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IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Enabling the rural poor to overcome poverty

President's report

Proposed loan to the Islamic Republic of Pakistan for the

Programme for Increasing Sustainable Microfinance

Executive Board — Ninety-first Session
Rome, 11-12 September 2007

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

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Contents

Abbreviations and acronyms

CFI	commercial financial institution
MFI	microfinance institution
PPAF	Pakistan Poverty Alleviation Fund

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to the Islamic Republic of Pakistan for the Programme for Increasing Sustainable Microfinance, as contained in paragraph 35.

Islamic Republic of Pakistan

Programme for Increasing Sustainable Microfinance

Loan summary

Initiating institution:	IFAD
Borrower:	Islamic Republic of Pakistan
Executing agency:	Pakistan Poverty Alleviation Fund (PPAF), an apex funding agency created by the Government and operating through NGO partner organizations
Total programme cost:	US$46.6 million
Amount of IFAD loan:	SDR 22.85 million (equivalent to approximately US$35.0 million)
Terms of IFAD loan:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinanciers:	Banks and commercial financial institutions (CFIs) PPAF partner organizations PPAF
Amount of cofinancing:	Banks/CFIs: US$10.3 million PPAF partner organizations: US$0.6 million PPAF: US$0.7 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Proposed loan to the Islamic Republic of Pakistan for the Programme for Increasing Sustainable Microfinance

I. The programme

A. Main development opportunity addressed by the programme

1. It is a pivotal time for microfinance in Pakistan: coverage is very limited; unmet demand is enormous; the policy and regulatory environment is supportive; and both commercial banks and microfinance institutions (MFIs) have expressed willingness to work together to expand outreach. To date, the microfinance sector has largely relied on donor funds. But these funds are already falling short of demand, which is constraining growth, and only limited donor funding can be expected for microfinance in future. If the microfinance sector is to continue to grow sustainably, it needs to access funds from the commercial sector: from commercial banks and capital markets. Thus, future growth will depend on facilitating successful financial partnerships between MFIs and the commercial sector. The proposed programme seeks to build such partnerships.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide a loan to the Islamic Republic of Pakistan in the amount of SDR 22.85 million (equivalent to approximately US$35.0 million) on highly concessional terms to help finance the Programme for Increasing Sustainable Microfinance. The loan will have a term of 40 years, including a grace period of 10 years with a service charge of three fourths of one per cent (0.75 per cent) per annum.

Relationship to the IFAD performance-based allocation system (PBAS)

3. The allocation defined for Pakistan under the PBAS is US$46.9 million over the 2007-2009 allocation cycle. The proposed loan is well within this allocation.

Country debt burden and absorptive capacity of the State

4. The capacity of Pakistan to service external debt is good. The total external debt to gross domestic product ratio has fallen from 41 per cent in 2001 to 26 per cent in 2006. The Government's repayment record for IFAD loans is exemplary.

Flow of funds

5. The IFAD loan will be channelled to an advance account in United States dollars and onwards to a programme account in Pakistani rupees. Both accounts will be managed by the Pakistan Poverty Alleviation Fund (PPAF). Funds will flow to PPAF via a subsidiary financing agreement signed between the Ministry of Finance and PPAF.

Supervision arrangements

6. The loan will be directly supervised by IFAD.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

7. No exceptions are foreseen.

Governance

8. The following measures are intended to enhance the governance aspects of the IFAD loan: (i) PPAF – an operationally autonomous agency with an exemplary international reputation – has been selected as a key partner; (ii) PPAF's management team is accountable to an independent board of directors representing the private sector and the Government; (iii) PPAF has an outstanding monitoring system, including visits to partner organizations every three months; (iv) PPAF internal audit team conducts an annual audit of its partner organizations; and (v) an

external audit firm is engaged to verify the financial position of partner organizations.

C. Target group and participation

Target group

9. The definition of the target population for microfinance used by the Pakistan Microfinance Network, and generally adopted by the industry, considers the target group as comprising two elements: people classified as “transitory poor”, who fall just below the poverty line; and people classified as “transitory vulnerable”, who fall just above the poverty line. In terms of the adult population of Pakistan, this represents some 28 million people. The programme will classify the target population into three distinct groups: (i) small farmers, livestock owners, traders and microentrepreneurs; (ii) women and woman-headed households; and (iii) vulnerable rural households living below the poverty line.

