

# **Nepal and Pakistan**

## **Micro-finance and microenterprise development: Their contribution to the economic empowerment of women**

by Maria Sabrina De Gobbi  
with contributions from Nara Hari Dhakal and Syed Tahir Hijazi

Social Finance Programme

and

InFocus Programme on Boosting Employment  
through **S**mall **E**nterpris**E** Development/WEDGE programme  
Job Creation and Enterprise Department



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## FOREWORD

A large number of poor people throughout the world are engaged in income-generating activities in order to make ends meet for themselves and their families. Many others have established micro or small-scale businesses, but most of them operate within the informal economy where they lack any form of social protection, and where their livelihoods – and sometimes even their lives – may be at risk. Micro-finance can give tools to manage risk. It is also a valuable resource in enabling people to take their first steps in making items for sale, engaging in trading activities, or providing services within their local communities. However, little has been done to explore the potential synergies between the provision micro-finance and micro and small enterprise (MSE) development.

The International Labour Office (ILO) and its programme on Boosting Employment through Small Enterprise Development (SEED) has been giving a lot of attention to supporting employment creation through micro and small enterprise development. At the same time the ILO's Social Finance Programme is engaged in developing innovative ways for poor people to access finance to enable them to work their way out of poverty. This paper, as a joint effort of the SEED and Social Finance Programmes, attempts to explore the linkages and synergies between MSE development and micro-finance.

The paper presents the findings of two small surveys of women who as micro-finance clients were also engaged in microenterprise activities in Nepal and Pakistan. The two studies endeavour to document and analyse the impact of micro-finance and microenterprise development on the economic and possible social empowerment of these women entrepreneurs in the two countries. Although based on relatively small samples, the paper also tries to highlight differences and similarities between the situations of the women in the two countries. Initiatives organized by micro-finance institutions for the provision of financial services, as well as for policy and legal reform, can be key elements for achieving greater economic and social empowerment for women. This paper emphasizes the role of micro-finance and microenterprise development in improving the status of women entrepreneurs in Nepal and Pakistan. The findings show that micro-finance and microenterprise development may serve as a catalyst towards social change and improve the political and social status of women.

We would like to thank Nara Hari Dhakal and Syed Tahir Hijazi for their respective roles in leading and supporting the research in the respective countries. The author, Maria Sabrina De Gobbi synthesized the two country reports and provided background information based on global lessons from micro-finance applications. We would also like to acknowledge the valuable comments provided by colleagues in SEED and the Social Finance Programme, as well as our field colleagues in the ILO's Subregional Office in New Delhi and project staff in both Nepal and Pakistan. We see it as a contribution to the debate on viable models for linking micro-finance and MSE development.

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## Table of contents

Foreword.....	iii
Abstract.....	vii
Acknowledgements.....	vii
Key words.....	vii
J.E.L. classification.....	vii
1. Background.....	1
1.1 Introduction.....	1
1.2 Objectives of the report.....	2
1.3 Methodology.....	2
1.4 Definitions.....	2
2. A general overview of Nepal and Pakistan.....	4
2.1 Country profiles.....	4
2.2 Women in the economic sphere.....	5
2.3 Micro-finance institutions.....	9
3. General findings from the country studies.....	11
3.1 Credit and savings services for women.....	11
3.1.1 Credit services.....	11
3.1.2 Barriers to credit services.....	14
3.1.3 Decision making on loans and on the use of loans.....	15
3.1.4 Savings services.....	17
3.2 Microenterprise development.....	17
3.3 Women entrepreneurs.....	19
3.4 Household relations.....	21
3.5 Non-financial services.....	21
3.6 Family and household situation.....	22
4. Conclusions.....	23
4.1 General conclusions.....	23
4.1.1 The impact of micro-finance institutions on women's enterprises.....	23
4.1.2 Impact on women's economic and social empowerment.....	23
4.2 Recommendations.....	24
4.2.1 The cultural and social environment.....	24
4.2.2 Government policy.....	25
4.2.3 Legal framework.....	25
4.2.4 Complementary services.....	25
References.....	27
Annex 1: Nepal: Micro-finance, microenterprise development, and their contribution to women's economic empowerment, by Nara Hari Dhakal.....	29
Annex 2: Pakistan: Micro-finance, microenterprise development, and their contribution to the economic empowerment of women, by Syed Tahir Hijazi.....	55

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List of tables:

Table 1:	General information on loans .....	12
Table 2:	Power and control over resources .....	16
Table 3:	Assistance received by women in starting an enterprise in Nepal and Pakistan .....	17
Table 4:	Impact of micro-finance on women's enterprises in Nepal and Pakistan .....	18
Table 5:	Job creation through micro-finance.....	18
Table 6:	Children working in women's enterprises.....	19
Table 7:	Working hours for women entrepreneurs.....	19
Table 8:	Impact of micro-finance and microenterprise development on the social sphere of women's lives .....	21
Table 9:	Impact of micro-finance and microenterprise development on households and family situations .....	22

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## ABSTRACT

This paper presents the findings of two national surveys completed in Nepal and Pakistan on women entrepreneurs who are micro-finance clients. It documents and analyses the impact of micro-finance and microenterprise development on the economic and possible social empowerment of women in the two countries, highlighting differences and similarities.

The main factors determining the level of women's economic and social empowerment in a country are its cultural and legal environment, and national policy on women's rights and poverty alleviation. Initiatives organized by micro-finance institutions for the provision of financial services and for policy and legal reform are key elements for achieving greater economic and social empowerment.

This paper emphasizes the role of micro-finance and microenterprise development in improving the status of women entrepreneurs in Nepal and Pakistan. To state that this type of development can bring about a complete social change may be somewhat unrealistic. However, the findings reported show that micro-finance and microenterprise development may serve as a catalyst towards social change and improve the political and social status of women.

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## KEY WORDS

- micro-finance
- microenterprise development
- women's economic empowerment
- women's social empowerment

## J.E.L. CLASSIFICATION

- G29 (Financial institutions and services — other)
- D63 (Welfare economics: equity, justice, equality, and other normative criteria)
- Z13 (Other special topics: social norms and social capital)
- M13 (Business administration: entrepreneurship)

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# 1. BACKGROUND

## 1.1 INTRODUCTION

All over the world women face inequities in different areas of their daily lives. Economic empowerment can serve as a way of lessening the discriminatory gap between men and women.

Both micro-finance and microenterprise development have great potential for empowering women. Moreover, these two economic activities are increasingly targeted and used as tools for poverty alleviation.

The Micro-Credit Summit Campaign presents encouraging figures and data on the rapid growth and expansion of micro-finance programmes all over the world, especially in developing countries.<sup>1</sup> This rapid expansion is due to a general conviction among the international donor community that micro-finance has implicit empowerment potential.<sup>2</sup>

While targeting the poorest of the poor, micro-finance programmes attract a large majority of women clients. Other microcredit programmes have been established exclusively for women, not only because they are more vulnerable than men and represent the poorest of the poor, but because they have proved to be more successful in repaying loans.

Some authors question the extent to which micro-finance benefits women. They highlight cases in Bangladesh<sup>3</sup> where microcredit programmes have had negative consequences for women. However, most studies and publications show that small loans and microenterprise development have a positive impact on the economic empowerment of women. The Nepal and Pakistan studies outlined in this paper reflect both trends.

Micro-finance and microenterprise development are not always 100 per cent successful. However, it is important to note the relatively small percentage of unsuccessful cases compared with the number of successful ones. Many different elements such as social, cultural, and legal factors influence these percentages. They are important determinants of success in empowering women entrepreneurs through micro-finance and microenterprise development.

In the ILO publication *Micro-finance and the empowerment of women*, Linda Mayoux concludes that

...cost-effective ways of integrating micro-finance with other empowerment interventions, including group development and complementary services, are still lacking. Unless empowerment is an integral part of the planning process, the rapid expansion of micro-finance is unlikely to make more than a limited contribution to empowerment.<sup>4</sup>

<sup>1</sup> See MCSC Website at <http://www.microcreditsummit.org>.

<sup>2</sup> Mayoux, 2000.

<sup>3</sup> Goetz and Sen Gupta, 1996; Todd, 1996; Ackerly, 1995.

<sup>4</sup> Mayoux, 2000.

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The two studies in this paper focus on the impact of micro-finance and microenterprise development on the economic empowerment of women and the value of external factors and non-financial services.

## 1.2 OBJECTIVES OF THE REPORT

The objectives of this report are:

- To determine the impact of micro-finance institutions (MFIs) on women-owned enterprises.
- To determine the impact of micro-finance and microenterprise development on women's economic and social empowerment.

The analysis of the two country studies takes account of several factors. These include: 1) the influence and impact of micro-finance institutions on women's enterprises and 2) the influence and effect of micro-finance and microenterprise development on the empowerment of women.

The legal frameworks in Nepal and Pakistan (laws on inheritance, property rights, norms on contracts, etc.) create obstacles and difficulties for potential women entrepreneurs. In addition, local culture, social rules, religion, customs and traditions prevent women from starting and developing businesses. A general profile of the national landscape and non-economic factors in Nepal and Pakistan is presented below.

## 1.3 METHODOLOGY

National consultants compiled the data and an ILO social finance expert carried out a comparative analysis of the two country surveys conducted in Nepal and Pakistan. The national consultants interviewed over 100 women clients from at least three different MFIs per country. The interviewees represent a sample of women clients who had obtained an initial micro-finance loan to start or develop their enterprise activities. Other women clients who had repaid their initial loans and applied for other, presumably larger, loans for business development and expansion were also included in the surveys. The steps women had to take to obtain these additional loans were monitored and analysed.

In selecting MFIs, priority was given to institutions that took into account the achievement of gender equality, empowerment of women, savings (when possible) and self-sustainability. Four MFIs in Nepal and three in Pakistan were contacted. A fourth MFI, the Kash Foundation, provided further information on Pakistan.

## 1.4 DEFINITIONS

This report will refer to the following definitions:

- **Economic empowerment:** Women's access to savings and credit gives them a greater decision-making role. A woman optimizes her own and her household's welfare when she makes decisions pertaining to credit and savings. Investment in a woman's economic activity will improve her employment opportunities and thus have a 'trickle down and out' effect.<sup>5</sup> By providing women with the means to generate their own

<sup>5</sup> Mayoux, 2000.

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income, microenterprise development helps them play a greater economic role in decision making.

- **Social empowerment:** A woman gains more respect and plays a more active role in the family and community through micro-finance and microenterprise development; it provides her with greater economic empowerment and increased self-confidence. A woman becomes more involved in society as a member of women's organizations, professional associations and political parties, adding her contribution to collective decision making.
- **Micro-finance:** Consists of small-scale financial services accessible to poor people (loans, savings, collateral/guarantee, insurance, leasing, remittances, etc.). Micro-finance providers are: MFIs (rarely banks), and especially the informal sector (family and local community). The micro-finance technique is characterized by: non-traditional guarantee/collateral, gradual access of clients to increasing levels of funding within a short period of time, quick and simple procedures, costs covered by clients or by the intermediary institutions.
- **Microenterprise development:** Starting and/or expanding a small business run by a self-employed person who is able to recruit a limited number of employees with time (up to about five people). The growth of the microenterprise may be supported by non-financial services provided to women entrepreneurs through training in different business areas such as marketing, business management, business planning, and accounting.

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## 2. A GENERAL OVERVIEW OF NEPAL AND PAKISTAN

### 2.1 COUNTRY PROFILES

Nepal and Pakistan are countries in Asia that share borders with India. Pakistan is a much larger country than Nepal; its population is estimated at 138 million<sup>6</sup> and the total area is 796,095 square kilometres.<sup>7</sup> The population of Nepal is about 23 million<sup>8</sup> and its total area is 147,181 square kilometres.<sup>9</sup> Despite the different geographical and ecological settings of the two countries, the economy of both Nepal and Pakistan is characterized by the predominance of the agricultural sector. However, in Nepal, agriculture is a larger sector than in Pakistan. In 2001, agricultural production in Nepal accounted for 39.9 per cent of GDP.<sup>10</sup> In 2001 and in 1995, 78.5 per cent of the total population was employed in agriculture.<sup>11</sup> In 1999, the agricultural sector in Pakistan employed 47.3 per cent of the national labour force. In both countries, women account for a large majority of the people working in agriculture. In 1997, women made up 66.3 per cent of the total labour force in Pakistan.<sup>12</sup>

Both countries were expected to have a real GDP growth higher than that of Western states in the year 2001. Real GDP growth for Pakistan was 4.4 per cent in the year 2000 and is estimated at around 3.3 per cent for 2001. As for Nepal, real GDP growth was 6.4 per cent in the year 2000 and was expected to be 5.8 per cent in the year 2001.<sup>13</sup>

Recent events have left both Nepal and Pakistan facing internal political and social problems. In June 2001, Nepal, a constitutional monarchy, had to deal with an unforeseen circumstance when Maoist rebels massacred the royal family. The rebels then intensified their insurgency. A military government leads Pakistan with a strong presence

<sup>6</sup> Source: Newsletter, Regional Centre for Strategic Studies, Colombo, 1998, cited in Shaheen Sardar Ali, 2000.

<sup>7</sup> ESCAP, 1997.

<sup>8</sup> This figure is taken from The Economist Intelligence Unit of August 2001 and corresponds to the result of a rough calculation based on the following data contained in the ESCAP report "Women of Nepal: A Country Profile":

- According to the 1991 census, the total population of Nepal was 18.5 millions;
- During the 1981-1991 decade, the average annual population growth was 2.1 per cent.

<sup>9</sup> ESCAP, 1996.

<sup>10</sup> The Economist Intelligence Unit, August 2001.

<sup>11</sup> KILM indicator, ILO Geneva.

<sup>12</sup> KILM indicators also report that in 1997 the total percentage of people employed in agriculture in Pakistan was 44.2 per cent.

<sup>13</sup> Data from The Economist Intelligence Unit.

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of the Islamic political parties. Moreover, relations between Pakistan and India are unstable and tense.

Islam is the basis for the Pakistani system and 97 per cent of the total population identify themselves as Muslims.<sup>14</sup> The Koran is the main reference for legal, social, political, cultural<sup>15</sup> and economic activities in Pakistan. Nepal is a country with Hindu origins and the percentage of Hindus in the total population in 1981 was 89.5 per cent and 86.5 per cent ten years later.<sup>16</sup> The second largest religion in Nepal is Buddhism, with Buddhists representing about 8 per cent of the Nepalese population in 1991, while most of the remaining 3.5 per cent of the population<sup>17</sup> are Muslims. The Hindus and Buddhists in the country live together, worship each other's deities and celebrate each other's festivals. Although the National Code of 1963 abolished the caste system based on the Hindu Varna, it still constitutes the basis for discrimination in access to positions of power.<sup>18</sup>

## 2.2 WOMEN IN THE ECONOMIC SPHERE

Out of the 9.5 million people who are currently working in Nepal, only 1.5 million (16 per cent) are in paid employment. Out of this number, 1.2 million are men and less than 400,000 are women. Eight million people (about 84 per cent) of the economically active population are self-employed, with the proportion of self-employed women being much higher than that of men.<sup>19</sup> Eighty-two per cent of employed women are self-employed vs. 12 per cent of those who are wage-employed. The figures for men are 69 per cent and 27 per cent respectively.<sup>20</sup> In some ethnic communities, especially in the Newars and Tibeto-Burman highland groups such as the Sherpas, Gurungs or Thakalis, women entrepreneurs have traditionally been present,<sup>21</sup> but the idea of women in business has only recently spread throughout the whole country.<sup>22</sup> Women normally work more hours than men and rural women work more hours than women in urban areas.<sup>23</sup> In 1981, women worked 10.8 hours and 10.9 hours a day in 1995 compared with

<sup>14</sup> Ibid.

<sup>15</sup> As will be seen later on, Pakistani society is dominated by tradition and custom even more than by the Koran itself. For more information, see Shaheen Sardar Ali, 2000.

<sup>16</sup> ESCAP, 1996.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

<sup>19</sup> Central Bureau of Statistics, Report on the Nepal Labour Force Survey, 1998/99.

<sup>20</sup> Tuladhar, 1996.

<sup>21</sup> CEDA, 1981, cited in Tuladhar, 1996.

<sup>22</sup> Tuladhar, 1996.

<sup>23</sup> ESCAP, 1996.

