

Kashf Foundation Focus Notes Series
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Assessing the Net Profitability of Micro-Businesses in the Context of Rising Inflation and Macroeconomic Contraction

The focus note features findings on the financial health of the seven most frequently occurring micro businesses run by Kashf clients to understand profitability and resilience in the context of the current macro-economic downturn and rising inflation.

INTRODUCTION

Microenterprises play an important role in the micro-economy; i.e. both in terms of generating income and creating employment at the community level. This focus note presents findings from research undertaken in November/December 2022 with micro-businesses being run by Kashf clients to review the impact of rising inflation and overall macroeconomic recession on the financial health of these businesses. The results from the study are also juxtaposed with comparable studies/benchmarks where possible. To add further nuance to the understanding of micro-businesses, the research studied businesses operating at subsistence level and non-subsistence level for each trade.

RESEARCH METHODOLOGY

Kashf shortlisted the seven most frequently occurring microbusinesses amongst the Kashf portfolio; these businesses included stitching, embroidery, beauty parlor, kiryana (grocery store), dairy, catering, and rickshaw businesses¹. A semi-structured questionnaire was developed and implemented with the micro-entrepreneurs to record the cash flows and qualitative responses for each business studied. All the businesses interviewed were operating in the informal economy and responses regarding business cash-flows were based on the memory and recall of the micro-entrepreneurs. The interviews recorded the monthly sales/revenue of businesses², cost of inputs,³ and other costs⁴. Based on this information, gross profits⁵, gross profit margins⁶, net profits,⁷ and net profitability ratios⁸ of the businesses were calculated. Changes in cash flows resulting from seasonal demand for businesses were also accounted for while calculating monthly revenues.

All the interviews were undertaken in Kasur city to control for inflation and inter-city variability in factors such as transportation costs, strikes, local holidays, etc. However, there were few catering businesses being run by Kashf entrepreneurs in Kasur city, therefore catering trade interviews were undertaken in Lahore. Six businesses for every trade were selected; three of which were operating at subsistence level (at a very basic level) and three were operating at non-subsistence level (businesses being operated at a larger scale). These levels were defined for each business type and are presented later in this publication.

OVERALL RESULTS

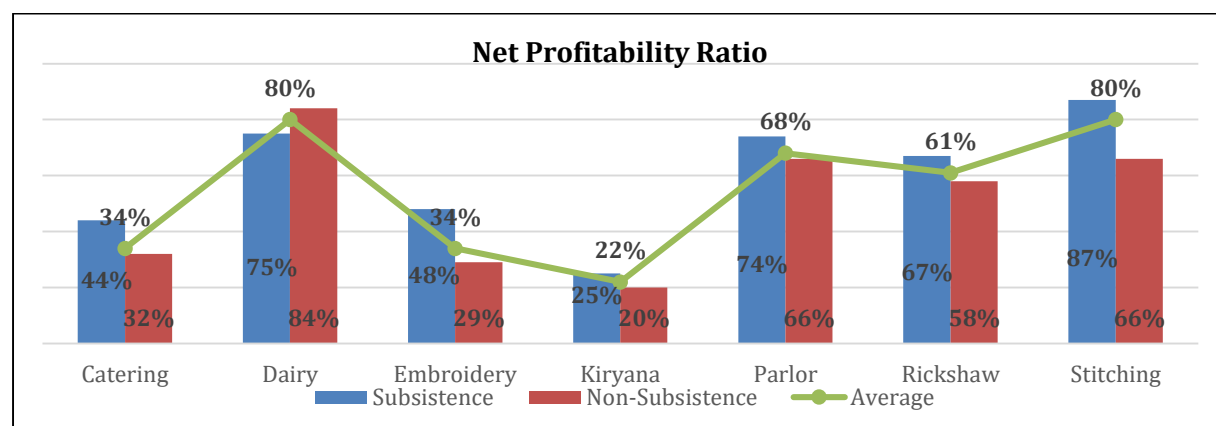
The top-line outlook for the Net Profitability Ratios shows that micro-businesses are doing well despite the overall macroeconomic contraction and the rising food prices. Generally, it was seen that micro-businesses were performing better (had higher net profitability ratios) when they had

close proximity to the market, the women involved in the business were more mobile, and micro-entrepreneurs were able to source materials/inputs at wholesale rates. On the other hand, the factors that negatively impacted profitability were working through middle-men/agents (this included conventional agents and technology platforms such as food hailing applications in the case of catering businesses) and the time spent by the women micro-entrepreneurs on unpaid care activities.

