Analysis of Financial Sustainability and Outreach: A Case Study of PPAF

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Abstract

This paper examines the Pakistan Poverty Alleviation Fund (PPAF) over ten years, from 2007 to 2016. Secondary data is used to calculate various financial ratios of sustainability and outreach. The analysis is performed from two microfinance approaches, that is the Institutionalists' Approach and Welfarists' Approach. Ten indicators are used, including Number of Partner Organizations (PO) and Number of Districts (NOD) as measures of outreach whereas, Return on Assets (ROA), Return on Equity (ROE), Profit Margin Ratio (PMR), Operational Self Sufficiency (OSS), Debt to Equity Ratio (DER), Financial Expense Ratio (FER), Operating Expense Ratio (OER) and Total Expense Ratio (TER) as measures of financial sustainability of PPAF. This study's findings show that PPAF is financially sustainable with positive PMR 59%, ROE 20%, and ROA 6%. PPAF has a high level of outreach, indicating that it significantly impacts Pakistan's poverty alleviation. It is recommended that more government and international donors funding should be injected in PPAF to support the cause of poverty alleviation in Pakistan.

Keywords: PPAF, Sustainability, Outreach, financial performance, financial ratios.

INTRODUCTION

This study examines the financial sustainability and outreach of PPAF in the context of Institutionalists' and Welfarists' Approach. Microfinance plays a crucial role in providing microcredit to poor people both in urban and rural areas. Microfinance development has been intensively focused on the last few decades. The main goal of microfinance is to alleviate poverty. Simultaneously, sustainability and outreach of microfinance are of the most significant challenge for Microfinance Institutions.

PPAF particularly emphasizes poverty alleviation, improving poor people's livelihoods in rural areas, promoting economic growth of Pakistan, and focusing sustainability with effective operations (PPAF, 2017). PPAF with the International Fund for Agricultural Development (IFAD) commenced programs including PPAF's Third Project, Program for Increasing Sustainable Microfinance (PRISM), and Microfinance Innovation and Outreach Program (MIOP) with common threads including social inclusion, environment, and gender. These programs followed a demand-driven approach based on community ownership that led to the identification, preparation, implementation, and management of interventions. Moreover, PPAF's Partner Organizations (POs) and community institutions mobilize poor households and make them value driven (PPAF, 2017). Also, PPAF follows Graduating Approach for graduating the most impoverished people out of extreme poverty and provide them better livelihood, safety nets, and microfinance services (PPAF, 2016).

History and Development of PPAF

PPAF was established in 1997 by the Government of Pakistan (GOP) as an apex institution to serve civil society organizations (PPAF, 2016). Security and Exchange Commission of Pakistan (SECP) is the regulatory authority of PPAF. GOP created an endowment fund as an initial capital besides, PPAF subsequent funds from international donors and lenders, such as the World Bank. Core components of the objectives of PPAF are health and educational services, credit and enterprise development, and training and capacity building of PPAF's partner organizations (Duflos, Latortue, Mommartz, Perrett, & Staschen, 2007). PPAF aims and objectives are very close to the Millennium Development Goals (MDGs), including generating income, improving social and physical infrastructure, and developing poor people's skills.

Initially, PPAF started up with five Partner Organizations (POs) including, Agha Khan Rural Support Program (AKRSP) in Gilgit, Kashf Foundation in Lahore, Taraqee Trust in Quetta, National Rural Support Program (NRSP) in Islamabad, and the Family Planning Association of Pakistan (FPAP) in Lahore. Now, PPAF provides microfinance to many civil society organizations, including Rural Support Organizations, Microfinance Banks, Microfinance Institutions, and Non-Government Organizations. Over 129 partner organizations nationwide are currently working with PPAF, including Farmers Friend Organization, Khushali Bank, Women Social Organization, BRAC Pakistan, Poverty Eradication Network, and Punjab Rural Support Program. PPAF covers 36 districts and has 164 branches/loan centers; it disbursed Rs. 1.626 m funds to its POs; PPAF targets 36% male (20,814) and 64% female (36,303) with an average loan size of Rs. 20,525 (PPAF, 2015). The role of intermediate institutions like PPAF is to raise funds, grants, and donations from government and international donor agencies like World Bank and disburse them to poor people. The main objective of PPAF is to alleviate poverty in Pakistan by providing microcredit and increasing the income-generating ability of poor people and bring them out from poverty. To efficiently utilize international donations and government

