



Research Report No. 38

**CREDIT TO THE POOR:
CONSULTATIONS WITH
BORROWERS**

SOCIAL POLICY AND DEVELOPMENT CENTRE

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**Credit to the Poor:
Consultations with Borrowers**

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Abstract

The paper reflects the views of loan recipients of the National Rural Support Program and Orangi Pilot Project B two leading microfinance institutions in rural and urban areas respectively. Focus Group Discussion and detailed individual case studies were conducted to evaluate these programs in terms of access, problems and impact of microfinancing.

1. INTRODUCTION

The role of microfinance as a tool for alleviating poverty is universally acknowledged. Experience shows that one of the greatest hurdles that micro-entrepreneurs in developing countries face is lack of access to financial services. Without loans and secure saving services, their growth is constrained. Microfinance has proven to be an effective tool to address this problem. Various studies documenting the impact of microfinance have concluded that microfinance helps entrepreneurs develop and diversify their small business and activities. With sustained access to financial services, entrepreneurs can stabilize their income, convert a part-time job into a full-time occupation, and also provide work to members of their family. This has a positive effect on poor households, since a more reliable income - combined with saving helps them smooth consumption and prevent them facing unexpected shocks.

Microfinance is an important component of the present government's poverty alleviation strategy. This is reflected in the recent establishment of a new microfinance bank. The Microfinance Bank, named the *Khushali* Bank, has been established under the Microfinance Bank Ordinance, 2000. The objective of this institution, according to the ordinance, is to mobilize funds and to provide sustainable microfinance services to poor persons, particularly poor women, in order to mitigate against poverty and promote social welfare and economic justice through community building and social mobilization.

Under this backdrop, an understanding of issues related to the sector are highly significant and the need of the hour. The purpose of this research is to gain an understanding from the loan recipients or borrowers about access, problems and the impact of microfinancing. Two leading microfinance institutions i.e. National Rural Support Program (NRSP) and Orangi Pilot Project (OPP) have been chosen for this study to ascertain the effects of the schemes in rural and urban areas respectively.

Besides evaluating these organizations, specific objectives include the followings:

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- ! To get the borrowers=perception about the access to financing;
- ! To assess demand in terms of loan sufficiency and loan size;
- ! To observe the impact on income or employment generation activities; and
- ! To perceive what low income households think about other institutions and poverty alleviating schemes.

2. BRIEF REVIEW OF INTERNATIONAL EXPERIENCE

The concept of microcredit, that is the extension of small amounts of collateral-free institutional loans to groups of poor for their self-employment and income generation is a Grameen Bank innovation. Over the last two decades, the Grameen Bank has pioneered a credit delivery system in rural Bangladesh bringing banking to poor villagers and focussing primarily on women. The programmatic success of the micro-credit scheme of the Grameen Bank, measured with the quantitative indicators, has attracted international interest and has thereby become an example of a successful, equitable and sustainable development initiative (Rehman, 1999). This has contributed to spreading the microcredit concept as a new paradigm for thinking about economic development and a potentially powerful instrument for achieving the objectives of empowering the poor and alleviating poverty.

The field of microfinance is still relatively new to Pakistan. Nevertheless, one of the advantages of Pakistan's late entry is that it can learn from the experiences of other countries. Besides successful stories of these programs, varying viewpoints on the role of microfinance and microcredit programs exist. Following is the selection from the recent literature concerning microcredit.

In a recent review article, Morduch (1999) evaluates three internationally reputed microfinance institutions; the Grameen Bank (Bangladesh), BancoSol (Bolivia) and Kredit Desa (Indonesia). He concludes that the microfinance movement has made inroads around the world. In the process, poor

households are being given hope and the possibility of improving their lives through their own labour. However, he argues that the 'win-win' rhetoric, promising poverty alleviation with profits, has moved far ahead of the evidence, and even the most fundamental claims remain unsubstantiated. He, further comments that even in the best of circumstances, credit from microfinance programs helps fund self-supplement income for borrowers rather than to drive fundamental shifts in employment patterns. The best evidence to date suggests that making a real dent in poverty rates requires increasing overall levels of economic growth and employment generation.

