



Micro Finance

Barriers to the microfinance outreach for women in Pakistan

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Microfinansiering

Vad stoppar kvinnor i Pakistan från tillgång till mikrofinansiering

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Abstract

This research provides an overview of micro finance industry in Pakistan. Micro Finance in Pakistan is at its initial stage. The organized micro finance activities started in 2001 as a result of Micro Finance ordinance 2001. The establishment of first micro finance bank of Pakistan is the result of this ordinance. The poverty level in Pakistan is about 33% to 35%. It means one third of the population of 150 Millions people of Pakistan is below the poverty line. The women are much more vulnerable than men. The gap between the rich and poor increases day by day. It will further adverse the situation in the society. Micro finance is the tool that can bring the positive change in the life of the poor people of Pakistan. The government of Pakistan and some other organization like Khushhali bank, Kashf foundation, Micro Finance Bank of Pakistan, etc. doing their efforts to increase their outreach but there are a large numbers of challenges in the way that barrier the outreach as a whole and particularly for women.

The importance of micro finance is realized by the every segment of the society but unfortunately in spite of all these facts the outreach of micro finance specially the women outreach are very limited. In Pakistan the outreach are 7 % to 10 % (PMN) of the total people need micro finance services. According to Pakistan Micro Finance Network (PMN) 10 millions people needs micro finance services but we were able to reach about 0.7 million at the end of June 2006 and most recently means in April 2007 the anticipated outreach are about 1 million according to Pakistan Micro finance Network (PMN).

I am concerned here with the outreach of micro finance in Pakistan, which is very limited. As mentioned before women outreach are more adverse and limited. It affects the total outreach in the country. The research, which is conducted by the Khushhali bank, a key player of micro finance in Pakistan Working Paper 'Challenges and Prospects' mainly focused on the broad aspects or we can also say the macro aspects like what the Government needs to do. How the government can regulate and facilitate the system for poor customers. In this working paper researcher identify some major issues that prove a stumbling block for the outreach but the researcher never goes through about the details that why these problems are and how we can solve these in order to increase the outreach of micro finance in Pakistan. I try to pick the gap, which remains vacant in the previous research. For example in the previous research the researcher only identify the problem that one of the barrier to the outreach of micro finance in Pakistan is the 'obstacles for micro finance outreach to women' but he does not give any detail that why this happening and how we can solve or eradicate the issue.

This research mainly done to find out that why the women are vulnerable in Pakistan, why the mobility of women are limited, and how we can empower the women in order to make easy accessibility of women to the micro finance services in Pakistan. How we can increase the outreach of micro finance in Pakistan in the context of women. I try to touch every player of micro finance active in Pakistan. I try to reach every possible source. I collect the data about the subject matter through interviews. I interviewed the professionals, workers, authorities and the customers and general public who can be the potential market of micro finance in Pakistan. In my research I try to collect the data both from rural as well as urban Pakistan in order to depict the true picture. The research findings are mainly related to the lack of education, skill, resources, lack of information, Institutional limitation, and lack of economic opportunities and also some baseless cultural believes that limit the outreach of micro finance for women in Pakistan.

In my opinion these findings are very important because it is the voices of the parties involve and also these voices from the very root level so these depict the very true picture of the situation going on as the micro finance is concerned. But the practical applications of these findings are very challenging to overcome on these issues for the underdeveloped country like Pakistan.

Key terms: Micro Finance, Outreach, Gender Discrimination, Gender Targeting

Abbreviations

PMN (Pakistan Micro finance Network)
UNITUS (An innovative Solution to global poverty)
MFI (Micro finance Institution)
PPAF (Pakistan Poverty Alleviation Fund)
NWFP (North West Frontier Province)
RSP (Rural Support Program)
AKRSP (Agha Khan Rural Support Program)
OPP (Orangi Pilot Project)
ADB (Asian development bank)
SDC (Swiss Agency for Development Co-operation)
LMSE (Leasing to Micro scale Enterprise program)
PKR (Pakistani Rupee) currency
ADBP (Agricultural development bank of Pakistan)
MBB (Micro Banking Bulletin)
NRSP (National Rural Support program)
PRSP (Punjab Rural Support Program)
OCT (Orangi Charitable trust)
HPI (Human Poverty Index)
CEO (Chief Executive Officer)
SPI (Sensitive Price Index)
CPI (Consumer Price Index)
WPI (Whole sale Price Index)
SDI (Subsidy Dependence Index)

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1 Introduction

Women in the street of Pakistan are exposed to risks regarding the income sources and their livelihood. The market is unstable and the level of gender discrimination is high. There is lack of social protection and other institutions to lower the level of vulnerability of women. The basic idea of micro finance services is provide the financial assistance to the poor at the time he or she needs it at the doorstep and at a very convenient condition.

Micro finance services help the poor women client to handle the income shocks and lower the vulnerability to risks. Thus the inability to access micro finance services is very likely to keeping the poor people poor and on the other hand let me say that access to these services can contribute to breaking the poverty trap either to borrow money for beneficial investments, save money for future, expenditure or to the insurance schemes.

In the dissertation both the prospective, the institutional and client point of view are presented in order to depict the detail picture of the subject matter. The dissertation provides useful knowledge about Micro finance in Pakistan particularly for women micro finance services.

1.1 Problem background

The illustration some how depicted the problem regarding the micro finance in Pakistan. The outreach of micro finance for women is very limited for many reasons.

Most obvious reason in Pakistan not borrowing large loans (Rs. 1000 or above)

Category	No reason to borrow	Do not like asking for loans	Complicated and lengthy procedure	On religion grounds	No collateral Available	Other reason
All Pakistan	59%	17%	8%	2%	10%	4%
OCCUPATION						
Non-Agriculture	55	16	9	2	15	4
Live stock	55	18	9	2	11	6
Farm	61	17	8	2	8	4
GENDER						
Male	63	13	13	3	7	3
Female	57	20	4	1	12	5

Table 1: Report and Recommendation of the President to the Board of Directors on the proposed Loan to the Islamic republic of Pakistan for the micro finance sector development program, November 2000. Poverty, Growth and Governance, the National Human Development Report, Pakistan, January 2003. Rural Financial Markets Study. AERC 1998

In the illustration from left to right are the reasons that affect the out reach of micro finance in Pakistan and from top to bottom different categories are describe that are affected with percentage figures.

The above table depict these reasons that barrier the outreach of Microfinance in Pakistan. It describes some popular reasons. I have described these in detail in later chapters. The first describe reason is that the people don't have any reason to buy. There is a lack of education, technical expertise, and the known opportunities as well because of the two mention reasons. The people think that if they get any loan it will put an extra burden on them. Second mention reason doesn't like to ask for loans. It is because the institutional limitation. The people have no confidence on the present prevailing financial system of the country. There is a lack of transparency and a lot of bureaucratic hindrance and lack of professionalism which the people don't like. So as a result they don't own the system and don't like to ask for loans. The lengthy and complicated process to get loans is one of the big reasons of the limited out reach of women micro finance in Pakistan.

Some people use religious reason not to borrow the loans in Pakistan. Interest is prohibited in Islam. In Pakistan majority of the population are Muslims. But this concept is actually developed because of the lack of proper understanding. I have discussed this in very detail in the next chapters. It affects the outreach up to some extent. Fifth mention reason in the table unavailability of collateral. In Pakistan most of the population earning 1\$ per day. This amount is not enough to meet the daily expenses even. So the collateral is out of question for that population. There are many other reasons that restrict the outreach of microfinance in Pakistan.

Beside the above chart there is much other reason that restricts the outreach of microfinance in Pakistan. I have divided these reasons into two categories.

