Microfinance as a Vehicle of Liberal Political Ideals and Pakistani State

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Abstract

In recent years, microfinance has been a primary policy for combating poverty and socio-economic development worldwide. The common perception about microfinance is that it's simply about helping the poor by providing microloans and other financial services thus enabling sustainable socio-economic growth. The paper delineates the current perspectives of microfinance and its coexistence with the current social order and connection with the liberal cultural ideals. It is argued that microfinance has aggravated the problems for society instead of reducing it. This paper analytically analyzes microfinance and traces its underlying values. The analysis is based on the theory presented by Bishop (2007) that social science is deeply colored with liberal cultural ideals and commitment to these values has serious consequences in societies. It is being argued that the scheme provided by microfinance for poverty alleviation be aligned with the political agenda of liberals. It manipulatively influences governments to emasculate a wide range of developmental and progressive policies for society. Moreover, the current microfinance policy runs deeper than just changing the economic system of the country.

Keywords: Microfinance, Political Liberalism, Neoliberalism, Capitalism, Pakistan

Introduction

Around the vicious world circle of poverty has stricken the societies. Conditions are aggravating as the income differentials are widening worldwide. Not only developing countries but developed economies are also being captivated by poverty. About 3 billion people; which constitutes half of the world - are living on less than 2.5$a day (Chen & Ravallion, 2008).

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The general causes of poverty include bad government policies, wealth concentration, and corruption, wars, natural disasters, diseases, and environmental degradation. Furthermore there are deeper and global causes of poverty that are often overlooked; one of them is international aid for humanitarian emergencies and development as it comes with the high cost for developing countries and often unable to reach the poorest and accompanied with political agendas(Shah, September 28, 2014a). Besides, the poverty is being deepened in developing economies due to policies and structural adjustment programmes of international institutions i.e. IMF and World Bank (Shah, September 28, 2014b; Welch, October 12, 2005).

Globally attempts have been made and solutions are being suggested to combat poverty. One of the strategies is capital investment in building infrastructure that enhances the access to basic needs such as food, health care, education for poor. Moreover reversing brain drain (Stark & Bloom, 1985), debt relief to third world countries by international financial community (Gupta, Clements, Guin-Siu, & Leruth, 2002), controlling overpopulation (WorldBank, 2001), and income grants are among the noticeable schemes.

Yet the scheme of microfinance has fascinated many worldwide and gained immense popularity after 1970s. In this 21st century it has appeared as a silver bullet for alleviating poverty by providing micro loans and other financial services to financially marginalized people. It has revolutionized the concepts and ideas for combating poverty. It has been seen as an instrument for creating social equality in business field and better income redistribution through skill up-gradation, entrepreneurial ventures and women empowerment in male dominated society (Goldberg, 2005; Seibel, 2005).

However the impact of microfinance particularly microcredit is much controversial; such as according to Banerjee, Duflo, Glennerster, and Kinnan (2013), there is no evidence that microfinance empowers women. Literature suggests that the promises microfinance made are not fulfilled. Likewise,Duvendack et al. (2011) suggest that microfinance enhances the wellbeing of poor is not yet confirmed with evidence.

It is argued that microfinance has aggravated the problems for society instead of reducing it. This paper discusses the philosophical build-up of microfinance. It analytically evaluates microfinance and traces its underlying values and their connection with ideals.

Literature Review

What is microfinance?

Microfinance, according to (Otero, 1999, p. 8) is “the provision of financial services to low-income poor and very poor self-employed people”. These financial services according to Ledgerwood (1999) include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001, p. 339), define microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks.”

Therefore, MF is the provision of financial services to the poor segments of the society whom the conventional banking cannot cater. Microfinance services include insurance and savings, but the main focus of microfinance is to provide credit facilities to poor households, farmers and other promising entrepreneurs of the society so that they can sustain themselves by earning a living and also contribute to the society.