Yaron, Jacob et al (1998) investigated the economic viability of microfinance institutions. They critically analyse the traditional and new approaches for providing rural credit and explain the unprecedented success of the three Asian rural financial institutions that are providing rural credit in their respective countries. These are widely considered successful based on the two primary criteria of outreach and self-sustainability: the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand; the Village Bank of Bank Rakyat Indonesia (BRI-UD); and the Grameen Bank in Bangladesh. These banks have reduced or completely eliminated their dependence on subsidies. This success contrasts sharply with the traditional view that heavy subsidy is inevitable in the provision of financial services to rural entrepreneurs. The experience of these banks has shown that losses are not inevitable and that substantial and consistently increasing outreach can be achieved in rural financial markets in a self-sustaining manner. The key lesson is that rural finance could be highly profitable, even if it served low-income clients.

Hashemi et al (1996) relates microfinancing to the empowerment of women. He concludes that the Grameen Bank and Bangladesh Rural Advancement Committee (BRAC) programs that provide credit to poor rural women had a significant impact on various dimensions of women's empowerment. They do, however observe that programs that are organized only around credit are not sufficient to achieve

the goal. They suggested that gender bias could only be addressed through the confrontation of the patriarchal system prevalent, rather than solely through credit.

Rehman (1999) examines the microcredit scheme of Grameen Bank from another perspective. He states that most previous studies on the Bank's microcredit scheme have focused on quantitative indicators of the program, i.e., the number of borrowers incorporated, the amounts of loans invested among these members, and recovered from them and such. The performance of the Bank based on these indicators has established it as a successful financial institution lending to the poor, including women. His anthropological research indicates however, that the microcredit program in Bangladesh has created a new form of social and institutional repression for women. To ensure timely repayment, the bank's workers and borrowing peers inflict intense pressure on female clients. In the study community, many borrowers maintain their regular repayment schedules through a process of recycling that considerably increases the debt-liability on the individual household, increases tension and frustration among household members, produces new forms of dominance over women and increases violence in society.

3. FIELDWORK STRATEGY

Qualitative research methodology was employed for this study. Focus Group Discussions (FGD) and detailed individual case studies of loan recipients were conducted. The fieldwork was carried out during the month of April, 2000.

For the rural counterpart, focus groups were held across seven different sites/villages in two districts of Sindh: Mirpurkhas and Badin. The choice of districts was restricted due to the fact that NRSP covers only these districts in the Sindh province. The broad criteria used to identify villages included; NRSP has been active in the area for more than 2 years, the distance from the district headquarter, and the

majority of the community belonging to low income groups. Overall six group discussions were held from both districts. Further, two detailed, individual borrowers= interviews were also conducted to strengthen the arguments provided by group participants.

Two borrower groups (one male and one female), comprising four members each were interviewed in Orangi Town, Karachi (a peri-urban area). Besides FGD, six individual female borrowers were also consulted for a detailed case study.

Group interviews were conducted with the help of a checklist of various aspects of the study. A brief summary of issues is given below.

- ! Access to credit is an important issue to confirm the entry of the poor into microcredit programs. Various questions regarding access and entry procedure were put before the participants of groups. The aim was to search for any difficulty or discrimination against poor men or women entering the scheme. Procedural riddles in granting and receiving loans were also inquired about, with emphasis on various loan sizes.
- ! Methods and problems in repayment of loans were discussed with the participants. Sources of repayment, the time frame, penalties in case of delay etc., were some of the important aspects highlighted in the interviews. The group participants were also questioned about loan sufficiency and utilization.
- ! The participants were asked to outline the direct impact of credit, if any, on their production capacity, employment and income.
- ! Their perceptions of the subjective poverty line was also ascertained. Appropriate locality-specific terms for wellbeing or poverty were discussed informally with the groups to convey their sense of well-being.

