The Impact of Micro Finance on Poverty and Gender Equity
Approaches and Evidence from Pakistan

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PAKISTAN MICRO FINANCE NETWORK

by

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LIST OF ABBREVIATIONS

AKRSP	Aga Khan Rural Support Programme
CGAP	Consultative Group to Aid the Poorest
DFID	Department for International Development
PMN	Pakistan Micro Finance Network
PPAF	Pakistan Poverty Alleviation Fund
PRSP	Punjab Rural Support Programme
NRSP	National Rural Support Programme
NGO	Non-Governmental Organisation
OCT	Orangi Charitable Trust
SEWA	Self-Employed Women’s Association

I. BACKGROUND

Overview

1. There is increasing reliance on micro finance as an instrument of poverty alleviation in Pakistan. The Government of Pakistan's current Poverty Reduction Strategy emphasises the provision of micro credit as a key aspect of its poverty reduction strategy. The establishment of the Pakistan Poverty Alleviation Fund with World Bank financing and the Khushali Bank with Asian Development Bank financing are based on the underlying expectation that these initiatives will help to reduce poverty in Pakistan. Micro-finance has been an important aspect of the poverty alleviation strategy of the NGO sector since the 1980s. The Rural Support Programmes have placed a strong emphasis on helping the poor initiate micro-finance programmes as an essential part of their poverty reduction strategy. Women have been a participant in these efforts and, following the example of Grameen Bank, some programmes have focused exclusively on women. Despite this excessive reliance on micro-finance to be the panacea for poverty in Pakistan there has been surprisingly little work undertaken to assess the impact of micro-finance on poverty and gender equity.

2. This background paper has been written with the primary purpose of assessing the impact of micro finance on poverty and gender equity in Pakistan. The paper has been commissioned by the Pakistan Micro-Finance Network (PMN) for presentation at a seminar being hosted by the Network in December 2003. The main purpose of the seminar is to publicly examine the research and empirical evidence and analytical work available in this regard in the Pakistan context and outline the parameters that are useful to examine in the future to understand the impact of micro-finance on poverty alleviation. It is expected that this exercise will help in sharing different approaches and experiences, assist in forming a realistic expectation of the impact of micro-finance and assess the extent to which micro-finance programmes may need to be redesigned to enhance their impact on gender equity and poverty.

3. The paper is not based on any primary research but attempts to assess the different approaches taken to this critical issue by various micro-finance practitioners and the evidence that has been collected in Pakistan in this respect. The report also scans the approach to impact assessment that has been taken at the regional and international level and the evidence that is available from the region in terms of the impact on poverty and gender equity, particularly in Bangladesh. The main focus of this study was expected to be on micro-finance. However, the major focus of micro-finance institutions in Pakistan has been on providing loans and most are exclusively providing credit. A few NGOs, particularly the Rural Support Programmes have also initiated savings services but this has not been the main focus of MFI services, and most, like the Orangi Charitable Trust (OCT) challenge the rationale of savings given the current economic and financial environment. While a few MFIs have initiated other financial services, such as micro-leasing, insurance, remittance services, etc the volume and scope and outreach of these services is so limited that it does not make much sense to assess their impact, at this stage. Furthermore, informal financial markets have played a major role in providing loans and other services. However,

since these are extended largely by relatives, friends and shop-keepers it was not possible to look at them in the same manner as MFI programmes. Furthermore, the impact assessments that have been undertaken focus on the beneficiaries of NGOs and as such most of the findings refer to credit provision by NGOs.

II. APPROACHES USED FOR ASSESSING THE IMPACT OF MICRO-FINANCE PROGRAMMES

A. Approaches Used for Assessing the Impact on Poverty

4. One of the most broadly shared perceptions about micro-finance is that it is beneficial and therefore everyone needs and demands it. As a result, there has been very little questioning about the benefits of micro-finance and until recently, little interest in trying to measure its precise impacts. The approach generally followed is to expound the benefits of micro-finance without citing any empirical evidence. Following a similar approach, the Pakistan Poverty Reduction Strategy Paper (PRSP) asserted that, "access to credit is the surest way of empowering the poor and improving their income generating opportunities"[1] and that "international experience has shown that micro-credit can be an important instrument in improving the income generating capabilities of the poor."[2] Similarly, the Asian Development Bank's assessment of the micro finance sector in Pakistan was that the "poverty reduction potential of micro-finance is widely recognised at the policy level and among the development community."[3]

5. Most international discourse on the subject also perceives micro-finance "as an approach with significant further potential for poverty alleviation and economic empowerment". International literature further asserts that "micro-finance began alleviating poverty several decades ago when organizations in Latin America, Bangladesh, and other developing nations began testing the notion of lending small amounts to impoverished people (mostly women). By the 1980s, the success of institutions such as ACCION and Grameen prompted many NGOs and International Organizations to provide micro-finance services. As more micro-finance institutions (MFIs) proved that the poor were reliable borrowers, entrepreneurial, and willing to work hard to escape poverty, the micro-finance industry grew to a remarkable 8,000 MFIs by 1999. Thus the growth in the MFI sector was sufficient proof that micro-finance was a panacea for poverty.

6. The growth in the sector was being used to extol its virtues, partly because the proxy indicators of repayment and disbursements were being used to evaluate micro-credit programmes. Both in Pakistan and elsewhere, it was assumed that if loan repayments were being made and disbursements were growing then micro-credit must be yielding benefits. Many programmes in Pakistan followed this approach. Thus AKRSP, NRSP and PRSP all assumed that since they had repeat borrowers and expanding programmes they were a success. In order to simply reconfirm these

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[1] Pakistan Interim Poverty Reduction Paper. Government of Pakistan. November 2001. p.38.
[2] Pakistan Interim Poverty Reduction Paper. Government of Pakistan. November 2001. p.38.

[3] Report and Recommendation of the President to the Board of Directors on Proposed Loans to the Islamic Republic of Pakistan for the Micro Finance Sector development Programme. Asian Development Bank. November 2000.

benefits and illustrate this to the donors, most practitioners got in-house staff and interns to document a range of case histories of successful men and women to show how micro-credit was transforming lives. Most of the cases studies were well written and while they did demonstrate the benefits of micro-credit, they were romanticised versions of the power of credit, were generally poorly researched and the financial analysis was undertaken in a fairly superficial and uneven manner. In fact, staff undertaking the analysis was generally not trained to conduct financial or economic analysis. Most of these studies documented success stories almost exclusively as they were directed at a fawning audience which did not need more proof about the large scale benefits of micro-finance. The failures were largely forgotten, if not actually intentionally buried in the large plethora of loan applicants. In the early years, this anecdotal evidence sufficed and no further efforts were made to assess the impact of micro-credit.

7. It is only now being recognised that repayment is not an accurate indicator that funds are used to invest in successful productive activities. Even when a borrower repays a loan on time, the source of income is not necessarily from revenues generated by investing the loan in productive activities. In most peer lending micro-credit programs, for instance, borrowers must commence weekly instalments almost immediately after the investment is made. Hence, borrowers are either forced to choose activities that generate almost immediate revenue (and these activities tend to generate the lowest returns), or they have to repay the loan from other sources. In practice, repayment is often derived from general family income rather than the activity for which loan has been provided. Hence, repayment may be good, due to the economic status of the borrowing household, discipline or peer pressure, regardless of business performance.[4] Some of the micro-credit programmes in Pakistan such as Kashf are designed for immediate repayment from other household sources of income.

8. By the late 1980s, there was a wealth of anecdotal and qualitative case study evidence to support popular perceptions regarding the positive benefits of micro-finance, but still no carefully controlled longitudinal or cross-sectional surveys of borrowers and comparable non-borrowers. Distinguishing between success and failure was still largely a matter of perception, provided that the support funds continued to arrive. Moreover, as long as loan-repayment rates were the primary quantitative indicator of performance, programme staff could manipulate numerous legitimate accounting procedures to ensure that published rates remained high.[5] In the late 1990s, development projects generally, and micro-finance in particular, came under increasing pressure to show that returns on investment were real and sustainable. In an era characterised by heightened political pressure to defend the role and purpose of foreign aid, it was not enough for programmes to be able to boast high loan repayments rates and cite simple case study evidence of success.

[4] The Role of Micro-credit In Poverty Reduction And Promoting Gender Equity - A Discussion Paper. Prepared By: Norman Maclsaac, South Asia Partnership Canada. For Strategic Policy And Planning Division, Asia Branch. CIDA - June 12, 1997

[5] Woolcock J.V. Learning From Failures in Micro-Finance. The American Journal of Economics and Sociology P. 17. January 1999.

9. In Pakistan there has been a tendency to use anecdotal evidence and claims about the impact of micro-credit are not well documented or supported by verifiable evidence. Some of the evidence is quite weak because of inadequate data or questionable methods used to collect and interpret the data.[6] Some of the micro-credit programmes assert that they cannot afford to undertake impact assessments because they are generally expensive and time-consuming. There are also serious disagreements among experts on the validity of methodologies used in some of the published studies. In some cases, even the more rigorous studies have produced inconclusive results. The most frequently cited reasons for not undertaking impact are that it is not required, it is too soon for impact to be realised and that no matter what methodology one adopts it will be criticised.

10. A review of the micro-finance sector in Pakistan reveals that the interest in assessing the widespread impact of micro-credit on poverty is a relatively recent phenomenon and that almost all the major studies in this regard were undertaken after 2000. The only study prior to this year was commissioned by the State Bank of Pakistan and this was undertaken as part of a series of studies by the Applied Economic Research Centre on rural financial markets in Pakistan. To date, this is the largest study on the subject covering more than 6000 households and 24,000 respondents. This is not an impact study but a survey of rural financial markets. However, the impact studies that have been undertaken are not by the major NGOs in the sector where reservations about the usefulness of impact still prevail. For example, AKRSP, NRSP and PRSP have not undertaken any large scale impact assessments of their micro-finance programmes. A study on NRSP was undertaken recently by Dr Mehmud Hassan Khan which looked at the issue of cost-effectiveness, participation of the poor and impact. Among the main NGO practitioners only Kashf and the Orangi Pilot project have undertaken or commissioned impact studies. The Pakistan Poverty Alleviation Programme has only recently completed a study of some of its partner NGOs and the Khushali Bank is planning to undertake some studies in the future with the assistance of USAID but no current assessment exists. A few small scale sample surveys were undertaken by PIDE and independent researchers as part of the latest UNDP Human Development Report which has examined the issue of micro-finance in detail. Table 1 summarises the main studies undertaken in Pakistan.

Table 1
Overview of Impact Assessments Undertaken on Micro-Credit in Pakistan

Organisation	Date	Sample Size	Methodology Used
Rural Financial Markets Studies: Rural Credit Study & Role of Women in the Rural Economy and the Credit Market Study AERC, PERI and	September 1998	6020 households 24,500 individuals interviewed nearly half were females.	Nationwide study. All potential borrowers in each sampled household were simultaneously but separately interviewed.

[6] Mahmood Hasan Khan. 2003.