Origin of Microfinance

The history of microfinance can be traced back to 18th and 19th century, when the number of European countries started community-oriented credit unions and rural development institutions. It evolved from informal financial system for poor. During 1970s the number of unsupervised cooperatives delivered to the rural and urban masses, credit NGOs ushered, what came to be known as the microcredit revolution (Seibel, 2005). However, with the development of financial systems in 20th century, microfinance started acquiring legal recognition, mandatory regulations and became the part of formal banking system.

The modern use of the expression "microfinancing" has roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Muhammad Yunus, were starting and shaping the modern industry of microfinancing. In 1980s to onwards the pioneer MFIs (Microfinance institution) like ACCION (Americans for Community Cooperation in Other Nations) and FINCA (Foundation for International Community Assistance) grip hold the market and expanded across Latin America. Following the success of these early institutions, other microfinance organizations began to launch throughout the developing world (Krieger).

However, the term microfinance, originally meant to comprise financial intermediation between savers and borrowers, was created only in 1990. In the mid-1990s it was taken up by CGAP, the donor Consultancy Group to Assist the Poor (a microfinance window of World Bank), which has turned the microcredit revolution into the microfinance revolution and professionalisedmicrofinance(Seibel, 2005). Eventually the year 2005 was declared, the International Year of Microcredit by UN, the World Bank estimated that more than 7,000 MFIs were operating around the world (Krieger).

Origin in Pakistan

The first bank for the alleviation of poverty and support of rural farmers was ADBP (Agricultural Development Bank of Pakistan) which was established in 1970’s. Over the years the outreach and financial performance of this bank had not been satisfactory, and it was going through a restructuring phase. In 1980’s two other MFIs emerged namely AKRSP (Agha Khan Rural Support Program) and OPP (Orangi Pilot Project). AKRSP (Agha Khan Rural Support Program) was based in northern areas and OPP in Orangi Town, Karachi. In 1998, PMFN (Pakistan Microfinance Network) was set up to represent emerging MFI's. Moreover, with the support of World Bank, PPAF (Pakistan Poverty Alleviation Fund) was set up to provide wholesale refinancing to MFI's. PPAF has micro credit fund budget of more than PKR 10,513 million and it has disbursed more than PKR 4,013 million to MFI's. Also, UK Department of International Development (DFID) has contributed 10 million pounds to the State Bank of Pakistan to ease off the credit constraint and outreach of MFB's and MFI's. Another prominent microfinance institution is Akhuwat, founded in 2001, which took the initiative of lending interest free loans to poor (Rauf & Mahmood, 2009).

Models of Microfinance

The Grameen Bank (2002a) has identified fourteen different microfinance models of which three are most famously applied in Pakistan microfinance sector; Rotating Savings and Credit Association (ROSCAs), the Grameen Bank group model and the Village Banking models.

In Rotating Savings and Credit Associations, self-help groups are formed in which members of the group make periodic contributions to a common pool of funds and then this lump-sum amount is given to one member of the group at a time in one round (Grameen Bank, 2002a).

In Grameen Solidarity Group model loans are disbursed to a group composed of 4 to 7 individuals and the guarantee of loan repayment is made collectively by the group i.e. social collateral. In case of default of repayment by group the access to finance in future is constrained. The mechanism of group guarantee has proved to be an effective method in deterring defaults and has contributed to broader social benefits. This model has proved to be successful and gained much attention worldwide (Hasan, 2002).