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funding for alleviating poverty, PPAF needs to be financially self-sustainable for providing loans to various MFIs with the aim of public welfare. PPAF has initiated different projects and programs for providing financial services to poor people in Pakistan. PPAF needs to make efficient utilization of grants and loans provided by the donor or government regulatory organizations. It is observed that PPAF faced financial losses, and people working at PPAF were involved in fraudulent practices (Rana, 2013). So, there is a need to evaluate the performance of PPAF, particularly in the areas of sustainability and outreach. Prior studies, for instance, Yusuf, Shirazi, and Ghani (2013), Shirazi (2010), and Shirazi, and Khan (2009), were undertaken to assess the overall impact of PPAF activities on poverty alleviation. These studies used either the first Gallup Pakistan survey in 2002 with 1800 participants, followed by another survey conducted in 2005 with 3000 households (including both borrower and non-borrowers of funds). This study primarily undertakes PPAF for analyzing its performance in terms of financial sustainability and outreach over ten years 2007-2016, which is the most current. No study has been done to analyze financial sustainability and outreach of PPAF, so this study fills the research gap.

There is still a question mark on the self-sustainability of a microfinance institution to provide financial services to poor people and alleviate poverty. The viewpoint also holds that to alleviate poverty, MFIs do not need to be self-sustainable to give microcredit to poor people in the long run (Khan, 2010).

Approaches of Microfinance

Welfarists' approach, that is termed as the old paradigm focuses primarily on the objective of poverty alleviation. As its name Welfarists' Approach indicates, helping poor people come out of poverty, especially women, and let them be as self-sufficient and financially stable as possible. This approach tends to empower women and make them economically active. Welfarists' approach highlights the significance of subsidies and lending money at very low rate, that is subsidized rate regardless of profit earning or sustainability issues. Hence, it is a humanistic approach where more importance is given to poor people rather than the institutes working for poverty alleviation. In contrast, another approach that is called Institutionalists' Approach focuses on the profitability and sustainability of microfinance institutes. The argument is that more sustainable institutes will better help poor people in the long run.

Psychological Theory of Microfinance

Dr. Muhmmad Yunus presented the theory of microfinance psychology by differentiating microfinance and professional money lending organizations. Further, he stated that microfinance institutions could be profit-oriented if they serve the best in customers' interest. This theory comes up with a contradiction between what the main aim of microfinance is and what MFIs are intended towards maximizing private profits on lending money (Khan, 2010). Dr. Muhammad Yunus said that those socially motivated people serve social welfare at their best while generating profits side by side (Elahi & Danopoulos, 2004). Although, PPAF is a not for profit organization still PPAF is intended towards maximizing its profits besides the main social-oriented goal of alleviating poverty. Yet, PPAF attempts enlarging its sustainability and outreach simultaneously.

LITERATURE REVIEW

Grameen Bank's achievements and success lead towards an international focus on providing microcredit to poor people (Samer, Majid, Rizal, Muhamad, Sarah-Halin, & Nlizwa, 2015). In Pakistan, microfinance brought many unbanked people to the banking system to promote socioeconomic conditions in the country. Microfinance utmost comes up with an opportunity to empower women besides socioeconomic well-being, both in urban and rural areas. According to Abrar and Javaid (2016), those microfinance institutions that target women borrowers, have significantly higher performance in loan repayment, due to low default risk.

With a commitment to the government and central bank, microfinance can achieve financial sustainability and increase outreach (SBP, 2009). The empirical study of Yusuf, Shirazi, and Ghani (2013) showed a significant income difference between PPAF's beneficiaries and nonbeneficiaries but with a minimum magnitude. Also, the logistic regression model indicates no significant impact of PPAF on the poverty level of the sampled data (3000 respondents) in 2005. Shirazi (2010) used PPAF's 2005 data and investigated any mistargeting of funds among microfinance clients and found that only 30 percent were poor while the rest of the recipients are non-poor.

