Pakistan Microfinance Network

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MicroNOTE

IMPACT OF MICROCREDIT: A SUMMARY OF EVIDENCE FROM PAKISTAN

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INTRODUCTION

Microfinance is hailed by many as an important and effective tool in the global battle against poverty. It expands opportunities by providing access to capital to the otherwise marginalized, increases incomes and assets of low income households and creates social returns for borrowers' families and communities. Policy makers, donors, social investors and many other stakeholders have thus supported the growth of this sector on an international scale with significant flows of subsidized funding, grants, technical assistance and capacity building. Although microfinance, and more specifically microcredit, remains popular in the development agenda, it is not without its share of skeptics. The ability of microcredit to create a positive impact on the lives of clients is questioned not only by external stakeholders but also by those who work within the sector. It is not sufficient to offer anecdotal evidence on impact and there is a constant demand to demonstrate this change empirically.

Pakistan's case is no different. The sector here has grown largely through donor funding, subsidized credit and government support. This inflow of public money and other concessions have generated a demand to demonstrate impact. Even within the sector, there is a need to look inwards and question whether our current strategies, methodology, products and services are serving the ultimate goal of creating social impact.

This need, however, is not a new one. There have been a number of efforts to assess the impact of microcredit in Pakistan at the institutional and sector level. Thus, instead of embarking upon a full fledged impact assessment, the Pakistan Microfinance Network (PMN) has chosen to summarize the findings of these assessments in the form of this MicroNOTE. Hence, the scope of this paper is to cover some of the key studies commissioned out at the sector level by stakeholders such as the Asian Development Bank, Department for International Development – UK (DFID), European Union and the Pakistan Poverty Alleviation Fund (PPAF) as well as a couple of microfinance providers (MFPs). For readers interested in accessing complete reports, a list of references is included.

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METHODOLOGIES

All the impact assessments reviewed here, except the DFID assessment that uses secondary data, use primary data collected for measuring impact either for the microfinance sector as a whole, or by one particular MFP's activities. They follow the accepted methodology of constructing a *treatment group* and a *control group*: the former made up of microcredit clients who have been with the program for at least a year, and the latter comprising of non-clients of similar characteristics, prospective clients (those that have been selected for disbursement but have not received the loan as yet) or new clients that have just entered the program. Differences between the two groups were studied to see whether these can be attributed to the microloan(s). Although this approach has been criticized internationally due to its vulnerability to selection bias, in the absence of more rigorous methodologies such as randomized controlled trials **[see BOX 1]**, it is the best option available.

Sample sizes vary depending upon the breadth and depth of the study. Some researchers have preferred to use both quantitative (like surveys) as well as qualitative tools (like focus groups) while others have relied solely on quantitative information. All assessments have been carried out by independent third parties.

BOX 1: USING RANDOMIZED CONTROLLED TRIALS FOR IMPACT ASSESSMENT

Most impact assessments compare a sample of borrowers to a group of non-borrowers that have identical (or more realistically, similar) characteristics. They study the differences in the change in the two groups and attribute these differences to participation in a microfinance program. Critics of this methodology suggest that it is impossible to control for all variables so that both groups are exactly the same except for participation in the credit program. This creates a selection bias – an issue not only in microfinance impact studies but also in most social science research.

The ideal solution to this dilemma lies in conducting randomized controlled trials (RCTs), similar to those used in scientific research. Researchers using this approach would select a large sample of individuals and randomly split them into two groups, making them statistically identical. One of these groups would receive the loan while the second would not. Differences in improvement or change experienced by the two groups can then be attributed to the loan, as that would be the only difference between the two.

Although there are over 300 RCTs underway, only a few studies have been published to date and most of these tracked short-term results. Conclusive evidence requires much more research and longer term studies but as of now, it would be best *"to say that we simply do not know yet whether microcredit or other forms of microfinance are helping to lift millions out of poverty".*

Source: *Rosenberg, Richard. 2010. "Does Microcredit Really Help Poor People?" Focus Note 59. Washington D.C.: CGAP*

A note on the outset: although some authors have used the term microfinance to define the scope of their reports, all assessments only study the impact of microcredit on clients and do not look at the broader range of services such as savings and insurance.

