Poverty Alleviation Through Microfinance

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Abstract:

Poverty is a multidimensional issue that encompasses economic, social, and political deprivation, making it difficult to define in absolute terms. In Pakistan, where over 21.9% of the population lives below the poverty line, microfinance has emerged as a viable tool for poverty alleviation. By offering small-scale financial services to underserved communities, particularly women, microfinance empowers individuals to generate income and improve their standard of living. However, Pakistan's microfinance sector faces several structural and operational challenges, such as high interest rates, lack of awareness, religious sensitivities, and inconsistent government policies. Despite its growth, microfinance in Pakistan lags behind neighboring countries like Bangladesh. For microfinance to effectively reduce poverty, policy reforms, digitization, public-private partnerships, and community-based models are essential. This paper explores the impact, challenges, and future prospects of microfinance as a sustainable poverty alleviation strategy in Pakistan.

Key words:

Poverty Alleviation, Microfinance, Poverty Alleviation, Financial Inclusion, Pakistan, Socioeconomic Development

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Introduction

Poverty cannot be defined in absolute terms. It is a complex and multidimensional phenomenon that encompasses the social, economic, and political deprivation of people. However, it may be defined comprehensively as the inability to obtain a minimal standard of living. Poverty is a global menace, and Pakistan is no exception, with 21.9% of the population living below the poverty line (Pakistan's poverty rate to ease in FY22: World Bank, 2021). As the problem is global and both developed and developing nations are affected, every nation has made poverty alleviation a major goal in their development plans. In developing countries, different poverty alleviation programs have been directed at increasing the income-generating potential of poor people. This is where the role of microcredit becomes significant in addressing poverty. Poor people often lack the necessary resources, which prevents them from raising their standard of living. The role of microfinance thus becomes essential for the upliftment of the poor and destitute and serves as an effective means of poverty alleviation (Miled & Rejeb, 2015).

Microfinance, on one hand, gives people the chance to earn a livelihood, and on the other, helps them live with self-esteem. It also reduces the financial exploitation of poor people. These microcredit/microfinance programs are gaining importance as effective tools for social mobilization and income-generating activities (Khan et al., 2019).

Definitions

Microfinance	Microfinance, also called microcredit, is a type of banking service provided to unemployed or low-income individuals or groups who otherwise would have no other access to financial services (Investopedia)
Poor Persons	"poor persons" means persons who have meager means of subsistence and whose total income 3 during a year is less than such minimum limit as the State Bank may, from time to time, prescribed. (Pakistan, 2001)
Microcredit	Microcredit is a common form of microfinance that involves an extremely small loan given to an individual to help them become self- employed or grow a small business. These borrowers tend to be low- income individuals, especially from less developed countries (LDCs). Microcredit is also known as "micro lending" or "microloan." (Investopedia)

Microfinance Institution	"Microfinance institution" means an institution, which extends micro credit and allied services to the poor through sources other than public savings and deposits (Pakistan, 2001)
Microfinance Bank	"Microfinance bank" means an institution licensed by State Bank under this Ordinance to establish and operate as microfinance bank (Pakistan, 2001)

Historical Background of Microfinance

The concept of microfinance has been present in rural and urban areas in the form of unsupervised cooperatives for quite some time. However, microcredit as a revolutionary social phenomenon was initiated by the Grameen Bank during the 1970s (Mia et al., 2019).

Since then, the progress of microfinance around the world, especially in Asia, has been inspired by the success story of the Grameen Bank. Established by Dr. Muhammad Yunus to cater to the needs of the poor and underprivileged segments of society on an experimental basis, Grameen Bank facilitated access to credit for the poor—especially women—with the aim of eradicating poverty and unemployment, the primary concerns of any developing country. It not only provided funds to people generally considered financially unstable, but also proved that these people are creditworthy, with a proven track record of loan recovery rates above 90% (Murshid, 2018).

Pakistan, though a late starter in this industry, has also made considerable developments in microfinance. Although Non-Governmental Organizations (NGOs) and Rural Support Programs (RSPs) have been providing microcredit in the country since the 1980s, the coverage and scope of their operations have generally been limited. Currently, six Microfinance Banks (MFBs) are operating in the country. Besides MFBs, there are 14 other microfinance institutions (MFIs), including RSPs, NGOs, and Commercial Financial Institutions (CFIs) (Ashfaq, 2021).

Role of PPAF and PMIC in Pakistan

Established in 2000 by the Government of Pakistan as an autonomous not-for-profit organization, PPAF enjoyed facilitation and support from the Government of Pakistan, the World Bank, the International Fund for Agricultural Development (IFAD), KfW, and other statutory and corporate donors. PPAF has been the largest source of wholesale funds for community-driven development in the country.

Its core operating units deliver a range of development interventions at the grassroots/community level through a network of more than 100 partner organizations across the country (Ashfaq, 2021). In 2015, a new subsidiary of PPAF was planned to attract funding from international development partners in the microfinance sector.

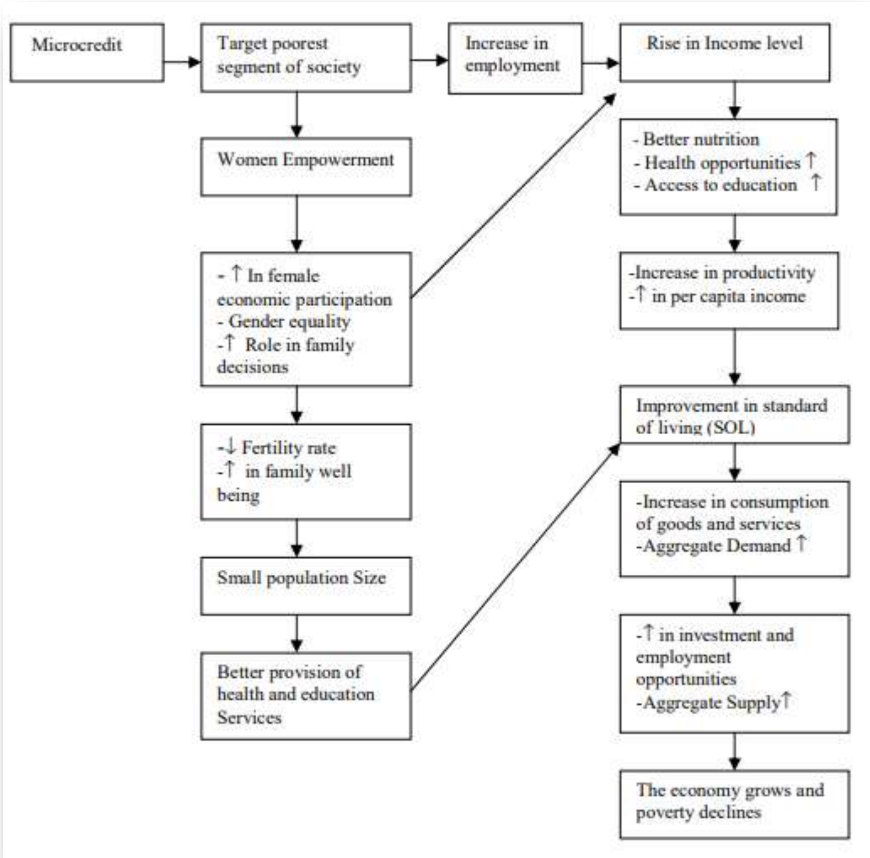
Established in 2016, PMIC is a vital player in the financial services ecosystem of Pakistan. Its formation marked a key milestone of the National Financial Inclusion Strategy, with various development partners joining hands to establish a company that could actively contribute to a robust financial system, leading to the provision of financial services at the bottom of the pyramid. With a focus on improving employment and livelihood opportunities for marginalized segments in the country—especially women and youth—PMIC has introduced need-based products to help them graduate out of abject poverty. With outreach across the country through partner MFPs, PMIC has already impacted the lives of 769,521 clients. It actively contributes to the formation of policies and strategies to enhance financial inclusion in the country while playing an active policy advocacy role (Basharat, 2021).

Pakistan and Poverty

In Pakistan, poverty is on the rise. The country is committed to alleviating poverty in line with the SDGs' Goal 1: “No Poverty,” in all its forms everywhere by 2030 (Nation, 2022). The Planning Commission’s poverty estimation is based on the Cost of Basic Needs (CBN) approach, which estimates the poverty line at Rs. 3,757.85 per adult equivalent per month (Division, 2021–2022a).