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the 7.8 hours per day for men.<sup>24</sup> The most common business activities for women in the informal sector are vending, petty trade, liquor making and vegetable selling.<sup>25</sup>

In Pakistan, information on women's work seems to be rather under-reported. Women are certainly involved in all activities related to crop production and livestock rearing. Despite social and cultural rules tending to confine women to household activities, empirical research has revealed that women in low-income families are the principal earners and that their income is essential to household subsistence. According to a 1992 survey, female labour force participation was only 16 per cent, compared to 84 per cent for men. Unofficial statistics, however, estimate women's employment at around 20-30 per cent. In rural areas, pay rates for women's work are higher than in urban areas, but remain low in comparison to other Muslim countries. Self-employment is the third largest category of female labour, following unpaid work and waged employment. This is the case in both rural and urban areas. In 1994, Baluchistan was the Pakistani province with the highest rate of self-employed women (42 per cent) followed by the North West Frontier Province (18 per cent).<sup>26</sup>

Although women in both countries face difficulties in becoming economically active, Pakistan seems to have more barriers than Nepal. This is mainly due to religious, cultural and social factors. According to the Koran, "men are supposed to be the providers and maintainers of women".<sup>27</sup> When a woman has to go out of the house to earn money, the men of the household are perceived as incompetent and not masculine. A survey reveals that in certain areas of the country, customary practices allow women to leave their homes only for wedding ceremonies and/or because of a death in the family. Only 8 per cent of the families interviewed let women go out for recreation purposes.<sup>28</sup>

In Pakistan, there is a very clear division of roles between the sexes. This begins in childhood and permeates into the daily life and the daily tasks that individuals perform. Pakistani society is governed by a very strict patriarchal system in which men make decisions and women live under the constant guardianship of their fathers, husbands and sometimes sons.<sup>29</sup>

With the exception of a few communities, Nepalese society is also characterized by a patriarchal system. As in Pakistan, Nepal has a patrilineal inheritance system in which men have control over women's sexuality, and women's mobility is subject to heavy restrictions.<sup>30</sup> The decision-making power of Nepalese women is weak, but the country study considered in this report shows that women generally make their own financial and business decisions to a greater extent than women in Pakistan. Although their level of self-esteem and confidence remains low, the evidence presented in the national studies indicates that in practice the situation of Nepalese women is less constrained than that of Pakistani women. The caste system in Nepal has an impact on gender, placing poor

<sup>24</sup> CEDA, 1981 and SHTRII SHAKTI, 1995 both cited in Tuladhar, 1996.

<sup>25</sup> Census, 1991 in ESCAP, 1996.

<sup>26</sup> ESCAP, 1997.

<sup>27</sup> Shaheen Sardar Ali, 2000.

<sup>28</sup> DCHD Human Situation Report, cited in Shaheen Sardar Ali, 2000.

<sup>29</sup> ESCAP, 1997.

<sup>30</sup> Tuladhar, 1996.

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women in a more advantageous position than those in a higher caste. “Women of the low caste are ritually impure”. “They cannot achieve high status in Hinduism’s prestige system, yet they possess social autonomy and economic power”.<sup>31</sup> Low caste women can move through the villages with no restriction and they are not only socially autonomous, but they can also earn money. Their economic contribution is recognized and they are explicitly more valued than upper caste women.

In Pakistan, cultural practices discriminate strongly against women. Even though Islam grants men and women equal rights, discriminatory customs often prevail. This is true in regard to women’s economic rights. Although Islam ensures access and control over one’s own property and resources regardless of gender, tradition ignores this principle and prohibits women from benefiting from either. In a typical Islamic household, men control all of the resources, even those earned by women. According to the Koran, women are not supposed to use their own resources for the household, because men bear responsibility for household expenses as providers and maintainers. Nevertheless, many female-headed households depend exclusively on women’s earnings.<sup>32</sup>

The Constitutions of both Nepal and Pakistan contain Articles stipulating equal rights for men and women. Since the new Constitution was adopted in 1992, the Government of Nepal has emphasized the need to amend discriminatory legislation. In Pakistan, Article 25 of the 1973 Constitution establishes the equality of men and women before the law and excludes all forms of discrimination based on sex. The very same Article allows affirmative action by the state to protect women and children. In this country, however, many discriminatory laws have been left in force following the general Islamization of society in 1977 when new discriminatory measures were established. The impact of such actions on the economic rights and activities of women is noteworthy. For example, the Koran contains some verses which make it necessary for the evidentiary value of a woman to be corroborated by that of another woman in certain financial transactions reduced to writing.<sup>33</sup> Men, however, do not need to have their convictions backed up by another man. The existing law on evidence and testimony ignored this discriminatory principle until the beginning of Islamization. The influence of Islam introduced amendments that do not prohibit such discrimination.

According to the Koran, a woman is a legal person and can make independent decisions on entering into a contract on the acquisition, disposal and alienation of property. Islamic principles therefore guarantee the right of women to have full possession and control over their own wealth, including their dowry<sup>34</sup> during marriage and after divorce. This is in line with the non-discriminatory provision of Article 25 of the Constitution. Yet, this principle is subordinated to the general gender hierarchy of Islam. The special “duties” granted to men are normally justified by referring to affirmative actions to protect women, as foreseen in Article 25. Customary practices,

<sup>31</sup> Cameron, 1998, p. 6.

<sup>32</sup> Shaheen Sardar Ali, 2000.

<sup>33</sup> Ibid.

<sup>34</sup> Dowry consists of property received by a woman when she marries. In Pakistan, it is given by the husband, while in Nepal this property is given by relatives, friends and neighbours (“daijo”). In Nepal, a woman can also receive property as a gift from her husband, father or brothers (“pewa”). Pewa also includes a woman’s personal earnings. In both countries, dowry is not included in the ancestral property to be shared by the husband’s family.

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however, do not normally allow women to have control over their dowry and property in general.

Inheritance is a source of property acquisition where women are once more discriminated against in the Koran. They are only allowed to receive half of what a man would receive in inheritance. Most Muslim societies ignore this discriminatory principle, but in Pakistan it is well applied. In addition, especially in rural Pakistan, women do not have the right to inheritance at all, and if they do, they have no control over their acquired property.

Nepalese law also follows the patriarchal transmission of property and reflects the discriminatory conception of women. Nevertheless, some improvement has been seen over time. In 1976, the Civil Code was amended to establish equal rights for men and women on property law and inheritance. Some limitations on equality between men and women still exist, and control over the acquired property remains under male authority (father, brother or son). At present, these laws are still under revision: some changes to the National Code (11<sup>th</sup> Amendment Bill and Women's Rights) are being considered. The suggested changes include provisions that are likely to have a positive economic impact on women. Daughters and sons are equally entitled to inherit the ancestral property. Previously, only unmarried daughters over 35 had this right. However, under the newly proposed provisions, at a certain point in time, daughters are requested to return their share of property to their brothers, because women are now entitled to inherit their husband's property. Inheritance rights are now granted to divorced women as well. Although these changes improve women's legal situation, some discriminatory clauses are still in place. Moreover, the Lower House of Parliament passed the new amendments, but so far, the National Assembly has rejected them.

In contrast to Pakistan, Nepalese women enjoy full control over property which they own directly or which they acquire through dowry. Moreover, several Nepalese communities follow practices granting men and women equal property and inheritance rights, ignoring discriminatory legislation based on Hindu principles.<sup>35</sup>

Both in Nepal and in Pakistan, women are economically dependent on men, mainly as a result of the lack of property and inheritance rights. Women do not dispose of any capital to start a business and cannot offer collateral to financial institutions in order to obtain a loan. Although women are theoretically equal to men in access to credit, in practice there are many social and cultural barriers to their financial activities.

In Pakistan, it is believed that women need to be guided by men in financial matters. In addition, there are mobility restrictions, for example, women have problems with transport to reach financial institutions and with rules which restrict them from leaving their homes during certain hours. Another obstacle is that lending institutions do not have enough female staff to deal with women clients; women feel intimidated by male staff. It is reported that Pakistani banks disburse loans to women in a percentage varying between 0.1 and 0.5.<sup>36</sup> To improve the economic status of women, the Pakistani Government established a bank for women. This institution is totally controlled, managed and run by women. Despite the high repayment rate, most women still have difficulty meeting collateral and equity requirements for loans. Another criticism of the institution is that it

<sup>35</sup> Tuladhar, 1996 and updated comments from the same author (December 2001).

<sup>36</sup> This percentage refers to the number of loans disbursed.

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reaches only a few women in rural areas.<sup>37</sup> Despite some of these shortcomings, micro-finance programmes seem to be the best option for women in Pakistan.

The attitude towards women in Nepalese society and in banks is not very different from that of traditional financial institutions in Pakistan. Due to mistrust of women entrepreneurs, bankers ask for additional guarantees of male guardians even when women offer adequate collateral. The problem is perpetuated by the long and complicated procedures for loan applications at banks and the women's low level of self-confidence, lack of skills and education.<sup>38</sup> Moreover, working women are perceived as a negative factor for the status of the family. Therefore, women tend to work only when it is absolutely necessary for household subsistence. However, as in the case of Pakistan, despite the social and cultural hurdles, working women in Nepal enjoy control over some resources and the social and spatial mobility they acquire.<sup>39</sup>

## 2.3 MICRO-FINANCE INSTITUTIONS

In Nepal, less than 10 per cent of households<sup>40</sup> borrow money from formal institutions, the situation being particularly unfavourable for people living in the hills and mountains. There is a demand for small-size loans supported by small savings; this type of demand, coupled with high transaction costs, resulted in a concentration of financial institutions in urban areas and accessible regions of the country. In the 1980s, the Government initiated the first microcredit programmes targeting women (Production Credit for Rural Women, Microcredit Project for Women). Through the Microcredit Project for Women, more than 90 NGOs were institutionally strengthened to function as social mobilizers for financial intermediation and ultimately as MFIs themselves to increase the outreach and adequacy of credit services to remote regions of Nepal. The Small Farmers' Development Programme was the first initiative where self-help groups were formed and collateral-free loans were provided to women.

Micro-finance in Nepal does not focus on sustainability; it is rather conceived as a tool to provide social services and it is often reduced to a microcredit component in broader projects and programmes for social development.<sup>41</sup> Repayment rates are low because MF programmes are perceived as public-sector activities; subsidies are seen as indispensable.

In Nepal, apart from some government initiatives with a microcredit component (normally granting loans without collateral), micro-finance programmes can be divided into four categories: Grameen Bank replications (five Grameen Bikas Bank, Nirdhan Uthan Bank and Center for Self-Help Development), small farmers' cooperatives (101 exist at present), credit and savings cooperatives (over 1500) and NGOs operating as financial intermediaries (15 as of June 2001). In most cases, women are the target group because: women invest their resources in the household (food, health, shelter, children's education) more than men; women are better repayers than men; women in rural Nepal

<sup>37</sup> Shaheen Sardar Ali, 2000.

<sup>38</sup> Tuladhar, 1996.

<sup>39</sup> Ibid with additional, updated comments from the same author, December 2001.

<sup>40</sup> The term "household" here implies that credit is used for any purpose (productive, consumptive or other).

<sup>41</sup> Nara Hari Dhakal, 2001, integral version of the study (unpublished).

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use the solidarity schemes adopted by MFIs much more than men; the techniques and the products offered by MFIs make credit more attractive to women; the policy of the Nepalese Government in support of women (especially poor women) and women's rights favours credit as a tool for policy implementation.

In Pakistan, less than 14 per cent of the total credit demand is met by formal financial institutions. Moreover, it is estimated that micro-finance services do not reach even 2 per cent of potential beneficiaries.<sup>42</sup> About 80 per cent of the people in need of financial resources borrow from the informal sector. The Government has started a number of programmes with a micro-credit component and policy to rescue these borrowers and to follow the positive micro-finance trend. The need for credit has emerged from the rural sector since Pakistan's independence, when the national Government started to develop credit activities in this sector.

In Pakistan, micro-finance experiences are recent and limited in outreach and scope, although they are now expanding rapidly. A few NGOs have established small micro-finance programmes in different parts of the country since the eighties and particularly in the nineties. In very recent years, the Government has perceived micro-finance as a tool for poverty alleviation through programmes with a special focus on women. However, it is too early for the impact of these initiatives on Pakistani society to be felt.

According to Hijazi, micro-finance, in its current worldwide definition, is accepted with difficulty in Pakistan and requires some adaptation to the Islamic culture. The main obstacle is that Islam forbids interest-based lending. Hijazi asserts that in Pakistan, micro-finance should be reorganized through the "profit-loss sharing" system.<sup>43</sup> It is important to note, however, that micro-finance programmes have been created and rapidly expanded in many Muslim states, with no drastic change in the original structure of micro-finance services.<sup>44</sup> Furthermore, Pakistan was planning until recently to carry out a deep Islamic reform of the national financial system.<sup>45</sup> This reform was scheduled to take place in July 2002. Some MF programmes are reported to be functioning successfully in Pakistan and have shown their commitment to achieving professional and successful performance through the creation of a common monitoring network.<sup>46</sup>

<sup>42</sup> Syed Tahir Hijazi, 2001, integral version of the study (unpublished).

<sup>43</sup> This system is based on an agreement between business partners, which states the percentage according to which business profit and losses will be shared between the same partners. This mechanism is used as a substitute for interest rates in some Islamic countries.

<sup>44</sup> Morocco, Egypt, Jordan and Tunisia are examples.

<sup>45</sup> The Economist Intelligence Unit, 2001.

<sup>46</sup> Information provided by the Kash Foundation.

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### **3. GENERAL FINDINGS FROM THE COUNTRY STUDIES**

The country studies on micro-finance, microenterprise development and the economic empowerment of women in Nepal and Pakistan focused on a number of common issues:

- Credit and savings services, particularly loans requested and obtained by women; attention was also paid to additional loans granted after the first one and to difficulties encountered in obtaining credit.
- The nature of the enterprise started or expanded after receiving loans.
- The status of the woman entrepreneur.
- The household relations of the woman entrepreneur.
- The provision of microenterprise and business development services.
- The woman borrower's family and household situation.

The paragraphs below present data on each of the above topics. In some cases, data on Pakistan have been enriched with information provided by a Pakistani MFI, the Kash Foundation.<sup>47</sup>

#### **3.1 CREDIT AND SAVINGS SERVICES FOR WOMEN**

##### **3.1.1 CREDIT SERVICES**

In both countries, the percentage of women obtaining their first loan is fairly high: 50 per cent in Nepal and 33 per cent in Pakistan. This may imply that:

- Demand for credit services for women is still higher than supply and is therefore far from being fully met, particularly in Nepal.
- As social change takes place, increasing attention is paid to women entrepreneurs and financial services are being specifically designed for them. For reasons mentioned in previous paragraphs, this change is less evident in Pakistan than in Nepal, where the Government has adopted a strong policy in support of women. In contrast, although micro-finance is a rapidly growing sector in Pakistan, it is not very well-known and there are few initiatives in this field.

The number of women requesting additional loans is very high in both Pakistan and Nepal: 84 per cent in Nepal and 76 per cent in Pakistan. Although the percentage refers to loan requests and not to additional loans obtained in Pakistan, this means that:

- Women entrepreneurs not only need credit, but they also appreciate micro-loans; they quickly become accustomed to using them, and benefit from this type of credit.
- Microcredit is a very important tool for business development, as confirmed by the use that women make of it. In Pakistan, 44 per cent of women obtain loans during the

<sup>47</sup> The Kash Foundation is a micro-finance programme which was launched in 1996. It currently has 15,000 women clients and is planning to reach 50,000 people in the near future. This MFI follows CGAP and SEEP standards and indicators, and maintains solid links with both international organizations. The Kash Foundation has carried out some impact studies and pays particular attention to women's empowerment.

second year of business activity, meaning that credit is crucial for expanding the enterprise. In Nepal, 75 per cent of women use their additional loans for business expansion. Interestingly, the study on Pakistan shows that the number of women applying for loans decreases after the second year of business activity (only 2 per cent when the enterprise is five years old). This trend implies that it is not possible to further develop the business after a certain point. Cultural factors may play a role by forcing women entrepreneurs to keep a low profile and to maintain their gender role as caretakers of family and household.

The size of the initial loan is similar in the two countries: about US\$ 156 for Pakistan and about US\$ 125 for Nepal. In both countries, additional loans are larger and are the chief motivation for clients to repay their first in full and on time. In Nepal, 83 per cent of women claim that they repay their initial loan in order to get another, larger one, and in Pakistan, 58 per cent of women clients say the same. Repaying the first loan in full and on time is usually a requirement for a further loan.

