

*Kashf Foundation Focus Note Series  
April 2025*

## **Evidence on the Impact of Microfinance Program on Poverty Reduction and Income Security**

*The focus note presents the results of the qualitative and quantitative assessment undertaken Dr. Shekar Zahra and Doctoral Student Linhui Wu of the University of Minnesota, USA and Dr. Ine Paeleman, Antwerp University, Belgium to understand the impact of repeat borrowing on poverty levels, business incomes and the quality of life of microfinance clients.*

Economic empowerment is one of the most effective pathways for women to realize their potential and to secure their rights. It has been proven to reduce multidimensional poverty and positively impact health, education, and overall household wellbeing.

Within the ambit of development programs, microfinance stands out as key to enhancing the socio-economic wellbeing of women. By providing access to small loans to female entrepreneurs, microfinance supports women's engagement in economic activity, leading to income diversification while subsequently reducing financial vulnerabilities for the household. Improved economic engagement of women as a result of entrepreneurial activity not only elevates women's confidence in their own abilities but equips them with the confidence and resources to take decisions relating to the health and wellbeing of their families.

One of the most comprehensive and rigorous studies on the impact of microfinance in Bangladesh supports the above statement by showing that microfinance not only helps the poor through consumption smoothening and

asset building, but also helps women acquire assets of their own<sup>1</sup>. Another study undertaken

by Women's Entrepreneurship Development Trust Fund in Zanzibar, Tanzania highlighted that of the increased income resulting from entrepreneurial activity, 55% of women used it to purchase household items, 18% spent on schooling and 15% spent it on clothing. This shows that any efforts aimed at improving economic outcomes for women will generate a multiplier effect that benefit not just the women but their whole family<sup>2</sup>. Evidence on the impact of microfinance services in Pakistan and their impact is no different. Studies have shown that that loan access by microfinance and its effective utilization have a positive impact on women's economic empowerment<sup>3</sup>.

Adding to the existing literature on the impact of microfinance, the focus note brings forth findings from a quantitative evaluation and qualitative assessment undertaken by development researchers from University of Minnesota, to understand the impact of repeat borrowing on the poverty levels of microfinance clients and income security of low income households.

<sup>1</sup> Khandker, S. R. (2005) Microfinance and poverty: evidence using panel data from Bangladesh. *World Bank Economic Review*, 19: 263-286

<sup>2</sup> Mayoux, L. Tackling the down side: Social capital, women's empowerment and micro-finance in Cameroon. *Dev. Chang.* **2001**, 32, 435-464

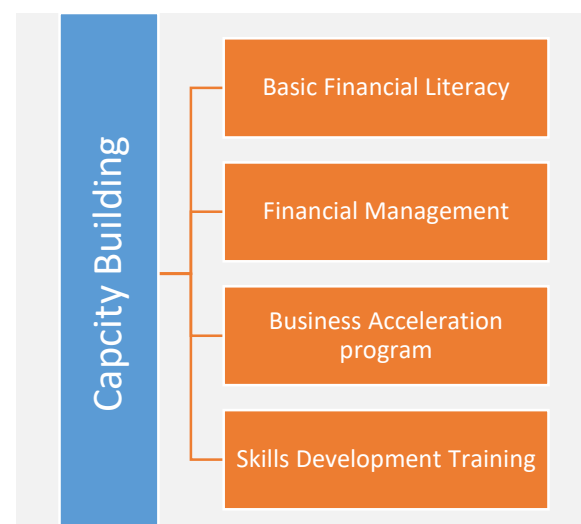
<sup>3</sup> Khan, R., & Noreen, S. (2012). Microfinance and women empowerment: A case study of District Bahawalpur (Pakistan). *African Journal of Business Management*, 6(12), 4514-4521

## Thirty Years of Kashf Foundation

Kashf Foundation, established in 1995, is Pakistan's first microfinance institution dedicated to enhancing women's economic participation and helping lift them out of poverty. Following the Grameen model, Kashf initially operated through group lending and transitioned to individual lending in 2009. Over the past three decades, Kashf has served over 7.7 million borrowers through its 422 branches nationwide. To meet the diverse needs of female entrepreneurs, Kashf offers a variety of financial products, including enterprise loans, loans for household needs, credit for livestock and school finance.

