An Evaluation of Risks, Challenges, and Prospects of Microfinance in Pakistan

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Abstract: This paper is to highlight the risks, challenges, and prospects of microfinance in Pakistan. Microfinance sector in Pakistan is expanding and growing with the passage of time; it is providing finance to the unemployed and needy people of the country. Microfinance is significantly used as a productive poverty mitigation tool; it is also believed that microfinance is the essential tool to entitling the power and raising their level of incomes. In Pakistan, more than 60% population is living in the rural area of the country, by the passage of time it is becoming a great challenge for the microfinance sector to target the rural area of the country, and it is required for the microfinance sector to obtain sustainable development and growth of the rural economy. According to the different researched held with different objectives, the profitability of the microfinance sector in Pakistan is increasing, but the different types of risks and challenges associated with microfinance sector are increasing too with the time which should be pondered. Simultaneously, there is pragmatic opportunity to take the limitless benefits for the economy. If risks and challenges are addressed appropriately, microfinance sector is readily available to be a panacea for the poor core class of the country.

Keywords: Microfinance, MFIs, MFBs, Poverty Alleviation, Risks, Challenges, Prospects.

INTRODUCTION
Microfinance is increasingly used as an effective poverty alleviation tool. In Pakistan, its most visible benefit is noticed in the form of long-term financial sustenance of poverty-stricken regions. Microfinance enabled communities in these regions to launch their own businesses and hence create and grow their income. As a result, microfinance has registered exponential growth in Pakistan and many other countries. It has been serving as the most effective way to provide formal financial services for the marginalized and low-income classes. In addition to providing small finances to the poor, microfinance strengthens investments in education, health, and empowerment of women. Microfinance institutions also referred to as MFIs, are built upon large social infrastructures meant to reach millions of people regularly.

Microfinance deals with financial services meant for the poor, low-income and self-employed clients and those predominantly lacking access to financial and banking services. Broadly stated, it caters to all marginalized or near-poor households for their financial needs ranging from credit for small loans through the provision of related services like fund transfers, insurance, and savings facilities. The comprehensive description of microfinance embraces not only microcredit but also other financial services, which can be made accessible to the poor. The Concerned economists established shortly that not only microcredit but also many other allied services linked with financing may enhance standard and economic lives of core and ultra poor (Bauer, Chytilova & Morduch, 2008). Microfinance institutions and their proponents envision themselves as helpers of the poor, enabling them to come out of poverty by creating structural changes in the global financial systems. Rather than serving the handful of elite and the wealthy, microfinance institutions propose service for impoverished majorities and backward communities, lifting their financial status to the point where they become as healthy participants for socio-economic development of a country.

The beginning of microfinance revolution bank can be traced back to 1974 when eminent Bangladeshi economist Muhammad Yunus contributed a few dollars for the impoverished communities of his country. The initiative received phenomenal success as it lifted some of poorest people out of poverty. Muhammad Yunus later championed the cause globally by establishing Grameen Bank for which he also received a Nobel Peace Prize. It is widely accepted that microfinance is the most effective method of empowering the power and increasing their incomes (PIPRP 2001). The importance and potential of microfinance for poverty alleviation is recognized in Pakistan as well as internationally. However, the microfinance sector is also vulnerable to a few challenges.

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The UNO declared 2005 as its International Year of Microfinance to promote the cause of microfinance – the spearhead of poverty reduction. The important role of microfinance was greatly highlighted when Muhammad Younus received Nobel Peace Prize for his untiring efforts in making microfinance a successful model for poverty alleviation.

For poor families and persons, an effective and efficient method for the provision of financial services which are low cost as well as without collateral is Microfinance program participation (Stephens & Tazi, 2006). The main idea behind microfinance is the quick, easy and convenient provision of financial support to the poor, ideally at the recipient’s doorstep (Waheed ur Rehman 2007). Microfinance is thus getting increasing attention not only in circles of academic communities but also in the circles of policy makers (Smailbone and Wyer 2000). According to the estimates, more than 100 million poor individuals in developing economies are being served by 3,000 and more MFI’s (Harris Sam Daley, 2006)

Goals of Microfinance
Microfinance is a kind of banking service that is offered to people or groups who are unemployed or who earn low-income and lack other means of getting financial assistance. The microfinance provides means of saving, credit, and insurance and aims at giving low-income people a chance to get self-sufficiency (Metcalf, 2000).