! In the context of existing institutions responsible for poverty alleviation, groups were asked how they cope with the sudden financial crises and which strategies they use to survive. They were then asked about the expectations and role of existing social safety nets. It was specifically asked which institutions from among the three: micro-credit, Social Action program (provision of schools, education, roads, safe water etc) and Zakat play any role in providing social security to the poor, and which among these is more effective in poverty reduction in the light of their own experience, needs, and expectations.

4. MAJOR FINDINGS

The picture that emerged after group discussions and individual case studies of loan recipients is portrayed, separately for both rural and urban areas.

4.1 Microfinancing in Rural Areas:

NRSP is emerging as an important source of small loans in rural areas. Initially, officials of organizations visited different villages and communities for motivating people to form Community Organizations (COs). Now, their reputation as a credit agency is rapidly emerging in the sample area. People in different villages are forming COs themselves and contacting the NRSP for loan requests. The participants of the focus groups loudly praised the role of NRSP. According to them, the organization has enabled the poor to express their problems openly and to think collectively. General remarks suggested that NRSP was giving participants an identity and consciousness of their worth and importance.

Praise for the organization was balanced with the complaint that NRSP does not have the vision it initially advocated. Adequate attention is not paid to agricultural extension, new cropping techniques,

and other social and economic issues are not discussed either. The participants pointed out that during the current cyclone NRSP did not provide the necessary support.

Access to Credit: The participants agreed that there is no difficulty for the poor to become members of the COs. However, the scheme requires that to receive a loan the borrower must be trustworthy and able to pay back his loan. To avoid default, members do not recommend their loan applications until the group is satisfied with their business plans and the repayment capacity of the loan.

The discussion with different groups suggests that the main beneficiaries of these loans are relatively resource rich personnel, rather than the poorest of poor in the communities particularly those who have proven capacity, like land, livestock etc, to repay the loan amount. Further ability to pledge the one-fourth amount of the applied loan is also a prerequisite. Primarily, it seems that these conditions adversely affect the poorest groups in the community.

The procedure for loan application seems very simple for the applicant. The transaction cost for receiving a loan is told to be rather minimum at RS. 150-200 per loan. There is no evidence of applicant discrimination with regard to the size of a loan grant and its approval. Moreover, the applicant does not need to make an inquiry about the progress of the loan application. An activist in every CO is responsible for approval, disbursement and repayment, and is paid 2% commission on the principal amount by the NRSP.

Repayment Strategy: The repayment period depends upon the nature of the loan. For agriculture loans, it depends upon the maturity period of the crop. For instance, for wheat, cotton, chilies and other vegetables the duration of repayment is six months. For sugarcane it is for 12 months. Similarly the repayment period for livestock varies from 12 to 24 months.

In general, the groups had the view that the repayment period is realistic in most cases. However, there were complaints that the repayment period for livestock should be increased, as there is too much pressure on borrowers to repay the loan. Some members stated that they pay installments from other sources of income rather than through loan utilization.

Loan utilization and Sufficiency: The amount of the loan is considered to be very small. The main advantage of this could be to exclude the well being from the scheme. However, the amount seems insufficient even to support the cultivation of two acres of sugarcane. Similarly, it seems inadequate to support other income generating activity, like the purchase of livestock etc. All groups held the opinion that presently the loan size is insufficient for their needs.

The incidence of obtaining loans from other sources was low. Local traders, moneylenders and livestock sale proceeds are some other alternative sources. It was established that the Agriculture Development Bank loans are not possible for them. Moneylenders and traders charge very high interest rate. In addition, the traders/money lenders purchase their crop below the market rate.

On the question of whether the NRSP can detect if the loan is utilized for other purposes other than it was acquired for, or not held a mixed response. The response of three groups (out of six) suggests that the NRSP has very strong social relations with the community. So, if the loan is used for any other purpose the organization is informed through its social contacts.

