

**WOMEN BORROWERS OF MICROFINANCE: AN  
URBAN LAHORE STUDY**  
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**INTRODUCTION**

Microfinance was initiated in the 1970's by Dr Muhammad Yunus, through provision of small business loans to impoverished rural villagers in Banglade.<sup>1</sup> The objective of microfinance over the last three decades remains to target 'the poorest of the poor', enable them to mobilize small business ideas and to invest in non-financial social development of the borrower.<sup>2</sup> The achievement of the millennium development goals has been recognized to have links with microfinance expansion, as a tool for social development and elimination of poverty.<sup>3</sup>

In 2005, 1.4 billion people in the developing world (25% of total population), lived below poverty lines of USD 1.25 per day.<sup>4</sup> It is estimated that 70% of people living below poverty lines are women<sup>5</sup> and fears concerning the 'feminization of poverty' have encouraged policy research toward possible solutions through microfinance services. It has been discussed that women have characteristics which trap them in poverty including lack of education, limited employment opportunities, low income, lack of labor laws and unpredictable labor supply due to domestic responsibilities and child-care.<sup>6</sup> Additionally, microfinance and women have become viable partners because women are known to be more credit-worthy in terms of loan repayment and to use their enhanced income for household welfare.<sup>7</sup>

**PAKISTAN AND MICROFINANCE**

Pakistan is situated in South Asia bordering the states of India, Afghanistan, Iran and China. With a population of 180 million people it is the sixth most populous country in the world. According to the Pakistan 1998 census, the urban population of Pakistan could be as high as 50%,<sup>8</sup> which

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signifies that poverty is not just a rural phenomenon and that the financing needs of the urban poor must be addressed equally in Pakistan. An estimate by the State Bank Pakistan Annual Report in 2009 lists that 62 million Pakistani's live below poverty lines.<sup>9</sup> Lahore is the second largest city in the country with a significantly large urban population that lives under severe poverty.<sup>10</sup> Apart from fears of escalating poverty the region is rendered unstable by political insecurity, sectarian strife and rising inflationary pressures.<sup>11</sup>

Compared to the global market, the microfinance sector in Pakistan is small but not without prominence. At the end of 2010, total Pakistan microfinance borrowers stood at 2 million, of which 56% were women.<sup>12</sup> It has been estimated by the State Bank of Pakistan Microfinance Department that there is immense potential for growth of microfinance in Pakistan as only 7% of the local market has been tapped.<sup>13</sup> The impact assessment of Pakistan microfinance sector is plagued by a lack of data about microfinance borrower profile and inconsistency in recording of their respective loan profile.<sup>14</sup>

### LITERATURE REVIEW

Though no clear evidence exists to support the positive impact of microfinance on the global economy in terms of eradication of poverty,<sup>15</sup> many analysts agree that loan provision to women from poor households improves their quality of life.<sup>16</sup>

It has been found that majority of working women in Pakistan are middle-aged mainly because they have older children and can better manage paid-work and domestic responsibilities compared to younger women.<sup>17</sup> Additionally, working women in Pakistan are found to be predominantly involved in home-based occupations due to the lack of skills and because home-based work may be easily abandoned or stalled in case of child-care or household emergencies.<sup>18</sup> Local analysts have concluded that a void exists in support for paid employment of young women between the ages of 15-19 due to lack of opportunities, education and training.<sup>19</sup> Furthermore, it has been documented that 38% of the time microfinance in Pakistan is used for non-business purposes<sup>20</sup> and women borrowers are utilizing loan themselves only 36% of the time<sup>21</sup>. The implication is that the majority of borrowers are not investing in small businesses or are taking loans for use by male household members.

Research suggests that microfinance women borrowers in developing nations do not get spousal help in loan repayment and the main pressure of repayment falls on the shoulder of the borrower herself and her daughter.<sup>22</sup> Research has also indicated that microfinance is an important support system for single mothers, widowed, abused and abandoned women in developing nations.<sup>23</sup> Also of relevance is that although microfinance benefits families

from *very poor* backgrounds, the majority of actual borrowers of microfinance are from *moderately poor* backgrounds.<sup>24</sup>

Existing research shows that measuring the impact of microfinance in the global economy is still in its infancy and reportage by microfinance providers' is inconsistent,<sup>25</sup> thus preventing accurate estimation of social development by microfinance services.<sup>26</sup> It has been recommended that region-specific studies should be undertaken to ascertain microfinance borrower profile in order to better ascertain the gaps in services and estimate extent of impact.<sup>27</sup>

With regard to the scarcity of data pertaining to microfinance borrower profile, this study is aimed to ascertain 1) The demographic characteristics of borrowers; 2) The household characteristics of borrowers; 3) The loan profile of borrowers and 4) their occupational change after receiving the loan.

