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RESEARCH PROJECT

ROLE OF MFI'S IN WOMEN DEVELOPMENT

SUBMITTED BY:

MAVERAH QAISER

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NUST Institute of Management Sciences, Tamiz ud din Road, Rawalpindi Cantt.
Phone # 051-9271580, Fax # 051-9271596, E-Mail: dnims@paknet2.ptc.pk

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Chapter: 1

INTRODUCTION

1.1 LIVING CONDITIONS OF WOMEN IN PAKISTAN¹

1.1.1 Social Conditions

- All citizens are equal before law and entitled to equal protection of law.
- There shall be no discrimination on the basis of sex alone.

Like all other developing countries in the world, Pakistan also has many colors in its society that portrays its culture and general behavior. When we talk about social conditions of women in Pakistan then it starts from HER BIRTH, generally the birth of the girl child is not considered blissful, because Pakistan is a developing country that has much higher poverty rate, girls are expected to get married at an early age and stay at home and raise children, not to work in a trade or profession, hence she would not be able to help in supporting the family, and because of the heavy dowry, which is the tradition of our society, parents are expected to pay when their female children are married.

Women are often denied the right to be HEALTHY, according to UNICEF's 'progress of nation' Report for 2000, only 26 percent of women between 15 to 49 years of age are attended to by health personnel even once during pregnancy. Pakistan's maternal mortality rate of 350 per every 100,000 Live births stood as one of the very worst in the world. The high birth rate, with an average of over six children per household, exerts a major strain on the welfare of

¹ http://aphy.ku.edu.pk/resources/res2001/afsheen-kamal/political_c.htm

women. The GENDER DISPARITY in term of infant mortality was also starkly visible, with 160 female children dying within the first years of life for every 1,000 births, as against 100 males. Informal studies also reported that in most household, far greater importance was attached to the welfare of the male child than his female counterpart, contributing to the higher rates of death for female children under the age of 5, as family cannot afford proper health care for all of its children, parents often place a higher emphasis on their son's health because of their status in society. Women are also denied the rights to nutrition, If food is scare, husband/father/brother are often given most of the food and women are left with very little to eat.

Women are often expected to do the WORKLOAD of family, they often work long days, sometimes 18 hours, working in the field, factories, market place or as maids and then they also have to fulfill their family requirement, household work, due to their long hours of work, they are often unable to have time for relaxation or recreation.

Women are also often denied their rights to EDUCATION, many families cannot afford to send all of their children to school, there is a continuing belief that there is no benefit to educating a girl child, when she could not be out working and earning money for the family, according to official data, just over 35 percent of women in the country are literate, while the government accepts enrollment rates for girls in primary education, standing according to official estimates at 62 percent, remain low. In this context, Pakistan ranks far behind other South Asian countries and indeed remains amongst the ten lowest-ranking countries of the world in terms of education for girls.

Worse still is the estimate by a number of international agencies that the female literacy rate in the country is in fact falling, with the limited capacity of the educational infra structure unable to meet the

demands of a growing population. The gap between girls and boys too is widening, with 92 percent of boys now enrolled at schools.

The disparity opens up further at higher educational levels, translating in to discriminating in term of opportunity, for instance, over 28,000 girls in Karachi, the biggest city of Pakistan, clearing their matriculation examination in the sciences in August 2000 were unable to continue an education in science due to shortage of seats, available spaces in the 33 colleges and 13 higher secondary schools in the country's largest city offering further education in science stood at only 10,820 as compared to 38,569 female candidates who passed their matriculation in science subjects. The situation for boys showed a vast improvement, with seats unavailable only for 3,000 male matriculations in science. The illiteracy in women and society behavior towards it is due to the concept that girls are expected to get married and not work in profession. Thus it is believed that educating boys is more important because they are considered to have more future responsibilities for the family's economical survival. The impact of tradition on women's lives is often extremely adverse. Considered as property, they are disallowed a choice in matters of great significance to their lives, including marriage, even among educated sections of society, girls are frequently given no say at all in matters of marriage.

The vast social issues of dowry also remain in place, acting as one of the reasons why families prefer the birth of a boy to that of a girl. In rural communities, families reported that one of the most acute financial pressures they faced was the MARRIAGE of their daughters. In many cases, the failure of a bride to bring in the kind of dowry her in-laws demanded led to cases of her being abused and mistreated by her husband and his family.

With the hold of tribal custom still binding society in chain. Other examples also exist to protect their property from distribution; hundreds of girls each year from sindhi families are still "married" to the Holy Quran (the holy book of Islam) under this law a woman has to live without a husband throughout her life. But this law is only applied among the class of landlords. They use this only to keep and grab the land of their sisters and daughters. According to a report by an Islamabad-based NGO, there are currently over 5,000 such women in sindh.

A woman's right to liberty is restricted in the name of modesty, protection and prevention of immoral activity. In rural areas 90% of women work in the fields, they work for the whole day with their male family members, but they still have to face their wrath. Male family members keep a strict eye on the female members in the name of "HONOUR". But one must understand the meaning of honor because in our society honor does not have the meaning of its true sense. Here it really means possession of women as a form of property, and they can be put to death if they lose their HONOUR

According to HRCP (2000) more women became victims of honor killings, including "karo kari" than ever before, while the rate of all forms of violence against women soared. Every second Pakistani women is now believed to be a direct or indirect victim of VIOLENCE.

In urban areas of Pakistan, many out-dated customs have much less of an influence, because of the fact that women are playing a major role in the generation of family income, they do not carry out "unpaid labor" like rural women, but they are also facing daunting challenges and problems in the cities.



1.1.2 Economic Conditions

a) Women In Urban Areas

Like all the women working in the rest of the world, the Pakistani women, in cities are very active in contributing to the prosperity and development of their country. They have proved their worth in every aspect not only can they be found in the secretarial positions but the executive chairs have also been taken over by them.

The businesses being run by women range from scrapping & recycling to architecture, from textile engineering to textile designing, from interior decoration and fashion designing to running successfully hospitals and lists goes on.

Lots of Pakistani women working well in IT industries and more women are moving in the related field of work. Computers have offered women the convenience of coping with deadlines by putting in late hours and additional time on weekends. Hence a lot of Pakistani women not only working in the computer software houses but they are also running their own firms.

Compared to 33.37 million men, only 5.91 million women formed a part of the workforce. The UNDP found in its human Development report, 2000 that only 8 percent of women in the country hold administrative or managerial posts, while 25 percent are professionals or technical workers.

The government hoped to increase employment of women in the agric-sector to 48 percent over the coming decade, from the total of just over 23 percent where it stood according to latest estimates, and in the services sector to 22 percent from 13 percent. The government also announced programs to advance micro-credit to women, with RS

500 million extended to rural women by February 2000 under the Agricultural Development bank of Pakistan's Women's credit Programs, aimed at generating self-employment. The Punjab Government also announced in July that 50 percent of bank loans released by the newly established micro-credit bank would go to women.

A newspaper report found barely 100 women working as Journalists in the country, with papers read out at seminars finding the stereotypical portrayal of women in the media and the often negative image of working women, had a huge impact on their status.

b) Women In Rural Areas

- All citizens are equal before law and are entitled to equal protection of law.
- There shall be no discrimination on the basis of sex alone.
- Steps shall be taken to ensure full participation of women in all spheres of national life
- Every one has the right to equal access to public service in his or her country.

In Pakistan's economy women play an active role. More than 65% of population of Pakistan lives in rural areas, where economical mode is different than urban areas, hence rural women work mode is quite different than urban women.



1.1.3 Political Conditions

Pakistani women took a major political part in the history of Pakistan. Fatima Jinnah and Begum Liaquat Ali Khan can simply be quoted for this purpose. A great majority of people think that it is irreligious, against Islam that the women should go in open and take part in social structure of the country, yet to a great extent this taboo has been removed and in present days the women are not only working shoulder to shoulder with the men but fully participating in the political life of the country. The constitution of the country has given full political rights to men and women but still we see that there are fewer women in the national assembly there was a rule also if women cannot be elected they should be nominated it is only because that women cannot compete with men in general election therefore now for that purpose they should be nominated in National assembly. It is ironical that the population of both the sexes is half and half and still there are lots of impediments in the progress of the women participation in politics, it is well apparent that our society is primitive and has not attained the awakening, which is in the modern world.

1.1.4 Legal Conditions

- All citizens are equal before Law and are entitled to equal Protection of law.
- All human beings are born free and equal in dignity and rights....
- All are equal before the law and are entitled without any discrimination to equal protection of the law

In constitution of our country there is no distinction between man and woman. Both have got the same rights but certain laws have been enacted to safeguard the rights of the women considering

their weaknesses. **IN FAMILY LAW ORDINANCE 1952** for instance it has been laid down that Muslim men are forbidden to keep another wife in the presence of first wife without the consult of the first wife and polygamy is forbidden, and if Muslim man in violation of the above law, married to the second in the presence of the first wife he will have to pay the full dowry to the wife as well as he shall be punished for polygamy.

- There is also **DOWRY LAW ORDINANCE**, which states that demand and giving dowry is forbidden
- Prior to the coming of this ORDINANCE there was another law that called **SHARIAT LAW OF 1935** where in certain Provinces of India the Muslims women were not given their share in the inherited property, and particularly in Punjab this was safeguarded and now Muslim women are entitled to receive property.

There is also Muslim family **COURT ACT** where all the matters pertaining to the disputes between Muslim husband and wife are dealt related to the divorce, dowry, custody of the children, Talaq, maintenance to the wife and children and regarding to all Muslim family ordinances. The purpose behind these acts is to safeguard the rights of women.