PIDE			
Impact Assessment as a Management and Policy Tool: The Social and Economic Outcomes of Kashf's Microfinance Services Roshaneh Zafar & Sadaffe Abid	*November 1999*	Survey of women borrowers from 52 households and two focus groups for rapid appraisal comprising 6 and 5 women	Intra-household gender relations, decision-making, self-perception, perception of daughters' future, obstacles to women's growth and development
Social Impacts and Constraints of Micro-Credit in the Alleviation of Poverty. A qualitative Study of the Micro-credit Programme OPP-Orangi Charitable Trust, Karachi Naheed Rehman	August 2000	47 respondents 22 women and 25 men.	
National Human Development Report Akmal Hussain et al	2003	PIDE survey of seven districts. A.I. Hamid Survey of 277 respondents (40 for each of seven NGOs).	Before and after
The Impact Assessment Study: Analysis of Kashf's Micro-finance and Dastkaari Programme on Clients' Socio-economic Lives Shazia Ali Khan Kashf	December 2001	129 respondents	Comparison with control group for micro-finance and enterprise workers
The PPAF Micro-Credit Financing: Assessment of Outcomes Study Gallup Pakistan PPAF	September 2002	1700 respondents	With and without- Before and after
Reaching the Poor through Social Intermediation: Micro-Finance and the Building of	November 2002	AKRSP: 9 communities (6 women, 3 village orgs) Interviews with staff 10 interviews with	Field-based interviews, focus group discussions and participant observation.

Social Capital Aga Khan Foundation, Canada		members of organizations Interviews with other stakeholders KASHF Focus group discussions 7 rural communities (9 respondents in each) 63 interviews in all with different stakeholders 12 additional with Kashf operational staff 11 with community leaders (7 men, 4 women 10 former clients 7 with non-Kashf members	
Orangi Charitable Trust (OCT) Akbar Zaidi	2003	110 clients 96 men 14 women 69 non-borrowers	Borrowers and non-borrowers

11. More recently the indicators that are being monitored in Pakistan and the orientation of the research is being fashioned by the concern with financial sustainability. This concern has emerged as a result of international influence regarding the financial sustainability i.e. a programme's capacity to remain financially viable in the absence of domestic subsidies or foreign support – and has become the benchmark against which both the efficiency and effectiveness of micro-finance programmes is being increasingly determined. By this measure, Grameen Bank was declared less successful than Indonesia's BRI/BKK programmes, while the favoured approach of the 1960's and 1970's i.e government's heavily subsidizing commercial banks was denounced as an outright failure. Yaron's subsidy dependency Index (SDI) approach, while not without its own problems, has also been complemented in recent years by significant improvements in the standards and techniques of programme evaluation research.

12. This concern at the international level has also permeated thinking in Pakistan and NGOs have been struggling to find measures to make themselves sustainable. Thinking in this regard was influenced when practitioners were first exposed to the micro-finance course in Boulder, Colorado where some of these ideas were expounded. Micro finance thinking at AKRSP and NRSP was revolutionised by the ideas emanating from Boulder and fairly key changes were made in these programmes as a result. These ideas had a special appeal in Pakistan where very few micro-finance programmes among Pakistani NGOS were initially designed with the sustainability criteria in mind. Kashf and OCT were an exception. NRSP has been

particularly concerned with the issue as it had, at one time, mistakenly calculated that its micro-credit programme could yield enough margins to sustain its entire development programme. Organisations like AKRSP have taken a more radical approach and transformed their micro-credit programme into a formal sector bank in pursuit of sustainability without a careful analysis of what this may mean for its initial objective of poverty alleviation and gender equity. It is not surprising that the flagship publication of the micro-finance industry; the Performance Indicators Report produced by the PMN almost exclusively focuses on indicators such as financial sustainability, operating efficiency and portfolio quality. The only indicator which could be used to look at the poverty or gender equity aspects is the number of borrowers and the number of savers. Furthermore, the PIR only gives the gender of savers and not of borrowers.

13. Impact assessment has been viewed largely as an activity that is to be commissioned to an outside agency to ensure credibility and impartiality of the exercise. Thus, while some MFIs like OCT maintain a detailed data base on their clients they do not store variables that would help them determine the benefits of micro-finance for each client. Kashf is also in the process of establishing a Monitoring and Information System that will provide them regular information on clients on a wide range of client characteristics. However, this data set is not designed to provide information on the poverty profile of clients. None of the RSPs keep a client profile but some have started making a distinction between poor and non-poor clients to be able to better assess the poverty targeting potential of their interventions.

14. At the international level, there have been considerable developments in the field of impact assessment and a vast and diverse academic literature exists on microfinance impact assessment. Currently, microfinance impact assessment is moving away from narrow, donor focused impact assessment events, towards more practitioner-focused processes. There is recognition of the need to more clearly define the range of objectives to be fulfilled and questions to be answered through impact assessment, and the range of possibilities of approaches and tools available to meet these objectives. It is also proving useful to distinguish between the different approaches to impact assessment. Impact assessment for public policy tends to be associated particularly with "impact proving" using more positivist methods, or quantitative data collection analysed statistically. Impact assessment for product development or organisational learning, in contrast, tends to be associated with "impact improving" using more participatory methods, or reliance on interpretation of mostly qualitative data.[7] The former is regarded as more expensive but more scientifically rigorous; the latter is cheaper and aims to be credible. There is also a distinction between demand from within MFOs themselves for organisational development, and from donors and regulators for public policy purposes[8] as is illustrated in Table 2 below. While some NGOs have undertaken in-house studies for

[7] (Woller, 2002

[8] Impact Assessment Of Microfinance: Towards A New Protocol For Collection And Analysis Of Qualitative Data. *James Copestake, Susan Johnson & Katie Wright, Centre For Development Studies, University Of Bath, Uk.*
June 2002

developing financial products most of the studies undertaken in Pakistan are of the nature of "impact proving."

Table 2: Contrasting Sources of Demand for Impact Assessment

	Impact assessment for public policy	**Impact assessment for product development**
Who for?	Donor	Service provider
When? (Historical context)	Donor led agenda of promoting increased provision of microfinance where supply of services is deficient (weak competition).	Organisation led agenda of seeking to cut costs and improve customer loyalty in order to survive (strong competition).
What for?	Is public money better used (at the margin) to subsidise microfinance services or for other purposes?	What can be learnt from clients in order to improve the prospects for organisational survival?
Outcomes	Green/red light for replication of "best practice" models (e.g. village banking, solidarity groups….) without much differentiation of users.	Product differentiation in response to diverse local demands of different categories of user.

15. Influential institutional players in this field during the last decade include the *SEEP/AIMS tools* developed by USAID in collaboration with SEEP (a US network of enterprise oriented NGOs). The Consultative Group to Aid the Poorest (CGAP) has invested in promoting an intermediate impact survey tool and a standard tool for assessing the relative poverty of microfinance clients. Micro-Save Africa, with support from DFID and UNDP, is said to be the market leader in establishing and branding 'industry standards' for market research using participatory methodologies.[9] Ford Foundation has initiated a three-year action research programme involving twenty-nine microfinance organisations (MFOs) around the world called Imp-Act.[10] The programme's main aim is to improve the effectiveness of MFIs by strengthening the mechanisms by which they learn about the impact of their services, particularly on poverty. It emphasises that progress in impact assessment is partially determined by techniques and skills of data collection and analysis, but also by the relationships and feedback processes within which IA tools are used. *Imp-Act* sets out to move away from donor oriented impact assessment towards practitioner-focused processes of listening and learning. Each participating MFO has developed its own pilot impact assessment plans, to fit specific organisational context, objectives and stakeholder needs. One of the most important issues emerging from the first year of the programme has been the need to develop a simple, cost-effective, replicable and credible method for collection and analysis of qualitative data.

[9] All these organisations maintain active websites. A useful single gateway into all of them is the Enterprise Development Website: www.enterweb.org/microcre.htm

[10] *Imp-Act* stands for Impact Assessment of Microfinance: an action research programme. For more information see its web site: www.Imp-Act.org

B Approaches Used for Assessing the Impact on Gender

16. Although international interest in exploring the impact of micro-finance on gender equity has grown, there are still relatively few studies investigating the impact on gender relations in depth and most studies are limited to the impact of micro-credit; there is little research on savings and other services. Independent research has mostly been restricted to programs in India and Bangladesh. There is little focus on gender equity and even a recent initiative by the Ford Foundation on impact assessment in collaboration with 29 MFIs has little focus on gender.

17. There is no standard definition of gender equity or women's empowerment in the literature, as a result impact assessments are motivated by different definitions. These definitions of women's empowerment vary, depending on the paradigm of development. For example, the financial sustainability paradigm focuses on economic empowerment, expansion of individual choice and capacities for self-reliance. The poverty-alleviation approach focuses on increased wellbeing, community development and self-sufficiency and the feminist empowerment paradigm on transformation of power relations throughout society.[11]

18. Schuler and Hashemi outline six elements of women's empowerment in Bangladesh which includes a sense of self and vision of a future, mobility and visibility, economic security, status and decision-making power within the household, ability to interact effectively in the public sphere and participation in non-family groups. A review of the literature undertaken by Mayoux suggests that the following are generally considered indicators of women's empowerment by donors advocating financial sustainability models: significant increase in incomes from women's own activities; enable women to control (have a choice over use of) income from loans and activities generated by loans; enable women to negotiate improvements in their well-being within the household; give women access to support networks which enable them to protect their individual and collective interests at the local and macro-levels. Mayoux defines empowerment as 'a multidimensional and interlinked process of change in power relations' (see Box 1).

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BOX 1: FRAMEWORK FOR EMPOWERMENT

- ***power within:*** enabling women to articulate their own aspirations and strategies for change;
- ***power to:*** enabling women to develop the necessary skills and access the necessary resources to achieve their aspirations;
- ***power with:*** enabling women to examine and articulate their collective interests, to organise to achieve them and to link with other women's and men's organisations for change;
- ***power over:*** changing the underlying inequalities in power and resources which constrain women's aspirations and their ability to achieve them.

These power relations operate in different spheres of life (eg economic, social, political) and at different levels (eg individual, household, community, market, institutional).

Whose empowerment? a predominant concern with equity and empowerment of those currently most disadvantaged in the different spheres and at different levels.

[11] MacIsaac, 1997.

Who should decide? Empowerment is of necessity a process of negotiation where the subjects of the empowerment process (i.e. here women members of micro-finance programmes) define the main priorities and strategies. This process of negotiation however requires an appropriate forum and information to enable women to fully consider the possible options and potential consequences of choices. It is also likely to require explicit promotion of women's interests at the macro-level to widen the scope of choice. **Mayoux G&C**

19. Indicators of women's empowerment will depend on how empowerment has been defined and the context they are being defined in. In a study of urban SEWA members, Schuler and Hashemi (1996) concluded that, in the Indian urban context, mobility and visibility were much less significant indicators than others. In stark contrast to their rural counterparts in BRAC and Grameen Bank, SEWA urban self-employed women had always been more visible, mobile and independent. So indicators for empowerment have to be selected keeping in view the specific manifestations of women's position in a given society.

20. In Pakistan, interest in exploring the impact of micro-finance on gender equity has been minimal. Not surprisingly, a review of impact studies shows great variation in the extent to which gender equity issues have been addressed. In some studies, the issue has been overlooked completely and in others it is marginalized. In some, data is not disaggregated by gender, in others, gender-disaggregated data is available but the gender dimension has not been highlighted in the analysis. In very few cases, has gender equity been examined in some depth. There is insufficient recognition of the need for gender-disaggregated intra-household analysis and the household continues to be the preferred unit of analysis.

