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Evolution of Microfinance in Pakistan: An Introductory Study

ABSTRACT

This introductory study examines the evolution of microfinance in Pakistan, exploring its journey from informal lending practices to a formalized financial sector that promotes economic empowerment and poverty alleviation. Initially rooted in traditional, community-based support systems, microfinance in Pakistan has expanded significantly over the past few decades, aided by the establishment of organizations like the Pakistan Poverty Alleviation Fund (PPAF) and the emergence of microfinance banks (MFBs) and non-governmental organizations (NGOs).The study provides an overview of the various microfinance models and approaches adopted in Pakistan, such as group lending and individual lending, which have been tailored to meet the financial needs of low-income populations. It also assesses the instruments offered, including micro-loans, savings products, and micro-insurance, and how these have supported individuals in improving their financial security, investing in small businesses, and building resilience against economic shocks. Additionally, the study highlights challenges facing the sector, including regulatory constraints, political instability, and socio-cultural barriers, while also exploring the opportunities that digital finance and technological advancements present for expanding financial inclusion. This introductory analysis sheds light on the foundational role of microfinance in Pakistan's socioeconomic development and underscores the potential for ongoing innovation and policy support to further strengthen its impact on underserved communities.

Keywords: *Pakistan, Akhuwat, Evolution of Microfinance, Microfinance Institutions and Banks*

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INTRODUCTION

Evolution of Microfinance in Pakistan

In case of Pakistan the recent microfinance moment is started in 1982. The first microfinance institute in Pakistan is Orangi Pilot project in Karachi and then Agha Khan Rural Support Programme (AKRSP). AKRSP spawned the rural support movement that accounts for approximately 70% of NGO outreach in microfinance and includes some of the largest providers in the country. ([1]). In the year of 1990 the microfinance facilities are widely spread across the country many NGOs took momentum in this sector. In 1996, Kashf Foundation was established which has started its work to provide microfinance facilities all over the country. In Musharraf regime (1999 to 2008) the government firmly focused on poverty alleviation programme. So, in this era microfinance network increased very sharply because the government has selected microfinance as a tool to fight against poverty. For this purpose, Pakistan government has established Pakistan Poverty Alleviation Fund (PPAF) with the help of World Bank in the year of 2000. Another initiative of the government in which microfinance has used as a tool of poverty alleviation by establishing Khushhali Bank which has provided and diversified the microfinance product like housing finance, personal loans, leasing, insurance and remittance services all over the country specially in the rural area of the country. According to Khushhali Bank’s annual report published in the year of 2017, a good number of the investors have shown their interest in microfinance because the rate of return in microfinance is much higher than in conventional banking system. According to the several reports and studies risk in microfinance sector is lower and it will be dominant in private sector by the year of 2025 ([2]) The microfinance network is increasing very sharply in Pakistan. Support of government is also the key factor to accelerate this sector in case of Pakistan. According to Khushhali bank report the number of clients who availed microfinance facilities were 100,000 in 2001 which have accelerated to 1,400,000 in 2017.[3]

At Present following microfinance institutions are functioning in Pakistan:

Micro Finance Institutions

1. Akhuwat
2. Asasah
3. Community Support Concern
4. Development Action for Mobilization and Emancipation
5. Kashf Foundation
6. Orangi Pilot Project
7. Sindh Agricultural and Forestry Workers Cooperative Organization

Micro Finance Banks

1. Kashf Microfinance Bank
2. Khushhali Bank
3. Network Microfinance Bank Limited (NMBL)
4. Pak-Oman Microfinance Bank Limited (POMFB)

[1] World Bank Report on ‘*Performance and Transparency*: A survey of microfinance in South Asia’ Page No. 67
[2]Khushali Bank’s Annual report 2017-page no. 4
[3]Khushhali Bank’s Annual report 2017-page no. 5