As the following table demonstrates, the highest average net profits were reported by catering businesses (PKR 101,989) followed by embroidery businesses (PKR 86,780). On the other hand, the lowest net profits were reported by beauty parlors (PKR 36,739).

	Business	Gross Profit	Net Profit	Net Profitability Ratio
1	Catering	167,014	101,989	34%
2	Dairy	56,027	52,241	80%
3	Embroidery	91,401	86,780	34%
4	Kiryana	49,667	42,814	22%
5	Parlor	42,811	36,739	68%
6	Rickshaw	64,533	53,817	61%
7	Stitching	50,112	45,885	80%

The dairy and stitching businesses had the highest net profitability ratios (80% each) while the Kiryana businesses had the lowest net profitability ratios at 22%. Comparing the NPRs for subsistence and non-subsistence level businesses, it was observed that the NPR for subsistence level businesses was higher compared to the non-subsistence businesses for almost all businesses except dairy. The net profitability ratio is a factor of volume of sales, cost of inputs, costs of salaries, and other costs. For non-subsistence businesses, while there is higher revenue there are also higher costs of operation compared to subsistence level businesses leading to lower NPR.



DETAILED TRADE-WISE ANALYSIS

Kiryana (Grocery Stores)

6 *Kiryana* stores were studied in this research; while all 6 were located as an extension of the entrepreneur's house there was a significant difference in the scale of operations. The subsistence cohort had weekly inventory purchases of PKR 150,000 and under, while the non-subsistence cohort

had weekly inventory purchases of over PKR 150,000. The rotation of money was very frequent for these businesses, with the entrepreneurs restocking their shops every 2-3 days. *Kiryana* businesses are input intensive trading business and revenues are driven by the margin between cost and sale price that the entrepreneur can charge. Overall, the average Net Profitability Ratio for the *Kiryana* business was 22% and the average monthly net profit was PKR 35,782.

Dwelling deeper into the cohorts, it was seen that non-subsistence *Kiryanas* were doing as well as subsistence level businesses with marginally higher net profits. PKR 47,023 for non-subsistence businesses compared to PKR

Kiryana Business	Non- Subsistence	Subsistence
Monthly sale	240,000	152,667
Cost of input	186,667	106,667
Other cost	6,311	7,394
Net Profits	47,023	38,606
Net Profitability Ratio	19.6%	25.3%

38,606 for subsistence businesses. However, the costs associated with non-subsistence businesses were around 69% higher than the costs associated with subsistence businesses. This leads to marginally lower net profitability ratios for non-subsistence businesses. That said, both cohorts were performing very well compared to the average Net Profitability Ratio for retail businesses which is around 5%.

A deeper look into the six businesses interviewed (as shown in the following table) reveals that gross profits of all businesses studied are similar (ranging from PKR 50,000 – PKR 60,000) beside one subsistence level business (K-S-B2) which has much lower sales (and costs of inputs). This specific business had lower levels of investment into display racks and also had lower footfall with a majority of customers being young kids who bought items such as biscuits, candies, and chips which had much lower margins (sale price-cost price). K-S-B2 however, does much better with respect to net profitability ratio as the entrepreneur's husband drives a rickshaw and there is very little cost associated with transporting merchandize to the shop. This demonstrates that micro-businesses that can reduce overhead costs such as transport have much higher net profitability ratios.

Status	Non- Subsistence			Subsistence		
	K-NS-B1	K-NS-B2	K-NS-B3	K-S-B1	K-S-B2	K-S-B3
Paid Employees	0	0	0	0	0	0
Monthly Sales (PKR)	280,000	230,000	210,000	208,000	98,000	152,000
Monthly Cost of Inputs (PKR)	220,000	180,000	160,000	150,000	70,000	100,000
Gross Profit (PKR)	60,000	50,000	50,000	58,000	28,000	52,000
Gross Margin Ratio	21%	22%	24%	28%	28%	34%
Other Costs (PKR)	7,800	8,740	2,392	7,680	1,440	13,063
Net Profit (PKR)	52,200	41,260	47,608	50,320	26,560	38,938
Net Profitability Ratio	19%	18%	23%	24%	27%	26%

