TEN YEARS OF ‘WAR AGAINST POVERTY’: WHAT HAVE WE LEARNED SINCE 2000 AND WHAT SHOULD WE DO 2010-2020?

DOES MICROFINANCE REACH THE POOREST OF THE POOR?
EMPIRICAL EVIDENCE OF PROGRAMME OUTREACH FROM RURAL PAKISTAN

ASAD KAMRAN GHALIB

asad.ghalib@postgrad.manchester.ac.uk

Final Year PhD Candidate at IDPM, University of Manchester, UK
Institute for Development Policy and Management (IDPM)
School of Environment and Development
Faculty of Humanities
The University of Manchester, UK
Abstract:

The ‘Microfinance Model’ is has been applied extensively on a global scale as a strategy for reducing poverty and promoting development. The ensuing results have transformed both the social and economic lives of households worldwide. While some economists deem the results to be indisputably affirmative, others have questioned the legitimacy and sanctity of the findings, and have even argued that in certain cases (gender empowerment, for instance) the impact has not been as promising as it has been portrayed.

This paper critically assesses how ‘deep down’ has microfinance been able to reach across the rural landscape in Pakistan. By drawing on first-hand, primary observations and by using empirical data from remote rural villages of Pakistan, this research attempts to provide evidence regarding depth of programme outreach. It attempts to ascertain if the service has been able to reach those who deserve and need it most: the poorest people of the society.

The study makes use of 1,132 primary household surveys conducted across the rural areas of the province of Punjab and captures a multitude of variables to portray the multidimensional nature of poverty. Both borrower (treatment) and non-borrower (control) households are interviewed, based on a randomly drawn sample. By employing factor analysis and the principal component analysis (PCA) model, each household is allocated a specific poverty score in relation to all other households in the sample interviewed. Once the poverty index is obtained, sampled households can be ranked in order of varying poverty levels. Comparisons are later made between borrower and non-borrower households. This enables formation of an opinion on the depth of poverty outreach of the microfinance institutions in the rural areas being surveyed.

The paper concludes with findings that the depth of poverty outreach is significantly low than what has been hitherto proclaimed by service providers. It also offers policy recommendations on lessons learnt to enhance depth (as opposed to breadth) of outreach to address the needs of the poorest of the poor across the rural areas and thus contribute meaningfully and effectively towards the ‘war against poverty’.

Keywords: Microfinance, poverty alleviation, depth of programme outreach

JEL Classification Codes: O1, O15, O18, I32, I38
1.0 Introduction

In the wake of the Millennium Development Goals (MDGs), improving access to financial services in developing countries has become a major policy objective, as it is widely believed that economic growth can be accelerated substantially by both *deepening* and *widening* outreach of financial services (Chandrasekhar 2004; Beck, Demirguc-Kunt et al. 2005; Honohan 2006; Demirguc-Kunt, Beck et al. 2008; Haq 2008). Financial services outreach is associated with giving access to capital and providing job opportunities to the poor. Despite efforts to provide access to financial services, it has often been argued that both formal and informal sectors in the developing world have failed the people in rural communities (Rao 1980; Chowdhury 2008), primarily because limited access to financial services in the developing world is one of the main obstacles to income generation and social protection (Beck, Demirguc-Kunt et al. 2005; Ghalib and Hailu 2008).

There are two sources of credit available to the rural poor in a less developed economy: institutional and non-institutional (Gupta and Chaudhuri 1997). Non-institutional or informal sources include moneylenders, landlords, traders, friends and relatives; institutional or formal sources consist of cooperatives, commercial banks, regional rural banks, etc. (ibid.). Conventional banks face a series of problems in extending services to the rural poor. Coming from outside the communities in which they seek to serve, such institutions lack adequate and efficient systems to disburse and collect funds profitably in poor areas (Armendariz and Morduch 2005). Since the typical borrower in the unorganised credit market has no, or very limited access to the organised market (Rao 1980; Sundrum 1992; Gupta and Chaudhuri 1997), he resorts to private money lenders in order to finance his immediate needs. Consequently, such lenders have traditionally been amongst the primary source of finance at rural levels (Bhaduri 1977; Rao 1980).

Credit market isolation, coupled with an inelastic demand for credit, allows the private moneylender to decide freely what interest rate to charge (Rao 1980; Sundrum 1992; Gupta and Chaudhuri 1997). Moreover, due to multiple types of credit arrangements, there is a wide range in interest rates (Germidis, Kessler et al. 1991). Since informal moneylenders tend to operate under conditions of monopolistic competition, their low-income borrowers generally pay much higher interest for credit than would be necessary if commercial microfinance were widely available through financial institutions with broad outreach (Robinson 2001). Dowla (1998) makes extensive use on data from a variety of sources, which reveal that interest rates being charged by the informal sector are simply exorbitant. Depending on the source, the cost of capital to the borrowers may vary anywhere from 10 to 120 % per annum for initial investment, and up to 240 % for working capital financing. The studies further show that even friends and relatives may charge interest on informal loans (from 30 to 96 % interest per annum). Apart from the usurious rates charged, the highly personalised relations between lender and borrower, through a system that is usually deeply embedded in the social structures (Robinson 2001), permit the lender to secure from the borrower the collateral which the latter cannot employ in the organised market (Bhaduri 1977; Rao 1980). Short-term financing (such as on a daily basis) proves most expensive for the cash-strapped borrowers. Germidis, Kessler *et al*. (1991) cite a common short-term financing mechanism common in Asia and Latin America, where street vendors obtain fresh produce each morning for 50 pesos and repay 60 pesos the same afternoon, thus paying an effective monthly interest rate of 23,638 percent! Robinson (2001) argues that
given the large share of credit market which moneylenders hold in many developing countries, the high interest that borrowers pay can have a substantial negative effect on development efforts, as it tends to impede the growth and progress of borrowers’ microenterprises. Unfortunately, private lenders tend not to lower such exorbitant interest rates as they know that the borrowers linked to them cannot easily find another lender, do not have bargaining power and are very poor and desperate (ibid.).

To make matters worse, despite exorbitant rates and even after collateralizing whatever few assets they possess, borrowers are still ill-treated and ‘suffer at the hands of the lenders’ (Sundrum 1992). Sometimes even political support is needed to negotiate a deal (Robinson 2001), and incidences of bonded labour have been reported (Sharma 1978; Marla 1981; Roth 1983; Robinson 2001) while, in rural India locally powerful lenders may even forcibly take possession of the borrowers’ land and hold it, as collateral, until the poor peasants return both the principal and accrued interest (Robinson 2001). Traditional banks, on the contrary fare better in terms of interest rates, but form collateralization as part of the key lending requirement.

