Journal of Economics and Sustainable Development
ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online)
Vol.8, No.2, 2017

Microfinance Fuelled by Foreign Funding in Pakistan

Saima Latif
Department of Management Sciences, Bahria University, Sector E-8, Islamabad

Sohail Iqbal*
National University of Sciences and Technology (NUST), Sector H-12, 44000, Islamabad

Abstract
The microfinance sector of Pakistan is flourishing since early 2000s and it has grown to an appreciable level. Like many developing economies, foreign funding from developed countries has been the major source of funding for the sector. We investigate the impact of foreign funding on the performance of microfinance sector of Pakistan. The performance of the sector has been gauged in terms of its outreach of micro credit, micro savings and micro insurance as well as its profitability. Our analysis shows that foreign funding either as disbursements from Pakistan Poverty Alleviation Fund (PPAF) to non bank Microfinance Institutions (MFIs) or as part of the asset base of the microfinance sector, has a positive and significant relationship especially with the micro credit services of the industry. We find that foreign funding has largely fuelled the present levels of growth of the microfinance sector of Pakistan and such grown up industry would have been nearly impossible without foreign support. However, it is now important to focus more on developing domestic funding sources upon which the industry can rely for its future growth.
Keywords: Foreign funding, microcredit, microfinance, outreach, Pakistan Poverty Alleviation Fund, profitability.

1.1. Introduction

Microfinance is a mechanism for provision of financial facilities to the poor generally in underdeveloped and developing countries (Hirsch et al, 2005). The services offered to the underserved at micro level include micro credit and micro savings in general, however, other financial services like micro insurance and money transfers may also be covered under the umbrella of microfinance (Ledgerwood, 1999).

The organizations offering microfinance services and specialized products to their customers (the poor) at formal level are termed as Micro-finance Institutions (MFIs). They may take different forms depending upon their structure, legal status, scope etc. Therefore, we may have MFIs as savings and credit cooperatives, non government organizations (NGOs), programmes established by international organizations, legally-recognized micro-finance institutions, and micro-finance banks. Also, they have considerable size variations, from a small MFI with 100 customers to a large MFI with over 6 million clients. Some MFIs offer financial services and products at very basic level such as micro loans, saving accounts and micro insurance; and some extend their scope to non-financial services as well, by offering appropriate training, education, skill development and social mobilization facilities (Attali,1998). With the passage of time, such MFIs have grown in large number worldwide. These MFIs, as providers of financial services to the poor households (households under the international poverty line of $ 2.00 US per day) have really helped them elevate their social standing and thus contributed to the overall socio-economic development of the region of their operation (Haq et al., 2010).

Our study links microfinance with foreign funding which may be perceived as the monetary assistance extended to underdeveloped and developing countries by developed ones. This paper deals with the development aid provided by donors specifically directed towards microfinance sector to alleviate poverty in Pakistan. The very common term for such type of funding is Official Development Assistance (ODA), which is the assistance for combating poverty and supporting development process in the receiving country.

If we talk about the providers of foreign funding, the foreign investors become more prominent as major providers of funds to MFIs. Such investments on one hand may be by international financial institutions (IFIs) including bilateral or multilateral development agencies. Examples are the World Bank, Asian Development Bank and the European Bank for reconstruction and development. The equity and debt investments by IFIs in 2006 were estimated at USD 2.4 bn which were almost twice of that in 2004. On the other hand, foreign investments can be induced by many private investors like individual donors, NGOs, foundations, institutional investors etc. It is important to highlight that during the period from 2004-06, the evolving investments by the private investors rise more sharply than those of IFIs; the former were recorded to be USD 2 bn by 2006 (Dieckmann et al., 2007). The provision of foreign funds has proven to be a crucial factor for the development and growth of MFIs especially at their embryonic stage, however the importance of domestic funding sources cannot be denied when MFIs attain somewhat maturity. For many MFIs in general, the domestic funding sources become more important at later phases of their life cycle.

1.2. Performance Measurement of Microfinance Institutions

The challenges to MFIs are twofold: Firstly, they are to develop an outreach by providing financial services to the poor, and secondly, they are to manage their costs to attain reasonable sustainability for avoiding bankruptcy. Both dimensions must therefore be taken into account in order to assess their performance (Luzzi & Weber, 2006).

