58 million clients.

BOX 1: Prime Minister's Interest Free Loan Scheme

The Prime Minister's Interest Free Loan (PMIFL) Scheme was launched in 2014 by the Government of Pakistan to help eradicate extreme poverty in the country, and to directly address the issue of rising unemployment, by leveraging local investments in livelihoods and enterprise development. The Government has committed Rs. 3.5 billion to the PMIFL Scheme, through which productive micro-enterprise activities are being supported by a maximum loan of Rs. 50,000 for individuals living in households falling in score of upto 40 on the National Poverty Score Card (PSC), with at least 50 percent of the loans mandated to be disbursed to women. The PMIFL aims to reach out to 1 million borrowers over a period of 4 years in 63 priority districts having low indicators of human development and food security and low or no access to microfinance. The provincial breakup of these priority districts shows that 13 are in Punjab, 11 in Sindh, 15 each in KP and Balochistan, 5 in Azad Jammu and Kashmir and 4 in Gilgit Baltistan.

The Pakistan Poverty Alleviation Fund (PPAF) has been chosen to implement this Scheme through its network of credible Partner Organizations (POs). Each implementing PO is required to have a demonstrated performance track record of at least two years (with audited financial statements), showing expertise in engaging with grassroots community, particularly with people on a poverty score of 0-40, and experience of interest free lending, or livelihoods and enterprise development, or both. As of end August 2016, the PPAF through its participating 27 POs has managed to disburse 207,720 loans throughout 287 union councils in 44 districts across Pakistan. Out of these 27 POs, 7 are not members of the Pakistan Microfinance Network, which accounted for over 49,000 of the loans disbursed under this scheme, as of end August 2016.

CLIENT UNDERSTANDING AND PERCEPTION

This section presents the main findings from the focus group discussions held in four districts across the three provinces of Punjab, Sindh and KPK in order to better understand the perceptions of micro-credit clients with respect to the conventional and non-conventional micro-credit products available in the market. In particular, the study wanted to determine how the average client is able to distinguish between the two main product types and their preference for either of that type on the basis on some pre-conceived religious or cultural notions. In addition, the study also endeavored to understand client experiences with different modes of micro-credit and get insights into improvements in product design to meet clients' requirements.

Selection of FGD Sites

The four districts across the three provinces of Punjab, Sindh and KP, chosen for carrying out the FGDs with active micro-credit borrowers were selected based on the two criteria of outreach of the PMIFL scheme (in terms of active clients) and the overall number of active borrowers of both conventional and non-conventional products. In the first stage, the districts in the provinces of Punjab, Sindh and KPK having highest number of active borrowers under the PMIFL were selected[7].

Against these districts, the total number of micro-credit borrowers in that district (both conventional and non-conventional) is selected and the districts within each province in terms of the trade-off between conventional and non-conventional (PMIFL) borrowers were prioritized. Finally, selection of districts was made based on the criteria of having providers and active borrowers of both, PMIFL and the mainstream micro-credit products. In case of the PMIFL scheme, the selection was limited to PMN members only for conducting FGDs. The final selection of the four districts (Haripur in KPK, Layyah and Muzaffargarh in Punjab and Thatta in Sindh) also involved considerations of logistical arrangements, in addition to the above outlined criteria.

In addition to the above four districts, one combined FGDs with male and female clients was held in district Chakwal in Punjab subsequent to the main field work, to further probe some of the issues highlighted in the earlier FGDs. The additional FGD was organized to better understand the financial behavior of multiple borrowers, especially those who were using or had availed non-conventional micro-credit products in the past, along with conventional products. This district was selected on the basis of having a higher incidence of multiple borrowing, which could give greater insights into the behavior of multiple borrowers.

Profile of Participants

The FGDs were organized by the identified providers in each district who were requested to invite 5-7 clients, for each type of product. Separate FGDs for male and female clients were arranged in all districts and similarly, FGDs with borrowers of conventional and non-conventional products were also dealt with separately[8].

