Factors of Success:

A Comparative Study of Kashf Foundation and Grameen Bank

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Terms of Evaluation

Though a multitude of microfinance institutions (MFIs) exist in both Pakistan and Bangladesh, the scope of this paper limits itself only to Grameen Bank, the founder of the Grameen-style group lending methodology, and Kashf Foundation, the most successful Grameen replication in Pakistan. It is not, by any means, an exhaustive examination of microfinance in Pakistan and Bangladesh as a whole, as such a comparison would require an analysis of individual lending programs, rural support lending programs, microleasing institutions, and the like. The paper seeks only to build on a growing body of research in the microfinance field, and to assess which environmental factors in former sectors of one country differ so much in permitting the flourish of MFIs. References to pertinent anecdotal experiences will be included: research was conducted in the summer of 2005 and as such was limited to the time permitted.

This is by no means a comprehensive evaluation of cultural, social, economic, and institutional nuances of Pakistan and Bangladesh; such an effort would be extraordinarily detailed and could not possibly be conducted in a three month period. Nor does it include government-sponsored initiatives by Bangladesh or Pakistan; instead, it focuses on private institutions engaging in microfinance services and addresses the difficulties faced by such independent agents. This
report does aim to isolate certain factors which may play a role in the different MFI environments and may explain the discrepancy in the market penetration and comparative success of MFIs in the two former halves of one country.

Evaluating success is somewhat problematic; it is necessary to delineate in what terms “success” can be measured. Surely, empowering and encouraging only one family is a great success. Yet here success will be considered by the institution’s ability to penetrate the qualifying, desiring, and needy market it aims to assist, and the means by which each respective institution overcame (or is in the process of overcoming) the environmental challenges posed at each level of its development. Development has been divided into the start-up/initial phase, the growth/expansion phase, and the sustenance/maintenance phase. The analysis will then continue by assessing the formation of applicable methodologies in the context of Bangladeshi and Pakistani environments.

Furthermore, I would like to complicate the issue of success to include the importance of empowerment capability when discussing microfinance institutions. Empowerment, though ambiguous in its definition, can be evaluated by the ability to grant women a sense of agency in their daily lives. The idea of “success”, then, is one which combines effective outreach with empowerment of those agents who have taken part in the program. This paper uses this definition of
success, and looks at factors which might adversely affect both when looking specifically at the Bangladeshi and Pakistani approaches to the Solidarity Group Lending model.

**Paper Organization:**

To elucidate the particularities of both respective models, I will look at their general tenets, eligibility, services offered and organizational model. After establishing the characteristics of each, I will compare the two models in terms of their intended accomplishments in outreach and other means. This will be followed by distinctions made in their institutional, environmental, and socio-political environments, in order to have a more accurate view of “success” and what the barriers and obstacles to that success can be. Lastly, I will introduce the concept of empowerment and explore how that complicates the idea of success from being more than one of simple outreach: empowering success requires that outreach ensures agency for the women targeted.

**Grameen Group Lending Model**

Microcredit outreach in Bangladesh is wildly successful: market penetration is estimated to be over 75% of poor, eligible, and willing families. Moreover, a 2003 World Bank study demonstrated that Bangladeshi microcredit programs “affect not only the welfare of participants and non-participants but also the aggregate welfare at the village level,” and they also have a “greater impact on greater impact
on extreme poverty than on moderate poverty” \(^1\). Furthermore, internal studies conducted by Grameen Bank show that 42% of its borrowing families crossed the poverty line as of 2001, assessed by ten indicators of loan size, savings amount, housing condition, warm clothing, etc\(^2\).

Such a level of astounding performance, however, has not been duplicated in any Grameen replicating institution; Muhammad Yunus reports that the most common response is that replicating institutions have not enough capacity to deepen outreach.

Surely the Grameen model cannot be blamed for its complexity: its appeal lies in the simple yet effective method of dispersing loans to those who demonstrate a need and desire for self-motivated entrepreneurship. Understanding that the poorest of the poor have been excluded from access to financial services, Grameen’s Solidarity Group Lending model uses social collateral to ensure repayment of small loans approximately (in size). Essentially, small loans are distributed individually to women organized in groups of five; it is the job of this group to ensure that weekly loan repayments are met.

