

Economic Gains through the Provision of Financial Services to Women in Pakistan – An Impact Assessment of Kashf Foundation

International experience demonstrates that the best channel to deliver financial services is through a pro-poor and client friendly microfinance methodology- this generates both economic and social returns for microfinance users. Kashf Foundation has been providing financial services to women from low income communities since 1996 in order to enhance the economic well being of low income households. This has been combined with a focus on improving the social status of women within their families through gender based activities.

For Pakistan, poverty continues to be a growing concern with at least 3 out of every 10 households living at or below the poverty line. In the face of an increasingly tough socio-economic environment, visible through massive inflation, and high levels of unemployment the conventional view is that low-income households can turn their economic status around by setting up small businesses through availing microfinance services. Moreover, it is believed that microfinance services catering to low-income households through women help empower women and increase their social awareness and worth. Kashf Foundation has undertaken an impact assessment study to determine the impact of its operations on the target market against the backdrop of a severe economic down turn that is having a deep effect on the bottom of the pyramid. The study explores the potential of microfinance to reduce economic vulnerabilities of poor households in such an environment. This brief provides an overview of the research findings.

Research Study

Kashf Foundation commissioned ShoreBank International Pakistan to study the impact of microfinance on household well-being evident through the economic and social impact of microfinance, and gender and empowerment aspects within and outside the household for women.

Methodology

The study was undertaken with new and old clients through household interviews. This was complimented with a qualitative assessment of impact through Focus Group Discussions and case studies. The sample size was determined keeping the confidence level at 95%. In order to assess the impact of microcredit, key indicators were compared between old (clients in their 4th loan cycle) and

new clients (clients in their first loan cycle). The study was undertaken in 3 of the biggest markets of Kashf Foundation, i.e. Lahore, Kasur and Gujranwala, all located in the province of Punjab. The study findings were tested for statistical significance.

Socio-Economic profile of Kashf Clients

In order to assess the impact of a microfinance institution, a key step is to profile the active clients. The Impact Assessment Study showed that Kashf Foundation clients are typically in the age band of 20-50 years and are married.

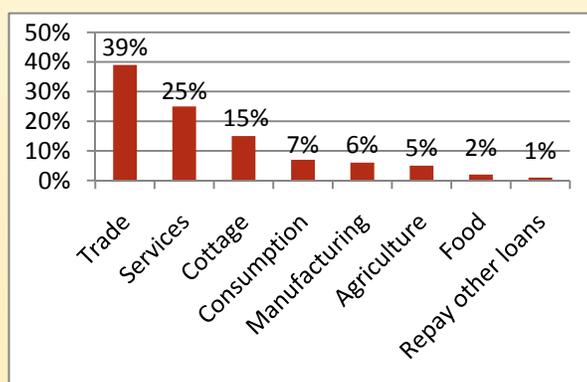
Only one out of three borrowers has received formal education, which shows that the literacy rate of Kashf Foundation's clients is lower than the provincial average. This signifies the 'deep' outreach of Kashf Foundation.

The average family size across the sample was 7.1 which is closely comparable with the national average of 7.0 and Punjab (urban) average of 7.2. The mean dependency ratio (no. of dependents per earner) is 3.36. The dependency ratio of old clients is less than new clients, suggesting that older clients have been able to increase their income sources with help of microcredit and thus to a certain level have been able to reduce their economic vulnerability.

34% of Kashf client households rely mainly on irregular income through daily wages, small businesses or seasonal businesses, further signaling the deep outreach of the MFI, while 36% have established businesses and 30% are relying on sources such as salaried jobs as domestic help or contractual labor. In the city areas (Lahore, Gujranwala) females are normally engaged in home based embroidery work, sewing, stitching, knitting, grocery shop, hosiery, football stitching and other small businesses. Males are typically involved in small businesses, wage labor, drive rickshaws, work in factories, fruit cart and cottage industry etc. In Kasur some of the clients (both male and female) were engaged in farming on own land or sharecropping.

Loan Utilization

Nearly 90% of microcredit lent by Kashf Foundation is reported to be used for productive purposes – such as agriculture, home-based industries/manufacturing, small retail shops, etc. Approximately 10% of the loan amount was reported to be used for consumption purposes – which included 1-2% also used to repay other loans. The high proportion of business utilization is consistent for new and old clients.