Catering Businesses

6 catering businesses were interviewed⁹ with 3 operating at a non-subsistence level and 3 operating at a subsistence level. The non-subsistence businesses were those that had paid employees and monthly sales of more than PKR 150,000, while the subsistence level businesses had monthly sales below PKR 150,000 and no paid employees. Research results from these businesses showed that all

these micro-businesses had at least one family member engaged with the entrepreneur in the running of the business. Overall, the average Net Profitability Ratio for the Catering businesses was 34% and the average monthly net profit was PKR 101,989.

Looking at the non-subsistence and subsistence cohorts, there is a significant difference in average monthly sales; PKR 541,500 for non-subsistence businesses and PKR 72,533 for subsistence

Catering Business	Non- Subsistence	Subsistence
Monthly sale	541,500	72,533
Cost of input	247,467	32,539
Other cost	122,850	7,950
Net Profits	171,183	32,045
Net Profitability Ratio	31.6%	44.2%

businesses. However, even

though the net profits for non-subsistence businesses were 5.3 times higher than subsistence businesses, their net profit margins were lower (31.6% compared to 44.2%) due to higher overhead costs (as seen in the Other Costs row).

As seen in the following table, the monthly cost of inputs on average was 45% of the monthly revenue for both the non-subsistence and subsistence level businesses, however, other costs (utility bills, salaries, cost of loan and transportation) were about 22% of the revenue for non-subsistence and only 11% for subsistence level catering businesses. Rent and salaries were significant costs for businesses operating at non-subsistence level. Consequently, the Net Profitability for non-subsistence businesses was lower at an average of 32% while it was 43% for subsistence level catering businesses. That said, compared to the industry average of 15% these net profitability ratios for all businesses interviewed were very high.

Status	Non-Subsistence			Subsistence		
	C-NS-B1	C-NS-B2	C-NS-B3	C-S-B1	C-S-B2	C-S-B3
Paid Employees	3	6	3	0	0	0
Monthly Sale (PKR)	625,000	625,000	374,500	67,500	99,700	50,400
Monthly Cost of Material (PKR)	328,000	272,400	142,000	24,000	43,200	30,417
Gross Profit (PKR)	297,000	352,600	232,500	43,500	56,500	19,983
Gross Margin	47%	56%	62%	64%	57%	40%
Other Costs (PKR)	86,590	200,380	81,580	5,774	14,890	3,185
Net Profit (PKR)	210,410	152,220	150,920	37,726	41,610	16,798
Net Profitability Ratio	34%	24%	40%	56%	42%	33%

Dairy Businesses

The cash-flows of 6 dairy businesses (3 non-subsistence and 3 subsistence) were analyzed to assess the net profitability ratios for dairy micro-businesses. The non-subsistence businesses were categorized by having 2-5 milking animals, while the subsistence level businesses had 2 milking animals. Businesses were primarily selling milk to nearby houses, milk collectors (*dodis*), or both. Higher revenues were seen when they were selling to both neighbors and milk collectors. Dairy businesses seemed more viable for agri-linked households due to the availability of land which reduced their input costs. However, some micro-entrepreneurs also reported renting land to grow

animal feed where they did not have land ownership. Growing their own feed led to lower costs of inputs compared to businesses that were purchasing animal feed from the market. Overall, the average net profitability ratio for dairy businesses was 80% and the average monthly net profit was PKR 52,241.

The cash-flow analyses showed that the average monthly sale of the non-subsistence business was around PKR 80,100 while the subsistence level business was able to generate an average revenue of PKR 50,000.

Dairy Business	Non- Subsistence	Subsistence
Monthly sale	80,100	50,000
Cost of input	9,580	8,467
Other cost	3,434	4,137
Net Profits	67,086	37,397
Net Profitability Ratio	83.8%	74.8%

Despite the difference in revenue, the cost of input for the two business categories did not show a significant difference as it was PKR 9,580 for non-subsistence and PKR 8,467 for subsistence businesses. This low difference could be attributed to the fact that the cost of input for each additional animal is lower, making it more viable for households to invest in expanding their business. That said, an important limiting factor to business expansion was the availability of adult family members who could take part in milking and maintaining the animals. In terms of percentage, the cost of input comprised only 11% of the total revenue for non-subsistence business compared to 16% for subsistence businesses¹⁰. Other costs of business typically involved the cost of maintenance, utilities, and the cost of the loan, which were again lower for non-subsistence businesses than for subsistence level businesses. The businesses reported minimal to no cost of transport as the milk was typically collected from home and in cases where the milk was sold to households, the households would collect the milk themselves.

