

The Poverty Rate in Pakistan and the Current Role of Microfinance.

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Abstract

This article discusses the multifaceted issue of poverty in Pakistan, examining regional variations and the current role of microfinance in addressing this socio-economic challenge. The poverty ratio in Pakistan is explored, with a specific focus on the situations in the Federally Administered Tribal Areas (FATA) and Baluchistan, Khyber Pakhtunkhwa (KPK), Gilgit-Baltistan (GB), Sindh, Punjab, and Azad Jammu and Kashmir (AJK). The major issues and reasons behind unemployment in Pakistan are outlined to provide context for the poverty scenario. The abstract delves into the crucial role played by microfinance companies and banks in the country's efforts toward poverty alleviation. It distinguishes between conventional microfinance and interest-free microfinance, emphasizing the unique approach of Akhuwat Microfinance. The discussion further outlines Akhuwat's loan products and their impact on empowering individuals and communities, shedding light on the potential of microfinance as a tool for fostering economic resilience and reducing poverty in Pakistan.

Keywords- Poverty rate, Microfinance

INTRODUCTION:

The poverty creates serious attention of Prophet Muhammad (SAW) and Prophet (SAW) ordered to his Companions (R.A) that, zakat should be collected from the rich and distributed to the poor to help them out. According to this Imam Abu Hanifa (R.A) has declared that zakat will be distributed for the welfare of the poor only¹. Also, Hazrat Umar Farooq (R.A) when instructed zakat Administrators during his caliphate.

Which means:

Emphasizes the importance of distributing zakat (charitable giving in Islam) to the needy, encouraging giving beyond one's surplus to ensure satisfaction.² It highlights the serious nature of poverty in Islam, noting that it could potentially harm the faith of Muslims and the religion itself. The Prophet Muhammad (SAW) is mentioned as having given significant attention to this issue to safeguard the faith of the Muslim community.

Zakat is presented as an obligatory financial resource in Islam, serving as an effective mechanism for poverty alleviation.

Islam provides financial resources to support its followers, with zakat being a crucial component. The mention of zakat-funded microfinance is highlighted as a financial system free from interest, enabling the provision of business capital. This, in turn, is seen as a way to lift people out of poverty, allowing them to earn their livelihoods independently and contributing positively to the country's economy.

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Poverty Ratio in Pakistan:

According to the statistics of the Asian development bank in 2019, the rate of the population living under the national poverty line in Pakistan is 24.3%.³

The Ministry of Planning Development and Reform in Pakistan published a report about the miserable condition of the people of Pakistan. It was the first-ever detailed report published about the multidimensional poverty index prevailing in Pakistan. The report of the same content was also been published before in 2015-16 by the economic survey of Pakistan. This report was been assisted and supported by the United Nations Development Program and the Oxford Poverty and Human Development Initiative of the University of Oxford.⁴

The report highlighted the multidimensional poverty rate in different provinces of Pakistan. In this report, it is mentioned that the rate of multidimensional poverty in Pakistan is not less than 39%, which is alarming. The report also discussed that the rate of poverty is very high in Baluchistan. However, at the same time, the report seems optimistic when it mentioned that the poverty decline rate in Pakistan from 2004 to 2015 is very good as it was 55% in 2004. As for as, the urban and rural areas of Pakistan are concerned the rural areas are on the verge of destruction where the index is high. In

the provinces of Pakistan where different traditions and cultures exist the poverty index is also different the most poor and uneducated areas are considered rural. Where 54.6% population lives under the poverty line. The urban areas of Pakistan where people find opportunities are good in poverty alleviation where only 9.3% population is living under the poverty rate this is because the health and education contribute a lot.⁵

Poverty situation in FATA and Baluchistan:

The report tells that where the basic facilities like health and education are not good like in FATA and Baluchistan, the poverty rate is very high. The multidimensional poverty rate is 73% in FATA and 71% in Baluchistan province.⁶

Poverty situation in KPK, GB and Sindh:

The poverty rate in KPK is 49%. Sindh and Gilgit Baltistan stands at 43%. Better than FATA and Baluchistan but still poverty rate is very high. Education and health facilities and job opportunities are at a medium level in these areas.⁷

Poverty situation in Punjab, and AJK:

Punjab is comparatively better than other pronounces in education and health facilities and with high job opportunities. Therefore, the poverty rate in Punjab is 31%. The poverty rate in Azad Jammu Kashmir is 25%.⁸

The following table shows the huge difference between different cities' poverty rates.