1. Social Issues
2. Financial Issues.

The social issues include:

1. In adequate access of the poor to services
2. Barriers to the micro finance outreach to women in Pakistan
3. Absence of risk mitigation measures.

The financial issues include:

1. Micro finance specific policy shocks.
2. Institutional limitation.
3. Services.

I have discussed all these in detail in the relevant chapters.

I concerned here with the outreach of micro finance in Pakistan, which is very limited. As mention before women out reach are more adverse and limited. It affects the total out reach in the country. The research, which is conducted by the Khushhali bank, a key player of micro finance in Pakistan Working Paper 'Challenges and Prospects' mainly focused on the broad aspects or we can also say the macro aspects like what the Government. needs to do. How the government can regulate and facilitate the system for poor customers. In this working paper researcher identify some major issues that prove a stumbling block for the out reach but the researcher never goes through about the details that why these problems are and how we can solve these in order to increase the out reach of micro finance in Pakistan. I try to pick the gap, which remains vacant in the previous research. For example in the previous research the researcher only identify the problem that one of the barrier to the out reach of micro finance in Pakistan is the 'obstacles for Micro Finance out reach to women' but he does not gives any detail that why this happening and how we can solve or eradicate the issue.

This research mainly done to find out that why the women are vulnerable in Pakistan, why the mobility of women are limited, and how we can empower the women in order to make easy accessibility of women to the micro finance services in Pakistan. How we can increase the out reach of micro finance in Pakistan in the context of women. I try to touch every player of micro finance active in Pakistan. I try to reach every possible source. I collect the data about the subject matter through interviews. I interviewed the professionals, workers, authorities and the customers and general public who can be the potential market of micro finance in Pakistan. In my research I try to collect the data both from rural as well as urban Pakistan in order to depict the true picture. The

research findings are mainly related to the lack of education, skill, resources, lack of information, Institutional limitation, and lack of economic opportunities and also some baseless cultural believes that limit the outreach of micro finance for women in Pakistan.

In my opinion these findings are very important because it is the voices of the parties involve and also these voices from the very root level so these depict the very true picture of the situation going on as the micro finance is concerned. But the practical applications of these findings are very challenging to overcome on these issues for the underdeveloped country like Pakistan.

As we know that the poor women have a little protection by Government and there is also Lack of other institution to support them. So understandably there level of poverty will be High. (Ray 1998) argue that the fundamental future of poverty is that it affects the access To the market which also hold the financial market.

1.2 Microfinance Measuring Performance

As we know the basic purpose of Micro finance is to expand loans to the poor. So the primary metric for the measurement of progress has always been outreach. Outreach meaning the total numbers of people receiving loans with special emphasis on women clients. But as the time passed the Single objective of measuring Micro finance performance viewed inadequate because many NGO, s and other MFI, s enter into the business of Micro finance and provide Micro finance services. These organizations made the loans, which were highly subsidized, but they are unable to cover Operating cost and loan losses out of interest income. The operational efficiency was also ignored when the primary objective was simply maximizing the number of poor client served.

Sustainable Micro finance organization could better serve the poor client and could promote and grow the Micro finance services. Therefore (Rhyne) proposed that the financial development program needed to be evaluated at two level.

1. Outreach at the client level.
2. Profitability at the level of financial institution.

Rhyne argued that market tests would be the most relevant indicator of performance showing the client willingness to pay for the micro finance services and the financial self Sufficiency of the financial institution.

An important criterion for evaluating the sustainability of financial operation was developed by Yaron (1992) with his subsidy dependence index (SDI). It is an Accounting Technique that involves calculating the ratio between the value of subsidies received by Financial Institutions and the Revenue received from loans. It provides an estimate to percentage change in the yield of loans required to reduce the subsidy to zero. Subsidy Dependence Index (SDI) helped in developing Efficient Financial Institutions and helped rationalize charging interest rates on loans that would cover cost and risks.

1.3 Aim

As the background problem suggests Micro finance services are very limited in Pakistan, which is a tool to eradicate poverty of women. The purpose of dissertation is, to find out problems that barrier the outreach of micro finance for women in Pakistan and suggest suitable and implement able solution to patronize the process of micro finance.

1.4 Outline

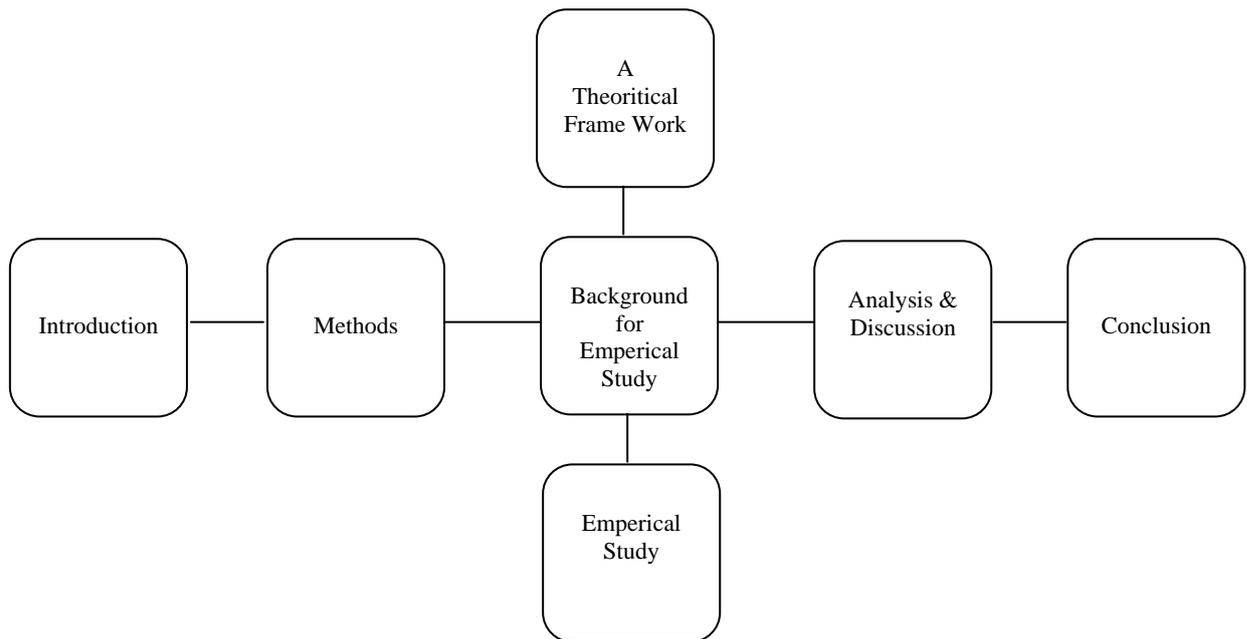


Figure 1. Illustration of the outline of the study.

Chapter two defines the micro finance and explains the function of micro finance from different prospective. The method of repayment is also discussed in detail for explaining the effective system.

Chapters three, the history of micro finance in Pakistan from its inception are discussed. The key players of micro finance, there contribution to the sector, the Government performance and participation, and the private sector non-Government organization role are discussed in detail.

Chapter four, the challenges of micro finance are discuss. It has divided in to two categories:

1. Social Issues
2. Financial Issues

Chapter five, the essence of the dissertation in which thesis question has investigated through interviews, the expert's opinion, and personal observations. The data are collected from Pakistan. I able to find out many social, financial, traditional and religious issues that prevent the outreach of micro finance for women in Pakistan or at least limit it.

In the last chapter, in the light of previous discussion about the micro finance services in Pakistan, suggestions and recommendations are presented in details in order to overcome on these issues.

