

Kashf's Gender Bond: Connecting Capital Markets to Micro Businesses

Kashf foundation in partnership with InfraZamin and Arif Habib Limited issued the first gender bond in Pakistan to further the mission of women economic empowerment in the country. The focus note aims to highlight the importance of the bond for closing the gender gap in Pakistan and Kashf Foundation's interventions and impact over the years which led to breaking yet another glass ceiling for women in Pakistan.

In a landmark achievement in December 2023, Kashf Foundation issued the first ever Gender Bond in Pakistan, also the first in South Asia. With Infra Zamin Pakistan (IZP) providing the guarantee and with the support of Arif Habib Limited, the Gender Bond closed in December 2023 with 34 local private sector investors, which have now grown to 40. Over the next three years the proceeds from the PKR 2.5 billion bond (USD 8.7 million when the bond was issued) aim to finance women led micro businesses, support development of housing infrastructures for low income women and support school infrastructures to improve access to quality education for children, especially girls. The investment focus of the bond relates to several important streams including economic empowerment, well-being of households and access to education, which is an extremely important aspect of how the bond was structured and ties back to the SDGs in particular.

The gender bond was credit rated "AAA" long term and A+1 by the Pakistan Credit Rating Agency (PACRA), and came with a 100% principal guarantee as well as additional guarantee to cover interest rate payments from InfraZamin Pakistan as an additional sweetener to incentivize investors. The impressive credit

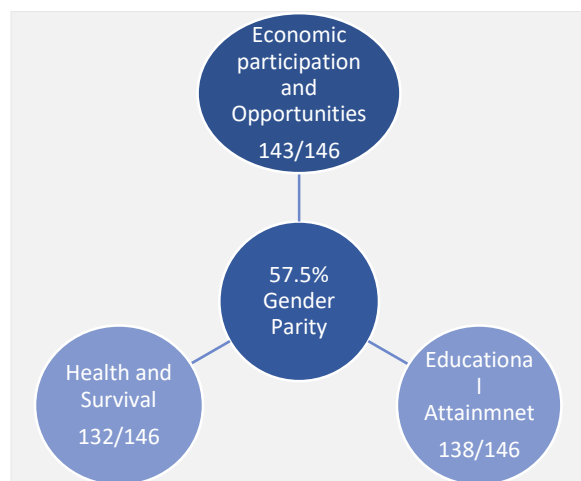
rating provided the much needed confidence for investment into gender intentional programs which have traditionally been deemed unprofitable or risky when seen from the perspective of investors. The bond packages the small businesses of thousands of women that are part of Kashf's extensive network, and will invest directly in at least 30,000 women micro entrepreneurs, thus successfully connecting capital markets to microbusinesses.

Gender Gap and the Need for Targeted Investments

The issuance of the bond has come at a very critical time when the need for investment in projects aiming to reduce gender inequality is dire. The Global Gender Gap Report 2023 ranks Pakistan 142nd out of 146 countries with a gender parity of 57.5%, the highest since 2006. Pakistan further ranks 143rd on economic participation and opportunities, 132nd on health and survival, and 138th on education attainment.

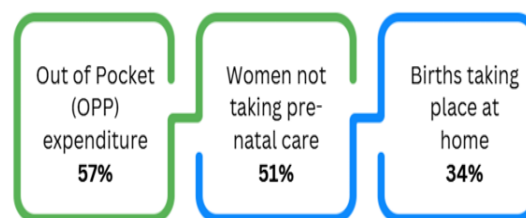
While there has been some progress compared to last year, the gender gap continues to widen. A strong body of research over the years has shown that gender inequality, both in opportunities (health, education and finance

etc.) and outcomes (employment and earnings) hampers economic development.¹



According to the economic survey 2023, 73.4% men, 51.9% women are literate. The gap also persists amongst the school aged children today with 2 million more girls than boys being out of school. On the health side, the Out of Pocket (OOP) expenditure for health care currently stands at 57%, which have serious consequences for access to and utilization of health care, particularly for low income women, who have been reported to adopt multiple coping mechanisms like cutting back on consumption, selling assets, exhausting savings and borrowing from friends and family members to meet health care expenses. Data shows that even today, 51% of pregnant women do not make the recommended antenatal care visits to the health facility and almost 34% of the births still take place at homes². Maternal and neonatal mortality has also remained stagnant over the years.

¹ Gender Inequality and Economic Growth: Evidence from Industry Level Data, Working Paper, International Monetary Fund 2020.