Village Banking Model involves 20-25 members' credit and savings association established by NGOs which provide financial services to community and guide them in building self-help groups and self-employment activities. The loans are disbursed on the basis of social collateral. (Grameen Bank, 2002a). The loans to the village bank are disbursed by sponsoring microfinance institutions. According to Holt (1994) "the model anticipates that female participation in village banks will enhance social status and intra household bargaining power"

Microfinance Perspectives

The movement of microfinance is motivated by unison commitment and rhetoric of concern for the poor. However, under this harmonious movement for the appraisal of marginalized people in society, there is a variety of philosophical approaches, kinds of institutions and classifications of borrowers and delivery systems coexisting. Within the microfinance literature, two broad approaches or perspectives have arisen which suggest that the best way to empower the poor is to facilitate their access to financial services: *Institutionist Approach* and *welfarist approach*(Jonathan Morduch, 1998; G. M. Woller, Dunford, & Woodworth, 1999). Under the umbrella of microfinance, the difference or the debate between the two approaches is characterized as *microfinance schism* (Jonathan Morduch, 1998). In the following section the detail of two approaches is presented.

Institutionist approach

The gravity of institutionist world view is around the 'institution' which has to provide the financial service to the poor marginalized people who are not served by the formal financial system. The institutional success is measured in terms of financial self-sufficiency: breath of outreach, depth of outreach and number of active borrowers. Institutionist argues that breadth of outreach (i.e. number clients approached) is more imperative than depth of outreach (i.e. level of poverty reached). In other words, for the purpose of poverty alleviation, microfinance institutions need to focus on reaching clients on massive scale rather than deepening the penetration into poorer people (Copestake, 2007; Mosley & Hulme, 1998; Otero, 1999; Rhyne, 2001). The massive scale coverage requires huge resources which cannot be met with subsidies alone; private sources of capital are needed by MFIs to operate efficiently and profitably (Gonzalez-Vega, 1993, p. 25)

In addition, they insist on market-based approach to microfinance where a separate sustainable financial system can be developed for the poor, providing specialized services to them. However for the sake of financial sustainability, institutionist recommends a scheme in which microfinance institutions can avoid subsidies instead can generate highest return for the investors to draw more capital with which they can serve more clients and therefore alleviate poverty (Ayayi & Sene, 2010; CGAP, 2003; Chaves & Gonzalez-Vega, 1994; Gonzalez-Vega, 1998; Schreiner, 2003). The best-known examples of the institutionist approach are Bank Rakyat Indonesia (BRI) and Banco Solidario (BancoSol) in Bolivia (G. M. Woller et al., 1999)

Practitioners of institutionist approach consider subsides and aid as damaging to microfinance industry because subsidized institutions inherently are inefficient, unable to innovate or implement new technologies, and unable to achieve significant scale (Bisen, Dalton, & Wilson, 2012). Institutionist literature supports the fact that the cause of failure of Rural Credit Agencies of 1960s and 1970s was the lack of institutional viability due to subsidized system (Hollis & Sweetman, 1998a, 1998b).

G. M. Woller et al. (1999), concludes that the institutionist approach dominates the literature and practices of microfinance. He writes

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Institutionists have defined the "best practices" to assist the transformation of microfinance industry to the 'for *profit' status*. These practices are to guide institutions for: improving efficiency & effectiveness, capital access and financial sustainability.

Welfarist approach

The welfarist on the other hand centers their attention on the well-being of clients or participants. They emphasize on depth of outreach. Welfarist argues that institutions need to concentrate on reaching the poorest in the community; with the provision of self-employment to individuals and empowering women as they are more likely to improve the living of their children (G. M. Woller et al., 1999). They argue that institutional viability can be achieved with the mainstream untied aid and subsidies for alleviating the poverty. Corresponding to institutionist, welfarist have assumed more impact than they actually have been able to document. The noticeable example of welfarist institution is Grameen bank of Bangladesh and FINCA style programme in Latin America and their replicas (G. Woller, 2002).