Table 3
Overview of Gender Aspects of Impact Assessments Undertaken on Micro-Credit in Pakistan

Organisation	**Date**	**Sample Size**	**Gender Aspects Reviewed**
Rural Financial Markets Studies: Rural Credit Study & Role of Women in the Rural Economy and the Credit Market Study AERC, PERI and PIDE	September 1998	24,500 respondents Half the respondents were women.	Gender disaggregated data on reasons for not borrowing and borrowers of large loans

Impact Assessment as a Management and Policy Tool: The Social and Economic Outcomes of Kashf's Microfinance Services Roshaneh Zafar & Sadaffe Abid	*November 1999*	Survey of women borrowers from 52 households and two focus groups for rapid appraisal comprising 6 and 5 women	Intra-household gender relations, decision-making, self-perception, perception of daughters' future, obstacles to women's growth and development
Social Impacts and Constraints of Micro-Credit in the Alleviation of Poverty. A qualitative Study of the Micro-credit Programme OPP-Orangi Charitable Trust, Karachi Naheed Rehman	August 2000	47 respondents 22 women and 25 men.	None
Micro-credit for Development. The Impact of the OPP-Orangi Charitable Trust Micro credit Programme on Urban Livelihoods. S.Akbar Zaidi	2003	110 clients 96 men 14 women 69 non-borrowers 63 men 6 women	Gender disaggregated data on increase in standard of living
National Human Development Report Akmal Hussain et al	2001	PIDE survey of seven districts. A.I. Hamid Survey of 277 respondents (40 for each of seven NGOs).	None
The Impact Assessment Study: Analysis of Kashf's Micro-finance and Dastkaari Programme on Clients' Socio-economic Lives Shazia Ali Khan	December 2001	129 women respondents	Social capital generated through women's participation in Kashf's micro-finance program
The PPAF Micro-Credit Financing: Assessment of Outcomes Study Gallup Pakistan	September 2002	1700 respondents Ratio of men to women in sample same as ratio of men to women borrowers per district	Gender disaggregated data on control over resources, decision making, social st
Reaching the Poor	November	AKRSP:	Empowerment: social

through Social Intermediation: MicroFinance and the Building of Social Capital Aga Khan Foundation, Canada	2002	9 communities (6 women, 3 village orgs) KASHF 7 rural communities (9 respondents in each) 63 interviews in all with different stakeholders 12 additional with Kashf operational staff 11 with community leaders (7 men, 4 women 10 former clients 7 with non-Kashf members	capital, financial benefits, identity, information and skills, leadership and conflict, practical and strategic needs, intra-household gender relations
Micro-credit for Development. The Impact of the OPP-Orangi Charitable Trust Micro credit Programme on Urban Livelihoods. S.Akbar Zaidi	2003	110 clients 96 men 14 women 69 non-borrowers 63 men 6 women	Gender disaggregated data on increase in standard of living
National Human Development Report Akmal Hussain et al	2003	PIDE survey of seven districts. A.I. Hamid Survey of 277 respondents (40 for each of seven NGOs).	None

21. There is also a tendency for qualitative studies to show a much greater impact than can be corroborated through quantitative studies, with the exception of impact on women's self-esteem. The most popular methodology used by MFIs to show a positive impact on gender equity has been the case study method. Virtually every MFI has a stack of case studies which focus on success stories. Most show how women's lives have been transformed with the provision of a loan they have invested in their own businesses. However, the dramatic impact on increase in income and well-being has not been corroborated by the quantitative surveys that have been conducted. In some cases, qualitative studies have been conducted with a sample size that is either not statistically significant or gender-biased.

22. A spot survey conducted for the Human Development Report[12] focuses on the impact of micro-credit on nutrition, health and sustainable income increases on households. The sample comprised a representative sample (277) of clients of 7

[12] A.I. Hamid. 2003.

NGOs. Two of the organizations chosen, Kwendo Kor and Kashf work only with women so it can be inferred that the sample contained a minimum of 80 women. The report suggests that 'most participatory bodies include working with women to a greater rather than a lesser degree although the range of opportunities provided to women is still not equal to that provided to men'. Beyond this statement, gender equity issues are not discussed.

23. The two studies conducted on OPP-OCT's micro-finance program do not address impact on gender equity in any significant manner. Akbar Zaidi's study contains gender disaggregated data on increase in standard of living. However, very few women were included in the sample (63 men and 6 women non-borrowers, 69 men and 14 women clients) so even the findings on this one indicator can only be considered indicative and not conclusive. In Naheed.Rehman's study on Social Impacts and Constraints of Micro-Credit in the Alleviation of Poverty, nearly half the respondents were women, however gender-specific impacts were not explored. The rationale for not doing so was stated to be as follows; "A*mong the issues not discussed in this essay are gender-specific impacts of micro-credit in Orangi. This is largely because this research did not highlight such impacts as salient nor suggest that women and men viewed credit participation in distinctly different ways. As noted earlier, the OCT unlike Grameen Bank, is not a female-centred lending institution nor does it place women's empowerment above broader goals to facilitate business expansion among the working poor".*

24. The PPAF Micro-Credit Financing: Assessment of Outcomes Study by Gallup Pakistan (2002) focuses on gauging the socio-economic outcomes of micro-credit programs. Gender-disaggregated data has been provided only for the following three hypotheses out of the seventeen that were studied: increase in personal income; increase in household income and improvement in social status within or outside household by assessing participation in local politics and control over key resources. In addition, gender-disaggregated data has been provided on return on investment. Yet despite some significant findings, gender issues receive no mention in the executive summary. Even where there are very significant differences between findings for men and women, these are not focussed on even in the conclusions drawn for each hypothesis in the body of the report. For example, 54 per cent of women borrowers reported a positive change in their incomes as opposed to 34 per cent of men borrowers but in the conclusion the finding that is highlighted is the difference in the change in income reported between borrowers (41 per cent) and non-borrowers (32 per cent). This marginalisation of gender issues even when data is available reflects the minimal concern with gender equity which characterizes the micro-finance sector in Pakistan.

25. The Kashf study on the Impact Assessment as a Management and Policy Tool: *The Social and Economic Outcomes of Kashf's Microfinance Services (1999)* reflects a concern with several dimensions of empowerment such as self-confidence, decision-making, intra-household relations, women's vulnerabilities. It uses a sample of fifty-two households for the survey. Only women and no men were interviewed. The two focus groups used for the rapid appraisal comprised 5 and 6 women respectively. There were no focus groups with men. The second survey undertaken by Kashf, the Impact Assessment Study: Analysis of Kashf's Micro-finance and Dastkaari Programme on Clients' Socio-economic Lives (2001) investigates human, physical

and social capital generated. The household is the unit of investigation for economic, physical and human capital. The impact on women has been looked at separately only for social capital which includes indicators such as effect of group formation on women's social lives, social issues awareness, self-confidence and attitudes and mindset towards responsibility for child rearing, earning a living, girls working outside the home, age of marriage and consent for girls. That issues which were explored in the earlier study such as intra-household gender relations, women's vulnerabilities, patterns of decision-making are not explored in this study may indicate a dilution of the focus on gender equity and empowerment issues within the organization.

26. The Rural Credit Study commissioned by the State Bank of Pakistan and carried out by the Applied Economics Research Centre (1998) systematically and comprehensively addresses gender equity issues. The terms of reference included collecting information on both men and women's credit and savings needs and data was collected at the household and the intra-household level. Data was collected on the borrowing and saving patterns of each male and female member of the household as well as on related aspects of women's lives such as mobility, education, employment and ownership of assets. Gender disaggregated data was also collected on the purpose of borrowing, collateral used, interest rates, transaction costs, reasons for not using institutional sources of credit. A nation-wide sample of 6,020 household was selected from which 24,000 individuals were interviewed and out of these 47 per cent were women. Separate questionnaires were prepared for men and for women and in both questionnaires, where relevant, questions were asked from each member of the household. The Study on Role of Women in the Rural Economy and the Credit Market Study (1998) however presented preliminary data on a few variables as the rest of the data was not available at that stage. Unfortunately the rest of the data has not been presented in any report.

27. The Aga Khan Foundation- Canada conducted a regional study on 'Reaching the Poor through Social Intermediation: Micro-Finance and the Building of Social Capital.' This included research on two Pakistani MFIs, AKRSP and KASHF. This study used a comprehensive definition of women's empowerment which includes social capital, financial benefits, identity, information and skills, leadership and conflict, practical and strategic needs and intra-household gender relations. Field-based interviews were conducted with a variety of stakeholders, focus group discussions and participant observation. The sample size in these studies is however very small: 9 to 10 client interviews per community selected with additional interviews with staff, community leaders, non-clients and ex-clients. As these are not samples that can yield statistically significant results, the findings can be considered indicative rather than conclusive.

28. Overall, the studies that have been conducted in Pakistan have been short-term whereas international literature[13] contends that impacts on social and gender relations are complex and seldom is short-term quantitative data sufficient to demonstrate impact. Assessment of poverty and inequity require more than relative changes in income levels - and assessing results in terms of *empowerment* require more creative approaches to quantitative information, as well as qualitative data. Monitoring over

[13] Norman MacIsaac (1997)

the long term is required, given the dynamic and complex processes involved in social change. Some[14] have attempted to provide qualitative and quantitative data: indicators of women's empowerment in Bangladesh and outline certain elements in defining empowerment. Some key aspects with respect to assessment of gender aspects are given in box 2.

Box 2

- **Both quantitative and qualitative monitoring and evaluation over the long term are required to produce reliable data.** Change in gender equity and economic status takes place over the long term, and is seldom a linear process. "Snap-shots" may be misleading.

- **When considering impact on gender equity**, **income is only a part of the equation.** First of all, women's aim is seldom limited to increasing income. In addition, other changes, such as enhancing women's visibility and enabling them to voice their concerns may be a key means to achieve long-term impact in raising women's status and improving gender equity. While women are occupying non-traditional roles and occupations, for example, they are challenging accepted norms and breaking the path for future generations.

- **The impact of micro-credit alone on women's status and gender equity is limited.** Most women borrowers have only partial **control over loans**, or have relinquished all control to male members of the family. This has serious implications for the impact of gender equity. However, this is not to say benefits are non-existent. As part of a broader effort to raise awareness and mobilize women, credit could play an important role as an "entry point" to strengthen women's networks and mobility, increase their knowledge and self-confidence, and increase their status in the family.

- **Participatory appraisal** may have an important contribution to make to improved monitoring of the impact of micro-credit on women's empowerment.

- **Compared to credit, there has been much less reflection on the impact and importance of savings for the poor and poor women in particular. M**ore research is required into the relationship between savings and gender equity. For example, do women have firmer control over savings than loans and income? Would more open access to savings raise new issues of control? How do women's and men's savings habits and withdrawals differ?

DO THE POOR REALLY NEED CREDIT ?

29. There is widespread belief that there is a large unmet demand for credit, especially among the poor. Estimates of credit demand internationally and nationally present a wide gap in the demand and supply of micro-finance services in general and credit in particular. It is generally asserted that roughly 80 percent of the world's population is without access to credit and savings facilities beyond that provided by family members, friends or money lenders, while in developing countries this number is estimated to be around 90 percent.[15] As a result, there is aggressive marketing of micro-credit services. Empirical evidence on the actual demand for credit and the methodology used to estimate it is generally not presented. The 1997 Micro-credit

[14] Schuler and Hashemi (1996)
[15] Woolcock J.V. Learning From Failures in Micro-Finance. The American Journal of Economics and Sociology P. 17. January 1999.

Summit launched a campaign to provide micro-finance services to 100 million of the world's poorest families by 2005. On the other side of the spectrum, the critics of micro credit challenge the very idea of putting the poor in debt, and doing it with limited donor funds which could be directed to more urgent concerns, like immunization, food, shelter and childcare. However, prior to mediating the two points of view let us examine whether there is in fact as widespread a demand for credit as the suppliers would have us believe.

