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# Better Micro Financers in Pakistan, Banks or Financial Institutions

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**Abstract:** The paper is an emphasis on the financial sustainability of micro financing in Pakistan where Banks and institution use different products & services that help in reducing the poverty by coping up with subjective & objective poverty, this study found that banks were more commercialized in terms of payback & interest rates while engaged in micro financing but despite that Banks are endeavoring more ventures to uplift poverty in Pakistan through micro financing to poor.

**Keywords:** micro finance; microfinance banks; microfinance institutions; poverty

**JEL Classification:** N27; G21

## 1. Introduction

A society can never flourish if larger part of the population is poor. This research paper discusses about the financial services & products provided to the poor segment of a country that support them to take part in productive and entrepreneurial activities. These financial services such as loans, credits, savings etc were taken as granted in developed countries but are supporting backup for the poor segment of developing countries (Arch, 2005).Global poverty statistics according Arch (2005) has been strikingly high from the past few years.45% of the world population come in this sector. From 1990- 1998, 100million person were added more to the desperation last figure of 1.2 billion.2.5billion people live on per capita income of less than 1 dollar. In developed countries disadvantaged people are accessed by Community Development Finance which achieved three social objectives of microfinance:

- Reduced unemployment & poverty;
- Development of total communities;
- Increased labour market flexibility- in a manner that pays for itself (Mosley & Steel, 2004).

There were 1652 microfinance institutions in Asia & Pacific region, having currently 97 million clients & about 64 million of them were women. In Bangladesh, 17 million households are serviced worldwide by micro-credit by 2008. It is estimated that by year 2009,100 million households will be serviced at a cost of $ 25 billion. In Pakistan, Funders have directed at least $400 million in loan capital, share capital & other investments. Outreach (Burki and Chen, 2006) to active borrowers has expanded from 60,000 to over 600,000 in 6 years (1999-2005).Burki and Chen (2006) also found that in Pakistan there is no difference in performance between the Banks and the Financial Institutions those are engaged in micro financing.

In this research an attempt is made to revisit the view point of Burki and Chen (2006) and the following hypothesis was formulated in this connections.

H: There is no difference between the performance of Banks and Financial institutions, engaged in micro financing.

## 2. Literature Review

Microfinance focuses on tiny loans to the poor across the world to all developed and developing societies. According to Arch (2005), Global development Research Centers estimated that there were 500 million people with small or micro businesses & only 10 million had access to these financial services. Demands for these financial services were exceeded by 100 million persons. This demand has given creation to this industry with many formal & informal organizations to serve the entrepreneurs. An agreement was done to improve the welfare of the poor but didn’t know how best it should be, Arch (2005) there are two main goals of microfinance which are: poverty reduction & self sustainability:

- Poverty approach targeted very poor clients who were very costly to serve. These donations covered the shortfall between revenue of clients & cost of supply.
- Self-Sustainability approach targeted less poor clients who were covered with startup costs & fund experiments to reduce cost of supply in long run.
- Attracted commercial banks to cut profits and give bulk loans.
- Professionals agreed to make the industry an integrated global financial architecture.
- Goals to cut poverty in half by 2015 measured by rates in 1990 (Arch, 2005).

In developed countries like UK, from our sample of 45 clients, 131 jobs had been created over the period of two years. This made an exactly 34 exits from poverty, 31 exits from unemployment from 45 loans, making a multiplier of 0.74% in poverty & 0.67% in unemployment whereas the regeneration multiplier was only 0.22%, one third of the overall employment multiplier of 0.67%. It was estimated that there were 32,500 clients of MFIs in UK that gave 21,900 individuals exits from unemployment in a period between 2000- 2002, making a saving of 0.3million within a sample of 178 million (Mosley & Steel,2004).

## 3. Asian Microfinance Market

**Institutional Background of Bangladesh**

According to Chowdhury, Ghosh & Wright (2005), Microcredit came to shine in Bangladesh in

1990, based on experienced made by Grameen bank. This survey took place in Jan-May 1999

where N=954 households. It concluded 147 taka per week or $2 per week per individual. The

second is the subjective poverty line which concluded that poverty falls by 6.5% per year. Other factors remain constant (Chowdhury, Ghosh & Wright, 2005).

**Micro Financing in Pakistan**

As per Pakistan Prudential Regulation, mentioned by State Bank the poor are those whose total income during a year is less than minimum payment of income tax.

Pakistan's microfinance industry, according to Burki & Chen (2006) has worked hard in these 6 years & bought results. Total investment in between 1999 to 2005 has amount around 400million to PPAF & Asian Development Bank's microfinance sector. Assets available to retail microfinance provider was 20 million in1999 which turned over 200million in 2005. The outreach of microfinance services grew 10 times from approximately 60000 active borrowers in 1999 to over 900000 in 2009 but in a market of 10 million, this only made 9% potential market. Investment & growth is progressive (Subhani, 2009).

