Financial inclusion in Pakistan

The business case for the financial inclusion of rural women
MDF is supported by the Australian government and implemented by Palladium, in partnership with Swisscontact.
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Financial inclusion in Pakistan
Access to finance is a major challenge in Pakistan, particularly for marginalised groups, including women and the rural population. MDF’s work with Khushhali Microfinance Bank and Kashf Foundation has helped improve the availability of microfinance in rural Punjab and addressed key issues such as financial literacy and rural mobility, to increase opportunities for women to take out loans to buy livestock. By accessing formal finance services with affordable interest rates, farming households were able to increase their herd size. This paper examines the interventions MDF undertook with Kashf Foundation and Khushhali Microfinance Bank (KMBL) to identify the factors that help the private sector design financial products that are suited to rural women.
Background

Market Development Facility (MDF) is an Australian Government-funded multi-country initiative that promotes sustainable economic development through higher incomes for women and men in partner countries. MDF connects individuals, businesses, governments and nongovernmental organisations with each other and local and international markets to enhance investment and coordination and allow partnerships to flourish, thus strengthening inclusive economic growth. MDF is funded by the Australian Department of Foreign Affairs and Trade and implemented by Palladium in partnership with Swisscontact.

Limited access to finance in Pakistan

Pakistan is currently ranked as the sixth least banked country in the world.¹ Only 10 per cent of the population has a bank account—nearly 50 per cent of the bankable population remains excluded from both the informal and formal financial sectors, and 36 per cent of those currently served are being covered by the informal sector.² Microfinance has penetrated nearly 35 per cent of urban and peri-urban areas of Pakistan, but access to finance remains very scarce in rural areas. Smallholder farmers are particularly poorly served: 29 per cent are entirely excluded and most of the remainder have only limited access to formal finance. Instead, farmers rely on traders and moneylenders to meet their credit needs, often tied to sale of inputs and with repayments tied to future sales of farmers’ produce.

Commercial banks are hesitant or unable to provide financial services to less lucrative rural markets. Villages are too small to justify setting up branches, and State Bank of Pakistan (SBP) regulations prohibit banks from doing business outside a 50km radius of a branch. Some banks (e.g. Habib Bank, Al-Baraka, MCB) use vehicles to offer mobile banking services, but their products remain ill-suited to smallholder clientele due to high minimum loan values and stringent collateral requirements. Providers of microfinance services do target rural farmers, but their coverage remains low, due to high transaction costs and limited human resources. It is estimated that microfinance services currently only serve 11.5 per cent of a potential market of 27 million people.³

Women in Pakistan have even greater barriers in accessing finance. Nationwide only seven per cent of women hold a bank account.⁴ In 2019, only three per cent of SME loans and nineteen per cent of microfinance loans were distributed to women.⁵ Even when finance is accessed informally, through relatives, men make financial decisions without consulting female household members. Women depend on their parents and husbands for income and lack avenues for savings, except for dowries for their daughters. In agricultural households, even though women often care for livestock, they are not involved in transactions—the purchase or sale of inputs, animals or milk, or engagement with extension officers. In the rare instances where women obtain credit they have insufficient knowledge to manage it. MDF’s previous assessments in the dairy sector have shown that women are quick adopters once they have awareness, and despite cultural norms, with access to new information and services, they start influencing decisions about livestock within their households.⁶

¹ Annual Insights (2018) Pakistan Microfinance Investment Company Limited
² Pakistan Access to Finance Household Survey (2008)
⁶ Systemic change in the fodder market for smallholder farmers in Pakistan, MDF 2017.
Financing opportunities in the livestock sector

