

“MICRO-FINANCE & ECONOMIC DEVELOPMENT IN PAKISTAN

Research Thesis by

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Executive Summary

Pakistan is a large country with a population estimated at 135 million. The economy still has a low income of US\$ 470 per capita, with an estimated purchasing power parity of \$ 2500. Poverty has always remained a major development problem of Pakistan. Many methods have been used in the past to alleviate poverty including direct credit approach, focus on job creation, heightened economic activity etc. Islamic modes of financing included zakat, fitrana and sadqat. The main focus in either of the approaches was on income redistribution. However, there is immense evidence suggesting that a successful anti-poverty strategy should include a policy regime that promotes inclusive economic growth; investments in human capital, infrastructure, and micro-credit. In fact microfinance encompasses and all these important aspects and that is the reason I chose to work on this particular area and analyze broadly its effect on the economy of Pakistan. Microfinance arose in the 1980s as a response to doubts and research findings about US state delivery of subsidized credit to poor farmers. Grameen Bank's Dr. Yunus is still considered as the main pioneer in the provision of microfinance. In the 1970s US government agencies were the predominant methods of providing productive credit to those with no previous access to credit facilities. In Pakistan there are many formal, semi-formal and informal channels working for the provision of the micro-credit. I have chosen to work on Pakistan Microfinance Network (PMN) and Aga Khan Rural Support Program (AKRSP). PMN consist of 12 members falling in different categories of formal and informal credit providers. I have chosen to discuss a few of them with the maximum outreach including, the First Microfinance Bank, Kashf Foundation, Orangi Pilot Project, Punjab Rural Support Program and Bank of Khyber. Later the impact assessment of AKRSP and Kashf Foundation has been discussed in detail. Microfinance has seemed to last a positive impacts on the Economy, culture and Psychology of the area where it was provided. Village organizations in the area of AKRSP seemed to have a positive impact (resulting in wealth creation, better productivity & income, better human resource management and conservation of natural resources). Similar results were observed in the area of operation of Kashf Foundation. At the macro level provision of microfinance results in alleviation of poverty, female empowerment and development of overall financial system.

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CHAPTER 1: INTRODUCTION

1.1 Poverty – An Overview:

Pakistan is a large country with a population estimated at 135¹ million. The economy still has a low income of US\$ 470² per capita, with an estimated purchasing power parity of \$ 2500³. The economy has shown a good trend growth rate of 5%⁴ in the last three decades until 1992-93. Despite this high trend rate of GDP almost a quarter of the population still remains poor. This suggests that the structure of the economic growth process in Pakistan constrain its capacity to reduce poverty. A cross-country comparison also suggests the same. Indonesia, for example, with a growth rate close to Pakistan has been able to reduce the percentage of its population below the poverty line from 58% in 1972 to only 17% in 1984⁵.

Poverty has always remained a major development problem of Pakistan but the situation has worsened especially after 1992-93. The growth rate nose-dived to 2.3%⁶ in 1992-93 due to natural disasters coinciding with a series of structural adjustment measures and external shocks to the economy. The growth rate has averaged 3.5%⁷ since then, merely keeping the high population growth rate of 3%⁸ while the calorie-based poverty has started rising again. About 70%⁹ of these poor in Pakistan live in the rural areas. They include land less labor, tenant farmers, small farmers cultivating marginal land and those engaged in numerous informal livelihood activities.

¹ Microfinance, A prescription for poverty -----, Nabeel Gauhar

² Pakistan National Development Report 2003

³ Pakistan National Development Report 2003

⁴ Economic Survey of Pakistan 2005

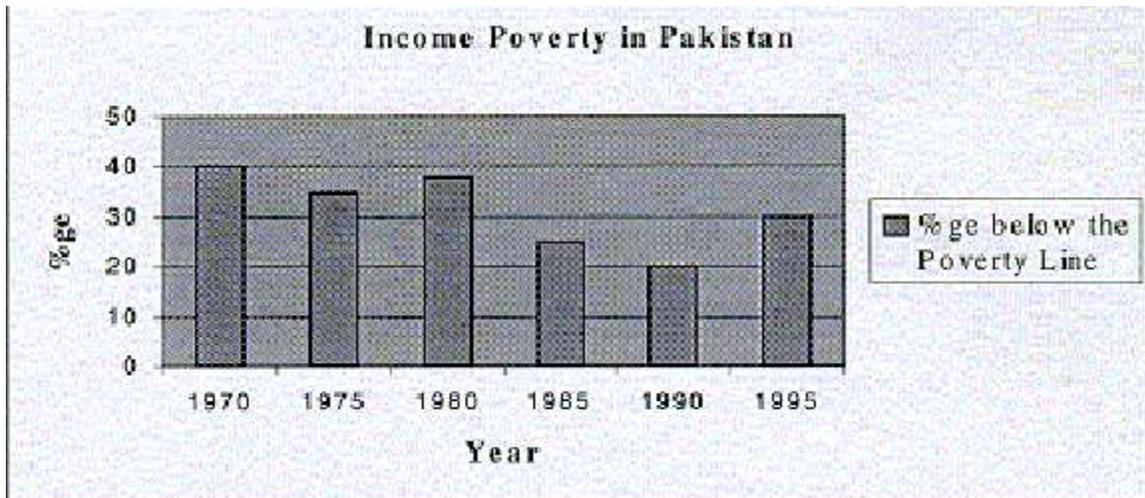
⁵ Microfinance, A prescription for poverty -----, Nabeel Gauhar

⁶ Microfinance, A prescription for poverty -----, Nabeel Gauhar

⁷ Microfinance, A prescription for poverty -----, Nabeel Gauhar

⁸ Economic Survey of Pakistan 2005

⁹ Microfinance, A prescription for poverty -----, Nabeel Gauhar



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Poverty is not merely income deprivation. It is a multidimensional concept, which encompasses economic, political, and social needs that are sine qua non for a meaningful existence. The poor in Pakistan are not only deprived of financial resources, but they also lack access to basic needs such as education, health, clean drinking water, and proper sanitation. Limited access to education, health, and nutrition, undermines their capabilities, limits their ability to secure gainful employment, and results in income poverty and social exclusion; while also making them vulnerable to exogenous shocks. This cycle is further exacerbated when institutions of governance tend to exclude the most vulnerable from the decision-making process and thus feeds into poverty and human deprivation. Some of the characteristics of poverty in Pakistan are highlighted in Box 1.1¹¹ on the following page.

¹⁰ Microfinance, A prescription for poverty -----, Nabeel Gauhar

¹¹ Pakistan National Development Report 2003 & Microfinance, A prescription for poverty, Nabeel Gauhar

BOX 1.1: POVERTY FACTS OF PAKISTAN

An analysis of poverty by socio-economic groups, focusing on key demographic and economic characteristics, reveals the following stylized facts of poverty in Pakistan:

- Poverty in Pakistan has remained fairly stable during the 1990s, from 29.3% in 1993-94 to 32.2% in 1998-99.
- Poverty is considerably higher in rural as compared to urban areas. According to calculations by FBS based on PIHS data poverty headcount in 1998-99 was 36.3% and 22.4% for rural and urban areas of Pakistan, respectively. Poverty incidences vary significantly between provinces. NWFP has the highest rural as well as urban poverty followed by Punjab. Balochistan data for 1998-99 shows relatively low poverty; however, poverty in Balochistan is as high as in NWFP as in other years.
 - Poverty is strongly related to lack of basic needs, especially education and cultivable land
- The poor have a higher dependency ratio, as households with a large number of children, and single earning member, are more likely to be poor. On average the poor have almost five household members less than 18 years of age, while the number for the non-poor is three. Average number of births by a poor woman (married and of age 15-49) is almost five, compared to four for a non-poor woman.
 - More than one third of the poor households are headed by aged persons who are dependent on transfer incomes, such as pensions and other forms of social support.
 - Education is the most important factor that distinguishes the poor from the non-poor. The percentage of literate household heads is 27 in poor households while for non-poor households it is 52.
 - The poor are also characterized by relatively low access to health related infrastructure, like sanitation. While 76% of the poor live in households with no toilet with flush, compared to 53% of the non-poor. The poor are also less likely to have access to electricity and gas – 60% and 10% of the poor live in households with electricity and gas connections, compared to 75% and 24% of the non-poor, respectively.
 - Relatively poor communities also seem to have less access to health facilities and immunization coverage. 45% of the children in poor households aged one to five years have been fully immunized as against 58% in non-poor households.
 - Poverty is (relatively) higher when head of the households are unskilled agricultural workers, engaged in services, transport, production, and sales occupation.
- The non-poor own 0.84 acres of cultivable land per capita, while the poor own only 0.27 acres per capita. In addition the poor are less able to diversify their agricultural production and are thus more susceptible to economic shocks.

40 to 47 million people are living below the poverty line in the country. Incidence of poverty increased from less than 20 per cent in the late 1980s to more than 30 per cent in

the late 1990s. Despite a consensus regarding the rise of poverty in the late 1990s it is not easy to determine the exact level of poverty. 31 per cent of the population lived on one dollar a day during that period. The last four decades can be grouped into two broad periods with respect to poverty trends: 1963/64 to 1987/88 and 1987/88 to 1998/99. During the first period, poverty declined in urban areas but increased in rural areas, causing an increase in poverty. Growth, particularly in the manufacturing sector, was the main cause of the reduction in poverty in urban areas during the 1960s. The rise in rural poverty in the 1960s was associated largely with changes in tenure pattern, especially the trend towards self-cultivation by landowners, which had adverse repercussions for the tenant households, the report says. Subsequently, between 1969/70 and 1987/88 poverty declined in both rural and urban areas. A number of factors, including the 1972 land reforms, increase in employment and wages due to a boom in the housing and construction sectors as well as rapid expansion in the public sector, and most importantly the inflow of workers' remittances from the Middle East, contributed to the poverty reduction during this period. The declining trend in poverty witnessed in the 1970s was reversed in the 1990s. Poverty in the country has historically been higher in rural areas than in urban areas. With respect to rural-urban trends in the 1990s, the rise in poverty was relatively greater in the rural sector. As a consequence, the gap in poverty levels between these two sectors increased from about six per cent in 1993-94 to eight per cent in 1998-99. In terms of the number of poor, about 35 million¹² out of the total 47 million poor live in rural areas of the country. In rural areas, while agriculture is the predominant activity, a substantial proportion of the rural labor force, more than 40 per cent¹³, is also engaged in non-farm activities. Besides head count ratio, the two other most commonly used measures of poverty, the income-gap ratio and inequality among the poor, known as FGT index; provide useful information to better understand the trends in the 1990s. The income-gap ratio takes into account the average income of the poor and its distance from the poverty line. The average income shortfall is taken as the poverty gap, or the depth of poverty. The FGT index (poverty severity) essentially shows the income inequalities among the poor. The value of poverty gap increased from five in 1993-94 to

¹² Pakistan National Development Report 2003

¹³ BWTP, Asia Resource Center

about eight in 1998-99. This implies that though pervasive, poverty is not very deep in Pakistan. However, the depth of poverty did increase over time.

1.2 Old Methods for subsidizing Poverty:

In the history of alleviating poverty, there was more of a focus on a “direct-credit” approach to eliminate poverty. Poverty was mainly viewed as a consequence of the poor not earning enough money and therefore not being able to acquire enough food or assets to reach an acceptable standard of living. Alleviation strategies focused on creating jobs, developing skills, and included Islamic mode of alleviating poverty such as *zakat*, *sadqat* and *fitrana*, which all focus on redistributing income from the wealthy to the poor. As part of this view, the role of finance was mainly limited to providing loans. It was assumed that borrowing households would be able to increase their production levels. As a result, the poor would benefit from increased consumption, while society benefited from the increased production generated by the loans. Apart from these tools more informal lending was also in practice in Pakistan, which included personal loans from families, friends or others. The informal lending also included the popular “committee” schemes practiced by women to increase their savings and there by improving the families’ domestic income.

There is sufficient evidence which suggests that a successful anti-poverty strategy should include a policy regime that promotes inclusive economic growth; investments in human capital, infrastructure, and microfinance; improved governance and civil society participation in decision making; effective social safety nets; and targeted redistribution policies. These methods are still in practice and even more emphasis has been laid on them in the recent budget (i.e. for fiscal year 2005-06). That is why the recent budget was termed as a “pro-growth” budget. However, still the latest and more professional approach to poverty alleviation is microfinance.

1.3 Microfinance - A possible way out:

Microfinance refers to small-scale financial services – primarily credit and savings – provided to people with low levels of income and savings.

The microfinance instrument is the ray of hope for the poorest people of the world. Microfinance includes the provision of financial services (including credit, deposits, and

insurance) to low-income clients. Microfinance and micro-credit are often treated as synonyms, though the latter focuses exclusively on the provision of credit. This service is now the main tool through which governments and institutions channel funds with the hopes of eradicating poverty. Microfinance institutions (MFIs) have sprung up in all areas of the globe, to substitute for usurious interest rates charged by informal moneylenders. By exploiting new institutional forms and contractual structures, these institutions have reduced the risk and costs associated with granting uncollateralized loans. The promise of microfinance prompted world leaders in 1997 to pledge that 100 million of the world's poorest families would be provided credit for self-employment or other financial services by 2005. It was estimated that over \$US21.6 billion¹⁴ would be needed over a decade to fulfill this goal, \$8 billion¹⁵ slated to come from loans at market rates from private markets. Regrettably, the private sector has been less than keen to invest a significant amount into supporting the proliferation of MFIs.

Microfinance is now recognized as an effective and financially sustainable instrument for poverty reduction, particularly in developing countries but also for the poor in the developed world. The Micro Credit Summit Campaign announced that 30.6 million¹⁶ poor households around the world now have access to micro credit, and that the number covered increased by 40 per cent over the past year. This means that there is now an opportunity to bring about a substantial reduction of poverty around the world. Microfinance is not a cure for the elimination of world poverty, as not all poor households can make good use of it. Those without an able-bodied member to engage in income-generating activities cannot be helped out of poverty by a loan. Many other poor households do not have either the entrepreneurial ability and/or the self-discipline required to make good use of micro credit. But experience from all around the world now shows that substantial numbers of poor women provided with access to microfinance services are using the opportunity to reduce their poverty and that of their families. The micro-credit programs have become very popular as a tool to reduce poverty in many countries of the world following the success of Grameen Bank of Bangladesh. Providing the poor access to financial services is one of the main ways to help increase their

¹⁴ "Challenges & Prospects: Microfinance in Pakistan", Working paper by Khushali Bank

¹⁵ "Challenges & Prospects: Microfinance in Pakistan", Working paper by Khushali Bank

¹⁶ www.microcreditsummit.org

incomes and productivity. In many countries however, traditional financial institutions have failed to provide this service. Micro credit programs have been designed to fill this gap. Their purpose is to help the poor become self-employed. Many of these programs provide credit using social mechanism such as group based lending. With increasing assistance from the World Bank and other donors, micro finance is emerging as a device for reducing poverty and improving the Poor's access to financial services in low income countries.