Targeting approach

10. PPAF partner organizations will select borrowers based on their own established systems for managing their microfinance programmes. These systems vary depending on the partner organization, but generally include a checklist to establish eligibility for group membership and for borrowing from the partner organization. Each of these institutions has poverty reduction as the dominant element in its mandate and as a key factor in determining client selection.

Participation

11. Participatory development will be ensured as follows. Building on the success of the PPAF approach of working with high-performing partner organizations, the programme will enable the provision of loans to 160,000 new borrowers. Beneficiaries will participate in the programme’s microfinance activities and in the process of beneficiary monitoring and impact assessment.

D. Development objectives

Key programme objectives

12. The programme’s development goal is to reduce poverty, promote economic growth and improve the livelihoods of rural households. Its overall objective is to facilitate sustainable growth in microfinance in order to give the rural poor greater access to financial services.

Policy and institutional objectives

13. The programme includes a component focused on policy dialogue, whose main objectives are to identify key policy issues that could influence commercialization of the microfinance sector, and to support lobbying for any required changes in existing legislation so as to promote dynamic participation of commercial banks in microfinance. The programme’s main institutional objectives are to develop productive working relationships between commercial financing institutions and MFIs, and to strengthen MFIs so that they can participate effectively in such relationships.

IFAD policy and strategy alignment

14. The programme is consistent with the objective of the IFAD Strategic Framework 2007-2010 of increasing access to financial services, and with the objective set out in IFAD’s country strategic opportunities paper (2002) of expanding rural enterprises and financial systems in Pakistan. It is also in line with the IFAD Rural Finance Policy, in particular: (i) the partnership with an autonomous microfinance apex institution; (ii) the focus on commercialization of the sector; and (iii) the use of instruments such as equity participation in rural financial institutions and the provision of credit guarantees.

E. Harmonization and alignment

Alignment with national priorities

15. The programme is concordant with the Government's second poverty reduction strategy paper, which sees microfinance as "an important instrument for poverty reduction" and recommends that microfinance "move away from subsidization of microfinance services to commercialization", and concludes that "the key to reducing costs is to introduce market competition, innovation and efficiency." In particular, the programme will support the Government's stated target of reaching three million microfinance borrowers by 2010.

Harmonization with development partners

16. The programme was developed to respond to one of the key gaps in the microfinance sector identified in the April 2007 Country-Level Effectiveness and Accountability Review issued by the Consultative Group to Assist the Poor, and to be complementary to ongoing donor-funded projects. It has been developed in consultation with members of the in-country donor group on microfinance, in particular with staff from the World Bank, the Asian Development Bank, the United States Agency for International Development, the Department for International Development (United Kingdom of Great Britain and Northern Ireland), the European Union, the Swiss Agency for Development and Cooperation, the German Credit Institution for Reconstruction, and the International Finance Corporation.

F. Components and expenditure categories

Main components

17. The programme has five components: (i) credit enhancement (71.2 per cent); (ii) equity fund (16.4 per cent); (iii) technical support/institutional strengthening fund for partner organizations (6.1 per cent); (iv) knowledge management and policy dialogue (2.8 per cent); and (v) programme management (3.5 per cent).

Expenditure categories

18. There are seven expenditure categories: (i) goods, vehicles and equipment (0.3 per cent); (ii) technical assistance, studies, training and contracted services (4.6 per cent); (iii) credit enhancement (71.2 per cent); (iv) equity fund (16.4 per cent); (v) technical assistance grants to partner organizations (6.1 per cent); (vi) salaries and allowances (1.1 per cent); and (vii) incremental operating expenses (0.2 per cent).

G. Management, implementation responsibilities and partnerships

Key implementing partners

19. These will be: (i) PPAF; (ii) PPAF partner organizations; and (iii) participating banks and commercial financial institutions (CFIs).