The restraints and inadequacies in the formal as well as informal financial sectors, as noted above, have led not only to the evolution of Microfinance (Chowdhury 2008; 2009), but also towards its immense popularity all over the developing world as a key tool in development-related programmes (Germidis, Kessler et al. 1991; De Aghion and Morduch 2000; Cheston and Kuhn 2002; Gallardo 2003; Brau and Woller 2004; Dunford 2006; Chowdhury 2009). Such immense success can be attributed to two major characteristics of the model that money lenders and commercial banks have grossly lacked, as shown in the discussions above: collateral-free lending and low interest rates.

The underlying premise of microcredit is to provide credit without the borrower having to surrender his assets as security in case of non-payment. How can money be advanced without any security and collateral? Chowdhury (2008) attributes it to ‘the harmony among group members, the strict discipline in providing credit and collecting repayments, and supervision of borrower’s activities in the microcredit system’. Armendariz and Morduch (2005), on the other hand argue that banks require collateral because clients have no inherent loyalty to such ‘outsiders’ while banks have little or no knowledge about potential clients. According to RangDe (2009), since microfinance originated in the developing world where people have strong social structures and interdependencies; such social cohesion tends to create a peer pressure that encourages individuals to repay loans and support each other. Yunus (1997) refers to this process of collateral substitution as ‘freeing credit from the bondage of collateral’, and refers to the system as a ‘a wrong which has caused so much avoidable human misery’. Yunus further criticizes collateral provisions for depriving poor people of credit facilities within the formal financial sector institutions, stating that it constitutes a form of ‘financial apartheid’ (Yunus 1997; Chowdhury 2008).

Despite the absence of collateral, repayment rates are even higher than collateralized lending by the traditional banking sector, and ‘microfinance institutions now reach well over 100 million clients and achieve impressive repayment rates on loans’ (Cull, Demirguc-Kunt et al. 2009). Most MFIs have reported over 99 percent on-time repayments (Srinivasan 2009), while Grameen Bank (2009) claims a 98 percent recovery rate. Such high recovery rates can be attributed to the closely-knit rural communities, strong social networks, peer pressure and effective monitoring by MFIs.
Following this brief introduction that looked into the underlying factors that led to the evolution of microfinance, its fundamental principles and how the model endeavours to challenge and defy the age-old, established practice of private, collateralized money-lending to the rural poor, this paper from henceforth briefly explores current literature on poverty targeting and outreach. It examines how, why and to what extent microfinance providers extend services to the ‘poorest of the poor’ and how such depth (as opposed to breadth) of programme outreach impacts both service providers and consumers alike. This section leads to a discourse on Pakistan’s poverty profile and the current state of the microfinance industry in the country. The penultimate section pertains to empirical work carried out in the province of Punjab in Pakistan that attempts to measure the depth of programme outreach across the region to gauge how successful various programmes are in reaching the bottom poor. The paper concludes with discussions and policy recommendations to target the poor and expand programme outreach.

2.0 Taking stock of what we know: A brief review of literature on financial services outreach and poverty targeting

Development policies are either targeted at certain specific individuals or segments of the society (‘targeting’), or are designed to influence the entire population (‘universalism’). Mkandawire (2005) argues that there is hardly ever pure universalism or targeting, however; policy regimes are often hybrid and tend to lie between the two extremes. Since the 1980s, however, the balance has tilted from universalistic policies towards targeting (ibid.). The principles, cost-related potential benefits, as well as ethical and political problems of targeting versus broad or universal services have been extensively discussed in literature (Besley and Kanbur 1993; Sen 1995; Johannsen 2006). Historically, during the late seventies and early eighties, economists devoted considerable attention to the distributional effects of projects. This attention reflected longstanding concerns of applied welfare economists about the distributive implications of prescriptive judgements (Little 1950; Londero 2001). The outcome, according to Johannsen (2006) is that ‘both our understanding of poverty and the measurement approaches have considerably improved the targeting efforts of diverse types during the last decades’. Londero (2001) asserts that concerns about the ability of reaching the poor have led to promoting the design of poverty targeted interventions, in some cases leading to the dichotomous classification of projects into poverty targeted and the rest. To that effect, two definitions of poverty targeted projects seem to be in use: the first common definition describes a project as poverty targeted ‘whose design includes specific instruments to channel to the poor more benefits than would otherwise have been the case’. An important characteristic of this definition is that it is not concerned with the amount of benefits channelled to the poor, but only with the existence of the targeting instruments. The second definition pertains to headcount impact: ‘for a project to be poverty targeted, it is normally asked that the percentage of poor beneficiaries exceeds a certain pre-established threshold, for example, the headcount poverty incidence in the country or region’ (ibid.) (Londero 2001). Weiss (2005) classifies measures to reach the poor in four different ways - targeting by activity such as primary healthcare and education; targeting by indicators such as lack, or size of, ownership of land, form of dwelling, and sex of family head; targeting by location or geographical targeting; and targeting by self-selection such as employment creation where payment is either cash or kind, subsidization of low quality food stuffs.
Outreach is one of three operational policy objectives for building inclusive financial systems. The other objectives, as noted by Zeller and Johannsen (2006) are financial sustainability of the microfinance institution and impact on poverty reduction. According to Daley-Harris (2006), microcredit outreach is still small despite the enormous increase in services to poor borrowers. In 2004, only 6 per cent of borrowers with an income below $365 per annum were able to borrow from microfinance institutions. Matin (2005), however asserts that despite the general consensus that microfinance does not reach the poorest; recent evidence suggests that nearly 15% of microfinance clients in Bangladesh are among the poorest, while Gonzalez and Rosenberg (2006) state that measured by number of borrowers, microfinance is dominated by Asia, which accounts for seven out of every eight MFI borrowers and twice as much microcredit as any other region. Despite such claims, there are still hundreds of millions of potential clients not being served. Effective programme targeting leads to directed outreach, which is vital as financial institutions through such design, endeavour to reach the real, intended beneficiaries: the very poor, in order to achieve poverty reduction. This is especially important as most microfinance clients today fall in a band around the poverty line, the extremely poor, out of which are rarely reached by microfinance.