5. Rozgar Microfinance Bank Limited
6. Tameer Microfinance Bank Limited
7. The First Micro Finance Bank Limited (FMFB)

Rural Support Programmes

1. Lachi Poverty Reduction Project
2. National Rural Support Programme
3. Punjab Rural support
4. Sarhad Rural Support Programme
5. Thardeep Rural Development Programme

Others

6. BRAC
7. Centre for women Cooperative Development
8. Jinnah Welfare Society
9. Narowal Rural Development Programme
10. Organization for Participatory Development
11. Rural Community Development Society
12. Save the Poor
13. Sindh Rural Support Programme
14. Sungi Development
15. Swabi Women's Welfare Society
16. Taraqee Foundation
17. Bank of Khyber
18. ORIX Leasing Pakistan Limited

The Pakistan Microfinance Network tracks growth in the sector on a quarterly basis and reports that in the last quarter of 2008 there was a dramatic downturn as microcredit growth entered into negative figures for the first time in two years. Active borrowers decreased by 7% while the Gross Loan Portfolio (GLP) of the sector fell by 12%. This decline is attributed to the financial crisis, the credit crunch; slowdown in economic activity, political and economic instability in the country, lack of security and the rising Portfolio at Risk in the sector which is cautioning slow growth. The PMN reports that many MFIs have been unable to roll over existing lines of credit. The increase in active borrowers has mostly come from smaller organizations such as BRAC, which has continued its modest growth. Organizations like the National Rural Support Programme (NRSP) and the First Microfinance Bank (FMFB), which have been two of the largest contributors to microcredit growth, reduced their numbers in the last quarter of 2008. Despite the negative growth in the last three months, there was an increase in the overall number of borrowers last year.[4]

[4]European Journal of Social Sciences – Volume 14, Number 1 (2010)

Although the range of financial services that an institution can offer is dependent on its legal status, most MFIs are currently providing similar products and targeting similar markets. A review of the geographic dispersion of active borrowers that there is concentration of service provision in urban areas of Punjab and Karachi. There are large parts of the country which are underserved or un-served. Most MFIs have not provided coverage to rural areas because of the high cost of serving these areas. Pakistan has an overall population density of 206 persons per square kilometre.

At the end of December 2008, the microfinance sector had 1,743,609 active savers and the total volume of savings constituted US$ 67 million. The number of savers surpassed the number of active borrowers. There are essentially two types of approaches used for generating savings in the sector. The first is intermediation which is when public deposits are used to finance an organization's loan portfolio. Only SBP-regulated MFPs (CFIs and MFBs) can accept and intermediate deposits from the general public. The second is mobilization: MFPs not regulated by SBP (MFIs, NGOs, and RSPs) can neither, neither hold nor intermediate deposits from the general public. These organizations do however mobilize savings from their members/clients to place with licensed commercial banks. The Table below outlines the total number of savers, the volume of savings and the savings balance in the sector at the end of December 2008. The figures indicate that the majority of the savers are with RSPs while the majority of the savings is with MFBs which rely on both low- and high-end deposits. Within the Banks the FMFB has the major share of savers. An analysis of the number and volume of savings shows that MFBs have an average balance of Pak Rs 16,594 while the RSPs have an average balance of Pak Rs 925 per account.

Savings is not an area which the sector has focused upon very significantly. The Rural Support programmes which patterned their programmes on the model of AKRSP initiated savings not because it offered a service to the client but because it was in keeping with their strategy of social mobilization which dictated that capital accumulation was a key part of building social capital. As such, the savings programmes offered by the RSPs have lacked some of the key attributes of savings products which clients generally prefer such as liquidity, security, convenience. Savings were often used by the RSPS as security for group loans and as such members could not withdraw funds if there was a loan outstanding against the VO or WO. The growth in the number of savers and volume of savings is illustrated in the graphs below. This shows that savings have been more or less static with RSPs/MFIs. There appears to have been a special push to enhance savings by the RSPs/MFIs in the last one year. MFBs have shown a steady growth in both the volume and number of savers.