A microfinance program wants to achieve following goals:
- Offering diverse, trustable and timely services to poor but economically active people.
- Mobilizing savings for financial intermediation.
- Creating opportunities for employment.
- Providing avenues for administration microcredit program offered by the government; high net worth people.
- Providing payment services – salaries, pensions, gratuities – on behalf of various tiers of govt.
- Engaging the poor in the country’s development.

The terms ‘microcredit’ and ‘microfinance’ are relatively new in the research literature. According to Robinson (2001) and Otero (1999), these terms rose to prominence during the 1970s. From the 1950s through 1970s, financial services for the poor came from governments or private donors, and they were largely seen as subsidized rural credit programs. Those financial provisions often faced high defaulter rates and losses (Robinson, 2001) as well as limitations of inaccessibility to the poor, far-fetched households. Robinson notices that it was during the 1980s when operations of Grameen Bank and BRAC made profitable investments, triggering growth in microfinance institutions. These banks were profitable enough that they did not need continuing subsidies, were fully privately funded, commercially sustainable and reached a large client-base (Robinson, 2001). The term microcredit also became popular during this time (MIX3, 2005). Microcredit programs mainly catered to clients of the informal sector and differed from subsidized rural credit programs of the 1950s and 1960s in that they not only stressed on repayment but also charged small interests to clients to account for costs of credit delivery (ibid.). These established the premises that microcredit programs could profitably be run on large-scale and have extensive outreach.

In the 1990s, exponential growth was registered in the number of MFI’s, resulting in an increased emphasis on reaching scale (Robinson, 2001, p.54). According to Dichter (1999, p.12), this decade could be regarded as the microfinance decade, and according to Robinson (2001), it brought microfinance the status of ‘an industry.’ It was also in during this era that microfinance institutions started to services other than microcredit loans to the poor, including provisions for saving and microfinance (pensions). The popularity of these services made it clear that the poor greatly demanded them (MIX, 2005).

STATEMENT OF THE PROBLEM

A vast majority of poor people don’t have ways to acquire primary finance related services which can facilitate them in the creation of income and management of their assets. They can effectively fight against poverty, and it's allied issues if they have access to financial services, i.e., borrowings, investment opportunities, and savings. Majority of world’s poorest population resides in rural areas, and microfinance schemes can become one of the

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most effective tools to eradicate or at least minimize poverty level. Microfinance provides microloans, savings, insurance and other associated auxiliary financial services within the easy access to poor. MFIs and financial NGOs, MFBs, and other organizations can endow with poor the microloans and make them as active participants of Pakistan’s economy.

OBJECTIVES OF THE STUDY
The chief objective of the research study is to scrutinize the risks, challenges, and opportunities of the microfinance sector in Pakistan so as bring the development and solutions to the problems so that expansion and growth may be the outcomes of the Microfinance Industry.

- To understand and highlight the present milieu of Microfinance and MFIs.
- To identify and assess current risks and challenges countenance by MFIs.
- To determine the potential opportunities available for MFIs’.
- To suggest appropriate measures to deal with challenges and risks.

RESEARCH METHODOLOGY
The current study contains the style of a descriptive study. This study primarily stands on secondary data only. Data collection is done from various Reports, Magazines, Journals, websites of different MFIs and other organizations. The utmost effort remained to select the authentic source for data and references.

RISKS AND CHALLENGES
High Transaction Cost
A major test ahead to this segment is the cost of the transaction which is higher. The number of business transaction is little, though expense that is evaluated of those transactions is high. If the interest for the items falls or the marginal cost expands, it turns out to be extremely hard to alter the expense by slashing yield. This reduction would decrease revenues out of which he needs to confer principal sum and also the calculated interest on the loans, and it should be reorganized (Muhammad, 2010).