[7] The emphasis on PMIFL was due to the fact that over past 2 years, this has been one of the largest interest free loan scheme implemented in the country. It was therefore considered important to assess the perceptions of borrowers who obtained loans under this scheme for non-conventional forms of micro-credit.

[8] The research team had intended to conduct combined FGDs with clients of conventional and non-conventional products of a particular MFP, to get a more distinct flavor of the differences in perception. However, this was not possible due to logistical reasons and perhaps, in some cases, due to the non-willingness of some of the MFPs' staff to combine their different clientele in one physical location.

Table 2: Key characteristics of the Client level FGDs

District	No. of FGDs	Participants		Clientele		Providers	Income Range ('000)		Education Range	
		Male	Female	Conv.	Non-Conv.		Conv.	Non-Conv.	Conv.	Non-Conv.
Haripur	3	9	10	14	5	GBTI	10-35	5-20	No education to BA	No education to Matric
Layyah	4	11	13	12	12	RCDS	12-50	5-15	Primary to MSc	No education to BA
Thatta	1	7	-	-	7	SSF	-	7-15	-	Low
Muzaffargarh	2	10	9	-	19	Akhuwat,				
AGAHE	-	5-25	-	No education to Matric						
Chakwal	1	5	8	13	6	MO	5-30	10-30	No education - matric	

GBTI	Ghazi Barotha Taraqiati Idara
MO	Micro Options
SSF	SAFWCO Support Fund
AGAHE	Association for Gender Awareness and Human Empowerment

In all, a total of 12 FGDs were conducted, in which 42 male and 40 female borrowers participated, of which 39 borrowers were of conventional products and 48 of non-conventional products including PMIFL. The key characteristics of the participants of the FGDs, separately for conventional and non-conventional products, district-wise, are outlined in Table 2.

There was a significant difference in the income range of both types of borrowers, with clients of conventional products observed as having a higher monthly income range of between Rs. 10,000-50,000 compared to clients of non-conventional products, whose average monthly income ranged between Rs 5,000-25,000. When asked, some of the staff of conventional loan providers explained that they need to ensure re-payment capacity of clients of conventional products. Education level of the groups of clients belonging to conventional and non-conventional products was also different, as majority of clients of non-conventional products were either illiterate or had lower level of educational attainment compared to those belonging to conventional products which included many clients possessing graduation and above level of educational qualifications. It was found that most of the clients of interest free loans used their loan amount in livestock development, while majority of the clients of conventional loans invested loan amount in enterprise development.

Main Findings of FGDs

At the outset, it would be pertinent to mention that the target audience of the PMIFL and the other conventional loan products of the MFPs reviewed are quite different, so a direct comparison of the views of conventional and non-conventional clients cannot be meaningfully carried out. The client level discussions showed that all borrowers had taken loans to start their own small scale business/ employment generating activities as well as for further expanding their existing businesses. In most of the locations where the FGDs were held, access to loans services was limited, with only a single provider usually active in provision of micro-credit services. This was particularly seen to be the case for the PMIFL, as this product had been introduced in areas previously lacking access to conventional forms of micro-finance. For the PMIFL borrowers surveyed in Thatta, Sindh, it was the first time that their area had got access to micro-credit services.

The loan amount varied significantly between participants of different FGDs. The main reason for this variation was the loan cycle in which a particular borrower was in. Most of the PMIFL/ Akhuwat borrowers were in the first to third loan cycle, so their loan amounts were considerably lower in comparison to the loan amount of the borrowers of conventional products. Borrowers in a higher loan cycle were getting access to higher loan amounts due to the successful completion of earlier loan cycles, which increased trust of their MFPs in their repayment capacity.

The participants of the different FGDs reported that it took on average 10-15 days to obtain loan disbursement after filing of loan application with their respective MFPs. The processing times did not vary by loan type but rather by organization. The clients of Akhuwat in Muzaffargarh reported receiving loan amount within 10 days of application. However, the clients of SSF in Thatta reported that it took a month, on average, to get their loan applications processed and receive the first payment from their provider.

