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Microfinance Services for rural agriculture in Pakistan and Bangladesh

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Uppsala 2011
EX0681 Master Thesis 30 hp
Swedish University of Agricultural Sciences

A cross-national comparative study of Microfinance services for rural agriculture in Pakistan and Bangladesh

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Keywords: Microfinance, Rural, Agriculture, Pakistan, Bangladesh

Thesis No

EX0681 Master Thesis in Rural Development and Natural Resource Management, 30 hp, Master E, Uppsala, 2011
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Abstract

Microfinance is becoming a tool of poverty reduction in Pakistan and Bangladesh, given the high *rates of poverty in these countries. Poverty is greater in the rural agricultural sector where peoples' livelihood is dependent on agricultural activities.* Furthermore, the agricultural sector in the two countries is still underdeveloped. This study examines the role of agricultural microfinance services and products to assess whether microfinance is contributing to rural agriculture and rural development in Pakistan and Bangladesh, where a majority of the populations are located and their livelihood dependent on agriculture. Accordingly, the study examines rural agricultural needs and demands in the two countries and the role of microfinance in addressing them. Mostly based on secondary data sources, the study compares the two countries along certain indicators generated by the framework developed. This framework integrates the concepts of rural agriculture, rural development, poverty reduction and microfinance, which serves as the analytical toolkit. The study shows that the two countries share similar characteristics in terms of rural agriculture, rural development and even needs of this sector. The analysis of specific indicators reveals differences between the two countries in terms of microfinance outreach. One of the conclusions is that microfinance is more developed and extensive in rural outreach in Bangladesh than in Pakistan.

Key words: Microfinance, Rural, Agriculture, Pakistan, Bangladesh

Acknowledgement.

“In the name of Allah, the most Gracious, the most Compassionate”

I would like to express my gratitude to all who support me from the beginning of my studies until its completion. Particularly, great thanks to my beloved parents, prayers from my mother, moral and financial support from my father. Thanks for giving me the best education possible, and for giving me the strongest wings to fly.

I would like to give special thanks to my supervisor Akhil Malaki because this study would have not been completed without his guidance and friendship, and for sharing his vast experience with me. Because of this I ended up learning much more than I would have otherwise. I would also like to give thanks to the persons in the MFIs for providing me data to finish this study.

In the end I would like to thank my brothers, sister, relatives and friends. Whose eternal prayers and support encourage me to obtain my degree from Swedish University of Agricultural Sciences (SLU) Uppsala, Sweden.

Abbreviations

| | |
|-------|--|
| ADBP | Agricultural Development Bank of Pakistan |
| AKAM | Agha Khan Agency for Microfinance |
| AKDN | Agha Khan Development Networks |
| AKRSP | Agha Khan Rural Support Programme |
| BDT | Bangladeshi Taka |
| BRAC | Bangladesh Rehabilitation Assistance Committee |
| CGAP | Consultative Group to Assist Poor |
| FMCO | Female Mobile Credit Officer |
| FMFB | First Microfinance Bank |
| GAPs | Good Agricultural Practices |
| GB | Grameen Bank |
| GDP | Gross Domestic Product |
| GoB | Government of Bangladesh |
| GoP | Government of Pakistan |
| MDGs | Millennium Development Goals |
| MFIs | Microfinance Institutions |
| NGO | Non-Governmental Organization |
| NRSP | National Rural Support Programme |
| OPP | Orangi Pilot Project |
| PMN | Pakistan Microfinance Network |
| PPO | Pakistan Post office |
| RSPs | Rural Support Programmes |
| SME | Small and Medium Enterprises |
| VOs | Village Organizations |
| WB | World Bank |
| WHO | World Health Organization |
| ZTBL | Zarai Taraqati Bank Limited |

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Chapter 1

1.1. Introduction.

This study is about poverty in rural agriculture in Pakistan and Bangladesh and the role of microfinance in poverty reduction. The two countries are predominantly agricultural where poverty is a persistent phenomenon. Both countries have taken many initiatives to increase the income level of poor people and poverty alleviation with the goal of halving poverty by 2015. Microfinance is one of those initiatives taken by public and private sectors in both countries. The question is whether rural microfinance addresses the needs of the rural poor in these two countries.

Poverty persists in many developing countries of the world despite development in global trade and major enhancement in agricultural productivity through green revolution. About 20 percent of 1.2 billion peoples live in severe absolute poverty earning less than US \$ 1 per day (FAO 2007; WPS 2009). Approximately 60 to 70 percent poor are living in rural areas in developing countries of the world and they are mainly dependent on agriculture for their livelihood (Thirtle et al 2001:4; Mahajan & Ramana 2004:3). Agriculture is the backbone of developing countries of the world and this sector has an enormous potential to support the agricultural growth and economic growth and can also reduce poverty (Zeller 2003:16). Not surprisingly, poverty reduction has been associated to the agricultural performance particularly to the rate of growth of agriculture production (DFID 2004:4). In spite of the main input from the agricultural sector to the economy, the rural sector in developing countries is still underdeveloped and people living in rural areas are generally poor.

Rural agricultural development is important for poverty alleviation through increase in agricultural production, performance and growth. The World Bank emphasize the significance of agriculture sector in reducing poverty, “GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth originating outside agriculture” (WDR, cited in Roux 2008:16). Therefore, it demands more attention to support the small-scale farming or microenterprises (Zeller 2003:18). Despite the number of initiatives (subsidies for input material, micro credit, social and extension services), poverty still exists as a major rural problem and agriculture production is primarily central to rural livelihoods (DFID 2004:10). The Strategic Framework of IFAD (2002-2006:9) identified that there are three key areas for the achievement of MDG’s in rural areas: “strengthening the capacity of the rural poor and their organizations; improving equitable access to

productive natural resources and technology; and increasing access to financial services and markets”.

Many developing countries have initiated different poverty alleviation programmes to increase the livelihood of poor people. Among these initiatives is availability of sustainable microfinance (MF) services for poor rural farmers, particularly microfinance for agricultural entrepreneurs as it has a significant role in uplifting their income and thus is seen as an effective means for reducing poverty (CGAP 2003; Andrews 2006:5).

The concept of microfinance is not new but the term is new. Its originates for instance in European countries in 18th and 19th century, 16th century in Nigeria and 1000 BC in India (Ibid). Informal moneylenders were performing the role of formal financial institutions. Microfinance is a provision of a wide range of financial services like savings, credit, payments and insurance for rural people, micro-enterprise, small farmers and agriculture processing units (Andrews 2006:2-3). The term microfinance was used for the first time in 1990 with the precise connotation which covers the microcredit and micro savings and other financial services (Seibel 2007:12-13). Microfinance can be described as a credit which is provided to ‘poor’ free from collateral through institutions, this means that credit is available ‘as and when’ needed by the poor at their door steps (Bajwa 2001 cited in Bashir et al 2010:1382).

1.2. Purpose of study and Research Questions

The aim of the thesis is to explore the economic and social impacts of the Microfinance (MF) services in Pakistan and Bangladesh and also compare the scope and depth of these services between the two countries. In addition to the research the following research questions emanate.

- i) What are the scope and depth of Microfinance (MF) services in Pakistan and Bangladesh?
- ii) If and how have the Microfinance (MF) services been able to eradicate or mitigate the following rural problems in Pakistan: rural poverty, economic and social vulnerability, livelihood diversity and female subjection?

1.3. Outline:

This thesis comprises seven chapters. Chapter one provides an introduction to the problem of rural poverty and the role of microfinance in reducing rural poverty in Pakistan and Bangladesh. Chapter two discusses the relationship between agriculture and poverty. Chapter three looks at microfinance as a rural poverty mitigation strategy. Chapter four explains the method used for this study. Chapter five explains the Microfinance services and products in two countries. Chapter six empirically

investigates the relationship between microfinance and rural poverty mitigation in the two countries. And finally, chapter seven draws some inferences from the study.

Chapter. 2. Rural Agriculture, Poverty Alleviation and Microfinance

Historically, poverty has been associated with income and its distribution, which remains the core concern even today (Mellor 1999:4). People who are deprived of income and other sources for the basic necessities of life i.e. food, goods material, resources, social services, that enable to any citizen to play the role to meet the obligations and contribute in connection and customs of their culture (UNDP 2006:5). Poverty is generally measured along several measures: sufficient health and dental care, housing, education, employment opportunities, food per caloric intake and recreation (ACOSS 2010:1). Measured along these dimensions, it is now established that 1.2 billion people are living in extreme poverty in the world which mean per day earning is less than \$ 2 per day (CGAP 2005:1; WPS 2009: Godoy & Dewbre 2010:6). 75 percent are living in rural areas and most of them are mainly dependent on agriculture, forestry and fishery for their livelihoods (Stamoulis & Anriquez 2007:1). Majority of poor people are living in rural areas of the developing countries and have inadequate resources to come out from this dilemma. Developing countries are mainly dependent on agriculture and it has been observed through different studies that this sector is lacking strategic planning, basic infrastructure, good agricultural practices, knowledge and entrepreneurial skills (Mellor 1999:40).

Agriculture in many parts of the world is the major source of income to the households. Many scholars consider agriculture an important factor for development. Agricultural growth benefits the rural poor as well as urban poor through reduced prices of agricultural food products and has a trickledown effect (Mellor 1999:13). Agricultural growth has an enormous effect on the industrial growth because this sector is providing raw material (Thirtle et al 2001:5). Theodore Schultz was an American economist who was awarded Nobel Prize in Economic Sciences in 1979 has commented about the importance of agriculture and poverty at the Nobel Prize ceremony in the following words; “Most of the people in the world are poor, so if we knew the economics of being poor we would know much of the economics that really matters. Most of the world’s poor people earn their living from agriculture, so if we knew the economics of agriculture we would know much of the economics of being poor”.

Thirty years have passed but we still can see that the livelihoods of people living in developing countries depend primarily on agriculture. They are much poorer than people who are working in other sectors and have significant share in economy. Hence, the question of poverty alleviation from rural areas must be addressed in public as well private sector policies. Once the poverty will be

eliminated from this sector, the farmer will be more productive and progressive or vice-versa. This sector can contribute more than its current share to the economy.

2.1. The rural sector in Pakistan

Pakistan is one of the densely populated countries of the world with a population of 169.9 million. The poverty rate of the country is about 24 percent and 64 percent of the population live in rural areas (GoP 2009:236). Agriculture contributes to almost 23 percent of the country's Gross Domestic Product (GDP) and employs 42 percent of the labor force. (GoP 2004-2005:9; cited in Jan et al 2008:2). According to the LSMS¹ study conducted in 2004-05, 23.9 percent poor live in rural areas and 14.94 percent live in the urban areas (GoP 2006:55). The agricultural sector is still underdeveloped and poverty rates are much higher than urban areas. There are a plenty of reasons behind the prevalence of poverty in agriculture sector of Pakistan. According to a Poverty Reduction Strategy Paper (PRSP-2003), the major cause of poverty is reduced agricultural production, limited access to land and non-standard prices of agricultural commodities (Zaman et al 2010:303). Furthermore, marketing and communication infrastructure is quite weak; many farmers are still dependent on traditional farming techniques and lack knowledge about new cropping techniques. Many studies have demonstrated that almost all low income countries are dependent on agriculture which is the major source of livelihood (Mellor 1999:1; Timmer 2005:3; Jan et al 2008:6).

