

MICROFINANCE INDUSTRY SALARY SURVEY¹

No: 13 September 2011

MicronOTE

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INTRODUCTION

Well-designed salary structures increase the chances of attracting and retaining good to high quality personnel in the knowledge economies. Organizations with competitive salaries are the first-choice employers both within the industry and across competing industries. This also means that organizations improve and design better compensation packages, provide good work environments, and better future career opportunities.

The microfinance sector provides basic financial services to the poor. It is a unique industry with double bottom-line objectives. It is therefore imperative to have financially viable and robust organizations in order to achieve financial inclusion and social change. Personnel expenses are a major cost item in the microfinance business, constituting approximately 33% of the total costs of the average microfinance provider (MFP). It also represents close to 67% of average MFP intermediation costs. Thus, recruiting and retaining a good quality human resource base is an important ingredient for this industry to achieve its dual objectives with efficacy.

We have reported salary data of lower, middle, and senior management from 12 MFPs, in this study. There is information from eight commercial banks and eight non-government organizations (NGOs). Also included are five microfinance banks (MFBs) and seven microfinance institutions (MFIs). The Pakistan Microfinance Network (PMN) provided support in collecting data from its member organizations. The data from other organizations was collected by Cogilent Solutions. All findings of the report are based on data provided by these organizations.

Microfinance organizations are smaller than their counterparts in the commercial banking sector; we have found a direct correlation between organization size² and their management salaries.

FACT SHEET

1. The sample included 12 MFPs (five MFBs and seven MFIs)
2. The comparative industry is commercial banks for MFBs and development NGOs for MFIs
3. The dataset of comparative industries includes eight commercial banks and eight NGOs
4. The sample size for this study (for microfinance sample) is close to 6,500 employees (representing more than 65% of the sector)
5. The highest gross monthly salary in this dataset is Rs. 6 million at a commercial bank, and the lowest salary is Rs. 7,000 at both MFBs and MFIs
6. The highest gross monthly salary at MFBs is Rs. 1.9 million, and Rs. 800,000 in the MFI sector

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¹ Data has been provided to PMN by Cogilent Solutions, popularly known by the brand BrightSpyre. PMN has conducted analytics using the data set provided by Cogilent Solutions management.

² Size refers to the number of employees in an organization. For example, the average commercial bank employs 10,000 persons whereas the average MFB employs 850 persons.

SURVEY SCOPE/OBJECTIVE

Our working hypothesis was “microfinance sector salaries are considerably lower than those of the banking sector at all levels of management, and are instead comparable to salaries in the NGO sector. Within the sector, salaries are higher in MFBs than in MFIs at all levels of management.” To ensure fair assessment, we compared MFBs to commercial banks and MFIs to NGOs. All salaries in this survey are reported on a monthly basis.

This study has three major objectives:

1. Help MFPs position their salary structures based on salary trends in the microfinance industry;
2. Show quantitatively that salaries in the microfinance sector are much lower than those in the banking industry and are, in fact, closer to those of the NGO sector;
3. Based on responses from the sector, conduct research to explore the issue of salaries in microfinance with an ultimate goal to improve productivity and efficiency in microfinance service provision.

The purpose and scope of the study was to provide an overview and comparisons of salaries both within the microfinance sector and with the NGO and commercial banking sector. Our survey scope included salary comparisons of senior, middle, and lower management (these were all gross monthly salaries and did not include incentives and/or benefits). However, the study did not detail the reasons of salary variance in these sectors. This could form the basis for future research and help understand salary structures more completely. A cross-country analysis at the sectoral level is also an important research area for the future.

SALARY COMPARISONS WITHIN THE MICROFINANCE SECTOR: Headline results

The microfinance sector comprises approximately 50 organizations. Eight are in the finance industry—regulated by the State Bank of Pakistan—and are recognized as MFBs. The remaining are non-profit organizations recognized as MFIs. These are registered with either the Securities and Exchange Commission of Pakistan (SECP) as Section 42 companies, or registered under the Societies Act of 1861. The size of the organizations varies from a minimum of 19 to a maximum of 1,429 employees.

A broad brushing of salary scales of the microfinance industry indicated a maximum monthly salary of Rs. 1.9 million at the senior management level and a minimum monthly salary of Rs. 7,000 at the lower management level. It was observed that salaries at all levels varied consistently with size of the organizations.