Given the sector's credit focus in the past, developments in micro-insurance have grown rapidly due to effective negotiations by the MFIs on behalf of their clients with insurance companies. By the end of December 2008, there were approximately 2.2 million policy holders in the microfinance sector, of which 70 percent were covered by life insurance (or more precisely, credit-life) and the rest by health. Kashf Foundation has the largest number of clients with insurance (approximately 600,000), followed by National Rural

Support Programme (NRSP), which offers both life and health insurance. NRSP has also partnered with Adamjee Insurance Company Ltd. to provide health insurance to its clients.[5]

Establishment of the First Micro Insurance Agency (FMIA), as an affiliate of the Aga Khan Agency for Microfinance (AKAM), is the first concerted effort to promote micro-insurance in the sector. FMIA is currently working with a number of MFIs such as First Micro Finance Bank (FMFB), Tameer MFB, Khushhali Bank (KB) and Kashf to develop and offer credit-life and health insurance products. It also plans to extend its product range to livestock and crop insurance in the future. At the moment, the target market for FMIA and its partners are their credit clients. The extension of stand-alone insurance products will take a few years. FMIA's back office functions are handled by New Jubilee Life Insurance Company Limited.

As in most countries, the sector is dominated by a few players in terms of market share and growth. The top five Microfinance providers which include the NRSP, the Khushhali Bank, Kashf Foundation, the First Microfinance Bank and the Punjab Rural Support programme have 80% of the market share in terms of active borrowers at the end of December 2008.

Demand for Micro-Finance Services

There is widespread belief that there is a large unmet demand for financial services, especially among the poor. Estimates of demand internationally and nationally present a wide gap in the demand and supply of micro-finance services in general and credit in particular. In Pakistan, the financial sector has grown considerably over the last few years but this expansion has not reached all segments of the population or all regions of the country. Estimations and choice of indicators to measure financial penetration vary due to data limitations and lack of international consensus on how best to quantify access, or lack thereof. World Bank (2007) uses a composite measure of access based on the percentage of adult population with access to an account with a financial intermediary. In case of Pakistan, this is estimated to be 12 percent, compared to 48 percent in India, 59 percent in Sri Lanka and 32 percent in Bangladesh. On the other hand, SBP estimates that 37 percent of adults have bank accounts. Given the realistic assumption that one individual may have more than one account, the actual percentage is likely to be lower.

In assessing credit demand in Pakistan, the Asian Development Bank's Micro-Finance Sector Development Review [6] asserted that there were 6.3 million poor households in Pakistan at the time of the assessment and all of them were potential clients for financial services and that government considered half the adult poor population (nearly 10 million) as potential micro-finance clients. The estimated potential demand for microcredit was assessed to be about US$ 2 billion based on the need for an average loan of US$ 300 per household by all poor households or about $ 3 billion based on the

[5] PMN, 2008

[6] Report and Recommendation of the President to the Board of Directors on the proposed Loan to the Islamic republic of Pakistan for the Micro Finance Sector Development Programme. November 2000.

estimate that half the adult poor population requires a loan at any given time. However, when these figures are juxtaposed with estimates of credit demand based on survey data, the situation that emerges is somewhat different.

The largest survey in this regard was conducted in 1998 by the Applied Economic Research Centre and this found that 76% of the households did not apply for a loan as they did not see any reason to borrow (59%) and did not like asking for a loan (17%). There was not much variation in the response by landowning pattern, tenancy pattern, and occupational group or by gender. The National Human Development Report on Poverty, Growth and Governance[7] found that “70 percent of the rural households never applied for any loan. From among these, 33 percent replied that they did not need a loan and 43% did not want to pay interest for religious reasons.[8] These results are quite contrary to the general contention of a widespread demand for credit. The other important aspect is that not all the people borrow concurrently. In a given year, only a certain proportion will borrow but over a longer period of time the proportion of households which borrow goes up significantly.