As we seen above that there is no discrimination in the law between a man and a woman, but still signs of inadequacy are visible. One example came in the hearing of a custody case in year 2000 by the Lahore High Court (LHC). Rather than deciding the matter put before it, the court in fact demanded the separated couple should unite once again to safeguard the welfare of the children. This was despite the fact that during hearings, the wife, who was seeking divorce, had complained she was subjected to repeated violence.

A newspaper report looking in to the issued of women seeking release from marriage reported that on average it took a woman two years or more to obtain "KHULA".

An amendment in the **CITIZENSHIP ACT** welcomed by several human rights groups, allowed the grant of nationality to children of Pakistani mother, though not to the women's husband. Most women across the country remained ignorant of even their most basic rights, with a newspaper survey conducted in August finding that over 80 percent of young women aged 18 and 24 in Lahore had no idea of the clauses contained in the "NIKAHNAMA". Almost 90 percent, including those educated to graduate level and beyond, did not realize they had any rights at all, such as those to divorce.

The desperation of women seeking help for problems faced in various areas of life can be gauged from the fact that with in six months after they were setup in 1999, 180 women had approached the six women's crises centers established in Islamabad, Vehari, Lahore, Sahiwal, Karachi, and Peshawar, Of these, the vast majority, 291, sought legal help, while 60 were looking for shelter and 55 for medical help.

1.2 ROLE OF INSTITUTIONS

1.2.1 Role of Government

Women Development Wing is the principal institutional structure established to promote the integration of women in the planning & development process. It was set up in 1979 as one of the Divisions of the Cabinet Secretariat and was upgraded to a full-fledged Ministry in 1989. In November, 1996 Social Welfare & Special Education Division and Women Development Division were merged

and the Ministry was re-named as Ministry of Women Development, Social Welfare and Special Education. It comprises two Wings namely Women Development Wing and Social Welfare and Special Education Wing.

The Ministry of Women Development, Social Welfare and Special Education is national focal machinery for the advancement of women, social welfare and special education. It plays the role of an advocate, lobbyist and coordinator for the cause of women, children, and special persons.

It is responsible for formulation of policies and laws to meet the special needs of women ensuring that women interests and needs are adequately represented in public policy formulation by various organizations and agencies of government, promotion and undertaking of projects for development of women, matters relating to equality of opportunity in education, training employment and facilities in health care and community development.

Functions of the Ministry

- Matters relating to formulation of public policies and laws to meet their special needs of women, ensuring those women's interests and needs are adequately represented in public policy formulation by various organs and agencies of Government.
- Registration of and assistance to women's organizations.
- Promotion and undertaking of projects for providing special facilities for women.
- Promotion and undertaking of research on the conditions and problems of women.
- Pakistan's representation in international organizations dealing with problems of women and in bilateral contacts with other countries.

- Matters relating to equality of opportunity in education and employment and the fuller participation of women in all spheres of national life.
- National Planning and coordination in the fields of Social Welfare.
- Dealings and agreements with other countries and international organizations in the fields of Social Welfare.
- Charitable endowments.
- National Council of Social Welfare; grants-in-aid to voluntary social welfare agencies.
- Federal agencies and institution for social welfare research.
- Standards of social work and education.
- Training and education of disabled.
- Administrative Control of National Zakat Foundation.
- Custody, protection, treatment and rehabilitation of children involved in crimes, setting up and improvement of juvenile courts.

Vision

Enhancement of Status of Women to promote women rights, ensure their active participation at all levels on the basis of equity with men and to serve as an agent of change in the society.

Goals

- Sustained growth in the status and participation of women in all spheres.
- Capacity Building and Skills Development.
- Poverty Alleviation.

Women Development Wing is, inter-alia, responsible to undertake and promote projects for providing special facilities for women. Filling the gaps in the development efforts of the Federal/Provincial Departments and NGOs, the Women Development Wing also acts as a financier to fund the women's related development projects all over the country.

Major Activities Initiated/Undertaken

The women comprise more than 50% of the population of this country. It is the responsibility of the Ministry to improve the quality of life for the women and to coordinate efforts for women's development in the country. Major activities initiated/undertaken in this area are as under

- Restoration of Women Seats in National and Provincial Assemblies.
- 33% Increase in Women Seats in Local Bodies.
- Five percent quota in Employment
- U.N. Convention on the Elimination of all Forms of Discrimination against Women (CEDAW).
- Report of the Commission of Inquiry for Women
- Crisis Center for women in Distress
- Fund for Women in Distress & Detention under the control of Ministry of Law
- Micro Credit for Women

Ministry of Women Development is one of the equity holders of First Women Bank and is a Director on its Board of Directors. In addition, the First Women Bank has been given a credit line of Rs. 48 Million to be given as micro credit up to the limit of Rs. 25,000 at 12% mark up rate with out collateral on personal surety basis or group guarantee.

- Family Protection Project

- Project for Women's Representation in Local Government
- National Commission on the Status of Women.

1.2.2 Commercial Banks

HBL and NBP are not only concentrating on small loans but also providing funds to other NGOs, enabling the later to extend their outreach.

a) Habib Bank Limited

Habib Bank Limited established 'Micro-Enterprises Division' in the year 1991 with the prime objective to bring the informal sector of Small Scale Enterprises/Micro Enterprises to the institutional financing channel. The Bank aims: -

- 1) To motivate the saving potentials of self organized groups.
- 2) To mobilize these groups into developing saving habits and encourage them to save on daily/weekly basis.
- 3) To explore and establish the requirement of Self Help Groups whom the Bank wished to work with.
- 4) To provide financial assistance to the poor who desired to establish their own small entrepreneurs or to expand their existing businesses.

The bank started Pilot Scheme "Banking with the Poor" in 1992, especially designed for the poor. Features of the scheme are as under

- Credit up to Rs.10, 000, sanctioned to the poor borrowers for various income generating activities at a simple mark-up rate of 16% per annum which is recovered along with the installment on monthly basis.

- Initially, the amount of loan is small but the 2nd, 3rd and 4th loans can also be sanctioned for bigger amounts based on borrowers satisfactory repayment performance.
- A one-page application form has been devised in Urdu and English and the loan is sanctioned without any tangible security, just against two personal guarantees of the account holders.
- It has been made obligatory to approve and disburse the loan within 7 days.
- At the time of disbursement of loan 10% of the principal amount is deducted and kept in non-checking account, opened in the name of the borrower.
- The loan is adjustable within two years with one month's grace period.

Outsourcing Financing Facility to OPP and NRSP

The bank established linkage with OPP and provided a credit line of Rs.0.5 million for onward disbursement to Banarsi Weavers. Another credit line of Rs.1.0 million was also provided to OCT. So far, 389 male borrowers to the extent of Rs.2.722 million and 33 female borrowers to the extent of Rs.0.181 million have been reached through this arrangement.

NRSP received two credit lines from HBL at markup of 14 and 15% respectively for duration of one year for on lending at 20% to NRSP clients. In 1998, Habib Bank's credit line available to NRSP was intern available to SRSP at a markup rate of 15.5% per annum.

b) National Bank of Pakistan (NBP)

NBP has been the first to enter in micro finance in the early 1990's. Besides its own Supervised Rural Credit Scheme, operating

since 1972, the bank is also facilitating OPP and PRSP through agreed credit arrangements. Recently, NBP has extended a credit line of Rs.20 million to OPP @14% markup for on lending by OCT @18% to its clients.

c) Allied Bank of Pakistan Ltd

(ABL) is assisting small entrepreneurs in the unorganized sector to increase their productivity to encourage expansion in employment levels since 1993. It had disbursed Rs. 41.9 million to 1,662 clients upto 1998. Average loan size was Rs. 25,000. The program requires 20% equity stake and two personal guarantees. Markup charged was 14%.

d) Bank of Khyber (BOK)

BOK is a provincial bank. BOK has already established a special window for making loans up to Rs. 25,000 at markup of 18% with lesser documentation required. The bank intends to be the largest micro finance institution in NWFP on sustainable basis. Its prime objective is to provide access to the low income and disadvantaged segments of the society to raise their standard of living, with special emphasis upon women. In 1997, BOK started its micro finance activities on receiving US\$ 1 million credit line from ADB. A separate Micro finance Unit was established in BOK in November 1999. It has micro finance dedicated portfolio of Rs. 308.6 million as of 2001. BOK had disbursed upto 2001, Rs. 565.7 million to 9,924 clients, of which Rs. 518.0 million to 8,050 male clients and Rs. 47.7 million to 1,892 female clients were disbursed. During the year 2000-01, an amount of Rs. 155.1 million was disbursed to 2,936 male clients as compared to Rs. 17.0 million to 829 female clients. Overall Loan Delinquency has been reported at

Rs. 37.8 million on account of 1,633 clients including over dues more than 90 days of Rs. 33.0 million on account of 816 clients. It plans to increase services to female borrowers and savers.

Loans portfolio (Rs. 565.7 million) as of October 2001, has been diversified in various activities viz. Agriculture (8.7%), auto (3.9%), engineering (4.1%), furniture (3.7%), garments (6.5%), manufacturing (10.1%), professionals (3.8%), services (26.8%), Tourism (3.8%), and trading (28.7%).

