

# Profile of rural sector and rural development economics essay

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Review of policies and reforms in the SME industry 22. 8. 2 Policies and reforms indicator for Microfinance 2IntroductionPakistan is in an ongoing phase of development. Its economic growth rate has been less than 10 % in the last 20 years. It was 3% in 2010- 2011 and projected to be 3. 7% in 2011-2012 (Economic Survey of Pakistan). This clearly show that is has not been prospering in terms of growth and development recently. Also, Pakistan's population is 176, 745, 364 people (2011) and has been growing at a constant rate of 1. 8 % since 2002 (WDI). Out of the total population 64, 009, 394 people live in the urban areas and 112, 735, 970 people live in the rural areas which show that about 63. 7 % of the population is based in rural areas. It is ranked 145 out of 187 countries on Human Development Index (Human Development Report 2011: Sustainability and Equity: A Better Future for All) which does not indicate a very good position for Pakistan in terms of income, education and life expectancy. Macroeconomic policies have been constructed and implemented to cater such problems. However, they are in a progressive phase. Also, about 22. 3 % of people in Pakistan live below Poverty Line which is Rs. 948. 7 per adult per month which was estimated in 2006 (Pakistan Economic Survey 2007-08). This percent of people living below the poverty line came down from about 34. 5 % ( 2000-01) which shows that there have been some efforts to reduce poverty in this part of the world. Inflation has always been challenging for Pakistan and was projected at 10. 8 % in 2011-12 (Economic survey 2011-2012). The increase in overall inflation has been due to global commodity and fuel prices and domestically due to the disruption in the supply chain process due to the floods in Pakistan. Inflation rate was 6 % of the labor force in 2010-11 and

was projected to stay the same in the coming year. Though this figure has risen from 5.5 % but it still depicts a good picture of Pakistan in terms of job creation in the economy. About 45 % of the labor is employed in the agricultural sector which shows how Pakistan is an agro based economy. Apart from poverty and inflation, Pakistan has had its ups and downs in terms of changing governments, natural catastrophes and energy crisis. All of these problems hinder growth and development in an economy. A firm financial system is an important aspect in terms of growth and development in a country. State Bank of Pakistan (SBP) ([http://www.dgtrdt.gov.pk/Research/38th\\_syndicate\\_reports/2.pdf](http://www.dgtrdt.gov.pk/Research/38th_syndicate_reports/2.pdf)) was established in 1948 as a central bank to control the financial sector of Pakistan. The State Bank of Pakistan's control over the financial sector was extended through the State Bank of Pakistan Act 1956, which stimulated the creation of banks and financial institutions by the private sector. Banks were nationalized in 1974 because of unlawful practices and were privatized in early 1990s due to poor performance in terms of services and government protection to employees. The banking sector of Pakistan is playing a crucial role in the growth and development of the economy. The financial sector of Pakistan consists of State Bank of Pakistan, commercial banks, specialized banks, Islamic banks, Development Finance Institutions (DFIs) and Microfinance banks. The Microfinance industry was recognized in 1980s when Aga Khan Rural Support Program started its credit processes and also Orangi Pilot Project was established in the same year. In 1990s Rural Support Programs were established which further established a Non-Government Organization called the Kashf Foundation. Later the Pakistan Microfinance Network (PMN) started

to play an important role in representing Micro Finance Providers. In 2000 the Pakistan Poverty Alleviation Fund gave a loan to Micro Finance Providers and hence the State Bank of Pakistan opened a microfinance unit. The Government of Pakistan facilitated the formation of a retail organization for the poor called the Khushhali Bank. The basic reason for establishing this microfinance network in Pakistan was because of the percentage of people living in the rural areas. In 2001, Microfinance Ordinance came into being, which strengthened the development of financial sector in Pakistan. Currently there are 11 microfinance banks regulated by the State Bank of Pakistan, 10 microfinance institutions providing specialized microfinance facilities and 5 rural support programs running microfinance process as a part of multi-dimensional rural development program (PMN). Although this industry is in a slow developing phase, it is improving the prevailing conditions of poverty in Pakistan, which mainly persists in the rural areas. There is a need to analyze how this microfinance network can be expanded and developed in order for Pakistan's financial sector and hence economy to prosper. For an analysis of the outreach of microfinance programs, there is a need to understand the type of information and resources the microfinance providers and the Government of Pakistan lack and how changes can be made in order to expand the microfinance industry. Profile of Rural Sector and Rural Development in Pakistan Pakistan has a total population 64, 009, 394 people out of which 112, 735, 970 people live in the rural areas. This figure constitutes 63. 7 % of the population. The rural population growth rate was 1. 3 % in 2011 according to WDI. From 1994-96 it was 2. 2 % and increased to 2. 3 % in 1997 and after 1998 it constantly decreased (WDI).