The argument continues that should MFIs be sustainable enough to provide financial services to the poor on a sustainable basis without any grants, funds, or subsidy. There is a need for training initiatives and technical assistance to make sustainable, efficient operations (Ahmad, 2011). According to Khan (2010), although MFIs in Pakistan are not large, it is not clear that either these MFIs have adopted the Institutionalists' Approach or Welfarists' Approach. Gross Loan Portfolio and Number of Active Borrowers are the two dimensions that can be taken to evaluate the outreach of MFIs. For financial sustainability, ROA, ROE, OSS, Profit Margin, and Total Portfolio to Total Assets ratio can be taken as indicators. Results showed that increasing outreach could be conducted as more new branches opening covering regions of a country. Fewer repayment rates can demonstrate operational performance; further, a capital structure having more debts shows a high dependency on government and donor funding (Rahman & Mazlan, 2014). Empirical findings of Tehulu (2013) showed that Loan Intensity, Size, Management Inefficiency, and Portfolio at Risk are found to be the most significant determinants of financial sustainability of East African MFIs. Another study of Ahmad, Ahmad, and Khan (2014) found a meaningful positive relationship between Total Deposits, Number of Depositors, Gross Loan Portfolio, and Number of Women Borrowers in India.

Moreover, these factors tend to increase outreach in India. Shu and Oney (2014) found that in Cameroon, MFIs failed to increase their outreach with fewer women and active borrowers. According to Aajmal and Qureshi (2011), although MFIs in Pakistan are charging very high-interest rates, that is almost 25 percent yet by considering loan losses, operating and administrating expenses, fixed and variable costs, MFIs are unable to attain self-sufficiency.

RESEARCH METHODOLOGY

This study examines financial sustainability under Institutionists' Approach and outreach under Welfarists' Approach for ten years from 2007 to2016. Two measures of outreach are taken, that is Number of Partner Organizations and Number of Districts. In comparison, eight financial sustainability measures, including ROA, ROE, OSS, PMR, DER, OER, FER, and TER, are included. This study uses authentic secondary data of PPAF taken from audited financial statements provided by governing authorities. This research's main objective is to analyze the financial sustainability and outreach of PPAF for ten years from 2007 to 2016 in context with the Institutionalists' Approach and Welfarists' Approach. Accordingly, it is hypothesized that financial sustainability and outreach significantly lead to the development of PPAF over the given period.

Formulae of Variables

The following indicators of financial sustainability and outreach are used from CGAP (2003).

Financial sustainability indicators

- **i.** Return on Assets (ROA) = PAT / Total Assets
- **ii.** Return on Equity (ROE) = PAT / Shareholders Equity
- **iii.** Debt to Equity Ratio (DER) = Debt / Shareholders Equity
- **iv.** Operational Self Sufficiency (OSS) = Operating Revenue / (Financial Expense + Loan Loss Provision Expense + Operating Expense)
- **v.** Profit Margin Ratio (PMR) = PAT / Revenue
- **vi.** Operating Expense Ratio (OER) = Operating Expense / Average Total Assets
- **vii.** Financial Expense Ratio (FER) = Financial Expense / Average Total Assets
- **viii.** Total Expense Ratio (TER) = (Financial Expense + Loan Loss Provision Expense + Operating Expense) / Average Total Assets

Outreach indicators

- i. Number of Partner Organizations
- ii. Number of Districts

DATA ANALYSIS

The following table shows the ratio analysis of both financial sustainability and outreach performance of PPAF for ten years, that is 2007-2016.

