



# ANNUAL REPORT 2020

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## TABLE OF CONTENTS

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- About PMN
- Vision – Mission Statements
- Core Values
- Committees
- Board of Director's
- Management Team
- Message from the Chair
- Message from the CEO
- Key Milestones
- Year in Review - 2020
  - Digital Services Provider
  - Research & Publications
  - Capacity Building
- Strategy for 2021 and Beyond
- Financials: The Running Numbers

## ABOUT PMN

The Pakistan Microfinance Network (PMN or ‘the Network’) is the national association for retail players in the microfinance industry and is registered under Section 42 of the Companies Ordinance. The Network’s strength currently includes 46 retail microfinance providers [MFPs] that collectively account for over 99% of the total microfinance outreach in Pakistan.

Over the years, PMN has emerged as an information hub publishing various reports, papers and conducting large-scale qualitative and quantitative research studies with partners in the industry on Microfinance, Financial Inclusion, Financial literacy, Digital Microfinance, Product Development, Usage and Attitude and others. At PMN, our success over the years has placed us in a position with access to all the microfinance institutions and develop in-depth institutional learning and expertise.

## ROLES





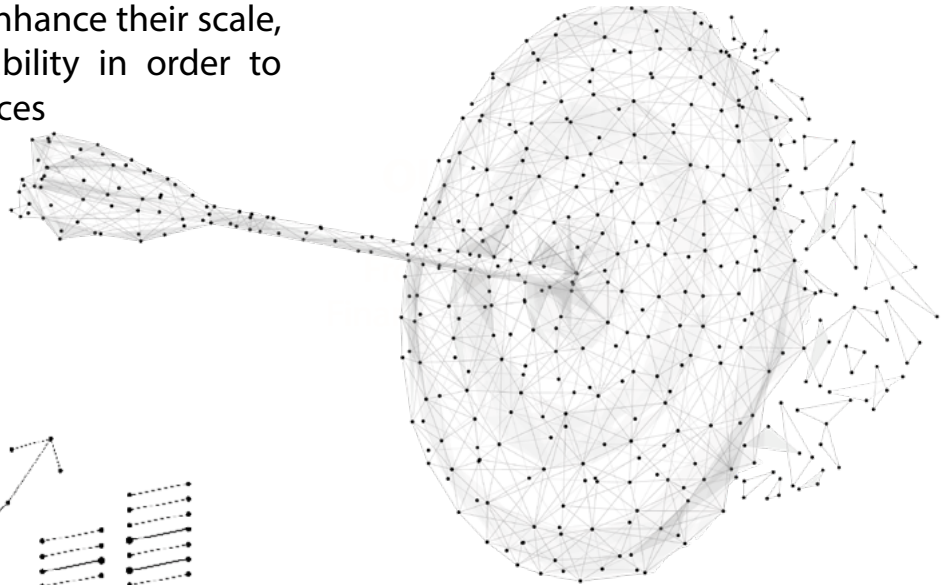


## OUR VISION

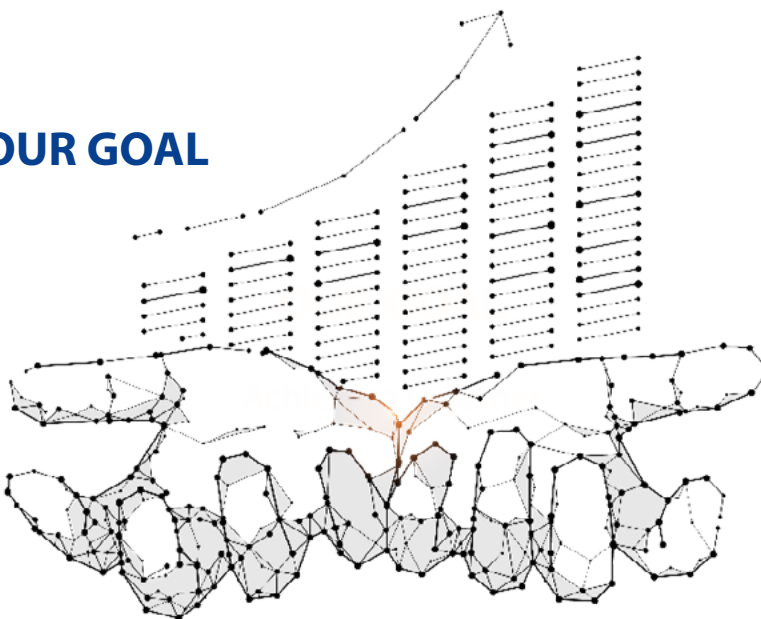
Frontiers of Formal Financial Services reach out to all.

## OUR MISSION

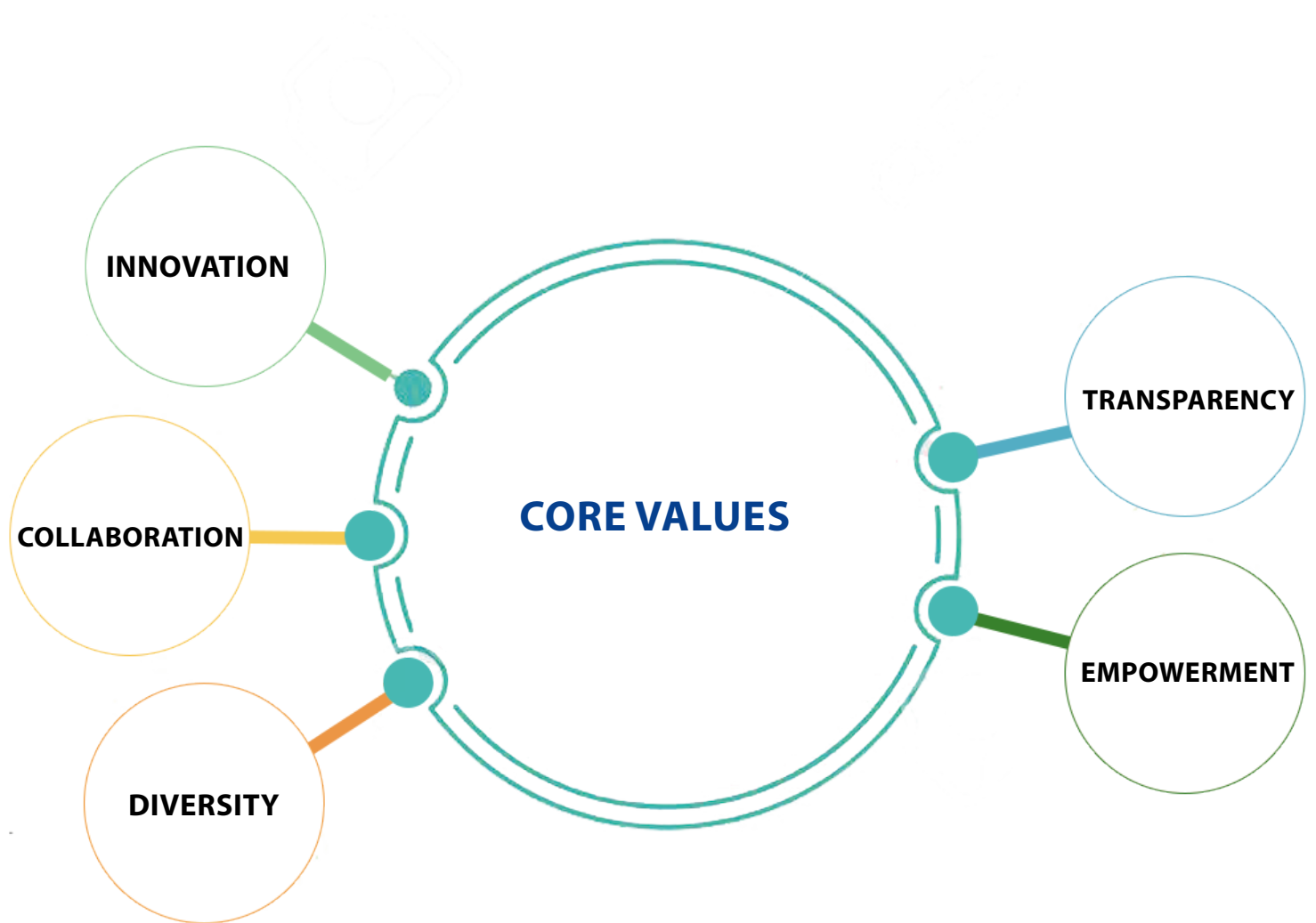
Support the financial sector, especially retail financial service providers, to enhance their scale, quality, diversity and sustainability in order to achieve inclusive financial services



## OUR GOAL



Achieving together



## COMMITTEES

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### Policy Committee

- Mr Amir Khan – Chair
- Dr Rashid Bajwa
- Mr Kabeer Naqvi
- Ms Roshaneh Zafar
- Dr Amjad Saqib
- Mr Mudassar Aqil

### Audit Committee

- Mr Kabeer Naqvi – Chair
- Mr Barak Ullah
- Ms Khurhseed Kotwal

### Risk Committee

- Ms Khursheed Kotwal – Chair
- Mr Mudassar Aqil
- Ms Nilofer Sohail
- Mr Faisal Ejaz Khan

### HR Committee

- Ms Sadaffe Abid – Chair
- Muhammad Murtaza
- Syed Sajjad Ali

Auditors– KPMG

Legal Advisors – Azam Chaudhry Law Associates

Tax Advisors - PwC

# PMN BOARD OF DIRECTORS

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## CHAIRPERSON



Mr. Ghalib Nishtar  
President & CEO  
Khushhali Microfinance Bank Ltd

## VICE CHAIRPERSON



Ms. Sadaffe Abid  
Co-Founder  
CIRCLE

## DIRECTORS



Muhammad Murtaza  
CEO  
Rural Community  
Development Programme



Dr. Rashid Bajwa  
CEO  
National Rural Support Program



Mr. Amir Khan  
President & CEO  
First Microfinance Bank



Ms. Roshaneh Zafar  
Managing Director -  
Kashf Foundation



Mr. Faisal Ejaz Khan  
CIO  
Bank of Punjab



Dr. Amjad Saqib  
Founder & CEO  
Akhuwat





**Mr. Ghazanfar Azam**  
President & CEO  
Mobilink Microfinance Bank Ltd.



**Mr. Kabeer Naqvi**  
President & CEO  
U Microfinance Bank Ltd.



**Mr. Sajjad Ali Shah**  
Managing Director & Company Secretary  
SAFCO Support Foundation



**Mr. Barak Ullah**  
CEO  
Aagahe Pakistan



**Mr. Mudassar Aqil**  
President & CEO  
Telenor Microfinance Bank



**Ms. Khursheed Kotwal**  
CEO  
Aasman International



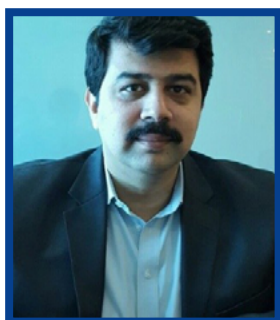
**Ms. Nilofer Sohail**  
AGM & Head Channel Strategy &  
Execution EFU

# PMN TEAM MEMBERS

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Syed Mohsin Ahmed  
Chief Executive Officer



Mr. Ali Basharat  
Head of Operations



Muhammad Waqas Khan  
Chief Financial Officer &  
Company Secretary



Mr. Fahd Zaman Khan  
Manager HR & Operations



Ms. Tehreem Fatima  
Data & Research Analyst



Muhammad Hasnain  
Manager Finance



Mr. Zeenoor Sheikh  
Finance Associate



Mr. Shiram Bakht  
Network Specialist



Mr. Laique Malik  
Manager Products & Services



Mr. Amjad Raza  
Head of IT



Syed Zeeshan  
Accounts & Finance Assistant



Mr. Nadir Murad Khan  
Admin Manager



# MESSAGE FROM THE CHAIRMAN





We are pleased to present the Annual Report of the Pakistan Microfinance Network (Network) for the year ended December 31, 2020.

## **2020 – THE YEAR IN REVIEW**

With the end of 2020, we have completed two decades and are commencing our journey for the next decade, which looks brighter and even more promising. COVID-19 dominated the whole of 2020 and tested the resilience of our business model. This has given us greater confidence and pride in our people and processes. As an event of global scale, it also forced us to pause, review the emerging trends and prepare ourselves to build a future-ready organization by adopting appropriate Risk Management Framework.

Let me dwell on our journey over the past decade. We have seen tremendous growth and invested in some strategic and valuable assets that have helped us in spreading our wings as we enter into the transition phase from a donor-dependent entity to a self-sustainable Network.

Our organization has experienced continuous evolution, including a thrust on corporate governance – by increasing the number of independent directors, focusing on sustainability as well as forming a sound business strategy and steering it forward.

## **POLICY ADVOCACY**

The Network played a very proactive role in spearheading the policy advocacy agenda of the sector at all regulatory and government forums with a focus on following areas:

- Provided full support in operationalization of Microfinance Consultative Group (MFCG) at SBP
- Developing the Financial Inclusion Roadmap with MFCG
- Deposit mobilization for Microfinance Banks and Deposit mobilization models for NBMFC
- Promoting Low Cost Housing Funds for MFPs through discussions with NAPHDA, SECP and SBP
- Seeking regulatory support during COVID-19 for the sector (Loan rescheduling, determining liquidity requirement, access to salaries and wages scheme for NBMFCs)
- Interaction with the SECP on developing the Guidelines for transformation from For-Profit to Not-for-Profit NBMFCs
- Guidelines for Corporate Governance & Minimum underwriting standards for NBMFCs

## **ENABLING ENVIRONMENT**

PMN successfully organized the fourth edition of its Annual Microfinance Conference (AMC4) titled “Sustaining Resilience; Microfinance in a Post Pandemic Era”. We were extremely fortunate in attracting overwhelming interest and sponsorships for the event and our sincere thanks go to our many supporters in both the private and public sectors, especially FCDO has been a longstanding donor and supporter to PMN.

This shows that PMN has successfully created AMC as a branded platform to explore the concerted efforts among all relevant stakeholders, to identify the possible bottlenecks that exist in the industry that can possibly hinder the financial inclusion process and propose ideas to overcome it. The event featured fireside chats, debates and panel discussions with an audience of more than 100 national and international professionals and experts including representatives from microfinance providers, regulators, policy makers, donors, investors, commercial banks, digital financial players, and government authorities.

The event was hosted in strict compliance with all the government enforced SOPs for COVID-19.

## **KNOWLEDGE MANAGEMENT**

In the Research function, PMN was awarded research projects titled 'Microfinance Sector Affordability and Cost of Delivery Analysis', funded by World Bank, 'Financial Inclusion Programme (FIP) Impact Study' funded by FCDO\ and 'Consumer Perception Survey – Gauging Clients' Experiences' funded by State Bank of Pakistan.

## **CAPACITY BUILDING**

The Network concluded a Training Needs Assessment (TNA) exercise in 2020 to determine the current training trends and identify the gaps for the sector. The Network successfully rolled out the second edition of its flagship certification titled "Microenterprise Risk Management (mERM)" in collaboration with PACRA.

The Network reached out to international and national institutes such as Asian Institute of Technology (AIT, Thailand), International Training Center of the ILO (ITC-ILO), National Institute of Banking & Finance (NIBAF), PACRA, Institute of Cost & Management Accountants (ICMA) to develop certification courses and programs in order to expand its service offering to members under its Center of Excellence (COE) initiative. We expect our efforts will lead to fruitful outcomes for the sector.