In recent years Micro Business Finance (MBF) is becoming really popular with the donors. Donors range from Country's Government to international donors and Supranational. Recent government of Pakistan is really looking to implement seriously an effective policy concerning the microfinance. It is because of the multiple benefits that the microfinance can bring. It spurs growth and economic development in a country. This is brought about through easing liquidity constraints, starting up of new production, introduction of new technology and entrepreneurs assuming greater production risk. Human capital development is enhanced in a country and average household income and production are increased.

For the international donor agencies and supranational microfinance benefit them through high interest incomes as the interest rates are generally high and so as the incomes from the loans extended. Similarly, for big international donor countries microfinance brings goodwill and huge financial advantages in the form of high interest incomes.

1.4 History of microfinance:

Microfinance arose in the 1980s as a response to doubts and research findings about US state delivery of subsidized credit to poor farmers. In the 1970s¹⁷ US government agencies were the predominant methods of providing productive credit to those with no previous access to credit facilities-people who had been forced to pay usurious interest rates or were subject to rent seeking behavior. Governments and international donors assumed that the poor required cheap credit and saw this as a way of promoting agricultural production by small landholders. In addition to providing subsidized agricultural credit, donors set up credit unions inspired by the Raiffeisen model

¹⁷ www.akrspllessons.org

developed in Germany in 1864. The focus of these cooperative financial institutions was mostly on savings mobilization in rural areas in an attempt to "teach poor farmers how to save."

Beginning in the mid-1980s, the subsidized, targeted credit model supported by many donors was the object of steady criticism, because most programs accumulated large loan losses and required frequent recapitalization to continue operating. It became more and more evident that market-based solutions were required. This led to a new approach that considered microfinance as an integral part of the overall financial system. Emphasis shifted from the rapid disbursement of subsidized loans to target populations toward the building up of local, sustainable institutions to serve the poor.

At the same time, local NGOs began to look for a more long-term approach than the unsustainable income generation approaches to community development. In Asia Dr. Mohammed Yunus of Bangladesh led the way with a pilot group lending scheme for landless people. This later became the Grameen Bank, which now serves more than 2.4 million¹⁸ clients (94 percent of them women) and is a model for many countries. In Latin America ACCION International supported the development of solidarity group lending to urban vendors, and Fundacion Carvajal developed a successful credit and training system for individual micro entrepreneurs. Changes were also occurring in the formal financial sector. Bank Rakyat Indonesia, a state-owned, rural bank, moved away from providing subsidized credit and took an institutional approach that operated on market principles. In particular, Bank Rakyat Indonesia developed a transparent set of incentives for its borrowers (small farmers) and staff, rewarding on-time loan repayment and relying on voluntary savings mobilization as a source of funds.

Since the 1980s the field of microfinance has grown substantially. Donors actively support and encourage microfinance activities, focusing on MFIs that are committed to achieving substantial outreach and financial sustainability. Today the focus is on providing financial services only, whereas the 1970s and much of the 1980s were characterized by an integrated package of credit and training-which required subsidies. Most recently, microfinance NGOs (including PRODEM/BancoSol in Bolivia, K-REP in

¹⁸ www.grameen.com

Kenya, and ADEMI/BancoADEMI in the Dominican Republic) have begun transforming into formal financial institutions that recognize the need to provide savings services to their clients and to access market funding sources, rather than rely on donor funds. This recognition of the need to achieve financial sustain ability has led to the current "financial systems" approach to microfinance. This approach is characterized by the following beliefs:

- Subsidized credit undermines development.
- Poor people can pay interest rates high enough to cover transaction costs and the consequences of the imperfect information markets in which lenders operate
- The goal of sustainability (cost recovery and eventually profit) is the key not only to institutional permanence in lending, but also to making the lending institution more focused and efficient.
- Because loan sizes to poor people are small, MFIs must achieve sufficient scale if they are to become sustainable.

One of the main assumptions in the above view is that many poor people actively want productive credit and that they can absorb and use it. But as the field of microfinance has evolved, research has increasingly found that in many situations poor people want secure savings facilities and consumption loans

This chapter gave a comprehensive overview of the poverty position in Pakistan, methods used in the past to alleviate poverty and how microfinance can help in alleviating or eliminating poverty in Pakistan. The proceeding chapters will now further uncover the specific microfinance institutions and networks and how can they really help in improving the overall economic situation in Pakistan.

1.5 Research Methodology:

I have used the following ways to gather data:

1.5.1 Executive Interviews:

I contacted a number of executives of NGOs who are currently working with a number of foreign donor agencies for the uplift of small businesses.

1.5.2 Entrepreneur Survey:

I surveyed and questioned many entrepreneurs from many small businesses, who have received funding in recent years from many NGOs and other microfinance institutions.

1.5.3 Internet Survey:

I used internet as a source of collecting information for my thesis. I searched a wide variety of websites both for local and foreign donor agencies as well as microfinance institutions and banks and regulatory bodies. For instance, the website of Grameen Bank Bangladesh served as a very important source of information.

1.5.4 News Paper and Articles:

I searched a number of Local as well as international journals like financial times and business recorder as well as local news papers like the Daily dawn as a source of secondary information.

1.5.5 Books and Academic Papers:

I also skimmed through my notes and academic papers while collecting information for compiling my paper. They served an important purpose by giving me an even more clear understanding of the topic.

1.6 Hypothesis & Limitations:

This thesis will test the basic hypothesis statement which can be framed as follows:

“Do Microfinance efforts yield some positive results and can they help in the economic uplift of Pakistan in the long run or not?”

This research is an effort to test this hypothesis statement as framed above. However there are always a few limitations as to the testing, data gathering and framing the assumptions. Main limitations of the various techniques are as follows:

- People were hesitant and scared of giving the exact information
- Biasness to answer questions
- Environment in the future may change, while the data collection is as per the present scenario
- Internet Search provided information for the distant past

CHAPTER 2: LITERATURE REVIEW

2.1 Kashf Foundation – Pakistan¹⁹:

Kashf has carried out a number of client surveys and assessments during its first three years of operation in order to create a good level of baseline data against which future operations can be measured. Its quarterly reports show that policies and procedures have been amended in the light of information thus acquired. These reports also indicate a willingness to identify and act upon identified shortcomings at branch level. Inspired by the success of the Grameen Bank, Kashf (meaning miracle or revelation i.e. a process of self-discovery) began in 1996 as an action research program focusing, for the first two years, on understanding the key aspects of providing microfinance to poor women. By early 2001 Kashf had a network of five branches in Lahore and a client base of 5,088 customers located in 214 centers. DFID and the Aga Khan Foundation provide core funding. Kashf provides loans and savings services designed to cater for the needs of poor women. These include two basic lending products, the general loan and the consumption loan, along with a flexible, open access savings product. The Kashf concept relies heavily on building centers of 25 women through which training in leadership, gender and reproductive health are organized.

This study allowed me to develop a perspective on the effect of microfinance at the micro level in the specific areas, where it is offered.

2.2 Development of Microfinance²⁰:

The twelve countries in the study are extremely diverse:

- (i)** South Asian countries — Bangladesh, India, Nepal, Pakistan, and Sri Lanka;
- (ii)** East Asian market economies — Indonesia and the Philippines;
- (iii)** East Asian economies in transition — PRC and Viet Nam;
- (iv)** Pacific Island countries — PNG and Vanuatu; and
- (v)** A Central Asian economy in transition — the Kyrgyz Republic.

¹⁹ Kashf Foundation Pakistan, a case study by Sarah Mosedale, Project Research Officer, EDIAIS

²⁰ Asian Development Bank

Indicators of population density and urbanization differ markedly between the countries. In Bangladesh the population density were 965 peopling per square kilometer in 1998, nearly three times that of India, the second highest. In most countries, population density was between 100 and 300 people per square kilometer. At the other end of the scale, PNG, Vanuatu, and Kyrgyz Republic had population densities of 10, 15, and 24 people per square kilometer, respectively. Population density has implications for microfinance because it affects the scope for off-farm income-generating activities and for the capacity of MFIs to achieve sustainability. In terms of gross national product (GNP) per capita, the countries ranged in 1998 from lows of \$210 in Nepal and \$350 in Bangladesh and Viet Nam to highs of \$1,260 in Vanuatu and \$1,050 in the Philippines. Vanuatu, Philippines, PNG, and Sri Lanka are classified as lower middle income countries by the World Bank, while the other eight are classified as low income countries. Long-run economic growth has differed markedly between the countries. Over the period 1965 to 1998, PRC (and, to a lesser extent, Indonesia) recorded very rapid annual growth rates in per capita income of 6.8 percent and 4.7 percent, respectively. The other countries recorded growth rates in per capita income of 3 percent or less, with PNG (0.5 percent) and the Philippines (0.9 percent) having the lowest growth rates among the countries for which data are available. While most countries have experienced growth in per capita incomes in recent years, Indonesia has suffered a large decline following the East Asian financial crisis which began in 1997, and the Philippines have experienced a small decline. In all countries the shares of industry and services in gross domestic product (GDP) have increased while the share of agriculture has declined. In the Kyrgyz Republic and Nepal the share of agriculture remains at least 40 percent, while in all other countries it has fallen to below 30 percent

This article helped me understanding the scope of microfinance in different countries and the extent of poverty in different countries. Similarly it helped me understanding microfinance as a poverty alleviation tool as well.

2.3 Impact Assessment of Microfinance: Towards A Sustainable Learning Process²¹:

Impact assessment in microfinance has received more attention than in any other area of enterprise development. It is now generally accepted that impact assessment is a critical element in further improving micro-finance services and promoting innovation.

Existing impact assessments have made an important contribution to understanding some of the complex interactions between microfinance interventions, livelihoods and different dimensions of poverty reduction and empowerment. There remains nevertheless a considerable gap between the potential contribution of impact assessment and the practical usefulness of existing findings.

It is the view of the author, as elaborated in this paper, that the challenge for impact assessment is now to build on existing impact assessments and move on from merely measuring impact of individual programs on incomes to developing ongoing and sustainable learning processes within and between programs, between programs and donors and also between microfinance users. There is currently rapid innovation in impact assessment methodologies in microfinance which point the way to possibilities of a new and more integrated sustainable learning process between different stakeholders which can itself make an important contribution to poverty reduction and empowerment.

The aim of this paper is not to duplicate other Best Practice guidelines. Guidelines for Best Practice in impact assessment have already been produced for CGAP and DFID. Sebstad et al 1995, Sebstad and Chen 1996, Hulme 1998 and SEEP 2000 all produced for the AIMS initiatives are particularly recommended supplementary reading.

The main focus here is on:

- Recent methodological innovations in impact assessment
- how these can be used for detailed research on current areas of policy innovation
- the challenges which the move from impact assessment to sustainable learning presents for institutional practices and relationships between stakeholders

²¹ Impact Assessment of Microfinance: Towards A Sustainable Learning Process, by Linda Mayoux, September 2001

Section 2: Existing Impact Assessment: Methodologies, innovations and continuing challenges summarizes the methodologies in existing impact assessments, proposals for innovation and challenges which need to be addressed in future impact assessments.

Section 3: Framework for Future Impact Assessment: Towards a sustainable learning process summarizes the main conclusions and indicates ways in which some of the current innovations in impact assessment methodologies might be integrated to lead to a more cost-effective and sustainable learning process.

Section 4: Role for externally-funded IAs: Summary Guidelines outlines the possible roles for donor-funded impact assessment in initiating and contributing to this process and points to areas on which further development or refinement of impact assessment methodologies is needed.

The main text is supplemented by Appendices giving more details of DFID-funded micro-finance projects, findings of existing impact assessments and current policy debates. The bibliography contains an annotated bibliography of selected impact assessments, references and links to Case Studies, appended papers, other websites and further sources of information.

This article helped me in understanding the different ways of doing impact assessment, importance of impact assessment and the ways to use impact assessment for the betterment of Microfinance Institution in the future.

2.4 Pakistan Microfinance Network²²:

History, purpose and mission :

Mission:

Support the microfinance sector so that it can effectively provide financial services to most poor people. Particular focus will be placed on enhancing the scale, quality, diversity and sustainability of the services provided by retail microfinance institutions.

Objectives:

²² Pakistan Microfinance Network Website

Name	Pakistan Microfinance Network
Country	Pakistan
	2) Build the capacity of stakeholders, especially retail microfinance institutions.
	3) Improve transparency and accountability by promoting the publication and widespread use of performance measures and standards related to the work of retail microfinance institutions.
Geographical focus:	National
Services Provided :	<ul style="list-style-type: none"> • Knowledge Management • Technical Services • Policy Advocacy

This table helped me in understanding the scope, reach and performance of PMN. The website very well highlighted its importance in Pakistan and how is it helping in the overall development of the areas of its operations and Pakistan as a whole.

2.5 Lessons in Development - The AKRSP Experience²³:

Savings was a key only component of the AKRSP model due to its basic premise that social capital, human capital development and capital formation constituted key elements for rural development. Even as AKRSP insisted upon savings and had put restrictions on what its clients could do with these savings, it did not itself have a clear idea of how these savings were to be used. The savings program generated considerable interest among both men and women and, in fact, provided the main motivation for the first women's organizations established in the Northern Areas. AKRSP's savings program provided the first opportunity to save with the formal sector and allowed its clients most of the attractive features of savings such as safety, regularity, convenience and access. AKRSP, after the initial years, also allowed the villagers to withdraw their savings and thus meet the high liquidity preference for households with vulnerable livelihoods. AKRSP's savings program was important in that it demonstrated the significant potential of savings at the village level in an area which was considered well below the national income level. By the end of 2002, a total of Rs.430 million had been generated by the Village and

²³ Lessons in Development - The AKRSP Experience, www.akrsp.org

Women's Organizations as savings. The demonstrated potential for savings also opened the wide spectrum of financial autonomy and innovation at the village level through the internal lending mechanism and informal trading opportunities. Members of AKRSP's organization have established independent savings program and are fully aware of the opportunities of investment in the local financial markets.

This article helped me in understanding the success story of AKRSP as a microfinance provider and how did it manage to deal with its organizational growth as a result of the positive impact assessment.

2.6 Micro Finance; a Prescription for Poverty and Plight of Women in Rural Pakistan²⁴:

The paper opens with a brief description of macroeconomic situation of Pakistan followed by a general poverty profile and particular plight of women in the society. Failure of requisite social safety networks, and trickle down effect of economic growth and a couple of other factors make a case for intervention. A situation analysis of formal and informal finance shows the bias of the formal finance towards the rich. It also reveals that major credit demand of the rural poor is being met by expensive and unsteady informal sector. Inability of the poor to serve collateral has been identified as a major hurdle in reaching the poor. Grameen model of group-based guarantee, introduced in Bangladesh and successfully replicated in other countries is prescribed for an effective and sustainable institutional intervention.