2 Method

This study was carried out in the year of 2006-2007 in Pakistan. The blending of rural and urban areas of Pakistan is used to collect the data for the purpose of reflecting the real picture. I used many materials from the Internet. I visited many professional people like Ranjula Bali (Assistant Professor Economics Department Uppsala University) in order to collect the material and data about the subject matter. I mainly focused on the interviews. I used deductive research method. In theoretical framework I discuss the micro finance with general concepts. Then I become specific to the Micro Finance in Pakistan and then I become more specific to the issue of 'barriers to the out reach of micro finance for women in Pakistan. I have conducted the unstructured interviews from the different segment of micro finance working in Pakistan. I have also use sampling technique during my research work.

2.1 Demarcation

My task in this work, however has a very narrow specialization and dealing with some particular issues. I am only focused on the micro finance in the context of women in Pakistan. For my work the following is crucial-limited out reach of women micro finance in Pakistan, why it is, advising and recommendation in this field for all involved players.

3 A theoretical perspective

3.1 Definitions and function of microfinance

” Micro Finance is defined as formal scheme designed to improve the well being of poor through better access to saving and services loans (Schreiner 2000,2)”

“Micro Finance means providing very poor family with very small loans to help them engage in productive activities and grow their tiny businesses over the time. Micro Finance include the broad range of services like (credit, saving, insurance) to have to come to realized to poor and very poor who lack the access to formal financial institution require a product. (Micro finance gateway [http: www.microfinancegateway.org/sec/fag](http://www.microfinancegateway.org/sec/fag)

Micro Finance engaged as a social innovator in 1970,s began to offer financial services to the working poor to whom who are consider previously unbankable.

The most common credit for a micro finance is a micro loan (credit) usually less then 100\$. These small loans are enough for the hard worker to establish micro enterprises to expand their businesses like weaving baskets, raising chicken, etc and poor also need a secure place.

Reference (UNITUS, An innovative solution to global poverty).

A micro credit is one of the aspects of of micro financing. Now micro financing is not only strict to the advancing credit to the poor but also extend to the saving, insurance and remittance .A poor person can save there limited earnings and also want to reduce vulnerability so the micro financing provide him the facility to be insured.

As the micro finance market grow up the concept become more inclusive and extended to the more broad ranges.

3.2 How does micro finance work?

It works to help the poor. It can help to increase their income .it can help them to established there own business and also reduce their vulnerability. It also works as an instrument of self-employment of men and women in order to bring the change.

There are many types of poverty and it has a different dimension but the micro finance work in such a way that it makes possible the access towards the financial services, and has a very vital role in fighting against the poverty. It not only expands the business activities but because of the profit generation it has an impact on the household life like food security education etc.

Micro Finance helps a lot in getting out of the household from the vulnerability like illness of the wage earner, theft, and weather and like such events. These types of shocks leads the house holds into the depth of the poverty so micro finance work in such a way that can safe the poor from these types of shocks.

3.3 To whom it may apply?

Low-income people that do not have the access to the formal financial institution are mainly the client of micro finance.

Micro Finance client are self-employed or he may be a small entrepreneur. In the villages there are may be small farmers are the clients of micro finance but in the urban areas more diversified people are involved in the micro finance activities. Micro Finance client may be poor and also may be non-poor who are in a vulnerable condition.

As the range of micro finance broaden its potential market are also expand enormously. Micro credit may be having a limited market but the other financial services, which are included in the micro finance, are demanded or their market or demand increase. For example a farmer may be don't want to borrow money but at least he wants to save his money which he earns from the harvest. So this sort of demand is created which further grow

up the market for micro finance.

There are some other reasons as well that increase the client or market for the micro finance. For example the accesses to formal financial institution are directly related to the income. The poorer you are, you are the lesser chances to access these services and the informal financial arrangements are much more expensive, the poor you are the lesser the chances that you can afford these types of services and this state of affair create an alternative in the form of Micro Financing.

3.4 What are the micro finance institutions (MFI`s)?

MFI is the organization that offers financial services to the low-income people. There is a wide range of micro financial institution Mostly when we talk about these, financial NGO`s come into the mind. These financial NGO`s provide micro credit and micro finance services too and in most cases these financial NGO`s are not allowed to capture saving deposits from general public. Many NGO`s provide other financial services along with the micro finance and similarly some commercial bank are also providing micro finance along with there routine financial activities so because of these micro finance services which are quite bit part of the whole of the activities of these commercial banks we can called these as a micro finance institutions.

There are some other MFI`s that can be considered in the business of micro finance. These institutions are the community based financial intermediaries such as credit union; cooperative housing societies and some other are owned and managed by the local entrepreneur and municipalities. This type of institution is varying from country to country.

3.5 Why poor people do not use ordinary credit and prefer micro finance?

Providing loan or any other financial services is quite expensive for the poor people. It involves the transaction cost. The transaction cost of 100\$ and 2000\$ are the same because the credit officer has to visit the client, his family and he must needs to know about the creditability of the client. So in general the ordinary bank does not offer small loans because of this high transaction cost so the poor people can't access to the credit. So in these situation MFI, s the best alternative for the poor people and they prefer micro financing form MFI, s.

Micro finance institution charges a very high rate of interest even from their poor client. But this high rate of interest is reasonable and understandable because of high transaction cost. For example when a micro finance institution give a micro credit of 100\$ and bear the transaction cost of 25\$ it means a very substantial amount which represent 25% of the total loan are the transaction cost so in order to cover the transaction and some other cost the MFI has to charge a very high rate of interest but the poor are willing to pay the interest because on time they get the money and they can cash the opportunity. So in this way the poor people who are normally very low return from there investment can get more economic benefits by gripping more and more opportunity when they have easy access to the liquidity and credit or when they can get the money on right times in there hands.

In spite of all these some MFI, s subsidized the loan for the poor people in order to make the micro finance more attractive. Micro finance is more attractive to the poor people then the ordinary credit because MFI, s facilitate substantially in terms of time, travel, and paper work etc can be reduced to save the poor people time, suffering and get them facilitate.

3.6 Why and when the micro finance is not suitable?

Micro finance is the soul of financial services. But most of the people are confused the micro finance with micro credit. It is the fact that the micro credit is suitable only in some situation. Extremely poor people can't involve themselves into the micro credit because it will put a burden on them. Micro finance institution design micro finance programme in such a way that it requires stable and continuous income or source of income in order to repay the loan.

Micro credit, which is only one of the aspects of the micro finance, is suitable, appropriate or best for those who have identified economic opportunity and also for the people who can capitalize an economic opportunity when they get micro finance. Micro finance can be expended exponentially if it takes with its broader aspect like

insurance, saving, and remittance.

3.7 The role of government and financial regulator

Government has and should be very important role as the micro finance is concerned. In my opinion it's the responsibility of the government. To develop finance, the records of the governments are not impressive all over the world for about the micro finance for the previous two and half decades but now the government. All over the world recognized the role of micro finance in the poverty alleviation so now they are affirmative and improving there performance as the micro finance in there countries are concerned. For this purpose the government. Established subsidized micro finance enterprise in the rural and urban areas. Now a days the government rely more on the popular way of micro financing such as saving bank, postal saving bank, and agriculture bank.

The government can do better only when the government is sure and clear about the need to avoid eradicate or at least reduce the loopholes of the past and has a very clear sense of how to do clear effective and transparent operation of micro finance in future. For this purpose the financial regulator can work a lot along with the government on the issues such as " Modifying the usury limits as stated in the commercial code to allow appropriate level of interest, generating credit information, clear housing to share information on defaulting borrowers to limit there ability to go from one MFI, S to an other. Financial regulator along with the government and civil authorities do some thing like to ensure the court in those transition economies where there is basic legislative infrastructure lack ness can recognize that private loan contract. The regulator can also render the role like to examine the law and internal regulation that limit the ability of traditional banking institution to do the micro financing.