Implementation responsibilities

20. Overall responsibility for executing the programme will rest with PPAF under the terms and conditions of a subsidiary financing agreement between PPAF and the Ministry of Finance. PPAF will mainstream programme activities within the PPAF management structure, with the head of the PPAF Credit and Enterprise Development Unit having direct responsibility for implementation. PPAF will employ two additional management executives to assist with the running of a commercial finance and capital markets unit in PPAF. PPAF will proactively identify eligible partner organizations to participate in the programme, and will work together with banks/CFIs to broker financing agreements for eligible partner organizations. These organizations will be responsible for providing microfinance services to the target group. PPAF may contract other organizations to provide training and other support to partner organizations, or to undertake studies, workshops or surveys during implementation.

Role of technical assistance

21. The programme includes a component focused exclusively on providing technical support to partner organizations to enable them to access commercial funding and strengthen their operations. In terms of the role of technical assistance in programme management, provision has been made for two specialists to be recruited to support PPAF in this new field of operations.

Status of key implementation agreements

22. In addition to the standard IFAD loan agreement, a subsidiary financing agreement will be required to enable programme implementation. A draft subsidiary financing agreement is included in the appraisal report, and will need to be finalized and signed by the Ministry of Finance and PPAF as a condition of loan effectiveness.

Key financing partners and amounts committed

23. The total programme cost is estimated at US$46.6 million over five years. The sources of financing are IFAD (75.2 per cent); banks/CFIs (22.1 per cent); PPAF partner organizations (1.2 per cent); and PPAF (1.5 per cent). There will be no donor cofinancing. The only uncommitted financing relates to the loan funds from banks/CFIs. These funds will be committed during implementation on the basis of individual financing agreements with partner organizations.

H. Benefits and economic and financial justification

Main categories of benefits generated

24. The programme's main benefits will result directly or indirectly from increased access to credit. These will include higher production from farm and non-farm enterprises, and improved livelihoods for microentrepreneurs and associated employees. Other benefits will include greater household food security, improved nutrition and the empowerment of women.

Economic and financial viability

25. Financial viability has been assessed at three levels: PPAF, partner organizations and individual microenterprises. At the level of PPAF, a cash flow analysis of the institution demonstrates that the programme will have a positive impact on PPAF's financial position. At the level of partner organizations, financial analysis indicates that commercial finance is affordable when an appropriate level of interest is charged to borrowers. Partner organizations will have to demonstrate strong commitment to financial sustainability as part of the criteria for participation in the programme. Microenterprise models based on documentation from ongoing projects demonstrate that likely investments funded by loans are profitable for target group households. Financial analysis also demonstrates a large number of financially viable enterprise models with net profitability (including loan repayment) ranging from 20 to 48 per cent.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

26. The programme contains a specific component focused exclusively on knowledge management, with the objective of increasing understanding among key actors of how to link commercial financial institutions to microfinance institutions. This will involve activities that involve awareness creation, such as seminars, special training events, expert consultations, exposure visits and publications. PPAF will implement the component in partnership with established institutions that are active in the sector such as the Pakistan Microfinance Network, the Institute for Bankers Pakistan and ShoreBank International. The expected impacts of these knowledge management activities will be an increased understanding of the microfinance sector by banks/CFIs, an increased understanding by partner organizations of how to work with banks/CFIs, and finally, national-level debate on policy issues needed to facilitate the participation of commercial banks and capital markets in microfinance.

Development innovations that the programme will promote

27. There are already one or two successful examples of partner organizations in Pakistan borrowing at commercial rates. The programme will build on these early pilot experiences and will seek to mainstream such an approach across the sector. To achieve this, the programme includes two key innovative features. First, the creation of a facility to leverage commercial lending to partner organizations is a new approach in Pakistan's microfinance sector. Second, the introduction of an equity facility to enhance the eligibility of partner organizations to access commercial funding is also a new approach in Pakistan. It will address the issue of insufficient equity, which is one of the largest obstacles that partner organizations face in accessing commercial funding.

Scaling-up approach

28. It is anticipated that, by programme end, a core group of partner organizations will have developed good working relationships with banks/CFIs. Moreover, once partner organizations have shown themselves to be reliable borrowers, it is envisaged that funding from commercial sources to these organizations will be scaled up over time.