KEY FINDINGS

Despite the different scope and tools used by the studies reviewed here, we found that most looked at similar indicators to capture impact. For example, all studies at least questioned the effect on household, personal and/or business income. In addition, it was common to look at consumption and expenditure indicators especially those related to food, health and children education. Women empowerment featured in most assessments as well. This allows us to make certain broad assertions about the impact of participation in a microfinance program:

1. Evidence of income increase is quite strong and consistent

All studies find that income indicators improve significantly for microfinance clients. Beneficiaries experience increases in household and business incomes even if they have only been with a microfinance program for a brief length of time.

2. Evidence on consumption, expenditure and social indicators is mixed

Most studies show that microfinance clients have higher levels of consumption that non-clients, and they tend to be able to spend more on health related expenditure. There was, however, limited evidence of impact on spending on children's education.

3. No evidence on asset accumulation

There was very little evidence to show that microfinance helps build household or business assets. One of the reasons cited for this finding is that asset accumulation requires more time and the studies conducted within a couple of years of program participation will not be able to capture this.

4. Mixed evidence on empowerment

Empowerment is perhaps the hardest indicator to capture given its qualitative and subjective nature. Tools used to study microfinance's impact on women's economic and social empowerment vary across studies. Evidence to support the assertion that participation in a microfinance program results in more empowerment was 'mixed' at best.

5. Client perceptions about change are quite strong

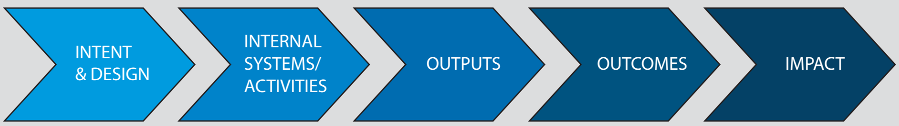
In nearly all the studies that attempted to capture client perceptions about the impact of microfinance on their lives, we found that an overwhelming majority of respondents felt that their quality of life had improved. Clients had positive views about microfinance providers and felt they were better off by being part of these program.

These findings will probably not surprise many. It is very rare that impact assessment offer conclusive evidence in favor or against microfinance. Thus, there are many who argue that perhaps this is not the right approach to assessing change [**see BOX 2 for discussion on this issue**]. Nevertheless, such assessments remain an important area of research for all stakeholders.

BOX 2: ARE WE LOOKING FOR IMPACT IN THE RIGHT PLACE?

Although a large number of impact studies have been undertaken globally, the question of whether microfinance makes a difference keeps coming up. While supporters of impact assessments continue to search for better methodologies to take on such research, another group of stakeholders has begun to take a different approach. For example, the Social Performance Task Force *[www.sptf.info]* endorsers stress that it is the *process* that matters if impact is to be achieved. Organizations need to 'manage' their social missions and if this is done effectively, impact will occur. The Task Force is thus focusing on a) developing tools that can be used to gear an institution's policies, systems, activities and outputs towards achieving the desired social outcomes, and b) developing mechanisms to monitor and report against the different social performance indicators.

SOCIAL PERFORMANCE PATHWAY



Another perspective is to look at what value microfinance adds to the lives of its clients. The recent book *Portfolios of the Poor: How the World's Poor Live on $2 a Day (Collins, Morduch, Rutherford and Ruthven 2009)* shows how the poor manage their money on an on-going basis to sustain their lives. Microfinance provides them the opportunity to do so in a more efficient and reliable manner by helping smoothen consumption, manage risks and tackle emergencies. This alone makes it an important intervention targeted at the low income households even if it does not lift them out of poverty or help enterprises grow.

To conclude the findings from this paper, we would like to add observations that we feel are critical:

1. Nearly all studies look at the impact of microcredit in depth but do not investigate the effects of participation in savings or insurance programs. Some international studies have found that low income households benefit more from savings than credit. Given that the microfinance sector in Pakistan has moved forward considerably in offering both savings and insurance services to its target market, this may be the right time to look at impact of microfinance rather than just microcredit.

2. Timing of an assessment seems to have major implications. Studies that compared impact on old versus new borrowers, or impact on clients of MFPs that have been around longer than their counterparts, found that there is a significant difference between the two groups. Simply put, the longer a client has been with a program, the stronger the evidence of positive change. This difference is more significant in indicators of social change, empowerment and asset accumulation. Any results should thus be interpreted keeping the longitudinal context in view.