Around 60 percent of clients report using Kashf loan to start a new business – some even start multiple new businesses over different loan cycles. These businesses are usually seasonal, and lie in different sectors though trade and services dominate. In some cases these ventures grow to become permanent businesses. The

fact that so many new businesses are started using Kashf loans indicates that the credit is going towards increasing and supplementing household incomes of bottom of pyramid borrowers and supporting entrepreneurship at a nascent level.

Impact on Household Savings

Nearly two-thirds of clients that have been with Kashf Foundation for more than 4 years report increase in savings over the last 12 months. This trend is particularly important keeping in mind the recent inflationary crisis—where the capacity to save of the average low income household has decreased considerably. The fact that a large number of Kashf Foundation clients have experienced higher savings is a testament to the role of microfinance in enhancing income and reducing cash flow irregularities within the household.

For clients that reported a depletion in household savings, the study investigated the reasons behind the depletion and 36 percent blamed the worsening economic situation in the country for reduced income over the last one year which forced them to dip into their savings and the remaining attributed it life cycle needs (18%), investments in business (18%), loss in business/employment (13%), and sickness (11%).

The above mentioned trends indicate an important fact—borrowing from Kashf has played a crucial role in enabling clients that have been with the Foundation for 4 years or more to be able to cope with the adverse economic environment and maintain or increase their savings.

Economic Situation

34 % of clients that have been with the Foundation for over 4 years consistently reported improved economic situation over the last 12 months. This demonstrates the poverty reducing effect of Kashf microcredit. When asked about the basis for stating improvement in their economic situation clients reflected on the long-term benefits of the loan, i.e. improved food security, improved standard of living, and improved ability to build household assets. This difference was statistically significant across old and new clients.

Food Security

When asked about food security, a statistically significant number of old clients in Gujranwala reported improved food security compared to new clients. In Lahore and Kasur there was no statistically significant difference in the old and new clients that reported facing food security problems in the last one year. However, across the board households that reported consumption use of Kashf microcredit were more likely to face food insecurity and reduced savings. This indicates the supportive role of Kashf microcredit in enabling bottom of pyramid households

cope with poverty.

Economic Mainstreaming of Low-Income Households

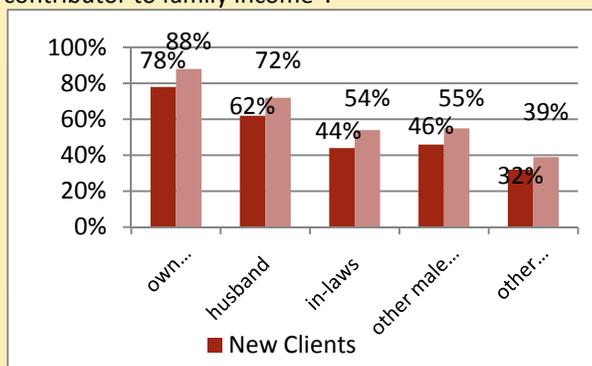
Kashf Foundation has also enabled many new persons to enter the formal economy. Of the sample of new disbursements in this study- 50% of the clients did not have a bank account prior to joining Kashf, and opened a bank account as a result of the Kashf relationship. Around 25% of the sample obtained a new national identity card to borrow from Kashf. This shows that Kashf's credit methodology has enabled the financial mainstreaming of a large number of low-income households.

Social Impact of Kashf

Decision making was found to be closely linked with client education level. Educated clients (those who had completed up to Matric (10 years) or higher were found to be more likely to decide loan usage and use the loan. However, the study found a high level of awareness of repayment source in Kashf clients despite the low levels of literacy amongst its clients. This signifies an increase in financial awareness of Kashf clients and emphasizes that women are not just passive recipients of the loans. A little over 90% of clients reported being aware of the source of their monthly installment amount and only a small fraction 6-8% reported ignorance about this issue. 100% for clients that are the main income earners of their households reported complete awareness on this issue. This proves that financial entrepreneurship is very strongly correlated to female empowerment, and provides a key learning for the sector in terms of loan targeting.

