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Analysis of Issues on Micro Credit—The Case of Two Villages in Punjab

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INTRODUCTION

The phenomenon of poverty was felt and observed more during the decade of 1990s, as the overall growth slowed down. While the slowed economic growth and recessionary trends contributed to poverty, the trickle "down effect" once thought, to improve living conditions, did not reach the lowest level owing largely to lack of accessibility of institutions, unjust and non-poor policies. For these reasons, in Pakistan during the decades of 60s and 80s, when the country experienced high growth rates of 6-7 percent, 34 percent of people still lived below the poverty line.

Socio-economic development, improving the quality of life in general and of rural poor in particular, welfare have been the prime stated goals of government. Therefore, rural development programmes, such as, Village-Aid, Integrated Rural Development Programme (IRDP), Peoples Works Programme, *Tameer-e-watan* Programme, Prime Minister's Five Points Programme etc. were introduced to improve farm productivity, which would consequently improve incomes and quality of life of rural poor. This was done through the Department of Local Government and Rural Development. Little impact on the life of the rural poor, however, was observed partly because these were administered through closed, immutable and cloistered institutions of government which are not accessible and responsive to the needs of poor. Also, the lack of focus on community participation and need for it was evident. As these programmes were managed through government departments these lacked flexibility and out-reach. The approach of administering was fixed, rigid and lacked professionalism.

There was then the experience of executing programmes for the poor by Non Government Organisation (NGO). There are arguments in favour and against NGOs, as some of these brought bad names to those doing good work. However, some of the known NGOs, contributing significantly to improvement in quality of life of poor were the Aga Khan Rural Support Programme (AKRSP), Orangi Pilot Project (OPP) within the country. Though the operation remained localised. The main philosophy

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of these programmes was social mobilisation of community and identification and execution of projects by the community. These NGOs mobilised community resources to develop self-confidence, self-reliance and collective efforts of the people.

In early 1980s the Grameen Bank of Bangladesh, showed remarkable results of providing micro-credit to the poor and helping to build their self esteem by enabling to start small businesses in which poor had skills and experience. The operations of Grameen Bank have spread gradually through out Bangladesh, benefiting 700,000 borrowers. Its experience has been fairly successful [Yunus (1999) and Yaron (1994)].

The necessary condition for poverty alleviation programmes to have effective long term impact on income, employment and productivity; is improvement in redistributive economic growth, improvement in social services for poor and opportunities for them to develop their full potential [Streeten and Burki (1978)]. Without improvement in these areas, poverty alleviation interventions will barely keep people afloat the poverty line. In these conditions, if poverty intervention should sustain, then the capital requirement for running the operations of micro-credit programmes need to be made available at subsidised rates (perhaps by the donors). This was true for micro-credit programmes of Grameen Bank (GB), Bangladesh Badan Kredit Kecamaten (BKK) Programme, Indonesia, and AKRSP [Riedinger (1994)]. However, as acquiring capital from the donor is becoming scarce, these programmes will have to look for alternatives to improving self-sustain ability.

Micro-credit Programmes internationally are being debated on three aspects [Sinha (1998)]. These are: (a) targeting the poor: that is, what percentage of micro-credit financing members constitute poor? (b) sustainability which relates to the ability of these programmes to continue to lend money to more and more poor (c) and impact of programme in terms of such indicators as improvement in income. In all micro credit programmes, measuring impact of the programme has been difficult because it takes about 8-10 year to see the impact of the programme. If outreach of the Programme is taken as its success, then micro credit programmes have limited outreach. GB has been able to reach only 17-18 percent of target poor in its over 20 years of operation.

Programme impact, however, has been mainly measured in terms of recovery rate and out reach of the programme. The outreach of the programme counts the number of loanees in which the repeat loans are not segregated.

The high cost of operations of micro-credit programme and declining subsidies are being debated. It has been observed that decline in subsidies have come as a result of: (i) high repayment rates achieved by poor borrowers in the early years, inspite of borrowing at near market rates of interests along with; (ii) inability to convincingly establish that a dollar spent on targeted credit has a greater impact on poverty than a dollar spent on alternative policies [Van de Walle (1997)]. The latter argument is extremely important because money spent on social and physical infrastructure, with pro-poor bias, has larger outreach, as compared to micro-credit.

In mid nineties, in Pakistan, National Rural Support Programme (NRSP) was initiated followed by Regional Rural Support Programme. These Programmes, largely applied the philosophy of Grameen Bank, AKRSP and OPP. Punjab Rural Support Programme was created in 1998 and started its operation in 8 regions of Punjab. These Programmes were two pronged, that is, provision of micro credit and social mobilisation of poor.

Social mobilisation aspect of the programme comprise mobilisation of communities at the village level to form community organisation (CO). The community organisation identifies collective and individual needs. The CO serves as pivotal point in bringing people together, share experience and improve living collectively. It decides about collective and individual loans, needs and collects savings regularly.

The paper aims to define micro credit and analyse micro-credit programme of Punjab Rural Support Programme (PRSP) in terms of extent of targeting the poor, types of loans given to target client and impact of one-time micro credit on the incomes of poor. For this purpose a survey was undertaken to assess improvement in incomes, as a result of credit. It also attempts to analyse operational cost of credit disbursement to determine self-sustainability and outreach of the programme.

The assumptions are that Rural Support Programme (RSP) serve the needs of 'poor' to certain extent. However, the "real poor" are not brought fullest in the fold of the programme. It is in the design of these programmes that these cannot give full coverage to "real poor". These programmes provide an additional and alternative source (other source of loans are from shopkeepers, big landlords etc.) to acquire loan for economic activity only. Other loans may be used for meeting consumption needs.

REVIEW OF LITERATURE

Interest of academia and practitioners in micro-credit as an instrument in poverty reduction, is a recent phenomenon. There was a perception that poor represent high credit risk because they lack collateral and are unable to invest in gainful economic activity. It was also presumed that poor utilised credit on consumption, such as marriage, death etc. While this may be true for loans for consumption smoothing acquired from rural shopkeepers etc. [Nazli (2001)], the RSP's loans are meant exclusively for economic activity.

The perception that poor cannot invest in gainful economic activity gave way, when in late 70s Grameen Bank was created and its micro-credit operations along with social mobilisation programme, showed that poor have more credit worthiness and they can generate surplus which enables poor to stay out of poverty. This programme also demonstrated that poor can borrow at near market rates and repay these loans in time. Subsidised rural credit during 1960s and 1970s were presumed to facilitate rural development, however, did not achieve expected results. Highly subsidised money did not reach the small farmers and landless for whom the credit was meant. By and large it went to big farmers. An apparently pro-poor policy was misdirected [Adams and Graham (1981)]. Micro-credit programmes were thus a response to these misdirected policies. These programme in different countries were funneled through autonomous bodies or NGOs.

The review of literature of last decade (1990s), on micro credit has focused on the financial sustainability, i.e., whether these programmes are able to cover both financial and operational costs (without regard to social and political changes these programmes bring in). The studies do not show if cost effectiveness can be achieved by reducing administrative cost and by introducing economies of scales in operations [McNamara and Morse (1998)]. Studies have shown that micro credit as an instrument of policy alleviation has been successful, however, its outreach has been limited because of its lack of self-sustainability [Stiglitz (1990); Yunus (1999) and McNamara and Morse (1998)].

