

Understanding the Functions of Microfinance Ecosystem: A Perspective of Microfinance Providers in Pakistan

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The study aims to explore the supporting functions of the microfinance ecosystem from a perspective of microfinance providers in Pakistan. Based on the broader financial ecosystem approach, this study has highlighted the key functions of different players supporting the operations of microfinance providers. Using a qualitative research method; the study has identified the supporting functions of Government, Apex institution, Regulators, Credit Information Bureau and Industry Association for microfinance industry that contribute to efficient delivery of services to the poor. Microfinance providers have acknowledged the efforts of different industry players in supporting their operations and also identified some areas for improvement. Among different industry players, the role of the industry network and the regulators has been prominent in supporting and providing an enabling environment for the industry. Microfinance providers have also highlighted a quick and supportive role of key industry players to cope with COVID-19 that has directly affected the microfinance industry. The study contributes to the literature on the business ecosystem by expanding it to supporting functions of microfinance in the context of microfinance providers who are the actual beneficiaries of these supporting functions. Therefore, understanding of supporting functions of the key players will help industry players to know their role and to formulate the strategies accordingly. Furthermore, as the players in a microfinance ecosystem are dependent on each other for resources and success, they need to understand the functions to know what they should do and how it can be done with a combined effort. Finally, the study also has some important implications for regulators, Government, industry associations, credit information bureaus and the apex institutions to streamline their efforts towards a financially inclusive ecosystem.

Key words: Microfinance Ecosystem, Credit information Bureau, Regulators, Government, Industry Association, COVID-19.

INTRODUCTION

The ecosystem concept emerged in the microfinance industry with the shift in the focus of narrow institutional performance towards a broader client-based view (Ehrbeck, Pickens, & Tarazi, 2012; Ledgerwood & Gibson, 2013). With this shift, microfinance institutions started to re-think microfinance as a mean to provide financial and other services to poor people considering the needs and behaviours of the clients with integrated efforts of microfinance providers (MFPs). In an attempt to better serve the poor community with an ecosystem approach, the microfinance industry experienced significant recognition in terms of performance, outreach and better services for the target group (Ledgerwood, Earne, & Nelson, 2013). The results of this shift translated into a wider view of microfinance that takes into account both supply and demand side of the industry (Ehrbeck et al., 2012; Johnson, 2013). Moreover, microfinance development was also accompanied by the change in the language of microfinance as the focus of industry moved from microcredit to microfinance (Ledgerwood & Gibson, 2013). The researchers and policymakers are using the terms financial inclusion, financial access, financial ecosystem, and green microfinance. These new dimensions in the microfinance industry can provide better solutions to meet client need, improve service quality, reduce risk, and expand outreach that will help microfinance to prove it as an integral part of financial market of any economy (Ledgerwood, 1998; Ledgerwood & Gibson, 2013).

Microfinance industry has proved itself an integral part of the financial system through its contribution in providing financial access to the large base of the bottom of pyramid that was an untapped area for financial institutions (Joncourt et al., 2019). The

microfinance industry's real potential can be unleashed through an integrated effort of industry players and their functioning that is possible by using a business ecosystem approach (Armstrong, Ahsan, & Sundaramurthy, 2018; Purkayastha, Tripathy, & Das, 2020). Furthermore, the understanding of key players and their roles helps industry players and stakeholders to take advantage of existing market opportunities and to avoid the constraints. Beyond this understanding of key players and their roles, the supporting functions and regulatory environment of the microfinance industry is crucial for the industry to meet its goals. Therefore, the ability of MFPs to translate microfinance needs into industry demand, the use of efficient delivery channels, and the establishment of appropriate industry infrastructure are highly dependent on the rules, supporting functions and the regulatory framework of the industry (Ledgerwood & Gibson, 2013). Similar to a natural ecosystem, the microfinance industry doesn't work in isolation; it affects and is affected by its environment that shapes industry mechanism and provides a direction to work effectively for the poor. A key challenge here is to create a broader ecosystem of market players and an enabling environment for efficient and safe financial access to the poor (Ehrbeck et al., 2012). To address this, challenge a combined effort from all players and a highly supporting and enabling environment is necessary.

Considering the significance of the business ecosystem approach, the researcher felt the need to study MFE using different contexts. However still, there is not enough research in this area of microfinance. Under business ecosystem framework; a MFE is defined as a complex and evolving network of organizations interacting with each other; including foal organization, suppliers, competitors, regulators, customers,

resource providers, complementors, microfinance financier etc. and the broader environment in which players reside and influenced (ADB, 2016; Purkayastha et al., 2020; Siqueira, Mariano, & Moraes, 2013). These actors of the MFE support the industry through different functions, including facilitation, intermediation, interaction, creating connections, institutionalization, securitization and promotion of investment (Armstrong et al., 2018; Roose & Bishnoi, 2012). In an ecosystem, the actors depend upon each other for their functioning and the context setting factors that include; policy and politics, regulations, media, economic, administrative structure, social and cultural conditions, geography, government support and infrastructure (Ledgerwood & Gibson, 2013; Purkayastha et al., 2020). These contextual factors also known as environment that provides rules and support to an industry and have a potential to influence other elements and to shape the industry. Furthermore, efficient working of environmental elements and their supporting functions helps in the growth of the industry, setting its rules and to achieve the core objective of microfinance (Bloom & Dees, 2008). Hence, the survival of organizations in the microfinance ecosystem (MFE) largely depends upon the environment and context setting factors. Therefore, adopting an ecosystem framework is crucial for the survival of Microfinance Providers (MFPs) as they are exposed to varying business and social environment, rules and other contextual factors that are unique for every industry (Marr & Tubaro, 2012; Purkayastha et al., 2020). The study has used the market system approach of understanding the functions of the microfinance ecosystem, as explained by (Ledgerwood & Gibson, 2013). Considering the significance of business ecosystem perspective, this study aims to explore MFE in Pakistan by focusing on the functions of different industry players that supports the core function and also shapes the overall ecosystem. The study would be beneficial for MFPs in understanding the functions of different players that affect their operations. Whereas, for regulators, policymakers and rule setters, understanding the supporting function in the perspective of MFPs would outline the areas for improvement. Moreover, industry players can analyze the link among various industry players and their supporting functions to work effectively in any situation prevailing in the economy. Especially, in a crisis or pandemic that directly affects the operations of microfinance, the industry efforts are required to overcome spillover effects through a quick and combined response. Therefore, the study has also analyzed the role of supportive functions in managing the COVID-19 situation for the microfinance industry of Pakistan.

LITERATURE REVIEW

The concept of an ecosystem can be traced in organizational perspective with the introduction of the term "population of the ecology of organizations "by (Hannan & Freeman, 1977). This ecological perspective in organizational analysis expanded, and the scholars started to use the term "business ecosystem" to analyze the relationship between organizations and the environment. Moore (1993) was the first to use the term business ecosystem as an analogy of natural ecosystem for the businesses. This new perspective shifted the research angle from a standalone industry focus towards an ecosystem perspective, taking into

account the various players around a focal firm (Iansiti & Levien, 2004a). Further, this research extended in terms of explaining stages of business ecosystem its evolution with competitive and cooperative challenges (Mooer, 1996; Moore, 1993), defining the key roles (Iansiti & Levien, 2004b), identifying key actors (Adner & Kapoor, 2010; Teece, 2007), defining the boundary (Adner & Kapoor, 2010; Autio & Thomas, 2013; Gulati, Puranam, & Tushman, 2012; Iansiti & Levien, 2004b), explaining the relationships among ecosystem players (Adner & Kapoor, 2010; Iansiti & Levien, 2004a; Mooer, 1996) and many other aspects.