According to the Economic Survey of Pakistan 2021–2022, the percentage of people living below the poverty line has now reached 21.9% (Division, 2021–2022b). In recent years, the COVID-19 pandemic has increased poverty due to job losses and a slowdown in the economy. The Ukraine war has further aggravated the situation through rising oil prices and consequent inflation (Bodnár & Schuler, 2022). The government has introduced social safety net programs like the Ehsaas Program to support the consumption needs of the ultra-poor masses (Javed et al., 2021). However, for sustainable poverty alleviation, microfinance initiatives need to be expanded in the country.

Transmission Mechanism of Microcredit to Poverty Alleviation



Problem Statement

Microfinance is considered an important tool for reducing poverty. In Pakistan also, microfinancing initiatives have been introduced both in the public and private spheres. However, the success of these initiatives on poverty alleviation seems to be limited compared to neighboring countries like Bangladesh. The need is to assess the dimensions of microfinance initiatives in order to determine its fault lines and suggest ways for creating greater impact on poverty alleviation in Pakistan

Scope of Study

- To carry out Situational analysis of Public and Private sector micro-credit facilities in Pakistan
- To carry out Impact analysis of microcredit initiatives both in public and private sector for poverty alleviation in Pakistan
- To carry out Comparative analysis of the microcredit initiative in Pakistan with those of Bangladesh and India and their impact on poverty alleviation in these countries.
- To carry out Gap analysis in the policies initiated by the government to optimally utilize microcredit facilities for poverty alleviation in Pakistan
- To propose recommendations to mitigate the issues and challenges
- Data pertaining Indian microfinance initiatives over the years could not be retrieved because of the accessibility constraints.

Research Methodology

Quantitative and qualitative methods of research have been adopted. Primary data was collected through spot interviews with the concerned stakeholders which included the CEO of SRSP, Mr. Masood-ul-Mulk and his team. The Manager of FINCA, Bank Peshawar, Mr. Asad Qazi was also interviewed to sort out the issues of private sector microfinance institutions. A meeting through Zoom link was conducted with the CEO of PMIC, Mr. Yasir Ashfaque, who briefed the team over the legal and institutional frameworks of microfinance institutions in Pakistan. He has enlightened the team on the issues faced by the microfinance sector of Pakistan regarding funding. The interviews with the beneficiaries of SRSP and feedback regarding their businesses that were initiated with the support of the microfinance, were acquired. The secondary sources of data were retrieved from Economic Survey of Pakistan, World Bank website, Bangladesh websites, Research Reports, Books and Policy Briefs.

Most importantly, the lectures held at National Institute of Management Peshawar were really resourceful and helped in understanding the issues of economy of Pakistan and poverty alleviation. Analytical tools used to analyze the various situations and conditions are as follow;

- Situational Analysis
- Impact Analysis
- Gap Analysis
- Comparative Analysis
- SWOT Analysis

Formal and Informal Sectors of Microfinance

Microfinance Institutions Microfinance Ordinance (2001) defines a Microfinance Institution (MFI) as a company that accepts deposits from the public for the purpose of providing microfinance services. MFIs in Pakistan include Microfinance Banks (MFBs) regulated by the State Bank of Pakistan, in addition to some NGOs, RSPs and CFIs.

Non-government Organizations (NGOs): These include NGOs operating as microfinance institutions as well as those running microfinance operations as part of their multi-dimensional development program. Specifically, Kashf, Sind Agricultural and Forestry Workers.

Coordination Organization (SAFWCO), Akhuwat, Orangi Pilot Project (OPP), and Asasah are operating as MFIs.

Rural Support Programs (RSPs): These programs are running microfinance operations as part of their multi-dimensional rural development program. At present four RS. Ps are in operation, which include National Rural Support Program (NRSP), Punjab Rural Support Program (PRSP), Sarhad Rural Support Program (SRSP) and Thardeep Rural Development Program (TRDP).

Commercial Financial Institutions (CFIs): These are financial institutions in the mainstream financial sector, providing microfinance services as a separate function within the broader organizational context. Two such CFIs are Orix Leasing and The Bank of Khyber.

Legal & Regulatory Framework

Microfinance Institution Finance Ordinance 2001

The Ordinance was promulgated for the establishment, business and operations of microfinance institutions in Pakistan. The objective of the law was to promote the establishment of microfinance institutions for providing organizational, financial and infrastructural support to poor persons, particularly poor women, for mitigating poverty and promoting social welfare and economic justice through community building and social mobilization. It is essential to regulate microfinance institutions to protect the depositors, customers and to safeguard these institutions against political and other outside interference.

In Pakistan, MFBs are licensed as banks under the Microfinance Institutions Ordinance, 2001. The other two categories are primarily non-profit organizations registered under one of four separate legislative frameworks, Societies Registration Act, 1860, The Voluntary Social Welfare Agencies Ordinance, 1961, The Trust Act, 1882, and the Companies' Ordinance, 1984.1 Thus, at least five types of legislative frameworks are of relevance to the microfinance industry of Pakistan (Basharat, 2021)

Types of Microfinance Institutions in Pakistan

Microfinance Banks (MFBS)	Non-Banking Microfinance Institutions (NBMFIs)
Deposit taking and regulated by State Bank of Pakistan (SBP) as per Microfinance Ordinance 2001	Licensed and regulated by SECP as per NBFC & NE Regulations 2008 among others. Includes Rural Support Programs.
Have a maximum loan of PKR 3 million and operate nationwide	Not authorized to take deposits
Require a minimum paid up capital of PKR 1,000 million if licensed to operate nationwide.	Mostly focused on rural markets, predominantly female clientele and dependent on development lenders
	Minimum equity requirement of PKR 50 million and maximum loan of PKR 1.5 million. **(Ashfaq, 2021)**

Micro credit beneficiaries, outstanding loans portfolio and loan disbursements as of 1st January, 2020. (Division, 2019-2020)

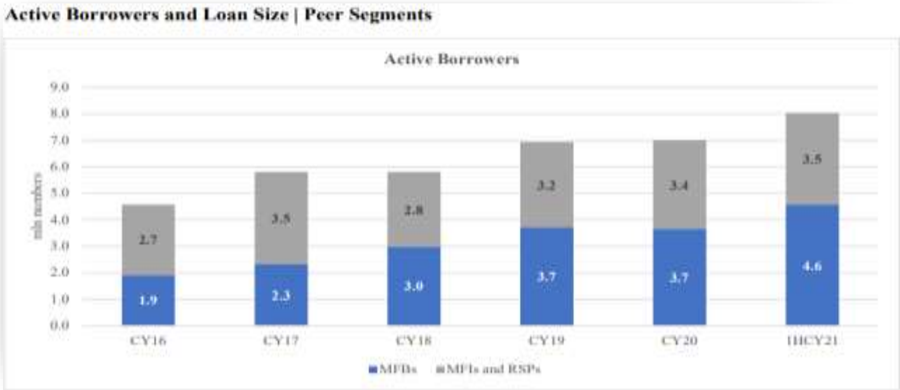
MFP		Active Borrowers.	Outstanding Loans Portfolios	No. of Loans Disbursed
Total for Pakistan MF Sector		**7,249,943**	**305,753,451,928**	**2,624,190**
Microfinance Banks				
Apna Microfinance Bank		93,298	9,071,890,041	106,152
Advans Pakistan		11,400	1,269,590,951	2,862
FINCA Microfinance Bank		238,337	22,480,015,951	71,870
FiRs. t Microfinance Bank Limited		485,505	31,065,369,541	142,109

Khushhali Bank	871,228	53,607,461,191	317,402
Mobilink Microfinance Bank	182,483	15,818,782,057	44,414
NRS. P Bank	351,846	27,768,760,755	153,225
Pak Oman Microfinance Bank	59,688	1,978,364,613	15,780
Sindh Microfinance Bank	50,601	845,955,165	12,626
Telenor Microfinance Bank Limited	896,694	27,695,262,338	701,334
U Microfinance Bank	314,064	21,882,306,555	101,379
Total for MFBS	**3,555,144**	**213,483,759,157**	**1,669,153**
Microfinance Financial Institutions (MFIs)			
AKHUWAT	865,548	16,895,424,704	201,730
ASA-Pakistan	439,129	9,739,158,278	116,179
Community Support Concern	38,921	1,465,686,661	11,402
DAMEN	116,703	3,365,313,952	28,911
Farmer Friend Organization	33,030	908,679,915	0
Kashf Foundation	515,886	14,892,386,052	144,753
MOJAZ Foundation	30,911	864,172,711	9,116
Micro Options	1,344	35,618,068	160
Naymet Trust	0	0	0
Orangi Charitable Trust	21,941	417,878,867	4,533
SAFCO Support Fund	99,635	2,350,990,519	21,647
Soon Valley Development Program	12,175	348,795,711	3,306
Total MFIs	**2,175,223**	**51,284,105,438**	**541,737**
Rural Support Programs			
National Rural Support Program	843,151	22,963,788,579	246,220
Ghazi Barota TariqiatiIdara	27,055	455,839,567	7,433
Punjab Rural Support Program	75,293	1,596,516,848	18,963
Sindh Rural Support Organization	89,716	1,880,824,503	22,289
Sarhad Rural Support Program	6,765	69,204,400	2,111
Thardeep Rural Support Program	164,303	4,017,195,649	32,770
Total for RS. Ps	**1,206,283**	**30,983,369,546**	**329,786**