Table 1: Financial Sustainability and Outreach Ratios

Year /Ratios	Outreach		Financial sustainability							
	PO	NOD	ROA	ROE	PMR	DER	OER	FER	TER	OSS
2012	70	111	0.05	0.32	0.73	3.55	0.01	0.005	0.02	3.86
2013	74	117	0.04	0.21	0.61	2.85	0.01	0.004	0.03	2.57
2014	77	124	0.06	0.22	0.62	2.33	0.02	0.004	0.03	2.61
2015	87	127	0.06	0.22	0.64	2.03	0.03	0.003	0.03	2.79
2016	100	128	0.06	0.19	0.57	1.86	0.04	0.004	0.03	2.32
2017	116	129	0.05	0.15	0.49	1.70	0.04	0.005	0.05	1.97
2018	127	129	0.06	0.18	0.67	1.38	0.02	0.005	0.03	3.07
2019	130	129	0.05	0.16	0.41	1.22	0.04	0.005	0.05	1.74
2020	137	129	0.07	0.17	0.62	1	0.03	0.006	0.04	2.61
2021	137	129	0.06	0.13	0.51	0.85	0.02	0.008	0.03	2.87

PO= Partner organizations, **NOD=** No. of districts, **PMR=** Profit margin ratio, **DER=** Debt to equity ratio, **OER=** Operating expense ratio, **FER=** Financial expense ratio, **TER=** Total expense ratio, **OSS=** Operational self-sufficiency ratio

Note. Data has been extracted from audited financial statements of PPAF.

Table 1 shows financial sustainability (ROA, ROE, PMR, DER, OER, FER, TER, and OSS) and outreach (PO & NOD) ratios of PPAF for ten years 2012-2021.

Table 2: Descriptive Analysis

Statistics	PO	NOD	ROE	ROA	PMR	DER	OER	FER	TER	OSS
Mean	106	125	0.06	0.20	0.59	1.88	0.03	0.00	0.03	2.64
Std. devi	27.06	6.26	.05	.008	.09	.85	.01	.001	.009	.588
Skewness	-.121	-1.75	1.4	-.389	-.531	.797	-.041	1.19	.813	.572
Kurtosis	-1.93	2.20	2.9	.370	.05	.137	-1.45	2.39	-.022	1.33
Range	67	18	.19	.03	.32	2.70	.03	.01	.03	2.12
Minimum	70	111	.13	.04	.41	.85	.01	.00	.02	1.74
Maximum	137	129	.32	.07	.73	3.55	.04	.01	.05	3.86

Source: Data has been extracted from audited financial statements of PPAF

Table 2 shows the descriptive results of the sustainability and outreach of PPAF for ten years. Descriptive analysis shows that on average, the profitability of PPAF as Profit Margin is 59%, ROA is 6%, ROE is 20%, OSS 2.64, and average TER is 0.03. The maximum and minimum of PPAF's POs are 137 and 70, respectively. PPAF covered a minimum of 111 districts and a maximum of 129 districts within these ten years.

Financial Sustainability Analysis

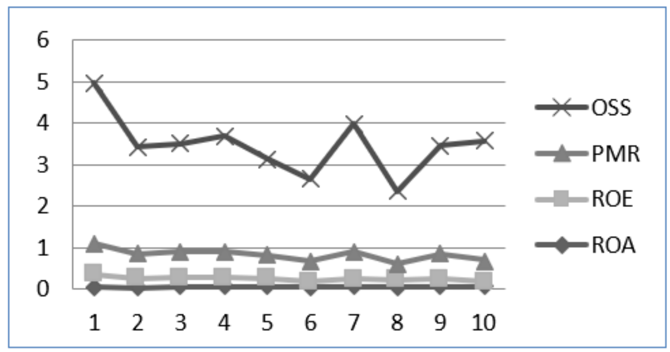

Figure 1: Sustainability (ROE, ROA, OSS & Profit Margin)

OSS trend is somewhat declining, showing that PPAF generates less operational revenue to cover all operating expenses during the latest ten years. Whereas Profit Margin, ROE, and ROA tend to be stable and positive. PPAF is said to be sustainable as it has positive values of ROA and ROE. These results are similar to the study of Rahman and Mazlan (2014).