This new research dimension in the field of management and organization extended its boundaries from business organizations to social and microfinance institutions (Purkayastha et al., 2020). Therefore, the ecosystem concept emerged as a potential area to be explored in social enterprises like microfinance, posing a challenge for the researcher to build a transparent ecosystem for microfinance that can efficiently deliver financial services to the poor (Christy & Bogan, 2011; Ehrbeck et al., 2012). Further, with a major shift in the poverty lending approach" to a "financial systems approach" in the field of microfinance (Robinson, 2001), this perspective becomes more prominent and attracted the attention of researchers to study microfinance in a business ecosystem framework. Therefore, the scholars started to analyze the role of a financially inclusive ecosystem in achieving sustainability and financial inclusion goals (Ehrbeck et al., 2012; Helms & Poorest, 2006; Johnson, 2013; Ledgerwood, 1998; Ledgerwood & Gibson, 2013). Although researchers have started working in this area but still very few scholars have focused social enterprise like microfinance in the ecosystem framework (Siqueira et al., 2013), hence the literature on MFE is fragmented and not clear.

In the context of microfinance, ecosystem perspective has been used by different researchers; Bloom and Dees (2008) elaborated the ecosystem for social ventures, including microfinance institutions as a combination of different players and the surrounding environment in which organizations operate, whereas Dees et al. (2008) focus capital infrastructure and context setting factors to explain the ecosystem for social enterprise. Similarly, considering microfinance institutions as a social enterprise, Siqueira et al. (2013) explained the ecosystem of microfinance in Brazil, focusing on community banks as suppliers, customers and complementors to deliver financial services to the poor. On the other side, taking a broader financial ecosystem perspective, Ledgerwood and Gibson (2013) highlighted key market players and their functions in a financially inclusive ecosystem.

Using a financial market system approach, the authors discussed the broader perspective of microfinance beyond the providers and clients. They elaborated the role of governments, the private sector, not-for-profit organizations, donors, community groups, industry regulators, and associations to provide supporting functions for the core activity of microfinance. Armstrong et al. (2018) stated the role of three microfinance institutions as connectors, interactors, and institutionalizers in co-create value in a microfinance ecosystem. Purkayastha et al. (2020) presented an ecosystem for microfinance institutions in India by identifying

key players, capital infrastructure and the context setting factors in which institutions are working.

Adopting a broader financial ecosystem perspective and the context of ecosystem for social enterprise, Purkayastha et al. (2020) explained ecosystem as complex and evolving network of different industry players, including competitors, suppliers, complementors, customers, resource providers, regulators and other beneficiaries that interact with each other and the complex environment for the delivery of financial services to poor.

Following the global trend, the Pakistan microfinance industry has also shifted its focus towards financial inclusion, and the whole industry is trying to achieve the targets. These targets can be better achieved if industry players are well aware of their roles and supporting functions. Identifying the supporting functions for MFPs (the suppliers of the core) is critical for the efficient delivery of core services. Hence, adopting a broader financial ecosystem perspective to identify the functions of key players in the microfinance industry will help MFPs in mapping the resources and information flow. It will also help players to understand the significance of supporting function for their operations. Therefore, the study aims to explore the supporting functions of key players for MFPs using a broader financial ecosystem perspective. The study contributes to the existing literature on the MFE by identifying supporting functions using MFPs' viewpoint (the recipient of supportive functions).

Microfinance Ecosystem in Pakistan

Based on literature review on broader financially inclusive ecosystem and microfinance ecosystem; an indigenous ecosystem for microfinance in Pakistan is outlined in terms of main actors [presented by (Bloom & Dees, 2008; Ledgerwood & Gibson, 2013; Purkayastha et al., 2020), context setting factor and capital infrastructure (presented by (Dees et al., 2008; Purkayastha et al., 2020) and its functions [suggested by (Ledgerwood & Gibson, 2013). Moreover, industry reports, documents, news and other sources have also been used for the identification of key elements of MFE in Pakistan. MFE in Pakistan is outlined in terms of key players and the environment. Key players include resource providers, competitors, beneficiaries, complementary organizations and allies, opponent and problem maker and the affected organizations. Whereas the environment comprises of clients, micro, meso and macrolevel players that are affected by the context setting factors. The study's focus is to understand the functions of key players that can affect microfinance transactions; therefore, MFE is not explained in detail. Understanding the function of MFE would be beneficial for the industry players to know where they are operating and what should be suitable strategy for their role.

Ledgerwood and Gibson (2013) identified three main functions of a financial ecosystem based on the market system approach. These functions are core, rules and supporting functions. Core functions include the supply and demand that results in a transaction between the finance provider and the clients by providing a combination of appropriate products and services. The functions at the core are important because the expansion in the transaction volume is dependent on the offerings of the financial service providers (Ledgerwood & Gibson, 2013). Hence,

the clients' needs and behaviours are very important for developing efficient delivery of products. This first function is related to the core activity of microfinance, i.e. "the financial access for the poor" while other two functions are for the support of the core.

This core function is performed by microfinance clients and the providers of the finance for the poor through products; therefore, this relationship can be strengthened through applicable rules. Rules include the formal and informal rules; formal rules include regulations and standards that shape the industry regulatory environment while informal rules are embedded in society defined by norms, culture, and the members' behaviours. Ledgerwood and Gibson (2013) highlighted the importance of formal rule in defining a legal and regulatory framework of the industry, influencing products and services, developing industry infrastructure, and the competitive environment of the industry. At the same time, informal rules contribute to the effectiveness of formal rules. Supporting functions are crucial for core to provide information, resources, help in coordination and capacity building, and promotes industry alliances and innovation. These supporting functions may vary in different contexts in terms of nature, composition and the players providing these functions (Ledgerwood & Gibson, 2013; Purkayastha et al., 2020). The study has used a different dimension of analyzing these functions using a perspective of "MFP"; the study identified the key supporting functions and rules in the MFE of Pakistan by analyzing important industry players supporting the core transactions. In Pakistan; MFPs are categorized as Microfinance Banks (MFBs), Microfinance Institutions (MFIs) and Rural Support Programs (RSPs)

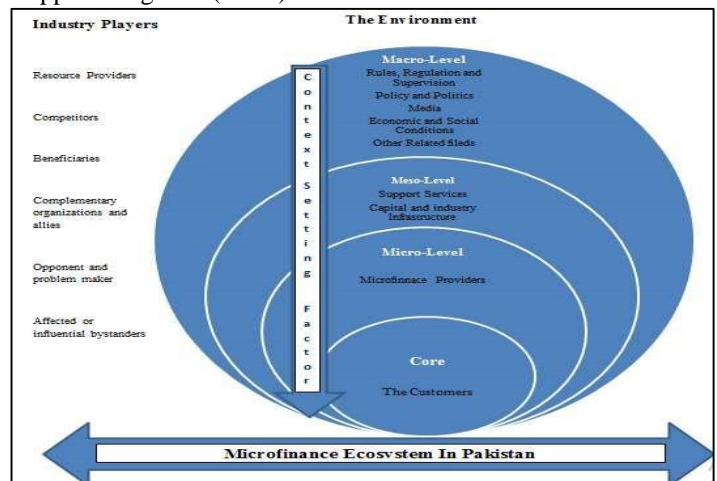


Figure 1: Microfinance Ecosystem in Pakistan (Author's Own)

Function of Microfinance Ecosystem in Pakistan

Understanding the functions in a business ecosystem is critical for the core function; likewise, in a financially inclusive ecosystem, the core is backed by strong rules and supportive functions that helps in delivering financial services to the poor (Ledgerwood & Gibson, 2013). Based on the broader financial ecosystem, this study has explained the supporting functions (that

also include rules and regulations) performed by the player at macro and meso level¹ of the microfinance ecosystem in Pakistan.

Key players in Microfinance Supporting MFPs and the Core Transactions

For this study, the supporting functions of Credit Information Bureau (CIB), Regulators, Government, Apex institution and Industry Association have been explained using a viewpoint of MFPs (MFBs, MFIs and RSPs). These players have been selected for the study as they support the MFPs in their operations and develop formal rules for the industry. Supporting functions for this study also include the formal rules of the industry.

