

(Private Sector Investment Finance)

Ex-ante evaluation report

1. Name of the project

Country: Islamic Republic of Pakistan
Project: Microfinance project in Pakistan (Investment project under the Private Sector Investment Finance)
Agreements signed on: March 21, 2012
Investee: The First MicroFinanceBank Ltd. – Pakistan (FMFB-P)

2. Background and necessity of the project

In Pakistan people living with less than one US dollar constitutes more than 17% of its population and those living with below two US dollars account for 73%. That is, the overwhelming majority of its population belongs to the poor or the borderline poor. The government of Pakistan places emphasis in its policy¹ on the use of microfinance that enhances the self-reliance of people in poverty and makes efforts to spread and expand it by establishing and reforming laws in cooperation with aid organizations such as the World Bank. In the year 2007 the government and the State Bank of Pakistan formulated the Expanding Outreach of Microfinance with the aim of increasing the number of microfinance users to 3 million people by 2010 and to 10 million people by 2015. To that end, what is required is the measure towards expanding its outreach.

The Japan's Country Assistance Program for Pakistan sets the target of assistance at "the establishment and development of a sustainable society" and emphasizes the necessity of taking measures towards poverty alleviation and the rectification of disparities. Likewise, in the Pakistan Donors Conference held in Tokyo in 2009. Japan announced its speedy and more effective assistance for people in poverty who were most vulnerable to economic reforms.

The priority target areas of this project are the northern region (near the national border with Afghanistan) and the agricultural area in the eastern region where there are a high poverty rate and an acute need for microfinance. It aims for the expansion of microfinance and its stable implementation in Pakistan. In the light of the policy by the government of Pakistan and the Japan's Country Assistance Program, this project has great necessity.

¹ Poverty Reduction Strategy Paper (PRSP)-II (2009)

3. Overview of the project

(1) Objective

This project aims for expanding the business and achieving the stable management of the First MicroFinanceBank, Ltd.-Pakistan (hereinafter referred to as FMFB-P) through investment in order to enlarge financial service delivery to the poor in Pakistan, thereby contributing to stabilizing the sustainable livelihood of the low income population in Pakistan.

(2) Site of the project's implementation: Nationwide (with emphasis on in the northern and eastern regions)

(3) Summary of the project

1) Outline of planning

Based on the business expansion plan formulated by FMFB-P, the project expands microcredit (loan) and deposit services primarily for people in poverty and stabilizes management proportionately with an enlarged size of business. The plan is summarized below.

(In one million Rs.)

Calendar year	2010 (actual)	2011 (actual)	2012 (estimate)	2013 (estimate)	2014 (estimate)
Loan (gross)	2,374	2,407	3,856	5,060	6,231
Deposit	5,344	5,920	6,271	7,714	9,782
Capital	990	1,112	1,352	1,352	1,352
Gross capital	6,353	7,035	7,719	9,283	11,613
Net profit after tax deduction (loss)	(170)	(50)	14	101	181

2) Project cost

Capital expansion to support the expansion of FMFB-P's business: A necessary capital increase of 240 million Rs (about 222 million yen at ¥1 = 1.08Rs as of March 21, 2012) will be covered by JICA's investment.

JICA's equity after investment: 17.8%

(4) Project implementation schedule: Investment to be made in 2012

(5) Investee: The First MicroFinanceBank Ltd. – Pakistan

(6) Necessity of assistance by JICA Private Sector Investment Finance

This project aims for poverty reduction, and its assistance by overseas investment is of great significance. It is estimated that FMFB-P's profitability will be improved

chiefly through healthy management. Its policy is to place priority on reinvestment in the expansion of its business. Hence, what is required is assistance by overseas investment that lays out capital from a long-term perspective by attaching importance to the development output up to the time when the profitability line by private investors will be reached. At the same time, it is possible to provide comprehensive assistance by integrating technical assistance such as strengthening appraisal capacity at FMFB-P.

(7) Environmental and social considerations, poverty reduction, and social development

1) Environmental and social considerations

(a) Category: C

(b) Reason for the category: It is judged based on the JICA Guidelines for Environmental and Social Considerations (pronounced in April 2010) that an adverse effect inflicted upon environment by this project will be kept at the minimal level.

2) Promotion of poverty reduction

It is expected that poverty reduction will be expedited by expanding financial services including deposit and loan services to people in poverty.

3) Social development

It is expected that the project will support women's social independence through emphasizing financial services for them.

(8) Collaboration with other schemes and other donors: Joint investment with the International Finance Corporation (IFC)

(9) Technical assistance

Explore technical assistance to strengthen appraisal capacity and assistance for risk management.

4. Project achievement

(1) Quantitative effect

1) FIRR (JICA's return): 14.9%

2) Indicators of benefits of the investment

Indicator	Standard value (2010) 【Achieved value】	Target value (2014) 【2 yrs after investment】
Number of borrowers	166,928	220,878
Rate of women in the above(%)	33.5	more than 35
Gross loan (in 1,000 Rs.)	2,373,880	6,231,229
Gross deposit (in 1,000Rs.)	5,344,198	9,781,877
Portfolio at Risk (%)	5.6	0.8

ROA (%)	-2.7	2.1
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- (2) Qualitative effect: Stabilization of the life's foundation of people in poverty who are the end users

5. External factors and risk control

- (1) Risk factors in the project implementation and management

- 1) Business conditions to be worsened by increases in loan losses

Confirm periodically the situation of a risk management mechanism by FMFB-P and give joint support to capacity building with other shareholders.

- 2) Impact on management imposed by failure in expanding business as planned or by business expansion

Give support to strengthen the capacity together with other shareholders.

- (2) Exit strategy

JICA will exit when the following conditions have been satisfied: operation of the FMFB-P has been stabilized and strengthened, its services have been sustainably expanded, and it becomes possible to sustain its long term development through retained earnings or through procurement of additional equity from market sources. JICA will also consider the possibility of exit when it is unable to have a positive outlook on its gains on the yen base due to a marked deterioration in achievements or in the exchange rate.

6. Evaluation results of the past similar projects and the lessons to be learned

What we have learned from the past ex-post evaluation results from Poverty Alleviation Microfinance Project in Sri Lanka and Rural Development Credit Program (Grameen Bank) in Bangladesh includes the issues of capacity building in appraisal, measures to address multiple debts, and establishing a new loan scheme for medium- and small-sized enterprises from the perspective of securing financial sustainability on one hand, and, on the other, from the viewpoint of achieving the project's outputs, targeting women and people in poverty. In this project these issues will be addressed through monitoring and technical assistance.

7. Evaluation in the future

- (1) Indicators to be used in subsequent evaluations

The number of borrowers (person): Rate of women (%): Gross loan (in 1,000Rs.): Gross deposit (in 1,000Rs.): Rate of bad debts (%): Return on Assets (ROA) (%)

- (2) Time of the next evaluation: Two years after investment