Measuring MFIs' performance is not that much simple and conventional as the same can be termed multidimensional. For instance, considering only the financial sustainability of an MFI does not provide with a complete picture of its financial performance. Other aspects of outreach in their performance are also to be included for an overall evaluation (Luzzi & Weber, 2006). Besides the above mentioned challenges, the worldwide structural composition of MFIs is also not the same. On one hand they are organized as banks while on the other, we have non bank MFIs as well. Also, there are non-governmental organizations (NGOs) and credit cooperatives. This diversified structure of MFIs makes their performance analysis more complicated and the choice of an appropriate conceptual framework for the purpose becomes difficult (Hartarska, 2005). Many MFIs operate with dual goals: one goal is to reach more target population strata (poorer people) and contribute to their social and economic development, and the other is to do so in a way that offers financial sustainability and reduces dependence upon donors for funding needs (Helms, 2006; Johnson et al., 2006). Perhaps, these form the basis that many MFIs operate with a two facet mission of becoming a viable financial option for the poor clients and simultaneously achieving self financial sustenance levels. Hence, the performance of a microfinance firm should be measured along both dimensions; outreach and sustainability (Mersland & Strom, 2007). In the same study, the authors considered Return on Assets (ROA) as measure of financial performance of MFIs in their sample. In a study of Luzzi and Weber (2006), it was inferred that it would have been interesting and desirable to include other variables related to sustainability, like the ROA or the Return on Equity (ROE). Cull et al. (2007) in their study of institutional features of MFIs also added the aspects of MFIs' financial performance and outreach along with lending methodologies and capital and labor costs control measures. Another study conducted by Crombrugghe et al. (2008) focused on the operational aspects of performance of Indian MFIs. Their major contribution was providing a reasonable assessment of the capability of a stratum of MFIs to develop an appreciable outreach to the poor without compromising their own financial sustainability.

1.3. Microfinance in Pakistan

Microfinance in Pakistan has strived hard since 2000 to prove it a viable financial system and has thereof mainstreamed into the formal financial and banking setup; still the milestone of reaching millions of underserved people in need of variety of financial services is far away. The sector is yet to face huge challenges ahead as Pakistan's financial penetration level is one of the lowest in the world. There is an approximate 56% adult population which is totally excluded along with an estimated 32% that is locally served by informal means. As per 2012 annual report of PPAF, Pakistan's potential market for microfinance is estimated to be of 20 to 30 million clients. The critical investments made by PPAF and other stakeholders have led to a microfinance market in 2012 with 2.2 million loan clients, 3.9 million savers and 2.6 million policyholders (Dawood, 2012). Despite of the considerable efforts from the Government, State Bank of Pakistan (SBP) and donating agencies, the country's microfinance sector has been successful to tap just a fraction of the potential market comprising millions of potential clients (SBP, 2011).

One of the major constraints to the progress of microfinance in the country is the availability of funds. Having an overview of the history of microfinance development in Pakistan, we find that traditionally the funding to microfinance in the country has been largely grant based mostly supported by donors. The overall environment has been supply driven and grant oriented mostly dependent upon NGOs' financing (Dawood, 2010). Such form of funding is limited and fails to offer sustainability. Therefore, in order to gain the required financial sustainability, the availability of permanent sources of funding is inevitable. Presently, the sector is facing serious challenges on availability of appropriate funding sources: Firstly, we have commercial banks which are risk averse due to constrained liquidity and lack of expertise in the microfinance sector. Secondly, although there are Microfinance Banks (MFBs) having license to mobilize deposits, still they are in their breeding stage and have been unable to do so at larger scale. Moreover, MFBs are still largely credit-driven despite an immense potential demand for micro savings in Pakistan. Similarly, MFBs have shown limited interest in providing micro insurance. Tapping into the potential market for non-credit micro services like micro savings, micro insurance, money transfers etc. will allow the MFBs to develop ample and sustainable sources of funding. Thirdly, the subsidized mode of financing provided by the Government of Pakistan (GoP) /donors is drying up. In this context, the MFIs are still striving to explore more innovative strategies to raise their fund base and attain financial sustainability. Lastly, the PPAF being an apex funding body for the sector; is financing the non-regulated MFIs only. It needs to have more sustainable financing sources in addition to its specific funding facility of the World Bank's loans streamed through GoP (SBP, 2011).

Though funding constraints are still there, good news is that the microfinance industry in Pakistan is

witnessing an uninterrupted year wise growth and expansion. It is indeed a fact that the framework of microfinance sector of Pakistan is so well developed at legal, regulatory and strategic levels that the same has been acknowledged by the international community as well (SBP, 2011). The Economist Intelligence Unit's (EIU) 'Global Microfinance Business Environment 2011' reports Pakistan at number one for regulatory frameworks and practices and number three globally for overall microfinance business environment (Dawood, 2012). In fact, Pakistan is one of the leaders in the world having separate legal and regulatory frameworks for MFBs. As per the performance records of 2013, the industry posted consistent increase in credit outreach, gross loan portfolio and micro savings and the Securities and Exchange Commission of Pakistan (SECP) has launched micro-insurance regulations. Moreover, investors are continuously showing interest in the microfinance industry of Pakistan. For instance, Foundation for International Community Assistance (FINCA) International acquired majority shareholding in Kashf Microfinance Bank Limited (KMFB) through an equity investment of PKR 824.7 million (Nishtar, 2013).