Senior Management Teams (SMTs)^{3, 4}

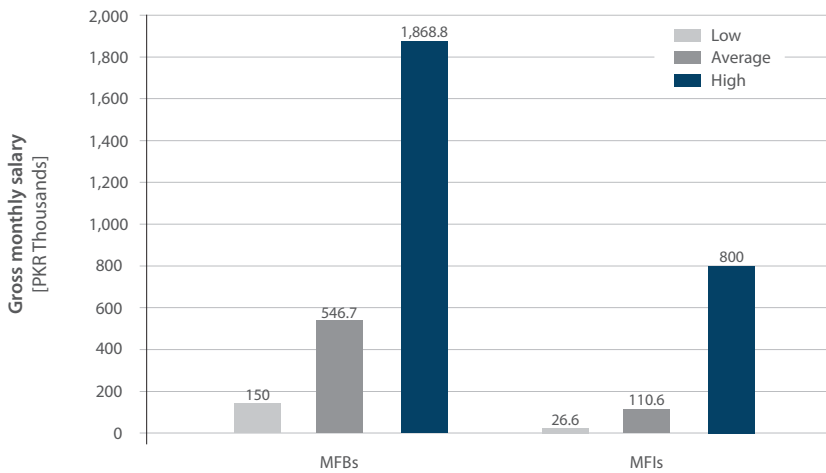
SMT salaries in the microfinance sector (MFBs and MFIs) were found to vary from Rs. 27,000 to Rs. 1.9 million at the higher end. Average senior management salaries were Rs. 547,000 for MFBs and Rs. 110,000 for MFIs. The salaries at the senior level are more widely dispersed in the MFI category, but are clustered near the mean for senior MFB staff. Another trend observed was that salaries in the MFI group were almost a

³ SMTs comprise either a CEO and group heads, or ‘Chief’-teams.

⁴ We have given a definition of designations comprising each level of the management structure reported in this survey. However, since the industry is new and still growing, differences may exist in the eyes of different players, hence these are loose definitions.

third that of MFB salaries (see FIGURE 1).

FIGURE 1: INDICATIVE SALARIES - SMTs

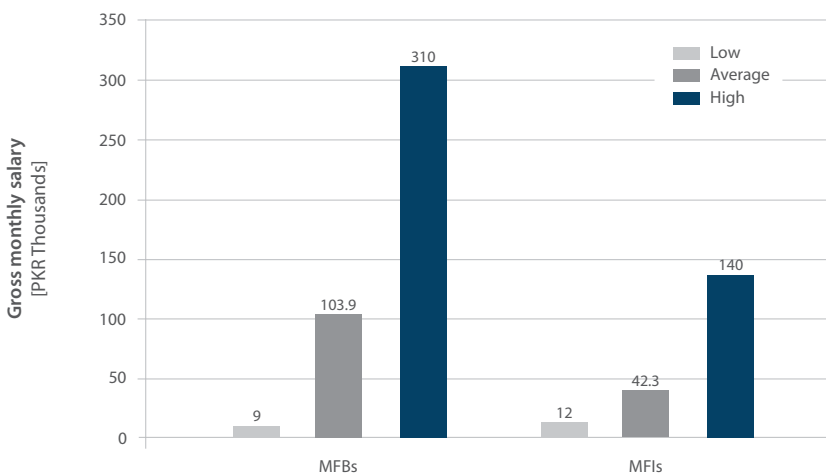


Middle Management Teams (MMTs)⁵

MMT salaries at MFBs were found starting from Rs. 9,000 a month and going up to Rs. 310,000 a month. The average MFB salary was Rs. 104,000 per month; almost third of the highest salary in the MFB peer group. Monthly salaries at MFIs ranged between Rs. 12,000 and Rs. 140,000 with an average salary of Rs. 43,000.

Average salaries and higher-end salaries at MFBs were higher than those at MFIs. However, minimum salaries at mid-level positions at MFIs were greater than at MFBs. There was an overlap between middle management salaries and senior management salaries at both MFI and MFBs (see FIGURE 2). This could be an indication that middle management salaries are high compared to lower-end senior management salaries, due to experience or organization size. This is an area that MFIs should explore and try to settle as such situations can lead to high staff turnover and reduce employee morale.