The Microfinance industry promotes the dual objectives of sustainability of services and outreach to the very poor. While formulating policies to fund development-related projects and MFIs, donors consider both objectives; moreover, many practitioners, donors and other principal stakeholders perceive a trade-off between financial sustainability and depth of programme outreach (Henry, Lapenu et al. 2003). Cohen (2003) suggests that donors should invest in a range of promising financial institutions to ensure that diverse clients at many income levels are reached, extending outreach both outwards and downwards as far as possible. In practice, however, this might be arduous to achieve. This might be due to a number of reasons. Martin (2001), for instance, identifies one major concern in efforts to combat poverty as identifying the poor since ‘it is difficult, time consuming and costly to measure poverty on a nationwide scale’. The success of poverty alleviation efforts typically depends on their ability to properly identify and target the objective population, i.e. the very poor (ibid.). Churchill, Hirschland et al. (2002) describe why serving the extreme poor or those in remote areas is costly: ‘reaching the poor implies delivering services near their homes, which requires more staff time and greater internal controls. Furthermore, the extreme poor may need to be actively recruited, exclusively targeted, or offered different or more flexible products. These strategies increase operating costs. The extreme poor or persons in remote areas may not be able to afford products priced to cover the associated risks and transaction costs. Managing a range of customized services can also drive up costs, making it difficult to viably serve the very poor. In particular, customized services will require field staff with a higher level of skills’. Higher operating costs imperil sustainability of service providers and the debate over institutional sustainability and depth of programme outreach amongst academics and practitioners continues, as some argue that institutions have to be – first and foremost – financially stable, that is, they are able to cover their operating costs. Some analysts have maintained that increasing the depth of outreach and financial sustainability are compatible objectives in the sense that increasing scale of operations will also increase the absolute number of poor people amongst clients: ‘It is scale, not exclusive focus, that determines whether significant outreach to the poor will occur’ (Zeller and Johannsen 2006). Several other authors presented analyses (Hulme and Mosley 1996; Conning 1999; Lapenu and Zeller 2002; Paxton and Cuevas 2002; cited in Zeller and Johannsen 2006) that support the notion of a trade-
off between improving depth of outreach, i.e. reaching relatively poorer people, and achieving financial sustainability.

2.1 Empirical studies on poverty targeting and outreach

Experiential work dedicated exclusively to poverty targeting and depth of outreach of microcredit programmes is relatively less. This is mostly because a majority of the work on programme outreach is usually found as being merely a part of larger and more comprehensive impact assessment studies that investigate economic poverty, household assets, household income and expenditure, community and social capital formation and gender empowerment, etc. While such studies highlight issues concerned with outreach, they often tend to overlook in-depth analysis and are generally more inclined towards discourses on economic and social impact on borrower livelihoods at a larger scale.

Despite dearth of dedicated research, there are instances of empirical work focused exclusively on poverty targeting and outreach. In an extensive study carried out in Western Cape Province in South Africa, for example, Adato and Haddad (2001) examine the targeting performance of seven programs and analyze the role of government, community-based organizations, trade unions, and the private sector in explaining targeting outcomes. The findings concluded that the programs were not well-targeted geographically in terms of poverty, unemployment, or infrastructure and within localities; jobs went to the poor and unemployed, though not always the poorest. Srivastava (2004) addresses two broad questions related to poverty targeting programmes with particular reference to India: how much in aggregate does the government spend on poverty targeted programs and how effective have these programs been in targeting the poor and in alleviating poverty. Martin (2001), in a study based in Mozambique, suggests that the most efficient method to identify and target the poor would be ‘geographic targeting’. This type of targeting can be achieved by first generating a disaggregated map of poverty and living conditions by combining data from both a nationwide standards of living survey and a national population and housing census (ibid.). Zeller and Johannsen (2006) use data from nationally representative household expenditure surveys undertaken in 2004 in Bangladesh and Peru and examine the poverty status of clients of different types of microfinance institutions in both countries. The analyses show that microfinance institutions are able to reach the poor, but that also a large share of their clients belongs to the non-poor population.

2.2 The effectiveness of poverty targeting and programme outreach in poverty reduction

Since microfinance programmes by nature and design rely on targeting mechanisms at the individual or household levels, they are often preceded by some categorical targeting towards geographic or demographic sub-groups (Johannsen 2006). Such ‘inherent targeting design’ of microfinance makes it more convenient to formulate policies towards effective and efficient programme outreach. The success of poverty alleviation efforts typically depends on their ability to properly identify and to target the objective population, i.e. the very poor. Ideally, one would like to identify such population at the individual level, and to design targeting programmes that reach them adequately (Martin 2001). This level of accuracy and efficiency obviously requires
large amounts of resources for gathering information and administering the targeting programmes. With scarce resources and under time pressures for finding solutions for the large shares of the population living in poverty conditions, most countries have put aside the ‘ideal’ scheme and instead try to find alternative, but more practical approaches (ibid.). One of these approaches, ‘geographic targeting’, is recognized as one possible solution to the dilemma to identify the poor. Instead of aiming to identify and target the poor individuals and the households where they belong, it is administratively easier and cheaper to orient poverty alleviation efforts to the geographic areas where the poor actually live (Martin 2001).

How effective is targeting towards poverty alleviation? Goldberg (2005) cites two major studies pertaining to ASA and Grameen Bank that strongly suggest that microfinance works better for the poorest than the less-poor. Both organizations established their own programs to reach the hardcore poor. Neither involves grain handouts, but they offer very small loans with flexible repayment schedules (Goldberg 2005; Hulme 2008). Grameen’s ‘Struggling Members’ or ‘Beggars Program’ constitutes a typical loan to a beggar member amounting to Tk. 500 (US$ 9.00). It is both collateral and interest-free. The repayment schedule is flexible and decided by the struggling members themselves. The instalments are to be paid according to their convenience and earning capability. As of July 2009, about 111,645 beggars have already joined the programme. The total amount disbursed stands at Tk. 136.56 million (approx. US$ 2 million), out of which Tk. 102.26 million (US$ 1.48) has already been paid off (Grameen Bank 2009). BRAC’s own assessment of its impact found that while landless clients benefited least from the program, while those with 1-50 decimals of land (‘the poor’) benefited most (Goldberg 2005). In a study that looked into inequality and the polarizing impact of microcredit in Zambia, Copestake (2002) found that clients below the poverty line benefited significantly more from access to credit. A study by Hossain and Diaz (1997) that evaluated a Grameen Bank replication in the Philippines found that income from older borrowers’ microenterprises was 3.5 times higher than newer borrowers’ enterprises, and older borrowers also increased income from other sources.

On the contrary, however, a study on community-driven rural development projects carried out by the Inter-American Development Bank concurred that the poorest and the most vulnerable generally are not necessarily reached by targeting (Dahl-Ostergaard, Moore et al. 2003). Certain projects of The World Bank have tried to reach the poor through targeting, but there is limited evidence to show that they have done this more successfully than any other Bank investment. It is not surprising, therefore, that a recent literature review (Mansuri and Rao 2004; cited in The World Bank 2005) found that projects that rely on community participation have not been particularly effective at targeting the poor (The World Bank 2005).