Limited Outreach
Pakistan has a populace of more than 192 million, and unfortunately, a great part of it is underprivileged. Having such an extension with MFIs and MFBs, despite everything they have, do not possess the capacity to address and reach the borrowers in the four provinces of Pakistan. Exceptional endeavors and calculated measures are obliged to build the effort of microfinance, or it would not be capable of bringing any sort of positive results for the poverty reduction, livelihood procurement, creating an entrepreneurial culture and getting financial advancement for the nation. (Sattar, 2007).

Government Policy & Commitment
Especially in the last a few decades, a common change in the strategy for policy making of financial sector projects may be comprehended all through the historical backdrop of the country. The microfinance industry has not got the due measure of consideration and responsibility that it merits. Considering the third rank of Microfinance industry worldwide regarding the conducive environment, the Government of Pakistan ought to give fitting accentuation to this sector. Persuading and achieving the need from the government in policy making for MF industry is another mega challenge for MFIs (Choudry, 2008).

The requirement for Strong Retail Institutions
A glimpse on the micro-level shows huge crevices inside of the microfinance providers, as far as internal frameworks and controls, institutional limit, financial sustainability and risk management. It is the critical challenge at the present time to set up, sustain and boost the retail institutions serving in this industry (PMN, 2008).

Microinsurance
The section of micro-insurance of Pakistan is still in its incipient stages, and promising endeavors are being made by different partners for the purpose of improving its status. The essential challenge confronted by the business is the absence of new products by insurance companies. Then again, the hesitance to extend in this microinsurance sector by insurance companies can be credited to the absence of literacy rate of the objective populace and the novelty in the ideas of insurance, generally high
expenses of operation and absence of actuarial information. The vast majority of these multinationals does not have much knowledge of the microinsurance sector and henceforth are less eager to re-safeguard results of the insurance companies (Theresa, Chaudhry, & Fazildal, 2013).

**Macroeconomic Issues**

Presently, Pakistan confronted financial difficulties in recent past and so does the microfinance industry from copious points of views. The critical energy crises have altogether slowed down the economic growth of the nation; it has forcefully resulted in the abandonment of many industries, muting manufactures and intensifying unemployment. It is to note that for good economic uplift and growth, a considerable inflow of ventures must be there; Developing and Emerging economies have higher economic growth rate than Pakistan’s rate of growth to GDP which is meager and almost 14%. Higher speculation to GDP proportion would support novel pursuits (counting MSMEs undertakings) and empower vocation opportunities. MFPs are developing quick, adding to their portfolios in areas like MSMEs, housing, consumer loaning, et cetera. With a specific end goal to strengthen this growth and investigate new parkways, it is basic that ventures (nearby and global) stream into the part Syedah, etc. (2013).

**Security**

Most of Pakistan is under the impact of law and order and security issues, with Baluchistan and Khyber-Pakhtunkhwa (KPK) being the most severely influenced. Numerous MFPs have stopped their operations of the business in more dangerous precincts of KPK and Baluchistan. Most of the organizations want to work in the more secure territories of Punjab and Sind while the influenced zones of KPK and Baluchistan are being barred from access to official services of microfinance.

**Profitability**

In Pakistan, the risk of profitability is seen to be extreme since the vast majority of the MFPs are profit making and unsustainable in terms of finance. Over the recent years, the productivity of the industry has enhanced strikingly and has received excellent feedback. This dynamic transformation has been essentially determined by microfinance banks (MFBs) and extensive level MFI which surely have perceived the requirement for building practical and manageable establishments by granting assets in order to enhance effectiveness and productivity.