Credit Impact: There seems to be a positive impact of the credit received and other services on borrower income. This is due in particular from the timely use of inputs. It was emphasized that the members are now able to purchase inputs on time, and use them appropriately and effectively with the

support of the organization. There were examples in the groups where borrowers experienced significant increase in their income from improved yields through timely application of inputs, production and livestock income from the credit facility.

Further, it is also emphasized that their dependence on the local moneylender/trader declined with the loan facility. Now members are able to get market prices for their crops.

Poverty Perception and Trends: There was a general consensus among the groups that poverty and inequality has increased in recent years. The main causes of poverty, as mentioned by the participants of focus groups, includes low wages, large family size, high unemployment, inflation, degradation of land, poor infrastructure, and contractual arrangements between landlords (*zamindar*) and farm operators (*hari*).

Perception of Existing Interventions: Concerning the existing institutions responsible for poverty alleviation, groups were asked how they cope with sudden financial crises and which strategies they use to survive. In response, informal institutions at the time of financial crises were ranked high. Relatives, friends and non-governmental organizations were presented as options. State institutions were ranked last.

Among the existing social safety nets, Zakat was ranked lowest and deemed insufficient for providing social security or reducing poverty.

Microcredit was also not considered as an effective tool for poverty reduction. The counter question was, how these small loans can reduce poverty without addressing the larger issues? It was emphasized, however, that microcredit prevents descent into the poverty trap.

Considering poverty reduction, the role of state was mentioned very clearly. In their opinion the government should address larger issues, such as improvement in road infrastructure, improvement in the quality and quantity of primary schools, the establishment of health facilities, improvement in irrigation water etc. rather than relying on microcredit or Zakat to reduce poverty in the country.

4.2 Micro Enterprise Credit in Urban Areas:

Currently, the OPP Orangi Charitable Trust (OCT) provides finances to micro enterprises that are located in the Orangi area. Only a resident of Orangi with a running business, having his/her own investment involved in the business, could receive a loan upon giving a guarantee of one regular/good client of OCT and two witnesses. Any person who wants to establish a new enterprise cannot qualify for the loan. These criteria are adopted to minimize the risk of default.

Ease of Access: The respondents termed the access to loans from commercial banks, as difficult, whereas, relatives and friends usually cannot be relied upon to lend their money for long periods of time. Such a situation rendered borrowers no other option except OCT. Participants were of the opinion that if they were able to fulfill the specified criteria, access was not difficult. However, female recipients complained about some logistical difficulties.

Loan Monitoring and Recovery: The Orangi area is divided into various sub sectors and a field supervisor is appointed for each area. The supervisor must be the resident of his/her designated area

and should be familiar with most of the people. Respective field supervisors visit sites regularly and observe the performance and progress of borrowers. The supervisor is also responsible for the recovery of loans and collection of monthly installments.

Penalty for Default: According to the representative of OCT, heavy emphasis is placed on timely repayment of loans. However, if payment is delayed, the mark-up is increased automatically as it is charged on a daily basis. If default is committed intentionally, legal action is sought. No further loans are given to a defaulter unless he clears his account with OCT. Moreover, the guarantor of a defaulter is not sanctioned any further loans either. Due to this restriction, people do the utmost not to take the responsibility of those persons about whom they are even slightly doubtful. They know any wrong guarantee will hamper their future borrowing prospects from OCT.

Loan Utilization and sufficiency: The loan amount is sufficient only for a very small business. The maximum loan amount is Rs.50,000 which is meager, keeping in view the current cost of setting up a new enterprise in urban areas. Only those borrowers, who have no other sources of credit come to OCT. Usually they can fulfill their remaining credit needs from their own savings and rarely borrow from other sources.