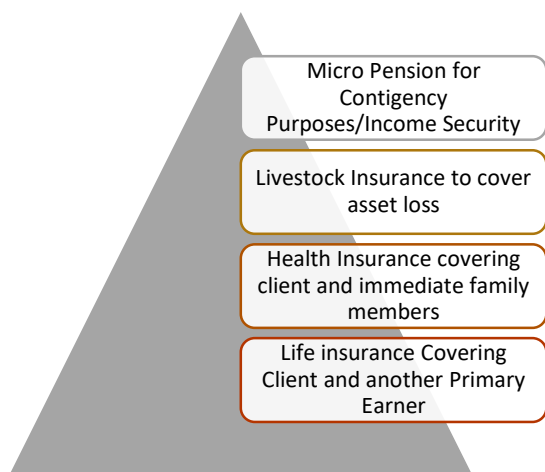


Kashf recognized that financial access alone was not enough to foster entrepreneurship and growth. As a result, Kashf complemented its lending programs with comprehensive capacity-building training based on adult learning techniques. These trainings help women entrepreneurs develop business and financial management skills while building confidence in their ability to succeed independently. To date, Kashf has trained more than 2.7 million women in financial literacy, digital literacy, and business acceleration, and has also provided skills development programs aimed at boosting entrepreneurship and employment opportunities.



In an industry-first, Kashf Foundation introduced life and health insurance, in 2001 and 2007 respectively, to protect its clients against unexpected circumstances and expenses. The life insurance covers the risk of indebtedness in the event of the client's death or disability, while the micro health insurance encourages proactive health-seeking behavior and provides compensation for lost wages during illness. As of January 2025, Kashf has provided life insurance to 15 million individuals and health insurance to 18 million individuals, ensuring broader financial security for women.

With the livestock credit product, Kashf further added livestock insurance (2019) to cover clients against the risk of asset loss due to death, disease or theft. So far, Kashf has provided livestock insurance to more than 150,000 livestock owners. The latest addition to the product mix has been the micro-pension product introduced in 2023 to provide women with financial security to meet immediate cash flow needs as well as providing them with the opportunity to meet their short and medium term financial goals. As of December 2024, Kashf has provided the pension solution to approximately 50,000 women.



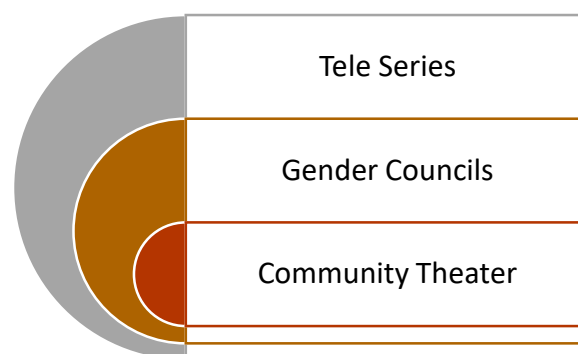
In addition to inpatient cover through insurance, Kashf organizes health camps for outpatient care and has taken another significant step by establishing five health clinics in Sindh, adopting a brick-and-click model to deliver accessible health services. Kashf also places a strong emphasis on women's health education, offering maternal and reproductive health training to raise awareness and improve health outcomes for women and their families.



Kashf is committed to driving social change by addressing the systemic barriers women face in economic participation. Through grassroots interventions and advocacy, the foundation

<sup>4</sup> Dr. Shekar Zahra is Robert E. Buuck Chair of Entrepreneurship and Professor of Strategy and Entrepreneurship, Carlson School of Management, University of Minnesota.

works to sensitize communities about gender equality. This includes community-level theater performances, gender councils that advocate for women's rights, and national-level drama serials aimed at shaping public perception and encouraging societal support for women's economic empowerment.