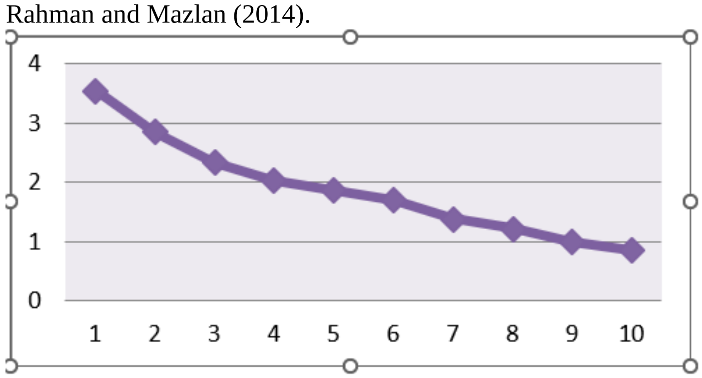

Figure 2: Sustainability (DER)

Increasing equity financing, in contrast with debt financing, also signifies the strength of PPAF.

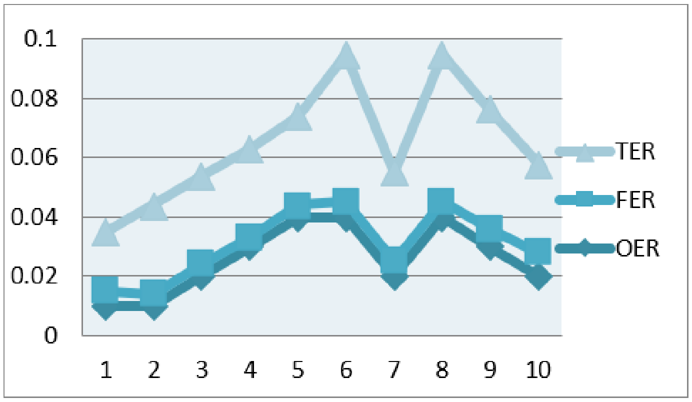

Figure 3: Sustainability (OER, FER & TER)
Source: Data has been extracted from audited financial statements of PPAF

Operating Expense Ratio, Financial Expense Ratio, and Total Expense Ratio show an upward trend until 2012, a sharp decline in 2013, and a rise in 2014. As PPAF has misused Third Project funds of $250m for personal benefits, it might impact decreased OPR, FER, and TER in 2013.

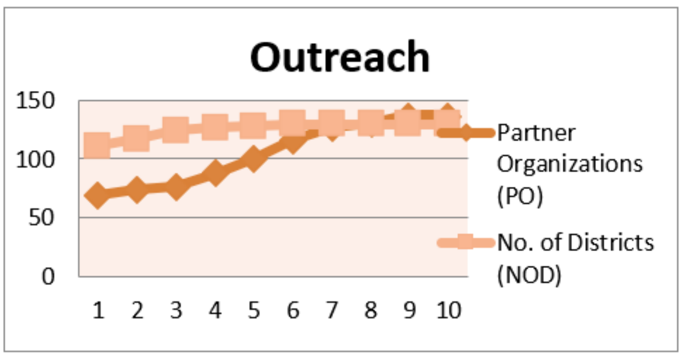

Figure 4: Outreach Analysis (PO & NOD)

Increasing outreach is also measured in terms of the number of branches, and new branches opened covering various regions of a country (Rahman & Mazlan, 2014). There is a positive upward trend in the outreach of PPAF over the ten years.

CONCLUSION AND RECOMMENDATIONS

PPAF's financial position is powerful with Rs. 32,285m total assets. In 2013, PPAF formally launched Prime Minister's Interest-Free Loan Scheme for three years; this program may increase operational self-sufficiency and decrease financial expenses, operating expenses, and total expenditure of PPAF. PPAF's Third Project funds worth $250m have been misused by PPAF for personal benefits and brought financial losses to the organization. Whereas, in 2014, the administrative costs of PPAF increased by Rs.591m, adversely affecting the organization. Despite low but positive ROA and ROE, PPAF has a high level of outreach. Many beneficiaries showed that PPAF is positively contributing to poverty alleviation in a country, and it has a significant impact on poverty alleviation. OSS, FER, OER, and TER have a fluctuating trend for over ten years. Hence it is recommended to develop a wholesale market in a country where international donors and government must inject new funds to PPAF for a positive and significant impact on poverty alleviation.

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