The labor force participation rate for women currently stands at 26%, while it is 84% for men. 65% of the total employed women in the non-agri sector are engaged in the informal sector. Moreover, 60% of women in labor force have no education (compared to 29% men). Furthermore, the gender wage gap in Pakistan currently stands at 34%, which is one of the highest wage gaps in the world. On top of this, disparity in access to digital mediums (20% women in Pakistan use smart phones and 16% use internet) and formal financial channels (20% have a bank account), further curtails access to employment and growth opportunities for women. In addition to all these factors, the issue of climate change has a huge negative impact on women's health and incomes when compared with men.

As a result, there is a deep feminization of poverty with women representing a higher percentage of those below the poverty line. Of the 40% people living below poverty line in Pakistan, over 75% comprise of women. With the current rate of progress, it is estimated that the gender gap will take another 149 years to close. This means that concentrated efforts for improving access to resources are required to facilitate improvement in the economic and social conditions for women and uplift them from poverty.

Informal sector has an important role to play in this regard. Self-employment in the informal

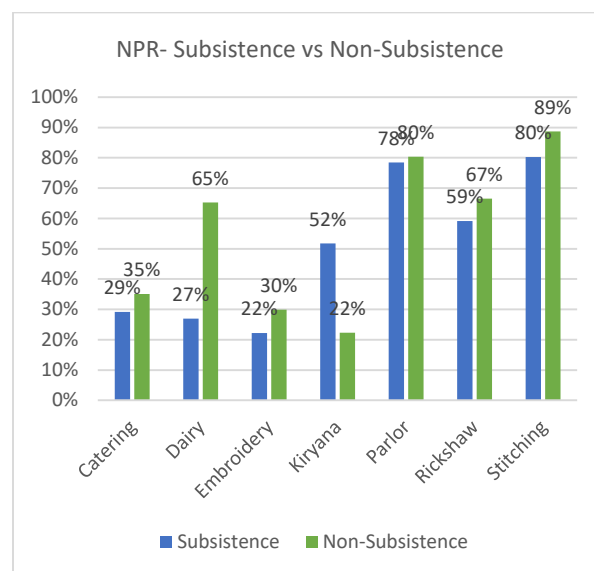
² National Report on The Status of Women in Pakistan 2023

sector has been shown to have a 63% poverty reducing impact at the extreme poverty line as compared to job in the formal economy. Evidence from Pakistan supports the same³. In FY 22-23, unemployment rate in Pakistan increased from 6.2 to 8.5% while the GDP decelerated by 0.3%. However even during the economic downturn, microbusinesses in the informal economy not only continued to sustain profitability but also acted as a giant sponge to absorb much of the shock of economic contraction, keeping households afloat during times when the real incomes were eroded by inflation. An assessment of net profitability ratio of microbusinesses undertaken by Kashf Foundation in 2022 and then again in 2023 showed that seven of the most occurring microbusinesses continued to sustain profitability even in the most challenging economic circumstances.

	NPR 2023	NPR 2022	Change
Catering	34%	34%	Static
Dairy	56%	80%	Decreased
Embroidery	27%	34%	Decreased
Kiryana	30%	22%	Increased
Parlor	80%	68%	Increased
Rickshaw	64%	61%	Increased
Stitching	86%	80%	Increased

While both subsistence and non-subsistence businesses continued to sustain the impact of inflation fairly well, non-subsistence businesses came out to be more profitable than subsistence level businesses. A deeper look into the factors resulting in higher profitability and resilience of non-subsistence microbusinesses showed that high liquidity maintained by non-subsistence businesses through investments into their

enterprises, as well as lower incremental cost of procurement acted as a buffer in offsetting the increased cost of business, allowing micro enterprises to maintain cash flows more effectively.



This highlights the need for supporting microbusinesses through microcredit as well supporting them in sustaining and expanding operations through capacity building and risk transfer programs. It is interesting to note, that with the exception of Rickshaw business, all of the other businesses mentioned above are predominantly managed by women in the informal economy, dismantling the long standing misconceptions that cast doubts on the stability and profitability of women led microbusinesses, which have kept investors away from investing into these enterprises. It would not be far from truth to deduce that as the formal economy undergoes fluctuations, the need for investment in the informal economy, majorly shouldered by women's economic activities, increases, and failure to meet the increasing demand for financial services can lead to further increase in poverty as well as gender inequality.