3.8 Micro finance is a profitable

According to the micro finance gateway (website) Data from micro banking bulletin report that 63 of the world top Micro finance institutions had an average of return after adjusting for inflation and after taking out subsidies program might have been received of about 2.5%. It is a considerable return so the micro finance can be a profitable.

3.9 How the repayment system of micro finance can be secured

The micro finance institution, s alternative dynamic incentive is to secure the repayment system such as, Group lending, frequent repayment scheme, progressive borrowing, gender targeting and compulsory saving scheme.

Now I explain these that how we can secure the repayment by using these.

3.9.1 Group Lending

As we know that in the micro financing very poor people are involve mostly so it's very hard for the poor people to keep the economical assets as collateral. Instead groups lend mechanism build on social assets. (Morduch 1999). The very important point in the group lending is that the group member has much more information about one an other then the bank does so in the self-selection of the member for micro financing they are very accurate and positive.

An example presented by the ghatak (1999) explain that the lack of information about the borrowers leads to the discrimination against the safe borrowers.ghatak in this example shows that the group lending are how much effective in improving the repayment system decreasing the interest rates and raising social welfare. The group lending methodology provides a way to decrease the cost of imperfect information that would be of course impossible in individual lending contracts. An other way group lending is beneficial for the lending institutions is due to the moral hazards. When a group in lending contracts with a bank so that group pressure will prevent them to engage in the risky investment and engaged in safer activity so in this way in the group lending bank can afford lower interest rate raised the expected repayment rates and expected utility (stigletz 1990). There is also the benefit of the adverse selection. It also reduces the administration cost due to the administration of one larger group instead of large numbers of smaller groups.

There is some problem with the group lending like the bank seek larger group to reduce the administration cost, in a large group the pressure against individual failure may also decrease and secondly the group member may

use each other and default rates may leads to social conflicts (Hulme and Mosely 1996).

3.9.2 Frequent Repayment Scheme

The direct method used by the micro finance institution to reduce the repayment insecurity is frequent repayment scheme. The most typical form is to collect the installment every week at the point very near by the borrower's enterprise (Hulme and Mosely 1996). The advantage of this scheme is that it screened out the undisciplined borrowers, thus giving early warning to loan officer and group members. Since the repayment process begins before the return on investment, it must need for the borrower that he has an additional income source to rely on. Thus banks provide the financed against the borrower income.

How ever the cost may be increase as a labor but it counter a less default rate and improved cash flow (Hulme and Mosley 1996).

3.9.3 Progressive Borrowing

According to this mechanism the lending institution start with a small loans size, which progressively increases as the borrower proves good repayment rates. The repeated nature of action and threat of being excluded help maintain high repayment rate. This mechanism is more beneficial in an area where the people are less mobile.

Including of these we have some more good repayment security technique like gender targeting. For example the bank advance loans to the women. Women feel more responsibility because she knows her prosperity leads to the whole family prosperity and her disastrous make the whole family in trouble. Women are also less mobile and she consider very well in the money management.

We have something in the shape of compulsory saving scheme and voluntary saving scheme for the secure repayment system. These saving scheme create win win situation for both the borrower and the lender.

4 Background for the empirical study

4.1 Evolutions and Performance of Micro Finance in Pakistan

The micro finance sector is young and under develops in Pakistan. The government of Pakistan launch a very effective new initiative to benefit and develop micro finance sector in Pakistan like the creation of micro finance retail bank, khushhali bank, apex organization, the Pakistan poverty alleviation fund (PPAF) set up to serve retail micro finance organization.

The government wants to grow and diversified the micro finance sector in Pakistan. This aim was encouraged to achieve in the, Micro Finance Ordinance 2001, resulted the establishment of micro finance bank as the first micro finance bank created from the transformation of micro finance department of aga khan rural support program. There are a large numbers of traditional NGO, s and micro finance institutions such as Kashf Foundation has a little success as increasing the out reach. Some commercial banks, a public commercial banks specialized in serving women, the first women bank also provide services in the field of micro finance, the bank of Khyber in the north west frontier province (NWFP) of Pakistan develop a new product and partnership with NGO, s and Rural support Program (RSP, s) in order to serve lower income population.

Rural support program developed in 1990,s that have had a major impact on the development of micro finance as represent highest numbers of MFI, s and the largest coverage in Pakistan.

4.2 Need for micro finance

Currently the GDP per capita income in Pakistan is about 420\$ or more approximately and about 33% to 35% of the people below the poverty line. During the decade of 90,s there is a substantial increase in poverty in Pakistan as 80% of the 97 million in the rural population living with less then 1 us \$ per day. 36.3% of the rural population is considered poor by the Pakistani standard while urban poverty is 22.4% (1999 data).

Agriculture income accounts for only half of the revenues of the rural population. The poor and the majority of the middle class have a very little access to credit. The formal banking sector has usually avoided lending to the poor because of the suppose difficulties in collection and lack of collateral. As a result of these the poor has to rely on relative suppliers, or moneylenders who has an extremely high interest rate. The poor people also participate in ROSCAS called committees. How ever there is always a tension for the borrowers and savers. But there is always a danger of fragility.

Currently micro finance provider serves only 10% of the 10 million poor people that need micro finance services. It has observed that in the rural areas people need micro finance services mostly for agriculture, livestock, and non-form activities while in urban areas micro finance clients are mostly vendors, small traders, cottage industry workers, and low wage earner.

4.3 Micro Finance Sector Development in Pakistan

During the decade of 1960,s -70, s subsidized micro credit was provided to the poor people. But it failed to reach the poor people due to unsustainable system and the funds are diverted and reached to higher income people. In 1980,s aga khan rural support program (AKRSP) was established in the northern areas of Pakistan to build community based organization, infrastructure and want to assist in resource mobilization through credit and savings. Rural support program (RSP) was established influenced mainly from AKRSP. These rural support program have a primary focus and approach to micro finance during 80,s and 90, s. the RSP play a very important role in accessing the line of credit from the commercial bank to the low income people. During that period Orangi Pilot Project (OPP) develop an individual lending methodology by targeting entrepreneurs in Karachi adapted to urban slums.

During the 1990,s some very sophisticated practiced NGO, s like Kashf Foundation, Taraqee and Daman, started its operation in the field of micro finance. The outreach of micro finance institutions and other organization providing micro finance services has been limited due to the narrow institutional base progress on sustainability

and efficiency benchmark. But during the year of 2000 the situation has changed and become favorable as the Government. take deep interest to grow and developed the micro finance in Pakistan. Because of the government positive intervention we have observed some positive developments like the creation of apex funding body The Pakistan poverty alleviation fund (PPAF), the formulation of MFI, s Ordinance 2001. In the last few years we observe a bit faster growth in term of out reach with dedicated micro finance institution like First Micro Finance Bank, Khushhali Bank etc.

4.4 Regulation and Government Initiatives

Pakistani government realized the importance and strongly conscious for the growth of micro finance in the country. MFI, s ordinance 2001 is the strong evidence, which was promulgated to support the development of micro finance sector by introducing the micro finance bank. Under this ordinance micro finance bank was created. In addition state bank of Pakistan also introduce additional prudential regulation related to the micro finance operation that regulate the first micro finance bank and the Khushhali bank. The Khushhali bank was created with the lending support of Asian development bank (ADB). This was the first micro finance retail bank in Pakistan own by the group of private and public commercial banks. ADB support proves helpful in the establishment of several funds like social development fund, the community investment fund, a risk mitigation fund and deposit protection fund.

