

SOME POLICY RECOMMENDATIONS for MICROFINANCE IN PAKISTAN

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Abstract

The aim of this study is to provide an overall outlook of the microfinance sector in Pakistan. Microfinance has been considered by developmental economists and policy makers, as a very significant variable to combat the problems that hinder development in Pakistan. Microfinance has great untapped potential and it can play a significant role in alleviating poverty in Pakistan. The spill-over effects of microfinance include decreased unemployment and a higher standard of living for people who are presently living below poverty-line. The study has taken into account the main concerns being faced by the microfinance institutions and has provided recommendations for the microfinance institutions through which the microfinance sector of Pakistan can reach its potential targets and contribute in the economic development of the country.

Keywords: Microfinance, poverty, educational women empowerment and development.

PAKİSTAN'DA MİKROFİNANS UYGULAMALARI İÇİN BAZI POLİTİKA ÖNERİLERİ

Özet

Bu araştırmanın amacı Pakistan'da mikro kredi uygulaması hakkında bilgi vermektir. İktisatçılar ifade ettiği göre Pakistan'da mikro kredi ile sorunlar çözülmektedir. Mikrofinans büyük bir potansiyele sahiptir. Mikrokredi Pakistan'da yoksulluğu ortadan kaldırmak için önemli bir rol oynamaktadır. mikro finansın yayılma etkileri ile azaldığı işsizlik ve yoksulluk sınırının altında yaşayan insanlar için yaşam daha yüksek bir standart gerçekleştirilebilmektedir. Bu araştırma mikrofinans kurumları için bazı kaygılardan ve önerilerden bahsetmektedir. Böylelikle mikrofinans uygulamaları Pakistan'ın iktisadi gelişmesine katkı sağlayabilecektir.

Anahtar kelimeler: Mikrofinans, yoksulluk, kadınların eğitimle güçlendirilmesi, gelişme.

Introduction:

Microfinance means specialized loans, with low interest rates. Such loans are mostly for those who are unable to qualify for loans from a conventional commercial bank. Microfinance has emerged as one of the leading methods used by developmental economists and policymakers alike, to reduce poverty. Microfinance has widely been seen as one of the most effective means of enhancing the lives of the poor and therefore a major tool for poverty reduction and socio-economic development, particularly in developing and emerging economies. The importance of microfinance as an instrument for economic growth and development cannot be overemphasized.

Commercial banks in most cases have appeared reluctant in the provision of financial services, such as loans and credit, to clients with little or no cash income. In few cases where these commercial banks have offered to grant loans the collateral demands have made it very inconvenient for poor people to borrow. These constraints and challenges have hindered entrepreneurial drive and strangled innovations and initiatives that could have positively and significantly impacted poverty reduction, economic growth and development. Hence, microfinance has significantly complemented the formal financial sector and in most cases emerged as an alternative to provide the financial services which should actually be performed by the formal financial sector. Especially, microfinance has facilitated the rural population, informal sector workers and people living in poverty who have limited or no

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access to formal financial institutions (Yunus, *Creating a world without poverty: social business and the future of capitalism*, 2007).

1. History and Evolution of Microfinance in Pakistan:

The concept of microfinance is not a very old concept. Microfinance started gaining recognition in 1980's. Microfinance emerged formally when Professor Muhammad Yunus from Bangladesh addressed the banking problem faced by the poor people through a programme of action-research. In 1976, Professor Muhammad Yunus with his graduate students in Chittagong University, designed an experimental credit programme to serve the people. The experiment produced very successful results after which it was implemented to hundreds of villages. After entering into an agreement with the rural banks, he disbursed and recovered a huge quantity of loans. However, the bankers refused to take the project forward at the end of the pilot phase, as they feared it to be too expensive and risky to sustain in spite of the positive results shown by microfinance. Therefore, the Grameen Bank was founded in 1983 with the support and aid from donors. After the success of Grameen Bank, other specialized microfinance institutions were established, and many commercial banks also followed Grameen Bank's example and started to specialize in microcredit, with the aim to fulfill the needs of those who cannot be facilitated with conventional financial facilities. Today Grameen Bank serves more than 4 million borrowers and focuses its services to the lower strata of the economy. The concept of microfinance is common in most of the countries. Some countries have especially expertised in the field of microfinance. For instance, the government of Indonesia has provided supportive conditions for the lenders and the borrowers of microfinance. In Indonesia, special village-based microfinance institutions have been established. These non-bank institutions provided subsidized farming credit for small-sized farmers. (Yunus, *Creating a world without poverty: social business and the future of capitalism*, 2007).