## **CORPORATE GOVERNANCE**

Over the past decade, we have strengthened our organization in corporate governance by introducing policies and procedures, more importantly inclusion of more and well-diversified independent directors who continuously guided us in our journey of excellence. This is a reflection of company's effort to maintain the highest level of transparency and corporate governance.

The year 2020 saw a transition at the top – Board of Directors. I am privileged to be unanimously elected to chair an amazingly talented & committed Board of Directors. The newly elected Board is extremely enthusiastic to guide the Network into another decade of growth and sustainability.

## **CONTINUED THRUST ON SUSTAINABILITY**

During the last decade, we commenced numerous initiatives aimed at sustainability with the support of our members. These initiatives not only serve as the pillars of sustainability for the Network but vital for managing risk and encouraging growth of the sector.

In 2020 we started on a good note after the lackluster performance in 2019. The pandemic, in the form of COVID-19, struck the world and seriously afflicted the world economy. Most assumed that it would normalize in a few weeks, but it proved everyone's assumption wrong. Overall, most of our revenue streams performed better except Center of Excellence (COE) which was impacted mainly due to international and national travel restrictions and lockdown imposed due to COVID-19.

Going into 2021, we forecast some of the initiatives such as the investments in CIB and Munsalik to start bearing fruit by optimizing resources and leveraging our scale and uptake of services by the members. Apart from the above milestones, please read the report for some additional exciting work that the Network did in 2020.

## FUTUREOUTLOOK

### Challenges & Risks

Some of the key challenges in the coming year will be:

- Pakistan's economy has shown resilience against the COVID-19 impact as opposed to the global economy. Still, the economy is currently undergoing a phase of stabilization with slow growth, moderate to high inflation and significant changes in macroeconomic management. We expect the next 12 to 18 months to be a period of uncertainty due to risks of increased default rate in the restructured / rescheduled portion of the existing portfolio. Therefore, growth projections for the coming year will need to be evaluated to ensure the industry prudently manages expectation of growth. The Network will be focusing on its Policy Advocacy agenda and taking up key industry challenges on different forums of State Bank of Pakistan (SBP), Securities & Exchange Commission of Pakistan (SECP) and Ministry of Finance (MoF)
- The Network has set up its wholly owned subsidiary titled "Munsalik Digital Private Limited (MDPL)" to carry forward its Shared Digital Services Platform Initiative. MDPL is a technology services company with a vision to be the leading shared services platform that provides end-to-end digital connectivity with the financial ecosystem. Its core objective is to affect a paradigm shift by moving away from siloed infrastructure resulting in efficiencies and reduced risks, which, creates focus on core business for our members. This will be a boutique platform which will encapsulate innovation in the financial ecosystem, thus, accelerating penetration of microfinance services. The Board has appointed AKD Securities Limited ("AKDS") as a Financial Advisor and Arranger for raising funds through a Private Equity Placement. MDPL intends to raise funds for the purpose of increasing functionality and optimizing the platform for usage and expand its user base and functionality in the initial years of operation. The digitization initiative will remain one of the top-most priority of PMN in the coming year as it is expected to bring a transformational impact in terms of revolutionizing the customer journey and also meeting the technology-driven growth requirements of our members. In the upcoming year, we will be investing even more time and effort in making sure that the results and milestones committed to our members and donors are achieved while creating more growth opportunities for PMN.
- Under its Knowledge Management Function, going into 2021, the key steps in this direction would be to identify and conduct tailored-made research activities to bridge specific knowledge gaps in the financial inclusion ecosystem of Pakistan for the different segments of our membership (e.g. RSPs, Telco-owned MFBs, Conventional MFPs). Another priority of PMN in terms of research and insights would be to establish relationships with Academia, research institutes and international & local donors for generating and disseminating knowledge and proactively catering to the knowledge and information needs of the MF industry.
- Under its Center of Excellence (COE) initiative, the Network will have to account for the changing demands of the sector in light of COVID-19 and design hybrid training models to deliver customized trainings on AML/CFT compliance, Digitization & Branchless Banking, Finance Training for Non-Finance People, Soft & Leadership Skills, Risk Management and Corporate Governance etc.
- The Network will begin to implement the Business Strategy 2021-2023 as approved by the Board of Directors. In this regard, 2021 will be a very critical year as the Network will commence its journey to venture into new demand-driven avenues with a clear vision of achieving self-sustainability. Overall, PMN Board and the management will remain committed to the vision and mission and accelerate their efforts to achieve its financial, developmental and institutional goals.

## **EXTENDING OUR APPRECIATION**

Our sincere thanks go to our many supporters in both the private and public sectors, the civil society and our donors, especially Foreign & Commonwealth Development Office (FCDO) that has been a long-standing donor and supporter to PMN.

The Network and its Board also acknowledges and sincerely appreciates the ongoing support of the State Bank of Pakistan (SBP), the Securities and Exchange Commission of Pakistan (SECP), Karandaaz Pakistan and Pakistan Microfinance Investment Company (PMIC) for their commitment to ensuring improved governance standards, sustainability and growth of the microfinance industry.

I would like to thank my fellow Directors, our senior leadership team and stakeholders for their continued support and faith in our vision.

The Network's success also relies on the dedication of management and staff who work tirelessly throughout the year. The Board and I would also like to recognize the CEO for his vision, commitment and leadership since his appointment, and particularly this past year. The management has benefited considerably from the guidance, advice and influence of every director.

I am proud to work with such a distinguished and dedicated Board, as we continue to oversee the work of PMN's management and staff towards meeting key objectives.

Regards

A handwritten signature in black ink, appearing to read 'Ghalib Nishtar', with a stylized flourish at the end.

**Ghalib Nishtar**  
**Chairperson Board of Directors**





CLICK HERE TO WATCH

CEO MESSAGE



# KEY MILESTONES

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## RESEARCH

1



1. Interest Rate Study by the World Bank.
2. Consumer Perception Survey under NFIS.
3. FIP Impact Study by FCDO.

## DIGITAL FINANCIAL SERVICES

2



1. Funding secured from Karandaaz covering entire CAPEX as well as one-year operational expenditure.
2. Partnered with EasyPaisa, Jazz Cash and UBL Omni for provision of services.
3. Strategic roadmap for future operations.

## POLICY ADVOCACY

3



1. MFCG operationalization.
2. Taxation issues related to MFBs.
3. MFI ordinance.
4. Covid-19 relief.
5. Credit Guarantee scheme.
6. Deposit mobilization options for NBMFCs.
7. AML/CFT issues.

## PEER LEARNING

4

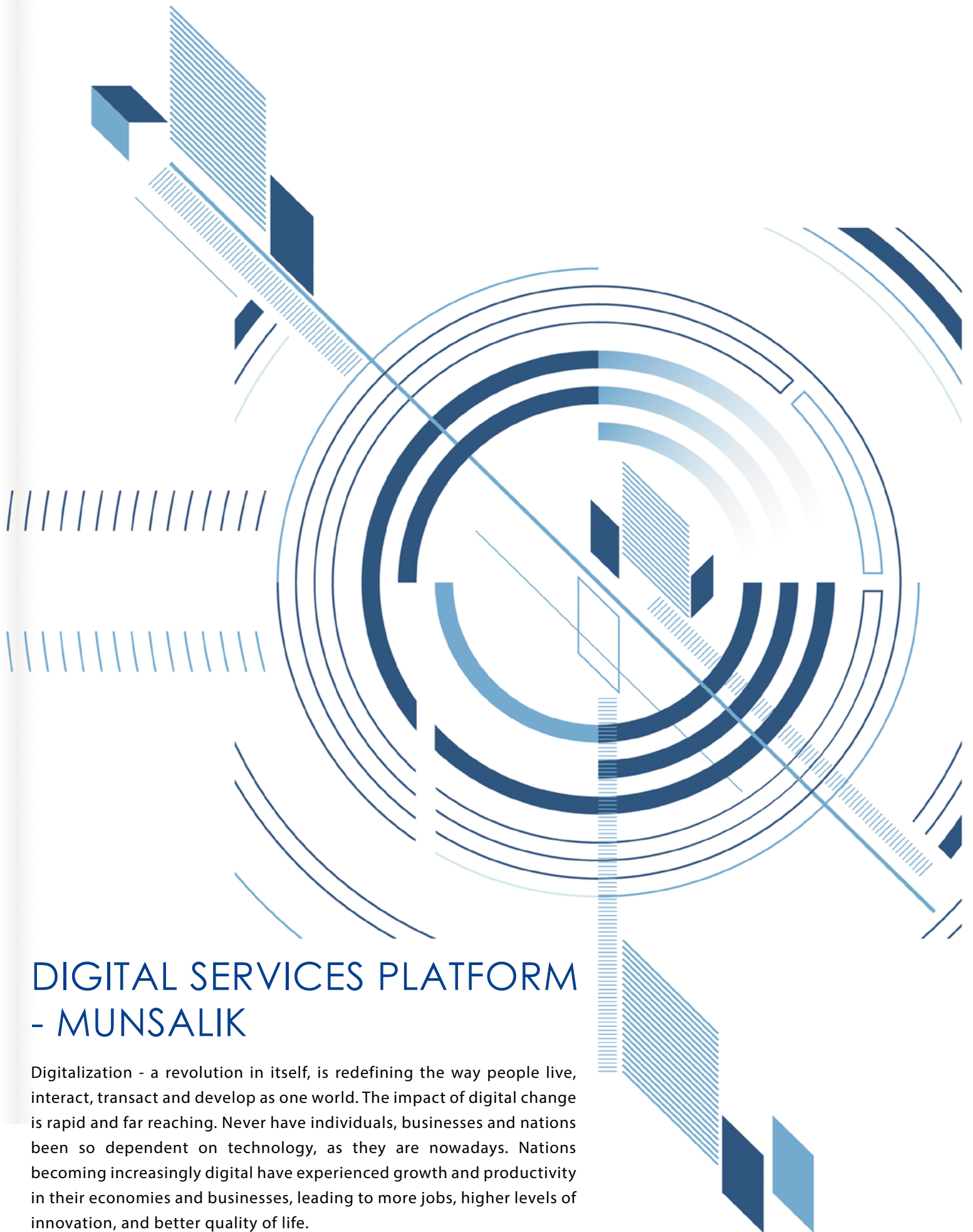


1. Annual Microfinance Conference on Sustaining Resilience: Microfinance in a Post Pandemic Era.
2. Partnered with ECI, Delsons, ICMA, PACRA, BCG for customized training programs.



## YEAR IN REVIEW 2020

PMN endeavors to create value for its members and for the larger microfinance ecosystem. PMN help its members continually; echo its voice with the policy makers and regulators, build their skills and knowledge, stay connected to peers and experts, and navigate changes in their business environments. This year, PMN has been investing in enhanced service to members across the board. Some concrete signs of our progress are already in place — for instance, PMN was in the forefront in engaging with regulators, policy makers, donors/investors and global stakeholders in sharing the impact of Covid and requesting for policy/funding support for the industry and its clients. We have also initiated the Centre of Excellence for Microfinance Providers and our Digital Services Platform — but these developments are just part of an overall program of upgrading and renewal that will continue to improve member experience and deliver tangible benefits in the years ahead.



## DIGITAL SERVICES PLATFORM - MUNSALIK

Digitalization - a revolution in itself, is redefining the way people live, interact, transact and develop as one world. The impact of digital change is rapid and far reaching. Never have individuals, businesses and nations been so dependent on technology, as they are nowadays. Nations becoming increasingly digital have experienced growth and productivity in their economies and businesses, leading to more jobs, higher levels of innovation, and better quality of life.



Historically, the financial sector is considered an early adopter of technological tools because of demanding client needs. Market conditions and current global trends have changed the strategic direction, urging the importance of digitalization in financial institutions.

Keeping this in mind, Pakistan Microfinance Network (PMN) initiated a digital services platform “Munsalik” to aid to the digital needs of the microfinance industry. With this initiative not only the internal operations of the Microfinance Providers (MFPs) will be digitalized but will also provide middleware to connect with the financial infrastructure of Pakistan.

A launch ceremony was held during the Annual Microfinance Conference 2020 where an MoU was signed by Syed Mohsin Ahmed – CEO PMN and Mr. Najeeb Agrawalla - CEO 1-Link in the presence of Mr. Farrukh Iqbal - Chairman 1-LINK and Mr. Ghalib Nishtar - Chairman PMN. On this occasion Syed Mohsin Ahmed said, “Munsalik, by providing a shared digital platform, is going to change the landscape of the microfinance industry by leaps and bound. In order to reach better operational delivery and customer satisfaction, digitalization is a core feature, and this is what we are foreseeing once Munsalik goes into implementation”.

An acknowledgment was made to PTCL, TPS and Diginc for being the technology partners, and to EasyPaisa, JazzCash and UBL Omni for being the digital financial services partners. PMN also paid a special note of gratitude to its members FFO, AGAHE, OPD Support Programme, Mojaz, Safco and Thardeep Microfinance Foundation for taking the leading role in joining this initiative.

The idea of setting up a shared digital services platform was originated through the increased demands of the member institutions on behalf of the sector, as using the technology services individualistically and keeping up with its advancement was quite expensive and sufficient funds were not available with most of the organizations. Moreover, a need for a shared technology infrastructure was felt to negotiate with DFS players on behalf of the sector to have a single point of contact resulting in reduced operational costs and capital expenditure. A session was held between Munsalik team and member institutions, and a conclusion was made to setup a shared middleware which will provide connectivity with Alternate Delivery Channels (ADCs) and a Loan Management System (LMS) with a mobile app for the small and medium sized players.

PMNs goals is to implement this project in two phases i.e. in the first phase the aim is to digitalize the entire loan application process along with providing connectivity with the Digital Financial Services (DFS) players. In the second phase, MFPs will be provided connectivity with NADRA, AML/CFT and Credit Bureaus to improve delivery and regulation.





## RESEARCH AND PUBLICATIONS

To ensure that our work is grounded in solid evidence about members' needs and wants, we conducted an extensive course of research and other publications this year. The studies included a variety of topics identified by our members and the findings have been shared across our membership, donors and strategic alliances. These insights will drive our work to enhance member experience and create added value next year and beyond.

## MAPPING CLIENT PROTECTION IN SOUTH ASIA: CURRENT PRACTICES AND FUTURE ROADMAP

The report summarizes Client Protection (CP) policies and practices in six microfinance markets in South Asia: Afghanistan, Bhutan, India, Nepal, Pakistan and Sri Lanka. The findings in the report have been collated from questionnaire surveys distributed to microfinance networks and authorities of the respective countries followed by desk research on existing policies and regulations. The methodology used the Smart Campaign's Client Protection Principles (CPP) as a reference point to gauge the level of compliance of the countries' microfinance industry. The report offers a multi-country perspective at the macro-level, the meso and micro levels and the current trends and developments in client protection in the respective countries; the macro-level touches upon the countries' legal frameworks, the meso and micro levels explicate the prevalence of microfinance networks and institutions and their role in client protection. Client Protection Principles looked at in the report include Appropriate Product Design and Delivery, Prevention of Over-Indebtedness, Transparency, Responsible Pricing, Fair and Respectful Treatment of Clients, Privacy of Client Data and Mechanisms for Complaint Resolution.

The microfinance industry has experienced steady growth in South Asia, promoting financial inclusion. However, it is seen that the quality of growth has often been called into question in many countries, with issues ranging from high lending rates, over-indebtedness of borrowers and abusive loan collection practices, thereby undermining the overall impact of economic and social prosperity. While much has been achieved across all selected South Asian countries both at the regulatory and operational levels, there is room for improvement to meet the overarching goal of universal access to finance, namely by improving the standards of client protection with respect to both legal frameworks and practical application of those principles. This report serves as a tool to highlight the importance and benefits of addressing challenges within areas of client protection and to focus on both, at the policy and operating levels.