BOK is also performing well on saving mobilization. It had been maintaining 900 accounts in compulsory and 5,913 accounts in voluntary savings, represented by Rs. 2.1 and 80.0 million, respectively. Profit on savings is paid @ 5-7 %, with average of 6 %.

e) Bank of Punjab (BOP)

BOP also a provincial bank, has initiated a pilot project of rural micro finance in Punjab (Kissan Dost Scheme) for farmers having less than 4 acres of land and, based on a successful experience with pilot effort, envisaged to expand its program at a larger scale. It was also planning to initiate Community Development Lending Scheme. BOP lends upto Rs. 50,000 @18%, with overdraft facility against land title.

Unfortunately, most of the banks still see micro finance primarily as a social obligation rather than as a business opportunity. That it will require more exposure (especially internationally) for Pakistani bankers to understand the nature and opportunities of micro finance.

Chapter: 2

LITERATURE REVIEW

2.1 NEED FOR MICROFINANCE²

The failure of both formal and informal financial markets to serve the poor in a desired manner have lead governments, donors, NGOs and the Civil Societies, at large, to utilize innovative credit programmes. Such programmes have been influenced by the Grameen Bank (GB) of Bangladesh, a pioneer in this special area of financing, focusing two vital areas of social development viz: alleviation of poverty and women empowerment. It overwhelmingly serves the women with exemplary recovery rate.

These micro finance schemes have a positive response and that is why their recovery rate is almost 100%. The economic condition of the women has been improved and poverty reductions do exist.

The main beneficiaries of MF schemes are women who ensure the survival of the family unit but their traditional role is rarely enhanced beyond subsistence activities. Supporting the women rendering positive multiplier effects, in the shape of better nutrition, better health and education of children, etc.

2.2 MICRO-FINANCE EXPERIENCE IN DEVELOPING COUNTRIES.

Micro finance Programs have been widely perceived as successful on account of financial sustainability, operational efficiency, outreach and replication. These programs improved the economy of most developing Asian countries like Pakistan Bangladesh, Indonesia, Nepal and Sri Lanka. Following discussion will tell the role players in these programs.

²http://www.adb.org/Documents/Others/PRM_Supplement/Microfinance_Development_Road_Map_PAK.asp?p=prmnews

2.2.1 Grameen Bank of Bangladesh

Grameen Bank (GB) project was started in 1976 on experimental basis in response to Bangladesh's declining and stagnant economy and to assist the rural population, more than half of which did not qualify for formal credit, owing to absence of any collateral and was therefore dependent upon informal sources. After that it was transformed into a specialized financial institution for the rural poor in 1983.

The salient features of GB methodology follow: -

a) Membership-

- Only households consumer with less than half an acre of land or Equivalent assets
- Group based lending (five members each).
- Five to eight groups form a Center in a village.
- Loan Officer meets weekly with center members.
- For the first few weeks, they learn about GB practices, save \$0.02 a week, learn to sign their names and recite and discuss "The 16 Decisions" to self-improvement.
- Each group elects a chair and each Center elects a Chief.
- New members must also buy a share of stock in GB for 100 Taka (\$2)

b) Lending Products

- The innovation of GB is to consider future access to loans as collateral for repayment i.e. most borrowers repay because they want to preserve their future access to loans.
- Concept of Joint liability-default by one-group member leads to banishment for all members. Very cost effective approach in term of screening cost
- Small homogenous groups- each individual's performance is

crucial in determining the group's success or failure.

- Staggered disbursement- loan disbursement is in steps so as to reduce the risk of default.

c) Loan repayment

- Fifty equal loans repayments (two weekly interest payments).
- According to the respective stream of cash flows (is case of general loan)

d) Types of loans

More attractive types of loans to the best borrowers- "General Loan", Housing Loans, longer terms, and lower interest rates. Loans for college expenses and for cell-phones. The loans for the following purposes are advances in addition to general loans: -

- Building sanitary latrines.
- Installation of tube-wells for the supply of drinking water and for kitchen garden.
- Agricultural inputs.
- Joint enterprise for the group and center.
- Project undertaken by the entire family of seasoned borrowers.

e) Savings Products

- *Obligatory Savings.*

Saving is compulsory and withdrawal restricted. Forced savings are of four types:

- Not really savings, rather fees, which members never get back- after their first loan, members must pay 2cents each week to support schools run by the centers.
- Members must pay 0.5% of disbursements into a fund used to cover losses from default.
- Members must deposit 4 cents each week into Personal Savings, earning interest @8.5%, and withdrawals are unrestricted.

○ 5% of each disbursement goes to the group fund, to be controlled by the center earning 8.5% interest, and used for emergency loans. Grameen also makes loans from the group fund after floods. But, the savings in-group funds cannot be withdrawn until the member leaves the GB or the age of membership reaches ten years.

- *Voluntary Savings*

These savings are built at will and convenience of the members and constitute a small proportion of the total savings.

f) Focus:

Women, the major beneficiary, total membership comprised 94% of women.

g) Outreach

Women received 90% of total aggregate disbursement and accounted for 76% of all savings mobilized by GB

h) GB-Lending Rates- (calculated on declining balance)

- For a general loan 20 %
- For housing loan 8%.

i) Impact of GB

Very low dropout rates indicate that average socio-economic benefits at GB have been positive. The economic and social benefits are described as under: -

- **Economic**

GB operations have increased annual household income by 43%. The annual household expenditure increased by \$18 for each additional \$100 of cumulative disbursement. The non-land assets increased by \$ 27 for each additional \$ 100 cumulative disbursement. Further, 1% increase in cumulative disbursement to

a woman increased the likelihood of school attendance by 0.028 for boys and by 0.019 for girls.

- **Social**

A household participating in the program owns 56 percent more resources and 51 percent more net-worth than a non-participating household. Findings of a study on GB's operations conclude that program participation has also increased calorie intake, especially among female household members. The incidence of poverty is substantially reduced among program participants. Labor force participation, especially among women, is higher among participants than non-participants; women's labor force participation is 66 percent among program participants compared to 52 percent for non-participants. The school participation rate of girls is also higher for participants (57 percent) than for non-participants (36 percent). Program participation also increases the use of contraceptives, better toilet facilities and drinking water

- j) Hidden Transcript of GB-**

A study exploring some anthropological aspects does not fully agree with GB strategy. The study concludes that women are used as proxy members; males (husbands, brothers, relatives and even others) predominantly utilize the loans obtained by women.

2.2.2 Badan Kredit Kecamatan (BKK), Indonesia

The Badan Kredit Kecamatan (BKK) is a project of the provincial government of Central Java that lends tiny sums of money at low interest rates to rural people who want to start or expand their business. It is indeed the fastest, cheapest, most productive, and, according to a World Bank report, the most successful credit system of this kind in the world for the rural poor.

a) Lending Products

- No collateral is necessary but letter of recommendation is required from the village chief
- BKK usually takes less than a week to process the application.
- Monthly interest is about 3% while credit from moneylenders often costs more than 20 percent a day.
- There are six different loan maturities: daily, five days, weekly, monthly, thirty-five days and seasonal credit.
- Lending and loan collection are often conducted on market days to lower transaction costs to the clients and to BKK staff.
- The loans are large in quantity, but too small in value to be dealt with by commercial banks. The average loan extended to its 500,000 customers is around 80,000 rupiah (or about \$370 - 1995)

b) Clientele and Organization

- Most of BKK's clients are women, largely petty traders selling fruit and vegetables.
- Lady staff is encouraged (90% women)
- Each BKK branch is basically an independent financing unit, which handles both credit and saving. Each BKK branch is also making profits.

c) Saving Product

- Savings have played an increasingly important role as the source of funds for BKK. Obligatory savings backed 20% of the outstanding loan portfolio in 1989, against voluntary savings of 5%.

d) Repayment Performance

- 95 % repayment rate
- In some BKK branches, the performance has been even better, only 0.7% of loans in default.

- The default is recovered through persuasion jointly with village chief and rescheduling of the loan.

2.2.3 Bank Rakyat Indonesia-Unit Desa (BRI-UD)

The Bank Rakyat Indonesia (BRI), with its Unit Desa (UD) system, established in 1984, is a successful village financial institution with a large micro finance portfolio. BRI is a state owned rural bank while UD's are its centers, independent for their profitability and sustainability. Prior to 1984, the Bank Indonesia used to provide subsidized funds to BRI at 3% for on lending to paddy growers at 12% under Government's Rice Intervention Program. The administrative costs of UD's were subsidized, through picking up of huge operational losses.

a) Factors Specific to Success

A study refers BRI-UD's success attained by:

- Focusing on rural financial intermediation rather than disbursing credit to agriculture alone, and increasing access to financial services.
- Mobilizing and servicing 24.2 million saving accounts (\$2.27 billion) that make dependency on State and donor funds redundant;
- Stressing profitability, management autonomy and adequate management information systems (MIS)

Village banks have specific targets to achieve subsidy independence;

- Staff incentives are linked to branch profitability;
- Introducing incentive schemes for clients:
- Significant interest rate rebates are offered for prompt loan repayments;

- Flexible savings products are offered;
- Introducing highly positive on-lending interest rates (33%) per year.

b) Savings and Lending

New savings products were introduced, Udshad 24.2 million deposit accounts with a total deposit portfolio of about \$2.27 billion equivalent as of the end of 1999. The average deposit size was about \$94, 2.5 million borrowers with a total outstanding loan amount of \$781 million equivalent. While loan size was about \$318.

c) Operational Efficiency

The challenge for micro finance institutions around the world remains achieving financial sustainability. BRI-UDs is the most successful example. While charging a real interest rate of 21.1 percent in 1994 (33% nominal), the Subsidy Dependence Index was negative (-43%), which is an extremely rare situation. BRI-UD could lower its real lending rate to 8.2 percent (nominal 18.7 %) while maintaining sustainability. BRI-UD's operating costs account for 14 % of the average outstanding loan portfolio in 1994. These costs also cover mobilizing savings, the volume of which is about twice the value of the outstanding loan portfolio.