**Profit of Pakistan Microfinance Sector Table**

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<th>2013</th>
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<td>Net Income (PKR 'Billion)</td>
<td>1.2</td>
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In addition, in dealing with the financial costs, MFPs should create sufficient profits to take care of their operational cost as well. To accomplish this target, the MFPs – small scale in particular need to patch up their operations of business having profitability and proficiency to be the central objectives to relieve from this type of risk. The utilization of innovation in operations and in building associations will help the unit to expand its profitability and enhance proficiency. MFPs over the world have shown that economic and social objectives can be, and must be, accomplished at the same time.

**Credit Viability**

The main reason for Credit risk is late payments of installments or nonpayment of installments of the loan. This incorporates both the loss of profits as MFP’s failure to gather evaluated premium incomes and the loss of principle because of credit defaults Syedah etc. (2013). There are factors responsible for the decline in loans. These incorporate over debts, untrustworthy credit practices, and ineffective control frameworks. Erroneous credit practices are generally impacted by cut-throat competitions, staff incentive structures, staff quality and lacking microfinance sector data.

**Improper Rules & Regulation**

Amongst the most serious risks when contrasted with different risks the concerns over inadequate and inappropriate regulations are raising definitely and it is viewed as a standout.
The major threats for improper regulations primarily arise from the basic reason that (Non-Banking) MFPs presently are not regulated under any administrative provisions whereas Securities and Exchange Commission of Pakistan (SECP) is currently investigating a conceivable system for managing non-banking MFPs. Despite the fact that regulations are of great importance, MFIs are indeterminate in relation to the effect of laws on the establishments Syedah, etc. (2013). In the most recent decade, unfortunately, this sector has not been properly supervised, and still, a considerable measure of work is required. The current regulations are not proper, and these are undermining the growth of microfinance sector. It is the need of the time to change the regulations and limitations.

**Increasing Competitions**

With the appearance of formal microfinance banks and organizations, competition among them is truly intense. The risk from competition emerges only when the growth of available suppliers and the inclusion of new stakeholders’ drive microfinance institutions to bargain their business technique, while going for taking risks in the fields, for example, evaluating, product advancement and credit quality.

**Increasing Cost**

The increasing experience, customers’ demand for the services has been augmented, which eventually warrant a cost increment. It is a stand up to circumstances for MFI.

**Political Interference**

In 2013, the new government proposed two plans to reduce poverty and raise employment opportunities. The first scheme approved loans to be given to youthful business entrepreneurs at a reasonably low-interest rate, while the second scheme provided loans without any interest rate to those individuals who are underprivileged. Despite the fact that it is claimed that these projects do not coincide with the business of ordinary MFPs yet there are the majority of experts who deem such intercessions by the government to carry normative ramifications for their organizations. Independently, MFPs has little authorities to cope up with the political impedance, however, certain steps if they can mitigate the effect of this intrusion; MFPs should maintain their links with the government to let them aware of any such activities (Muhammad, 2010). The adequate legislation is mandatory to shield from the misuse by feudal and politicians.

**Interest Rates**

Instability in Interest rates can have serious ramifications; moreover, the position statement of nearly all MFPs do not have the vigor to retain shock from sudden changes in interest rate whilst the MFPs customer base is not in a condition to tackle elevated rates, which might bring about the decay of the quality of the portfolio. Through effective management of financial instruments, for example, derivatives, and investigating current circumstances in view of expected moves in premium rates, risks can be dealt with and avoided. This will, in any case, make organizations concentrate on setting up solid risk management and financial practices (Choudry, 2008).

**Managing Technology**

Some mistakes in the technology department can lead to misfortunes not only for microfinance suppliers, but it can directly make a negative impact upon the profit that is generated by new advancements in IT. In Pakistan, fair sized and considerable MFPs have poor data and control frameworks and need sufficient aptitudes and equipment to enhance technology foundation. The majority of the specialists are of the perspective that this challenge is reasonable and with the right foundation and technological gadgets, the challenge can be alleviated or minimized to a great level.