Others			
AGAHE	30,368	672,024,681	11,088
JWS Pakistan	87,377	2,412,362,220	25,527
Orix Leasing	16,265	381,139,074	2,625
Organization for Participatory Development	4,552	95,285,417	1,053
Rural Community Development Program	151,893	5,687,722,670	37,941
Shah Sachal Sami Foundation	5,932	190,511,687	1,335
Villagers. Development Organization	2,022	28,873,331	208
Total for others	**298,409**	**9,467,919,080**	**79,777**
			(Division, 2019-2020)

Situational Analysis

Microfinance Banks are regulated by the State Bank of Pakistan (SBP). Pakistan is one of very few countries which has a separate legal and regulatory framework for microfinance banks (MFBs). This framework provides an enabling environment for the provision for microfinance services to deserving segments of the country. SBP has taken various steps for the promotion and growth of this sector. Prudential regulations for MFBs are amended and upgraded from time to time in line with the market dynamics. For MFIs registered under the SECP, which is main regulator while in the provinces Social welfare department under the societies Act, NGOs are registered. The ratio of financing by the MFBs and MFIs are below (Ashfaq, 2021).

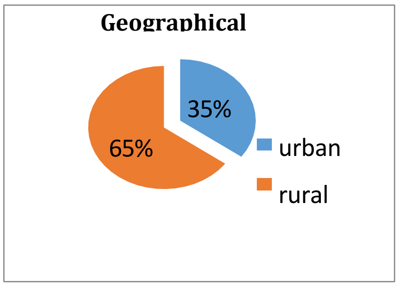


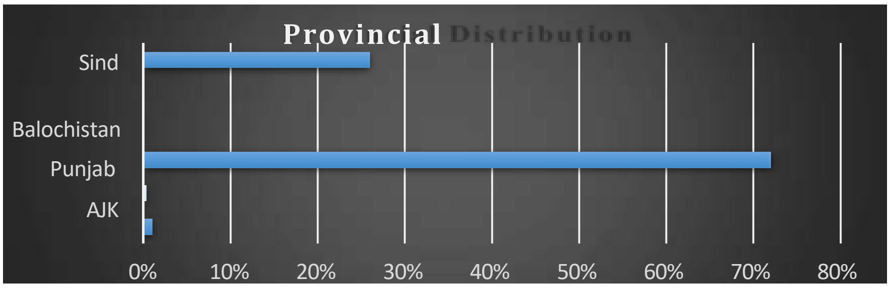
Size of Finance and No. of Borrowers in 2021

In Pakistan, microfinance initiatives started in the 1970s. Over the years, these initiatives have increased in size and scope owing to the demand for financial assistance and loans from the lower strata of the population. At year-end 2021, the sector's Gross Loan Portfolio (GLP) was Rs. 393 billion, which increased by 21% from the year-end 2020 GLP of Rs. 324 billion. This was lower than the average year-on-year increase of 30% in GLP over the previous five years (2015–2020). Active borrowers at end-2021 stood at 8.1 million, compared to 7 million in 2020, showing a 15% increase. This reflected the recovery of the overall microfinance sector as COVID-19-related lockdowns and restrictions were eased. For year-end 2021, the approximate total number of female active borrowers in the sector was 3,573,717, compared to approximately 3,502,943 at year-end 2020 (Ashfaq, 2021).

Geographical coverage

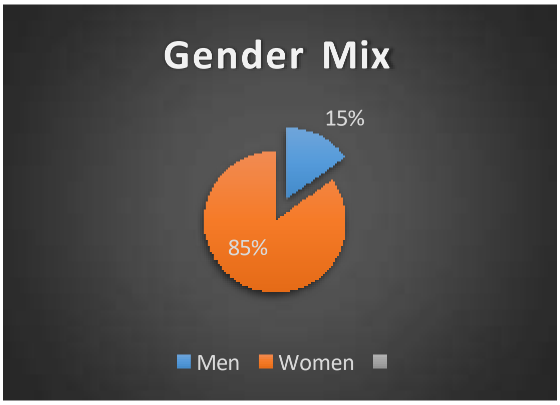
In Pakistan microfinance programs are mainly implemented in districts with low income levels and poverty. The primary focus in the rural areas and the province of Punjab. Distribution of microfinance portfolio dominates across Punjab (73%) and Sindh (25%). High poverty rates and low development indicators. show a need of appropriate interventions in Balochistan and KPK. (Basharat, 2021)





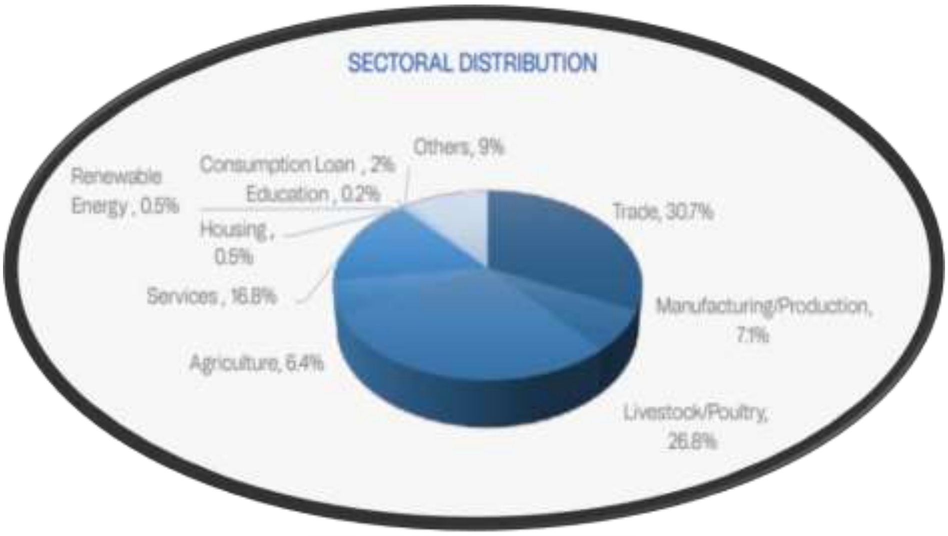
Gender Allocation

Women empowerment has remained one of the fundamental aims of microfinance initiatives, with the objective of improving the socioeconomic status of women. A potentially significant reduction in gender inequality can be brought about by increasing access to microfinance services for women. As of December 2021, women clients in microfinance exceeded 85% (Basharat, 2021).



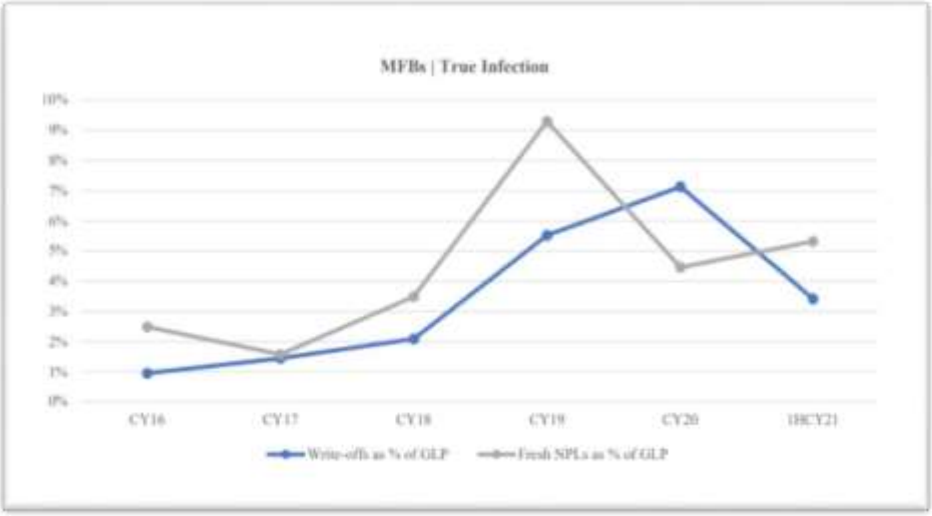
Sectoral Distribution

Microfinance loans have a reasonably wide range of sectoral distribution and selection. However, agriculture, enterprise, and livestock remain some of the major areas of lending. Moreover, due to the increase in MFI activities, inroads into a few other sectors—such as renewable energy and education—have also been targeted for loans (Ashfaq, 2021).