Muhammad Yunus is the creator of microfinance loans. He is the writer of the book 'Banker of the Poor' in which he claims that a little loan given from him to a poor Bangladeshi woman who was frustrated with high interest payments. Poor people survive in difficult situations which is a proof that they are intelligent people. If only they are given loans these people can become self-sufficient in their lives. He mentioned about other entrepreneurial trainings that can be given to the poor people instead of providing financial help to them (Yunus, *Banker to the poor: micro-lending and the battle against world poverty*, 1999).

The concept of microfinance in Pakistan was initiated in 1960's and 1970's through federal and internationally-subsidized programs. However, due to extreme corruption and inefficiency these programs were not able to reach their targeted goals. (Mahmood, "Kashf Foundation: A Pakistani Microfinance Organization for Gears up for Dramatic Growth"). Pakistan has been in the group of developing countries for as long as its existence and it has been trying to struggle with the vicious cycle of poverty through various means, but has so far not been highly successful. Pakistan continues to focus on development projects and initiatives that would establish the system of microfinance firmly in the country. Formally microfinance was started in Pakistan in the year 1982 with the establishment of Orangi Pilot project in the city of Karachi. Later, Aga Khan Rural Support programme (AKRSP) was started in the northern region of Pakistan to facilitate people through savings and credit. After the positive results seen from the success of the Agha Khan Rural Support Program, other projects were started which helped the entrepreneurs in the southern region of the country. Moreover, after learning from international practices other foundations were developed like Kashf Foundation and Hope Uplift Foundation.

In 1990's various microfinance institutions were established which provided microfinance services to the people. General Pervez Musharraf ruled the country from 1999 to 2008 in which the government focused on poverty alleviation. Therefore, Pakistan Poverty Alleviation Fund (PPAF) was established with the support from the World Bank. In addition to this, the Microfinance Institutions Ordinance in 2001 proposed by the government of Pakistan facilitated the establishment of microfinance banks which lead to the development of the Khushali Bank. The Asian Development Bank helped in the establishment of funds for the microfinance banks like Social Development Fund, the Community Investment Fund and Risk Mitigation Fund. Moreover, the Asian Development Bank supported in the establishment of the Khushali Bank. Khushali Bank offered a diversified microfinance portfolio like housing finance, personal loans, leasing, insurance and remittance services. According to the Khushali bank report, of 2007 the number of clients of microfinance was approximately 1,400,000. (Mohammad , "Microfinance Challenges and Opportunities in Pakistan ", p. 90).

Microfinance has gained much critical acclaim and criticism alike in its efforts to reduce poverty reduction. Various development projects which targeted various areas of Pakistan demonstrated the fact that microfinance indeed is an area to be taken under serious consideration, as the usage of these programmes are suitable to the culture and environment of our country. The microfinance institutions in Pakistan provide microfinance services to the people of Pakistan. The microfinance organizations are private organizations, non-governmental organizations or government based institutions. As microfinance system is extremely important in Pakistan, it needs to be strengthened by enforcing important measures on the programs. Though Pakistan is still in the development phase in reinforcing microfinance but it surely has made significant progress in this field.

