

**Financial Inclusion Program**  
**Institutional Strengthening Fund: Beneficiary Selection Mechanism**

**1. Objectives and Scope of Institutional Strengthening Fund**

The Financial Inclusion Programme (FIP) has earmarked £10 million for the Institutional Strengthening Fund (ISF) for a five year period from 2008 to 2012. The ISF is designed to develop capacity of the microfinance industry to enhance potential for growth and depth in outreach by improving human resource quality, improving quality of services and increasing the services available to potential clients.

The ISF will provide resources for the following priority areas:

- a) Generating on-lending resource through commercial credit, equity investments or deposit mobilization strategy;
- b) Improving governance mechanisms, internal management controls and functions including human resource base;
- c) Enhancing strategic direction of the organization through preparation of business plans, branding, trainings and ratings;
- d) Employing cost reduction mechanisms for increasing outreach in rural and remote areas through product innovation, development or use of technology;
- e) Providing business development services to MFI clients or improving quality of services; and
- f) Developing capacity for transformation of MFIs into licensed microfinance banks.

The ISF will primarily focus on institutions that are already regulated, in the process of seeking a license or have solid plans for restructuring in the near future. Improved regulatory oversight will ensure transparency and good governance practices, which will ultimately lead to greater investment in the microfinance industry, in the future. Moreover, ISF will be capped to \$1 million per year per grantee and subject to at least 25% matching grant from the grantee. Grants may be made on an annual basis and institutions that qualify for funding in a year may also qualify for funding in another year subject to good performance and submission of another successful proposal through approved application procedure.

**2. Selection Criteria**

In line with the above objectives, proposals for the ISF will be evaluated on the basis of the following:

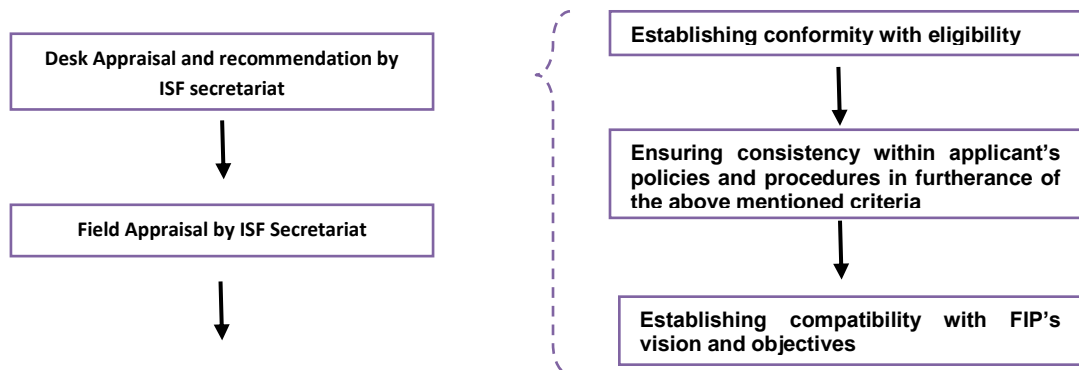
- **Organization Profile**
  - Common vision of increasing access to financial services to poor and marginalized groups;

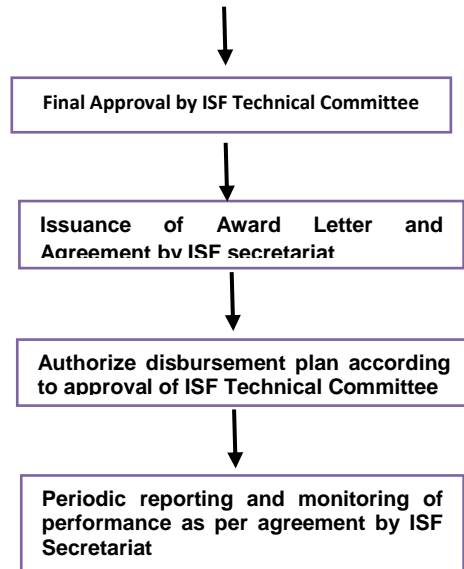
- Legal recognition as an entity;
- Established Track Record
- Appropriate levels of Transparency
- Systems and Controls
  - Minimum operating standards for internal control systems
  - Streamlined Operations
  - Efficient reporting systems
  - Appropriate MIS
- Strategy and Management
  - Senior management experience in the field of financial services aimed at lower income groups
  - Growth Oriented business plan with ability to extend beyond the scope of the grant Project.
  - Human resource
- Profitability and Efficiency
  - Sustainable MFI or have taken solid steps to become sustainable in a year
  - Sound Portfolio Quality
  - Efficiency oriented operations
  - Appropriate leveraging of assets
- Social Performance
  - Outreach to women clients
  - Poverty outreach
  - Satisfied clients and staff

Please see **Annexure** for details on performance indicators for the selection criterion.

### 3. Work Process for ISF Awards

The entire application process is expected to take about 3 months starting with establishing eligibility criteria, review of proposals submitted by MFIs to the FIP Secretariat at Microfinance department, approval by the technical committee and issuance of the sanction letter. Reporting and evaluation will be ongoing during the course of the project. The technical committee will comprise of Deputy Governor (Banking), Executive Director (Development Finance Group) SBP, Director Agricultural Credit & Microfinance Department, Program Manager from DFID and a private sector nominee. The chart below outlines the process of managing ISF funds.





