

Reinventing Microfinance in Pakistan

Farz Microfinance Methodology



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PART 1

Poverty certainly emerged as the single most problem that lies at the heart of modern day crisis. It quite recently has assumed alarming proportions. Many efforts were made in the past but they could not wholly succeed. Among significant tools, the microfinance was also used for getting rid of poverty which quite recently plagued the whole world. There is always a room for innovation to be introduced to already existing structures. Though microfinance made some gains in alleviating it but with sufficient services the amount invested lie in the danger of being spent on the items of daily use owing to extreme poverty.

What in fact is required is the provision of certain services that may enable the person concerned to become self-earning unit. So the first and foremost thing in this regard is not to simply extend credit. It is more advisable to do kind of asset sharing, along with provision of services which could lead to an economic activity at an individual level.

Certain experiences in this regard bore good results. For instances a woman who was provided with the necessary material and skill, is successfully running her business of making and selling artificial flowers. What worked in this case was the fact the instead of extending credit, she was provided the raw material along with the skill. What could further be added to it is the provision of health and education facilities to the community so that each individual keeps on learning during this process.

By adopting this method microfinance becomes a well-organized business as well as a community services and incidence of default is reduced to the maximum level.

Now this issue of poverty is what upon which the future of political structures rests. It needs more coordinated and scientific approach. Among the efforts made so far, this method of empowerment through education and asset based loaning has bore good results. At a time when world economies are shrinking and people at large losing their jobs worldwide, this method could be used to off set the impact of recession in the poorer world. We have seen that the government agencies could not come up to the expectations and number of people falling below the poverty line is growing. The supply side economics or trickle down theory is being looked at with suspicion. We need more non-governmental structures to fight this growing menace.

Owing to shrinking world economy, the poor countries are also being hit hard. The individuals' economies cannot sort this problem out as they have to cut their non-development expenses. In such a critical period poverty needs to be fought at war footing.

Recently, Farz Foundation (The First [Islamic Microfinance](#) Organisation) has completed its two-year pilot project in the area of Shalimar Lahore in two phases. The organisation has done the comparative analysis of currency disbursement and the Farz Methodology (asset delivery

method) in which the asset based microfinance shows 80 percent positive and productive results while the popular practice of microfinance, which is based on credit in the shape of currency depicted 80 percent negative and non-productive results. The study confirms the reports are already being published in the international journals about the very low impact of currency deals in microfinance. Although the efforts made by the CGAP and other agencies at the international level and [Pakistan Poverty Alleviation Fund](#) at the national level cannot be ignored but the speed of the inflation and poverty increase ratio demands more sincerer and creative efforts.

There is another challenge of exploring the new markets which still needs to be addressed because the process of demand and supply matters even at the level of the micro entrepreneurship. Home Based Women Entrepreneurs are still in the clutches of the middle man, who is earning far more than the HBMEs.

Another important issue is trust-building. The development sector has successfully won the hearts of the community but unfortunately [the microfinance sector](#) is losing the trust day by day particularly in Pakistan and India. Although The SEWA in India and RSPs in Pakistan has set the milestones remarkably, however, various MFIs have annoyed the poor community.

Though the poverty alleviation objective stipulates to support the innovative mechanisms like Farz Methodology, even at the government level as well as at the institutional level; the microfinance donors are not encouraging the new and innovative players as per the need and the requirement of the day. It will be lethal not only for the innovative human recourse of the sector but also will reduce the impact of the endeavors already being made by the sector of microfinance.

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PART 2

There is Chinese proverb that says we are living in very interesting times. Indeed we are. Old economic patterns are directly flying in our face. The ongoing recession has defied most of our beliefs. What triggered this, to put it brief, was the irresponsible ways of lending that almost sunk the world economy.

Amid all this there is another effort through lending to alleviate poverty, known as microfinance. It began with a justified fanfare and made certain gains as well but the over all outcomes betrayed some imperfections. This right up would tend to elaborate the so-called Farz Methodology, which, in fact, is another attempt to avoid certain negative outcomes. The irresponsible ways of lending, which we mentioned earlier and which almost sunk the ship of world economy, may also be one of the factors responsible for certain negative results in the world of microfinance.

