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

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Abstract

This paper examines financial sustainability and outreach of Pakistan Poverty Alleviation Fund (PPAF) over a period of ten year, from 2007 to 2016. Secondary data is used to calculate various financial ratios of sustainability and outreach. Analysis is performed from the viewpoint of two approaches of microfinance, that is 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. Findings of this study show that PPAF is financially sustainable with positive PMR 59%, ROE 20% and ROA 6%. PPAF has a high level of outreach showing that it has a significant impact on poverty alleviation in Pakistan. 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, Financial Sustainability, Case study, and Outreach.

This study examines 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 for the last few decades. The main goal of microfinance is to alleviate poverty and at the same time, sustainability and outreach of microfinance are of the greatest challenge for Microfinance Institutions.

PPAF particularly emphasize on poverty alleviation, improving livelihoods of poor people 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 towards identification, preparation, implementation, and lastly management of interventions. Moreover, PPAF's Partner Organizations (POs) and community institutions mobilize poor households and make them value driven (PPAF, 2017). In addition, PPAF follows the graduating approach for graduating poorest 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 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 endowment fund as an initial capital besides, PPAF subsequent funds from international donors and lenders, such as 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, et al., 2007). PPAF aims and objectives are very close to the Millennium Development Goals (MDGs) including generating income, improving social and physical infrastructure, and developing skills of poor people.

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 Family Planning Association of Pakistan (FPAP) in Lahore. Now, PPAF provides microfinance to a large number of civil society organizations including Rural Support Organizations, Microfinance Banks, Microfinance Institutions and Non-Government Organizations. Currently over 129 partner organizations nationwide are 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 these funds to poor people. The main objective of PPAF is to alleviate poverty in Pakistan by providing microcredit and increasing income generating ability of poor people and bring them out from poverty. In order to efficiently utilize international donations and government funding for alleviating poverty, PPAF needs to be financially self-sustainable

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for providing loans to various MFIs with an 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 donors 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. A large number of 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 first Gallup Pakistan survey in the year 2002 with 1800 participants, which was 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 the period of ten years 2007-2016, which is the most current. As previously no study has done to analyze financial sustainability and outreach of PPAF, so this study fills the research gap.

There is still a question mark on the level of self-sustainability of a microfinance institution to provide financial services to poor people and alleviate poverty. The viewpoint also holds that in order to alleviate poverty, MFIs do not need to be self-sustainable to provide microcredit to poor people in 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 to 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 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 psychological theory of microfinance by differentiating microfinance and professional money lending organizations. Further, he stated that microfinance institutions can be profit oriented if they serve best in customers' interest. This theory comes up with a contradiction between what 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 people who are socially motivated, serve social welfare at their best while generating profits side by side (Elahi & Danopoulos, 2004). Although, PPAF is a not-for-profit organization that still intends to maximize its profits besides the main socially oriented goal of alleviating poverty. Yet, PPAF attempts to enlarge its sustainability and outreach simultaneously.

Literature Review

Grameen Bank's achievements and success lead towards international focus on providing microcredit to poor people (Samer, Majid, et al., 2015). In Pakistan, microfinance brought large number of unbanked people to banking system with an aim of promoting socioeconomic conditions in the country. Microfinance utmost comes up with an opportunity to empower women besides other socioeconomic wellbeing, both in urban and rural areas. According to Abrar and Javaid (2016), those microfinance instituions which target women borrowers, have significantly higher performance in terms of loan repayment, due to low default risk.

With a commitment to the government and central bank, microfinance can lead towards achieving financial sustainability and increasing outreach (SBP, 2009). Empricial study of Yusuf, Shirazi, and Ghani (2013) showed a significant income difference betweeen PPAF's beneficiers and nonbeneficieries but with a very small magnitude. In addition, logistic regression model shows that there is 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 thatonly 30 percent were poor while rest of the recipients are non-poor.