As seen in the following table, the net profits for a non-subsistence dairy business ranged from PKR 94,122 to PKR 47,763, with a cohort average of PKR 67,086 while the same was PKR 37,397 for subsistence level businesses. As for the net profitability ratios, dairy businesses had a significantly high NPR ranging between 54% and 90%. Non-subsistence businesses reported higher net profitability ratios than subsistence level businesses due to lower marginal costs compared to the output.

Status	Non-Subsistence			Subsistence		
	D-NS-B1	D-NS-B2	D-NS-B3	D-S-B1	D-S-B2	D-S-B3
No. of Milking Animals	4	3	3	2	2	2
Milk Sold (Kilo)	30	23	27	15	15	10
Customer	Milk Collector & Neighbors	Milk Collector & Neighbors	Milk Collector	Milk Collector	Milk Collector	Milk Collector
Arrangement for Animal Feed	Rented Land	Own Land	Rented Land	Own Land	Purchase Feed	Purchase Feed
Monthly Sale (PKR)	105,000	78,600	56,700	60,000	54,000	36,000
Monthly Cost of Inputs (PKR)	7,041	15,000	6,700	3,500	8,700	13,200
Gross Profit (PKR)	97,959	63,600	50,000	56,500	45,300	22,800
Gross Margin	93%	81%	88%	94%	84%	63%

Other Costs (PKR)	3,838	4,228	2,238	4,146	4,898	3,368
Net Profits (PKR)	94,122	59,373	47,763	52,355	40,403	19,433
Net Profitability Ratio	90%	76%	84%	87%	75%	54%

Embroidery Businesses

Embroidery was one of the most popular businesses in Kasur. A typical embroidery business operated from home, had family members engaged in some capacity, and provided employment to other households. There were several steps involved in the process prior to the delivery of the final product – this included securing orders, purchasing raw materials, using *aari*, undertaking embroidery, and sometimes even stitching. The businesses were categorized into non-subsistence and subsistence according to the number of households engaged as suppliers/workers with the businesses. For non-subsistence businesses, this was between 6 and 10 households, while subsistence businesses were categorized by engagement of up to 5 households. The average net profit for embroidery businesses was PKR 86,780 and the net profitability ratio was 34%.

Analysis of the two cohorts showed that non-subsistence businesses were able to generate revenue about 1.5 times higher than the subsistence level businesses; PKR 358,000 and PKR 147,000 respectively. The

Embroidery Business	Non- Subsistence	Subsistence
Monthly sale	358,000	147,000
Cost of Production	250,289	71,909
Other cost	4,838	4,403
Net Profits	102,874	70,687
Net Profitability Ratio	28.7%	48.1%

subsistence businesses were saving costs by undertaking embroidery at home while outsourcing only one part of the process - (*aari*). In non-subsistence businesses, *aari* and embroidery were both outsourced, which led to comparatively higher costs of business and thus lower net profitability ratios.

The net profitability ratios for non-subsistence businesses varied between 25% and 35% for non-subsistence and 43% and 53% for subsistence. The average net profit for the embroidery business was one of the highest amongst the interviewed microbusinesses; PKR 102,874 for non-subsistence and PKR 70,687 for subsistence. Seasonal demand for embroidered products impacted embroidery businesses more than the other micro-businesses. The research thus also assessed how these businesses fared in low, average, and high demand seasons and accounted for these in their cash-flows analysis. While 3/6 of the interviewed businesses did not report slow months (due to their supply chain consistencies), 3 reported a significant dip in demand.