**Table 1: General information on loans**

Country	Women getting first loan	Size of initial loan	Women requesting additional loan	Women repaying in full and on time to get additional loans
Nepal	50%	US\$ 125	84%	83%
Pakistan	33%	US\$ 156	76%	58%

In neither country is the repayment rate particularly encouraging: only 75 per cent in Pakistan and in Nepal, 84 per cent of clients paid in full and 88 per cent paid on time. Some factors accounting for this poor performance may be:

- Micro-finance is perceived as a public sector initiative and there are no real sanctions if the money is not repaid: this is the perception in Nepal. We can draw similar conclusions for Pakistan; according to information provided by Hijazi, the Government is heavily involved in the promotion of financial activities, and it initiates the majority of micro-finance programmes.<sup>48</sup> Therefore, there are few programmes run by other actors.
- Micro-finance institutions are poorly managed. If MFI staff members do not have the capacity to analyse financial projects and if they cannot assess the risks properly, a good repayment rate is unlikely. In the case of Nepal, 13 per cent of clients claimed they had encountered difficulties in repaying due to the “low sale/poor management” and 15 per cent because of the “difficult and strict loan terms”. For Pakistan, 10 per cent of clients complained of the excessively high instalments and 27 per cent of the short duration of loans. Twenty-eight per cent of potential default cases in Nepal and 37 per cent in Pakistan can be attributed to the failure of the MFI to assess the risk and judge the client’s capacity to repay. If micro-finance is conceived as an assistance tool for poverty alleviation, MFIs will be seen as vehicles to channel money to the poor regardless of any sound economic logic. On the other hand, if micro-finance is considered to be a self-sustainable and lasting mechanism, it can help the poor become economically active, thus contributing to the global economic and social development of the country. Therefore, much more emphasis should be put on MFIs and on their technical and professional management.

<sup>48</sup> Informal sources in Pakistan have indicated that private initiatives in the field of micro-finance are not so rare; in particular, a micro-finance bank (MFB) has been created as a result of the Aga Khan Rural Support Programme (AKRSP).

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In both countries, loans are relatively long-term due to the fact that the MFIs deal with clients from rural areas. The average loan duration is close to two years and instalments can be weekly, quarterly or more commonly monthly. MFIs adopt different techniques to contact clients in the case of late repayment. In Nepal, the most common method is to have a staff member visit clients (75 per cent) and to send written reminders (16 per cent). In Pakistan, the most common method is to impose a penalty (18 per cent), followed by group pressure (6 per cent). In both countries, almost all the clients claim that MFIs follow these procedures strictly. From this information, one can conclude that Nepalese MFIs use their staff more actively in loan recovery than MFIs in Pakistan. Given the higher repayment rate reported for Nepal, the direct and personal approach seems to offer some advantages. However, operating expenses must be higher for Nepalese MFIs, owing to the high cost of reaching clients in rural areas.

The screening of loan applications takes a relatively long time in both countries: between 8 and 36 days in Nepal and between 1.8 weeks and 6 weeks in Pakistan. This lengthy period is due to logistical and practical difficulties in rural areas.

In both countries, almost all loan applications are approved according to the terms and conditions suggested by the client, as long as they do not conflict with the requirements of the financial institution. In Pakistan, most MFIs encourage the formation of client groups; the MFI works with these groups throughout the application process. Moreover, the loan amount is decided jointly, so that the client receives the requested amount in full.

Given the low repayment rate and the high cost of MFI activities, the interest charged in most cases (between 10 per cent and 20 per cent) may not ensure self-sustainability. Low interest rates result from the assumption that the poor cannot afford to pay higher rates. However, the data from the two country studies indicate that high-interest credit from the informal sector is a viable and utilized option. About 15 per cent of MF clients in Nepal and 28 per cent of women borrowers in Pakistan receive credit from informal sources aside from the MFI loans. The most common reasons for borrowing from informal sources are: easy access, quick service, certainty, absence of collateral requirements, simple procedures with no documentation, flexible conditions and no ceiling for the loan size. Forty-five per cent of women in Pakistan borrowed from informal sources, due to a lack of information on MFIs. Such behaviour can be attributed to the new and limited experience of MF in the country, assuming that these women used to borrow from the informal sector before becoming MFI clients. In Nepal, two of the four MFIs selected for interview (NUB and SFCL) have fewer clients borrowing from informal sources. This trend may reflect the fact that these institutions serve the very poor (indicated by the author of the Nepal study), but there may be other factors to consider:

- The data reveal that NUB, a Grameen Bank replication, makes more personal contacts with clients who are late in making their repayments than the other three MFIs. Furthermore, in regard to SFCL, a small farmers' cooperative, it can be assumed that personal contacts are frequent. Informal money-lenders have an advantage over formal institutions in their presence and availability; they have constant and regular contacts with clients and potential clients. Credit is provided immediately, loans can be reimbursed without incurring penalty fees simply because the financial institution is difficult to reach. Even if money-lenders charge more, the benefits of the service they offer and the short duration of loans make it worth the price. These aspects are particularly important in rural areas, where distance is often an impediment.
- MFIs usually provide loans for productive purposes. However, most Nepalese women utilize loans from informal sources for other purposes, such as consumption, emergency needs or social obligations. Therefore, it would be reasonable for formal institutions to offer flexible and multipurpose products. Some MFIs are moving into

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this area: in Pakistan, the Kash Foundation recently launched a Consumption Loan service based on a credit card system allowing clients to withdraw small amounts of cash. It allows the clients to repay their loans in small instalments over a period of six months. However, there are risk factors associated with such a system. The primary risk entails disbursement procedures, which are decentralized to the field. In order to minimize risks for the MFI, while maximizing services for clients, some features of this product will be improved.<sup>49</sup> Some MFIs allow their clients to utilize part of their loan for non-productive purposes,<sup>50</sup> as well as developing special arrangements to cater for non-productive needs. In order to meet the expenses associated with birth, death, marriage, celebrations, and illness, women often turn to informal sources and fall into debt. Therefore, flexible and multipurpose financial products are a necessity.

### **3.1.2 BARRIERS TO CREDIT SERVICES**

Women entrepreneurs who want to borrow money from formal institutions face significant problems with collateral requirements. In the case of Nepal and Pakistan, women suffer discrimination in dealing with property and land, and MFIs are trying to offer acceptable alternatives to physical collateral. However, a third of the women in Nepal claimed that an MFI rejected their first loan application because they could not offer collateral. The policy of the four Nepalese MFIs in our national study is to make loans without insisting on physical collateral. However, in 41 per cent of cases, MFIs required physical collateral in practice. In Pakistan, only about 15 per cent of MFIs requested physical collateral from their clients. The low rate may be attributed to the more stringent legal restrictions on women. A survey conducted by the Kash Foundation shows that out of 208 Pakistani women, 94 per cent do not own any land aside from their homes (they may or may not own the house in which they live). The 6 per cent of women who own land (aside from their homes) are unsure of their property rights.<sup>51</sup>

In Nepal and Pakistan, physical collateral consists of buildings and land. In Pakistan, out of the 104 women interviewed for the national report presented here, only two were able to provide land as collateral. In Nepal, only 1 per cent of women could offer buildings as collateral, as opposed to 40 per cent of women who could offer land.

MFIs in Pakistan encourage their clients to form groups before applying for loans. In 47 per cent of cases Pakistani financial institutions accept social capital or personal joint-guarantee schemes. Around 135 clients had to provide additional physical collateral (buildings) aside from the social capital. In Nepal, the percentage of women utilizing personal guarantee is higher (59 per cent), however, this also includes savings as collateral. The data on Pakistan show that MFIs do not confiscate savings as sanction in case of late repayment. At the same time, in 10 per cent of the cases, cash is indicated as collateral.

In both countries women entrepreneurs face additional difficulty in applying for a loan — 61 per cent in Nepal and a large majority in Pakistan. Pakistani clients claimed that filling out loan application forms was a major problem, even with MFI assistance in

<sup>49</sup> Kash Foundation: 'Towards the economic empowerment of women', Quarterly Report, October-December 2001, Vol. 04 No. 04, Lahore, Pakistan.

<sup>50</sup> FACES is a small MFI in Loja, Ecuador, which allows 10 per cent of its loans to be used for non-productive purposes.

<sup>51</sup> Shazia Ali Khan, *Poverty assessment study: Study of Kash's current client profile*, Discussion Paper Series, Discussion Paper 7, July 2001, Lahore, Pakistan.

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the application process. In Nepal, 56 per cent of borrowers found it difficult to fill out application forms and turned to family members or outsiders for assistance. The illiteracy rate among women is extremely high in both countries; 23 per cent of the women in Pakistan were literate, while in 1991 the corresponding figure for Nepal was 25 per cent.<sup>52</sup> In urban areas, illiterate women can easily go to an MFI and have an interviewer fill out the application form. In rural areas this process involves high transaction costs, both for the client and for the MFI. The literacy rate of the Nepalese clients interviewed is relatively high (66 per cent). However, clients still encountered difficulties with the application forms; knowing how to read and write was not enough to provide the information required.

### **3.1.3 DECISION MAKING ON LOANS AND ON THE USE OF LOANS**

Aspects of financial access are particularly important in measuring the impact of micro-finance and microenterprise development on the economic empowerment of women. Determining the decision-making power between men and women is essential, as it provides a deeper understanding of the dynamics of a male-dominated culture, which encourages discrimination against women. This knowledge and awareness can help in the development of specific tools, in this case access to financial resources and business development, to alleviate such discrimination and empower women.

The impact of micro-finance seems to have a greater effect on Nepalese women than on Pakistani women. The discrepancy may be attributed to the following factors:

- The cultural environment plays a crucial role in the impact that micro-finance can have on the economic empowerment of women. The effect is much reduced in a context in which women are discriminated against and considered inferior to men. However, even in such an environment, micro-finance has managed to empower a limited number of women.
- In countries where women and men are granted equal legal rights, micro-finance can be more effective in empowering women. This is particularly important in dealing with collateral since MFIs may require physical collateral.
- Government policy on the status of women and on poverty alleviation plays an important role in empowering women through micro-finance.

The above-mentioned factors will be further discussed below. It may be worthwhile here to compare data in Nepal and Pakistan with respect to decision-making on loans and the use of loans.

In Nepal, a large majority of MF clients (79 per cent) make their own financial decisions. Fourteen per cent make decisions jointly with their husbands; this is not necessarily a negative indicator, provided that the decision was truly made together by the husband and wife.

In Pakistan, the situation is quite different. All of the clients interviewed were women; 91 per cent of the women have their loans registered under their own name. In at least 5 per cent of cases the husbands are officially the beneficiaries of credit, but women are responsible for repayment. In Nepal, 14 per cent of the women entrepreneurs made decisions jointly with their husband. In Pakistan, there were no joint decisions; in 46 per cent of the cases husbands were the sole decision makers. Thirty-seven per cent of the

<sup>52</sup> Shaheen Sardar Ali, 2000; Tuladhar, 1996.

women made their own decisions. In 14 per cent of cases, fathers decided that the husband would be the decision maker. This reflects the findings of a survey conducted by the Kash Foundation; 36 per cent of clients obtained loans on their own or in a venture involving another family member. All the women interviewed stated that their self-confidence had improved and that they felt positive about their role and responsibility in obtaining loans.<sup>53</sup>

**Table 2: Power and control over resources**

Country	Women make financial decisions by themselves	Women make financial decisions with their husband	Husbands decide on women's loans	Enterprises registered in women clients' names
Nepal	79%	14%	0	93%
Pakistan	37%	0	46%	65%

The national study by Hijazi finds that 65 per cent of Pakistani women have an enterprise registered in their names. This figure indicates that approximately 26 per cent of Pakistani MF clients borrow money to invest in a business which they do not fully own. Women clients own around 16 per cent of the enterprises jointly with their husband and around 10 per cent with their family (most likely with their father). If 65 per cent of women own their enterprise and only 37 per cent of MF clients decide independently on financial matters, it can be inferred that 28 per cent of women entrepreneurs have a business registered under their own name. However, women clients cannot fully decide on financial matters on their own; they are liable for decisions which do not depend solely on themselves. This can be a negative development in at least two respects:

- The economic empowerment of women through micro-finance and microenterprise development is a direct consequence of women's personal decision making. The empowerment process begins when a poor woman, who lacks self-confidence, borrows a small amount of money to invest in her own little business. Since she is personally managing the microenterprise, she knows her business, she knows best how to invest the money she obtained from her first loan and she is successful, both in repaying and in improving her business. She therefore gains confidence and borrows a larger sum of money, which she uses according to the needs of her enterprise; she normally has the conviction that nobody knows better than herself how to use the money for the business, because she knows her enterprise better than anybody else. If a Pakistani woman entrepreneur borrows money, but cannot personally decide on how to use it for the business, it will be rather difficult for her to gain self-confidence and be economically empowered.
- A microenterprise managed by a person who does not make financial decisions is unlikely to be a successful business. This may be a factor in the poor repayment performance of Pakistani MF clients. The most direct consequence of a poor repayment rate is the unsustainability of MFIs over time, which leads to the uncertain availability of financial services, favours informal sources of financing and impedes the development of enterprises.

In Nepal, the situation seems to be more encouraging. Seventy-four per cent of women clients decide for themselves on the use of loans. Husbands are involved in the decision-making process in 16 per cent of cases, and in 10 per cent of cases, other family members (including fathers, mothers and children) are involved. Furthermore, 93 per cent of women entrepreneurs own the business they manage. In 5 per cent of cases, husbands own the business and in 2 per cent of cases other family members own it. Over

<sup>53</sup> Shazia Ali Khan, *Poverty assessment study: Study of Kash's current client profile*, 2001.

70 per cent of Nepalese women entrepreneurs claim that they make their own decisions about their business and the use of profit. Twenty-five per cent make decisions jointly with their husband on the use of additional income.

### 3.1.4 SAVINGS SERVICES

The stability of MFIs depends on their equity and their refinancing capacity. Savings mobilization is said to be an essential element in the long-term sustainability of financial institutions. Both in Nepal and in Pakistan savings services seem to be a major priority for the MFIs under consideration.

In Nepal, when legislation does not allow particular institutions to collect savings, MFIs provide indirect savings services by promoting independent savings groups for their clients. Clients receive returns at a nominal 8 per cent average rate per year. Savings are usually compulsory, although voluntary schemes also exist.

In Pakistan, the MFIs surveyed offer savings services on a voluntary basis. The Kash Foundation is one example. According to data reported by this Pakistani MFI, 76 per cent of its clients increased their savings capacity, especially in rural areas. Savings are used for business and emergency situations (health problems, death, etc.).<sup>54</sup> From a survey conducted by the Kash Foundation on 208 MF clients, a preference for saving through committees (46 per cent) emerged in addition to savings with Kash. Around 14 per cent of women reported that they liked to “simply put money aside in the house”, and only 0.5 per cent of clients said that after saving with Kash, “they had enough resources to save through committees and also keep some petty cash at home”.<sup>55</sup>

## 3.2 MICROENTERPRISE DEVELOPMENT

There are similarities between the women entrepreneurs in Nepal and Pakistan with respect to the type of business activities developed. It is reported that agriculture and manufacturing make up 65 per cent of total economic activities in Nepal and 70 per cent in Pakistan. There are more agro-based enterprises in Nepal than in Pakistan (61 per cent vs. 40 per cent). In both countries, agriculture seems to be the sector where most new enterprises are created. Services are the second largest business area for enterprises in both countries (35 per cent in Nepal and 30 per cent in Pakistan).

MFIs helped women to start their business (10 per cent in Nepal and 22 per cent in Pakistan). In both cases, assistance from other agencies/institutions is also reported, but to a much larger degree in Pakistan (3 per cent in Nepal and 11 per cent in Pakistan).

**Table 3: Assistance received by women in starting an enterprise in Nepal and Pakistan**

Country	Assisted by MFIs	Assisted by other agencies	Assisted by the family	Self-motivated and self-help
Nepal	10%	3%	4%	28%
Pakistan	22%	11%	8%	35%

<sup>54</sup> Shazia Ali Khan, *Kash Foundation, impact assessment study: Analysis of Kash's microfinance and Dastkaari programme on clients' socio-economic lives*, Discussion Paper Series, Discussion Paper 9, December 2001, Lahore, Pakistan.

<sup>55</sup> Shazia Ali Khan, *Poverty assessment study: Study of Kash's current client profile*, 2001.

It is interesting to observe the difference in the role of husbands. In Nepal, husbands encouraged 58 per cent of the women to start their business. In Pakistan, two figures can be considered for comparison: 5 per cent of the husbands assisted women in a similar process<sup>56</sup> and 40 per cent of the husbands gave moral support to their wives.<sup>57</sup> Family members supported Nepalese women in 4 per cent of cases and Pakistani women in 8 per cent of cases. Thirty-five per cent of Pakistani female entrepreneurs were self-motivated and received no support, compared with 28 per cent in Nepal.

In both countries, in the large majority of cases (96 per cent in Nepal and 90 per cent in Pakistan), micro-finance had a positive impact on microenterprises.<sup>58</sup> Profit increased (26 per cent in Nepal and 70 per cent in Pakistan),<sup>59</sup> and sales improved (55 per cent in Nepal and 38 per cent in Pakistan).