J. Main risks

Main risks and mitigation measures

29. The programme faces two main risks: (i) insufficient demand from partner organizations for the funding available, due to lack of interest in borrowing on commercial terms or inability to meet eligibility criteria; (ii) continued reluctance of commercial banks to become actively involved in the sector and provide finance to partner organizations. Mitigating factors include: (i) several partner organizations have already borrowed at commercial rates and others have expressed the willingness to do so, and the programme will provide substantial amounts of technical assistance to help enable more partner organizations meet the programme eligibility criteria; (ii) there has been a substantial change in the attitude of the commercial banks, with the banks now indicating not only a positive attitude towards the microfinance sector, but a strong interest and management commitment to start up microfinance activities.

Environmental classification

30. Pursuant to IFAD's environmental assessment procedures, the programme has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

K. Sustainability

31. The programme will only work with partner organizations that are committed to sustainability and can project convincingly how and when they will achieve sustainability. Over the life of the programme, partner organizations are expected to have established stable and regular working relationships with commercial banks and/or other commercial financial partners, and thus the need for credit enhancement available from the programme for the initial participants would progressively decline. Nevertheless, the demand for funds is expected to be ongoing given the continued growth in microfinance and the new partner organizations' support needs. After the programme has ended, it is expected that PPAF, building on the experience of the programme, will use an increasing volume of its own funds, together with any funds remaining, to continue to operate a credit enhancement facility.

II. Legal instruments and authority

32. A programme loan agreement between the Islamic Republic of Pakistan and IFAD will constitute the legal instrument for extending the proposed loan to the borrower. Important assurances included in the negotiated agreement are attached as an annex.

33. The Islamic Republic of Pakistan is empowered under its laws to borrow from IFAD.

34. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

III. Recommendation

35. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Islamic Republic of Pakistan in various currencies in an amount equivalent to twenty two million eight hundred and fifty thousand special drawing rights (SDR 22,850,000) to mature on or prior to 1 June 2047 and to bear a service charge of three fourths of one per cent (0.75 per cent) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

Lennart Båge
President

Important assurances included in the negotiated programme loan agreement

(Negotiations concluded on 8 September, 2007)

Gender

1. The Lead Programme Agency (PPAF) will ensure that gender concerns are mainstreamed in all programme activities throughout the programme implementation period. The Lead Programme Agency will ensure that: (i) the programme promotes the role of women as agents of change in the local social and economic development; (ii) priority in training is given to women; (iii) the programme encourages women to take on leadership roles and participate in decision-making both within the family and at the community level; and (iv) priority will be given to qualified women to work as programme staff for the programme. Notwithstanding the generality of the foregoing, the Lead Programme Agency will develop objectives and processes to achieve these targets as part of a PPAF gender strategy.

Indigenous people's (IPs) concerns

2. The Lead Programme Agency will ensure that the concerns of IPs are given due consideration in implementing the programme and, to this end, will ensure that:

   (a) The programme is carried out in accordance with the applicable provisions of the relevant IP national legislation;

   (b) IPs are adequately and fairly represented in all local planning for programme activities;

   (c) IP rights are duly respected;

   (d) IP communities participate in policy dialogue and local governance;

   (e) The terms of declarations, covenants and/or conventions ratified by the Government of the Islamic Republic of Pakistan (the Government) on the subject are respected;

   (f) The programme does not involve encroachment on traditional territories used or occupied by indigenous communities.

Monitoring

3. The Lead Programme Agency will monitor the programme and, in partnership with partner organisations of the Lead Programme Agency (POs) generate data and information on programme activities and outcomes in a manner satisfactory to IFAD. The Lead Programme Agency will also perform results-and-impact monitoring to gather information on programme impact, including rapid nutrition and asset surveys using IFAD's standard methodology. No later than six months after the effective date, the monitoring and evaluation arrangements for the programme will be communicated by the Lead Programme Agency to IFAD.

Insurance

4. The Lead Programme Agency will insure programme personnel against health and accident risks in accordance with its customary practice. The Lead Programme Agency will insure all vehicles and equipment used in connection with the programme against such risks and in such amounts as may be consistent with sound practice. The Lead Programme Agency may, in either case, finance such insurance from the proceeds of the loan.