Microfinance Loans Performance Evaluation – Current Analysis

The average Non-Performing Loans (NPL) of MFIs and RSPs from CY16 to CY19 remained range-bound between 1% and 1.5%, reflecting good credit controls. Net NPL coverage was recorded at 86% as of end-June 2021. Overall, NPLs are expected to remain on the higher side compared to pre-CY19 levels.



Impact Analysis

Despite its rapid expansion, the effectiveness of microfinance in achieving its potential has always been called into question. The scarcity of reliable data on the impact of direct access to financial services on the income, expenditure, or wealth of poor households hinders attempts to draw clear conclusions on the matter. One reason is that access to financial services can have multiple and cross-cutting effects on poverty, making it difficult to establish direct causal relationships. The impact of anti-poverty measures is often not immediately apparent, sometimes necessitating intergenerational studies to assess their effects on households. However, the scarcity of data or the difficulty of conducting comparative studies on the impact of microfinance in alleviating poverty should not be an excuse to neglect the evaluation of specific microfinance programs. Assessing the social impact of microfinance is vital in determining whether established programs achieve the desired outcomes. Thus, for the various stakeholders in the microfinance industry, impact assessment has become a necessity.

For microfinance institutions, social impact assessments enable them to extract strategic management information that can help improve financial performance.
Concrete and available information about the impact of microfinance—and specifically the services provided by Akhuwat—on household income and risk management enables clients to make informed decisions about the range of credit they need. In Pakistan, microfinance initiatives began in the 1970s. One of the earliest viable initiatives was the Orangi Pilot Project, launched by the renowned social scientist Dr. Akhtar Hameed Khan. The project was established as a research institution to analyze the problems faced by the Orangi settlement in Karachi (Barmazel, 2017). Subsequently, a self-help program was designed to transform the sanitation and housing conditions of the Orangi shanty settlement over the next twenty years. The resultant improvements in communal services through this self-help model have been widely praised.

Currently, microfinancing organizations operate in both the public and private sectors. In the private sector, the Akhuwat Foundation is well known for its role in poverty reduction. The Akhuwat Foundation was established in 2001 (Rehman et al., 2020), and its performance has been considered quite satisfactory as an effective model. It now has more than 800 branches across Pakistan. More than 5.1 million beneficiaries have received support from Akhuwat's microfinance services, with an estimated Rs. 155 billion disbursed to date (Foundation, 2022). An impact analysis of the Akhuwat Foundation has been conducted, with the results of 24 variables measured before and after receiving Akhuwat loans presented below:

S. N	***INDICATOR***	***BEFORE AKHUWAT (%age)***	***AFTER AKHUWAT (%age)***
1	Girls not attending school	***74.1***	***34.7***
2	Girls attending Government School	***24.9***	***46.1***
3	Head of family income: (RS. .75000 – RS. .30000) (RS. .6000 - RS. .20000)	***44.7 --***	***-- 86.5***
4	Total family income: (RS. .10000 – RS. .31000) (RS. .10000 – RS. .35000)	***58.3***	***95.28***
5	Eating meat (Once a week)	***32.9***	***49.3***
6	Eating Fruit (Twice a week)	***2.3***	***8.4***
7	No Servants to help	***91.3***	***73.8***

8	Falling sick (Rarely)	***1***	***2.3***
9	Falling sick (Once a month)	***37.6***	***12.1***
10	Medical Treatment (Dispensary)	***70.8***	***48.7***
	(Government Hospital)	***28.5***	***50.7***
12	Visits of Relatives (Never)	***93.0***	***69.8***
13	Behavior of Relatives (Show hatred)	***63.8***	***3.7***
	(Positive behavior)	***12.1***	***37.6***
14	Relatives and Friends, Lends you money (Yes)	***30.5***	***74.5***
15	Lent Money to your friends and relatives (No)	***81.9***	***67.5***
16	Family and friends' invitation on functions (Sometimes)	***66.4***	***44.6***
17	Family and friends involve you in solving issues (No)	***16.1***	***2.4***
18	Involvement of women in your family decisions (No)	***9.1***	***3.0***
19	Members of welfare society (Yes)	***26.9***	***87.2***
20	Daily Travel (By Walk)	***43.6***	***25.5***
21	Personal vehicle (No)	***54.0***	***26.2***
	(Motor Bike)	***24.2***	***39.9***
22	Own House (Rent)	***5.7***	***6.7***
23	Physical condition of house (Fair)	***8.1***	***46.6***
24	Entertainment (Hoteling, film, park annually)	***6.4***	***18.5***

Comparative Analysis

Grameen Bank of Bangladesh

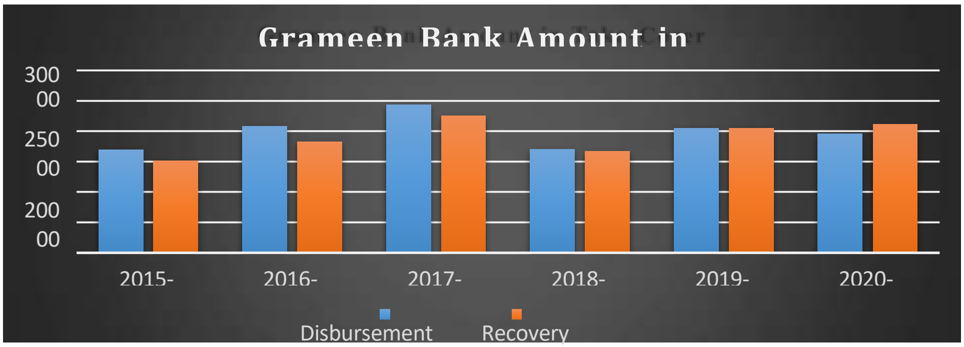
The modern history of microfinance began with the formation of the Grameen Bank in Bangladesh. It originated from an experimental credit program developed by students at Chittagong University in 1976, under the guidance of Dr. Muhammad Yunus. This initiative later evolved into the Grameen Bank in 1983 and now serves millions of poor borrowers.

In Bangladesh, this success inspired the development of other major microfinance organizations such as BRAC, ASA, and Proshika—collectively known as the "big four" (Frings et al., 2020).
By the mid-1990s, the emphasis in microfinance had shifted toward institutional sustainability and diversification. In the new millennium, MFIs such as ASA, BRAC, PKSF, and Grameen experienced phenomenal growth. In Bangladesh, microfinance providers are mainly non-governmental organizations, non-banking financial institutions, and specialized microfinance banks.

Akhuwat Foundation Pakistan

The Akhuwat Foundation began in 2001 by offering its first few interest-free loans to the poor, aiming to help them earn a living in a dignified manner. Akhuwat is a nonprofit organization based in Pakistan that works toward creating a poverty-free society. It was founded by Dr. Muhammad Amjad Saqib, who serves as the Executive Director of the organization.

The Akhuwat head office is located in Lahore, and the foundation operates over 800 branches across 400 union councils in Pakistan. Akhuwat is also registered as a legal entity in the USA, UK, Canada, and Sweden. Additionally, it has initiated engagements with organizations in Nigeria, Uganda, and Afghanistan for global replication and expansion (Foundation, 2022).
The performance of the Grameen Bank over the years is shown below, with reference to loan disbursement and recovery.



(Finance, 2022)

Microfinance Situation in India

The total size of the MFI industry as of 30th September 2021 was ₹2,26,123 crore. Banks, Small Finance Banks (SFBs), and NBFC-MFIs contributed more than 90% of the outstanding portfolio and 95% of the disbursed amount. The microfinance industry witnessed a growth of 2% from June 2021 to September 2021. NBFC-MFIs recorded the highest year-on-year growth of 14% from September 2020 to September 2021. The number of loans disbursed grew by 94% from 2020 to 2021, and the disbursement amount grew by 96% during the same period. The highest number of loans were disbursed in the ₹30,000–₹40,000 range.

Due to the COVID-19 pandemic, the microfinance industry saw a decline in year-on-year growth. The sector experienced a slowdown following the nationwide lockdown that began in March 2020. Loan sourcing contracted by 28% in terms of volume and 24% in terms of value during the October 2019 to September 2020 period, compared to October 2018 to September 2019.