Since the main concern in Pakistan's development plans is to alleviate poverty, many initiatives have been taken so far to alleviate poverty. Poverty alleviation strategies entail strategic planning, right to participate or say, political liberty, health and education. More specifically, poverty reduction strategies are also development which enables rural poor to combat with poverty by increasing incomes generating opportunities. In this regard, the Government of Pakistan (GoP) has initiated several rural development projects. Microfinance is one of the poverty reduction strategies projects which can play an important role in improving rural income and improve agricultural production. Microfinance has a significant role in Pakistan's rural developmental projects. It has become an important factor in creating self-reliance, productive activities, reducing poverty,

¹ LSMS - Living Standard Measurement Survey. This survey encompasses education, health and healthcare facilities, pre and postnatal care, health and sanitation and household assets. It also contains the components of former household income and expenditure survey.

engaging households in economic and creative activities (Jamal 2008:2). The microfinance market of Pakistan can be classified in formal market and informal markets. The Formal market consists of public and private commercial Banks, Microfinance Institutions (MFI's) e.g. Zarai Tariqiate Bank Limited (ZTBL) formerly known as Agricultural Development Bank of Pakistan (ADBP), commercial banks, different Rural Support Programmes and other cooperatives which are executing their activities around the country. Informal market comprises of commission agents, input providers, village shop keepers, friends and relatives who provide credits for the rural population (Bashir et al 2010:1382). The role of these formal and informal MFIs in poverty reduction in Pakistan and Bangladesh are discussed in following chapter.

2.2. The rural sector in Bangladesh

Bangladesh is one of the most densely populated countries in the world with a population of 153 million. The poverty rate in Bangladesh is much higher than Pakistan with 42.3 percent living under the poverty line (BES 2002:17). Most of the poor live in rural areas and are engaged in agricultural activities (Rahman & Islam 2003:10). This sector still remains the single largest sector which is providing livelihood to more than 60 percent of the country's population. The share of agriculture to the GDP is the highest regardless of the decline from 50 percent in 1970s to about 25 to 30 percent at the end of the century (Ibid:11). Hence, it is clear that the growth or decline of the agricultural sector plays a major role in the development of the country. In spite of all these progressive numbers, poverty still persists and a large part of the population continues to live under the poverty line. About half of the country population is living under the poverty line (Narayan et al 2007:2; BWTP 2009).

The financial system of the country consists of formal, informal and semi formal financial service providers (Narayan et al 2007:10). The formal sector consists of public and private banks, microfinance institutions (MFIs), and the informal finance is provided by moneylenders, pawn brokers and various rotating savings and credit associations (ROSCAs). Whereas the semi-formal financial sector is comprised of NGO microfinance programmes, government microfinance programmes and also savings and credits associations (BWTP 2009: 9-10). The government of Bangladesh has taken many steps at the macro level to alleviate poverty. The government also took many initiatives with the collaboration of private sector to address the needs of the rural poor by extending rural microfinance. Rural microfinance is the key strategy of poverty reduction and to empower the poor. Studies reveal that growth of the rural sector has greater impact on poverty as

compared with urban growth. The growth of the rural agriculture sector is directly related to the country's economy and poverty reduction. No country has been able to manage quick transition out of poverty without increasing agriculture productivity (except Singapore and Hong Kong) (Timmer 2005:3).

2.3. Agricultural poverty and microfinance

Poverty is a universal issue and in order to alleviate poverty in the world all developed as well as developing countries have already taken so many initiatives. Poverty alleviation is very vast and broad issue that comprises government policies, education, health care, rural infrastructure, employment opportunities, provision of credit and financial services (Mellor 1999:39-40; Timmer 2005:5). Because in this technologically advanced era the farmers must have knowledge of crop variety, weather, fertilizer etc. to maximize production and profits. Rural infrastructure is necessary to transport the products to main agricultural markets. Provision of credit and financial services is one of the key strategies of poverty reduction which increases the confidence of poor to take initiative to start new microenterprises in developing countries. Therefore, the features of the policy have strong potential to alleviate poverty from any poor country (Sen 1999:87).

Many International donor agencies' first agenda is to alleviate poverty. Many projects are being operated under the bilateral and unilateral agreements with other countries. Poverty reduction is a main planning instrument in development and there are number of poverty reduction strategies. It is not possible to address all strategies separately in this limited study. However, this study recognizes microfinance for rural agriculture as an important strategy for poverty reduction in the rural agricultural sector (Kiiru 2007:3). Furthermore, the focus here is on the role of microfinance services in poverty reduction in the rural agricultural sectors of Pakistan and Bangladesh. The majority of poor people live in rural areas in both countries and are directly or indirectly dependent on agriculture for livelihood.

Poor households are stuck in the vicious cycle of poverty; their resources are locked up in inefficiency, including their best resource which is their "labour". There are a couple of reasons and one of them is financial liquidity constraints. For example, these poor peasants might have more family members willing to help in agricultural farming. But if they cannot afford improved crop varieties and better farm inputs, therefore, becomes inefficient and unproductive. Many governments and donor agencies regard that lack of financial services as one of the most important factor hindering poor households from efficient and successful production.

Agricultural finance has the unique features of supporting a large number of rural populations in developing countries and to reduce poverty. On the one hand, it provides people the possibility to

gain livelihood, and on the other hand it provides the people with opportunities to live with self-respect (Bashir et al 2010:1382). It is the responsibility of the state to provide adequate policy framework for proficient and cost efficient mechanism for rural finance market to support agricultural and rural development (FAO 1998; GTZ 1998:4). A majority of peasants in developing countries have no access to any banking system or microcredit (Roux 2008:4; IFPRI 2010:4). Microcredit has the potential to play a role in increasing access to financial services and proximity between clients and cooperatives (Ibid).

Financial services to poor people, particularly from rural areas may help farmers to access new technologies and high yield varieties for agriculture production. Provision of financial services and products has trickle-down effects on the poor's livelihood. Microfinance for agriculture has the potential to address all factors which are linked to poverty reduction e.g. improved health, better education, better agricultural practices and employment opportunities. Rural microfinance products in many parts of the world are already launching innovative products especially designed to rural needs and poverty reduction.

2.4. Conclusion

This chapter has demonstrated the relationship between rural poverty and agricultural constraints. It has argued that the main constraint faced by the rural agricultural sectors in Pakistan and Bangladesh is access to financial services. The chapter has also shown that agriculture and the rural sectors constitute the largest part of the economies in terms of the countries' dependence on agriculture as well as major source of employment. I have argued that rural agricultural poverty reduction in Pakistan and Bangladesh is associated with improving income, livelihood and production where sustainable rural microfinance is a poverty reduction strategy. Poverty reduction has an indirect effect of poverty alleviation – better standard of living, education, health, and food calorie intake. The majority of poor people in developing countries in general, and Pakistan and Bangladesh in particular, are found in rural areas and their livelihood depends on agriculture. Lack of financial services seems to be an important gap in improving rural agriculture. Rural development archives reveal that farmers in both countries lack access to financial services for agriculture production and other field operations. Many impact assessment studies have been conducted in this regard and have confirmed that the intervention through microfinance has significant impact on rural household livelihood and poverty alleviation. Hence, the intervention of microfinance is inevitable for rural agriculture development and poverty mitigation in both countries. In the next chapter, I develop a framework for microfinance as a poverty reduction strategy.

Chapter 3. Microfinance as Poverty mitigation strategy: A framework of Study.

3.1. Introduction

The preceding chapter identified microfinance as an important and effective strategy of poverty reduction in the rural agricultural sectors of Pakistan and Bangladesh. The task of this chapter is to develop a framework for analysing microfinance intervention in the two countries, taking into account their respective poverty characteristics and also trying to identify the needs of the rural sector. In doing so, I try to incorporate into the framework the concepts of poverty reduction and rural development, which are inseparable in the context of the countries studied. The chapter then provides a framework of microfinance as poverty reduction. More specifically, the framework is designed to address this study's research questions stated in chapter 1.

The chapter necessarily begins with a discussion on poverty alleviation, poverty reduction and rural development to show how they are interlinked. We cannot discuss one without the other. Following this discussion, it introduces microfinance as a complementing strategy that addresses the gaps in rural development and rural poverty. It shows the microfinance products and services that are relevant to Pakistan and Bangladesh.

3.2. Poverty and Poverty Alleviation.

Poverty is a complicated, multifaceted concept. Poverty is not only about physical deprivation, it is also about less opportunity. Economists usually view poverty as lack of income or consumption. Poverty in its broadest sense, as understood in this study, adopts the following definition: "Poverty can be illustrated as deprivation of basic necessities such as food, clothing, pure drinking water, sanitation facilities, education, shelter, financial services and information" (Kakwani 2006:20). In reality, poverty is a broad term, which encompasses not only subsistence material deprivation based on income and expenditure, but several other types of deprivation like unemployment, ill health, powerlessness and social exclusion, and access to financial services (Ibid). Poverty is a core issue in the United Nation's Millennium Development Goals (MDGs). The principal measurement of absolute poverty line on the basis of income and expenditure was first time introduced in 1985 prices that the person who has earning less than US \$ 1 per day is considered to be poor (Cervantes-Godoy & Dewbre 2010:6).

Many developing countries around the world poverty situation are divided into two vast sectors; urban and rural. The important reason is to start separate plans for each type taking into consideration the essential features, core demands, basic necessities and priorities of both urban as well as rural sector. Since the rural sector has greater importance than urban sector in many

developing countries, rural development is directly interlinked with overall national development and many people have the same opinion that poverty reduction is one of the significant factors for rural development (Feroza et al 2004:14). Poverty alleviation has been one of the leading objectives of developing countries programmes and international organizations (WB 2000; IFAD 2001; ILO 2003 cited in Chaudhry 2009:23). Poverty is much concentrated in rural areas of developing countries than urban areas (Ashley & Maxwell 2001:395).

3.3. Rural Development

The concept of rural development is inseparable with poverty discussed above. The concept of rural development has changed over time as a result of changes in the mechanisms and objectives of development. Amartya Sen's "capabilities approach" explains development is about extending political/ civil liberty and participation in basic health care and education for any individual. The development initiatives are the primary responsibility of the government to provide such necessary facilities for the welfare of population (1999). The Millennium Development Goals (MDGs) are also address almost all concerns which are mentioned in rural development definition.

In late 1960 and early 1970 rural development was identical with agricultural development and the main focus was on increasing agricultural production. This focus was primarily given to the agriculture for subsidizing. During late 1970's the focus and definition of rural development revolved around providing social services and facilities to the rural poor (Fernando 2008:15). The concept of rural development today covers increasing growth, profits and output. Broadly speaking, it encompasses improvement in the quality of life, economic growth, better health and nutrition, education, environmentally safe life, elimination of gender and income inequalities and finally poverty reduction (Anriquez & Stamoulis 2007:3). Therefore, later the concept rural development has been associated with social well being of rural poor and as a prerequisite for poverty reduction. This understanding of rural development has now become intricately tied with provision/extension of financial services to the rural poor. Below, I examine the concept of rural development and agricultural sector performance in the context of Pakistan and Bangladesh.

Rural development by definition encompasses better education, gender equity, improved health, better infrastructure and prosperity, and the extension of financial services for rural households generally in developing countries and particularly in Pakistan and Bangladesh. In the case of Pakistan, rural households lack education, sanitation and health facilities, financial services and basic infrastructure (Chaudhry et al 2006:270). One of the reasons for such a high rate of poverty in the country is that some 20 percent of the rural population is landless (Ibid).

The Government of Pakistan (GoP) has already initiated many developmental programmes with the collaboration of many international institutions, Non-Governmental Organizations (NGOs) and domestic NGOs. These institutions have generally had a positive impact on the economy and the society at large. Currently, there are several public and private institutions working for rural development and overall economic development in Pakistan. Below the Table 1 reveals the total area of the country, total land as well as cultivated agricultural land. Furthermore, the area under crop production of major crops and yield per kg per hectare has been mentioned to make clearer the rural agricultural sector of the country. The under mentioned data is pertains to the year 2009-10.