This paper helped me in providing a deep insight to the poverty problem in Pakistan and how microfinance can help it to eliminate or alleviate this problem.

I have not included all the articles in the literature review but in fact I have touched upon a few important ones, which really assisted me in the formulation of my hypothesis. So, the hypothesis statement turned out to be as follows:

“Do Microfinance efforts yield some positive results and can they help in the economic uplift of Pakistan in the long run or not?”

²⁴ An article by Nabeel Gohar

The hypothesis statement is tested in the later part of the thesis with the help of some data and findings. The proceeding chapters will help answering important question pertaining to the validity of hypothesis statement.

CHAPTER 3: FINDINGS – INSTITUTIONS & POLICY

3.1 The Microfinance approach:

Microfinance gained popularity in Pakistan after the success story of Grameen in Bangladesh. Microfinance has evolved as an economic development approach intended to benefit low income women and men. The term refers to the provision of financial services to low-income clients, including the self-employed.

Microfinance services are provided by informal, semi-formal and formal sources and Institutions.

“Informal sources of finance” account for approximately 83%²⁵ of the credit supply and are provided by moneylenders, shopkeepers, traders, middlemen, family and friends for consumption and production purposes. Every village has at least one informal committee that collects regular savings and offers loans to members in a similar management arrangement to ROSCAS (Rotating Savings and Credit Associations). Compared to the other sources of micro financing, interest rates from informal sources are much higher, ranging from 50% to 120% per annum²⁶.

Land-based credit is the informal instrument used by tenants and subsistence farmers. It is widely used in Sindh, Balochistan and Southern Punjab. The credit is extended by the landlords for purchase of inputs and consumption. No collateral is required, but conventionally the credit constitutes the first charge on the produce. According TO the 1973 rural credit survey interest rates for this type of credit were about 60% higher than the institutional rates.

Sine independence, professional moneylenders have not been a significant part of the credit system in the rural areas. Money lending is considered an unworthy profession in Islam and it dose not constitute an important source of informal credit.

Informal credit has a low transaction cost and short transaction time, but there are no standard terms and conditions, and there is great variation in interest rates and maturity periods. The informal market in Pakistan is undergoing structural changes in response to the evolving socio economic landscape. The role of landlords and money lenders is declining, creating a room for some institutional mechanisms.

The main limitation of the market pertains to scale, space and time. The market is segmented from national financial system, reducing its capacity for financial intermediation. Informal finance is essentially a local phenomenon depending on local contacts. Its fragmented and local character is both its strength and weakness. It caters to temporary gaps in consumption, immediate unforeseen contingencies and emergent situations. It does not promise the desired outreach and sustainable solution of credit provision to the poor and needy.

In the “semi-formal sector”, NGOs and participatory organizations such as Rural Support

²⁵ Microfinance in the Private Sector, Roshenah Zafar, November 2002

²⁶ Microfinance in the Private Sector, Roshenah Zafar, November 2002

Programs (RSP) have been the primary promoters of microfinance services in Pakistan. RSPs are multi-functional as they provide a range of services and aim to achieve provincial and national coverage. These participatory bodies operate in urban or rural areas, sometimes in both, focusing anywhere from one village to the entire nation. The Rural Support Programs in Pakistan consist of the National Rural Support Program (NRSP), the largest, Balochistan Rural Support Program, Sarhad Rural Support Program (SRSP) and the Aga Khan Rural Support Program (AKRSP). Originally seen as a group of government assisted NGOs with a mandate to promote rural development, they now see themselves as something between a government body and an NGO. NRSP has the largest member base in Pakistan, with approximately 293,000 members²⁷ gathered in Community Organizations (COs).

Some NGOs, like Kashf Foundation and the Orangi Pilot Project, now specialize in microfinance and have reached a substantial and growing number of clients.

In the “formal sector”, two commercial banks, the Bank of Khyber and the First Women Bank, provide microfinance services to low-income clients, directly through their branches, or as wholesale funds to partner MFIs. The microfinance specific ordinances promulgated in 2000 and 2001 by BSP allowed for the establishment of two specialized microfinance institutions, the Khushhali Bank, a retail microfinance bank jointly owned by public and private banks, and the First MicroFinanceBank Limited, established from the transformation of the microfinance activities of the Aga Khan Rural Support Program. Orix Leasing and Network

Leasing are two leasing companies involved in microfinance by providing leasing products to low-income clients. Some leasing companies strive to increase their share in the microfinance market by proposing other financial products, and potentially to set up their own microfinance banks. Network leasing has already been granted a license to set up a microfinance bank, which was due to start operations in July 2004. The new institution, called Network-MFB, will start at the district level, with plans to become a national institution.

Pakistan also has a rating agency, JCR-VIS, which has initiated ratings of NGOs and specialized microfinance organizations, such as The First Microfinance Bank. NGOs are

²⁷ Microfinance in the Private Sector, Roshenah Zafar, November 2002

rated on a corporate governance scale while the full credit rating of MFIs applies only to institutions regulated by BSP. They are described as ‘microfinance banks’ and can mobilize commercial sources of funds.

In this Research Thesis I will be discussing Pakistan Microfinance Network and Aga Khan Rural Support Program. These are 2 of the most important organizations with a vast outreach in Pakistan so far.

3.1.1 AKRSP:

Since it began 13 years²⁸ ago, the Aga Khan Rural Support Program (AKRSP) has transformed the remote Northern Areas and Chitral in Pakistan into rural development success stories. Its distinctive approach has provided the inspiration for other programs in Pakistan and elsewhere. Today AKRSP is at a crossroads. The Foundation and its co-donors requested and funded an independent evaluation by OED to help reposition the program as it enters a new phase. OED makes some recommendations for AKRSP to build further on its solid foundation and, in particular, for strengthening the links between village-level organizations and government agencies.

AKRSP has broken new ground in developing rural communities. A key element of the program is institutional development at the village level, which provides the framework for community members to take advantage of outside assistance as well as to use their own resources more productively. AKRSP starts the process by providing an agent to help villagers form a village organization and undertake a significant investment in productive infrastructure of their choice, such as irrigation facilities or a local road, that will benefit their community. The program provides a one-time grant to complement villagers' contributions to the infrastructure project. The grant process helps village organizations mobilize savings and acquire agricultural technology and production inputs. As benefits accrue, AKRSP facilitates links with other entities providing health and education services.

Since 1989, when OED under-took an earlier evaluation of the program, AKRSP has continued its core activities while expanding the area covered. Achievements are substantial. Over the program's 13 year life, real incomes have nearly doubled, on

²⁸ www.akrspleasons.org, Lessons in Development – the AKRSP Experience

average, in the program area. The increase cannot be wholly attributed to AKRSP, but it compares with the average gain of 26 percent²⁹ for Pakistan as a whole.

Village organizations (VOs), with a membership of about two thirds of rural households in the program area, have become an integral part of the regional development process. After the completion of the infrastructure projects, they have survived as self-help institutions able to offer their members other benefits, in particular from the savings/credit schemes established under the program.

By the end of 1994, the village organizations and women's organizations had saved Rs. 209 million, and AKRSP had disbursed Rs. 27 million³⁰ of credit (Rs. 30 = \$1). Loan disbursements have been rising steadily. It is now proposed to formalize the savings and loan scheme in a new commercial bank, the Northern Region Development Bank (NRDB), and an enterprise support company (ESC). NRDB would take over the credit operations of AKRSP, and both it and ESC would promote and finance small businesses and social infrastructure projects.

Farming is still the region's main source of income. The productive investments undertaken by village organizations with AKRSP support have expanded irrigation and increased accessibility. They have opened up the economy of villages, increased production, and enhanced welfare. The introduction of fertilizer, fruit trees, and forestry has increased the variety of produce. Program activities have led to major advances in fruit, vegetable, potato, and poultry production and in animal health

Women in the program area, though traditionally very active in the local economy, had little direct involvement in development-related activities until the advent of AKRSP. Thanks to the program, women's organizations have become a forum for women's participation where their leadership skills and economic productivity have been able to develop. Like their VO counterparts, women's organizations also undertake savings and credit activities.

The Pakistan Microfinance Network finds its origin in 1995 as an informal association based on the exchange of thoughts and experiences between microfinance providers operating in Pakistan. In 1999 this loose collaboration, the Microfinance Group Pakistan,

²⁹ www.akrspllessons.org, Lessons in Development – the AKRSP Experience

³⁰ www.akrspllessons.org, Lessons in Development – the AKRSP Experience

sought and received financial support from the Aga Khan Foundation and the Asia Foundation. Through its expanding and more formalized operations it continued to build confidence and trust amongst donors, government and microfinance institutions. In 2001 it moved successfully to become a separate legal entity under the name of the Pakistani Microfinance Network (PMN).

PMN is a network of organizations engaged in microfinance and dedicated to improving the outreach and sustainability of microfinance in Pakistan. PMN acts as a disseminator of microfinance information with the aim of enhancing the scale, quality, diversity and sustainability of microfinance providers in Pakistan.

PMN pursues three objectives³¹:

1. Enhancing the capacity of retail MFIs

Through training courses, the network seeks to build up technical expertise and disseminate operational best practices. During training events, members are also encouraged to present historical overviews of their organizations, illustrate key issues in their current operations and divulge financial information on their organizations.

In the past, PMN has organized training courses in market research, credit methodologies, management skills, business planning and financial modelling and others. For 2004, it proposes nine training courses, run by Pakistan practitioners and international trainers in gender, financial management, credit operations, and business development services.

2. Developing and disseminating the use of performance measures and promoting financial transparency in retail MFIs.

PMN started in 1999 to promote transparency among its members, asking them to self-report their performance indicators, which are then aggregated, analysed and published bi-annually as a nation-wide report, the Performance Indicators Report. It is widely acknowledged that PMN is one of the leading national networks in the world in managing and producing performance indicators for the microfinance industry.

3. Helping to create an enabling environment for retail MFIs.

PMN organises policy seminars on regulatory issues as well as nation-wide conferences, and has representation on the Consultative Group for Microfinance run by State Bank of

³¹ <http://www.pmn.org.pk/>

Pakistan. In addition, PMN publishes position papers on issues reflecting a consensus among its members.

The PMN has been innovative in establishing national standards and benchmarking for its members. To promote transparency, PMN members provide performance indicators which are collated and presented in the PMN bi-annually Performance Indicators Report (PIR). By working to improve the quality and consistency of the PIR data, the PMN looks to enhance the capacity of its members to track best practice performance indicators.

The PMN was initially established using funds donated by the Aga Khan Foundation (AKF) and the Asia Foundation. Currently PMN is operating through continued support from the AKF, DFID and income generated from its training courses.

PMN is headed by a Chief Executive Director, assisted by a Network Coordinator and a Finance Manager / Company Secretary. The board of directors is representative of the membership base, with most of the ten directors coming from member organizations.

PMN has close collaboration with the MIX, a CGAP affiliate running the leading benchmarking tool in microfinance, the Microbanking Bulletin.

PMN is comprised of 12 microfinance providers³², including most of the largest and better-established microfinance institutions in the country, representing a regional balance and approximately 90%³³ of the outreach in Pakistan.

PMN members³⁴ are as follows:

- First MicroFinanceBank Ltd. (FMBL)
- Development Action for Mobilization and Emancipation (DAMEN)
- Kashf Foundation
- National Rural Support Programme (NRSP)
- Orangi Pilot Project (OPP)
- Sarhad Rural Support Programme (SRSP)
- Sindh Agricultural & Forestry Workers' Cooperative Organization (SAFWCO)
- Sungi Development Foundation
- Taraqee Foundation (TF)

³² <http://www.pmn.org.pk/>

³³ <http://www.pmn.org.pk/>

³⁴ <http://www.pmn.org.pk/>

- Thardeep Rural Development Programme (TRDP)
- Punjab Rural Support Programme (PRSP)
- The Bank of Khyber (BOK)

The institutions in the Pakistan Microfinance Network are a combination of the Semi-formal credit institutions such as NGOs like Kashf Foundation or they are formal credit providers as the First Microfinance Bank and the Bank of Khyber. I have chosen to discuss 5 institutions out of the total 12 members of the network.

3.1.2 First Micro Finance Bank Ltd:

The First Microfinance Bank Ltd (FMFB) originates from the Aga Khan Rural Support Program (AKRSP), which has been running a successful microfinance and integrated rural development program in the remote and isolated Northern parts of Pakistan since 1982. AKRSP's positive experience of its program has inspired the creation of many institutions in Pakistan and has also served as a model for others around the world. On the encouragement of the Government of Pakistan which desires to promote the development of an active privately based microfinance industry, The First Microfinance Bank Ltd was established as a non-listed public limited company under the provisions of the Companies' Ordinance (1984) in November 2001 and licensed as a Microfinance Institution (MFI) under the provisions of the Microfinance Institutions Ordinance 2001 in January 2002³⁵. The principal sponsors and shareholders are Aga Khan Rural Support Program (AKRSP), Aga Khan Fund for Economic Development (AKFED) and International Finance Corporation (IFC).

The Bank operates with the underlying long-term principles of outreach and sustainability, aiming to reach out to those who are currently not able to receive adequate financial services, throughout the country, in rural as well as urban areas. The target audiences are vulnerable groups, especially women.

The Bank has already established 7 loan units in Northern Areas and Chitral, 13 branch offices³⁶ in various parts of the country, with its head office in Islamabad, and a corporate office in Karachi, and is planning to have a network of 30 branches over a period of five

³⁵ <http://www.mfb.com.pk/>

³⁶ <http://www.mfb.com.pk/>

year³⁷. Adequate facilities and technological infrastructure has been put in place at all the branches of the Bank to provide lending, deposits and remittance services.

The bank offers a wide variety of loan and other financing products³⁸. The details are discussed as below:

1. Business Group Loan:

Criteria	Description
Area of Operation	Town and Urban/Semi Urban Area
Methodology	Solidarity lending methodology with adaptations to the local environment relating to character, repayment capacity and business of the borrower
Purpose	Provision of access to loans to micro entrepreneurs mainly for working capital
Amount Limit	Rs, 5,000 to 50,000
Loan Period	One month to six months
Repayment	Monthly Installments
Markup	15 % per annum
Application and loan processing fee	Rs, 100.00
Collateral	None, However members of the business group cross guarantee each other

2. Business Committee Loan:

Criteria	Description
Area of Operation	Town and Urban/Semi Urban Area
Methodology	Solidarity lending methodology with adaptations to the local environment. Groups 5 to 10 borrowers with fixed place of business.
Purpose	Provision of access to loans to micro entrepreneurs mainly for working capital.

