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Microfinance And Self-Help Finance System To Reduce Poverty From Pakistan: An It-Based Solution

Gobind M. Herani¹

ABSTRACT

The aim of this paper is to find out the techniques and suggest computer-based solution to reduce poverty from Pakistan, and suggest sustainable management of micro-Finance and Self-help Finance systems. Literature review at national and international level reveals that many researchers have attempted to suggest microfinance as a tool to reduce poverty. Self-help financing blended with donor's finance is also successfully being practiced. Model of Grameen Bank is also being replicated with some modification as per demand of the localities, as there is always a room for improvement with scientific and technological inventions. Computer technology, as it is already playing its role in various fields, can be fruitfully utilized for proper management of this proposed project. Presently NADRA e-Sahulat and Telenor's easy paisa are programs that have capability to help the masses with maximum accuracy in the financial transactions. Some studies also encourage establishing a microfinance bank, with small deposits plus donor's funds, to be electronically managed by NGOs and controlled by organizations of indigenous peoples in villages. This study concludes that by reducing manpower intermediate-expenditure and irregularities will reduce poverty and will help in saving the amount for maximizing their own welfare. Presently, facilities are already available with latest technology, which if modified and innovated will bear fruit. This study suggested that how national and international donor Agencies should get accurate real-time information relating dissemination of their funds in right-hands, with to increased efficiency and decreased management expenditure.

JEL. Classification: B21; D85; G21; J23; J62; M54

Keywords: Microfinance; Self-Help Finance; NADRA e-Sahulat; Tameer Bank and Easypaisa

1. INTRODUCTION

Poverty among people exists due to the lack of food, clothing, housing, education and health, which are the main necessities of life. The level of these basic necessities of a house hold is related to the level of their actual income, which depends on the opportunities and nature of employment for the adult family members. On the one hand, the land resources are decreasing due to increase in population, and on the other hand, agriculture is decreasing due to the lack of sufficient water. In such a scenario, it becomes essential to create self-employment to increase earnings in order to enhance their purchasing power, and find opportunities to constantly enhancing their income. An initiative to find self-employment needs finance, which poor masses can not afford, therefore, these activities if not impossible are difficult in nature.

It is argued that in the developing countries formal and informal financial sectors have failed to serve the poor at required level. In the formal sector large loans and bureaucratic and long procedures for getting loans keep away the poor from the financial institutions. Informal sector, on the other hand, is also failed to serve the poor masses. Informal lender's charges are very high and keep the adult

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laborer as collateral. Exploitation of real valuation of collaterals' high interest rate and monopoly of lenders keep away the majority of the clients from the informal financial sector of providing finance to poor people, from income generating activities to reduce poverty. These results can be verified from Bhaduri (1983); Rao (1980) Bardhan (1980) Ghosh (1986); Ghatte *et. al.*, (1992); Herani (2002a&b); Herani (2007); Herani, Rajar and Dhakan (2007); Herani (2008); Sudan (2007); PGE (2009). Due to limitation of financial sector in both formal and informal services, particularly credit has evolved the micro-credit planning and programs.

Micro-credit has been initiated with an objective of providing credit to poor people with out collateral. The criteria of providing credit, discipline and harmony of group members, collection of repayments, supervision of borrower's activities in micro-credit system, has played a role in replacing the collateral. These factors are important in receiving credit from institutions in financial sector. In Pakistan, this sector has started improving and State Bank of Pakistan (SBP) has played a great role in expanding the credit services. SBP has relaxed the rules for the out reach of microfinance (Dawn 2005). Some institutions are already working to reduce the increasing trend of poverty rate in masses. A few active NGOs have also played a positive role in reaching out the mass areas. In developing countries, majority of the population are poor and livelihood concept is emerging as survival strategy of rural households (Ellis, 2000; Bryeeson 2000; Herani, 2009; Mahmud, Herani, Rajar and Farooqi 2009).