What could not work in the cold world of business could never have done better where the borrower is a marginalized poor. Here comes the Farz Methodology which enshrines in its philosophy the passage to the relative well being of the person concerned through social as well as economic empowerment.

Another technique that this methodology carries is that of not allowing the direct access to the poor and the vulnerable to the hard cash. What is suggested instead is educating the poor along with providing him with necessary tools such as the stuff he needs to initiate an economic activity.

Our initial experience was also a clear testimony to the potential that this method carries. Our success rate in our projects remained 80 per cent which also worked as a spur because we had a long list of volunteers who were ready to work without compensation in the beginning

What made a clear difference was the realization that microfinance is not a mere business. It rather needs a business like skill, understanding of the world in which the poor exist and understanding of their limitations. We achieved this by looking at the world through the eyes of the poor.

Farz Methodology as an innovative economic mechanism ensures the long-term profitability of microfinance. We need to help the borrower make his business successful. Recovery, of course, cannot be had from a failed business. MFIs must make certain the recoveries from their profits, instead of their losses. Recovering from losses defeat the very purpose of the whole exercise. The micro trade cycle technique of Farz can ensure not only the sustainability of the sector but the long term profitability as well.

There are many researches that demonstrate that funds spent and efforts made are being wasted. What our methodology ensures is the maximum possible empowerment through basic health and education. Because the human resource of external organization (Members or clients) should also be capable of delivering things well regarding their businesses. A business can not be a successful with bad health, illiteracy and skills. As the organizations build the capacity of their staff to get more and more output. Similarly microfinance sector will have to trained their clients to get more and more out put. So the integrated approach of Farz Foundation emphasizes on a

skilled poor community to win the war against poverty to achieve the ultimate vision of the sector.

Today even the first world is no more unscathed by this recession. But that still has the advantage of a skilled labor. This fact alone would soon retrieve the falling economy in the rich countries, may be sooner than later. But in countries like Pakistan we need to initiate this activity on war footing.

The strategies of Pakistan Poverty Alleviation Fund (PPAF), studies of Pakistan Microfinance Network, (PMN) efforts of Social Performance Management and Social Performance Task Force focus on making loans productive through social performance is need of the hour.

Considering our collective past experience, we should not hesitate for a moment to implement these strategies with collaboration of Farz Methodology because the purpose of the sections is the same, however the Farz methodology will protect the expected gains. This would even help retrieve even the failing projects.

The capacity building of clients like training in credit discipline, basic marketing skill, and feasibility preparation are of paramount importance. This should be carried out the way we train our staff.

Another advantage of this strategy is that it would bridge conventional microfinance and Islamic banking. That would also allow us in a huge market that still remains untapped.

At a time when Pakistan's economy is expected to grow by less than 2 per cent, we should adopt this measure to enhance the growth. Government is facing many other challenges like war on terror and perhaps cannot focus on economy as much as the civil society can. In the ultimate analysis war on terror could only be won through economic and social empowerment of the people. So the success of microfinance is the success of the forces struggling for peace and betterment of the country.

The idea of decoupling that was being put forth in the beginning of this recession could only be materialized by kick starting growth where the impact of the world recession is slightly less.

The task of course is gigantic. But of course the journey of thousands miles begins with one step. Let's start restructuring existing MFIs methodologies and also begin establishing new projects to steer out of these testing times.

PART 3

Changing the economic environment always calls for more innovative response. We, of course, are living in a time where hosts of events have crowded a comparatively short time span, particularly in the world of finance. Despite an incorporated world economy, the tools and methods needed in the so-called Third World would definitely be different from those of implied in the developed world. For instances the ways to fight poverty in the countries like Pakistan needs certain changes to suit a constantly aggravating economic situation.