However, the microfinance industry has returned to an expansion phase, growing by 35% in volume and 37% in value during the period from October 2020 to September 2021 (EQUIFAX, 2022).

Microfinance Industry Snapshot upto 30th September 2021

Snapshot as on 30th September 2021	**Banks**	**SFBs**	**NBFC-MFIs**	**NBFC**	**Not for Profit MFIs**	**Total Industry**
Unique Live Borrowers ('000)	24,779	12,280	23,348	6,538	785	67,730
Active Loans ('000)	36,981	15,411	36,059	7,161	1,030	96,642
Disbursed Amount (`crore)	27,439	12,037	23,838	2,866	501	66,681

The book size of the MFI industry as of 30th September 2021 was ₹ 2,26,123 crore. Banks, Small Finance Banks (SFBs), and NBFC-MFIs contributed more than 90% of the outstanding portfolio and 95% of the disbursed amount (EQUIFAX, 2022).

Comparison

Credit Delivery System of Grameen Bank

The basic philosophy of this model is that a group is more responsible and is always in a better position to repay loans. The dynamics within a group bind its members, making each individual accountable for any loan extended to another member. Group lending also requires one member to repay first before money is lent to any other member of the group, ensuring that every member is highly motivated to ensure the repayment to the MFI. This collective responsibility acts as a security for loan repayment. In some cases, the money is lent to groups for their collective benefit, but in most cases, it is individual lending. A group is generally formed based on their location, i.e., people living in the same area who know each other well (Bank, 2022).

Credit Delivery System of Akhuwat

Akhuwat follows a model where interest is eliminated by providing Qarz-e-Hasna, i.e., interest-free loans. The factors that have made it possible for this institution to provide loans at zero cost reveal that Akhuwat operates with no borrowing, and its total funds base consists of donations from local philanthropists and contributions from the government at no cost. Akhuwat operates from religious centers—mosques, churches, and temples—and serves all communities, irrespective of caste, color, faith, or nationality. The offices of Akhuwat also have minimal infrastructure and employees (Rehman et al., 2020).

Types of Credits by Akhuwat

i) Qarz-e-Hasna, Akhuwat Islamic Microfinance (AIM), Akhuwat Education Services (AES), Akhuwat Clothes Bank (ACB), Akhuwat Khwajasira Support Program (AKSP), and Akhuwat Health Services (AHS). The underlying goal of all these programs is to provide financial access and support to the poor (Foundation, 2022).

Types of Credit by Grameen Bank

Grameen Bank provides loans for the Village Phone program, enabling women entrepreneurs to start businesses offering wireless payphone services in rural areas. Traditional group-based lending was modified and specifically targeted towards beggars in Bangladesh. This program focuses on distributing small loans to beggars.

Grameen has also provided housing loans totaling $190 million to build over 560,000 homes, with near-perfect repayment rates. By 1989, the average housing loan had grown to $300 (Barua, D. C., 12 November 2006).

Regulatory Framework of Bangladesh

The Microcredit Regulatory Authority (MRA) was established in 2006. Its primary responsibility is to ensure the transparency and accountability of microfinance institutions in the country. The MRA also regulates the microfinance institutions operating in Bangladesh (Finance, 2022).

Regulatory Framework of Pakistan

In Pakistan, Microfinance Banks (MFBs) are licensed as banks under the Microfinance Institutions Ordinance, 2001. The other two categories of microfinance institutions are primarily non-profit organizations registered under one of four separate legislative frameworks: the Societies Registration Act, 1860; The Voluntary Social Welfare Agencies Ordinance, 1961; The Trust Act, 1882; and the Companies' Ordinance, 1984. Thus, at least five types of legislative frameworks are relevant to the microfinance industry in Pakistan (Ashfaq, 2021).

Operation al Model of Grameen Bank

The Grameen Bank is based on the voluntary formation of small groups of five people, who provide mutual, morally binding group guarantees in place of the collateral required by conventional banks. The assumption is that if individual borrowers are given access to credit, they will be able to identify and engage in viable income-generating activities, such as simple processing (e.g., paddy husking, lime-making), manufacturing (e.g., pottery, weaving, garment sewing), storage, marketing, and transport services. Women were initially given equal access to these schemes and proved to be not only reliable borrowers but also astute entrepreneurs. As a result, they have raised their status, reduced their dependency on their husbands, and improved both their homes and the nutritional standards of their children. Today, over 90 percent of borrowers are women. Intensive discipline, supervision, and servicing characterize the operations of the Grameen Bank, which are carried out by "bicycle bankers" in branch units with considerable delegated authority. The rigorous selection of borrowers and their projects by these bank workers, the powerful peer pressure exerted on these individuals by the groups, and the repayment scheme based on 50 weekly installments, all contribute to the operational viability of this rural banking system designed for the poor. Savings have also been encouraged. Under the scheme, 5 percent of loans are credited to a group fund, and Tk 5 is deposited into the fund every week (Bank, 2022).

Operational Model of Akhuwat

Program Introduction

Individual loans are marketed through awareness campaigns in poor localities, marketplaces, and through previous borrowers. An introduction to the program is also given in nearby mosques or churches when people have gathered there for prayers.

Individual Selection

The loan process begins with the submission of applications by individuals interested in receiving financial assistance. The eligibility of each applicant is then evaluated by the unit manager.

Preparation of Business Plans

The business plan is prepared, and the viability of the business idea is evaluated to determine the applicant's ability to repay the loan.

Credit Appraisal

After the initial appraisal by the Unit Manager, the application is forwarded to the Branch Manager, who assesses the technical aspects of the appraisal. The case is then referred to the Loan Approval Committee. If the committee approves the case, loan disbursement is carried out.

Guarantor of Loan

Every borrower provides two guarantors who vouch for his/her credentials and accept responsibility for monitoring the borrower. One of the two guarantors may be from the same family.

Credit Disbursement/Capacity Building

Disbursement takes place 2-3 times a month, with 100-150 loans disbursed at each event, usually held at the branch office, mosque, or church. Every borrower must be accompanied by one of the guarantors. Akhuwat staff and community members may also be present.

Recovery/Follow-Up

Once a loan is disbursed, the Unit Manager monitors the client with regular visits to their residence and place of work. Loan repayment must be submitted at the branch by the 7th of each month. If payment is not made by the 10th, the Unit Manager visits the client to remind them, and if repayment is still not made, the guarantors are contacted and asked to make the payment.

Funding Source of Grameen Bank

The funding sources of Grameen Bank have evolved over time. In the early years, the bulk of the funding came from donor agencies. By the mid-1990s, most of the funding was provided by the Bank of Bangladesh. More recently, Grameen Bank has started selling bonds as a source of funding. The bonds are subsidized through guarantees provided by the government of Bangladesh.

Funding Source of Akhuwat

The following are Akhuwat's main sources of funding

Donations
Initially, Akhuwat relied mainly on funds provided by its board of directors, local philanthropists, and individual donors. In addition, Zakat donations became one of the important sources of funding for Akhuwat. In 2008, Akhuwat started the Member Donor Program (MDP) to encourage borrowers to become supporters of fundraising efforts.

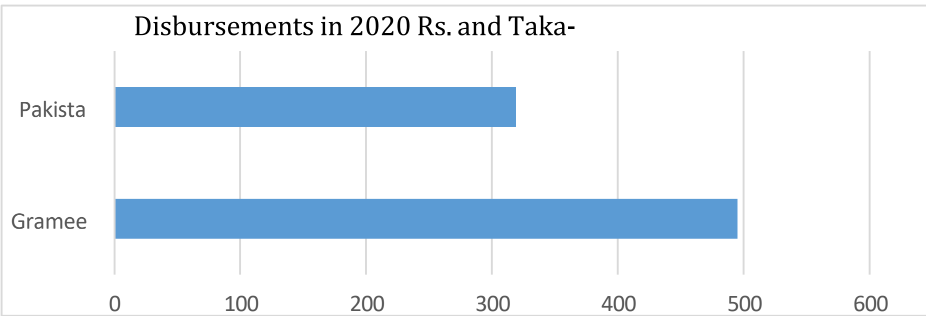
Membership Fee and Application/Processing Fee
When it first started, Akhuwat charged a Rs. 400 membership fee for each loan. This fee was later increased to Rs. 3,000 but was subsequently eliminated. Now, there is a flat fee of Rs. 100-200 per loan application.