30. In assessing credit demand in Pakistan, the Asian Development Bank's Micro-Finance Sector Development Review [16] asserted that there were 6.3 million poor households in Pakistan and all of them were potential clients for financial services and that government considered half the adult poor population (nearly 10 million) as potential micro-finance clients. The average size of loan taken by poor households from NGOs was about Pak. Rs 16,540 at an interest rate of 18-20 percent per annum. Considering these, the estimated potential demand for micro-credit was assessed to be about US$ 2 billion based on the number of poor households or about $ 3 billion based on half the adult poor population. However, when these figures are juxtaposed with estimates of credit demand based on survey data, the situation that emerges is quite different. The largest survey in this regard was conducted in 1998 by the Applied Economic Research Centre and this found that 76% of the households did not apply for a loan as they did not see any reason to borrow (59%) and did not like asking for a loan (17%). There was not much variation in the response by landowning pattern, tenancy pattern, occupational group or by gender. The National Human Development Report on Poverty, Growth and Governance[17] found that "70 percent of the rural households never applied for any loan. From among these, 33 percent replied that they did not need a loan and 43% did not want to pay interest for religious reasons.[18] These results are quite contrary to the general contention of a widespread demand for credit.

Table 4: Most Obvious Reason Shown Against Not Borrowing Large Loans (Rs 1000 or above)

Category	**No Reason to Borrow**	**Do Not like Asking for Loan**	**Complicated and Lengthy procedure**	**On religious Grounds**	**No Collateral Available**	**Other Reason**
All Pakistan	**59%**	**17%**	**8%**	**2%**	**10%**	**4%**
Occupation						
Non-Agriculture	55	16	9	2	15	4
Livestock	55	18	9	2	11	6
Farm	61	17	8	2	8	4

[16] Report and Recommendation of the President to the Board of Directors on the proposed Loan to the Islamic republic of Pakistan for the Micro Finance Sector Development Programme. November 2000.
[17] Poverty, Growth and Governance: The National Human development report, Pakistan, January 2003.
[18] Annexure III (i): Poverty, Growth and Governance: The National Human Development Report, Pakistan, January 2003.

Gender						
Males	63	13	13	3	7	3
Females	57	20	4	1	12	5

Rural Financial Markets Study: AERC. 1998.

31. The other important aspect is that not all the people borrow concurrently at the same time. In a given year, only a certain proportion will borrow but over a longer period of time the proportion of households which borrow goes up significantly. The Rural Financial Markets study found that 61% of the households obtained at least one loan during a five year period. Micro-Finance experts[19] maintain that while most people have not applied for a loan from formal sources it does not mean that the poor do not need some emergency consumption loans during the lean season or access to money at the beginning of the year for school fees, or money to go see a doctor or a wedding or a funeral. A "one size fits all" credit product may not be ideal for many of the poor who need different types of financial services as much as any body else. It appears that while there maybe a large unmet demand for financial-services and a demand for micro-credit which is significantly larger than the current capacity of the MFIs to deliver, yet the large claims of an un-met demand for credit alone maybe somewhat exaggerated.

ESTIMATING THE OUTREACH OF THE MICRO-FINANCE SECTOR

32. The two key services that are currently being provided by the micro-finance sector in Pakistan are loans and savings. In this section, the paper examines the outreach of these two services. The current supply of micro-finance is from both NGOs, commercial banks and Development Finance Institutes. There has been rapid growth in the micro finance sector in Pakistan in the last few years with the PMN members alone covering about 141,874 borrowers and Khushali Bank claiming to have a current annual coverage of 100,000. An earlier study of the sector estimated that the main NGOs in the micro-finance sector had disbursed Rs 8.9 billion by the end of June 2002 to over 700,000 clients.[20] However, the basis of these figures was not clear. For this paper the outreach of the credit services provided by the MFIs was estimated using the annual number of borrowers that currently receive loans from the main MFIs. Among the financial institutions, 6 commercial banks and 2 DFIs have a limited micro-finance portfolio. However, the exact number of borrowers of commercial banks and DFIs who provide micro-credit was taken from the estimates prepared by the Asian Development Bank as latest figures for these institutions were not readily available. Table 5 below gives an estimate of the existing outreach of MFIs based on these calculations. The total number of current borrowers reached by the MFIs is estimated to be 381,874.

33. It is estimated that there are 6.3 million poor households in Pakistan. We have seen that not all of them need a loan and that roughly one-third need a loan at a given time. Thus, if the current outreach is used as the numerator on the assumption that each borrower belongs to a different household than the current outreach of the micro-credit sector in Pakistan can be estimated to be around 12%, if half the poor households are assumed to demand credit at any given time. However, if we assume that only one-third of the poor households will demand credit at any given time than

[19] S Hashemi. World Bank.
[20] SDC assessment of the micro-finance sector.

the outreach of the sector would increase to around 18% of the households. The Rural Financial Markets study found that even in the event that a particular household managed to borrow a loan it does not necessarily mean that the credit needs of all its members were met. Thus, it is useful to estimate the demand on a household basis as well. When outreach is estimated on the basis of the number of poor people rather than households than the same coverage figures indicate that only 4% of the poor people will have been reached if half the poor people demand credit at any given time and 6% if only one-third of the poor demand credit.[21]

34. The UNDP report[22] claims that when all sources of micro-finance, both formal and informal are included, then NGO intervention in the area of micro-credit appears relatively insignificant. The report claims that of the total number of loans received by all income classes, from all the sources, the NGOs have provided only 1 percent of the loans in the urban areas and 0.8 percent of the loans in the rural areas.[23] Even if our generous assumptions about household coverage are a little off the mark and several of the borrowers are from the same household, the UNDP figure seem parsimonious. The only caveat in the scenario outlined here is that we do not know if the loans that are being given are indeed all going to poor households or poor people. We will see if we can refine our calculations in the sections below with the use of existing information.

Table No 5
Total Number of Borrowers of Selected MFIs

Organisation	Annual Borrowers	Cumulative Borrowers
Commercial Banks and DFIs	**140,000**	
Khushali Bank	**100,000**	125,000
NGOs	**141,874**	
PRSP	42,928	176,982
Kashf	36,103	53,797
NRSP	28,768	308,270
AKRSP	12,232	617,712
Damen	5,365	
TRDP	4,728	
Taraqee	3,846	
BOK	2,166	
SAFWCO	1,876	
SRSP	1,804	
OCT	1,617	7,507
Sungi	441	
TOTAL	**381,874**	

35. As far as savings is concerned it is essentially the RSPs or NGOs which are following the RSP organisational methodology which offer savings services to their

[21] Based on an estimate of the adult poor population of 20 million people.
[22] UNDP. Human Development Report. January 2003.
[23] Akmal Hussain et al.

clients. The Orangi Pilot Project does not offer a savings product to its clients because of its reasoning that encouraging small entrepreneurs to hold savings in banks at declining rates of interest rather than investing in their own businesses with inflation-adjusted rates of return of over 30% typically makes no sense. However, when the RSPs first launched their savings programmes, the financial environment was such that savings did make sense. Many other NGOs do not offer savings services to their clients because NGOs are not allowed to accept deposits under existing regulation and hence the savings which are accrued have to be deposited with commercial banks or DFIs. Some of the savings services offered by the NGOs are designed in a manner that some of the essential attributes of a good savings model are lost. Some NGOs insist that a certain minimum amount of savings be undertaken by members as a pre-requisite to qualify for some other components and part of the savings is held as collateral to cover the risk of NGOs offering credit services. Thus not all of the saving can be withdrawn when required. In fact, some of AKRSP savers lost their savings when some of the borrowing members from the same VO defaulted on loan repayments. These undesirable attributes of the savings programmes would somewhat colour the demand and outreach of the micro-savings programme managed by NGOs.

36. Despite the constraints in the savings services offered by NGOs, the number of active savers of NGOs exceeds the borrowers by at least six times with a combined total of almost a billion rupees. The number of women savers at 313,109 is also significantly higher than the number of female borrowers. The difference in the number and amount of savings between men and women is much narrower than the difference in the credit programme indicating the much greater interest and access to women of this service despite its constraints. On the assumption, that these savings programme are largely of interest to all the poor households, one can assert that the micro-savings services of NGOs have reached 4.5% of the adult poor population.

Table No 6
Outreach of Savings services Offered by PMN NGOs

	Total Savings	As a proportion of men	As a proportion of the total
No of active savers (male)	602,181	NA	66%
No of active savers (female)	313,109	52%	34%
Cumulative amount saved by men Pak Rs.(000)	697,973		73%
Cumulative amount saved by women Pak Rs (000)	263,590	38%	27%

Performance Indicators Report; 2002

DOES MICRO-CREDIT REACH THE POOREST ?

37. There is significant divergence regarding estimates about the extent to which micro-finance actually reaches the poor. The Micro-Credit Summit asserted that by the end of 1999, micro-credit was already reaching 23.5 million people of which 13.8 million or 58 percent represented the poorest. Others assert that most MFIs do not reach large numbers of very poor people. Some studies show that there are limits to the use of credit as an instrument for poverty eradication, including difficulties in identifying the poor and targeting credit to reach the poorest of the poor. Added to this is the fact that many people, especially the poorest of the poor, are usually not in a position to undertake an economic activity, partly because they lack business skills and even the motivation for business. Conventional microfinance acts through deliberate and unintentional mechanisms to exclude the poorest and market forces operate to serve the less-poor first. Often the very poor people are excluded through self-exclusion, deliberate or unintentional MFI policy, exclusion by other clients, or by leaving the programme.[24] Others feel that it is not the poverty level of potential clients that determines access and impact, but the design of the services provided.

38. An alternate approach to assessing whether the loans are reaching the poor or non-poor adopted by some is to examine the loan size and assert that if the loan size is below a certain percentage of the GDP per capita than it is likely that the loans are reaching the poor. For example, some programmes like the Khushali Bank and the PPAF have fixed a ceiling of Rs 10,000 on the understanding that this loan size is more likely to reach the poor as a loan size of this amount forms only 36% of the per capita GDP. However, using loan size as a proxy indicator for assessing the poverty targeting potential of credit is not a good approach in Pakistan because the lending mechanisms are not vigilant enough to safeguard against one person being restricted to getting his quota in a group which would mean that the actual loan received is much larger as it goes to fewer borrowers than intended and because the non-poor are also interested in loans regardless of the loan size.

39. The record of MFIs in reaching the poor in Pakistan is mixed. Very few NGOs actually keep a profile of their borrowers and most follow a non-targeted approach. In the last few years, some of the RSPs have adopted a poverty ranking approach to track the economic status of their beneficiaries. However, this approach is not adopted rigorously and the RSPs are unable to give the profile of all their beneficiaries based on this ranking. Others feel that this approach may tend to overstate the number of poor households as the participating households generally self-select themselves as poor in this approach. Still many others do not specifically target the poorest but target either small entrepreneurs or the working poor like OCT, or have a criterion like the Khushali Bank that focuses on obtaining group guarantees for repayment and a close scrutiny of monthly cash flows to determine the repayment capacity of potential clients. Some of these factors can potentially exclude the poor.

40. Some assert that the non-targeted approach which may have been relevant at the time of the inception of some of the Rural Support Programmes, such as AKRSP in the Northern Areas, as most of the people in the Northern Areas and Chitral were

[24] The importance of microfinance in poverty eradication: October 2002:Anton Simanowitz.

poor and were following similar livelihood strategies, at the time. However, it is inadequate in the face of changing socio-economic differentiation which today exists across the programme area. The table below shows that those who are associated with AKRSP today are largely non-poor e.g. 67% in 2001 compared to 47% percent in 1994. It shows that the target for the AKRSP has been closely representative of the poor /non poor distribution in the Programme Area as a whole rather than particularly focused upon the poorer category. This would indicate that AKRSP was not specifically targeting the poor. Had that been the case, the percentage of poor households in the AKRSP's membership would have been higher than that of the Programme Area.[25]

Table 7: AKRSP's Target Households

	1994	1997	2001
Poverty in Programme Area	54%	45%	34%
Poverty in member households	53%	40%	33%
AKRSP covered households in the Sample	63%	71%	73%

Geoff Wood. HTS. 2002.