Verification of potential clients in most cases was carried out through personal visits of MFP staff to the respective communities. In case of Akhuwat, the staff verified the credit worthiness of a borrower through three main sources, which included the local imam masjid, local shopkeeper and community representative/ neighbourhood. Most of the FGD participants indicated that loans are disbursed mainly through cheques to them, with clients of GBTI in Haripur informing that they could receive their loan amount through branchless banking mechanisms, such as mobile banking agents. Most of the providers were extending products based on group methodology and the clients had to attend group meetings on a monthly basis.

Overall, the basic concept of conventional micro-credit product in the minds of the clients was a loan product for which they had to pay an extra installment for repayment purposes. It was observed that many of clients of conventional products did not consider the amount of mark-up charged by the providers as 'unlawful interest', rather many of them considered the additional amount as the 'cost of the service' or 'just an additional installment'. In Haripur, only one participant mentioned that though they are taking interest based loan, it is not lawful and it would be better if they are provided interest free loan.

In case of clients of non-conventional products (Akhuwat, Agahi, RCDS), most of the participants were well aware of interest being religiously 'unlawful' and many said that they would not have opted for loan had that loan been 'interest bearing'. In Layyah and Muzaffargarh, the participants belonged to more religiously conservative segments of society. These non-conventional clients were of the view that if they took interest based loan, there would be no 'barkat' (spiritual blessing) in their business. Discussions with non-conventional clients in these two districts further revealed that some people in their community wanted to get loans but did not do so because of having to pay interest; they would be willing to take loans if offered on interest free basis.

The discussions revealed that majority of the clients of conventional products wanted to have access to interest free loan services for the sole reason of it being 'free of cost' loan. However, most of such clients expressed their understanding that the providers have to cover their costs when they charge interest on micro loans. In case of MFPs offering both conventional and non-conventional products, market segmentation was observed with the conventional clients, in some cases, being unaware that PMIFL was also being offered by their provider. This was perhaps also necessary as the PMIFL has strict eligibility criteria, to ensure that interest free loans were provided to more poor households, who are not usually the target group of conventional micro-credit.

The discussions with regards to clients' experience with their use of respective conventional and non-conventional loan products showed that majority of participants expressed satisfaction with the product offered by their provider. It was further observed that the clients of different providers also attached importance to the service delivery aspect in addition to product features and were appreciative of facilitation provided by their MFPs, such as giving room of a few days for payment of an overdue loan installment, friendly attitude of MFP staff and ease of receiving loan cheque.

In terms of suggestions solicited for improving product design to better suit the needs of the end clients, the majority of clients of both conventional and non-conventional micro-credit stressed upon increasing both the size as well as duration of the loan. The clients of conventional loans also suggested reducing the interest charged on loans. Some of the users of conventional products who took loan from providers using group methodology suggested reducing group size to 2-3 persons or giving individual loans without social collateral. The clients of PMIFL were of the view that the loan providers should also establish training centres in the community/ villages and arrange some training to the participants to improve their skills and better use of their finances.

The FGD held in district Chakwal with clients of an NGO MFP– Micro Options (MO) to better understand the financial behavior of multiple borrowers, included five individuals who were using or had availed micro-credit products in the past from Akhuwat and one from NRSP. The clients of MO were in their third or fourth loan cycle and had obtained loans for starting their own businesses or buying livestock. During discussion on interest rate, most of the clients conceded that although charging of interest was not right from the religious point of view, getting access to financial services was more important for their livelihoods and they were willing to obtain loans from any provider who would lend to them. In addition to micro-credit, most of the clients informed about using the committee system (ROSCAs) as well as credit from the local shopkeeper to manage their cash flows/ finances. They were aware of other formal financial instruments, such as bank accounts, saving certificates and prize bonds; however none of them reported using these owing to their limited income.

The discussions further supported findings of the earlier FGDs that service delivery was also an important aspect valued by the clients. The MO clients informed that it took just a week to process the loan application and get loan. During the discussions, the clients expressed their preference for a provider which can offer easy access; provide better service, shorter lag between appraisal and disbursement, flexibility in terms of unavoidable delays in re-payment, etc.