The Rural Financial Markets study found that 61% of the households obtained at least one loan during a five-year period. Micro-Finance experts[9] maintain that while most people have not applied for a loan from formal sources it does not mean that the poor do not need some emergency consumption loans during the lean

Niche Market for Micro Finance in Pakistan

Based on current data there are estimated to be 9.7 million poor households and 66.3 million poor people in Pakistan in various categories of poor. The PMN estimates that of these,29.5 million people are potential clients of credit and about 66.3 million are potential clients of microfinance services. Based on these estimates it would appear that there is a huge unmet demand for credit in the country. Government targets at the moment are to reach 3 million people by 2010 and 10 million people by 2015. This would require a significant up-scaling of current levels of service provision and a significant increase in the volume of funds. Furthermore, survey data and client satisfaction surveys repeatedly show that in order to address client needs, the MFIs would have to increase their current loan size, extend duration of loan period, increase repayment period and reduce the frequency of payments.

The Microfinance Potential

There is significant divergence regarding estimates about the extent to which micro-finance actually reaches the poor. Some assert that most MFIs do not reach large numbers of very poor people. Some studies show that there are limits to the use of credit as an instrument for poverty eradication, including difficulties in identifying the poor and

[7]Poverty, Growth and Governance: *The National Human development report*, Pakistan, January 2003
[8]Poverty, Growth and Governance: *The National Human Development* Report, Pakistan, January 2003

[9]S Hashemi. World Bank.2003

targeting credit to reach the poorest of the poor. Added to this is the fact that many people, especially the poorest of the poor, are usually not in a position to undertake an economic activity, partly because they lack business skills and even the motivation for business.[10] The Micro-Credit Summit asserted that internationally 58 percent of the micro-clients represented the poorest. The record of MFIs in reaching the poor in Pakistan is mixed. Very few NGOs actually keep a profile of their borrowers and most follow a non-targeted approach. From a host of surveys which include some of the largest PPAF POs such as NRSP, SRSP, PRSP and Kashf it appears that at least 50% of the clients receiving loans can be classified as poor. Following the World Bank standard for defining the poor as those with an income of US $1 per day per person, Kashf assessed that 89% of its clientele spend less than $ 1 per day per head and of them 40% spend less than $ 0.55 per day per head.[11]

Impact of Microfinance in Pakistan

One of the most broadly shared perceptions about micro-finance is that it is beneficial and therefore everyone needs and demands it. As a result, there has been very little questioning about the benefits of micro-finance and until recently, little interest in trying to measure its precise impacts.[12] Both in Pakistan and elsewhere, it was assumed that if loan repayments were being made and disbursements were growing then micro-credit must be yielding benefits. Many programmes in Pakistan followed this approach. Thus, many MFIs assumed that since they had repeat borrowers and expanding programmes, they were a success. In order to simply reconfirm their basic perception about benefits most practitioners got in-house staff and interns to document a range of case histories of successful men and women to show how micro-credit was transforming lives. Most of the cases studies were well written and while they did demonstrate the benefits of micro-credit, they were romanticized versions of the power of credit, were generally poorly researched and the financial analysis was undertaken in a fairly superficial and uneven manner. By the late 1980s, there was a wealth of anecdotal and qualitative case study evidence to support popular perceptions regarding the positive benefits of microfinance, but still no carefully controlled longitudinal or cross-sectional surveys of borrowers and comparable non-borrowers. [13]

Interest in assessing the widespread impact of micro-credit on poverty is a relatively recent phenomenon and most of the major studies in this regard were undertaken after 2000.[14] Some NGOs like OCT and Kashf have conducted regular studies to show the impact of microfinance on their clients. NRSP has also undertaken a few studies to examine how its microfinance operations change the lives of its clients. However, the most extensive national level studies have been commissioned by PPAF. The first was conducted in 2002 and covered 1800 households and a second study was conducted in

[10]PMN, *Impact of Microcredit on Poverty and Gender Equity*, 2003
[11]Poverty Assessment Study, Kashf, January 2005.
[12] Maliha H, Hussein and Shazreh Hussain. *Impact of Microfinance on Poverty and Gender Equity, Pakistan Microfinance Network*, December 2003
[13] ibid
[14] ibid