According to studies, sustainability depends on interest rate charged and the rate of repayment. Studies have also shown that self-sustainability, if achieved can result in increased outreach of programme [Yaron (1992); Yaron (1994)]. There are concerns, however, whether the scarce money from donors be spent on providing micro credit or invested in crucial sectors like agriculture, infrastructure, health, education which have long term benefits in improving incomes and welfare [Sinha (1998)].

One further finds in the literature on rural micro credit, that in order to reduce the risk of non repayment by the poor and reduce transaction cost, ‘peer’ monitoring is the most effective method [Stiglitz (1990)]. This will target the poor and misdirection of subsidised credit will be avoided to a certain extent. Peer monitoring, in fact has met two objectives successfully. One the loanee is known in person to group (as in the case of loans from rural shopkeeper, who knows almost everybody in the community). Second, the knowledge about loanee increases the likelihood of repayment.

Khandker (1998) points to the impact of micro-credit being low, owing to low level of oral mathematical skills and reading and writing skills of recipients. He also points to the fact that full impact of the credit on long-run behaviours can be measured by evaluation over a longer period of time. He also raises questions on the group-based lending and whether this mechanism of lending is as effective as individual based lending. One thing is clear about group-based lending, that it does make credit accessible to those who do not have collateral to receive loans. This makes a strong argument for micro credit programmes. It also creates social capital, which helps people to fight poverty. However, the argument on literacy has strength that it creates impediment in acquiring micro-credit and its use in a more productive way. In addition to owning resources such as skills, knowledge etc., it is important that people have social capital, that is, network of friends and relatives to provide support. Woolcock and Narayan have dealt the subject of social capital stating that people deprived of this resource are worse off financially and otherwise. They are also unable to participate and benefit from programme. This argument is corroborated in the present study, where destitute constitute a miniscule portion of loanees and by and large remain outside the network of social capital.

The other aspect is about the formal and informal markets of credit. There are no two opinions that the demand for credit in rural areas from small farmers and landless is immense [Malik (1999); Aleem (1990); Bell (1990)]. However, supply of credit does not meet the demand for credit. Perhaps, this could be one reason for high interest rates. The demand for credit is demonstrated by the fact that local money lender and shopkeeper, big farmer etc., provide loans to small farmers in cash or kind. Sometimes the interest charged could be much more than what is charged by the formal institutions. The vacuum created in absence of formal institution is an opportunity to have institutions providing micro-credit to those who are in its need.

Definition of Micro Credit

What one further finds in the literature on rural finance is the lack of clarity of concept about micro credit for poor. As a matter of fact this concept has been used and applied in variety of context and used interchangeably with micro-financing such examples include Badan Kredit Kecamatan (BKK) Indonesia, Agriculture Cooperation, Banks Rakyat Indo Unit Desa.

Micro-credit is defined as a credit provided to 'poor' free of collateral through institutionalised mechanism (the only collateral is the "peer" collateral). This credit is made available as and when needed, at the doorstep of client [Bajwa (2001)]. On the other hand, micro-finance is inclusive of savings and other services.

This paper is divided in four parts. Section one deals with the issues of defining poor to whom micro-credit is focused and the benchmarks used in defining the poor client. Section two covers measuring the snapshot impact of the programme in terms of improvement in income of target group. Section three covers cost of the programme and section four gives analysis of issues.

I. MICRO CREDIT FOR WHOM?

The micro credit scheme of the PRSP aims to rectify the neglect towards the rural poor for access to credit from formal financial institutions, collateral requirements, cumbersome procedures, corruption, remoteness of the villages, etc. The credit programme of the PRSP is providing the rural poor with easy access to credit.

The micro-credit is provided for the activities given in Table 1 [PRSP, Annual Report (1999)].

Table 1

	Purpose	Duration of Loan
Agriculture Inputs	Seed, Fertiliser, Agro- chemicals	Up to 12 months
Enterprise Development	Working Capital	Up to 24 months
Livestock Development	Fattening/Breeding, Sheep, Goats and Calves Milching Animals	Up to 12 months Up to 30 months
Small Infrastructure as Individual Enterprise SIIE	Development of Production Infrastructures	Up to 24 months (individuals), up to 60 months to COs

Who qualifies for the above loan? How does the programme define its client: the poor. Who is poor? is a big question in any poverty alleviation programme. There are many definitions and criteria when it comes to concrete action steps to design a project. It appears hard to pin down poverty and the poor, since the concept of poverty is relative and has many dimensions. The definition starts with income levels of household, which are taken as $1 or $2 a day [World Bank (2000-2001)]. It is also defined in terms of daily consumption of 2250 calories per individual. Any body taking less calories than these is poor. Although there is an argument that individual caloric needs are determined according to ones body requirement and life style and thus these may vary a lot from person to person.

Another definition is the level of accessibility to such services as health, education etc., lack of empowerment and voice; sub-human living etc. All these definitions describe conditions of poverty from different dimensions. These describe human state where basic needs are unmet; human deprivations are extreme and individuals are unable to contribute and gain in economic terms because of these deprivations. Thus, the description of poverty has the economists', sociologists', anthropologists', nutritionists', policy-makers' description. Annexure–I gives various definitions used by international agencies. These wide array of definitions describe human conditions, however, each would require different approach. Therefore, any programme of poverty alleviation must determine very clearly what definition and benchmark are applied to a particular programme.

Keeping the above difficulty in view, PRSP has evolved a definition of poor, by asking the community organisation members to ascribe themselves to a category of rich, well-to-do, poor, very poor and destitute. Table 2, gives 'physical assets' (parameters), possessed by household as indicative of 'Poverty'. These physical assets comprise land-size, source of income, transport/farm machinery, house condition, access to agriculture inputs, livestock, access to education and access to health facilities etc. The members of CO place themselves in one of the category according to whether they possess physical assets and to what degree.

Table 2

Indicators for Poverty Profile According to the Living Standards of People

Details	Rich	Well to do	Poor	Very Poor	Destitute
Landholding Size	Irrigated land more than 12.5 acres	Irrigated land 4–12 acres	Less than 4 acres of land, or landless	Landless	Landless
Source of Income	Members of household in service business agriculture More than one earner	Doing low paid jobs small business farmers, even landless but have additional source of income	Small farmers, tenants, only source of income is farming. One earner, many dependents	Land workers, labourers, mostly daily wages, no regular income	Nil, surviving on *zakat*, charity, occasional labour
Transport, Farm Machinery	Tractor Car/motor-cycle other farm machinery	Motorcycle	Bicycle/cart	None	None
House Condition	Big and cemented, electrified, proper sanitation	Medium size and well built with proper sanitation	Clay built, no electricity	Not built physical, condition not good	Small and clay built
Access to Agri-inputs	Access to good quality agri-inputs on time Does not need credit for agri-inputs	Can buy agri-inputs, sometimes need credit for agri-inputs	Accessible. Only buy on credit	Not accessible on time, always needs credit	Nil
Livestock	More than 10 animals	5–10 animals	2–4 animals	1–2 animals	1–2 animals
Access to Education	High education (atleast enough resources for higher education)	Upto high school level. Can go to other villages for high school education	Only primary education, in some cases not even primary education	No access to proper education Cannot afford to send their children school	Nil
Access to Health Facilities	Have access to proper health facilities	Basic health facilities	Access to basic health	Cannot avail proper health facility	Nil

The Table 2 is a starting point the CO members describe themselves as 'poor' and 'not poor'. It is purely based on the perception of people about their state of being poor or otherwise. These perceptions, however, may or may not be real because individuals will understate income and wealth to receive benefit. This places a great onus on the programme organisers to be extra vigilant and refine parameters as the programme progresses.