2. Research on Microfinance

Women face discrimination in different sectors of life i.e. domestic, social and political levels. It was decided that discrimination against women would be reduced by the Millennium Development Goals (2010). According to the World Bank the percentage of poverty in Pakistan is 22.3 % as of 2005 ("Pakistan"). Therefore, the Millennium Development Goals focused on the reduction of poverty which is linked to reduce discrimination against women with the provision of better employment opportunities. (Rahman, "Role of Microfinance Institutions in Women Empowerment: A Case Study of Akhuwat, Pakistan", p. 108). It is better to target women in order to decrease poverty levels as women tend to be more generous as compared to men and tend to spend their incomes on their families. Therefore, various governmental and non-governmental organizations have made efforts for poverty alleviation and microfinance is an effective tool via which women can receive employment opportunities and poverty can be significantly reduced. Micro financing projects have been effective enough to decrease the level of destitution among the poor by enabling individuals to earn a higher level of income leading to a better standard of living. In doing so there are spillover effects whereby better nutrition, healthcare and education has been reported to increase the standard of living. In addition to this, status of women empowerment will be improved in the male dominated society of Pakistan. Unfortunately the socio-political environment in Pakistan has not been stable enough for such development activities to be initiated; although this is one country in a severe need for developmental projects and these projects should be initiated without further delay. Muhammad Younas felt the need for a system that would be independent from the political influence. Maybe because of this reason Bangladesh has far more succeeded in achieving the aims of microfinance as compared to Pakistan because political influence on development projects is quite significant in Pakistan (Siddiqi, "Potential of Islamic Microfinance in Pakistan").

A study confirms that Pakistan Poverty Alleviation Fund (PPAF) is one of the participatory organizations that worked through reaching out to the poor by means of microcredit and they aimed to disburse funds and hence reduce poverty. These projects were successful enough to improve the lives of both borrowers and non-borrowers. The lives of borrowers were improved as the credit to initiate in the establishment of small-scale business and the non-borrowers generally benefited due to the spill over effects. Hence, microcredit positively affects borrowers as well as non-borrowers (Sherazi, "Role of Pakistan Poverty Alleviation Fund's Micro Credit In Poverty Alleviation: A Case of Pakistan", p. 215).

The microfinance providers are based on the welfare approach or the institutional approach. Firstly, the welfarist microfinance providers are not very concerned about the sustainability and profitability of the institutions. The Grameen Bank in Bangladesh is an example of the welfarist microfinance provider. It is based on peer-pressure model in which the group members are responsible for the repayments of all the members of the group (Wrenn, "Perceptions of the Impact of Microfinance on Livelihood Security"). Secondly, the institutional microfinance providers refer to provision of funds to the people who are aiming for financial sustainability. The poor have proved to be credit worthy people and it is even profitable to give loans to financially disadvantaged people of the society. Institutional approach focuses on the outreach prospective, financial sustainability and savings mobilization. There is much literature supporting the institutionalist perspective. Some of the most effective institutionalist microfinance providers are Bank of Rakyat Indonesia (BRI), BancoSol in Bolivia and the Association for Social Advancement (ASA) in Bangladesh (Siddiqi, "Potential of Islamic Microfinance in Pakistan", p.21).

Competition and microfinance have an inverse relationship as it is claimed that as competition in this sector is increased, the effectiveness of such programs in reducing poverty is reduced. This is because as more institutions enter the market to facilitate the low-income households and individuals with microcredit, the efficiency of the microfinance system is reduced as they invariably stop lending to those who are abjectly poor. As in some cases extremely poor people are unable to fulfill the conditions of refunding the loans so microcredit is offered to those people who are financially more stable (Wydick and McIntosh, 2005).