Credit Information Bureaus

Credit information bureaus have a critical role in financial inclusion strategies, efficient working of microfinance industry and acts as a source of information to MFPs and regulators (Basharat, Sheikh, Malik, & Shamim, 2019; Ehrbeck et al., 2012; Purkayastha et al., 2020). Credit information Bureaus are significant for MFPs to increase the quality of the portfolio and to reduce the credit risk, while for industry, these bureaus promote transparency, confidence and, in the long run the enhanced access to services of all kind (Hattel & Montgomery, 2010). Credit bureaus provides the technical resource to MFPs in the form of credit inquiry reports, credit scores and many other tailored services, hence perform a supporting function in MFE (Ledgerwood & Gibson, 2013; Purkayastha et al., 2020). Therefore, the role of credit bureaus inefficient delivery of financial services to the poor and the stability of the financial system is imperative.

Scholars have identified credit bureaus as a technical resource provider and part of the financial infrastructure of the microfinance industry that performs many supporting functions and helps in reducing information asymmetry, enhancing the expansion of credit, promoting transparency in transactions and providing credit information for informed credit decisions (Ledgerwood, Earne, & Nelson, 2013). For the ecosystem of microfinance in Pakistan, credit information bureaus have been discussed to explain their supporting functions for the industry, especially for MFPs.

Pakistan is among the countries that early adopted the credit information system and introduced the credit information bureau. Although the sector was using e-CIB for credit information of borrowers but with the growth and competition in the industry, a need to establish an exclusive credit information bureau was felt, and PMN started working on MF-CIB (Staschen, 2014).

To boost the industry and the credit quality of MFPs, an initiative was taken by PMN with support from SBP, PPAF and DataCheck as a partner for the establishment of sector specific CIB (Basharat, Arshad, & Ali, 2014). DataCheck a MF-CIB, was launched in 2012 to address the issues of over-indebtedness, bad loans, multiple borrowings and delinquency (Tribune, 2012). This was a great step for the industry that enabled all MFPs (MFIs, MBFs and RSPs)² to utilize financial information about the diverse base of borrowers (Dawn, 2012; Tribune, 2012). After the nationwide rollout of the bureau, it became an integral part of MFE as 80% of the players were using it for inquiring the credit worthiness (Basharat, Arshad, Abbas, & Aziz, 2015). With the permission of

Government of Pakistan, SECP licensed DataCheck as the first private bureau for the microfinance sector in 2018. Now, industry players can use Aequitas Information Services Limited DataCheck to analyze credit worthiness of borrowers along with e-CIB that is mostly used by MFBs. These credit bureaus offer Credit Information Report (CIR) and Credit Score (CS) services.

This study has included the analysis of CIBs in microfinance industry of Pakistan considering the views of MFPs. Most of MFPs are using the services of two credit bureaus, i.e. DataCheck and Tasdeeq, while

Microfinance Banks (MFBs) also linked with e-CIB. Microfinance Institutions (MFIs) started reporting to CIBs after being regulated by SECP as Non-Banking Microfinance Companies (NBFCs).

The Regulators

Another important player in MFE is "the regulator" which creates a desirable environment and enables the industry players to work in a regulated space. The regulators also formulate formal rules for the industry that is necessary for efficient working. The Regulatory environment significantly affects the financial service delivery mechanism (Ledgerwood, 1998); hence, undoubtedly becomes an integral part of its ecosystem. The paramount objective of regulations is to support and expand the core function of microfinance, i.e. the transaction between lender and borrower (Ledgerwood & Gibson, 2013). A well-regulated industry with a sustainable regulatory framework better responds the financial inclusion strategies (Ali, 2015).

Moreover, regulations also aim to overcome market failure and the consequences of market failures that industry may face in the absence of formal rules and regulations (Ledgerwood et al., 2013). A well-regulated industry attracts the investors and boosts up the confidence of its players and the end users that ultimately strengthen the overall financial system (Haq, Hoque, & Pathan, 2008).

The main players in formulating the formal rules for the microfinance industry include the central bank, regulatory authorities, consumer protection agencies, and Government units (Ledgerwood, Earne, & Nelson, 2013; Purkayastha et al., 2020). This category covers political dynamics and jurisdiction of MFPs explained by (Bloom & Dees, 2008; Dees et al., 2008) under context-setting factors affecting the ecosystem of microfinance. Ledgerwood and Gibson (2013) also highlighted the significance of formal rules for the core of the industry.

Key functions of regulators identified in the literature are the promotion of safe and sound financial service, safety against risk, establishing the competitive market, protecting the interests of the end users, strengthening the industry, improving the access, providing enabling environment, enhancing financial and operational sustainability, improving transparency in transactions, and providing a conducive environment for the existing and new players (Ali, 2015; Haq et al., 2008; Ledgerwood et al., 2013; Ledgerwood & Gibson, 2013; Meagher, 2002; Purkayastha et al., 2020). For this study, the Government, the Central bank of the country, the financial regulator, industry association and consumer protection agencies have been considered key players in creating formal rules for the industry. Among these players,

industry association and the Government also performs supporting function along with the rule setter, similar to an ecosystem where players are performing different roles (Bloom & Dees, 2008).

Microfinance industry of Pakistan has been among the top-rated industries with a wellregulated microfinance space in place. The industry has shown an above-average score in terms of industry regulations, supervisory control and market conduct rules while a low score in non-regulated lenders³. The main regulators of the microfinance industry are SBP and SECP, regulating three groups of MFPs. SBP regulates Microfinance Banks (MFBs) while Microfinance Institutions (MFIs) and Rural Support Programs (RSPs) are regulated by SECP, now the whole industry is under a regulated umbrella with SECP takeover of MFIs as Non-Bank Microfinance Companies (NBMFC). Both regulators aim to provide a supportive and facilitative industry environment backed by conducive regulations.

The key regulatory areas under SBP and SECP are; prudential regulation, regulation and supervision of branches and agents, insurance for low-income populations, nonregulated lenders, capacity for financial inclusion, electronic payments, deposit-taking activities and credit portfolios⁴. Further, the regulators also focus on new areas i.e. promoting financing for SMEs to open new avenues for MFPs for their portfolio diversification and enhancing industry infrastructure with Government coordination. The regulators work in a highly collaborative environment and join hands with all stakeholders in formulating policies, rules and regulatory framework. This coordination of regulators with the Government, Apex institutions (PPAF and PMIC), industry association (PMN) and other stakeholders has created a fertile and accommodating environment for the industry players.

Keeping national financial inclusion strategy at top, the regulators are eager to promote industry infrastructure, innovations, private sector involvement, and the entry of new players in the industry (Basharat et al., 2019; Basharat, Sheikh, Zafar, & Liaqat, 2018; Hussein, 2009). The overall policy and regulations of the industry along with infrastructure initiatives, the establishment of specialized microenterprise banks, guarantee schemes, credit lines, consumer protection principles and client grievance handling mechanisms, implementation of anti-money laundering, and countering the financing of terrorism regulations, the introduction of regulations for electronic money institutions etc. are the main reasons of growth of this industry in Pakistan, the efforts of regulators and other players in providing enabling and pro-growth environment for industry players has been globally recognized. Therefore, the Pakistan microfinance industry has globally maintained a strong track record to develop progressive policy and regulations, promote innovation, and show resilience in the time of crisis⁵.

For this study, MFPs were interviewed to identify the two regulators' key functions and the overall regulatory environment of the industry.

The Government

Role of Governments is obvious for the smooth working of any industry. Similarly, financial markets in a country cannot be flourished without government interventions and support. The

prime role of Governments is to maintain macroeconomic stability and provide an enabling environment (Abed, 2006). This role becomes more critical with an emerging concept of financially inclusive ecosystems where the financial landscape is extended, and microfinance institutions also considered as an integral part of financial markets (Ehrbeck et al., 2012). Following on financial inclusion agenda, a key challenge for governments is to create an interconnected ecosystem of the players that can efficiently and safely deliver financial services to the poor. Hence, for a microfinance ecosystem, the role of the government is inevitable.