According to the Report on "Social Development in Pakistan—Towards Poverty Reduction", possession of land and livestock in rural areas, reduces incidence of poverty by 55 percent. The report presents a ladder of poverty reduction, showing that poverty is reduced maximum, if household possesses physical assets, then it is reduced by being employed, then by transfers, education and minimum by family support. The Table 2 of PRSP is close to the SPDC ladder of poverty reduction which focuses more on the extent of the possession of physical assets and accessibility to education and health. Actual repayment rate is also dependent on the possession of some physical assets by loanees.

It may be mentioned that all Rural Support Programmes in Pakistan have been able to reach 1.70 percent of the total poor in the country. A comparison with other known programmes in the world is given in Table 3. The Table shows that the outreach of these programmes is limited.

Table 4, shows loan disbursed according to the level of 'wellness' of loanees, over the three years. During 1998-99, 1999-2000 and 2000—March 2001, 70 percent, 75 percent and 79 percent respectively loans have been provided to 'poor' and 'very poor'. It can be safely inferred from the Table generated from data-base of PRSP that the programme is targeted to the 'poor' and 'very poor'. The data reflects that 30 percent of the total loan disbursed during 1998-99 were given to 'well-to-do' and 'better-off' and 70 percent of the total loans went to 'poor' 'very poor' and destitute. Destitutes, however, did not benefit much from the programme. It is stated, those socially secluded, because of lack of physical assets, do not get the chance of coming in the fold of programme.

Table 3

The Number of Borrowers and Percentage of Population Serviced by Six NGOs Involved in Rural Finance Services. Data for BAAC, BKK, BUD and GB Taken from Yaron (1992)

Organisation	Country and Year	Number of Borrowers	% of Population Serviced
Bank for Agriculture and Agricultural Cooperatives (BAAC)	Thailand	2,600,000	52 (of farming pop.)
Badan Kredit Kacamatan (BKK)	Indonesia	510,000	1.8
Bank Rakyat Indonesia Unit Desa (BUD)	Indonesia (1989)	1,600,000	Not available
Grameen Bank (GB)	Bangladesh (1990)	660,000	17.2 (of target pop.)
Diocesan Development Services (DDS)	Nigeria (1996)	30,000	3.0 (of Igala pop.*)
All RSPs	Pakistan (1999-2001)	147,000	1.7 (of target pop.)

*Assumes an Igala population of 1,000,000.

Table 4

Credit Disbursed to Various Categories (1998-99 – March 2001)

	1998-99			1999-2000			2000 – uptill March 2001		
	No.	Amount	%	No.	Amount	%	No.	Amount	%
Well to do	697	11,690,061	10.6	1,816	24,320,419	6.5	1,170	17,301,000	5.2
Better-off	1,577	21,055,652	19.1	4,612	68,734,516	18.4	4,102	53,659,880	16.3
Poor	4,671	54,324,630	49.5	4,162	196,247,490	52.8	12,564	170,908,471	52.0
Very Poor	1,931	22,289,757	20.3	6,626	81,820,768	22.0	7443	86,436,423	20.0
Destitute	36	349,000	0.03	62	547,000	.14	34	253,000	.07
Total	8,912	109,709,100		17,278	371,670,193		25,313	328,558,774	

Source: PRSP MIS data.

While the MIS data indicates that loans have gone to poor and very poor, the survey results show that loans have been acquired by those not so poor. Around 20 percent of the loans went to those who had land size between 0.5 to 12 acres and had *pacca* and semi-*pacca* houses.

If we see Table 4 in light of Table 2 what we know is those in the category of 'rich' and 'better-off' should not have been recipient of micro credit. The loans should have been directed to poor and very poor.

A survey was conducted in these villages and loanees were interviewed to determine, if the loans have gone to the really poor. The criteria was more or less the criteria of PRSP. 5 percent of the loanees were farmers with the average land size of 5.6 acres. The mode was 2 acres, median 5 and the range was 0.5-12 acres. The education level of most of loanees in the sample was 5^{+} years. The literacy level was 61 percent, 80 percent of people had *pacca* houses and 10 percent had semi-*pacca*. Table 5 shows the level of well being of loanees in the sample.

Table 5

Indicators and Level of Well-being of Loanees

Occupation						House Condition			Transport %				Live-stock	Education	
Farmer	Av. Land size (acres)	Small business %	Service %	Wage earner %	Other %	Pacca %	S. Pacca %	Kacha %	No.%	Bi	M/ Bike	Other	Live-stock %	Lite-racy %	Ave. Years of Edu. %
57	5.6	16	12	7	8	73	14	13	52	33	7	7	55	61	6

Use of Credit

An important argument in provision and use of micro-credit is 'entitlement' relations, which comprise what an individual owns and 'exchange entitlement'. In other words, according to Sen, the capability of individual to find employment; sell non-labour assets; what can be produced from own labour; cost of purchasing resources and value of product, and the benefits one is entitled to get (social security) will determine whether one would be able to stay out of poverty, deprivation and hunger or not.

Thus, micro credit will help individuals to remain out of poverty to the extent of their entitlement as defined by A. Sen. SPDC's argument, of having physical assets and employment are similar to A. Sen, because both arguments state that individual need to posses either non-labour assets (physical assets) and labour (skill, capability, employment) to be able to reap benefit of a programme. Therefore, such programmes inherently exclude the extremely poor who may not be able to participate in the programme because of lack of physical assets, capability, sell products at a value in market etc. This increases vulnerability of poor to remain poor. It would, therefore, be suggested that capabilities of poor and very poor be enhanced through functional literacy programmes, to reduce the risk of people falling in the trap of deprivation.

As Table 6 indicates, the loans are given for a business activity, in which individuals have capability and experience. Table 6 provides information on types of loans given to individuals, since the last three years of operation of the programme.

From Table 6, it can also be inferred that loans are largely acquired for livestock. About 43 percent of loans in year 1998-99 were for this purpose. Loans for livestock for both years 1999-2000 and 2000-2001 were 47 percent. What is interesting to observe is that loans for enterprise declined over the three years that are analysed. There could be two explanations for this. First, that easy availability of credit encouraged creditors to venture for riskier project. Second, peer learning persuaded people to invest in ventures where there was capability and experience.

The small-size farmers, or rural poor, invest in livestock because of the knowledge and experience of keeping livestock. The livestock is investment in physical assets that meets additional income and domestic milk requirement. In rural areas, large number of small-size farmers and others as well keep livestock for this purpose.

Table 7 gives information on credit disbursed from 1998 to March 2001, to male and female beneficiaries. There are some important learning points in the data. 47 percent of the beneficiaries got credit for raising livestock. Out of this 47 percent, 41 percent were female who acquired loan for this purpose. Also percentage recovery of female beneficiary is almost 2 percent higher than male beneficiaries. What do we learn? There is a potential in female in rural areas to successfully undertake commercial activity by raising livestock and return credit. A study carried out for Grameen Bank and Bangladesh Rural Advancement Committee (BRAC) suggests that women's financial control over funded enterprises tends to be greater when loans are used for poultry and livestock, reflecting women's traditional involvement in homestead-based activities [Hashemi, Schuler and Riley (1996)].