2.1. Data Collection for Analysis

In our study, two approaches have been adopted for the purpose of data analysis– first is 'Institutions level approach' and second is 'Industry level approach'. First approach considers the five years data from eight non bank MFIs of Pakistan receiving disbursements from PPAF during 2008 to 2012. These MFIs include National Rural Support Program (NRSP), Punjab Rural Support Program (PRSP), Thardeep Rural Development Program (TRDP), Development Action for Mobilization & Emancipation (DAMEN), Asasah, ORIX Pakistan, Sindh Agricultural and Forestry Workers Coordinating Organization (SAFWCO) and Community Support Concern (CSC). Here, PPAF disbursements are considered as foreign funding, as PPAF is the only apex wholesale funding body of the country established by the government. Moreover, it can be assumed as the only MIV operating in Pakistan channelizing foreign funds especially from the World Bank, German Kfw, and International Fund for Agriculture Development (IFAD) and United States Agency for International Development (USAID). In our sample of eight MFIs, NRSP is the largest non bank MFI receiving more than 50% of total PPAF disbursements. The share of each MFI (in our sample) in PPAF disbursements is presented in Figure 1. The relationship of independent variable 'PPAF disbursements' with dependent variables of GLP, number of active borrowers, net income, ROA & ROE of non bank MFIs in the sample has been studied. This approach analyses a data set of total 240 observations of MFIs in the sample.

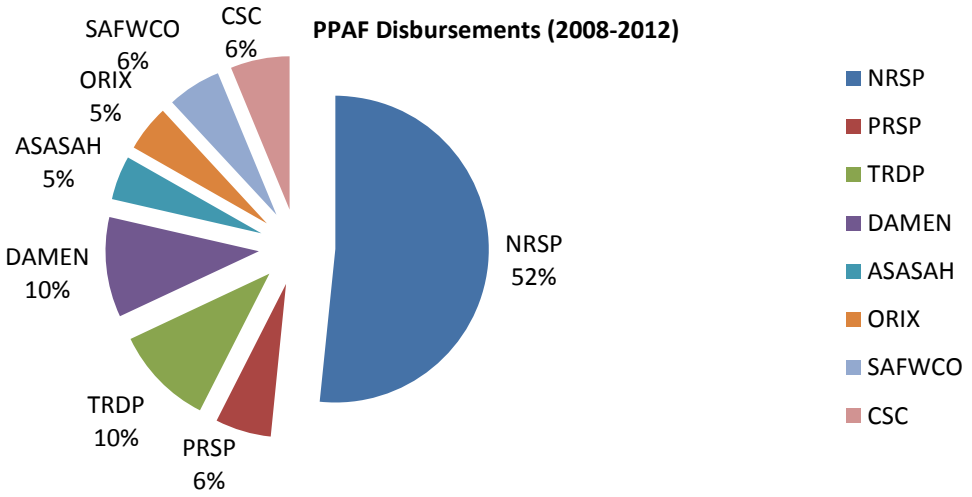

Figure 1. *Distribution of Total PPAF disbursements of 21.4 bn PKR to Non Bank MFIs during 2008 to 2012*

Second approach takes into account the seven years consolidated data of Pakistan's microfinance sector for the period of 2006 -2012. Here, an estimation of foreign funding is made as 50% of (70% of Total Assets), where 70% is the calculated average Debt/Assets ratio of the microfinance industry for the period under consideration. This estimation is based on the information provided by Pakistan Microfinance Review (PMR) 2011 which reports that non bank MFIs of the country have more than 80% debt in their asset base, major part of which is financed through PPAF disbursements, which again are considered foreign funding. However, as the industry also involves Microfinance Banks – non-partners of PPAF, a conservative percentage of 50% of the average size of debt in the sample is considered as foreign funded. For industry based analysis, the relationship of independent variable foreign funding (50% of 70% of Assets of the industry) with dependent variables of GLP, outreach (number of active borrowers, number of savers and number of policy holders), value of saving accounts and value of sum insured has been studied. This approach analyzes a data set of total 49 observations of the microfinance industry. A description of our study variables is given in Table 1.

Moreover, in institutions based approach, the unit of analysis has been a non-bank MFI with higher debt to assets ratio and receiving PPAF disbursements continuously over past few years. The eight MFIs of the sample also represent the non-bank MFIs continuously reporting to Pakistan Microfinance Network (PMN) for its quarterly issue of Micro Watch during the period of 2008 to 2012. The sample is based on convenient sampling technique and represents MFIs with higher debt to assets ratio and continuously receiving PPAF disbursements for five years period of 2008-2012. As per Member Information Exchange (MIX) Market source, the population size is of 42 MFIs including 10 MFBs in Pakistan. Hence, for non bank MFIs population size is 32.

On the other hand, in industry based approach, the microfinance industry as a whole has been taken as the unit of analysis. Secondary data has been obtained from the published annual reports of PPAF and PMN, Micro Watch-quarterly reviews of PMN and annual PMRs of PMN. Data of PPAF disbursements to non bank MFIs has been taken from the unpublished PPAF records.