**Table 4: Impact of micro-finance on women’s enterprises in Nepal and Pakistan**

Country	Positive impact	Profit increased	Sales increased
Nepal	96%	26%	55%
Pakistan	90%	70%	38%

The impact of micro-finance on job creation is similar in the two countries. In Nepal, new paid jobs are generated in 28 per cent of cases compared with 26 per cent in Pakistan; microenterprise employment comprises of both full-time and part-time positions. Out of the total jobs, 25 per cent are part-time in Pakistan against only 6 per cent in Nepal. However, both part-time and full-time employees are working in about 55 per cent of the enterprises.

**Table 5: Job creation through micro-finance**

Country	Percentage of cases with new jobs created	Average number of employed persons per micro-enterprise	Percentage job increase
Nepal	28%	3.3	57%
Pakistan	26%	3.1	Similar

Microenterprises employ an average of 3.3 persons in Nepal, compared with 3.1 in Pakistan. It is estimated that in Nepal jobs increased by 57 per cent after micro-finance services became accessible. Given that figures on new jobs created are similar for Pakistan, we can assume that the average size of Pakistani microenterprise in number of employed persons increased by about the same percentage.

<sup>56</sup> Data reported do not seem to refer to exactly the same circumstance.

<sup>57</sup> The author of the study points out that this percentage is very low given that this was a “yes or no” question. We can almost conclude that 60 per cent of women worked without their husbands’ approval.

<sup>58</sup> Given that most loans were requested for business expansion (84 per cent of cases in Nepal and 64 per cent of cases in Pakistan), we assume here that micro-finance has a direct impact on microenterprise development.

<sup>59</sup> This is similar to the figure provided by the Kash Foundation, where 73 per cent of clients reported a profit increase. See Shazia Ali Khan, *Impact assessment study: Analysis of Kash’s microfinance and Dastkaari programme on clients’ socio-economic lives*, Discussion Paper Series, Discussion Paper 9, December 2001, Lahore, Pakistan.

Although evidence shows that women expand their enterprise up to a certain point and then keep borrowing for their husbands' business,<sup>60</sup> in both countries the percentage of female entrepreneurs planning to expand their enterprise is still quite high (84 per cent in Nepal and 64 per cent in Pakistan).<sup>61</sup>

**Table 6: Children working in women's enterprises**

Country	Percentage of children working in their mothers' enterprise	Average age of children working in their mothers' enterprise
Nepal	43%	11
Pakistan	7%	16

More children work in their mothers' business in Nepal (43 per cent) than in Pakistan (about 7 per cent). Moreover, the working age of children is much lower in Nepal than in Pakistan. The average age of Nepalese working children is 11 years. Although there is about the same proportion of girls and boys, the girls are usually younger than the boys. In Pakistan, the average age of working children is 16 years and the boys make up around 72 per cent of working children.

### 3.3 WOMEN ENTREPRENEURS

The average number of working hours per day for women entrepreneurs is not particularly high in Nepal. No figure is reported for Pakistan. It is nevertheless important to consider that for many women in rural areas, business activities are not the only type of work. In Nepal 87 per cent of the women work on their business in addition to other activities. In both countries, however, work hours increase as the enterprise expands. This is the case for 64 per cent of Pakistani female entrepreneurs and for 59 per cent of those in Nepal.

**Table 7: Working hours for women entrepreneurs**

Country	Business expansion = more working hours	Women helped by husbands in household activities	Women coping with double work
Nepal	59%	91%	26%
Pakistan	64%	20%	33%

There are obviously some repercussions on the number of hours spent on housework. In Nepal, 91 per cent of women share household duties with their husband. Four per cent of Nepalese female entrepreneurs hire people to take care of household duties, providing a new source of employment indirectly linked to enterprise development.

According to the report on Pakistan by Hijazi, husbands help with housework in 20 per cent of cases. It is quite common for fathers in Nepal to take care of children when women work, but in Pakistan it is unusual for men to be involved in household duties. About 78 per cent of Nepalese women claim that spouses and other family members are

<sup>60</sup> See the conclusions of the study on Nepal.

<sup>61</sup> This is similar to the figure in the *Poverty assessment study* of the Kash Foundation by Shazia Ali Khan, where 60 per cent of clients invest loans to expand their businesses.

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increasingly taking on household duties. However, it is still common to find women doing double work (33 per cent in Pakistan, 26 per cent in Nepal).

In both countries, micro-finance improved the status of women entrepreneurs considerably. This is the case for 71 per cent of Pakistani MF clients. In Nepal, 94 per cent of women gained self-confidence and 46 per cent improved their status in their families and communities through their participation in MFI activities. The information provided by the Pakistani study on this matter is particularly interesting, because it shows that social change through micro-finance and microenterprise development takes place in many different aspects of a woman's life, and not in a very obvious way. About 40 per cent of Pakistani MF clients feel more self-confident, 25 per cent think their image has improved, 42 per cent believe their opinions are taken more seriously and 16 per cent are more involved in household matters and in decision making. These encouraging figures are supported by the findings of an impact study carried out by the Kash Foundation in Pakistan: over 80 per cent of the women interviewed claimed that "their opinions of themselves had completely changed. They felt that they were much more in control of their lives than before".<sup>62</sup>

According to Hijazi's report, 69 per cent of Pakistani women feel their knowledge has improved as a result of group meetings, 29 per cent understand business-related issues better, 19 per cent have improved their communication skills and 23 per cent have acquired better financial and management skills. From the Kash Foundation's impact study, the formation of groups "helps create a forum through which women interact, access products and services and also receive life management skills on leadership, gender and reproductive health."<sup>63</sup> "Women demonstrated great satisfaction in 'owning' a place where they could come every fortnight, leaving the troubles of their everyday life behind."<sup>64</sup>

Group meetings are also organized in Nepal, where more emphasis is put on participation in MFI activities, such as workshops. It appears that group meetings may enhance a woman's self-confidence through activities such as discussions on gender-related issues. Around 61 per cent of women are involved in MFI activities; 46 per cent of clients report that their status in their families and communities has improved remarkably as a result of their participation in MFI activities. Participation of female clients in MFI activities in Pakistan is about the same as in Nepal (63 per cent). In both countries, the very same institutions encourage women's participation in MFI activities. Interestingly, the percentage of women holding a position within an MFI is only 7 per cent in both countries.

<sup>62</sup> Shazia Ali Khan, *Impact assessment study*.

<sup>63</sup> Ibid.

<sup>64</sup> Ibid.

**Table 8: Impact of micro-finance and microenterprise development on the social sphere of women's lives**

Country	Cases in which the social status of women entrepreneurs has improved	Percentage of female participation in MFI activities	Percentage of women holding positions within MFIs
Nepal	70%	63%	7%
Pakistan	71%	63%	7%

MFIs in Pakistan make more effort to put clients in contact with other associations or organizations than in Nepal. Around 7 per cent of Nepalese women entrepreneurs belong to professional associations; 15 per cent are members of other associations, such as local government organizations and political parties.

### 3.4 HOUSEHOLD RELATIONS

Family relations improved for 86 per cent of Pakistani women after they became involved in MF activities and enterprise development. Given the data in paragraph 3.1.3 on women's decision making in Pakistan, there are indications that social changes are being made incrementally in favour of women. Respect for women seems to be increasing and 68 per cent of female MF clients are becoming more autonomous in making decisions on their financial resources. According to the Kash Foundation's impact study, although all women interviewed believed that financial responsibility for family matters should be shared between husband and wife, around 67 per cent of these MF clients actually experienced this.<sup>65</sup> According to Hijazi's report, in 33 per cent of the cases in Pakistan, husbands and family members (normally fathers) made all the decisions on women's loans and enterprises.

In contrast, 83 per cent of Nepalese women make their own financial and business decisions. In 91 per cent of cases, husbands give assistance in business matters, such as stock management, marketing, confidence building, risk sharing and maintaining high profitability. In around 35 per cent of cases in Pakistan, husbands help women entrepreneurs with similar tasks.

### 3.5 NON-FINANCIAL SERVICES

There are few non-financial services available to help women entrepreneurs with management and business development. Pakistani MFIs appear to be more active in this regard than those in Nepal. Around 30 per cent of Pakistani entrepreneurs attend training courses organized by their MFI. In Nepal, only around 2 per cent of women follow such training, even though 25 per cent of clients would like to receive this service. Pakistani MFIs appear to be more active than Nepalese financial institutions in assisting clients from the beginning of their economic activities (22 per cent of Pakistani clients received assistance compared with 10 per cent of Nepalese women). More agencies and institutions assisted clients in Pakistan (11 per cent) than in Nepal (3 per cent).

Although training is needed, especially in Nepal, MFIs prefer to focus on financial services. Some financial institutions refer clients to other specialized agencies for business development training. At times, they establish partnerships with such training institutions. An MFI may encounter institutional sustainability problems by adding non-

<sup>65</sup> Ibid.

financial services to the range of financial products that it offers. MFIs deciding to provide non-financial services must be careful with the organization, funding and management of financial and non-financial programmes. There are usually distinctions between the different components of activities (financial and non-financial), with training programmes financed by external funds. By doing so, the cost of business and enterprise development services are not covered by the relatively high interest rate of financial services.

### 3.6 FAMILY AND HOUSEHOLD SITUATION

In both countries, women's family and household situations improved as a result of receiving credit (90 per cent in Nepal and 75 per cent in Pakistan). In Nepal, 54 per cent of women experienced a higher weekly cash flow. In Pakistan, 38 per cent of female clients had better family living conditions and 22 per cent saw an increase in their family assets. Improvement in household and family conditions can principally be seen in the area of food, health and children's education. Food quality and variety improved in about 70 per cent of cases in Nepal and 38 per cent in Pakistan. Health care for women entrepreneurs and their family members improved in 28 per cent of cases in Nepal and 15 per cent in Pakistan. Children's education improved in 44 per cent of cases in Pakistan and about 41 per cent in Nepal.

**Table 9: Impact of micro-finance and microenterprise development on households and family situations**

Country	Household and family situation improved	Food quality and variety improved	Resources for health care increased	More resources spent on children's education
Nepal	90%	70%	28%	41%
Pakistan	75%	38%	15%	44%

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## 4. CONCLUSIONS

### 4.1 GENERAL CONCLUSIONS

#### 4.1.1 THE IMPACT OF MICRO-FINANCE INSTITUTIONS ON WOMEN'S ENTERPRISES

In Nepal and Pakistan, MFIs are the only institutions providing formal financial services to poor women in rural areas. Demand remains high and continues to be unmet for different reasons. In Nepal, MFIs do not reach remote rural areas and are concentrated in a well-populated and accessible region. In Pakistan, a few large MFIs serve a high number of female clients. Cultural and legal constraints limit the impact of MFIs on women's enterprises.

MFIs are known for offering non-traditional collateral, but this is not always the case.

Application procedures should be quick and simple, but Nepalese and Pakistani women entrepreneurs face difficulties in the application process. They must depend on relatives or friends to fill out the form and send it to the MFI. Moreover, if their applications are accepted, they must wait several weeks before they actually receive the money.

In general, existing MFIs appear to be poorly managed and far from upholding the principles of self-sustainability, efficiency and professionalism. Transaction costs are high in both countries and it is difficult to charge interest due to cultural factors in Pakistan and to the belief that MF represents public-sector assistance.

Despite these shortcomings, MFIs have had a positive impact on women's enterprises by creating new jobs and expanding businesses. Cases of over-indebtedness and failure are quite rare in comparison to successful cases. This is true not only for Nepal where the general environment is more favourable, but also for Pakistan where social and legal obstacles are more prevalent.

#### 4.1.2 IMPACT ON WOMEN'S ECONOMIC AND SOCIAL EMPOWERMENT

There is considerable variation in the impact of micro-finance and microenterprise development on the economic empowerment of women, and possibly on their social standing as well. Nepal is a successful case, while Pakistan is less positive.

Most Nepalese women make financial and business decisions on their own; they are gaining self-confidence and expanding their businesses. These financial and economic activities have helped improve their status in the family and in the community. Furthermore, in most cases their husbands are supportive and helpful. In Pakistan, few women make financial and business decisions by themselves and they own their enterprises only *de jure*; men control them *de facto*. Women are often responsible for the business and for the loan, but they lack the authority to make decisions. However, MF clients do gain some empowerment and self-confidence through obtaining loans. Therefore, even in a patriarchal environment, micro-finance has some positive effects on women. Most Pakistani women feel that their status is changing and greatly improving due to micro-finance and microenterprise development. Men are increasingly respectful

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of women's decisions. Although the reality is still rather unfavourable to women entrepreneurs in this country, there is the possibility of change. Therefore, micro-finance seems to be a useful tool for the empowerment of women, although it is not sufficient in itself to trigger social change. However, micro-finance and microenterprise development can be a catalyst for social change, which can in turn improve women's status.

In both countries, the level of women's self-confidence has increased, which implies that women are making more decisions on their own. Following the definition of economic empowerment that was given in paragraph 1.4, if women make decisions on financial resources, household well-being improves. The two studies considered in this report definitely confirm this. Nepalese and Pakistani women entrepreneurs spend a high proportion of their additional income on children's education, food quality and health care. These three household-related areas have improved remarkably;<sup>66</sup> in both countries, children's education has improved in over 40 per cent of cases. Especially in Pakistan, it is hard to tell whether this is the outcome of women's decisions. In this country, men are culturally expected to take care of women and children, which means that they may still be deciding on the allocation of additional resources, and using them to improve the well-being of the household.

Information provided in the two country studies shows that women gain self-confidence through attending group meetings and taking part in MFI activities. It is hard to tell whether micro-finance and microenterprise development alone would have the same impact. Once more, social and cultural values play a significant role, influencing the effect of micro-finance and microenterprise development on the economic empowerment of women. Experience in other countries has shown that women do gain in self-confidence and the ability to make decisions even without the support of group meetings and non-financial MFI activities. This is true of urban women in some Latin American countries (Bolivia, Ecuador, Nicaragua), where the social and cultural environment is more favourable towards women.<sup>67</sup>

The social empowerment of women entrepreneurs achieved in Nepal and Pakistan through micro-finance and microenterprise development underlines the importance of group meetings and participation in MFI activities. These two mechanisms are particularly relevant in Pakistan, where women are not often allowed to interact with other people (men in particular) unless they are relatives. Group meetings are a good opportunity for Pakistani women to get together and exchange experience and ideas. Nepalese women are in a better position; several are active not only in their MFI, but also in local public institutions and political parties. Member-based MFIs seem to offer women more opportunities to be in decision-making positions and to become more actively involved in social affairs.

## **4.2 RECOMMENDATIONS**

### **4.2.1 THE CULTURAL AND SOCIAL ENVIRONMENT**

The cultural environment is a key factor in the economic and social empowerment of women. The two country situations demonstrate how much greater is the effect of

<sup>66</sup> For Pakistan, figures on food, health and education are similar to those provided by reports on the clients of the Kash Foundation.

<sup>67</sup> Personal experience of the author. Also see Ajaz Ahmed Khan and Patricia Cisneros Abad: *El impacto del crédito en el empoderamiento de las mujeres*, FACES, Loja, Ecuador, 1998.

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micro-finance and microenterprise development on women's empowerment where the cultural environment is favourable towards women. Social and cultural change does not happen quickly and easily. However, if we focus on women's empowerment, it is possible to identify some general actions that can certainly improve the current situation. It is necessary to keep the door open to gender-sensitive men. They must be directly or indirectly involved in at least some of the women's group or MFI activities. Simple things, such as accompanying their wives to group meetings, may have a remarkable effect on both men and women, especially in very traditional rural contexts. Women feel that their husbands support them morally and men are exposed to some gender-related aspects of daily life that they are not attuned to. Dialogue and confrontation may help to sensitize men who are in power and who often make gender-blind decisions.<sup>68</sup>

#### **4.2.2 GOVERNMENT POLICY**

Our comparison leads us to conclude that the impact of micro-finance and microenterprise development is much stronger if the national government adopts a policy for poverty alleviation and in favour of women. At the same time, strong public interventions in micro-finance may result in MFIs which are inefficient and not financially sustainable. Cheap money from the state may create unnecessary market distortions. The main area in which government action is indispensable is in legislation.

#### **4.2.3 LEGAL FRAMEWORK**

A non-discriminatory legal framework granting equal rights to men and women is necessary for micro-finance, which calls for flexible and non-traditional procedures. MFIs in the rural areas of Nepal and Pakistan ask for physical collateral. If women have no property rights or suffer discrimination in this respect and in regard to inheritance law and contract law, they cannot obtain financial resources or properly manage a microenterprise. A non-discriminatory legal framework requires social and cultural change, gender-sensitive decision makers and appropriate government policies.

It is also desirable to create an appropriate legal framework for MF and MFIs in general. Specific fiscal advantages could be granted to those MFIs which have a stronger impact on women's empowerment (see paragraph 4.1.2).