The argument continues that should MFIs be sustainable enough to provide financial services to poor on sustainable basis without any grants, funds or subsidy and there is a need of training initiatives and technical assistance for making sustainable efficient operations (Ahmad U, 2011). According to Khan (2010), although MFIs in Pakistan are not in a large numeber, yet it is not clear that either these MFIs have adopted Institutionalists' Approach or Welfarists' Approach. Gross Loan Portfolio and Number of Active Borrowers are the two dimensions that can be taken to evaluate outreach of MFIs and for financial sustainability , ROA, ROE, OSS, Profit Margin, and Total Portfolio to Total Assets ratio can be taken as indicators. Resuts showed that increasing outreach can be shown as more number of new branches opening covering regions of a country, while, operational performance can be demonstrated by less repayment rates; further, capital structure having more debts shows high dependency on government and donors 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 positive significant relationship between Total Deposits, Number of Depositors, Gross Loan Potfolio 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 lesser number of 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 Institutions' Approach and outreach under Welfarists' Approach over the period of ten years from 2007 to2016. Two measures of outreach are taken, that is number of Partner Organizations and Number of Districts, while eight measures of financial sustainability 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. Main objective of this research is to analyze financial sustainability and outreach of PPAF over the period of ten years that is from 2007 to 2016 in context with Institutionalists' Approach and Welfarists' Approach. Accordingly, it is hypothesized that financial sustainability and outreach significantly lead towards 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 over the period of ten years that is 2014-2023.

Table 1 shows financial sustainability (ROA, ROE, PMR, DER, OER, FER, TER and OSS) and outreach (PO & NOD) ratios of PPAF for ten years from 2014-2023.

Table 1: Financial Sustainability and Outreach Ratios

Year	Outreach		Financial sustainab							
/Ratios	Partner organization	No. of districts (NOD)	Return on (ROA)	Return on equity (ROE)	Profit margin ratio (PMR)	Debt to equity ratio (DER)	Operating expense ratio (OER)	Financial expense ratio (FER)	Total expense ratio (TER)	Operational self- (OSS)
2014	70	111	0.05	0.32	0.73	3.55	0.01	0.005	0.02	3.86
2015	74	117	0.04	0.21	0.61	2.85	0.01	0	0.03	2.57
2016	77	124	0.06	0.22	0.62	2.33	0.02	0.004	0.03	2.61
2017	87	127	0.06	0.22	0.64	2.03	0.03	0	0.03	2.79
2018	100	128	0.06	0.19	0.57	1.86	0.04	0.004	0.03	2.32
2019	116	129	0.05	0.15	0.49	1.7	0.04	0.01	0.05	1.97
2020	127	129	0.06	0.18	0.67	1.38	0.02	0.005	0.03	3.07
2021	130	129	0.05	0.16	0.41	1.22	0.04	0.01	0.05	1.74
2022	137	129	0.07	0.17	0.62	1	0.03	0.01	0.04	2.61
2023	137	129	0.06	0.13	0.51	0.85	0.02	0.008	0.03	2.87

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

Table 2: *Descriptive Analysis*

	PO	NOD	ROE	ROA	PMR	DER	OER	FER	TER	OSS
Mean	106	125	0.06	0.20	0.59	1.88	0.03	0.005	0.03	2.64
SD	27.0688	6.2681	.0532	.0084	.0941	.8504	.0117	.0014	.0097	.5885
Skewness	-.121	-1.756	1.441	-.389	-.531	.797	-.041	1.192	.813	.572
Kurtosis	-1.938	2.207	2.999	.370	.050	.137	-1.457	2.396	-.022	1.335
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 sustainability and outreach of PPAF over the period of ten years. Descriptive analysis shows that on average 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 PPAF's POs are 137 and 70 respectively. While PPAF covered minimum 111 districts and maximum of 129 districts within these ten years.

Financial Sustainability Analysis

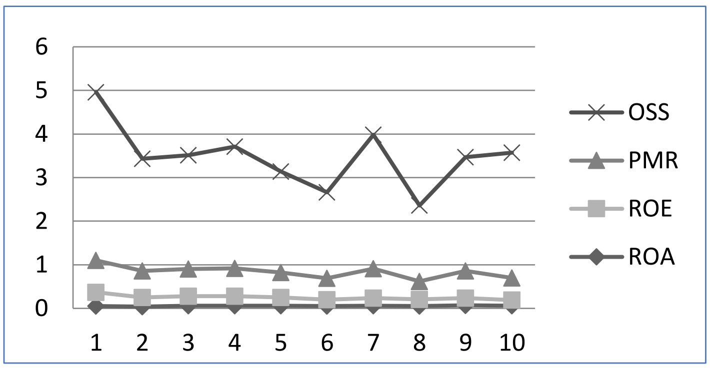

Figure 1. Sustainability (ROE, ROA, OSS & Profit Margin)
Source: Data has been extracted from audited financial statements of PPAF

The OSS trend is somewhat declining, showing that PPAF is generating less operational revenue to cover all operating expenses during the last 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).