Dominance of Institutionist

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G. M. Woller et al. (1999), states that,

> "*Institutionist has aggressively evangelized the microfinance community to have their views adopted, and they have enjoyed much success. That prominent institutionist have occupied at times key positions at the World Bank, CGAP, and USAID has greatly aided their cause, as has the impressive body of literature produced by institutionist writers. The influence of institutionist thought is clearly evident in that institutionist terms and concepts (e.g., sustainability, outreach, subsidy, subsidy dependence index, and best practices) have become the lingua franca of the microfinance industry*."(p5)

Institutionist approach to microfinance is more in tune with the prevailing culture of laissez-faire economics (G. M. Woller et al., 1999) or in other words neoliberalism (Bateman & Chang, 2009). The World Bank, in line with the objectives of neoliberalism has designed the particular policies to accelerate the liberalization programmes (Weber, 2006, p. 191). The World Bank's immense support to microfinance since 1990s is no coincidence and is subjected to the fact that its basic framework is in accordance with the free market capitalism i.e. financial liberalization and commercialization. Evidently the current structure designed by World Bank is a clear reflection of western cultural ideal i.e. political liberalism.

Western Cultural Ideals

The research conducted in the field of social sciences whether it is economics or political science, psychology or anthropology, claims to be value neutral, and the results obtained by them are considered as universal knowledge. According to Bishop (2007), social science theories and findings have contributed to unhealthy trends because of its claim to universality and value neutrality. It has produced some of the most detrimental trends in contemporary societies; for example, social alienation, hyper individualism, narcissistic fascination, overemphasis on instrumental control on others. The claim of being context free is unjustified from every aspect because social sciences discuss human behavior and behavior changes as the context changes. In other words, all the knowledge created by social sciences is context based and can't be applied in a similar fashion in any culture and context. The claim of being value neutral is inherently baseless as the social science inquiry is embroiled with some ideals and unexamined philosophical assumptions. These assumptions are the western cultural ideals that are historically developed and culturally embedded and they work disguisedly in social science inquiry. One prominent cultural ideal of western contemporary societies is political liberalism.

Bishop (2007), further elaborates that Western democratic traditions are based on following values such as: a person's individuality to be respected; a person's individual's right to be protected; a person's individual freedom remains unfettered; a person's individual values be tolerated. This western tradition lay down an important cultural Ideal, Political Liberalism. According to the Political Liberalism "The state should not support one conception of good life, advocating or reinforcing some conception of the good over others, restricts autonomy and individuality." it is a political philosophy based on the ideas of liberty and equality and generally it supports the wide array of ideas such as freedom of speech, freedom of religion, secular governments and civil rights etc. Root (1993) has identified political liberalism as an underlying or unifying theme among the social sciences. The other hidden assumption or disguised ideology in social science research is liberal individualism i.e. it represents a deeper layer of 'individualism' underlying political liberalism.

Genesis of western ideals

These liberal values were shaped and enthralled in enlightenment era. This was the era when development in natural sciences paved the way for philosophers, and scholars to challenge and negate the long-held traditions of the church and the clergy and their vision of world and government for perfect social order generally. The era of church s` rule, did not allow anyone to have freedom of creed, speech and ownership, as a reaction to that tyranny, Protestants arose against Catholics and for 500 years the war continued between Protestants and Catholics. These liberal values (political liberalism and liberal Individualism) were reaction to that rule of oppression by clergy and nobility (Heywood, 2012).

The cause of the birth and rise of political liberalism and liberal Individualism in the Western political, social and economic thought can be attributed to the scholars of the Age of Enlightenment such as Thomas Hobbes, David Hume, John Locke and Hegel. The development of the concept of Individualism is at the heart of economic thoughts of political economy and doctrine of laissez-faire (Gordon, 1991).

The early Enlightenment thinkers like Hobbes, Locke formed the basis of liberalism and argued that liberty and freedom from intervention are the natural rights of humans and that a framework of civil society must be designed that allows individuals to make voluntary social contract with the sovereign authority, transferring their natural rights to that authority in return for the protection of life, liberty, and property. From the 17th century until the 19th century, liberals – from Adam Smith to John Stuart Mill – conceptualized liberty as the absence of interference from government and from other individuals; claiming that all people should have the freedom to develop their own unique abilities and capacities without being sabotaged by others. The ultimate support for the doctrine of laissez-faire capitalism comes from the principle that rule of tyranny and dominion can only be impeded if the free market mechanism is realized, without any intervention from government (Gordon, 1991). The ideals of liberalism spread rapidly after the prominent revolutions i.e. the American Revolution and French Revolution. However, the consequences of industrial revolution by the end of 19th century in Europe and North America were embittering; as it resulted in concentration of wealth in the hands of few industrialists (Von Mises, 2005).