2.2.4 The Center for Self-help Development (CSHD), Nepal

CSHD is an NGO, established in 1991, in cooperation with government and local and international donors, and believes to empower the poor, economically and socially, through community development services. Its key activities are awareness raising, local institution building, internal resource creation, and self-employment opportunities for income generation, and community development services.



a) Operations and outreach

- CDS operates in 9 districts through Self-help Banking Program (SBP).
- It is a woman- focused micro finance program based on the Grameen Bank model.
- The target group of SBP consists of landless, marginal landowners, tenants and agricultural laborers. Only women of the families that own not more than 0.34 hectares of land and have earnings of less than Rs.2, 500 (US\$43) are eligible for membership.
- SBP provides both financial and non-financial services to its clients:

b) Financial services include three types of products:

• **General loan:**

Beneficiaries are individual member on a group guarantee basis for all types of productive purposes on 10% flat interest rate. Payable in 50 installments. Amount of First loan is financed to the extent of Rs.5, 000 (US\$86) and increased to Rs.20, 000 (US\$345) on repayment of first.

• **Seasonal loan:**

Loan is provided to members for cash crops, fruit stalls and trading purposes. The initial loan amount is Rs.3, 000 (US\$52).

• **Consumption loan**

Is advanced up to 50% of center and group savings as a loan for medical, consumption, emergency and productive purposes for a period not exceeding one year. The ceiling on this loan is Rs.1, 000 (US\$17) against interest charge of 12% per annum on a declining

basis.

- **Saving products:**

The interest rate on group savings is paid at 8% per annum.

2.2.5 Micro financing through self-help Groups/Cooperatives in Nepal

Many international NGOs and Government programmes use local self-help groups or savings and credit cooperatives in the provision of micro finance through following services.

- Revolving funds for on-lending
- Grants to cover operating costs, including staff and other operating expenses.
- Matching funds equivalent to amount of savings of cooperatives
- Technical assistance, including groups formation, staff and client training, and financial management.

a) Women Emphasis: Woman is specifically targeted

b) Financial Services:

- *Loan sizes* are generally small and with shorter term and no physical collateral are required instead group guarantees are provided. Interest rates on loans to end-borrowers range between 10 - 36 percent.
- *Interest rates* paid on savings range from 0 to 8 %. Repayment of these low cost loans is very poor, because borrowers tend to view them as grants rather than loans.
- *Savings* are usually compulsory (weekly) are often managed by the group itself, resulting in access both internal loans with higher interest (made from savings) and external loans (made by

the cooperatives) with lower interest rate.

2.2.6 The SANASA Model-Cooperative Development through micro finance in

Sri Lanka

SANASA represents one of the best examples of cooperative development whose micro finance schemes can work better. It Emphasizing local responsibility and self-reliance, the movement is independent of government influence and resists involvement in politics. The strength of SANASA is inherited in the values and principles of Cooperative Movement.

a) Self Sufficiency

b) Sustainability

- Sustainability of SNASA stems from Four Pillars:
- Banking, Marketing, Construction, Insurance

c) SANASA Model is a three-stage development process.

- Thrift and credit cooperative societies (primary)
- District union consisting of 200-600 primary societies.
- The unions provide lending services to primary societies as well as render monitoring

d) Membership

Membership in the primary societies is open to almost everyone in the community. In some societies, an applicant must conduct business with primary society for a probationary period as a non-member before being admitted as a member. Each member of a primary society must purchase a membership share costing Rs.100-240. Poor are encouraged to join by paying membership fee in equal monthly installments of Rs.10. To remain a member of a society, member must attend at least 50% of the monthly

membership meetings.

e) Representation of Women: SANASA addresses women's participation in the movement at structural level. At least one member of the women's committee must also be a member of societies governing bodies.

d) Savings

Member credit worthiness is subjected to the accumulated savings (regular savings, fixed savings, compulsory savings, children saving, non-member savings etc) in the society.

Variety of options: Primary societies that have excess savings are encouraged to keep their liquid funds at the District Union. The District Union then lends these funds to other primary societies that cannot meet their loan demand from internal savings. The process of inter-lending helps the District Union earn revenue and supports the internal growth of the movement.

e) Lending

- Before receiving first loan, a new member must be a member of the society for 3-6 months and must regularly attend the monthly membership meetings and Loans are linked to members' savings. Members are required to have 10% of the loan amount in their membership shares and at least 10% in compulsory savings can be withdrawn on leaving the society.
- The loan size is graduated vary from Rs.5, 000 to Rs 500,000 and subsequent loan amount increases on repayment of first. The loans are categorized into small loans (Rs.15, 000 to 50,000), medium (50,000-100,000), and large (over Rs.100, 000).
- The micro-business loans cover small enterprises, animal husbandry and paddy production.

- The emergency loan provided at interest rate of 2-4% per month, enable members to meet social obligations, medical needs and other emergencies. Members are expected to repay these loans in one to three months and can receive as many of these loans as they required as long as they continue to repay them.
- Two guarantors are required. In case of larger loans, mortgage is required.
- Competitive market interest rates are charged on loans, with discount of 2-3% for very poor members.
- **Loan repayments** are usually monthly, however, in some high risk lending like of street vendor, daily payments are realized.
- **A loan is considered delinquent** when three consecutive payments are missed. A number of steps are taken to collect such loans.

2.2.7 Conclusion

- The poor women have been established to be bankable. They repay un-collaterized loans and have proven themselves to be an excellent credit risk. Experience reveals that women not only repay the loan but also invest the money wisely. Earnings from the investment are used to spend on family welfare and children's education. Lending to women has demonstrated strong multiplier effect on their lives.
- Micro finance has empowered women and women's status and dignity in the family, through increased participants in economic activities and enhanced incomes.
- The best practices, adopted by the micro finance institutions, as an outcome of evaluating process, constitute the care of gender focused poverty alleviation process. Such practices are given as

under: -

- Women are much more committed to use their loans for the welfare of their families and generally, have a stronger commitment to repay in order to qualify for the larger loans in future.
- Any or mix of the tested credit lending models suited to indigenous environment can be selected for micro finance operations.
- Joint liability offers social collateral, besides effectively reducing loan transaction and administrative cost for micro lender, facilitating transparency and accountability.
- Small loans be disbursed in the beginning, enabling to make productive investments quickly. Larger loans given later when the clients have developed the skills, discipline and commitment needed for success. Size and diversity of loans progress in steps.
- Collection of loan installments frequently on or close to the borrowers, premises. Installments to mirror cash flow pattern, allow borrowers to repay loans out of their regular incomes. The mechanism helps to build discipline and consistency.
- Obligatory savings with flexible withdrawals provide additional loanable funds to the micro finance institution, a financial cushion, and an additional equity stake in the business. This practice strengthens the borrowers commitment to the program also helps to build their sense of discipline, self-esteem, and well being.
- Only credit is not sufficient, unless the other support interventions viz: marketing, capacity building and training, are provided.
- Focus on reducing dependence on subsidy of financing

institutions and to reach ultimately the financial self-sufficiency by effectively recovering the cost of operations, which is commercially viable for the lender and affordable to the borrower.

- Selection of borrowers, processing and loan approvals and recycling of savings locally not only helps reduce cost of the program but also ensures use of resources in the area where they were generated.

2.3 Micro credit And Women Development (a case of BANGLADESH)³

The strength of micro credit lie in its ability to organize idle women into a productive workforce with their proven creditworthiness. It is believed that 25 million people worldwide are now using micro credit to undertake income-generating or self-employment activities; of these, 90% are women. Micro credit has not only made women more productive, it has also empowered them. As a result women are now integrated into socio-economic activities, contributing to family income and decision making and exercising more control over their fertility, which allows them to take better care of their children.

Micro credit is an important financial instrument to generate economic activity. About 1,200 micro finance institutions (MFIs) are now operating in Bangladesh. They are extending credit to about 8 million people, of whom 90% are women. The borrowers are mostly self-employed, and they are involved in numerous income generating activities. In addition, these MFIs have created employment for about 70,000 people, about

³ By Kaniz Fahmida Ahmed (k.f.ahmed@lse.ac.uk) Development Studies, London School of Economics

20% of who are female. The industry has so far extended a total credit of Tk. 66,566 million (US\$1.4 billion), of which Tk. 18,164 million remains outstanding in the field. Micro finance has been very effective in mobilizing savings from the poor borrowers. The net savings of the borrowers is Tk. 5,216 million. Currently the members' savings meet about 20% of the total revolving fund. Micro credit claims a high recovery rate from the borrowers, over 95%.

Overall, the impact of micro credit has been very positive. The main benefits of micro credit can be enumerated as follows:

- It has increased family income and quality of life, and as women represent 90% of the borrowers, their contribution is noteworthy
- It has promoted saving habits among poor women borrowers
- It has raised awareness and empowered women to contribute to various socio-economic activities
- It has motivated women to take an active role in the political sphere of Bangladesh.