FIGURE 2: INDICATIVE SALARIES - MMTs

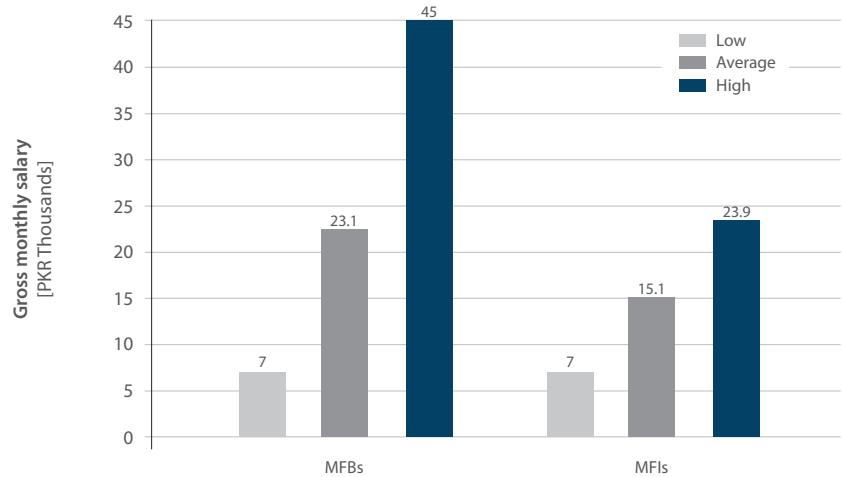


⁵ MMTs comprise branch managers, area managers, head office teams, and all other staff except lower management teams.

Lower Management Teams (LMTs)⁶

Both MFBs and MFIs have kept starting LMT salaries at Rs. 7,000 as per Pakistan's labor laws. The maximum LMT salaries at MFBs were Rs. 45,000, almost twice the corresponding maximum salaries at MFIs (see FIGURE 3). The trend of maximum salary in lower tiers overlapping with minimum salary in higher tiers holds true for both MFBs and MFIs.

FIGURE 3: INDICATIVE SALARIES - LMTs



SALARY COMPARISONS AMONG INDUSTRIES: Headline Results

We compared the microfinance industry with its peer industries in this section. We peer-grouped the microfinance sector with vertical industries to provide a contextual analysis. Thus, the MFB segment is compared with commercial banks and the MFI segment with the NGO sector.

MFBs and Commercial Banks

We analyzed the data of eight private commercial banks in Pakistan. It is important to note that the average commercial bank is substantially larger in size than the average MFB.

The maximum salary at higher management levels at commercial banks was found to be almost 4 times the higher-end salary at MFBs. The lower-end salary at commercial banks, however, was almost 20% lower than at MFBs. The average salary in this segment is Rs. 1.4 million for commercial banks and Rs. 547,000 for MFBs.

The trend reverses at the middle management level where the high-end salaries at commercial banks were found to be slightly higher. The lower-end salary at MFBs was almost three times lower than the lowest salary at mid-level management positions in commercial banks. The average salary in this segment varied from Rs. 135,000 for commercial banks to Rs. 104,000 for MFBs.

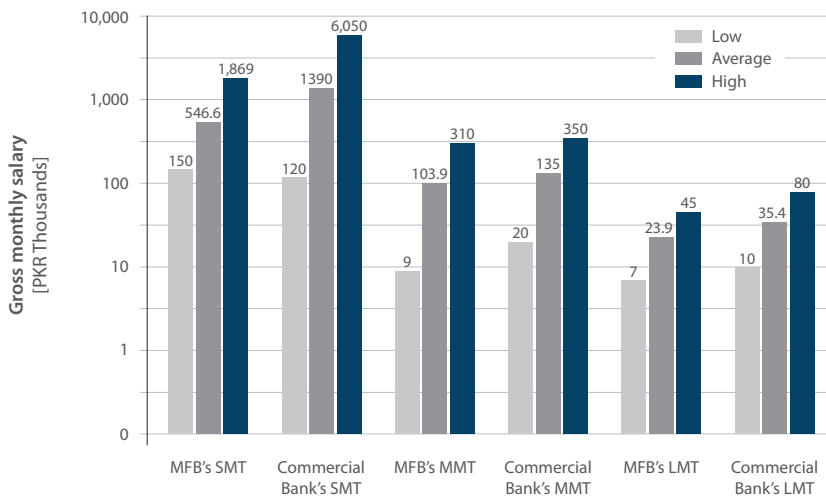
At lower management levels, the significant difference was on the higher side with

⁶ LMTs include loan officers, credit officers, business development officers, tellers, and support staff.

the maximum salary at commercial banks being almost twice that of the MFB segment. However, this difference is marginal as the lowest salary was Rs. 7,000 at MFBs and Rs. 10,000 at commercial banks. The average salary in this segment varied from Rs. 35,000 for commercial banks to Rs. 23,000 for MFBs.

FIGURE 4 clearly upholds our hypothesis – commercial bank salaries for all levels of management were considerably higher compared to MFB salaries. This holds true with our earlier statement in the introduction section that salaries are consistent with the size of the organization; the larger an organization, the better the salary scale.

