

ROLE OF PAKISTAN POVERTY ALLEVIATION FUND'S MICRO CREDIT IN POVERTY ALLEVIATION A Case of Pakistan

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Abstract. Poverty alleviation has been one of the major agenda of all civilized societies throughout the history. Different strategies have been adopted in Pakistan for the purpose, which include special programs and short-term measures targeted towards improving the earning capacity of masses and provision of social safety nets for the really poor. With a view to enhance the access of the low-income communities to socio-economic services, the Government of Pakistan has set up an independent and professionally managed unit, the Pakistan Poverty Alleviation Fund (PPAF). The Fund is working through a network of partner organizations having strong community outreach programs. PPAF continuously monitors and analyzes effectiveness of its programs. This paper attempts to quantify the impact of PPAF micro credit on poverty alleviation.. Data collected in Gallup (2005) has been utilized for the purpose. Counter-factual 'Combined approach' has been employed in the analysis. The Paper concludes that Micro credit has reduced poverty by 3.05 percentage points in the period under study.

I. INTRODUCTION

Poverty has been a major challenge since the known civilization came into existence. In modern era, poverty is known to be the breeding ground for conflicts between nations and terrorism. Poverty is a wide spread world

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problem that afflicts particularly the developing countries. Poverty in Pakistan has been a major problem. Despite the fact that agricultural sector showed high growth rates during 1960s, the country witnessed high level (about 40 percent) of poverty, which is more severe particularly in the rural areas. One possible reason for this increasing trend in poverty was that the initial beneficiaries of agricultural subsidies were generally large farmers. After 1970 poverty declined and this trend continued until 1987/1988. Foreign remittances, increased private investment and good performance of agricultural sector can be pinpointed as the primary factors for the declining trend in the poverty. After 1987/88, however, this trend reversed. Poverty was estimated from 32 percent to 36 percent during 2001/2002 (this difference was due to different methodologies used for computing poverty lines in different studies). Despite the marginal differences in poverty statistics, all studies agree on the point that poverty increased during 1990s. The main reason behind this increase was the structural adjustment program of the government. However, poverty is reported to have decreased to 23.94 percent in the recent years (see Arif, 2001; Arif *et al.*, 2001; and Jafri 1999 for details).

The poverty alleviation approach followed in Pakistan consists of sustaining a moderate rate of economic growth with an emphasis on equity in distribution and human resource development. Different strategies have been adopted for the purpose, which include special programs and short-term measures targeted towards improving the earning capacity of the masses in general and provision of social safety nets for the really poor in Pakistan. With a view to enhance the access of the low-income communities to socio-economic services of the Government, an independent professionally managed unit, the Pakistan Poverty Alleviation Fund (PPAF) was set up in 2000. This is in the form of a private, not-for-profit, limited company, with an aim to reach the poor communities through the NGOs and Community Based Organizations (CBOs). It also focuses on institutional and capacity building measures so as to enhance the outreach of the existing NGOs and social organizations, which would come under the purview of the PPAF as its partners on the basis of transparent criteria. In addition to Government of Pakistan, World Bank is the major contributor to the PPAF project.

Initially, PPAF has signed agreements with five Partner Organizations (POs) to disburse Rs. 5 billion over the next five years. These five POs are: Taraqee Trust, Quetta (Balochistan), Agha Khan Rural Support Program (AKRSP), Gilgit (Northern Areas), National Rural Support Organization (NRSP), Islamabad (Federal Area), Family Planning Association of Pakistan (FPAP), Lahore (Punjab) and Kashf Foundation, Lahore (Punjab). Later on,

several other partners entered into agreements with PPAF and the Soon Valley Development Program is one of such enthusiastic organization. The target population of the PPAF project is poor and disadvantaged rural and urban communities. The benefits of the project will accrue directly to poor through: (a) income generation opportunities; (b) improved community physical infrastructure in the underserved areas; and (c) greater economic integration of women. Importantly the project will be complementing government efforts in improving the living condition of the poor sections.