Table - 1. Major Agricultural and cash crop Production during the year 2009-10.

| Country Profile (Pakistan) | | | | | | |
|-----------------------------------|--------------------|--------------------------|--------------------------------------|----------------------------|---|------------------------|
| Country Area | Total Land | Agricultural Land | Major Agricultural Production | | | |
| | | | Crop | Area (000 hectares) | Production (000 tons/ 000 bales) | Yield (Kg/Hec.) |
| 79610 (1000 Ha) | 77088 (1000 Ha) | 27300 (1000 Ha) | Wheat | 9042 | 23864 | 2639 |
| | | | Rice | 2883 | 6883 | 2387 |
| | | | Cotton | 3106 | 12698 | 695 |
| | | | Sugarcane | 943 | 49373 | 52357 |

Source: Economic Survey of Pakistan 2009-10.

The agricultural production data shows the progress of this sector in the country which is impressive. However, to be able to feed the population and increase the exports, the country has to take prompt initiatives in this regard. They need to adopt the international standard procedures for agricultural production.

The country's state of rural development is not very different from that of Pakistan. However, the microcredit concept for poverty reduction pioneered by the Nobel Laureate and founder of Grameen Bank, Prof. Muhammad Yunus, has tremendously boosted rural development. The country has been able to reduce the growth of poverty with public and private institutions and NGOs. The GoB has already started many projects to reduce the poverty and rural development. Many international and domestic developmental organizations are working to boost up the rural sector through which the ultimate goal of poverty reduction can be achieved by following the Poverty Reduction Strategy Papers (PRSPs). These initiatives are considered as milestone which leads towards achieving MDGs. Some statistical data has been shown in Table 2 concerning to the agricultural sector and major and cash crop production per kg per hectare and area under cultivation of these crops in the country. The data is giving the obvious glimpse of agricultural sector of Bangladesh.

Table - 2. Major Agricultural and cash crop Production during the year 2005-06.

| Country Profile (Bangladesh) | | | | | | |
|------------------------------|--------------------|-------------------|-------------------------------|---------------------|---------------------------------|-----------------|
| Country Area | Total Land | Agricultural Land | Major Agricultural Production | | | |
| | | | Crop | Area (000 hectares) | Production (000 tons/000 bales) | Yield (Kg/Hec.) |
| 14400 (1000 Ha) | 13017 (1000 Ha) | 9050 (1000 Ha) | Wheat | 479 | 735 | 1530 |
| | | | Rice | 10529 | 26530 | 2520 |
| | | | Cotton | 10.2 | 17.5 | 1550 |
| | | | Sugarcane | 152.5 | 5510.9 | 36160 |

Source: Bangladesh Bureau of Statistics (BBS) 2005-06.

Statistical data has been mentioned in Table 1 & 2 concerning to the agricultural sector of both countries. The agricultural data of major crop production of Pakistan pertains to the year 2009-10 while i could not obtain the data of Bangladesh agricultural sector for the same year. Therefore, the available statistical data of Bangladesh agricultural sector particularly major and cash crop production has been mentioned which belongs to year 2005-6. Both countries have impressive production in rural agricultural sector. Despite, both countries' economy primarily depends on agriculture and has shown remarkable progress in this sector, however, the rural sector of both countries is far less developed and lacks even basic facilities according to the rural development index. On the contrary, the rural agriculture sector of Pakistan is comparatively better than Bangladesh particularly in production and yield per kg per hectare. High rate of poverty is still there and many people are suffering from hunger, bad sanitation, health and education facilities and livelihood opportunities. Rural agricultural sector has essential role in the economies of both countries with prominent share in GDP. The development in rural agricultural sector has direct impact on other sector but this sector is yet under served and underdeveloped.

3.4. Poverty Mitigation/ Reduction

Poverty remains the most serious issue in developing countries. In spite of some pockets of progress over last few decades, poverty still persists in many of these countries. Poverty alleviation is still elusive in these countries since it demands proper planning along clear ideas of national development. The concept of poverty alleviation is multifaceted. The Copenhagen Summit (1995) for social development and the more recent MDGs both have emphasized the multidimensionality of poverty alleviation. The World Bank (WB) described poverty as human deprivation in education, economic opportunity, health and nutrition, empowerment and security (OECD 2001:37). The strategy for the effective sustainable mitigation of poverty and rural development require some policy elements.

Poverty alleviation cannot be addressed without understanding the needs and demands of rural agriculture. Therefore, the agricultural sector is becomes integral to rural development. The needs and demands for rural agriculture in the context of both countries Pakistan and Bangladesh are almost similar apart from (Inequality in Land Distribution in Pakistan) about 2 percent of households acquired approximately 45 percent of land area (WB 2011). Big land owners are enjoying the subsidies on water and agriculture by the government and taking benefit on agriculture growth. However, the core issues for rural poverty alleviation and agriculture development are discussed as follows. The distribution of land holding by size has been shown in Table 3 which reveals inequality in land distribution in Pakistan. Albeit, three land reforms have been introduced in 1959, 1972 and 1977, however, feudalism yet exists particularly in Punjab, Sindh and Baluchistan provinces. On the contrary, no feudalism has been observed in Bangladesh. The needs and demands for rural agriculture in the context of both countries Pakistan and Bangladesh are almost similar and has been discussed accordingly.

Table - 3. Distribution of Land by size and numbers in 2000, Pakistan

| Number and area of Holding by size | | |
|---|---------------------------|-------------------|
| | Number of Holdings | Area (ha) |
| Total | 6,620,224 | 20,437,554 |
| Government holdings | 170 | 30,772 |
| Under 0.5 ha | 1,290,098 | 362,544 |
| 0.5 and under 1 ha | 1,099,330 | 821,245 |
| 1 and under 2 ha | 1,425,370 | 1,981,277 |
| 2 and under 3 ha | 966,411 | 2,256,772 |
| 3 and under 5 ha | 890,755 | 3,442,507 |
| 5 and under 10 ha | 580,200 | 3,891,228 |
| 10 and under 20 ha | 260,791 | 3,324,310 |
| 20 and under 40 ha | 77,773 | 1,955,330 |
| 40 and under 60 ha | 15,277 | 689,070 |
| 60 ha and over | 14,054 | 1,682,491 |

Source: Agricultural Census Organization, GoP, 2000.

Agriculture productivity: Both countries are less developed particularly in agriculture sector and both are facing problem of low agricultural production. The major cause of less agriculture production is not to be benefited from new technological advances in agriculture sector and less use of high yield varieties (Ibid). Both countries are financially constrained. In this regards, both countries have to work hard in this sector because the sector is the single most effective sector which is feeding the whole country population and enhanced agriculture production has potential to meet the growing food grain demand.

Rural Infrastructure: Majority of population is living in rural areas in both countries and facing severe problems regarding transporting the farm production to big markets. Lack of communication and market infrastructure hinders the rural economic growth and poverty reduction. Since, majority of rural farmers are small land owners with less inputs in financial terms are unable to purchase advanced farm machinery and other improved inputs. In order to provide advanced inputs they must have to be financially strong and this is only possible by rural economic growth.

Health and Education facilities: Both countries are facing severe difficulties regarding health and education issues. Majority of population from both countries is illiterate. Farmer's health has a central role in farm production and education encourages them to be aware of every development in technological advances and best agricultural and management practices.

Water Resource Management: Water resource management is another prominent issue for both countries. Both countries have enough water for agricultural requirement and both countries faces same flood situation almost every year. In this regard, if both countries construct big as well as small dams to secure this water and then utilize it during the peak farming season. Both countries have to strengthen the capacity of in line ministries and departments to delimit the maximum disaster (WB 2011). Both counterparts have to work on efficient use of water in farms such as sprinkling technique and drip irrigation. This issue must be addressed as soon as early in order to secure and manage this natural resource.

Provision of Financial Services: Commonly rural agriculture sector lack financial services in developing countries. The rural agriculture sector of both countries is also facing the same crisis. Agriculture finance is one of the most famous components of agriculture and rural development strategies used by donor agencies and national governments. Similarly, the role of agriculture in the context of both countries comprises a significant part of GDP (Roux 2008:4). Thus, provision of financial services including microfinance for agriculture, small enterprises, saving and microinsurance facilities may play a vital role in boosting up the economy.

According to the definition of poverty reduction mentioned above which addresses the core issues of poverty alleviation. The focus of this study is mainly on the provision of financial services to the rural poor which seems the key strategy of poverty reduction broadly and specifically for rural agriculture in Pakistan and Bangladesh.

The facts and figures of basic indicators of rural development and poverty in Pakistan and Bangladesh has been shown in the Table – 4. The information is concerned to rural Development, rural Poverty and poverty mitigation through microfinance. The data demonstrate the development

of basic indicators for rural agricultural development, poverty and role of public and private MFIs to mitigate poverty in both countries from 2000 to 2010 to grasp and view the development progress.

3.5. Microfinance and Poverty Mitigation

The concept of microfinance was pioneered in 1970 by two modest entrepreneurs David Bassau (Co-founder of Opportunity International) and Muhammad Yunus (Grameen Bank). They both loaned their own money to poor people in Bali and Bangladesh. That small loan helped poor people to start small businesses, and with the income they were able to provide themselves and their families with food, shelter and other basic necessities (OIAL 2009:1). Microfinance basically extends financial services to the poor who for reasons of poverty or lack of collateral are excluded from the formal financial system. Some of the basic microfinance products are loans, savings, money transfer services and micro insurance. Poor people like everyone else need a wide range of financial assistance to run their businesses, building assets and minimizing risk. Microfinance has enabled poor people of developing countries to make their future by building up their microenterprises and working their way out of poverty (Ibid).

In the beginning the microfinance institutions (MFIs) offered a small business loans to poor people but have today diversified offering a wider range of products and financial services that include loan options, savings, microinsurance, housing finance, rural finance and money transfer (ACCION 2011). Microfinance is known as an innovative and sustainable solution to mitigate poverty. Currently, there are approximately 10,000 MFIs around the world that have helped around 1000 million borrowers and their families to make them economically strong (CGAP 2009). These products and services are offered by different MFIs to poor people from urban as well as rural areas. However, nearly 3 billion poor people still lack access to financial services (CGAP 2007). Some of these services, products and methodologies are discussed in detail as below.

Table - 4. Basic indicators of rural development and poverty in Pakistan & Bangladesh (2000 & 2010)

| | PAKISTAN | | BANGLADESH | |
|---|----------------------|--------------------|----------------------|----------------------|
| | 2000 | 2010 | 2000 | 2010 |
| Total pop (million) | 132,352,000 | 173,510,000 | 129,900,000 | 146,100,000 |
| Rural pop | 67.5 % | 64 % | 73 % | 73 % |
| Urban pop | 32.5 % | 36 % | 27 % | 27 % |
| Literacy level | 43.92 % | 57 % | 41 % | 43.1 % |
| % of pop below poverty line | 31 % | 24 % | 48.9 % | 41 % |
| % agri pop below poverty line | 34.80 % | Data not found | 52.3 % | 35.2 |
| % dependent on agri | 44 % | 45 % | Data not found | Data not found |
| % of agri land under irrigation | 70 % | 69 % | 1,425,580 hectare | 2,093,574 hectare |
| GPD growth rate | 4.5 % | 4.1 % | 5.6 % | 5.83 % |
| GDP/capita | US \$ 443 | US \$ 1,016 | US\$ 334.226 | US\$ 637.908 |
| Agri. contribution to GDP | 25.9 % | 21 % | 25.03 % | 20.24 % |
| Agri. Employment | 44 % | 45 % | 50.77 % | 43.6 % |
| Govt. spending on agri sector | US \$ 36.51 million | US \$ 1.26 billion | US \$ 136.39 million | US \$ 220.59 million |
| No. of MFIs * | Data not found | 30 | 352 (2004) | 503 (registered) |
| Tot. MFI funds involved (US\$) | Data not found | 422 million | Data not found | 1809.9 million |
| % of rural pop covered by MFIs | Data not found | Data not found | Data not found | Data not found |
| Tot. no. of MFI clients ** | Data not found | 8.38 million | 18.82 million (2005) | 30.16 million |
| Agri. Productivity | Data not found | Data not found | Data not found | Data not found |
| Govt. spending on Rural infrastructure | US \$ 318.03 million | US \$ 1.63 billion | US \$ 369.7 million | US \$ 514.72 million |
| Govt. spending on Health & education | US \$ 440.44 million | US \$ 3.75 billion | US \$ 624.38 million | US \$ 919.14 million |

*including MFBs, MFIs, RSPs and others. **including active borrower, micro saving and micro insurance clients.