The analysis suggests that several Client Protection Practices are in place either at the policy/regulation levels and/or at the operational level of network associations and/or institutions. Prevention of Over-Indebtedness, Transparency, Responsible Pricing and Redress of Client Grievances are the principles most frequently adhered to at the level of regulation, although their implementation or vigilant monitoring of practices varies from country to country. Most countries have regulations concerning over-indebtedness, and some have or are in the process of developing credit reporting systems. Transparency and responsible pricing regulations are relatively well developed for most countries, although it is difficult to ascertain tangible impact of these policies without extensive analysis of client perspectives. Appropriate Design and Delivery of Products, Fair and Respectful Treatment of Clients and Privacy of Client Data appear with lesser frequency in the surveyed countries.

**Read More at:** <https://pmn.org.pk/mapping-client-protection-in-south-asia-current-practices-and-future-roadmap/>

This publication is also available at Seep Network's Responsible Finance Resource Library [Mapping Client Protection in South East Asia: Current Practices and Future Roadmap](#)

## RISKS TO MICROFINANCE IN PAKISTAN 2020

Risks to Microfinance in Pakistan is the fifth edition of a study that seeks to map the risks being faced in the Pakistan microfinance sector as perceived by various stakeholders. The first study, conducted in 2011 by Pakistan Microfinance Network (PMN), served as a starting point for the discussion on risks and threats encompassing the Pakistan microfinance sector. This study aims to update the risks identified in the original publication with the changing business and macroeconomic environment, as well as, new initiatives and developments in the sector.

The study is categorized into three segments: (i) the Introduction, Analysis of Data and Risk Mitigation Strategies. This chapter, introduces and examines why risk management is crucial for microfinance institutions and provides an overview of the methodology used in this study. (ii) the second chapter unveils the Analysis of Data, which labels the significant findings and showcases the responses and perceptions of the participants. (iii) Last but not the least, third chapter briefly discusses the details of Risks and Possible Mitigation Strategies for risks and threats highlighted in section two.

**Read More at:** <https://pmn.org.pk/wp-content/uploads/2021/02/RISKS-TO-MICROFINANCE-IN-PAKISTAN-2020.pdf>

## THE IMPACT OF CORONAVIRUS ON MICRO & SMALL ENTERPRISES (MSES)

The world is going through some major transformations due to the vast breakout of the global pandemic. From our lifestyles to business operations, everything is changing, and the impact is extreme. The outbreak of coronavirus disease (COVID-19) has severely affected the global and Pakistani economy. Major victims of the COVID-19 outbreak are micro and small enterprises (MSEs).

To contain the spread of the virus, lockdown and social distancing measures have been put in place, severely impacting economic activity throughout the world. As the government of Pakistan seeks to understand the economic toll of the coronavirus, there is also a need to gauge the impact on micro and small enterprises (MSEs) and individuals to ensure that appropriate measures are designed in time to meet their needs. While these enterprises are small in size, they are plentiful in number and have a significant contribution towards economic activity. Micro, Small and Medium enterprises account for 90 percent of total economic enterprises, make up about 30 percent of the GDP, contribute over 25 percent of earnings in export and employ 78 percent of the non-agricultural labor force in Pakistan. In addition, these enterprises are most susceptible to economic shocks with their modest capital base, limited clientele and vulnerable labor force.

To assess the impact of COVID-19 on MSEs, Pakistan Microfinance Network (PMN) launched a research study in order to understand how the coronavirus pandemic has impacted their household incomes, business operations, and how they are coping with the shock and what kind of support is required for their rehabilitation. PMN partnered with five microfinance providers (MFPs) representing 41% of the total active borrowers' market.

**Read More at:** <https://pmn.org.pk/wp-content/uploads/2020/06/Impact-of-Coronavirus-on-MSEs.pdf>

## PAKISTAN – POLICY, REGULATORY AND SUPERVISORY COVID-19 RESPONSES FOR MICROFINANCE

In Pakistan the level of financial inclusion is quite low as compared to other countries in the world. According to the Findex 2017 only 21% of the adults have formal accounts despite a well-established and diverse range of entities providing microfinance and other financial services.

PMN in partnership has developed this note to identify the impact of the pandemic on MFPs and policy, regulatory and supervisory measures affecting the regulated MFPs. According to the data collected by PMN, services and retail sectors were affected the most whereas, the impact of the pandemic on agriculture sector remained low.

The federal government considered MFBs as the essential services in comparison to the NBMFCs and could operate with certain guidelines. The Central Bank took measures to promote digital banking which were applied to the MFBs whereas, the NBMFCs were closed at the beginning of the lockdown and were gradually opened with the ease in lockdown.

Steps were taken to provide relief to the clients. Both SBP and SECP provided regulatory relief to MFPs in financial reporting. One of the challenges faced by the industry is to ensure that cash flow and balance sheet insolvency are managed. Due to stable deposits, MFBs are currently well placed to manage their cash flows. However, for NBMFCs the challenge remains as they still owe repayments to commercial banks and the apex microfinance fund, PMIC. Relief provided by the two regulators through deferment and rescheduling of their repayments to PMIC and commercial lenders was much needed during the crisis. This note is a supplement to the CGAP paper, "Microfinance and COVID-19: A Framework for Regulatory Response" (June 2020).

**Read More at:** <https://www.findevgateway.org/paper/2020/06/policy-regulatory-and-supervisory-covid-19-responses-microfinance>

## PAKISTAN MICROFINANCE REVIEW (PMR) 2019

Every year, PMN publishes its flagship report known as the Pakistan Microfinance Review (PMR). The report features major initiatives and regulations during the year, an in-depth analysis of the financial and social position of the industry and the outlook of the sector moving forward.

The microfinance industry experienced many challenges in year 2019 as the prevailing macroeconomic instability adversely impacted the microfinance players and their clients. After witnessing the economic growth in the past, the national economy showed signs of heating with the twin deficits i.e. fiscal and current account rising. To address this imbalance monetary policy was tightened and currency depreciation took place. The resulting inflation and economic slow-down also slowed microfinance growth which fell to single digits, the lowest since 2012. Economic troubles also hurt borrowers' repayment capacity contributing to an increase in Non-Performing Loans (NPLs). The rise in NPLs also raised questions about discipline among microfinance players - quality of credit underwriting, multiple lending, concentration, and internal controls.

Despite all these challenges the industry continued to be sustainable and profitable. It continues to be recognized as an important player in the financial landscape of the country and plays a pivotal role in enhancing the financial inclusion agenda, since majority of the microfinance clients belong to marginalized segments such as small farmers and women.

The review of MFPs and the microfinance sector of Pakistan showed double digit growth across credit, savings and insurance during the year 2019. Total outreach surpassed 7.25 million while GLP stood at an unprecedented high of PKR 305.75 billion with an increase of 11 percent. The total depositors stood at over 47.6 million with deposits outstanding worth PKR 267.6 billion. The growth in the number of depositors was led by Telenor Microfinance Bank having around 8 million new depositors. Microinsurance indicators also showed improvements during the year 2019, the total number of policy holders increased by 23 thousand to reach 8.5 million with the total sum insured at PKR 267 billion. These numbers indicated that the total penetration stood a little over 35 percent nationally.

The analysis of the MFPs with respect to their social performance shows there is strong commitment to improve on the indicators to address the needs of the various marginalized segments of the society. The sector shows positive trends for social performance management at the board levels and the HR policies in place also show compliance on most social performance indicators. This implies regular oversight and reporting on social performance metrics at the highest level which is likely to ensure compliance in management and operations. There is, however, a need for the sector to pursue an active policy of increasing representation of women at all levels of operations. This would not only increase women employment, but it will strengthen microfinance industry image as an equal employment opportunity sector.



Overall, the players remain optimistic about the macroeconomic challenges and the impending resilience of the industry in overcoming the adverse implications of the COVID-19 pandemic.

**Read More at:** <https://pmn.org.pk/wp-content/uploads/2020/11/PAKISTAN-MICROFINANCE-review-2019-10-12-Updated-Text-Oct-29.pdf>

## QUARTERLY BULLETIN ON MICROFINANCE INDUSTRY - MICROWATCH 57

The outreach of the Microfinance Industry improved despite the impact of the Global Health Crisis caused by Covid-19. The indicators for the third quarter of 2020 depict that the overall outstanding loan portfolio experienced healthy growth while micro savings indicators surged to surpass PKR 300 billion.

As of September, the microfinance sector's gross loan portfolio stood at PKR 309.4 billion, as compared to PKR 299 billion in June 2020. By the end of the quarter, the total number of Active Borrowers remained unchanged at 6.8 million. This is marginally lower than June-end level, indicating some stability in the credit market, if not growth. Micro savings indicators depicted an increase of 11% and stood at 58.6 million at the end of September. The amount savings also surged exceptionally to PKR 322 billion as compared to PKR 294 billion in the previous quarter.

Trend in Microinsurance indicators depicted a further decline by the end of the quarter as the total policy holders closed at 7 million from 7.7 million in the previous quarter, while the subsequent sum insured fell from PKR 243 billion in June 2020 to PKR 200 billion by September 2020.

**Read More at:** <https://pmn.org.pk/wp-content/uploads/2020/12/Microwatch-Issue-57.pdf>

## QUARTERLY BULLETIN ON MICROFINANCE INDUSTRY - MICROWATCH 56

The outreach indicators for the second quarter of 2020 depicted the impact of the pandemic on the microfinance sector. The effects of the Global Health Crisis triggered by Covid-19 were still unfolding as outreach and disbursements declined. However, Micro savings saw a considerable increase as the MFBs' ability to mobilize deposits remained unaffected.

By the end of second quarter, micro-credit outreach witnessed a notable decline and dropped to 6.9 million as compared to 7.3 in the past quarter. The drop in number of borrowers prompted a subsequent decrease in the GLP and closes at almost PKR 300 billion. This diminution is attributed to the effects of the lockdowns imposed in various districts across the country which stalled lending activities. Moreover, the quarter also saw robust response from the regulators as they directed MFPs to defer principal repayments and reschedule loans.

On the contrary, micro-savings portrayed an increase, savers grew by 7% to 52.9 million. Subsequently, the value of savings also reached PKR 293.9 billion with an increase of 11.5%. The surge in savers was led by M-Wallet activities of microfinance banks.

Furthermore, looking at the trend in micro-insurance we witness a decline of approx. 8% to reach 7.7 million in June 2020 from 8.4 million in March 2020. The sum insured was also decreased by 8.4% and close at PKR 243 billion

**Read More at:** <https://pmn.org.pk/wp-content/uploads/2020/09/Microwatch-Issue-56.pdf>



## EVENTS & TRAININGS

The microfinance industry in Pakistan has massive potential to achieve greater scale, and to tap that potential, the capacity of retail institutions needs to be enhanced through capacity building. PMN uses several tools to achieve this goal such as events, trainings (local and international), and exposure and exchange visits (local and international).

Under the umbrella of PMN's Center of Excellence, PMN has been involved in arranging some trainings at local level and awarding scholarships to candidates for international Microfinance trainings such as Boulder and HBS-Accion, Frankfurt School for Finance and Management, and School of Applied Microfinance.



## EVENTS

### ANNUAL GENERAL MEETING

The elections for the new Board of Directors of the Pakistan Microfinance Network (PMN) were conducted at the 19th AGM of the Association, on 25th of June 2020.

PMN is pleased to announce that Mr. Ghalib Nishtar, President & CEO of Khushhali Microfinance Bank, has been elected as the Chairperson of the Board while Ms. Sadaffe Abid, founder of CIRCLE Women Association, has been elected as Vice-Chairperson of the board.

The structure of the PMN Board has also been revised, with 6 Microfinance Banks and Non-Bank Microfinance Companies each and 5 independent directors.

The MFBs that make up the Board are: Khushhali Microfinance Bank, Telenor Microfinance Bank, The First Microfinance Bank, Mobilink Microfinance Bank and U Microfinance Bank Sixth Director from MFBs shall be elected later.

The six NBMFCs that make up the Board are: National Rural Support Programme, Akhuwat Islamic Microfinance, Kashf Foundation, Rural Community Development Programme, Safco Support Foundation and Agahe Pakistan.

The Independent directors include Ms. Khursheed Kotwal, Ms. Sadaffe Abid, Syed Nadeem Hussain, Ms. Nilofer Sohail and Mr. Faisal Ejaz.

PMN would like to thank its Members for voting and the out-going Leadership of Syed Nadeem Hussain (ex-Chairperson) and Dr. Amjad Saqib (ex-Vice Chairperson) for their dedicated leadership and support to further the cause of financial inclusion in Pakistan.

### PAKISTAN MICROFINANCE REVIEW (PMR) 2019 LAUNCH EVENT

The Pakistan Microfinance Network (PMN) in an event unveiled the “Pakistan Microfinance Review (PMR) 2019” at a local hotel in Islamabad, Pakistan. Syed Mohsin Ahmed, CEO PMN, gave an overview of the microfinance landscape in the country highlighting key developments of the sector and outlined the current and future challenges facing the industry.

Ms. Khalida Habib, Executive Director- Securities & Exchange Commission Pakistan graced the occasion with her presence. A fire side chat session was conducted by Mr. Mudassir Aqil, chairman PMR editorial Board, and Mr. Ghalib Nishtar, Chairman PMN. It was followed by a panel discussion about the microfinance industry in which leading players participated. During the panel discussion chaired by Mr. Yasir Ashfaq, CEO – Pakistan Microfinance Investment Company (PMIC), the panelist shared their opinions and experiences about the current Microfinance landscape, industry’s performance, challenges & opportunities as well as various risks faced by the microfinance practitioners.

This gathering provided an opportunity to all the members and stakeholders to come under one roof and learn from each other’s experiences. The launch event of PMR-2019 is considered as one of the most remarkable milestones that highlights the microfinance industries stakeholder’s performance and challenges over the year. The event was well-attended by representatives from the State Bank of Pakistan, Pakistan Microfinance Investment Company (PMIC), Commercial Banks, Digital Finance players, PMN members (Microfinance Banks, Microfinance Institutions, Rural Support Program) and other stakeholders.



## MICROFINANCE ANNUAL CONFERENCE 2020 - SUSTAINING RESILIENCE: MICROFINANCE IN A POST PANDEMIC ERA

“Sustaining Resilience: Microfinance in a Post Pandemic Era” conference was held at Serena Hotel on 25th and 26th November 2020. Dr. Abdul Hafeez Shaikh, Special Advisor to the Prime Minister on Finance and Revenue inaugurated the two-day Microfinance Conference on Sustaining Resilience, with leaders of the sector in attendance. The conference was hosted by Pakistan Microfinance Network (PMN), where industry stakeholders came together to share experiences, engaged in dialogue on the latest developments globally and locally and formulate directions for the future of microfinance in Pakistan.

With the current, unprecedented situation, policy makers across the globe have gone into a conundrum; do we wait or see, or do we re-invent the processes? The primary objective of this conference was to initiate a dialogue for concerted efforts among all relevant stakeholders, to identify the possible bottlenecks that exist in the industry that can possibly hinder the financial inclusion process and propose ideas to overcome it.

The Annual Microfinance Conference (AMC-4) in its fourth year, connected regulators with the practitioners and brought forward meaningful, actionable discussions on the table. On the policy level, experts agreed that the pandemic has pushed practitioners into out-of-the-box thinking and the policy makers too have been challenged to adjust long standing processes.