**Natural Disasters**

In the recent years, the nation has confronted a progression of surges over all regions, extremely hitting the portfolios of a few microfinance suppliers. Obviously, MFPs have almost no capacity, if any, to adapt to the risk from characteristic calamities. Keeping in mind, the ultimate goal to diminish the risk from characteristic catastrophes, MFPs must stretch their topographical vicinity and keep portfolios away from the areas inclined to regular perils. Earthquake 2005, IDP crises 2009, Floods 2010 and Sind Rains 2011 caused losses of 38, 200, 36 and 34 million respectively to Pakistan’s Microfinance sector (PMN, 2013).

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Operations
With numerous scholars and practitioners asserting to see a change in a zone which has customarily been a low need for MFPs, risks, and challenges received from operations keep on being viewed as a mid-level danger. MFPs in Pakistan are small scale organizations and do not have the ability and assets to guarantee a proficient back office operation, the absence of any administrative structure for non-banking MFIs make them powerless additionally against operational risks. Qualified, experienced staff and Solid internal control frameworks and can assist counteract operational fiascos Syedah, et al. (2013).

Methodology
A well-known feeling is that risk from methodology will have serious ramifications for the industry according to the stakeholders’ point of view. Policymakers appear to be the most concerned and consider this as one of the major risks confronted by microfinance industry. Institutions understand that they must adjust to the evolving environment; however, some foundations will fizzle in this procedure if they do not consider these challenges (Ehsan & Asghar, 2011).

Internal Fraud
Any risk postured by the deceptive staff of an organization is referred to as internal misrepresentation. Extortion is still veracity for MFPs, particularly at loan-staff level. This specific danger is subsequently controllable by various risk dealing methodologies. An audit of the income and incentives of the staff members can reduce corruption. Making a fruitful sample of degenerate staff when their extortion is presented or turning to prosecution ought to be considered, in at any rate a few examples, to pass on a serious message that there is no acceptance of any corruption. PMN additionally works as staff department which can serve as an instrument to assess’ data on fakes in the division however it is utilized in a restricted manner (Ehsan & Asghar, 2011).

Liquidity
The issues over liquidity are not viewed as much huge when contrasted with other serious challenges. Liquidity risk refers to the ability of MFPs to fund the transient money requires and capable of dealing with day to day operations of their organizations. Be that as it may, particularly for the non-bank MFIs which are lawfully confined from assembling deposits, liquidity is still a noteworthy issue faced by numerous specialists. It is observed that MFIs concentrating on agribusiness markets are battling with liquidity problems, and losing only a season may seriously affect their primary concern.

Management Quality
For any institution in the route to progress, skills of management are seen to be an essential component. Low level of management quality in microfinance service providers can lead to the emergence of multiple challenges for the sector. It today’s competitive environment, it is a customary need for the microfinance providers to hire proficient and skillful employees (Choudry, 2008).Those MFIs, which have originated from NGOs, face more challenges as they do not have enough management resources and employee to deal with a variety of institution(KhushhaliBank, 2009).

Funding Shortage
One key limitation for development of MFPs in Pakistan has been restricted access to the capital. Inadequate funding practices are still is seen to be a major challenge for this sector. Keeping in view the present growth, numerous partners believe that the financing prerequisites of MFPs will further ascent, and thus it will be trying to increase adequate financial assistance from accessible sources. Non-banking MFPs are more likely to be confronted to this type of risk since MFBs have been effective in offsetting their financing necessities through recruitment of funds (Sattar, 2007).

Product Development
The major risk to microfinance administration suppliers who offer inferior quality products is that they would lose their status and would face severe downfalls. Likewise, poor quality products might likewise prompt issues of over-indebtedness on the part of the customers and may force to utilize products not idyllically well-matched to their business requirements – a wasteful result (Sattar, 2007).

Corporate Governance

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One of the essential concerns has been the absence of effective corporate governance in the microfinance industry. Efforts have been made to enhance the nature of corporate governance, yet the observation holds on that numerous players in the business are not determined to enhance their initiative and do not, consequently, move with certainty.