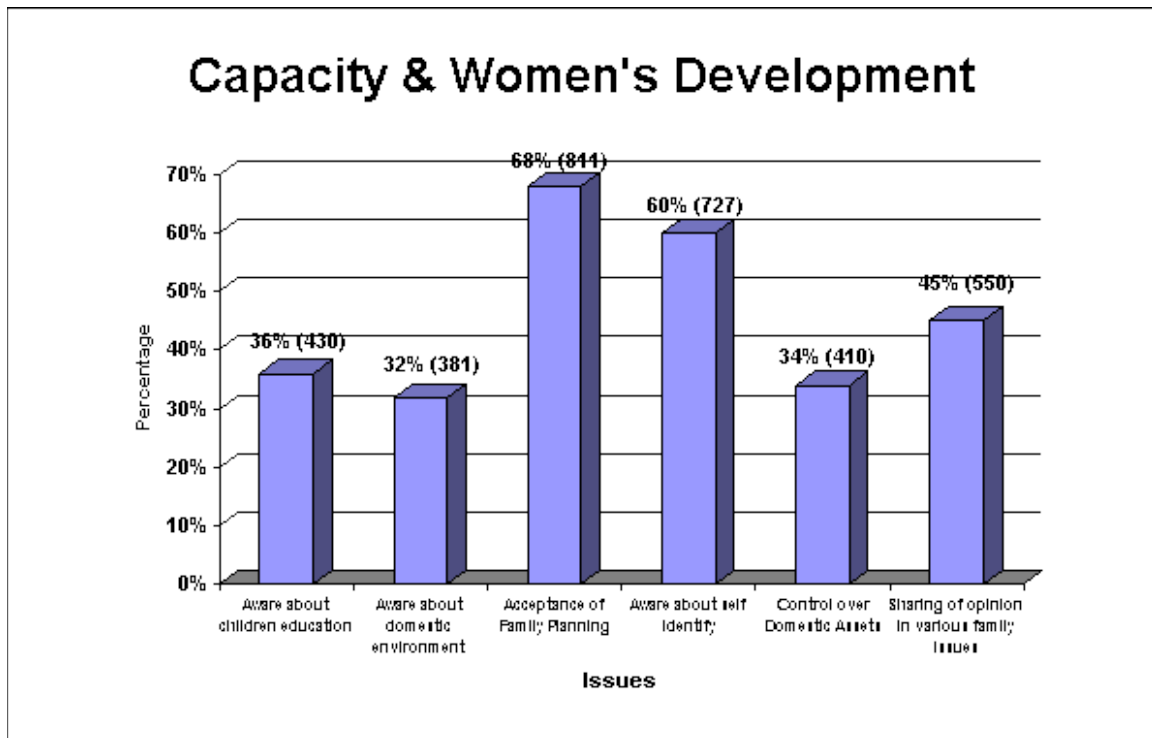
The household expenditure survey of Bangladesh (1994/1995) shows that the overall incidence of poverty in Bangladesh during 1984 to 1992 decreased from 52% to 50%. The off-farm activities in rural areas have made a large contribution to this. A World Bank survey conducted for the mid term review of the Poverty Alleviation and Micro finance Project among 675 micro credit borrowers shows that there has been positive change in the economic and social status of the surveyed borrowers. The survey showed that income has increased for 98% of borrowers; 89% of the borrowers accumulated new assets and 29% of borrowers have purchased new lands either for homestead or for agriculture; food intake, clothing and housing conditions have improved for 89%, 88% and 75% borrowers respectively; sanitation conditions have improved for 69% of

borrowers; and child education has improved for 75% of borrowers. These improvements have mainly been accomplished due to an increased level of self-employment of women. A paper written by Bangladesh Institute of Development Studies (BIDS), entitled “The Allocation of Women’s Time in Rural Areas: The Role of Micro credit (2003)” for the Polly Karma Shahayak Foundation (PKSF), sponsored by the World Bank, reveals that membership in MFIs has a significant influence on women’s time allocation decisions in poor households to the extent that women’s labor time in self-employment has increased. Hence, participation in a micro credit program has a beneficial effect on household welfare by increasing women’s income contribution to the household.

A survey conducted by ASA (a large MFI with 1.5 million borrowers) among 1200 women micro credit borrowers in 2002 conclusively shows that the borrowers’ capacity has increased; their awareness has improved and the women are now empowered in economic and social matters (Diagram below).

Women have become aware about their political rights and micro credit has helped build their awareness. Increasingly, female micro credit borrowers are participating in local politics and development activities.

Micro credit is not merely an instrument for credit extension to the poor borrowers. It is a movement to emancipate the poor--especially women--to alleviate their poverty, improve their quality of life, and build their capacity and awareness and to integrate them economically and socially into the mainstream of the economy. The benefits of micro credit go beyond the quantifiable ones, there are other benefits, which are not seen, but are evident in the socio-economic transformation of rural Bangladesh.





Chapter: 3

RELEVANT LEGISLATIONS

3.1 NATIONAL POLICY FOR WOMEN (DRAFT - 28TH APRIL, 2001)

1. The first Bill of Rights for women was laid out (in the Quaranic Chapter on Women Al-Nisa and Other Quranic Chapters/verses), nearly fourteen hundred years ago. It may be said that no document is more gender sensitive than the Quran itself. In all references to roles and responsibilities, it addresses women and men, at all and specific times. ***In fact, women's roles and responsibilities as engendered in Islam, accord them a high status in the family and society.***

The founder of Pakistan Quaid-e-Azam Muhammad Ali Jinnah in an address to students and at the height of the Pakistan Movement unequivocally stated the following. "It is a crime against humanity that our women are confined within the four walls of their homes like prisoners. They should stand side by side with men as their companions in all spheres of life." These words found life in the principles of equality as enshrined in the 1973 Constitution of Pakistan.

2. Even while religious and constitutional provisos exist, Pakistani women have had to face the challenge of being the neglected and discriminated half of society, and have done so resolutely. On the positive side, it can be stated, that a small segment of women have succeeded in carving a niche for themselves, ***and have made a mark on national development.***

However, this progress ***is generally considered*** as one step forward and two backwards. The overall situation analysis for

women's development shows, that this has generally been constrained by a number of factors, including prevalent negative attitudes, lack of commitment and interest in investing in and building the capacity of the overall human resources of the country, and women in particular. ***And even while opportunities exist, one a few women are able to access these.***

In general, the status of the large majority of women, the invisible half of society, remains low on the global human development rankings, poor literacy rates, poor health ratios, with little or no participation in the decision-making process. Their work in the productive sectors remains un-recognized, with 'Pakistan's GEM (gender empowerment measure) ranking being second to last'.

Successive governments have adopted measures to improve the status of women, however, these have been adhoc, isolated and limited. In the absence of a comprehensive WID/GAD policy, most measures have impacted negatively, as government policies remained inconsistent.

3. However, since 1995, there has been a paradigm shift towards women's / gender and development issues. This has to a large extent been due to the global focus on women's issues, with an impetus, being provided with the convening of the Fourth World Conference on Women held in Beijing '95, in which Pakistan participated.

Pakistan accession in 1996, to the Convention on the Elimination of all forms of Discrimination against Women (CEDAW). Has created further focus. The National Plan of Action (guideline document listing strategic objectives/actions) in 12 areas of concern, launched at the highest level in 1998, has also been instrumental in accelerating focus on women's issues.

Other developments that have impacted positively include: Publication of the reports of earlier Commissions set up, including

the Commission of Inquiry '97, as has the setting up of the present Permanent Commission on the Status of Women in 2000.

Many documents and reports on women, (Pakistan's National Report presented at the Fourth World Conference on Women'95, the National Plan of Action, 96-98; the WID Working Group Report for the Ninth Five Year Plan'97. Pakistan NGO Reviews, February 2000); have clearly emphasized and exhorted the need for a policy for women. One, which provides a framework for undertaking affirmative action and other measures.

4. The Government of Pakistan accepting its national and international commitments and cognizant of the need to maximize the capacity of nearly half its population, that is women, is therefore building upon this need by enunciating a clear WID/GAD policy.

WID/GAD POLICY

Such a policy would facilitate all Pakistani women, irrespective of caste, creed, religion etc., in utilizing their full potential in all spheres of life (home and the work place), and to participate in decision-making processes as well as to take decisions for and about themselves, in an enabling environment.

With this in views, the policy for women will therefore be comprehensive and encompass the 12 areas of concern that have been globally recognized as "areas of particular urgency that stand out as priorities for action. It will be guided and abide by the principles of gender equality and equity at all times.

It will also cover all Socio/economic and other sectors which impact women and men. In particular, this policy will address affirmative actions needed in all 12 areas of concern and in the sectors outlined in the five year plans, with special emphasis on budgetary allocations.

The policy will overall advocate and highlight Islamic/religious rights/obligations of society, towards women and girls in all spheres of their life.

Given the fact that (policies for Health, Education, Population and other sectors are already in place, the National WID/GAD policy will facilitate these by reaffirming measures in place and by continued review and evaluation of such measures. It will address gender inequities in the all areas of National development including Education and Health, through existing Govt. mechanisms and policies. ***It will support all measures that take into account the benefits of educating girls and women, on the principles that educating girls and women means educating a whole family.***

Recognizing that poverty affects women and children more adversely, the policy will advocate measures for adequate provision of social safety nets. It is intended that policy will held in bringing about a focus on the needs of the rural poor, especially rural agricultural women.

The policy would place a strong emphasis on women's employment issues, skill development, vocational training, self employment, entrepreneurship, credit, marketing, labor laws, trade unionism and other related concerns.

The policy would advocate that female house holds heads/bread earners, women with disability in particular, women in general have priority accessing credit facility on soft terms from FWB and the Chehalis Banks and other financial institutions, for setting up of business or for buying properties, especially for house building.