Some instances of women being used as proxy loanees are also observed in the study of two villages. The women of influential landlords of the village got one time loan and invested in purchase of livestock and poultry. Since they were not able to maintain the business themselves and men worked in the city, therefore, they sold off the livestock after paying back the loan.

Table 6

Credit Disbursed According to Type of Business
(1998 – March 2001)

	1998-99			1999-2000			2000 – uptill March 2001		
	No.	Amount	%	No.	Amount	%	No.	Amount	%
Livestock	4,696	70,205,000	43.0	13,171	171,569,000	47.7	11,300	135,780,400	47
Agri. Inputs	2,028	26,411,100	16.0	4,912	56,288,726	15.6	6,843	73,653,725	26
Enterprise	3,311	59,405,500	36.0	6,247	93,412,726	26.0	4,442	54,275,400	19
Small Infra as Individual Enterprise (SIIE)	355	6,865,000	4.0	2,185	32,081,748	8.9	2,008	23,999,270	8.3
Total	10,390	162,886,600	100.0	26,515	359,351,474	100.0	24,596	287,708,795	100.0

Source: PRSP MIS data.

Table 7

Credit Disbursement According to Gender and Type of Credit
(1998– March 2001)

	Credit Disbursed (Rs)	Beneficiaries (No.)			Average Size of Loan (Rs)
		Male	Female	Total	
Agriculture	156,353,551	12,669	1,114	13,783	11,344
Enterprise	207,092,900	11,619	2,377	13,996	14,797
Livestock	383,554,400	17,066	12,101	29,167	13,150
SIIE	62,946,018	3,723	825	4,548	13,840
Total	809,946,869	45,077	16,417	61,494	
Total Credit Recovered		418,654,771	114,197,539		
Percentage Recovery		Male 93.4	Female 94.82		

Source: PRSP MIS Data.

Villages Studied: Ladheki Nevian and Pandoki

The micro-credit programme experience was studied in the two villages. These villages are Ladheki Nevian and Pandoki in Lahore District located 40 km away from Lahore. The experience of credit programme was different in the two villages. Secondary data on the socio-economic profile of the two villages was obtained from Federal Bureau of Statistics (FBS). The PRSP Regional Office Lahore had data on credit profile of the two villages. Table 8 gives the socio-economic profile of Ladheki Nevian and Pandoki.

Both the villages are in proximity to Lahore and are well-off villages. The relative wellness of the villages can be inferred from its literacy rate and percentage of *pacca* houses. The literacy rate of Ladheki Nevian and Pandoki are 34.3 and 44.4 percent respectively. The female literacy rate in Ladheki is lower as compared to Pandoki. 70 percent of the houses in Ladheki Nevian and 89 percent in Pandoki are *pacca* houses. The average household size in Ladheki and Pandoki is 6.6 and 7.3 respectively. Interestingly female literacy is higher in Pandoki.

Table 8

Social Indicators of Ladheki Nevian and Pandoki

	Ladheki Nevian	Pandoki
Area (*Acres*)	2,310	4,173
Population	3,178	8,012
Male	1,659	4,091
Female	1,519	3,921
Average HH size	6.6	7.3
Literacy Ratio		
10+ (%)	34.3	44.4
Primary but below Matric	451	1,247
Male	326	855
Female	125	392
Matric+:		
Male	134	532
Female	16	236
Religion		
Muslim	2,977	7,585
Others	201	427
Age Groups		
18 and +	1,705	4,148
21 Years +	1,472	3,527
Female:		
15–49 Years	649	1,721
Currently married	427	1,147
Type of House		
Pacca	340	979
Semi Pacca	24	51
Kacha	119	68
Total	483	1,098
Other Facilities		
Potable Water	2	325
Electricity	408	966

Source: Federal Bureau of Statistics.

It may be stated that PRSP's profile of village is entirely based on the information provided by the villagers and thus there is variation in statistics of PRSP and FBS. It may also be pointed out, that PRSP in the last three years has not developed benchmarks for the villages, in which the Programme is introduced. These benchmarks are very essential part of monitoring and evaluation of the programme because these will indicate exante and expost conditions of the villages and improvement/change in socio-economic indicator owing to programme intervention.

Table 9 gives profile of the two villages in terms of credit disbursed, credit beneficiaries, loans for each type of business activity, poverty status and recovery position.

Table 9

Micro-credit Profile of Ladheke Nevian and Pandoki

	Ladheke Nevian			Pandoki		
Village Population		3,395			14,000	
Community Organisations (COs)		12			5	
Member Households		240			119	
Credit Portfolio:						
1. Total Credit Disbursed		Rs 2,804,000			2,193,000	
Male		Rs 2,359,000			1,480,000	
Female		Rs 445,000			713,000	
2. Total COs Benefiting from Credit		9			5	
Male		6			3	
Female		3			2	
3. Credit Beneficiaries						
Male		119			75	
Female		30			45	
4. Sectoral Allocation (Rs)						
		(Amount)	(%)		(Amount)	(%)
Agriculture and Small Infrastructure		415,000	15		245,000	11
Livestock		1,761,000	63		813,000	37
Micro-enterprise		628,000	22		1,135,000	52
5. Poverty Status of Credit Beneficiaries						
Above Poor		43	28.85%		39	32.50%
Poor and Very Poor		106	71.15%		81	67.50%
6. Recovery Rate						
	Amount Due	Amount Recovered	%	Amount Due	Amount Recovered	%
Male	1,999,835	1,919,958	96.0	1,651,424	1,014,663	61.4
Female	177,829	176,801	99.4	726,357	547,493	75.4
Total	2,177,664	2,096,759	96.3	2,377,781	1,562, 156	65.7

Source: PRSP, Lahore Region Office.

Ladheki Nevian has population of 3395, while Pandoki has 14000. These figures are not even close to the figures of FBS. With lesser population the CO organisation are 12 as compared to 5 in Pandoki. The village with more COs seems to be more active and mobilised and thus exerting more peer monitoring for repayment of loans. A closer look at the working of COs in Pandoki revealed that most of the COs were deeply caste entrenched. One influential of the village dominated, steered and maneuvered the functioning of loan. Even the social organiser was under his influence. The females were used as proxy loanees.

In Ladheke 63 percent credit was given for livestock whereas it was 37 percent in Pandoki. It was for micro-enterprise in Pandoki, for which people acquired loan (52 percent). Does it mean it is safer to give credit for ventures in which people have capability? Or is it the socio economic profile of community determines what business would attract investment.

If the relationship between beneficiaries' status and repayment is analysed in the two villages, as a case in point, it is observed that in Pandoki 67.5 percent poor and in Ladheke 71.0 percent poor received credit and the rate of repayment is higher in the latter case. This corroborates the argument that poor are more credit worthy than better-off. The argument of women being more credit worthy is also supported by the data. In both the villages female rate of repayment is higher than male repayment rate. The other important parameter for avoiding bad loans is the entrenched caste system to be either avoided or its influence minimised through the positive and assertive role of social organiser.