3. Given that all existing studies make use of methodologies that have some weaknesses, and the recent interest in use of RCTs to study impact of microfinance, researchers and donors should consider initiating a similar exercise in Pakistan.

ASSESSMENT SUMMARIES

Eight assessments have been reviewed and included in this paper. Five of these are sector level studies whereas the remaining three are institution specific[1]. This section summarizes each in terms of their methodology, scope and key findings. Although we have attempted to report the findings with objectivity and accuracy, readers are encouraged to form their own opinion by reviewing the original documents.

I. THE PPAF STUDIES

The Pakistan Poverty Alleviation Fund (PPAF) is the main funding body for non-regulated microfinance institutions (MFIs) in Pakistan. As a wholesaler of funds, its target population is poor rural and urban communities, with specific emphasis placed on women empowerment. Through funding lines to 49 partners, PPAF accounts for 45 percent of the sector's active borrowers[2].

To date, the PPAF has commissioned three independent evaluations of outcomes of its microcredit financing in 2002, 2005 and recently in 2009. All three have been conducted by Gallup Pakistan. The studies have tested 17 hypotheses related to the socio-economic life of microcredit clients using a combined approach i.e. combining

a) data related to the life of borrowing and comparable non-borrowing house-holds,

and

1 Sector level studies: Three for the PPAF, one for the EU and one for DFID. Institution specific studies: two for Kashf Foundation and one for Khushhali Bank.

2 Source: PPAF

b) data that compares the change in the life of borrowers and non-borrowers over the period of one year during which the loan was taken.

Differences between the two groups (borrowers vs. non-borrowers) were statistically tested and any significant difference was attributed to the microcredit facility of the PPAF. These studies also present perceptual data collected from the borrower on her own assessment of the impact the microloan has had on her life. The multistage sampling procedure was adopted to select a non-biased sample. Sample size was 1700 households for the 2002 study, 3000 for the 2005 study and 4,200 for the 2009 study, with an equal distribution between the treatment and control groups.

Gallup confirms in all three reports: *"there is adequate evidence to suggest that on average, low income households that borrowed from PPAF are better off today than they would have been if they had not borrowed…There is overall improvement in the income as well as personal and business assets of PPAF borrowers. Social status, particularly of women borrowers, has undergone a positive change. Admittedly the scale of change is limited, as is the scope and amount of the loan. However the direction of change is, on the whole, positive."*

Some key observations across the three studies are:

1. Participation in a microcredit program resulted in an increase in personal and household incomes in all three periods. Although the incomes of both borrowers and non-borrowers showed an upward trend over the periods studied, the proportion of borrowers experiencing this increase was higher as was the average increase itself. Both differences were found significant at a 95 percent confidence level. Incomes across the three key sectors (agriculture, livestock and enterprise) rose significantly more for borrowers than non-borrowers. A higher proportion of borrowing respondents experienced an increase in income across the three sectors and the difference in the income increase was statistically significant, except for the agriculture sector in 2009.

2. Borrowers experienced a higher increase in their overall consumption expenditure as well as consumption of key high protein food items. Although there was no statistically significant difference between the change in the overall food expenditure for the two groups, those who had borrowed spent relatively more than non-borrowers on key food items such as chicken, beef, eggs and ghee/oil etc.

3. In terms of asset accumulation, there was mixed evidence on the hypothesis that participation in a microcredit program leads to an increase in financial, household or business assets. Although the borrower groups accumulated greater assets than non-borrowers the differences did not prove significant. Asset accumulation was more pronounced in livestock and enterprise related assets such as inventory but not so much in agricultural assets, property or formal financial assets.

4. There is some evidence to suggest that borrowers are able to improve their housing and living conditions more than their non-borrowing counterparts. The average amount spent by borrowers on house repairs was significantly higher than non-borrowers. Similarly, this group added more in terms of household amenities and utilities such as water and electricity connections, latrine construction etc.

5. Evidence on enhancement of social life and status is sketchy at best. Participation in a microcredit program seemingly does not lead to an increase in expenditure on miscellaneous events and items such as funerals, recreation, medical treatment and weddings etc. Similarly, it does not lead to an increase in female mobility.

TABLE 1 shows the list of all hypotheses and the summary assessment for the three PPAF reports. Each hypothesis is either Held [H], Partially Held [PH], or Not Held [NH].