However, the population growth in the urban areas is 2.7 %, which is higher than the rural population growth. The reason is urbanization, which is the migration of people from the rural areas to the urban areas due to better economic opportunities and living conditions. In Pakistan people are rapidly moving to urban areas in search of jobs, better education for their children and a better life style. The rural areas of Pakistan lack basic facilities like electricity, gas, sanitation, clean water for drinking, schools, hospitals and other socio economic problems. To cater such problems, the Government is trying to implement reforms to provide adequate infrastructure such as good roads, houses, electricity, gas, clean water, better sanitation facilities, public modes of transportation, schools and health clinics. Also since most of the agricultural sector is based in rural areas, the Government is trying to implement supportive policies for agriculture. The Government in this way is trying to manage urbanization as well as develop the rural areas (Economic survey of Pakistan 2011-12). State of living conditions

In Pakistan, the rural sector is facing a lot of socio economic problems. These areas lack basic facilities like houses, roads, clean water, sanitation, electricity and gas. The Punjab and Sindh rural areas of Pakistan are better than Khyber Pakthunkhawan and Balochistan regions in terms of development and productivity but the problems still remain the same in all the provinces. Furthermore the Earthquake in 2005 and the floods in 2010 have worsened the situation in rural areas in terms of affecting the agriculture sector, which is the backbone of Pakistan's economy. However the Government is trying to implement reforms to cater these ever growing issues. Rural/Urban gaps in livelihood

About 36% of the population lives in the urban areas. The

difference in the population growth rates in rural and urban areas, urban population growth rates being higher is due to urbanization. There has been and inequitable distribution of resources with urban areas having more resources. Lack of basic necessities in rural areas has forced people to migrate to urban areas. Urban areas are much more developed in terms of infrastructure, telecommunication, educational and health facilities, media awareness, electricity and gas provision but some drawbacks of urban areas are in terms of more pollution, traffic congestion and a low literacy rate which is a serious threat to development. The people in rural areas are closer to the poverty line. According to the Pakistan Finance Ministry data, about 75 % people are close to poverty line. The most recent percentage for poverty is 22.3 % (2006) and rural poverty is more than the urban poverty. There are income biases in rural areas due to lack of jobs and opportunities. Most of the jobs are agricultural based in rural areas which do not give people the opportunity to prosper. This income inequality has forced people to move out of the rural areas and has decreased productivity in the agricultural sector. Also most of the illiterate people live in the rural areas of Pakistan. The average family size is more in rural areas than the urban areas due to lack of awareness which is also a reason for such a large population. All these rural/urban gaps have caused hindrance to growth. Social and Physical Infrastructure Talking about the social and physical infrastructure in rural areas, rural areas have been unlucky in this regard. Lack of roads, provision of gas and electricity, clean water and sanitation, health and educational facilities fall under this. Rural areas do not have roads from the farms to markets; the water is unhygienic due to which there has been an increase in

health problems throughout the rural areas of the country. There is no electricity or gas in these areas and areas which had these facilities do not receive it due to the present energy crisis in Pakistan. There are very few schools in the rural areas due to which the illiteracy rate is higher in the rural areas as compared to the urban areas. There has been an immense amount of deficiencies in providing the rural areas with basic infrastructure and social services by the Government. However, the Government has taken steps to expand the agricultural sector in terms of providing tube wells and water for irrigation. Also rural health centers are now being established to create awareness for the poor people in terms of health standards. Also, through Small and Medium Enterprises, industries are being established near the rural areas. Also the State Bank of Pakistan and microfinance providers have been working towards the development of the rural areas in terms of giving loans to the poor people so that they have the opportunity to make their life styles better. (<http://www.ukessays.com/essays/economics/comparison-of-rural-and-urban-sectors-in-pakistan-economics-essay.ph>)