## METHODOLOGY

A three-page questionnaire was developed for the purpose of data collection from users (see Appendix A). The questionnaire was divided in three parts and contained 35 questions related to demographic characteristics, household characteristics and loan profile of borrowers. A total of 149 women users of microfinance were interviewed during a period of two weeks in January 2012. To avoid microfinance provider bias an equal number of respondents were interviewed from two banks (*The First Microfinance Bank and Khushhali Bank Ltd.*), two institutes (*Kashf and Damen*) and one NGO (*Center for Women's Cooperation and Development*). Site offices in five different districts were selected to avoid geographical bias (see Appendix B).

Sampling was done through random selection of women users who visited the microfinance provider site office for loan installment returns. Voluntary participants were assured of their confidentiality and anonymity. The questionnaire was administered through an interview format in a private room at site offices, with researcher present to complete questionnaires for illiterate respondents and provide clarification and translation when necessary.

## FINDINGS

### Socio-demographic Characteristics of Borrowers

Table 1 shows data for demographic characteristics of borrowers including age, marital status, educational attainment and combined household income. Sixty-eight percent of borrowers are above 30 years of age and their

median age of borrowers is 37.5 years. Findings suggest that middle-aged women have more time for work as they have passed the age of child-bearing and have older children who can share in the household activities. In contrast, younger women have less time to participate in labor force due to child-bearing responsibilities, illness of young children and lack of available substitution help. The data in Table 1 further shows that the majority of the borrowers are currently married and living with their husbands (78%), and a significant portion of borrowers (60%) are illiterate. The average combined monthly household income for borrowers is PKR 20,594. After combining average household income (PKR 20,594) and average number of household people (7.2), it was found that the average per day income for each household member is approximately PKR 95. After conversion to US Dollars it was ascertained that despite loan utilization, borrowers are still living below international poverty lines of USD 1.25.<sup>28</sup>

**Table 1. Demographic Characteristics of Borrowers**

<b>Variable label</b>	<b>Category label</b>	<b>Borrowers</b>
Age groups	20-24	14%
	25-29	18%
	30-34	21%
	35+	47%
Marital status	Currently Married	78%
	Widow	09%
	Separated	02%
	Divorced	02%
	Never married	09%
Level of Education	No schooling	61%
	Primary	19%
	Secondary	17%
	Graduate and above	03%
Monthly Household Income	< 10,000	12%
	11-19,000	38%
	20-29,000	33%
	30-39,000	11%
	40,000 +	06%

**Household Characteristics of Borrowers**

Table 2 shows the household characteristics of borrowers. The majority of borrowers live in husband-headed households. This may imply that

husbands encourage their wives to take loans and contribute to household income due to economic necessity. The data shows that the majority of the borrowers live in purchased houses, with 2% paying installments for full-ownership. Borrowers who live with relatives (13%) do not pay conventional rent to a proprietor. Thus, it is significant that nearly 86% borrowers of microfinance are not constrained by housing rental expenses. Nearly all borrowers (93%) live in cement houses. The data in Table 2 shows that the majority of borrowers (68%) have a large family size of 6 people or more and live on average in 2 rooms.

**Table 2. Household Characteristics of Borrowers**

Variable label	Category label	Borrowers
Relationship with head of household	Self	08%
	Wife	74%
	Daughter	10%
	Daughter-in-law	04%
	Sister	04%
House ownership	Owned	71%
	Rented	14%
	Living with Relatives	13%
	Paying Installments for Ownership	02%
Household material	Cement	93%
	Mud	04%
	Other*	03%
Persons living in household	≤ 3	09%
	4-5	23%
	6 and above	68%
Rooms per household	1 room	17%
	2 rooms	42%
	3 rooms	28%
	4 + rooms	13%

Table 3 shows that no significant borrowers listed non-access to *basic utilities* like drinking water, electricity and gas. However, many borrowers mentioned that problems related to load-shedding of electricity and gas had hindered home-based production, necessitating the use of wood as a cooking substitute. Additionally, it is of concern that significant number of borrowers indicated lack of access to key consumer durables such as PC, air-cooler,

refrigerator and vehicle. Although most borrowers are poor urban dwellers, they do not live in urban slums as defined by UN-HABITAT.<sup>29</sup> Findings indicate that many borrowers may be classified as living in non-slum conditions because 1) they live in cement houses (93%); (2) they live in owned houses (71%); (3) they on average have 3.5 persons living in each room (average respondents living in house 7.2 divided by average rooms per house 2); 4) they have access to toilet facility with flush (84%); and 5) they have access to safe drinking water (97%).