Over 100 policy makers, microfinance professionals, trainers, practitioners, donors, regulators and other members attended the conference whilst over 200 joined virtually. This was an astounding attendance especially during these difficult times. The conference presented a unique opportunity to engage in a dialogue and think of ways to innovate in the current scenario.





## WEBINAR ON IMPACT OF COVID-19

Pakistan Microfinance Network (PMN) held a webinar on June 18th, 2020, to discuss the impact of COVID-19 crisis on the microfinance sector with a focus on micro and small entrepreneurs. Mr. Nadeem Hussain, Chairperson PMN, presented opening remarks and set the agenda for the webinar. While asserting the adverse impact of the crisis on global economy, he highlighted that microfinance clients and providers have borne the maximum brunt of the pandemic and lockdowns. Panelists included Ms. Roshaneh Zafar from Kashf Foundation, Dr. Muhammad Meki from University of Oxford and Dr. Farah Said from Lahore School of Economics, Ms. Mejzgaan Orakzai from PMN and Mr. Stephen Rasmussen from CGAP. They presented findings on the impact of the crisis on small and micro-borrowers' incomes, business operations, repayment capacities and recommended more flexibility for MFIs, focus on client protection and a shift towards digitizing operations. Stephen Rasmussen (CGAP) gave a global perspective of the crisis and added that Pakistan microfinance sector fared in the top one-third of countries to have an organized response to the pandemic. Ms. Khalida Habib from SECP and Mr. Noor Ahmed from SBP spoke about the measures taken by both the regulators in order to provide relief to clients and MFPs. Dr. Amjad Saqib, CEO Akhuwat, presented unique insights pertaining to Akhuwat's experience and how they are approaching their clients' road to recovery. A question and answer session was held, followed by closing remarks from Syed Mohsin Ahmed, CEO PMN.





# TRAININGS AND WORKSHOPS

## MICROFINANCE ENTERPRISE RISK MANAGEMENT CERTIFICATION PROGRAM

Pakistan Microfinance Network in collaboration with PACRA Analytics has organized a Bootcamp on Microfinance Enterprise Risk Management to provide MFPs staff an in-depth understanding of risks facing all segments of microfinance industry and opportunities that are there to capture for growth and profit.

A unique feature of this hands-on, interactive training program was the detailed review and analysis of each critical factor that will create conditions in which the galaxy of enabling ecosystems will evolve to support the goal and mission of full financial inclusion for accelerated growth.

To practically ensure that participants have achieved a global standard in Risk Management, this mERM Certification Program was organized in two stages:

- **Stage 1:**

In this stage the participants had a chance to maximize the opportunity for learning and successful organizational implementation, encourage innovation leaders responsible for value creation to bring their teams – “those responsible for formulation of impact generating business strategies and management of all associated risks”

The Programme was attended by 39 participants coming from MFIs, MFB commercial banks, software house and regulators. During the course the participants learned risk management practices from industry experts and an in-depth understanding of mERM toolkit. This stage was organized in BNU in October 2019.

- **Stage 2:**

The Stage II of the mERM was organized in March 2020 at BNU campus to share mERM Toolkit implementation experience, challenges and success stories with the participants.



## MASTERING MICROFINANCE RISK MANAGEMENT ECOSYSTEM

Under the auspices of Centre of Excellence (CoE), Pakistan Microfinance Network (PMN) in collaboration with the Pakistan Credit Rating Agency Limited (PACRA) organized a three-day training certification program on "Microfinance Enterprise Risk Management Certification", to provide an in-depth understanding of risks faced by all segments of the microfinance industry and opportunities that exist to capture growth and profitability. Moreover, recent Covid-19 outbreak has caused an unusual interruption leaving serious concerns on liquidity, business continuity and working offsite. This program focused on the impact of pandemic (COVID-19) and other crises situations on the microfinance industry and inevitable recovery concerns.

To share the concerns of the microfinance industry and listen to what the regulators (SECP and SBP) expect from the industry, a special session with Mr. Farrukh Sabzwari, Commissioner - SECP was included in the agenda, other special sessions included members from IFC, National Bank Pakistan, Bank of Punjab and Kashf Foundation. It was a unique opportunity for the participants to connect and collaborate with the practitioners as well as their peers and learn from the industry leaders on how to apply and benefit from the 21st Century advancements in Risk Management and Compliance.

It was a big step by the Pakistan Microfinance Network to conduct an in-person training event during COVID-19 pandemic which was a huge success and received a lot of appreciation and support from both the microfinance industry and the commercial banks.



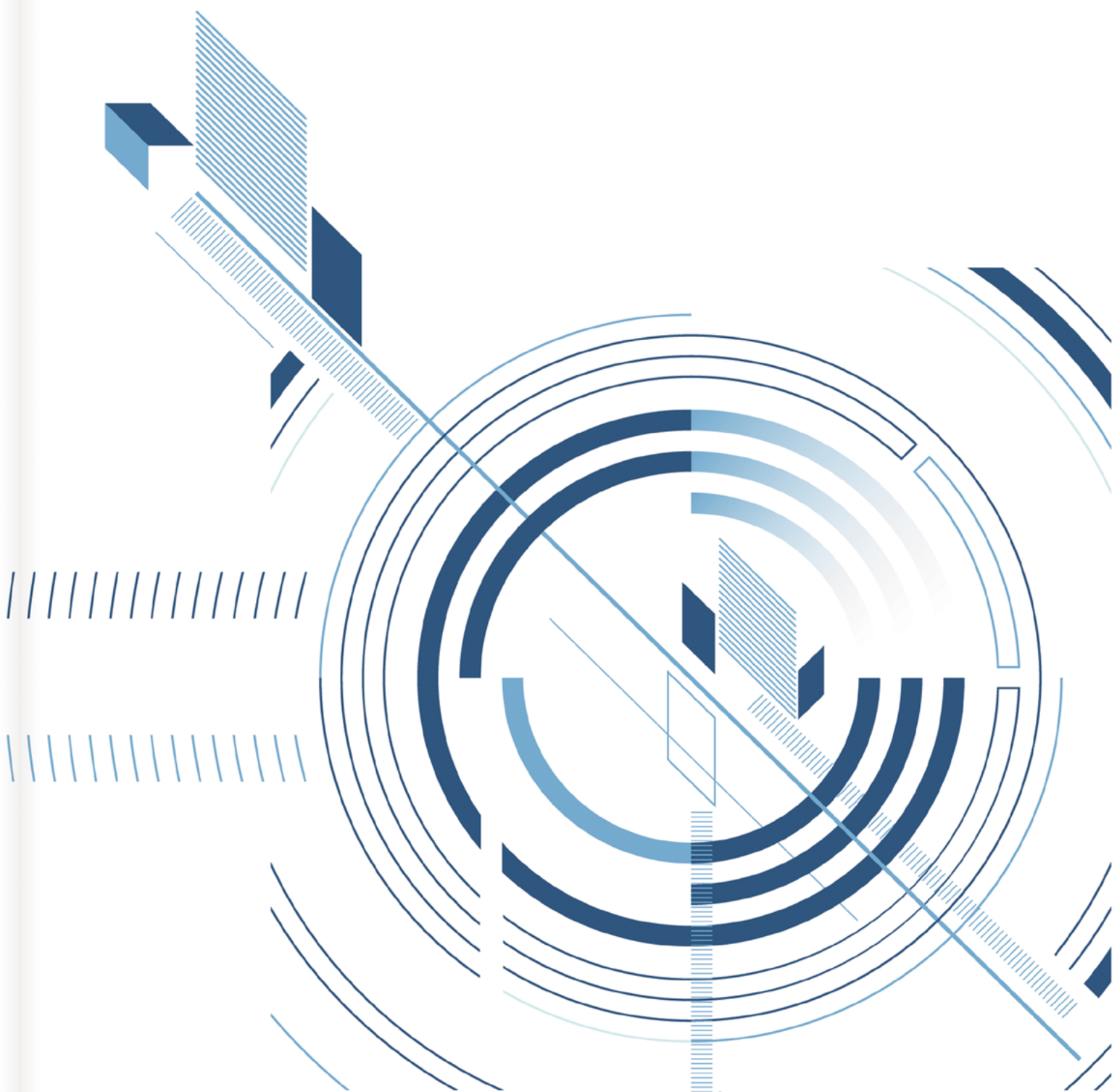
## AML/CFT FOR LOAN DISBURSEMENT

Pakistan Microfinance Network in collaboration with Dellsons has organized two-day training sessions on AML/CFT for Loan Disbursement in Lahore and Karachi.

The training covered the aspect of money laundering as it has become a global problem as a result of the consequence of several remarkable changes in world markets (i.e. the globalization of markets). The factors that have heightened the risk banks face when combating financial crimes are (i) the growth in volume of cross-border transactions and greater integration of the world's economies, (ii) regulators are continually revising rules as their focus expands from organized crime to terrorism and (iii) governments have expanded their use of economic sanctions, targeting individual countries and even specific entities as part of their foreign policies.

The training was attended by 40 individuals representing both microfinance institutions and banks.





## POLICY ADVOCACY

The Network values its relationship with key stakeholders in the Government, in particular with SBP, PMIC, DFID, SECP and the Ministry of Finance. PMN continued to hold dialogues with SBP through sector level discussions at one on one meeting between the PMN CEO and the Director MFD. Since PMN is a member of most of the SBP committees that oversee microfinance issues, the sector's view is discussed at those forums also. PMN also sits on the task force set up by the Planning Commission that reviews Pakistan's achievements and challenges to its commitment with the United Nations on the Millennium Development Goals.

The following are some of the key policy level issues - especially during the year 2020 - that PMN has been engaged in and/or has raised at certain policy level forums.

## MEETING WITH THE REGULATORS

In January a meeting was arranged between Governor SBP and PMN Board where they requested to restart the Microfinance Consultative Group (MFCG) and make it more inclusive by including SECP as a key stakeholder along with other discussion points. The Governor informed the Board that his focus is on three key areas; i) Increasing exports, ii) Increasing savings and iii) financial inclusion and asked the sector to focus on a growth plan that addresses the issues on savings and financial inclusion.

PMN also held a meeting with the SECP officials to discuss inclusion of SECP in MFCG, which was agreed and considered as success of the forum as this will not only raise relevant issues concerning the industry but will have both regulators on board. It is soon expected that SECP's insurance department will be represented in this forum.

Additionally, PMN Chairman sits on the NFIS Policy and Implementation Council, it is a member of the only technical committee of NFIS that focuses on consumer protection and financial literacy issues.

### **PMN is in continuous discussions with the SBP on:**

- (i) MFCG operationalization – includes regular meetings, sharing agenda along with writing papers and proposals. PMN prepared a financial inclusion roadmap 2025 and this has been submitted to MFCG secretariat.
- (ii) Scheduled Bank status and MFI ordinance – they are essential as the sector has evolved.
- (iii) Covid-19 relief – includes delay in the implementation of IFRS-9, rescheduling and provisioning relief and liquidity and guarantee facility for MFPs. SBP also allowed NBMFCs to access liquidity under the salaries and wages scheme.
- (iv) Credit guarantee scheme for marginalized farmers (both MFBs and NBMFCs) – includes our request to enhance the limits for MFBs and making this available for NBMFCs.
- (v) Deposit mobilization options for NBMFCs – this includes sharing of 4 different options.
- (vi) An improved Environment for Credit Bureau Usage – this includes clarifying PMNs stance that data needs to be shared with all private bureaus and that inquiry generation is a factor of bureau's service and pricing. A focus towards data interoperability going forward and amendment to PR-7.
- (vii) STR review & recommendations – a legal opinion has been obtained on this and a paper has been shared with MFCG (both SBP and SECP).

### **PMN is also in discussion with SECP on:**

- (i) Covid-19 relief – this includes allowing NBMFCs to be recognized as essential services and operate with WHO guidelines, it also relates to relief in terms of loans rescheduling/deferment, IFRS-9 relief, and support for liquidity.
- (ii) AML/CFT issues – this includes sharing of members concerns with SECP. SECP also clarifies that sector should understand the focus of GOP to meet FATF requirements and hence needs to build its compliance requirements. It was agreed that a meeting will be arranged between NBMFCs and SECP – SCD and AML/CFT department.
- (iii) Discussion in progress with members and SECP on regulator support for conversion of Not-for-Profit NBMFCs to For-Profit.

### **Advocacy with Other Stakeholders**

- (a) PMN is in discussion with the regulators and donors on setting up a Disaster Risk Fund (DRF) and is currently in process of finalizing a road map for the industry.
- (b) Promote Low Cost Housing Funds for MFPs – discussions with Naya Pakistan Housing & Development Authority (NAPHDA), SECP, SBP, Pakistan Mortgage Refinance Company (PMRC) and the World Bank are in progress.
- (c) COVID-19 support:
  - Liquidity paper for ADB, SECP & NBP
  - COVID Surveys (internal & CGAP)
  - Access to salaries & wages scheme for NBMFCs
- (d) Advocacy & litigation related to the Provincial Charity Acts

## **INTERACTIONS WITH THE MICROFINANCE CONSULTATIVE GROUP (MFCG)**

Following from the 15th meeting of the Microfinance Consultative Group (MFCG), held on February 10th, 2020 at the State Bank of Pakistan (SBP), a sub-committee was formed by the Chair of the MFCG to develop workable models for deposit mobilization for NBMFCs and propose recommendations through a consultative process. PMN facilitated the consultation process and assisted in providing research support to the recommendations of the sub-committee. A policy paper was then submitted to the SBP which explores four possible models and to mobilize deposits for non-bank microfinance companies (NBMFCs) with the objective of achieving SBP's target of increasing the number of savers and deposits in the economy and overcoming funding constraints for NBMFCs.

During the 15th meeting of the MFCG, it was highlighted that microfinance sector has been able to achieve pervasive and diversified growth in terms of active borrowers (7.2M), active savers (42.3M) and policy holders (8.5M) due to the enabling environment and ecosystem. However, the potential market is much bigger and moving from current growth towards a maturity stage would require concerted efforts to reach 75% market penetration rate. In order to develop a financial inclusion roadmap for microfinance industry, a sub-committee was formed by the Chair MFCG. PMN facilitated the consultative process and is preparing the strategy document for the microfinance sector to reach its potential market by identifying various enablers and innovations. The strategy document will set headline targets for the industry, distill lessons for growth from similar markets, various challenges faced by the industry, highlight support required from SBP and the Government of Pakistan and create a roadmap for the microfinance industry to achieve its targets in line with the NFIS and Government's 100-days agenda.

## PROPOSAL SUBMITTED TO SECP FOR NBMFCS

The stressful situation facing the economy at large and the microfinance sector due to Covid 19 is unprecedented. The challenges facing the industry are unparalleled. SECP has played a critical role by remaining closely engaged with the sector and has taken steps to mitigate the impact of the lockdown. Steps like circular on loan deferment and rescheduling, allowing NBMFCs to accept loan rescheduling requests through digital means and allowing higher limit to investment companies, including PMIC to issue subordinate debt to NBMFCs.

Despite rescheduling of debt of NBMFCs by PMIC and other lenders, NBMFCs continue to face challenges in meeting their liquidity needs. Deferment of payments by borrowers including interest payments and fears of large-scale delinquency due to adverse economic situation seriously impair the operations of these organizations. In addition, NBMFCs have been badly affected by the closure of the operations in provinces other than Punjab. This has severely curtailed their operations in these sectors.

As an important sector of the economy that provide employment opportunity to millions of poor citizens, the sector warrants support of the government. The most important objective of the assistance is to reactivate the microbusinesses, which if not supported would translate into millions of people and households pushed towards abject poverty thus resulting in social unrest.