The policy would advocate special/beneficial measures for all disadvantaged women's groups particularly, aged/elderly women, women and girls with disability, women in detention, abused women.

On the issue of violence against women, the policy would advocate stringent measures by the Govt. Through concerned agencies in order to reduce the prevalence of violence against women in all its forms, whether domestic or at the work place.

The WID/GAD policy would place emphasis on and ensure:

- A positive portrayal of women in all media
- Representation of women at all decision-making levels and in legislative bodies.
- Existence of strong and effective mechanisms for WID/GAD, within the Govt. machinery. The role of the Ministry of Women's Development at Federal level and the role of the women development department at provincial level be reviewed and restructured, to enable them to act as catalysts rather than Project implementers.
- Rights of women and girls are protected through positive legislation and that all discriminatory laws are reviewed and repealed.

In addition, the National WID/Gad policy would support measure for protecting women" traditional knowledge related to resource use and management of the environment.

Overall Vision:

Achievement of gender equality and equality in the 21st century as well as the social, political and economic empowerment of Pakistani women at all levels of society. This to be made possible through an enlightened and progressive policy on women and through its committed implementation by the federal, provincial and all tiers of local government, with support of all segments of civil society and NGOs.

Aims:

The overall aim of the policy for women would therefore be to:

- Tap the immense human resource potential and capacity of half of Pakistan's population, and to make them equal and visible partners in the country's development by undertaking new and diverse initiatives.
- Empower the women of Pakistan by providing them equality of opportunity in an enabling environment.

In addition:

- Sensitize the population at large, by creating and increasing awareness on women's rights, roles and responsibilities in the 21st century.
- Ensure that women's concerns and perspectives are reflected at all stages of development and subsequently, institutionalized.
- Mainstream women into the developmental process
- Ensure integration of a gender perspective (***including gender budgeting/gender impact analysis/gender auditing***) in all national development programs and projects.
- Develop multi-sectoral and inter-disciplinary approaches for women's development with horizontal and vertical linkages at every level.
- Sensitize government agencies in adopting a gender sensitive approach to development, by preparing need based and implement able programs and projects.
- Ensure the social, political and economic empowerment of women, by including them in decision-making processes and through representation in local government and in provincial/national assemblies.
- Address both the practical as well as strategic needs of women through affirmative action.



Enabling Environment:

A conducive and enabling environment is one in which women do not face discrimination at any level - whether at home or at work. Efforts will therefore be aimed at:

- Ensuring that prevalent negative attitudes, customary practices and harmful tradition; that constrain women are changed, through committed efforts at every level.
- Ensuring that all discriminatory laws are reviewed and subsequently repealed.
- Ensuring that all forms of violence against women is eliminated.

Principles:

This policy will be guided by the following:

- i. Principles of equality as per Islamic/Quranic injunctions and as enshrined in the 1973 Constitution of Pakistan in particular. Articles 25 and 34.
- ii. The strategic objectives and actions listed in the National Plan of Action (officially adopted as a guideline document at the highest levels in 1998 to date).
- iii. Reports/recommendations of all four Commissions on Women and of the National Commission on the Status of women set up in September 2000.
- iv. The Convention on the Elimination of all Forms of Discrimination against Women-Pakistan acceded to CEDAW in March 1996 and is bound by the Articles of this Convention.

Also by recognition of:

- Women's rights as human rights.
- Women's work and worth

- Efforts made by Pakistani women at all levels, to impact national policies and institutions and to create a niche for themselves.
- The fact that women and men as equal partners, together can create a better society and family and can accelerate the pace of development for a greater Pakistan.

Coordinator Mechanism:

The role of the Ministry of Women's Development (MoWD) will be key for implementing the WID/GAD policy. It will act as the focal ministry and facilitate coordination between other ministries at national level and line departments at provincial level as well as between these and civil society and NGOs.

The National Core Group (NCG-comprising government officials from various line Ministries. NGOs, individuals and civil society representatives) set up in 1997/8 will be re-activated to act as the monitoring body. It will undertake the following:

- Oversee policy implementation at national level, through setting up of area (12 areas) specific committees with a focal point from relevant ministry. Similar committees to be set up at provincial and local government levels.
- Hold bi-annual meetings to review progress of implementation.
- Regularly brief the National Commission on the Status of Women on Progress of implementation and vice versa.
- Review the WID/GAD policy from time to time, suggest amendments to Government, as needed

3.2 CONTENTS OF MFI ORDINANCE⁴

The State Bank of Pakistan (SBP) issued the Prudential Regulations for Micro finance Institutions/banks with the objective to ensure that the Micro finance Institutions (MFIs) and Micro finance Banks (MBFs) in a safe and prudent manner. The regulations have been developed after active consultation with the domestic and foreign micro finance practitioners and experts.

These regulations will come into force with immediate effect and will be applicable on operations of micro finance banks/institutions, including Khushali Bank. The regulations will replace the existing Micro finance Bank Rules 2000.

The main features of the newly introduced regulations are,

- No MFB/MKFI will commence business unless it has a minimum paid-up capital as prescribed in MFIs Ordinance 2001. It shall also maintain equity equivalent to at least 15 per cent of its risk-weighted assets. Under the ordinance, the micro-finance institution would be allowed to operate at district, provincial and national levels and the amount of paid-up capital has been linked to area of its operation - Rs100 million for State Bank license for a specified district, Rs250 million for a specified province and Rs500 million for nation-wide operations. The amount could also be raised by the central bank from time to time.
- The contingent liabilities of the bank or institution for the first three years of its operations shall not exceed three times of its equity and

⁴ www.dawn.com DAWN –Business: *MFIs to setup DPF ordinance promulgated*, 26 July 2001
<http://www.paknews.org/business.php?id=2&date1=2002-10-16>

thereafter shall not exceed five times of the bank's or institution's equity.

- The MFB/MFI should maintain a cash reserve equivalent to not less than 5 per cent of its Time and Demand Liabilities in the form of liquid assets i.e. cash, gold and unencumbered approved securities.
- The bank or institution should create a reserve fund to which an amount equal to at least 20 per cent of its annual profit after taxes be credited.
- The MFB/MFI will establish and maintain a Depositors' Protection Fund or Scheme for the purpose of mitigating risk of its depositors to which the bank or institution will credit not less than 5 per cent of its annual profit after taxes. Five per cent of the annual pre-tax profits of the institution and profits earned on investment of the DPF shall be credited to the Depositors Protection Fund. The fund shall be invested in government securities or deposited with the State Bank in a remunerative account.
- The bank or institution should not extend loans exceeding Rs 100,000 to a single borrower.
- The bank or institution should ensure that the total exposure of its clients from banks/MFIs/MFBs other financial institutions and NGO, does not exceed Rs 100,000 in aggregate.
- The Micro finance Institution Ordinance 2001 will regulate the MFIs, which will provide assistance to micro- enterprises and services, in a sustainable manner, to help poor persons particularly women. They have also been empowered to undertake mobile banking to expedite transactions and cut costs.
- In case of liquidation of the MFIs, the Fund will be used to pay individuals with deposits up to Rs10, 000. It will become operative with effect from the expiry of five years from the date of the first balance sheet and shall remain unencumbered at all times.

- The MFIs will be governed by the prudential regulations and conditions attached to the license issued by the State Bank. Specified in the regulation are the MFI functions which include:
 - a) To provide financing facilities with or without collateral security to poor persons for all types of economic activities including housing but excluding transaction in foreign exchange business;
 - b) To accept deposits;
 - c) To undertake the management, control and supervision of any organization, enterprise, scheme trust fund or endowment fund for the benefit and advancement of poor persons;
 - d) To buy, sell and supply on credit to poor persons industrial and agricultural inputs, livestock, machinery, implements, equipments, industrial raw materials and to act as agent for any organization for sale of such goods and stocks;
 - e) To provide professional advice to poor persons regarding investment in small business and such cottage industries as may be prescribed;
 - f) to borrow and raise money and open bank accounts;
 - g) To impose and receive fees, charges profits or return for its services;
 - h) To mobilize and provide financial and technical assistance and training to micro-enterprises;
 - i) To receive grants from the government or any other source permitted by the State Bank.

Chapter: 4**ANALYSIS****4.1 SITUATIONAL ANALYSIS OF MICROFINANCE IN PAKISTAN**

As in many Asian countries, there are not yet any convincing examples of Micro finance Institutions (MFIs) in Pakistan, be they NGO or bank, that have developed a product and methodology that has proven to be fully financially sustainable and capable of reaching significant number of micro entrepreneurs. Whatever the operational performances that too are constrained by the problem of accessibility, cultural limitation on the participation of women, the need for capacity building and appropriate training. However, the performance of MFIs, mixed with weaknesses and strengths has at least set the direction towards achievement of desired objectives and a range of models and products being practiced in the micro finance industry.

Although, there is paucity of literature (studies and surveys) relating to credit, more particularly in the context of women. A study undertaken by FWBL and UNDP, assessing credit needs of the urban women, has suggested base line indicators for effective delivery of credit. The study concludes that Pakistan lacks the basic infrastructure, institutional capacity, and effective legal framework conducive for success of such credit programmes and that the public sector initiatives have not yielded the desired results. Creation of FWBL and opening a window for women in ADBP are the only initiatives in this direction. Accordingly, the donors' preference has gone for the growth of NGOs. The survey results of the study reveal that only 27 % of the women respondents borrowed previously, of which 75 % obtained loan of formal sources, 12 % from the professional money lenders, while 12 % from friends and relatives. Majority of the respondents (50 %) intended and borrowed in the range from Rs. 25,000 to 50,000. Referring to the credit supply-demand gap, it

has been concluded only 11 % of the total micro credit demand of Rs. 34.217 billion by women would have been met in the selected cities of Karachi and Rawalpindi, if all the small loans were disbursed in these two cities, since the inception of all formal and informal programmes. Even most of the urban women were not aware of the existence of formal institutions, like FWBL.