³⁷ <http://www.mfb.com.pk/>

³⁸ <http://www.mfb.com.pk/>

Amount Limit	Rs, 3,000 to 50,000
Loan Period	One month to six months
Repayment	Daily/weekly/fornightly Installments
Markup	12 % per annum
Application and loan processing fee	Rs, 100.00
Collateral	None, However members of the business group cross guarantee each other

3. Individual Loan:

Criteria	Description
Area of Operation	Rural areas, members of Village and Women Organizations(VO/WO)
Methodology	Individual lending methodology with adaptations to the local enviroment.
Purpose	Provision of acess to loans to micro enterpreneuers mainly for working capital.
Amount Limit	Rs, 5,000 to 100,000
Loan Period	Upto one year
Repayment	Monthly Installments
Markup	16 % per annum
Application and loan processing fee	None
Collateral	None, However members of the VO/WO stand as informal guarantors.

4. Group Loan:

Criteria	Description
Area of Operation	Rural areas, members of Village and Women Organizations(VO/WOs)
Methodology	Village banking methodology with adaptations to the local enviroment.
Purpose	Availablilty of the credit within the VO/WOs by providing them with a revolving fund.
Amount Limit	Equal to th savings of the VO/WO

Loan Period	Upto one year
Repayment	Lump sum or Installments as desired by the VO/WO borrowers/members
Markup	10 % per annum
Application and loan processing fee	None
Collateral	Equal to the loan amount in Term Deposit Receipts issued by the bank or lien marking of the deposits kept with the bank

5. Urban Group Loan:

Criteria	Description
Area of Operation	Urban Area
Methodology	Solidarity lending methodology with adaptations to the local environment. Groups 3 to 10 borrowers with fixed place of business.
Purpose	Provision of access to loans to micro entrepreneurs mainly for working capital.
Amount Limit	Rs, 3,000 to 50,000
Loan Period	One month to six months
Repayment	weekly/fornightly/Monthly Installments
Markup	15 % per annum
Application and loan processing fee	Rs, 100.00
Collateral	Members cross guarantee each other

6. House Improvement Loan:

Criteria	Description
Area of Operation	Rural Areas, Members of village & Women Organization (VO/WO)
Methodology	Group lending methodology for 5+ borrowers belonging to VO/WO.
Purpose	Provision of access to loans to households for improvement of

	residential properties/houses.
Amount Limit	Rs, 1,500 to 50,000
Loan Period	One year to Three years based on loan amount.
Repayment	Monthly Installments
Markup	15 % per annum
Application and loan processing fee	Rs. 100.00
Collateral	None, However members of the business group cross guarantee each other

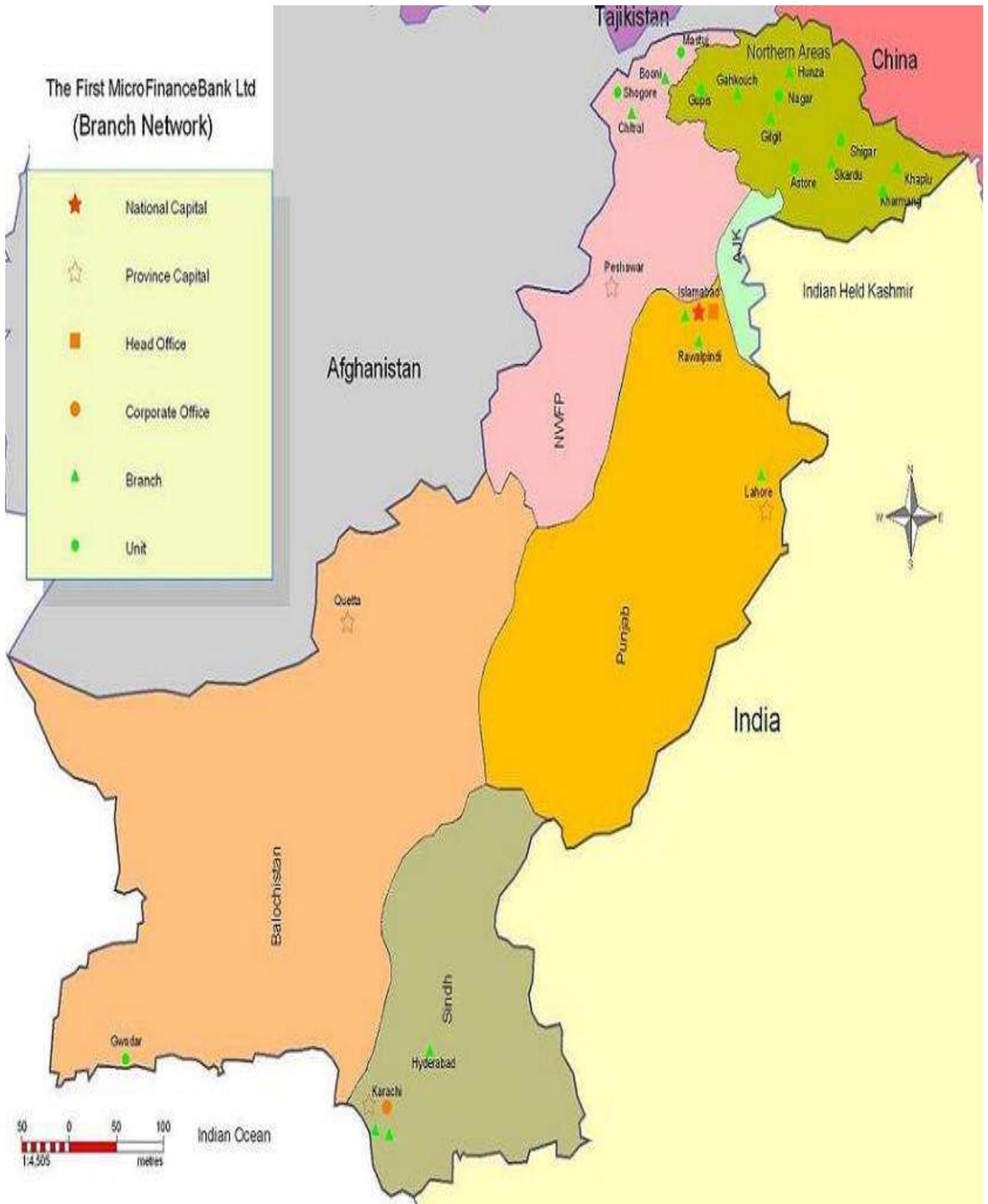
7. Low Salary Employees Loan:

Criteria	Description
Area of Operation	Town and Urban/Semi Urban Area
Methodology	Individual lending methodology with adaptations to the local environment
Purpose	Provision of access to loans to the low salaried employees of the

	Governmental Organizations, NGOs and other private organizations.
Amount Limit	Rs, 5,000 to 40,000
Loan Period	One year to Three years based on loan amount.
Repayment	Monthly Installments
Markup	10 % per annum
Application and loan processing fee	Rs. 100.00
Collateral	An undertaking from employee to the employer requesting to mark lien against the terminal benefits in favor of bank and employer's confirmation on the same.

The first Microfinance Bank Limited enjoys a huge countrywide network across Pakistan. This network contributes to the vast outreach of the bank and a better impact in the regions of its operations. (Refer to next page for the network)

FIRST MICROFINANCE BANK – THE BRANCH NETWORK



(Source: www.mfb.com.pk)

3.1.3 Kashf Foundation:

The Kashf (“miracle” or “revelation”) Foundation commenced operations in 1996 as an action research program aimed at demonstrating the credibility and economic competence of impoverished women residing in the district of Lahore. Fifteen women utilised Kashf first round of microcredit to start small income generating activities. Since 1996 Kashf’s client base has rapidly expanded to encompass over 60 000 members³⁹. The Foundation addresses social needs of women through a creative and interactive economic empowerment strategy including non-financial and financial services, which are delivered in a financially and operationally sustainable manner. Kashf is now considered one of the leading microfinance providers in Pakistan, increasing rapidly its outreach and sustainability while maintaining a very low risk on its loan portfolio and constantly improving its services through innovation.

Kashf offers microfinance and capacity development services to low-income women. In microfinance, it offers access to small loans and micro deposit services to its customers. Four main products are available to clients: general loan, emergency loan, savings products and life insurance. Loans are extended without collateral or personal guarantee. Kashf utilizes the Solidarity Methodology to conduct its loan operations. Loan approval is subsequent to the formation of a ‘centre’, a group of 20 to 25 women⁴⁰ who ensure that loan repayments are regularly made. Within a centre, in order to qualify for loans, a woman must belong to a group of five members, which is responsible for the good repayment of the loans. Kashf’s repeat clients are extended lower interest rates and have access to greater quantities of capital.

Kashf also runs a ‘capacity development’ program, which include training in diverse areas such as leadership, gender, reproductive health, and business development services (production, marketing). It sometimes takes the form of interactive theatre performances. Kashf operates in the poorest urban slums and poverty-ridden areas in four districts of the Punjab province in Pakistan (Lahore, Kasur, Shiekupura and Gujranwala).

³⁹ <http://www.kashf.org/>

⁴⁰ <http://www.kashf.org/>

Kashf provides microfinance services exclusively to impoverished women. At the end of 2004, Kashf had provided social and financial services to 62 929 clients⁴¹ on a cumulative basis, up 13%⁴² on the previous quarter.

Active clients	Active savers	Active borrowers	Gender
59,389	57,058	59,389	100% women

Services are provided to all women deemed as impoverished. Impoverishment has been determined as those women who own less than 1 ½ acres of land, have household income of less than Rs.2,500 or who have per capita incomes of no more than Rs.450.⁴³

Impoverishment is also determined according to societal parameters such as the inaccessibility to education, health services and clean water. Of particular note, Kashf through its quarterly surveys reports that 85% of its clients have recorded an increase in their incomes and 67% an improvement in household diet.⁴⁴

Average outstanding loan size * (US\$)	Average outstanding loan size / GNP per capita	Average deposit size (US\$)
141 / 44	33% / 11%	3.4

* General loan / Emergency loan

Originally modelled on the Grameen Bank methodology, Kashf Foundation has also adopted features from ASA and BRI, and runs a network of 2,390 centres⁴⁵, encapsulating 11,950 groups⁴⁶, which are used as vehicles to provide financial and social services.

Kashf is one of the most efficient microfinance providers in South Asia, with on average a record of 524 clients⁴⁷ served per loan officer. Kashf also maintain a perfect recovery rate of 100%⁴⁸.

⁴¹ <http://www.kashf.org/>

⁴² <http://www.kashf.org/>

⁴³ <http://www.kashf.org/>

⁴⁴ <http://www.kashf.org/>

⁴⁵ <http://www.kashf.org/>

⁴⁶ <http://www.kashf.org/>

⁴⁷ <http://www.kashf.org/>

⁴⁸ <http://www.kashf.org/>

Kashf has recently added Accidental Insurance to its range of financial services. It enables clients to purchase a policy for Rs.100, which covers the incidence of accidental death over the term of the repayment of a loan. Should accidental death occur, the client's outstanding loan is repaid and a lump sum of Rs.7,500 is paid to the family to cover funeral and burial costs. According to Kashf's October 2003 Quarterly report, this added service has been utilised by 95,662 Kashf clients.⁴⁹

Kashf also offers an Emergency Loan service where a current client may access credit up to Rs.2,000. In this way a client is afforded emergency access to capital to counter unforeseen incidents. The loan is repayable in small instalments over a period of six months. Easy and quick access is the key feature of this product.

Kashf is undertaking research to improve its savings products as the very small size of savings transactions makes them very expensive and time consuming to handle and account for. Another challenge is that Kashf needs to reinvent itself in new areas, where it start all over again to educate staff and clients on financial services delivery. Kashf aims at reaching 120,000 clients by the end of 2005⁵⁰. Kashf has collaborative arrangements with First Women Bank, and has partnered with a private insurance company on its micro-insurance products.

3.1.4 Orangi Pilot Project:

OPP-OCT discovered that this growing settlement of Orangi was full of the enterprising sprit. The most impressive demonstration of the spirit of enterprises is the creation of employment everywhere in the lanes; inside the homes there are around twenty thousand family units, shops workshops, peddlers and vendors. In response to the dual challenge of inflation and recession, the residents have invented working family, modifying homes into workshops, promoting the women from more dependents to economic partners and wage earners, abandoning the dominant patriarchal pattern with surprising speed.

OPP's research revealed two significant factors; first, there was unlimited demand for products and services of these family units. Second, the family units were extremely competitive (on account of very low over heads and very cheap and docile labor). The working family units of Orangi were completely integrated with the main Karachi

⁴⁹ <http://www.kashf.org/>

⁵⁰ <http://www.kashf.org/>

markets. In fact many units are supplying goods to famous firms, who just put their labels and make big profits. What is required is to support their initiatives.

Research further revealed that the production and employment in urban as well as rural areas could easily be increased provided the credit is accessible, as there was no shortage of market demand or productive labor. But they would not get credit at reasonable rate, because banks were inaccessible to them. The lack of bank credit forced them to buy raw materials at exorbitant prices while they had to sell their products at depressed prices and forego expansion.

On the basis of the research findings, Orangi Pilot Project (OPP) decided to arrange access to credit to these micro enterprises. For this Orangi Pilot Project – Orangi Charitable Trust (OPP – OCT) was established in 1989⁵¹ as an independent and autonomous institution in Orangi, a low income settlement of over one million people. The main objective is to support people effort in their economic development by providing credit in urban and rural areas.

3.1.5 Punjab Rural Support Program:

The Punjab Rural Support Program (PRSP) is a non-government, non-profit & non-commercial organization, registered as a company limited by guarantee under Section 42 of the Companies Ordinance 1984. It became operational in June 1998⁵². It aims at poverty alleviation, social & economic empowerment in the rural areas of Punjab Province through community participation which has already been successfully demonstrated by the Agha Khan Rural Support Program (AKRSP), National Rural Support Program (NRSP) and Sarhad Rural Support Program (SRSP). The participatory approach adopted by this Rural Support Program refuses to accept that the poor are resigned sufferers of the historical and multi-dimensional phenomenon of poverty. RSPs assume that the poor suffer from, inter alia, lack of access to opportunities for social, physical and economic improvements in their lives. The frustration this causes over the years, breeds attitudes that are commonly perceived to denote resignation. RSPs do not accept that the poor can be pulled out of the vicious cycle of exclusion only through strong and sustained state interventions. Historically, the experience with state

⁵¹ <http://www.oppoct-microcredit.com/>

⁵² <http://www.prsp.org.pk/>

interventions has been that these are neither sustained nor focused. The participatory approach works for the empowerment of the poor through sensitization, mainstreaming, skill enhancement and the capital formation. AKRSP assisted the rural poor of the Northern Areas and Chitral in tripling their incomes within a span of 15 years.