³ The effect of the informal economy on poverty; 2021. Goteborgs Universitet

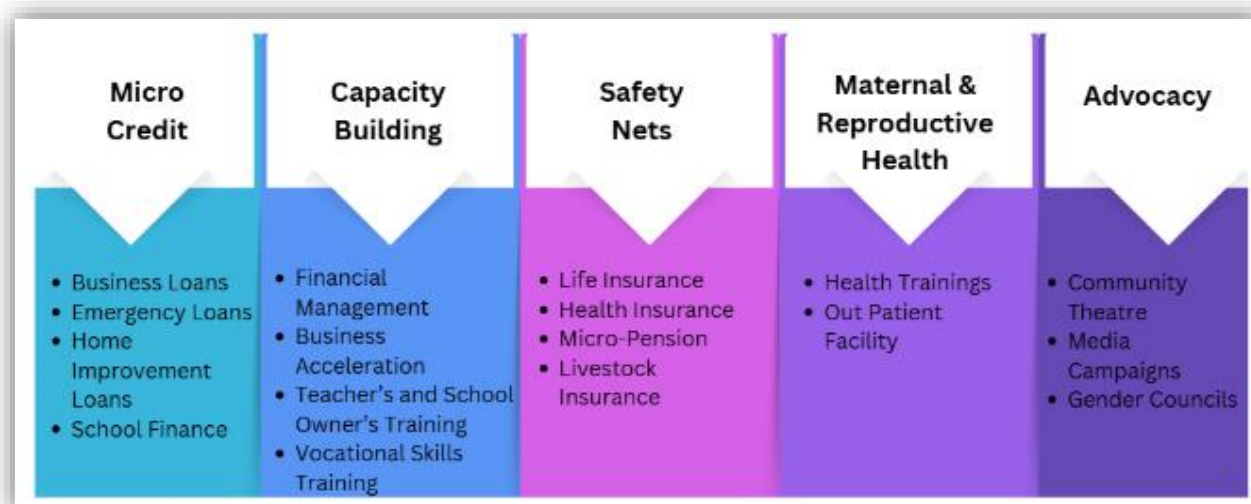
Microfinance has proved to be an important instrument in closing the gender gap in poverty. By supporting the informal sector, microfinance plays a major role in boosting entrepreneurship among women, enhancing their incomes and reducing inequalities, while also creating ways to enhance women's agency both within the home and in the community. This requires a combination of financial and non-financial services which not only supports enterprise development but also offer microcredit, risk transfer avenues and capacity building interventions to tackle the multiple dimensions of poverty. The Gender Bond represents an important step in this direction, channeling funds into programs that will create tangible improvements in the lives of women, reduce inequality, and contribute to the broader goal of national economic growth.

Even today, gender labelled financial products in the capital market make up a very small proportion of the sustainable investment universe; USD 17 billion out of USD 40 trillion. While sovereign gender bonds play a critical role in advancing gender equality and supporting the achievement of sustainable development goals, there is an increasing need to channel investments into sustainable models that

specifically target the informal sector. By focusing on micro-level initiatives, these investments can drive meaningful, long-term change, creating sustainable impacts at the grassroots level.

The Case Study of Kashf: Pathway to the First Gender Bond in South Asia

Kashf Foundation prides itself as the first specialized microfinance institution in the country established with the mission of poverty eradication through women's economic empowerment. The milestone that was achieved in the form of the issuance of the first Gender bond in South Asia was a result of 30 years of sustainable financial practices and prudent management, which demonstrated that investing into women is both socially and economically viable. Through investment into the value chain for women's entrepreneurship and responding to the changing needs of the women led microenterprises, Kashf currently stands as the largest provider of microfinance services to women micro entrepreneurs. In the last year, when the share of women borrowers in the overall microfinance client base decreased, Kashf achieved a growth rate of 7%, whilst maintaining portfolio quality with only



0.53% Portfolio at Risk (PAR), against the industry's average of 6.77%. At the same time, the average disbursement size (ADS) was PKR 59,000, which when compared with the overall sector's ADS was 13% higher, indicating Kashf's commitment to increasing loan sizes in line with the capital requirements of clients' businesses.

