

SOCIAL PROTECTION: ROLE OF MICRO FINANCE

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Social Safety Nets

- Because of the rising unemployment and poverty levels the Social safety nets have assumed great significance. They are required for
 - Enabling the poor to better manage the risks
 - Preventing poor from distress sale of the assets
 - Taking care of long term disability

Social Safety Nets in Pakistan

- Social Schemes for workers in the formal sector
 - Pension of government servants
 - Employees old age benefit schemes in the private sector
 - Provincial social security schemes
- The transfers
 - Zakat
 - Subsidised food and shelter to vulnerable
 - Private transfers

Social Safety Nets in Pakistan

Micro credit institutions in Pakistan

- Poverty Alleviation Fund
- Khushali Bank
- Micro finance banks in private sectors
- Commercial banks and ADBP
- NRSP
- NGOs

The working poor

- Employment increased at a rapid rate in the 1990s but poverty increased
- Reduction in poverty would not be possible through just employment generation
- Almost one-third of the employed persons in 2000-01 have been poor and included both self-employed as well as employees. Almost all of them were engaged in the informal sector enterprises
- The informal sector enterprises have low levels of labour productivity

Informal sector in Pakistan

Sector	2001-02			2003-04		
	Total	Male	Female	Total	Male	Female
Total	100	100	100	100	100	100
Formal	35.4	35.3	37.0	30.0	29.6	34.3
Informal	64.6	64.7	63.0	70.0	70.4	65.7
Rural	100	100	100	100	100	100
Formal	31.7	31.5	34.3	27.1	26.7	30.1
Informal	68.3	68.5	65.7	72.9	73.3	69.9
Urban	100	100	100	100	100	100
Formal	38.9	38.7	39.3	32.8	32.2	38.4
Informal	61.1	61.1	60.7	67.2	67.8	61.6

Why Micro Credit?

- Banks provide collateral based lending and the micro enterprises and small farmers do not have necessary collateral
- In the urban areas informal enterprises in trade, transport, manufacturing and general services rely on informal credit at high rate of interest
- In the rural areas both farmers as well as non-farm activities have to rely on informal finances at high rates of interest
- Micro credit can be made available through well directed lending to individual micro-entrepreneurs, group lending through facilitators and lending through business clusters

Microfinance and the reduction in Poverty

- Informal enterprises need micro credit otherwise their productivity levels would remain low with adverse implications for poverty reduction
- At present the number of poor in Pakistan are around 45 million involving 9 million earners of which 4 million are self employed
- Pakistan Poverty Alleviation Fund and Khushhali Bank have reached half a million households
- The two private sector banks have also started operating and the others would start operating soon
- Some banks such as Khyber Bank and First Women's Bank also provide micro credit
- Various NGOs and NRSPs also operate
- Nevertheless they meet only part of the requirements and the operations need up-scaling

Microfinance and poverty reduction

- While additional micro funds are required, if they are not properly targeted disparities in incomes would be perpetuated
- The process of obtaining credit from some of the institutions is quite cumbersome
- Applicants have to encounter bureaucratic attitude and red-tapism
- Location of some of the micro lending institutions in the posh areas of various cities, which are home to the rich and not to the poor needs to be reconsidered

Low Labour Productivity of Informal Enterprises

The informal enterprises have low productivity due to

- Lack of credit availability
- Poor vocational and technical skills
- Lack of marketing skills
- High input cost
- Lack of subcontracting
- Upgradation of machinery and equipment
- Lack of standardization and poor quality products

Low Labour Productivity of Informal Enterprises

- Whereas credit availability is necessary it may not be sufficient to pull the poor out of poverty
- Even if the poor have funds they are reluctant to take risks to reach out for profitable investment levels
- Counseling on the choice of activity and guidance on start up of business and expansion of business may be necessary

Issues in micro finance

- In Pakistan timely repayment of loan seems to have been taken as the sole criterion for effectiveness of the programme
- The programme should be properly evaluated
 - Elimination of poverty and powerlessness
 - Human Resource Development
 - Improvement in the capacity of repayment
 - Enhanced entrepreneurial skills
- Enabling environment in terms of infrastructure

Sustainability Issue

- The two major micro finance institutions have been provided funds at low rates of interest
- The rate of interest on the loans advanced to the micro enterprises is significantly higher than that charged on the large enterprises
- There seems to be rather high spread indicating inefficiency or high profits
- This raises the serious issue of sustainability
- There is a need to clearly define the role of the banks and the NGOs in the micro-credit schemes
- NGO should continue to play a dominant role in increasing the lending scale of the banks

Thank You