The liberal ideology that global free trade is necessary for peaceful social order was the prominent feature of colonial context of seventeenth-century America, eighteenth-century India, and nineteenth-century Australia and New Zealand. The imperial policies of British, under the facade of liberal discourse imposed their liberal values worldwide (Heywood, 2012). By the 20^{th} century the Great Depression captivated the world, which invigorated pleas for state intervention and control over economic affairs. John Maynard Keynes (1883-1946) gave the theoretical justification for interventionist policies for confronting recession in his *The General Theory.* He advocated that government should intervene and invest in public works in the times of massive unemployment (Markwell, 2006).

Recently there has been a revival of classical liberal ideologies after the introduction of economic policies by Margaret Thatcher in the United Kingdom (the 1970s) and Ronald Reagan in the United States (1980s). This renewal of classical liberal ideologies is called *neoliberalism*. It represents a set of economic and social policies which promote; privatization, free trade, free market mechanism, and impedes; government budget deficits financing, the concept of public goods and government regulations even welfare or environment protection policies (Boas & Gans-Morse, 2009, p. 100; Duménil & Lévy, 2004; Jones, Parker, & Ten Bos, 2005; Palley, 2005).

Critical Analysis

Microfinance is a social phenomenon, and its regulatory framework is administered by government. It is mostly assumed to be 'without any ideology' and simply about 'serving the poor by alleviating the poverty'. However the case is contrary, microfinanceis exactly aligned with the core policies of neoliberalism, the prevailing ideology of this century (Bateman, 2010; Harvey, 2006).

Neoliberalism is a cultural ideal illustrating capitalism and is prevailing through the so-called globalization. History has proved that capitalistic economic system always deepens the poverty by increasing the gap between the rich and poor.Globalization can be seen as a phase to which capitalism ultimately leads to. It has facilitated foreign giant investors to take over the local markets that were previously kept safe from cheap imports by government regulations. The Structural Adjustment Programs imposed by World Bank in the third world countries has immensely facilitated big corporations and banks to capitalize anywhere they want. The poverty has been intensified in third world countries because multinational corporations are now able to capture local resources and monopolize the markets (Boas & Gans-Morse, 2009).

In this neoliberal globalization regime, microfinance has been allocated a 'containment' role. As neoliberals argue that promisingly globalization can lead the society towards development and poverty reduction.However, on the contrary, globalization has been driven by few elites of developed countries -especially of US government (Chang, 2007; Gowan, 1999; Stiglitz, 1998); which has increased the concentration of wealth in few hands. Today the potentially chaotic situation emerging in many developing countries along with dismantled universal social welfare systems under the IFI direction and reduced public employment opportunities, microfinance is appearing as an essential 'safety value' (Bateman & Chang, 2009).

There has been a shift in World Bank's ideology to alleviate poverty from welfare state funded approach to market-based strategies. Especially after the reconstitution of Microfinance model i.e. a commercial revolution of Grameen Bank in 1990s, the renovated model was ardently encouraged by World Bank and Bretton Woods Institutions (Bateman, 2003; Drake & Rhyne, 2002; Otero, 1999) and was justified to be called as neo-liberalized practice (Bateman & Chang, 2009)

Microfinance is closely associated with the core doctrines of liberalism. To the extent it would be valued worldwide as a legitimate tool for alleviating poverty at individual level and collectively; could manipulatively influence governments or state to emasculate a wide range of developmental and progressive policies for social and political agendas. In simple words, it promotes political liberalism disguisedly. The liberal capitalists of this century fright that the poor class can protest for their rights and demand for; the productive state intervention, land ownership reform, robust social welfare programmes, accessibility of quality public services, income and wealth redistribution. Such demands can cause state to intervene and can unsettle the power and freedom of established elites (Feiner & Barker, 2007). Therefore, neoliberal advocates it as an idea that the real development in society results from individual entrepreneurial activities rather than from state intervention. Thus, microfinance is serving as a model for addressing the issue of poverty in a way that does not challenge or distort the structures of neoliberals (Bateman & Chang, 2009).