Table # 6

Cities with a poverty rate < 10%	Cities with a poverty rate > 90%
Islamabad	Qilla Abdullah
Karachi	Berkhan
Lahore	Hernai

Lack of education facilities contributes the largest share to MPI followed by 43%, living standards contribute 32% and health contributes 26%. The report shows that the multidimensional poverty rate is decreasing slowly in Baluchistan, Instead of decreasing poverty rate has increased in many districts of Sindh and Baluchistan.¹⁰

The major issues and reasons of unemployment in Pakistan:

- ❖ As the population is growing, the labor force is also growing at a higher ratio. The population under 30 years is almost 110 million.¹¹
- ❖ It is a need of time to create more opportunities for jobs that should be enough for the growing labor force. Especially for the educated people of Pakistan, including men and women.
- ❖ Law and order situation in Pakistan and political unrest is the major cause of slowing down the economic activity in the country.
- ❖ Investors hesitate to invest due to the lack of infrastructure facilities, especially the energy and gas shortage for industries.
- ❖ There is a lack of a complete national policy and comprehensible provincial policies for skill development.
- ❖ There is insufficient focus on the skills required in the market, mostly skills that are in demand in the international market.
- ❖ Limited entry of females to the labor market, including both formal and informal.
- ❖ Lack of business culture which can motivate the people especially youngsters for entrepreneurship to less the dependency on public jobs.
- ❖ Lack of skill enrichment opportunities during the job. So, they can perform more actively and efficiently.
- ❖ Ineffectual connections between industry and training institutions.

Microfinance companies and banks' role in Pakistan for poverty alleviation:

Microfinance is a good initiative of the Government of Pakistan to provide basic assistance to the poor. Following is the detail of some microfinance institutes and banks working in Pakistan with the goal of poverty elevation.

In Pakistan, microfinance has grown significantly within the past ten years. From 2014 to 2019, the number of active users nearly doubled, rising from 2.8 million in 2014 to 7.3 million in 2019.

The gross loan range grew by 400 percent during this period, from 400 million US dollars in 2014 to 2 billion US dollars in 2019.¹² Women make up about half of the current borrower base, and 53% of them live in rural areas. The typical loan amount is \$300 US, with a repayment period of 12 months and an interest rate ranging from 0% to 40%. In Pakistan, microfinance clients are typically relatively impoverished, yet not sufficiently so to qualify for many programs designed to reduce poverty among the less fortunate. In Pakistan, a single huge microfinance organization provides thirteen percent of all loans at zero percent interest.¹³

There are roughly 46 licensed microfinance companies operating in Pakistan; they can be divided into the following two groups.:

- ❖ Microfinance banks. (there are 11 MBFs)¹⁴
- ❖ Non-bank microfinance institutes or companies.

When it comes to deposits, the main distinction is that MFBs are permitted to receive deposits while NBFCs are not. Because of this, non-bank microfinance companies are governed by the Securities and Exchange Commission of Pakistan, while microfinance banks are governed by the State Bank of Pakistan.

There are two types of Microfinance institutes working in Pakistan

- ❖ Conventional Microfinance
- ❖ Interest-free microfinance

Conventional Microfinance:

Conventional Microfinance is working in Pakistan for the last two decades and providing small financial assistance to the poor community of Pakistan. The goal of establishing these institutes is to overcome poverty in Pakistan but due to high-interest rates, these institutions could not full fill the goal that was required actually from these institutes.

Following are some major conventional Microfinance institutes working in Pakistan.

Khushali Bank:

The government of Pakistan established Khushali Bank in 2000 with the help of the ADB. The main objective of this bank was to help the poor through activities to start their earnings and to start small business and other small projects. Within the first two years, the bank distributed small loans amounting to 100 million rupee to 15,000 borrowers and among these almost 30% were women. This bank also helped in social mobilization activities in poor localities and the development projects such as water facilities and link roads in the ignored rural areas to help the people of these areas.¹⁵

The HBL Microfinance Bank Ltd:

The First Microfinance Bank Ltd was established in 2002 and provided over 712.65 million US dollars in loans to more than 2.9 million borrowers, and becomes a strong player in the country's microfinance sector and ranked among the top five providers. More than 30% of the Bank's customers are female and 2/3 of the borrowers are the residents of rural areas. Now, this bank is working with the name of HBL Microfinance bank.¹⁶

Apna Microfinance Bank:

It is a microfinance bank with private ownership. It is authorized to conduct business in Pakistan by the State Bank of Pakistan in accordance with the "Microfinance Ordinance 2001." Customers can obtain minor loans and other services from this bank.¹⁷

Pak Oman Microfinance Bank Limited:

Established on March 9, 2006, Pak Oman Microfinance Bank Limited is a privately held financial institution. It was founded in accordance with "The Companies Ordinance, 1984" as a public limited company. On April 12, 2006, this bank received a license from the State Bank of Pakistan. On May 6, 2006, the Bank received a certificate to open for business, which became operative on May 8, 2006. The "Microfinance institutions Ordinance, 2001" depicts how the Bank really offers microfinance services to the underprivileged and impoverished segments of society. The main office of the Bank is in Karachi, Pakistan. As of 31 December 2020, the bank is working with 66 branches and services centers in operations in all provinces of

Pakistan, excluding Gilgit Baltistan, including the Federal Capital Islamabad. This Bank has license to operate nationwide.¹⁸

FINCA Microfinance Bank:

FINCA Pakistan started business as Kashf Microfinance Bank in 2008. The Bank has established with the aim that to take advantages of financial services was also a right of the people who do not have access to this facility. Bank is providing small loans to the hardworking persons running small businesses with the least guarantee requirements. The Bank started its business with only 13 branches providing basic microfinance services to its customers.

Currently, FINCA is providing small loans and savings accounts to almost 1.8 million customers, through more than 130 in more than one hundred and twenty cities in Pakistan. Over the past years, FINCA's has grown consistently and has become one of the major Microfinance banks in Pakistan. FINCA has been providing a number of small loans to help small businesses to become financially stable.¹⁹

NRSP Microfinance Bank Ltd:

One of Pakistan's top microfinance institutions is NRSP Microfinance Bank Ltd. Its goal when it began operations in March 2011 was to offer financial services to clients that were impoverished or demoted, including small farmers.²⁰

Almost all banks have mobile apps now but some microfinance banks and companies known for providing financial services and small loans through mobile apps are as follows.

- ❖ Telenor Microfinance Bank (Easy paisa)
- ❖ Mobilink Microfinance Bank (Jazz cash)
- ❖ U Bank (U Paisa)
- ❖ First Pay
- ❖ Barwaqt Loan App
- ❖ Easy Loan

These loan apps have very high-interest rates and they are only making profits.

There are many other Microfinance banks and institutes working in Pakistan but could not mention all of these here.

Interest-Free Microfinance:

Interest-free Microfinance is very limited in Pakistan. At the private level, only one main organization working on a large scale for interest-free micro financing and there are some government small loan projects but those projects are not completely interest-free.

Akhuwat Microfinance:

In the year 2001, the Akhuwat Microfinance institute was established to help poor households by providing interest-free small loans. By providing these loans, Akhuwat aims to empower the poor to start small businesses to elevate them out of poverty.

These loans are to set up or expand small businesses so that the poor through their own hard work take themselves out of poverty.

Akhuwat is an organization working as a non-profit organization and registered under "Pakistan's Societies Registration Act XXI of 1860". Moreover, approved by Pakistan's Federal Board of Revenue as NGO.²¹

Akhuwat Loan Products:

Following are interest-free loan products of Akhuwat.²²

1. First the Family Enterprise Loan:

This loan is to start a new business or expand an already running business. This is the most borrowed loan by Akhuwat. It is almost 91 percent of Akhuwat's loans total. Although the most typical sum for the initial loan is 15,000 rupees, the Family Enterprise loan starts at 10,000 and goes up to 30,000 rupees. To be eligible for this loan, the applicant must have a workable business plan. Because the entire family participates in the review and provision process, giving it the name "family enterprise loan," the goal is to turn the loan into a family enterprise rather than an individual endeavor.²³

2. Liberation Loan:

It serves as repayment for the astronomically high-interest loans obtained from financiers. After Akhuwat pays the consumer's debt in full, the consumer is required to return Akhuwat with interest-free, convenient installments. This loan has a maximum value of 40,000 rupees accessible.

3. Education Loan:

It is used to cover the cost of tuition and other educational expenses, such as buying books and other supplies for underprivileged students. It makes paying for school expenditures simple. Education loans have a maximum amount of 25, 000 rupees.

4. Marriage Loan:

This loan is intended for various marriage-related expenses or for the "Jahez" arrangements of brides from low-income families. This loan aids low-income families in covering their wedding costs. This loan has a maximum amount of 25, 000 rupees. Men are not eligible to take out these loans.

5. Emergency Loan:

This type of loan is for the emergencies like shortage of amount to pay school admission fees, take medical treatment and pay for medicine, etc. This loan is to save the poor families to fall into crisis. The loan amount for the poorest is commonly 5,000 rupees and the loan amount is to be paid back in one-year duration.

6. Silver Loan:

This is to grow the size of the already running small enterprises. This loan of 50, 000 rupees is for those who already borrowed money and have successfully repaid previous loans three or more times now and want to increase their business.