Table 1. Description of Variables Used in Analysis

Name of the Variable	**Definition**	**Nature**	**Approach Where Used**
PPAF disbursements	Microcredit funds to Partner Organizations for on lending purposes	IV	Institutions Based
Number of borrowers	Number of individuals who have an outstanding loan balance with an MFI	DVs	Both (Institutions & Industry Based)
Gross Loan Portfolio (GLP)	All outstanding principal for all outstanding client loans excluding written off loans and interest receivables		
Net Income	Earnings of an MFI after tax		Institutions Based
Return on Assets (ROA)	Adjusted Net Operating Income, net of taxes / Average Total Assets		
Return on Equity (ROE)	Adjusted Net Operating Income, net of taxes / Average Total Equity		
Estimated Foreign Funding	50% of 70% of total assets of microfinance industry	IV	Industry Based
Number of Savers	Number of individuals who have funds on deposit with an MFI which the MFI is liable to repay	DVs	
Number of Policy Holders	Number of individuals who have membership of some micro insurance plan of an MFI		
Value of Saving Accounts	Value of Saving Accounts in Pakistani Rupees		
Value of Sum Insured	Value of Policy Accounts in Pakistani Rupees		

DV = Dependent Variable,IVs = Independent Variables,

2.2. Tests and Methods

For estimating the unknown parameters in a linear regression model, Ordinary Least Squares (OLS) is used. The primary assumption of OLS is that there is zero or negligible errors in independent variable(s), since this method only attempts to minimize the mean squared error in the dependent variable(s). In our study, the relationships among the independent and dependent variables have been estimated through OLS regression.

Linear regression structure is chosen because of two reasons. First, variables – number of borrowers, savers and policy holders, GLP, savings, sum insured, NI, ROA and ROE - are continuous variables. Second, the data is panel data, since five years of observations of eight MFIs have been taken. Also, the single-equation regression gives a way to compare the results with past research (Mersland &Strom, 2009). Moreover, the study conducted by Mersland et al., (2011), performed single-equation regressions for each financial and social performance variable; and system regressions first for all financial and then for all social performance variables.

Our model of study contains two main categories of variables. The first category includes the variables related to the asset base of MFIs. This categorizes total firm size, debt to assets ratio, and ratio of foreign funding in the fund base. We have not exactly segregated part of foreign funding from the asset base of MFIs, however based on the reports of PPAF and PMN, the same is estimated. The second category is based on the accounting measures of MFIs' performance in terms of their outreach of microcredit, micro insurance and micro savings and profitability. The outreach is measured through the variables of number of active borrowers, savers and policy holders and GLP, value of savings and sum insured. The profitability measures considered are net income, return on assets and return on equity.

Our purpose is to estimate the effect of independent variable of foreign funding (PPAF disbursements and estimated foreign funding) on the dependent variables of outreach and profitability of MFIs. The regression model, to study the linear relationship between X (explanatory variable) and Y (dependent variable), thus takes the generalized form as: $Y = \alpha + \beta X + \varepsilon$ where α = intercept, β = coefficient and ε = error term.

2.3. Hypotheses Formulation

Based on our specified model, we develop hypotheses to explain the impact of foreign funding on the performance of MFIs in Pakistan. For institutions based analysis, the hypotheses are formulated by considering positive association of PPAF disbursement (IV) with number of borrowers, GLP, net income, ROA and ROE (DVs). On the other hand, the assumption for industry based analysis is that at least 50% of the asset base of the microfinance industry consists of foreign funding. In this approach, the hypotheses are formulated on the basis of positive association of estimated foreign funding (IV) with number of borrowers, GLP, number of savers, value of savings, number of policy holders and sum insured (DVs). The hypotheses for the two approaches along with descriptive statistics are summarized in Table 2 and Table 3 respectively.

Table 2. Descriptive Statistics of Variables Entering Institutions Based Analysis

Variable	Mean	Std. Error	Min	Max	Obs.	Hypothesis
Number of Borrowers	79,687	20,892	11,975	565,863	40	+
GLP	938	266	129	7,354	40	+
Net Income	30	15	-85	437	40	+
ROA	-3.16	1.48	-42.40	7.80	40	+
ROE	-23.23	8.90	-200.70	38.90	40	+

For definitions of variables, see Table 1.

A + sign means that the variable is supposed to be positively associated with the PPAF disbursements. All monetary variables are in million Pakistani Rupees.

Table 3. Descriptive Statistics of Variables Entering Industry Based Analysis

Variable	Mean	Std. Error	Min	Max	Obs.	Hypothesis
Number of Borrowers	1,788,078	169,509	997,778	2,355,943	7	+
GLP	22,704	3,463	10,742	38,238	7	+
Number of Savers	2,742,275	470,100	1,530,375	4,682,422	7	+
Value of Savings	10,413	2,971	2,610	24,974	7	+
Number of Policy holders	2,117,029	470,870	-	3,306,639	7	+
Sum Insured	27,463	6,105	-	43,539	7	+

For definitions of variables, see Table 1.