Financial illiteracy among the recipients of microcredit is also one of the main reasons behind the low impact of microfinance in many developing countries. Often, recipients of microcredit have limited knowledge and information of the basic elements of finance. Hence, this results in an inability to fully maximize and efficiently utilize the credit facility. To realize the true potential of microfinance there is a need to expand financial literacy particularly among recipients (Chowdhury, 2009). Many people live in rural areas where the population density is low and due to difficult terrain they are unable to access microfinance. The problem of exploitative money lenders also creates a hindrance for fulfilling the objectives of microfinance. In Pakistan the landlords in the rural areas interfere in the distribution of funds. These landlords exploit the people and a big share of agriculture loans is taken by them (Muhammad, "Microfinance Challenges and Opportunities in Pakistan", p. 96). Moreover, lack of information among women is a major problem because women usually take loans on behalf of their male family members and then the money is spent according to the intentions of their male relatives because illiterate women themselves lack adequate knowledge about business. In some cases, husbands use the loans and their wives are left to face the credit risk (Siddiqi, "Potential of Islamic Microfinance in Pakistan", p.34). In addition to this, the microfinance institutions face high transaction and operational costs. Due to lack of resources, the microfinance institutions lack management capacity which becomes a

challenge for the microfinance institutions. Shortage of human resource capital leads to inefficiency within the microfinance institutions (Mohammad , "Microfinance Challenges and Opportunities in Pakistan ", p. 95).

3. Suppliers of Microfinance in Pakistan:

The informal sources of finance comprise of small amounts of loans from family members who provide loans from production purposes. Every village has at least one committee that collects savings and provides loans. Moreover, the semi-formal sector compromise of Non-Governmental Organizations which are sustained international donors. Akhuwat is an interest-free non-governmental organization and it has 153 branches in Pakistan. Akhuwat is an organization that is based on poverty alleviation and it collects funds from local philanthropists. The meaning of the word Akhuwat is brotherhood so it encourages the financially stable people to collect funds and contribute among the deserving people. Akhuwat was based on the unique purpose of the provision of interest-free loans in the form of microfinance to the women. The first loan granted by the Akhuwat organization was Rs.10, 000(Rupee is the local currency of Pakistan). The basis of Akhuwat is on the model of Islamic Microfinance in which the aim is to provide finance with regard to the Islamic principles and to strive for social development. (Rehman, "Role of Microfinance Institutions in Women Empowerment: A Case Study of Akhuwat, Pakistan", p. 113). In addition to this, Pakistan Poverty Alleviation Fund is an organization that provide microcredit services to the people. (Iqbal, "Impact of Microfinance on Poverty Alleviation: The Study of District Bahawal Nagar, Punjab, Pakistan", p. 492). Pakistan Poverty Alleviation Fund was established in 2000 in order to disburse microfinance loans to the financially disadvantaged people. In 1992, National Rural Support Programme was established and it provided support in the establishment of the Punjab Rural Support Programme in the year 1997. (Qureshi, "Role of Micro Credit Institution of Pakistan for Poverty Alleviation: A case study of Khushhali Bank of Pakistan", p. 24).

The former sector complements the informal and the semi-formal sector. It includes microfinance banks such as the Khyber Bank of Pakistan, the First Women Bank and the Khushhali Bank. In 2000, the Khushhali bank Limited was developed with the assistance from the Asian Development Bank, the Government of Islamic Republic of Pakistan and the Microfinance Sector Development Program. The State Bank of Pakistan supervised the Khushhali Bank and its shareholders are mostly the commercial banks. (Qureshi, "Role of Micro Credit Institution of Pakistan for Poverty Alleviation: A case study of Khushhali Bank of Pakistan", p. 21). As a prerequisite for microcredit, the Khushhali Bank considers the profit generation level of the business generated from the borrowers. Usually the loan is processed within 20 days and the loan maturity period is 1 year. Khushhali Bank provides loan to the people within groups and does not require any other tangible guarantees for being eligible for the loans. (Qureshi, "Role of Micro Credit Institution of Pakistan for Poverty Alleviation: A case study of Khushhali Bank of Pakistan", p. 29).