Status	Non-Subsistence			Subsistence		
	E-NS-B1	E-NS-B2	E-NS-B3	E-S-B1	E-S-B2	E-S-B3
No. of Households Engaged	7	7	7	4	3	3
Monthly Sale (PKR)	450,000	317,333	306,666	147,000	150,000	144,000
Monthly Cost (PKR)	321,000	204,533	225,333	79,216	66,912	69,600
Gross Profit (PKR)	129,000	112,800	81,333	67,784	83,088	74,400
Gross Margin	28%	35%	26%	46%	55%	52%
Other Costs (PKR)	6,800	3,100	3,413	3,880	3,680	4,650

Net Profit (PKR)	122,200	109,700	77,921	63,904	79,408	69,750
Net Profitability Ratios	27%	35%	25%	43%	53%	48%

Beauty Parlors

All the interviewed parlors were run by women and were operating from home. Of the 6 Beauty Parlors interviewed, 3 were operating with no separate space for business and a very minimal setup of up to one chair and were considered subsistence level businesses while the other 3 had especially renovated space for a business containing at least two parlor chairs and have been categorized as non-subsistence businesses. The average net profitability of the beauty parlors was 68% and they were able to generate an average net profit of PKR 36,739.

Cash flow analysis of subsistence and non-subsistence businesses showed a significant difference in their revenues; non-subsistence parlor businesses generated a monthly sale 2.9 times higher than their subsistence level counterparts.

Beauty Parlors	Non- Subsistence	Subsistence
Monthly sale	79,685	27,047
Cost of input	19,972	2,472
Other cost	7,163	4,980
Net Profits	52,550	20,928
Net Profitability Ratio	65.9%	77.3%

The major difference in the monthly sales of subsistence and non-subsistence level businesses can be attributed to the type of service provided. While subsistence level businesses were normally providing very basic services like facials, threading, haircuts, etc., the non-subsistence businesses were also catering to a higher number of bridal and party makeup clients. The average profit for a non-subsistence level parlor business ranged from PKR 31,027 to PKR 64,741, with a cohort average of PKR 52,550 while the average net profit was PKR 20,928 for subsistence businesses. That said, due to the difference in the type of services provided, the cost of inputs for non-subsistence business was also higher, making up about 25% of their monthly revenue, while the same was only 9% for subsistence businesses. Moreover, the cost of utilities and transportation was also lower for subsistence businesses leading to a higher net profitability ratio of 77% while the same was 65% for non-subsistence businesses.

Accessibility of the parlors to the community made a substantial difference in how well the business did in terms of monthly sales and eventually profits. BP-NS-B1 (seen in the following table) was not easily accessible and consequently was unable to match the revenue generated by the other two businesses with a similar setup. Almost all the non-subsistence businesses interviewed during this research were more accessible (in terms of ease of access and recognition) than the subsistence businesses. Beauty parlors also reported their sales being impacted by seasonal demand. Five out of the six businesses interviewed reported slow months in their business. Of these, while three reported net profits even in the slow months, two businesses also reported a significant dip in demand leading to a net loss. The weighted average of sales from these months was included while calculating the cash flows for the businesses.

Status	Non-Subsistence			Subsistence		
	BP-NS-B1	BP-NS-B2	BP-NS-B3	BP-S-B1	BP-S-B2	BP-S-B3
Parlor Location	Good location. Near the main market.	Not a very good location. Good setup.	Good setup and a good location.	Limited setup at home	Limited setup at Home	Limited setup at home
No. of Chairs	2	2	2	1	1	0
Monthly Sale (PKR)	104,091	51,215	83,750	25,860	11,167	48,113
Monthly Cost of Input (PKR)	32,083	12,833	15,000	1,666	1,750	4,000
Gross Profit (PKR)	72,008	38,382	68,750	24,194	9,417	44,113
Gross Margin Ratio	69%	75%	82%	93%	84%	92%
Other Costs (PKR)	7,267	7,355	6,867	1,611	3,220	10,110
Net Profit (PKR)	64,741	31,027	61,883	22,583	6,197	34,003
Net Profitability Ratio	62%	61%	74%	87%	55%	71%

Rickshaw Businesses

For the rickshaw business, businesses with one rickshaw were categorized as subsistence level while businesses with two or more rickshaws were considered non-subsistence. Respondents operating a rickshaw business were all immediate family members of Kashf clients. The rickshaw businesses were all male led. The average net profitability ratio for the rickshaw business was 62% and the average net profit was PKR 53,817.