Burki & Chen (2006) found that micro finance brought up a fundamental structural problem that costs to deliver services were not being fulfilled from what is earned for providing these services. From 2002-2005 it has improved but still remain below 70% which is less as compare to international market (Burki & Chen, 2006).

Diversification, Fernando (2007) has also made entry of new microfinance banks:

- In Pakistan, 6 national level microfinance banks have entered in the industry since 2000.
- In Philippines, a total of 550 branches of 223 thrifts, rural bank are involved in microfinance, 4000 saving & credit opportunities & 200 NGOs.
- Afghanistan, Papua New Guinea & Tajikistan have established new microfinance banks.
- Commercial banks were also playing a vital role in enhancing institutional diversity. The ICICI bank if India, the second largest commercial bank had expanded its financial services to poor households. It claimed to serve over 2 million poor clients. Other new banks such as Syndicate Bank, Yes Bank, Canara Bank, Indian Bank & ING Vysya bank have entered this market.
- In Srilanka, Hattan National Bank was well-known for microfinance operations. National Development Bank of Srilanka was formulating strategy to penetrate this market (Fernando, 2007).

**Statistical Revolution**

- Grameen Bank of Bangladesh, Fernando (2007) had been offering deposit & withdrawal services at will. At the end of Sep 07, outstanding deposits amounted 697 million, ratio of 139%.

- ASA (Fernando, 2007) had reach over 6.4 million in 2006 as compared to 4.1 million at end of 2005.

- TMSS (Thengamara Mohila Sabuj Sangha) began services in 2005, shooting to 570,000 saving accounts with outstanding deposits of 3.3 million at end of June 2007 (Fernando, 2007).

- Khan's Bank of Mongolia (Fernando, 2007) amounted 390.5 million in over 1.5 million deposit account in August 2007, ratio of 124%.

- Xac Bank of Mongolia (Fernando, 2007) had expanded enormously from 2961 to 82,868 saving accounts in between 2002 to 2006.

- Acleda of Cambodia (Fernando, 2007) expanded from 19,070 to 141,368 deposits accounts in time period from 2002 to 2006 with a deposit volume of 5.7 million in 2002 to 121.1million at end of 2006.

- First Microfinance Bank of Pakistan (Fernando, 2007) had begun to provide domestic money transfer services & expanded their operations sustainability in recent years.

- Adhikar, (Fernando, 2007) a small Indian based NGO have started providing money transfer services to migrant workers.

## 4. Research Methods

For the study the data for 30 years from 1979 to 2009 was collected of such active saver those have started savings after being benefited by the financial supports from micro financing by banks and financial institutions. The paired t-test was applied to investigate the data.

## 5. Results

The comparative analysis for amount of savings by active savers at Micro Finance Banks and Micro Financial institutions gave some interesting stories, as it can be seen in the table 1 and 2.

The findings revealed that the savings due to micro financing found higher (7389743BRs.) at Micro Finance Banks than the savings (3643367BRs.) at Micro Finance Institutions. The Mean Difference (124879.193BRs.) for the savings at these two institutions by the active savers found significantly different (t =1.7772, p-value = 0.87< 0.1).Thus the Hypothesis is rejected.

**Table 1**

| STATISTICS FOR AMOUNT OF SAVINGS IN BILLION RS BY THE ACTIVE SAVERS IN PAKISTAN SINCE 1979 TO 2009 | | | |
|---|---|---|---|
| N=30 | AMOUNT OF SAVINGS | MEANS | STANDARD DEVIATIONS |
| Savings at Micro Finance Banks (MFBs) | 7389743 | 246324.75 | 735812.480 |
| Savings at Micro Finance Institutions (MFIs) | 3643367 | 121445.56 | 352458.902 |

**Table 2**

| STATISTICS FOR ACTIVE SAVERS PAIRED DIFFERENCE | | | | |
|---|---|---|---|---|
| MEAN DIFFERENCE | STANDARD DIFFERENCE | t | SIGNIFICANCE (2-TAILED) | MEAN DIFFERENCE |
| (MFB)_(MFI) | 124879.193 | 385997.593 | 1.78 | 0.87 |

## 6. Conclusions

The study clearly identifies that the banks are functioning in a much better way than the institutions engaged in micro financing in Pakistan.

**Summary of Hypotheses Assessment**

| HYPOTHESIS | MEAN DIFFERENCE | t | SIGNIFICANCE (2-TAILED) | EMPIRICAL CONCLUSION |
|---|---|---|---|---|
| H: There is no difference between the performance of Banks and Financial institutions, engaged in micro financing. | 124879.193 | 1.78 | 0.087 | REJECTED AT $p< 5\%$ |

The better function of micro financing at Banks level may be because of its better infra structure, span of management, ambience, control over consumers in comparison of institutions functioning for micro financing. The anticipated findings of this research are indications for the government & other stakeholders to formulize policies & strategies accordingly to uplift the microfinance activities by concentrating more upon banks those are engaged in micro financing.

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