Respondents claimed that they usually spent the loan money on their business needs. Some times when an unforeseen situation such as disease, marriage or house repairing/building occurs, the loan money is used and the loan is repaid from other sources. For instance, it was discovered during the survey that one defaulter had spent all her money on the marriage of her daughter. Interestingly enough, OCT does not have a check on the utilization of loans.

Repayment Strategies: In most cases, participants of groups claimed that the loan is repaid from their business or income generating activities. People say that they do not want to impair their relationship with OCT and decrease their future prospects for receiving new loans. Hence, they try their best not to delay or default. As far as the repayment period is concerned, it was agreed that the repayment period should be increased. Repayment in a maximum of 12 monthly installments exerts a significant amount of pressure on them and causes tension and unrest in their families.

Credit Impacts: A positive impact of microcredit has generally been perceived. Many recipients succeeded in having a flourishing business. According to borrowers, production capacity increased in the form of more raw materials and longer working hours, depending upon the nature of the business. Borrowers claimed that their standard of living improved as well.

Dependence on Credit: It was observed that borrowers have become habitual and dependent on receiving loans. They continue to take loans from OCT, even after their enterprises were established. On the other hand, OCT seems to be more comfortable and secure undertaking business with old clients in order to minimize the risk of default. Evidence clearly indicates the diversion of emphasis from poverty reduction to risk minimization (sustainability).

Poverty Alleviation: Respondents categorically insisted that for poverty alleviation, growth, investment and employment opportunities are imperative. They all felt that people desire regular employment to make them independent and economically secure. Participants also elaborated that microfinancing could become one source for poverty alleviation, but its scope and access is very limited. Similarly, other social safety nets such as Zakat and food stamps, in their view, cannot be the solution for poverty eradication.

The construction of roads, schools and hospitals was not considered as important as economic growth, perhaps due to the low standard of government provided facilities.

Female Empowerment: The answer to this question is apocryphal. Among the group of females, only one woman was vocal. Others seemed either disinterested or were in agreement with the more eloquent women. Further research is needed to investigate this issue.

However, there are indications of a positive attitude of husbands of female borrowers. One of the participants said that her husband used to treat her badly and often beat her. But now (eight years since she has been receiving loans from OCT) his behavior has changed. Her husband also seeks her advice while making relatively major decisions. Now she has complete liberty in moving out, even to other cities to market her product. Moreover, she is free to spend money. She, too, never forgets to remind him that **A** Look this business is mine and all that you do is the selling **A**.

5. CONCLUSIONS

Non-Governmental Organizations (NGOs) and microcredit are increasingly becoming popular tools in the anti-poverty strategy in Pakistan. The role of donors in providing financial assistance to NGOs further raised the hope that the microcredit is the primary, if not the only tool for attacking poverty and inequality. The following are relevant conclusions to be drawn from the research undertaken:

- ! The programs are inefficient in terms of targeting the poor, as no mechanism for identifying the poor is available.

- ! Access to credit is denied if a person has no repaying capacity, implying the neediest are not eligible for loans.
- ! Access to credit for women is encouraged, but cultural practices impede and women generally do not borrow.
- ! The programs are inadequate, due to the small loan size which is insufficient to fulfil the minimum cash requirement for cultivation, livestock or business.
- ! Borrowers are compelled to repay the loan in a very short time period, especially in the case of urban micro entrepreneurs. This repayment strategy creates social problems.
- ! Besides a high recovery rate and less defaults, the mark-up rates are higher than the formal sector loan.
- ! No organizational mechanism to check whether the loan is utilized for the purpose stated exists.
- ! A saving mechanism is absent and the microcredit programs are not working as financial intermediaries.
- ! Technical guidance and assistance from microcredit programs is either insufficient or non-existent.
- ! The borrowers, however, perceived positive changes in terms of income generating activities and improved cash flows.

There is a need for a detailed review of the existing microcredit programs in order to achieve the maximum benefits of this important poverty alleviating effort. However, these should not be relied upon as a sole instrument. Further, other interventions, such as public works programs, social action programs, investment in rural and urban infrastructure etc. should be given more consideration in a poverty alleviation package.