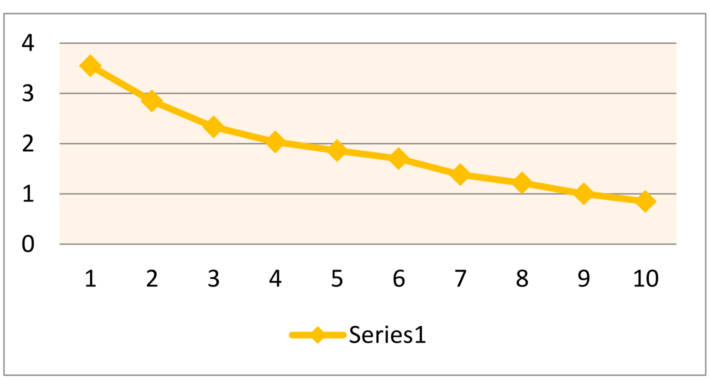

Figure 2. Sustainability (DER
Source: Data has been extracted from audited financial statements of PPAF

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

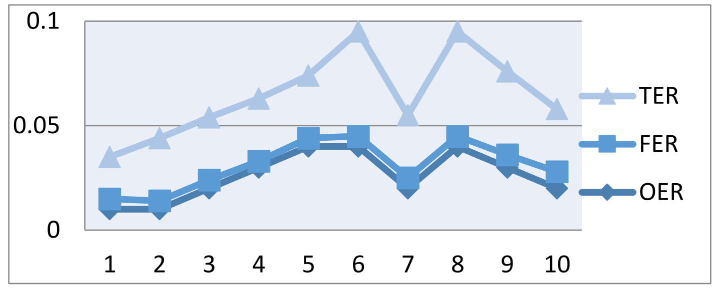

Figure 3. Sustainability (OER, FER & TER)
Source: Data has been extracted from audited financial statements of PPAF

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

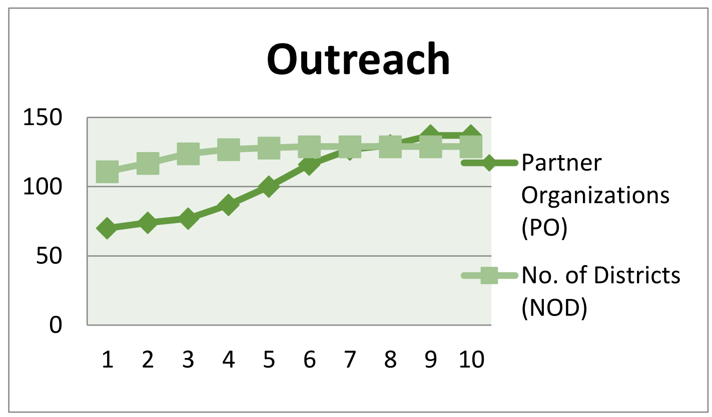

Figure 4. Outreach Analysis (PO & NOD)
Source: Data has been extracted from audited financial statements of PPAF

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

Conclusion and Recommendations

PPAF's financial position is very strong with Rs. 32,285m total assets. In 2013, PPAF formally launched Prime Minister's Interest Free Loan Scheme for three years; this program may tend to increase operational self-sufficiency and decrease financial expense, operating expense and total expense of PPAF. In addition, 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 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. A large number of beneficiaries showed that PPAF is positively contributing towards poverty alleviation in a country and it has a significant impact on poverty alleviation. OSS, FER, OER and TER have a fluctuating trend over ten years.

Hence it is recommended to develop wholesale market in a country where international donors and government must take steps in injecting new funds to PPAF for positive and significant impact on poverty alleviation.

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