4.2 NGOs:

The numbers of NGOs registered under various loans in Pakistan are extended from 8000 to 10,000, whereas only about 100 are indicating micro finance as their major activity

Only a few NGOs have potential for reaching scale. Loan sizes for these NGOs are all below Rs.50, 000 and typically below Rs. 25,000. About 30 NGOs are rendering Micro-finance services in the country effectively. Their reach however, is quite limited. The estimated number of clients outstanding for all these NGOs together was 800,000 as at June 1998

4.3 BANKS:

In Pakistan, a number of micro finance programmes are being undertaken by NGOs as mentioned above, but their outreach is limited and operations mostly not sustainable, especially when donors' assistance is excluded. Commercial Banks have generally been reluctant to include micro enterprise as a significant part of their loan portfolio. However, to make micro finance accessible to the poor all over the country and given the limitation of NGOs, the involvement of Commercial Banks was termed crucial. While a few of the commercial banks are engaged in micro finance activities in some form or the other, including banks – NGOs partnership, FWBL and ADBP have implemented special programmes for women.

Commercial Banks entered the micro finance market in 1992, initiating small rural lending schemes or extending lines of credit to the NGOs.

Micro finance activities of Khushali Bank and First Women Bank are discussed as follows:

4.3.1 Khushhali Bank

a) Establishment:

Khushhali Bank was established in the year 2000 as a public-private joint venture with initial paid up capital of Rs 1.7 billion subscribed by 16 commercial banks — 11 from private sector, 2 foreign banks and three public sector commercial banks. An independent Board of Directors elected by the shareholders is providing policy guidelines to the management. Out of the 8 members of the Board, 2 are women. The Bank aims at ensuring operational and management independence under the Prudential Regulations of the State Bank of Pakistan.

The Government of Pakistan has signed an agreement with Asian Development Bank (ADB) for a loan of US\$150 million to support the operations of Khushhali Bank under ADB's Micro-finance Sector Development Programme designed to strengthen such activities in Pakistan.

b) Business Strategy:

The organization and operations of KB have been designed to focus on sustainable community based service delivery system. Community Organization (CO) is the focal point for delivery of both social and financial services. NRSP, the largest NGO in Pakistan, was entered in partnership initially for social mobilization. Financial services are available to members after they have received capacity building inputs. Mobile Units traveling on a regular schedule to villages and local communities service customers at their doorstep. All CO members mobilized by the Bank through NGOs receive training on social awareness, selection

of economic activities, women empowerment, basic literacy and financial services and products. About 40 per cent of COs is to be for women exclusively. CO members especially women undergo capacity building in vocational skills, business management.

c) Lending Products:

The bank aims to benefit the poor through income generating activities, small-scale enterprises, and small infrastructure projects. Loan size ranges from Rs 3,000 to Rs 30,000 for up to a year. Interest rate is 18 per cent per annum and is based on the principal of affordability and full cost recovery that is critical for sustainability in the micro-finance industry. Approximately 6 per cent of the interest revenues are diverted to Deposit Protection Fund and Risk Mitigation Fund that will provide insurance cover to small savings mobilized by the Bank and will mitigate default risk of the poor. The bank envisages having a portfolio of Rs. 7.6 billion benefiting 600,000 households in the country within next five years.

d) Urban Poverty Alleviation Among Women:

The programme works through groups of women, responsible for social collateral, savings promotion and joint liability of loan.

Group Formation:

- At least three women are required to form a group.
- Women should represent separate households and be not close relatives.
- One woman of the group should be able to keep simple accounts of the loan and savings.
- Women should meet once a week, willing to stand surety for each other's loan and should not be away from each other more than 5 minutes walk.

- Initially the women will save for five weeks before receiving loan and will get back the saving. Afterwards the savings collected every week will be given to the group members under committee system.
- After five weekly meetings, one group member will receive the loan. Subsequently, every other woman will get her loan in subsequent weeks. Each woman will get the loan only after satisfactory performance and utilization of loan by earlier members.
- A group member can also get the business done by an other member of the household, provided the income from the business is received by the group member.

Lending Product:

- Group will be jointly responsible for use and timely repayment of the loan.
- The first loan will be up to Rs.10,000 repayable through monthly installments over a period of one year.
- The size of loan can be increased in repeat cases.
- Khushhali Bank charges Rs.0.55 per one thousand per day on the amount of loan. As such a loan of Rs. 10,000 will carry service charge of Rs. 1,083, which may increase or decrease in case of default or earlier repayment, respectively.

e) Sustainability:

The bank believes in the value of cost recovery in terms of institutional growth and operational sustainability. Focusing the poor's access to affordable micro-finance services and institutional growth, social mobilization cost has been segregated from financial

cost. The Bank intends to fully recover financial cost. The social mobilization cost is funded separately through interest revenues of an endowment fund created by the Government of Pakistan.

f) Network and Outreach:

The Khushhali Bank (KHB) has established retail micro finance network in 30 districts since its inception in August 2000. The bank has disbursed Rs. 250 million in loans up to 2001, benefiting 20,000 households. Women constitute 30% of the clients.

4.3.2 First Women Bank Ltd.

First Women Bank. (FWB)'s major exposure is in financing of women business enterprises of small and medium size, both in urban and rural areas. FWB is undertaking this program out of a government's grant, as well as its own resources, using the following channels to reach its clients:

(a) Directly to women with low household income, simplifying complex borrowing procedures and conditionalities.

(b) NGOs as financial intermediaries to facilitate outreach to women in areas where, otherwise, the Bank cannot reach owing to limited network of branches. In some cases, NGOs themselves use smaller CBOs as non-financial intermediaries. NGOs get credit line at 12% and on lend to beneficiaries at 17% to 18%. p.a.

(c) NGOs as non-financial intermediaries, which identify the borrowers and build their capacity to utilize the loan effectively.

Women in Urban Credit Project:

UNDP's "Women in Urban Credit" Project is the special area of FWBL where micro finance activity is envisaged to be carried out in a more systematic and sustainable way. Primarily, the 'Women in Urban Credit' project intends to create income-generating opportunities through self-employment for disadvantaged women of the lower income group, thus linking micro-enterprise development with poverty alleviation. The project aims to increase women's access to and control over resources through technical support to FWB in establishing mechanisms for delivering micro finance services to poor women and established a platform - Women Credit Information and Resource Center (WCFRC) - for collection of relevant information and dissemination to all stakeholders in micro-finance sector in Pakistan. The project has been designed keeping in view the following constraints: -

- Application procedures were centralized and lengthy
- No outreach to poor women except the walk-in customers
- Interest/markup rate did not cover operational costs
- No effective project appraisal and monitoring capacity available with the bank.
- Limited capacity to extend support for effective utilization of credit

The project aimed at the following activities to accomplish the task:

- Organizing meetings of FWB with Expert Committees on Credit under the NPA to assess and analyze the

micro-credit needs of women; facilitating interaction between NGOs/ the private sector/ commercial banks/ FWB and the Ministry of Women Development via meetings, workshops and seminars;

- Creation of a separate Micro-credit Cell to deal with loans for women;
- Mobilization of the Women and Credit Information and Resource Center (WCIRC), to carry out the following activities:
 - Compile, collect and analyze data on Women in Banking, Finance, Commerce and Industry, and Women Producers and Manufacturers;
 - Disseminate information on the FWB and other commercial banks with micro credit lending facilities, and thus create linkages with women entrepreneurs;
 - Establish WCIRC Library on Micro Finance, provide advisory services to NGOs and entrepreneurs, and increase usage of the library;
 - Training of Business Center Staff – a total of 6 weeks of training, in two-week block periods to be conducted thrice a year.

Since the project was to commence in pilot areas of Rawalpindi and Karachi, a study on situational analysis of women credit needs in these areas was commissioned jointly by FWB and UNDP to get comprehensive understanding of the financial service needs of the poor women in urban areas. The study also helped to design financial products

and terms and conditions suitable to women and to develop strategies for effective delivery of these products. The study highlighted that the outreach of NGOs in terms of number of borrowers and disbursement was very low. NGO sector had disbursed RS. 1.094 billion to 46,317 cases including both men and women. Only an amount of Rs. 186.635 million (21%) reached 9,709 women (17%). The demand for credit in these two cities was being met to the extent of 11% only.

Strategy of the Project:

- A special division was to be created in the bank to manage small business (micro-credit) transaction so as to separate this activity from other businesses of the bank.
- Linkage of FWB with NGOs which specialize in micro enterprise development and entrepreneurial training skills as well as marketing, on an ongoing basis so that the training infrastructure of FWB is utilized effectively and also serve the process of mutual strengthening.
- Main focus on micro-credit (Rs. 2,000 to Rs. 25,000) for women from the low-income group, particularly those living in urban slums who would like to engage in self-employment through micro-enterprise credit in selected communities of Karachi and Rawalpindi/Islamabad
- Imparting training to female officials of public/private sector financial institutions, NGOs and CBOs.