PRSP philosophy assumes that there is a strong desire in the people to help themselves. PRSP believes that people, specially the poor, cannot by themselves take these desires to accomplishment without, to start with, social guidance. Social guidance is a process of organizing communities into viable and thoroughly homogeneous social groups, getting them to emerge from the apparent state of resignation, giving them a feeling of empowerment, convincing them that they can plan and act to improve their lives, enhancing their collective and individual resource base and capacity building for use of resources to optimum advantage.

The process gets initiated with the identification of an honest and motivated activist, a cadre of such activists has been found essential to optimize the impact of social guidance. Experience shows that each rural community has such activists in its ranks; finding and supporting him/her to spearhead sustainable mobilization of the community is, therefore, critical to social guidance. Social guidance includes assessing what people are willing to do, determining practicability, establishing feasibility, identifying the constraints and exploring the extent and nature of support required to proceed with the task. The role of PRSP is to build on the desire of the people and to support them past the threshold of dreams and desires and into the action mode. There are many forms that this support can assume.

PRSP believes in supporting people in harnessing their potential and in supplementing this potential. For this purpose, it helps in fostering a network of grassroot level organizations to enable rural communities to reflect, plan, implement and manage activities and programs for productive employment and optimising use of resources. PRSP, thus, provides assistance to the people in the following forms⁵³:

- 1) Organize multi-purpose and broad based Community Organizations (COs) to create a feeling of strength that comes from being together; to facilitate focus on needs; to

⁵³ <http://www.prsp.org.pk/>

create the ability to plan; pool resources; reduce overheads, achieve economies of scale, etc.

- 2) Help identify true and genuine activists within the community. PRSP believes that only through these individuals, the potential of the community can be harnessed. No outsider, no matter how sincerely motivated, can truly substitute a motivated member of the community itself in such a role.
- 3) Identify and prioritize the endeavors people are willing to make in terms of opportunities and needs.
- 4) Determine the feasibility of identified needs and opportunities in terms of people's capacity, willingness to participate and contribute inputs and equity, sustainability and the resources that may be available within the area or can be accessed from outside.
- 5) Arrange flow of required resources to the community.
- 6) Engage in advocacy for linkages between communities and development agencies, such as line departments, Local Councils, NGOs and Donors.

Monitor progress in implementation of ideas, share experiences with other COs and document lessons learnt.

PRSP believes in keeping and maintaining partnerships. There are 2 types of partnering currently being practiced at PRSP i.e. government and community partnering.

The gap that exists between Government line departments and communities at the grassroots is huge. It is impossible for Government to reach each and every individual at his/her doorstep with the services for which the state in Pakistan is seen as responsible. PRSP attempts to bridge this gap by providing line agencies an entry point in the form of a CO, which allows them to conveniently provide services and/or disseminate information and service to more people and in a less time. PRSP apprises the line agencies of the needs identified by the COs. These departments are then able to respond to the need for different services, such as provision of improved seed, vaccination of livestock, supply of poultry, fruit and forestry plants and other inputs to the COs. In the process, these line agencies also receive education in the potential and practice of participatory approach and its importance in development. As line departments internalize the philosophy of participatory development, their staff routinely attends the

meetings of COs, where they plan with the community and support interventions as needed at the grassroots. Following measures⁵⁴ have so far been taken with the support of the Punjab Government:

- 100 Community Schools⁵⁵ have been established in collaboration with the Education Department. More are in the process of being established. Education Department has also associated PRSP for upgradation of Primary Schools to Middle level with Community participation.
- Agriculture Department has established Eight Model Union Councils with the collaboration of PRSP. This is a three years project aiming to enhance productivity of land and the application of best farm and agronomy practices.
- Government of Punjab has provided Rs.80 million⁵⁶ to the PRSP from the Khushal Pakistan Program schemes identified by Community Organizations for poverty alleviation in eight districts of PRSP. These schemes are being implemented by the COs of PRSP.
- Agriculture, Livestock, Health, Family Planning Departments etc. are already providing services of their professionals to train members of Community Organizations and supply of materials as and when required. Special trainings for wheat & cotton crops are arranged.
- Public Health Department has agreed to collaborate with PRSP for rehabilitation of its non-operational Rural Water Supply Schemes and their handing over to Community Organizations for maintenance. Initially 29 Schemes⁵⁷ have been selected.
- Many initiatives are being taken locally at the level of each Region for collaboration of communities with the line agencies.
- Agriculture, Livestock, Health, Family Planning Departments etc. of Punjab Government are already providing services of their professionals to train members of COs in improved farm and crop specific practices and other specialized skills.

⁵⁴ <http://www.prsp.org.pk/>

⁵⁵ <http://www.prsp.org.pk/>

⁵⁶ <http://www.prsp.org.pk/>

⁵⁷ <http://www.prsp.org.pk/>

- Survey of non-operational Rural Water Supply Schemes is presently underway. The object is to arrange transfer of maintenance of these facilities from Government to user communities.
 - For implementation of its core Program for poverty alleviation, "The Khushal Pakistan Program", Government has entrusted PRSP with a share in eight districts of the Punjab Province. Unlike elsewhere, implementation through the PRSP shall mean that:
 - (i) There shall be no contracting out of works and the communities shall directly execute these;
 - (ii) A community shall contribute at least 20%⁵⁸ towards the cost of the work in the form of cash, materials or/and labor.
 - (iii) Works shall be chosen by the communities themselves and shall be maintained by them after completion.
 - Up gradation of Government Primary Schools to middle level with community participation.
 - Providing essential missing facilities in Government Primary and Middle Schools through community participation under a Punjab Government Program.
 - Working towards Universal Primary Education through community participation under a Punjab Government Program.
-
- PRSP has supported the rural communities in eleven districts in establishing a total of 100 community schools. Each school has received an endowment of Rs.200,000 from the Punjab Government. The income from it finances salaries to teachers, teaching materials. The communities supervise the School through a committee and provide space for it from their own resources. A fee is invariably charged though concessions are not refused wherever found justified. The 100 Community Schools employ 147 teachers belonging to the same village (96 are female) and have an enrolment of 5,465.⁵⁹

⁵⁸ <http://www.prsp.org.pk/>

⁵⁹ <http://www.prsp.org.pk/>

PRSP works with only those communities that have demonstrated a willingness to help themselves and are prepared to contribute, corresponding to their capacity, to the fulfillment of their collective and individual needs.

The following table⁶⁰ shows the essentials of the three levels of needs and the corresponding support required and arranged.

Level	Needs	Support Intervention
Households	Income generation	Social Mobilization, Credit and Training.
Group	Income generation through economies of scale	Social Mobilization, Credit, Training, Technical Assistance and establishing linkages with programs and services in the Public and Private Sectors.
Village	Social sector facilities	Social Mobilization, Credit, Training, Technical Assistance and establishing linkages with programs and services in the Public and Private sectors.

At household level, the most prominent need is the increase in the family income. The greatest constraint to income generation is the lack of access to capital and the inability to optimize the use of resources. PRSP fills this gap through its credit and skill enhancement programs.

At Group level, most of the needs have been found to revolve around supply of inputs, finances, skills and information on improved technology and management practices.

PRSP fills this gap through credit and technical assistance at CO level, directly or indirectly, by linking the community to the relevant public and/or private sector agencies. Where the need extends beyond the supply of information and requires transfer or enhancement of skills, PRSP arranges appropriate training facilities.

At Village level, the needs mostly pertain to infrastructure facilities, including social sector services, such as roads, drinking water, sanitation, education and health facilities, etc. PRSP proceeds to support meeting of these needs through a combination of

⁶⁰ <http://www.prsp.org.pk/>

interventions. It provides support to the community in preparing project proposals that include design and estimates.

If the implementation of the schemes is within the management and financial capability of the community, the work is executed by the community itself. PRSP arranges credit where a need exists and the community seeks this support. However, where the initiative exceeds the capacity of the community, PRSP assumes the role of an advocate to link the community to the relevant program of the Government. It also trains the communities to assume the responsibility of operation and maintenance (O&M) of social sector facilities. PRSP's role in partnership with the communities is, therefore, intended to provide social guidance, technical assistance, and access to a line of credit and facilitate linkages with government and other line agencies. In return, the role of community in the partnership is to organize itself, meet regularly to discuss common issues, plan and take decisions by consensus, initiate capital formation through regular savings, develop a mechanism for establishing local level service networks and ensure equitable distribution of benefits.

3.1.6 Bank of Khyber:

Bank of Khyber was formed in the year 1995⁶¹ with a mission to be the largest microfinance provider in NWFP on sustainable basis. Bank of Khyber was a commercial bank established by the state government with a development focus. Microfinance challenges include:

1. Pressure from state government to lower interest rates,
2. positioning of microfinance in the over all banking operation

So from all the discussion above it is clear that the financial services generally include savings and credit; however, some microfinance organizations also provide insurance and payment services. In addition to financial intermediation, many MFIs provide social intermediation services such as group formation, development of self confidence, and training in financial literacy and management capabilities among members of a group. Thus the definition of microfinance often includes both financial intermediation and social intermediation. Microfinance is not simply banking, it is a development tool.

Microfinance activities usually involve:

⁶¹ <http://www.pmn.org.pk/>

- Small loans, typically for working capital
- Informal appraisal of borrowers and investments
- Collateral substitutes, such as group guarantees compulsory savings
- Access to repeat and larger loans, based on repayment performance
- Streamlined loan disbursement and monitoring
- Secure savings products

3.2 Government policy framework & Support:

SBP has been laying immense emphasis on the development of microfinance sector in Pakistan just recently, due to a surge in the demand of the credit by the small and low income individuals.

Pakistan has adopted a sectoral approach to microfinance in Pakistan and assimilated learning from the experience of other developing countries which have been active in this area for decades. Microfinance is still in its infancy and has a long way to go. Some momentum has been built up during the last three years as bulk of the disbursements has taken place since June, 1999. Although there has been a big spurt in these three years the numbers of the beneficiaries and the volume of credit disbursed is still quite low in relation to the needs and demand of the intended target group. SBP has therefore decided to adopt a holistic, “let thousand flowers bloom”, and inclusive strategy for promotion and spread of microfinance in Pakistan. This strategy consists of the following six elements.

First, there is a strong political commitment towards supporting microfinance as an integral tool of poverty alleviation program. President of Pakistan has taken keen personal interest in the nurturing and growth of this sector and has directed the Ministry of Finance to monitor and track the microfinance sector on a regular basis. The Government has invited the World Bank, ADB and other bilateral donors to actively assist us in this sector. Consequently the enabling environment for development and growth of MF is highly conducive. The constraints, snags and problems faced during the implementation of the program are removed in consultation and full involvement of the stakeholders.

Second, the program involves multiple actors and institutions - community organizations, NGOs, public sector, private sector, Rural Support programs - in the delivery of microfinance. The extent of poverty prevailing in Pakistan requires 'all hands - on the deck' approach rather than an exclusive monopoly of the Government or the public sector as has been the case in the past. Khushali Bank is owned by several leading financial institutions - private, public and foreign - rather than by the Government of Pakistan. This has allowed it to function in a professional manner.

Third, the complementarities between microfinance and other elements of poverty alleviation such as Investment, Infrastructure, Social services and Capacity building are clearly recognized and built in the program. Income generation by the poor cannot take place only through availability of credit if there is no infrastructure, or markets for selling their produce. Similarly without building the knowledge base and enlarging capacity of the poor there won't be any scope for sustainable microfinance.

Fourth, the government is experimenting with a variety of institutional models for delivery mechanisms and outreach to the poor. For example, we have a wholesale organization such as PPAF which is successfully disbursing a \$ 100 million line of credit provided by the World Bank. We have Khushali Bank which is a retail bank and has already reached out to 100,000 customers⁶² and is targeted at 700,000 by 2007⁶³. Then there is First Microfinance Bank established in the private sector which is expanding its branch network throughout the country. We have integrated program vehicles such as the NRSP, PRSP etc. which combine Micro credit with other services. There are several single product Microfinance NGOs such as Kashf Foundation in Lahore. Two commercial banks are also providing lines of credit for microfinance. Leasing companies have also begun to take some interest and two of them are already engaged in the sector. In addition there are several self standing donor supported projects delivering microfinance. We don't know as to which particular delivery mechanism will be effective and that is why there is a need to experiment with plurality and diversity.

Fifth, an innovative feature of the Microfinance Sector Development is that as the poor segments of the population are much more prone and vulnerable to shocks they need to

⁶² Micro Finance; A Prescription for Poverty and Plight of Women in Rural Pakistan by Nabeel Goheer

⁶³ Micro Finance; A Prescription for Poverty and Plight of Women in Rural Pakistan by Nabeel Goheer

be protected. Thus a bad harvest or drought or strikes in the cities or violence completely wipe out the earning capacity of the poor and disable them from repaying their credit obligations on time. As labor is their only asset and the returns on labor are disrupted for no fault of theirs a risk mitigation mechanism had to be created to insulate the poor borrowers from these unforeseen hazards. Risk Mitigation and Deposit Protection Fund have been created to provide protection to the MFIs borrowers and depositors. They can seek recourse to this fund under adverse circumstances beyond their control.

Sixth, the regulatory regime adopted by the SBP for Microfinance sector is that of a facilitator, guide and problem solver. We do not prescribe for MFIs the same onerous regulations which prevail for other financial institutions. We have a light regulatory oversight and are learning together with the practitioners and adopting ourselves to the changing circumstances. We have a Consultative Group drawn from the representatives of stakeholders who guide us in the development of our regulations and prudential norms. To conclude, the strategy for microfinance development will undergo continuous review and modification to make it responsive to the needs of the poor. The government, State Bank, NGOs and all other MF practitioners have to work together to make this strategy work and accelerate the speed with which we can reach out to the potential beneficiaries. In this chapter I uncovered 2 most important microfinance networks in the country i.e. Aga Khan Rural Support Program and Pakistan Microfinance Network. Their products, network and a few other important facts were revealed about these institutions. In the end government policy support and framework required to make the microfinance successful in the country was discussed as well. Having made all these discoveries, the proceeding chapter will now discuss the impact assessment of these organizations and analyze the overall effect of microfinance on the country economy.

CHAPTER 4: IMPACT ASSESSMENT ANALYSIS

This chapter will be analyzing the effect of the selected microfinance institutions in their selected areas of operation and how they can impact the overall economy and human welfare in general. I have selected AKRSP and Kashf Foundation for impact assessment due to their vast outreach and everlasting impact.