Despite results of studies noted above, the question of which group benefits most from microfinance is probably misguided. Evidence shows that the very poor do benefit from microfinance, and this justifies the decision of many programs to recruit them (the ultra poor) and to develop products and services that suit their needs (Goldberg 2005). Some microcredit advocates argue that micro-finance services should reach the ‘poorest of the poor’ as access to credit is a human right in the fight against economic exclusion and therefore narrow targeting of the poorest is necessary (in-depth targeting) (Aguilar 2006). Some studies have also shown that most poor people have benefited from microfinance programmes but that narrow targeting is not
necessarily a condition for reaching the poorest while some large-scale non-targeted schemes have proven to reach the poorest (ibid.).

The significance of client targeting cannot be underestimated and certain donors have even started making this aspect as an inherent policy for identifying potential borrowers. According to Woller, Simanowitz et al. (2004), for instance, microfinance institutions (MFIs) applying for U.S. Agency for International Development (USAID) funding have to demonstrate that they target the very poor. Such a demonstration requires them to perform poverty assessments, classifying the poverty level of their clients and monitoring changes in their poverty status. The Microenterprise for Self-Reliance Act, as amended in 2003, mandates that at least 50 percent of all resources granted by USAID for Microenterprise and microfinance be targeted to the ‘very poor’. The Act defines the very poor as either (1) those living in the bottom 50 percent of those below the national poverty line established by the national government of the country in which those individuals live, or (2) those living on the equivalent of less than $1 per day (ibid.).

3.0 Poverty profile of Pakistan

According to The Population Division at the U.S. Census Bureau (2008) the estimated population of Pakistan stood at 173 million in 2008. With an average growth rate of 2 percent, it is expected to reach 196 million by 2015, the year to achieve the Millennium Development Goals (MDGs). 36 percent of the total population is urbanized, with an estimated 113 million still living in rural areas (CIA 2008). As shown in the map below by United Nations Environment Programme (UNEP 2008), over 75% of the population in the country lives on less than $2/day.

![World Poverty Map](unep-gridarendal-2008.png)

Figure 1: Source: (UNEP/GRID-Arendal 2008)
The long-term trend of poverty in Pakistan over a period of 23 years, from 1986-2009 is shown in Figure 2. Poverty, measured in terms of the headcount of the poor (the proportion of the population with consumption below the official poverty line), shows how the poverty headcount has altered over the period: at a moderate percentage of 17.32 in the late eighties, it averaged at a stable 22.7 percent during most of the nineties, till worsening during the later part of the decade, until it peaked at 34.5 percent during 2001-02. The situation seemed to improve gradually in the 2004-05 and 2005-06 periods dropping to 22.3 percent until worsening to 30 percent in the 2008-9 periods (Government of Pakistan 2008). While provisional poverty estimates suggest that poverty declined between 2001 and 2005, the proportion of the population below the poverty line remains high. Moreover, despite recent indications of improvement, social and living standards remain well below countries with similar incomes and growth rates (The World Bank Group 2006).

As shown in Table 1, 22.3 percent of the country’s population lives below the poverty line, with another 20.5 percent living in vulnerable conditions (Haq 2008). Two thirds of the poor people of Pakistan are living in rural areas and most of them are directly or indirectly linked to agriculture (The World Bank 2002).
<table>
<thead>
<tr>
<th>Poverty Band</th>
<th>Ranking Range</th>
<th>Percentage of Population</th>
<th>Estimated Head Count (million)</th>
<th>Estimated Adult Population (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely poor</td>
<td>&lt;50% of poverty line</td>
<td>0.5</td>
<td>0.81</td>
<td>0.4</td>
</tr>
<tr>
<td>Ultra poor</td>
<td>&gt;50% and &lt;75% of poverty line</td>
<td>5.4</td>
<td>8.69</td>
<td>3.8</td>
</tr>
<tr>
<td>Poor</td>
<td>&gt;75% and &lt;100% of poverty line</td>
<td>16.4</td>
<td>26.39</td>
<td>12.3</td>
</tr>
<tr>
<td>Vulnerable</td>
<td>&gt;100% and &lt;125% of poverty line</td>
<td>20.5</td>
<td>32.99</td>
<td>16.9</td>
</tr>
<tr>
<td>Quasi Non-poor</td>
<td>&gt;125% and &lt;200% of poverty line</td>
<td>36.3</td>
<td>58.41</td>
<td>33.1</td>
</tr>
<tr>
<td>Non-poor</td>
<td>&gt; 200% of poverty line</td>
<td>20.9</td>
<td>33.63</td>
<td>21.9</td>
</tr>
<tr>
<td>Total Population</td>
<td></td>
<td>100</td>
<td>160.9</td>
<td>88.4</td>
</tr>
</tbody>
</table>

Table 1: Poverty Profile of Pakistan
(Source: Pakistan Economic Survey 2007-08, Finance Division, Ministry of Finance and PMN estimates)

Figure 3: Distribution of the Poor in Pakistan
Poverty has multidimensional characteristics in Pakistan, due to which the poor not only have low levels of income, they simultaneously lack access to basic services such as clean drinking water, adequate sanitation, proper education, access to financial services, sufficient and timely health facilities, employment opportunities, efficient market access etc. (The World Bank 2009). A primary factor that contributes to rising poverty levels is the lack of access to basic services and facilities, which ultimately ‘undermines the capabilities of the poor, limits their opportunities to secure employment, results in their social exclusion and exposes them to exogenous shocks, and to make matters worse, the vicious cycle of poverty is accentuated when the governance structures exclude the most vulnerable from the decision making process’ (Government of Pakistan 2009).

Table 2 summarizes the Human Development Index HDI, HDI-1 and GDI ranks alongside the GDP per capita of the countries in the South Asian region. Pakistan scores 0.562 on the HDI, giving the country a rank of 139 out of 179 countries for which data is available. It fares below Sri Lanka, Bhutan and India, similarly at a GDP per capital of US$ 2,361 it ranks fourth in the region, ahead of Nepal and Bangladesh.