To whom the credit is directed to in the two villages and its outcome, is worth discussing. The 'poor and very poor' in Ladheki Nevian got more loans (71.15 percent). Also repayments are lower in the more prosperous village (Pandoki). The reason for the loans not being targeted is perhaps owing to political economy of the villages where better off receive credit, violating rules of repayment, without fear of accountability. Second, the homogeneity of social and economic structure. If a CO comprises of rich and poor and the inequalities are high, the cohesiveness in the CO will be absent or little. Well-off will tend to dominate, consequently resulting in reduce repayment rate and the absence of more targeted loan structure. It was observed in Pandoki that one or two influential families dominated the formation of CO. The other castes[1] were excluded, perhaps socially these are pariah castes and do not feel confident amongst the influential.

II. MEASURING IMPACT OF MICRO CREDIT

Impact assessment of micro credit programmes are advocated to assess whether the programme is 'good value for money'. It is also important to see the 'impact' on the intended beneficiaries in terms of income, wealth, food security, child nutrition, quality of life or gender relation [Copestake (1995)].

It would be too early to see the impact on overall welfare of villages owing to PRSP micro-credit programme. However, one can make qualitative assessment. On one of the visits to a village Ladheki Nevian, in a focused group interview, a woman mentioned that she had taken a loan of Rs 15,000 in December 2000 to set up a grocery shop. Her husband worked as a daily wage-earner. Sometimes he would get work, other times he won't. Now he runs the grocery shop. The shop is a small set-up in the premises of her house. According to her, she earns about Rs 2200 per month. Rs 965 are given as loan installment. She also has some income from poultry. It is a family of six members. Both, husband and wife were weak and pale. The income at least provided some certainty to the family.

[1]These castes are based on occupation in village. For example *Taili* (extracts oil), *kumhar (*a potter), *mochi* (a cobbler), *Julaha* or *Ansari* (a weaver). These low castes remain excluded from micro credit programme.

The quantitative assessment of the impact on income was determined in terms of income before and after the credit in the two villages through a survey. These results are given in Table 10.

Table 10

Average Income Before and After Loan and Percentage Change in the Income for Each Type of Business

Type of Business	%	Average Income Before Credit (Rs)	Average Income After Credit (Rs)	% Change in Income (One Time Change)
Micro Enterprise	25	2514	5500	118
Livestock	43	2666	5833	118.7
Agri. Input	25	4528	5785	27.7
SIIE	7.2	1750	3000	71.4

Source: Survey.

The results of the survey show that 43 percent of the loans were taken for livestock. The percentage change in income, after the credit in livestock business was 118. Small individual Investment Enterprise (SIIE) also had a significant percentage improvement (71.4) in income. These changes in income are one time change. What happens to income in the long run is determined by what one possesses and the overall economic growth of the country. As these changes in income are responses of loanees themselves, it is presumed that certain business will yield quick return.

Households may derive benefits, such as income, employment, consumption and access to credit. However, benefits from programme must be at best as great as the costs for households to participate in a credit programme. Possible benefits of participation include induced changes in income, employment and other welfare indicators. With increase in income, people tend to add to their existing physical assets, e.g., an addition of room in a house, addition to livestock etc.

Expenditure on education and health are dependent on other factors. In case of education, proximity of school (especially for girls), and availability of teacher are important determining factors. For health purpose, people in village may go to *hakeems*, quacks etc., in case the health facility is not in close proximity and doctor and medicines are not available.

The importance of education is low in rural areas. An increase in the income of very poor, increases expenditure on food first and not education. One reason that education receives low priority is that it is not functional and does not have visible benefits on improvement on life. Generally people view that education does not have immediate return. Completion of 10 years of education is perceived as getting an employment, preferably in government. Since girls are not suppose to work for wages and salaries, therefore, educating them is not important. If it is made functional, people may see other benefits as well.

Explicit interest cost of borrowing and implicit costs associated with programme participation, such as attending group meetings and monitoring fellow members' ……., constitute the possible cost of programme participation, [Sinha (1998)]. Generally, the implicit cost are not felt so much, if explicit costs generate reasonable benefit. However, for poor it also provides a social network to participate and derive benefit from the programme.

As impact is indirectly measured from the rate of repayment, because this rate determines what amount is paid back and what retained and saved the ensuing paragraphs will focus on these two aspect.

Savings Analysis

Main purpose of savings is to inculcate a habit of savings and form a capital base in the community, which can then be used to serve their needs, reducing dependence on the external borrowing. These also indicate whether there is enough to consume and save in a community. Savings also depends on propensity to save.

The COs/villagers are motivated to enhance their savings to become self sufficient so that no further loans be taken by/from other institutions. There are examples, where communities are helping from their own savings. In many cases loans are given from the savings for urgent needs. The individuals can also withdraw a maximum of 50 percent of his/her savings. However, all withdrawals or loans from the savings cannot be given without PRSP knowledge.

The habit of savings initially developed through an agreement within the CO members that no loan will be recommended to any body until and unless he/she saves some money on regular basis. Initially the response to this was poor, however, after realising the importance of savings the CO members are cooperating and there is regular saving practice among the members. Those who save more, are entitled to withdraw more when they need.

RSPs success in mobilising savings is important for self-sustainability. The financial ratio of the value of RSPs savings deposit to its loan portfolio and changes in this ratio over time indicates the success of RSPs in replacing concessional funds from donors and the government [Yaron (1992)]. The savings facilities of RSP can potentially reach a greater number of clients than its lending activities, with the average outstanding value of deposits and the saving account significantly smaller than that of average loan extended. If financial intermediary is genuine and not just disbursement window, it provides saving services to far more depositors than borrowers.

Table 11, provides information of credit disbursed and savings. Savings constitute 7.79 percent of credit disbursed.[2] Gujranwala, COs have highest savings. Credit disbursed is also highest for Gujranwala CO members. As the ratio of savings to loan

[2]International experience of Grameen Bank, Bangladesh, the Bank for Agriculture and Agricultural Cooperative, Thailand, Badein Kredit Kecamatan and Bank Rakyat Indonesia Unit Desa is that their savings as percentage of loan portfolio is 31 percent, 42 percent, 20 percent and 110 percent respectively. This has improved their financial self-sustainability.

Table 11

Credit Disbursed and Savings of Community Organisation Uptill March 2001

	Lahore	G'wala	Narowal	F'abad	Sargodha	Sahiwal	Multan	M' Garh	Total
Credit (Rs) (000)	70,609	142,454	65,606	46,398	101,369	72,171	116,133	195,204	809,946
Total Savings (Rs) of CO (000)	6,576	12,538	6,470	6,080	10,878	4,728	8,411	7,487	63,171

Source: PRSP MIS Data.

portfolio is low, it shows that the Programme has to go a long way to reach sustainability. The total savings as on June, 2001 of all RSP were Rs 742.6 million. These are the savings of 668,187 members of all CO. The average saving per CO was Rs 28,190. There are 26322 COs registered with the RSP credit schemes. The average saving per member was Rs 1,111. The females savings were less as compared to males.

Repeat Loans

PRSP has no data base to determine the number of repeat loans. However, as the organisation is in its initial years, overall there may be few repeat loans. In the survey conducted in the village the repeat loans were 14 percent of the sample. This is on the higher side as for the programme being in its initially years.

Why organisation would not discourage repeat loans? First, those who can pay back loans, why should they be deprived of second or third opportunity of getting loan. It may be mentioned here that Grameen bank loanees have taken 3.4 loans on the average, while BRAC loanees have taken 2.1.