It is argued that people in rural areas are looking forward for diverse opportunities to stabilize their income as determined by their portfolio of assets-social, human, financial, natural and physical capital (Ellis 1999; Sudan 2007; Herani 2007). The majority of people, in Pakistan, are depending on the agriculture but to stabilize their income needs approaching rural people towards a diversified livelihood strategy. The activities are also confidently embedded in the micro-economic reasons of farming households (Hussein and Nelson 1999; Ellis 2000; Herani 2008). "Though the microfinance scheme is an effective tool for poverty reduction, yet it has not produced the desired results primarily due to higher markup rate even higher than the commercial banks"(PGE 2009).

Numerous studies from Pakistan have quite successfully defined and discussed the problems relating to poverty reduction. Some researchers have argued by showing measurement of the poverty, while some others have attempted to unlock the puzzle of poverty growth (Ahmed 2003). Dhari (2007a&b) has pointed out that poor people have higher dependency ratio, have single earner, less access to health care, unskilled labor and lesser education ratio. Phulpoto (2007) has argued that corruption created losers. Mahmud, Herani, Rajar and Farooqi (2009) and Herani (2009) have given many suggestions for proper planning of livelihood diversifications. Herani, Rajar and Dhakan (2007) have also given suggestions for proper distribution of wealth, aids, and donations and about microfinance, deposits and installments, self-help micro-finance as well as equal distribution of available resources. The utilization of NADRA's Database, which is most authentic resource, is recommended for transaction mode of payments.

It is a fact that parameters do not exist to monitor the proper distribution of donated funds, and that a large amount is consumed by managerial expenditures. Recovery installments also lack proper management due to non-availability of skilled labor and efficient MIS. In spite of all the short comings this type of financing is helpful for poverty reduction.

Numerous studies mentioned above has pointed out that microfinance is an effective tool for poverty reduction. Government of Pakistan is also trying for the same purpose. State Bank of Pakistan has encouraged this activity by relaxing rules for microfinance institutions, and national and international donors are also helping NGOs to achieve this target. All these struggles are not enough to reduce poverty in short time but can be helpful to achieve target to some extent. It is obvious that we will have to utilize our available resources to reduce poverty to some extent, and efforts of all the contributors must be appreciated. But here a question arises whether is there any latest technology based system to monitor to all the allocated capital, allocated with good intentions, is properly being distributed. It is evident that resources are available that can be helpful to get the answer of this question. A large managerial expenditure can also be reduced in obtaining real-time information by donors and encouraging them to pour more donations for helping to reduce poverty. This study is carried out to get better result, and to suggest possible solution in reducing this gap.

This study is designed to get the answer of the following specific questions:

- (i) Whether all the donated / allocated funds are properly utilized?
- (ii) Whether these allocated funds are distributed among rightful hands?
- (iii) Whether these transactions of funds are observable by donors?
- (iv) Whether deposits can be got from targeted population.

This study is based on systematic literature review and observation, and on the basis of conclusion the suggested solution is given. Organization of the remainder of this study is as under:

2. PROMOTION OF MICROFINANCE

2.1 The History of Micro-Finance in Asia

The history of micro-finance in Asia has started with the ideas of Dr. Yunus founder of Grameen Bank Bangladesh since 1976. It became bank in 1983. It has completed 26 years. In Pakistan, micro-financing shows an increasing trend. Government is also playing positive role in establishing micro-finance system yet could not achieved the desired goal.

Indian microfinance is dominated by two operational approaches: self-help groups (SHGs), and microfinance institutions (MFIs), in addition to a few cooperative forms. The SHG model was initiated by the National Bank for Agriculture and Rural Development (NABARD) through the SHG-Bank Linkage Programme in the early 1990s. Today the SHG model, which links informal groups of women to the mainstream banking system, has the largest outreach to microfinance clients in the world. MFIs emerged in the late 1990s to harness social and commercial funds available for on-lending to clients. Today there are over 1,000 Indian MFIs.

Microfinance actually started in Pakistan in the 1980s with Non Governmental Organizations (NGOs) through Rural Support Programs (RSPs) began making small loans to farmers on an informal basis. Microfinance Banks (MFBs) did not become well established until the late 1990s and are now growing rapidly.