TABLE 1: PPAF MICROCREDIT FINANCING - SUMMARY ASSESSMENT

	Hypothesis	2002	2005	2009
1.	Participation in microcredit leads to increase in personal income	H	H	H
2.	Participation in microcredit leads to increase in household income	H	H	H
3.	Participation in microcredit leads to increase in annual income from three key sectors (agriculture, livestock and enterprise)	H	H	PH
4.	Participation in microcredit leads to increase in household consumption	H	PH	H
5.	Participation in microcredit leads to increase in consumption of overall food	NH	NH	NH
6.	Participation in microcredit leads to increase in consumption of key food items	H	H	H
7.	Participation in microcredit leads to increase in home produced items	PH	NH	NH
8.	Participation in microcredit leads to increase in possession of financial assets	H	PH	NH
9.	Participation in microcredit leads to increase in possession of consumer durables	PH	PH	NH
10.	Participation in microcredit leads to increase in possession of enterprise/livestock/agriculture related assets	NH	PH	NH
11.	Participation in microcredit leads to increase in paid employment generated by three key sectors	NH	NH	NH
12.	Participation in microcredit leads to increase in operating surplus	H	H	NH
13.	Participation in microcredit leads to increase in expenditure on house repair	H	H	NH
14.	Participation in microcredit leads to the use of better household facilities	H	H	PH
15.	Participation in microcredit leads to increase in discretionary and non-discretionary expenditures	PH	NH	NH
16.	Participation in microcredit leads to use of better agriculture inputs	NH	PH	NH
17a.	Participation in microcredit leads to improvement in social status	H	H	PH
17b.	Participation in microcredit leads to improvement in female mobility	-	NH	NH

II. SOCIAL IMPACT ASSESSMENT OF MICROFINANCE PROGRAMS – EUROPEAN UNION STUDY

This study was commissioned by the European Union in 2007 under the Pakistan Financial Services Sector Reform Programme to assess *"the social impact of microfinance programs of MFIs/NGOs/MFBs on borrowers, communities and on the institutions themselves and whether these MFIs were achieving their social missions".*

The study was conducted by a team of independent researchers led by S. Akbar Zaidi.

Using a sample of 170 respondents – 90 non-clients and 80 clients - from each selected branch of each of the six sample microfinance providers[3], the authors studied the economic and social impact of microcredit. Hence, a total sample of 3393 respondents was used from the 20 selected branches. The study used the Mixed Methods approach by combining the quantitative (through survey data, coupled with econometric analysis) and qualitative information (through focus group discussions). For analysis, the Difference-in-Difference approach[4] is adopted which compares income differentials of clients and non-clients in the treatment location to the same income differential in the control location. The paper supplements bivariate analysis with multivariate regression analysis to isolate the impact of microfinance interventions by controlling for other related variables.

The study looked at the following key indicators of change in different economic and social categories:

TABLE 2: KEY SOCIAL & ECONOMIC INDICATORS [ZAIDI; 2007]

Economic Status	1. Expenditure per capita 2. Income per capita 3. Per capita food expenditure 4. Household asset score 5. Value of household assets
Children's Education	1. School going children (%) 2. School going children – girls (%) 3. School going children – boys (%) 4. Children going to private schools 5. Monthly expenditure on education
Housing	1. Housing Quality indicators *(such as house ownership, persons per room, construction and roofing materials)* 2. Services *(such as electricity and telephone connectivity, toilet system)*
Asset Ownership	Assets including: • Own house • Refrigerator • Color TV • Motor cycle • Prize bonds • Washing machine • Urban property • Gold • Mobile phone • Sewing machine • Bed with foam mattress
Women Empowerment	Empowerment in terms of: 1. Economic 2. Income 3. Asset 4. Social 5. Health & Education
Business Characteristics	1. Number of family workers 2. Type of income (fixed or daily wages) 3. Value of assets
Health Expenditure	1. Members of household reported illness in last 30 days 2. Monthly health expense
Child Immunization	Whether course was completed, not completed or not undertaken

3 *These were Orangi Charitable Trust (OCT), Asasah, Sindh Agricultural & Forestry Workers' Coordinating Organization (SAFWCO), Kashf Foundation and National Rural Support Programme (NRSP).*

4 Clients/borrowers and non-clients were chosen from the same sites/locales, and non-clients of the MFI were also chosen from other sites/locales where the MFI does not operate. This is the Difference-in-Difference approach which requires random selection of treatment and control sites/locales (communities). The former are sites/locales (communities) where the MFI has had its lending operations for some time and in which some households have been clients as members of community organizations and others are non-clients since they have not joined community organizations. Control sites/locales are those communities in which community organizations have been formed (or even may not have been formed) but the MFI has not started its lending operations: members of these organizations are the future clients and others are non-clients.