4.5 Micro Finance Practices in Pakistan

The majority of Micro Finance organization working in Pakistan specifically RSP, s used community based organizations as a conduit for there financial services. This methodology is very fruitful for getting highest out reach. The largest Micro Finance provider is the national rural support program with national coverage. Some other organization used solidarity group model adopted from the Grameen bank in the context of Pakistan. The best example of this is the Kashf foundation.

Some organization use a mix of individual lending and partnership with community based organization.

4.6 Innovation of Micro Finance in Pakistan

The establishment of Pakistan poverty alleviation fund (PPAF), a whole sale window for MFI, s and the micro finance banks (the first micro finance bank, khushhali bank) are the kind of innovative ventures as the micro finance is concern in Pakistan.

State bank of Pakistan has established a conducive legislative framework, which includes the rules about the micro finance funds as a whole facility and also some sort of protection mechanism for borrowers. Some micro finance providers are also started to offer innovative product like skill training, emergency loans, and also innovative management operation make possible for MFI, s to established partnership between commercial bank and MFI, s. Adaptation of Grameen bank model have a very innovative and successful. The Swiss agency for the development co-operation (SDC) for strengthening the Micro finance in Pakistan takes sectoral approach.

The performance indicator report compiled by the Pakistan micro finance network (PMN) provide a bench marking tool to share the best practices and standard in Pakistan. These also include the individual analysis of each member performance. Swiss agency for the development cooperation provides support to develop micro leasing products and provider of these services. The leasing to small and micro scale enterprises program (LMSE) project aim to increase earning and employment in the MSE sector in NWFP.

4.7 Supplier of Micro Finance in Pakistan

There are three different types of sources of micro finance arrangements' in Pakistan.

1. Informal sources
2. Semi formal sources
3. Formal sources

4.7.1 Informal Sources

Informal sources account 83% of the credit supply. There are three important sources of informal credit used in Pakistan

1. Commercial creditors linked with marketing intermediaries, commission agent, village traders and shopkeeper.
2. Land based credit arrangements provided by the land lord to the farmers.
3. Socially based arrangements from friends and family.

Money lending for specialized occupation declining in the informal sector because of very short term credit that reflect weak bargaining power of the poor particularly for land arrangements. Every village has one or more informal sources that collect saving and makes loans to the members. Informal source based on social and reciprocity obligation mainly fund urgent consumption need without any interest charge. However these are intermittent and tends to be less then 18 us \$ or (1000 Pak. rupees approximately).

4.7.2 Semi Formal Sources

There are very substantial amounts of NGO, s working in Pakistan. The estimated registered NGO, s is from 12000 to 20000. Two third of the NGO's in the urban areas. Most of the rural NGO's work in a single community or a village based group registered as a community based organization. About 100 of NGO, s that provides micro finance and half of this number have an out reaches beyond the immediate community. The 11 members of Micro Finance group have a substantial interest in the Micro Finance and also funded by the aid agencies.

The NGO's that provide micro financing can be classified into two categories:

1. Multi Secteded NGO's working with education, infrastructure, community development and also micro credit.
2. Some NGO's with micro finance as a core activity.

The micro finance operation is sensitive that demand social needs and participatory services from the poor. The combined outreach of the member of micro finance group is about 10700 active loans with aggregate loans outstanding 18.3 Million US \$(1.1 billion PKR) and saving 19.5 million us \$ (PKR 1.17 billion). Women borrowers account 32% of the total. NGO's deliver Micro Finance services through group based methodology (known as Grameen bank model). The prevalent micro finance delivery model include:

1. Co formation
2. Social preparation for the poor including numeric and skill training
3. Regular meeting of Co's.
4. Saving mobilization and loan disbursement after approval of the majority of the Members.
5. Peer pressure to insure proper credit behavior.

The NGO's extended loans ranging from 45-1250 Us \$(PKR 2520-70000) given for the term ranging from 3 months up to two years. Some times individual loans are also provided. These NGO's charges about 18-20 % mark up over the principal amount. It's higher then the central bank mark up charges from the customer but low then the informal sources.

Some NGO's is charge up to 48%. Most NGO's is unable to meet their cost even and used grants to bridge their income gap. Loan repayment is reportedly quite high (90 to 97 %) in most cases.

The government established Poverty alleviation fund (PPAF) in 1997 with an endowment of about 500 million PKR to help the poor.

PPAF plan to provide micro finance services to about 200000 households. The World Bank sponsoring PPAF with a 90 million US \$ loan. Out reach estimated during the period of June 2002 was around 15 million US\$ to

over 65000 borrowers.

A credit component presented in a government sponsored program does not work very well. The over all impact is very minimal as the services have been presented, promoted, and deliver in a manner that suggests politically motivated grants. The budgetary support for these programs has either been curtailed or discontinued.

4.7.3 Formal Sources

In Pakistan, There are 21 domestic schedule bank of which 2 are state owned 4 specialized banks, 18 foreign banks, 4 DFI, s 16 Private investment bank and a number of leasing companies. Only few in these financial institutions attempting to develop micro financing program. Agriculture development bank of Pakistan provide about two third of the credit through its 49 regional offices, 349 branch offices and mobile credit offices as well. During 1998-99 the ADBP disbursed about 535 million US\$ (PKR 30 billion) to 451992 borrowers. ADBP lending are collateral basis so poor farmer does not have reach except under some specific program. Out of 0.953 million of Landless farmers only 19576 manage to get loans, which are very few. ADBP charge interest for about 14-16 % per annum. Habib bank, Muslim commercial bank, and National bank of Pakistan. Commercial bank have not expanded micro finance activities except a few banks like, the Bank of Khyber.

Commercial bank considers micro finance operation as a social obligation to be cross-subsidized by commercial operation. They accept micro finance operation for experimental basis. Licensed Micro Finance institution are also work like Khushhali bank, the first micro finance bank.

5 The empirical study

5.1 Constraints and Issues of Micro Finance in Pakistan

In Pakistan, the outreach of micro financing is about 6%-10%. There was about 60 thousand people who get benefited from the micro finance services in the year of 1999-2000. Now the outreach are expected to increase up to 0.6 million people but still its not enough because a very substantial population whose life can be changed if we get able to reach them through micro finance services. But there are some serious problems in the expansion of micro finance there in Pakistan, which are as under in detail.

We can divide these problems in two categories

1. Social Issues or Problems
2. Financial Issues

5.1.1 Social Issues or Constraints

There are many types of social constraints, which are as under in detail.

5.1.2 Inadequate Access of the Poor to Services

Inadequate access to the productive resources and social services resulted in the lack of employment opportunities and social well being. These situations prevail in the urban areas of Pakistan as well but the situations are more adverse in the rural where there is an inadequate or complete lack of basic infrastructure. There is a lack of skills and the absence of the support for the human resource development for the poor prevents them for diversifying their household income. The government intervention is unable to yield the desire impact because of the lack of community based participatory approach. Resources availability relative to the requirements of social sector is low. Much of the investment is required for public services. Without these services micro finance has less then intended impact.

5.1.3 Barrier to Micro Finance out Reach to the Women in Pakistan

Social intermediation costs to enhance and influence women access to micro finance are significantly high as it's the limitation on the mobility. Social interaction and skill development are also must be consider. It has been observed that the returns for the social intermediation are high in the form of social capital and demonstration affect but understandably the investments are lower due to high cost. So as a result the gender orientation of organization is limited and insufficient to enhance out reach to women. This inadequate social preparation adversely affects the sustainability of micro finance operation.