2.1 Role Played by Public Sector in Pakistan

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In Pakistan microfinance institutions and microfinance banks are serving their clients but collateral and procedural activities lack efficiency to reach common people. These Microfinance Institutions (MFIs) are mostly serving the middle and lower middle classes. NGOs are getting donations from donors and managing their organizations and distributing the amount, to help the poor people in the pre-described areas only.

“It may be noted that SBP has signed a Memorandum of Understanding (MoU) with Pakistan Microfinance Network (PMN) and NRSP Microfinance Bank to provide a total of Rs.21 5 Million under the Institutional Strengthening Fund (ISF). It is desirable to link it at low mark up rates for the poor and needy people to utilize the facility at an affordable cost which is needed for poverty education. SBP will provide Rs. 133 million to PMN over the next five years and Rs.82 Million to NRSP micro-finance bank over the period of one year for promotion of a microfinance services in the country. In addition Rs.82 million has also been approved for Tameer Microfinance Bank over the next one year (PGE 2009).

In 2009, government made positive efforts to plan and reach to maximum level. It is expected that grant facility by government will be built by PMN to foster transparency and promote information exchange in the microfinance sectors. This facility will also help NRSP microfinance bank to build capacity and develop a real-time MIS for accepting deposits from the lower end of the market. Tameer Microfinance Bank intends to launch branchless banking operations. The National Microfinance strategy implemented by SBP envisages maximizing the microfinance out reach to three million clients by 2010 and 10 million by 2015. Increasing number of clients will attract majority of the people to the formal sector and will reduce poverty and improve the livelihood of the masses.

Financial Inclusion Program (FIP) implemented by SBP aims to transform the financial market with clear objective to provide equitable and efficient market-based financial services to the otherwise excluded poor and marginalized population including women and young people. FIP in the next phase will launch the financial challenge Fund and credit Grantee facility for small and rural borrowers. In addition FIP will also focus on the capacity building of key stakeholders and promotion of technology and foreign remittance through formal channels to promote financial inclusion (PGE 2009).

2.2. Role Paied by Informal Sector in Pakistan

In the informal sector first of all financer are relatives they give at one level borrowing in emergencies. Mostly relatives do not charge any interest on it. Second sector is shop keepers who charge extra along with the retail prices. And at the end of the season they get it back. Third sector is local lender, like land lords and many lenders businessman. These lenders charge high interest rates and do not show the records of their lending and recovery properly. There is improvement in this system as compare to 10 to 15 years back practice due to the intervention of some active Welfare Associations and Human Rights’ personnel’s and improvement in education of poor people’s children.

2.3. Role Played by NGOs in Pakistan

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Many NGOs, in Pakistan, are working on many projects to replicate Grameen Bank of Bangladesh and some other NGOs of Bangladesh. They have played a major role in creating awareness and due to this awareness there is a change in previous abnormal financing practices. Attitude of borrowers have also changed. It is argued that as compared to Government, the NGOs are playing a greater role in serving the poor people.

It is expected that some active NGO would involve themselves in this field of service by receiving deposits from poor people and then recover loans by a planned MIS based performance as suggested by Herani (2002); Herani (2007); Herani, Rajar, Dhakan (2007); Herani, Rajar, Wasim, Shaikh (2008); Herani (2009). It is evident from NGOs records that recovery rate of the installments are not encouraging due to inefficiency but better than public sector. In this system there is lack of visionary and highly skilled labor. Some other main reasons are that donors give the donations in prescribed field and NGOs can not use the money in other possibly better fields. Some times NGOS fixed the targets to achieve but due to lack of visionary staff they are not able to achieve their target. Despite all the said things NGO's work seems appreciable.