#### **4.2.4 COMPLEMENTARY SERVICES**

The category of "complementary services" is very broad and diversified. The findings of the two national reports indicate that group meetings are vital for the empowerment of women; they raise women's self-esteem and self-confidence. If we expand the "complementary" category to training in marketing and business development, we can conclude that these services are important for enterprise development, not necessarily for having a microenterprise. Demand for such services is not very high among women, possibly because MF clients do not expect them. Business development training could nevertheless play an important role in upgrading women's enterprise. It can also help avoid limited business expansion which stops when husbands use borrowed money for their own enterprise. Business development services are

<sup>68</sup> The Kash Foundation, whose staff is female, is slowly trying to bring in male trainers for its non-financial services. A male gender trainer is about to be recruited 'to strengthen the social advocacy and capacity building team and to lead to a more holistic approach towards empowerment.' See Kash Foundation: "Towards the economic empowerment of women", Quarterly Report, October-December 2001, Vol. 04 No. 04, Lahore, Pakistan.

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therefore important, but they should not necessarily be provided by financial institutions (see paragraph 3.5).

MFI activities in general (including meetings of members) seem to be appreciated. Such activities appear to bring women clients the same benefits as group meetings. Member-based MFIs have more advantages than other types of financial institution, because their nature requires such activities. If meetings strengthen women's empowerment, we can conclude that member-based MFIs are to be encouraged because they are more beneficial in terms of empowerment and also because they are based on savings, which ensure more institutional stability and self-sustainability.

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## **ANNEX 1**

### **Nepal: Micro-finance, microenterprise development, and their contribution to women's economic empowerment**

by

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## INTRODUCTION

A total of 135 women clients of four Nepalese MFIs were interviewed for this study. The status and performance of microfinance initiatives and experiences under each of the categories mentioned above (see paragraph 2.3) were carefully considered in establishing this survey. One MFI per category was identified and chosen:

- Sitalnagar branch of Nirdhan Uthan Bank (NUB) in Rupendehi district;
- Shankarnagar Small Farmers Cooperatives Limited (SFCL) in Rupendehi district;
- Adharsa Savings and Credit Cooperatives (SCC) in Chitwan district; and
- Mahila Sagan Bikas Kendra, a financial intermediary NGO (FI-NGO) in Chitwan district;

Efforts were made to ensure that the four MFIs were equally representative of their category. This was done by choosing institutions located in similar geographical areas, thus guaranteeing their uniformity. Of the 135 women interviewed, 54 were clients of NUB, 36 of SFCL, 27 of SCC and 18 of FI-NGOs. These women were selected from a total of 1,349 or 10 per cent of the active clients of the above-mentioned MFIs.

EXCHANGE RATE: US\$ 1 = NRs. 73.65 (15 June, 2001)

### 1. SAVINGS AND CREDIT

Savings mobilization has been given priority among the services offered by the MFIs in this study. All the female clients interviewed have benefited in some way from a savings service, which may be direct or indirect. For instance, savings services provided by NUB, SCC and SFCL are direct (i.e. managed by the MFI itself), while in the case of FI-NGOs the groups concerned manage their savings collectively (table 1).<sup>69</sup>

<sup>69</sup> FI-NGOs cannot manage the savings of their clients due to legal constraints deriving from the existing “*Financial Intermediary Act*” preventing this type of institution from receiving deposits/savings from clients. To overcome this limit, FI-NGOs have encouraged their clients to mobilize savings among themselves to meet their emergency needs. FI-NGOs have provided the required technical support.

**Table A1.1: Overview of saving services provided by MFIs**

S.N.	Variables	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Savings services	No.	100	100	100	100	100
	Direct	No.	100	100	100	0	87
	Indirect	No.	0	0	0	100	13
2	Return on savings	%	6	10	12	8	6
3	MFI accept voluntary savings	%	100	0	100	0	60
4	Features of voluntary savings	%	100	0	100	0	60
	Flexible	%	11	0	22	0	9
	Safe	%	87	0	78	0	50
	Reliable	%	2	0	0	0	1
5	Possession of voluntary savings	%	100	0	100	0	60
6	Amount of savings	Rs./day	1	1	4	2	2
7	Feeling confidence in savings services	%	100	100	100	100	100

Source: Field survey, 2001.

Clients have obtained returns on savings managed either directly or indirectly by their MFI. The return rate ranged between 6 per cent and 10 per cent with an average of 8 per cent per year. Clients of FI-NGOs also mobilized savings on their own, and considered this to be one of the most useful services offered by their MFI. In addition, NUB and SCC manage the voluntary savings of their clients.

The institutions surveyed do not allow clients to withdraw their deposits. Saving is compulsory. All women clients have savings and feel safe in entrusting their money to their MFI. The amounts saved by women clients per day range between Rs. 1 and Rs. 4 with an average of Rs 1.70. Regular saving is a necessary condition to obtain credit from the MFIs surveyed.

The findings of this study confirm the general statement that women in rural Nepal lack access to credit (table 2).

**Table A1.2: Overview of lending services provided by MFIs**

S.N.	Variables	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	First loan ever requested from formal sector	%	43	92	19	33	50
2	Reasons for changing MFI	%	100	100	100	100	100
	None applicable	%	43	92	19	33	50
	Higher loan	%	43	6	56	50	36
	Cheap loan	%	15	3	26	17	14
3	Reasons for previous loans being rejected	%	100	100	100	100	100
	None applicable	%	43	92	19	33	50
	Collateral	%	46	6	48	28	33
	Focus on project lending	%	9	3	22	28	13
	Distance	%	2	0	11	11	4

Source: Field survey, 2001.

For about 50 per cent of women, the loan obtained from an MFI was the first ever received from a formal source. The proportion of first loan clients was higher in SFCL than in the other institutions, implying that SFCL serves women who cannot obtain a loan from other MFIs.

The survey reveals that about half of the women did at some point change financial institution, primarily due to a need for bigger loans or the opportunity to benefit from cheaper loans from other nearby MFIs. The main reasons why women's loan applications were rejected were: lack of collateral (33 per cent), MFI priority given to project-based enterprise through micro-loans, which was rather unrealistic (13 per cent) and the distance factor (4 per cent).

In general, the policy of the MFIs is to provide credit services without requiring any physical collateral. The survey reveals that this is not always true (table 3). The type of collateral used is normally social (joint liability); this is always the case for NUB and usually for the FI-NGOs. Clients of SFCL and SCCs have also put up physical property such as land and buildings for collateral. About 33 per cent of FI-NGO clients had to provide some form of physical collateral.

**Table A1.3: Collateral used for borrowing from MFIs**

S.N.	Collateral type	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Social	%	100	14	33	67	59
2	Physical collateral	%	0	86	67	33	41
	Land <sup>70</sup>	%	0	83	67	33	40
	Building	%	0	3	0	0	1
3	Total (1+2)		100	100	100	100	100

Source: Field survey, 2001.

About 59 per cent of the women clients obtained loans without physical collateral; joint liability and accumulated savings were used instead. The MFIs seem to prioritize social capital and the honesty of group members as collateral/guarantee schemes. The remaining 41 per cent of the women had to provide physical collateral to obtain a loan.

The average size of the loans requested by women varies between the MFIs, ranging from Rs. 8,000 to Rs. 11,400 with an average of Rs. 9,000. The MFIs have approved almost all the loan amounts requested by their clients. The amounts range between Rs. 6,700 and Rs. 10,200 with an average of Rs. 8,300. Some loan applications were rejected for reasons such as inappropriate lending terms and conditions, or because of the MFI credit policy. The loans received were used to start enterprises related to crop production, livestock, trade/services and cottage industries. Almost all women used the loan for the purposes specified in their application (table 4).

<sup>70</sup> Women's access to land is better now than it was in the past in rural areas. At present, it is common practice for men (husbands) to transfer property land rights to women (wives) as it is safe and it avoids them having to share with brothers and other family members. Land owned by women is considered as belonging to them, yet they still have limited control over it.

**Table A1.4: Average initial size and purpose of loans**

S.N.	Variables	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Loan request	Rs.000	8	8	10	11	9
2	Loan approval	Rs.000	8	7	10	9	8
3	Purpose of loan	%	100	100	100	100	100
	Crop production	%	17	28	22	28	22
	Livestock	%	52	42	7	39	39
	Trade/services	%	28	25	67	28	35
	Cottage industries	%	4	6	4	6	4
4	Purpose of loan approved	%	100	100	100	100	100
	Crop production	%	17	28	22	28	22
	Livestock	%	52	42	7	39	39
	Trade	%	28	25	67	28	35
	Cottage industries	%	4	6	4	6	4

Source: Field survey, 2001.

Family members have assisted women in making loans productive. The MFIs have calculated interest rates in two different ways: a flat rate or a declining balance system (table 5).

**Table A1.5: Interest rates charged for initial loans by MFIs**

S.N.	Variables	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Flat rate	%	12	0	0	0	12
2	Declining balance	%	0	18	18	15	17

Source: Field survey, 2001.

Only NUB charges a flat interest rate (at 12 per cent). The other MFIs have adopted the declining balance system. SFCL and SCCs charge at 18 per cent, while FI-NGOs charge 15 per cent.

About 61 per cent of clients have experienced difficulties with loan applications (table 6). The difficulties encountered include:

- transaction costs in obtaining the loan application and returning it to the MFI (5 per cent);
- obtaining documents that have to be included in the loan application (1 per cent);
- getting the loan application filled out (56 per cent).

**Table A1.6: Overview of lending processes in initial loans**

S.N.	Variables	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Difficulties in loan application	%	81	14	78	67	61
2	Most difficult step in loan application	%	100	100	100	100	100
	None	%	19	86	19	33	39
	Loan application	%	6	8	4	0	5
	Document management	%	0	3	0	0	1
	Filling loan application	%	76	3	78	67	56
3	Assistance received for loan application	%	96	89	74	83	88
4	Persons providing assistance	%	100	100	100	100	100
	None	%	4	11	26	17	12
	Husband	%	59	42	37	50	49
	Other family member	%	9	25	19	17	16
	Outsider	%	28	22	19	17	23

Source: Field survey, 2001.

Most clients needed assistance in obtaining and submitting the loan application because they were illiterate or baseline literate. About 88 per cent received assistance in this process, from their husband (49 per cent), other family members (16 per cent) and outsiders (23 per cent).

The majority (74 per cent) of the women make direct use of the resources obtained through credit. In the remaining cases, other members of the family or outsiders are involved in using these resources. About 16 per cent of the women mentioned that their husbands were involved in dealing with the loan while 10 per cent of the clients responded that other family members including fathers, mothers, and children were involved in the process. This indicates that the majority of women are independently empowered and responsible for dealing with their loans and the resources obtained through them.

**Table A1.7: Use of loans by women**

S.N.	Use of loans	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Woman client	%	72	64	89	78	74
2	Husband	%	26	11	7	11	16
3	Other family member	%	2	25	4	11	10
	Total	%	100	100	100	100	100

Source: Field survey, 2001.

About 79 per cent of clients were making financial decisions themselves. In the remaining cases, family members had given advice. About 14 per cent of the women said that their husbands were involved in financial decisions, 7 per cent were assisted by other family members (table 8).

**Table A1.8: Women and financial decision making**

S.N.	Person involved in financial decision	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Woman client	%	78	75	89	72	79
2	Husband	%	20	8	11	11	14
3	Other family member	%	2	17	0	17	7
	Total	%	100	100	100	100	100

Source: Field survey, 2001.

The survey findings do not support the conventional belief that husbands use their wives as a means to obtain MFI loans.

Loan terms vary considerably from MFI to MFI (table 9). NUB provides loans for a period of one year while the duration of loans extended by other MFIs varies between 2 and 3 years. The average duration is 1.9 years.

About 90 per cent of the women said they received credit on time when the money was requested to meet business needs (business expansion) and to seize business opportunities (new business). The remaining 10 per cent of the clients found that credit was not available on time mainly due to bureaucratic procedures in the MFI.

**Table A1.9: Loan terms and efficiency of lending for initial loans**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Loan term	Year	1	3	2	3	2
2	Loan received on time	%	91	86	85	100	90
3	Time between loan application and delivery	Days	14	8	23	36	17

Source: Field survey, 2001.

The time between submission of the application and disbursement ranges between 8 and 36 days with an average of 17 days. FI-NGOs were the slowest (36 days) and SFCL was the fastest (8 days) in completing the loan process. NUB takes 14 days and SCC needs 18 days. The time to complete the lending process is fairly standard for rural Nepal.

The four MFIs have adopted different modalities (table 10) for loan recovery: NUB collects payments weekly while SFCL, SCC and FI-NGOs recover loans on a biweekly, monthly, quarterly, and semi-annual basis. The types of loan provided by NUB are highly standardized and easy to understand.

**Table A1.10: Loan instalment structure for initial loans provided by each MFI**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Loan instalment structure	%	100	100	100	100	100
	Weekly	%	100	0	0	0	40
	Monthly	%	0	17	89	28	26
	Quarterly	%	0	69	11	72	30
	Half-yearly	%	0	14	0	0	4
2	Average instalment	No.	50	8	12	18	27
3	Average instalment amount	Rs.	180	988	998	569	611

Source: Field survey, 2001.

The number of instalments ranges between eight and 50 with an average of 27. The average is 50 for NUB, eight for SFCL, 12 for SCC and 18 for FI-NGOs. The average sum to be repaid per instalment is Rs. 180, Rs. 988, Rs. 998 and Rs. 569 in the case of NUB, SFCL, SCC and FI-NGOs respectively.

About 84 per cent of clients have repaid their initial loan in full and 88 per cent repaid their loan on time (table 11). The main reasons for repaying on time are the desire for more and larger loans (83 per cent) and economic factors, including fees and penalty for default (4 per cent).

**Table A1.11: Loan repayment performance under initial loans**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Full repayment made	%	91	86	70	83	84
2	On-time repayment	%	87	86	85	100	88
3	Motivation for timely repayment	%	100	100	100	100	100
	None applicable	%	19	8	4	17	13
	Repeat and larger loan	%	76	83	96	83	83
	Economic reasons	%	6	8	0	0	4

Source: Field survey, 2001.

In case of late repayment or default, MFIs adopt different mechanisms to recover loans. NUB follows a simple and standardized procedure, while the other MFIs use a variety of measures.

**Table A1.12: Procedures applied by each MFI for late repayment**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Procedure applied for late payment	%	100	100	100	100	100
	The MFI makes personal contacts	%	100	42	85	61	77
	Sends a reminder	%	0	50	0	22	16
	The MFI asks the client to visit its office	%	0	10	14	16	7
2	The MFI follows loan recovery procedures strictly	%	98	97	93	89	96

Source: Field survey, 2001.

The procedures adopted by the MFIs include sending their staff to contact clients and to remind them of the payment due (75 per cent), sending reminder letters (16 per cent) and asking clients to visit the MFI (4 per cent). Over 95 per cent of the women said that their MFI follows these procedures strictly. NUB, however, seems better than the other MFIs in enforcing repayment rules.

About 66 per cent women encountered difficulties in loan repayment.

**Table A1.13: Difficulties in loan repayment encountered by clients**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Difficulties on loan repayment	%	61	58	93	61	67
2	Type of difficulties	%	100	100	100	100	100
	None applicable	%	39	42	7	39	33
	Low sale/poor management	%	13	19	4	11	13
	Goods sold on credit	%	15	8	26	17	16
	Natural calamities	%	11	6	19	11	11
	Difficult and strict loan terms	%	9	17	26	11	15
	Raw materials availability	%	13	8	19	11	13

Source: Field survey, 2001.

The main difficulties in meeting repayments were: low sales/poor management (13 per cent), goods sold on credit (16 per cent), natural calamities (11 per cent), difficult and strict loan terms (15 per cent) and the lack of available raw materials (13 per cent). Difficulties sometimes related to a combination of these factors. It is clear that women do try to repay their loans on time, despite the problems.

About 84 per cent of women have requested new loans. These clients are mainly those who have repaid their initial loan. The value of the new loans requested ranges between Rs. 11,200 and Rs. 22,300, with an average of Rs. 16,250. Not all of the requests are approved. The size of the loans approved/received ranges between Rs. 11,200 and Rs. 20,300, with an average of Rs. 15,600. The repeat loans were larger than the initial loans. In the cases of SCC and SFCL, the size of the repeat loans was as high as Rs. 40,000. In fact, the expectation of larger loans motivated women to repay their first loan on time (table 14).

About 57 per cent of the clients said that applying for additional loans was easier than applying for the initial loan, while 21 per cent mentioned that the process for additional loans was no different. Some 14 per cent found that the application process for additional loans was actually more difficult. These were clients who had trouble repaying their first loan on time.