Sources: Economic Survey of Pakistan, 1999-2000, 2009-2010, Zahra 2011, Bangladesh Economic Review 2010. MRA, Bangladesh, 2009, Rashid et al 2010, WB, 2011.

Exchange rates (<http://www.forex.pk/intl-rates.php>).

Microcredit is basically small credits provided by MFIs to small farmers, entrepreneurs living in poverty and without any tangible collateral. This small operational capital is generally used to start a new business or to expand the existing business. This capital enables the poor to become economically viable, increase incomes and improve their livelihood and well being. The loan terms are easy with short repayment periods varying between 3 months a year. MFIs charge high interest rates on disbursed loans compared to mainstream financial institutions such as banks. The reason behind high interest rates is the small size of loans, diversity in urban and rural households, higher operational costs, higher risks in lending to the poor without collateral, characteristics and location of small enterprises, staff training costs, high transport costs, monitoring costs etc. The repayment rate is as high as 97 percent and out performs the banks. There are other types of microcredit offered by MFIs in rural areas that include lending, savings, leasing, insurance and remittances (WOCCU 2003:2).

Savings helps poor people to save their irregular income and provide funds for emergency expenditure. The poor people save money from different ways and deposit their income in savings account of MFIs and thereby do not need to go through formal and demanding bank procedures. Many of the poor invest their savings in assets that can be exchanged for cash when in need – i.e. jewellery and livestock, while some others keep their money in local savings groups and local cash collectors (OIAL 2009:3). However, the purpose of these savings is to handle sudden unpredictable events like fluctuations in commodity prices, fraud, theft, natural calamities and mismanagement. The MFIs benefit from the larger volume of savings accounts which in turn makes the MFIs to offer cheap credit to poor clients.

Insurance is a significant component of financial services to minimize the risk impact on poor households. Only 20 percent of the world's population has adequate social protection like, health care and pension facility (ILO cited in OIAL 2009:3). The most common type of microinsurance is Credit life, Savings life, Funeral/ Burial Insurance and Crop Insurance (WOCCU 2003:13).

Remittance or money transfers can be necessary at domestic level (from urban areas to rural areas) or at international remittances which are funds sent back home by migrants working abroad. These remittances have a significant role in the expansion of rural markets (WOCCU 2003:16). They contribute directly or indirectly to on-farm and off-farm activities. With this money, the poor are able to invest in farm inputs and also enable them to purchase inventory or spend the money on their families' well being. Some countries are trying to formulate a new system for money transfer through mobile phones. MFIs are trying to establish a system to money transfer safely between

countries via bilateral and multilateral alliances with different banks and other financial organizations at convenient and low charges (OIAL 2009:3).

3.6. Conclusion

The framework of the study reveals some very important hidden indicators which has significant role in filling the vacuum to identify and address them. The indicators mentioned in Table 4 encompass the demographics of countries, agricultural and microfinance sector and government initiatives toward reducing poverty from rural agricultural sector and rural development. The indicators show that both countries have taken many serious initiatives to reduce poverty from rural agriculture sector. The percentage of poverty in Bangladesh is higher in 2000 and 2010 than Pakistan. Despite, the MF sector of Bangladesh have made remarkable progress in the world and enabling poor people to generate new livelihood sources to increase their income. The outreach of Bangladesh MF sector is much higher than Pakistan MF sector. On the contrary, the MF sector of Pakistan is not vast like their counterpart has with less outreach. The rural agricultural sector in both countries is underserved; however, the poverty rates in rural agricultural sector in Bangladesh are higher than Pakistan. The framework of the study enable the researcher to identify the key indicators which have the capability to address the need of rural agricultural sector. The empirically investigated indicators are MFIs services and products particularly Business/SME loan, Agricultural Loan, Microinsurance and Savings for rural agriculture in both countries. These indicators are capable to address the needs of rural agriculture and yield the positive impact for their livelihood.

Chapter 4 – Method of Study

4.1. Introduction

In the preceding chapter the researcher has been able to identify the key indicators for exploring the rural agriculture, MFIs and government initiatives towards rural development and agricultural needs in Pakistan and Bangladesh with the help of the framework of the study. These indicators are also covers the microfinance Services and Products for Rural Agriculture and Rural Development in both countries. The name of these indicators is Business/SME loan, Agricultural Loan, Microinsurance and Savings for rural agricultural population. In order to be able to answer the research questions which require empirical investigation, I have chosen the comparative analysis method to scrutinize that how MFIs are extending their services and products to fulfil the needs and demands of rural agricultural sector. Four most important MFIs, two from public and private sectors, has been chosen from each country simultaneously. The rationale behind comparing Pakistan and Bangladesh is that both countries has been one country from 1947 to 1971. Both countries have almost same charateristics in terms of economy, population, education and poverty situation. In order to answer the research questions i have chosen, Zarai Taraqiati Bank Limited (ZTBL), Agha Khan Agency for Microfinance (AKAM) from Pakistan and Grameen Bank and Bangladesh Rehabilitation Assistance Committee (BRAC) from Bangladesh. Since AKAM and ZTBL are pioneer of microcrediting in Pakistan and GB and BRAC are pioneer MFIs in Bangladesh. The data has been taken from secondary sources, annual reports and different research studies of these MFIs.

4.2. Method of Study

The method of study involves a comparative method. A comparative analysis of MFIs services for the rural agriculture should be able to capture the trends in rural microfinance and rural development. However, since there are so many MFIs in the two countries, I have chosen only the four most important of these MFIs for each country for the empirical investigation of the indicators generated by the framework. To investigate all the MFIs is beyond the scope of this limited study. My intention is to compare MFIs and the indicators in the two countries that will lead to some general inferences regarding the stated research questions of this study. To get a broader analysis, I examine the indicators along the public and private microfinance services and products in Pakistan and Bangladesh.

4.3. MF services by Public and Private sector in two countries.

The four selected MFIs are active in microfinance particularly in rural agriculture and rural development. Some public microfinance institutions are providing micro loan facility for two agricultural activities, namely agricultural production and rural development. Production loan covers crop production, fertilizer loan, high quality seed and pesticide loan (ZTBL 2006:14). Whereas development loan encompasses purchase of tractors, farm machinery, installation of tube wells, land development and orchards as well as establishment of poultry farms, dairy farms, livestock and fish farms (Ibid). Microcredit facility is also provided by public MFIs for services, forestry, processing, manufacturing and microenterprises (Grameen 2008).

Private MFIs have a wide range of microfinance services and products for rural agriculture from production to the end user. The products and services include microloans for poultry and livestock rearing, fruits and vegetables cultivation and micro based rural trade (BRAC 2009:14). There are some other MF products and services that are encouraging rural poor to services like microinsurance and microcredit for agriculture and livestock (AKAM 2009:11). The MFIs asserts that they have organized this product line and services based on the needs of rural poor for rural agriculture.

4.4. Data sources

The data source is predominantly from secondary sources like annual reports of MFIs in Pakistan and Bangladesh. The data has been collected from the annual reports of year 2007-09. The reports include Zarai Taraqati Bank Limited (ZTBL) formerly known as Agricultural Development Bank of Pakistan (ADBP), Agha Khan Agency for Microfinance (AKAM) from Pakistan and Grameen Bank and Bangladesh Rehabilitation Assistance Committee (BRAC) from Bangladesh has been selected.

The selected MFIs are well known in microfinance industry with large business portfolios and strong organizational structure. All MFIs publish annual reports about their operations which have been carried out during the whole year along with financial statements. All reports concerning to the particular data is available on the official web sites of selected MFIs and other valid data bases web sites like Pakistan Microfinance Network (PMN), Consultative Group to Assist Poor (CGAP) and

Microfinance gateway etc. In order to ascertain the reliability of the data, I have contacted/interviewed with people within the management of these MFIs.

The dataset from MFIs has been analyzed along the indicators which are the key drivers for rural agriculture development and poverty reduction in Pakistan and Bangladesh. First, the variables have been validated whether they are in accordance with the variables for poverty reduction and rural agriculture needs. In this regard, the data (annual reports) from selected MFIs web sites and other statistical databases has been collected. Both countries have some similarities in different sectors of the economy particularly in rural agriculture production. The major share of the economy comes from the agriculture sector which is common in both countries. In both countries the textile industry is dominant and contributes significantly to the overall economy. Poverty rates are similar, education and health facilities are not different.

Therefore, to be able to answer the research questions I have chosen comparative case study. Comparative case exemplifies the reason of comparison which means that we can understand the society phenomenon in better ways when there is a comparison between two or more significant contrasting cases or situations (Hantrias 1996; Bryman 2008:58-60). In order to carry out the comparative research there must be at least two cases (organizations, communities and countries) and data for the analysis. The Comparative method is considered as a method of finding out empirical relationship amongst variables not only for measurement of variables (Lijphart 1971:683). The comparative research method has advantages and disadvantages like any other research methods. Cross-national comparison also gives deep insight and understanding of issue that is essential concern in other countries (Hantrias 1996). The result of this type of study can identify the gaps in knowledge and policies which were not identified previously. The comparative cross-national research method has also some disadvantages. The major one is sometime the researcher face confronting situation while identifying similarities and differences with same parameters in different counties which can be liked or disliked by both countries (Ibid).

Chapter 5 – Microfinance Products and Services.

5.1. Introduction

In third chapter the researcher has been able to find the empirically investigated indicators which are MFIs services and products particularly Business/SME loan, Agricultural Loan, Microinsurance and Savings for rural agriculture in both countries to answer the research questions with the help of framework which has been formulated and discussed in the same chapter. Accordingly, I have argued the microfinance services for rural agriculture in Pakistan and Bangladesh from both public and private sector. The discussion in this chapter will further analyse whether these services and products are available for rural agriculture and rural development. What is business portfolio of these MFIs and how much interest rate are charging on these services and products. This chapter will more clarify the operations, outreach and total number of clients of the MFIs in both countries.

5.2. Microfinance products and services in Pakistan.

Pakistan's microfinance sector is divided into formal and informal financial services sector. The informal sector is active and provides loans to the poor who are recognized by the formal financial sector as "un-bankable" for lack of required collateral (Husain 2009:8). The informal credit sector includes family and friends, landlords, commission agents, pawn shops and local money lenders. Informal credit is common in the transport sector, agriculture, dairy and livestock industries. The main reason of the expansion of the informal financial market in Pakistan is the poor outreach or coverage by formal MFIs. Another widespread activity in the country is the Rotating Services and Credit Associations (ROSCAs). This is called committee and is a common practice among women from all socio-economic backgrounds. The members of committee know each other and deposit a fixed amount in a pool that is rotationally disbursed to every member until all members have received the amount – i.e. completed cycle.