Accordingly, the following arrangements have been made: -

- Micro finance unit at Head Office has been established.
- Over Rs.33 Million have been allocated for micro credit disbursements, funds to be mobilized through bank's own commercial operations and not as a part of any subsidy.
- Formation of business development centers to provide training and marketing support to the women entrepreneurs as merely access alone is not sufficient. The business development centers provide credit advisory, skill development and collective marketing and product display.

With a view to effectively enhance outreach and provide support services, alliances have been made, briefed as under: -

- An MOU between FWBL and AIOU stipulates that both the organizations will jointly promote self-employment for women by designing and tailoring credit products and entrepreneurs programmes including learning through distant communication, fairs, exhibitions, and display facilities
- Alliance with the Association of Creation of Employment (ACE) involved in creation of employment for women to facilitate identification of potential borrowers and provide training to the staff members of FWB in micro credit programmed which include area

selection process, economic surveys, field visits, book keeping and costing, and recovery process.

- Alliance with Pakistan Post Office facilitates franchising post office system for poor segment of the society because of low capital investment i.e. Rs. 25,000/- and lucrative business.

Lending Procedure:

FWB's announced scheme of micro credit provides the following:

- Women above 18 years and holder of Pakistani NIC and running their own business or related to small business can apply for loan.
- The loan is advanced on personal guarantee.
- Maximum amount for a loan for the time being is Rs. 10,000.
- Rate of markup is 18% per annum with additional 2% charged on default.
- MCO of the bank approaches the clients, completes the application procedures for the loan and collects repayment at doorstep.
- Loan disbursement is ensured in a week.
- Saving account of the client is opened at FWBL.

Business Development Services:

FWBL business center provides advisory and marketing services. Following activities are undertaken as a part of business development services:

- Regular training sessions are held at the business

development center to provide technical knowledge to the entrepreneurs in terms of bookkeeping, marketing, etc.

- Exhibitions are arranged off and on to help entrepreneurs present their products to the women of the region

Summary of Achievements:

'Women in Urban Credit' project, commenced in March 2000, is disbursing credit effective July 2000. As of March 2002, the bank has disbursed loans of over Rs.9 million to over 900 women. The bank as of January 2003, has achieved a recovery rate of 98%. The bank is yet to compute the financial sustainability of the micro credit division. However, the case studies prepared by UNDP component on the project reveal increase in earning from 25-167% and return on investment from 14-73%. There has also been increase in expenditure on education from 25-650% in these cases. These figures are indicative of an outstanding impact on improving the socio-economic conditions of the women and their families.

4.3.3 Impact Analysis:

An impact analysis of the WUC program of UNDP/FWBL has been carried out. The different aspects of the analysis are discussed as follows:

Economic Impacts:

1. The loan has been productive as they have been instrument in either starting a new venture or strengthening an existing micro enterprise. Access to small loans exclusively for the women

reflects the positive efforts for women development, which ultimately is improving the quality of family life.

2. The micro enterprise operated by the women has been a source of additional income to their families. Majority of the borrowers are now able to earn additional income between Rs. 500 to 3500 per month and few between Rs. 3500 to Rs. 8000 per month. Keeping in the view the large family size, limited earning hands, unemployment situation in the country, the additional income through small enterprise is a great relief for the families of the borrowers.
3. It is encouraging that women borrowers were able to buy domestic appliances from the income of their enterprise. The appliances added to the homes are refrigerator, deep freezer, television, deck, washing machine and dryer. Adding domestic appliances to home is not only improving the quality of the life but also adds assets value and to the prestige of the family.
4. A large number of the borrowers claim to have some savings. These savings has a greater impact, as her role is crucial in determining the spending by the family.
5. It is significant to note that all the borrowers are occupied at least eight hours for their enterprise, but some claim to work for even sixteen hours and more. This indicates that the women are actively using the investment.
6. Majority of the borrowers intend to increase their business which is shown a high degree of interest and confident in their ventures. Growth oriented attitude confirms the effectiveness of the small ventures women have made for their economic empowerment.
7. Some borrowers commented that with the strengthening of their enterprise with the loan, their businesses have become stable.

Their earning has improved and they feel that the education of their children has now become affordable.

8. Some borrowers have been now able to purchase crockery, curtains, furniture and carpets for their homes. One borrower was able to buy some jewellery and another dowry for her daughter's wedding. These results depict the strong mission of some of the borrowers, which is good referral and model for the many others.

Social Impact:

1. The women now interact more with neighborhood as claimed by a large number of women. They are now invited more to local events and their friends and acquaintances now consult them for personal or business matters. Majority of the women were of the opinion that their families are now more known and respected. This good change will build greater confidence amongst people and help in maintaining social harmony in the society.
2. Now a small number of women have also become members of some local community organization.

Family impact:

1. Two third of the borrowers feel that they are now able to meet the health needs of their families. This show a positive impact since these health related problem are unexpected to come and have greater financial impact on theses poor women.
2. Majority of the borrowers confirmed that their school – age children are attending schools, and large # says that one of their children are getting technical and vocational knowledge to assist them in their businesses. Therefore, this increase in

enrollment will have a strong and long-term impact on the families, if it carried on.

3. Large number of the borrowers has also found a positive change in their religious lives because of their improved economic life.
4. The families of the borrowers are strongly motivated and concentrating on the growth of their business enterprise to have economic security.
5. For some of the borrowers another significant achievement by virtue of additional earnings had been their ability to get their daughters married.

Project management:

1. Many women knew the crucial areas of their businesses. Most women expressed marketing, receivables, cash management, skilled labor, logistic and distribution as the crucial areas.
2. A majority of the borrowers are not fully conversant with cost determination. They have their own methods like putting aside 50% of sales, earning 10% for sale of Rs.100. however; some were familiar with calculating the overheads and profits.
3. Some women are familiar with the wastage of elements (processing wastage, manufacturing errors and pilferage) in their businesses and calculated it about 20%.
4. Majority of the women carries sole decision-making in businesses and only some women take decision with the assistance of their family members.
5. A big majority of the borrowers expressed having losses in their businesses due to bad debts, late deliveries, low quality and theft in bazaar during Eid sales. Some were affects due to floods in Rawalpindi and Islamabad.
6. Majority of women are ambitious for the growth so adding stocks, new product line and expanding store size.

7. Some women keep financial record and inventory record.
8. Very few women have knowledge of all three areas namely management, finance and marketing. These areas are of greater importance for the effective performance of their businesses.

Chapter: 5**CONCLUSIONS**

Where financial institutions have not been able to make a break through, and performed only marginally, NGOs, community organizations, and self-help groups have succeeded to an extent. These organizations are providing better access to financial services for poor women and have achieved higher recovery rates than those achieved by commercial banks in spite of lending to the poor. However, many such organizations have not been able to mobilize savings and reduce the operating costs or outreach the desired clientele. Financial sustainability is yet to be achieved, which in fact is the means for reaching a larger and growing number of poor populations. Evidence proves that financially sustainable institutions have greater outreach than programmes that provide subsidized or donor funded credit, as in case of later, the tomorrow of clientele is not secured.

A study of thirteen micro finance institutions of Bolivia, Indonesia, Bangladesh, Sri Lanka, Kenya, India, and Malawi, estimating impact of their programs on poverty and other target variables, reveal that the average loan impact was stronger in case of more financially sustainable institutions. The study has also supported the result that more financially sustainable institutions were charging higher interest rates, (presumably covering the full cost of operations), excluding low yielding projects, operating saving schemes, meant to provide limited degree of insurance to protect investments, and collection of installments more frequently and at the door step of borrowers. As such the impact curve of more financially sustainable institutes was lying above those with lesser financial sustainability.



Performance of FWBL:

- FWBL, through WUC program, has been able to address the needs of the poor primarily in terms of “facilitation” through the MCU concept.
- The bank has also managed to benefit its customers in terms of their social uplift through the “Business Center”
- The Bank believes that surrounding areas of Rawalpindi/Islamabad are viable potential areas for provision of MFI services and plans to increase the outreach of its MCO scheme; it however, describes “Blockade of funds” as the primary obstacle in its plans for outreach.



Chapter: 6

RECOMMENDATIONS

- The biggest hurdle in the promotion of MF mentality among general public, is in the view of most bankers, reluctance of the “non bankable” class of society (core poor), arisen out of a countrywide atmosphere of mistrust in banking. There is therefore, requirement of introduction of a countrywide “Awareness Program” by the Government, aimed at inculcating the distinguishing features of MF in comparison to general banking, among the target society group.
- Design and promotion of macro-credit policies aimed at expanding women's access to markets and resources is required.
- At the MFI level, there is a need of gender-sensitive strategies to improve savings, especially through micro-pension plans, community reinvestment acts and the creation of mixed development funds (firms, government and workers) and incentives at micro level for women in urban and rural areas.
- One of the main problems faced by Micro-credit providers is the acute deficiency of funds as a result of sole dependence on donations. Donors on the other hand misconceive micro-credit loans with normal commercial loans. They, thus want a big chunk of profit from micro lending, which is an off the beam expectation from schemes that aim at developmental aspect of the society. The main motive of micro credit programs is not profit making but capacity building and social uplift of the poor, which acts as a repellent for donors. So this misconception has to be erased.
- The prudential regulations for MFIs are not applicable to micro financing departments of commercial banks like FWBL. The reason being that they are considered as a part of the commercial bank

and hence prudential regulations for commercial banks apply to them. However, this practice leaves the micro financing programmes of commercial banks at disadvantage comparative to MFIs. Therefore, the prudential regulations should be same across the board for the MFI and the commercial bank dealing in the micro credit schemes.

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