**Table A1.14: Additional loans received by clients**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Received repeat loans	%	91	86	70	83	84
2	Loan applied	Rs.'000	11	22	16	19	16
3	Loan received	Rs.'000	11	20	16	19	16
4	Application process	%	100	86	70	83	84
	Easier	%	82	67	30	28	57
	Same	%	16	14	33	33	21
	Difficult	%	2	6	7	22	7
5	MFI impose conditions for repeated loan	%	100	86	70	83	84

Source: Field survey, 2001.

The majority (84 per cent) of women mentioned that their MFI imposed conditions for obtaining additional loans, i.e. the timely repayment of the first loan received from the same institution.

Additional loans were requested in order to expand the enterprise established with the initial loan (table 15). New loans were used in activities such as crop production (21 per cent), livestock (39 per cent), trade (35 per cent), and cottage industry (5 per cent). The purpose of the new loans was almost identical to the purpose of initial loans. Normally, all the requests were approved and

disbursed. Most MFIs were less concerned about the use of the borrowed money than about their loan recovery rate.

To be eligible for additional loans, clients must meet the following conditions:

- must have repaid outstanding loans in full;
- must maintain a good track record on the repayment of previous loans;
- must be disciplined and have a good history of repaying loans on time;
- must respect the lending terms and conditions set by the MFI.

The motivations for repaying the initial loan in full and on time include the following:

- access to additional loans;
- possibility of obtaining larger loans;
- fines and penalties charged by MFIs for default;
- danger of being black-listed by the MFI on a regular basis.

The interest rate charged by MFIs for additional loans is the same as for initial loans.

As for initial loans, there is a considerable difference between institutions in the duration of additional loans (table 15). The average duration is 1.9 years.

**Table A1.15: Loan terms and efficiency in granting additional loans**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Loan term	Year	1	3	2	3	2
2	Loan received on time	%	100	95	83	84	90
3	Time between loan application and loan acquisition	Days	14	6	18	26	14

Source: Field survey, 2001.

The majority (90 per cent) of women received the additional loans on time, when they needed the money to purchase items for the business (business expansion) or to benefit from a business opportunity (enterprise creation). The remaining 10 per cent did not receive the money on time, mainly due to bureaucratic hurdles in the MFIs.

The time between submission of the new loan application and disbursement of additional money was relatively short, ranging between 6 and 26 days, with an average of 14 days.

About 84 per cent of the women who obtained additional loans repaid them in full and on time (table 16). The motivation for repayment was mainly the desire for repeat loans (81 per cent), strict loan terms (2 per cent) and low interest rates (1 per cent).

**Table A1.16: Repayment of additional loans by clients**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	On-time loan repayment	%	100	86	70	83	84
2	Motivation for repayment	%	100	86	70	83	84
	Repeat loan	%	100	75	70	83	81
	Strict loan term	%	0	8	0	0	2
	Low interest rate	%	0	3	0	0	1

Source: Field survey, 2001.

About 75 per cent of clients plan to use additional loans to expand their enterprise. None of the women surveyed said they found it difficult to repay loans.

Some of the clients have also continued to borrow money from the informal sector (15 per cent) in order to acquire the resources that they need for business development and to meet immediate household consumption needs (table 17).

Very few women with NUB and SFCL borrowed money from the informal sector. The rate was, however, quite high among SCC and FI-NGO clients. NUB and SFCL clients are very poor, and loans from informal sources are not accessible to them. When they do obtain such loans they use the money for consumption purposes, while clients of the other two MFIs need such loans for consumption and also to obtain investment resources.

**Table A1.17: Loans and purpose of loans from the informal sector**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Borrowing status	%	7	6	33	28	15
2	Purpose of the loan	%	100	100	100	100	100
	None	%	93	94	67	72	85
	Consumption	%	7	6	13	18	9
	Investment resources	%	0	0	20	10	6

Source: Field survey, 2001.

The main reasons why women borrow from the informal sector are: to meet emergency financial needs (7 per cent), to meet social obligations (4 per cent), and to match the cash flow deficit required for enterprise development (3 per cent). Borrowing from the informal sector is also a result of the rigid terms and conditions imposed by MFIs. These include the fact that loans are disbursed only for productive purposes and at a ceiling which is sometimes too low to meet women's total needs.

There are advantages and disadvantages to borrowing from the informal sector. These are related to the nature of the money-lenders and the danger that they will exploit clients in urgent need of cash.

Some advantages reported by the women interviewed include: easy access, timely and quick services, reliability/certainty, flexibility, and procedural simplicity. Due to the institutional culture, these features are virtually absent in MFIs such as NUB and FI-NGOs. However, some degree of flexibility can be found in SFCL and SCC.

Low transaction costs, such as collateral-free loans, and flexible lending procedures are the principal characteristics of the informal sector. These features provide comparative advantages in reaching small and poor borrowers. A general conclusion is that informal credit has specific niches in the rural financial market and must be given due recognition in the effort to extend microfinance in an effective, efficient and sustainable manner.

## 2. MICROENTERPRISE DEVELOPMENT

The women surveyed have established and developed different types of enterprise, which can be grouped into three categories: agro-based, cottage industry and trade/services (table 18).

**Table A1.18: Overview of enterprises managed by MF clients**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Type of enterprise	%	100	100	100	100	100
	Agro-based	%	69	75	26	61	61
	Cottage industry	%	0	8	0	17	4
	Trade/services	%	31	17	74	22	35
2	Type of economic activities	%	100	100	100	100	100
	Traditional	%	96	94	100	94	96
	Non-traditional	%	4	6	0	6	4

Source: Field survey, 2001.

These categories can then be grouped into production oriented and service oriented. The production category includes enterprises that are agro-based and cottage industry. They constitute about 65 per cent of the total economic activities of the women. Trade/service enterprises, belonging to the service sector, constitute 35 per cent of women's economic activity. Production-oriented enterprises are engaged in poultry farming, livestock production, vegetable farming, carpet weaving, tailoring and garment works, while trade/service enterprises include vegetable trading, grocery stores, tea shops, hotels, restaurants, beauty parlours, and petty trade in local areas and periodic markets. The enterprises are at different stages of development and profitability.

The MFI clients surveyed are primarily involved in traditional economic activities and their enterprises are typically inherited businesses that they are trying to expand. About 84 per cent of the women manage enterprises focusing on traditional activities, while the others deal with modern activities (table 18). The reasons for choosing a particular type of economic activity include personal interest, skills and confidence (76 per cent), market potential (21 per cent), self-employment opportunities and income-generating potential (2 per cent).

Neither the MFI nor other institutions in the rural areas of Nepal assisted the majority of women (96 per cent) deciding to adopt non-traditional business activities. Only three per cent of the clients reported receiving assistance from external agencies (marketing support, skill enhancement and upgrading).

The average age of MFI clients is 39 years. Their age varies from 23 years old in the service/trade sector to 56 years old in the agro-based enterprises. The average age of women managing service-related enterprises is 43 years. Available data suggest that young women (< 40 years) usually manage service/trade related businesses, while older clients (> 40 years) are involved in production oriented activities (table 19).

**Table A1.19: Demographic information on MF women clients**

S.N.	Variables	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Family size	No.	6	6	5	5	6
	Male	No.	3	3	3	3	3
	Female	No.	3	3	2	3	3
2	Age	Years	34	43	37	46	38
3	Education	Years	1	4	6	5	4
4	Literacy rate	%	66	56	85	62	66
5	Marital status	%	100	100	100	100	100
	Married	%	96	100	100	100	99
	Single	%	4	0	0	0	1

Source: Field survey, 2001.

Ninety-eight per cent of the surveyed women are married. The only unmarried women in this study were clients of the NUB. The other MFIs do not encourage unmarried women to ask for their services.

About 51 per cent of the surveyed women started their business from scratch (table 20).

**Table A1.20: Type of enterprise managed by women clients**

S.N.	Enterprise type	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	New	%	61	44	44	44	51
2	Expansion	%	39	56	56	56	49
	Total	%	100	100	100	100	100

Source: Field survey, 2001.

The majority (93 per cent) of the women clients own the enterprises that are financed with micro-credit, while 5 per cent of the women respectively managed enterprises owned by their husband and 2 per cent managed enterprises owned by other family members (table 21).

**Table A1.21: Business initiation and reason for choosing business**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Ownership of enterprise	%	100	100	100	100	100
	Self	%	98	86	89	100	93
	Husband	%	0	14	5	0	5
	Other family members	%	2	0	6	0	2
2	Motivation for business	%	100	100	100	100	100
	Self	%	28	19	55	6	28
	Husband	%	69	56	41	56	58
	Other family members	%	2	8	4	6	4
	MFI personnel	%	2	17	0	33	10
3	Reasons for particular type of activity	%	100	100	100	100	100
	Interest and skill	%	87	53	85	78	76
	Self-employment	%	2	6	0	0	2
	Economic potential and profitability	%	11	42	15	22	21

Source: Field survey, 2001.

Fifty-eight per cent of the women were motivated by their husband to start a business, while about 28 per cent were self-motivated. Other family members encouraged 4 per cent of the women and MFI staff influenced 10 per cent. MFI staff encouraged women who were mainly farmers, students or wage-employees (39 per cent of cases). About 13 per cent of the clients were involved in activities in a different sector and about 48 per cent simply expanded their enterprise.

In general, the women entrepreneurs interviewed work for 7.5 hours a day. Those in the service sector work longer hours (10 hours) than those in other sectors (6 hours). The agro-based and cottage industry sectors employ more unpaid family workers, who generally work part-time.

About 59 per cent of the women had to increase their working hours after borrowing money from an MFI, while for 26 per cent of the women the average workday remained unchanged. Fifteen per cent worked shorter hours after benefiting from MFI services. The variation of change in working hours ranges from a decrease of 16.1 per cent to an increase of 60.4 per cent with an average increase of 46.2 per cent. This indicates that working time has doubled since the women borrowed money.

About 84 per cent of women plan to expand their business and expect to receive larger additional loans from MFIs. The remaining 16 per cent are not interested in expanding their business mainly because they feel that borrowing from MFIs is quite risky when coupled with uncertain profitability and management of the expansion.

The children of 43 per cent of the women surveyed participate in the management and operations of their mothers' enterprises (table 22).<sup>71</sup> Out of these children, 32 per cent work occasionally, while 11 per cent work on a regular basis. The proportion of child labour is higher among the clients of SFCL and SCC.

**Table A1.22: Children in enterprises**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Assistance by children	%	44	50	33	39	43
2	Children's involvement	%	100	100	100	100	100
	None applicable	%	56	50	67	72	59
	Regular	%	9	17	15	6	12
	Occasional	%	35	33	19	22	30
3	If occasional, frequency of involvement	%	16	12	11	9	13
4	Involvement — boy	No.	0	1	0	1	0
5	Involvement — girl	No.	0	1	0	0	0
6	Age of boy	No.	12	12	10	11	11
7	Age of girl	No.	11	11	10	11	11
8	Children take care while you work	%	100	100	100	100	100
	None applicable	%	24	42	30	44	33
	Home	%	26	6	22	11	18
	School	%	50	53	48	44	50
9	MFI assist your children while you work	%	0	0	0	0	0

Source: Field survey, 2001.

<sup>71</sup> Children are involved mornings, evenings and weekends in business activities. In return, they have the opportunity to go to school and/or to better schools in some cases.

Child labour is used in order to avoid hiring employees. The number of occasions per year that a child works ranges between 9 and 16, with an average of 13. In general, the children were found to work only on the weekends.

Child workers are equally divided between boys and girls. Ages vary between 7 and 15, with an average of 11 years old. The average age of girls is lower (10.9 years) than that of working boys (11.9 years). It seems clear that work prevents children from going to school; at the same time, however, enterprises help support children's education and create an enabling family environment. In return for this, children have to help with the business.

About 68 per cent of the women surveyed have young children. Child care does not pose a problem thanks to the home-based nature of their enterprises. Almost half of the clients' children are at school while they work. Where this is not the case, fathers or other family members take care of the children. This is common practice in the rural areas of Nepal where this study was undertaken. MFIs do not provide child-care facilities.

About 96 per cent of women clients benefited from the financial services in terms of employment creation, changes in overall and weekly sales and changes in overall and weekly profit (table 23). The remaining 4 per cent experienced a negative impact on their livelihood because they became indebted, mainly due to the failure of their project. As a result they were forced to borrow from informal sources.

In general, sales increased between 45 per cent and 67 per cent, with an average increase of 55 per cent. Likewise, profit increased between 22 per cent and 33 per cent, with an average increase of 26 per cent. These increases mainly occurred in the enterprises that had expanded significantly through the use of credit.

**Table A1.23: Outcome of enterprises managed by woman clients**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Positive outcomes from borrowing	%	94	94	100	100	96
2	Overall change in sale	%	48	60	67	45	55
3	Overall change in profit	%	23	29	33	22	26
4	Change in weekly sale	%	56	92	103	87	79
5	Change in weekly profit	%	48	76	53	61	58

Source: Field survey, 2001.

Increases in weekly sales and profit peaked at 103 per cent and 76 per cent respectively.<sup>72</sup>

On average, the gross income of an enterprise managed by a woman is estimated at Rs. 14,400 and gross expenses are estimated around Rs. 7,400. The net profit is therefore about Rs. 7,000.

Women use their income in the following ways:

- to reinvest in their business;
- to meet the basic needs of the household;
- to invest in their childrens' education;

<sup>72</sup> Change in weekly sales ranged between 56 and 103 per cent, with an average of 79 per cent per week. Change in weekly profit ranged between 48 and 76 per cent, with an average of 58 per cent.

- to buy land and build a house;
- to pay for health care and other social obligations.

Almost 44 per cent of the clients invested in their children's education, in comparison to 16 per cent who preferred to reinvest in business expansion. About 36 per cent gave priority to meeting household needs such as food, clothes and other daily requirements. Some 3 per cent of the women preferred to use their income to buy land or build a new house. The remaining 1 per cent spent their income on health care and on meeting social obligations (table 24).

**Table A1.24: Utilization of income**

Purpose	Ranking		
	First	Second	Third
Reinvesting in present business	22 (16)	15 (11)	35 (26)
Household needs	49 (36)	43 (32)	38 (28)
Children's education	58 (44)	60 (45)	42 (31)
Buy/construct new house/land	4 (3)	12 (9)	12 (9)
Health care and luxury	2 (1)	5 (4)	8 (6)
Total	135 (100)	135 (100)	135 (100)

Source: Field survey, 2001.

From the balance of their total annual net income, the average woman client spent Rs. 2,800 on business expansion and Rs. 1,900 on children's education.

Ninety-one per cent of the enterprises managed by MFI clients have created additional employment opportunities (primarily the woman entrepreneur and her family members). In 79 per cent of cases, self-employment was created, while 13 per cent of the enterprises generated wage employment.

About 6 per cent of the enterprises generated part-time (only) work and about 31 per cent created full-time employment. The remaining (54.8 per cent) enterprises generated both part-time and full-time employment. The number of people newly employed ranged between 1 and 6, with an average of 3.3 people. The number of available jobs increased by approximately 57 per cent with the creation of new enterprises. Before the establishment of the new enterprises the average level of employment was 2.1 persons per year. The number of workdays per month for employees ranged between 8 and 24, with an average of 14 days.

The employment that was created was both unpaid and paid. Enterprises managed by 9 per cent of the women created exclusively paid employment, while 19 per cent generated both paid and unpaid jobs. In the remaining 72 per cent of cases, unpaid work was generated (meaning family labour).

**Table A1.25: Employment generated by women's enterprises**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Employment generation	%	94	83	96	89	91
2	Type of employment	%	100	100	100	100	100
	None	%	6	17	4	11	9
	Self-employment	%	91	61	78	78	79
	Self and wage employment	%	4	22	19	11	13
3	Self-employed	%	5	9	9	15	2
4	Wage-employed	%	0	2	1	2	0
5	Nature of employment	%	100	100	100	100	100
	None applicable	%	6	17	4	11	9
	Part-time	%	9	6	0	6	6
	Full-time	%	33	14	52	28	31
	Both	%	52	64	44	56	54
	Part-time employment						
6	Persons employed	%	2	2	1	2	2
7	Duration — days/month	%	4	5	6	3	4
8	Employment mode	%	100	100	100	100	100
	Paid	%	6	22	0	6	9
	Unpaid	%	85	44	81	72	72
	Both	%	9	33	19	22	19
9	Employment compared to before borrowing	%	100	100	100	100	100
	More	%	91	61	74	78	78
	Same	%	9	31	26	22	20
	Less	%	0	8	0	0	2

Source: Field survey, 2001.

### 3. NON-FINANCIAL SERVICES

Over 97 per cent of the women surveyed said that they made the best possible use of their loan. Only 3 per cent felt that the use of the loan could have been greatly enhanced had the MFI or another agency linked skills training to the provision of financial services.