41. PRSP also maintains data on the poverty profile of its micro-credit clients. This data is reproduced in table 8 below. It shows that 16% of PRSP clients belong tot the better off category and while 58% can be classified as poor, 26% are very poor and less than 1% are destitute. NRSP also attempted to keep a poverty profile of its clients but was able to identify the complete poverty profile of its borrowers in only one of its field units. An analysis of the data for this field unit shows that 46% of its clients are poor and 54% are very poor and that only client is in the better off-category and 5 belong to the destitute category. It seems that the data which the NGOs themselves maintain on the poverty profile of their clients reports a higher percentage of poor in the RSP clientele compared with the results of survey data.

Table 8: PRSP's Targeting of Poor Households

	Men	Women	*Total*	Percentage of the Poor
Total No. Loanees	118,832	58,150	*176,982*	
well to do	4,401	1,414	*5815.00*	0.03
better off	16,240	6,576	*22816.00*	0.13
are poor	69,013	33,670	*102683.00*	0.58
very poor	28,837	16,436	*45273.00*	0.26
are destitute	341	54	*395.00*	0.00

42. An examination of the Lachi Poverty Reduction Project, which is one of the few programmes which keep track of poverty figures, shows that overall, 81% of the loans and 77% of the loan amount has been given to members who belong to the poor

[25] Geoff Wood.

and very poor category of households.[26] However, this is a result of a very targeted programme and self-selection of poor households in which there maybe a tendency to exaggerate the poverty status knowing that the programme would prefer to work with this category of households. In order to ensure accessibility of credit to the poorest members of the COs, formation of smaller sub-groups has been undertaken to facilitate the group approval of individual credit requests. This has proved extremely helpful to members who were unable to secure a group guarantee for their credit application from the larger group. In addition, new loan products were introduced which were specifically targeted to poor women, e.g the micro-leasing of sewing machines which has made credit more accessible to poor women.

43. Sometimes there are differing interpretations of the results reported on the targeting capacity of some large NGOs like NRSP. The NHDR/A.I. Survey data asserts that neither NRSP's loan sizes nor its selection of borrowers in the area surveyed target the poor. The survey asserted that if ownership of canal irrigated land was an indicator of rural wealth than NRSP had the wealthiest clients as 60 percent of its sample beneficiaries owned irrigated land and, 33 percent of the households owned more than 10 irrigated acres. Furthermore, the survey reviewed the income level of the beneficiaries of seven NGOS and found that 50 percent of the respondents had monthly household incomes of above Rs. 5000. Another in-house farm level survey of 100 farmers was carried out in December 1998 to assess the impact of NRSP's credit programme in Vehari. Over 50% of NRSP's clients were either landless or had marginal land holdings i.e. less than six acres. This study asserts that the NRSP credit is meeting the needs of the lower groups in the land owner spectrum. The results also showed that with access to the capital at reasonable terms, poor farmers and the landless were able to lease land, thereby increasing their incomes.[27] Another study on NRSP[28] attempted to assess the extent to which the rural poor were involved in the programme and assessed that 40 percent of the households can be regarded as poor.[29] Thus while the results from these different surveys are consistent the authors come to different conclusions.

44. According to a survey[30] undertaken as part of the Human Development Report[31] in Pakistan, it was assessed that only 35.6 percent of the households surveyed had access to loans and that the proportion did not vary substantially across the categories of extremely poor and poor households. However, the proportion was significantly lower in the urban areas, where only 16 percent of the households received loans. For the rural areas, the proportion of households receiving loans was lowest in the case of the extremely poor i.e. 37.3 percent compared to 44.7 percent and 47.7 per cent for the poor and the non-poor households respectively. While the rural areas have received more loans that does not mean that they have received more

[26] Lachi Poverty Reduction Project. Micro-Finance Section. March 2002.
[27] Credit and Enterprise Report: Sixth Annual Repot: NRSP. 1998-1999.
[28] Mahmood Hassan Khan. The Rural Support Programmes in Pakistan: Methods for Assessment of Cost and Impact. 2003.
[29] Monthly income per person is not above Rs 650.

[30] NHDR/PIDE Poor Communities Survey of Pakistan 2001. A sample survey of seven districts in Pakistan.
[31] The National Human Development Report, Pakistan. January 2003. United Nations Development Programme.

institutional credit. As much as 80.3 percent of the total loans are obtained either from the shop keepers or from friends and relatives. The institutional credit tends to flow to relatively richer sections of society. Thus the non-poor who are less than 20 percent of the population have received 36.4 percent of the ADBP loans whereas the extremely poor who constitute 40 percent of the total rural households have received only 13 percent and the poor have received the remaining 50 percent.[32]

Table No 9
Percentage of Households Who Received Loans During Last 12 Months

	Extremely Poor	Poor	Non-Poor	Total
All Pakistan	32.1	35.4	41.9	35.6
Urban	17.6	14.5	18.4	16.2
Rural	37.3	44.7	47.7	42.3

Source: NHDR/PIDE Survey 2001.

45. The Financial Markets Survey showed that the formal sector, despite lending at rates lower than the informal sources, has failed to expand its scale of operations as these sources covered only 4 percent of the borrowers and contributed only 16.51 percent in the total borrowings. This, in part, reflects the incapacity of the formal sources to cater to the needs for consumption loans which accounts for 46 percent of large loans obtained from all sources. The results show that over 82 percent of individuals borrowed 69 percent of the total at minimum rate of interest with flexible terms from friends and relatives. Given the potentials for diversification and structural changes in the rural economy, these individuals need larger size loans for non-agricultural production purposes for which the informal sources may not provide in the present set-up.

46. One of the largest practitioners[33] in the area of micro-finance is sceptical of the impact of micro-credit on the poor. It feels that keeping in view the characteristics of micro finance (loan size, period of loan, repayment schedule, terms, purpose) it is difficult to establish the nexus between micro-credit and poverty alleviation. With an average loan of Rs 10,000 it is hard to visualise a significant impact from a small loan given for a 4 to 6 month period at a 20% flat mark-up rate to a poor household. Overall it appears that the MFIs cater to the non-poor households to a much greater extent than the poor households. The NGO survey conducted for the Human Development Report found that from the total number of loans received from the NGOs in rural areas, as much as 50 percent have been received by the non-poor households, 33.3 percent by poor households and only 16.7 percent by the extremely poor households. The amount borrowed also rose with income levels with the non-poor borrowing two to three times the amount of the poor and extremely poor households.[34]

DOES MICRO-CREDIT REACH WOMEN ?

[32] NHDR. 2003.
[33] GM, PRSP.
[34] UNDP. Human Development Report. January 2003.

47. While Most MFIs maintain that they do not discriminate against women and offer the same accessibility to women as they do to men, there is a wide divergence in the number and amount of loans that have actually been given to women. Furthermore, MFIs increasingly prefer to look at households as their client and do not like to distinguish between men and women. Some, like Kashf and the First Women's Bank, while targeting households give loans only through women. Others, like the Orangi Charitable Trust, prefer to talk about entrepreneurs and the working poor and have found it preferable to work with men. OCT has no gender-specific policy of lending or quotas regarding the distribution of loans to men or women. Still others like SRSP and the Khushali Bank of Pakistan have established targets about the proportion of loans that must be given through women.

48. The loan figures of small NGOs were reviewed and it was found that some of the larger NGOs like NRSP and SRSP were only giving a small fraction of their loans to women. For example, NRSP had given loans to 50,651 women by the end of June 2003 and women constituted 19% of their total borrowers. However, in terms of the actual loan amount, women were given just under 13% of the total loan amount of Rs 4 billion disbursed by NRSP. PRSP has a somewhat better record than the other RSP's as it has benefited 58,134 women and 33% of its loans and 29% of the total loan amount has gone to women. Female borrowers of SRSP constituted 28% of the total in terms of both the loan amount and loan numbers. All of Kashf's 53,797 borrowers were women. AKRSP has a relatively good record of lending to women. However, like in the other RSP's women constitute a small proportion of their overall borrowers. The internal lending programme initiated by many Women's Organisations spawned by AKRSP in the Northern Areas and Chitral have appeared to be a very good source of micro-credit for women run by women.

49. The Rural Financial Markets Study found that of the borrowing individuals, 78 percent were males which means that on average, males have over 3.5 times higher access to credit in relation to females in rural Pakistan. Men on the whole borrowed 91 percent of the total large loans. The average loan size given to women was Rs 8,050 compared with Rs 19,382 per loan borrowed by the men.

Table No: 10
Distribution of Loans by Gender

MFI	No of Cumulative Loans (Male)	No of Cumulative Loans (Female)	Amount of Loan (Male) Rs Million	Amount of Loan (Female) Rs Million
NRSP	257,619	50,651		
PRSP	118,832	58,152	1434	592
AKRSP				
SRSP		5,511		
Kashf	0	53, 797		
OCT				

WHAT IS THE CREDIT USED FOR?

50. A major share of the credit is ostensibly given for agriculture production. For example, 62% of the Rs 4.07 billion of NRSP's loans have gone for agriculture, 23 percent for livestock and only 13% for enterprise. A somewhat similar pattern emerges when the credit portfolios of other RSPS is examined. PRSP has given a greater share to livestock and 45% of its total loan amount of Rs 2.02 billion has gone for investments in the livestock sector, 25% for agriculture and a slightly larger share to enterprise with 24% of total loan amount in this category. However, urban based MFIs like OCT provide loans only for enterprise development. Kashf while providing loans for enterprise development is the only MFI which acknowledges the need for an emergency loan and makes specific provision for it. Women generally avail of the livestock loan in rural areas and 63% of the total loans taken by women from NRSP were for livestock development.

Table No 11
Number of Loan by Purpose

MFI	Agriculture	Livestock	Enterprise	Consumption General Loan and Emergency Loan	Other Small Infrastructure	Total
NRSP	192,286	76,508	35,091	0	4,385	308,270
AKRSP						617,712
PRSP	48,304	77,970	41,463	0	9,222	176,959
SRSP				5,511		
Kashf				53,797		
OCT						9,497

Table No 12
Total Loan amount by Purpose

MFI	Agriculture	Livestock	Enterprise	Consumption	Other Small Infrastructure	Total
NRSP	2,528.51	916.98	531.2	0	89.58	4,066.37
AKRSP				0		1,738.26
PRSP	501.58	906.00	498.80	0	120.28	2,026.65

OCT						178.299

THE IMPACT OF MICRO-CREDIT ON HOUSHEOLDS

51. In developing frameworks for poverty impact assessments, it is generally considered useful to draw a distinction between income poverty, social impacts and wider economic and social impacts such as the influence on markets and social such as the influence of micro-finance groups on values, relationships and communities, etc.[35] Studies of the impact of micro-credit undertaken in Pakistan have attempted to assess the impact of credit on most of these aspects but without a very clear delineation of the categories. Most impact assessments in Pakistan have looked at the impact of micro-credit on incomes, consumption, social sector expenditures, asset creation and employment generation. While a principal reason for lending by the NGOs was for investments in the agriculture and livestock sectors, few studies have actually examined the impact on these sectors directly. CPRID has recently reviewed NRSP's micro-finance loans to the livestock sector. However, this study only became available after this research was largely completed. The increase in incomes is generally assumed to be directly related to the returns on investments in these sectors. While no estimates have been made of the impact of micro-credit on poverty directly, it is assumed that these can be derived indirectly from the changes in other household features. Some studies report particular difficulties in identifying impact. A survey on OCT was unable to quantify the gains on account of the loans and noted this as the greatest disappointment from undertaking the study.[36] It was felt that too many variables affected business output and it was difficult to isolate the impact of the loan from other variables. While business and quality of life had improved among both borrowers and non-borrowers, it was not possible to compare the scale of the impact among these groups due to problems of quantification.

