

### Urban Poverty Alleviation Program (Part of NRSP)

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#### **Brief History**

The Urban Poverty Alleviation Program (UPAP) is a subsidiary program of the National Rural Support Program (NRSP), the largest Rural Support Program (RSP) in Pakistan. UPAP was established in June 1996 in the urban areas of Rawalpindi and Islamabad, with funding from UNDP. Since then it has experimented with various lending strategies, first modelled on the Grameen Bank, and extended its operations into two more major cities, Faisalabad and Karachi.

#### **Methodology**

UPAP extends microcredit services to finance income-generating activities only. UPAP utilises a solidarity group approach, and enforce strict repayment discipline through peer pressure and close group supervision. UPAP establishes loans centres in settlements of typically 4,000 to 6,000 households. Staff (local and non-local) are recruited and trained on the basic microcredit principles. They become responsible for the monitoring and recovery of loans made to borrowers residing in the settlement.

Group methodology gives UPAP time to assess borrowers capacity, to minimise costs to serve a large customer base, and to make the best use of group solidarity in case of problematic repayment.

UPAP is particularly concerned with potential misuses in implementing a lending program in settlements and thus has emphasised the set up of transparent, secure systems to govern UPAP lending procedures. High recovery rates are rewarded with annual staff bonuses. UPAP implements an incentives scheme to maintain its very low delinquency rate.

#### **Area of Operations**

UPAP operates three branches in the Pakistani cities of Islamabad and Rawalpindi (one branch), Karachi and Faisalabad. It currently serves 48 settlements.

#### **Clients**

UPAP serves poor Pakistani men and women of urban areas, though it does place special emphasis on its services to women. Despite the fact that almost 100% of borrowers are women, only 36% undertake directly the economic activities financed by the UPAP loans, most often it is their husband (44%) that would run the business. UPAP has so far reached 16,878 borrowers. 6,000 of these clients have borrowed from UPAP more than one time. 60% of loans have financed existing businesses, while 40% have supported new ventures. Two thirds of UPAP clients are illiterate. Only 0.50% of UPAP clients are late borrowers.

Active clients	Active savers	Active borrowers	Gender
11,551	-	11,551	99.6% women

As of 31 December 2003

**Poverty Focus**

75% of UPAP clients have taken a loan of less than Rs.10,000 (US\$181). 48% of the clients have an income between Rs.500 and 1,000, 10% less than Rs500.

Average outstanding loan size (US\$)	Average outstanding loan size / GNP per capita	Average deposit size (US\$)
187	45%	-

As of 31 December 2003

**Distinctive Features**

UPAP posts very high recovery rates, even for microfinance, with a 99.97% on time collection rate and a 99.9% cumulative recovery rate. Moreover, UPAP maintains very low overhead costs, thanks to different factors, such as a recruitment of graduated people requiring low salaries, small offices rented cheaply in settlements, serving the population nearby (4000-6000 households) without the requirement of vehicles. However, its staff productivity is still low in comparison to other programs operating in urban areas, and it lacks a specific governing body.

**Innovations**

UPAP's strong anti-corruption stance is unique to the Pakistan's financial services industry. The opportunity for rent seeking behaviour in the microfinancing sector is apparent, and UPAP has implemented a policy to minimize it, including on-site investigations, an MIS generating daily monitoring reports, and quarterly report that discloses problems and solutions.

UPAP charges interest rates on a daily basis, which facilitate computations and early repayments.

**Financial results**

Despite UPAP being overall dependent on subsidy to become fully sustainable, its oldest and largest branch, Rawalpindi/Islamabad, is financially self sustainable (113.8%).

Loan Portfolio (US\$)	Portfolio at risk	Savings Deposits (US\$)	OSS / FSS	RoE / RoA
1,320,000	0.30%	-	80%/76%	/ - 4.08%

As of 31 December 2003

**Challenges and development plans**

UPAP has obtained a  $\alpha$ - rating grade (recommended), from M-CRIL, an international rating agency in March 2004, which see the potential for UPAP 'to become one of the leading MFIs in South Asia'. UPAP is currently exploring the idea of becoming a regulated microfinance bank.

**Inclusion in financial Sector**

UPAP borrows from the First Women Bank (6% interest) and has the intention of becoming a regulated institution, supervised by the central bank of Pakistan.

**Sources:**

- UPAP, 21<sup>st</sup> Quarterly report Oct-Dec 2003
- UPAP internal management reports as of December 2003
- MCRIL Rating – Risk Assessment Report for UPAP, March 2003