**External Fraud**

It basically involves the threat that a system receives from exploitative clients. The sector has now become experienced; it appears that MFPs can control this challenge because of enhanced client relationship management and more profound association with groups. Essentially, MFBs need to satisfy the "know your client” necessities for novel clients as required by SBP. The challenge can be more featured with the area-wide take off of the MF-CIB (Microfinance Credit Information Bureau) which is assuming an indispensable part in deciding the acceptability of microfinance customers (Ehsan & Asghar, 2011).

**Staffing**

In the last 30 to 35 years, the Microfinance has touched the stage of maturity, but still, it lacks capacity and skills at the operational staff level. It has not been able to enhance to a reasonable extent (Hassan & Islam, 2008). Another challenge of quality in human resources is that the industry strives with viable banks in recruitment and fairly unable to propose analogous benefit. Given that almost all partners see a pretty much unaltering pattern in this risk, it appears to be acknowledged, and this is a threat that this sector has to manage continually (KhushhaliBank, 2009).

**Religious Influence**

Since interest is considered unreasonable and a cruel act of in Islam, therefore, the risks from religious impact is particularly important. In locales which are generally considered preservationist religiously, MFPs have to face complexities. Expanding prominence of Islamic microfinance in the sector has dealt this issue in an effective manner; numerous MFPs are wandering into Islamic microfinance items, henceforth giving choices to clients who are religious enthusiasts. MFPs penetrating in the Islamic microfinance must have the knowledge of prevailing complexities and foremost purposes of the sector so as to keep items Shariah-agreeable (Ehsan & Asghar, 2011).

**PROSPECTS**

There is a colossal population about one-third in Pakistan which is unbanked means have no access to financial services, this sheer population if tapped suitably can offer limitless opportunities to financial institutions (Jaffari Seyed Ibn e Ali et al., 2011). The microfinance sector has registered a remarkable growth in the past two decades. However, a number of opportunities are yet to be availed for further growth. Some of the opportunities are listed below:

**Poverty Alleviation**

Poverty is a great menace in the present world, and Pakistan is no exception to problems caused by it. Adams (2000) has proven that microfinance can be used as a catalyst for poverty alleviation. In addition to poverty alleviation, microfinance has also been proven as effective tools for income diversification, asset-building and women empowerment (Chen 1992) as well as levels of assets and income (Geetha 2006).

**Impact on Health, Social Capital, and Economy**

Microfinance is also noted to significantly impact the health of a country, its social capital and consequently its economy. As per an estimate, an increase of just 1% on credit granted to women by Grameen Bank of Bangladesh raised school enrolment probabilities by 1.9% and 2.4% for girls and boys respectively. Through the generation of income, microfinance does not only boost employment but also helps in smooth labor supply and stable consumption patterns.

**Microfinance as Development Tool**

Microfinance and microfinance-related services also act as shields against personal and business contingencies and occasional economic slumps. They help escalate economic status of people from the point of subsistence to the point of stability. Hence, microfinance serves as an important tool for a country’s development.

**Opportunity for Commercial Banks**
Commercial banks are yet to explore more lending opportunities for the growing microfinance sector. The high rates of profit and better recoveries in this sector make good investments for commercial banks.

**Women Empowerment**

Microfinance Institutions (MFIs), Non-bank Financial Institutions and NGOs can significantly elevate the status of poor women in a developing country. It has been shown that a vast majority of women taking microfinance facilities have remarkable repayment histories. Women empowerment through microfinance thus promises a major role in a country’s economic development.

**MEASURES TO OVERCOME RISKS & CHALLENGES**

In order to overcome the challenges faced by microfinance institutions, the following measures may be adopted.

1. **Proper Regulation**
   
   In their embryonic stages, individual institutions offering microfinance were not subject to any regulatory environment, allowing free innovations in their operative models. With MFIs running into a scale of an industry with high growth trajectories, an enabling regulatory infrastructure is much needed so that interests of all stakeholders are protected, and sustainable industry growth is ensured.