Insurance Contributions
Akhuwat also provides an option for its borrowers to purchase credit insurance. Borrowers pay an insurance fee of 1% of the principal amount. However, loans equal to or less than Rs. 5,000 are not eligible for insurance payments.

Partnerships with Local and Foreign Governments and International Organizations
Starting in 2009, Akhuwat diversified its sources of funding by establishing partnerships with local and foreign governments, as well as international organizations. With the help of funding from these organizations, Akhuwat has purchased office equipment to support its operations. Additionally, some funds were provided by the Punjab Small Industries Corporation to offer interest-free loans to small entrepreneurs in Punjab (Foundation, 2022).

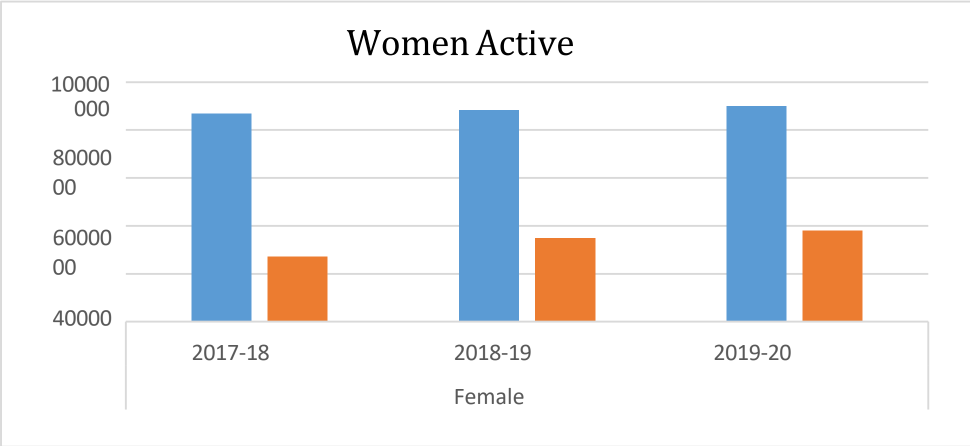
Empirical Comparative Analysis of Pakistan's total Microfinance Sector and Grameen Bank of Bangladesh

Amount Disbursed in 2020

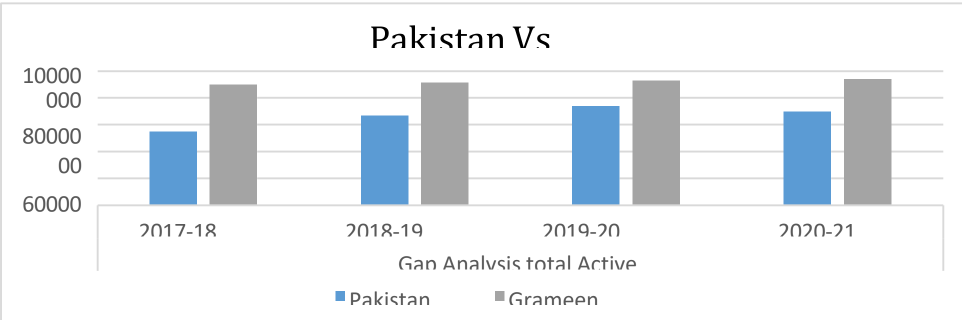


(Finance, 2022)
(Division, 2019-2020)

Women Active Borrowers



Male and Female Active Borrowers



SWOT Analysis of Akhuwat and Grameen

Strengths	Opportunities		Weaknesses	Threats
Registered with Government Rapid growing with loan recovery rate of over 90% No discrimination on basis of gender, age, religion and ethnicity Interest free to borrowers Change in borrower to contributor	Community is recognizing the importance of microfinance industry in Pakistan, as No of Borrower are on the rise. Effective tool for reducing poverty Improving the living standards and growth of economy	**Akhuwat Foundation**	Minimal administrative cost of the loan, insufficient to meet administrative expenses To check and track individual borrower incur cost	International price hike, inflation Lack of Non availability of international institutions for management training and skill development Paucity of available donor funds
Strengths	**Opportunities**		**Weaknesses**	**Threats**
Acceptable lending services for needy people Always focus on area which is un exploited Creation of loyal customer to banks	Microfinance attracts variety of investors Established tool for poverty reduction Affordable method for poor community	**Grameen Bank**	Pressure on the family to repay loan International and national Economic meltdown	Slow growth of GDP in high inflation rate impact on organizational performance Lack of availability of credit and donor funds

Poverty Alleviation through Microcredit

Success stories of various Countries

Microcredit has helped reduce poverty by providing the poor with credit facilities to start small businesses. It not only supports the economic condition of poor people but also has a positive impact on their social lives through a better standard of living, greater access to education and health facilities, and empowerment to participate in societal decision-making.

When discussing the role of microfinance or microcredit in poverty reduction, two key questions arise. First, does microcredit increase the earning capacity of poor families enough to lift them out of the poverty trap? Second, is poverty alleviation through microcredit sustainable, or is it merely a temporary phenomenon? While the majority of studies address the first question, there remains a need to explore the second in order to assess the long-term sustainability of microcredit's impact on poverty eradication. Some findings from studies analyzing the impact of microcredit programs on poverty alleviation are presented below:

A World Bank study found that the percentage of Grameen Bank borrowers in Bangladesh living in extreme poverty was reduced by 70 percent within 4.2 years of joining. The study also revealed that profits from Grameen-financed businesses increased borrowers' consumption by 18 percent per year. Another study showed that more than 91 percent of borrowers reported a positive impact of Grameen on their living standards (State Bank Report).

Research conducted by the Consultative Group for the Poor in Indonesia found that microcredit borrowers increased their incomes by 12.9 percent, compared to just 3.0 percent for non-clients. Another study of Bank Rakyat Indonesia borrowers on the island of Lombok reported that clients' incomes increased by an average of 112 percent. Consequently, 90 percent of those households moved out of poverty.

In another study conducted by Freedom from Hunger, clients in Ghana were found to have increased their incomes by US $36 per annum compared to US $18 per annum for non-clients. Beneficiaries of microcredit were not only able to increase their earnings but also to diversify their income sources.

An evaluation study of the Center for Agriculture and Rural Development (CARD) in the Philippines suggested that it successfully reached very low-income households, generated self-employment, and significantly increased their income. At the time of joining, 100 percent of CARD members belonged to the bottom 50 percent of the population living below the poverty line. According to CARD's impact study, 50 percent of its borrowers had already crossed the poverty line.

A study of the Society for Helping Awakening Rural Poor through Education (SHARE) in India reported that 85 percent of its clients came from the bottom 20 percent of individuals living below the poverty line. An impact study on women who had borrowed from SHARE showed very positive results in terms of increased income, improved nutrition, higher spending on non-food basic needs, greater employment, enhanced savings, better housing, and women's empowerment. The study indicated that about 50 percent of borrowers rose above the poverty line (Pakistan, 2005).

Gap Analysis

A gap analysis is a process that compares actual performance or results with what is expected or desired. The method provides a way to identify missing strategies, practices, technologies, or skills, and then recommends steps that will help an organization meet its goals.

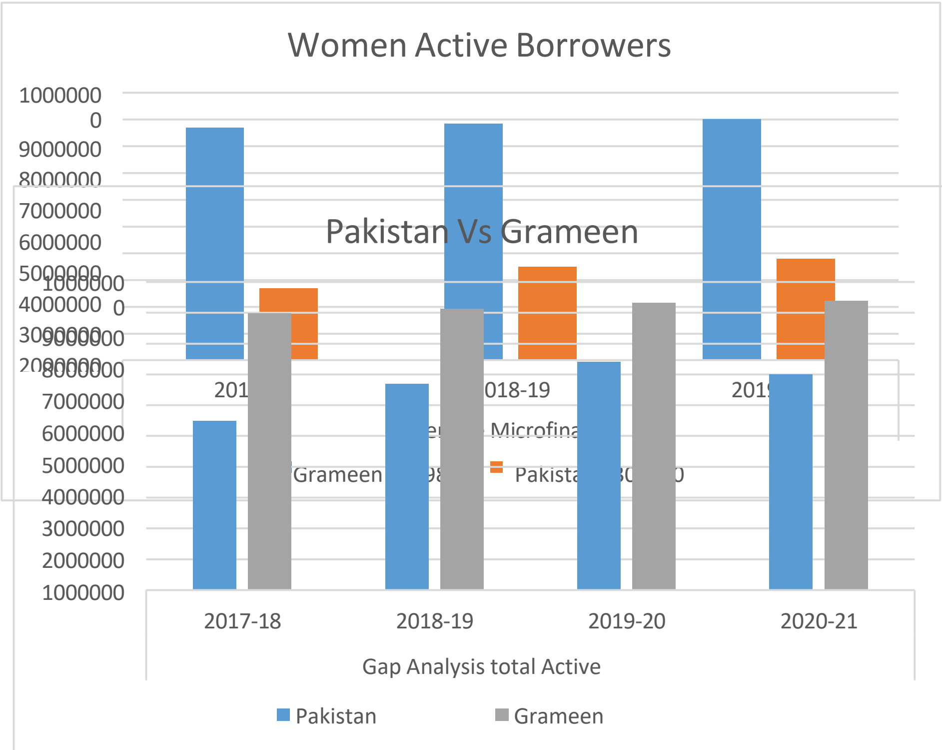
Performance of Microfinance Initiatives in Pakistan