2005 with a sample of 3000 households. The ADB Institute has also examined the impact of Khushhali Bank’s credit programme. Some studies report particular difficulties in identifying impact. A survey on OCT was unable to quantify the gains on account of the loans. It was felt that too many variables affected business output and it was difficult to isolate the impact of the loan from other variables. While some studies report rather limited impact others show rather widespread impact. OCT’s experience shows that as families of successful users of micro-credit register sustainable income increases, the impact is not confined to greater consumption or investment in the microenterprise. These households also show significant improvement in such social indicators as children’s education, family nutrition and improved hygiene.

Increase in Incomes

Most impact studies have examined the impact of micro-credit on incomes. In assessing the impact on income and keeping in mind the potential impact, it is important to understand that household income is derived from multiple sources particularly, in the rural areas, and a study on the clients of the RSS found that 85% of the households derived their income from 3 or more sources.[15] Even in urban households, it was assessed that households were not dependent only on business incomes, but due to the social and cultural factors, such as the joint family, substantial income was brought into the household due to family members working elsewhere. The OCT study[16] pointed out that because of this joint family system, with collective income and expenditure patterns, with income from one head being utilized in others, it is not easy to estimate the impact of the loan on business outcomes.

The survey commissioned by the Pakistan Poverty Alleviation Fund undertook a detailed assessment of change in both personal and household incomes and found that on the whole around 41% of borrowers and 32% of non-borrowers experienced positive change in their personal income over the period under study. The difference between the two groups was found to be statistically significant. The increase in the mean income of the borrower group was proportionately higher (8%) compared to the non-borrowers (5%). However, these figures reveal a small difference which was statistically not significant. The study also found that on the whole around 44% of borrowers and 33% of non-borrowers experienced positive change in their household income over the last year. Increase in the mean income of the borrower group was (9%) compared with no borrowers (6%). However, this difference was not found to be statistically significant. The distinction between personal and household income did not reveal differing results.[17]

The results of the periodic assessments undertaken by Kashf show that there was a 15% increase in real income. About 73% of micro-finance clients reported an increase in income compared with only 23% of no clients. Its surveys indicate that the average

[15] Mahmood Hassan Khan. *The Rural Support Programmes in Pakistan*: Methods for Assessment of Cost and Impact. 2003.

[16] Akbar Zaidi. 2003

[17] Impact Assessment of Kashf, Arjumand and Associates. DFID. December 2003

income of Kashf clients rose by 30% in one year. Its impact survey in 2004 claimed that its loans have helped a substantial number of households to rise above the poverty line, not just in absolute terms, but also compared to non-clients; *as many as 32 percent of client households below the poverty line last year, have moved above the poverty line this year*.[41] The highest income increase was registered by clients engaged in manufacturing work and in the agricultural sector. About 62% of the respondents of a spot survey reported a sustainable increase in income after the loan while the rest reported that there had been no sustainable increase in their incomes.[18] A study[43] to assess the impact of NRSP found that generally, the income level of households in the control villages is lower than in the treatment villages. However, the differences in the household income between members and non-members or households in the treatment and control villages are not statistically significant. *All the impact studies report small income differentials between clients and non-clients both in terms of the proportion of clients experiencing income increases and the amount of increase in household incomes*.[19]

Some of the surveys have also attempted to assess the change in incomes from different sources. The PPAF survey undertook an analysis of change in incomes from different sources such as agriculture, livestock and enterprise. The survey found that while there was not much difference in the proportion of borrowers and non-borrowers who reported an increase in their incomes from agriculture and livestock, the change in mean income was considerably higher for the borrower group. However, the proportion of borrowers reporting a net annual increase in income from enterprise was significantly higher among the borrowers (65%) compared to non-borrowers (47%) and the difference in mean income was also considerably higher. A study on the orange Charitable Trust's clients shows that the difference between the OCT and non-OCT borrowers were particularly sharp at the lower end of the entrepreneur divide. The small and very small OCT borrowers seem to have somewhat better standards of living than the non-OCT borrowers. This might suggest that microfinance worked better at the lower end of the entrepreneurial income scale.