Livestock is a lucrative industry in Pakistan, with demand for dairy and meat products high and growing, and the sector is supported by favourable government policy. The livestock sector constitutes 60 per cent of overall agriculture activity in Pakistan and an incredible 11.2 per cent of GDP. Approximately 35 million people are employed in the sector, with an estimated livestock population of 190 million. The average herd size for dairy farmers is two to three animals per household across Pakistan. MDF’s market research identified several key constraints that were limiting growth of the sector. Farmers had limited access to information (inputs and husbandry knowledge) and limited access to finance for inputs, consumption and investment. MDF pursued interventions in Pakistan that would address these constraints, including focusing on increasing female farmers’ access and agency. MDF’s implementation experience and the research for our 2018 Beyond Income study provided a framework for intervening and for measuring impact on both access and agency, including challenging household dynamics, which goes beyond the “money in the hands” paradigm. For Punjab in particular, our research has found that while men typically participate in transactions due to restrictions placed on women’s mobility, women and men often jointly participate in managing livestock and decision making regarding the use of income derived from livestock, such as for nutrition, children’s education and savings. The interventions discussed in this paper were designed to address mobility issues - the fact that women are unable to travel - in order to increase access to finance for rural women to increase household income, and potentially further increase their decision-making over the use of that income.

Access is typically defined as a woman’s ability to gain opportunities, goods, information, networks and services.

Agency is typically defined as a woman’s power to make and act on (economic) decisions.

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To capitalise on the potential of the substantial unmet demand for financial services from households with livestock businesses, MDF invested with two microfinance organisations and supported them to develop viable business cases for providing services to marginalised populations in rural areas, with a focus on women and remote households.

Kashf Foundation is a female-led microfinance organisation, operating across 41 districts, with 188 branches and 13 service centres. A pioneer of microlending in Pakistan, Kashf focuses on access to finance and financial literacy for women to enhance their means of earning.

Kashf has mainly focused on empowerment of economically disadvantaged women in urban areas. However, 25 per cent of their branches were situated in semi-rural areas and female livestock farmers had some access to loans. In 2014 and 2015, market research conducted by Kashf found that its existing livestock-raising clients were dissatisfied with its flagship loan product, as its monthly repayments were not suited to the cashflow of farming. The annual incomes of livestock farmers were higher on average than Kashf’s existing clientele, so Kashf sensed that there was an opportunity not being served by other providers. However, it was risk averse and lacked knowledge of rural markets – it was uncertain that there was a viable business case.

In 2016, MDF supported Kashf to establish the business case for a tailor-made financial product serving women in the livestock business. MDF and the Kashf team jointly conducted research into households managing livestock, supported by a specialist consultant, in selected rural areas of south Punjab, where most of MDF’s dairy and meat partners operated. Kashf intended to use this market intelligence to design and launch the new product in selected locations, then scale it up once it had been proven successful.

Khushhali Microfinance Bank Limited (KMBL) operates in 76 districts with 200 branches, and is the largest provider of microcredit in Pakistan, with a market share of 23 per cent (December 2018). Approximately 40 per cent of its portfolio consists of financial products for agriculture, including a dedicated livestock loan product that does not require collateral and is bundled with free animal life insurance. Khushhali had a presence in rural areas but struggled to expand to farming households that were distant from its existing branches. It also lacked connections with other market actors, such as milk collectors, that could introduce it to more farmers.

MDF’s existing partner Shakarganj Ltd – a food processor – was interested in increasing its farmers’ access to finance and its ability to process payments to farmers, so it could expand its businesses. MDF facilitated a Memorandum of Understanding (MOU) between Shakarganj and KMBL, in which KMBL agreed to provide financial services to the farmers in Shakarganj’s milk collection areas (Jhang, Punjab). KMBL also provided an optional service which allowed farmers to process their payments from Shakarganj through KMBL. MDF also supported KMBL to establish a mobile banking service, by introducing a van to disburse livestock loans and other financial services, to reach areas that could not be catered to through its existing branch network. This also allowed KMBL to better assess demand for its loan products in the most remote areas of Punjab which in turn informed the expansion of its brick-and-mortar branch network.