1. 2 Rural Development for a Sustained Economic Performance in Pakistan Since 63. 5 % of the population in Pakistan is living in the rural areas, rural development would be necessary for a sustained economic performance and hence economic growth. The rural sector is the strength of Pakistan's economy. Rural poverty has remained high and level of quality of life indicators have stayed low. The positive features however are in terms of better local governance and more funds available under social sector programs. 1. 2. 1 Solving the problem of Urbanization by Rural Development Pakistan's urban population growth rate is 2. 7 % which is



higher than the population growth rate of rural areas i. e. 1.3 % as of 2011. About 2 million people have shifted to the urban areas in search of jobs and better living standard and absence of health and educational facilities in rural areas. This has had a pressure on the urban cities in terms of population, congestion, increasing crime rates and more pollution. This has also lead to unequal distribution of resources, inequitable access to quality basic social services including nutrition, health, water, sanitation. However the jobs are scarce because of absence of required skills and the migrants are forced work in construction and the informal sector due to which the urban poor become worse off than their rural counterpart. " The challenge is to proactively address the many dimensions of deprivation and exclusion by ensuring equity in the provision of basic social services and social protection," said UNICEF Pakistan Representative Dan Rohrmann. To cater this problem, the Government has established a department called the National Centre for Rural Development under Ministry of Education and Trainings. The main objectives of this department is to provide education and training in the rural areas and implement projects for development and strengthening of civil society and socio-economic empowerment of the poor and marginalized people living in informal settlements of Pakistan. Currently this department is working to provide basic amenities to the rural public provide them with non-farm income opportunities in terms of micro credit from microfinance institutions and provide as well as subsidize electricity, gas and education. By this people will stop migrating to urban areas, solve the problem of urbanization and be able to live in developed rural areas. This will further reduce income inequalities and poverty in terms of more income

growth coming up due to development. 1. 2. 2 Development of social and physical infrastructure: A road towards improved economic performance Due to lack of capital, financial constraints and urban development policies, the Government of Pakistan has not focused on rural development in terms of social and physical infrastructure. Physical infrastructure would be in terms of roads, telecommunications, water supply, sanitation, electricity and gas. Social infrastructure will include schools, universities, libraries and hospitals. Rural infrastructural development has a positive effect on economic growth. Infrastructural variables have also been proved useful in reducing income inequalities Lopez (2003). It has a positive effect on alleviating poverty as well. According to the Rural Urban Development Plan by Planning Commission of Pakistan focus will be laid on the development of social and physical infrastructure. Small farmers will be given more access to land, water and livestock , activities will be enhanced in non-farm sector in terms of provision of basic consumer goods and services, improvement in household food security, development of rural financial markets, efficient roads and telecommunication, electrification of villages and environmental improvements ( air quality, water and sanitation). This will require involvement of all tiers of the Government. Pakistan's literacy rate is 55. 5 % as of 2008 (United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics). About 9 % of the government spending is on education in Pakistan which has places Pakistan at a rank of 113 out of 120 nations, which shows 1 in 12 of the out of school children in the world are in Pakistan. (UNESCO report ). This increase in literacy has been due to an increase in rural literacy rate because more females are now a part of

schools there. However, lack of funds with people and limited schools and universities in rural areas have hindered the literacy rates and the Government is working towards providing subsidized education for the poor in rural areas. The program by the Punjab Government called " Parha Likha Punjab" has been successful in providing low cost education for the poor people., \*Lopez, H. (2003). Macroeconomics and Inequality. Research Workshop titled ' Macroeconomic Challenges in Low Income Countries', World Bank's PREM Poverty Group <http://www.pc.gov.pk/vision2030/Pak21stcentury/Chapter%20Wise/Ch%2010,Rural%20and%20Urban%20Development.pdf> – Planning Commission <http://www.unesco.org/new/en/education/themes/leading-the-international-agenda/efareport/reports/2012-skills/> - Unesco report

1. 3 Sources of Rural Credit Pakistan's rural credit market consists of formal and informal sources of credit. The formal sources of credit providers are the Agricultural Development Bank of Pakistan (ADBP), commercial banks and co-operatives. The informal sources are in terms of professional money lenders, friends, relatives, village shopkeepers and commission agents. Informal sources of credit constitute a dominant share of rural credit.

1. 3. 1 Formal Sources Before independence, farmers received " taccavi" loans (a short term loan to purchase seeds and fertilizers). The small farmers and the landless people had to depend on informal sources to meet their credit necessities. To overcome this matter, two specialized organizations were merged to form the Agricultural Development Bank of Pakistan (ADBP) in 1961. Commercial banks were given credit targets in rural areas in 1972 and later in 1976 Co-operatives were established but their role was is minimum is financing the rural sector.