Some scholars have pointed out the Government as an important player in MFE (Ledgerwood & Gibson, 2013; Roose & Bishnoi, 2012), while others highlighted the role of government in financial infrastructure (Bloom & Dees, 2008; Purkayastha et al., 2020). Therefore, the role of government in rulemaking and supporting the microfinance industry is substantial. Governments can contribute towards the growth and efficient working through promoting infrastructure, driving transaction volume and providing enabling environment to adapt to the changing circumstances (Ehrbeck et al., 2012; Ledgerwood & Gibson, 2013).

Other important functions performed by Governments for the financially inclusive ecosystem are an enabler, stabilizer of the macroeconomic environment, providing legal and regulatory support for vibrant and competitive microfinance, transfer of resources by introducing credit schemes, enforcing the consumer protection principles and investing in a supervisory capacity to strengthen and expansion of microfinance institutions (Abed, 2006; Duflos & Imboden, 2004; Ehrbeck et al., 2012). These roles and supporting functions of government vary as per the country context and government focus on the microfinance industry. For this study the role of government as rule maker and its supporting functions for the microfinance industry of Pakistan are discussed.

The global recognition of Pakistan's microfinance industry regarding its regulatory environment, industry infrastructure development and supervisory initiatives is backed by government support. Among various functions for the support of industry, some significant steps are highlighted in the annual reviews⁶ of industry association include the development of industry infrastructure by introducing branchless banking, digital payment system, M-wallets, Electronic money institutions, government to person and person to person payments, and biometric verification of sim holders.

Other supporting functions are strengthening the regulatory and supervisory control by introducing consumer protection principles, customer grievances mechanism, regulations for electronic money institutions, the establishment of a private credit bureau, introducing of AML/CFT framework, the introduction of deposit protection company, and extending the umbrella of regulation to MFIs to generate healthy competition in the industry. Moreover, Governments also played their role as indirect financial resource provider (in collaboration with international donors) by introducing credit lines and guarantees, interest-free loan for youth, lowcost housing schemes, establishment of Investment Company and Pakistan Mortgage Refinance Company

(PMRC), credit and guarantee schemes for marginalized farmers and facilitating microenterprise financing. Hence, the Government with combined efforts of industry players like regulators (SBP and SECP), apex institutions (PPAF and PMIC), MFPs, PMN- the industry association, and the prevailing infrastructure, succeeded in achieving the goals set to meet the target of financial inclusion. Such initiatives also paved the way for the microfinance industry towards a financially inclusive ecosystem.

Industry Associations and Networks

A financially inclusive ecosystem is incomplete without industry associations that are essential for coordination among players, setting formal rules and performing varying supporting functions for the whole system. Similarly, in the current scenario where the focus of microfinance is shifted towards financial inclusion, there is a dire need for such association and network that can act as a bridge between the central bodies and the industry players for implementation of the strategies. Hence, the role of industry association and networks is magnified for the microfinance ecosystem. Strong national level association is essential for support of capacity building of retail institutions, coordination among industry players, and advocacy at various forums (Abed, 2006).

The role of an industry association is also critical in setting rules along with the regulatory authorities; hence these associations are considered as an important market system player in MFE (Ledgerwood & Gibson, 2013; Purkayastha et al., 2020). These association and network fall under capital infrastructure as a provider of social/political capital and under context-setting factors as formal rule setter (Bloom & Dees, 2008; Purkayastha et al., 2020), again confirming that categories of players are not mutually exclusive and one player may fall in more than one category performing different roles at a time (Bloom & Dees, 2008). With reference to supporting functions; these associations and networks act as industry voice at different forums, acts as information dissemination, perform industry appraisals based on performance and overall growth of the industry, conduct research to highlight industry issues and challenges, advocate industry players in regulatory and other matters, act as data hub, build strategic partnerships at national and international levels, invest in innovation, take a seat as industry representative in strategic decisions and many more (Abed, 2006; Dezsó, 2015).

Like other microfinance industries globally, the role of national-level association for the microfinance industry in Pakistan is remarkable. Pakistan microfinance network (PMN) is playing a notable role in the growth of industry and successfully supporting other players to achieve financial inclusion goals (Safavian & Haq, 2013). The active participation of PMN in different strategic areas and industry initiatives has also been recognized internationally and exemplified as an industry that has strong institutions in place for the coordination, helping MFPs to offer the best financial services and bringing up the change (Dezsó, 2015; Safavian & Haq, 2013). Some important functions of PMN identified through PMR-2014-2018 and literature review are; acting as an information hub for industry players (collection and analysis of data, publications and research reports), coordinating

between industry players and the regulatory authorities, conducting performance analysis and formulating benchmarks for the industry, developing strategic alliances at a national and international level, supporting capacity building of industry players, promoting infrastructure development, conducting national and international training, encouraging innovation, creating linkages among research and academic institutions (Safavian & Haq, 2013).

Moreover, PMN also acts as an industry voice and represent the industry at different forums to support retail MFPs, promotes best practice (national or international) to safeguard the interest of all stakeholders, MFPs and clients, and worked on client protection and grievances system, introduced code of conduct to promote transparency, responsible pricing, and the reputation of players. Other initiatives of PMN include; supporting the regulatory framework for industry players and advocating at various levels. Considering the valuable role of PMN for the industry, this study has discussed the supporting functions.

Simultaneously, its role as formal rule setter has been discussed from a retail service provider perspective.

Apex Lending Institution

Another important actor in a financially inclusive ecosystem is the Apex; these institutions work as sources of funds and may include investment companies that provide funds to retail institutions to deliver financial services to the poor (Ledgerwood & Gibson, 2013). Similarly, these Apex institutions are significant for MFPs to meet the challenge of funds for delivering services at the core. In a microfinance ecosystem, these institutions are part of the financial infrastructure that provide funds to the retail financial institutions (Purkayastha et al., 2020) whereas, Ledgerwood and Gibson (2013) explained the role of apex institutions or investment companies as a market player providing funding support for the core transactions. These Apexes take on different forms usually known for their wholesale funding to channel the funds to retail MFPs with or without technical support (Isa, Ashfaq, & Haq, 2011; Levy, 2002); grant loans and credit guarantees to multiple MFPs in a single country (Abed, 2006). Compared to a commercial bank lender, these apexes have an information advantage to lend MFPs (Meagher, 2002). Therefore, MFPs, especially the MFIs, are highly dependent on the financing of these Apexes because of limited funding sources compared to microfinance banks.

These Apexes also serve as an intermediary between the international donors and the retail institutions because institutions donors find it difficult to reach the retail institutions directly (Levy, 2002; Millis, Perez-Timmermans, & Sakurai, 2018). The key functions an Apex perform include; creating a linkage between retail MFPs donors (National or international) and the government, fostering the growth of the industry by providing wholesale funds (Levy, 2002; Millis et al., 2018), building the retail market, supervising MFPs, building the capacity of industry's retail institutions and bridging the gap between MFPs and the financial markets (Isa et al., 2011; Levy, 2002).

Similarly, Apex institution has an important role in MFE of Pakistan to address the funds challenge for retail MFPs Pakistan Poverty Alleviation Fund (PPAF) has been a national apex for the

microfinance industry from its beginning until the Pakistan Microfinance Investment Company (PMIC) establishment. According to PMN reviews (2014-2018)⁷, PPAF supported microfinance industry by providing wholesale lending, coordinating among donors and MFPs, channelizing the funds from Government to MFPs and extending the base of the MFPs by providing funds under different schemes, projects and credit guarantees. Now, it's special microfinance wing "PMIC" working apex institutions and the sector developer with an aim to upscale the product base under "Microfinance Plus Program" to create a deeper impact for the marginalized sector of the economy. Hence, these functions of PMIC are critical for creating a positive impact (social and economic) for microfinance clients and the whole ecosystem. For this study, microfinance providers' perspective has been explored to identify the functions of PMIC as an Apex institution.