Using data from a survey of clients of Khushhali Bank in 2005, study by the ADB Institute found that the lending programme contributed significantly to income generation activities such as agricultural production and, in particular, animal raising. However, the impacts on other MDGs—education, health, female empowerment, and so forth—were of limited significance. However, this survey attributed this partly to the fact that 70% of the Bank's clients in the survey went through only one loan cycle, so the impacts on other MDGs were yet to be realized

Return on Investments

The Study by Gallup on PPAF clients maintained that while it was quite complicated and hazardous to compute the return on investment, the researchers had roughly estimated the mean return on investment for the loans averaging around Rs 9,138 at approximately

[18]NHDR. January 2003

[19]Mahmood Hassan Khan. *The Rural Support Programmes in Pakistan*: Methods for Assessment of Cost and Impact. 2003.

30% per annum. In the urban context, small scale, informal enterprises have in many cases provided higher returns on capital invested than large scale or medium scale enterprises in the formal sector. OCT estimates rates of return on different enterprises as being between 8 to 30 percent. These typically include returns to both capital and labour.

Employment Generation

OPP-OCT's lending is exceedingly targeted toward a small number of clients it has identified as entrepreneurs and it is believed that empowering such persons will have spill over effects in the employment of those in tiers below. However, none of the studies on OCT have examined its employment generation impact. Kashf looked at this issue and found that 49% of the clients reported that an additional member of the family joined the labour force compared to 27% of non-clients who indicated having an additional economically active member compared to the previous year. The increase in employment included both men and women. The PPAF data shows that neither of the two groups, borrowers and non-borrowers made notable contribution to employment generation. Apparently, the size of their business or agricultural and livestock activity as well as the scale of loan is insufficient to make substantial contribution in this area.

Change in Consumption

The Rural Financial Markets study found that nearly two-thirds of the large loans were borrowed for consumption purposes.[20] These were predominantly borrowed from friends, relatives and other informal sources. A comparison between borrowing and non-borrowing households reveals strikingly similar levels of household consumption expenditure between the two categories. Given the inter-temporal variation in income levels and the associated risks of crop failure, households with low income and savings potentials borrow loans as risk coverage to meet their consumption needs. Data from the survey undertaken by PIDE for the National Human Development Report found that the extremely poor whose incomes and receipts fall below the poverty line, tend to use loans and sale of assets to increase their consumption level.[21] As much as 17 percent of the total consumption of the poor is financed through credit and 5 percent through the sale of land. Among 60 percent of the households, the main purpose of borrowing was consumption including ceremonies. The extremely poor use a higher proportion of the loan to finance consumption expenditure (67%) compared to the poor (58%) or the non-poor (52%). A sample survey of the beneficiaries of seven NGOS was also undertaken as part of the research for the UNDP's Human Development Report and this spot survey also found that an overwhelming proportion of the loan is being used for consumption purposes by both the poor and non-poor although less so by the non-poor.

The PPAF survey also measured change in household consumption. On the whole, around 34% of borrowers and 30% of non-borrowers experienced positive change in their

[20]Mahila, H and H. Shazer (2003), *the Impact of Microfinance on Poverty and Gender Equity* Approaches and Evidence from Pakistan.
[21]UNDP. *Human Development Report,* January 2003

overall expenditures during the study period. Change in the mean expenditure of the borrower group was proportionately higher (7%) compared to the non-borrower group (5%). Although this difference is small it is reported to be statistically significant. The PPAF survey data shows that the change in mean expenditure on overall food items is almost the same for both borrowers and non-borrowers. However, the change in key food items with high protein content was higher among borrowers.