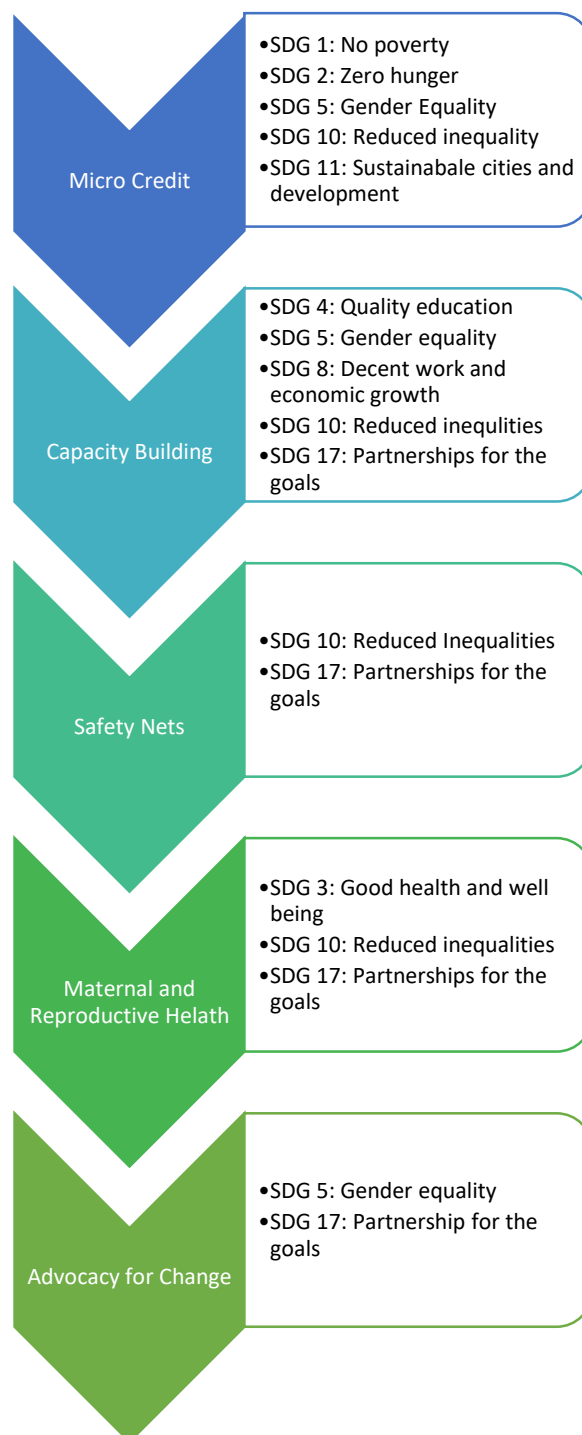
As of June 2024, Kashf had an active client base of 780,000 clients, all women, served through 382 branches across all provinces in Pakistan. Of the loans disbursed, at least 75% were used to support enterprises directly managed by women. Over decades, Kashf has expanded the depth and breadth of its services to provide holistic solutions that address multiple dimensions of poverty and furthering its mission towards sustainable development. The five key focus areas include:

Micro Credit: To support not only micro enterprises but also support low income households in consumption smoothing, home improvement and school management. As of June 2024, Kashf has disbursed loans totaling PKR 282 billion to more than 7.3million women.

Capacity Building: With more than half of Kashf clients reporting no level of school, Kashf realizes the importance of financial education for women to enable them to manage their finances and be able to take decisions for their businesses and their households. Employing adult learning techniques, so far Kashf has supported more than 1.7 million women through capacity building trainings which include but are not limited to basic financial management, business acceleration programs, youth engagement programs, teacher's trainings and vocational skills trainings.

Social Safety Nets: Realizing the lack of safety nets and the impact of economic shocks on the short and long term wellbeing of low income households, Kashf through partnerships has introduced a suite of insurance products that

cover low income households against contingencies. Not only that, Kashf was able to negotiate premium payment plans that are in line with the unique needs of low income households. As of June 2024, Kashf has covered 14 million clients under life, 16 million under



health, 153,000 through livestock and 5,000 under the micro pension product.

Maternal and Reproductive Health: Other than the insurance cover, Kashf has placed extensive focus on awareness regarding health as well as in encouraging proactive health seeking behavior amongst women. Therefore, Kashf has been achieving this through maternal and reproductive health trainings and through provision of OPD services, previously through health camps and now through Kashf's own health clinics, which provides free of cost consultation for low income households.

Advocacy for Change: Advocacy to generate dialogue on issues impacting the economic participation of women through theater performances and media campaigns.