In its 30 years of service, Kashf Foundation has made a lasting impact on the lives of over 7.7 million women, empowering them not only through financial services but also through health and educational initiatives that enable them to thrive both personally and professionally

### Impact of Kashf Microfinance Program on Poverty Levels and Business Incomes

The evaluation undertaken by Dr. Zahra<sup>4</sup>, doctoral student Linhui<sup>5</sup> and Dr. Ine Paeleman<sup>6</sup>, aims to assess the impact of repeated engagement in Kashf's microfinance program. For this purpose, the researchers' evaluated Kashf's client level data from 2018, as well as undertook field interviews with 200 urban women entrepreneurs.

<sup>5</sup> Dr. Linhui Wu is a PhD candidate at Carlson School of Management, University of Minnesota.

<sup>6</sup> Dr. Ine Paeleman is an Associate Professor of Entrepreneurship, University of Antwerp

The goal of this evaluation was to examine the changes in clients' business income over time and to assess shifts in poverty levels, if any. The analysis focused solely on clients who used the loan for their own businesses; such clients constitute about 85% of Kashf's client base.

#### Client Onboarding Process

Kashf's branches are strategically located in the communities they serve. When onboarding a new client, a Business Development Officer (BDO) visits the client's home to complete the loan application process. Kashf employs an appraisal-based lending methodology, considering household income and overall expenses to determine the client's Net Disposable Income (NDI). The monthly loan installment is then decided based on a cash flow evaluation of the household, ensuring that the loan is manageable and aligned with the client's financial situation. The data is maintained in Kashf's MIS. The data is verified by the Branch Manager and other monitoring functions in the organization.

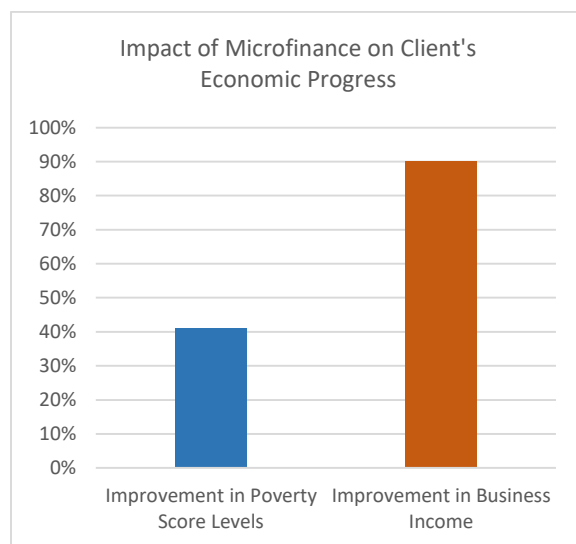
Kashf also places a strong emphasis on loan utilization, guiding clients on productive loan use not only at the time of loan disbursement, but also through financial literacy trainings. Kashf field teams also undertake loan utilization checks a month after disbursement to track credit investment into business.

The reviewed data showed that 162,520 had repeated their loans at least three times over the past six years. The findings revealed positive outcomes in both business income and poverty reduction:

- 90% of clients who had taken out loans multiple times experienced an increase in their business income.

- 41% of clients saw an improvement in their poverty score, reflecting a reduction in poverty levels for these households.

These results demonstrate positive impact of continued participation in Kashf's microfinance program, contributing to both financial growth and a reduction in poverty for its clients<sup>7</sup>.



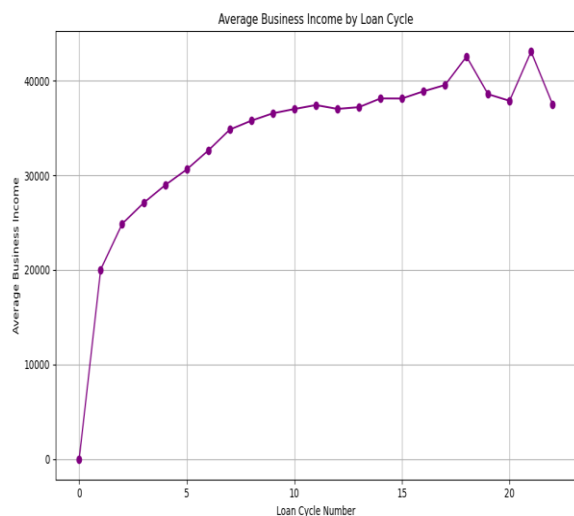
The assessment also revealed direct relationship between business income and loan cycle (progress in loan cycle can also be used as proxy for higher loan amount), showing that repeating loans from Kashf led to improved business incomes over time. However, the incremental increase in business income was significantly steeper in the first few loan cycles showing that microfinance plays a critical loan in enabling business growth by improving investment in inventory, equipment and working capital.