RECOMMENDATIONS

The main finding of the study indicate that charging of 'interest' on micro-credit is not seen as an important issue by clients of conventional products, as they mostly take it to be the 'cost of service'. Concerns about payment of 'interest' being religiously forbidden were mostly aired by clients of non-conventional products (Akhuwat, PMIFL borrowers), with this segment of clients being from a relatively lower socio-economic background compared to clients of normal/ conventional micro-credit products.

Thus, the findings of the study do not indicate a strong demand for Islamic Microfinance products among clients of conventional products. In terms of improvements in product design, the overwhelming majority of clients of both conventional and non-conventional products felt that the loan size as well as duration needs to be increased to better cater to their financing requirements. There is, however, potential demand for Islamic/ interest free microfinance at the lower end of the market, which can be met by expansion in the scope of targeted programs like PMIFL and CMSES, as case for market driven commercially viable products is weak.

In this regard, it is recommended that the Chief Minister's Self Employment Scheme in Punjab, which is presently providing substantially higher financing for interest free loans compared to the PMIFL[9] should include more implementing partners besides Akhuwat and Punjab Small Industries Corporation. This would improve the effectiveness of the scheme and broaden the choice of providers, offering easier modes of service delivery, to the poor households. In addition, the program should focus on extending loans in the more backward districts of the province, where access to financial services is low and in this regard, synergies can also be developed with the PMIFL. It is further proposed that as both the PMIFL and CMSES aim to target relatively poorer households, beneficiaries of the Benazir Income Support Program may be graduated to these interest free loan programs, where appropriate to more effectively address income mobility of the poorest households.

[9] The Government of Punjab has reserved a revolving fund of Rs. 40 billion to fund this scheme over a period of next 3 years to give interest free loans to 2 million households across the province.

ANNEX A: SALIENT FEATURES OF THE TOP TWO PRODUCTS OF THE TOP TEN MFPS

NRSP – the largest MFP provides a mix of both conventional and recently non-conventional products. Two of its main conventional products include Enterprise Management Loan and Agriculture/ Livestock Management Loan offered to rural communities for a period of one year. The loan amount ranges between Rs. 15,000-75,000, while Rs. 500 processing fee is also charged from the borrowers. The loan is given under group lending basis to groups of 3-20 persons; with two personal guarantees, one from the family and other from the neighborhood. The loan amount is disbursed on monthly basis while repayments are also made on monthly basis. The organization offers health insurance for the beneficiary and his/her spouse on payment of Rs. 200 (onetime payment) for one or upto maturity of loan (whichever is earlier).

NRSP also partners in disbursement of PMIFL, targeting rural communities having score of below 40 on the poverty scorecard. It offers interest-free loan of Rs. 15,000-50,000 with no service charges to individuals using group of 3-20 persons. Repayment of loan is made on monthly basis in case of enterprise loans, while in case of agriculture crop loan, it is made in lump sum. All the three products are offered only to one family member at a time.

Khushhali Bank is the largest service provider in the microfinance banks category, providing conventional products both for rural and urban clients, in livestock, agriculture and enterprise sectors. It main conventional product 'Khushhali Qarza' is based on group lending methodology for groups of 20-25 individuals who share responsibility for repayment in case of default. Under this product, the Bank provides loans ranging between Rs.15,000-50,000 for a period of one year depending upon the need as well as repayment capacity of the group. The client may opt to repay in monthly installments or in lump sum at the expiry of the term of credit. KB has also started disbursing the amounts through branchless banking services using easypaisa and mobicash. KB provides life insurance to all its clients free of cost, while offering optional health insurance on payment of additional charges.