<table>
<thead>
<tr>
<th>Country</th>
<th>HDI Rank</th>
<th>HPI-1 Rank</th>
<th>GDP Per Capita (US$)</th>
<th>GDI Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sri Lanka</td>
<td>104</td>
<td>67</td>
<td>3,896</td>
<td>92</td>
</tr>
<tr>
<td>Bhutan</td>
<td>131</td>
<td>97</td>
<td>4,010</td>
<td>107</td>
</tr>
<tr>
<td>India</td>
<td>132</td>
<td>87</td>
<td>2,489</td>
<td>138</td>
</tr>
<tr>
<td>Pakistan</td>
<td>139</td>
<td>100</td>
<td>2,361</td>
<td>149</td>
</tr>
<tr>
<td>Nepal</td>
<td>145</td>
<td>99</td>
<td>999</td>
<td>122</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>147</td>
<td>110</td>
<td>1,155</td>
<td>109</td>
</tr>
</tbody>
</table>

Table 2: Comparison of Pakistan against major human development and economic indicators in South Asia

3.1 Microfinance in Pakistan

The presence of microfinance in Pakistan dates back to the 1960s when initiatives such as the Comilla Project experimented with microcredit. The first large scale microfinance projects in the country were the Orangi Pilot Project in Karachi and the Agha Khan Rural Support programme (AKRSP), while the Agricultural Development Bank of Pakistan (ADB) was established primarily for lending to poor farmers during crop seasons (Haq 2008). The AKRSP model was subsequently replicated throughout the country during the 1990s with the establishment of National Rural Support Programme (NRSP) and the Sarhad Rural Support Programme (SRSP). These rural support programs (RSPs) were general support institutions that provided a wide variety of social services, including financial services (State Bank of Pakistan 2001; Duflos, Latortue et al. 2007). The microfinance sector did not gain momentum until the late nineties,
when a number of specialized MFIs were incorporated. Kashf Foundation, one of the largest MFIs in the country, was established in 1996, while in 2000, the Pakistan Poverty Alleviation Fund (PPAF) started disbursements to the rural poor. A leap forward was made when the Microfinance Ordinance came in force in 2001. The State Bank of Pakistan established a specialized Microfinance unit and laid the foundations to stimulate the development of an inclusive financial system. This strategy was driven mainly by the insight that Microfinance Banks (MFBs) can play an important role in increasing the outreach of financial services. To this effect, by 2007, six MFBs had received licenses (Duflos, Latortue et al. 2007; Haq 2008).

Microfinance has been slow to scale up in the country and outreach to women has been especially limited. It is estimated that only about 8 percent of poor households receive credit from formal sources (The World Bank 2007). As shown in Table 3, in March 2009 outreach stood at approximately 1.7 million active borrowers and 2 million active savers, with a gross loan portfolio of Rs. 19.2 billion and Rs. 5.8 billion in savings respectively. The size of Pakistan's population and number of poor imply that there is a large potential market for microfinance in Pakistan. According to PMN estimates, and as indicated in the table, this is close to 27 million individuals (Haq 2008; Pakistan Microfinance Network 2009).

<table>
<thead>
<tr>
<th>Offices</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed</td>
<td>1,524</td>
</tr>
<tr>
<td>Microcredit</td>
<td></td>
</tr>
<tr>
<td>Active Borrowers</td>
<td>1,751,111</td>
</tr>
<tr>
<td>Micro-Savings</td>
<td></td>
</tr>
<tr>
<td>Active Savers</td>
<td>2,043,774</td>
</tr>
<tr>
<td>Micro-Insurance</td>
<td></td>
</tr>
<tr>
<td>Policy Holders</td>
<td>2,128,493</td>
</tr>
<tr>
<td>Potential Microfinance Market</td>
<td>27,407,048</td>
</tr>
<tr>
<td>Penetration Rate (%)</td>
<td>6.39</td>
</tr>
</tbody>
</table>

Table 3: Summary of Microfinance Outreach in Pakistan (As on March 2009)

Source: Compiled from Pakistan Microfinance Network (2009)

Pakistan's microfinance sector was amongst one of the fastest growing globally, with an expansion of nearly 47 percent during 2007 (Haq 2008). Despite the huge growth in the financial sector over than last few years, financial outreach seems to be very poor in the country. Demirguc-Kunt, Beck et al., at the World Bank (2008) use a composite measure of access to an account with a financial intermediary. In the case of Pakistan, this is estimated to be just 12 percent, compared to 48 percent in India, 59 percent in Sri Lanka, and 32 percent in Bangladesh (Haq 2008).
According to a World Bank report (2007) on promoting rural growth and poverty reduction in Pakistan, following recent legislations, Pakistan’s microfinance policy environment now appears to be quite conducive to efficient delivery of microfinance to poor households. The challenge, according to the report, is now for the various actors to seek out efficiency and scale. There continues to be significant subsidies in various forms in Pakistan microfinance, which warrants examination for efficiency. The subsidies have largely been related to low interest rates on loans, but microfinance projects generally have failed to lead towards long-term institutional development (ibid.). A possible explanation of the lack of such long-term development of microfinance as an institution may be that in almost all of the country’s development plans, microfinance has hitherto been presented and treated as merely a tool and a part of a broader framework of development-related national strategies. To work at its best, microfinance should not ideally be combined with other areas such as literacy and health related campaigns, but should ‘receive the specialized attention that it deserves and must be addressed independently’ (Council on Foreign Relations (CFR) 2003).

Apart from issues surrounding efficiency, scale and sustainability as noted above, another area that warrants greater attention is to take pragmatic steps towards removing barriers that poor people face in attempting to access (the already limited) financial services available. Economic growth can be accelerated substantially if the financial sector’s outreach is both deepened and widened (Chandrasekhar 2004; Beck, Demirguc-Kunt et al. 2005; Honohan 2006). The State Bank of Pakistan (SBP) also recognizes barriers that the masses face while endeavouring to access financial services and classifies them as shown in Box 1. Microfinance institutions in the country could perhaps pay special attention to such aspects while formulating policies for both widening and deepening outreach particularly across the rural landscape.

### Box 1: Barriers to Access of Financial Services in Pakistan

1. **Geographical constraints**: a large proportion of population lives in rural areas and there are pockets of areas with low population density and difficult remote terrain.

2. **Provincial-level environment weaknesses**: lack of an enabling environment at the provincial level due to poor land records and weak law enforcement.

3. **Banking practices**: banking sector's stagnation in terms of target market, traditional modes and products, and high transaction costs.

4. **Illiteracy and/or poverty of clients**: low financial literacy of clients or cultural linguistic barriers due to which the awareness and understanding of financial services is low.

5. **Regulatory barriers**: regulatory requirements such as money laundering guidelines require proof of identification that the poor may not have.

(Akhtar 2007; Haq 2008)
Pakistan has an estimated target population of 25-30 million poor clients but PMN members have yet reached only 5% of this target population. There is a long way to go with an urgent step required to accelerate growth, in order to achieve the first millennium development goal of halving poverty by 2015 (Akhtar 2009).

![Figure 4: Pakistan Microfinance Potential and Current Market](image)

Source: Compiled from Pakistan Microfinance Network (2009)

4.0 Assessing Depth of Outreach: Methodology Overview

The primary objective of the survey was to assess the extent to which various Microfinance programmes target and actually reach the poor across the rural areas of the province of Punjab in the North Eastern part of Pakistan. The underlying impetus of this research is to assess and contrast the poverty levels of MFI clients to non-clients within the area being surveyed. The methodology applied is not designed and does not intend to provide information on the households’ absolute levels of poverty but to develop a poverty index of all the sample households. The ensuing poverty index provides a tool to calibrate relative poverty – the extent to which a household is worse off or better off compared to the other households within the surveyed sample frame (Henry, Lapenu et al. 2003). Once relative poverty levels are ascertained, the poverty index can be constructed, with which the depth of outreach can be subsequently determined. This procedure is discussed in detail in a later section.
4.1 Geographics of the Surveyed Region

Out of the four provinces, Punjab is the second largest province of Pakistan. It contributes more than 50 percent of Pakistan’s GDP and is home to 56 percent of its total population. Punjab’s GDP growth rate for FY2007 was estimated at 7.8 percent (Haider 2008).