“Grameencredit,” as Muhammad Yunus terms the model, has specific targets which distinguish it from other financial programs. The primary mission of Grameencredit is to help families help themselves to overcome poverty: its intention is to create “self-employment for

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\(^2\) Grameen Performance Summary, 2003. Pgs 6-8
income-generating activities and housing, as opposed to consumption”\(^3\). Believing that credit is an essential human right, the system operates on a premise of trust and a vehement conviction that poverty is not created by the poor, but rather the institutions and policies which surround them. Pitt and Khandker (1998) underscore this notion in their examination of individual and household outcomes in Bangladesh; they conclude that access to credit is a significant determinant of many household outcomes, allowing for increased labor supply and asset holding.\(^4\)

Grameencredit aims to promote the skills of the poor which remain “unutilized or under-utilized”, in order to bring them out of poverty by “unleashing [their] energy and creativity to answer poverty”. It is due to this belief that Grameen does not offer job training or career building services. Rather, the emphasis is on building social capital in the impoverished women by incorporating them into a system which gives them the ability to exercise leadership (through group or center leadership) and self-initiative (through proactive entrepreneurship).\(^5\)

**Who is eligible?**

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3 Grameen Informational Packet, provided by Grameen Trust on 18 June 2005.
Grameen caters to the rural landless who qualify as the poorest of the poor: this means that their lack of collateral has disqualified them from traditional financial services. Qualifying as landless means that one possesses less than half an acre of land or assets that amount to less than the value of an acre of medium quality land: this definition thus makes eligible approximately half of the rural population\(^6\). Less than this established quantity of land indicates that the potential client has few resources which can be effectively used for income generation; as such, they will benefit greatly from financial assistance. Grameen’s unique model addresses the issue of collateral when dealing with the destitute. This demographic has been denied access to financial institutions because they have no collateral with which to ensure repayment of a traditional loan. The high opportunity cost of the meeting and the small amount of loan makes the Grameen system unappealing to large farmers and the rural rich, effectively dismissing them from the program. \(^7\) The demographic targeted then is inherently narrowed to the landless and the destitute.

To guarantee payment, Grameen developed a Solidarity Group Lending model in which groups of five are assembled to use peer monitoring and social collateral to enforce repayment and efficient monitoring of the business. High risk borrowers are screened out of the

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\(^7\) Goheer, Nabeel. “Microfinance: A Prescription for Poverty and Plight of Women in Rural Pakistan.” Rural Finance for Growth and Poverty Alleviation.
process, as in a village environment one’s reputation as unreliable would prevent others from joining with in a group with that individual. Furthermore, joint liability is imposed upon the group. If one member of the group defaults on a loan, all are penalized for such a behavior. Group members are thus given a strong motivation to not only help one another, but also ensure repayment and proper conduct as per the rules of Grameen Bank. Peer monitoring reduces transaction costs incurred by the primary institution by placing it in the hands of the social pressure mechanism.

The groups are self-selected and must be homogenous in their gender composition. Although men and women both have opportunities to join, women have dominated the process and now take 94% of all distributed loans. Group members cannot be related in any manner, must have similar social and economic backgrounds to prevent unequal bargaining strength, and must be from the same village. Upon selecting a suitable group, the members are sorted into a center consisting of five groups each. The process of screening now begins: members are subjected to fourteen days of meetings in which they must learn to sign their name, learn about Grameen’s objectives, and memorize Grameen’s Sixteen Decisions for proper social conduct. Discipline is highly emphasized during this month of training, with the assigned loan officer testing and quizzing members to ensure their suitability for the program. Furthermore, the training also fosters a
closer relationship among women not only in the group but also in the center; this creates a strong social network in which women can support each other as they embark on what will be for many their first entrepreneurial venture. Loans are disbursed only when the loan officer is satisfied with the knowledge of all members of each group.