PPAF evaluates its programs rigorously. It conducts surveys using its own research department or commissions other agencies for preparing baseline studies for the purpose of evaluation the effectiveness of its programs. In this paper, an attempt has been made to quantify the impact of the PPAF micro credit on poverty status of the borrowers. The rest of the paper is organized as follows.

After introduction, section II presents a brief review of literature. Section III deals with the methodology adopted in the paper and the data source. Section IV analysis PPAF micro credit and poverty status of the borrowers compared with the control group, while the last section V concludes the paper.

II. LITERATURE REVIEW

Microfinance has been gaining popularity for the last few decades, especially after the experience of the Grameen Bank in Bangladesh. The microfinance industry stands at a crossroads between increased commercialization and increased philanthropic aid (Emily, 2005). Micro financing has been successful in some of the regions but not everywhere. Microfinance providers in Asia and Latin America have been the world leaders, and the demonstration effect of their achievements has helped to build substantial microfinance industries in countries such as Indonesia, Bangladesh and Bolivia (see Kieran, 2004).

The most recent entrants to the microfinance industry are commercial banks. This modality includes many variants: transformed microfinance NGOs, government owned development banks, reformed state banks and diversification into microfinance by existing commercial banks. The Khushhali Bank in Pakistan is an extraordinary example of a newly-established retail commercial bank specialized in micro-finance. The transformation of NGOs into commercial banks is still a relatively new phenomenon. However they seem to be performing well in terms of profits and in expanding the scale of their operations significantly (Fernando, 2004).

In contrast, the state banks have generally under-performed. In the popular period of directed credit in the 1970s, subsidized loans were granted to politically-favored wealthy landowners rather than the poor farmers. Despite this, repayment rates were low and many programs operated at a loss. However, the case of commercial banks is different. The extensive branch networks, which enables them to achieve significant outreach. There are several examples of commercial banks diversifying into microfinance, either directly or through partnerships with financial NGOs. Even big multinational banks such as ABN Amro, Citibank and Deutsche Bank are now involved in microfinance (Montgomery and Weiss, 2005).

The above examples of incorporation of microfinance into the formal financial system are paradoxical, given that the initial motive of microfinance was to serve the poor borrowers who could not have access to formal finance program. In some cases, such as in Nepal or India, sector specific lending requirements may be the impetus behind diversification of large commercial banks into microfinance. But ICICI Bank in India, for example, has expanded its involvement in microfinance beyond the minimum requirement. In cases where such requirements do not exist, the motive seems to be profits and diversification of business lines. In Latin America in particular, there is a growing market for relatively small loans and in several countries the larger MFIs have been generating considerably higher returns than have commercial banks. In contrast, smaller MFIs (principally NGOs) in the region are showing negative returns (Ramirez, 2004).

It is one of the most interesting generalizations to emerge from the microfinance and poverty literature that the poorest of the chronic poor (the core poor) borrow essentially for protectional purposes, given both the lower and irregular nature of their income. This group, it is suggested, will also be risk averse to borrow for promotional measures (that is, for investment in the future) and will, therefore, be only a very limited beneficiary of microfinance schemes (Hulme and Mosley, 1996). World Development Report on poverty (World Bank, 2000) has also expressed the view that it is the less badly-off poor who benefit principally from microfinance. Bhutt *et al.* (2001) are of the view that the future success of microfinance as a development tool will depend largely on the ability of public, private, and non-profit organizations to develop a diverse set of institutions to meet the different financial needs of various segments of low-income populations. The design of such institutions must be informed by a thorough understanding of the causes of poverty, as well as the specific reasons for the lack of viable formal financial intermediaries in specific communities. What are the major obstacles faced

by the target populations, especially the entrepreneurial and marginally self-employed poor, in their attempt for economic and social advancement? To what extent are these obstacles related to the lack of financial services? Would potential clients need additional non-financial services, such as training, technical assistance, and health and human services, to be able to make productive use of the loan, and to what extent would such services impact a client's cash flow and a program's subsidy dependence? A focus on such basic market research and needs assessments must be emphasized in feasibility studies before the plan for any microfinance program is drawn up.