Second, the high repayment rate, even with second or third loan, surely shows good performance of the organisation. Also, the very heart of micro-credit is high repayment rate. Therefore, as money is fungible, the high repayment reduces fungibility. Thus, such organisations will not discourage repeat loans as such.

III. OPERATIONAL COST AND SUSTAINABILITY

The PRSP signed an agreement with Habib Bank Limited, consequently the bank extended a running finance facility, against endowment of Rs 500 million at a markup of 14 percent per annum. From this running facility small loans to various community organisations are given with a maximum ceiling of Rs 30,000.
The Figure 1 below shows the source of income and use of credit:

It may be mentioned here, that PRSP is also tapping other sources of increasing its pool of resources. This strengthens the argument that micro-credit without subsidised credit will not be possible to sustain in the long run.

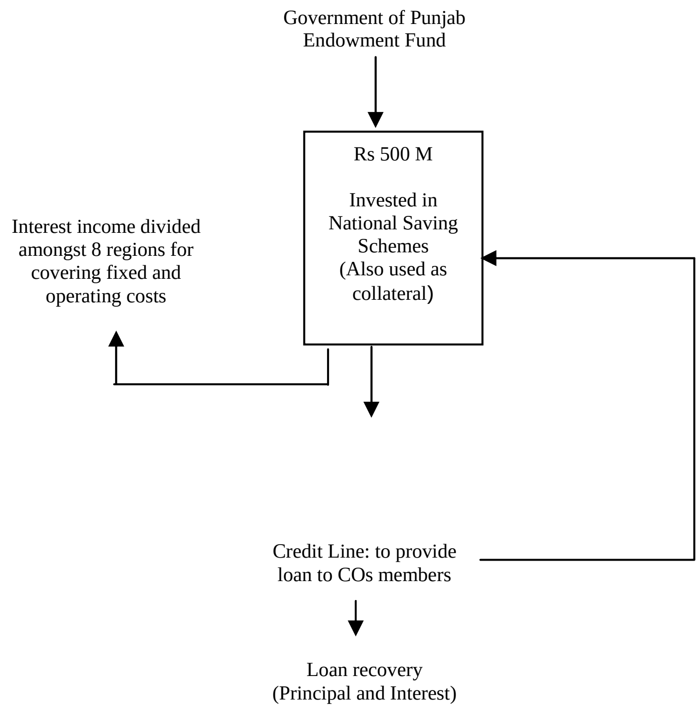

Fig. 1.

As mentioned earlier, sustainability relates to the ability of the programme to continue to lend, more and more money to the poor which in turn is dependent on repayment rate. In order, to keep its repayment rate high a large part of the credit goes to not 'so poor' people. The survey results show that loans have been given to non-poor. Anil Bhatt and others have also mentioned that "initiative and leadership are provided by either the extension agent from outside or the social animators and catalysts or somewhat better-off, more informed and better educated people from the community". Similar conclusions are given by Waheed on the basis of her study of such organisations that there are two prerequisites necessary for people to organise and carry out collective work, these are "awareness of problems and needs and minimum threshold of resources".

The financial analysis of the last two years (1999 and 2000) was done to determine sustainability of the programme. There is limitation to financial analysis as it is confined to an examination of the statement of accounts.

The current assets and current liabilities of PRSP as well as the income and expenditure of the organisation for the financial year 2000 as compared with the financial year 1999 is given below at Tables 12 and 13.

Table 12

Current Assets Current Liabilities

	2000 (Rupees)	1999 (Rupees)
Current Assets		
Interest Receivable	17,283,802	7,959,198
Advances, Deposits, Prepayments and other Receivables	8,539,233	9,876,016
Loans to Community Organisations	287,529,117	135,195,186
Cash and Bank Balance	9,145,370	26,308,642
	322,497,522	**179,339,042**
Current Liabilities		
Short-term Borrowing-Secured	216,738,825	122,004,231
Creditors, Accrued and other Liabilities	16,467,398	7,404,636
Provision for Taxation	1,282,739	500,600
	234,488,962	**129,909,467**
Net Current Assets	88,008,560	49,429,575

Source: Annual Report 2000.

Table 13

Income and Expenditure (FY 2000)

	2000 (Rupees)	1999 (Rupees)
Income/Grants		
Profit on Investments	90,000,000	90,742,500
Income on Service Charges	14,067,266	2,689,832
Other Income	3,644,496	758,262
	107,711,762	**94,190,594**
Expenditure		
Operating cost	7,789,198	3,673,356
Field Operations	43,261,146	34,239,017
(Social Organisation)		
Programme Assistance	10,016,278	4,964,900
Provision for Doubtful Debts	7,135,180	3,335,587
	68,201,802	**46,212,860**

Source: Annual Report 2000.

Financial Analysis for the Years 1999-2000

PRSP is lending money to various community organisations from the running finance facility. The interest rate charged to members of CO is 20 percent. The running finance carries a mark up of 14 percent. There is gap of 6 percent between the two. Service charges earned during the year 2000 were Rs 42.886 million and mark up paid against running finance facility was Rs 28.819 million. There is a net earning of Rs 14.067 million during the year 2000 as compared to 2.690 million in 1999. With an increase in operations the net earning is likely to drop further. PRSP will have to continually raise additional funds for fixed investment thus improving the interest accrual on such investment.

An analysis of loans to COs and expenditure to provide loan shows that a Rs 100 loans has Rs 23.7 operating cost. An illustration of financial sustainability of PRSP, and how it relates to other such organisations is given in Table 14. It also gives the value of subsidy dependence index (SDI)[3] for other known institutions and PRSP providing micro-credit. For given years the SDI is quite high and indicates that subsidy is required. The SDI for PRSP is high, confirming that the organisation is not very self-sufficient. The interest rates would have to be increased from 20 to at least 30 percent to cover operational cost. The interest rates however, will have to be managed within a range by improving operational efficiency, making organisation lean, expanding operations (economy of scale) etc.

Table 14

Values of the Subsidy Dependence Index (SDI) for PRSP Along With Some Well-known Rural Finance Institutions (Based on Data Provided in Yaron (1992))

Institution	Country	Year	SDI (%)
Badan Kredit Kacamatan (BKK)	Indonesia	1987	24
		1989	20
Bank Rakyat Indonesia Unit Desa (BUD)	Indonesia	1987	3
		1989	–8
Bank for Agriculture and Agricultural Cooperatives	Thailand	1986	28
(BAAC)		1988	23
		1987	180
Grameen Bank (GB)	Bangladesh	1989	130
		1982	89
Diocesan Development Service (DDS)	Nigeria	1987	20
		1996	11
Punjab Rural Support Programme	Pakistan	2000	30

Operating costs have increased from Rs 3.673 million in 1999 to Rs 7.789 million in the year 2000. The main increase in operating cost was due to considerable increase in the salaries in this period, i.e., from Rs 1,004,828 to Rs 3,119,280 an increase of 210 percent. Other operating expenses, e.g., traveling, vehicle running, meetings and conferences also increased with the level of activity.

The entire sustainability of PRSP is predicated to achieving a constantly high rates of recovery of loans. In the process of expansion of operation, the ability to maintain a high rate of recovery should not be compromised. Were this to happen, the provision for bad debts would increase, which may jeopardise future loaning.