The formal sector includes public and private MFIs in Pakistan. The Government of Pakistan (GoP) is providing micro-loans for agriculture. Prior to independence, agricultural credit was available in the form of Taccavi loans provided by the government and disbursed among needy farmers for agricultural inputs through the provincial revenue department. This program was discontinued in 1993-1994 due to delays and procedural complications in sanctioning and disbursement (Iqbal et al 2003 cited in Husain 2009:10). On the contrary, the rapid growth of this sector has been observed when Agha Khan Rural Support Programme (AKRSP) initiated in Chitral and Northern areas of Pakistan in 1980. Subsequently the GoP introduced Rural Support Programme (RSP's) inspired by

the AKRSP success at national level and in Punjab and Sindh provinces. The main purpose of these programmes was to provide financial services to poor farmers in the rural areas of Pakistan for both agriculture production and development.

The microfinance industry in Pakistan received a boost with the passing of the 2001 Microfinance Ordinance. Because of this ordinance, the First Microfinance Bank was established in Pakistan. Before this ordinance, some NGO's and government sponsored rural support programmes were operating their activities. Currently there are number of public and private microfinance institutions operating in Pakistan providing financial services and products to rural and remote areas to meet rural agriculture need and mitigate poverty. Table 5 provides an overview the numbers of loan, interest rates and total business portfolio of the some public and private MFIs in Pakistan. And Table 6 shows the widespread range of MFIs services and products for rural agriculture from both public and private sector.

Table 5- Public and Private MFIs in Pakistan (2010)

| PUBLIC MFIs | No. of loans | Interest rate (%) | Total amount (US\$) * |
|--|--------------|-------------------|-----------------------|
| 1. National Rural Support Programme (NRSP) | 2,625,192 | 28 % | 47.08 million |
| 2. Punjab Rural Support Programme (PRSP) | 135,290 | 28 % | 7.55 million |
| 3. Khushhali Bank (KB) | 325,523 | 29 % | 43 million |
| 4. First Women Bank Limited (FWBL) | | | |
| 5. Zarai Taraqiate Bank Limited (ZTBL) | 571,946 | 9 % | 8.31 million |
| PRIVATE MFIs | | | |
| 6. ASA Pakistan (2009) | 18,283 | 15 % | 1.4 million |
| 7. Kashf Foundation (2009) | 313,512 | 20 % | 44 million |
| 8. First Microfinance Bank (FMB) | 151,797 | 15 % | 27.7 million |
| 9. Orangi Pilot Project (OPP) (2009) | 8,092 | 18 % | 1.2 million |
| 10. Akhuwat | 25,880 | Interest free | 2.2 million |

*US\$ exchange rate as on 31st Dec, 2010.

The main purpose of these MFIs is to develop the rural agriculture and reduce poverty. Many of these MFIs specialize in rural agricultural finance. Some public financial institutions have collaboration with private NGO's and organizations. Private MFIs play a pivotal role in improving the livelihood of rural households and in urban slums (Sapkota 2008:10).

The Microfinance sector is composed of various ranges of institutions, but the products they offer are almost similar. MFIs mostly offer agricultural loans. While some MFIs are innovative in initiating new products and services, others are content with the same product portfolio like National Rural Support Programme (NRSP) and other Provincial Rural Support Programmes (PRSPs). Whereas First Microfinance Bank (FMFB) was established by the Agha Khan Rural Support Programme (AKRSP) is more innovative and introducing new services and product lines. FMFB has collaboration with the Pakistan Post Office to expand outreach of their products and services in the interior and rural areas of the country. Some of the products and services are discussed below. Some MFIs have their own particular methods of lending and offering financial products. One of these is Akhuwat Pakistan, this MFIs is providing microfinance on the basis of Qarz-e-Hasna which means helping someone in need with interest free loan. In order to carrying out its financing activities, they raise funds through an appeal to philanthropists especially before the holy month of Ramzan through fund raising activities, appeals and awareness campaigns. Table-6 consists of MFIs with available services and products which are marked as "X" and total number of clients.

5.3. MFI services and products in Bangladesh.

Bangladesh also has a number of public and private MFIs involved in improving the livelihood of poor and reduce poverty. Bangladesh is known as the home of microcredit started by Dr. Muhammad Yunus in 1971 through a small project in small village Jobra in the district of Chittagong Bangladesh (Bhuiyan et al 2011:211). Out of the world's 10,000 MFIs, about 600 are found in Bangladesh alone (CDF 2006:5). The relatively underdeveloped formal financial system in Bangladesh has provided the scope for the upsurge of NGO operated MFIs (BWTP 2009:10). Bangladesh Microfinance (MF) sector is also known for scale provision of microfinance products and services to the poor, particularly women, using solidarity group lending.

Like Pakistan, the Bangladesh MF sector is also divided the formal and informal lines. The informal financial sector in Bangladesh has already captures a significant share of the market niche. Informal finance consists of private specialised moneylenders, family and friends, pawn-brokers, shop keepers and various Rotating Savings and Credit associations (ROSCAs) that operate in both rural and urban peripheries (Ibid:10). Informal finance in Bangladesh is quite prevalent in community development projects, collective celebrations, and emergency expenditures and funeral cost etc.

Table 6- MFI products and services in Pakistan

| MFI | Business loan | Group loan | House loan | Employment loan | Emergency loan | Insurance | Agri loan | Education Loan | Savings | Total no. of clients |
|------------------|----------------------|-------------------|-------------------|------------------------|-----------------------|------------------|------------------|-----------------------|----------------|-----------------------------|
| (PPSB) | --- | --- | --- | --- | --- | X | --- | --- | X | 3.85 million |
| (NRSP) | X | X | --- | --- | --- | X | X | --- | --- | 2,625,192 |
| (PRSP) | X | X | --- | --- | --- | X | --- | --- | X | 409,959 |
| (SRSP) | X | X | --- | --- | --- | --- | X | --- | X | 8,118 |
| (KB) | X | --- | --- | --- | --- | --- | X | --- | X | 531,485 |
| (FWBL) | X | --- | X | X | --- | --- | --- | X | X | 48,206 |
| (ZTBL) | X | X | --- | --- | --- | --- | X | --- | --- | 571,946 |
| (AKAM) | X | --- | X | --- | --- | X | X | --- | X | 453,781 |
| (BRSP) | X | X | --- | --- | --- | --- | X | --- | --- | 478 |
| (TRDP) | X | --- | --- | --- | --- | --- | X | --- | --- | 128,269 |
| KASHF Foundation | X | X | X | X | X | X | --- | X | --- | 330,395 |
| Asasah | X | --- | --- | --- | --- | X | X | X | | 410,085 |
| DAMEN | X | --- | --- | --- | --- | --- | X | X | --- | 44,912 |
| Akhuwat | X | --- | X | --- | X | --- | | X | --- | 97,325 |
| (CSC) | X | --- | --- | --- | --- | --- | --- | --- | --- | 15,413 |
| (CWCD) | X | --- | --- | --- | X | X | --- | X | --- | --- |
| (FMB) | X | X | X | X | --- | X | X | --- | X | 199,792 |

Sources: Official websites and Annual reports.

The formal MFIs in Bangladesh are further divided along the public-private lines with specialised banks, private NGOs and MF banks. These MFIs especially mushroomed after independence from Pakistan in 1971. The government and private sector took initiatives to promote MFIs and introduced policies for their development and growth. In 1970s, the main focus of both public and private sectors was to restore the livelihood through income generating activities (BWTP 2009:11). In this regard, many public and private MFIs were established and started loan facilities in order to reduce poverty. Table-7 & 8 gives an overview of the private and public MFIs in Bangladesh. The MFIs in the table provide a number of products and services to poor people in both urban and rural areas. The Bangladesh microfinance sector is one of the largest sectors of the world with greater penetration and outreach. 90 percent the MF clients are rural women and repayments rates are about 90 percent (BWTP 2009:18). The normal loan size is Taka 4000 (US\$60). MFI services and products in Bangladesh are discussed below.

Table 7- Public and Private MFIs in Bangladesh (2010)

| PUBLIC MFIs | No. of loans | Interest rate (%) | Total amount (US\$) |
|---|--------------|-------------------|---------------------|
| 1. Bangladesh Krishi Bank (2008) | 1,417,047 | 12 % | 194.06 million |
| 2. Rajshahi Krishi Unnayan Bank (2008) | 224,231 | 12 % | 106.95 million |
| 3. Bangladesh Rural Development Board | 1,002,841 | 12 % | 48.10 million |
| 4. Grameen Bank (2009) | 8,247,536 | 27 % | 1,150 million |
| 5. Palli Karma Shayak Foundation (2009) | 8,260,000 | 20-30 % | 660.10 million |
| PRIVATE MFIs | | | |
| 6. ASA Bangladesh | 4,000,000 | 15 % | 456.3 million |
| 7. Jagorani Chakra Foundation (JCF) | 296,843 | 15 % | 34.53million |
| 8. Thengamara Mhoila Sobij Sangha (TMSS) (2009) | 486,127 | 10-12 % | 60.9million |
| 9. Buro Bangladesh (2009) | 621,391 | 10-15 % | 58.80 million |
| 10. Society for Social Services (SSS) (2009) | 265,353 | ---- | 39.6 million |
| 11. Padakhep Manabik Unnayan Kendra (2008) | 166,950 | 12.5 % | 29.30 million |

*US\$ exchange rate as on 31st Dec, 2010.

Table 8- MFI products and services in Bangladesh (2010)

| MFI | Business/ SME loan | Group loan | House loan | Employment loan | Emergency loan | Insurance | Agri loan | Education loan | Savings | Tot no. of clients |
|--------------------|-----------------------|---------------|---------------|--------------------|-------------------|-----------|--------------|-------------------|---------|-----------------------|
| (BKB) | X | --- | --- | --- | --- | --- | X | X | X | 2.426 million |
| (RAKUB) | X | --- | --- | --- | --- | --- | X | --- | X | 0.23 million |
| (BRDB) | X | X | --- | --- | --- | --- | X | --- | X | 3.35 million |
| BURO Bank | X | X | X | --- | X | X | X | --- | X | 1 million |
| Sonali Bank | X | --- | --- | --- | --- | X | X | --- | X | Data not found |
| (GB) | X | X | X | --- | --- | X | X | X | X | 6.4 million |
| (BRAC) | X | X | X | --- | --- | X | X | X | X | 6.2 million |
| (PKSF) | X | X | X | X | --- | --- | X | --- | X | 11.42 million |
| (ASA) | X | X | --- | --- | --- | X | X | X | X | 5.49 million |
| Proshika | X | --- | --- | --- | --- | --- | X | X | --- | 0.28 million |
| JCF | X | --- | --- | --- | --- | --- | X | X | --- | 0.318 million |
| (SSS) | X | --- | --- | --- | --- | X | X | X | --- | 0.265 million |
| Wave Foundation | X | X | --- | --- | --- | --- | X | X | --- | 0.085 million |
| UDDIPAN | X | X | X | --- | X | --- | X | --- | X | 0.271 million |
| (TMSS) | X | X | --- | --- | --- | --- | X | X | X | 0.513 million |

Sources: Official website and Annual reports.