Key challenges facing the sector post Covid 19 include challenges of liquidity and business continuity. Liquidity challenges can be met by setting a long-term capital and liquidity fund in collaborations with the central bank and multilaterals like ADB and the World Bank. In addition, risk sharing facilities similar to the Microfinance Credit Guarantee Facility (MCGF) will encourage commercial lenders to continue lending to the NBMFCs in these testing times. Moreover, release of tax refunds stuck with FBR and cash margins placed by NBMFCs with commercial lenders to partially/totally secure borrowings will ease the liquidity situation. Including of NBMFCs in essential services like the banks and capital markets taking into account all necessary precautions against Covid 19 will allow these entities to continue providing financial services to their clients.

## REPRESENTATION IN NATIONAL AND INTERNATIONAL FORUMS

PMN is a member of all national level microfinance and financial inclusion related forums and has been proactively involved in it.

PMN has participated in Universal Financial Access (UFA) 2020 event, SEEP 2020 conference forum and provided necessary feed back to the Micro-Insurance Network (MIN) and Banking With The Poor (BWTP). PMN also participated in the Asia-Pacific Economic Cooperation (APEC) financial inclusion forum in Japan.

## STRATEGY FOR 2021 AND BEYOND

During 2021 and beyond PMN will focus on addressing the immediate challenge of Covid19 third wave by interacting with regulators and policy makers. Keeping the climate change impact on Pakistan PMN will also work towards developing a medium- and long-term strategy for having a disaster risk facility for the industry.

PMN will also work towards spinning of its Digital Services Platform and invite shareholders with buyin, deep pockets and technology knowledge to convert Munsalik into a high-quality shared platform for the microfinance industry.

We will also focus on capitalizing our investments in the Center of Excellence initiative and credit bureau to address HR and credit risk related challenges for the industry. We will also move towards building our research capacity to cater to the sector requirements and focus on increasing our networking and linkages with eco system players globally.







# FINANCIALS – THE RUNNING NUMBERS

# Pakistan Microfinance Network

## Statement of Financial Position

As at 31 December 2020

	Note	2020 -----Pak Rupees-----	2019
<b>NON - CURRENT ASSETS</b>			
Property and equipment	4	156,480,276	7,758,588
Intangible assets	5	64,475,264	37,163,057
Long term loans	6	49,656	284,932
Long term investments	7	2,011,135	37,478,000
Investment in associate	8	33,800,617	-
		<u>256,816,948</u>	<u>82,684,577</u>
<b>CURRENT ASSETS</b>			
Grant receivable	9	44,473,207	10,672,818
Consultancy fees receivable	10	6,780,940	2,530,970
Loans and advances	11	5,109,225	7,148,724
Deposits and short term prepayments	12	3,589,818	5,420,108
Training and other receivables	13	19,314,513	20,477,395
Short term investments	14	32,003,000	20,139,265
Current portion of long term investments	7	-	26,636,714
Bank balances	15	32,234,370	1,803,047
		<u>143,505,073</u>	<u>94,829,041</u>
<b>TOTAL ASSETS</b>		<u><u>400,322,021</u></u>	<u><u>177,513,618</u></u>
<b>FUNDS AND RESERVES</b>			
Unrestricted funds		79,542,835	74,615,873
Endowment fund		70,485,728	70,485,728
		<u>150,028,563</u>	<u>145,101,601</u>
<b>NON CURRENT LIABILITIES</b>			
Deferred grants	16	2,275,301	879,810
Long term loan	17	10,175,415	-
Lease liability	18	7,643,647	-
		<u>20,094,363</u>	<u>879,810</u>
<b>CURRENT LIABILITIES</b>			
Deferred grants	19	159,215,796	-
Accrued and other liabilities	20	56,019,417	31,532,207
Current portion of long term loan	17	10,915,275	-
Current portion of lease liability	18	4,048,607	-
		<u>230,199,095</u>	<u>31,532,207</u>
<b>TOTAL FUNDS, RESERVES AND LIABILITIES</b>		<u><u>400,322,021</u></u>	<u><u>177,513,618</u></u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	27		

The annexed notes 1 to 40, form an integral part of these financial statements.



CHIEF EXECUTIVE OFFICER



DIRECTOR


**Pakistan Microfinance Network**  
**Income and Expenditure Statement**  
For the year ended 31 December 2020

	Note	2020	2019
		-----Pak Rupees-----	
<b>INCOME</b>			
Grant income	21	<b>64,735,969</b>	57,938,882
Members' contributions	22	<b>8,625,000</b>	14,626,125
Income from trainings	23	<b>2,488,725</b>	20,194,568
Income from research projects / consultancy	24	<b>7,583,480</b>	4,729,824
Income from sponsorships	25	<b>11,750,791</b>	15,471,558
Other income	26	<b>7,383,239</b>	7,403,732
		<b>102,567,204</b>	120,364,689
<b>EXPENDITURE</b>			
Governance and management	28	<b>(28,994,641)</b>	(20,492,172)
Programme cost	29	<b>(66,546,775)</b>	(164,361,420)
		<b>(95,541,416)</b>	(184,853,592)
Surplus / (deficit) from operations		<b>7,025,788</b>	(64,488,903)
Finance costs	30	<b>(1,907,189)</b>	-
Net impairment gain on receivables		<b>3,485,746</b>	3,709,394
Share of loss from associate	8	<b>(3,677,383)</b>	-
		<b>(2,098,826)</b>	3,709,394
<b>SURPLUS / (DEFICIT) FOR THE YEAR</b>		<b>4,926,962</b>	(60,779,509)

The annexed notes 1 to 40, form an integral part of these financial statements.



CHIEF EXECUTIVE OFFICER



DIRECTOR

**Pakistan Microfinance Network**  
**Statement of Comprehensive Income**  
For the year ended 31 December 2020

	2020	2019
	-----Pak Rupees-----	
<b>SURPLUS / (DEFICIT) FOR THE YEAR</b>	<b>4,926,962</b>	<b>(60,779,509)</b>
Other comprehensive income for the year		
<b>Items that will not be reclassified to income and expenditure statement</b>		
Equity investments at FVOCI – net change in fair value	-	4,228,000
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b><u>4,926,962</u></b>	<b><u>(56,551,509)</u></b>

The annexed notes 1 to 40, form an integral part of these financial statements.



CHIEF EXECUTIVE OFFICER



DIRECTOR

**Pakistan Microfinance Network**  
**Statement of Changes in Funds and Reserves**  
For the year ended 31 December 2020

	Funds and Reserves		
	Unrestricted funds	Endowment fund	Total
	-----Pak Rupees-----		
Balance as at 01 January 2019	131,167,382	70,485,728	201,653,110
<u>Total comprehensive income for the year</u>			
- Deficit for the year	(60,779,509)	-	(60,779,509)
- Other comprehensive income for the year	4,228,000	-	4,228,000
Total comprehensive income for the year	(56,551,509)	-	(56,551,509)
Balance as at 31 December 2019	74,615,873	70,485,728	145,101,601
<b>Balance as at 01 January 2020</b>	<b>74,615,873</b>	<b>70,485,728</b>	<b>145,101,601</b>
<u>Total comprehensive income for the year</u>			
- Surplus for the year	4,926,962	-	4,926,962
- Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	4,926,962	-	4,926,962
<b>Balance as at 31 December 2020</b>	<b>79,542,835</b>	<b>70,485,728</b>	<b>150,028,563</b>

The annexed notes 1 to 40, form an integral part of these financial statements.



CHIEF EXECUTIVE OFFICER



DIRECTOR



**Pakistan Microfinance Network**  
**Statement of Cash Flows**  
For the year ended 31 December 2020

	Note	2020 -----Pak Rupees-----	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Surplus / (deficit) for the year		4,926,962	(60,779,509)
Adjustments for:			
Depreciation	4.1	4,412,109	2,121,158
Amortization	5.1	612,259	836,113
Net Impairment gain on receivables		(3,485,746)	(3,709,394)
Share of loss from associate	8	3,677,383	-
Gain on disposal of operating fixed assets		63,298	-
Amortization of deferred capital grant	16.1	(1,514,509)	(1,053,528)
Finance costs	30	1,907,189	-
Interest income	26	(3,203,887)	(5,198,925)
		2,468,096	(7,004,576)
Changes in:			
Consultancy fees receivable		(3,255,517)	3,503,699
Loans and advances		1,225,889	(1,625,327)
Deposits and short-term prepayments		(1,369,801)	279,637
Grant receivable		(33,800,389)	35,453,800
Training and other receivables		3,885,786	9,438,082
Accrued and other liabilities		24,487,210	(4,598,788)
		(8,826,822)	42,451,103
<b>Net cash used in operating activities</b>		<b>(1,431,764)</b>	<b>(25,332,982)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property and equipment including capital work in progress		(90,072,913)	(697,795)
Acquisition of intangibles - including capital work in progress		(27,924,466)	-
Proceeds from disposal of operating fixed assets		510,000	-
Investment in equity securities		-	(33,250,000)
Short term investments made		(42,003,000)	(30,000,000)
Short term investments redeemed		30,000,000	10,000,000
Payment of subsidiary incorporation fee		(2,011,135)	-
Long term investments redeemed		26,636,714	63,242,958
Long term loans recovered		817,275	623,847
Interest received		3,343,152	10,456,381
<b>Net cash (used in) / generated from investing activities</b>		<b>(100,704,373)</b>	<b>20,375,391</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Deferred grants		112,292,379	-
Long term loans received during the year		21,962,426	-
Principal repayment of lease liability		(1,687,345)	-
<b>Net cash generated from financing activities</b>		<b>132,567,460</b>	<b>-</b>
<b>Net increase / (decrease) in cash and cash equivalents during the</b>		<b>30,431,323</b>	<b>(4,957,591)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		<b>1,803,047</b>	<b>6,760,638</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	15	<b>32,234,370</b>	<b>1,803,047</b>

The annexed notes 1 to 40, form an integral part of these financial statements.



CHIEF EXECUTIVE OFFICER



DIRECTOR

**Pakistan Microfinance Network**  
Notes to the Financial Statements  
For the year ended 31 December 2020

**4 PROPERTY AND EQUIPMENT**

	Note	2020 -----Pak Rupees-----	2019
Operating fixed assets			
Advance for acquisition of hardware	4.1	22,028,434	2,170,768
Capital work in progress	4.2	-	5,587,820
		134,451,842	-
		<u>156,480,276</u>	<u>7,758,588</u>

**4.1 OPERATING FIXED ASSETS**

	Note	COST			Rate %	ACCUMULATED DEPRECIATION			WRITTEN DOWN VALUE		
		As at 01 January	Additions	Disposals		As at 31 December	As at 01 January	Charge for the year	On disposals	As at 31 December	As at 31 December
		-----Pak Rupees-----				-----Pak Rupees-----			-----Pak Rupees-----		
<b>Owned</b>											
Leasehold improvements		4,829,121	4,762,000	(4,829,121)	4,762,000	20	4,369,490	527,447	(4,488,564)	408,373	4,353,627
Furniture and fittings		1,634,944	791,000	(811,207)	1,614,737	20	1,154,329	140,265	(613,310)	681,284	933,453
Office equipment		3,998,791	190,750	(859,896)	3,329,645	20	2,920,647	338,917	(825,052)	2,434,512	895,133
Motor Vehicles	4.1.1	-	3,831,250	-	3,831,250	33	-	195,916	-	195,916	3,635,334
Computer equipment	4.1.1	2,971,549	429,500	-	3,401,049	33	2,819,171	241,849	-	3,061,020	340,029
		-	14,838,573	-	14,838,573	20	-	2,967,715	-	2,967,715	11,870,858
<b>Right of use Assets</b>	18.1	13,434,405	24,843,073	(6,500,224)	31,777,254		11,263,637	4,412,109	(5,926,926)	9,748,820	22,028,434

**2019**

Leasehold improvements		4,829,121	-	-	20	3,403,666	965,824	-	4,369,490	459,631
Furniture and fittings		1,634,944	-	-	20	941,242	213,087	-	1,154,329	480,615
Office equipment		3,300,996	697,795	-	20	2,631,877	288,770	-	2,920,647	1,078,144
Computer equipment		2,971,549	-	-	33	2,165,694	653,477	-	2,819,171	152,378
		12,736,610	697,795	-		9,142,479	2,121,158	-	11,263,637	2,170,768

## Pakistan Microfinance Network

### Notes to the Financial Statements

For the year ended 31 December 2020

- 4.1.1** During the year, the Company received 2 vehicles and office and computer equipment from Department for International Development (DFID) with the condition that these assets will be used solely for development purposes. These assets have been recognized in the financial statements at a fair value of Rs. 3,831,250 and Rs. 468,250 respectively. Title of ownership in respect of vehicles have been endorsed in the name of the Company.

<b>4.2 CAPITAL WORK IN PROGRESS</b>	<b>Note</b>	<b>2020</b> <b>-----Pak Rupees-----</b>	<b>2019</b> <b>-----Pak Rupees-----</b>
Balance at the beginning of the year		-	-
Transfers from advance for acquisition of hardware	4	5,587,820	-
Additions made during the year		128,864,022	-
Balance at the end of the year	4.3	<u>134,451,842</u>	<u>-</u>

- 4.3** This represents costs incurred by the Company for purchase of hardware infrastructure from Pakistan Telecommunications Company Limited (PTCL) for setting up Digital Services Platform (the Platform). During the year, the Company entered into a grant agreement with Karandaaz Pakistan to finance the Company's initiative of setting up the Platform. As per milestones committed under the said grant agreement, the Company is required to set up a Subsidiary Company to branch out the operations of the Platform. Subsequent to the year end, the Company incorporated the Subsidiary named "Munsalik Digital Private Limited (MDPL)" and obtained approval from Securities and Exchange Commission of Pakistan (SECP) for investment in MDPL. The Company is also in process of signing a novation agreement with MDPL and all vendors, whereby all the rights and outstanding obligations of the Company relating to provision of hardware and software infrastructure will be transferred to the MDPL, and thereafter upon the payments being made in full by the MDPL, the ownership of the infrastructure will rest with MDPL. After signing of novation agreements, the Company will be issued shares of MDPL against the payments made till that date.

<b>5 INTANGIBLE ASSETS - SOFTWARES</b>	<b>Note</b>	<b>2020</b> <b>-----Pak Rupees-----</b>	<b>2019</b> <b>-----Pak Rupees-----</b>
Softwares	5.1	350,122	962,381
Advance for acquisition of software	5.2	-	36,200,676
Capital work in progress - Digital Services Platform		<u>64,125,142</u>	<u>-</u>
		<u>64,475,264</u>	<u>37,163,057</u>

## Pakistan Microfinance Network

Notes to the Financial Statements  
For the year ended 31 December 2020

### 5.1 SOFTWARES

#### 2020

	COST			Rate %	ACCUMULATED AMORTIZATION			WRITTEN DOWN VALUE As at 31 December Pak Rupees
	As at 01 January	Additions	Disposals		As at 01 January	Charge for the year	On disposals	
GIS based support system - MicroEye Accounting and anti-virus software	4,004,755	-	-	33	3,129,686	524,947	-	3,654,633
Staff Information Bureau Pakistan Microfinance Review	2,432,523 273,311	-	-	33	2,345,211 273,311	87,312	-	2,432,523 273,311
	1,117,555	-	-	33	1,117,555	-	-	1,117,555
	7,828,144	-	-		6,865,763	612,259	-	7,478,022
								350,122

#### 2019

GIS based support system MicroEye Accounting and anti-virus software	4,004,755	-	-	33	2,604,738	524,948	-	3,129,686	875,069
Staff Information Bureau Pakistan Microfinance Review	2,432,523 273,311	-	-	33	2,034,046 273,311	311,165	-	2,345,211 273,311	87,312
	1,117,555	-	-	33	1,117,555	-	-	1,117,555	-
	7,828,144	-	-		6,029,650	836,113	-	6,865,763	962,381

# Pakistan Microfinance Network

## Notes to the Financial Statements

For the year ended 31 December 2020

	Note	2020 -----Pak Rupees-----	2019
<b>5.2 Capital work in progress</b>			
Digital Services Platform			
Balance at the beginning of the year		-	-
Transfer from advance for acquisition of soft	5	36,200,676	
Additions made during the year		27,924,466	-
Balance at the end of the year	5.3	<u>64,125,142</u>	<u>-</u>

**5.3** This represents payments made by the Company to vendors for provision of software for setting up Digital Services Platform (DSP). Refer to Note 4.3 for further details on DSP.