Although the assessment looked at the same indicators across the six sample institutions, it does not pool the results but rather presents them separately for each MFI. The key reason for this is that each program varies from the other (some more strongly than others), especially in terms of duration of its existence. Since the length of time that a client has spent with the microfinance program appears to have a strong positive relationship with change, it is prudent to look at each MFP's impact on clients separately. Some of the main findings of the report include:

- The results of social and economic impact of microfinance across the sample are *'mixed'* at best.

- The impact, although positive, in most cases it is not positive enough i.e. the differences between those who take credit and those who do not are not statistically significant. This finding should be understood in the context of the relative young age of most of the MFIs in the study's sample.

- The point of caution mentioned above is reinforced by the finding that the highest impact is found a) amongst institutions that have been lending for the longest period of time, and b) for larger loan sizes. These two are also closely linked as loan sizes often increase with each loan cycle.

- Perceptions of both old and new borrowers are quite positive towards the programs and even clients who have only been borrowing for a few months feel there is significant improvement in their quality of life.

- Except for economic empowerment indicators, there was limited evidence of increases in other women empowerment measures.

The report however cautions repeatedly that there are important longitudinal aspects of social impact i.e. social impact takes longer than economic impact. For example, enterprise profits may increase in the immediate run and taper off within a couple of years of program participation while asset accumulation may require three to five years to emerge. At the time of the study, it observed *"since many of the MFIs in Pakistan are relatively new – three or four years of operations only – 'impact' will be difficult to observe, leave alone, measure and quantify."*

TABLE 3 summarizes findings of the research by institution. We only report indicators where there was a positive difference between the borrowers and the control groups. In case of the rest of the indicators, either the difference was not statistically significant or the control group exhibited better performance.

TABLE 3: INDICATORS THAT SHOWED SIGNIFICANT IMPACT – INSTITUTION-WISE

	ASASAH	OCT	AKHUWAT	SAFWCO	NRSP	KASHF
Economic Status	a) Expenditure per capita b) Income per capita c) Household Asset Score	a) Income per capita b) House-hold Asset Score	a) Income per capita b) Per capita food expenditure	a) Expenditure per capita b) Income per capita c) Value of HH Assets	All indicators were significantly better for borrowers	a) Expenditure per capita b) Income per capita c) Household Asset Score d) Value of HH Assets
Children Education	-	-	-	-	Expenditure on education	a) % of school going children – boys b) Girls enrolled in schools
Housing	-	House ownership	Houses with cemented floors	-	Houses with cemented floors	a) House Owners b) Cemented floors c) Houses with baked bricks

TABLE 3 [CONTINUED]

	ASASAH	OCT	AKHUWAT	SAFWCO	NRSP	KASHF
Asset Ownership	Ownership of: Refrigerators	Nearly all household assets	Ownership of: Sewing Machines	Ownership of: • Bed with Foam mattress • Gold	Ownership of: Gold	Borrowers significantly own more assets than non-borrowers
Women Empowerment	a) Economic Empower-ment b) Emp. Related to Health & Education	**	Economic Empower-ment	All indicators are significantly higher for borrowers	-	a) Economic Empowerment b) Social Empowerment c) Asset Empowerment
Business Characteristics	Monthly Sales	Monthly Sales	-	-	-	Monthly Sales
Health Expenditure	Health Expense	-	-	-	-	Health Expense
Client Perceptions about Impact	94.5% respondents said Quality of Life improved	61.7% respodents said Quality of Life improved	87.5% respondents said Quality of Life improved	68.5% respondents said Quality of Life improved	71.6% respondents said Quality of Life improved	98.7% respondents said Quality of Life improved

** OCT mostly lends to male clients thus women empowerment indicators were not tested for this MFI.

III. DFID ASSESSMENT

This study is quite different from other assessments that have been reviewed in this paper, as it does not look at the actual impact of a microfinance intervention, but rather looks at the question of whether existing microfinance policy is likely to have the desired social and economic impact. It was commissioned by DFID and was conducted by Oxford Policy Management in 2006. The study uses two main tools to answer the question of the poor's access to microfinance services and its impact: first is a small survey of 100 households to understand the use of financial services by these households and study impact of microfinance on their lives, and the second is an analysis of the national level Pakistan Integrated Household Survey (PIHS) and Pakistan Socio-Economic Survey (PSES) surveys that were undertaken prior to, or at the start of, reforms in microfinance policy to provide some form of baseline.