5.4. Conclusion

Poverty alleviation is a broad concept which covers the developmental initiatives by the government on broad spectrum to improve the living standard and welfare of the population. Rural poverty alleviation implies the development of rural agriculture sector such as agricultural productivity, rural infrastructure, healthcare and education, water resource management and provision of financial services. Poverty reduction is about strategies based on different initiatives to alleviate rural poverty. However, there are many strategies which provide help to reduce poverty from rural agriculture. I have chosen one of the most prominent strategies to reduce poverty in developing countries which is Rural Microfinance. Furthermore, the framework which was developed in chapter 3 helps me to identify the important indicators which have capability to address the needs and demands of agricultural sector. The MF industry has vast services and products for rural agriculture which are efficient to address the needs of rural agriculture. Numbers of MFIs are working for the development of rural agriculture with range of Microfinance (MF) products and services in both countries. The progress and outreach of these MFIs both from public and private sector has been discussed in different tables which shows the complete range of services and products, interest rates, outreach and total business portfolio. The intervention of microfinance for rural agriculture and rural development has been observed positive in both countries from the statistics which has been shown in Table 5, 6, 7 & 8. Microfinance enabled number of rural poor to retain better standard of life for their families, housing, nutrition, basic health and education.

Chapter 6. The Empirical Investigation.

6.1. Introduction

The preceding chapter implies overall current situation of MF sector including MFIs services and products, outreach, business portfolio and interest rates etc in both countries. This chapter consists empirical investigation of both selected public and private MFIs from Pakistan and Bangladesh in order to answer the research questions. The researcher has analysed the offered services and products for rural agriculture and rural development with the indicators such as Business/SME loan, Agricultural Loan, Microinsurance and Savings for rural agricultural population. The indicators have been identified with the help of framework which has been discussed in chapter 3. The indicators also helped to recognize the key variables of poverty mitigation and rural agricultural need and demands of Pakistan and Bangladesh.

6.2. Empirical investigation of two MFIs in Pakistan

The under mentioned four MFIs have been selected for the analysis, their products and services have concisely been separately discussed in this study. The list of the selected MFIs from both countries is mentioned as under.

- i) Zarai Taraqiati Bank Limited (ZTBL) Pakistan
- ii) Agha Khan Agency for Microfinance (AKAM) Pakistan office.

Zarai Taraqiati Bank Limited (ZTBL) Pakistan.

The Zarai Taraqiati Bank Limited (ZTBL) former Agricultural Development Bank of Pakistan is the largest public sector institution for rural agricultural development of the country. ZTBL has a broad network of 25 Zonal offices and 342 branches all over the country (ZTBL 2008:10). The bank has wide range of products and services for both production and development sectors of agriculture with the prime objective to offer sustainable rural services and products mainly to small farmer and households. The bank is providing enormous quantity of credit facilities for both sectors on term-wise credit i.e. short term, medium term and long term (ZTBL 2006:15). The institution is playing major role in line with government in poverty reduction strategy. ZTBL is a specialised agricultural development bank and it offers loan for a vast areas from agriculture production and development as well as microfinancing to rural microenterprise. The Bank is also providing microcredit schemes for rural poor with provision of microloan as well as microcredit for women. The MF services and products by the bank are discussed in detail along with credit procedure and regulation.

Microcredit scheme for rural poor.

The bank has started this scheme since 2000 to engage rural poor and enable them to increase their livelihood with income generating activities i.e. rural microenterprises, cottage industry (Ibid:19). The scheme is functioning in all branches of the bank all over the country. The credit is accessible for both men and women as an individual member or as a group member of 5 to 10 people. The credit can be obtained on prescribed 136 purposes of income generating rural activities and cottage industry. The minimum limit of credit is PKR. 5,000 up to 25,000, the maximum limit can be increased on the basis of security and surety. The official loan repayment time is 18 months.

Microcredit to women programme.

Microcredit for women was introduced in 1992 in some specific areas of the country with financial support of International Lending Organizations. The major objective of this programme is to facilitate rural women with easy access to microcredit. Initially the bank hired 19 Female Mobile Credit Officer (FMCO) for 17 branches to mobilize and encourage rural women in this regard. Women are allowed to obtain microcredit facilities, general microcredit for rural poor or microcredit for rural women. With this loan many women are running small business/cottage industry, some are investing in poultry farming, livestock rearing and agriculture production.

Loan Disbursement for Agriculture Production.

The bank is providing an ample input loan amount (ZTBL 2006:14) for agriculture production to rural poor of the country. The agricultural production loan encompasses seasonal crop credit requirement, agriculture inputs i.e. fertilizer, improved seeds and pesticides. The bank is also providing working capital for poultry farming, dairy, livestock and fish rearing (Ibid).

Loan Disbursement for Agriculture Development.

Agricultural development loan primarily focus the rural poor farmers to enhance their production and development of the farms on collateral base or pledging of tangible assets. However, this loan cover a series of products for which loan is available like purchase of tractors, installation of tube-wells, farm equipment, construction of warehouse and cold storage. The bank is also providing loan for the establishment and replenishment of dairy farms, livestock, poultry and fish farm, orchard and land development (Ibid). The bank has spent a huge amount on the rural agriculture development and poverty reduction through different schemes. Detail of the disbursement of loan in all sectors of agriculture for the last three years from 2006-2008 has been mentioned Table.9. The annual report for the year 2009 has not been published for some administrative reasons. The activities in different sub-sectors of agriculture show the commitment of the institution to eradicate poverty by increasing livelihood opportunities.

Agha Khan Agency for Microfinance (AKAM) Pakistan.

Agha Khan Agency for Microfinance (AKAM) is one of the component of Agha Khan Development Networks (AKDN). AKDN provides services in the field of health, environment, education, building construction, culture, microfinance, rural development, disaster reduction and promotion of private enterprise sector (AKDN 2011). AKDN has been providing microfinance facility more than 60 years through their different agencies. However, Agha Khan Agency for Microfinance (AKAM) is operating in several developing countries including Pakistan. The key role of AKAM is to mitigate poverty with sustainable access to microfinance. No wonder, microfinance is not a panacea of poverty reduction; appropriate education and improved health facilities has also very critical role (AKAM 2009:4). AKAM works closely with other AKDN agencies as part of prominent agency for rural development and poverty mitigation. AKAM is providing MF services since 25 years with the collaboration of other AKDN sister firms. Furthermore, AKDN established The First Microfinance Bank Limited (FMFB) on the successful twenty years experience and operations of Agha Khan Rural Support Programme (AKRSP). In 1996 AKRSP started separate operations to streamline the microfinance programme, with aim to create separate component microfinance and to mobilize savings. Therefore, First Microfinance Bank Limited was established in Pakistan in 2001 under the companies' ordinance. It operates in 157 localities around the country along with 89 automated branches. In 2008, FMFB signed a memorandum of understanding with Pakistan Post office (PPO), Government of Pakistan (GoP) to create a public private partnership for its outreach to the poor people particularly in remote areas. Currently 68 outlets are working around the country through PPO. AKAM is providing a number of services and products for their clients to earn basic necessities and poverty reduction through FMBL. The features of these services and products are discussed under along with statistical data of microfinance for rural agriculture in Pakistan.

Microinsurance industry is still new as compared with microcredit. Microinsurance enables poor people to improve their lives and especially to face the unforeseen calamities which can throw them into poverty. The AKAM began Microinsurance in 2006 with financial support by the Bill and Melinda Gates Foundation. The programme has been started in two countries, first in Pakistan and subsequently Tanzania (AKAM 2009:11). Microinsurance offer protection for poor people in catastrophic situation like death of breadwinner, unexpected high hospital expenses, loss of assets like crops, livestock and shelter. AKAM microinsurance includes hospitalisation insurance and credit life insurance. AKAM runs this facility as appropriate health financing which entail a mixture

of saving account and microinsurance (Ibid). On the contrary, credit life insurance provides security to the client's loan balance in any serious situation such as death or disability.

Small and Medium Enterprises (SME) Loan.

Small and Medium Enterprises (SME) activities are considered as the heart of growth, job opportunities and assisting in the development and local production. AKAM provide microfinance for the poor to develop their own businesses and increase livelihood. The loan is provided to economically deprived poor people to establish new enterprise or to expand the existing SME, livestock and agricultural enterprises. This type of loan is available in almost all countries where AKAM is operative.

Housing Loan.

Housing is one of the fundamental foundations of quality of life for any family. AKAM dedicated a huge portfolio of their loan for house improvement loan. It provides house improvement loan to avoid the chances of damage to the house during any calamities such as earthquake, flood and fire. This facility enables particularly rural poor people to be able to come out of housing problems like the entire family cook, eat wash and sleep. Almost half of the world population have no sanitary facility and about 1.8 billion people do not have water source within 1 kilometre to their homes where they live (AKAM 2009:16). Housing loan also includes improved sanitation condition and pure drinking water for the family which has direct impact on their health. Table.9 depicts the operations of AKAM and distribution of total loan amount during 3 years from 2007-2009 to poor people. AKAM has an honour to start the microfinance operations for the first time in Pakistan by supporting Orangi Pilot Project (OPP) in Katchi Abadies of Karachi.

6.3. Empirical investigation of two MFIs in Bangladesh Grameen Bank, Bangladesh

Grameen Bank was initiated by Noble Laureate Professor Dr. Muhammad Yunus back in 1976 through an action research project to scrutinize the credit delivery system which provides banking services to the rural poor. The main objective of its operations was to extend financial services to poor men and women, abolishment of exploitation of poor by local money lenders, create opportunities for number of rural poor people and elimination of vicious circle of low income, low savings and investment and turn into prosperous circle of intervention of credit, investment and savings services. The research first was started in Jobra village which is adjacent to the Chittagong University and some other neighbour village in 1976-1979. Grameen Bank (GB) introduced a new banking system based on mutual trust, accountability and participation to break out the conventional collateral practice (GB 2011). GB provides credit to rural poor of the Bangladesh without any

tangible collateral. The credit is cost effective and it has wide effect on the socio economic condition of rural poor and it is considered as catalyst in overall development and poverty mitigation. GB has a huge network spread with 2,565 bank branches in 81,379 villages of the country with number of borrowers 8.36 million, 97 percent of them are women (Ibid). The repayment is much higher than formal commercial banks about 97 percent. GB requires no collateral for its micro loan but borrowers must belong to a group of five members. The group members must belong to the same area. This group does not required to provide any guarantee for the loan of its members. While all group members are solely responsible for the credit repayment. GB has numbers of MF services and products for rural poor to increase their economic condition by establishing microenterprises. The detail of MF services and products and the amount which has been disbursed amongst rural poor for any purpose during the year 2007-2009 is mentioned in Table- 9.

General Microcredit.

Grameen Bank is extending microcredit for the rural poor of the country especially women to start their own small scale business. This credit is also given for the cottage industries such as paddy husking, agriculture farm input, livestock and fisheries, lime making, pottery, weaving and garments sewing etc. General Microcredit is equally available for both men and women. However, women borrowers are more than the men because women are found more creditworthy than men and women are much committed in savings and domestic affairs (GB 2011).

Microenterprise Loan.

Grameen Bank provides big loan or microenterprise loan to its active clients. There is no limit on loan size for trustworthy borrowers of microenterprises. The trustworthy borrowers are very regular in repayment of loans. Microenterprise loan mainly used to purchase of truck, power-tiller, water pump, transport vehicle, and small boat for transportation and fishing. GB provides loan for agriculture microenterprises and small scale processing enterprise. The average loan amount for microenterprise is US\$ 400 (GB 2009).

Microinsurance and Savings Programme.

Microinsurance or security considered as a best tool to financially support the borrowers especially the families of deceased borrowers. GB has a wide range of microinsurance services such as loan insurance, life insurance, crop insurance and microenterprise insurance. All outstanding loans are waived off at the death of any borrower and in case of borrower who has life insurance; the family of died client will receive the insurance money. GB also provides savings account for poor clients to save their money. Borrower's savings is one of the major sources of amount for microfinance and

an increasing trend of savings or deposits has been seen during last 12 months (GB 2011). The detail expenditure in different income generating activities has been shown in Table.9.