	Note	2020 -----Pak Rupees-----	2019
<b>6 LONG TERM LOANS</b>			
Considered good - unsecured			
Loans to employees		284,934	1,102,209
Current portion shown under current assets	11	(235,278)	(817,277)
		<u>49,656</u>	<u>284,932</u>

**6.1** Interest at the rate of 5% per annum (2019: 5%) is charged on the long-term loans extended to employees. Management considers that, in context of overall financial statements, impact of recognizing long term loans at present value of the future cash flows, would be immaterial.

	Note	2020 -----Pak Rupees-----	2019
<b>7 LONG TERM INVESTMENTS</b>			
Term deposit receipts	7.1	-	-
Investment in equity securities	8.1	-	37,478,000
Subsidiary incorporation fee	7.2	2,011,135	-
		<u>2,011,135</u>	<u>37,478,000</u>

<b>7.1</b> Term deposit receipts - at amortised cost			
In associated companies:			
FINCA Microfinance Bank Limited		-	13,398,002
In others		-	13,238,712
		-	26,636,714
Less: current portion		-	(26,636,714)
		<u>-</u>	<u>-</u>

**7.2** This represents amount paid by the Company to Securities and Exchange Commission of Pakistan (SECP) for incorporation of the Subsidiary Company named "Munsalik Digital Private Limited" (MDPL) and registration of its authorized capital of Rs 500 million. The Company will be issued shares of MDPL against payment of this fee.



# Pakistan Microfinance Network

## Notes to the Financial Statements

For the year ended 31 December 2020

### 8 INVESTMENT IN ASSOCIATE – Equity Accounted Investee

	Note	2020 -----Pak Rupees-----	2019
Fair value of equity investment on initial recognition as Associate	8.1	37,478,000	-
Share of loss for the period	8.2	(3,677,383)	-
Balance as at 31 Dec 2020		<u>33,800,617</u>	<u>-</u>

**8.1** The Company acquired 3,325,000 shares of Aequitas Information Services Limited (AISL) on 23 May 2019 which represented 9.5% shareholding in AISL. In previous year, this equity investment was measured at fair value with changes in fair value being recognized in other comprehensive income. During the year, on 20 January 2020, one of the Company's nominee director was appointed on the board of AISL. The Company has determined that it is able to exert significant influence on AISL because it has meaningful representation on its board. Accordingly, in current year, this Investment has been accounted for under the equity method of accounting in accordance with the requirements of International Accounting Standard 28, (IAS 28) 'Accounting for Investments in Associates'.

**8.2** AISL was incorporated in Pakistan on 25 May 2016 as a Public Limited Company under the repealed Companies Ordinance, 1984 (Now Companies Act, 2017). The main objectives of the Company are to carry out the business of a Credit Information Company for collecting credit Information as permissible by law relating to debtors of banks, financial Institutions, non-banking financial Institutions, non-financial companies and other lenders or authorities including retailers, insurance companies, utility providers and also to collect and maintain any credit information, with respect to individuals, partnerships, corporations, Institutions, trusts, estates, cooperatives, associations, Government or Governmental subdivisions or agencies or any other entity.

Share of loss from AISL is based on its audited financial statements for the year ended 30 June 2020 and un-audited financial statements for the six months period ended 31 December 2020.

The following table summarizes the financial information of AISL as included in its Un-audited condensed interim financial statements for the six-month period ended 31 December 2020 and audited financial statements for the year ended 30 June 2020. The financial year-end of AISL is 30 June.

	2020 -----Pak Rupees-----	2019
Percentage of ownership %	9.50%	9.50%
Current assets	45,746,457	-
Non-current assets	328,435,680	-
Current liabilities	(30,720,141)	-
Non-current liabilities	(81,713,234)	-
Net assets	<u>261,748,762</u>	<u>-</u>
Company's share of net assets (9.5%)	<u>24,866,132</u>	<u>-</u>
Carrying amount of interest in associates	<u>33,800,617</u>	<u>-</u>
Revenue	47,771,057	-
Loss after taxation	(42,447,302)	-
Other comprehensive income for the year	3,738,005	-
Total comprehensive loss for the year	<u>(38,709,297)</u>	<u>-</u>
Company's share of total comprehensive loss for the period (9.5%)	<u>(3,677,383)</u>	<u>-</u>

**Pakistan Microfinance Network**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2020**

## 9 GRANT RECEIVABLE

	SBP NFIS	Karandaaz	Total	SBP	DFID	Total
	Technical Assistance for Sub-Committees (Note 9.1)	Digital Services Platform (Note 9.2)	2020	NFIS Technical Assistance for Sub-Committees	PMN Business Plan Funding	2019
Note	(Rupees)	(Rupees)	(Rupees)			
Balance as at 01 January	10,672,818	-	10,672,818	2,752,027	43,374,591	46,126,618
Grants received during the year	(9,211,615)	(175,800,000)	(185,011,615)	(4,450,386)	(87,888,768)	(92,339,154)
Profit on bank placements	(37,744)	(1,160,200)	(1,197,944)	-	-	-
	1,423,459	(176,960,200)	(175,536,741)	(1,698,359)	(44,514,177)	(46,212,536)
Transferred to income and expenditure statement	5,190,561	58,030,899	63,221,460	12,371,177	44,514,177	56,885,354
Transferred to deferred grant	-	156,788,488	156,788,488	-	-	-
Balance as at 31 December - Grant receivable	6,614,020	37,859,187	44,473,207	10,672,818	-	10,672,818

**9.1** In 2018, the Company was awarded a grant of Rs. 30 million on a draw down funds basis under the "Financial Inclusion Programme - Technical Assistance Component" by the State Bank of Pakistan. The objective of the grant was to provide technical assistance to National Financial Inclusion Strategy (NFIS) Technical Committees, to enhance formal financial access to the adult population of Pakistan. Under the Project titled "Consumer Perception Survey – Gauging Clients' Experiences" the Company submitted a proposal to the State Bank of Pakistan (SBP) under 'Technical Assistance to NFIS Technical Committees', which was approved by the Financial Inclusion Programme - Technical Assistance committee in its meeting held on 19 November 2020 and approved allocation for a sum not exceeding Rs. 9.9 million towards this project. At the end of the project, the Company will submit a report based on survey conducted to gauge the experiences of users of financial services and how their experience has been with regards to client protection principles put forward by State Bank of Pakistan, Securities and Exchange Commission of Pakistan & Pakistan Telecommunications Authority.

**9.2** This represents capital costs incurred by the Company for setting up Digital Services Platform (DSP). Refer Note 4.3 and 5.3 for further details.

# Pakistan Microfinance Network

## Notes to the Financial Statements

For the year ended 31 December 2020

		2020	2019
	Note	-----Pak Rupees-----	
<b>10 CONSULTANCY FEES RECEIVABLE</b>			
<b>Unsecured - Considered good</b>			
Ghana Microfinance Institutions Network (GHAMFIN)		3,997,500	3,878,750
World Bank		2,935,505	21,655
State Bank of Pakistan		-	-
Foreign, Commonwealth and Development Office (FCDO)		1,755,780	-
Mennonite Economic Development Associates		-	1,532,863
		<u>8,688,785</u>	<u>5,433,268</u>
Less: Allowance for impairment		<u>(1,907,845)</u>	<u>(2,902,298)</u>
		<u>6,780,940</u>	<u>2,530,970</u>
<b>10.1 Movement of allowance for impairment is as follows:</b>			
Balance as at January 01		2,902,298	-
Recognition of expected credit losses on initial application of IFRS 9		-	3,369,774
Net remeasurement of loss allowance		<u>(994,453)</u>	<u>(467,476)</u>
		<u>1,907,845</u>	<u>2,902,298</u>
<b>11 LOANS AND ADVANCES</b>			
<b>Loans - unsecured considered good</b>			
Current portion of long term loans	6	235,278	817,277
<b>Advances</b>			
to employees - considered good	11.2	104,374	1,551,579
to vendors - unsecured considered good		-	231,611
to consultants - unsecured considered good		<u>4,769,573</u>	<u>4,548,257</u>
	11.1	<u>5,109,225</u>	<u>7,148,724</u>
<b>11.1 Loans and advances, except for the current portion of the long-term loan, are interest free, and are due on demand.</b>			
<b>11.2 This includes advances to Chief Executive Officer and Chief Operating Officer amounting to Rs. Nil (2019: 961,570) and Rs. 50,000 (2019: 50,000) respectively. The maximum aggregate amount outstanding to Chief Executive Officer and Chief Operating Officer at any time during the year was PKR. 960,600 and Rs. 84,200 respectively. Provision for doubtful advance and aging are not disclosed as advance is not past due or impaired as at the reporting date.</b>			
		2020	2019
	Note	-----Pak Rupees-----	
<b>11.2.1 Movement of advance to Chief Executive Officer is as follows:</b>			
Balance as at January 01		961,570	6,129
Disbursements	11.2.2	962,685	1,595,064
Repayments		<u>(1,924,255)</u>	<u>(639,623)</u>
		<u>-</u>	<u>961,570</u>
<b>11.2.2 Advance to Chief Executive Officer was issued for official purposes amounting to Rs. Nil (2019: 267,260) and for personal purposes amounting to Rs. 962,685 (2019: 1,327,804). Advance issued for personal purposes is settled against salary.</b>			

**Pakistan Microfinance Network**  
**Notes to the Financial Statements**  
For the year ended 31 December 2020

		2020 -----Pak Rupees-----	2019
<b>12</b>	<b>DEPOSITS AND SHORT TERM PREPAYMENTS</b>		
	Deposits	1,271,004	1,590,024
	<b>Short term prepayments</b>		
	Rent	-	2,162,576
	Employee Benefits / Insurance	1,680,814	1,644,648
	Others	638,000	22,860
		<u>2,318,814</u>	<u>3,830,084</u>
		<u>3,589,818</u>	<u>5,420,108</u>
<b>13</b>	<b>TRAINING AND OTHER RECEIVABLES</b>		
	Membership fees	1,540,000	1,765,000
	Training fees	1,091,343	2,704,786
	Sponsorship fees	7,938,722	21,359,057
	Investor linkages fee	250,000	500,000
	Receivable from South Asia Micro-entrepreneurs Network	13.1 7,122,351	3,972,423
	Withheld sales tax receivable	1,421,906	-
	Others	4,014,409	4,672,265
		<u>23,378,731</u>	<u>34,973,531</u>
	Less: Allowance for impairment	13.2 (4,064,218)	(14,496,136)
		<u>19,314,513</u>	<u>20,477,395</u>

- 13.1** This represents receivable from South Asia Micro-entrepreneurs Network (SAMN), which is a regional microfinance industry association registered in Sri Lanka. The Company provides operational and secretarial support to SAMN and as part of this support, Company makes payments and receives funds on behalf of SAMN. As per an understanding reached between the Company and members of SAMN, this receivable will be settled by SAMN through contributions from its respective members. During the year, the Company submitted an audited statement of receipts and expenditures relating to SAMN operations till 30 June 2020 for recovery of receivable balance.

	2020 -----Pak Rupees-----	2019
<b>13.2</b>	<b>Movement of allowance for impairment is as follows:</b>	
	Balance as at January 01	14,496,136 8,350,147
	Recognition of expected credit losses on initial application of IFRS 9	- 9,387,907
	Receivables written-off during the year	(7,285,426) -
	Net remeasurement of loss allowance	(3,146,492) (3,241,918)
		<u>4,064,218</u> <u>14,496,136</u>



## Pakistan Microfinance Network

### Notes to the Financial Statements

For the year ended 31 December 2020

- 13.3 Training and other receivables include following receivables from associated companies. Aging for these receivables have been disclosed in note 34.1.1 to the financial statements.

	2020	2019	
	-----Pak Rupees-----		
	Maximum aggregate amount outstanding during the year	Balance as at 31 December 2020	Balance as at 31 December 2019
Membership fees			
U Microfinance Bank Limited	250,000	50,000	-
Telenor Microfinance Bank Limited	250,000	50,000	-
Akhuwat Islamic Microfinance Company	250,000	50,000	-
National Rural Support Programme	250,000	50,000	-
	<u>1,000,000</u>	<u>200,000</u>	<u>-</u>
Training fees			
U Microfinance Bank Limited	95,000	-	95,000
Akhuwat Islamic Microfinance Company	122,963	72,713	122,963
Mobilink Microfinance Bank Limited	185,000	90,000	185,000
National Rural Support Programme	179,998	259,998	-
Aequitas Information Services	218,139	218,139	218,139
Kashf Foundation	20,000	-	20,000
First Microfinance Bank Limited	22,000	-	22,000
AGAHE	135,000	-	135,000
NRSP Bank Limited	179,998	179,998	125,000
	<u>1,158,098</u>	<u>820,848</u>	<u>923,102</u>
Sponsorship fees			
Aequitas Information Services Limited	5,687,500	1,400,000	5,687,500
Telenor Microfinance Bank Limited	1,000,000	-	1,000,000
	<u>6,687,500</u>	<u>1,400,000</u>	<u>6,687,500</u>
Investor Linkage Fee			
AGAHE	500,000	250,000	-
	<u>500,000</u>	<u>250,000</u>	<u>-</u>
Others:			
Akhuwat Islamic Microfinance Company	120,000	-	120,000
Khushhali Microfinance Bank Limited	12,971	-	12,971
U Microfinance Bank Limited	9,781	-	9,781
AGAHE	54,146	-	54,146
	<u>196,898</u>	<u>-</u>	<u>196,898</u>
	<u>9,542,496</u>	<u>2,670,848</u>	<u>7,807,500</u>



# Pakistan Microfinance Network

## Notes to the Financial Statements

For the year ended 31 December 2020

		2020	2019
	Note	-----Pak Rupees-----	
<b>14</b>	<b>SHORT TERM INVESTMENTS</b>		
Amortised cost			
Investments in associated companies:			
Term Deposit Receipts	14.1	32,003,000	20,000,000
Accrued Interest on term deposit receipts		-	139,265
		<u>32,003,000</u>	<u>20,139,265</u>

- 14.1** This represents term deposit receipts (TDRs) of SAMBA Bank Limited and U Microfinance Bank Limited carrying interest at rate of 7% and 13.5% per annum respectively. TDRs of SAMBA bank limited amounting to Rs. 22.03 million are held as a collateral against long term loan.

		2020	2019
	Note	-----Pak Rupees-----	
<b>15</b>	<b>BANK BALANCES</b>		
Cash at banks in local currency			
Savings accounts	15.1	30,812,467	1,610,999
Current accounts		1,421,903	192,048
	15.2	<u>32,234,370</u>	<u>1,803,047</u>

- 15.1** Savings accounts carry mark up at rates ranging between 6% to 7% (2019: 8% to 9%), per annum.