52. The results of the surveys are not often directly comparable because some of them compare the before and after situation of beneficiaries, others try and compare borrowers with non-borrowers and some compare the results with respect to poor and non-poor. One detailed study on the social impacts of the micro-credit provided by OCT used the case study method to assess impacts. There is also large variation in the sample size of the different data sets and the statistical rigour with which they have been conducted. While some are extremely rigorous and report statistical significance others are done in a fairly informal manner and report overall impressions. However, an attempt has been made in this section to look at the findings of all the surveys regarding some key aspects and see if a common picture emerges to allow an assessment of the impact of micro-credit on poverty.

53. While some studies report rather limited impact others show rather widespread impact. Some studies report particular difficulties in identifying impact. OCT's experience shows that as families of successful users of micro-credit register sustainable income increases, the impact is not confined to greater consumption or

[35] Micro-Finance, Poverty and Social Performance. IDA Bulletin. Volume 34, Number 4, October 2003.
[36] Akbar Zaidi. 2003.

investment in the micro-enterprise. These households also show significant improvement in such social indicators as children's education, family nutrition and improved hygiene.[37] A survey on OCT was unable to quantify the gains on account of the loans. It was felt that too many variables affected business output and it was difficult to isolate the impact of the loan from other variables.

54. The Study by Gallup on PPAF maintained that while it was quite complicated and hazardous to compute the return on investment for a micro-credit under the conditions, which were the subject of its study, one can however arrive at what may be seen as an informed and educated estimate. The researchers had roughly estimated the mean return on investment for the loans averaging around Rs 9,138 at approximately 30% per annum. In the urban context, small scale, informal enterprises have in many cases provided higher returns on capital invested than large scale or medium scale enterprises in the formal sector. OCT estimates rates of return on different enterprises as being between 8 to 30 percent. These typically include returns to both capital and labour.

Increase in Incomes:

55. Most impact studies have examined the impact of micro-credit on incomes. In assessing the impact on income and keeping in mind the potential impact, it is important to understand that household income is derived from multiple sources particularly, in the rural areas, and the MHK study found that 85% of the households derived their income from 3 or more sources. Even in urban households, it was assessed that households were not dependent only on business incomes, but due to the social and cultural factors, such as the joint family, substantial income was brought into the household due to family members working elsewhere. The OCT study[38] pointed out that because of this joint family system, with collective income and expenditure patterns, with income from one head being utilised in others, it is not easy to estimate the impact of the loan on business outcomes.

56. The survey commissioned by the Pakistan Poverty Alleviation Fund did a detailed assessment of change in both personal and household incomes and found that on the whole around 41% of borrowers and 32% of non-borrowers experienced positive change in their personal income over the period under study. The difference between the two groups was found to be statistically significant. The increase in the mean income of the borrower group was proportionately higher (8%) compared to the non-borrowers (5%). However, these figures reveal a small difference which was statistically not significant. The study also found that on the whole around 44% of borrowers and 33% of non-borrowers experienced positive change in their household income over the last year. Increase in the mean income of the borrower group was (9%) compared with non-borrowers (6%). However, this difference was not found to be statistically significant. The distinction between personal and household income did not reveal differing results.

57. The results of the study undertaken by Kashf show that there was a 15% increase in real income. About 73% of micro-finance clients reported an increase in

[37] Naheed Rehman.
[38] Akbar Zaidi. 2003.

income compared with only 23% of non-clients. About 59% of clients reported an average increase and 14% reported a tremendous increase while only 3% of non-clients indicated a tremendous increase. The highest income increase was registered by clients engaged in manufacturing work and in the agricultural sector. About 62% of the respondents of the spot NHDR survey reported a sustainable increase in income after the loan while the rest reported that there had been no sustainable increase in their incomes. The study conducted by Mahmood Hassan Khan to assess the impact of NRSP found that generally, the income level of households in the control villages is lower than in the treatment villages. However, the differences in the household income between members and non-members or households in the treatment and control villages are not statistically significant. All the impact studies report small income differentials between clients and non-clients both in terms of the proportion of clients experiencing income increases and the amount of increase in household incomes.

Increase in Productivity of Different Sectors:

58. Some of the surveys have also attempted to assess the change in incomes from different sources. The PPAF survey undertook an analysis of change in incomes from different sources such as agriculture, livestock and enterprise. The survey found that while there was not much difference in the proportion of borrowers and non-borrowers who reported an increase in their incomes from agriculture and livestock, the change in mean income was considerably higher for the borrower group. However, the proportion of borrowers reporting a net annual increase in income from enterprise was significantly higher among the borrowers (65%) compared to non-borrowers (47%) and the difference in mean income was also considerably higher. A study on the orange Charitable Trust's clients shows that the difference between the OCT and non-OCT borrowers was particularly sharp at the lower end of the entrepreneur divide. The small and very small OCT borrowers seem to have somewhat better standards of living than the non-OCT borrowers. This might suggest that micro-finance worked better at the lower end of the entrepreneurial income scale.[39]

59. The AERC study on Rural Financial Markets found that on the whole it appeared that the cropping pattern was largely unaffected if borrowing was not made. Levels of cropping intensity increased rather rapidly with the increase in the size of agricultural loans. Unless the borrowing and income levels exceeded Rs. 50,000 per household, land allocation to major crops remained more or less unchanged. At the farm level, higher levels of cropping intensities, expenditure on conventional inputs, capital intensive investments were linked to higher levels of loans and income (Rs. 50,000 or more). The levels of crop yields and chemicals increased with increases in credit availability. However, the difference in the use of chemicals was not significantly different between those with and without credit. The relationship between crop yields and agricultural credit shows somewhat of a stagnation in yield levels with increases in credit expansions. However, higher yield levels show strong relationship with loan size per acre.

[39] Akbar Zaidi.

Change in Consumption

60. The Rural Financial Markets study found that nearly two-thirds of the large loans were borrowed for consumption purposes. These were predominantly borrowed from friends, relatives and other informal sources. A comparison between borrowing and non-borrowing households reveals strikingly similar levels of household consumption expenditure between the two categories. Given the inter-temporal variation in income levels and the associated risks of crop failure, households with low income and savings potentials borrow loans as risk coverage to meet their consumption needs.

61. Data from the survey undertaken by PIDE for the National Human Development Report found that the extremely poor whose incomes and receipts fall below the poverty line, tend to use loans and sale of assets to increase their consumption level. As much as 17 percent of the total consumption of the poor is financed through credit and 5 percent through the sale of land. Among 60 percent of the households, the main purpose of borrowing was consumption including ceremonies. The extremely poor use a higher proportion of the loan to finance consumption expenditure (67%) compared to the poor (58%) or the non-poor (52%). A sample survey of the beneficiaries of seven NGOS was also undertaken as part of the research for the UNDP's Human Development Report and this spot survey also found that an overwhelming proportion of the loan is being used for consumption purposes by both the poor and non-poor although less so by the non-poor.

62. The PPAF survey also measured change in household consumption. On the whole, around 34% of borrowers and 30% of non-borrowers experienced positive change in their overall expenditures during the study period. Change in the mean expenditure of the borrower group was proportionately higher (7%) compared to the non-borrower group (5%). Although this difference is small it is reported to be statistically significant. The PPAF survey data shows that the change in mean expenditure on overall food items is almost the same for both borrowers and non-borrowers. However, the change in key food items with high protein content was higher among borrowers.

63. The UNDP spot survey of NGOs found that 38% of the respondents felt they ate better now compared with 40% who felt that they ate better earlier. About 22% of the respondents reported no change. The MHK study on the RSP's found that the mean levels of expenditure were not statistically different between the member and non-member households or between households in the treatment and control villages. About 46 percent of the monthly expenditure was accounted for by food and this was quite similar in all households. However, the MHK study was not specifically on borrowers but on beneficiaries.

64. Interviews of OCT clients indicated that the most salient and tangible benefits of credit described by interviewees concerned food security and improved household nutrition. A majority of the interviewees described improved and increased food availability in their homes, and a greater sense of assurance about their next meal.[40] Another OCT study found that while many borrowers talked about the improvement

[40] Naheed Rehman. 2003.

in their livelihood patterns in terms of better food intake, it is not possible to estimate any numerical value for this improvement.

65. The impact assessment of Kashf showed that 54% of micro-credit clients reported an improvement in their diet and nutrition compared with 3% of non-clients. Similarly, 41% of the Kashf clients reported no change against 70% of non-clients and only 5% of Kashf clients reported a deterioration in diets compared with 27% of non-clients.

66. The evidence that is given here differs somewhat depending upon whether qualitative or quantitative methods of analysis were used. Where interviews and case studies were conducted they report a much greater increase in consumption of borrowing households. Where quantitative techniques are used for data collection and analysis such as in surveys including both borrowers and non-borrowers, the findings show that there is little or no difference between the consumption levels of borrowing and non-borrowing households.

Change in Social Sector Status and Indicators

67. Some of the surveys have examined expenditures on social sectors between borrowers and non-borrowers and tried to examine the extent to which micro-credit has helped people with social sector investments. The data from NRSP shows that from the borrowed capital, 11% was used to finance health and education expenditures. The NHDR/PIDE Survey shows widespread illness amongst the poor with sickness being an important factor in pushing people into poverty. The results of the spot survey of NGOs found that in terms of health status, 26% of the beneficiaries felt they had better health now while 34% reported no change and 40% reported deterioration in health status. There was a wide variation in the response of the beneficiaries of different NGOS on this score. The Kashf impact assessment looked at health care and found that 58% of clients felt that they were now able to divert more resources to health care compared with 33% of non-clients.

68. Most surveys have not reported on the impact of micro-credit on education expenditures or investments. Data from case studies shows that a large number of women generally claim that education of children is a high priority for them and that they borrow and save for children’s education. While the impact study of Kashf reported education investment orientation of clients compared with consumption orientation of non-clients, its findings found no difference in education indicators for the control and client groups. Interestingly, the NRSP study by Mahmood Hassan Khan showed that the non-member households have spent far more on shelter and health and education than member households. However, this does not really look at micro-credit services and these members may or may not have benefited from loans.

Greater Asset Accumulation:

69. The most important assets for households in rural areas is land and livestock and in the urban areas it is the house plot. However, none of the studies looked at land ownership patterns between borrowing and non-borrowing households. The

NHDR/Spot Survey of NGOS looked at land ownership between the different categories of beneficiaries to assess the economic status of the borrowing households but did not look at the impact of the loans on changes in land ownership. It appears also form the average size of loans that the loans by themselves are not sufficient to enhance the landholding pattern of the borrowers. The second most important asset in rural areas is livestock and in many urban areas it also forms an important part of the livelihood systems. Most of the RSPs provide loans for livestock and a substantial share of the loans is taken for investments in livestock. At least, 23% of the loans of NRSP were borrowed for investments in the livestock sector. However, most of the impact studies in rural areas do not report on livestock ownership.

70. The PPAF survey reporting on change in consumer durables reported that the increase in assets is higher among the borrowing households as compared to the non-borrowing households. On the whole, the number of borrowers who made additions to their property as well as enterprise related assets are more than the non-borrowers. But the results are mixed. The survey shows that the borrower group made more additions to the assets during the period under review compared to the control group. The asset building is more pronounced in the case of household goods and less so for financial assets or business and agricultural assets. Apparently the loan is too small to lead to building the later type of assets. The data shows that, on average, the borrowers spent more on house repair than non-borrowers. The NRSP data showed that the member households have spent far more on purchase of assets than non-member households. The Kashf study found that 39% of clients reported housing and sanitation improvements compared with 27% of non-clients. The OCT study found that a very high proportion of borrowers take money for running finances and to buy raw material or to buy in bulk in order to realise economies of scale. Very few borrowers purchase machinery or make capital investments.