Clearly microfinance is in accordance with the doctrine of laissez-faire because it fortifies the conception of financial self-sustainability and undermines the idea of government backing for the organizations. Initially, the model of Grameen bank fascinated western development community because it was a non-governmental initiative and was financially self-sustained. The Grameen model highlighted the fact that all MFIs can make themselves sustainable for their survival in market, by recovering their operational, financial and additional costs, without the injection of government aid. This later became the ‘best practice’ i.e. operational advice and standard policy for all MFIs. Moreover, this resulted in inhabiting the developing countries with ‘for profit’ Grameen style MFIs, reinforced by international donor community (Bateman & Chang, 2009).

The long run goal of international financial institutions (IFIs) and donor community is to replace the state provision of public goods with private provision of such goods, on the basis of ‘full cost recovery’ by private organizations (Bateman, 2003). In this context, microfinance is serving as a long run substitute for social welfare spending by state and international donor support, by charging user fee for the basic goods like education, health and housing, hence recovering its cost. In this way, government can avoid its responsibilities towards poor, as soon as poor’s are made to accept that they are in control of their individual and family destiny through microfinance. e.g. in India, the study of Harper (2007, p. 258) indicates that the demands of basic needs like education and health services by deserving community, are being refracted on the basis that poor people should purchase such services from private sector i.e. private microfinance institutions.

Moreover the microfinance banks’ lending practices are explicitly modeled on those of commercial banks. Elahi and Danopoulos (2004), state that microfinance is about the profitable banking with the poor, it does not cherish the so-called philanthropic spirit instead is motivated by profit maximization just like commercial banks. Globally, the agencies like Consultative Group to Assist the Poorest (CGAP), a microfinance window of the World Bank, directs MFIs to adopt interest policies, so as to achieve full financial sustainability and eliminates reliance on subsidies (Parker & Pearce, 2001).

In the devious web of neoliberalism, 'individuality' is at the core and is also the fundamental concept in the model of microfinance. In the words of Fernando it is, "the methodological individualism of neoclassical economics" (Fernando, 2006, p. 19). The rational basis of micro finance is that for poor, being small entrepreneur is the only chance to get out of scarcity. Therefore, microfinance lays all the financial responsibility on the poor by making him small business owner rather than promoting a collective effort for redistribution (Weber, 2002). Many scholars have criticized institutionist approach of microfinance on the basis that; if the core focuses of this sector is on profit maximization then how can it realize the social objective of poverty alleviation (Lewis, 2008; G. Woller, 2002; G. M. Woller et al., 1999). Additionally the poorest of poor are deliberately excluded from the financial service under this approach (Simanowitz, 2002). It is argued that the idea of commercialization is based on conventional economic system, which pushed poorest out of the system in first place and created the financial gap in the society. The pioneer advocate of microfinance, Jonathan Morduch, co-author of many book on economics of microfinance, concedes that theoretically the economics of microfinance suggests that it has benefits but "[r]igorous evidence that shows it happening just doesn't exist … The evidence is pretty dicey."(J. Morduch, 2007).

Microfinance in Pakistan and its Effects

Under the influence of neoliberalism and globalisation the microfinance industry in Pakistan has undergone some major changes. In recent years, the change in the policies and practices of microfinance indicates a shift towards commercialisation i.e. institutionalist approach. Before the influence of commercialisation the MFI`s were heavily subsidised by the international donor community but with the passage of time non-profit organisation are becoming regulated financial institutions. Many microfinance organisations especially microfinance banks are drifting from their social, moral mission of poverty reduction to financial sustainability and profitability (Hina, 2010).