Another product, 'Khushhali Cash Sahulat' is offered to individuals against collateral which can be in the form of Term Deposit Certificate including National Saving Certificate, agriculture passbook as a proof of ownership of agriculture land or gold. The bank values the collateral, deducts service charges as processing fee[10] and offers micro-credit equivalent to the remaining value of the collateral. These loans are given in the range of Rs. 25,000-150,000 to individuals, while period of loan, mode of payment and repayment options are same as in case of Khushhali Qarz.

Akhuwat dealing only in non-conventional micro-credit offers three main products, which includes the Chief Minister's Self-employment Scheme[11] (CMSES) for small entrepreneurs, Akhuwat Enterprise and Social Lending portfolio and PMIFL. CMSES and Akhuwat Portfolio loans are provided for 18 months' period to individuals based on social collateral of group joint liability. Loan amount ranges between Rs. 10,000-50,000 in case of SES as well as Akhuwat portfolio with no interest. Application fee of Rs. 200 is charged in both types of loans while voluntary contribution at 1 percent (optional) is taken as contributory fund in case of SES. In both types of products, the loan amount is disbursed through cheque, while repayment is made in cash in monthly installments. Akhuwat is also implementing PMIFL targeted towards poor household, where it disburses Rs. 10,000-50,000 to beneficiaries through cheques, while repayment is made in cash by the beneficiaries. No service charge, form price or

[10] These are deducted at the rate of 15 percent of the value of TD/NSC, 27 percent of the value of Agriculture land, and 28 percent of the value of deposited gold.

[10] This scheme for provision of interest free loans, which is similar to the PMIFL, is being implemented in the province of Punjab by Akhuwat and the Punjab Small Industries Corporation.

any other charges are deducted under this loan. These loans are also provided based on group lending with joint liability, where the group becomes the guarantor.

ASA offers only conventional micro-credit products to male and female clients in enterprise sectors for development of small businesses. Its 'Enterprise Loan' is a group based lending product for females only, offered to groups of 5-30 individuals on the guarantee of a male family member. The loan amount ranges from Rs. 20,000-59,000 for a period of one year, with a service charge of 2 percent (of approved loan amount) payable alongwith the interest rate. The beneficiaries are required to repay the amount in monthly installments. ASA has started disbursing the amounts to its beneficiaries through branchless banking. It also offers small business loans for 'Livestock Development' to individuals and groups who can arrange guarantee of one family member and a neighbor. Processing fee of 2 percent is charged on these loans ranging from Rs. 60,000-99,000. The amount is disbursed through bearer/crossed cheque to the beneficiary, with the period of loan and repayment options same as in the case of Enterprise loans for female clients.

NRSP Bank – provides conventional micro-credit services under 'Agriculture Group Loan' to farmers for purchase of agriculture inputs, while 'Enterprise Loan' is offered for establishing small businesses in services, trading and manufacturing sectors. The 'Agriculture Group Loan' is a group lending product offered to groups of 5-12 individuals, with loan size between Rs. 30,000-70,000 for a period of 16 months at the maximum depending upon the need as well as repayment capacity of the borrower. Interest rate on declining basis is charged along with service charges at 2 percent or Rs. 1000 (whichever is higher). The beneficiaries are required to repay the amount in lump sum. The 'Enterprise Loan' is provided to individuals on provision of post-dated cheque equivalent to the amount of loan and mark-up, with loans ranging from Rs. 20,000-150,000. In addition to post-dated cheque the bank also requires guarantee of a businessman or a salaried person and a guarantee of a household neighbor. Processing fee at 2 percent (or Rs. 1000, whichever is higher) is also charged on these loans, with the stipulated interest rate. The loan amount is disbursed for a period of upto a maximum of 18 months. Repayment of loan is to be made by the beneficiaries in equal monthly installments, depending upon the cash flow of the micro-enterprise.