There seems to be consensus that microfinance is an effective tool for poverty alleviation. However, it is also clear that the states and societies are in the process of learning to use this tool effectively. It is really important to take micro-financing strategies as a complete package and not simply extending micro loans to the poor failing which the results will be sub optimal or counter productive.

A few studies have also been conducted to quantify the impact of microfinance on poverty alleviation. Hulme and Mosley (1996), for instance, based on the counterfactual combined approach, analyzed the impact of microfinance on poverty alleviation using sample data for Indonesia, India, Bangladesh and Sri Lanka and found that growth of income of borrowers always exceeds that of control group and that increase in borrowers income was larger for better-off borrowers. Similarly MkNelly *et al.* (1996) found positive benefits for the borrowers. Khandker (1998), based on double difference comparison between eligible and ineligible households and between program and control villages, focusing on Grameen, Bangladesh and Bangladesh Rural Advancement Committee (BRAC), found that microcredit alleviated poverty up to 5 percent annually. Furthermore, it was found that a loan of 100 taka to a female borrower, after it is repaid, allows a net consumption increase of 18 taka. For Thailand village banks, Coleman (1999), using the same approach as that of Khandker (1998), found no evidence of any impact of micro finance. Another study by Coleman (2004), found that programs are not reaching the poor as much as they reach relatively wealthy people. Khandker (2003), found that microfinance helps to reduce extreme poverty much more than moderate poverty, *i.e.* 18 percentage points as compared with 8.5 percentage points over seven years. Welfare impact is also positive for all households, including non-participants, as there were spillover effects.

Mosley (2001), using data from Latin American countries, found a positive growth of income and assets of the borrowers than control group.

The growth of income of the better-off borrowers was larger. However, he could not find any evidence of impact of microfinance on extreme poverty. Banegas *et al* (2002), employing Logit model, found positive impact on the income of borrowers. Gallup Pakistan (2005), using counter factual, combined approach, found positive impact of PPAF microfinance on the consumption, income and assets of the borrowers. However, the study did not explore the impact of the PPAF microfinance on poverty.

Keeping in view the relevant literature reviewed in brief above, firstly, it is observed that empirical findings are mixed and, secondly, no study has been conducted so far to quantify the impact of microfinance on poverty alleviation in Pakistan. This paper is devoted for the purpose.

III. METHODOLOGY AND DATA SET

METHODOLOGY

In this paper a counter-factual ‘Combined approach’ has been employed to study the impact of PPAF micro credit on poverty status of the households. This approach combines the ‘with – without approach’ and the ‘before – after approach’. The “with – without approach” provides information on the poverty status of borrowers (target group) and compares it with the poverty status of non-borrowers (control group). The ‘before – after’ approach makes a comparison of the change in the poverty level of both groups *ex antae* and *ex post* for the time period in which the borrowers benefited. There are several other factors that affect the income of all households overtime irrespective of whether they borrowed or otherwise. This methodology will enable us to capture the net impact of micro credit, and to isolate the influence of other factors on the income level and thus on the poverty status of the households who borrowed.

More specifically the following formula has been used to find the net impact of micro credit on borrowers.

$$P^* = (Pb_{t_1} - Pb_{t_0}) - (Pnb_{t_1} - Pnb_{t_0})$$

Where P^* is Net impact of micro credit on poverty status of borrower households; Pb_{t_1} is the poverty status of the borrower households with current income level; Pb_{t_0} is the poverty status of the borrower households with previous income level; Pnb_{t_1} is the poverty status of the non-borrower household with current income level; Pnb_{t_0} is the poverty status of the non-borrower household with previous income level, and ‘ t_1 ’ represents the duration from Jan 2004 to Jan 2005 and ‘ t_0 ’ stands for the duration from Jan 2003 to Jan 2004.

POVERTY LINE

We have used the official poverty line of Rs. 878.64 per adult equivalent per month for the year 2004-05 and the same poverty line has been deflated by Consumer price index (CPI, published by the Federal Bureau of Statistics) to get the poverty line of Rs. 838.22 for the year 2003-04.