Greater Savings

71. The Kashf survey reported that 76% of the clients had increased their savings in contrast to this only 20% of non-clients indicated increased savings. However, these savings may or may not be due to the increase in incomes but are the result of participating in Kashf's savings programme. Most non-clients (47%) felt that their savings status had remained the same or else their capacity to put money aside had gone down.

Employment Generation

72. The PPAF data shows that neither of the two groups, borrowers and non-borrowers made notable contribution to employment generation. Apparently, the size of their business or agricultural and livestock activity as well as the scale of loan is insufficient to make substantial contribution in this area. In the Kashf survey, 49% of micro-finance clients indicated having an additional member of the family join the labour force. Of these, one of every two respondents (24%) stated that the increase was due to the financial services offered by Kashf. This figure was 27% for non-clients.

73. The OPP-OCT's lending is very targeted to the small number of clients it has identified as entrepreneurs and it is believed that empowering such persons will have

spill over effects in the employment of those in tiers below. However, none of the studies on OCT have examined its employment generation impact. Kashf looked at this issue and found that 49% of the clients reported that an additional member of the family joined the labour force compared to 27% of non-clients who indicated having an additional economically active member compared to the previous year. The increase in employment included both men and women.

WHAT WILL IT TAKE TO MOVE PEOPLE OUT OF POVERTY

74. Available poverty data suggests that poverty in Pakistan has increased sharply over the 1990s. In terms of the calorific norm,[41] the percentage of the population below the poverty line increased from 26.6 percent in 1992-93 to 32.2 percent in 1998-99.[42] Similarly, estimates in terms of the poverty gap (which captures the increase in poverty of individual poor households) and in terms of the severity of poverty (which captures the shift of poor households from a relatively better off to a relatively worse off category), both indicate a worsening of the poverty situation during the 1990s. Not only has poverty increased but the inequality in the distribution of income in Pakistan has also increased significantly. Income inequality measured in terms of the Gini index for Pakistan as a whole has increased from 26.85 in 1992.93 to 30.19 in 1998-99. In urban areas, income inequality which was relatively higher to start with, has increased more sharply compared to rural areas. For example, the Gini index for urban areas has increased from 31.7 in 1992-93 to 35.96 in 1998-99. In rural areas it has increased from 23.89 to 25.21.

Table 13
Poverty Trends in Pakistan

Poverty Index	1992-93 HIES	1993-94 HIES	1996-97 HIES	1998-99 PIHS
Head Count	26.6	29.3	26.3	32.2
Poverty Gap	4.5	5.5	4.5	6.9
Severity of Poverty	1.2	1.5	1.2	2.2

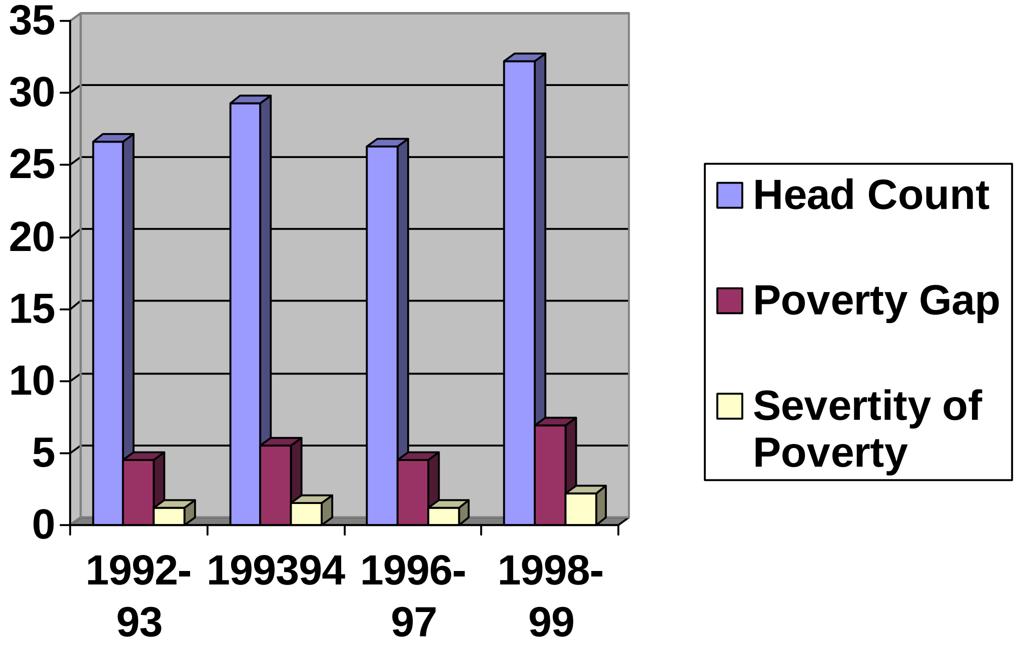
Table 14
Income Inequality (Gini Index) During the 1990s

Region and Province	1992-93 HIES	1993-94 HIES	1996-97 HIES	1998-99 PIHS

[41] Translated into monthly expenditure of Rs 682 per adult in 1998-99.
[42] UNDP. NHDR. January 2003.

Pakistan	26.85	27.09	25.85	30.19
Urban	31.70	30.70	28.77	35.96
Rural	23.89	23.45	22.65	25.21

Table 15
Incidence of Poverty During the 1990s



75. The basic difference between the poor and non-poor categories is that in the former, the total annual household income is substantially less than the food consumption requirement and total consumption requirements while in the latter the annual total household income is sufficient to fulfil total consumption requirements. The PIDE/NHDR survey found that the total available resources of the extremely poor are only 84.0 percent of the poverty line. Thus the extremely poor, whose incomes and receipts fall below the poverty line, tend to use loans and sale of assets to increase their consumption level.

76. Plotting HIES data from 1998-99 above and below what will be termed as the notional poverty line was undertaken to assess the impact micro-credit would need to make on incomes and consumption to move people out of poverty. A per capita income of 748 per month was used to develop a poverty line at Rs 5,236 for an average household size of seven members. The percentage of the population falling above and below this line and the distance of the population above and below this line

was plotted as a rough approximation of how far people would need to be moved to get them out of poverty. This calculation gives a crude estimate of the magnitude of the task of poverty alleviation in Pakistan. The data indicates the following graph.

Table No: 16
Percentage of the Population Above and Below the Poverty Line

	29.04%
7,000 and above	
	7.96%
6,000	
	10.49%
5,000	
	14.65%
4,000	
	16.95%
3,000	
	14.73%
2,000	
	5.47%
1,000	
	0.71%
Below 1,000	

77. Table 17 below has been constructed using the income data given above and estimates have been prepared to asses the percentage increase required for each category of household to move them out of their poverty status. This data shows that at the top end of the spectrum, incomes will have to be increased by 5 to 30 percent to move 15 percent of the population above the poverty line. The most likely prospect for the move out of poverty is for this group of households in this category just below the poverty line. Roughly 16 percent of the population will need an increase of between 30 to 75 percent to move them above the line and about 20 percent will need an increase of between 75 percent and more than 400 percent to get them to the poverty line. For these households, the task is clearly more than micro-credit, which has reached less than 7 percent of the poor and has increased incomes by less than 15 percent is likely to achieve. Furthermore, 10 percent of the households are just above the poverty line and panel data which is currently being processed shows that these

households are extremely vulnerable and are prone to falling below the line at times of stress. Poverty is highly contingent on external and unexpected events and any sudden crisis can force a poor person to move down the poverty scale. Micro-credit maybe particularly useful for these households and could help them from falling in and out of poverty and help to make them less vulnerable.

Table 17
Percentage Increase in Income Required to Move People Out of Poverty

Income Category	Percentage Population in the Category	Percentage Increase in Income Required to Get them out of Poverty
Rs 4,000 to Rs 5,000	14.65%	5% to 30%
Rs 3,000 to Rs 4,000	16.95%	30% to 75%
Rs 2,000 to Rs 3,000	14.73%	75% to 162%
Rs 1,000 to Rs 2000	5.47%	152% to 424%
Less Than Rs 1000	0.71%	> 425%

INTERNATIONAL EVIDENCE ON THE IMPACT OF MICRO-CREDIT ON POVERYTY

78. Evidence of the impact of micro-credit on poverty from other parts of the world is still fragmentary. It is maintained[43] that even the better microfinance schemes have had limited impact on the poorest who are often risk averse, and often lack the capability due to poor social sector indicators to take advantage of credit for self-employment activities. While sound programme design can often enhance an intervention's effect on poverty but credit seems unlikely to be the main route out of poverty. A detailed study of program impact on borrower incomes revealed that only 11 per cent of long-term borrowers had sustained rises in income.[44] Numerous other studies have concluded that most borrowers realize marginal gains, while only a small percentage generate significant and sustained income increases. The poorest borrowers benefit less compared to the middle and upper poor. The poorest 10-15 per cent of the population are largely excluded from micro-credit programs. International experience also shows that poverty is measured not only by *income*, but in terms of *vulnerability* and it may therefore be useful to consider greater flexibility of financial services, such as consumption loans, savings, insurance and other mechanisms to reduce vulnerability. These findings are consistent with the findings from Pakistan which show similar results in terms of the marginal gains from micro-finance and

[43] Martin Ravaillon, World Bank 1996, cited in Jacob Yaron et al., 1997
[44] Hulme and Mosley, 1996

show the potentially greater impact that micro-credit can half in reducing vulnerability of households.

79. Data from Bangladesh is one of the few examples which shows a reduction in poverty in Bangladesh as a result of micro-credit. However, this analysis is based on somewhat limited sample size.[45] However, this panel data[46] shows that poverty among BRAC households during the second and third impact survey declined from 59% to 52% i.e. at the rate of 1.75 % annually. Extreme poverty among BRAC households also reduced from 20% to 14%. The incidence of poverty among non-BRAC comparison households increased from 68% to 73%. Although the extent of their poverty declined slightly from 35% to 33%, it was nearly two and a half times higher than the extent of extreme poverty among BRAC households.[47] Several studies on Grameen have attempted to demonstrate the poverty alleviation potential of micro-credit. One study[48] showed that consumption of about 5 percent of programme participants increased to the point that their households rose above the poverty line. This figure suggests that micro-credit could reduce poverty in Bangladesh by about 1 percent a year. Another study found 57.5% of Grameen Bank households above the poverty line in comparison with 18% of control households.[49] However this study used a sample of 42 borrowers and 22 non-borrowers.

WHAT IMPACT DOES MICRO-CREDIT HAVE ON GENDER EQUITY?

80. In Pakistan, the commonly held belief in the micro-finance sector is that providing women with access to credit automatically leads to their empowerment and promotes gender equity. This approach has been heavily influenced by findings from research done in Bangladesh on the Grameen Bank without taking into consideration that women in Pakistan may be facing a different and perhaps more challenging socio-economic environment. Empowerment, in the Pakistani context, is understood primarily as economic empowerment although there is an emerging focus on social capital. The household is seen as the unit to which the loan is being provided, even where programs are targeting only women. The indicators that are focussed on mostly are the number of female borrowers, average loan size and total amount of loan given to women. The promotion of gender equity through micro-finance is not a burning issue for the sector and there has been little focus on developing a deeper understanding of gender equity and its operational implications for micro-finance programs in the Pakistani context.