To implement this intervention, MDF and Kashf undertook three key activities: developing a livestock loan product for rural women, setting up rural branches, and developing training modules to improve female farmers’ financial literacy and technical know-how. Shahiwal district in southern Punjab region was chosen as the location for the intervention because the livestock population is dense and provided the best opportunity to test the viability of the product. In 2017 Kashf Foundation launched their first rural branch in Sahiwal, with equal numbers of female and male staff. The staff members were trained by Kashf to provide financial and technical support to female farmers through outreach efforts in neighbouring villages.
Following implementation MDF undertook research to understand the impact of the new business models and products on Kashf and KMBL, on farming enterprises, and on female household members. For the private sector, MDF wanted to verify the business case and benefits for including rural women as their clients. For farming enterprises, MDF investigated whether more accessible and affordable financial services affected farming households’ purchasing of inputs that might result in higher herd productivity and income. MDF also wished to ascertain any changes in women’s economic empowerment, particularly if the access to financial services and livestock assets resulted in an increase or decrease in their agency. Some of the agency dimensions MDF investigated included were influence on decision-making, workloads, perceived recognition and overall well-being.

Private sector

Both financial service providers adapted their business models and products in order to expand their services to rural farming households in Punjab. Based on the market intelligence gathered, Kashf introduced a new product to its portfolio, Kashf Maweshi Karza (KMK), for rural women across Punjab. This was designed based on feedback from female farmers about the value, term and repayment period of loans, as well as insurance and savings. KMBL did not introduce a new product but adjusted its repayment periods to offer livestock farmers more flexibility between regular and lump sum payments. Its main change was to its business model, to use vehicles to offer mobile banking to remote farmers, which meant that women and men did not need to travel to access services. Both organisations also hired female field staff or loan officers, to encourage female household members to acquire information on the loans and animal husbandry practices.

Both organisations incorporated basic training on financial services, financial literacy and information about animal husbandry practices alongside the loans provided.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Kashf KMK</th>
<th>KMBL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>Dairy: PKR 30,000-100,000 (USD 186-620)</td>
<td>Meat: PKR 30,000-100,000 (USD 186-620)</td>
</tr>
<tr>
<td>Purpose</td>
<td>Livestock: PKR 30,000-100,000 (USD 186-620)</td>
<td>Livestock: PKR 30,000-100,000 (USD 186-620)</td>
</tr>
<tr>
<td>Use</td>
<td>Livestock animal purchase</td>
<td>Livestock animal purchase</td>
</tr>
<tr>
<td>Term</td>
<td>• Option 1: 12 months</td>
<td>• Option 1: Six months</td>
</tr>
<tr>
<td></td>
<td>• Option 2: 18 months</td>
<td>• Option 2: 12 months</td>
</tr>
<tr>
<td></td>
<td>• Option 3: 12 months with two bullet payments</td>
<td>• Option 3: 12 months with two bullet payments</td>
</tr>
<tr>
<td></td>
<td>• Repeat loan: up to PKR 500,000 (USD 3,100)</td>
<td>12 months</td>
</tr>
<tr>
<td>Repayment</td>
<td>Equal monthly instalments of capital and interest payments</td>
<td>Bi-annual and annual season loan (lump-sum payment on maturity)</td>
</tr>
<tr>
<td>Insurance</td>
<td>Life and livestock insurance</td>
<td>Livestock insurance</td>
</tr>
<tr>
<td>Training</td>
<td>Animal husbandry and financial literacy training for women</td>
<td>Financial literacy</td>
</tr>
</tbody>
</table>

Definitions of the seven dimensions that MDF uses to evaluate the impact of interventions on women’s economic empowerment can be found in Beyond Income (2018).
As of December 2019, Kashf provided over 6,500 loans to female clients with a client repeat rate of six per cent and a repayment rate of ninety-nine per cent. This success prompted Kashf to scale up to ten other districts in central and southern Punjab and to offer an additional product called Kashf Karobar Karza (KKK), aimed at both rural women and men. Through KKK, over 3,700 additional loans were provided, seventy-two per cent of which were taken solely by women and ten per cent jointly with the male head of household. The total amount disbursed through both was over PKR441 million (USD2.70 million) resulting in PKR17 million (USD105,000) of additional sales revenue for Kashf. Kashf is also currently piloting a crop loan product, Kashf Zarai Karza (KZK) in one of their rural branches in Sahiwal district.