The UNDP spot survey of NGOs found that 38% of the respondents felt they ate better now compared with 40% who felt that they ate better earlier. About 22% of the respondents reported no change. The MHK study on the RSP's found that the mean levels of expenditure were not statistically different between the member and non-member households or between households in the treatment and control villages. About 46 percent of the monthly expenditure was accounted for by food and this was quite similar in all households. However, the MHK study was not specifically on borrowers but on beneficiaries.

Interviews of OCT clients indicated that the most salient and tangible benefits of credit described by interviewees concerned food security and improved household nutrition. A majority of the interviewees described improved and increased food availability in their homes, and a greater sense of assurance about their next meal.[22] Another OCT study found that while many borrowers talked about the improvement in their livelihood patterns in terms of better food intake, it is not possible to estimate any numerical value for this improvement.

The impact assessment of Kashf showed that 54% of micro-credit clients reported an improvement in their diet and nutrition compared with 3% of non-clients. Similarly, 41% of the Kashf clients reported no change against 70% of non-clients and only 5% of Kashf clients reported deterioration in diets compared with 27% of non-clients.

The evidence that is given here differs somewhat depending upon whether qualitative or quantitative methods of analysis were used. Where interviews and case studies were conducted, they report a much greater increase in consumption of borrowing households. Where quantitative techniques are used for data collection and Analysis such as in surveys including both borrowers and non-borrowers, the findings show that there is little or no difference between the consumption levels of borrowing and non-borrowing households.

Change in Social Sector Status and Indicators

Some of the surveys have examined expenditures on social sectors between borrowers and non-borrowers and tried to examine the extent to which micro-credit has helped people with social sector investments. The data from NRSP shows that from the borrowed capital, 11% was used to finance health and education expenditures. The NHDR/PIDE Survey shows widespread illness amongst the poor with sickness being an important factor in pushing people into poverty. The results of the spot survey of NGOs found that in terms of health status, 26% of the beneficiaries felt they had better health now while 34% reported no change and 40% reported deterioration in health

[22] Naheed Rehman. 2003.

status. There was a wide variation in the response of the beneficiaries of different NGOS on this score. The Kashf impact assessment looked at health care and found that 58% of clients felt that they were now able to divert more resources to health care compared with 33% of non-clients.

Most surveys have not reported on the impact of micro-credit on education expenditures or investments. Data from case studies shows that a large number of women generally claim that education of children is a high priority for them and that they borrow and save for children's education. While the impact study of Kashf reported education investment orientation of clients compared with consumption orientation of non-clients, its findings found no difference in education indicators for the control and client groups. Interestingly, the NRSP study by Mahmood Hassan Khan showed that the non-member households have spent far more on shelter and health and education than member households. However, this does not really look at micro-credit services and these members may or may not have benefited from loans.

Asset Accumulation

The most important assets for households in rural areas are land and livestock and in the urban areas it is the house plot. However, none of the studies looked at land ownership patterns between borrowing and non-borrowing households. The NHDR/Spot Survey of NGOs looked at land ownership between the different categories of beneficiaries to assess the economic status of the borrowing households but did not look at the impact of the loans on changes in land ownership. It appears also from the average size of loans that the loans by themselves are not sufficient to enhance the landholding pattern of the borrowers. The second most important asset in rural areas is livestock and in many urban areas it also forms an important part of the livelihood systems. Most of the RSPs provide loans for livestock and a substantial share of the loans is taken for investments in livestock. At least, 23% of the loans of NRSP were borrowed for investments in the livestock sector. However, most of the impact studies in rural areas do not report on livestock ownership.

The PPAF survey reporting on change in consumer durables reported that the increase in assets is higher among the borrowing households as compared to the non-borrowing households. On the whole, the number of borrowers who made additions to their property as well as enterprise related assets are more than the no borrowers. But the results are mixed. The survey shows that the borrower group made more additions to the assets during the period under review compared to the control group. The asset building is more pronounced in the case of household goods and less so for financial assets or business and agricultural assets. Apparently, the loan is too small to lead to building the latter type of assets. The data shows that, on average, the borrowers spent more on house repair than non-borrowers. The NRSP data showed that the member households have spent far more on purchase of assets than non-member households. The Kashf study found that 39% of clients reported housing and sanitation improvements compared with 27% of non-clients. The OCT study found that a very high proportion of borrowers take money for running finances and to buy raw material or to buy in bulk in order to realize economies of scale. Very few borrowers purchase machinery or make capital investments.