**Table 3. Household Utilities and Consumer Durable List**

Variable label	Category label	Access/ Own:	No Access/D not own
Utilities	Access to Clean Drinking Water	97%	03%
	Electricity Connection	98%	02%
	Gas Connection	83%	17%
	Toilet Facility with flush	84%	16%
	Visitation by Garbage Collector	59%	41%
Consumer Durables	TV	94%	6%
	Radio	22%	78%
	Cable	75%	25%
	Refrigerator	54%	46%
	Sewing Machine	70%	30%
	Washing Machine	59%	41%
	Personal computer	05%	95%
	Air-conditioner	00%	100%
	Air-cooler	10%	90%
	Vehicle	62%	38%
Mobile	100%	0%	
	Landline	05%	95%

**Loan Profile of Borrowers**

Table 4 presents data about the loan profile of borrowers, indicating that the majority of the borrowers (60%) are recent borrowers with a loan history for the last two years. Most of them (85%) have a loan of between PKR 10,000-35,000; whereas only 4% get a loan between PKR 50,000-60,000. This is due to the limitations of microfinance providers' in permitting excess loan

to low-income households. It was discovered that the average loan amount is PKR 26,829; whereas according to SBPMD the average loan amount for Pakistan Microfinance Sector is PKR 12,131. The difference is mainly due to non-inclusion of rural population in the sample. Rural populations have lower income mainly from agricultural produce and consequently receive smaller loans from microfinance providers’.

Overall, it is important to note that 94% of the borrowers use the loan for business purposes, and 6% of them use it for domestic consumption needs, indicated to be due to the pressure of rising costs or due to personal emergencies. 73% of the borrowers use the loan for themselves and a significant portion (58%) receive assistance from other household members in paying back the installment dues. The most prominent helper is indicated to be husband (28%), followed by son (9%). Though considerable family support exists in terms of loan repayment, it is notable that 42% of the borrowers are expected to invest business profits in household and children but receive no assistance in loan repayment.

**Table 4. Loan Profile of Borrowers**

<b>Variable label</b>	<b>Category label</b>	<b>Borrowers</b>
Length of loan utilization	1-2	60%
	3-4	28%
	5 +	12%
Loan Amount (PKR)	10-19,000	24%
	20-29,000	33%
	30-39,000	28%
	40,000+	15%
Loan Purpose	Business	94%
	Personal Needs	06%
Loan Used By	Self	73%
	Husband	17%
	Son	06%
	Daughter	02%
	Brother	02%
Assistance received from household members	Yes	58%
	No	42%

Table 5 summarizes the loan packages offered by the different microfinance providers’ in the present study, as described by the respondents. Two important features of the loan package are noted. First, the total interest

rate charged (or total profit-sharing as in the case of CWCD) on total loan amount ranged from 20-29%; and second, the monthly interest rate as a percentage of the total loan amount ranges from 10-11%. Findings clearly indicate that no significant difference exists amongst borrowers in relation to monthly interest rate payments and that the study group is fairly homogenous in terms of rate payment features of the loan package and interest rate burden. This suggests that microfinance providers' provide a similar loan package to borrowers across urban regions and that loan amount and interest rates are being curtailed according to a borrower's household income to prevent the risk of default.

**Table 5. Summary of Interest Allocation by Microfinance Providers**

Microfinance Provider	Interest charged for PKR 10,000 loan of 12 months	TLR <sup>1</sup> (PKR)	MIR <sup>2</sup> (PKR)	MIR as % of TLA <sup>3</sup>
1. Kashf	20%	12,000	1,000	10%
2. FMFB	22%	12,200	1,017	10%
3. KBL	29%	12,900	1,075	11%
4. CWCD	20% (profit-sharing)	12,000	1,000	10%
5. Damen	'90 paisa per 1000 per day'	11,815	1,000	10%
Key: 1- TLR= Total Loan Amount to be Returned 2- MIR = Monthly Installment Return 3- TLA= Total Loan Amount				