Bangladesh Rehabilitation Assistance Committee (BRAC) Bangladesh.

BRAC was found in 1972 in Bangladesh with the dedication to alleviate poverty and empower poor people, diseases and injustice. It also deals with illiteracy, natural disasters and post conflict in developing countries. BRAC has a widespread network within Bangladesh and eight other countries across Asia and Africa. This study is focusing on the operations in Bangladesh regarding poverty alleviation, rural agriculture development and empowering people with several strategies. It has 50 regional offices, 309 area offices and 2,647 branch offices in Bangladesh (BRAC 2011). BRAC has a variety of programmes throughout Bangladesh such as primary education, healthcare, sustainable agriculture, human rights and legal services and access to microfinance (CSIS 2010:1). BRAC has numerous services delivery packages for the poor living in the country associated with these programmes to overcome poverty and increase livelihood opportunities. Microfinance is one of the oldest initiatives of BRAC which was taken in 1974 in overall 64 districts of the country. Its main purpose was to provide easy access to financial services to those poor who are incapable to obtain credit from mainstream financial banks due to insufficient collateral, assets and referrals. However the main borrowers of BRAC's are women who use this loan in income generating activities to improve their socio-economic position. BRAC MF services and products are discussed below.

Microloan.

This loan is exclusively given to women who are members of a group called Village Organization (VO). The VO operates as an informal underwriter by creating peer pressure group repayment on time. Microloan are usually used for small scale business in poultry farming, livestock rearing, fishery, sericulture, fruit and vegetable farming, handicrafts and rural trade. The average loan size for this loan category is US\$ 50-700. BRAC has introduced a specialised microloan scheme for the adolescent girls to be financially empowered and to continue their studies and for upcoming financial responsibilities. The loan amount for this small enterprises start from US\$ 40 including savings facilities and training to start their own home based small enterprise.

Microenterprise Loans.

Microenterprise loans are generally given to those entrepreneurs who want to set up new business or to expand the existing enterprise. The loan is provided to both male and female enterprisers. The borrowers normally use this loan in finance the small scale manufacturing enterprises or industry, agriculture cultivation and shops. The borrowers repay weekly instalments and deposit their savings in (VO) meetings into their savings account. The range of microenterprise loan starts from US\$ 700

to 7000 (BRAC 2009:15). The detail of expenditure and loan issued in different income generating activities is shown in Table.9.

The above discussion covers the four MFIs i.e. ZTBL, AKAM, GB and BRAC services and products and their execution in both countries. To make it clear some statistical data has been shown in the Table.9 which entails total expenditure for microcredit, number amount of insured people and numbers of saver and their deposited amount. These expenditure categories were identified in chapter 3 with the help of framework of the study. Therefore, this table consist of identified indicators, total expenditure as well as the interest rate on microcredit by all MFIs.

These four MFIs from both countries are belongs to private and public sector equally. The statistical data shows the total expenditure which has been incurred during the last three years (2007-2009). However, ZTBL statistical and financial data is belongs to the year (2006-2008) since the annual report 2009 is not available. According to the indicators the financial data has been shown. The comparison between two public MFIs (ZTBL, GB) from both countries is showing the big business portfolio with series of services and products. The financial data concerning to Grameen Bank showing markedly increasing trend in business expansion and other indicators microinsurance and savings. GB is dominating in number of savers and the deposited money. The primary clients of GB's are rural poor women. Their repayment rate is higher than their Pakistani counterpart like ZTBL. On the contrary, ZTBL also has massive business portfolio and their main focus is to develop rural agricultural sector. Their primary clients are small, medium and big farmers. ZTBL has introduced a separate programme for women development which is only providing microcredit to rural poor women for small business/ cottage industry. But a difference has been observed regarding interest rate on microcredit by GB is 27 % which is much higher than ZTBL's 9 % tiny interest rate. The less interest rate shows big opportunity and advantage to expand their services and products and increase outreach for ZTBL.

The other two MFIs from both countries have significant role in MF sector and rural agricultural development. AKAM is a pioneer MF in Pakistan and BRAC is one of the pioneers of MF sector from Bangladesh. Both MFIs are a component of large network of their operations and both MFIs have same objective to mitigate poverty, increase livelihood particularly from rural areas of the country. There is no such big difference between these two MFIs have been observed concerning to their business portfolio. However, loan insurance data of BRAC has not been found whereas the same data for AKAM is available and has been mentioned in the Table 9. Thus, another noticeable difference has been found regarding to the total amount of savings accounts which is higher for

BRAC while AKAM savings amount is lesser. The outreach of these all four MFIs has been shown in the same table for the comparison which is showing prominent difference between Pakistan MFIs and Bangladesh MFIs. The outreach performance of Bangladesh MFIs is outstanding as compared to the Pakistan's MFIs which is much lower.

The framework of the study has also help to identify the agricultural need in both countries. Agricultural needs are quite similar of both counties and have been discussed in detail below.

6.4. Agricultural needs in Pakistan and Bangladesh.

Pakistan and Bangladesh has been a single country from 1947 to 1971, both countries have almost same cultural heritage and major economic sources. Both countries are agricultural countries and the sector has kept major share in the economy. There is no major disparity between both countries which is being faced regarding management of agricultural production, rural infrastructure and fewer credit facilities for the sector. These difficulties require prompt notice to be addressed to speed up the economic growth process of the country. The agricultural need of Pakistan and Bangladesh has been discussed in detail for deep insight and better understanding of the dilemma.

Agriculture sector improvement.

Agriculture sector is the backbone of the economies of both countries. Yet there are many improvements have to be done to become food efficient and poverty free country. The government of both countries has not been given such attention to resolve the issues which it requires. For instance both countries have not taken appropriate measurement to increase the food production in accordance with the growth of population. The farmers of rural areas are still practicing old harvesting techniques. The sector in both countries lacks advanced technical farming mechanisation. Per acre yield production of wheat in Pakistan is lowest in the world around 960 Kg per acre. Whereas in neighbour countries such as India is growing 2040 Kg per acre even though the temperature and environment is not much different than Pakistan. Bangladesh also has the same problem because both countries are not sowing High yielding variety seeds and hybrid seeds. High yielding variety (HYV) seed and hybrid seeds have potential to fill the food grain demand and supply gap in the world. There is one more problem which needs to be solved that is efficient use of water.

Table 9 - Expenditure according to the indicators by four MFIs from Pakistan & Bangladesh

(US \$ in millions)

| Expenditure by Four MFIs according to the Indicators | | | | | | | | | | | | |
|---|--------------------|----------------|----------------|-----------------|-----------------|-----------------|----------------------|---------------|----------------|----------------|---------------|----------------|
| Indicators | MFIs from Pakistan | | | | | | MFIs from Bangladesh | | | | | |
| | ZTBL | | | AKAM | | | GB | | | BRAC | | |
| Year of Expenditure | 2006 | 2007 | 2008 | 2007 | 2008 | 2009 | 2007 | 2008 | 2009 | 2007 | 2008 | 2009 |
| Business/ SME Loan | 77.76 | 91.77 | 154.29 | 20.677 | 20.693 | 16.432 | 416.4 | 550 | 643.93 | 86.13 | 115.42 | 107 |
| Agriculture Loan | 784.92 | 810.02 | 741.75 | 7.299 | 19.882 | 40.231 | 317.4 | 367.20 | 502.80 | 142.56 | 183.08 | 205.44 |
| Total Expenditure | 862.68 | 2908.79 | 2904.04 | 2034.976 | 2048.575 | 2065.663 | 2740.8 | 2925.2 | 3155.73 | 2235.69 | 2306.5 | 2321.44 |
| No of Life and loan insurance | --- | --- | --- | 6,000 | 393,544 | 450,000 | 179,510 | 225,534 | 272,643 | --- | --- | --- |
| Balance of loan insurance | --- | --- | --- | 81 | 41.329 | 40 | 56.81 | 62.13 | 74.71 | --- | --- | --- |
| No of Savers | --- | --- | --- | 80,170 | 138,147 | 180,048 | --- | --- | --- | --- | --- | --- |
| Value of member savings | 3.37 | 12.22 | 7.86 | 33.65 | 26.48 | 40.26 | 430 | 509 | 648.67 | 198 | 231 | 269 |
| Outreach | 443,874 | 475,756 | 571,946 | 184,591 | 346,021 | 453,781 | 7.41 million | 7.67 million | 7.97 million | 7.30 million | 8.09 million | 8.1 million |
| Interest rate | 9 % | | | 15 % | | | 27 % | | | 12.5-15 % | | |

| | | |
|-------------------------|------------------|------------------|
| Grand Total Expenditure | Pakistan | Bangladesh |
| | 12,824.72 | 15,685.36 |

Sources: Annual reports (2006-2009)

Although, Pakistan has biggest irrigation system in the world but water scarcity exists during some cropping season. On the contrary, Pakistan has no adequate resources to build new dams to reserve water and increase water capacity instead of releasing a huge amount of water into Arabian Sea. Some projects regarding construction of new dams are pending due to conflict between the provinces. Bangladesh is situated at vulnerable place where most of the time natural calamities occur. Moreover BD has no resources in order to save the farm land and to establish flood forecast system. Unequal land distribution is a big problem in developing countries. Mostly farmland in Pakistan is owned by a very small group of rich feudal lords who consider it more as a source of political influence rather than a source of productivity. The breakup of the distribution of land has been shown in Table.3 in chapter 3. However, many small farmers have no land although their main source of livelihood is agriculture. The small farms are steadily increasing because of land distribution due to inheritance. They earned their livelihood through the services in agricultural farming. This injustice can also be seen in the case of Bangladesh; about 57 % people are landless. Majority of them are living in poverty, diseases, hunger and deprivation. In this situation there is a need to alter the land distribution policy in order to make poor people as landowner (source of livelihood) in both countries.

Rural Extension Education.

The majority of farmers from both countries are illiterate which means they need agricultural extension education and services to carry on the farming activities. Such as trainings, information dissemination, demonstration and Good Agricultural Practices (GAPs) regarding on-farm production and post harvest process, while considering the social, economic and environmental sustainability. The farmers also need assistance in choosing effective and efficient fertilizers, and pesticides according to cropping season. Although, agriculture extension departments in both countries are providing technical assistance to rural farmers but there is still need more services in order to produce bumper crops, livestock, fishery and poultry. The best solution to accelerate the extension services and its outreach is to create rural community organization with the help of NGOs. Community organizations in rural areas have an essential role in the development and building self reliance. The farming community could be developed through participation, recognition, planning and management of rural infrastructure facilities and services. Rural farmer's communities or organizations have significant role in filling the gap between farmers and extension department. The extension department have to arrange skills and vocational training for rural men and women with the help of rural community organizations in order to increase the expertise. The

vocational trainings are helpful for the small and medium enterprises in order to diversify their business.

Marketing and Communication Infrastructure

Rural marketing and communication infrastructure has a great importance in agricultural growth and rural household's livelihood. Both countries lack advanced rural marketing and communication infrastructure. The existing availability of concurrent infrastructure in both countries, such as roads, warehouse, cold storage and cool chain facilities, energy, rural markets, are insufficient to deal with the consistently increasing demand and services. The current agricultural markets, mainly for perishable commodities are insufficient. It is not possible to accelerate rural non-farm economy, promoting rural agro based enterprises and value addition process without the upgradation and expansion of rural infrastructure. There is a need in both countries to financially support in expanding the rural infrastructure to assist the integrated value chains. Value chain as well as supply chain is a sequence of business activities through which the end user obtains value added products or services.