There are very few business training activities in Nepal, in either the public or the private sector. Very few women (<5) received training before they started their own enterprise and only three MFI clients received training after setting up their business. Those who had received training before starting their enterprise worked in sectors such as vegetable production or poultry and livestock farming. The training received was short-term technical instruction from the District Agricultural and Livestock Office of the Government.

Only 2 per cent of the women received support in identifying viable business opportunities (table 26). Support consisted of training and on-site technical assistance in business management. The weak impact of women's enterprises is mainly due to this lack of business development and management support services from external sources. Women simply used their own knowledge and skills in expanding their existing business. As a consequence, they were not able to manage their enterprise successfully. Business development support seems to be a prerequisite for efficient enterprise management.

**Table A1.26: Support for business development**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	External support for identifying viable business	%	2	3	0	6	2
2	Type of support	%	100	100	100	100	100
	None	%	98	97	100	94	98
	Training	%	0	3	0	0	1
	Consultancy	%	2	0	0	6	1
3	MFI assistance to start business in non-traditional areas	%	100	100	100	100	100
	None applicable	%	87	28	100	83	73
	Yes	%	2	6	0	0	2
	No	%	11	66	0	17	25
4	Assistance type	%	100	100	100	100	100
	None	%	98	94	100	100	98
	Marketing	%	2	3	0	0	1
	Skill	%	0	3	0	0	1

Source: Field survey, 2001.

The majority (73 per cent) of clients did not expect assistance from their MFI in regard to starting a business in non-traditional areas. Only 2 per cent obtained such assistance. About 25 per cent expected assistance from their MFI on business development, but never received it. The assistance that is provided by MFIs consists of marketing support and skills enhancement.

**Table A1.27: Provision of business development services to micro entrepreneurs**

S.N.	Variables	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Microenterprise and BDS from MFI	%	100	81	100	94	94
2	Type of assistance	%	100	100	100	100	100
	Financial	%	100	97	100	100	99
	Non-financial	%	0	3	0	0	1
3	Type of non-financial business support received	%	0	11	0	0	3
	Skill training	%	0	11	0	0	3
4	Sources of support	%	0	0	0	0	0
	Directly from MFI	%	0	8	0	0	2
	Government agency	%	0	3	0	0	1

Source: Field survey, 2001.

#### 4. WOMEN ENTREPRENEURS

The status of the women entrepreneurs surveyed was greatly enhanced through micro-finance. Seven per cent of the clients are members of women entrepreneurs' associations. About 15 per cent belong to other associations, such as local-level users' groups, or they are elected members of local government bodies. SCC and SFCL are member-based organizations; hence, clients of these institutions are members as well as shareholders (table 28).

**Table A1.28: Women's participation in local associations/organizations**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Member of women entrepreneurs' association	%	0	11	22	0	7
2	Member of entrepreneurs' association	%	0	19	30	0	11
3	Member of other organization	%	6	19	30	11	15

Source: Field survey, 2001.

Institutions that MFI clients joined include the Cottage Industry Development Association, local government structures, political parties, etc.

With the exception of SCC, the MFIs in this study use a group-based lending strategy. Clients are personally involved in managing some of the MFI activities: social preparation of women's groups, training, completion of loan applications, organization and management of group meetings and other group activities related to client education. SCC clients are also involved in savings mobilization, loan appraisal, follow-up and supervision. About 61 per cent of the women surveyed are involved in MFI activities (table 29).

Except for SFCL (few cases), the other MFIs have not assisted clients in contacting associations of any type. SCC and SFCL, which are member-based, have encouraged their members to fill management positions there, as executive members. About 7 per cent of the women surveyed are executive members of SCC and SFCL. Furthermore, 46 per cent said that participation in MFI activities greatly increased their status in the family and community.

Only SFCL offers non-financial services such as training workshops, exposure visits, etc. FI-NGO has a basic training component that is used to improve repayment capacity. Only 5 per cent of the women were involved in other MFI activities.

**Table A1.29: Participation of women entrepreneurs in MFI activities**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Involvement of MFI activities	%	78	22	100	28	61
	General		78	22	100	28	61
	Executive member		0	6	30	0	7
2	Involvement in other MFI activities	%	0	8	7	11	5
3	Type of activities	%	100	100	100	100	100
	None	%	100	78	100	89	93
	Workshop	%	0	6	0	6	2
	Training	%	0	8	0	6	3
	Exposure	%	0	8	0	0	2

Source: Field survey, 2001.

The various group meetings helped to raise the women's status. In these meetings, discussions focused on gender issues and economic and social empowerment. About 94 per cent of the clients said that dealing with financial and other services considerably increased their confidence (table 30).

**Table A1.30: Changes in the status and confidence of women clients**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Change in status in family/community status	%	41	64	37	39	46
2	Increase in self-confidence after MFI services	%	94	86	100	100	94

Source: Field survey, 2001.

About 83 per cent of the clients make their own decision on how financial resources should be allocated for their business. About 10 per cent of the women make decisions after consulting their husband, while 7 per cent make such decisions in consultation with other family members (fathers, mothers, children and siblings) as shown in table 31.

**Table A1.31: Status of women entrepreneurs served by MFIs**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Decision to borrow in stated purpose	%	100	100	100	100	100

Source: Field survey, 2001.

## 5. HOUSEHOLD RELATIONS

About 91 per cent of the women said that their husband or other male relatives help them manage the business. They receive assistance with stock management, marketing, and even confidence building. In some cases, women are helped in risk sharing and maintaining high profitability.

About 91 per cent of the women are assisted by husbands and/or male relatives in carrying out both housework and business work. The majority of clients (87 per cent) use their surplus time in business management and about 7 per cent share business responsibilities with their husband. About 4 per cent of clients pay for domestic help so that they can manage the business. One per cent of the women hire staff for business management, while they supervise the business.

**Table A1.32: Division of time between household and business**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Sharing with husband	%	6	8	7	11	7
2	Using surplus time only in the business	%	91	81	93	83	87
3	Hiring labour in business management	%	4	0	0	0	1
4	Hiring labour in household activities	%	0	11	0	6	4
	Total	%	100	100	100	100	100

Source: Field survey, 2001.

About 78 per cent of the women surveyed said that spouses and other family members are increasingly taking over household activities, such as child care. The remaining 19 per cent said their spouses complain when they attend group meetings.

About 45 per cent of the clients claim that their husband and/or male relatives accompany them to meetings or to other events organized by their MFI, while 77 per cent reported that their spouse allowed them to participate in business activities and meetings. In this rural society, the supportive attitude of husbands is an enabling factor in encouraging women's participation in economic activities.

**Table A1.33: Sharing business management responsibilities with other family members**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Sharing family responsibility with husband /male relatives	%	78	69	89	78	78
2	Complaint by husband/male relatives on involvement in MFI services	%	13	8	30	44	19
3	Accompanied by husband/male relatives to MFI meetings	%	56	22	52	50	45
4	Expression of interest in business activity and business meeting	%	72	75	89	78	77
5	Assistance in entire process	%	70	75	81	72	74
6	Involvement in joint business activity with husband	%	76	83	78	83	79
7	Business expansion plan	%	96	67	85	83	84

Source: Field survey, 2001.

About 74 per cent of the clients received family help in the entire process of business management. This greatly helped enhance their social status. Some 79 per cent of the women are involved in joint business activities with their spouse. The positive aspect of this is that the enterprise is able to expand very rapidly. The negative consequence is that these women are largely dependent on their husbands for minor activities, which slows down their social and economic development.

## 6. FAMILY AND HOUSEHOLD SITUATION

About 90 per cent of the clients said the condition of their families/households improved as a result of micro-credit.

**Table A1.34: Impact of enterprise development on family/household situation**

S.N.	Area of impact	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Asset creation	Rs. '000	10	8	12	7	10
2	Income generation per year	Rs. '000	15	2	139	16	36
3	Increase in food sufficiency	Months	4	6	5	4	5
4	Social capital formation	%	100	100	44	33	80
5	Change in weekly cash flow	%	48	78	95	76	69
6	Change in duration of work	%	60	29	41	47	46
7	Change in general well-being	%	93	86	96	100	93
8	Increase in food security	%	81	81	93	94	85
9	Better food availability	%	54	50	85	61	60
10	Improvement in child care	%	39	44	41	44	41
11	Increase on sending children to school	%	65	64	85	78	70
12	Improvement in health status	%	26	44	15	22	28

Source: Field survey, 2001.

About 67 per cent of clients said that their household cash flow changed after borrowing money. Weekly cash flow was higher for 54 per cent of the women, while it remained the same for

13 per cent. About 33 per cent, however, reported that their household weekly cash flow decreased.

Significant improvement was reported in the situation for food, health care and children's education. Food security improved in 85 per cent of cases, while some 60 per cent experienced changes in their daily food intake and diet quality. About 41 per cent reported an improvement in child care and some 29 per cent were able to send their children to better schools. For about 28 per cent of the clients, health care for children and other family members improved.

**Table A1.35: Impact of enterprise development on disabled family members**

S.N.	Particulars	Unit	NUB	SFCL	SCC	FI-NGO	Total
1	Physically disabled family members	%	17	8	7	11	12
2	Disabled person	%	100	100	100	100	100
	None	%	83	92	93	89	88
	Self	%	0	0	4	0	1
	Children	%	6	6	0	11	5
	Husband	%	2	0	0	0	1
	Other family members	%	9	3	4	0	5
3	Did business support disabled?	%	17	8	7	11	12

Source: Field survey, 2001.

## 7. CONCLUSIONS

It is clear that women use loans to create, expand or develop an enterprise. Micro-finance services have created an enabling environment for the emergence and development of small enterprises, which then generate income and employment. About 51 per cent of the women surveyed started their enterprise from scratch, while the remaining 49 per cent expanded an ongoing business. Although about 88 per cent of the women plan to expand their enterprise and about 84 per cent received additional loans, there is evidence that women invest financial resources in their own business up to a certain point and then continue to borrow money, but divert it to their husband's enterprise. Very few women have received non-financial services in the form of skills training in marketing and input supply. This is a crucial factor holding back the growth of women's microenterprises. Support for skill development programmes can stimulate the promotion of women's enterprises and also women's economic empowerment.

Demand for financial services is very high and about half the women still use informal financial sources. The high interest rates charged by MFIs, strict and strong repayment terms coupled with high transaction costs are the real barriers for women clients. New, flexible and cheap products need to be developed and offered by the MFIs.

The needs of rural illiterate women entrepreneurs should be taken into account more carefully, especially in training programmes. Government policies related to microenterprise development need to be directed towards strengthening those businesses that have the potential to expand and create new jobs in rural areas.



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## **ANNEX 2**

### **Pakistan: Micro-finance, microenterprise development, and their contribution to the economic empowerment of women**

by

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## INTRODUCTION

A survey was made of a small sample of 104<sup>73</sup> women borrowers in Pakistan who obtained micro-finance services from three NGOs, the National Rural Support Program (NRSP), Sungi Foundation (SF) and Traqi Trust (TT), between 1996 and 2001. The three MFIs cover different geographical areas in Pakistan, and hence different cultural backgrounds, credit operation methodologies, and levels of outreach and credibility. NRSP is the largest rural support organization, being active in all four provinces including the areas of Azad, Jammu and Kashmir. SF operates in the mountainous region of the Hazara Division of North West Frontier Province (NWFP). TT operates in the remote, least developed and most backward region of Pakistan, i.e. the semi-urban areas of Quetta. TT is replicating the Grameen Bank model in Quetta, whereas NRSP has a modified credit model similar to AKRSP. SF has developed an indigenous credit model, tailor-made for the target population of the area. TT is targeting only women (mostly from the smaller Hazara ethnic community), whereas the other two MFIs extend credit facilities to men in their target communities. The target groups of these MFIs come from different cultural backgrounds, and their micro-financial needs differ. These three MFIs are considered the most credible,<sup>74</sup> and hence the most socially acceptable organizations with transparent and comprehensive operations in Pakistan. They have also established comprehensive human resource development programmes, i.e. borrowers are trained in entrepreneurship development, credit management, business management, and social organization.

To make the study meaningful and representative of the situation in Pakistan, the survey of women borrowers was spread over three provinces, Punjab, NWFP and Balochistan. This is intended to reflect regional disparities in the social and cultural norms which affect financing activities. The fourth province, Sindh, was omitted in order to keep the sample large enough in the first three provinces. The individuals to be studied were identified by selecting every third recipient on the lists provided by the three MFIs.

### 1. CREDIT AND SAVINGS

Most of the women interviewed for this survey were married and many had children. A small percentage (6 per cent) had a handicapped person living in their home (including the chronically ill). The MF clients' enterprises were relatively young; about 71 per cent were established during the previous two years. Similarly, most of the borrowers (80 per cent) had received loans during that period (see table 1). The survey responses suggest a common pattern: a micro loan is normally granted one year after an enterprise has been started. About 33 per cent of respondents had obtained only a first loan.

Table A2.1: Business survival/loan duration (in percentages)

	One year	Two years	Three years	Four years	Five years or more
Loan received	35	45	13	4	3
Business established	57	14	9	6	14

Source: MF survey, August 2001.

<sup>73</sup> The initial survey included 105 respondents, but one was later dropped because of inadequate information.

<sup>74</sup> Sangi, Traqi and NRSP are the three most credible NGOs working in different parts of the country. Each one has a long history of activities for the eradication of poverty.

Most MFIs lend money on the basis of group or personal collateral. MFIs interact with the surrounding communities in order to form social groups long before the lending activities begin. Normally, MFIs first advise the loan-worthy group members to apply for a specific amount of money. They then provide potential clients with the loan application form, assist them in filling out the form, and help them to meet other requirements. Still, some clients consider the loan-related papers and the completion of the forms as the most difficult part of the whole application process.

**Table A2.2: Loan collateral**

	Cash	Building	Land	Personal	Others
Collateral used	12	13	2	47 *	54
Suggested collateral	20	3	4	42 **	36

Source: MF survey, 2001.

\* Most of the respondents repeated the same ½ bank collateral already covered under cash.

\*\* Others mostly suggested the same as Bank collateral include in cash and ⅓ asked for community.

**Table A2.3: Size and distribution of loans**

Amount applied for (Rs.)	3,000	4,000	5,000	6,000	10,000	15,000
No. applied	5	3	31	8	25	11
Amount applied for (Rs.)	12,000	13,000	20,000	25,000	30,000	
No. applied	3	1	6	4	5	

Source: MF survey, 2001.

The three MFIs follow a standard procedure, with loans sanctioned in time. The average loan screening time is about two weeks at NRSP, 1.8 weeks at TT, and six weeks at SF (table 3). The survey indicates that almost all the loan applications were accepted for the amounts requested.<sup>75</sup> In some high-risk cases additional physical collateral was required, mostly in the form of buildings, for the loans to be disbursed (reported by 13 per cent of respondents).

Each of the MFIs in this study encourages voluntary savings, but opening a savings account is not compulsory. Only NRSP provides some return on savings.

The average loan size is Rs. 10,407 (US\$156 using end-August 2001 exchange rate) with considerable variation across borrowers (standard deviation equals Rs. 9.5) and institutions (see the distribution in table 4). The highest loan disbursed was at NRSP and the lowest at TT. Loans from NRSP and SF have to be repaid in 24 monthly instalments, while loans from TT are due in 50 weekly instalments. The two peaks at Rs. 5,000 and Rs. 10,000 in the loan distribution reflect MFI preference for extending different amounts of credit to their clients.

<sup>75</sup> Two applicants received less than the sum requested. The need for a specific loan amount is assessed during the application process, so each applicant gets the sum she has applied for.

**Table A2.4: Loan duration**

Items	MFI		
	Sangi	Traqi	NRSP
Instalment	24	50	24
Duration	Monthly	Weekly	Monthly
Average amount in Rs.	748	111	1173
Average waiting period	1.5 month	1.8 weeks	2 weeks

Source: MF survey, 2001.

The costs of micro-finance remain high and they vary between the three MFIs. NRSP and TT charge interest in the range of 10-20 per cent p.a. on their loans. The prevailing inflation rate in Pakistan is about 5-6 per cent p.a. These costs increase when the interest rate is calculated on the basis of outstanding balance; it then reaches the level of 34 per cent p.a. SF tends to disburse commercial-type loans with an interest rate of 18 per cent p.a. and 2 per cent of these are given to community organizers as incentives (table 5).

**Table A2.5: Nominal and real interest rates**

	Sangi	Traqi	NRSP
Nominal rate	18%	10-20%	10-20%
Real rate	23%	34%	21%

Source: MF survey, 2001.

The survey reveals that the repayment rate among women borrowers is fairly satisfactory. About three-quarters of the clients repaid their loan on time without any special difficulty. The respondents cited "business relations, desire for another loan, and the profitability of credit" as the main motivations to repay. The remaining women did pay back their loans, but were charged a penalty for being late. The most common complaints about loan repayments were "short duration of the instalment payback period" and relatively "high instalments".<sup>76</sup>

**Table A2.6: Motivation to pay back**

No option	Believe in	Profit	Further loans	Business relation	MFI pushed	Guarantor pushed
17%	39%	44%	58%	38%	1%	2%

Source: MF survey, 2001.