The administrative structure of Punjab constitutes 36 **districts** further divided into 130 **tehsils**. The number of villages in every tehsil depends on its population density and geographical area.

![Map of Punjab showing the 36 districts of the province](image-url)

**Figure 5: Map of Punjab showing the 36 districts of the province**
In order to select households (as units of survey), four-stage random stratified sampling technique was applied. In the first stage, 11 out of the 36 districts were selected from the entire province. The selection of districts was done systematically as opposed to random selection. This was done to control for social and economic disparities that occur across the province within and amongst various districts and tehsils, and in order to ensure that the selected districts represent maximum and diverse geographical regions of the entire province. Starting from the North of the province, districts were selected towards the East, West and South of the province (see Figure 5 and Table 4 for selected districts). In the second stage, at least one tehsil was randomly selected from each identified district. In the third stage, at least two villages were subsequently selected randomly from amongst the selected tehsils and in the fourth and final stage: participating and non-participating households were selected at random for conducting surveys.

A total of 1,132 households were interviewed for the survey comprising 463 borrower 669 non-borrower households. Table 4 below shows a summary of the districts and a breakdown of the number of borrowers and non-borrowers that were interviewed during the course of this survey.

<table>
<thead>
<tr>
<th>No.</th>
<th>District</th>
<th>Non-Borrowers</th>
<th>Borrowers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Chakwal</td>
<td>69</td>
<td>54</td>
<td>123</td>
</tr>
<tr>
<td>2</td>
<td>Khushab</td>
<td>75</td>
<td>27</td>
<td>102</td>
</tr>
<tr>
<td>3</td>
<td>Gujranwala</td>
<td>22</td>
<td>34</td>
<td>56</td>
</tr>
<tr>
<td>4</td>
<td>Chiniot</td>
<td>54</td>
<td>11</td>
<td>65</td>
</tr>
<tr>
<td>5</td>
<td>Lahore</td>
<td>71</td>
<td>31</td>
<td>102</td>
</tr>
<tr>
<td>6</td>
<td>Kasur</td>
<td>77</td>
<td>91</td>
<td>168</td>
</tr>
<tr>
<td>7</td>
<td>Sahiwal</td>
<td>38</td>
<td>17</td>
<td>55</td>
</tr>
<tr>
<td>8</td>
<td>Muzaffargarh</td>
<td>36</td>
<td>21</td>
<td>57</td>
</tr>
<tr>
<td>9</td>
<td>Bahawalpur</td>
<td>46</td>
<td>70</td>
<td>116</td>
</tr>
<tr>
<td>10</td>
<td>R.Y.Khan</td>
<td>76</td>
<td>50</td>
<td>126</td>
</tr>
<tr>
<td>11</td>
<td>Rajanpur</td>
<td>105</td>
<td>57</td>
<td>162</td>
</tr>
<tr>
<td></td>
<td><strong>Totals</strong></td>
<td><strong>669</strong></td>
<td><strong>463</strong></td>
<td><strong>1132</strong></td>
</tr>
</tbody>
</table>

Table 4: Summary of the surveyed Districts and the breakdown of Borrowers and Non-borrowers of the surveyed sample

4.2 Selection and choice of indicators applied:

Due to the multidimensional nature of poverty (Armendariz and Morduch 2005; Daley-Harris 2006), it becomes necessary to have a representative nature of indicators that have the capability to accurately recognize, represent and characterize poverty levels of a typical household within
the sample frame. Indicators were first identified and later screened to select the strongest individual indicators that have the capability to distinguish relative levels of poverty. The final list was divided into four groups as shown in Table 5 below:

<table>
<thead>
<tr>
<th>Human resources</th>
<th>Dwelling related indicators</th>
<th>Food security and vulnerability</th>
<th>Ownership of household assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age and sex of adults in household</td>
<td>House ownership</td>
<td>Number of days when staple foods were served</td>
<td>Livestock (Cattle and buffalo, sheep and goats, poultry, horses and donkeys, etc.)</td>
</tr>
<tr>
<td>Adult literacy</td>
<td>Type of floor</td>
<td>Number of days when vegetables were served</td>
<td>Transportation-related assets (Motorcycle, bicycle, carts)</td>
</tr>
<tr>
<td>Number of children</td>
<td>Material used for exterior walls? Roof</td>
<td>Number of days when meat was served</td>
<td>Appliances and Electronics (television, VCR, refrigerator, washing machine, radio/tape/stereo, mobile phone, sewing machine, etc.)</td>
</tr>
<tr>
<td>Occupations of adults in household</td>
<td>Number of rooms in the house</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of children below the age of 15 in household</td>
<td>Source of water supply</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual expenditure on clothing and footwear for all members in household</td>
<td>Type of toilet</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bathroom waste disposal</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Energy for lighting in the house</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>What do you use for cooking</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Structural condition of house</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 5: Final list of variables used to construct poverty index

The choice of these variables for the calculation of the poverty scores is due to their global acceptability as indicators of poverty based on the CGAP poverty assessment tool (Henry, Lapenu et al. 2003). Due to the multi-dimensional nature of poverty, this approach is very sensitive in discriminating among different levels of poverty amongst both borrower and non-borrower households. The use of multiple indicators tends to capture a more comprehensive description of household poverty and well-being, but at the same time, complicates the task of drawing comparisons, since the wide array of indicators has to be summarized in a logical manner, underlining the importance of combining information from indicators into a single index. The creation of this index requires finding a method of weighting that can be meaningfully applied to different indicators so as to reach an overall conclusion. (Zeller, Sharma et al. 2001).

The questionnaire was initially field-tested and a number of indicators were consequently altered in order to meet pre-determined research objectives, to control for local specificities, and to ensure that they fully capture and reflect relative poverty levels of both groups of households. Indicators such as those relating to highly contextual and subjective responses were subsequently dropped from the final field instrument.
4.3 Procedure for calculating the poverty index

The assessment tool that this research applies develops a relative poverty index by applying Principal Component Analysis (PCA), which is a typical multi-variable statistical method which helps to reveal a simpler pattern from a complex set of variables (Lian, J., Lai, et al. 2002; Márquez, F. and I. García-Pardo 2009). Shlens (2005) describes results generated from PCA as one of the most valuable from applied linear algebra, and argues that ‘PCA is used abundantly in all forms of analysis - from neuroscience to computer graphics - because of its simple, non-parametric method of extracting relevant information from confusing data sets’. According to Shlens (2005), with minimal additional effort, PCA provides a roadmap for how to reduce a complex data set to a lower dimension to reveal the sometimes hidden, simplified structure that often underlie it.