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ANNEXURE
The Profile of Selected Organizations

NATIONAL RURAL SUPPORT PROGRAM (NRSP)

Introduction: The National Rural Support Program was registered in 1991 as a non-profit public company. The program is a replication of successful programs of AKRSP in Northern areas of Pakistan and the rural microcredit program of the Grameen Bank in Bangladesh.

The main strategy of the credit program is to decentralise operations at different regional levels. The regional offices of the NRSP are autonomous for the appraisal and disbursement of credit cases. The program is operating in 11 regions (6 in the Punjab province) and covering 21 districts of Pakistan and Azad Kashmir.

The Government of Pakistan is the primary donor that provides credit to NRSP. The United Nation Development Program and Save the Children Fund also provide assistance. A major breakthrough in the financing of NRSP occurred in 1997 after its partnership with Habib Bank Limited was established and the institutional collaboration provided an improved credit line.

The Objective: Rural credit is a cornerstone of NRSP strategy. The objectives of the program include; the improvement of living standards of rural people in the country, poverty reduction, community mobilisation and participation in different development projects.

Performance: Since its inception in 1991 till 1999, NRSP has disbursed approximately 1588 million rupees to 192 thousand borrowers. Loans were mainly provided for agriculture inputs (51%) and for livestock (26%). The regions that had dominant number of borrowers included Vehari (28%), Rawlapindi (17%) and D. G. Khan (15%). The following table presents the summary of NRSP operations.

Type of Loan	Credit	Loan Size (Mean)	Recovery	Credit to Female (%)
	Disbursed (Million Rs.)		Rate (%)	
Agriculture Inputs	909	15000	98	1
Livestock	362	18000	91	38
Enterprise Development	276	21000	90	17

Small Infrastructure (SIIE)	41	22000	94	12
Overall	1588	19000	95	13

Loan Management: Social collateral, i.e. peer pressure from the community organisation (CO) is used as the main force for ensuring proper utilisation and recovery of credit as opposed to complicated legal documentation and physical collateral. The credit is extended to individual borrowers through the group (CO) and, at least one activist in each CO is trained as a credit manager to enable the CO to manage further lending at the local level. The field staff of NRSP, i.e. Social Organisers at the regional level and a trained member of the group head the implementation of the credit program.

The eligibility criteria for receiving a loan include: a three months old membership of the CO, regular attendance at CO meetings, support and the lack of objection from all members of the CO, and a saving equivalent to one forth of the loan amount applied. NRSP targets farm owners who have less than five acres of land, landless labour and unemployed youth, who are willing to work but are not able to get an off-farm job.

Main features of the credit policy of NRSP are given below:

Type of Loan	Utilisation	Maximum Loan Size	Credit Period	Repayment Installments
Agriculture Inputs	Seed	Rs. 15000	12	Monthly
	Fertilizer		Months	
	Chemicals			
	Feed/Fodder			
Livestock	Livestock	Rs. 30000	24	Monthly
	Development		Months	
Enterprise Development	Working Capital	Rs. 30000	24	Monthly
Small Infrastructure (SIIE)	Development of productive Infrastructure	Rs. 30000 to	24	Monthly
		Rs.300,0000	to 60	Quarterly
			Months	Six-Monthly

ORANGI PILOT PROJECT (OPP)

Introduction: Orangi Pilot Project (OPP) has been working in Orangi, a low-income settlement on the periphery of Karachi, since April 1, 1980. Orangi township at that time was the largest Katchi Abadi in Karachi and in Asia as well. It covers an area of over 8,000 acres and has a population of over one million. The population is mixed, consisting of mohajirs (immigrants from India), Biharis (immigrants from Bangladesh), Pathans and Punjabi immigrants, and local Sindhis and Balochis. The majority of the residents belong to the working class. They are day-labourers, skilled workers, artisans, small shopkeepers, pedlars, and low-income white collar- workers.