5.1.4 Absence of Risk Mitigation Measures

There are a large numbers of economic implications for the poor in Pakistan like lack of access to the financial services as I have mention earlier in the paper, unfair term of participation in the local economy, vulnerability to the economic and physical shocks. Poorhouse holds forego rotationally viable technologies, production choices and income opportunities due to risk aversion.

Mechanism to such risk mitigation is not available. More over the poorhouse hold have no means to secure their savings, unless deposited with the commercial bank to which they have a little access.

5.2 Financial Shocks or Constraints

There are also many financial constraints, which are as under in details.

5.2.1 Micro Finance Specific Policy Shocks

In the early stages of Micro Finance sector development a conducive policy environment is required. In a supervised and regulated environment the policy attributes should be like this.

1. Promotion of institutions that can target the poor with adequate gender emphasis.
2. Acceptance of individual and a group of individual for micro finance transaction.
3. Pro-poor financial innovation such as the measures to mitigate the risk faced by the poor, and like autonomy in pricing and in client selection and at the end pro-active role of the central bank in developing micro finance sector.

5.2.2 Institutional Limitation

Some financial Institution in Pakistan put in place a policy framework for efficient financial intermediation that enables the financial institution to concentrate on core competencies. For the commercial bank middle and upper level market are the core competency. Banking system has a very positively respond to these initiatives. The high level of non-performing loans attributes to slack industrial activities. Some institution has a capital adequacy below the prescribed 8% of the risk-weighted assets. Competitive pressure for product differentiation and cost reduction are increased. Small institutions are unable to invest in the new technology and the banking sector becoming concentrated in a few large institutions. Micro finance services in about or unlikely to become a significant part of commercial bank portfolio. Operating procedure of commercial banks is incompatible with the requirement of banking with poor. So the poor people and the women are excluded from the commercial bank services. Commercial bank in Pakistan are undergoing reform in which they are going to close the small branches whose business in loss, specially in rural areas, down sizing, re-capitalizing and implementing measures to recover write off non-performing loans. More over DFI, s transformation into efficient financial intermediaries is very slow because of political interference and poor governance. For these reasons micro finance perceive high risk and non-profit able in Pakistan.

NGO's operations have a very limited Micro Finance specialization. NGO's don't have a trained staff, efficient financial system and also don't have successful practices and procedures.

5.2.3 Services

Delivery of financial services to the poor people are difficult in Pakistan, because of the factor like low population density particularly in the rural area of some provinces, lack of communication, small loans, and low house hold saving that increase transaction cost .The main occupation for poor in Pakistan are agriculture, so seasonally business cycle and the high probability of risk add to the problem of micro financing in Pakistan.

6 Analysis and Discussion

6.1 Issues and problem to the out reach of micro finance in Pakistan in the context of women

There are about 150 millions people living in Pakistan. The women are 48% of the total population. The culture, economic system, and some religious believes of some people are bit strict or not very much favor able for women in Pakistan. In urban Pakistan the situation for women are not that much adverse but as the rural women are concern she is much more vulnerable and having a life required substantial changes.

The rural financial market study found that of the borrowing individual 78% of the individual are male, it means the male client has 3.5 times more access to financial services then female borrower in the rural area of Pakistan. Men on the whole borrowed 91% of the total large loans. The average loan size given to the women was Rs. (pak) 8050 while the average for the male client was 19382 Rs (pak).

Distribution of loans by gender

MFI	NO OF CUMULATIVE LOAN (FEMALE)	NO OF CUMULATIVE LOAN (MALE)	AMOUNT OF LOAN (MALE) RS. MILLION	AMOUNT OF LOAN (FEMALE) RS. MILLION
NRSP	50651	257619	1434	592
PRSP	58152	118832		
AKRSP				
SRSP	5511			
KASHF	53797	0		
OCT				

Table 1.2: Pakistan Microfinance Network by Maliha Hussein and Shazreh Hussein by Dec 31, 2003

A comparison of human poverty index as below

YEAR	HPI (MALE)	HPI (FEMALE)
1970	60.6	70.1
1975	56.9	67.0
1980	53.7	64.2
1985	50.0	61.8
1990	46.1	58.9
1995	41.0	55.8
1975/1995 % CHANGE	32.3%	20.4%

Table 1.3: Human Development Center, Islamabad, Pakistan

From the above facts and figure we can see that with the passage of time the human poverty index gap are increasing for women in the other words her vulnerability increases with the passage of time.

The data in Pakistan shows that the gender targeting is skewed highly in favor of male credit clients. In Pakistan we have 44.6 %, which is the lowest global proportion of female borrowers. All MFI, s report to the MBB.63% all financially self sufficient MFI, s reporting 62% and all the MFI, s in Asia reported to Micro banking bulletin (MBB) 85%.

Women in Pakistan experience high share of poverty burden, low social status, limited access to economic opportunities and social services and more over restricted mobility.

Now there is a serious need then ever before to address this core issue of how we can empower and self-sufficient the women in order to reduce her vulnerability in Pakistan.

Micro finance is the best tool to achieve the desire goal. There is a need to increase the out reach of micro finance In Pakistan with out any gender discrimination.

There are 10 million people in Pakistan including women who need micro finance services but the out reach is only 10% of the total market (PMN) Sources. There are some serious issues, which I research in detail, which prove as a hurdle in the way of expanding outreach for women in Pakistan.

For this purpose I interviewed many organization, professional, workers, clients, and the general people in the rural and urban Pakistan. I visited first the Kashf organization an NGO having head office in Lahore working in the field of women micro financing. The Kashf contributing at high ratio to the total outreach of micro financing in Pakistan.

I interviewed the Saddaf Abid chief executive officer (CEO). According to her the micro finance market of Pakistan is very fertile. The people and specially women need micro finance. She says as Kashf reach any where in Pakistan the people encourage the Kashf and participate in the program. According to her the outreach are not limited because the problems or issues from the society or from the market side rather she talk about the operational reason. Lack of trained and qualified staff, lack of proper communication, lack of marketing, and lack of funds are the issues that restrict the outreach of micro finance for women in Pakistan. She gives me important information in support of her arguments that the Kashf launch a training program for their workers in Karachi. This will bring a tremendous change in our performance as in the previous year 2006 we increase the outreach up to 80%. According to Saddaf, Kashf grew from 70000 clients to 135000 last years and this year we are aiming for 133% growth to 3000, 00 plus clients. If we work in the other mention areas in the same way we can multiply the outreach in Pakistan for women and as a whole as well.

One of the staff member of the Kashf organization view that most of the people cant join the Kashf program because condition does not suit them as the repayment system are illogical. The poor household finds it very difficult to repay two installments in a month. So because of this they decide not to get the services.

In a second part I have interviewed the women of district Haripur of the North West province of Pakistan. The village of Sri-kot is about 80 miles north of the capital city of Pakistan Islamabad. This village or towns having population about 30 thousand inhabitants. These people are very traditional and some how religious so it's very difficult to collect the information but I able to reach the fifteen women and I have interviewed them.

These women are in the range of 20-40 years of age. In these 15 women 12 are completely unaware about any micro finance services. They didn't know anything and didn't have any interest. Two women are on a view that when there (husband, brother) are working and earning money so there is no need for them to go away from their houses.

They also view that women is only for with in the house to take care their family, their child, they are also talking something about religion and society and tradition in supporting of their argument.

Only one girl aged about 22 years looks bit positive know about the micro finance, women empowerment etc. she is secondary school educated. She has view that to get any micro credit can't bring any change in her life. What she does with this money it can put an extra burden and makes her more vulnerable.