Still farmers and other people do not use formal sources of credit to finance their needs. 1. 3. 2 Informal Sources The informal sources of credit in rural areas have low transaction costs, high interest rates and rapid payment of credit. The inability of formal institutions to reach the poor has led the poor to depend on informal sources. This has resulted in exploitative interest rates as high as 100 %. The borrowers and lenders usually know each other; this is the reason for exploitation. The informal sources of credit have led to economic decline, economic and social exploitation and social vulnerabilities. The reason for all this issues is that the poor people are helpless and they have very limited resources. The lenders have limited loan ranges and influence the borrowers according to their interest. [www.sbp.org.pk/report/ExecutiveSummary.pdf](http://www.sbp.org.pk/report/ExecutiveSummary.pdf)

1. 4 An overview of Microfinance Sector in Pakistan: efficiency, performance and outreach The microfinance projects were introduced in Pakistan as Aga Khan Rural Support Program (AKRSP) and Orangi Pilot Project. Later Agricultural Development Bank of Pakistan which is now called Zarai Taraqati Bank was established to provide loans to poor farmers. In 1996, microfinance became a recognized specialized activity with the establishment of first specialized microfinance NGO (Kashf Foundation) and an urban microfinance program (Urban Poverty Alleviation Program UPAP). In 2001, the microfinance providers were converted into an organization called the Pakistan Microfinance Network. Also the State Bank of Pakistan formed an independent division for microfinance and in 2007; it became a department of microfinance. Microfinance banks, which are working for the poor people, are regulated by the State Bank of Pakistan. The first microfinance bank was created by the Government in 2000 by the name

of Khushhali Bank. In 2001, an ordinance for microfinance network was passed and in 2002, the private sector started microfinance operations in the country. Now, microfinance providers include microfinance banks (MFBs), non-governmental organizations (NGOs) for microfinance and rural support programs (RSPs). Microfinance industry has expanded in Pakistan. Sector matures, mobile network operators, banks and international funds, individuals and groups have become interested in investing in this sector. This sector has been poised for growth with the entry of new players and alliance. However, challenges such as strengthening of Governance and Risk Management Frameworks have been faced.

#### 1. 4. 1 Efficiencies and inefficiencies of the microfinance network

According to Pakistan Microfinance Network Report 2011, Pakistan Microfinance sector has aimed for growth, sustainability and profitability. Because of the security situation, energy crisis, double-digit inflation, floods in 2010 and 2011, the microfinance sector has faced a slowdown in credit growth and deterioration in portfolio quality. In terms of efficiency, the microfinance sector has shown an increase. The Gross Loan Portfolio increased from PKR 20.2 billion in 2010 to PKR 24.8 billion in 2011 which is an increase of 22%. The active borrowers increase from 1.5 million in 2010 to 1.7 million in 2011. Total Assets increased from PKR 35.8 billion in 2010 to 48.6 billion in 2011. Total Deposits increased from PKR 10.1 billion to PKR 13.9 billion, total debt increased from PKR 27.5 billion to PKR 38.3 billion and total revenue increased from PKR 7.5 billion to PKR 10.1 billion. The adjusted operating expense to average GLP ratio fell from 25.7% in 2010 to 25% in 2011 and the personnel expense to average GLP ratio fell from 15.1% in 2010 to 14.

7 % in 2011. All these figures show how microfinance industry is performing well. On the positive side borrowers, loan portfolio and revenue all the indicators exhibit growth.

#### 1. 4. 2 Review of Performance of the Microfinance Sector

In 2011, the number of borrowers increased to 1. 7 million with a GLP of PKR 24. 9 billion from 1. 5 million borrowers with a GLP of PKR 20. 2 billion in 2010. The microfinance is dominated by Microfinance Banks (MFBs) followed by Microfinance Institutions (NGOs) and Rural Support Programs (RSPS) . Microfinance Banks increased their market share from 40 % in 2010 to 44 percent in 2011 and the Rural Support Programs decreased their share from 35 % in 2010 to 28 % in 2011 because of clients moving from RSPS to banks. MFIs have shown an increasing trend. Khasf Foundation has been excluded, due to which the market share of MFIs is still understated. 80% of the outreach and GLP is dominated by eight Micro Finance Providers (MFPs). The number of depositors grew by greater than 37 % rising to 1. 3 million in 2011 from 1. 0 million in 2010. The volume of deposits has increased by 5 times since 2007 from PKR 2. 8 billion to PKR 13. 9 billion in 2011. MFBs have realized the importance of deposits as the main source, which is also cheap and reliable. The services and trading sector dominates the distribution of microcredit, accounting for 44. 4 % of borrowers in 2011 jointly. Agriculture and livestock make up 38. 5 % and manufacturing constitutes 8. 5 %. The share of rural borrowers decreased from 52 % (1. 2 million borrowers) in 2010 to 46% (0. 9 million borrowers) in 2011 due to the increasing urban focus of MFPS. The MFPS have expanded their asset base and there has been an increase in debt and deposits and a decrease in equity. Up to 29 % of the funding is based on deposits. MFIs and RSPs have inadequate capitalization;