OPP analyses the outstanding problems of Orangi, and then, through prolonged action research and extension education, discovers viable solutions. Instead of carrying out the development work, the project promotes community organisations and cooperative action, and provides technical support to such initiatives. The OPP has been operating a number of programs. These programs include a low-cost sanitation program, a housing Program, a Basic Health and Family Planning Program, a Program of supervised Credit for small Family Enterprise Units, an Education Program, and a Rural Development Program in the villages around Karachi.

In 1987, after six years of acquiring intimate knowledge of Orangi, the OPP decided to establish an Orangi Charitable Trust (OCT) for giving credit to family units. Instead of depending upon formal loans, OCT borrows from scheduled banks, according to current rules and without any concessions, and then lends to family units without harassment and bribery, rep tape or collateral.

The Objective: OCT's objective is not simply to alleviate poverty through loan giving and credit extension. On the contrary, OCT claims to provide adequate capital to emerging family enterprises so that they can expand their businesses. With OCT's loans the micro entrepreneur receives additional investment and working capital to purchase equipment and raw material, thus increasing production, reducing costs and permits employing more workers. Those who prosper become role models and teachers for relatives and neighbours.

Performance: From 1987 till 1991 loans were only given in the Orangi area. In 1990, one of the main donors urged OCT to extend help to micro entrepreneurs living in areas outside Orangi. Their donations made it possible to issue loans to small entrepreneurs living in Karachi city, to small farmers, herders and traders of Karachi Goths (villages) and to NGOs in Sindh and Punjab districts. A summary of the credit performance is given in the following table.

Loans, Recovery and Mark-up till November 30, 1999

	Orangi	Outside Orangi	Total
Loans (Million Rs.)	82.36	55.32	137.68
Accounts Open	4,497	2,534	7,031
Accounts Closed	3,700	2,040	5,740
Accounts in Balance	797	494	1,291
Principal Repaid	84 %	76 %	81 %
Gross Mark-up	22 %	23 %	23 %

Loan Management: Initially the approach of formation of cooperative societies was thought to be a suitable approach for the Orangi entrepreneurs. However, the result was an utter disappointment. Loans were therefore given to individual entrepreneurs, selected and supervised by OCT managers. In order to prevent the collapse of the program, the number of loanees as well as supervisors was reduced and restricted.

After four years of working with NGOs and other groups (credit for outside Orangi and outside Karachi), OCT was disappointed again and decided not to expand its loan operations with other NGOs for the next few years.

According to current policy, only a resident of Orangi with a running business having his/her own investment involved in the business can receive a loan upon giving a guarantee of one regular/good client of OCT and two witnesses. Any person who wants to establish a new enterprise cannot qualify for the loan. This criterion is also adopted to minimize the risk of default.

The application form for new entrants is available only after the verification by one Good Client. The application form contains all the relevant information regarding the size of the business, fixed capital stock, number of workers, previous amounts of loans, purpose and utilization of loan, etc. The respective field supervisors make background checks and verify the information provided in the forms. After that, the applications are sent to the loan committee whose meetings are held regularly.

In the beginning the loans were given interest-free. Later, as a result of frequent defaults, mark-up was started. Initially it was 41 paisa per day per thousands. The current rate, however, is 55 paisa (equivalent to 19.8 percent per annum). The first loan is of Rs.5,000. However, in some cases a loan worth Rs.10,000 is also given depending upon the need of the business. The second loan is generally of the amount Rs.20,000 and so on. The maximum amount is Rs.50,000.

The Orangi area is divided into various sub sectors and a field supervisor is appointed for each area. The supervisor must be the resident of his/her designated area and should be familiar with most of the people. Respective field supervisors visit sites regularly and observe the performance of the loanees. The supervisor is also responsible for the recovery of loans and the collection of monthly installments.

Abstract

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