3. DEVELOPMENT OF A NEW MODEL

A combined model be prepared in the light of detailed literature review, based on the performance of NGOs and Governments intentions, encouraging State Bank's strategies, authentic database of NADRA and Easy paisa, successfully launched by synergy of Telenore Company and Tameer Bank and Herani's suggested models. Herani (2002; 2007; 2009) has already suggested similar model, which is a combination of Network Marketing System (NMS). This model may take time to become successfully operational as it would need to resolve problems in managing the MIS.

It is evident from the research that there is a problem in the recovery of microfinance loan because the NGOs that are working by charging higher interest rates, of course, due to intermediate expenditure on the management of deposits and inefficient disbursement system. As against the limited resources the need of micro-credit is very high and therefore efforts are required to be made to resolve this problem.

4. COMBINED MODEL WITH E.SAHULAT, EASYPAlSA, HERANI's MODEL

This establishment of microfinance institutions will be helpful to fight poverty reduction. Telenore Company and Tameer Bank are the leaders, who have introduced, at micro-level, mobile banking service in Pakistan. They have successfully penetrated in masses in rural areas and in less than a year they have proved that they have the capacity to reach and help, in real-time, the masses in far flung areas of the country. In spite of the fact that their services are costly, it has been observed that they are successful in introducing their services in villages with concrete result.

At the same time e-Sahulat that is being controlled by NADRA is also successfully providing the services of collection of utility bill's deposits, with the capacity to collect small deposits from customers and managing their transaction in real-time. NADRA is a very reputed Government organization that is ranked in ten top Database Management Systems of the world. At present time it has only one problem of recharging its accounts, and to the best of my knowledge NADRA has already resolved 95% of the problems and 5% would be resolved by reflecting on their experiences

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with their customers. In fact, NADRA's system is very strong, authentic, and cheaper and has the capacity to serve peoples, at the grass-root level, in far flung areas of Pakistan. It may also solve the liquidity problems at the same level, in distributing aids, donor's funds, Government's support programs, thus reducing poverty from the country.

5. CONCLUDING REMARKS

The purpose of this paper was to get the answers of the following questions:

Question No.1. Was: Whether all the donated / allocated funds are properly utilized? It is concluded that utilization of donated/allocated funds, at the present time, is not satisfactory due to non-availability of suitable parameters for its measurement like: lacking of skilled staff, expenditure, documentations, illiteracy of clients etc. However, it is concluded that a major portions of the funds are utilized on management expenditure.

Question No.2 was: Whether these allocated funds are distributed among rightful hands? The study reveals that due to non-availability of parameters and procedural inefficiency, illiteracy of clients the rightful hands have no access to the funds allocated for them.

Question No.3 was: Whether these transactions of funds are observe-able by donors? It is difficult to monitor the transparency of the transactions, especially by the donors, by the concerned Governmental or non-governmental organizations because of lacking MIS

Question No.4 was: whether deposits can be got from targeted population? The answer is in affirmative, if MIS is properly edited and modified to achieve the objective of keeping the transparent records of all the incoming and out going transactions.

The concluding remarks, in brief, are that if reputed organizations such as NADRA are involved in monitoring the transactions record by utilizing MIS, and reporting is done in real-time and with minimum expenditure on managing procedures. This will help in transparent collection of donations and funds, and real-time reporting will be available to satisfy the donors for more funds and will be auto-encouraging to the masses to utilize the system. This will also create habit of fairness in the people as well as reduce poverty in their areas.

6. RECOMMENDATIONS

It is recommended in the light of preceding discussions, that all the donations, funds, and aids should be deposited in a common pool and then NADRA's transparent services be utilized to distribute the funds among the rightful persons through CNIC Number as Reserved Number for maintaining the Bank Account of the person concerned. It is also recommended that the service of Franchises of e-Sahulat or Easy paisa or Tameer Bank should be utilized by full-proof networking for deposits of savings and recovery of installments be made through the same procedure in real-time. The end transaction must be observable by both the donors and the beneficiaries. The number of NADRA's e-Sahulat Franchises should be increased, with updated software to show the transparency of the transaction, and sufficient staff to deal with their clients. Mobile facility, which is already in practice, may also be further enhanced to strengthen the networking banking model.

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