In the same period, KMBL disbursed over PKR40 million (USD250,000) through 928 loans, with a 100 per cent repayment rate, generating additional revenue of PKR 13 million (USD 80,600) for the organisation. The introduction of mobile services enabled KMBL to cater to more clients. MDF’s research found that 48 per cent of clients were persuaded to take a loan due to easier access, and that 40 per cent of clients took another loan. KMBL is currently refining its mobile model and investigating expansion into more regions, despite the cost of maintaining vehicles.
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Farming enterprise impact and women’s economic empowerment (WEE)

The interventions had clear benefits for farming households. Kashf’s loans led to the purchase of an additional 4,263 dairy animals and 2,839 meat animals, resulting in additional income for households of USD 1,147,820. Through KMRL’s loans, 312 meat animals and 337 dairy animals were purchased, and a further 278 loans were used to purchase inputs, resulting in a total additional income of USD 152,061. Both interventions also increased savings: MDF’s research found that forty-one per cent of beneficiaries saved income earned from these new animals.

While it is relatively straightforward to measure changes in access to finance for women in Pakistan, the amount of input that they have into decision-making (and their agency overall) is subjective, and can vary from day to day, presenting a measurement challenge. MDF also endeavours to understand whether, in restrictive communities such as Pakistan, increases in household income through joint enterprises are equally shared within the main household fund. Whilst challenging, understanding changes in women’s involvement, opinions, veto powers, ability to act, and shared benefit is crucial to evaluating the gender sensitivity of our interventions.

MDF conducted a financial inclusion assessment at the end of 2019, to investigate access and agency more deeply. For 54 per cent of KMRL clients interviewed, this was first loan that they had ever accessed, and they confirmed that they would not be able to obtain a loan from any other source. If necessary, 36 per cent of respondents claimed that they look for informal sources of funding and 10 per cent would resort to selling their assets. In interviews with female and male household members, a significant percentage (50 per cent of men and 62 per cent of women) confirmed the importance of women’s involvement in raising livestock, and 83 per cent of men and 90 per cent of women stated that decision making for finalising and spending the loan should be mutual. Nearly half (45 per cent) of female respondents reported that they have taken part in loan repayments when the van visited their area, a function traditionally reserved for men.

In Kashf’s assessment, only 2 per cent of women interviewed had prior knowledge of other loans available in their area, and 24 per cent confirmed that even if they had known of other providers, they would have opted for Kashf because they were approached by salespeople who gave them useful additional information. Timely, accurate information and a tailor-made product persuaded 6,500 women to take a loan and repay it in record time, with 69 per cent of respondents stating that they will take a repeat loan in future. Over one third (41 per cent) of respondents managed to add to their savings after repaying their loans, indicating that their households are likely to benefit from this increased financial access in future. Interviewees also reported that their networking had increased as a result of financial access, with broader, positive ramifications for some. Five per cent of the women claimed to be able to get better information on the political situation in Pakistan, while seven per cent were more aware of the importance of voting in shaping the political environment of the country.

Both interventions show that providing access alone is not enough to improve agency; access needs to be tailored by knowledge of local context. In most of rural Pakistan, women are prohibited by social norms from interacting with male service providers. Over half (53 per cent) of women benefitting from KMRL loans heard about them through family or friends. The increase in female clientele also de-risked the loans for both partners, as loans provided to women had a lower default rate than normal, and 99 per cent of loans were paid back within the payment period, compared to 96 per cent in their other rural portfolio. That women are often more reliable microfinance clients than men is not a new finding internationally—but it might contribute to changed perceptions in Pakistan where the practice of lending to women is in its infancy.