Analysis of subsistence and non-subsistence level businesses showed that the non-subsistence businesses were on average generating about 1.8 times higher revenue than subsistence businesses. Non-subsistence

Rickshaw Business	Non- Subsistence	Subsistence
Monthly sale	113,667	62,200
Cost of input	31,000	15,800
Other cost	16,610	4,822
Net Profits	66,857	41,578
Net Profitability Ratio	58.8%	66.8%

businesses had an average profit of PKR 41,578 (ranging between PKR 37,000 and 46,000) while the same was PKR 66,857 for non-subsistence businesses (ranging between PKR 47,000 and 97,000).

The cost of inputs made up about 27% of the total revenue for subsistence and 25% for non-subsistence businesses. However, other costs which included maintenance, salaries, and the cost of the loan, were higher for non-subsistence businesses resulting in lower net profitability ratios in comparison to the subsistence level rickshaw businesses. Overall, the net profitability ratio of non-subsistence rickshaw businesses was 59%, while it was 67% for subsistence rickshaw businesses. Variability in the net profitability ratio, as seen in the table below, for non-subsistence businesses was a result of the difference in how the entrepreneur was operating the business. Non-subsistence rickshaw businesses had either engaged an adult family member in the business to operate the other rickshaw (RK-NS-B1), hired someone to operate the rickshaw (RK-NS-B2), or rented it out (RK-NS-B3). The type of arrangement had a significant impact on the cost of business and subsequently the net profitability ratio.

Respondents were also asked how the fuel prices had impacted their business. Respondents running rickshaw businesses at subsistence and non-subsistence levels reported passing on the price to the customer by increasing the price of the service.

Status	Non-Subsistence			Subsistence		
	RK-NS-B1	RK-NS-B2	RK-NS-B3	RK-S-B1	RK-S-B2	RK-S-B3
No. of Rickshaw	2	2	2	1	1	1
Paid Employees	0	1	1	0	0	0
Type of Service	School pick and drop and general service	Loader	Loader	School pick and drop, and general service	Pick and Drop	Pick and Drop
Monthly Sale (PKR)	152,000	120,000	69,000	75,600	52,000	59,000
Monthly Cost of Input (PKR)	42,000	36,000	15,000	20,000	10,000	17,400
Gross Profit (PKR)	110,000	84,000	54,000	55,600	42,000	41,600
Gross Margin Ratio	72%	70%	78%	73%	81%	70%
Other Costs (PKR)	12,820	30,610	6,400	9,166	1,500	3,800
Net Profit (PKR)	97,180	53,390	47,600	46,434	40,500	37,800
Net Profitability Ratio	64%	44%	69%	61%	78%	64%

Stitching Businesses

Of the 6 stitching businesses interviewed, three were operating at subsistence and three at the non-subsistence level. A subsistence level business was categorized as a business operating from home with only one stitching machine while a business with at least two stitching machines was considered a non-subsistence business. Non-subsistence businesses had family members engaged with them in some capacity. Overall, the Net Profitability of the stitching business was 80% and the average net profit for a month was PKR 45,885.

A deeper look at the cash flows of the subsistence and non-subsistence stitching businesses showed that the non-subsistence businesses were able to generate revenue about 4x higher than the subsistence level businesses. The

Stitching Business	Non- Subsistence	Subsistence
Monthly sale	89,779	26,850
Cost of input	14,758	1,646
Other cost	6,638	1,817
Net Profits	68,383	23,388
Net Profitability Ratio	76.2%	87.1%

average revenue for non-subsistence businesses was PKR 89,779 while the same was PKR 26,850 for subsistence businesses. Since stitching is a skill intensive business, the cost of input for the business was minimal; only 6% of the revenue for subsistence level businesses and 16% for non-subsistence businesses. With the input requirement of the business readily available from the market, the cost of transport for the business was also very low.

The net profit for the subsistence business ranged between PKR 58,487 and PKR 76,925, with a cohort average of PKR 68,383, while the same was PKR 23,388 for the non-subsistence business. The

net profitability ratio was 76.2% for subsistence and 87.1% for non-subsistence businesses. While the variability in the NPR was very limited among the subsistence and non-subsistence businesses, all reported a Net Profitability Ratio between 85% and 91%, the only outlier being ST-NS-B3, which reported an NPR of 61% due to a higher cost of inputs.