The results also reveal that over time, businesses reach a sustainable operational phase, where business income continues to rise but at a diminishing marginal rate of increase. It calls the need for further intervention either in the form of a specialized enterprise product or capacity building of entrepreneur that would encourage entrepreneurs to scale, diversify and optimize

<sup>7</sup> Kashf calculates poverty score levels based on the score card adopted by PPAF

their businesses rather than maintaining business operations.

**Graph A: Average Business Income by Loan Cycle**



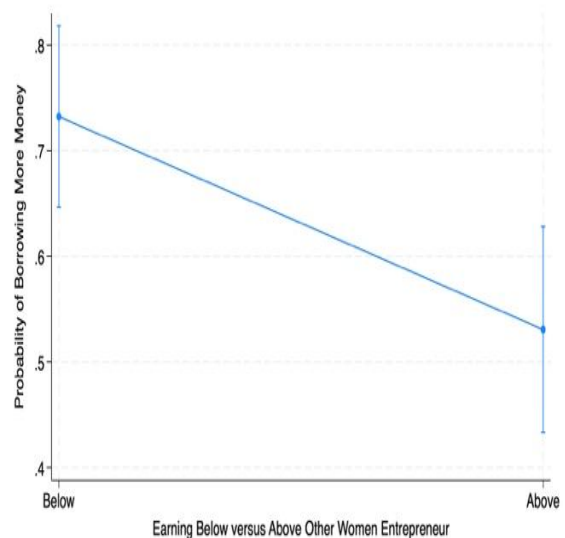
### Qualitative Survey Results

The second part of the assessment involved conducting a survey with 201 women entrepreneurs to gain insights into the factors influencing their decisions to borrow money from Kashf Foundation. The research examined two key aspects: a) The impact of the entrepreneurs' historical revenue on borrowing decision and b) the impact of information on the average revenue of their communities on borrowed amount. Specifically, the study investigated whether these factors affected their inclination to borrow larger loan amounts, than previously borrowed, from Kashf, providing insights into the factors influencing client's decision to borrow.

Half of the women entrepreneurs were thus randomly assigned a hypothetical condition where they were informed that their earnings from the previous year were lower than the average earnings of others working in similar sectors. The remaining participants were told that their earnings were higher than the average.

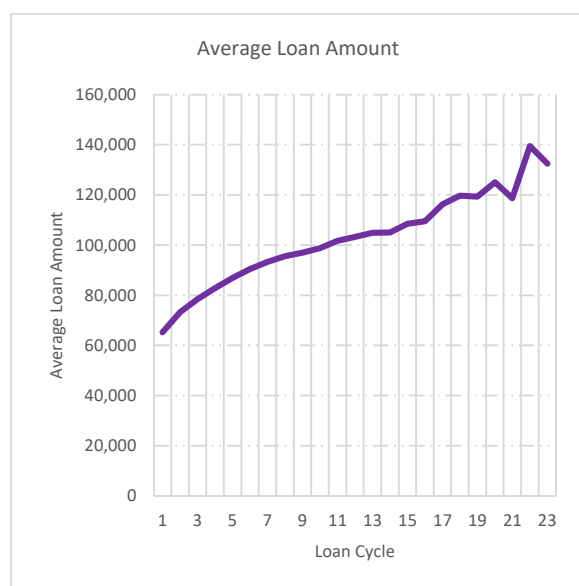
The finding showed that while information relating to the income (whether higher or lower than the entrepreneur's income) led to increased chance of the entrepreneur asking for a higher loan. However, clients exhibited a stronger motivation to borrow more money than the last borrowed when their incomes were lower than other businesses in their community, likely in an attempt to catch up.