their equity is 17 % and 18 % of their capital structure. This can be problem for them in terms of commercial finance and outreach. 1. 4. 3 Incidence and outreach of microfinance Outreach of micro-credit operations is measured by a proxy indicator called average loan balance per borrower in proportion to per capital gross national product (GNI). Apart from 2 MFPS, all MFPS are poverty focused because their value is below 20 % of GNI. MFBs target upper end of the market by giving out large loans, having an Average Loan Balance per GDP of 18. 6 % and MFIs and RSPs target the lower end, having an Average Loan Balance per GDP of 10 % and 11 % respectively. The ratio for average loan balance to per capita GNI has decreased for MFIs and RSPs, and increased for MFBs. The reason for these trends can be due to the sector's idea of targeting the poor. The reluctance of MFPS in terms of giving out more loans is because of economic conditions prevailing in the country, risk of multiple borrowing, lack of control and limited funds. However, with the establishment of Microfinance Credit Information Bureau (MF- CIB), MFPS will be able to analyze credit risk and increase the loan sizes. There has been an increase in the share of women borrowers and depositors. The women borrowers increased from 51. 8 % in 2010 to 55. 2 % in 2011. The women depositors increased from 8. 4 % in 2010 to 19. 4 % in 2011. This is a good sign in terms of outreach. However there has been a decrease in rural borrowers from 1. 2 million in 2010 to 0. 9 million borrowers in 2011. This has been due to the increasing focus on urban outreach by MFPS. Also, the floods in 2010 and 2011 have caused reluctance in the microfinance sector to lend in rural areas. For this decline, NRSP Bank has been formed along with repositioning of Apna Microfinance Bank acquisition. After this, the rural

outreach should increase in the coming years<sup>1</sup>. 5 A review Microfinance Sector in Rural Settings<sup>1</sup>. 5. 1 Strategic Framework for Sustainable Microfinance in Pakistan Pakistan's regulatory framework for microfinance was ranked the best worldwide by EIU's Global Microscope on the Microfinance Business Environment 2011. Also the State Bank of Pakistan revised the Prudential Regulations to allow lending to microenterprises by MFBs up to PKR 500, 000 ( PMR report 2011). On 2nd December 2011, Mr. Yaseen Anwar, Governor, State Bank of Pakistan stated that the State Bank of Pakistan has laid down a detailed strategy to promote sustainable growth of the microfinance sector in its new Microfinance Strategic Framework 2011-15, which will support pro-poor and sustainable development in the country. According to Mr. Anwar ' Currently, microcredit is reaching to only 2 million borrowers whereas the size of the target market is estimated to be 25 to 20 million'. He also said that Pakistan has one of the lowest financial penetration levels in the world with 56 % of the adult population totally excluded and 32 % informally served. State Bank of Pakistan will give out governing guidelines to MFBs for increasing loans and develop a reporting structure to study the geographic dispersal of microfinance growth. Also, due to the innovation in mobile phone banking there has been an expansion of the retail network of micro finance. The role of UKAid and Asian Development Bank in the development of microfinance is strengthening the programs to which they donate; also many of these programs are managed by the State Bank of Pakistan. The Institutional Strengthening Fund (ISF) a UK 10 million pounds grant facility, was launched in 2008 which has approved Rs. 522 million for 11 microfinance providers The ISF will support 15 projects in



human resource, technology, product development, risk management, business models and branchless banking development. Microfinance Credit Guarantee Facility (MCGF), again a UK 10 million pounds guarantee facility was launched in December 2008 to mobilize wholesale commercial funding for MFIs. Also this facility will resolve funding constraints of MFIs. Also, the Financial Innovation Challenge Fund was launched in 2011 to provide funds for innovation and test new markets, decrease delivery costs, new ways of enabling systems and procedures for better financial services, also all the banks, public sector institutions, MFIs, academic institutions can apply for promotion of financial inclusive payments. SBP also started a pilot Financial Literacy Program (FLP) to initiate financial literacy through TV, radio, print media and mobile networking. Source : The framework 2012 , SBP1. 5. 2