Microfinance services and products for Agriculture sector.

Agriculture is a primary source of livelihood for a majority of population in developing countries as well as in Pakistan and Bangladesh. Agriculture farming is becoming capital intensive activity since last three decades. The prices of inputs like fertilizer, pesticides, power, fuel and irrigation have increased markedly during last decades in both countries. The governments and financial institutions from both countries have taken many initiatives in order to cater financial services to rural clients. The financial institutions offered microcredit on low margin but encountered serious difficulty of high overdues and lack of collaterals. In this situation they are neither able to meet the growing demand for credit nor they provide the satisfactory and qualitative financial services. Thereafter, Microfinance Institutions (MFIs) appeared to meet the credit demand of rural population. MFIs started their operations in urban as well as rural areas, however, the services were limited for rural agriculture. Numerous MFIs are functioning in the rural areas of both countries and providing MF services and products for agriculture. However, MFIs services and products are limited to fill the gap of financial services requirement for rural agriculture. Since, majority of rural population is poor and lacks finances for agricultural activities such as agricultural inputs, seed, fertilizers, pesticides etc. Therefore, the demand for sustainable rural agriculture microfinance is very high in rural agricultural sector to be able to become self-sustained.

6.5. Analysis of the results of the empirical study

This analysis has been conducted on the MFIs services for agricultural sector in two countries Pakistan and Bangladesh. To be able to examine the performance of the MFIs, the indicators were developed to ensure whether these services and products are fulfilling the rural agricultural need in both countries. The results of the empirical study reveal that a noticeable difference has been found between two countries MF performance regarding agriculture. Therefore, the performance of both countries' MFIs in agriculture sector has been discussed separately.

The history of microfinance operations starts in Pakistan in 1980s in Karachi with the launching of Orangi Pilot Project (OPP) for Katchi Abadis². Currently more than twenty MFIs are working from both public as well as private sector in the country. The MFIs of Pakistan are divided into different groups. The first group consists of Financial Institutions which introduced microfinance as a product line and the second group consists of specialised MFIs which entail Microfinance Banks from public and private sector. The third MFIs group implies Rural Support Programmes (RSPs) which deals with Rural Development Programmes with microfinance as one of their activities. The fourth and last group consist of private NGOs which are closely deals with rural development and microfinance one of its activities. All groups have a same goal to mitigate poverty and increase household livelihood. However, many rural poor still lacks financial services particularly for agricultural production/ development. Some MFIs are executing their operations in rural areas but still a huge number of rural poor are under served. The products and services of different MFIs are too limited mainly for agriculture. Rural poor have an opportunity to take benefit of micro financing but they are unable to take advantage of other related financial services i.e. microinsurance, life and health insurance and saving facilities. Two MFIs like Zarai Taraqiati Bank Limited and Agha Khan Agency for Microfinance have been selected for this study from Pakistan. The data shows the business portfolio, services and products for rural agriculture has been shown in the Table No.9. The financial statistical data reveals that the business portfolio is expanding day by day but the MFIs were not able to address the definite requirement for rural agriculture. The MFIs outreach is comparatively less in Pakistan than other neighbour countries. The product innovation and diversification is extremely necessary to fill the demand and supply gap in rural areas.

The Microfinance activities in Bangladesh were initiated in late 1970s by the Grameen Bank (GB) and Bangladesh Rehabilitation Assistance Committee (BRAC). Both institutions are globally

² Urban households who are unable to pay the high rent and build their own residences near the big cities known as "Katchi Abadis".

recognized for their successful performance within Bangladesh and other developing countries. A number of microfinance models are using by different MFIs throughout the world but the most common model for microfinance is recognized by Grameen Model, which has been initiated by Grameen Bank. Many other public and private financial institutions specialised MFIs, international and domestic NGOs are providing MF services and products to poor population of the country. Bangladesh MFIs are most prominent institutions in the world. Table No.9 consists of Bangladeshi famous MFIs such as Grameen Bank (GB) and Bangladesh Rehabilitation Assistance Committee (BRAC) which were selected for this study. However, Table – 10 shows the status of rural extension education and active borrowers in both countries.

Table 10 - Comparison of Rural Extension Education and Active borrowers in the two countries.

| Rural Extension Education | | | |
|----------------------------------|-------------|-------------------------|---------------|
| Pakistan | | Bangladesh | |
| Public MFI | Private MFI | Public MFI | Private MFI |
| ZTBL | AKAM | GB | BRAC |
| --- | --- | --- | 105,351(2009) |
| Active Borrowers | | Active Borrowers | |
| 571,946 | 453,781 | 7.97 m | 8.1 m |

The empirical data shown in Table - 10 reveals that Bangladesh MFIs are more developed and organized than other neighbour countries MFIs. They have engaged a huge number of persons in microfinance activities and active borrowers. The active borrows of MFIs in Bangladesh are much more than Pakistan. The MFIs outreach is even higher than Pakistan and India. There is no rural extension education is being provided by any Pakistani MFIs, however, BRAC from Bangladesh has provided extension education some borrowers which is good sign for community and rural development. Moreover, acquiring total assets and equity of Bangladeshi MFIs are bigger than Pakistan. These MFIs are offering a range of microfinance services and products for rural agriculture. Number of different services and products exclusively for rural agriculture such as crop

insurance, health and life insurance, technical trainings, savings and remittances are being provided. Repayment rate is appreciable in Bangladesh and much higher approximately 95 to 98 percent than Pakistan. However, the interest rate on credit is much higher in case of GB than other MFIs.

The under mentioned data contains the information about the marketing and communication infrastructure in both countries and the role of selected MFIs.

Table 11 – Performance of MFIs in Marketing and Communication Infrastructure

| Marketing and Communication Infrastructure | | | | | |
|---|--|-----------------|-------------|-------------------|-------------|
| | | Pakistan | | Bangladesh | |
| Value Chain services for clients | | ZTBL | AKAM | GB | BRAC |
| Milk Collection | | --- | --- | --- | ✓ |
| Poultry Value Chain | | --- | --- | --- | ✓ |
| Agri. Products farm value chain | | --- | --- | --- | --- |

The information shown in the Table – 11 disclose the performance concerning to the marketing and communication infrastructure of four selected MFIs from both countries. This shows that MFIs from both public and private sector of Pakistan is providing services to enhance the infrastructure in rural areas. On the contrary, the public sector MFI from Bangladesh has no contribution in improvement of the infrastructure; however, the role of private MFI predominantly can be seen in rural areas of Bangladesh. These services contains from providing raw material until selling of finished goods as well as improvement of communication infrastructure.

6.6. Conclusion.

The ultimate objective of microfinance is to reduce poverty by increasing income level and expansion of financial markets by providing financial services to financially deprived people. Microfinance primarily targets poor people in the society to help them in creating opportunities to acquiring assets and increase in livelihood. MFIs are adequately providing Microcredit services and products to urban as well as rural poor in both countries. Now a day MFIs has a long series of services and products for rural clients. Since many studies reveal that poverty is much concentrated

in rural areas than urban areas. Majority of poor population is living in rural areas and dependent on agriculture for their livelihood in Pakistan and Bangladesh. Both countries economy is dependent on agriculture because agriculture contributes significant share for the total GDP. Microfinance for agriculture is a best panacea to rural development and poverty mitigation from developing countries. Nevertheless, microfinance succeeds to partly address the agriculture need in both countries. On the other hand, many initiatives have to be taken to meet the desired demand of rural poor and rural agriculture. Bangladesh MFIs have shown relatively better/ higher level of progress to address the rural agricultural need in terms of extension education, marketing and communication infrastructure which has been shown in Table-9,10 &11. Whereas the microfinance sector of Pakistan has shown rapid growth in last decade but not been successful in terms of outreach, active borrowers, rural extension education, infrastructure and product innovation than Bangladesh MFIs.

Chapter 7. Conclusion.

The aim of this study was to examine and compare whether the microfinance for agricultural services and products in the two countries contributes to poverty mitigation and rural development. More specifically, the study intends a deeper discussion and analysis on the following questions i) what are the rural agricultural needs in Pakistan and Bangladesh, ii) Whether the Microfinance (MF) services meet the needs.

The researcher has chosen relevant essential studies on rural development, rural agriculture, poverty mitigation and microfinance as a mitigation strategy. These studies endowed me to understand the phenomenon of rural agriculture and poverty mitigation. The theoretical framework of the study allowed me to recognize the main variables of rural agriculture in relation to rural development and poverty mitigation and microfinance as one of the poverty mitigation strategies in developing countries. Moreover, the framework of the study also helped me to identify the indicators to analyse the performance of all MFIs in both countries. These indicators are Business/SME loan, Agricultural Loan, Microinsurance and Savings for rural agricultural population.

The study is based on comparison of MFIs services and products between Pakistan and Bangladesh. In this regard, the comparative analysis has been carried out to answer the research questions. The relevant data (i.e. microfinance services and products for rural agriculture) has been collected from the official annual reports of selected MFIs ZTBL, AKAM, GB, and BRAC. Qualitative and Quantitative research methods have been used to answer the research questions. The data is primarily based on secondary sources like annual reports and other relevant research studies.

Pakistan and Bangladesh has been a same country for many years after independence from Britain in 1947. In 1971, Bangladesh became an independent state due to some political reasons. However, both countries are facing many problems and many of them are quite similar even now. Both countries are recognized as agricultural countries which is holding major share of the economy. Majority of population is settled in rural areas and utilizing agriculture as the main source of livelihood. Therefore, agricultural needs and demands are also similar in both countries. The agriculture sector in both countries lacks technical advancement, high yield seed varieties, proper agriculture extension education and efficient use of pesticides, fertilizer and access to MF services. Unequal land distribution is a big problem particularly in Pakistan which hampers the prosperity and poverty reduction process. Only big land owners follow Good Agricultural Practices (GAPs) for

farm production but the same is missing in small farmers or small land owners. Many small land holders are financially constrained in order to carry out the GAPs which requires proper and consistent look after.

Microfinance has been globally recognized as instant solution to fill the gap of finances. Although number of MFIs is working in both countries significantly providing loan for rural agriculture. But they have not been able to meet the actual requirement of rural agriculture especially in Pakistan. As the statistical data of outreach shows in Table.9 that Pakistan MFIs outreach is far behind than neighbour countries. A huge market/ population in Pakistan still to be served which has been observed during the comparative analysis. Bangladesh MF sector is more advanced and organized with wide network around the country. But still a huge market is waiting to be benefited from their services and products particularly for rural agriculture. The microfinance services and products for rural agriculture in Bangladesh have been able to address the demands and needs up to certain extent. Bangladesh microfinance model is famous around the world for keeping poor financially viable with range of MF services and products. The microfinance services and products for rural agriculture are extremely well tailored for rural farmers in Bangladesh. The percentage of outreach and active borrowers in Bangladesh is extremely higher even than the percentage of outreach and active borrowers in both India and Pakistan. Whereas, the microfinance sector of Pakistan is relatively less advanced and less widespread network. Pakistani MFIs are also following Grameen model along with other services for rural agriculture. These services are less than the requirement for the agriculture sector. Pakistan MF sector is progressing since last decade. The outreach of these MFIs is less in Pakistan due to some reasons such as inconsistency in economic policies, high transaction cost, natural disaster and terrorism. Active borrowers are also fewer than Bangladesh. Number of MFIs are operating in Bangladesh and particularly offering rural microfinance to rural poor of the country. The MFIs in Bangladesh has been succeeding to pave the widespread network of microfinance in all over the country. Now majority of rural poor people have access to the microfinance services without collateral.

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