Indicators	Current 2020	Desired Grameen Bank	Gap
Disbursement	319 billion	495 billion	176 billion
Active borrowers	7.0 million	9.4 million	2.4 million
Active women borrowers	3.4 million	9.1million	5.7 million
No of employees	44,573	18096	-26477
No of branches	3,722	2568	-1154

The table above shows five main performance indicators of the microfinance sector. In this comparison, we have used data from Pakistan (2020) in the "current scenario" column and data from Grameen Bank, Bangladesh, in the "desired scenario" column.

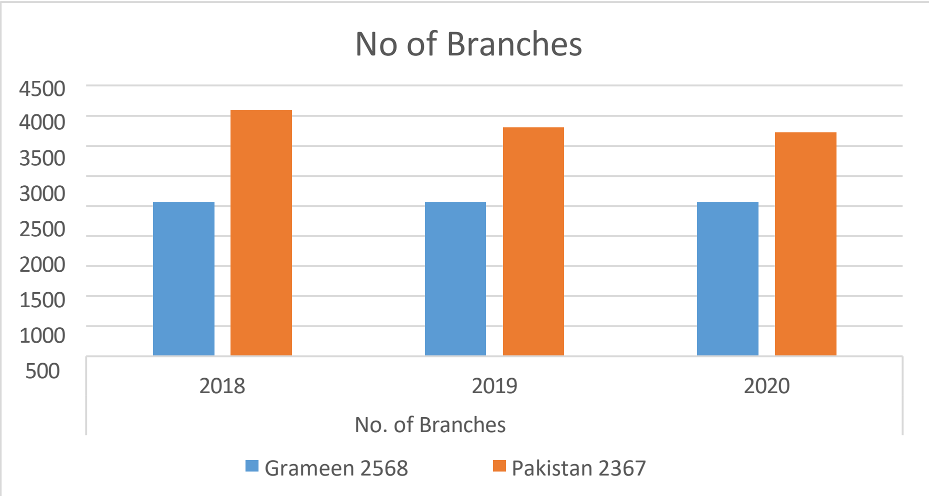
While data from any other country could have been used as a benchmark, Grameen Bank was chosen because it represents the best international practice in a neighboring country with a similar political history, population diversity, climate, and resource constraints. Therefore, using Grameen Bank as a benchmark seems more realistic, as both countries operate on relatively similar playing fields.

The graph shows total disbursements of Pakistan are less than Grameen Bank only. Grameen Bank is just a small component of whole industry of microfinance of Bangladesh, (Finance, 2022).

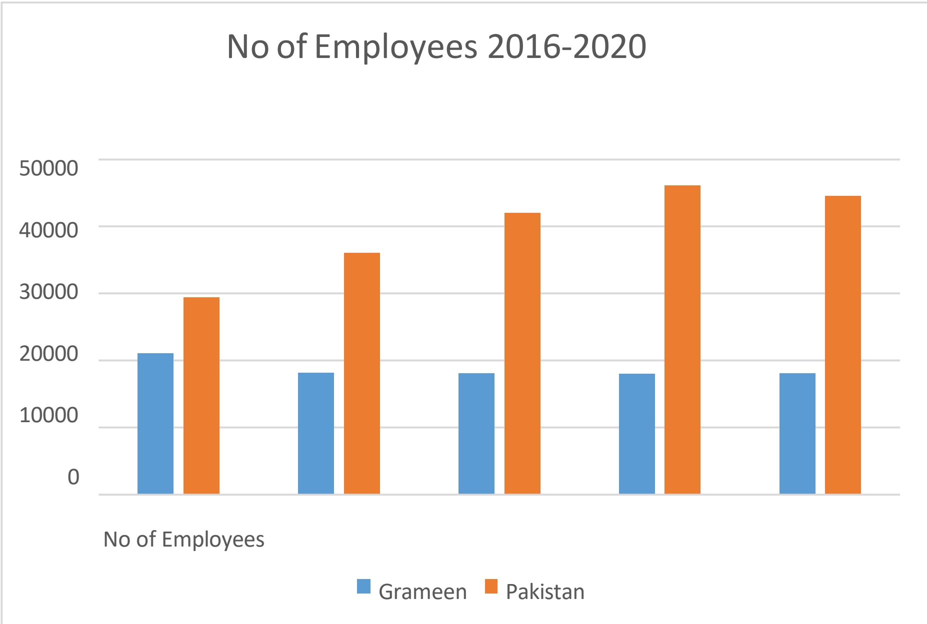


The graph shows total No. of Women and their participation in the microfinance, (Ashfaq, 2021).

Total No of active borrowers who have and are availing the facility of microfinance.



The graph shows that Grameen having the larger portfolio of active borrowers and amount disbursed over Pakistan with efficient management.



Efficient management by Grameen Bank as compare to the Pakistan.

How to bridge the gap?

Indicators	Current 2020	Desired Grameen Bank	Gap	Proposed Interventions
Disbursement	319 billion	495 billion	176 billion	International cooperation in funding
Active borrowers	7.0 million	9.4 million	2.4 million	Execution Model needs reforms
Active women borrowers	3.4 million	9.1million	5.7 million	Financial inclusion, awareness about MFIs and training in e-commerce
No of employees	44,573	18096	-26477	ainings
No of branches	3,722	2568	-1154	Better planning to utilize the already available resources- Grameen Model to be replicated

Issues and Challenges

Run-of-the-Mill Schemes

A microfinance system must be based on a survey of the social background rather than on a pre-established banking technique, to ascertain the specific problems of a community or area and how to meet their needs. We need to adopt a progressive attitude, as development is a long-term process that depends on the aspirations and commitment of the economic operators of a particular area and community. In Pakistan, this approach is not implemented, and no study or survey is conducted before setting up a microfinance system. Hence, generic and ineffective schemes are formulated and established.

High Interest Rates of MFBs in Pakistan

In MFBs, the rate of interest on credit ranges between 18–30%. Considering the poverty situation and the slow growth of businesses, this interest rate is excessively high.

Interest-Based Loan Model

In Pakistan, commercial banks do not offer interest-free loans. Due to religious beliefs, many people avoid interest-based loan systems, which leads to limited encouragement for the microfinance schemes offered by the private sector.

Human Connection is Missing

To ensure that the credit system truly serves the poor, credit officers should visit villages and get to know the borrowers. A result-oriented MFI needs to prioritize actions that target the most impoverished people who lack access to credit. First, train the community—then lend money. Unfortunately, Pakistan lacks such systems in most areas.

Microfinance Model is Not Income-Generation Friendly

Credit should be restricted to income-generating production operations, freely selected by the borrower, to ensure they can repay the loan. However, the current microfinance model does not always support this principle.

Group of Borrowers' Model Not in Vogue

Group-based lending can instill a sense of collective responsibility and ownership. However, this model is not widely adopted in Pakistan, which increases the borrower's vulnerability and risk.

Human Resource Development Not Focused

Investing in human resources—by training borrowers—can instill real development values rooted in creativity, understanding, and respect for the rural environment. In Pakistan, there is minimal focus on human resource development.

Cultural Constraints in Inclusion of Women

If we financially empower women—who make up over 52% of the population—our per capita income could increase manifold. But due to cultural constraints, women are often excluded from participating in the financial cycle in Pakistan.

Collateral-Based Loans

Nearly 50% of all microfinance loans in Pakistan are disbursed by MFBs on a collateral and interest basis, as commercial banks primarily aim for profit. This discourages many potential borrowers.

No Governmental Incentives for International Cooperation Partners

Pakistan lacks a strategy to attract international microfinance partners, unlike Bangladesh. Grameen's success story has drawn numerous international projects and partners.