Developing an objective measure of poverty requires first identifying the strongest individual indicators that distinguish relative levels of poverty and then pooling their explanatory power into a single index (Henry, Lapenu et al. 2003). Prior to running the PCA model, the poverty indicators first undergo a series of filters to ensure that relative well-being is reflected accurately, and do not present a distorted picture due to too much emphasis on a particular indicator or group of indicators. In order to achieve this, the linear correlation coefficient procedure is applied to determine which of the variables best appear to capture differences in relative household poverty levels. A coefficient value at or near -1 indicates a negative relationship, while a value at or near +1 indicates a positive relation of the variable with the selected poverty benchmark indicator (per capita expenditure on clothing and footwear). The strength of the poverty indicators is determined by calculating the level and direction of each variable in the questionnaire. Variables are then selected from each of the four main poverty dimensions to avoid over-emphasising any one aspect of poverty. The end result of the PCA model is a single index of relative poverty that assigns to each sample household a specific value, called a poverty score, representing the poverty status of that particular household relative to all other households in the sample (ibid.) Relative comparisons between poverty levels can then made based on this index.

With the PCA method each underlying component that is calculated, represents a linear combination of the indicator variables used in the model. The first component is the combination that accounts for the largest amount of variance in the sample. The second component accounts for the next largest amount of variance and is uncorrelated with the first. Successive components explain progressively smaller portions of total sample variance. All components are uncorrelated with one another (Zeller, Sharma et al. 2001; Henry, Lapenu et al. 2003). The end result of running the PCA model is a poverty score assigned to every household in the data set. This score signifies the poverty of every household relative to all others that have been interviewed. A lower poverty score signifies greater relative household poverty and vice versa.

The resulting poverty index is estimated from standardised indicator values. Standardisation of the variables strips away the units in which the variables are measured. The standardised variable has a mean of zero and standard deviation of one as shown in the histogram in Figure 6 below that shows the distribution of the poverty scores in a standardised form. The scores derived from the PCA range from -1.66 to 5.44. Out of the total 1,132 households in the dataset, 669 (about 60 per cent) fall below zero, that is, those with negative scores, reflecting greater levels of poverty.
Out of these, 425 (about 37 percent) belong to the non-borrower category, while 244 (21 percent) are clients of various MFIs.

![Figure 6: Histogram showing poverty scores of respondents' households](image)

4.4 Forming Relative Poverty Groups (terciles)

The preceding section discussed the complete process of calculating the poverty scores of each household in the surveyed sample. Once these scores have been obtained, a number of analyses can be carried out. As stated earlier, the first research question is aimed at ascertaining the depth of microfinance programme outreach.

In order to estimate depth, a foremost measure would be to rank all households in the surveyed sample in order of ascending poverty levels (the poverty score obtained in the steps above will be used for this purpose) and then allocate them across a grouping such as low, medium and high levels of poverty. In a similar framework for classifying clients’ poverty status put forth by Woller, G., A. Simanowitz, et al. (2004), various socio-economic indicators, such as labour
market participation, physical assets, savings and credit, social and cultural resources and vulnerability, are viewed across three classifications: high, medium and lower levels of poverty. In the descriptions that have been stated (see Table 6 below), it becomes apparent that as the status shifts towards greater levels of poverty, there is a proportional rise in incidences of inconsistency in labour activities accompanied by lower levels of asset ownership, whereas the reliance on informal credit and financial services increases as opposed to making use of the formal banking and financial services sector. Moreover, households who live in higher state of poverty are also classed as being highly vulnerable whereas those who are relatively better-off have a diversified portfolio and enhanced capacity to manage shocks.

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Higher Poverty</th>
<th>Middle Poverty</th>
<th>Lower Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour market participation</td>
<td>Casual and/or unskilled Limited employment; limited formal education</td>
<td>Limited employment but secure claims on other household members with stable employment</td>
<td>Stable, salaried employment or good employment prospects</td>
</tr>
<tr>
<td>Physical assets</td>
<td>Very few — hand-to-mouth existence</td>
<td>Some — including household goods and business capital</td>
<td>Diverse — especially own dwelling</td>
</tr>
<tr>
<td>Savings and credit</td>
<td>Unbanked; reliant on informal services</td>
<td>Maybe a savings account; but saving has a high opportunity cost</td>
<td>Direct access to regulated savings and credit services</td>
</tr>
<tr>
<td>Social and cultural resources</td>
<td>Dependent on informal sources of patronage as security against shocks often on exploitative terms</td>
<td>Intermediate — scope for diversification away from, dependence on a single patron</td>
<td>Diversified social networks; forms of security against shocks</td>
</tr>
<tr>
<td>Vulnerability</td>
<td>Medium/high — but at cost of losing autonomy (“security through servitude”)</td>
<td>High — overwhelming fear of falling back into low group (e.g., through resources through separation or illness)</td>
<td>Low — diversified portfolio of which to manage shocks</td>
</tr>
</tbody>
</table>

Table 6: Framework for Classifying Clients’ Poverty Status

In order to classify respondents of this survey in a similar pattern, the entire data set is first filtered to select only the non-borrower sample. These respondents are then sorted in ascending order according to the poverty score. Finally, they are divided into three equal parts: terciles. Since there are a total of 669 non-borrowers in the data-set, each tercile will consist of approximately 223 households. As shown in Table 7, each poverty group contains one third or around 33 per cent of the total non-client sample.
After classification, the bottom tercile households (lowest) are the ‘very poor’ ones, followed by the ‘moderately poor’ (second tercile, middle) and then the ‘less poor’ (third tercile, highest), in that sequence. The cut-off scores that are thus obtained for each tercile define the limits of each poverty group as shown in Table 8 below.