Key programme staff

5. The Lead Programme Agency will ensure that the two executives for the commercial finance/capital markets cell within its credit and enterprise development unit are appointed and that they or their replacements remain in such

role until the programme completion date, subject to satisfactory performance as appraised in accordance with the service rules of the Lead Programme Agency.

Legal framework

6. The Government will continue to support the development of an enabling legal environment for microfinance institutions in the programme area.

Authorizations

7. The Government will provide any programme party with such delegations of authority or other authorisations as may be required under its national procedures to implement the programme in accordance with this agreement.

Coordination

8. The Government will make effective arrangements to co-ordinate with other international agencies operating in the programme area to ensure that: (i) uniform policies are adopted for the same sector or activity; (ii) programme activities financed by different donors in the same province or district are carefully phased to avoid constraints on the available human and financial resources; (iii) the policy of decentralised development planning and financing continues throughout the programme implementation period without any change which would have a material adverse effect on programme implementation; and (iv) the lessons learned from beneficiary impact assessments are given due consideration in future policy formulation at the provincial and national level.

Use of programme vehicles and other equipment

9. The Lead Programme Agency will ensure that:

   (a) All vehicles and other equipment procured under the programme are allocated to it for programme implementation;

   (b) The types of vehicles and other equipment procured under the programme are appropriate to the needs thereof; and

   (c) All vehicles and other equipment transferred to or procured under the programme are dedicated solely to programme use.

Fraud and corruption

10. The Government will promptly bring to the attention of IFAD any allegations or concerns of fraud and/or corruption in relation to the implementation of the programme of which it has knowledge or becomes aware.

Suspension

11. (a) In addition to the events set forth in article 12.01 of the General Conditions: IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account, upon the occurrence of the following events:

   (i) The subsidiary financing agreement (SFA) and/or the programme operations manual (POM), or any provision thereof, has been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the programme;

   (ii) Any competent authority has taken any action for the dissolution of the Lead Programme Agency or the suspension of its operations, or any action or proceeding has been commenced for the distribution of any assets of the Lead Programme Agency among its creditors;

   (iii) IFAD, after due consultation with the Government, has determined that the material benefits of the programme are not reaching the target group, or are benefiting persons outside the target group;

   (iv) The Government and/or the Lead Programme Agency has(ve) defaulted in the performance of any covenant set forth in the programme loan agreement, and IFAD has determined that such default has had, or is likely to have, a material adverse effect on the programme;

(v) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the programme have come to the attention of IFAD and the Government has failed to take timely and appropriate action to address the matter to the satisfaction of IFAD; and

(vi) Procurement is not being carried out in accordance with the programme loan agreement.

(b) IFAD will suspend the right of the Government to request withdrawals from the loan account if the audit report required by the programme loan agreement has not been satisfactorily completed within twelve (12) months after the financial reporting period set forth therein.

Conditions precedent to withdrawals

12. The following are specified as conditions for disbursement of funds from the loan account:

(a) No withdrawals from the loan account will be made until: (i) the USD Advance Account has been duly opened by the Lead Programme Agency in the National Bank of Pakistan; (ii) the POM has been adopted by the Lead Programme Agency in the form approved by IFAD; and (iii) the annual work plan and budget (AWPB) for the first programme year has been submitted to and adopted by the Board of the Lead Programme Agency in the form approved by IFAD.

(b) No withdrawals will be made in respect of expenditures for the credit enhancement facility, until an agreement between the Lead Programme Agency and a PO has been signed with respect to one or more lending arrangements utilising funds from the credit enhancement facility.

(c) No withdrawals will be made in respect of expenditures for any grants made available to a PO from the equity fund until the Lead Programme Agency has entered into an agreement with the relevant PO specifying the terms governing the PO's receipt of the funds, under the equity fund.

(d) No withdrawals will be made in respect of expenditures for the technical support/institutional strengthening fund for microfinance institutions, until the Lead Programme Agency has entered into an agreement with the PO specifying the terms and conditions governing the relevant PO's receipt of the funds, under the technical support/institutional strengthening fund.