[3]Subsidy dependence index (SDI) measures the percentage increase in the average on-lending rate required to compensate for eliminating subsidies, including the subsidy a financial institution receives through paying interest below the market rate on its borrowed fund. The subsidy is measured against the interest earned on the financial institutions annual average outstanding loan portfolio because lending is the prime activity of supply-led financial institution.

IV. CONCLUSIONS

In all this discussion, the central question is that micro credit programme remain a vital intervention in poverty alleviation policy. The refinement in the programmes needs to be introduced in targeting the poor only and as far as possible the loans should be avoided to 'well- to-do' and 'better-off'. It was analysed that this trend was declining, and in 2001, 21 percent of the loan went to 'well-to-do' and 'better-off' and the remaining to poor and very poor. It may not be pragmatic in the given setup and structure of RSPs to avoid 'resourceful' individuals. The reasons are quite obvious. One known fact is that the ability to organise is correlated to a degree of resourcefulness. Extremely poor and destitute on the average may not be able to organise. For extremely poor and destitute a separate kind of poverty intervention strategy is required.

The coverage of such programmes is not widespread. Even Grameen Bank (GB), which is operating since mid-seventies, has been able to reach 17.2 percent of the target population. The important policy questions remains, is their justification for such programmes, which have high SDI and outreach is not wide spread. Such interventions, as micro-credit, have maximum benefit during period of high economic growth. Unfortunately, developing countries, especially in Pakistan policy-makers have failed to address the issue of poverty reduction in a more focused and targeted manner during periods of high growth. Thus, such interventions as micro-credit, safety nets, etc., were a delayed response to poverty issue. The micro credit programme was launched in late seventies in Bangladesh and was known to the world in early 1980s. Also, during mid-seventies and eighties these programmes were introduced in Thailand, Indonesia and Nigeria. While the developing countries were focusing on micro-credit as an instrument for reducing poverty, Pakistan sat complacent on the issue. There is tendency in government to sit smug on issues, till donors push on problems and solutions.

There is debate and argument against micro credit programme as an instrument of poverty reduction, because of its limited coverage, high SDI, greater operational cost. It is also said that it manages poverty but does not reduce it. Unlike other instruments of poverty reduction, like food stamps, safety nets etc., which is a direct help in cash and kind, micro credit provides self-esteem to people and enable them to use their skills to employ themselves gainfully. It may be mentioned that micro-enterprise loans, given in urban areas to 'start-up' business can lead to successful large business provided economy is growing as well. The gains from micro-credit programme in rural areas can be enhanced if the functional literacy of people at village level is improved.

Despite the high cost of the programmes, collusion amongst members of community organisation and exclusion of other castes; the communities find these programmes useful as compared to loans from local money lender, big farmers and even formal institution, because of 'less' interest rates and ease of procedures.

Exclusion of low caste, however, can be systematically and by design reduced by the staff of the organisation.

The other question often raised is also the opportunity cost of investing in micro-credit programme *vis-à-vis* investment in health, education, developing physical infrastructure, agriculture etc. In developing countries, especially Pakistan, governments have not been able to achieve success in social and human development sector. The beneficiaries of social and human development have not been poor. There has been systematic and tacit exclusion of poor in all programmes of government. The only programmes which have been able to leave impact (no matter how small) were those which were outside government. Therefore, PRSP, and other such programmes can remain useful provided these remain open to question, continue to re-evaluate, monitor, do not become top heavy, keep responding to users and achieve financial self-sustainability.

To attain financial self-sustainability, it is important that RSPs lay greater emphasis on encouraging savings of CO. Increase in savings as percentage of loan portfolio will make these organisations independent of donors' subsidised endowments/capital and improve self-sustainability.

PRSP has shown impact in terms of improvement in income. However, there are some caveat. PRSP is focusing in regions, where achieving results are easier, therefore, it should try to outreach those regions as well which are a bit riskier. Also, it should try to make best use of local expertise and knowledge for example, most of the loans are acquired for purchase of cows, buffaloes, poultry etc. Could PRSP develop a central collection point for milk; where villagers are able to fetch market price for their product; and then the milk (and butter) can be delivered to the dairy plants nearby.

Finally, government need to look into devising different programmes for different 'target groups of poor', e.g. there are poor who have skills and but not capital (a detailed profile needs to be developed for such target group), then there are those who do not have skills, but have physical capital; those who are destitute, but are willing to work etc., therefore, each sub-programme could possibly cater to the needs of different target groups. The micro-credit should be for only those who have skills and expertise; some physical assets but not finances to run a business.

Annexure I

Definition of Poverty

Key Term	Definition
Human Poverty	The lack of essential human capabilities, notably literacy and nutrition.
Income Poverty	The lack of sufficient income to meet minimum consumption needs.
Absolute Poverty	The degree of poverty below which the minimal requirements for survival are not being met. This is a fixed measure in terms of a minimum caloric requirement plus essential nonfood components. While absolute poverty is often used interchangeably with extreme poverty, the meaning of the latter may vary, depending on local interpretations or calculations.
Relative Poverty	Normally defined in relations to some ratio of the absolute poverty line or, as in developed countries, as a proportion of average income per capita. As a relative measure, it can differ across countries or over time.
Human Development Index	United Nations Development Programme (UNDP) composite of three factors (i) life expectancy at birth, (ii) adult literacy, and (iii) income per capita (adjusted for purchasing power parity).
Human Poverty Index	UNDP measure of deprivation is basic human development. The variables used to determine the index are (i) the percentage of people expected to die before age 40; (ii) the percentage of adults who are illiterate; and (iii) overall economic provisioning, in terms of the percentage of people without access to health services and safe water, and the percentage of underweight children below age five.
Gender Empowerment Measure	UNDP assessment of the level of gender inequality in key areas of economic and political participation and decision-making.

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Comments

This is a single most important issue that has been presented this morning: the issue of Micro-credit, Poverty and Development. This paper is extremely valuable on two scores: Firstly, it puts together all the work that is being done in this field in Pakistan. Secondly, in dealing with these two case studies virtually every major issue in the field of micro-credit has been thrown up. Unfortunately, however because of the size of the paper and partly it lacks focus, it has not really explored the issues very thoroughly. We are not going be able to do it within 10 minutes or 15 minutes, which I have.