Perceived recognition: This dimension looks at the position, visibility and perceived recognition of women in the household and in the community. In communities, it asks whether women are members of groups, if others seek their advice or consider them leaders. In households, it asks whether a woman’s voice is respected and if members of the household seek her opinion or recognise her as a valued household member. Greater household recognition often helps women build confidence and enables them to influence decisions in the household. As women’s economic roles change, it is useful to see if they increase in prominence and expand leadership roles that are often unavailable to women.
And while Kashf initially planned to provide group trainings for women, they were met with low uptake. Learning from MDF’s experience, they have adapted their trainings and offered it to smaller groups of women at times when women are more likely to attend, for example after they have completed household chores or other responsibilities. Recognising the workloads of women and perceptions of respect of that workload increased the attendance to the trainings but also the uptake of the financial products.

In addition to MDF’s assessment, Kashf conducted its own assessment of access and agency in areas it expanded with new products. The majority (83 per cent) of respondents indicated the value of training in building relationships with other entrepreneurs. One third felt that they were now better recognised in their household and community because of their ability to obtain a loan or attend training. This recognition has led to greater involvement in decision making about overall household expenditure (31 per cent), the sale and purchase of household assets, children’s education (19 per cent) and family planning (9 per cent). Almost half (41 per cent) of women also felt more in control of their personal incomes.

These responses indicate that access to finance can contribute to women’s influence and control over household incomes and budget. When women use a loan for their enterprises, it can lead to greater agency.

MDF typically measures the relationship between access and agency over a three-year period, to better understand the triggers for increased agency in all its dimensions. Through the 2019 assessment, Kashf’s internal assessment and anecdotal evidence, MDF has been able to assess which dimensions agencies would be worth measuring in more detail (see Graph 1). MDF had planned to conduct detailed interviews with female financial services users to more fully explore how improved access had impacted agency, and how such insights might be used by the private sector to provide better services. However, the COVID-19 outbreak prevented MDF from conducting this research.

### Graph 1: WEE measurement radar diagram concept
Outward movement denotes a positive change, and dotted lines represent the areas of MDF interest that are yet to be validated.

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11 Assessing Gender Centricity of the Kashf Program, 2019
Lessons and conclusions

The findings from MDF’s interventions with Kashf Microfinance and Khushhali Microfinance Bank indicate that there is a business case for the financial inclusion of rural women.

Providing loans to rural women in Pakistan is a feasible investment: with high uptake and repayment rates, as well as repeat clientele, MDF and the private sector showed that ignoring women in rural households is missing a large segment of the market, particularly among smallholder farmers where women play a key role in livestock care and management.

Once financial service providers see this business case, they are likely to continue to offer services and develop other tailored offers: Kashf and Khushhali have both shown the rapid expansion of the business model into the new products and new geographic areas. With a profitable business model, the private sector was able to capitalise on its growth, further adapting it to new clientele to increase profitability of their loan portfolios.

Understanding context and tailoring the product to it is important for increasing uptake: partnering with the private sector to help them understand new market segments, in this case rural women, helps financial service providers feel confident about working in new fields and with new clientele. Understanding the context, including the roles and responsibilities of rural women, also helps ensure that the product is appropriate to the new clientele, increasing satisfaction and uptake.

Women’s access to appropriate financial services and related support results in increased agency, particularly in their ability to influence the decision-making in their households: the vast majority of the interviewed women saw a link between the new service and their access to new opportunities and information, and their decision-making power, with many also feeling they had increased control over their finances. In communities where women generally have limited visibility and power, the interviewees confirmed that family members and other women now consult with them on decision around finances, and livestock practices and nutrition.
References


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