- 15.2** Bank balances include balances in saving account of Khushhali Microfinance Bank Limited of Rs. 39,373 (2019: 37,034) and balances in current accounts of U Microfinance Bank Limited and NRSP Microfinance Bank Limited of Rs. 940,008 (2019: 192,048) and Rs. Nil (2019: Nil) respectively.

		2020	2019
	Note	-----Pak Rupees-----	
<b>16</b>	<b>DEFERRED GRANTS</b>		
Deferred capital grant	16.1	3,664,801	879,810
Deferred income - Government Grant	17.2	1,037,808	-
		<u>4,702,609</u>	<u>879,810</u>
Less: current portion shown under current liability	19	<u>(2,427,308)</u>	<u>-</u>
		<u>2,275,301</u>	<u>879,810</u>

### 16.1 Deferred Capital grant

Balance as at January 01 879,810 1,933,338

Grants for the year relating to:

Property and equipment 4.1.1 4,299,500 -

Transfers to the income and expenditure statement:

Amortization for the year (1,281,773) (1,053,528)

Property and equipment disposed off during the year (232,736) -

**21** (1,514,509) (1,053,528)

3,664,801 879,810

**Pakistan Microfinance Network**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2020**

		2020	2019
	Note	-----Pak Rupees-----	
<b>17 LONG TERM LOAN - SECURED</b>			
Loan from SAMBA Bank Limited	17.1	20,639,207	-
Accrued mark up		451,483	-
		<u>21,090,690</u>	-
Less: current portion shown under current liability		(10,915,275)	-
		<u>10,175,415</u>	-

- 17.1** This represents subsidized rate term loan received from SAMBA Bank Limited (the Bank) under 'Refinance Scheme for payment of Wages and Salaries to the Workers and Employees of Business Concerns' (the Scheme) introduced by State Bank of Pakistan. According to conditions of the Scheme, the Company after availing this loan will not lay off their employees at least during three months from the date of first disbursement (28 September 2020) except in case of any disciplinary action. The facility is secured against placement of Term Deposit Receipts amounting to Rs. 22.03 million with the bank. Tenure of the loan is 2.5 years and it is repayable in eight quarterly installments starting from January 2021. Facility carries mark-up at the rate of 3% per annum.

Below is detail of loan proceeds received and amount recognized as deferred grant for the impact of below market interest rate on the loan.

		2020	2019
	Note	-----Pak Rupees-----	
Loan proceeds received		21,962,426	-
Present value of future cash flows discounted at market interest rate		(20,639,207)	-
Amount recognized as deferred income		<u>1,323,219</u>	-

**17.2 Deferred income - Government Grant**

Grant recognised on loan at below market interest rate	17.1	1,323,219	-
Grant amortized during the year		(285,411)	-
		<u>1,037,808</u>	-

**18 LEASE LIABILITY**

Balance as at 01 January		-	-
leases recognized during the year		11,638,482	-
Finance cost on lease liabilities	30	1,741,117	-
Payments made during the year		(1,687,345)	-
		<u>11,692,254</u>	-
Less: current portion shown under current liability		(4,048,607)	-
	18.1	<u>7,643,647</u>	-

- 18.1** This represents lease liability for Company's office premises. Lease term of these premises has been determined to be five years based on consideration of the terms of the agreement and other factors.

# Pakistan Microfinance Network

## Notes to the Financial Statements

For the year ended 31 December 2020

		2020	2019
	Note	-----Pak Rupees-----	
<b>19 DEFERRED GRANTS</b>			
Related to Digital Services Platform (DSP)	9	156,788,488	-
Current portion of deferred grants	16	2,427,308	-
		<u>159,215,796</u>	<u>-</u>
<b>20 ACCRUED AND OTHER LIABILITIES</b>			
Accrued expenses		1,175,695	1,305,598
Accounts payable		6,880,501	20,304,642
Withheld income tax payable		2,294,367	4,283,847
Withheld sales tax payable		-	1,436,967
Payable to employees' voluntary pension scheme		40,006	318,824
Payable related to Digital Services Platform	20.1	44,496,109	-
Other liabilities	20.2	1,132,739	3,882,329
		<u>56,019,417</u>	<u>31,532,207</u>
<b>20.1</b>	This represents payable to Pakistan Telecommunications Company Limited (PTCL) for provision of hardware infrastructure for setting up Digital Services Platform (DSP). As detailed in note 4.3, DSP is being financed by Karandaaz Pakistan through the grant agreement entered into during the year. Accordingly, related grant receivable has also been recognized for this liability towards PTCL.		
<b>20.2</b>	This includes balances payable to following associated companies:		
National Rural Support Programme		-	168,091
Kashf Foundation		-	442,386
First Microfinance Bank Limited		250,000	-
		<u>250,000</u>	<u>610,477</u>
<b>21 GRANT INCOME</b>			
State Bank of Pakistan (SBP)			
- NFIS Technical Assistance for Sub-committees	9	5,190,561	12,371,177
Karandaaz Pakistan			
- Digital Services Platform	9	58,030,899	44,514,177
		<u>63,221,460</u>	<u>56,885,354</u>
Amortization of deferred capital grant	16.1	1,514,509	1,053,528
		<u>64,735,969</u>	<u>57,938,882</u>
<b>22 MEMBERS' CONTRIBUTIONS</b>			
Membership fee	22.1	8,625,000	8,625,000
Contribution against international trainings	22.2	-	6,001,125
		<u>8,625,000</u>	<u>14,626,125</u>
<b>22.1</b>	Membership fees have been further disaggregated as from:		
Microfinance Banks		3,050,000	2,925,000
Non-Banking Microfinance Institutions		5,575,000	5,700,000
		<u>8,625,000</u>	<u>8,625,000</u>

## Pakistan Microfinance Network

### Notes to the Financial Statements

For the year ended 31 December 2020

		2020	2019
	Note	-----Pak Rupees-----	
<b>22.2</b>	Contribution against international trainings include the following:		
	Boulder microfinance training	-	3,594,541
	Harvard training course	-	2,157,840
	School of African Microfinance	-	248,744
	<b>22.2.1</b>	<b>-</b>	<b>6,001,125</b>
<b>22.2.1</b>	Contribution against international trainings has been further disaggregated as from:		
	Microfinance Banks	-	3,310,014
	Non-Banking Microfinance Institutions	-	2,691,111
		<b>-</b>	<b>6,001,125</b>
<b>23</b>	<b>INCOME FROM TRAININGS</b>		
	Training Income Gross	<b>3,336,205</b>	25,137,353
	Less: Trade discount	<b>(371,246)</b>	(2,443,212)
	Less: Sales Tax	<b>(476,234)</b>	(2,499,574)
	Training Income - net	<b>2,488,725</b>	20,194,568
<b>23.1</b>	Training income has been further disaggregated into the following categories		
	Microfinance Banks	<b>799,992</b>	2,335,225
	Non-Banking Microfinance Institution	<b>1,643,739</b>	14,277,144
	Non member organizations	<b>44,994</b>	3,582,199
		<b>2,488,725</b>	20,194,568
<b>24</b>	<b>INCOME FROM RESEARCH PROJECTS / CONSULTANCY</b>		
	World Bank	<b>5,827,700</b>	-
	Foreign, Commonwealth and Development Office (FCDO)	<b>1,755,780</b>	-
	Mennonite Economic Development Associates	-	2,509,993
	PROPARCO	-	2,219,831
		<b>7,583,480</b>	4,729,824

**Pakistan Microfinance Network**  
**Notes to the Financial Statements**  
For the year ended 31 December 2020

**25 INCOME FROM SPONSORSHIPS**

This represents the income received as sponsorships from various donors, organizations and members on account of various conferences on microfinance innovation and growth conducted by the Company. Sponsorship income has been disaggregated into the following categories.

	2020	2019
Note	-----Pak Rupees-----	
Microfinance Banks	2,250,000	3,500,000
Non-Banking Microfinance Institution	1,650,000	3,550,000
Non member organisations	7,850,791	8,421,558
	<u>11,750,791</u>	<u>15,471,558</u>

**26 OTHER INCOME**

**Income from financial assets**

Profit on savings accounts	672,848	1,406,311
Interest income on loans to employees	23,319	59,600
Interest income on investments	2,507,720	3,733,014
	<u>3,203,887</u>	<u>5,198,925</u>

**Income from non-financial assets**

Liabilities written off during the year	2,556,811	-
Investor linkage	-	1,589,210
Others	1,622,541	615,597
	<u>4,179,352</u>	<u>2,204,807</u>
	<u>7,383,239</u>	<u>7,403,732</u>



**Pakistan Microfinance Network**  
**Notes to the Financial Statements**  
For the year ended 31 December 2020

**27 CONTINGENCIES AND COMMITMENTS**

**27.1 Contingencies**

The Company has filed an application for renewal of its recognition as not-for-profit organization under Section 2(36) of the Income Tax Ordinance, 2001 which is pending approval. No provision for taxation has been recognized in these financial statements as the management and its tax advisor believes that the Company's recognition as a not-for-profit organization will be granted and in case of rejection of the application, the Company has a right to contest the matter in appeal.

**27.2 Commitments**

Company's commitments to different vendors for provision of infrastructure for setting up Digital Services Platform (DSP) are as follows:

Amount payable within 1 year	<b>71,790,192</b>	195,512,353
Amount payable in 2 to 5 years	-	105,937,500
	<b>71,790,192</b>	<b>301,449,853</b>

**28 GOVERNANCE AND MANAGEMENT**

Salaries and benefits		<b>11,212,958</b>	7,898,849
Events / conferences / meetings		<b>972,062</b>	681,343
Rent and utilities		<b>589,171</b>	1,701,487
Depreciation and amortization		<b>5,024,369</b>	2,957,271
Legal and professional		<b>1,275,660</b>	225,620
Travel		<b>1,068,570</b>	856,666
Auditors' remuneration	28.1	<b>1,688,500</b>	795,000
Office supplies		<b>993,249</b>	1,433,095
Designing and printing		<b>144,444</b>	604,604
Office maintenance		<b>1,280,992</b>	615,618
Insurance		<b>206,634</b>	144,340
Entertainment		<b>394,051</b>	125,473
Other expenses		<b>4,086,102</b>	2,361,226
Bank charges		<b>57,879</b>	59,928
Exchange loss		-	31,653
		<b>28,994,641</b>	<b>20,492,172</b>

**28.1 Auditors' remuneration include the following:**

Audit fee	<b>1,000,000</b>	750,000
Other non audit services	<b>650,000</b>	-
Out of pocket expense	<b>38,500</b>	45,000
	<b>1,688,500</b>	<b>795,000</b>

**Pakistan Microfinance Network**  
**Notes to the Financial Statements**  
For the year ended 31 December 2020

	2020	2019
	-----Pak Rupees-----	
<b>29 PROGRAMME COSTS</b>		
Salaries and benefits	39,778,904	60,110,968
Consultant cost	7,741,552	26,977,358
Events / conferences / meetings	7,408,404	18,099,839
Travel	2,169,078	18,177,047
Tuition and accommodation fee	279,185	9,131,256
Accommodation	2,414,140	6,895,068
Per diem and other allowances	1,285,000	7,784,521
Rent and utilities	1,779,333	5,104,460
Designing and printing	589,310	2,665,811
International memberships	866,031	736,598
Entertainment	272,207	299,513
Exchange loss	-	94,959
Other expenses	1,963,631	8,284,023
	<b>66,546,775</b>	<b>164,361,420</b>
<b>30 FINANCE COSTS</b>		
Mark-up on:		
Long-term loans	166,072	-
lease liability	1,741,117	-
	<b>1,907,189</b>	<b>-</b>

**31 REMUNERATION OF CHIEF EXECUTIVE OFFICER, DIRECTORS AND EXECUTIVES**

The aggregate amounts charged in the financial statements for remuneration, including benefits, to the Chief Executive Officer and executives are as follows:

	Note	<u>Chief Executive Officer</u>		<u>Executives</u>	
		2020	2019	2020	2019
		-----Pak Rupees-----		-----Pak Rupees-----	
Managerial remuneration	31.1	10,893,060	9,474,828	18,777,696	21,494,400
Bonus for the year		3,177,760	1,662,250	1,466,410	4,758,942
Pension fund scheme		-	332,448	456,583	988,066
Contribution for gratuity		-	500,000	-	1,376,667
Reimbursements		107,347	115,463	514,215	582,601
Other benefits	31.2	1,294,510	1,479,557	575,230	1,312,412
		<b>15,472,677</b>	<b>13,564,546</b>	<b>21,790,134</b>	<b>30,513,088</b>
Number of person(s)		<b>1</b>	<b>1</b>	<b>5</b>	<b>6</b>

**31.1** No remuneration was paid to the Company's directors in the current and previous year.

**31.2** This represents payment for leave encashment, health insurance and contribution to Employees Old Age Benefits Institution. This also includes vehicle allowance of Chief Executive Officer.

# Pakistan Microfinance Network

## Notes to the Financial Statements

For the year ended 31 December 2020

### 32 RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company comprise of key management personnel and entities under common directorship.

Balances with related parties have been disclosed in note 11, 13, 15, 20 and Transactions with related parties are as follows:

	2020	2019
	-----Pak Rupees-----	
<b>32.1 Transactions during the year:</b>		
Transactions with associated companies:		
Training fee income	1,229,990	7,583,699
Membership and registration fee income	3,400,000	3,050,000
Sponsorship fee income	2,750,000	3,250,000
Social audit fee income	-	-
Interest income earned on TDRs	1,456,191	4,613,472
Others:		
Remuneration to key management personnel	20,713,692	18,362,468
Payments made on behalf of the Company by key management personnel	5,002,212	-
<b>32.2</b> Following are the associated companies and related parties with whom the Company had entered into transactions during the year:		

Associated Companies	Basis of Relationship	Number of shares held in the Company	Aggregate %age shareholding in the Company
U Microfinance Bank Limited	Common directorship	N/A	N/A
Telenor Microfinance Bank Limited	Common directorship	N/A	N/A
First Microfinance Bank Limited	Common directorship	N/A	N/A
Khushhali Microfinance Bank Limited	Common directorship	N/A	N/A
Mobilink Microfinance Bank Limited	Common directorship	N/A	N/A
National Rural Support Programme	Common directorship	N/A	N/A
SAFCO Support Foundation	Common directorship	N/A	N/A
Kashf Foundation	Common directorship	N/A	N/A
Rural Community Development Programme	Common directorship	N/A	N/A
Akhuwat Islamic Microfinance Company	Common directorship	N/A	N/A
AGAHE Pakistan	Common directorship	N/A	N/A
Aequitas Information Services Limited	Common directorship	N/A	N/A

Related Parties	Basis of Relationship	Number of shares held in the Company	Aggregate %age shareholding in the Company
Syed Mohsin Ahmed	Chief Executive Officer	N/A	N/A
Ali Basharat	Chief Operating Officer	N/A	N/A
Muhammad Waqas Khan	Chief Financial Officer	N/A	N/A

### 33 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

Fair value is the amount that would be received on sale of an asset or paid on transfer of a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between carrying values and fair value estimates. Underlying the definition of fair value is the presumption that the entity is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in active markets i.e. listed equity shares are based on the quoted market prices at the close of trading on the period end date. The quoted market prices used for financial assets held by the institute is current bid price. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

IFRS 13 'Fair Value Measurements' requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