A + sign means that the variable is supposed to be positively associated with the foreign funding. All monetary variables are in million Pakistani Rupees.

Further, we have Table 4 which shows a number of significant correlations among our dependent variables of institutions based approach. However, all correlation coefficients except that of GLP and number of borrowers are low. Kennedy (2008) establishes that in order to detect collinearity among two variables, the value of correlation coefficients need to be in the range of 0.8 – 0.9. Table 4 presents the symmetric matrix for correlation among the variables.

Table 4. Correlation Coefficients among the Dependent Variables of Institutions Based Approach

	GLP	No. of Borrowers	Net Income	ROA	ROE
GLP	1	0.997	0.747	0.254	0.327
No. of Borrowers	0.997	1	0.773	0.255	0.331
Net income	0.747	0.773	1	0.470	0.471
ROA	0.254	0.255	0.470	1	0.648
ROE	0.327	0.331	0.471	0.648	1

Moreover, Table 5 shows correlation matrix of dependent variables of industry based approach**.** Here, there exists collinearity among variables as many correlation coefficients lie in the range of 0.8 - 0.9.

Table 5. Correlation Coefficients among the Dependent Variables of Industry Based Approach

	GLP	No. of Borrowers	No. of Savers	Value of Savings	No. of Policyholders	Sum Insured
GLP	1	0.947	0.957	0.983	0.741	0.674
No. of Borrowers	0.947	1	0.858	0.875	0.877	0.830
No. of Savers	0.957	0.858	1	0.973	0.628	0.528
Value of Savings	0.983	0.875	0.973	1	0.626	0.547
No. of Policyholders	0.741	0.877	0.628	0.626	1	0.986
Sum Insured	0.674	0.830	0.528	0.547	0.986	1

3.1. Results and Discussion

The empirical results of our study indicate that foreign funding as PPAF disbursements and as part of the asset base of microfinance sector (50% of 70% of total assets) has greater impact on micro credit services than non credit micro services including micro savings and micro insurance. The values of some important indicators are summarized in Table 6 below:

Table 6. Regression Results

Institutions Based Analysis				
	R Square	**Coefficients**	**P value**	**F statistic**
No. of Borrowers	0.7891	0.0002	0.0000	142.18
GLP	0.7680	2.0842	0.0000	125.76
Net income	0.8261	0.1256	0.0000	180.55
ROA	0.1050	4.29E-09	0.0413	4.46
ROE	0.1043	2.57E-08	0.0421	4.42
Industry Based Analysis				
No. of Borrowers	0.8273	0.0001	0.0045	23.95
GLP	0.9838	1.4494	0.0000	303.92
No. of Savers	0.9398	0.0002	0.0003	78.12
Value of Savings	0.9817	1.2422	0.0000	268.75
No. of Policy Holders	0.4553	0.0001	0.0963	4.18
Sum Insured	0.3605	1.5468	0.1540	2.82

3.2. Institutions Based Analysis

In institutions based analysis, the impact of PPAF disbursements on outreach components of number of active borrowers and GLP, and profitability component of Net Income (NI) is highly significant using a confidence level of 95%. Line fit plots for number of active borrowers and GLP are shown in Figure 2 and Figure 3 respectively.