FINCA Microfinance Bank Limited – offers two major products on the conventional side: 'Karobari Karza' and 'Kashtkar Karza'. Karobari Karza is for individual micro-entrepreneurs running (for at least for one year) businesses in trading, manufacturing or services sectors and require funds for working capital needs and/or for capital expenditures. The loan is offered for amount of Rs. 25,000-150,000 for duration of 6, 12 and 18 months depending upon the requirement. The interest rate is charged after deducting service charges (2.5 percent on fresh loans and 2 percent on repeat loans) and is slightly lower for repeat borrowers. The loan is repayable in equal monthly installments and FINCA does not require any collateral for its loans. The 'Kashtkar Karza' is given to farmers involved in crop/ orchard farming over an area of up to 5 acres of irrigated or 10 acres of arid agricultural land, and owning (self or family) at least 2 acres of cultivatable agricultural land. It is given in amounts ranging between Rs. 50,000-150,000 for 3-12 months (15 months for sugarcane only), with service charges of 2.5 percent and 2 percent, respectively; alongwith differential interest for new and repeat borrowers. The borrowers are required to return the amount in lump sum on expiry of the term of loan. One guarantor is required for both types of products who cannot be a blood relative/ spouse/ tenant/ employee of the borrower or employee of FINCA Microfinance Bank Limited.

TRDP's major products include micro-loans for groups as well as individual male and female entrepreneurs. The organization provides loan amount of ranging between Rs.10,000 – 500,000 for a period of one year after deduction of 2 percent service charges with the interest rate. The loan amount is disbursed through cheque or branchless banking based on groups of social guarantee of a group of 3-7 business owners who are socially sound. The borrowers are required to repay loan in equal monthly installments. TRDP also offers microloans for livestock development of similar amounts at same interest rate and service charges and mode of payment. Other terms of this product are also the same however repayments are made on monthly, quarterly or annually (as lump sum).

The **Kashf Foundation's** main conventional loan product includes the Kashf karobar karza, which is offered to females in rural/ urban households for investment in income generating activities in agriculture, livestock, trading and other productive sectors. The loan is offered for a period of one year in amounts ranging from Rs. 20,000- 75,000. In contrast to the other conventional loan products that are mainly offered under the group lending methodology, this loan is offered on an individual basis after obtaining guarantee from a family member or a relative. The KF is also an implementing partner for the PMIFL and offers loans under this window to individuals in households with a score of 29 on the Poverty Scorecard with a first time loan amount of Rs. 20,000.

The **RCDS**'s two main conventional loan products include the credit and enterprise development and enterprise development facility. The credit and enterprise development loans are offered for a period of one year for investment in small scale businesses in agriculture, livestock, trading and handicrafts sector, with the loan amount between Rs. 25,000-40,000. It is a group lending product given in groups of 3-5 persons and the organization takes post-dated cheques as a form of collateral at the time of issuance of loan. Under the enterprise development facility, RCDS offers a larger loan amount (Rs. 70,000-150,000) for micro enterprises in the agriculture, trading and manufacturing sectors. These loans also have a longer duration of 18 months and are offered under group lending basis.

PRSP – offers conventional and non-conventional products to poor individuals in rural areas of Punjab. One of its conventional products is meant for enterprise development, while the other is for livestock development. PRSP offers PM IFL for the rural poor for agriculture and livestock development and for development of small individual businesses and infrastructure. The microloans are offered for12-18 months. Enterprise loans of Rs. 15,000-40,000 are disbursed for one year period, with repayment in 12 equal monthly installments. It charges 2.5 percent service charge on declining balance, alongwith the markup. Microloans for livestock range between Rs. 15,000-40,000 are provided with a 2.5 percent service charge on declining balance, in addition to the markup amount. The amount is repayable in monthly, quarterly or semi-annual installments or in lump sum at the time of maturity of the loan period. Both the conventional products of PRSP are disbursed to individuals through cheque based on social collateral, on the guarantee of president or manager of the relevant community organization.

PRSP also partners in disbursement of PMIFL, under which it provides loans in the range of Rs. 20,000-40,000 for 12-18 months without any service charge or markup. The other terms of PRSP PMIFL relating to disbursement, repayment and guarantee are similar to its loans for livestock development.

Pakistan Microfinance Network

MicroNOTE: Clients' Perceptions of Conventional and Non-Conventional Forms of Microfinance in Pakistan

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