The National Rural Support Program (NRSP) was established in 2001 and it has a total of 49 regional and field offices. National Rural Support Program (NRSP) primarily focuses on the agriculture and live stock market in Bahawalpur. It has approximately impacted the livelihood of 329,975 poor households. Its vision is based on social guidance and social mobilization. The microfinance bank established under the National Rural Support Program (NRSP) aimed to fight poverty with the provision of credit and saving services. It provided saving accounts to the borrowers and it was licensed as a bank by the State Bank of Pakistan under the Microfinance Ordinance Act 2001. It was established under the Companies

Ordinance 1984. The loan application is processed with 7 days. (Ayuub, "Impact of Microfinance on Poverty Alleviation: A Case Study of NRSP in Bahawalpur of Pakistan", p. 121).

Kashf foundation was formed on the Grameen model. By 2010, Kashf foundation had 205 branches and 60,000 clients of microfinance. Kashf foundation provides credit to financially disadvantaged women who have the ability for microentrepreneurship. It provides loans to women within groups. As the collateral and credit history is not an important prerequisite for the loan so the members of the group are liable for the repayment obligations of the group members. It carries out training programs that are focused on leadership, decision-making and conflict resolution. Kashf Foundation is focused on market penetration, better customer relationships and improved institutional capacity. The headquarters of Kashf Foundation handles the official operations and the branch offices provide loan services to the people. Kashf Foundation offers home improvement loans in addition to the general, emergency and the business loan. In addition to this, it offers voluntary savings program for its clients and also provides life insurance policy with the minimum amount of 10,000 rupees (96 dollars) and a ceiling amount of 25,000 rupees (240 dollars). (Mahmood, "Kashf Foundation: A Pakistani Microfinance Organization for Gears up for Dramatic Growth").

3.1 The Biggest Barricade against Development in Pakistan

Poverty is believed to be a means of being one of the major reasons of rising clashes based on terrorism and violence. It is unfair and unreasonable to expect microfinance on its own to fundamentally alleviate poverty and propel economic growth and development as poverty is much too complex to be cured by one intervention. Poverty is much too complex to be solved by means of just one variable. Microfinance cannot fundamentally alleviate poverty and propel economic growth in a limited period of time. However, microfinance can help to create employment because unemployment is one of the root causes of poverty in Pakistan.

Poverty refers to difference in the consumption and income levels. According to the past research there are different methods to measure poverty. The direct approach of measuring poverty is very expensive. Direct approach basically involves surveys that evaluate poverty by questioning people about their basic needs. Moreover, the indirect approach refers to measuring poverty by using score cards. Indirect approach is simple and inexpensive as it uses basic indicators to measure poverty in a region (Schreiner, "A Simple Poverty Scorecard for Pakistan"). The Millennium Development Goals (MDG) aimed to alleviate poverty by 2015 and sustainable microfinance was claimed to be a vital tool to reach 175 million of the poorest families. However, the objectives were not fulfilled because of the concerns being faced by the microfinance suppliers in Pakistan (Siddiqi, "Potential of Islamic Microfinance in Pakistan").

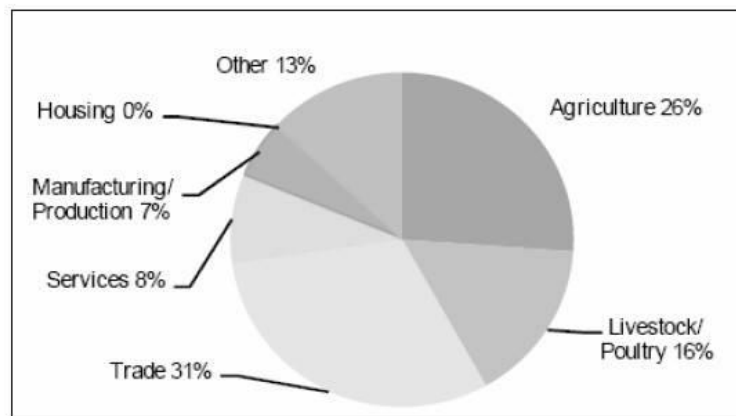
Microfinance provides financial services to the financially disadvantaged people so that they can contribute to economic development. Women who receive microcredit are rejected by the traditional banks because they cannot meet the collateral requirements. The entrepreneurial poor have adequate business skills but merely require support in the establishment of the business (Hart, "Making Microfinance Work Better in the Middle East and North Africa", p.1). Microfinance is an effective tool against poverty as self-employment opportunities are created from the microfinance schemes. It can be used as an efficient system to use the skills of human capital which are not being used merely due to lack of financial resources. It can lead to the production of new businesses and development of existing businesses. For instance, agriculture is a major component of the Gross Domestic Product (GDP) of Pakistan. So the farmers can be provided with microfinance loans as an input for their agriculture