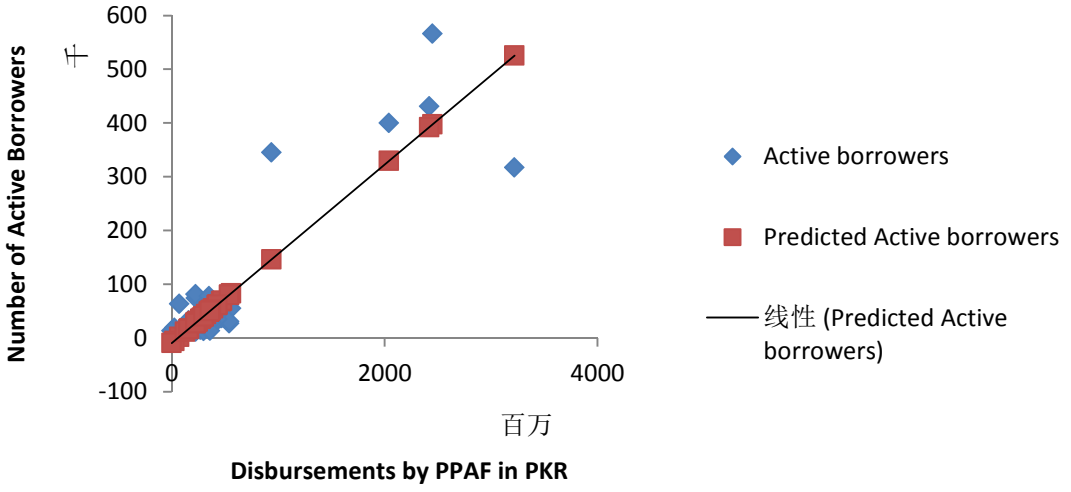

Figure 2. *Line Fit Plot for Number of Active Borrowers*

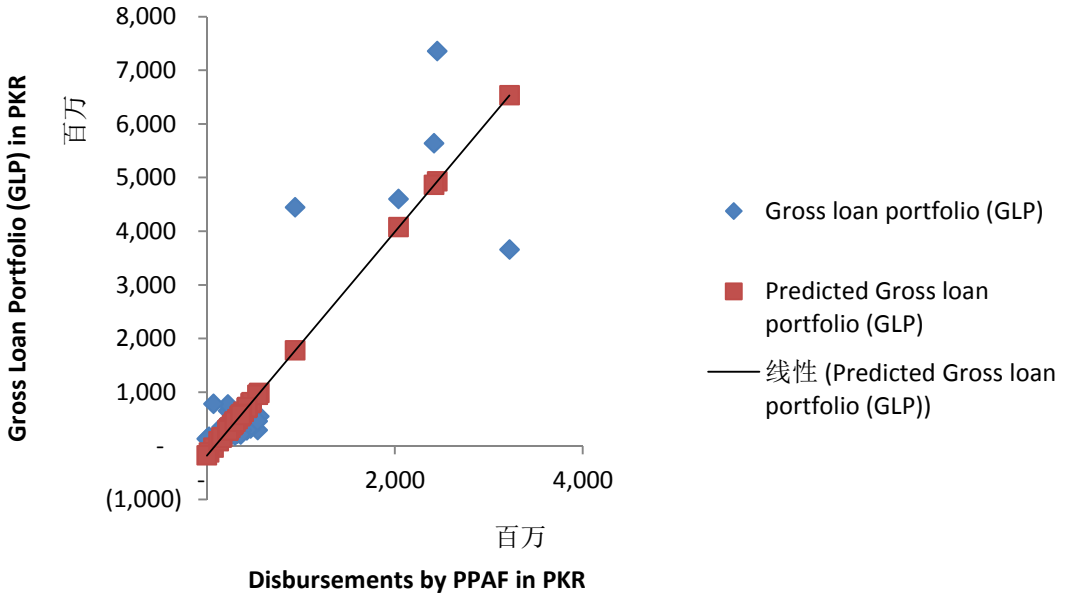

Figure 3. *Line Fit Plot for GLP*

Whereas, the relationship of PPAF disbursements with profitability components of ROA and ROE though not insignificant, is not strongly significant. The reason may be the higher operational and transactional costs of MFIs plus the cost of bad debts which reduces the profit margins of MFIs. In our sample also, few MFIs, like Asasah, exhibits continuous net loss over the period under consideration which then renders negative ROA & ROE values. The question then may arise that how can such MFIs operate with continuous loss. The answer may lie in subsidies available to these MFIs for on lending and capacity building purposes. These results lead to the inference that foreign funding, in the form of PPAF disbursements, has been a great financial support to the sector, especially for its micro credit services. The largest non bank MFI, NRSP received 43% of total amount of its GLP (2008-2012) as disbursements from PPAF. Figure 4 shows GLPs of eight non bank MFIs against amounts disbursed to them by PPAF for 2008-2012.

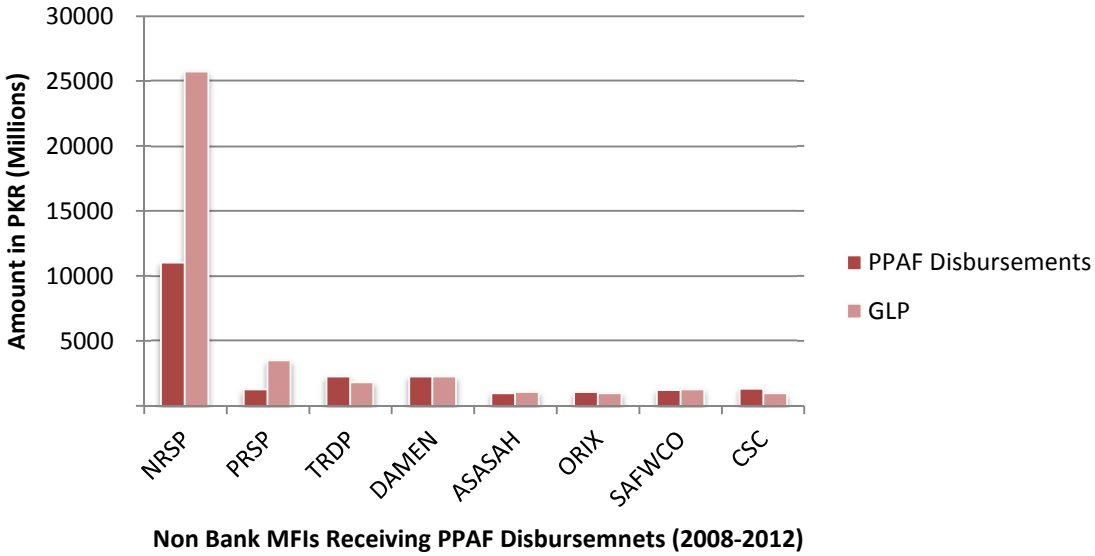

Figure 4. *Comparison of GLPs of Non Bank MFIs with Disbursements Received from PPAF*(2008-12)