METHODOLOGY

The study used qualitative data collection and analysis methods to explore the supporting functions of different microfinance industry players. Qualitative methods allow the study of people experiences in detail, producing explanations and descriptions understating the meaning and interpretations of people for the behaviours, objects and events (Hennink, Hutter, & Bailey, 2020; Neuman, 2013).

Considering the objectives of the study, the qualitative method seems more suitable as it helps in studying things in natural settings, making sense and deriving meaning and identifying how contextual setting shape the experiences of the people (Hennink et al., 2020). Semi-structured interview has been conducted from the MFPs using a snowball sampling technique. The population under study is MFPs; there are three main groups of MFPs in Pakistan, i.e. MFBs (Microfinance Banks), MFIs (Microfinance Institutions) and RSPs (Rural Support Programs). As the study requires the response from key informants of the industry, so snowball sampling technique has been used as it uses social knowledge of identifying the key informants with specified characteristics and experience which may be unknown to the person outside the social network (Hennink et al., 2020). As snowball sampling is conducted in the stages (Bailey, 1994); therefore, the first few MFPs were interviewed. The respondents were then asked to refer the relevant person from the industry for the interview. 24 MFPs were interviewed (13 MFIs, 6 MFBs and 5 RSPs) to explain the supporting functions of government, regulators, industry associations, credit bureaus and the Apex institutions.

The interview guide was prepared based on functions identified in the broader financial system by (Ledgerwood & Gibson, 2013). Semi-structured interviews allow the researcher to explore the individual perceptions in great detail to facilitate respondents to discuss their view point and allow the researcher to drive the discussion in the desired direction (Willig, 2001). Interviews were recorded and transcribed verbatim that adds validity, congruence, reliability and veracity to the qualitative data collection and brings the researcher closer to the data (King & Horrocks, 2010; Wengraf, 2001). Individual interviews were analyzed using NVivo software that provides tools to handle rich text data, code

and organize the concepts, and construct relationships (Bazeley, 2007). Thematic analysis was used to identify the key themes under each category of analysis, i.e. to explore the supporting functions of each player.

ANALYSIS AND DISCUSSION

This section describes the functions of the Government, Apex Institution, Regulators, Credit information Bureau and the Industry Association identified through thematic analysis using MFPs' perspective.

Functions of the Credit Information Bureau

Credit information bureau plays a significant role in the microfinance industry as a resource provider in terms of technical assistance for MFPs. Figure 2. presents the main functions of CIBs in Pakistan.

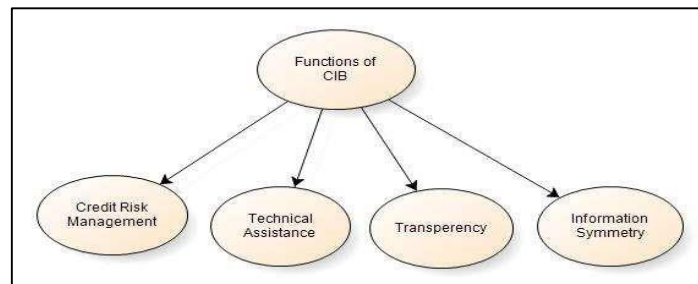


Figure 2: Function of CIBs in Microfinance Ecosystem of Pakistan

The key function of CIBs reported by most of MPFs is to support credit risk management by providing information about credit history, repayment capacity and the default history of the clients. CIB is playing its role as a source of information for MFPs to avoid issues of over-indebtedness and bad loans. This credit risk management function of CIB is more prominent after the addition of MFIs' data as a regulatory requirement of their lending process. One of the respondents said,

"This is helpful in evaluating the repayment capacity of the borrowers as there is no collateral for microfinance so, role of CIB is very critical". Another respondent also endorsed it and said, "*DataCheck and Tasdeeq are also working as new credit bureaus and it will helpful in finding out the default client*"

CIBs help MFPs in credit risk management by providing them technical assistance in the form of different services like credit reports and credit scores (Hattel & Montgomery, 2010). Therefore, being a technical assistance provider to MFPs, CIBs support microfinance core transactions by making them more secure and transparent. All MFPs are linked with CIB for technical assistance; currently, MPFs in Pakistan are using eth services of "DataCheck" and E-CIB and have plans to register with a new entry in the industry i.e. "Tasdeeq". The connection of MFPs with the CIBs in inquiring and providing information has been taken as an indicator of Technical assistance. One of the respondents said, "We are working with both Tasdeeq and DataCheck; we provide data to both CIBs and inquire from them" So, the role of CIB as resource providers (Technical assistance) is very critical for the industry to avoid defaults and bad loans.

Another function of CIB highlighted by MFPs is "Transparency"; this is how CIB support makes the lending process of MFPs trustworthy for the industry players. The lending

process is considered transparent if it is linked with CIBs inquiry. The information provided by CIBs not only help MFPs in taking the informed lending decisions but also improves the quality of their portfolios by making their lending process more transparent. Hence, creating transparency in the lending processes of MFPs is another function of CIBs that creates confidence and, in the long-run, increase access (Hattel & Montgomery, 2010). When MFPs are using reports from CIB in their lending process, they are making their lending transparent and contributing to create a trustworthy database of CIBs by providing data of their clients. This is evident from MFPs' practice of using credit information report of clients as an essential part of their lending, as quoted by one of the respondents, "The role of CIB is very critical in lending and credit decision is not possible without using ECIB. Another respondent said, "It is regulatory requirement for MFPs to report every credit transaction to CIBs; it is very important and our each and every borrower has to pass through ECIB inquiry"

Further, MFPs also identified the role of CIBs in creating symmetric information for the industry as reported by (Ledgerwood & Gibson, 2013). They reported the significance of standardized information of clients in their lending process. When all industry players, commercial banks and other non-traditional financial service providers report to CIB, it will help remove information asymmetries that can cause adverse selection and lead to bad loans. Therefore, CIB is also supporting industry in terms of providing standardized information on clients of the microfinance industry as quoted by one of the respondents,

"It helps in standardization of data by providing information about credit history of the clients like commercial banks"

The issue of standardized information is somewhat sorted out after introduction of regulations for MFIs as non-bank microfinance companies but still there are issues regarding non-documented financial service providers that can add credit risk to the portfolios of MFPs. Therefore, MFPs recommended adding these non-traditional financial service providers in the stream of this reporting.

Functions of Apex Institution

Apex institutions have a dominant role in the growth of the microfinance industry in Pakistan; Pakistan Poverty Alleviation Fund (PPAF) and now Pakistan Microfinance Invest Company (PMIC) is the Apex lending institution for MFPs, especially for MFIs as they have limited avenues of wholesale funds compared to MFBs and RSPs. Key supporting functions of Apex institutions identified by MFPs are; funding, donor coordination, resource mobilization and sector development.