The Government of Pakistan has played a key role in this regard. Microfinance is considered as an economic development strategy by the Government, as clearly indicated in the vision statement of microfinance department reports by State Bank of Pakistan. The establishment of Pakistan Microfinance Network (PMN), the Pakistan Poverty Alleviation Fund (PPAF) and the opening of a microfinance unit by the State Bank of Pakistan (SBP) (CGAP, 2007), the constitution of Microfinance Ordinance in 2001 are the milestones in the microfinance sector of Pakistan.

Microfinance banks are particularly following the capitalist policies. They have adopted a business type strategic model and fragmented the market in order to operate profitably. For the sake of sustainability and minimum risk, microfinance banks are operating in particular and limited geographical area and are not exploring the rural areas where the demand for such services is immense (Hina, 2010, p. 23). The commercialised microfinance banks like Khushhali Bank, First Microfinance Bank and Kashf has broadened their product base, but the products are designed in the way that it caters the need of micro entrepreneurs and does not target the 'less financially able' clients (Hina, 2010, p. 15).

KashfFoundationis considered as one of the most successful microfinance programmes in Pakistan, which is based on Bangladeshi Grameen model. Apparently, it is perceived as a benchmark for other microfinance institutions because of its accomplishments and rigorous efforts towards sustainability (Muhammad, 2010). There are many other microfinance institutions in Pakistan that replicate Grameen model. The Grameen model has fascinated development communities worldwide, especially west because the underlying ideals and principles astonishingly match with western values. The values like entrepreneurialism, free market, gender equality, women empowerment and individual rights are the core assumptions of microfinance, and Grameen model reinforces them (Fernando, 2004).

As Kashf has replicated Grameen bank model so their primary target is women empowerment(Mughal & Mughal, 2014). Kashf is operating on conventional model of MF and charges up to 22% interest from its borrowers (mftransparency.org, 2013).The microfinance`s ideology of women empowerment is in line with the capitalistic perspective about women`s rights, needs and liberation. The underlying assumption is that the women will have more freedom and self-confidence if they gain access to income generating activities or microenterprises; which is a core reflection of western liberal values. It seems that the manipulative policies of microfinance tend to impose such values through their practices and techniques. The basic questions in this situation arises that whether the eastern women want to own and run their own business or even want independent economic standing? Do they want to take the primary responsibility of earning for household purposes? The western development community implies that such liberal values are prerequisite for development. Furthermore, these organizations target women as major actors in economic development, as opposed to sole attempt to empower them socially and academically (Fernando, 2004). During the 1980s, gender was introduced into development work, including into micro finance organizations. Proponents argued that women needed to be included as part of the broader formal economy. Hence the idea of women empowerment is deeply connected with the capitalist movement.

It has been realized that microloans are rarely used for the business and mostly consumed for household affairs. The inability to repay loans and accumulated interest further strangulate the poor when marginalized people use such money for small business, they usually face failure because of lack of guidance and market knowledge (Ogden, 2008). The assumption underlying the glorious idea of entrepreneurship for poor is that individual must be self-reliant and he is the maker of his own destiny, an idea originating from yet another western cultural ideal i.e.*existential individualism* (Fernando, 2004). However even a layman can understand that not everyone has that kind of business mind and entrepreneurial skill. Additionally, in the short run the number of small businesses may increase in local economy but in the long run they will perish in the face of adversity and hyper competition.

Recently, the model of Akhuwat has gained much prominence because of its sharia complaint lending. It has presented an Islamic microfinance model based on interest free loans (*qarz-e hasana*). Their recovery rate is as high as 99% due to which it is considered as a sustainable MFI. It has revived the Islamic tradition of dealing with loan agreement in a sacred place as mosque (Siddiqi, 2008). However, the depiction is not as fascinating as it seems. The entire financial system is working under capitalistic policies where the motive is profit maximization; there is a high probability that funds of millions which are disbursed by government through Akhuwat are first reinvested in several financial institutions so that profits can be earned. However, the assertion could not be officially confirmed as political environment is fraught with suspicion, lack of transparency and cover-up.