(e) No withdrawals will be made in respect of expenditures under the credit enhancement facility and equity fund, until the Lead Programme Agency has appointed to the satisfaction of IFAD, two executives for the commercial finance/capital markets cell within its credit and enterprise development unit.

Conditions precedent to effectiveness

13. The programme loan agreement will become effective subject to the fulfilment of the following conditions precedent:

(a) The programme loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action;

(b) The SFA, in form and substance acceptable to IFAD, has been duly signed by the Government and the Lead Programme Agency; the signature and performance thereof by the Government and Lead Programme Agency have been duly authorized or ratified by all necessary corporate, administrative and governmental action; and a copy of the signed SFA, certified as a true and complete copy thereof by a competent officer of the Government, has been delivered to IFAD; and

(c) A favourable legal opinion, in form and substance acceptable to IFAD, issued by an IFAD approved authorized Officer of the Ministry of Law, Justice and Human Rights of the Government, has been delivered by the Government to IFAD.

Key reference documents

Country reference documents

Poverty Reduction Strategy Paper

IFAD reference documents

Programme design document (PDD) and key files (May 2007)
COSOP (November 2002)
Administrative Procedures on Environmental Assessment
IFAD Strategic Framework (2006)
Rural Finance Policy

Other miscellaneous reference documents

CGAP Country Level Effectiveness and Accountability Review (April 2007)

Logical framework

Narrative summary	*Verifiable indicators*	*Means of verification*	*Assumptions/risks*
Development Goal			
To reduce poverty, promote economic growth and improve livelihoods of rural households	1. Increased income of rural HHs 2. Improvement in asset ownership index of rural HHs *[Results and Impact Management System (RIMS) indicator]* 3. Improved social indicators, including reduction in child malnutrition and enrolment in primary education for both girls and boys *[RIMS indicator]* 4. Reduction in gender inequality and increase in women's empowerment.	(1-4): Pakistan Integrated Household Surveys (1-2)Household Income & Expenditure Surveys (1-4) PPAF & partner organization baseline and impact surveys (3): National Nutritional Surveys (1-4):Poverty assessments (1-4): Relevant government statistics at the provincial and national level.	
Programme Purpose			
Facilitate sustainable growth in microfinance in order to give the rural poor greater access to financial services	1. Increase in the number of active microfinance clients by at least 160,000, of which at least 50 per cent women. 2. Increase in the gross loan portfolio of participating MFIs or microfinance banks (MFBs) of at least US$40 million 3. Increase in the number of commercially viable MFIs and MFBs active in rural areas	(1-3): Data from project reports and MIS of MFIs and MFBs (1-2) Performance indicator reports by the Pakistan Micro-finance Network (PMN) (1-3) Progress reports of PPAF.	1.MFIs and MFBs have an appetite for commercial finance 2. Microfinance activities are profitable and result in increased assets & income 3. Pakistan continues to pursue sound economic policies and poverty alleviation strategies.
Outcomes			
Microfinance institutions able to diversify their sources of funding by accessing increasing amounts of funding from commercial sources	1. Increase in the proportion and total volume of MFI and MFB assets financed from commercial sources.	(1) Financial data contained in reports of participating institutions. (1) PPAF progress reports. (1) PMN Performance Indicators Report	Continued commitment by commercial banks to provide financing to the microfinance sector
Microfinance institutions operating increasingly as financially sound and sustainable organizations	1. Improvement in profitability ratios (return on assets) 2. At least three to four participating MFIs operating at or above 100 per cent operational self sufficiency 3. Improvement (decrease) in MFI debt to equity ratios	(1-3) Financial data contained in reports of participating organizations. (1-3) PPAF progress reports. (1-3) PMN Performance Indicators Report	MFIs and MFBs able to use additional funds to increase outreach and growth MFIs and MFBs will not be able to obtain additional large amounts of subsidized loans.
Expansion of microfinance outreach into rural areas	1. Increase in active rural borrowers among participating MFIs and MFBs 2. Increase in rural share of gross loan portfolio of participating MFIs and MFBs	(1-2) Progress reports of PPAF, MFIs, and MFBs.	MFIs and MFBs are able to expand and sustain rural operations without operational subsidies