DATA SOURCE

We have utilized the data collected in Gallup (2005). Gallup Pakistan conducted the survey, of a sample of more than 3000 households, of which about 1500 were borrowers, *i.e.* those who had taken at least one loan from PPAF during July 2001 and June 2003. The repeat borrowers were also included in the sample. The other half of the sample comprised of non-borrowers, having more or less the same profile as that of the borrowers. As the PPAF's lending procedure is different from conventional banking, therefore the sample selection process of Gallup Pakistan was supported by the Partner Organizations (POs) of PPAF. It has been stated in Gallup (2005) that in some cases the planned number of borrowers could not be interviewed because either the respective community organization did not have sufficient number of borrowers or the concerned households had not yet qualified the condition of having completed one year after borrowing. This was particularly true for certain areas in the Baluchistan province. The Table in appendix A compares the planned and the achieved sample.

Gallup (2005) included those household in its sample who took micro credit during the period from July 2001 to June 2003. The field work for the data collection was carried out during February-April 2005. Respondents were asked questions about their current and past year's income in addition to many other questions related to different aspects of sample households. There seems to be some weakness in data collection methodology. For precise results, the data should have been collected in the start of the intervention of the target households, *i.e.* before advancing micro credit as well as after the laps of some time period, *i.e.* the same households who borrowed and those who did not borrow (control group) should have been investigated for a second time. Keeping these limitations in view, our poverty estimates will therefore be indicative.

IV. PPAF MICRO CREDIT AND POVERTY ALLEVIATION

POVERTY STATUS OF THE BORROWERS

The incidence of poverty of the borrowers has been depicted in Table 1. Using the poverty line of Rs. 838.22, we estimated the poverty level of the

sample borrowers for the year 2003-04. The estimated headcount was 30.58 percent, which is higher than the official poverty estimates. This could be attributed to non-comparable sample sizes and variations across the regions. The overall poverty level is further decomposed in different poverty bands and groups such as extremely poor, ultra poor, poor, vulnerable, quasi non-poor and non-poor.¹ This is shown in Table 1.

TABLE 1
Poverty Status of the Borrowers

2003-2004	% of HH	2004-2005	% of HH	% Difference
Poverty Line (PL) Rs. 838.32 per month	30.58	Poverty Line (PL) Rs. 878.64 per month	23.99	(-) 6.61
Extremely poor < 50%, <i>i.e.</i> (below Rs.419.11)	2.82	Extremely poor < 50%, <i>i.e.</i> (below Rs. 439.32)	1.6	(-) 1.22
Ultra Poor > 50% < 75%, <i>i.e.</i> (Rs. 419.11-Rs. 628.66)	10.42	Ultra Poor > 50% < 75%, <i>i.e.</i> (Rs. 439.32-Rs. 658.98)	5.82	(-) 4.6 0
Poor > 75% < 100%, <i>i.e.</i> (Rs. 628.66-Rs. 838.32)	17.34	Poor > 75% < 100%, <i>i.e.</i> (Rs. 658.98-Rs. 878.64)	16.57	(-) 0.77
Vulnerable > 100% < 125%, <i>i.e.</i> (Rs. 838.32-Rs. 1047.87)	16.83	Poor > 100% < 125%, <i>i.e.</i> (Rs. 878.64-Rs. 1098.30)	15.68	(-) 1.15
Quasi Non-Poor > 125% < 200%, <i>i.e.</i> (Rs. 1047.87-Rs. 1676.64)	37.17	Quasi Non-Poor > 125% < 200 %, <i>i.e.</i> (Rs. 1098.3-Rs. 1757.28)	40.42	(+) 3.25
Non-Poor > 200%, <i>i.e.</i> (Rs. 1676.64 & above)	15.42	Non-Poor > 200%, <i>i.e.</i> (Rs. 1757.28 & above)	19.71	(+) 4.29

Source: Our estimates.

Note: A negative sign indicates a decline and a positive sign stands for an increase.

¹ Categorizations of the households into different poverty bands is based on the definitions given in The Economic Survey (2006-2007).

It reveals that 2.82 percent of the sample was extremely poor (whose income is less than 50% of the poverty line), 10.42 percent was ultra poor and 17.34 percent of the sample was poor. The first three categories of poverty bands aggregate to 30.58 percent. Of the remaining data, 16.83 percent of was identified as vulnerable, 37.17 percent as quasi non-poor and 15.42 percent of the sample as non-poor.