#### 4. Guidelines

- **Disbursement:** Funds will be disbursed in installments to the grantee institution's bank account, maintained exclusively for this purpose, in accordance with the payment schedule agreed under the Project Document. However, the successive disbursements, following the first tranche, will be subject to 85% utilization of earlier released funds as indicated by the progress/ expenditure reports. Any deviation from the budget must be submitted in writing to the FIP'S Technical Committee and approved. The FIP'S Technical Committee, at its discretion, may withdraw funding for breach of agreement by the grant recipient. Funds not expended must be returned to FIP at the time of the project completion report.
- **Reporting:** Grantee Institution must submit progress reports on the funded project to the ISF secretariat during the project work period with a final report due at the end of the funding period. Schedules for these reports shall be drawn up by the ISF secretariat and shall be based on project work schedules submitted by applicants in their grant applications. Payment of grant installments is contingent upon the timely receipt of progress reports and/or other agreed upon deliverables. Failure to submit the required reports will result in delayed payments.
- **Terms of Award:** The period for completion of a project shall be 12 months. Extension shall be allowed on success and rational need basis for which the applicant will need to submit a letter signed by its President/ CEO/ Head of institution and the project coordinator, requesting the extension for a specific duration.
- **Extension of Award Period:** Projects having an outstanding grant after the lapse of project duration will be ineligible to receive another grant until the outstanding grant for that project is either utilized for the underlying purpose or the recipient (applicant institution) states in writing that unutilized grants will not be utilized and why. The letter

must be signed by the president/ CEO/ head of institution and the project coordinator. Remaining funds for the grant will then revert back to the FIP. Moreover, if a recipient states that it will not complete the grant project, it will be ineligible to qualify for any FIP funding.

- **Schedule of Payments:** Disbursement of grant shall be undertaken in installments throughout the project duration in accordance with the work schedule outlined in the applicant/recipient's final grant application and are contingent upon the delivery of status reports and/or materials agreed to in advance to the Microfinance Department's FIP Secretariat.
- **Cancellation of Grant:** Applicants who fail to abide by the terms outlined above or who fail to submit required progress reports may be asked to return all or part of the grant awarded. If at any time during the project applicant abandons its funded project, a written explanation must be submitted to the FIP Secretariat along with any balance remaining from grant paid to the applicant to that point.

#### 5. **Contact Details**

Applications, reports, and general correspondence concerning the FIP may be made at the following address:

Head, Agricultural Credit & Microfinance Department  
State Bank of Pakistan,  
I. I. Chundrigar Road, Karachi -74000  
Tel.: (+92 21) 9922 1285  
Fax: (+92 21) 9922 1215  
Email: dr.ahmed@sbp.org.pk

## Annexure

**Annexure—Performance Indicators for Selection Criteria**

Following indicators will be taken into consideration while reviewing the application:

<b>Criteria</b>	<b>Indicators</b>
<b>Organization Profile</b>	<ol style="list-style-type: none"> <li>1. Established vision and record of serving poor and marginalized groups</li> <li>2. Structure and policies aligned with organizational vision</li> <li>3. Organizations with at least 5,000 clients will be preferred</li> <li>4. Legally registered entity</li> <li>5. Transparency through submission of audited accounts for at least 2 years and appropriate board oversight</li> </ol>
<b>Systems and Controls</b>	<ol style="list-style-type: none"> <li>1. Quality of Management information Systems</li> <li>2. Quality of Speed and Data Feed</li> <li>3. Quality of Reports and Distribution/Analysis/Decision-Making</li> <li>4. Quality operational procedures</li> <li>5. Risk Management techniques</li> </ol>
<b>Strategy and Management</b>	<ol style="list-style-type: none"> <li>1. Quality of Senior management and board</li> <li>2. Strategy of Business Plan (including competitive landscape) and capacity to absorb project funding and scale-up beyond scope of grant</li> <li>3. Quality and Support from Shareholders and Network</li> <li>4. HR Management</li> <li>5. Historic Growth rates</li> </ol>
<b>Efficiency and Profitability</b>	<ol style="list-style-type: none"> <li>1. Organizations that have conducted a credit rating would be preferred</li> <li>2. Portfolio at Risk: (Portfolio at Risk &gt; 30 days + Rescheduled Loans/Gross Loan Portfolio)</li> <li>3. Write-Offs: Last 12 months of write-offs/Average Gross Loan Portfolio</li> <li>4. Size of Portfolio: Gross Loan Portfolio</li> <li>5. Loan Loss Reserves: Loan Loss Reserves/PAR 30</li> <li>6. Sustainability: (Operating Income)/(Financial Expenses + Loan Loss Provisions + Write-Offs + Operating Expenses) or at minimum have a plan to become sustainable within a year</li> <li>7. ROAA: Net Income/Net Assets</li> <li>8. Operating Efficiency: Total Operating Expenses/Average Gross Loan Portfolio</li> <li>9. Productivity: Number of Borrowers/Total Loan Officers</li> <li>10. Leverage: (Total Liability)/(Net Worth + Sub-Ordinated Debt)</li> <li>11. Liquidity: (Cash + Short-term Investments)/Gross Loan Portfolio</li> </ol>
<b>Social Performance</b>	<ol style="list-style-type: none"> <li>1. Gender: Proportion of female clients</li> <li>2. Satisfaction: Client Exit Ratio</li> <li>3. Poverty: Average Loan Size/GDP</li> <li>4. Staff: Male/Female Staff</li> <li>5. Annual Staff Turnover</li> </ol>