Analyzing the impact of microfinance interventions is especially important if the interventions are ultimately aimed at poverty reduction (as most are). If microfinance practitioners do not make efforts to determine who is being reached by microfinance services and how these services are affecting their lives, it becomes difficult to justify microfinance as a tool for poverty reduction. In the most generic sense, impact analysis is any process that seeks to determine if an intervention has had the desired outcome. If the intervention is, for example, an immunization program and the desired outcome is to prevent polio, the impact analysis would focus on polio rates. If it could be shown that polio rates went down as a result of the immunizations, the program's impact could be deemed successful. In other words, the impact analyzed should correspond to the desired outcome. Microfinance impact analysis is the process by which one determines the effects of microfinance as an intervention. Policymakers and academics are solely concerned with attributing impact effects to microfinance interventions. They can use impact assessment information to influence policy changes and budget allocation decisions and to address questions suited to academic research.

4.1 Impacts of Microfinance – Different forms & types:

Broadly, impacts of microfinance activities fall into three categories:

- Economic
- Sociopolitical or cultural
- Personal or psychological.

Within each of these categories there are different levels of effect and different targets.

4.1.1 Economic Impact:

Economic impacts can be at the level of the economy itself. A large MFI reaching hundreds of thousands of clients may expect or aim at impact in terms of changes in economic growth in a region or sector. E.g. One MFI may seek net gains in the income

within a sub sector of the informal economy (for example, the operators and owners of tricycle rickshaws). Another may seek positive impacts in terms of income or economic resource "protection" (reducing the vulnerability of poor people through what has come to be called consumption smoothing).

4.1.2 Sociopolitical or cultural Impact:

An MFI may seek a shift in the political-economic status of a particular sub sector. E.g. A project aimed at credit for tricycle rickshaw drivers may hope that the drivers' increased business will enable them to move collectively to formal status, either by forming an association or by being able to change policy in their favor. Another may hope for changes in power (and status) relationships. For example, an MFI that targets a minority ethnic group may seek impact in terms of changing the balance of power between that group and the local majority group. While other MFI may seek changes in children's nutrition or education as the result of microfinance activity aimed at their mothers.

4.1.3 Personal or psychological Impact:

Microfinance can have impacts on the borrower's sense of self. These impacts are the other half of empowerment effects. The first half is in a sense political-people achieve more power in the household or community as result of financial services. The second half is internal and has to do with the person's changed view of self. Such a change, if positive, can prepare the way for other changes. For example, a person who feels more confident may be willing to take new kinds of risks, such as starting expanding a business.

However, primarily I will be concerned about the economic impacts of the microfinance in this particular section.

4.2 Impact Assessment Methodologies:

There are two methods of impact assessment:

- Qualitative approach
- Quantitative approach

If both approaches are not used, there are chance that the carried out impact assessment is not up to the mark and may not give the complete picture of intervention of micro finance.

4.2.1 Qualitative approach:

The most commonly prescribed alternatives to quantitative instruments and measures of impact fall within the fields of sociology and anthropology. The important techniques⁶⁴ of such approach usually include the following:

a. Intensity:

This enables the researcher to deepen his or her understanding of what is going on and in turn enables trust to develop on the part of the respondent.

b. Structured observation:

Observation is not as passive a function as it might seem. The researcher studying micro finance impacts has in mind some hypotheses about indicators and will naturally pay close attention to them. They are thus part of a structured observation plan. The actual activity in the field may include formal interviewing, using a questionnaire or interview guide. The observation part comes into play as a form of research control. As a simple example, in asking about household assets a respondent may mention having recently purchased a radio or mirror. If the interview takes place in the respondent's home, the trained (observant) interviewer will look around to see if the radio or mirror is in sight. If it is not, the interviewer may then ask where it is.

c. Triangulation:

Triangulation involves checking data with respondents and cross-checking with others to get different points of view of the same phenomenon. Careful use of triangulation helps to deal with the problems of the untrustworthy respondent and causality.

4.2.2 Quantitative approach:

By definition quantitative approaches (the word "quantitative" derives from the Latin "quantus," meaning "of what size") involve quanta (units) or things that can be counted,

⁶⁴ Handbook of Microfinance, by Asian Development Bank, 2003

including income, household expenditures, and wages⁶⁵. Because conclusions must be drawn from these numbers, the rules of statistics must be rigorously applied. The important techniques of such approach usually include the following⁶⁶:

a. *Experimental technique:*

Experimental methods involve a natural or devised experiment in which some randomly chosen group is given the "treatment" or, in development terms, the "intervention". The results are then compared to a randomly selected group of controls from whom the treatment is withheld. The randomization guarantees that there are no differences - neither observable nor unobservable between the two groups.

b. *Quasi-experimental technique:*

Quasi-experimental methods attempt to mimic the analysis of controlled experiments, with treatment and control groups created from different people. The differences between the treatment and control groups may be observable or unobservable due to their nonrandom selection.

c. *Non-experimental technique:*

Non-experimental methods use non-experimental (non random) survey data to look at the differences in behavior between different people and relate the degree of exposure to the treatment to variations in outcomes. The absence of a control group separates such methods from quasi-experimental methods.

After building the discussion we are now in the position to actually assess the impact of any micro finance program in Pakistan. For this purpose I have evaluated Aga kahn Rural support program. Findings have been collected from their annual reports, their web site, field visit to a regional office, Islamabad.

4.3 AKRSP program Impact Assessment:

AKRSP's evolution clearly illustrates that institution building at the village level cannot be rushed. Over the life of the program, the total cost is \$52 million⁶⁷ (excluding beneficiaries' investments). Costs for each of the 75,200⁶⁸ beneficiary households, at

⁶⁵ Handbook of Microfinance, by Asian Development Bank, 2003

⁶⁶ Handbook of Microfinance, by Asian Development Bank, 2003

⁶⁷ <http://www.akrspllessons.org/>

⁶⁸ <http://www.akrspllessons.org/>

\$690⁶⁹, are fairly modest. At this stage of its evolution, AKRSP is assessing what its future role should be in attaining its goals of sustainable and equitable development. Parts of the region offer opportunities for continuing and expanding traditional program activities. But where AKRSP has been active for longer, different issues need to be addressed: How to strengthen village-level organizations so that they can function as semi-permanent entities for the good of all community households? How to organize and fund further major productive and social infrastructure, which is sorely needed? How to manage natural resources to realize their potential contribution to sustainable development? How to ensure that the savings and credit mechanisms are sustained after AKRSP is phased out? How to stimulate local entrepreneurial capacity to enhance the area's economy?

Out of the work of a strategy development committee, plans for the program's next phase are emerging. In most respects, OED endorses the new emphases, but it also highlights issues that need further attention.

With rapid population growth, limitations on usable land, and improved accessibility, the economic environment in the program area is changing. Though farming is important, most households earn 30-50 percent of their income off the farm, often in non-agricultural jobs. AKRSP is responding by expanding into the promotion of non-agricultural investments.

People in the project areas are increasingly demanding social services and investments in health and education. In response, AKRSP is facilitating links between village organizations and other providers.

In future, most of the basic infrastructure and social service investment in the region is likely to come from the government. The most valuable contribution AKRSP can make to sustainable development is to ensure that villages have the institutional and human resource capacity to make effective, equitable use of development funds from whatever source.

AKRSP is already delegating some program activities to successor institutions, notably NRDB and ESC, which are to maintain close links with AKRSP. The program itself will

⁶⁹ <http://www.akrspllessons.org/>

be consolidated into a support function to provide services that are needed to develop local capabilities, and an implementation function, where it has a significant comparative advantage. In both functions AKRSP plans to continue using its established capacity to link communities with other providers of services, investments, and funds. The program plans to promote equity and the sustainable use of resources while encouraging individual entrepreneurship. To respond efficiently to these multiple goals, it will need to introduce a more overt classification of communities and household types, so that activities can be differentiated according to needs.

The investments undertaken with AKRSP support are chosen by villagers to respond to their needs. This feature has been vital to the program's success. But AKRSP could now make more use of its knowledge of local and national demographic and economic trends and opportunities to offer villagers guidance on priorities for consideration. This advisory function need not compromise the principles of participation and ownership.

4.3.1 Village organizations:

Assuming 5.2⁷⁰ percent yearly growth rate, AKRSP estimated that by the end of 2000 the total population of the Northern Areas and Chitral would have approached nearly 4.1 million, with 85 percent⁷¹ living in approximately 1,150⁷² rural villages. Based on experience that large villages have more than one village organization, AKRSP estimates that the area has a potential for close to 3,200 Village Organizations (VOs), with about 50 households in each. These numbers hide a great diversity across villages, in terms of differences in climate, endowments of irrigation water and land, culture, and physical access to markets, and within villages, in terms of differences in wealth and capabilities among households. The resulting variation in requires a development strategy responsive to such diversity. By the end of 1999, the program's coverage had increased from about 55,000 households in 1,158 VOs to more than 75,000 households in 1,834 VOs⁷³. Most of this expansion in coverage (85 percent) occurred in the Chitral and Baltistan regions. The Astore district, entering the program in 1998, accounted for the rest of the increase. Only minor changes occurred in Gilgit. The influence of women's organizations on

⁷⁰ <http://www.akrsplelessons.org>.

⁷¹ <http://www.akrsplelessons.org>.

⁷² <http://www.akrsplelessons.org>.

⁷³ <http://www.akrsplelessons.org>.

women has continued to be strong in all districts, but with some decline in 1999, except in the new program area of Astore. The expanding coverage has not only involved productive investments, but has also been accompanied by a widening and changing portfolio of activities supported by evolving credit mechanisms and technical assistance. Several of the early activities such as lending for land development, appropriate technology, and farm machinery were wound down after 1997. New ventures, particularly in vegetables, villages, vegetable seeds, and fruit and forest trees, have expanded. The scope of the training program has widened in accordance with demand. One should expect a significant impact from a program that covers so substantially the rural population (about two-thirds) in the Northern Areas and Chitral. The ultimate measure of impact would be the program's effect on the income and welfare of households in the targeted areas. This would necessitate measurement of changes in these phenomena in different socioeconomic sets of the population, and an assessment of the extent to which AKRSP has contributed to these changes. Unfortunately, benchmark household income surveys were not undertaken until 1999, because of the reservations of the participants. These will provide a sound basis to measure change in the future by follow-up surveys, but do not provide a basis for an overall quantitative assessment at this stage. Even with reliable data on income/welfare changes, the extent to which the program can be attributed with changes will still have to be estimated. Many government and non government investments and activities exogenous to AKRSP have contributed to development. The Karakoram Highway is a prime example. In the 1995 benchmark surveys, an attempt was made to relate survey results to earlier secondary data to provide an assessment of income changes. From 1992 to 1998, per capita income in the program area was estimated to have almost doubled in real terms. Although overall quantitative impact information is scarce, the program has intensively monitored implementation of the instruments it has used to meet its objectives. It has also done numerous studies to evaluate the effectiveness of various activities in attaining their intended outcomes. In the absence of a suitable basis for an overall quantitative evaluation of impact, the study reviewed the available data to identify measures that might allow a reasonable assessment to be made. Measures identified include creation of wealth and assets, household economy changes, and betterment in production and welfare, and equity issues.

a) Creation of wealth & Assets:

AKRSP's own statement of achievements highlights the creation of assets at the VO level. Major categories of assets include productive physical infrastructure projects (PPIs), land development associated with irrigation focused PPIs, and fruit and forest tree establishment. Table 4.1 records the progress in productive physical infrastructure projects since 1992.

TABLE 4.1: ASSET CREATION THROUGH PRODUCTIVE PHYSICAL INFRASTRUCTURE						
<i>(number)</i>						
<i>Year</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>
PPIs initiated (cumulative)	901	1,067	1,204	1,315	1,425	1,501
PPIs initiated in the year	144	166	137	111	110	76
PPIs completed	630	763	882	995	1,123	1,204
PPIs completed in the year	118	133	119	113	128	81

The PPIs initiated by end of 1994 represent an investment of Rs. 250 million⁷⁴ by AKRSP. These grant funds are highly leveraged through the use of self help labor from the villagers. Irrigation PPIs made up 56 percent⁷⁵ of projects initiated by end of 1994; detailed estimates of additional land brought into cultivation as a result of these investments are not available. AKRSP estimated in 1996 that physical infrastructure projects had brought 21,000 hectares⁷⁶ of land under command; this would represent 28 percent of the estimated total of 74,000 hectares⁷⁷ now under irrigation in the program area. However, it appears that the rate at which the new command area has been brought into full production has been relatively slow. An estimated 5,500 hectares⁷⁸ of land development was financed under medium term credit, but this credit line was virtually suspended after 1993. The AKRSP forestry program has provided some acceleration in command area development in the last few years, but the rate at which individuals can

⁷⁴ <http://www.akrspllessons.org>.

⁷⁵ <http://www.akrspllessons.org>.

⁷⁶ <http://www.akrspllessons.org>.

⁷⁷ <http://www.akrspllessons.org>.

⁷⁸ <http://www.akrspllessons.org>.

develop their land using their own resources is limited by conflicting labor demand, and by inclement weather conditions in the winter months. Changes in selected productive assets were presented in the summary of the regional benchmark surveys. The 1993 Agricultural Census provides a baseline to assess increases in tree holdings and vegetable cultivation (Table 4.2). Through end-1994, AKRSP fruit tree planting totaled 2.43 million⁷⁹ plants, and forest tree plantings supported by AKRSP totaled more than 5 million⁸⁰. In addition, the village organizations themselves planted a further 14 million forest tree seedlings (AKRSP 1994b).

TABLE 4.2: PERCENTAGE INCREASES IN SELECTED ASSETS SUBJECT TO AKRSP ACTIVITIES

<i>Region</i>	<i>Gilgit</i>	<i>Chitral</i>	<i>Baltistan</i>
Increase in area of vegetables	100	300	76
Increase in fruit trees per farm	65	210	96
Increase in forest trees per farm	313	-	-

b) Changes in House hold Economy:

It is clear that since the early 1990s there have been positive changes in the incomes of households in the program area. This is associated with expanded employment options for men in local urban centers and in down-country Pakistan and the Middle East, as well as increased production and returns from on-farm activities. AKRSP can possibly claim to have had some impact on the former by improving village access, but, as intimated earlier, its major contribution will have been in agriculture. The higher cash income has obviously benefited rural families, but the income changes have affected the functioning of the household unit, with specific effects on women. AKRSP has significantly enhanced women's economic activities and increased their status within households. The opportunity to save money, access credit, and undertaking in how to make better use of

⁷⁹ <http://www.akrspllessons.org>.

⁸⁰ <http://www.akrspllessons.org>.

their resources has had an important effect, as has the introduction of production packages specifically designed for women. The latter have included vegetable, poultry, and nursery interventions, which have the potential to generate cash income.