Using the poverty line of Rs. 878.64, we also estimated the poverty level of the sample borrowers for the year 2004-05. It was found that poverty incidence was 23.99 percent. This shows an appreciable decline (6.61 percent) in poverty as compared to the last year. It further implies that the PPAF micro credit, in addition to other factors, has played a positive role in poverty alleviation. The overall households are further decomposed in different poverty bands. The last column of Table 1 shows the change in poverty status across different poverty bands. A decline of 1.22 percentage points has been recorded in the extremely poor households, while it was 4.60 and 0.77 percentage points in case of ultra poor and poor households respectively. A marginal decline of 1.15 percentage points in poverty status of the vulnerable households was also recorded in the same year. This is supported by an increase in percentage of quasi non-poor and non-poor groups of households over the reported period.

POVERTY STATUS OF THE NON-BORROWERS

Table 2 reports the estimates of poverty status of the households who did not borrow from the PPAF. The head count of the non-borrowers was 29.32 percent and 25.78 percent in 2003-04 and 2004-05 respectively. A decline of 3.54 percentage points was recorded over this time period. Furthermore, the decomposition of sample of non-borrowers shows that 4.03 percent of households were extremely poor, 9.03 percent were ultra poor and 16.26 percent of the samples were in the category of poor in 2003-04. This aggregates to 29.32 percent of the non-borrowers. Again 18.50 percent of the households were identified as vulnerable, 37.07 percent as quasi non-poor and 15.11 percent of the sample as non-poor in the same year. Comparing the poverty status of the non-borrowers in different poverty bands during 2003-04 and 2004-05, Table 2 shows that the number of households in the extremely poor band had declined by 1.85 percentage points (from 4.03 percent in 2003-04 to 2.18 percent in 2004-05), while in case of ultra poor the decline was substantial (3.15 percent). However in case of poor there was an increase (1.46 percent) in the poverty status of the households from 16.26 percent to 17.72 percent during the same period. With the exception of vulnerable group, which has shown a decline of 2.92 percentage points, all

other households who were in higher income groups (quasi non-poor and non-poor) have shown an increase over the reported period (see Table 2).

TABLE 2
Poverty Status of the Non-Borrowers' Households

2003-2004	% of HH	2004-2005	% of HH	% Difference
Poverty Line (PL) Rs. 838.32 per month	29.32	Poverty Line (PL) Rs. 878.64 per month	25.78	(-) 3.54
Extremely poor < 50%, <i>i.e.</i> (below Rs. 419.11)	4.03	Extremely poor < 50%, <i>i.e.</i> (below Rs. 439.32)	2.18	(-) 1.85
Ultra Poor > 50% < 75%, <i>i.e.</i> (Rs. 419.11-Rs. 628.66)	9.03	Ultra Poor > 50% < 75%, <i>i.e.</i> (Rs. 439.32-Rs. 658.98)	5.88	(-) 3.15
Poor > 75% < 100 %, <i>i.e.</i> (Rs.628.66-Rs. 838.32)	16.26	Poor > 75% < 100%, <i>i.e.</i> (Rs. 658.98-Rs. 878.64)	17.72	(+) 1.46
Vulnerable > 100% < 125%, <i>i.e.</i> (Rs. 838.32-Rs. 1047.87)	18.50	Poor > 100% < 125%, <i>i.e.</i> (Rs. 878.64-Rs. 1098.30)	15.58	(-) 2.92
Quasi Non-Poor > 125% < 200 %, <i>i.e.</i> (Rs. 1047.87-Rs. 1676.64)	37.07	Quasi Non-Poor >125% < 200 %, <i>i.e.</i> (Rs. 1098.3-Rs. 1757.28)	41.49	(+) 4.42
Non-Poor > 200%, <i>i.e.</i> (Rs. 1676.64 & above)	15.11	Non-Poor > 200%, <i>i.e.</i> (Rs. 1757.28 & above)	17.15	(+) 2.04

Source: Our estimates.