Lack of Awareness

There is a severe lack of awareness about microfinance institutions and their services in Pakistan. People in remote areas are largely unaware of the availability of microfinance and the procedures to access it.

Inconsistency of Microfinance Schemes

The government introduces microfinance schemes like *Kamyab Jawan* and *Kamyab Pakistan*, but these are often abruptly discontinued due to a lack of funds or changes in political leadership. These schemes could yield positive results in poverty alleviation if implemented consistently and in true spirit.

SWOT Analysis of Pakistan Microfinance Sector

<table>
<tr><th>Strengths</th><th>Opportuniti s</th><th></th><th>Weaknesses</th><th>Threats</th></tr>
<tr><td>Huge potential market of borrowers
Hardworking people</td><td>Local industrialists and rich expatriates may be attracted for investing in micro finance</td><td></td><td>Choice of microfinance model
Skill training not focused</td><td rowspan="4">Paucity of international funding
Fear of Economic meltdown due to foreign debts

Sustainability issues
Crypto currency and Tiktok inspiration for youth as easy income.

Chinese products' invasion in the market may cause uncertainty in the small entrepreneurs for.
Repayment of loans.</td></tr>
<tr><td>Favorable geographical and climate conditions for agriculture, business and livestock</td><td>International cooperation partners may be convinced for microfinance projects' investment</td><td>Pakistan Microfinance Sector</td><td>Cultural constraints for women inclusion in the financial cycle
Lack of digitalization in rural areas</td></tr>
<tr><td></td><td>Community, now recognizing the importance of microfinance</td><td></td><td>No vocational training based on the needs of each unique community</td></tr>
<tr><td></td><td></td><td></td><td>Ecommerce, not popular in rural areas</td></tr>
</table>

Conclusion

The majority of developing nations are burdened by poverty, which serves as a major obstacle to their progress. A key factor contributing to widespread poverty in regions like Pakistan is the significant disparity in income distribution. This is where microfinance plays a vital role, as its primary objective is to ensure the financial inclusion of the most impoverished and marginalized segments of society—particularly women. While the growth trajectory of the Pakistani microfinance industry has been noteworthy, a comparison with the success of microfinance in neighboring countries like Bangladesh reveals that Pakistan’s microfinance institutions still have a long way to go.

Microfinance institutions not only lag in terms of structural and operational approaches, but also in their overall financial processes. High interest rates compared to mainstream banks, a lack of awareness about microfinance facilities, aversion to interest-based loans due to religious beliefs, the challenge of selecting the appropriate model, cultural constraints that prevent women from accessing microfinance facilities, inconsistent government policies, and a strict regulatory framework for the registration of new microfinance banks and institutions are some of the challenges that need to be addressed in order to make a meaningful impact on the economic wellbeing of society. Therefore, it is fair to conclude that microfinance must play a pivotal role in alleviating poverty and improving the economic status of underprivileged people in our society.

Recommendations

SHORT-TERM:

Regulations and Procedures

Regulations and procedures should be simple and clear to encourage the entry of new institutions into the market, providing small loans to the poor. This will ensure that the informal sector of microfinance is brought into a regulated framework.

Terms and Conditions of the Loan

In the case of Microfinance Banks (MFBs) and Rural Support Programs (RSPs), the interest rate on credit ranges from 18-30%. Considering the poverty situation and slow business growth, this interest rate is quite high. Depending on the size of the loan, the rate could be set at KIBOR plus 5%.

MEDIUM-TERM:

Condition of Owning Any Asset

Nearly 50% of all microfinance loans are disbursed by MFBs. However, the requirement to own a small business, tangible assets, and provide more than one personal guarantor (with at least one being a government employee) are quite stringent. Instead, only one guarantor from the community may be sufficient, and the requirement for owning tangible assets should be relaxed.

Increase in Awareness

Awareness of potential borrowers should be increased through various channels such as banners, signboards, radio, community seminars, and religious sermons in mosques, especially for Qarz-e-Hasana programs.

Cultural Issues

Local individuals, preferably elders, could be trained and hired for microcredit operations. The concept of empowering local elders should be implemented in villages.

Digitization of Services

A gradual approach should be adopted for the use of technology and the digitization of microcredit services. As Grameen Bank demonstrated, mobile phones can facilitate digital inclusion.

LONG-TERM:

Creating Value Chains

A value chain may be created starting from targeting the potential community, disbursing loans, providing training in craftsmanship, developing products, and purchasing products from beneficiaries to maximize their profits, as done in the case of Grameen.

Government as Facilitator for Bringing Investments

The government may connect local and international donors with MFBs and MFIs, instead of directly allocating funds. The government should act only as a guarantor and regulator.

Reduction of Operational Costs

The operating costs of MFIs could be reduced by developing a community-based model in which local community councils raise awareness, identify, select, and monitor grants and loan repayments. This would eventually lead to lower interest rates.

Innovative Products

Innovative products, such as a division of labor-based approach, may also be introduced. For example, instead of offering loans to individuals for livestock, some could focus on growing fodder, others could engage in cattle breeding, and another group could handle milk and dairy production.

Graduation of Beneficiaries

A sequential approach may be adopted: initially, unconditional grants may be given to the ultra-poor, followed by asset transfers, then interest-free loans, and finally, microcredit for establishing businesses.

Consistency of Policies

The government should ensure not to introduce multiple parallel programs or frequently alter the terms and conditions of existing programs. This would allow the program cycle to mature.

Government Programs through Public-Private Partnership (PPP)

The government may enter into partnerships with implementation partners like MFBs and MFIs through the PPP model. The government plays a crucial role in attracting both local and international partners to contribute significant funds to microfinance with no collateral and minimal interest.

LOGFRAME

GOVERNMENT PROGRAMS THROUGH PPP

Input	Activities	Output	Outcomes	Impact
Allocation of Funds	Selection of MFIs Preparation of TORs	Signing of MOU Greater funds with the selected MFIs Expansion of MFIs network	Savings of projects costs Efficient implementation Closer interaction with Private sector	Growth of MFIs Contribution to economic activity

CONSISTENCY OF SCHEMES

Input	Activities	Output	Outcomes	Impact
Sustainable Microfinance Scheme	Time Frame Inclusive team	Timely achievement of targets, Optimization of resources	SHORT TERM: Trust development of the beneficiaries /community MEDIUM TERM: Community uplift	Designing Result- oriented Schemes Formulation of effective policies
Minimum skill based	Identification of targeted beneficiaries	Effective use of microfinance With greater results	Community encouraged to improve skill sets	Development of skilled work-force
Stakeholders: government, local elders, community	Formation of Joint Coordination Council	Transparent and Merit-based selection of beneficiaries	Community cohesion and awareness	Feeling of good-will and inclusiveness

POVERTY GRADUATION OF BENEFICIARIES

Input	Activities	Output	Outcomes	Impact
Robust data of Poverty bands	Categorization of beneficiaries as per poverty bands	Designing of Scheme for microfinance program	Sequential growth of beneficiary's in different bands	Graduation in poverty bands and development of small enterprises

CREATING VALUE CHAIN

Input	Activities	Output	Outcomes	Impact
• Organizing retailers for Purchase of beneficia y's products	• Identify market for the products • Selection of suitable retailers	• Sale of items • Greater customer base for the products	• Improved profit margin for the retailer • Rise in demand for the products among the retailers	• Greater economic activity • Tax base expansion
• Provision of microfinan ce to the Beneficiaries	• Prioritizing beneficiaries with good craftsmanshi p	• Growth in production • Enhanceme nt of skills	• Motivation to improve skills • Better inco me	• Community uplift

GOVERNMENT AS FACILITATOR

Input	Activities	Output	Outcomes	Impact
• Establishm ent of Joint Forum for donors	• Presentation to the donors to provide microfinance programs update • Sovereign guarantee	• Channelizing of funds • Modern techniques of microfinance operations	• Better sustainabil ity of programs • Systems improvem ent	• Growth of microfina nce sector • Coverag e of potential microfina nce borrower s

INCREASE IN AWARENESS

Input	Activities	Output	Outcomes	Impact
• Development of content in Urdu and local languages • Selection of communication channel • Mobilizatio n communit y	• Banner, pamphlets, stream rs • FM radio; door to door; placement of broachers in community centers like mosque and major village shops	• Information about the scheme • Reliance on the formal sector • Increased number of beneficiaries • Operational activities of	• Access to microfina nce • Sensitiza tion and mobiliza tion of commu nities	• Greater understandin g of microfinance schemes • Facilitating informed decision and optimum selection of microcredit
	• Seminars for the community • Liaison with local • counsellors	MFIs and MFBs		

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