**Graph B: Peer Revenue and Probability of Borrowing**



Furthermore, the respondents were also asked about their borrowing decision if the historical revenue was higher or lower than the revenue earned today. The results showed that that business performance below the historical revenue led to the entrepreneur asking for higher loan than previously borrowed. On the other hand, when the current business revenue was higher than the historical revenue, the possibility of the entrepreneur asking for a higher loan would decline, possibly in an attempt to maintain the status quo.

The behavior also sheds light on the decrease in incremental borrowing from Kashf, after some loan cycles. As the poverty level of the household decreases, with increased income from the business, the entrepreneur tends to maintain a level of borrowing that is less risky.

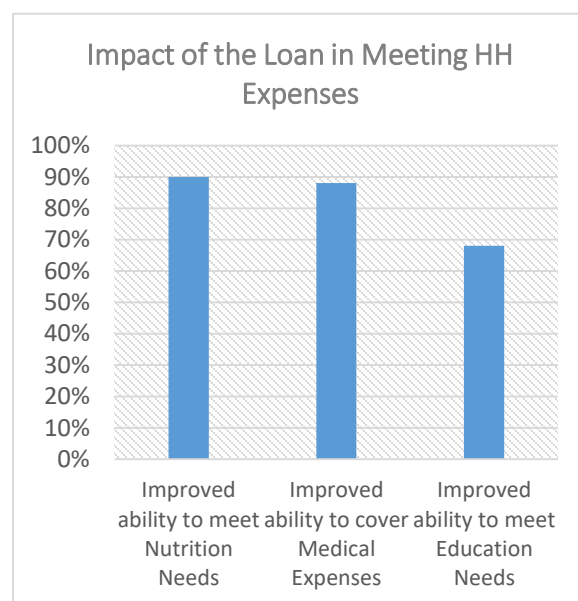
**Graph C: Average Loan Amount by Loan Cycle**

These insights suggest that microfinance interventions should take into account the entrepreneur's motivation to borrow. Since clients tend to ask for higher loan when they are lagging behind their peers, financial institutions could introduce structured loans with safeguards like income based appraisals or business support to prevent over indebtedness, while also embedding products like life and health insurance.

Given the strong influence of peer comparisons, financial literacy programs should focus on promoting sustainable risk-taking and strategic growth rather than competitive borrowing. Kashf over the years has done just that. Through appraisal backed lending, financial literacy trainings (that take into account responsible borrowing principles), business management trainings and credit products which reward good repayment behavior and offer flexible terms, Kashf has continued to adopt practices that would ensure sustainable impact in the form of poverty reduction and economic stability for the household.

The survey further examined the impact of Kashf's loan program on business management, income security and ability of women micro-entrepreneurs to meet household expenses. Discussion with the respondents showed significantly positive results.

- 94% of the respondents reported an improved ability to manage their business after receiving the loan
- 19% of women were able to hire employees
- 80% of respondents indicated they were better able to meet unexpected expenses after taking the loan, reflecting improved financial security.
- 90% of women reported an enhanced ability to meet their family's nutritional needs, suggesting a positive impact on household well-being.
- 88% of the respondents said they were better equipped to handle medical expenses
- 68% of respondents felt more capable of covering their children's education expenses, indicating that the loan supported educational goals.



The findings reveal that the Kashf loan program played a key role in improving business management, financial security, and the ability

to meet household needs, contributing significantly to both business growth and the well-being of the families involved.

## Conclusion

The results of the study undertaken by independent development researchers from University of Minnesota show that Kashf's microfinance programs have proven to be transformative in enhancing the economic empowerment of women. By providing access to financial resources along with embedded services such as training, insurance, and healthcare, Kashf has enabled women to overcome poverty, improve their business management skills, and increase their financial security. The findings from various studies, including the current evaluation of repeat borrowers, demonstrate the positive impact of continued participation in microfinance programs, not only on women's business incomes but also on their households' overall well-being. With a focus on responsible lending and capacity building, microfinance has shown that it can be a powerful tool for fostering sustainable socio-economic development. As Kashf continues to serve millions of women, its approach offers valuable lessons for other institutions aiming to create lasting change and empowerment for women micro entrepreneurs and low income households.



A COMPANY SET UP UNDER SECTION 42  
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