### Occupational Change after Loan Taking

The data from table 6 shows that nearly all borrowers belong to the informal sector of the economy, characterized by non-inclusion of labor contracts, non-reportage of income and unpredictable work patterns. Significantly loan-taking has resulted in declining unemployment by 15%. The majority of the borrowers (60%) are currently occupied in work related to *embroidery and stitching* (36%), *running a retail store* (9%), *parlor work* (8%) and *warehouse purchasing and retailing* (7%). The latter occupation includes purchase of wholesale stock, such as used goods, cloth and food products, packaging them into smaller units and selling them in the retail market or directly to buyers (from home, from a rented shop or on a vendor). The borrowers' occupations indicate that they needed the microfinance loan for liquidity at beginning of month and for purchase of supplies and stock. Of



importance is that many borrowers (45%) conduct their businesses from home, such as embroidering and stitching work using rooms in the house for commercial ventures (retail store, beauty parlor or health-worker office), agricultural production, giving tuitions from home or retailing from a vendor placed outside home. Findings suggest that microfinance utilization has not helped borrower to enter into formal sector of the economy, which would have an impact on their sustainable income.

**Table 6. Change in Occupation after Loan-taking**

<b>Occupation</b>	<b>Before Loan</b>	<b>After Loan</b>
Housewife/ unemployment	40%	25%
Embroidery & stitching from home	33%	36%
Running a retail store		
<i>Shop on rent</i>	03%	03%
<i>from home</i>	03%	06%
Agriculture production from home	09%	06%
Parlor-work		
<i>Shop on rent</i>	02%	02%
<i>from home</i>	02%	06%
Gives tuitions from home	03%	03%
Family health worker		
<i>Office on rent</i>	02%	02%
<i>Consultation from home</i>	00%	01%
Domestic employee	02%	03%
Warehouse purchase and retailing	01%	07%
	100%	100%

## **Conclusion**

It has been discussed in the introduction that analysts of the microfinance sector, both global and regional, are in agreement that policy improvements can be planned based on the mapping of borrowers' profiles.<sup>30</sup> The present study is an effort to examine the demographic characteristics of

women borrowers of microfinance, including data pertaining to their household characteristics, loan profile and occupational change after loan-taking.

This study confirmed the other research findings that microfinance loans are availed predominantly by middle-aged women who are living in husband-headed households.<sup>31</sup> Thus, though some analysts have suggested that women under the age of 19 are in need of paid work opportunities in this region,<sup>32</sup> this project concludes that this age bracket is not part of microfinance borrower base. It may be that younger women are not loan recipients because they have younger children who can not be left alone during work and have child-bearing pressures which leave them less time for small business mobilization. It is recommended that further studies assess the nature of structural barriers related to younger women's employment opportunities and child-care support.

Increase in poverty and rising inflation rates of the region have given rise to dual-worker families, with more women participating in income generating activities to fulfill the financial needs of their households. Microfinance is provided mainly to dual-worker families with more married women constituting the borrower base. Arguably the microfinance providers' are reluctant to issue loans to disadvantaged women (e.g. single, widowed, separated or divorced) since they have lower household income compared to dual-worker households.

The study also shows that the majority of borrowers do not live in rental properties. This may imply that low-income women who have to pay house rents do not choose to take loans out of fear they will not be able to bear the burden of loan repayment. Alternatively, it may also mean that microfinance providers' regard rent-paying households as less credit-worthy for loan repayment, thus limiting loans to women who live in owned households or with relatives.

Microfinance is understood to be a valuable tool for women's development when it targets disadvantaged women,<sup>33</sup> including not just those from poor families but also women who have lower household income due to their single, widowed, separated or divorced status. Although a small percentage (22%) of microfinance loans has helped disadvantaged women to mobilize small businesses, consistent investment in services and monitoring of borrower portfolio will help in further expanding the base of those who can benefit from microfinance services.

It is true that few borrowers have indicated a lack of access to household utilities, but a recurrent and highlighted problem is the deficiency of energy supply. Of importance is that borrowers on average are not living under UN-HABITAT defined conditions of 'urban slums'; and are instead mainly living in cement houses that they own, with fewer than three people on average living in one room, with access to toilet with flush and safe drinking

water.

The lack of access to personal computer is another reminder that borrowers are disconnected from production information and are running low-income businesses without the benefits of technology, internet communication and the advantages of online business awareness. Notable is also the fact that borrowers live without necessities such as refrigerator, air-conditioner and air-cooler in extremely hot climate, which is detrimental for their productivity and well-being in general. Significant indications of non-ownership of personal vehicle and washing machine emphasize the burden of domestic duties and transportation during business involvement.