3.3. Industry Based Analysis

In industry based analysis, the relationship of foreign funding with number of active borrowers and GLP is strongly significant. This refers that foreign funding plays an important role in the growth of micro credit sector in Pakistan. This is also in concurrence with the result of institutions based analysis where PPAF disbursements as foreign funding have significant relationship with micro credit function of MFIs. The relation of foreign

funding with number of savers and value of savings is also significant. This may be due to the inclusion of MFBs' data in consolidated data of microfinance industry. Because, only MFBs are allowed legally to take deposits from savers/depositors and their asset base consists of 49% deposits (Nishtar, 2011). They hold 26% as debt and 26% as equity, some part of both consists of foreign funds. According to financial practices, debt and then deposits are given priority to be used for on lending purpose so that banks may earn the spread. However, there comes out be an insignificant relationship of foreign funding with number of policy holders. Same is the case of the relationship between foreign funding and sum insured. The reason may be that considerable foreign funding is being injected continuously into the microfinance industry since long, however, the micro insurance services are somewhat newer to the industry (as data for micro insurance is available for not earlier than 2007). Though, micro insurance has grown and is growing with the passage of time but still its share is lesser than that of micro credit in the industry. Another reason of its insignificant relation with foreign funding may be that it is not that much dependent upon fund base of the industry as micro credit and even micro savings are.

The major limitation of our study is that there is not a perfect segregation of foreign funds invested into microfinance activities of MFIs under consideration. As PPAF disbursements and estimated foreign funding in asset base of microfinance industry have been considered as foreign funding for the purpose of analysis.

4. Recommendations

For recommendations, first we insist that the role of the government of the country is important. It is recommended that the government devise such policies which foster local investment in microfinance sector of the country. Government interventions in microfinance, through giving subsidized credit to the poor, undermine sustainable development. Poorly performing government supported microfinance programs have had been distorting the market thus discouraging new entrants into the industry (Adams et. al., 1984; Asian Development Bank, 2000).

Furthermore, amongst other problems corruption has been rated as one of the three largest obstacles for companies wanting to do business in Pakistan (Chêne, 2008). Rampant corruption and distorted law and order situation in the country are two major obstacles upon which the government should focus in order to encourage the inflow of local and foreign investments into the overall economy in general and the microfinance sector in particular. At present, foreign and even local investors seem to be reluctant to invest in Pakistan mainly because of increased levels of corruption and deteriorated law and order situation. These, if do not have direct effects on the performance of microfinance industry, surely have casted shadows on it indirectly. Again, the government is the major player over here whose sincere efforts can largely improve the environment for enhanced performance of microfinance organizations.

Secondly, the State Bank of Pakistan may also play its role as a regulator for the banking industry, to offer conducive rates for depositors in microfinance sector. This would help microfinance banks to rely more on deposits than debts and/or subsidies. Moreover, MFIs operating in the country should adopt better fund management practices and also focus on better credit management practices to lessen the costs of transactions and bad debts. They should better operate with subsidized mode of finance, as that provided by PPAF. Through their better operational and financial performance, they would not be able to be self sufficient but may also enforce the government and policy makers to provide more favorable environment for the industry. But, the final word is that any approach adopted should be for the ultimate social benefit of the underserved communities.

5. Conclusion

The microfinance sector of Pakistan flourished mainly during the years 2000 to 2010 and especially witnessed promising growth levels from 2000 to 2005. The regulatory and strategic reforms of microfinance sector did not only foster the uplift of the sector but also earned praise at international level. Indeed, foreign investment has been one of the prominent and important factors behind this exemplary growth. We may conclude that the present developed state of the industry in the country would have been near to impossible in the absence of foreign funding in the system. Foreign funding, being PPAF disbursements to non bank MFIs or part of the asset base of the microfinance industry, has been fueling at large the microcredit functioning of the industry in Pakistan. The sector especially the non regulated MFIs may face serious financial crises if PPAF funding pipeline is choked due to some reason. The development of considerable domestic funding sources for the industry is very much essential at this stage. In most cases, financial structures of microfinance organizations are fragile and non-supportive resulting in their limited institutional capacity. Many MFIs lack financial leverage and are not capable of providing a wide range of products to their clients. This is because they have been over dependent on subsidies and grants and have not been able to gain sustainability (Mago, 2014b). Thus, the need is to make the funding base of the microfinance sector of the country more sustainable for improved long term results. In this regard, GoP and SBP can play their role by acting as better facilitators for local investment in the sector. MFBs may shift to domestic funding sources by penetrating more into the potential market for non-credit microfinance services. In case of absence of sufficient domestic funding sources, the microfinance sector of the

country may not accomplish promising growth levels in years to come.