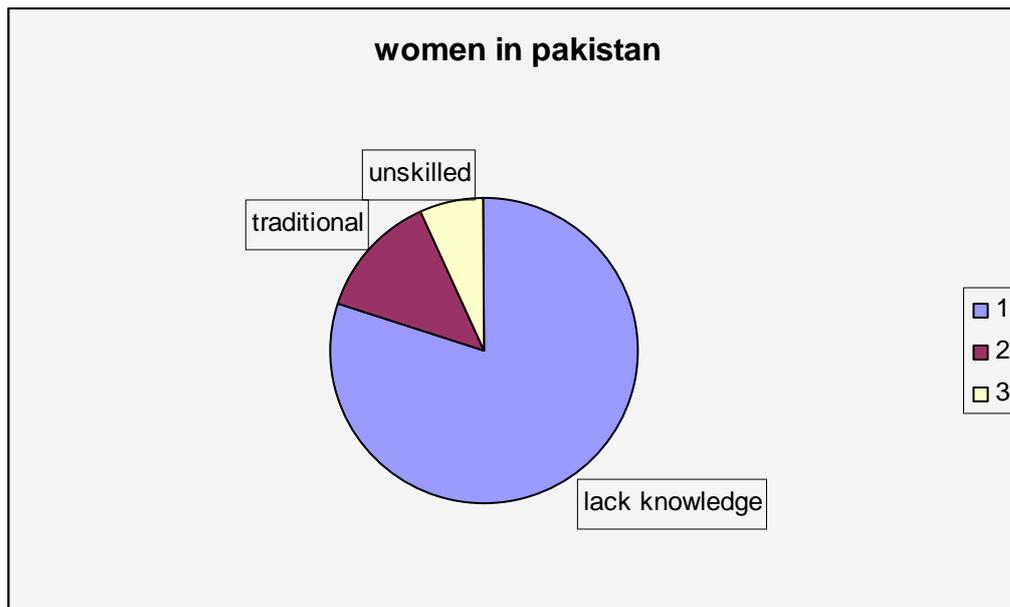


Figure 1: Pie-Chart about women micro finance in Pakistan

According to my findings, in the first 12 women most of them are completely illiterate and only few of them have known that how to write her name and read some Urdu only. According to my view illiteracy is the biggest barrier in the way of outreach of micro finance for women in Pakistan.

Secondly there are some traditions in the rural area of Pakistan in which women are not allowed to take part in any out door activities. The mind set has developed in such a way that men are responsible for each and everything women needs to be stay at the home. Some insensible religious people are also criticizing the open role of women in the economy or contributing for the welfare of the family in financial term. Even though the religion does not restrict the women to play the role. I will discuss this in detail in the next session of recommendation .If a women has a potential and also she wants to do something even then she cant because of these social pressure.

Thirdly in my view 22 years old girls put a very hard question, which I think one of the very major reasons that block the outreach of micro finance for women in Pakistan. She says what she will do with this amount because she has to repay with substantial amount of interest .of course if she does not have an economic opportunity then this money will place an extra burden resulted more vulnerability. From where the economic opportunity will come with skill and technical education you can create an economic opportunity. That is the main point we need to understand. This is not only the problem of this young lady but this is the problem of thousands of women in Pakistan and the result is that it will confined the out reach of micro finance for women.

According to the Muazzam Iqbal the Manager MIS and Administration of Pakistan Micro finance network (PMN) .in Pakistan we have institutional problems. The micro finance sector is at its initial stage. The micro finance institutions are not professionally sound. The Institutions lack the professional and sophisticated function; lack of financial resources, lack of proper research about the client and lack of know how about the micro finance market for the women in Pakistan. As a result of all these reasons the micro finance institutions wants to finance or prefer to finance running businesses which is called the running loans and these institutions don't want to finance the new or not established clients. In this way these organization can reduce the level of risk but how the outreach can be expand. It is also one of the issues.

I personally observed that in Pakistan the concept of micro finance are restrict to the credit only. Most of the people know the micro finance as an advancing loan. The micro finance player in Pakistan can't communicate it properly. The other important function insurance, saving and remittance are completely or mostly ignored. So if you ignore such major parts then you are working in a minor area and the out reach must also be minor.

We need to present the micro finance in its broader concept and also present broader product and services.

In Pakistan of course we are experiencing poverty 36.6% in rural and 19% in urban areas according to the Pakistani standard but still the poverty level are not that much terrible as in the other neighboring countries of

south Asia like Bangladesh, Nepal etc.

The inflation rate in Pakistan is also high. According to Sensitive Price Index (SPI) 7.02%, Consumer Price Index (CPI) 7.92% and Wholesale Price Index (WPI) 10.10% for the year 2005-2006 are recorded inflation. In Pakistan most organization start micro loan from 5000-10000 Pak. Rupees, which is not enough in Pakistan to inaugurate micro business or micro enterprise. So ultimately most of the women do not take any micro credit because it will not give them much profit or can't bring any change in their lives so the out reach remains unchanged negatively.

The legal ownership of women in land, property, or any other assets are very rare in the rural areas of Pakistan. It reduces the confidence of women and as a result she does not come out to empower herself. These are the issues that directly affect the outreach of micro finance for the women and as a whole in Pakistan.

Most obvious reason in Pakistan not borrowing large loans (Rs. 1000 or above)

Category	No reason to borrow	Do not like asking for loans	Complicated and lengthy procedure	On religion grounds	No collateral Available	Other reason
All Pakistan	59%	17%	8%	2%	10%	4%
OCCUPATION						
Non-Agriculture	55	16	9	2	15	4
Live stock	55	18	9	2	11	6
Farm	61	17	8	2	8	4
GENDER						
Male	63	13	13	3	7	3
Female	57	20	4	1	12	5

Table 1: Report and Recommendation of the President to the Board of Directors on the proposed Loan to the Islamic republic of Pakistan for the micro finance sector development Program, November 2000. Poverty, Growth and Governance, the National Human Development Report, Pakistan, January 2003. Rural Financial Markets Study. AERC 1998

7 Conclusions

The outreach of Micro Finance for women in Pakistan are its lowest ebb because of the previously mention reason. I have some recommendation that can be helpful to over come on these limitations.

First of all if you bring any change in any society of the world it can bring through education. Education is the basic criteria that enhance the positive change in the society. Pakistan is not in exception. According to the official statistics released by the federal education ministry of Pakistan. Over all literacy rate is 46% while 26% literacy of women but some education expert and independent sources are skeptical. According to them overall literacy rate is about 26% and the women literacy rate are 12% only.

Even in the Baluchistan province the literacy rate for women is 3% only. This terrible women illiteracy in Pakistan is the biggest barrier in the way of micro finance out reach in Pakistan. We should increase the women literacy rate in Pakistan by taking measures on emergency basis. It's another issue how but according to me it is the basic thing desire to do.

In Pakistan we have some tradition that restrict the women mobility and out door activities. These traditions have a very illogical and weak base. We can eradicate these if we tackle in a proper way. What are these proper ways? By using media to play its role, to create awareness among the masses of Pakistan. Launch social awareness programs that can of course further weakened the ideology of these false bias and perception about living. We should understand and need to make explicit to the other people that (the people are not for tradition, Tradition for people).

In Pakistan we have 96% Muslims. It is religious dominated society. I have observed that the understanding of religion is very rare. The traditional believes take over the religious believes. Religion is the main concern of the people in Pakistan and affect a almost each part and role of life. The religious people called mullah misinterpret the religion because of the lack of knowledge about Islam. There are no specific criteria to be a mullah and islam is the very complex and very vast topic. These mullah restrict the mobility and out door activities of women and present the religious reasons for the same. The people influence a lot.