Stitching businesses also reported being impacted by seasonal demand. Though all businesses reported months of high and regular demand, four out of six businesses reported about two slow months in which demand undergoes a significant decrease. Weighted averages have been used to incorporate the change in cash flows during each season.

Status	Non-Subsistence			Subsistence		
	ST-NS-B1	ST-NS-B2	ST-NS-B3	ST-S-B1	ST-S-B2	ST-S-B3
Type of Service	Stitching (women & children suits)	Stitching	Stitching and selling to shop	Stitching & shop orders	Stitching	Stitching
Family Members in Business	1	2	1	0	0	0
No. of Machines	2	3	2	1	1	1
Monthly Sale (PKR)	64,562	90,150	114,625	23,800	25,750	31,000
Monthly Cost of Input (PKR)	4,375	2,375	37,525	875	1,813	2,250
Gross Profit (PKR)	60,187	87,775	77,100	22,925	23,938	28,750
Gross Margin Ratio	93%	97%	67%	96%	93%	93%
Other Costs (PKR)	1,700	10,850	7,363	1,638	1,783	2,030
Net Profit (PKR)	58,487	76,925	69,738	21,288	22,155	26,720
Net Profitability Ratio	91%	85%	61%	89%	86%	86%

CONCLUSIONS AND RECOMMENDATIONS

The research has re-affirmed that '*small is beautiful*' as the analysis shows that micro-businesses are operating with high margins and generating higher profitability compared to SMEs. Their relatively small size allows the micro-entrepreneurs to run them from their existing homes (whether owned or rented) which leads to low costs of operation and extremely low over-head costs. Moreover, these businesses are unregistered and are part of the informal economy which also reduces the costs of operation. Furthermore, all these businesses deal almost exclusively in cash which reduces fees linked to banking, payments, and digitalization for these businesses. The research thus shows the important role that micro businesses are playing in sustaining low income families and in the economy of the communities in which they were operating in. With high levels of inflation and macro-economic contraction, the role of small scale production and entrepreneurial activity is more important than ever. This highlights the need for creating even greater access to sustainable finance solutions and related eco-system opportunities for micro-businesses through sustainable micro-finance and capacity building programs.

Moreover, micro-businesses have been able to, to a large degree, pass on the increased costs of business to the customers as evidenced by the high Net Profitability Ratios. That said, there is a need to build more research and evidence around the profitability of micro-businesses and benchmarking for the micro-sector.

All costs related to service charges on loans were also included in the final analysis, however, a separate set of analysis was also undertaken treating the entire loan installment amount from Net Profits for the businesses. Both analysis showed that micro-businesses have considerable margins to pay off their micro-finance loan installments. This is an important finding given the critique the microfinance sector the world over has been receiving on pricing. That said, with the increasing cost of funds for most of the microfinance providers, it is imperative to look at ways that microfinance providers can access subsidized on-lending funds till the macro-economic situation stabilize,

¹ Rickshaw businesses are primarily run by males within the Kashf client's household and as per policy and company ethos Kashf allows 30% of loan disbursed to women to be utilized in businesses run by males within the client's household.

² **Monthly Revenue:** Income generated after the sale of goods/service.

³ **Cost of Goods:** All direct costs associated with making a product.

⁴ **Other Costs of Business:** The other costs of business include salaries, transportation cost, cost of loan, and the cost of repair/ maintenance. For businesses that were run out of the house 50% of the house utility bill was included in the cost of business.

⁵ **Gross Profit:** Total revenue less the cost of goods sold.

⁶ **Gross Profit Margin:** Proportion of profits generated by the sale of product, before selling and administrative expenses. It is used to examine the ability of business to create sellable products in a cost-effective manner.

⁷ **Net profit:** Total revenue less the cost of all expenses including utility, salaries, transport etc.

⁸ **Net Profitability Ratio:** Ratio of net profit divided by the total sales. Net profitability shows how much profit is generated for every rupee earned. NPR less than 10% is considered low, 10%-20% is average while above 20% shows that the business is in good health.

⁹ These were interviewed from Lahore due to unavailability of the same in Kasur.

¹⁰ To calculate the cost of input for each animal the total cost incurred on the businesses was divided by the number of animals.