There are some interesting findings of the study on access and use of financial services by households as well as implications for policy, but these are beyond the scope of this paper. Here, we only highlight findings that relate to impact on clients' lives from the household survey:

- There was a general consensus among all MFP clients that microfinance programs enabled them to take advantage of income-generating activities, business expan-sion, and other investment opportunities, thereby increasing livelihoods.

- Of the 44 clients that had used a savings account of an MFP, 42 felt better off because they could save in this manner.

- Nearly two-third clients felt their respective MFP was not providing them all the financial services they need.

- A significant proportion of clients felt that the loan sizes were too small for meaningful investment in business.

In addition, the analysis of the PIHS and the PSES showed that credit availability may have mitigated the effects of the drought on poverty in the provinces of Khyber-Pakhtunkhwa and the Punjab.

IV. KASHF FOUNDATION ASSESSMENTS

Kashf Foundation is Pakistan's third largest MFP in terms of number of microfinance clients, numbering above 300,000 in early 2010. It is one of the more mature institutions in the country, and since inception was envisioned as a specialized micro-financier for poor, especially poor women in the urban centre of Lahore. It has since then expanded to other areas and now holds a rural portfolio as well.

To date, KF has undertaken five evaluations of the organization's impact on microfinance borrowers. Of these, the two most recent ones are being reviewed in this paper; one conducted by Akbar Zaidi in 2005, and the other by ShoreBank International in 2009[5]. These studies were designed to gauge whether, and how well, KF's mission was being achieved. Thus, several hypotheses regarding the economic and social lives of KF's clients were tested using a *'combined approach'* to data, as well as use of perceptual data – similar to the PPAF studies reviewed previously.

The 2005 study was undertaken with a random sample of 250 borrowers from the urban center of Lahore, spread over 12 branches. The sample comprised 174 mature clients and 76 new clients. Clients who had been taking loans for more than three years were considered as 'mature'. The new clients in the sample had just begun their first loan cycle, and were treated as the control group. Additionally, seven focus group discussions with borrowers (two for the control group) were also conducted to supplement the survey findings.

The 2009 study was undertaken in three markets – Lahore, Gujranwala and Kasur. Clients in their fourth loan cycle were taken as the mature borrower sample, while first-time KF clients were treated as the control group. Sample respondent interviews, focus group discussions and case studies were the methodologies employed to arrive at the study's findings.

Across the two studies, the economic impact of KF's services was found to be significant. The social impact saw mixed results in terms of significance in the 2005 study, but saw results that are more significant in the recent 2009 assessment.

Some key observations across the two studies are:

1. Economic benefits for borrowers result from KF's services. Generally, the longer a client is associated with KF, the higher their income. There is also a positive impact of lowered clients' vulnerability through better diet, healthcare and asset accumulation.

2. Savings serve as a major emergency coping strategy for borrowers. Even though the difference between mature and new borrowers was statistically insignificant in the 2005 study, this was because a large percentage of both groups regularly save. The 2009 study indicates an increase in savings in the last 12 months for a majority of borrowers.

3. Asset accumulation patterns show that new clients have a larger asset base to start with. Even though the difference in ownership patterns is not significant, a large number of mature borrowers have acquired these assets, while new borrowers already own them showing a shift in lifestyle of the target clientele.

[5] The complete Impact Assessment report of 2009 has not been published. A brief overview of the research findings is, however, publicly available. It is this brief that has been used to report the Kashf Foundation 2009 assessment findings.

4. Findings on whether social impact has been significant are not consistent across the two studies. The results of the two studies have varied from no significant change to a significant change in social impact for KF clients. Reasons for this could be taking a different mature borrower set in the last study (2009), which constituted clients in their fourth loan cycle versus third loan cycle clients from the 2005 study; and a different set of indicators used to measure social impact.