These holistic suite of interventions have shown to have a significant impact on increasing incomes, reducing vulnerabilities, and improving access to health care, education and housing. Assessment of longitudinal data of women entrepreneurs collected across three years showed improvement in the poverty levels of 41% of clients and improved business incomes for 90% women entrepreneurs. A third party assessment undertaken with 1,900 clients on the impact of Kashf's services showed significant positive change. After the loans, respondents reported an average increase of Rs.14,439 in household income, Rs.5,309 in savings, 10,897 in business revenue, and a 5,666 increase in business profits. Moreover, 38% of the entrepreneurs reported increase in the number of employees in business, also showing business expansion. Respondents also reported improvement in their financial capabilities (75%) and subsequently confidence in their ability to manage household and business finances.

On the health side, the claim ratio for health insurance stood at 75%, with more than three fourths of the claims relating to maternity

showing the efficacy of the health cover in meeting the higher health care needs of women. Furthermore, Kashf's OPD facility through clinics have also shown to have significant impact on Out of Pocket (OOP) expenditures of the clients, with 69% percent of the respondents reporting significant reduction in health expenditures; 10 times lower than what they would have paid at some other health facility.

Additionally, advocacy efforts through community theaters and media campaigns on pertinent issues impacting women's economic participation including unpaid care work, early marriage, family planning and girl education led to initiation of dialogue at the grass root level, while also supporting policy discourse at the national level.

Along with the persistent focus on women in informal economy, Kashf has also been conscious of the gender gap that exists in formal employment. Kashf has therefore upheld the same standard of gender intentional policies and procedures for its own employees. As of June 2024, Kashf had a staff base of 4,139 members, with women representing 52% of the workforce. Not only this, Kashf was able to ensure gender balance at every tier of the organization. Currently, 55% of managerial positions at Kashf are occupied by women, they make up 49% of Kashf's Management and 60% of Board Members. Moreover, 49% of the workforce across Kashf reports to female managers.

The impact described above reflects the results of persistent and continuous efforts aimed at improving women's economic standing both within households and communities. It highlights the immense potential of focused efforts for women's economic empowerment in driving human development, ultimately contributing to sustainable economic growth. Through holistic interventions that have yielded measurable results, Kashf Foundation has demonstrated the value of investing in gender-

intentional programs—a key driver behind the issuance of the Gender Bond. These initiatives have played a critical role in advancing several Sustainable Development Goals (SDGs), including reduced inequalities, zero hunger, gender equality, quality education, decent work and economic growth, good health and well-being, and partnerships for the goals.

Gender Bond for Gender Parity

Gender equality is not just a fundamental human right, but also a critical driver of economic and social development. The stark gender gaps in education, health, employment, and income inequality that Pakistan face today is not only a moral challenge—it is an economic liability that limits the nation's potential for growth and prosperity. The Gender Bond represents a powerful tool in addressing these disparities. It offer a promising capital market solution to mobilize funds to support programs and interventions that will enhance gender parity. It also provides an opportunity for the integration of gender focused programs into the organization's development frameworks, boost public awareness on challenges faced by women in economic engagement and deepen focus on this segment.

In uncertain macroeconomic climate and limited foreign investment, Kashf's issuance of Pakistan's first-ever Gender Bond in South Asia is a pioneering step that sets the stage for other organizations to explore local capital market to further the cause of women's economic empowerment. This can help support gender intentional programs while offering investors a unique opportunity to contribute to microbusiness growth and, ultimately, the country's economic development.

Kashf Foundation is committed to continue its mission of poverty alleviation by supporting women's financial inclusion, and by addressing

and highlighting challenges in its achievement. In the next three years, Kashf aims to expand the financial and non-financial suite of services to reach one million women, supporting them in starting/expanding their businesses. Kashf further aims to extend financial support to 3,000 schools owners and capacity building trainings for approximately 5,000 teachers. Furthermore to combat the pressing challenges posed by climate change and its disproportionate impact on women, Kashf will be recalibrating its financial products and services using both a gender lens and a climate resilience approach. The goal is to develop innovative climate insurance and financial solutions that directly address climate-related risks. Kashf aims to disburse about 4,000 loans especially for improvement for low income households, making them safer and climate resilient.

The journey to gender parity requires continued commitment, investment, and innovation. It requires partnerships between government, financial institutions, and civil society. Most importantly, it requires a collective effort to not only recognize the challenges but to take intentional and concrete steps towards their solution.



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