FIGURE 4: CROSS-INDUSTRY COMPARISON: MFBs AND COMMERCIAL BANKS



MFI and NGOs

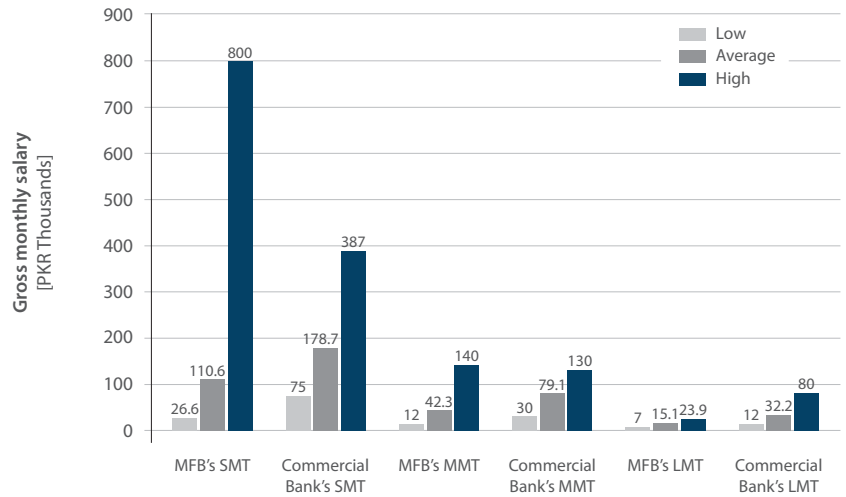
The top range for MFIs at the senior management level was almost twice the core NGO sector salary. However, the lower-end salary was almost one-third the low range of SMTs for the NGO sector. The average salary in this segment varied considerably between the two industries as it stood at around Rs. 111,000 for MFIs and was close to Rs. 178,000 for NGOs.

The top range in the middle management was consistent for both the MFI and NGO sectors. However, lower-end salaries for the MFI sector were once again almost a third of the low range for the NGO industry. The average salary in this segment varied from Rs. 79,000 to Rs. 42,000.

The highest salary range at the lower management level for the NGO segment was almost three times the MFI sector, and the lowest range was twice that of the MFI sector. The average salary in this segment is Rs. 32,000 for NGOs and Rs. 15,000 for MFIs (see FIGURE 5).

However, it appears that smaller MFIs have low salary structures and are not able to compete with NGOs. More interestingly, the fall in salary scales was quite steep when we compared salary bands with NGOs and between different management structures for MFIs.

FIGURE 5: CROSS-INDUSTRY COMPARISON: MFIs and NGOs



CONCLUSION

The trends confirm our hypothesis. Salary levels at MFIs were higher at almost all levels when compared with NGOs. Similarly, the salary scale for MFIs was lower compared to commercial banks. The salary scale for MFI senior management was higher compared with NGOs. However, NGOs are generally able to pay better salaries than MFIs at middle and lower management positions.

We conclude that salary structure ranges and means at all levels and amongst different peers vary with organization size.

It is suggested that a comparison of salaries for these industries be done at the South Asia level. It is already well-established that personnel costs constitute almost 50% of total microfinance costs. A deeper analysis will help unwind comparative salary structures within the industry, amongst different industries, and in relation to different economies.

The following organizations participated in the survey:

MFPs

- Pak-Oman Microfinance Bank
- Khushhali Bank Limited
- Tameer Microfinance Bank Limited
- Kashf Microfinance Bank Limited
- The First Micro Finance Bank Limited
- Akhuwat
- Sarhad Rural Support Programme
- Development Action for Mobilization and Emancipation
- Kashf Foundation
- Sindh Agricultural and Forestry Workers Coordinating Organization
- Sindh Rural Support Organization
- Thardeep Rural Development Programme
- Orangi Charitable Trust

COMMERCIAL BANKS AND NGOs

- Standard Chartered Bank (Pakistan) Limited
- Askari Bank Limited
- Meezan Bank Limited
- Summit Bank Limited
- United Bank Limited
- Allied Bank Limited
- Bank Alfalah Limited
- Habib Bank Limited
- Strengthening Democracy Through Parliamentary Development - United Nations Development Programme
- Global Fund
- Red Cross and Red Crescent Societies
- Relief International - Pakistan
- United States Agency for International Development
- Roshni Foundation
- Save the Children
- Organization for Social Development Initiatives



MicroNOTE: MICROFINANCE INDUSTRY SALARY SURVEY

Published in Pakistan in September 2011 by Pakistan Microfinance Network with financial support from UKAid, PPAF and Citi.

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