Change in Social Status

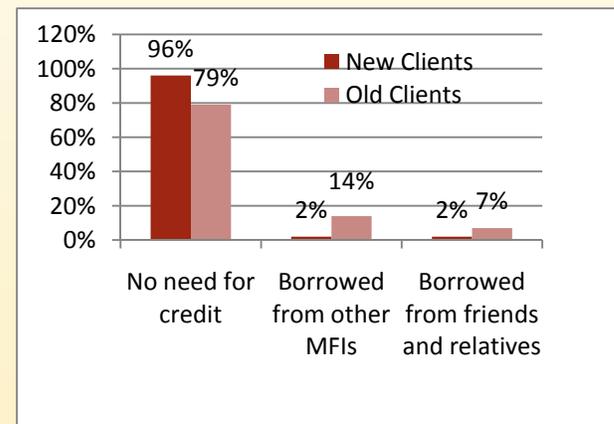
Clients were asked to evaluate the change in their social status in last one year in their own eyes as well as in eyes of their relatives. There was a high sense of improved perception reported by both old and new clients; however, more old clients reported improved perception of themselves in their own eyes and in the eyes of their significant relationships. This difference between new and old clients is statistically significant for own perception. The most commonly cited reason for perception improvement was "I have become a contributor to family income".



Conclusions

Microfinance services offered by Kashf Foundation have helped in providing low income households with the opportunity to invest in economic activities, along with improving women's participation in the household economy. The study shows that if a Kashf client is the main earner of the household then she is twice as likely to be solely responsible for loan related decisions such as where the loan will be invested and where the profits from the business will be invested. Kashf Foundation's old clients are found to be economically more stable when compared with new clients – a result that was found to be statistically significant. Clients that reported using Kashf loan for consumption were likely to face food insecurity and depletion in savings – highlighting that microfinance institutions must be responsible financiers.

Nearly one quarter of clients (both old and new clients) reported borrowing from other sources before joining Kashf, while 79% of new clients reported not borrowing from any source after their commencement of relationship with Kashf Foundation due to lack of need for credit. On a sector level the issue of over indebtedness needs to be closely monitored, especially in the markets of Central Punjab and a sector wide code for lending linked to an e-CIB needs to be put into place.



The financial impact of Kashf microcredit can also be seen in household savings as old clients have higher propensity to save compared to new or non clients. Kashf Foundation's credit policies have also encouraged a significant number of clients to issue new CNIC cards and open bank accounts. As a result, these households have entered the formal economy for the first time and are in a position to access many services that were not available to them earlier.

Thus, Kashf Foundation has helped stimulate the economy at the lowest levels and has also promoted gendered financial inclusion in the process.



Client Case Study (*Ishtiaq from Gujranwala City Branch*)

Ishtiaq's husband was a daily wager who died 14 years ago. After his death, Ishtiaq and her daughters started sewing footballs on daily wages to meet household expenses. While Ishtiaq and her daughters soon became very skilled at sewing footballs they could not take direct orders from contractors as they had to no access to the finances required to purchase raw materials. Ishtiaq's daily income was around Rs. 200 which was not enough to meet household expenditures and she was perpetually indebted to her relatives because she had to take small loans from her relatives to meet contingencies. Approximately three years ago, Ishtiaq found out about Kashf Foundation's microfinance program. She remembers being hesitant at first about contacting the office, but fed up with the irregular and low income she took her first loan from Kashf Foundation. In her first loan cycle, she took a loan of Rs. 10,000 with which she started a small football sewing business in her home. She purchased the raw materials required for the footballs and entered into a direct contract with the middleman.

She is now in her third loan cycle, and has established herself as a small business owner. Her home based business provides income generation opportunities for her daughters and other females of the neighborhood. Her average earnings per day have increased to around Rs. 600 per day.

She has invested the profits from her business into the expansion of her business and the development of her household. She proudly boasts using her savings to construct a permanent (*pakka*) latrine in her house. She has also installed a gas connection

in her house and no longer has to rely on firewood for cooking. Moreover, she has been able to install a water line inside her house so she and her daughters do not have to wait at the public tap to collect water.

Thus within three years as a result of the microfinance services provided by Kashf Foundation Ishtiaq has been able to significantly improve her socio-economic situation. She has also been able to provide for a better future for her children. Ishtiaq has paid back all the money she borrowed from her relatives, and now she has the capacity to give money to her relatives when they need it. Ishtiaq reports having an improved perception of herself and says that being solely responsible for her business has helped her build up her confidence.