Now it's our job to communicate with the people that it is the wrong interpretation of Islam. For example there are four components of Islam.

1. Quran
2. Hadith
3. Ijma
4. Qias

The last two components show the innovation and flexibility. It means according to Ijma if there is any Issue or problem that relate to the present or privilege age the (ulema) Clerics of Islam Of the present age are allowed to sit together to discuss about the issue and decide to keep in mind the requirement of new ages. Now the decision has become the part of islam for that particular reason. For example in Pakistan we have 48% women. If all the women sit in houses only then it means half of the population remains Idle. It is the requirement of the day and the present age that the women comes out of there homes and contribute in the economy of the country. Now according to Ijma the islam gives legitimacy but the important thing is that we need to communicate in this way. We should make very explicit to the people that it is not the Islam that restrict the role of women it's only the misperception about islam and confusion the tradition and religion.

We should also introduce the Micro Finance in its broader concept in Pakistan. In Pakistan we have an emphasis on micro credit only. The rest of the important functions of insurance, saving and remittance are mostly or completely ignored. We should introduce the broad range of micro finance services that will increase the clients and out reach. We need to explicit the micro finance concept to the street man that why it introduce and how it can bring positive change.

We should know what small or micro economic opportunities are available in Pakistan. Trained the women in order to create the skill in that particular field in which the micro economic opportunity is available. For example in Pakistan we have an micro economic opportunities of basket weaving, poultry breeding, stitching clothes, decorations, etc. when the micro opportunities are available a person are expert to avail. It then the probability is much more that he or she avail it. When we are able creating This type of situation then we can expect the rapid growth of micro finance outreach.

In Pakistan the women are kills initiative and risk aversive. The women have a lack of confidence to start any micro business because of the unstable and risky environment. Now if the micro finance institutions encourage the Income Generation Activities (IGA) They must protect the clients by creating Risk Mitigation Fund. It is a sort of security and psychological strength for the women that in some way she is insured. Khushhali bank of Pakistan already generate such a fund I suggest all the micro finance institutions to follow The khushhali bank. This will of course increase the out reach of micro finance for women in Pakistan

We should improve the research of the micro finance market of Pakistan. Because Pakistan is a multicultural society. The requirements of various cultures are different. We need to deal each segment accordingly. The know how about each segment is very necessary. If we know the shortcoming then we are in a better position to eradicate. So the research should be enhanced in Pakistan.

There are three billion people in the world who borrow money from the financial institution to meet there needs. These loans are one of the sources to eradicate poverty. In many countries like Bangladesh, Bolivia, the people are able to get rid off from the poverty because of the accessibility of financial services like savings, micro insurance, subsidized housing.

We need to have a road map to follow or implement. Microfinance is the financial system that serves the poor can achieve its objective only if it's connected with the mainstream financial system of the country. The microfinance system could be self sufficient if the accessibility of services to the many people and it should be otherwise it's heavily rely on government and donor agencies. The poor people do not need credit instead they need the financial services. The poor needs savings, and insurance transfer etc. the task is not to provide the financial services instead their task is to assist in establishing these services. The government should create conducive environment for policy.

The population of Pakistan is about 150 million. The banking system composed of commercial banks and six Islamic banks that provide credit services to about 3.2 million people. The situation is not encouraging as these borrowers remain concentrated in the five big cities of the country and more over there is no co-operative bank, credit bank and postal bank. The institutions that provide micro finance services in Pakistan have expertise in national and rural programs. As I have mentioned before that the outreach of these institutions are from 0.7 million to 1 million according to different sources. According to Pakistan Micro Finance Network (PMN) 1 Million. There are about one third populations of the country below the poverty line and if we include those people who are above the poverty line but unbanked then the figure of unbanked population climb up to 50 Million in Pakistan.

If we want to seriously used microfinance as a weapon against the poverty then it is very important to expand the outreach of microfinance to 10 million in the next 10 years. It never an easy task. If we consider the example of Bangladesh it takes 30 years to supplement the microfinance services to 24.6 million customers. It is very important to used microfinance as a mainstream financial system to accomplish these objectives. We should utilize all the sources to access the nation. The commercial banks, microfinance institutions, NGO's are encouraged and create conducive environment. If we use commercial bank they would not act purposely as in the year 2006 the commercial banking industry of Pakistan earn profit of 1.5 billion dollar. This is the obvious reason for the commercial banks not to take part in the microfinance process. There is no reason for the commercial banking industry to leave such a stable market. The probability that the commercial banks take part in the process of micro finance voluntarily in order to accomplish their social responsibilities is very less or the answer is negative. So the only answer or solution to this problem is that the state bank should instruct the commercial banks to reduce their market and provide micro finance services to accomplish the social responsibility. The central bank of Lebanon makes it mandatory for the commercial banks to invest 5% of there allocated reserves in micro finance services, if the commercial banks avoid doing so then they would not get any interest against that 5% reserve funds. As a result of this some banks in Lebanon start to provide micro finance services and fulfilling the needs of commercial funding. If we want to stabilize the micro finance system in Pakistan we need to increase the outreach and charge the interest that is sufficient for the financial institutions to meet there cost or to be at break even. There are five banks are inaugurated in Pakistan in the public and private

sector. Three banks are at national level and two are at the district level. The banks providing services at a district level have a big challenge to achieve their desired objective compared to the banks working in private sector.

At the end I suggest some measures that need to be taken to encourage micro finance in Pakistan that increase the outreach of men and women equally.

First of all the state bank provide such a source that increase the income of microfinance banks on commercial basis because the basic needs of a swift progressive banking system are funds. Lack of funds is an obstacle.

The Government should assist the microfinance industry like the other industry it will increase the interest of people in microfinance banks.

The state bank should revise the investment policy – 15% capital ratio and the lack of competencies to increase in the capital are an impediment in the objective of the banks.

The private bank should be allowed to charge interest on commercial basis in order to meet their cost while the public sector banks should not be permitted. If it does not work out to achieve the desired objectives then the public sector bank are also allowed to charge the interest on commercial ratio.

There is a need to revise the policies of life insurance companies like commercial banks. There is a need to introduce the insurance of animals. For this the present micro finance bank and NGO's could be beneficial. It is very important for the Government to create a conducive environment.

8 Executive summary

Micro finance is the process of providing services like advancing loans, saving, insurance and remittance to the poor of the poorer people who are previously consider unbankable. Micro finance is a new concept in Pakistan. The year of 2001 is very important in the history of micro finance in Pakistan because the micro finance ordinance 2001 is the mile stone for the micro finance in Pakistan resulted the establishment of first micro finance bank of Pakistan. In Pakistan we have very positive initiatives like the creation of khushhali bank, apex organization, the Pakistan poverty alleviation fund (PPAF).

There are some organizations in Pakistan that perform very well like kashf foundation, khushhali bank, but still a long way to go. In Pakistan about 10 millions people need micro finance services according to the latest figure I have but the out reach is only 7% to 10% of the total market. There are several issues that hinder the out reach of micro finance as whole but particularly for the women. Women out reach are very limited because women in Pakistan experiencing social restrain on her mobility. Some traditional values are also against women empowerment and out door activities.

Micro finance institutions are not professionally and financially sound in Pakistan. These institutions can't communicate the real concept and the broad range of services of micro finance. The micro finance are only restricted to the micro credit in Pakistan. There is lack of trained staff, resources. Lack of education is one of the biggest issues that hinder the outreach of micro finance for women in Pakistan. The research and marketing of micro finance for women in Pakistan are very weak.

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