business. (Iqbal, "Impact of Microfinance on Poverty Alleviation: The Study of District Bahawal Nagar, Punjab, Pakistan", p. 492).The microfinanceindustry has shown a shift from donor–funded to commercially sustainable operations. Hence,the millennium development goals and commercially-supportedmicrofinance can achieve the planned goals. (Montgomery, "Can Commercially-oriented Microfinance help meet the millennium development goals?"). If microfinance industry will rely on aid from othercountries then it will be restricted by the aid budgets and never be able to make a significant impact in the reduction of poverty.(Montgomery, "Can Commercially-oriented Microfinance help meet the millennium development goals?").Many microfinance projects have been initiated and most of them being successful enough to improve the living standards of the targeted groups who received microcredit. However, some projects failed to achieve any real positive outcomes asthose projects were not properly streamlined or managed. If microfinance has to indeed be a means of poverty alleviation, then microfinance institutions need to be more determined and single-minded about their original goals of providing loans to those borrowers who are originally rejected by conventional banking institutions and to screen their operations and borrowers more wisely.

3.2.Graphical Analysis of Microfinance

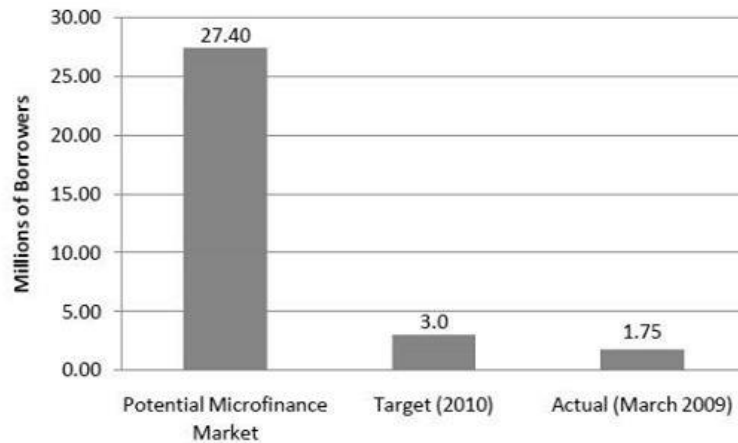
Exhibit 1 shows the sector wise distribution of active borrowers. The highest percentage of receivers of microfinance belongs to the trade sector(Muhammad, "Microfinance Challenges and Opportunities in Pakistan", p. 92). There is a need to increase funding in the housing sector because women living in domestic environments also have a potential to start up a business. Actually, in Pakistan women after marriage give up on their professions and dedicate themselves to their household duties. Livestock consumes approximately 16 % because this loan is mostly utilized before the Festival of the Sacrifice as people utilize the credit to sell animals which are sacrificed on the Festival of the Sacrifice every year. Agriculture consumes the largest proportion of about 26 % as Pakistan is an agricultural country so microcredit is granted to women so that they can engage in agricultural activities and earn a living (Iqbal, "Impact of Microfinance on Poverty Alleviation: The Study of District Bahawal Nagar, Punjab, Pakistan", p. 492).

Exhibit 1: The sector wise distribution of active borrowers.