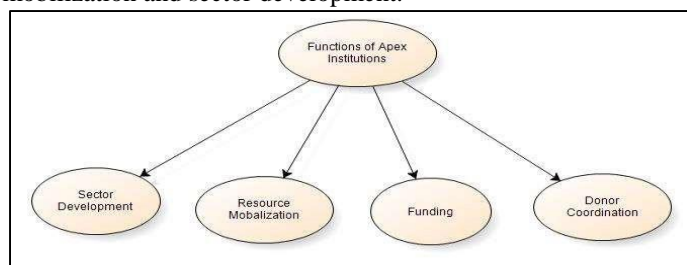


Figure 3: Function of Apex Institutions in Microfinance Ecosystem

Funding for MFPs has been a key challenge for the microfinance industry of Pakistan; PPAF has been an active player in channelizing funds through different projects with MFPs all over Pakistan. But still, there is an increasing need for more wholesale fund providers in the industry to meet the growing needs of the clients. Especially MFIs have limited sources to get funds, and they rely on PMIC for their lending and some other sources. So, similar to the findings of (Isa et al., 2011; Ledgerwood & Gibson, 2013), the main function identified by most of MFIs is funding. PMIC is now the apex wholesale lending institutions for the microfinance industry in Pakistan and aims to meet the funding challenge of MFPs. Most of the MFPs are linked with PMIC for their funding needs; this source of wholesale lending is more useful among MFIs, as endorsed by one of the respondents,

"PMIC is a wholesale lending-a separate arm of PPAF for microfinance. So, it is providing funds to MFIs. We are taking 50% from PMIC and 50% from other sources". Another respondent said,

"This is basically an investment body that mostly lends to NGOs and MFI; as some organizations don't have any asset to pledge against loan and without any asset, they will not get loan from anyone except PMIC so PMIC is blessing for them"

The other function of Apex institutions highlighted by MFPs is "Donor Coordination"; PMIC acts as a coordinator between donors and MFPs. International and national donors approach apex institutions to channelize their funds as it is difficult for them to reach them directly (Millis et al., 2018). Hence, the role of Apex as an intermediary between donor and MFPs is also important as funding support of the industry. Some MFPs are also availing this opportunity and are working with international donors through PMIC, as quoted by one of the respondents,

"PMIC also has grants from international donors. For example, they have grant for education and they provide that grant to institutions for working on education. So, such types of grants are also given by PMIC"

Furthermore, being a national level apex institution and an important pillar of national financial inclusion strategy, PMIC helps in resource mobilization through guarantor or fund provider for different projects; therefore, acts as a bridge between the Government initiated projects and the resource mobilizers, i.e. MFPs. PMIC works for both own initiated projects and the government initiated projects; using MFPs as a medium of implementing a project, PMIC creates funding opportunities for MFPs (Levy, 2002) and, on the other hand, uses the established network of community organizations to reach the grass-root level (Isa et al., 2011). Therefore, it creates a win-win situation for both the MFPs and Apex. Regarding the mobilization of resources, one of the respondents said,

"We also worked on education project with PMIC, we were given target to fund 50 schools and in case of default, PMIC has taken the guarantee"

The Apex institutions also focus on sector development along with prime objective of filling the wholesale funding gap in the industry by providing subsidized loan for innovation, renewable energy, agriculture, education, or technology-oriented projects. This helps in sector development by helping MFPs in expanding

their operation in the highlighted areas through funding by Apex institutions. Regarding funding support, one of the respondents quoted, "PPAF, the Apex institution has provided us grant on subsidized rates for the start of fully digital system"

Although PMIC is trying to meet the funding needs of the MFPs but they still require more players to come in the industry so that there can be more wholesale funding options available for MFPs, especially for MFIs as they have limited sources compared to MFBs and RSPs. Therefore, supporting functions by Apex institutions, like PMIC in the case of Pakistan, are also critical for the efficient working of MFPs and the growth of whole industry.

Functions of The Government

The role of Governments in the growth and promotion of industry has always been significant. Similarly, the Government of Pakistan is also playing its role in the functioning and of the microfinance industry. MFPs have emphasized that the Government support for the industry is not enough, and much more is required from the Government at strategic levels. Most of the MFPs highlighted the following key areas where the Government is supporting the microfinance industry indirectly:

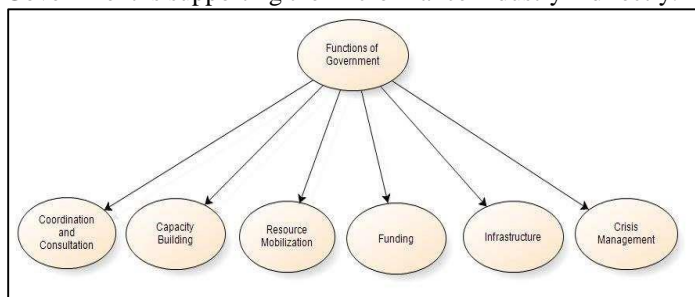


Figure 4: Function of the Government in Microfinance Ecosystem

The Government supports the microfinance industry by indirect funding in the form of special schemes for sector development, endowment funds and projects as highlighted by (Abed, 2006). The key areas for funding are education, agriculture, interest-free lending etc. regarding funding support, one of the respondents said,

"Khushhali bank that has received funding from government under microfinance sector development fund" Another respondent endorsed the funding support by quoting, "We worked with the Government on a project in Punjab with name of "Punjab Kisan" program in which Government paid the interest on lending to farmers"

The other area under the Government focus is supporting infrastructure development of the industry through collaboration with regulators and the apex institutions. This infrastructure development includes capital, human resource, and physical infrastructure and technology initiatives; this role of Government is also reported by (Bloom & Dees, 2008; Ehrbeck et al., 2012; Purkayastha et al., 2020). One of the respondents reported regarding infrastructure support,

"Government is there to support us in establishment of any unit in the country because the data related to market potential is provided by government so; government somehow supports us directly or indirectly in operations of microfinance"

Another respondent also endorsed the infrastructural support of the Government by in following words:

"Basically, government include regulatory bodies, so a regulator like SECP is in close coordination with us and provide us support whatever is required. So far there are no direct interventions and linkages with the government but two to three departments (SECP, SBP, and PMN) of government are involved"

Major support from the Government for MFPs is to use them as resource mobilizers for its different projects and schemes, hence providing them more bases to work. One of the respondents endorsed this support:

"We are doing a project with government of Punjab, "empowerment of Kisan" that is interest free for farmer and government pays its mark-up. Similarly, one program with name of "interest free loan" is going on in which borrower only repay the actual amount while mark-up and operational cost is paid by the Government"

Other supporting areas are capacity building by providing training and technical assistance at subsidized rates for MFPs. The Government also played its role in the management of crisis like the current situation caused by COVID19. MFPs have been supported in different aspects by Government through easing the regulations and rules for the industry and helped them in managing the pandemic effects on the microfinance industry. The same response of Government relief by using its departments and community is endorsed by (Meagher, 2020). This capacity-building function of Government is endorsed by one of the respondents:

"In the current situation, borrowers were unable to pay as a result of their nonpayment we were also unable to pay back the loans from banks, so in this situation SECP and Government announced a policy that we can defer our loans for one year. This is a big support as we deferred our clients' loan and as get relaxation from banks for our loan payment"

Moreover, the Government also supports the industry by coordinating and consulting MFPs and other industry players on different industry-related decisions. One of the respondents said:

"We have a close coordination with government at tehsil level, district and province level with concerned department. There are meetings with the government officials and concerned departments and without their support this work is not possible"

Functions of the Regulators

Rules and regulations have a central place in the macro-environment and the supporting functions; regulators set the rules and provides the regulatory framework for core operations. Their presence and supporting functions help industry players to work in a safe and sound environment. Similarly, the functions of the State bank of Pakistan (SBP) as a regulator of MFBs and the Securities and Exchange Commission of Pakistan (SECP) as a regulator of MFIs and RSPs are significant and worth highlighting for the microfinance industry in Pakistan.

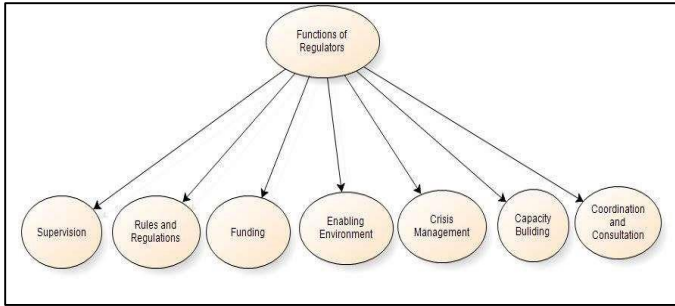


Figure 5: Function of Regulators in Microfinance Ecosystem

The prime function of SBP and SECP is to provide the regulatory framework and the rules for the industry. These regulations help the MFPs and other players of ecosystem to operate in a safe and sound environment that facilitate efficient delivery of financial services to the borrowers.