It has been mentioned that borrowers on average live below the poverty lines despite microfinance utilization. In other words, the loans have not been sufficient to expand business and income in order to eliminate poverty in borrower household. It may be that microfinance providers' have limited their loan amount to prevent client default. It is recommended that successful repeat clients of microfinance be provided larger loans with lower interest rates so they may expand their business.

Although most borrowers utilize the loans for their own businesses, a significant proportion of them have taken loans for household members, mainly their husbands. It is of concern that utilization of loan by those other than the borrowers may not be directly beneficial for women's development or ensure investment of business returns in household and in their children, which is the original aim of microfinance services. This clearly warrants the need for prudent policy with regard to loan approval by microfinance providers.

There is indication that borrowers receive family assistance for their loan repayment, with predominant help coming from their husbands. However, nearly half of the borrowers do not receive family assistance in repayment, which is an issue of concern given that women have multiple responsibilities, including paid-work, domestic work, child-care duties and loan repayment burden. One noteworthy finding of this study is that loan repayment assistance generally comes from the husbands, not daughters as suggested by other research.<sup>34</sup> This is an important and positive factor because, if the reverse were true, it would mean that microfinance had a negative impact on the education and general welfare of female children.

The average loan taken by borrowers indicated in this study is higher than the national average mainly due to the exclusion of the rural population in the sample. Additionally, the monthly interest rate on average does not exceed 11% of total loan amount, demonstrating that borrowers have no excessive burden of loan repayment. This is good for borrowers and microfinance provider alike as it minimizes default; however concern exists that without injection of larger loans and expansion of services to more

disadvantaged client base a more holistic social development and poverty elimination would not be possible.

After borrowing, employment has increased by 15%; yet 25% of the respondents still remain unemployed. This again stresses need for prudent microfinance provision in terms of ensuring use of loan by borrower herself for business needs and income generation. Most of the working borrowers (45%) are involved in home-based occupations in the informal sector of economy, with 'embroidery and stitching' being the most popular pursuit. Though working from home has its advantages, work-related opportunities and development may also be limited due to the simultaneous demand of domestic responsibilities. It is recommended that further studies are undertaken to ascertain if this is a personal choice for the women borrowers or a result of 'adaptive preferences' given cultural restraints.<sup>35</sup>

According to Kashf Foundation,<sup>36</sup> microfinance providers' in Pakistan have little funds for non-financial services due to rising operational costs in a weak economy, increased cost of borrowing from commercial banks, higher rate of fraud in returning installments and general political instability. The investigation suggests that another reason for the fact that only 7% of the microfinance market is being tapped in Pakistan (apart from problems suggested by Kashf Foundation) stems from the reluctance of microfinance provider to issue loans to the poorest groups who are more disadvantaged than the current borrower base.

Microfinance is largely considered as an important tool in initiating small-scale businesses and reducing poverty in marginalized sections, particularly women, in developing societies. The acknowledgement for the need of microfinance services is evidenced by the high percentage of new borrowers completing their first or second year cycle (60%). Additionally, there are significant other positive effects in empowering the poorest women in terms of strengthening their gender equality status in the community and giving them increased autonomy in the household for decision-making. Poverty elimination is not possible without tackling problems of the poorest of the poor. Non-inclusion of the poorest income classes in microfinance provider client-base indicates that rather than social development and poverty elimination the main aim of microfinance providers' is commercial sustainability. Need exists for microfinance donor bodies and regulatory bodies to support and encourage provision in terms of broadening client base to include women from the poorest households.

All in all, the need for microfinance provision to women exists due to the fact that the typical borrowers live below the poverty lines with high illiteracy rate and few employment opportunities in the formal sector of the economy. Additionally regional problems stemming from political instability, rising inflation and lack of commercial banking loan provisions make the role

of microfinance services even more instrumental in advancing the economic and social development of poor women. Policy interventions are needed to make microfinance sector more prudent in loan provision, expand services to include other groups of disadvantaged women, especially those who have to pay house rent and those who are single, widowed, separated or divorced. This finding supports conclusion by Goldberg<sup>37</sup> that although microfinance benefits families from *very* poor backgrounds, the majority of actual borrowers of microfinance are from *moderately* poor backgrounds.

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**Appendix A**  
Study Questionnaire

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**Appendix B**  
Administrative Towns of urban Lahore

Appendix B continued here

## NOTES

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