81. There are significant variations in approaches taken to gender equity or women's empowerment. OPP-OCT focuses on supporting existing entrepreneurs and maintains that it neither discriminates against nor in favour of women. OCT maintains that the 80 per cent men and 20 percent women client ratio reflects the ratio of men to women entrepreneurs in their target areas. In fact, management was of the view that

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[45] 419, BRAC and 81 non-members.
[46] The surveys were conducted in 1993, 1996 and 2001.
[47] Micro-Finance, Poverty and Social Performance. IDS Bulletin. Volume 34, Number 4, October 2003.
[48] Khandker, Shahidur R. Fighting Poverty with Micro-Credit: Experience in Bangladesh. Oxford University Press. October 1998.
[49] Helen Todd et al. 1996

programmes that especially target women, dis-empower women as it is likely that these women are borrowing for their husbands or sons and therefore have no control over the loan and yet they would exclusively be responsible for repaying it. For OPP-OCT, economic empowerment of households results in the empowerment of all its members. Kashf has a contrasting approach. Although, like other Pakistani MFIs, it sees poverty as a household and not a gender issue, its clientele consists exclusively of women. Women are free to use the loan themselves or give it to their husbands or sons to use. Although the guarantors are other women, a husband or male member of the household is also required to sign papers and take responsibility for the loan. Kashf also provides its clients with training in leadership, reproductive health and gender. The management believes that even if the loans are not being used directly by women, simply acting as a conduit for the loan has a positive impact on women's lives. Other MFIs follow similar approaches for men and women. However, recognizing that some special efforts need to be made to provide women with access, some have set targets for women borrowers: 30 per cent of Khushali Bank clients and 60 per cent of SAFWCO clients have to be women. The Rural Support Programs such as NRSP, PRSP and AKRSP have no quotas for women, but provide women with some vocational training with the objective of expanding possibilities for enterprises they can undertake.

Differing Perceptions of Women

82. The impact assessment conducted by Gallup on the micro-credit clients of PPAF found that wherever the results had been disaggregated by gender, the impact reported by women was far greater than that reported by men. An analysis of the change in borrower's household income shows that while 36% of the male borrowers reported a positive change in household income as many as 61% of the women borrowers reported an increase in household income. Similarly, 34% of the men reported a positive change in personal income compared to 54% of the women who reported such an increase. The Gallup study also reported change in personal social status by gender. This comparison found that in each case women reported a higher increase in all respects compared with men.

Economic Empowerment

83. The AKF study (2002) found that Kashf 's women clients 'have become more economically productive both within and outside the home'. Economic independence and self-confidence was highest among women who had invested in their own business and lowest among borrowers who had passed the loan on to male relatives. About 38 per cent claimed that they invested the loan directly. This conflicts with Akbar Zaidi's finding in recent research[50] on Kashf which shows that 90 per cent of the loans taken have been passed on to male relatives.

84. The OCT study[51] also examined the response of women with reference to whether their standard of living had improved as a result of the OCT loan. The

[50] Akbar Zaidi (2003)
[51] Akbar Zaidi. 2003.

findings with respect to women were quite the opposite of the response elicited from the men (see above). The study found that women with small sized businesses I all cases reported an unambiguous increase in their living standard compared with women running very small businesses (24%) and those with medium sized (17%) or large businesses (50%). However, due to the small sample size, results are reported to be far less conclusive and merely indicative.

Impact on Social Capital

85. The Kashf impact study (1999) also looked at the impact on social capital and found that micro-finance clients acknowledge and experience enhanced trust, solidarity and social interaction through the Kashf network. For micro-finance clients, gaining contacts for good will and support was the single most important advantage emerging from Kashf's center-based approach (81%). This was followed by clients appreciating the existence of a support system (57%) and a space for women (31%). Women demonstrated great satisfaction in owning a place where they could come every fortnight leaving the "troubles of every-day life behind." The Kashf impact study also looked at social issues awareness which included issues like the rights and responsibilities of women, role of women in a household, etc. About 96% of the clients reported that their awareness of social issues had improved compared with 47% of non-clients.

86. The impact assessment undertaken by Kashf found that women reported an increased level of confidence and self-esteem. Over 80% of the clients indicated that their opinions of themselves had completely changed and they now felt more in control of their lives than before. Kashf clients demonstrated a significant feeling of self-pride in being able to access financial resources as against having to borrow from family, relatives and neighbours. The same was not found among non-clients. Non-clients did not record feelings of such a positive self-image or optimism. The Kashf study also conducted a detailed assessment of attitudes and mindset to assess perceptions regarding child rearing responsibility, earning a living, education of children, girls working outside the house, age of marriage of girls and girls consent at time of marriage. The study did not find any appreciable difference between the two groups and concluded that socio-cultural limitations had a strong bearing on all women and change in mindset was a long-term process.

87. The Gallup study also found some change in social capital when the data was disaggregated by gender. Women reported an increase in social status (60%), increase in importance regarding decision about children's marriage (46%), education of children (40%), resolving family disputes (20%), importance of opinion in business decisions (48%), purchase and sale of household items (31%) and opinion in purchase and sale of property (22%). The percentage of men borrowers who participated in local politics (6%) was double that of the women who participated (3%) but the proportion of winners was interestingly higher for women (50 %) as opposed to men (38 per cent). However, the pattern of control over income showed no appreciable change during the period under study.

88. The AKF study (2002) found that for AKRSP's women's group members, savings on a wider scale and credit on a smaller scale has played a critical role in the development of social capital. It has led to opportunities for meeting and gathering with other women. Pooled savings have promoted trust and cooperative behaviour. Credit has strengthened interpersonal relationships through joint venture in business or joint income generating activities. Many women's organizations have a heightened awareness of development issues and greater ownership of community development efforts. However, according to the AKF study for Kashf, a much younger MFI, whose micro-finance program began in 1996, the impact of micro-credit on social capital is not so discernible. Seventy-one per cent of the respondents said that their social interaction with other members had increased since group formation. However in times of crisis, 95 per cent said they would turn to help to their families and only 5 per cent said they would ask other group members. Sixty-two per cent said they were uncomfortable sharing household problems with group and centre members.

Impact on Intra-household Gender Relations

89. Kashf's Impact Assessment Study (1998) reported that 40 per cent of the respondents said that there were less domestic fights since income had increased due to loans taken. The AKF study (2002) for members of AKRSP noted that the savings program played a vital role in empowering women. The majority of survey respondents both male and female said that husbands and wives now jointly discuss domestic, financial and other issues.

EVIDENCE FROM THE REGION ABOUT THE DIFFERENTIAL IMPACT OF LOANS GIVEN TO WOMEN

Overall

90. Economic impact studies of the Grameen Bank have shown that member's time spent in productive labour increases threefold, per capita food consumption in member household's increases, and members invest more money into housing, sanitation and children's education (both female and male). Studies have postulated that the Grameen Bank is improving the self-perception of women and enhancing their status within the family. Women learn financial and business skills, which confer upon them a greater independence from male relatives. Grameen's experience also shows that women's rate of default is less than one-third that of men.

91. One study[52] looked at outcomes such as school enrolment of boys and girls; the labour supply of men and women; asset holdings, recent fertility and contraceptive use; consumption and the anthropometrical status of children. The study concluded that credit provided to women more often has a statistically significant effect on these outcomes than does credit extended to men. In particular, Grameen credit was found to have the largest impact on girl's schooling, women's labour supply and total household expenditure.

[52] World Bank. Grameen Bank, Bangladesh Rural Advancement Committee and The Bangladesh Rural Development Board; 1996

Consumption

92. Experience from Bangladesh[53] shows that participation in a micro-credit programme had a positive effect on per capita expenditure, although the effect was not always statistically significant for borrowing by men. In contrast, all of the measures of impact of borrowing by women were significant; and the impact on consumption was about twice as great as it was for men. Borrowing also increased household net worth, with a greater effect for men than for women.

93. Results of a study of Grameen, BRAC and RD-12 in Bangladesh showed that the impact on household consumption was twice as great when the borrowers were women. Women who participated in micro credit programmes also increased their net wealth and their status within the household, and improved the lives of their children as well.

Employment Generation

94. Micro-credit programmes are an effective policy instrument for reducing poverty among poor people with the skills to become self-employed. It also shows that such programmes are more cost-effective than some other types of anti-poverty programmes. Micro-credit programmes were found to be particularly important for Bangladeshi women, many of whom are restricted by social custom from seeking wage employment and their only source of income is self-employment.

Health, Nutrition, Education and Fertility

95. Micro-credit also affected social variables, including children's schooling, children's nutrition, fertility and contraception use.[54] Micro credit had a significant and positive impact on schooling, especially for boys. Borrowing by women (but not by men) improved the nutritional status of both male and female children. Borrowing by men appeared to reduce fertility, while participation by women appeared to increase fertility. Studies have documented that Grameen's women members have greater exercise over the use of contraception than non-Grameen members which itself suggests women's empowerment over critical decision-making affecting their own health and that of their families.

96. Another study undertaken in 1989 with 93 households found higher nutritional intakes among Grameen families, with 40% of Grameen members able to fulfil daily calorie requirements compared to 27% of non-Grameen members. The children of Grameen members showed better height for weight, height for age and weight for age than their non-Grameen counterparts. A smaller percentage of Grameen families

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[5353] Khandker, Shahidur R. Fighting Poverty with Micro-Credit: Experience in Bangladesh. Oxford University Press. October 1998.

[54] Khandker, Shahidur R. Fighting Poverty with Micro-Credit: Experience in Bangladesh. Oxford University Press. October 1998.

were below the poverty line (12% versus 20%) and enjoyed better water and sanitation facilities.

Empowerment of Women

97. A study by Helen Todd found women contributing on average 54% of the net earnings of their households, compared with 25% in the control group. Todd further found that women's self-esteem was "high" in so far as many overestimated their contribution to the household income and reported a sense of centrality and management of household affairs. Todd emphasizes that the functions of credit extend beyond the financial domain to increase social capital and mobility for women, bringing them together in ways that enhance their sense of self-esteem and their control over their lives (p.14).

98. Mark Pitt and Shahidur Khandker further determined that credit programmes in Bangladesh "empower" women by increasing their contribution to household budgets, their hours spent producing for the market and the total value of their assets. They concluded that in so far as poverty in Bangladesh is represented by low total per capita consumption, credit alleviates poverty by increasing household spending capacity. The researchers found that group-based lending to men had beneficial outcomes on children's education, contraceptive use, fertility, and total household spending. Though the overall impacts of credit were more pronounced in lending to women than men, lending to both sexes had important social benefits.

Annex Table 1: Methods for Supply of Impact Assessment Information

	Positivist Methods	*Rigorous qualitative methods*	*Participatory methods*
Data collection method	Sample survey using a closed questionnaire	Quota sample of semi-structured narrative interviews.	Case study focus group discussion and semi-structured games
Data analysis	Interpretation of statistical tables and multiple regression analysis.	Systematic scoring of types of impact from interview notes and transcripts.	Verbal and experiential learning among participants. Interpretive reports.
Epistemology	Rigorous statistical inference and peer review.	Rigorous qualitative analysis and peer review.	Process transparency and expert judgement.
Potential strengths	Rigour. Possibility of quantitative estimates of impact. More convincing to sceptical outsiders.	Richness in detail and understanding of differential impact. Ability to pick up unexpected and unmeasurable impact.	More timely and cost-effective, with potential for shorter feedback loops from suppliers to users of information. Can be positive learning tool for respondents too.
Potential weaknesses	High cost and time lags. Restricted to measurable impact indicators. Reveals little about causation. Difficult to counter selection bias problems.	Demonstrating that findings are representative of wider populations. Lack of clarity and consensus about how to achieve rigour.	Participants may hide important facts from peers as well as facilitators. Risk of response bias makes it hard to convince outsiders of the reliability of findings.

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