The main emphasis in this approach is that by empowering an individual through services other than finance, in fact, we secure the money lent and make it productive over a long time. The most important task that today we face is not only to mitigate the impact of the recession but also to off set it. The governments in the region are tied with the host of other challenges, including war on terror. It makes it more important for the civil society to play its role in more effective and intelligent way. By kick starting an economic activity through incorporating the poor with provision of non-financial services as well as financial, we would bring them closer to the institution of microfinance. They own this whole process which in turn is enhancing their productivity and also inculcates a sense of responsibility among them.

The various research and evaluation projects have already unveiled the causes of the breakdown of the financial services system. So it is imperative to sort out a method which could offer a viable solution to provide a long-term relief. Undoubtedly the microfinance can provide a contingency plan in the right direction. Different studies suggest that the week impact of different microfinance methodologies already in place demand an innovative microfinance mechanism to be implemented at a large scale. The efforts made to link microfinance with Small Medium Enterprise (SME) and SME to Medium Enterprise and then macro enterprise are still in the process of achieving the goals to make any breakthrough. One reason behind not achieving our goals has been undue compartmentalization and division of work. What is needed, instead, is the integration. No business or credit or any financial system can be sustained in isolation. This is the core philosophy of Farz Microfinance Methodology. What goes without saying is the fact that consumption is the key to all types of production. Dwindling consumption means a stalled or hampered productive process. Thriving need-based local markets can become a gateway to micro productivity. At the micro enterprise level there are a lot of things that need to be addressed like the role of middle man and the whole sellers. Farz methodology emphasizes providing a just economic system for the productive poor according to their needs and requirements. The productive poor will have to be facilitated as a wheel for the international trade cycle. The role of currency should also be minimized and would have to be replaced by income generating kinds like tools and assets, etc. The artificial expansion of businesses or trade should be checked through asset providing mechanism. Farz Methodology as Noe Microfinance has proved through positive outcome as the most effective system in the given economic milieu. This inference has been made on the basis of results achieved in the poor neighborhoods like, Chongee Amarsidhu and Meu Colony in Lahore. Previously about eight MFIs targeted this area and six left by declaring them red (negative) areas. Two reaming are grappling with their zero tolerance policy and late night recovery problems. In the same area Farz Foundation has started its pilot to gauge the results and to observe the effectiveness of Farz Methodology.

First time in Pakistan the microfinance is being customized according to cultural and religious circumstances simultaneously unlikely the various previous practices. Farz Foundation has also launched a saving scheme that requires each member to pool a specific amount on monthly basis which is given to one member or the other on the basis of lucky draw. This is a practice known as committee (community's rotating funds) which develops saving habits and also works as a trust-building measure. What FF did was that it began, in accordance with Farz Methodology by conducting free eye camps and also picked some of the poor families and took the responsibility of paying for their children's education. Through further penetration into the area it was learnt that previously the borrowers were further lending the money at even a higher rate of interest, which defeated the very purpose of the whole exercise. They, of course, were bound to fail. All that Farz Foundation has dealt with so far does not lay bare the whole panorama of opportunities. In the future FF intends to provide direct market linkages to eliminate the role of middleman that will further increase the rate of profit of the home-based women entrepreneurs.

As the first Islamic microfinance organization of Pakistan from its first day with a full fledged Islamic vision of trade and business Farz Foundation has provided an Islamic solution of the non productivity of the micro loans, which not only can cater to a huge Muslim Market but the general clientage as well. The main aim of this exercise is to kick start the demand at micro level which will initiate an economic activity at the supply side. Even agricultural sectors lie untapped and the efforts made so far did produce desired results. As mentioned earlier, through adequate financing, the expectations assigned to the microfinance sector could easily be fulfilled. At a later stage it wont even involve a great deal of finances as through market linkages an economic activity would be initiated on the credit bases between the venders and sellers all that would be required to monitor and guide it to more productive directions. However currently it needs the support from the institutions which are working for the promotion of Islamic or conventional microfinance as a poverty reduction tool.