An evaluation of the vegetable introduction package was conducted in all three regions among a total of 210 women from 42 women's organizations⁸¹. It found that vegetable production increased on average by 111 percent⁸², with the marketing of vegetables increasing the women's income by 144 percent⁸³. In addition to household consumption, fresh vegetables were marketed locally or taken to nearby towns, while portions of the crop may have been dried and later sold. More than 50 percent of the sample in all three regions marketed produce. Income obtained from vegetable sales was used primarily for the:

- Education of children (school fees, books, and so on);
- Purchase of household items for daily use, such as sugar, tea, soap, cooking oil, and electricity/phone bills (where relevant);
- Agricultural expenditures (fertilizers, farming tools, and seeds); and
- Savings at women's organization meetings.

Poultry production by WO members has generally led to an increase in consumption of both eggs and chickens (the latter usually only on special occasions), but has not always led to cash sales. In a study of five women's organizations participating in the poultry package in Baltistan, eggs functioned as currency in the mixed cash/barter economy and were also exchanged as gifts. However, eggs were usually not sold in the local markets. Nevertheless, mothers with school going children were more likely to earn cash from their egg producing activities; the education costs provided the incentive for cash income. Another Baltistan evaluation had similar observations, but noted that the more commercialized communities often reduced consumption in favor of sales. The benefits obtained by women, however, have not been without some costs. Women and children have traditionally assumed a heavy workload in the household production system (Table 4.3). Changes that have occurred in off farm and migration labor, in farming enterprise

⁸¹ <http://www.akrsplelessons.org>.

⁸² <http://www.akrsplelessons.org>.

⁸³ <http://www.akrsplelessons.org>.

patterns, and in women's additional activities encouraged by the program have added to women's workloads.

TABLE 4.3: HOUSEHOLD LABOR DISTRIBUTION BY GENDER FOR HOUSEHOLD ACTIVITIES AND CROP PRODUCTION IN GILGIT DISTRICT

<i>Labor activity</i>	<i>Women</i>	<i>Men</i>	<i>Children</i>
Household activities			
Livestock	885	349	431
Crop production	538	523	83
Collection of water	283	50	132
Collection of firewood	100	176	47
Orchards	38	37	20
Total	3,878	1,477	1,132
Crop production breakdown			
Land preparation	51	163	21
Irrigation	67	202	36
Weeding	241	64	45
Fertilizing	31	17	12
Harvesting	137	131	41
Threshing	34	34	15
Total	538	523	83

For off-farm activities, wherever possible one male member from a household is sent out, while others remain on the farm. In many cases of nuclear family units, however, a male may engage in off-farm employment and, if the employment is not local, temporary female headed households are created. Where female headed households exist, male relatives and neighbors often provide assistance, or a hired hand may be engaged for such tasks as plowing and planting trees-tasks that women do not traditionally undertake. However, the net effect is that women assume more of men's agricultural tasks, working longer hours and engaging in new areas of decision making. The emergence of vegetables as a cash crop has meant additional workloads for women. With men undertaking off-

farm wage labor and more children (both boys and girls) attending school, a general lack of individuals to graze animals has resulted in more stall feeding of animals by women regardless of season. This correspondingly demands more fodder collection and preparation than before when animals were grazed in mountain pastures in spring and summer. Despite the increased workload, the benefits obtained by families from increased cash incomes are clearly evident to women. Although they may complain, they most frequently state that the pros outweigh the cons. For example, in the impact study on vegetable introduction packages cited above, some 92 percent⁸⁴ of the respondents reported spending considerably more time in their vegetable plots for land preparation, fertilizer incorporation, and proper sowing. But, appreciating the potential cash returns from this activity, most women also decided to increase the area of their vegetable cultivation area and, correspondingly, their workload. Thus, women appear to adjust their daily schedules to accommodate the many economic changes occurring, and many continue to seek additional means by which they themselves can bring additional money into their household units. In general, with women's increased ability to save, access credit, and bring cash into the household or, at least, to assist their male relatives more effectively in this process, their self-confidence has increased. Through their scheduled activities in the women's organizations, they also engage more in long-term group and individual planning for the future.

c) Betterment in Production & Income:

The benchmark surveys record the continuing importance of agriculture as a means of livelihood in the Northern Areas and Chitral, where it remains the most important source of family income. Table 4.4 records the main sources of agricultural income, and its contribution to household income. Comparable data for an earlier date are unavailable.

⁸⁴ <http://www.akrspllessons.org>.

TABLE 4.4: HOUSEHOLD INCOME BY PROGRAM REGION

<i>Region</i>	<i>Gilgit</i>	<i>Chitral</i>	<i>Baltistan</i>
Family size	9.5	8.7	7.9
Irrigated area (karnalsa)	30.6	26.0	30.1
Crops (percent of area)	37.0	47.0	43.0
Irrigated pasture (percent of area)	63.0	53.0	57.0
Gross value produced	16,235	9,884	9,402
Crops	8,264	4,970	4,996
Livestock	2,962	3,406	3,089
Fruits	2,413	2,317	1,862
Vegetables	3,218	5,584	2,362
Forestry	914	1,480	386
Poultry	2,596	279	613
Other	16,235	9,884	9,402
Gross farm income (GFI)	36,602	27,921	22,710
Farm cash costs	6,845	3,829	4,483
Net farm income	29,757	24,092	18,227
Other household income	23,712	27,241	10,351
Gross household income (GHI)	60,314	54,532	33,061
GFI as percent of GHI	61	51	69
GHI per capita	5,628	5,900	3,617

However, assuming the validity of the analysis and studies conducted earlier, which used secondary data to imply a doubling of income in the 1990s, the household data indicate that agriculture should have been an important contributor to this improvement. Consequently, as AKRSP has had major activities in the agricultural sector, it can

reasonably be linked to the improved income, although there are no means to identify the extent of this contribution. The benchmark survey done in the Baltistan region included a comparative analysis of program and non program households. Two samples were surveyed: one of 160 households in the program (VOs), and the other of 40 households outside the program (in villages without village organizations, referred to as NVOs). Table 4.5 makes some comparisons.

TABLE 4.5: SELECTED COMPARISONS-BALTISTAN			
<i>Survey</i>	<i>Average</i>	<i>VOs</i>	<i>NVOs</i>
Farm size (kanals)	37.0	41.0	25.1
Irrigated area (kanals)	30.1	33.3	20.4
Cropped area (kanals)	12.8	12.7	13.1
Cropping intensity (%)	123.1	112.6	153.7
Fruit trees (no.)	48.7	52.1	35.7
Forest trees (no.)	222.1	275.0	67.2
Wheat (kgs/kanal)	124.0	136.0	88.0
Barley (kgs/kanal)	116.0	132.0	92.0
Vegetables (rs./kanal)	2,098.0	2,586.0	972.0
Using fertilizer (percent)	71.9	82.5	40.0
Net cash farm income (Rs.)	18,227.0	18,777.0	16,559.0
Net cash farm income per capita (Rs.)	4,185.0	4,533.0	3,285.0

The data indicate that VO households have a substantially larger farm size and irrigated area, much higher population of fruit and forest trees, significantly greater use of fertilizer on crops, and higher cereal yields and vegetable production levels. However, the cropped area (assumedly in annual crops) is not significantly different, and the cropping intensity (apparently also on the annual crop area) is lower than for NVO households. Cash farm income is higher for VO households, than but not as high as might be expected considering their better asset situation. A larger farm size and irrigated area could be associated for the village organization group; investment in irrigation makes up 63 percent of the PPIs in Baltistan, and as common land is brought under irrigation command it is allocated to specific households. However, based on the average

incremental irrigation area for these households receiving irrigation (about 12 kanals), the figures can hardly be explained by this factor alone, as only about two-thirds could be expected to have benefited from an irrigation PPI. Consequently, it appears that the program has attracted communities with a higher irrigated land asset base; this confounds the comparison somewhat. The VO group's lower cropping intensity could be linked to labor resources being used in gradual development of the new command area in fruit and forestry, and to higher crop yields, with hence less urgency for more intensive cropping. The restricted income benefit exhibited by the VO households is probably associated with delayed benefits typically obtained from forestry and fruit investments, and from slow development of the new command area. Overall, the comparative study of Baltistan confirms that the AKRSP activities have had a major impact on agriculture in participating village organizations.

For VOs to persist, individual households must see advantages to their continued membership. The task is now to verify and show that the long-term benefits from continuing with village organizations are worthwhile. For the future, the major opportunity lies in having members see their VO as an entity that facilitates their access to services and investments available through government and nongovernment programs. In particular, AKRSP has a crucial role to play in cultivating a partnership between VOs and the Pakistani government.

Many future infrastructure projects will need cooperation among villages. AKRSP will need to develop workable organizational models for this purpose, knowing that in the past individual VOs have feared losing control of decision making. Success in involving multiple VOs with government agencies in productive or social infrastructure would do much toward introducing a system that allows communities to become directly involved in the local and regional planning process. In view of their emerging role as partners in government investment programs, and as entities involved with the proposed NRDB, consideration should now be given to adopting some legal or quasi-legal structure for village organizations.

4.3.2 Natural resource management:

The program has had comparatively little impact on cereal production and animal nutrition, despite the importance of these activities for typical households. Part of the

reason may be lack of adequate follow-up and technical support, and insufficient attention to marketing. But, as OED suggested in 1989, the technology package itself may not always be appropriate.

The next phase of AKRSP should put greater emphasis on the natural resource management (NRM) program. Improvements can be made in the techniques used to identify the needs of different types of farming households and to generate technologies to meet those needs. The NRM program is being decentralized to make it more responsive to local needs. But the program should also seek better knowledge of the various types of household farming systems, to guide the development or acquisition of technology and to influence the dialogues with communities to arrive at suitable interventions. As part of this change in orientation, farmers should be given more responsibility for identifying and evaluating new technologies. This would require more staff and funding than currently envisaged, but may warrant consideration as a separate project, linked with Pakistan's national research system.

4.3.3 Human resource development:

AKRSP has made a major contribution in human resource development through its training programs. Villagers are trained in specific fields so that they can continue to provide services within their communities.

However, to realize the intended role of VOs as full partners in development will require a greater depth of management training for their members. Future projects that involve cooperation among VOs will need a cadre of managers to assume leadership roles in a multi-community setting. And the proposed new developments in village banking will require more accountants and managers.

4.3.4 Gender issues:

Women's organizations created under AKRSP are now accepted, viable forums for village women's participation in development. While continuing to meet requests from new communities, the program should now focus on the quality of its interaction with the existing women's organizations while encouraging more household coverage in each community.

The various packages need to be implemented more flexibly, and with better staff

monitoring and follow-up. This entails more contact time with specific villages, and more understanding of community and household dynamics. Illiteracy and religious and cultural factors inhibit change in the traditional role of women, more in some places than in others, and the program has to be realistic about how fast change can be achieved. Successful links with other agencies providing social sector investments will help women's organizations develop their self-confidence.

Women in many of the organizations need more intensive training in entrepreneurial skills, including planning, management, and marketing. At the other end of the spectrum are the poorest women (often heads of households), who tend to be left out of WO activities. Special subprojects need to be developed for them. The low female literacy rate is a big drawback, but as more literate women join the women's organizations the situation will improve.

AKRSP has made a substantial development impact in a very difficult environment. It has not tried to maintain an enclave approach but has progressively integrated its activities into the overall development process, with government and other investors. This approach, and the principle of insisting on developing a self-help capacity within cooperating communities, augurs well for the sustainability of its benefits. Debate continues on the extent to which AKRSP is replicable. It is unlikely that the experience can (or should) be transferable in every detail, but there is little doubt that the principles of AKRSP are widely applicable. Indeed, AKRSP methods are being actively used in other programs within and beyond Pakistan, supported by the Aga Khan Foundation, World Bank, Asian Development Bank, the United Nations Food and Agriculture Organization, and United Nations Development Program, if not always with the same degree of success as AKRSP.

4.4 Kashf Foundation Impact Assessments:

In view of the relatively early stage of the program the impact assessment was intended largely as a capacity building and learning initiative to improve practice. It was carried out in two parts:

- A small-scale sample survey of 52 households randomly selected from the first 100 households to receive loans from Kashf. One trained enumerator carried this out.

- A rapid appraisal involving two focus groups, one of five and one of six women, all of whom had had loans from Kashf.

Three levels of analysis were used:

- Individual;
- Household;
- Enterprise

Questions addressed included changes in self-confidence, decision making, attitude towards daughters, opinion of Kashf's support services, views on the types of household served by Kashf and impact on husbands' working habits. At household level, financial habits, loan performance related to chosen economic activity and future aspirations were examined. Limitations of the assessment included the lack of a comparison or control group, the small sample size and the failure to interview program dropouts.

4.4.1 Questionnaire results⁸⁵:

- a) Although there were numerous reasons for participation but a few that were cited are, to add to family income (44%), to expand an existing business (15%), to start a new business (65%), to participate in economic decision making (10%), persuaded by husband or other male family (8%), lack of financial resources (31%),
- b) Some statistics related to awareness of Kashf methodology are, 79% cited a strong focus on credit discipline and the same number referred to attendance at centre meetings. 63% said that the credit provided was aimed at economic activities.
- c) 94% considered that participating in the program had generated economic or social change for their households. 62% noted positive economic changes in terms of savings, consumption and the general state of the household. Interestingly, although 65% stated they had joined to start new businesses only 12% reported enhanced business performance.
- d) There were numerous social impacts. 48% felt more self-confident, 40% reported less domestic fights, and only 6% felt they had gained more respect in the community. The more significant impacts included greater self confidence, improved economic condition of household and improved capacity to meet household needs. Although

⁸⁵ Kashf Foundation, Pakistan, Compiled by Sarah Mosedale, Project Research Officer, EDIAIS

only 12% of those who joined to start a new business reported enhanced business performance, 62% of them felt their self confidence had increased. Interestingly, increased access to credit was the least significant of the listed impacts.

- e) Respondents were asked whether or not their visions of their daughters' future had changed and if so, in what way. There was a wide recognition of the importance of education for girls but no-one was in favor of later marriages. Most of the respondents who said their perceptions had not changed also said they saw no need to differentiate between their daughters and other family members.
- f) There was a significant impact on consumption & savings. 46% felt that participation had increased family resources for consumption. Only 38% responded to the question about savings
- g) 31% said they had made major decisions in the previous year. (The question was asked to gain information on the degree and intensity of life cycle events and their impact on economic status of families.) Those who had made such decisions tended to be more optimistic about the program's impact on household conditions and consumption. When financial decision making within the household was questioned the majority of women identified themselves as the major decision makers both in terms of spending and of saving.
- h) 87% reported no change in their husbands' hours of employment.
- i) 62% believed that Kashf worked exclusively with poor households, the remainder said that Kashf worked with both poor and better off households.
- j) Respondents were asked about the role of the group (the five member group which is formed to access Kashf loans) in their lives – only 19% felt it had no role. 42% of respondents identified it as a support mechanism and 31% said it would help in repaying installments. Providing advice and problem-solving were also identified as important group functions.
- k) 20% felt that they had chosen their business activity under the influence of others who were involved in such activities, 15% said they made their choice on the basis of the expected returns and potential for savings offered by the activity.
- l) 67% had used their loans for trade activities, 21% had bought livestock, and 10% used the money for manufacturing.