Impact of Micro-Credit on Women

While Most MFIs maintain that they do not discriminate against women and offer the same accessibility to women as they do to men, there is a wide divergence in the number and amount of loans that have actually been given to women. MFIs increasingly prefer to look at households as their client and do not like to distinguish between men and women. Some, like Kashf and the First Women's Bank, while targeting households give loans only through women. Others, like the Orangi Charitable Trust and Tameer Microfinance Bank prefer to talk about entrepreneurs and the working poor and have found it preferable to work with men. While MFIs are very particular that women should not access the loans but also use them such as Asasah, Damen etc., but others like Kashf allow the women borrowers to pass on the loan to a male relative – which most of them do.

The impact of microfinance on women's empowerment is inconclusive. Especially in the context of Pakistan where many of the MFIs admit that even when women are registered as the clients, the majority of the loans are passed on to men. While there are many case studies which show that many individual women have benefited from the loans, the overall impact of the microfinance services on women is unclear. There are studies which show both positive and negative impacts and no significant impacts. An evaluation of the impact of micro-credit on indicators of women's empowerment in the urban slums of the Lahore district of Pakistan was undertaken recently.[23] This evaluation used a household level instrument that contained information on different dimensions of household decisions: child related, health, social mobility, economic and major household purchase decisions. The study explored the link between micro-credit and women's empowerment. After controlling for erogeneity in the estimation by using proxies for initial levels of empowerment, matching the controls and treated units on observable characteristics the study found no difference between the levels of empowerment of treated and control units. Participation in the micro-credit programme is found to be insignificant in explaining all the outcome indicators of empowerment for the sampled households.

The impact assessment conducted by Gallup on the micro-credit clients of PPAF found that wherever the results had been disaggregated by gender, the impact reported by women was far greater than that reported by men. An analysis of the change in borrower's household income shows that while 36% of the male borrowers reported a positive change in household income as many as 61% of the women borrowers reported an increase in household income. Similarly, 34% of the men reported a positive change in personal income compared to 54% of the women who reported such an increase. **The Gallup study also reported change in personal social status by gender. This comparison found that in each case women reported a higher increase in all respects compared with men.** The greater impact reported by women is consistent with findings from other countries which also report a more significant impact of loans provided to women on key household's indicators.

Conclusion

[23]Khandker, Shahidur R. (1996), *German Bank: Impact Costs and Programme Sustainability*. Asian Development Review, Volume 14, No. 1.

In conclusion, the evolution of microfinance in Pakistan has marked a significant shift from informal, community-based lending practices to a structured, institution-driven sector that plays a vital role in promoting financial inclusion and poverty alleviation. The establishment of organizations like the Pakistan Poverty Alleviation Fund (PPAF) and the rise of microfinance banks (MFBs) and NGOs have facilitated access to financial services for low-income populations, empowering individuals and communities to build economic resilience and pursue income-generating opportunities. This introductory study underscores the effectiveness of diverse microfinance models, such as group and individual lending, in addressing the unique needs of Pakistan's underserved populations. Microfinance instruments like micro-loans, savings accounts, and micro-insurance have provided essential tools for managing financial risks, supporting entrepreneurship, and improving the overall quality of life for marginalized communities. However, the sector faces on-going challenges, including regulatory hurdles, political instability, and socio-cultural barriers that limit its full potential. Embracing digital finance and technological advancements offers promising avenues to overcome these obstacles and expand microfinance reach further. Ultimately, the continued growth and innovation in Pakistan's microfinance sector are crucial for creating long-term socioeconomic benefits, fostering inclusive growth, and enhancing financial independence among underserved groups across the country.