Source: Microfinance Challenges and Opportunities in Pakistan

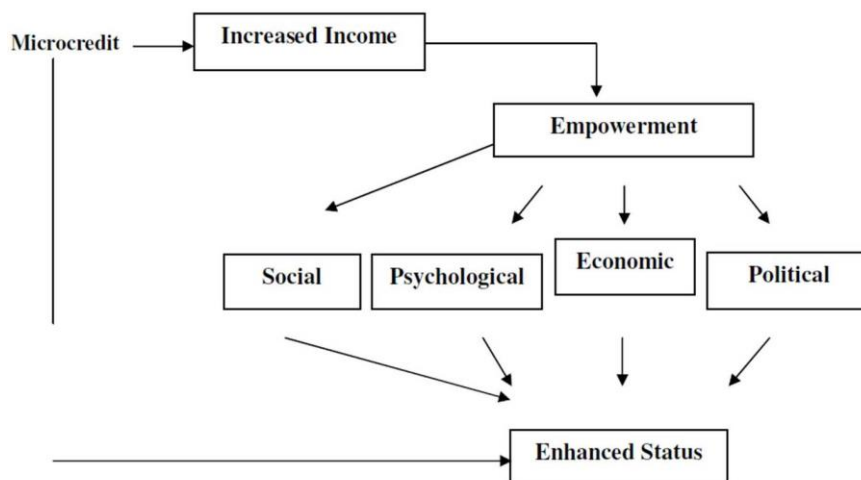
Graph 1: Pakistan microfinance potential and current market.



Source: Does Microfinance reach the Poorest ?Empirical evidence of programme outreach from Rural Pakistan.

Graph 1 shows that as of 2009 only 1.75 million of borrowers received loans via microfinance but the microfinance market has a potential to serve about 27 million borrowers (Galib, “Does Microfinance reach the Poorest ?Empirical evidence of programme outreach from rural Pakistan.”). The population of Pakistan is approximately 185 million people as of 2014 and if the potential microfinance market is accomplished then the poverty and other issues like unemployment can be reduced to a great extent(“Pakistan”).Microfinance can support the financially disadvantaged in increasing the standard of living of the people. Moreover, it should be aimed that microfinance should be concentrated more on women than men because women are more responsible with regard to fulfilling the expenditure of children education, food and clothing. (Muhammad, “Microfinance Challenges and Opportunities in Pakistan”). It should be aimed that microfinance loans should be provided to the ‘creditworthy economically active people’ rather than to the poor who are living below the poverty line. These people have some form of employment and are not extremely poor so the probability of return of the funds is also comparatively high. For instance, some people are employed but they do not have the capital to invest in business ventures.

Exhibit 2: The impact of microfinance on women empowerment



Source: Women’s empowerment through microcredit:A case study of District Gujrat, Pakistan .

Exhibit 2 illustrates that microfinance has especially impacted the lives of women. Therefore, microfinance provides an efficient method by which women can achieve livelihood by abiding by the rules of their domestic systems. Microcredit leads to increased income levels which plays a significant role in the progress of the economy as it not only reduces the poverty but also contributes in strengthening the political position of women in the society (Khan, "Women's Empowerment through Microcredit: A case study of district Gujrat, Pakistan. ", p. 335). The microfinance industry has strived to compensate the limitations faced by women that prevent them from borrowing from the financial institutions. As women are provided access to working capital and training, the productive capacity of women is mobilized and the economic output can be maximized. With regard to the psychological perspective, financial empowerment causes women to become more confident and independent in the society. (Cheston, "Empowering Women through Microfinance", p. 7).

The primary motive of supporting women in seeking employment is to provide them financial autonomy so as their networks are increased and they become more independent instead of being confined to the domestic environments. . Socially, women become stronger as they realize their earning power. It has been observed that the income of a woman is consumed mostly in household expenditure. Therefore as efforts are made to increase the financial status of women so in the long term, the welfare of the household is improved. Women's Entrepreneurship Development Trust Fund (WEDTF) in Zanzibar, Tanzania, has reported that as the income of women is increased the diet, education and health care of their children were improved. After becoming financially independent, women are able to influence strategic decisions at the domestic level. (Cheston, "Empowering Women through Microfinance", p. 8). Moreover, mostly feminists have observed that due to gender their occupational options are limited. However, microfinance allows women to choose their profession according to their skills and abilities. Therefore, microfinance places capital in the hands of women so that they can become financially independent. Financial autonomy results in increased political power and self-esteem. Women participate in decision-making matters as they become more empowered and independent. (Cheston, "Empowering Women through Microfinance", p. 18).