Provision of Financial Literacy in Pakistan To achieve financial inclusion in Pakistan, financial literacy and financial learning tools for the poor have been given immense importance. The information on financial matters in Pakistan is by informal sources in terms of family, television and newspapers. Financial literacy is low in the female population of the country and in the rural areas. Efforts have been made to improve financial knowledge and literacy skills of the low-income and poor people of Pakistan. National Financial Literacy Program (NFLP) was initiated in 2010 by the State Bank of Pakistan with the help of Asian Development Bank (ADB) and was launched in 2012. The penetration rate of MFIs in Pakistan stands at around 8. 11 % of the potential market as of March 2012 ( MicroWATCH Issue 23: January to March 2012, PMN 2012, p. 1) , which shows a large population has no access to financial services and are illiterate in terms of financial training. Three

literacy programs will be discussed here. The first, the Nationwide Financial Literacy Program launched by SBP with the support of Asian Development Bank. The purpose of this program is to improve access to financial services for the poor. The target population is households with incomes between PKR 6000- PKR 20, 000 per month and the purpose is to create awareness about basic money, budget, savings, debt management and financial negotiations. Secondly several MFPS including MFBs and NGOs have taken financial literacy initiatives to enhance the financial management skills of their micro entrepreneur client base. Their goal is to provide financial literacy, skills and enterprise development trainings. Initiatives have been taken with donors support. The third is Rural Support programs ( RSPs) and their association, the Rural Support Programs Network ( RSPMN) which have been involved in the " Community Investment Fund" (CIF) program since 2008. Their main aim is to train group leaders in financial practices. Source: The report called promoting financial inclusion and literacy in Pakistan October 2012- pmn1. 6

Microfinance and the State of Rural LivelihoodPoverty is the main issue that the Pakistan's economy is dealing with. The poverty rate is 22. 3 % and Pakistan has been indicating a low performance with respect to expectancy, education, living standards and literacy. Pakistan's rural economy depends on agriculture. It accounts for 21 % of the GDP (Economic survey of Pakistan 2011-12). Most of the rural people rely on agriculture for their living and the rest depend on non-farm activities. Due to limited lands, livestock ownership, landless farmers and women have little access to resources, suffer acutely from poverty. Unequal distribution of land and water has been a major cause for rural poverty to be precise. Increasing food prices due to inflation, lack of

education, limited access to health amenities, large family sizes and gender biases also add to the reasons for poverty. ( IFAD FACT SHEET – RURAL POVERTY)Microfinance is an important and effective tool in improving the state of rural livelihood by fighting against poverty. It expands prospects by providing access to capital to marginalized people, increases income and assets of low income households. Pakistan’s microfinance sector has grown largely through donor funding, subsidized credit and government support. Recently the sector has evolved into a more sustainable business model, just like a commercial bank, with its mandate of providing financial assistance to the poor. The participants from rural areas of Pakistan in the microfinance industry include small farmers, traders, livestock owners, women, households headed by women and micro entrepreneurs. Though the microfinance coverage in Pakistan remains limited and the unmet demand is huge, however the Microfinance Providers are extending their outreach to meet the needs of poor rural household. Due to improved access to credit, the productivity of farm and non-farm enterprises in rural areas have increased, there have been livelihood gains, the food security has increased. However, the rural borrowing has decreased to 46 % in 2011 from 52% in 2010 (PMN 2011) because of the increasing urban outreach of microfinance and also the remote rural regions of Balochistan, KhyberPakhtun Khawan and FATA have been excluded, due to high transaction costs, and risks. The rural clients face issues like not been able to comply with the loan collateral requirements and lack of credit history. Fewer economic opportunities in rural areas increase the credit risk. Due to this the rural poor rely on informal sources to meet their credit demands irrespective of high costs and risks.

According to Pakistan Microfinance Network report (2010) surveys show that there has been an increase in demand for availability of credit and more diversified microfinance products amongst the rural poor. Also due to the lack of financing, the expansion of credit services has been limited. The microfinance in Pakistan entails high operating costs. So the Microfinance Providers should adopt cost effective ways in order to improve the outreach of financial services into new markets of deprived rural areas and introduce products in the favor of the poor. This will certainly take time and resources and the Government of Pakistan is working towards it as described in the Strategic Framework for Sustainable Microfinance in Pakistan.( report called village banking).