Another common assertion is that NGOs like microfinance institutions can influence voting pattern of the local area in which they operate. In case if they can create such impact then the money pouring into MFIs is not for the sole purpose of poverty alleviation, indeed greater agenda can be realized through these. Besides the loan amounts denominated to marginalized people are so small that they cannot break the vicious circle of poverty. The limitations and conditions on loans along with high interest rates; lack of training and business support are the reasons due to which microfinance is perceived negatively (Siddiqui & Gilal, 2012)

Duvendack et al. (2011), through a critical review of 58 papers covering experiences in 18 countries concluded that "there is no good evidence for the beneficent impact of microfinance on the well-being of poor people" and that "the greatest impacts are reported by studies with the weakest designs" The report of Duvendack et al. (2011) shows that the major studies conducted in Pakistan such as: (Montgomery; Setboonsarng & Parpiev, 2008; Shirazi & Khan, 2009) has the high risk of bias in their research designs and provide no satisfactory evidence of positive impact of microfinance on poor. There is a need for empirical research with strong research designs in this area which evaluate the overall impact on the reduction of poverty.

Moreover, the current microfinance policy runs deeper than just changing the economic system of country and does not mesh with the local culture. In many traditional cultures and indigenous communities, this phenomenon of microfinance reinforced by western liberal ideals clashes with the traditional values, and is difficult to embrace (Gorshkova, 2012, May 2). This is especially true in the case of Pakistani culture, where the well-being of the community and environment is valued over individual pursuits. Pakistan is an Islamic republic and Islam clearly forbids usury. In fact, there are very strict commandments against interest, yet government welcomes this outlandish concept. Consistent foreign pressures and aid from US and IMF with strings attached has persuaded Pakistan to sow the seeds of microfinance which will later poison the field as it did in India, Africa and many countries around the world.

The article supports the thesis presented above (In the western cultural ideal section) that knowledge and research endorsed by West in social arena are ethnocentric and value laded. It is embroiled with their cultural values. Such value laden knowledge when considered and applied as universal knowledge can only produce disorientation in society (Bishop, 2007). The policies being designed for Pakistan by the international financial community and the western knowledge penetrating our curriculums are promoting their values. It will produce the same detrimental effects on eastern societies like social alienation and social fragmentation, as West has witnessed.

Conclusion

Microfinance is a social phenomenon which is mostly assumed as value-neutral and simply about ‘serving the poor by alleviating the poverty’. However, the in-depth analysis illuminates that the underlying assumptions of it are aligned with the western cultural ideals. Clearly political liberalism is serving as a disguised ideology because the current policies of microfinance enforced by World Bank and the current world view (institutionist) fortifies the conception of financial self-sustainability of Microfinance institutions and undermines the idea of government backing for the organizations. It is serving as a model for addressing the issue of poverty that pleases the liberal capitalists of this century. The values promoted by microfinance like entrepreneurialism, free market, individual rights are astonishingly those of western cultural ideal i.e. political liberalism. The microfinance`s idea of women empowerment is in line with the western perspective about women`s rights, needs and liberation. It seems that its policies manipulatively tend to impose such values on eastern societies through their practices and techniques. These cultural ideals are being reinforced by microfinance and are creating problems in Pakistani society. The microfinance industry of Pakistan is growing and transforming rapidly under the directions of foreign global institutions like World Bank and IMF to harmonize with current capitalistic social order. However, microfinance is socially fragmenting the society and, in the process, alienating the people from their local cultural values and creating other problems. Therefore, the knowledge imported from west in social arena should not be considered as universal nor implied as an ultimate wisdom.

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