References

Adams, D. W., Douglas, H. G., & Von Pischke, J. D., eds. (1984), 'Undermining Rural Development with Cheap Credit', Boulder, CO:Westview Press.

Asian Development Bank. (2000), 'Finance for the Poor; Microfinance Development Strategy', Retrieved September 12, 2008 from www.adb.org/Documents/Policies/Microfinance/financepolicy.

Attali, J. (1998), 'Story of the Microcredit', Retrieved September 06, 2014 from http://www.microworld.org/en/about-microworld/about-microcredit.

Chêne, M. (2008), 'Overview of corruption in Pakistan', *U4 Anti-Corruption Resource Centre.*

Cull, R. and Morduch, J. (2007), 'Financial Performance and Outreach: A Global Analysis of Leading Microbanks', *The Economic Journal,* Vol. 117, No. 517, pp. F107-F133.

De Crombrugghe, A., M. Tenikue and J. Sureda. (2008), 'Performance Analysis for a Sample of Microfinance Institutions in India', *Annals of Public and Cooperative Economics,* Vol. 79, No. 2, pp. 269-299.

Dieckmann, R., B. Speyer, M. Ebling and N. Walter. (2007), 'Microfinance: An Emerging Investment Opportunity', *Deutsche Bank Research,* Current Issues, Frankfurt.

Ferro-Luzzi, G. and S. Weber. (2006), 'Measuring the Performance of Microfinance Institutions', *Available at SSRN 918750*.

Haq, M., M. Skully and S. Pathan. (2010), 'Efficiency of Microfinance Institutions: A Data Envelopment Analysis', *Asia-Pacific Financial Markets,* Vol. 17, No. 1, pp. 63-97.

Hartarska, V. (2005), 'Governance and Performance of Microfinance Institutions in Central and Eastern Europe and the Newly Independent States', *World Development,* Vol. 33, No. 10, pp. 1627-1643.

Helms, B. (2006), *Access for All: Building Inclusive Financial System*, The World Bank, Washington D.C.

Hirsch, G. B., G. Stuart, J. K. Rosengard and D. E. Johnston Jr. (2005), *Symbanc™: A Simulator for Microfinance Institutions*, International Conference of the System Dynamics Society, Boston, Massachusetts, July 2005.

Johnson, S., M. Malkamaki and K. Wanjau. (2006), 'Tackling The 'frontiers' of Microfinance in Kenya: The Role for Decentralized Services', *Small Enterprise Development,* Vol. 17, No. 3, pp. 41-53.

Kennedy, P. (2008), *A Guide to Econometrics* (6th ed.), Oxford, UK: Blackwell Publishing.

Kirchstein, K. and K. Welvers. (2010), 'Will Microfinance Continue to Evolve into a Mainstream Asset Class? Indications in Favor and Against', German Development Economics Conference, Hannover, Germany,18-19 June 2010.

Ledgerwood J. (1999), *Sustainable Banking with the Poor: Microfinance Handbook,* World Bank, Washington D.C.

Mago, S. (2014), 'Microfinance and Poverty Alleviation: An Empirical Reflection', *Journal of Asian Finance, Economics and Business*, Vol. 1 No.2, pp. 5-13.

Mersland, R. and R. O. Strom. (2007), 'Performance and Corporate Governance in Microfinance Institutions', *MPRA*, No. 3887.

Mersland, R. and R. O. Strom. (2009), 'Performance and Governance in Microfinance Institutions', *Journal of Banking & Finance,* Vol. 33, No. 4, pp. 662-669.

Mersland, R., T. Randoy and R. O. Strom. (2011), 'The Impact of International Influence on Microbanks' Performance: A Global Survey', *International Business Review,* Vol. 20, No. 2, pp. 163-176.

Nishtar, G. (2011), 'Pakistan Microfinance Review: Annual Assessment of the Microfinance Industry 2011', Islamabad.

Nishtar, G. (2013), 'Pakistan Microfinance Review: Annual Assessment of the Microfinance Industry 2013', Islamabad.

Dawood, H. (2010), 'PPAF Annual Report 2010', Islamabad.

Pakistan Poverty Alleviation Fund (2010), 'A Decade of Accomplishment: Ten Years of PPAF', Islamabad: Author.

Dawood, H. (2012), 'PPAF Annual Report 2012', Islamabad.

State Bank of Pakistan (2011), 'Strategic Framework for Sustainable Microfinance in Pakistan', Karachi, Pakistan: Author. SBP.