**Pakistan Microfinance Network**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2020**

**33.1 Fair value of financial assets and liabilities**

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy it does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Note	Carrying Amount				Fair Value					
		Amortised Cost	FVTPL	FVOCI- Equity instruments	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total	
-----Pak Rupees-----											
2020											
Financial assets measured at Fair Value											
Deposits	12	-	1,271,004	-	-	1,271,004	-	-	-	1,271,004	1,271,004
Financial assets not measured at Fair Value											
Long term loans	6	284,934	-	-	-	284,934	-	-	-	-	-
Grant receivable	9	44,473,207	-	-	-	44,473,207	-	-	-	-	-
Consultancy fees receivable	10	6,780,940	-	-	-	6,780,940	-	-	-	-	-
Training and other receivables	13	19,314,513	-	-	-	19,314,513	-	-	-	-	-
Short term investments	14	32,003,000	-	-	-	32,003,000	-	-	-	-	-
Bank balances	15	32,234,370	-	-	-	32,234,370	-	-	-	-	-
Financial liabilities not measured at Fair Value											
Accrued and other liabilities	20	-	-	-	-	53,725,050	-	-	-	-	-
Long term loan	17	21,090,690	-	-	-	21,090,690	-	-	-	-	-
Lease liability	18	11,692,254	-	-	-	11,692,254	-	-	-	-	-

	Note	Carrying Amount				Fair Value					
		Amortised Cost	FVTPL	FVOCI- Equity Instruments	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total	
											-----Pak Rupees-----
2019											
Financial assets measured at Fair Value											
Investment in equity securities		-		37,478,000	-	37,478,000	-	-	37,478,000	37,478,000	
Deposits	12	-	1,590,024	-	-	1,590,024	-	-	1,590,024	1,590,024	
Financial assets not measured at Fair Value											
Long term investment - TDRs	7	26,636,714	-	-	-	26,636,714	-	-	-	-	
Long term loans	6	1,102,209	-	-	-	1,102,209	-	-	-	-	
Grant receivable	9	10,672,818	-	-	-	10,672,818	-	-	-	-	
Consultancy fees receivable	10	2,530,970	-	-	-	2,530,970	-	-	-	-	
Other receivables	13	20,477,395	-	-	-	20,477,395	-	-	-	-	
Short term investments	14	20,139,265	-	-	-	20,139,265	-	-	-	-	
Bank balances	15	1,803,047	-	-	-	1,803,047	-	-	-	-	
Financial liabilities not measured at Fair Value											
Accrued and other liabilities	20	-	-	-	25,811,393	25,811,393	-	-	-	-	



### 34 FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

#### 34.1 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is responsible for developing and monitoring the Company's risk management policies through risk committee of the Board.

##### 34.1.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's all receivables, investments (excluding equity investments) and bank balances.

The carrying amounts of financial assets represent the maximum credit exposure. 'Reversal of impairment loss on financial assets' recognized in income and expenditure account amounts to Rs.3.48 million and relates to consultancy, and training and other receivables.

The maximum exposure to credit risk at the reporting date was:

		2020	2019
	Note	-----Pak Rupees-----	
Grant receivable	9	44,473,207	10,672,818
Consultancy fees receivable	10	6,780,940	2,530,970
Deposits	12	1,271,004	1,590,024
Long term investments	7	-	26,636,714
Short term investments	14	32,003,000	20,139,265
Training and other receivables	13	19,314,513	20,477,395
Bank balances	15	32,234,370	1,803,047
		<u>136,077,034</u>	<u>83,850,233</u>

##### i) Consultancy, Grant, Training and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base. Geographically there is no concentration of credit risk.

Company's receivables mainly arise from its members and donors. Maximum of the Company's members have been transacting with the Company for many years and none of these members' balances have been written off or are credit-impaired at the reporting date. The Company attempts to control the credit risk by monitoring credit exposures, limiting transactions with specific parties and continuing assessment of credit worthiness of these parties. As part of these processes the financial viability of all counterparties is regularly monitored and assessed.

The maximum exposure to credit risk for financial assets at the reporting date by type of counter party was:

## Pakistan Microfinance Network

### Notes to the Financial Statements

For the year ended 31 December 2020

	2020	2019
	-----Pak Rupees-----	
Associated companies	2,300,850	8,586,475
Banks - Associated companies	1,349,379	33,537,267
Banks - other than Associated Companies	31,254,989	15,041,759
Others	101,171,816	26,684,732
	<u>136,077,034</u>	<u>83,850,233</u>

The aging of receivables from associated companies and provision there against at the reporting date was as follows:

	Gross	Impairment	Gross	Impairment
	2020	2020	2019	2019
	-----Pak Rupees-----			
Not yet due	1,759,998	-	6,100,434	-
Past due 0-60 days	-	-	1,925,250	8,107
Past due 60-180 days	-	-	268,078	12,425
Past due 180-365 days	540,852	144,484	172,713	56,778
Over 365 days	-	-	120,000	120,000
	<u>2,300,850</u>	<u>144,484</u>	<u>8,586,475</u>	<u>197,310</u>

#### Expected credit loss assessment as at 31 December 2020

The Company allocates each exposure to a credit risk based on data that is determined to be predictive of the loss (including but not limited to external ratings, audited financial statements, management accounts, cash flow projection and available press information about customers) and applying experienced credit judgment. Credit risk are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definition from agencies (Rating agencies Pakistan Credit Rating Agency (PACRA) and JCR - VIS).

Exposure within each credit risk are segmented by type of receivables like consultancy, grant and others and an ECL rate is calculated for each segment based on delinquency status and actual credit loss experience over the past 4 years. These rates are multiplied by scalar factors to reflect the difference between economic conditions during the period over which the historical data has been collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables.

Scalar factors are based on GDP forecast, unemployment rate and exchange rate which are as follows.

Years	GDP Forecast	Unemployment Rate	Exchange rate
2020	-0.40	4.50	159.80
2019	3.10	6.30	150.00
2018	5.83	6.00	121.82
2017	5.55	5.80	105.46
2016	5.53	5.80	104.77

The Company uses an allowance matrix to measure the ECLs of receivables, which comprises a very large number of small balances.

## Pakistan Microfinance Network

### Notes to the Financial Statements

For the year ended 31 December 2020

Loss rates are calculated using "roll rate" method based on the probability of a receivable progressive through successive stages of delinquency to calculate the weighted average loss rate. Roll rates are calculated separately for exposure in different segments based on following common characteristics - geographic region and age of customer relationship.

The following table provides information about the exposure to credit risk and ECL for Training and other receivables as at 31 December 2020 and 31 December 2019, excluding receivable from South Asia Micro-entrepreneurs Network.

	Weighted average loss rate	Gross carrying amount	Loss allowance	Credit impaired
<b>31 December 2020</b>				
	%	-----Pak Rupees-----		
Current	0.0%	7,778,366	113	No
0-30 days past due	0.0%	250,000	37	No
30-60 days past due	0.0%	55,000	24	No
60-90 days past due	0.0%	-	-	No
91-150 days past due	0.3%	20,000	65	No
151 days and above	49.8%	8,153,014	4,063,979	No
		16,256,380	4,064,218	
<b>31 December 2019</b>				
	%	-----Pak Rupees-----		
Current	0.0%	16,731,333	6,980	No
0-30 days past due	0.3%	1,738,397	4,575	No
30-60 days past due	0.0%	-	-	No
60-90 days past due	0.0%	-	-	No
91-150 days past due	4.7%	296,597	13,803	No
151 days and above	118.3%	12,234,781	14,470,778	No
		31,001,108	14,496,136	

The following table provides information about the exposure to credit risk and ECL for consultancy fee receivables as at 31 December 2020 and 31 December 2019.

	Weighted average loss rate	Gross carrying amount	Loss allowance	Credit impaired
<b>31 December 2020</b>				
	%	-----Pak Rupees-----		
Current	0.0%	4,788,380	-	No
0-30 days past due	0.0%	-	-	No
30-60 days past due	0.0%	-	-	No
60-90 days past due	0.0%	-	-	No
91-150 days past due	0.0%	-	-	No
151 days and above	48.9%	3,900,405	1,907,845	No
		8,688,785	1,907,845	

## Pakistan Microfinance Network

### Notes to the Financial Statements

For the year ended 31 December 2020

31 December 2019	Weighted average loss rate	Gross carrying amount	Loss allowance	Credit impaired
	%	-----Pak Rupees-----		
Current	0.0%	1,532,863	-	No
0-30 days past due	0.0%	-	-	No
30-60 days past due	0.0%	-	-	No
60-90 days past due	0.0%	-	-	No
91-150 days past due	0.0%	-	-	No
151 days and above	74.4%	3,900,405	2,902,298	No
		5,433,268	2,902,298	

As per expected credit loss assessment no provision is required to be recognized against grant receivables.

#### Investments

The Company held investments of Rs. 32 million as at 31 December 2020 (2019: Rs. 46.7 million). These investments are held with the banks which are rated A1 to A1+ based on JCR - VIS ratings.

Impairment on investments has been measured on 12 month expected loss basis and reflect the short maturities of the exposures. The Company considers that its investments have low credit risk based on external credit rating of the counterparties.

#### Cash at Bank

The Company held cash at bank of Rs. 32,234,369 as at 31 December 2020 (2019: Rs. 1,803,047). These balances are held with the banks which are rated A1+ to AAA based on PACRA and JCR - VIS ratings.

Impairment on cash at bank has been measured on 12 month expected loss basis and reflect the short maturities of the exposures. The Company considers that its cash at bank have low credit risk based on external credit rating of the counterparties.

#### 34.1.2 Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding to an adequate amount of committed credit facilities and the ability to close out market positions due to dynamic nature of the business. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The maturity profile of the Company's financial liabilities based on the contractual amount is as follows:

2020	31 December 2020				
	Carrying amount	Contractual cash flows	Up to one year	Two to three years	Four to five years
Accrued expenses	1,175,695	(1,175,695)	(1,175,695)	-	-
Accounts payable	6,880,501	(6,880,501)	(6,880,501)	-	-
pension scheme	40,006	(40,006)	(40,006)	-	-
Other liabilities	1,132,739	(1,132,739)	(1,132,739)	-	-
Long term loan	21,090,690	(21,962,426)	(10,981,213)	(10,981,213)	-
Lease liability	11,692,254	(15,091,614)	(5,736,973)	(4,454,591)	(4,900,050)
	42,011,885	(46,282,981)	(25,947,127)	(15,435,804)	(4,900,050)



## Pakistan Microfinance Network

### Notes to the Financial Statements

For the year ended 31 December 2020

2019	31 December 2019				
	Carrying amount	Contractual cash flows	Up to one year	Two to three years	Four to five years
Accrued expenses	1,305,598	(1,305,598)	(1,305,598)	-	-
Accounts payable	20,304,642	(20,304,642)	(20,304,642)	-	-
Payable to employees' voluntary scheme	318,824	(318,824)	(318,824)	-	-
Other liabilities	3,882,329	(3,882,329)	(3,882,329)	-	-
	25,811,393	(25,811,393)	(25,811,393)	-	-

#### 34.1.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

##### a) Currency risk

The Pak Rupee is the functional currency of the Company and as a result currency exposures arise from transactions and balances in currencies other than the Pak Rupee. The Company is exposed to currency risk from consultancy fee receivable as follows:

	2020		2019	
	Rupees	USD	Rupees	USD
Consultancy fee receivable	3,997,500	25,000	5,433,268	35,019
<b>Net exposure</b>	<b>3,997,500</b>	<b>25,000</b>	<b>5,433,268</b>	<b>35,019</b>

The following significant exchange rates were applied during the year:

	Average rates		Statement of Financial Position date rate	
	2020	2019	2020	2019
US Dollars	157.53	147.33	159.90	155.15

#### Sensitivity Analysis

A 1% strengthening of the functional currency against USD as at 31 December 2020 would have decreased surplus by Rs. 39,975 (2019: Rs. 54,262). A 1% weakening of the functional currency against USD as at 31 December 2020 would have had the equal but opposite effect of these amounts. The analysis assumes that all other variables remain constant.

	2020		2019	
	Rupees	GBP	Rupees	GBP
Consultancy fee receivable	1,755,780	8,205	-	-
<b>Net exposure</b>	<b>1,755,780</b>	<b>8,205</b>	<b>-</b>	<b>-</b>



# Pakistan Microfinance Network

## Notes to the Financial Statements

### For the year ended 31 December 2020

The following significant exchange rates were applied during the year:

	Average rates		Statement of Financial Position date	
	2020	2019	2020	2019
GBP	207.63	188.30	214.00	201.25

#### Sensitivity Analysis

A 1% strengthening of the functional currency against GBP as at 31 December 2020 would have decreased surplus by Rs. 17,649 (2019: Rs. Nil). A 1% weakening of the functional currency against USD as at 31 December 2020 would have had the equal but opposite effect of these amounts. The analysis assumes that all other variables remain constant.

#### b) Interest rate risk

The interest rate risk is the risk that the value of financial instrument will fluctuate due to changes in the market interest rates. At the reporting date, the Company's interest bearing financial instruments comprise of cash at bank in savings accounts, and short term investments carrying fixed interest rates.

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

#### c) Other market price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

At the year end the Company is not exposed to price risk since there are no financial instruments whose fair value or future cash flows will fluctuate because of changes in market prices.

### 35 CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital is to safeguard the Company's ability to continue as a going concern so that it can achieve its primary objectives, provide benefits for other stakeholders and to maintain a strong capital base to support the sustained development of its businesses in line with the objects of the Company.

# Pakistan Microfinance Network

## Notes to the Financial Statements

For the year ended 31 December 2020

### 36 NUMBER OF EMPLOYEES

Number of employees of the Company at the reporting date

Average number of employees during the year

2020 (Number)	2019 (Number)
15	16
16	18

### 37 COMPARATIVE FIGURES

#### 37.1 Reclassifications

##### Income and Expenditure Statement

Previously programme related expenses were classified as Capacity building, Enabling environment and information hub in income and expenditure statement. These have now been presented as part of Programme Cost for better presentation. Result of this reclassification is as follows:

	31 December 2019		
	As previously reported	Effect of reclassificatio n	Balance after reclassificatio n
	----- Rupees in '000 -----		
Programme cost	-	164,361,420	164,361,420
Capacity building	45,901,032	(45,901,032)	-
Enabling environment	74,979,420	(74,979,420)	-
Information hub	43,480,968	(43,480,968)	-

Since above reclassifications does not impact total expenses, net deficit and funds and reserves hence third statement of financial position is not required.

### 38 IMPACT OF COVID-19 ON THE FINANCIAL STATEMENTS

During the year, COVID-19 pandemic emerged which impacted the global and national economies in general. Due to COVID-19 outbreak, there is a negative impact of Rs. 2.5 million on the revenues of the Company for the year ended 31 December 2020. This decline in revenue was because of global and national lockdown and travel restrictions imposed by the Governments to counter COVID-19 outbreak. The lockdown disrupted the planned activities under the Centre of Excellence (COE) initiative.

The management has evaluated that there are no significant implications of COVID-19 on items of income and expenditure or on the carrying amount of assets and liabilities of the Company other than those stated above.

### 39 GENERAL

The amounts presented in these financial statements have been rounded-off to the nearest Pak Rupee, unless otherwise stated.

## Pakistan Microfinance Network

### Notes to the Financial Statements

For the year ended 31 December 2020

#### 40 DATE OF AUTHORIZATION

These financial statements were approved by the Board of Directors of the Company in their meeting held on 28-04-2021.



CHIEF EXECUTIVE OFFICER



DIRECTOR

# ANNUAL REPORT 2020