7. Loan for house:

This loan will be used to build an additional room, repair or replace the roof, or refurbish the house. This loan has a beginning amount of 25, 000 to 70, 000 rupees and a two-year repayment period from the loan's start date. In partnership with "Al-Noor Umar Welfare Trust," Akhuwat launched this product. Another charitable

venture of Mr. Khalil Mian, the former chairman of the Pakistan Credit Rating Agency, is the "Al-Noor Umar Welfare Trust."

Outcomes of the Akhuwat Program:

The Akhuwat is charging no interest on borrowed loans. So one can say that akhuwat is working under the rules of Islamic financing, which is Qaraz-e-Hasna that is why the role of Akhuwat in improving the lives of poor and deprived people is very important and very impressive and acknowledged globally. Akhuwat head Dr. Amjid Saqib is nominated for the Nobel Prize in 2022.

The analysis of the data has shown a major improvement in the life of the beneficiaries. The conclusions based on data analysis are as follows:²⁴

- ❖ Beneficiaries' lives have been improved got loans from akhuwat, and their standard of living is raised which is the main objective of microfinance.
- ❖ Females started attending school and the percentage decreased of girls who were not attending schools of beneficiaries' families.
- ❖ Income of the borrower has increased and now they become able to meet their family needs.
- ❖ Total family incomes have also increased and all the family members get work to earn livelihood to fulfill their need.
- ❖ Borrowers started eating meat and fruit more frequently as their income level increased after they get benefit for Akhuwat.
- ❖ Borrowers are now able to offer jobs and to hire more employees for their business, which increases employment opportunities for more people and they can raise them from poverty.
- ❖ Their health level improved and they are living happily and working efficiently.
- ❖ They can get proper medical treatment without any support and became they can afford a doctor for their medical check-up.
- ❖ As the life of beneficiaries has improved and their living standards raised, due to this, their relatives started visiting them and that is good for their social life.
- ❖ Relatives and friends started giving money as qaraz-e-hasna because they know that now they are able to return the loan back.²⁵

From the above-mentioned results, it is clear that the life of borrowers has improved and they are achieving self-reliance, which is the successful achievement of the real objective of the Islamic Microfinance system.

Conclusion:

As Microfinance considered important tool for alleviating poverty, the potential for approaching and helping out the low-income households so they can fulfil their basic financial needs and to develop social and economic empowerment on a sustainable basis causes the sector to expand rapidly. However, in the conventional system due to high-interest rates, poor people are reluctant to get benefits from these institutions and another reason is a religious obligation. Interest (Riba) strictly prohibited in Islam because “Riba” is a killer for society so Islamic Microfinancing is very important to overcome poverty in a country like Pakistan.

¹ Al-Qaradawi, Yusuf. (2002). Fiqh al-Zakat. Beirut: Muassasah al-Risalah.

² Abd al-Aziz al-Muzayni, al-Murshid al-Hayran fi Ahkam al-Zakat (al-Kuwait: Dhat Salasil, 1984)

³ <https://www.adb.org/countries/pakistan/poverty>

⁴ Multidimensional poverty in Pakistan, Ministry of Planning, Development & Special Initiatives

⁵ <https://www.ophi.org.uk/wp-content/uploads/Multidimensional-Poverty-in-Pakistan.pdf>

⁶ <https://www.pk.undp.org/content/pakistan/en/home/presscenter/pressreleases/2016/06/20>

⁷ Ibid

⁸ Ibid

⁹ Ibid

¹⁰ Ibid

¹¹ <https://www.pc.gov.pk/labour-employment/vision> 25

¹² Pakistan Microfinance Network, 2019, 2020, <https://pmn.org.pk/pakistan-microfinance-review>

¹³ Pakistan Microfinance Review, Basharat and Sheikh 2019.

¹⁴ MICROFINANCE Sector Report – PACRA, Sep 2021.

¹⁵ <https://www.khushhalibank.com.pk/>

¹⁶ <https://www.hblmfb.com/about-us/about-hblmfb/>

¹⁷ <https://apnabank.com.pk/>

¹⁸ <https://pomicro.com/index>

¹⁹ <https://finca.pk/>

²⁰ <https://www.nrspbank.com/>

²¹ <https://akhuwat.org.pk/>

²² Impact Assessment of Microfinance: A Case Study of Akhuwat, 2010, Ather Azim Khan Syed Hussain Haider, Muzaffar Asad

²⁴ Impact Assessment of Microfinance: A Case Study of Akhuwat, 2010, Ather Azim Khan Syed Hussain Haider, Muzaffar Asad

²⁵ Ibid.