TABLE4 gives a list of all hypotheses and their summary assessments for the two KF reports. These have been termed as Held (H) if impact was found to be statistically significant and Not Held (NH) if impact was found to be statistically insignificant by the researchers. Empty cells denote that these hypotheses were not tested in the respective researches.

TABLE 4: FINDINGS FROM KASHF FOUNDATION'S IMPACT ASSESSMENTS IN 2005 AND 2009

	Hypothesis	2005	2009
1.	KF reaches low income households	H	H
2.	Economic Impact: KF is leading to poverty alleviation	H	H
2a.	Improvement in financial distress coping mechanisms	NH	H
2b.	Improvement in household diet	H	H [6]
2c.	Improvement in access to health	H	H
2d.	Improvement in ability to build household assets	NH	H
3.	Social Impact: KF is leading to greater empowerment of its women clients	NH	H
3a.	Increased decision making power	NH	-
3b.	Increased financial independence	NH	-
3c.	Increased financial awareness	-	H
3d.	Improvement in clients' own perception of social status	-	H

V. IMPACT OF KHUSHHALI BANK'S MICROFINANCE PROGRAM IN PAKISTAN

Khushhali Bank was established as the first retail microfinance bank in Pakistan in 2000 by the Government of Pakistan under its Microfinance Sector Development Program in collaboration with the Asian Development Bank (ADB) with a mission to provide microfinance services to the poor, especially women, and work towards poverty alleviation. At the time of assessment, the Bank reached over 175,000 clients (currently KB reaches about 383,000 active borrowers, accounting for 20 percent of the total market).

Heather Montgomery's assessment of KB's impact was commissioned by the ADB in 2005.

Montgomery employs one of the standard methodologies by using prospective clients in villages where the Bank was operating, to construct a control group. These

[6] Results were statistically significant in only one out of three regions that were part of the survey.

were clients that had been identified and were in the process of accessing a loan but no disbursement had yet taken place. A stratified random sample of 1,454 KB clients and future clients was drawn from 139 rural villages and 3 urban cities where the Bank operates. An approximately equal number of randomly selected non-clients from the same villages or settlements were also surveyed. Females constituted half of the total sample, and 25 percent of the sample was urban. The sample also included drop outs, those in default as well as inactive clients. The assessment sought to answer one key question: *"what has been the impact of the microfinance program on household welfare?"*

Controlling for household characteristics and village fixed effects, Montgomery tested whether access to and/or participation in the microfinance program of KB had a positive effect on various outcome measures. Relationship between extent of participation (i.e. length of time, number of loans and total value of loans) and impact was also tested. Differential impacts from lending in urban areas as opposed to rural areas, lending to women as opposed to men or lending to groups formed by NGO service provider partners as opposed to KB staff were also examined.

Key findings include:

1. Consumption/Expenditure Indicators:

Participation in KB's microcredit program had no impact on household expenditure on food or education but had a positive impact on health expenditure.

2. Social Indicators:

No impact was seen on education indicators such as the probability of children going to school or absenteeism, however a positive relationship was observed between program participation and some health indicators such as probability of seeking professional medical assistance if a child is ill, being able to meet health expenses, and probability of seeking vaccination during pregnancy. Program participation and extent of participation was found to be significantly related to women empowerment indictors such as the degree to which their opinion is sought in issues such as child rearing, their participation in community activities, ability to work outside the home and social engagements.

3. Income Generating Activities:

Out of the three sectors studied, the largest aggregate impact of program participation on assets, use of inputs and sales was seen in agriculture, followed by microenterprise and livestock. Employment was created in all three sectors either through start ups or through hiring of labor.

ANNEXURES

ANNEX A:

ACRONYMS

ADB	Asian Development Bank
CGAP	Consultative Group to Assist the Poor
DFID	Department for International Development – UK
HH	Houshold
KF	Kashf Foundation
MFB	Microfinance Bank
MFI	Microfinance Institution
MFP	Microfinance Provider
NRSP	National Rural Support Programme
OCT	Orangi Charitable Trust
PMN	Pakistan Microfinance Network
PPAF	Pakistan Poverty Alleviation Fund
SAFWCO	Sindh Agricultural and Forestry Workers Coordinating Organization
SBP	State Bank of Pakistan

ANNEX B:

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