<table>
<thead>
<tr>
<th>Poverty Group</th>
<th>Relative Tercile Category</th>
<th>Frequency of Non-Borrower Households</th>
<th>Percentage of Non-Borrower Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Very Poor (Lowest)</td>
<td>219</td>
<td>32.7</td>
</tr>
<tr>
<td>2</td>
<td>Moderately Poor (Middle)</td>
<td>226</td>
<td>33.8</td>
</tr>
<tr>
<td>3</td>
<td>Less Poor (Highest)</td>
<td>224</td>
<td>33.5</td>
</tr>
<tr>
<td></td>
<td>Totals</td>
<td>669</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 7: Distribution of non-borrowers across three groups

<table>
<thead>
<tr>
<th>Poverty Groups</th>
<th>Minimum Poverty Score</th>
<th>Maximum Poverty Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest</td>
<td>-1.66</td>
<td>-0.68</td>
</tr>
<tr>
<td>Middle</td>
<td>-0.69</td>
<td>0.10</td>
</tr>
<tr>
<td>Highest</td>
<td>0.11</td>
<td>5.44</td>
</tr>
</tbody>
</table>

Table 8: Cut-off scores for each category

Once the cut-off scores are obtained, client households are allocated to the three terciles on the basis of poverty scores. This will show how many households of the borrower sample fall in each of the three poverty groupings. Figure 7 below shows how the cut-off scores obtained by segregating the non-borrowers across the three different categories are employed to allocate borrowers across the same minimum and maximum scores.
The cut-off scores (obtained by grouping all non-borrowers across three categories) subsequently form the basis to classify the borrowers across the same three groups (lowest, middle and highest level of poverty). The borrowers can be eventually divided across the three levels of poverty rankings. The result of this allocation is shown in Table 9, whereby the distribution of the borrowers across the three levels is as follows: 20.3 per cent in the ‘very poor’ group, 36.9 per cent in the ‘moderately poor’ group and 42.8 per cent in the ‘less poor’ group.

<table>
<thead>
<tr>
<th>Poverty Group</th>
<th>Relative Tercile Category</th>
<th>Frequency of Borrower Households</th>
<th>Percentage of Borrower Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Very Poor (Lowest)</td>
<td>94</td>
<td>20.3</td>
</tr>
<tr>
<td>2</td>
<td>Moderately Poor (Middle)</td>
<td>171</td>
<td>36.9</td>
</tr>
<tr>
<td>3</td>
<td>Less Poor (Highest)</td>
<td>198</td>
<td>42.8</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td></td>
<td><strong>463</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Table 9: Cut-off scores of the three terciles used to allocate Borrowers
The entire dataset can now be distributed across the three terciles as shown in Table 10 below. This table has been graphically represented in Figure 8 that shows that there is an unequal distribution of borrowers across the three categories, with the less poor (highest category) being served in greater proportion (42.8 percent) as opposed to the very poor category (with just 20.3 percent being served).

<table>
<thead>
<tr>
<th>Poverty Groups</th>
<th>Frequency (N)</th>
<th>Total</th>
<th>Poverty Scores</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Borrower Households</td>
<td>% age</td>
<td>Non-Borrower Households</td>
</tr>
<tr>
<td>Lowest</td>
<td>94</td>
<td>20.3</td>
<td>219</td>
</tr>
<tr>
<td>Middle</td>
<td>171</td>
<td>36.9</td>
<td>226</td>
</tr>
<tr>
<td>Highest</td>
<td>198</td>
<td>42.8</td>
<td>224</td>
</tr>
<tr>
<td>Totals</td>
<td>463</td>
<td>100.0</td>
<td>669</td>
</tr>
</tbody>
</table>

Table 10: Summary of distribution of the entire dataset across the three poverty levels

Figure 8: Distribution of Borrowers and Non-Borrowers amongst the relative terciles
5.0 Concluding remarks and policy recommendations

Ever since microcredit was introduced formally in the late 1970s, it has been hailed as a major poverty reduction tool across the developing world. Where its positive impact has been lauded by many in lifting millions out of poverty, it has, on the flipside, been a major theme for criticism amongst many academics and practitioners alike (see for instance: Dignard and Havet 1995; Mallick 2002; Brau and Woller 2004; Khuwaja 2009). Hermes and Lensink (2007) conclude after reviewing the debate on microfinance and poverty that it is still unclear whether microfinance contributes substantially to a reduction of world poverty and if microfinance is the most efficient method to reduce poverty. Lucarelli (2005) however, takes a more cautious approach and warns that although microcredit does have an important role to play in the development process and in overcoming poverty traps, it should not be relied upon too much as a panacea for complex development problems. Even Yunus, deemed amongst the pioneers of the model, reiterates that microfinance ‘is not a miracle cure that can eliminate poverty in one swoop, but it can end poverty for many and reduce its severity for others. Combined with other innovative programmes that unleash people’s potential, microcredit is an essential tool in our search for a poverty-free world’ (Yunus and Jolis 1999).

In order to be truly effective, however, services offered by MFIs have to be made available to those segments of the society that lie at the bottom of the pyramid. Despite universal acceptance and recognition that the poorest need greater flexibility in the financial services, there has not been any such innovation so far that can successfully address their needs on a large scale (Barua and Sulaiman 2006), and outreach has been substantially low than what is actually required to lift the very poor out of poverty through microfinance.

This paper has focused primarily on the empirics of only one factor out of the many facets pertaining to microfinance: poverty targeting and depth of programme outreach. The geographical areas explored were districts across rural Punjab in North-Eastern Pakistan. As discussed in the penultimate section, the findings indicate a proportionately low level of programme outreach (just 20.3% as compared to almost 43% less poor), which means that the poorest of the poor are not being served by the various institutions concerned across the province as compared to the ‘moderately’ or ‘less’ poor.

Churchill, Hirschland et al. (2002) argue that serving the extreme poor can be costly as transaction costs per borrower are relatively higher than serving those that are relatively better-off. Depending on organisational commitment and support from senior management, however, certain measures can be adopted to enhance outreach without compromising institutional sustainability. Such policies may vary from one region to another and even across MFIs given that each organisation has a unique mission, objectives, area of operation and establishment. Yet, there are certain common policies that, if adapted and implemented, may assist towards ultimately targeting the ultra-poor. First and foremost, restructuring staff incentives and developing an institutional culture and ‘organizational mission’ to reach the extreme poor could be helpful towards this cause. Branch operations should also be simplified to be low-cost and decentralized to make them more approachable and congenial to clients. Another helpful measure could be diversifying the product mix and considering services and features that may better suit the extreme poor, such as small initial loan size over a short term with frequent and flexible regular repayment options and tailored financial products that correspond with seasonal
income streams. Proximity is also vital and if services are delivered close to homes and clients are served in the form of groups rather than individually in offices, the intended ultra-poor will be in a better position to access services with greater convenience and ease. Borrowers should also be assisted in managing and spreading risk by providing customised insurance services, voluntary savings and emergency loans, etc.

An important aspect to be considered here is that targeting alone is not enough to reach the poor and according to The World Bank (2005), even strong NGO interventions such as the Pakistan Aga Khan Rural Support Program, most recently evaluated in 2001 and operating for nearly 20 years, have found it difficult to reach the poorest. The reason it is so difficult is that the process involves not just economic change, but also a series of social and cultural changes. Effecting such fundamental transformation requires considerable time and sustained effort.
REFERENCES