- m) Most had accessed a standard loan of Rs. 4000, reflecting Kashf's policy of a standard loan size during its first two years of operating. 75% said they would not have been able to undertake the business activity without Kashf's loans.
- n) When questioned about long term plans for their businesses the responses suggested they lacked clear plans and strategies, thus suggesting a need for Kashf to play a more proactive role in this respect.

4.4.2 Focus Group Discussion Results:

The following information⁸⁶ was elicited from focus group discussions, conducted in two groups in two different villages:

- a) When asked to identify their vulnerabilities the first group emphasized that they were not allowed to work outside the home. They felt insecure outside their houses and burdened by their responsibility to maintain the family's honor and to sustain the family in general. Overall they saw access to financial resources as critically important – however it did not seem that Kashf had had any impact in terms of changing perceptions about honor or the importance of girls' education.
- b) The second group focused more on the unpredictability of their lives and the excessive length of their working days. Male violence was also identified as an issue of concern. They felt that access to Kashf's credit services had helped reduce the ups and downs of their lives. They did not feel that the burden of work had changed for better or worse.
- c) The groups were asked to rank various resources according to whether they were owned by women, men or both. Initially the women felt that the major resources (home, land and livestock) were jointly owned but on reflection decided they were really controlled by men. In terms of using and maintaining resources, women felt they had a key role. They felt that while men owned the cash they themselves controlled its use in terms of meeting household needs. They considered that cash for loans was jointly used and the decision to apply for funds was made jointly with their husbands.

I can conclude the impact assessment of Kashf by saying that it did change the conditions of poor, in self-confidence, decision making, attitude towards daughters,

⁸⁶ Kashf Foundation, Pakistan, Compiled by Sarah Mosedale, Project Research Officer, EDIAIS

opinion of Kashf's support services, views on the types of household served by Kashf and impact on husbands' working habits.

4.5 Micro finance & Economic Prosperity:

Impact assessment of 2 of the leading microfinance disbursement institutions of Pakistan shows that the provision of micro-credit primarily contributes to the human and economic welfare at a very basic level. However, with a greater outreach and sustainability the effects can be felt at the macro level as well. It is now recognized that providing efficient microfinance services to poor and low income households is important for a variety of reasons. A few of them (as stated by ADB) are as follows:

4.5.1 Micro finance and Effective Poverty Reduction:

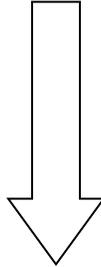
Microfinance can be a critical element of an effective poverty reduction strategy by enabling the poor to smooth their consumption. The provision of micro-credit provides new avenues for the poor and to set-up their own micro-enterprises or engages in any other small business. Hence, they are assured with a continuous stream of income and this really helps them in smoothing their consumption.

The provision of credit also allows them to manage their risks better. This is especially true because having set their own enterprise teaches them to really mitigate their risk better and secondly having achieved a certain level of life style induces a better risk taking ability.

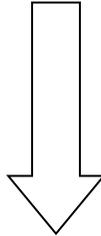
Once the risks are managed better and consumption has been smoothed the borrowers are able to build their assets gradually and this ultimately helps them in developing their own micro-enterprises and enhance their income earning capacity, and enjoy an improved quality of life. As stated earlier, that with a vast outreach and a greater sustainability microfinance can consistently help in improving the quality of life and hence, building the overall economy gradually.

HOW MICROFINANCE REDUCES POVERTY

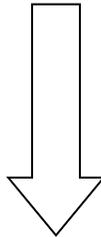
SMOOTHING CONSUMPTION



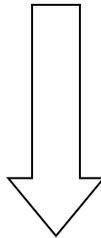
BETTER RISK MANAGEMENT



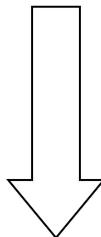
BUILD ASSETS GRADUALLY



DEVELOP THEIR OWN MICRO-ENTERPRISES



ENHANCE INCOME EARNING CAPACITY



ENJOY A BETTER QUALITY OF LIFE

4.5.2 Empowering Women:

Microfinance can provide an effective way to assist and empower poor women. This will help in strengthening the household economy in several ways.

Firstly, it will increase the number of earning heads in a family, which will ultimately improve the family consumption pattern.

Secondly, at the socio-economic level women will gain more confidence and this will foster the productivity of the society as a whole. The unemployment level will further fall and gender equity issues will be resolved.

Finally, empowering women will help in developing certain feminine industries such as clothing, garments and boutiques. This will certainly help in improving the overall economy in the long-run as the economic activity will increase. Societal spending patterns will also improve.

4.5.3 Developing overall Financial System:

Microfinance can contribute to the development of the overall financial system through integration of financial markets. Microfinance is an emerging field with ever increasing clients and outreach. Microfinance will certainly help further in developing the banking system and strengthening the financial system as a whole. This will ultimately improve the overall productivity and returns in the economy.

Hence, the most significant way in which the micro finance programs can affect economic recovery in developing countries is through financing small enterprises, which can graduate to medium enterprises with the passage of time. The example of Japan and East Asian countries shows that small and medium sized enterprises can play very important role in the economic revival and growth of country. If managed with care the micro-enterprises can bring the similar development and benefits to Pakistan as well. However, for that to happen a vast outreach, sustainable approach and consistent policy towards the microfinance sector is what all required.

CHAPTER 5: CONCLUSION & RECOMMENDATIONS

As it is evident from the research done and the results exhibited in this paper, that microfinance does improve the overall economic situation at regional level. However, it requires continuous sustainability and vast outreach to show positive results over the long run and at the broader level. As we have seen in the findings sections that microfinance has intervention in poverty and has the potential to uproot it. Micro finance can increase choices. By increasing choices microfinance institutions can empower clients, especially women who are largely ignored by formal financial sector. These programs if sustained will certainly improve the overall income generating capacity of individuals.

Almost all the studies done prove that the economic and social conditions improved in the regions in the long run, but the most visible impact is on social indicators, increase in contraception rates, increase in girls enrollment in schools etc. are some of the benefits that one sees where there is micro credit and where institutions use credit as a means of social empowerment. These results very well justify the use of microfinance as a poverty alleviation tool.

Microfinance programs help smoothing consumption and the seasonality of the supply of labor. Where seasonality has a profound impact on labor and consumption pattern of rural households, especially poor houses, improved access to borrowing can reduce the impact of seasonality on both consumption and labor supply. Targeted microfinance programs also improve the nutritional status of children. The impact of micro-credit on the nutritional aspect just can not be ignored as well and especially it helped in empowering women and improved their nutritional value as well. If poverty reduction is achieved mainly through changes in consumption rather than through income and productivity, then poverty reduction impact is difficult to sustain. Participation micro credit programs tend to have low level of skills and knowledge and are therefore limited to borrowing for self employment in rural non farm activities that have low growth potential. Unless activities with high growth potential are supported by micro credit programs, the possibility of long run poverty reduction and economic revival through microfinance programs will not materialize. Moreover, skills development training benefits the poor which should be provided by the micro credit as it not only helps in generating employment which in turn reduces poverty but also helps to promote growth and

economic revival through human resource development and skills enhancement. Micro finance programs must target only those poor who have special ability to initiate activities with growth potential but lack of capital in order to have impact on growth. For the poor who are unable to become self employed, targeted food programs and wage employment may be more appropriate.

5.1 Recommendations:

Although Microfinance is still in its infancy in most parts of Pakistan, but it has a lot of unexplored potential to flourish in the region. Efficient institutional and market mechanisms are needed whereby funds can be sourced and allocated efficiently through appropriately designed and priced services to the poor for profitable investment in agriculture and micro-enterprises. Hence, there is a need to catalyze the growth in supply of sustainable microfinance services and strengthen the capacity of the potential clients to access the services in Pakistan.

I suggest a 2 prong Strategy for a greater outreach and impact of microfinance both at the macro and micro level.

As a first part of the Strategy there is a strong need to improve the outreach and effectiveness of the micro-credit and micro-lending. This can be achieved by taking the following steps:

5.1.1 Prioritize Group Formation and Networking:

Collective and cooperative support is a critical microfinance strategy at both the local level, in the form of solidarity groups, and at the national and regional level in the form of networking groups. Collective organization has several advantages in microfinance initiatives, the foremost that they pool together human and material resources. Collective and cooperative support is a critical microfinance strategy at both the local level, in the form of solidarity groups, and at the national and regional level in the form of networking groups. Collective organization has several advantages in microfinance initiatives, the foremost that they pool together human and material resources.

5.1.2 Prioritize Local Knowledge and Participatory Planning:

Microfinance initiatives that recognize and build upon local knowledge and tradition are more culturally compatible and hence sustainable with the local community. People feel

more familiar and comfortable with concepts that borrow from their own tradition; this, in turn, improves MFI acceptance and outreach. Microfinance approaches rooted in local culture are also more participatory because clients are more ready to identify with and thus participate in the financial decisions and actions shaping their lives. As a result people become more invested in and committed to the sustainability of the microfinance initiatives, assume ownership and responsibility for their development, and become more self-reliant. This approach will also help improve the outreach of the Microcredit.

5.1.3 Provision of the necessary infrastructure:

Microfinance institutions can develop sustainable commercial services on a permanent basis and expand their scope of operations and outreach only if they operate within an appropriate financial infrastructure, such as information systems and training facilities. The legal framework and supervision and regulation of microfinance institutions, including self-regulation and performance standards need to be established to facilitate sound growth and improve the capacity of microfinance institutions to leverage funds in the market and provide competition. However, legal and regulatory systems should not discourage financial innovations, stunt institutional growth, and prevent the emergence of a diverse set of dynamic institutions. Legal barriers preventing banks from establishing business relationships with informal or semiformal bodies, such as community-based organizations or self-help groups, will need to be removed. So, government needs to ensure a stable financial infrastructure and continuous support or the microfinance institutions like Kashf and AKRSP to sustain and flourish.

5.1.4 Pro-poor Innovations:

Those in resource-poor and low-population density areas, the poorest of the poor, and ethnic minorities often tend to be excluded by financial institutions because of risk-return considerations, although the social returns to reaching these clients may be high. Therefore, it is important to support microfinance institutions and other financial institutions to expand the services to these categories through innovative programs, the development of financial technology that contribute to breaking these barriers through pilot projects and other measures that aim at establishing linkages between formal financial institutions and informal service providers.

5.1.5 Investment in Social Intermediation:

Investment in social intermediation is necessary to increase the capacity of the poor to access and productively use microfinance services. Such investments, among other things, should support (a) awareness-building programs on a broad range of microfinance services; (b) information dissemination on service providers; (c) basic literacy, numeracy and skills training for women, ethnic minorities, and other disadvantaged groups; and (d) social mobilization for the formation of community-based organizations and solidarity groups to actively participate in microfinance markets.

5.1.6 Community & Government Partnerships:

Unequal income distribution is a very old dilemma faced by Pakistan. However, this aspect can be utilized to benefit the people by forming strong public and community partnerships. A good suggestion in this regard can be formation of community partnership with the resourceful and influential people of the rural or under-developed slums where the development activities are to be undertaken. These contacts then can be utilized to collect funds or encourage these resourceful people to contribute to the development work or provision of microfinance. This way the burden of expenses for development purposes will be equally shared by the government and local resourceful community. Hence, the overall objective of community development will be achieved while overcoming the resource constraints.

The unexplored potential of the Microfinance is hard to achieve without a continuous institutional policy support and a sustainable framework. Once a greater outreach has been achieved by the first part of the strategy to sustain the effects and witness the long-term impacts there is a strong need to ensure that continuous policy support is provided as a second part of the strategy. In Pakistan, the lack of a sustainable policy environment for microfinance continues to be a major constraint. However, in recent years pro-microfinance policies have emerged as a result of some of the steps taken by the governor state bank Dr. Ishrat Hussain. Relevant policy reforms include undertaking interest rate reforms for micro-credit and savings, creating an environment sufficiently flexible to accommodate a wide array of microfinance service providers to meet the diverse demand, and redefining the role of the state and the central banks in microfinance development to facilitate the participation of private sector financial institutions. Given that non-financial

policies such as agricultural pricing and taxation of micro-enterprises also have a critical role in the sustainable development of microfinance, the policy reforms need to be extended to address such issues where they constitute significant constraints.

As proven in this research paper the impact assessment of AKRSP has shown that the program showed remarkable improvements in the area of its general operations. The program was aimed at establishing several village organizations. There has been a great deal of uplift in the northern belt of Pakistan where the operations of the program has resulted in an overall wealth creation, improvement in the household economy, increase in per capita income and the general well-being of the women. Similarly Kashf Foundation's impact assessment also proved that at household, individual and enterprise level there was some improvement observed. Yet again the main beneficiaries were the women, small businesses and individuals. So, to conclude it is reasonable to say that the impact assessment of the programs showed that the programs have shown a positive improvement on the life of the individuals residing in the areas. However, to observe any major improvements at the macro-level, a lot more organized and deliberate effort needs to be done at a broader level.

Hence, the microfinance programs if executed properly can have a significant impact on the poverty and economic prosperity of Pakistan. However, to attain any meaningful results continuous policy support from government, sustainability of the program and a vast outreach is what all required.

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Executive Interview Questionnaire

Question # 1:

Tell me about the main problems concerning the microfinance provision to an average Pakistani.

Question # 2:

How do you see the future of Micro-credit in Pakistan?

Question # 3:

What are the major sources of micro-credit provision in Pakistan?

Question # 4:

Tell me about the regulatory environment, framework and support for NGOs, and other micro-credit provision institutions.

Question # 5:

Tell about the ways through which an institution or Microfinance Institutions as a whole can increase their outreach.

Question # 6:

What is the importance of Social Intermediation in Micro-credit Provision?

Question # 7:

How can an institution be involved in the capacity building? Tell me about a few ways to do so.

Question # 8:

How do you see the future of the Microfinance in a country like Pakistan and how can we use various success stories from other countries to follow their footsteps?

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Tell me about the regulatory environment, framework and support for NGOs, and other micro-credit provision institutions.

Question # 5:

Tell about the ways through which an institution or Microfinance Institutions as a whole can increase their outreach.

Question # 6:

What is the importance of Social Intermediation in Micro-credit Provision?

Question # 7:

How can an institution be involved in the capacity building? Tell me about a few ways to do so.

Question # 8:

How do you see the future of the Microfinance in a country like Pakistan and how can we use various success stories from other countries to follow their footsteps?