2. **Field Supervision**
   
   Field visits can add up to effective regulation of the microfinance sector in that they enable proper monitoring of ground conditions as well as prompt corrective actions where desired. In other words, field visits help monitor performance of the MFIs through ground staff and promote better recoveries of microloans. Nevertheless, the costs and benefits of such physical monitoring remain an issue.

3. **Encourage Rural Penetration**
   
   In order to reduce their initial costs, MFIs are opening branches in places where other MFIs are already operating. It is suggested that MFIs target areas where there is low penetration so as to outreach distant communities for financial assistance, enabling a check on multiple lending. This also increases much needed rural penetration of microfinance.

4. **Complete Range of Products**
   
   In addition to small loans, MFIs should also ensure the provision of other financial products such as savings, remittance, financial advice, and training and support. MFIs, serving as alternatives for banks, would, therefore, enable the poor to take advantage of a complete range of banking products.

5. **Transparency of Interest Rates**
   
   It is observed that MFIs are using variable patterns of charging interest rates. Some MFIs are also charging additional fees on deposits on the part of a loan held as a deposit. These often tend to inflate and confuse pricing to the point where the borrowers remain with lower bargaining power. It is therefore suggested that a common interest schedule is applied by all MFIs to help the industry become more price-competitive, helping the borrowers to compare different financial products across different MFIs.

6. **Technology to Reduce Operating Cost**
   
   MFIs can make use of modern tools of technologies, IT and its applications to control costs of their operations. These can serve as effective cost-cutting measures. Furthermore, development of standardized MIS and related software can be made so spearhead transparency and efficiency.

7. **Alternative sources of Fund**
   
   The inadequacy of funds is a major hurdle that restricts the growth and outreach of MFIs. To solve this issue, MFIs may look for other funding sources to expand their loan portfolio. A viable alternative to name here is for-profit conversions powered by NBFC, Portfolio Burnout Loan Securitization Schemes.

8. **Provision of Training**
   
   There is an acute shortage of skilled staff at all levels in microfinance industry like field workers, credit assessment officers, middle / operations managers and senior officials. No formal institution has yet been established, and Institute of Bankers of Pakistan (IBP) all alone cannot cater the market demands. The responsibility of training of clients should be assumed by MFIs so as to develop their managerial skills (Hassan & Islam, 2008).

9. **Size of Microfinance Loan**
Average microfinance loan size in Pakistan is only PKR. 36,000 which is too small to create a startup thus the limits of the loan be revised considerable, and it should be made sure that the loan borrowed is invested in a productive manner so as to achieve micro and positive macroeconomic effects.

10- Government Support
The government should formulate such a congenial policy which can push commercial Banks to take some initiative in the Microfinance sector. Microfinance outreach can be enhanced to a large level if commercial Banks start extending microloans.

11- Promote Islamic Microfinance
Interest-free banking is the basic characteristic of Islamic banking which can tap a huge proportion of needy individuals who do not try to obtain financial services from the conventional banks due to the religious factor.

CONCLUSION
Microfinance facilities and services are increasingly used as strategic tools for poverty alleviation. A large number of microfinance institutions are catering to women because of better repayment rates. Nevertheless, microfinance programs cannot be administered as magic bullets. In fact, poorly designed programs (regardless of their financial stability) may have a negligible impact on poverty. Rather than increasing the level of income, some credit schemes may even lend the poor into the evil trap of indebtedness. Sustainable development can be made possible when microfinance programs are broad and diversified accounting for the entire rural economy and all population segments, including farmers and small entrepreneurs. Microfinance umbrella should offer diversified services in addition to credit, such as saving and insurance schemes powered by sustainable financial and non-financial institutions operating under conducive environment and macroeconomic policy.

Microfinance is relatively a new concept in Pakistan. Its space in the financial sector of the country is at the point of takeoff. From the year 2000, however, the microfinance sector is growing at a phenomenal pace. The challenges and risks associated with the sector need to be tackled through strategic policies. In addition, ample opportunities can be availed if the government provides a level-playing field to firms operating in the private sector.

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