THE NET IMPACT OF PPAF MICRO CREDIT ON POVERTY STATUS OF BORROWERS

Table 3 provides the net impact of micro credit on poverty status of the borrowers. This has been obtained by taking the difference of the last column of Table 1 and Table 2 as discussed in the section III on methodology. The PPAF micro credit has reduced the overall poverty level by 3.07 percentage points (from 6.61 percent to 3.54 percent) and the borrowers have shifted to

higher income groups during the reported period. The poverty status of the extremely poor borrowers has been marginally increased (by 0.63 percentage point), showing obviously no effect of micro credit on poverty status of these households. The results are consistent with the generalization that emerged from the literature that chronic poor households borrow essentially for protectional purposes (see Hulme and Mosley, 1996). In case of 'ultra poor', the net impact of micro credit shows a reduction by 1.45 percentage points (a positive impact). Although the percentage of vulnerable group shows a reduction, both with and without micro credit, however the net impact shows an increase in their number by 1.77 points. Likewise, the net impact of micro credit on the non-poor depicts an increase of 2.25 points due to redistribution, which is the expected result. The percentage of quasi non-poor group has increased, both with and without micro credit. However, the net impact shows a reduction by 1.17 percentage points, which is due to redistribution (compare with the case of non-poor and vulnerable). The case of poor group is interesting. Their number shows a reduction by 0.77 percent due to micro credit but an increase of 1.46 percent without the facility. The net impact, therefore shows a reduction in poverty by 2.23 points.

TABLE 3

Net Impact of PPAF Micro credit on Poverty Alleviation

	Last Column Table 1 (T1)	Last Column Table 2 (T2)	Difference (T1-T2)
Overall	(-) 6.61	(-) 3.54	(-) 3.07
Extremely poor	(-) 1.22	(-) 1.85	(+) 0.63
Ultra Poor	(-) 4.60	(-) 3.15	(-) 1.45
Poor	(-) 0.77	(+) 1.46	(-) 2.23
Vulnerable	(-) 1.15	(-) 2.92	(+) 1.77
Quasi Non-Poor	(+) 3.25	(+) 4.42	(-) 1.17
Non-Poor	(+) 4.29	(+) 2.04	(+) 2.25

Source: Calculated from Table 1 and Table 2.

V. CONCLUSION

In this paper an attempt has been made to investigate the impact of PPAF micro credit on poverty alleviation of the borrowers. For this purpose the data collected in Gallup (2005) has been used. A counter-factual 'Combined

approach' has been employed to study the impact of micro credit on poverty status of the borrowers. The official poverty line for the year 2004-05 and the adjusted poverty line for the year 2003-04 have been employed. Further, the said poverty lines have been used to decompose the households into different poverty bands and groups.

The PPAF micro credit has reduced the overall poverty level by 3.07 percentage points (from 6.61 percent to 3.54 percent) and the borrowers have shifted to higher income groups during the reported period. The poverty status of the extremely poor borrowers has been marginally increased (by 0.63 percentage point), showing obviously no effect of micro credit on poverty status of these households. The results are consistent with the generalization that emerged from the literature that chronic poor households borrow essentially for protectional purposes. In case of 'ultra poor', the net impact of micro credit shows a reduction by 1.45 percentage points (a positive impact). Although the percentage of vulnerable group shows a reduction, both with and without micro credit, however the net impact shows an increase in their number by 1.77 points. Likewise, the net impact of micro credit on the non-poor depicts an increase of 2.25 points due to redistribution, which is the expected result. The percentage of quasi non-poor group has increased, both with and without micro credit. However, the net impact shows a reduction by 1.17 percentage points, which is due to redistribution (compare with the case of non-poor and vulnerable). The case of poor group is interesting. Their number shows a reduction by 0.77 percent due to micro credit but an increase of 1.46 percent without the facility. The net impact, therefore shows a reduction in poverty by 2.23 points. The overall impact of micro credit on the borrower households has been positive. Keeping in view the positive impact of micro credit on the poverty level of the country, it is suggested that PPAF may extend its outreach through its participatory organizations to all the poverty clusters across the country.

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