Three issues are singled out in this paper: the issue of targeting the poor; the issue of sustaining of micro-credit programmes; and the issue of the programme impact. This covers a very wide range and each one of these involves many other issues. The last issue of course, is the issue of RSP's. RSPs and many other NGOs are targeting the poor. This paper has shown you the tip of the ice-berg on this issue. The real issue is whether RSPs and NGOs are actually targeting the poor? In the work that we have done for the National Human Development Report, some important things have come out. In a sample of 40 you find half of the women are land owners, and the other 20 are potential land owners. We find that half of the people approximately, or more, are actually holders of irrigated acres. One of them has 200 irrigated acres, two of them have 70 and then 50 and 30. I won't go into what their presumptive incomes are, and these are the candidates for micro-credit. We must distinguish between micro-credit and poverty alleviation, they are two different things. In our sample now, and in previous work we have done over the years, I come across this again and again. One man with a marble factory who is also the 'District Nazim; is getting the micro-credit. Let me also mention two best targeted micro-credit programmes I have seen 'Kashaf' and 'Pyadar'. Now the results the impact, whether these loans have benefited or not is a separate matter. So what do we do about this? do we take the NGOs word for it—we are targeting the poor, or do we say no you are lying to us. We need to find a way of dealing with this problem at the macro-level, not targeting one or two organisations or types of organisations but across the board. I would suggest to you that we never take the government's word for it, we insist on, as independent analysts, on verifying what the government says. So are NGOs sacred cows or do we verify what they tell us. One would really do this through independent surveys and studies to be carried out on repeat basis, but please even if we can carry them out on one time basis we can some things out of it. How do we go about it? well one of the issues raised in the last paper is the issue of, how do we define poverty. This issue is taken up in this paper and different approaches are given but it reminds me a bit about this man who went to Oxford in 1940s and who was American. He said, "when I left, my tutor said to me, what have you learnt here?" he said, I have learnt to see both side of the questions. The tutor said to him, I hope so learn to chose one. We need a mixture of income and consumption, to define poverty. I am as doubtful as the discussant in the previous paper on the value of using income data alone. We do need a consumption data but we need it at the micro-level. And we need to mediate it by any special circumstances that may exist in that area or in that region. For example, if a particular place, has high level of ill-health due to either nutrition or some form of industrial pollution, and we all know of such areas like Kasur or whether its parts of rural Balochistan, whatever, we need to factor that in, and it does not matter. If that factoring in cannot be done quantitatively, as long as you are analytically able to show that it exists. You won't find that, one of the most distributing things I am seeing, is PRSP, which is the latest of the RSPs has no baseline data. I am sorry, this is not a sin of haste or omission, this is deliberate. We need that baseline data, we need to standardise that baseline data across NGOs, across organisations, across provinces, and we need to establish different baseline of different region because of the factors I mentioned to you earlier. It is not difficult or impossible to do at all. So there is your issue of poverty definition. Let us quickly move on to the programme sustainability. There was this whole era when we had subsidised credit and lots of it. Most of it went to the big landlords, and other needy people. But even for the poor you had subsidised credit to a small extent that you had it, that philosophy has changed. We cannot lend at those rates because such programme are not sustainable without large injunction of capital from some where usually the public exchequer. People of Pakistan as a whole borrow and pay through indirect taxation and somebody gets micro-credit at subsidised rates, I buy that problem. The next problem is, if your programme is going to be sustainable what kind of rate you are going to charge? Look at the case of Bangladesh where you have very large sections of population, being actually served by micro-credit and what do we see there: we see that the interest rates, the market interest rate has been lower than that of Pakistan. However, the effective interest rate charged to the borrowers has been in excess of 30 percent, the organisations giving the loans have gotten their own funding through such organisations like PKSF at very low, ridiculously low rate of interest themselves. So you're subsidising the NGOs here. You are not subsiding the poor, you are subsidising NGOs, and believe me, and I feel that NGOs. should be declared an industry. This is very much the case in Pakistan as well, so if you are going to have sustainable programme in Pakistan what are you going to charge them, 40 percent? and what have we been trying to sustain for heaven's sake. What structure, are we trying to sustain. I am talking about Pajeeros here; I am talking about large big buildings and offices, such like. These are all issues to be taken into account. For the question of the interest rates is there, I don't see, we can make an argument for charging the poor more than market interest rates. I think, this is a question that we have to address very seriously. Let's go on, to talk about the RSPs a point, we focused earlier on. A couple of corrections, the RSPs did not begin to work in 1995 and NRSP was not the first. I was one of the witnesses, so, I can tell you that first was NRSC now known as SRSP Sarhad Rural Support Programme, it has been working since 1989. NRSP did not start in 1995, it started in 1992 However small, but immediately thereafter it, got 500 million rupee endowment. Now if we look at the number of beneficiaries we did a calculation for this, for the NHTR as well. But we will take the figures given in this report we just talk about the micro-credit beneficiaries. 1.7 percent of the targeted poor are covered are in this period of time with the amount of fund that they have had so far. Look at their expenditure; an independent economist came up with the very conservative figures, which was nevertheless very high. This was violently objected to by the RSPs. But I will say this that if you wanted to cover all of the rural areas you would need the entire Pakistan budget every year and what's more given the amount of time we have spoken of and the coverage to date, the period of time required, would be greater than the Mughal Empire. So far the Pakistan's Poverty Elevation Fund show that 91 percent of all the funding given under various heads, went to two organisations both RSPs. AKRSP which we have always been told has masses of funds lying in its accounts because of the savings of its members which the bank was lending to rich and not back to them. Apparently, now 20 years later on they have come up with something new, heaven help us! The other one was NRSP, which was taking 59 percent. So, are we to imagine that 91 percent of the work in the micro-credit in Pakistan is being done by two agencies. This is a very serious problem and its coupled with an attitude that comes across all the time we are doing the right work and nobody else deserves even a crumb. I find this very disturbing. There are now a number of other issues which are more of a technical nature. We have discussed the interest rate issue, partly; there is the issue of savings. I disagree with the author on this. There are programmes that are successfully disbursing micro-credit with member's savings and those who are doing without it. There is an argument to be made for savings when it comes to instilling credit discipline, but to use member's savings to build-up the assets of the loaning agency or to link it with the amounts of loan that you are giving them. This whole business of lending without collateral, it is non-sense, that is what are talking about. So as usual poor are made to pay. Finally, a number of these organisations that are operating in this field they go into an area, they move-in with their infrastructure, which consists of large numbers of personal, buildings and all important vehicles which are a mark of status. What they don't tell us is when they were going to move out, It is like a famous '*Checkoslavakia* joke of 1968. Why did the Russian's come to Checosalvakia? To find out who invited them, when they are going to leave, when they found out. So we don't know, nobody has told us whether the RSPs are going for one year, 5 years, 10 years or 20. And other NGOs are in the same boat.

We need some sort of the benchmark of maturity, Sorry, I said finally but there is one last point I would like to make. It concerns not methodology, it concerns the over all problem here which is: you are getting micro-credit in times of serious economic depression. Things have been bad since 1996, and things have been really bad since 1998 when the sanctions hit us, thanks to the aspirations of our Jahadi friends. And what's happening is this: micro-credit, when you target the poor with micro-credit you have the to target small amounts because that's what they can repay. In times of need that's going to be diverted towards consumption, there is no getting around that. You are dealing with the situation where people are literally using small amount of micro-credit to survive. Now if, it were times of growth, we have no problem, because work done by Orangi Pilot Project (OPP) and others have shown that returns to micro-enterprise are typically to the tune of 50 percent. But in times like this what we have seen and what our surveys recently for NHTR have shown, major employment, underemployment, major instances of people not being paid for the labour that they do. This whole issue of doing handicrafts, I have strong reservations about that. I find women being paid Rs 200 to Rs 300 a month if that, and that they don't get to pocket that either. This is a kind of thing, which is going on. So we need to look at what happens to micro-credit in times of economic depression. It is not a bad thing if you are helping people to keep their heads above the water, but how long can you keep that up. And finally, finally you have seen whether its RSPs or any other organisations just how much they been able to cover. We cannot right-off the government. Government may have written itself off, but we cannot right it off. They have most funding, they have the most money, they have the biggest presence and they have damn-well got to produce, they have got to do some thing if this country is to go anywhere.

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