Similar to Ehrbeck et al. (2012) and Ledgerwood et al. (2013), most MFPs reported the regulators as a supportive and facilitative, providing a favorable environment for the industry players. However, SECP is a new regulator for MFIs and RSPs but both the regulators and industry players are in learning phase. Regarding enabling environment support, one of the respondents stated:

"The role of regulator is important in day to day operations, policy formulation and to provide an enabling environment to the industry players; there are proper prudential regulations for microfinance banks, SBP also issues separate circulars for the industry"

Supervision of MFPs is also very important for the whole industry to function; MFPs are required to report to the regulators to ensure compliance with rules. This supervision helps MFPs make their lending secure and standardized; the standardization is maintained through audits, surprise visits, multiple checks, and in the case of non-compliance, penalties are levied. One of the respondents endorsed the supervisory role in the following words:

"We are reporting on monthly and quarterly basis to SECP, there is minimum requirement for everything from SCEP like governance issues. There are onsite and offsite reviews from SECP that were not in practice before the regulatory framework. Moreover, there is enforcement of policies and in case of negligence institutions are penalized"

Another respondent said,

"SBP inspect members to keep checks on regulations and these visits are frequent if risk of an institution is high. After inspection, report is prepared and in case of discrepancies institutions are also penalized"

The other supporting functions of regulators include capacity building through training for the industry players that help them in their core operations. Moreover, regulators also provide an enabling environment through supporting existing MFPs and encouraging the new entrants, facilitating the expansion through favorable regulations as highlighted by (Ledgerwood & Gibson, 2013). One of the respondents said, "SECP is regulator; it is supportive, monitoring our work and facilitative"

Another respondent said,

"Industry regulations are supportive for new entrants as anyone can enter in industry by fulfilling the requirement. Moreover, SBP

is the only central bank in the world that is client friendly, gives priority to client protection that is rare, so focus of SBP is client facilitation"

In addition to the above-mentioned functions, an important function of SBP is to provide funds to MFBs in the form of credit guarantees. Addressing the funding issue of MFBs, SBP has an active role in meeting their funding needs. Further, regulators also play a critical role in helping MFPs to manage any crisis in the economy; most of the MFPs have highlighted and acknowledged the supportive role of SBP and SECP in handling the effects of COVID-19 on their core operations. This coordination helps industry players solve their issues, communicate their concerns, and give feedback on rules and regulations. Regarding the crisis management function of SBP, one of the respondents said,

"It also acts as a medium of coordination between industry and government, for example in COVID-19 situation, Government ask SBP to defer payment for one month so that banks will not ask clients for repayment as Government is answerable to community and it works through its departments rather than going to banks individually. SBP also call MFPs for suggestions regarding any policy, regulation or any decision taken at Government level for the industry"

Another respondent endorsed the supportive role of regulators in crisis management in the following words,

"The benefits of a supportive regulator are more like in current COVID situation, the things were worst but the impact is not too much because of the regulator. The role of SECP in COVID situation was timely and positive for the MFPs. So, it not only helps in day to day operations but also supports in such pandemic or uncertain situations"

Similarly, this supporting role of regulators is also endorsed by (Malik et al., 2020; Meagher, 2020).

Functions of Industry Association and Networks

Another important player in MFE is industry association or a network that is a medium for the industry players to coordinate, communicate, and share their experiences. Such networks bring the player to one platform and represent the industry in different settings. Therefore, the functions of such networks are significant for the ecosystem. In Pakistan microfinance industry; MFPs have highlighted the following functions of PMN:

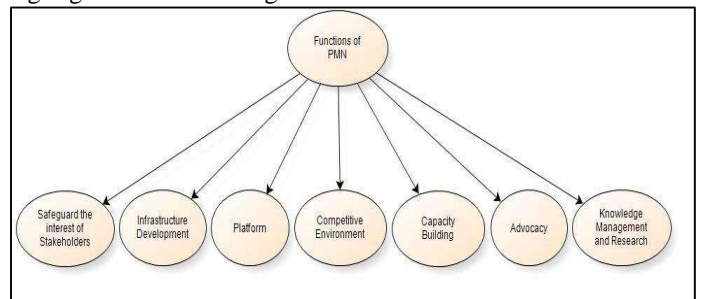


Figure 6: Functions of Pakistan Microfinance Network

PMN acts as a platform for the industry players to combine at one place to share their experiences, best practices, industry performance, new trend, and create linkages among industry players. PMN arranges meetings, conferences and seminars to keep the industry players updated regarding industry situation and the international microfinance trend. Such meeting or conferences

help the industry players to coordinate with each other, learn from the experiences and to share the initiatives for the industry. This platform also helps the members raise their issues and concerns regarding regulations, operations, and other industry related matters. This also helps players to manage the risk and to formulate strategies based on the learning from the bad experience of other players.

Moreover, such forums are also helpful in raising the current issues and finding the solution for such issues as COVID-19. Industry players raised their concerns about the impacts of COVID-19 on the PMN platform to communicate to the regulators and Government. Hence, industry, especially MFPs, can learn from different experiences of national and international microfinance practitioners. One of the respondents has highlighted the role of PMN in providing a platform for industry players in the following words,

"PMN has many benefits because in their meetings official people from different institutions are called who have different products, different working experience, different challenges, different working areas and different working methodologies so, people can learn from each other's experience"

Another respondent also endorsed the significance of PMN platform and quoted,

"All MFPs are voluntary members of PMN, where they coordinate, get together and do things together and put their issues on PMN forum for solution. So, it is very helpful for members. A big benefit is the "networking" of members in their meetings and conferences and members meet each other. It provides an opportunity to interact with the national and international speakers in the sessions and we can also interact with each other"

Knowledge management and research is another key function of PMN; PMN gathers information on industry performance, the performance of individual MFPs and compile in the form to reports to share with industry and other stakeholders. MFPs can gauge their performance and standings in the industry and formulate strategies based on industry benchmarks. MN also conducts different research for the benefit of the industry and to highlight the potential areas to work for MFPs and the regulators. Therefore, PMN is considered an effective medium to share industry information in its publications, namely, MicroWatch, Pakistan Microfinance review (PMR), and other research publication. These information sources also create a competitive environment in the industry, and MFPs prepare themselves for the competition. This knowledge management and information sharing function of PMN is highlighted by one of the respondents in the following words,

"Moreover, market situation and share of members is also communicated by PMN through reports like Microwatch and PMR that is very helpful for the sector, we are analyzing from Microwatch that what is the percentage of Portfolio at Risk (PAR) and the standings of different institution in the market"

Advocacy is another prominent supporting function of PMN for MFPs; PMN acts as a communicator between industry regulators and MFPs, conveying and advocating the industry in terms of regulations, industry infrastructure and other funding-related matters. One of the respondents said,

"It is a platform for discussions with regulators and government bodies, instead of reaching individually to the regulators for taking up any matter; PMN is a collective forum for raising voice on such issues"

Furthermore, PMN also focuses on capacity building of PMFs by providing them opportunities for training at national and international levels. One of the respondents said,

"One support from PMN for the members is in the capacity building of not only the individuals but also the institutional capacity building. In this regard, PMN works on making the policies for institutions, reviewing their work and providing them technical as well as financial support"

PMN also supports industry player by taking initiatives for infrastructure development. Some initiatives include establishing an industry-specific credit information bureau, introducing a code of conduct, and taking technology-related initiatives by inviting international practitioners and arranging talks and training. All efforts are to provide an enabling environment for the microfinance practitioners so that the industry can flourish. Moreover, PMN is also playing its role in helping the industry players to safeguard their interest through its support. Their support is not just limited to MFPs; PMN is also working for clients' interest by taking different initiatives.

