Rural Poverty Dynamics in Pakistan: Evidence from Three Waves of the Panel Survey

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This study has used the three rounds of the panel datasets, conducted in 2001, 2004 and 2010 to examine the poverty dynamics in rural Pakistan. These rounds have also been used as cross-sectional to examine the trends in rural poverty. The poverty has been estimated by using the official poverty line. Based on the spell and component approaches, chronic and transitory poverty are estimated separately for the two and three waves of the panel data. For the two waves, the panel households were grouped into four categories under the spell approach, and were grouped into three categories under the component approach. In three-wave data analysis, two types of categories were formed under the spell approach. The first type comprises of four categories: chronic poor, poor in one or two periods, and never-poor, while the second type comprises of five categories: poor in all three periods, moved out of poverty, fell into poverty, moved in and out of poverty and never-poor. Under the component approach, four categories have been recorded: poor in all three periods (chronic), poor in two periods, poor in one period and never-poor.

According to the spell approach based on the two wave panel, around 9 percent of the households remained poor in two periods. It declined to only 4 percent when three-wave data is taken into account. Poverty movements based on the three waves of panel dataset show that more than half of the rural population in Punjab and Sindh remained in poverty for at least one period. Under the component approach, 16 to18 percent of the sampled households were chronically poor in two rounds of the panel while 22 to 25 percent of the sampled households were transitory poor who either moved out or fell into poverty. The spell and component approaches differ in the incidences of chronic and transitory poor. The later has shown a higher incidence of chronic poverty, in fact, 4 times higher than the spell approach.

However, in multivariate analysis, the findings are similar. Demographic variables, household size and dependency ratio have a significant positive association with chronic poverty as well as falling into poverty. As expected, a change in both the demographic and economic factors at the household level affects the poverty dynamics; the demographic burden increases the probability of falling into poverty while a positive change in economic status improves the households' well-being.

Policy interventions for the chronically poor may not be same as for the transitory poor (moving into or out of poverty). The former may need financial assistance in the short term to smooth their consumption such as the Benazir Income Support Program or the distribution of zakat; but such programs may not be sufficient to escape poverty. The latter may be targeted through interventions in the labour market to increase their employability and productivity. It can be done through a multi-sectoral approach that aims to: improve human capital as well as the employability of working age population; create assets for the poor, provision of microfinance being one source; lower the dependency ratio by reducing fertility; and minimize the risks associated with shocks (inflation, flood, drought etc). The village-level infrastructure and rural-urban linkages have also been effective in influencing poverty dynamics in other developing countries. The North Punjab region of Pakistan is a successful case, where better human capital, strong rural-urban linkages and access to international labour market have played a role in controlling rural poverty. It is recommended that the poor rural areas of the country are targeted for some specific interventions, based on a multi-sectoral approach: improving human capital, creation of assets, addressing the demographic concerns, and developing both the village-level infrastructure and rural-urban linkages.

Reducing Poverty through Microfinance

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Microfinance, a modern concept was formally coined by Professor Mohammad Yunus with establishment of Grameen Bank in 1970's. It is considered as an important financial sector development that has some impact on financial institutions. The role of microfinance institutions is to relax financial constraints for poor making them self-sufficient by generating income and wealth. This approach is considered effective to help poor get out of vicious circle of poverty.

Pakistan Microfinance Network (PMN) was established in 1998 to represent emerging Micro Finance Institutions. In 2000 Poverty Alleviation Fund was established in collaboration with World Bank to fulfill the financing needs of Micro finance Institutions. This sector has almost 2.8 million active borrowers.

Three different micro financing models are prevailing in Pakistan at this time; **interest-based micro-financing (via banks), interest free micro-financing (via NGOs)** and **interest free skilled based micro-financing (via training centers).**

Conventional Microfinance has received an enormous positive response from the whole World but was reluctantly accepted in Muslim World because of religious reasons. Various NGOs also provide microfinance services. Akhuwat Foundation was established in 2000 with the prime objective of providing Qarz-e-Hassana to the poor till the time they become stable and donate to akhuwat program. Repayment rate is 98%.the third type of microfinance prevailing in Pakistanis training centers for entrepreneurship loans. CED at IBA Karachi provides a six-month fast track entrepreneurship program for training of rural youth particularly for youth pursuing in agriculture-basedbusiness opportunities.

Both conventional (interest based) and Islamic (interest free) modes of micro-finance are available in Pakistan and are growing at a steady pace. However, conventional financial institutions mostly serve the rich. Heavy collateral and mark-up requirements limit borrowing ability of the poor in conventional financial institutions. Interest based micro finance does not fulfill this objective due to lower acceptability in Muslim countries. On the other hand, interest free skilled based micro-financing is better than interest free non- skilled based

micro-financing. It is more innovative and sustainable in terms of poverty reduction in a sense that before entering in to the world of entrepreneurship individuals got skills (via training from training centers) to run their business in more innovative and effective way. But here again the training fees are quite high. Considering the prevailing modes of micro-financing available in the country does micro-finance really reduce poverty?