**Table A2.7: Payment status**

Late	On time
20%	80%

Source: MF survey, 2001.

<sup>76</sup> About 10 per cent said high instalments were a problem, 27 per cent said the duration was too short, whereas almost half the respondents found no problem.

**Table A2.8: Late payment procedure**

Item	Percentage
Impose penalty	18
Use pressure group	6
Confiscate savings	0
Reschedule loan	0
Give rebate	1
Others	10

Source: MF survey, 2001.

**Table A2.9: Loan sanctioning**

	Sangi	Taraqi	NRSP	Average total
Designed procedure of payment followed	97%	65%	97%	98%
Sanctioned in time	97%	100%	97%	98%
Favouritism in loan sanction	0%	24%	0%	9%
Queue jumping	0%	48%	0%	15%

Source: MF survey, 2001.

**Table A2.10: Major loan repayment problem**

High instalments	10%
Duration of instalments are short	27%
Procedure is complicated	0%
No problem	46%
Did not answer	17%

Source: MF survey, 2001.

Loans were mostly obtained in the names of the women borrowers, except for a few cases in which they were given in the name of the husband (about 5 per cent). Most of the businesses in the survey (about 65 per cent) were fully owned by women entrepreneurs. Of the remaining enterprises, 16 per cent were partnerships with husbands, and 10 per cent were partnerships with families. However, in most cases, the husbands decided how to use the loan, i.e. they decided what the women could purchase with it (about 46 per cent) (table 11).

**Table A2.11: Owners of loans**

Items	Who purchased items against loan	In whose name loan acquired	Who owns the business
MFI	0%	0%	-
Husband	46%	5%	-
Family (brother, father)	14%	0%	-
Self	37%	91%	65%
Self and husband	-	-	16%
Women and family	-	-	10%
Self and female partner	-	-	0%
Others	10%	4%	2%

Source: MF survey, 2001.

While 33 per cent of women entrepreneurs reported receiving only a first loan, others (65 per cent) reported receiving more than one loan. In addition, about 76 per cent of women

borrowers intended to apply for another loan.<sup>77</sup> The reported purpose of these additional loans was for business expansion. Good performance on the previous loan payments was a major factor in securing additional loans. It seems that fresh loans were used to pay back the previous loan. Respondents mentioned that when they didn't have the funds to pay back a loan, they borrowed money from relatives for a short period of time. These short-term loans from relatives were paid back through fresh loans from MFIs (table 12).

**Table A2.12: Number of loans received**

First loan	33%
Second loan	47%
Third loan	12%
Fourth loan	6%
Applying for additional loan	76%
Loan for expanding business	64%
Net business	10%
Current loan repayment	0%
Others	3%

Source: MF survey, 2001.

Women still borrow from informal sources, with about 28 per cent of respondents claiming to have done this in the past. The main reason for resorting to informal sources was because information on MFIs was not available to many of the women (stated by 45 per cent of respondents). Moreover, the easy administration (reported by 29 per cent) and no documentation requirements (10 per cent) were other reasons for obtaining credit from the informal sector. Informal sources, however, charged much higher interest rates.

**Table A2.13: Borrowed from informal source**

Yes	28%
No	67%

Source: MF survey, 2001.

**Table A2.14: Reason for borrowing from informal source**

Information about MFI not available	45%
Easy to get	29%
No documentation	10%
Family approved	5%
No interest/markup	8%
Family approved	3%

Source: MF survey, 2001.

## 2. MICROENTERPRISE DEVELOPMENT

Micro-finance has had a positive impact on employment, with a reported increase of 19 per cent. Most of this increase is seen in businesses that have benefited from a second or third loan. The annual increase in employment in Pakistan can be calculated at around 8-10 per cent. This remains rather low in comparison to the potential impact of micro-finance on employment in cottage industry. The average size of loans disbursed by micro-finance institutions is Rs. 7,977/- (table 3). With just a tiny sum of money, microenterprises were able to repay their loans even with

<sup>77</sup> This must be read with care, as many of these clients have not yet completely repaid earlier loans.

high interest rates (18 per cent) and at the same time improve the level of education, food and other living conditions in their communities. The average impact on employment was not as high as expected, probably because of the high cost of loans.

Women used loans for four general types of activity: agriculture (40 per cent), manufacturing (30 per cent), retailing (19 per cent) and services (11 per cent). Agricultural activities included raising animals (buffalos and cows) for milk and dairy products, and the cultivation of beans and vegetables. Manufacturing activities revolved around handicrafts such as pottery, shawl making, and embroidery. Services included the construction of toilets, while retailing included tyre-repair shops, general stores, and school canteens.

Thirty-five per cent of MFI clients did not receive help in identifying business opportunities (table 15). Twenty-two per cent of the women received support from the MFI and 11 per cent were assisted in some way by NGOs. Non-institutional support was also available to some women, with 5 per cent being helped by their husbands, 8 per cent by family members, and 4 per cent by people engaged in the same activity.

**Table A2.15: Help in identifying business opportunities**

No help	35%
Some help	51%
No response	14%
Help from MFI	22%
Help from Government	1%
Help from husband	5%
Help from family	8%
Help from field workers	4%
Other NGO	11%

Source: MF survey, 2001.

The survey found that most microenterprises in Pakistan did not hire employees. Only 26 per cent had paid employees and the average number of workers per enterprise was 3.1. Of these employees 25 per cent worked part time (table 16). Twenty-two of the surveyed women entrepreneurs employed their children, resulting in a total of 22 children, with an average age of 16 years, working in a business for an average of 15 hours per week. Seventy-two per cent of the working children were boys.

**Table A2.16: Employees in microenterprises**

Businesses with paid workers	26%
Average workers per business	3.1%
Part-timers	25%
Unpaid workers	0
Unpaid full time	0
Unpaid part time	0
Employees increased in businesses	19%

Source: MF survey, 2001.

**Table A2.17: Working children**

Number of businesses	22
Number of children	29
Average age of children	16
Average hours per week	15
Boys	72%
Girls	24%
Average number of children per business	1.3%

Source: MF survey, 2001.

About 90 per cent of the microenterprises surveyed improved some aspect of their activities through the use of credit (table 18). About 76 per cent of the firms reported an increase in profit (an average of Rs. 292/week).<sup>78</sup> An increase in sales was reported by 77 per cent of the enterprises (an average of Rs. 300/week). Business diversification was experienced by 15 per cent and an increase in the number of employees was reported by 12 per cent of the businesses (table 18).

**Table A2.18: Business improved after credit**

Improved	90%
Did not improve	No response
Profit increased	70%
Sales increased	38%
Business diversified	15%
Jobs created	12%

Source: MF survey, 2001.

**Table A2.19: Increases in profit and sales**

Profit increased	76%
Profit decreased	0
Profit unchanged	3%
Increase in profit	Rs. 292.46 per week 46% responded
Sales increased	77%
Sales decreased	0%
Sales remained unchanged	4%
Increase in sales	Rs. 161.36 per week a few responded

Source: MF survey, 2001.

### 3. WOMEN ENTREPRENEURS

The majority (71 per cent) of women entrepreneurs reported a positive change in their status in the family and community (table 20) after their enterprise had improved through the use of credit. About 25 per cent of the women felt that their image substantially improved after receiving a loan, 16 per cent became more involved in household matters, 42 per cent said their opinion was given more weight, and 10 per cent had become wealthier after receiving a loan (table 21).

<sup>78</sup> Responses to the question on profit and sales varied when asked repeatedly. The calculations on sales and profit did not match.

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**Table A2.20: Change in women's status**

Status changed	71%
Status did not change	21%
No response	7%

Source: MF survey, 2001.

**Table A2.21: How status changes**

Image improved	25%
More involvement in household	16%
Opinion more valued	42%
Became wealthier	10%

Source: MF survey, 2001.

**Table A2.22: Status of women members**

Simple member	67%
Hold office	7%
Participate in MFI activities	63%
Attend meetings	42%
Attend training	30%
MFI introduced them to Ass./Org.	28%
Attend nothing	21%

Source: MF survey, 2001.

**Table A2.23: Group meetings and their impact**

Confidence improved	40%
Knowledge improved	69%
Communication skills improved	19%
Understand issues	29%
Managerial skills	10%
Financial management	13%
Collective thinking improved	22%

Source: MF survey, 2001.

A large proportion of women borrowers (63 per cent) were involved in MFI activities, with about 42 per cent attending business training (table 22). The MFIs also help many women to contact associations in the surrounding communities. Many belong to borrowers' associations, 7 per cent being executive-board members.

Meetings and interactions at the MFI and the association have improved the knowledge of women entrepreneurs (69 per cent), given them more confidence (40 per cent), helped them understand issues better (29 per cent), given them better management skills in financial matters (13 per cent), and improved their communication skills (19 per cent). These positive changes have improved the collective thinking of women's groups (reported by 22 per cent of clients, as shown in table 23). In 1997 only 50 per cent of the women participated in meetings. During the year 2000 the percentage of active women had increased by 18.5 per cent. One can draw the conclusion that either more meetings were organized or that women were attending more meetings and becoming more actively involved in the MFIs, associated organizations and their communities.

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## 4. HOUSEHOLD RELATIONS

A large majority of women entrepreneurs (86 per cent) reported a positive change in family relations after benefiting from the use of microcredit. Male family members had become more willing to approve the business decisions made by their wives. Women were increasingly making decisions about loans without consulting their husbands (68 per cent). However, about one-quarter of the female clients still reported that their husbands made decisions on their loans, and 8 per cent claimed that families made these decisions (table 24). This scenario can be interpreted in two ways: women are becoming more independent and male family members are less dominant.

**Table A2.24: Business and loan approval and decisions**

Male members' approval of women entrepreneurs	86%
Women made decisions on loans alone	68%
Husbands made decisions on loans	25%
Family made decisions on loans	8%
Friends made decisions on loans	0%
No response	1%

Source: MF survey, 2001.

Adequate support was not given to women by their husbands and other male family members after they received their loans. About 33 per cent of women clients received help in the form of business advice, 30 per cent were assisted in outside activities, 40 per cent received moral support,<sup>79</sup> and 38 per cent received physical help in their business activities<sup>80</sup> (table 25). Communication did not improve with time, perhaps because training programmes were inefficient or because women did not attend additional training on communication.

**Table A2.25: Formal support from male members of the family**

Physical help	38%
Advice	33%
Moral support	40%
Outside activities	30%
Financial help	6%

Source: MF survey, 2001.

<sup>79</sup> Since more than one option can be selected, moral support to women is too low.

<sup>80</sup> More than one option was available to respondents.

Women borrowers reported a more flexible share of household work and business responsibilities. About 30 per cent divided their time between business and housework, 20 per cent were helped by husbands in the household,<sup>81</sup> 33 per cent simultaneously handled housework and business, and 13 per cent delegated their household work to other family members<sup>82</sup> (table 26). The weight of women's opinions also increased (table 27).

**Table A2.26: Distribution of women entrepreneurs' time between housework and business work**

Divide time between business and house work	30%
Delegate to other member of family	13%
Simultaneously handle housework and business	33%
Husbands help	20%
Others	7%

Source: MF survey, 2001.

**Table A2.27: Loan period and opinion**

Loan duration	Weight of opinion	%Age
1997 and before	12	60
1998	10	45.45
1999	13	35.42
2000	14	28.57

Source: MF survey, 2001.

## 5. HOUSEHOLDS AND FAMILY SITUATION

The family and household situation of clients in Pakistan reportedly improved after they had received credit. About 75 per cent of the women saw an increase in profit and income,<sup>83</sup> 38 per cent experienced better family living conditions, 18 per cent reported a reduction of intra-family conflicts and disputes, and 22 per cent increased their families' assets. The increase in family income has been associated with more hours of work (64 per cent of cases) (table 30) and the decrease in intra-family conflicts seems to be associated with the long hours women spend working, ut it may be wrong to assume this is the only reason.<sup>84</sup>

<sup>81</sup> Culturally, men are rarely involved in household activities like cooking, cleaning, dishwashing, etc. Therefore, women entrepreneurs do far more work than men during the day.

<sup>82</sup> Help from men is subject to a variety of factors; if a man is employed full time (that is out of the scope of this study) he may not be able to help the woman physically. Nevertheless, moral support is still rarely seen. As is well known, culture in Pakistan does not encourage women to get involved in any activity outside the home, or to interact with other men. Husbands are often very reluctant to allow their wives to get involved in business activities. To gain more information, a more detailed study is needed.

<sup>83</sup> Responses on sales and profit were rather unsuccessful. The questionnaire asked directly if profit increased, and if sales increased. Responses were confusing. It seems that borrowers have little or no understanding of the concept of profit, sales and assets. Mostly when women were talking of profit, they were referring to it as their total income.

<sup>84</sup> It would be too simplistic to assume that more hours of work reduce conflict; similarly it is too simplistic to assume that increased awareness or increased income is the cause of reduction in family conflict.

**Table A2.28: Family health/assets/conflicts**

Increase in profit	75%
Increase in assets	22%
Reduction in intra-family conflicts and disputes	18%
Better living standards	38%

Source: MF survey, 2001.

The increased income reported after the use of a business loan naturally improved household conditions. About 38 per cent of the women entrepreneurs reported improvement in the quality of food they were able to buy, serve, and eat. Forty-four per cent of the women reported an improvement in the education of their children, 50 per cent saw improvements in their household conditions, and 15 per cent in health facilities (table 29).

**Table A2.29: Improvements in household conditions**

Household conditions improved	50%
Education of children improved	44%
Health facilities improved	15%
Food quality improved	38%

Source: MF survey, 2001.

**Table A2.30: Working hours**

More hours work per day	64%
Less hours per day	0%
Same hours per day	16%
Did not respond	20%

Source: MF survey, 2001.

About 48 per cent of the women surveyed believed that food quality improved because they were able to spend more on it, while 30 per cent believed the improvement was due to an increase in the personal attention that they gave to the subject.<sup>85</sup> Responses suggested, however, that the burden of debt payments increased over time and that little or no surplus was left to continue improving household conditions, education or food quality (table 31).

**Table A2.31: Loan period and improvements**

Loan duration	Education improvement		Food quality improvement		Household conditions improvement	
	F	%age	%age	%age	%age	%age
1997 and before	8	40	7	35	10	50
1998	11	50	5	22.72	12	54.54
1999	23	47.91	22	45.83	25	52.08
2000	4	28.57	6	42.86	4	28.57

Source: MF survey, 2001.

<sup>85</sup> The questionnaire offered the option of personal attention, and one-third respondents chose it. This is probably the result of the awareness raised by the meetings arranged by NGOs.

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## 6. CONCLUSIONS

Lending money to women entrepreneurs in Pakistan is believed to be a risky and costly endeavour, but the three MFIs in the survey have been doing a reasonably effective job in making and recovering loans. MFIs use group collateral in most circumstances and this has been very successful among women clients. The acceptable repayment rate is largely due to the work MFIs do with borrowers' organizations prior to lending, and to the advice and training that they give to their women clients. The adopted micro-finance model does encounter some problems, however, with respect to repayment, because in monthly and weekly instalments MFIs charge much higher interest rates than they declare. Because these instalments are calculated on the basis of a daily balance, the interest rate is declared at 20 per cent; in reality it is around 34 per cent. As a result payments may not be made in full or on time.

Micro-finance in Pakistan is still in its very early stage. The reach and even the contribution of micro-finance programmes have been limited by the level of poverty in the country. Very little funding and loans have actually been provided by MFIs and their impact is therefore hard to assess. MFIs need more guidance in their work in order to improve the situation in this sector; for example they encourage their clients to save, but they do not provide returns on saving so there is no incentive for the client.

Although micro-finance is becoming more and more popular in Pakistan, there are restrictions. In many rural areas credit is held in contempt because Islam forbids the use of interest in business transactions. The Supreme Court of Pakistan has supported this belief and the State Bank of Pakistan and all other commercial banks are supposed to convert their current system to profit sharing or other alternatives in order to avoid charging interest rates. As a result, the general public tends not to choose micro-finance when looking for funds to establish or improve a business. Other restrictions include the MFIs' lack of technical expertise and the fact that they are located outside the villages and do not have real insight into the problems that new investors face. This prevents MFIs from correctly identifying the best solutions to clients' problems. Microenterprises in general do not make much profit, yet they are still taxed by MFIs on what they do make. This is not very sustainable. An alternative system of micro-financing in Pakistan needs to be introduced, one that caters to the needs of the poor and does not tax low-profit enterprises, yet at the same time takes account of the religious beliefs of its clients.

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