Mostly the households are dominated by men so this phenomenon encourages gender discrimination within the society. However, microfinance aspires to change the societal trends and lead to better intra-gender understanding. After acquiring credit, the women feel respected as they become income-earners of the family and become able enough to contribute to the finances of the family. Therefore, these improvements lead to an enhanced status of women in the male-dominated society of Pakistan. (Zaman, "Microfinance in Bangladesh: Growth, Achievements, and Lessons", p. 13). The motive behind microfinance is that women are able to utilize their abilities so as to improve their status in domestic and national level. Women empowerment is nurtured by factors that can be improved through microfinance (Dessy, "Microfinance and Female Empowerment", p. 19).

Conclusions and Policy Recommendations

In 2001, microcredit institutions provided small loans to people to help alleviate poverty. In 2012, the concept of microfinance has become more widespread and loans were provided by branchless funding and diverse lending models were introduced which provided a sustainable method of lending money that would improve the standard of living of the people. In 2017, microfinance institutions aim to link microfinance with financial inclusion and various diverse cash transfer programs will be introduced. Steps will be taken to reduce gender and

youth exclusion. The whole country will be linked together and every microfinance institution will work together to provide loans to the people (Microfinance network report, 2012).

Initially, microfinance should provide saving services in addition to the loan services because poor people are desperately searching for safe deposits for their meagre amount of savings. (Grossmann, "Demand Study for Micro-Finance in Turkey", p. 27). The system of group lending is an effective checking measure on the receivers of microfinance. Many microfinance providers like the Grameen Bank used peer pressure amongst people to force people to make timely payments. In some cases this is a very useful technique as it can help to reduce the percentage of defaulters (Siddiqi, "Potential of Islamic Microfinance in Pakistan"). The bank should focus on providing microcredit loans to the young enthusiastic generation of Pakistan as they have more potential to generate profits. The microfinance institutions should arrange seminars for the existing borrowers so that all borrowers are well-informed about the products and services offered by the microfinance institutions. (Qureshi, "Role of Micro Credit Institution of Pakistan for Poverty Alleviation: A case study of Khushhali Bank of Pakistan", p. 30).

Pakistan is an agricultural country and agricultural loans can play a significant role in alleviating poverty in the country. The system of subsidies can be introduced which would reduce aid dependence (Hudon, "World Development", 2011). Other policy recommendations include, microfinance loan should have very low or no interest rates attached to it, as interest adversely affects the repaying capacity of the very poor in society. Moreover, they should not strive to be profit-oriented as such projects are set-up to help the poor and aims to reduce abject poverty in any country. Therefore, smaller microfinance financial institutions have proved to be more fruitful in lessening poverty on a larger scale. Financial literacy should be increased among people regarding the management of resources. Furthermore, microfinance institutions provide microcredit to the users but these funds are not being utilized to alleviate poverty as the people are unaware of the suitable way to utilize the funds.

Countries which are in the initial stages in the strengthening of the system of microfinance can support each other to take microfinance to a higher level. Moreover, an independent arrangement should be made to develop association between local microfinance institutions and international microfinance institutions and programs should be initiated on an international level to eliminate gender discrimination and violence against women. For example, the most significant microfinance project in Turkey is the Turkish-Grameen Microfinance Program which provides financial support women to initiate production at a lower level and provide guidance regarding the proper utilization of funds. As currently Turkey is supporting Pakistan in various developmental projects like the Lahore Metro Bus Service Project. Therefore, Turkey can collaborate with other countries like Pakistan and initiate developmental projects. (Howe, "Financial Intermediation, Growth, and Microfinance in Turkey: A Quantitative Study").

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