One of the respondents summed up the supportive functions of PMN in the following words,

"PMN is one of the most active networks of the members among many other networks in terms of governance, regulations and education. The industry has many benefits of this network such as facilitating the industry players, building capacity of members, providing information, creating linkages and becoming a way for members to be connected that is a need of the industry"

Therefore, PMN is highly acknowledged as an industry voice by most of the MFPs in raising their issues and safeguarding the interests of other stakeholders. This is evident from the current situation of COVID-19, where MFPs reported a positive and prompt response from PMN in raising the issue and then suggesting the solutions to manage pandemic impacts. Meagher (2020) and Malik et al. (2020) also supported the role of industry associations and networks in crafting the response towards COVID-19. One of the respondents said,

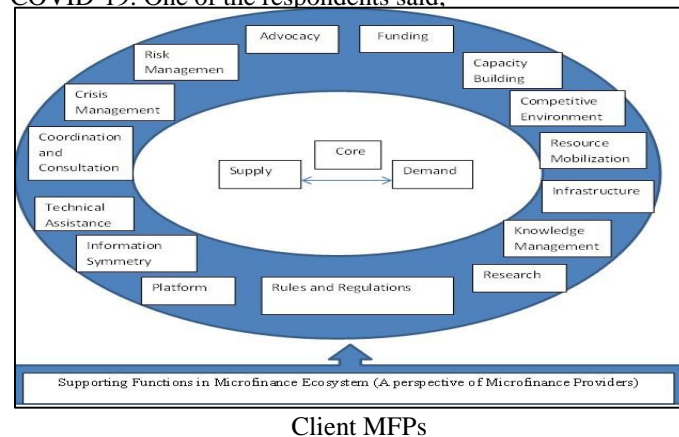


Figure 7: Supporting Functions in Microfinance ecosystem in Pakistan

The current issue of COVID-19 and its impacts has been discussed in meeting called by PMN. It has been discussed that what will be situation of repayment after CORONA issue. I think the presence of PMN has been very fruitful for the industry, like currently we are facing a situation COVID 19, so at this time this is very important to understand the whole situation and to decide how we will collectively come out of this situation"

Furthermore, the functions performed by different players to support the core transactions are not mutually exclusive as some supporting functions are common among various players. With the addition of some functions, most of the supporting functions are similar to the functions explained by (Ledgerwood & Gibson, 2013) for a financially inclusive ecosystem. The supporting functions may vary as per context that highly affects the functions of financial systems in different economies. MFPs have identified the following main supporting functions of key players (the Government, the regulators, Apex institution, credit information Bureau and industry network) operating in Meso and Macro environment of MFE in Pakistan.

CONCLUSION

Using a broader financial ecosystem perspective, this study has identified key supporting functions in MFE of Pakistan. Based on qualitative data analysis, the functions of key players supporting the operations of MFPs have been explored to highlight their significance for the microfinance ecosystem. The main supporting functions include funding, capacity building, knowledge management, research, resource mobilization, risk management, crisis management, technical assistance, infrastructure development, advocacy, rules and regulations. Among the various players of the ecosystem, this study has analyzed the functions of the Government, The Apex, the regulators, the Credit Information Bureau and the Industry Association that collectively provides an enabling environment. Among these players; MFPs have highly acknowledged the supporting functions of the regulators (SBP and SECP) and industry Association (PMN).

Most MFPs have pointed out the positive role of regulators in providing an enabling environment, and a supportive regulatory framework for their operations, especially the role of SBP is paramount. The favorable regulations, and supervision has made the industry operation secure for both the service providers and the clients. The regulatory framework has helped the MFPs manage the various risks in industry and uncertain situations. Moreover, MFPs have also endorsed the point of view of EIU⁸ regarding a strong and supportive regulatory framework for the microfinance industry in Pakistan. However, MFIs are a bit struggling with the regulations of SECP as a new regulator; both are in the learning phase, and MFIs hope to work with the new regulator smoothly in future. They suggested including a representative of MFIs in the regulatory board of SECP to have a better strategy formulation.

Almost all MFPs have reported an active role of PMN in creating linkages among players, advocating the industry matters at different forums, building capacity through training, creating a competitive environment for the players, sharing industry information through publications and trend, conducting industry

research, and developing the industry infrastructure. Being an industry voice, PMN represents the microfinance industry at national and international levels and plays a significant role in the growth of the industry. MFPs are expecting a more active and positive role in achieving the targets of financial inclusion.

Another important player supporting the operations of MFPs is credit information bureau that is providing technical assistance for the informed and quality credit decisions. MFPs are expecting more players to enter in the industry for more a transparent and secure lending process. Moreover, MFPs have also suggested including the non-traditional financial service providers to be a part of CIB so that default rate and the issue of multiple lending can be solved. Although the Government indirectly supports MFPs in funding, infrastructure development, resource mobilization, formal rules setting and sector development but yet MFPs require much more from Government. The areas that need government attention include prioritizing microfinance, initiating more wholesale funding sources, and recognizing microfinance as an important financial player like commercial banks. Furthermore, the role of Apex institution in meeting the funding role is also important, but MFIs still need more sources of wholesale funding to expand their operations.

Most importantly, the role of the Government, regulators and PMN has been very supportive in managing the current issue of COVID-19. Having a direct connection with the clients at the bottom of the pyramid, MFPs have faced non-payment from the borrowers. After a timely discussion with all industry players, regulators and the Government, effective strategies were formulated to overcome the impacts of a pandemic for MFPs and the whole industry. Moreover, the significance of supportive functions in an ecosystem is highlighted in situations where a combined effort from the whole industry is required. Therefore, it is important to understand the functions of different players in an ecosystem

The study has contributed to the literature on MFE by identifying the functions of ecosystem players from a different perspective, i.e. MFPs at the core and can better analyze the functions of the players supporting them. For players operating in the Macro and Meso environment of microfinance, the MFPs perspective of explaining the supporting functions will help identify the areas for improvement. It will help them formulating strategies as per the needs of MFPs that are central for microfinance activities. They can also identify the gaps between the expectations of MFPs and their existing functioning that can improve their efforts to have a sustainable microfinance industry.

Similarly, identifying supporting functions will also help other industry players understand the role of each player in MFE and develop linkage with them accordingly. Hence, these findings have implications for the policymakers, the Government and regulators to revise their strategies for a financially inclusion ecosystem. The study has focused the perspective of MFPs in exploring the functions of microfinance ecosystem in Pakistan, future studies may consider clients and other players view to add more value to this area of research.

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FOOTNOTES

- ¹ Three levels of inclusive financial system for microfinance defined by CGAP in a report” Good Practice Guidelines for Funders of Microfinance “in 2006
- ² Microfinance providers are categorized into three main groups named as Microfinance Banks (MFBs), Microfinance Institutions (MFIs) and Rural Support Programs (RSPs)
- ³ The Economist Intelligence Unit (EIU). 2015. Global Microscope 2015: The enabling environment for financial inclusion. Sponsored by MIF/IDB, CAF, Accion and the Metlife Foundation. EIU, New York, NY
- ⁴ Microfinance Review, 2013-2018, by PMN
- ⁵ Safavian, Mehnaz, and Aban Haq. 2013. Are Pakistan's Women Entrepreneurs Being Served by the Microfinance Sector? Directions in Development. Washington, DC: World Bank. doi:10.1596/978-0-8213-9833-3.
- ⁶ Pakistan Microfinance Reviews 2014-2018 by PMN
- ⁷ Microfinance Review-2014-2018 by PMN retrieved from: <https://pmn.org.pk/publication>
- ⁸ The Economist Intelligence Unit (EIU). 2015. Global Microscope 2015: The enabling environment for financial inclusion. Sponsored by MIF/IDB, CAF, Accion and the Metlife Foundation. EIU, New York, NY.