Self-selection and peer pressure are the two salient features which allow the Solidary Group Lending model to work. The former, however, may interestingly work to the detriment of what Syed Hashemi terms the “hard core poor”. Though most studies of Grameen Bank laud the institution for its remarkable ability to target the poor, the issue of differentiation within the ranks of the poor problematizes an effective targeting of this demographic. The “hard core poor” are those who are “forced to subsist on a per capita income that is less than half that of the poverty line\(^8\); this group often self-selects itself out of Grameen participation only because they consider themselves to be not creditworthy. In Hashemi’s words, they “do not feel they have enough resources to generate incomes to pay back loans…and thus self-select themselves out of membership”. Out of 313 target group households interviewed in Rangpur and Faridpur, 120 women had chosen not to participate: 55 thought they would not be able to manage the money and thus would incur more debt; 35 thought that leaving home for Grameen meetings with males present would violate

social norms; 11 were rejected for being high-risk or having high-risk husbands; and 19 said the rules were too complicated to understand and they were unable to memorize the Sixteen Decisions. This observation of the self-selection bias is important in that it indicates that microfinance must be tailored to suit the individual perceptions of the target groups: encouraging confidence and optimism in the ability to help oneself is a necessary prerequisite for the success of a microfinance program hinged upon self-initiative.

Services offered

**General Loan:** The General Loan is a loan of Tk 1000 dispersed to women for entrepreneurial activities. There is a 20% declining interest rate on these loans. The loans are entirely financed from the banks own deposits, with over 64% of the deposits coming from the bank’s own borrowers.

**Housing Loan:** Housing loans are provided for the construction of sanitary and stable housing. The maximum amount dispersed is Tk 15000, with the amount to be repaid over a period of 5 years in weekly installments at 8% interest. The average housing loan is approximately Tk 13000. To date, 627058 houses have been built with the assistance of this loan, with Tk 8.33 billion dispersed to that end.

**Emergency Loan:** The Emergency Loan can be granted in times of distress.

**Struggling Members Program** Notably, Grameen has expanded its services to include what is called the Struggling Members Program, which dispenses small loans to beggars with a completely flexible and optional repayment term. No interest is charged, and members are covered under life insurance and loan insurance programs. The intention is to increase the self-esteem of beggars and allow them to sell small goods as they beg, in the hopes of stimulating some form of entrepreneurial spirit. To an extent, the Program targets those who self-select out of participation in Grameen’s more mainstream programs because of a lack of resources or of confidence in one’s entrepreneurial abilities. Approximately 63,000 beggars have already joined the program, with disbursed amount standing at Tk. 45.92 million.

**Housing Loan:** The housing loan was introduced in 1984, with the maximum amount disbursed Tk 15,000. Housing loans are provided at an interest rate of 8% to encourage clients to strive to have sanitary and stable structures as homes. A total of Tk 8.33 billion has been disbursed thus far as part of the housing loan.

**Microenterprise Loan:** These larger loans are granted to borrowers with significant business savvy, with no maximum
amount specified. The funds are used to purchase merchandise such as irrigation pumps, transport vehicles, and other equipment not accessible due to restrictions of the smaller loan. Thus far, 668,389 members have taken these larger loans, with Tk 14.50 billion dispersed.

**Education Loans:** Children of parents who are involved with Grameen are given education loans which cover tuition, maintenance, and other school expenses, provided that they have reached the tertiary level of education. As of December 2005, almost 9000 students had received these loans.

**Organizational Model**

Grameen’s efficiency lies in its decentralization. The transparent, simple system of loan disbursement delegates decision-making powers to the lowest relevant level, whether that is the branch, center, or group. The group-lending process dismisses the often high transaction costs associated with targeting a lower socioeconomic demographic. Grameen is able to maintain a large target size because the group-lending process not only encourages peer pressure as a means of repayment enforcement, but also because the screening process is no longer concentrated in the hands of the bank, as it is in the traditional financial sector. Shifting the time-intensive burden of the screening
process to the client reduces quite a bit of transaction cost and labor intensity\textsuperscript{10}.

Weekly meetings also enhance the transparency of the loan disbursement, emphasizing their regular and public nature, as well as cuts down on adverse selection problems by encouraging discussion of any issues facing a group or center. Furthermore, the regularity of the weekly meeting creates an organizational structure in which loans are paid regularly, loans can be received continuously and simultaneously, and the loans are monitored consistently and transparently. This cuts down on messy, time-consuming efforts of repayment enforcement, as the group and center inherit this responsibility rather than Grameen as an institution. Corruption is also kept to a minimum by the weekly meeting: financial transactions take place in front of all borrowers and the rationale for granting or rejecting loan applications are openly discussed, so the potential for bribery and preferential treatment is limited. Suspicion that such corrupt practices may occur is also defeated, and encourages those relationships of mutual trust which are so vital to the function of the Group Lending Model\textsuperscript{11}.

The weekly visits of the loan officer to the center develop a close, personal rapport between lender and borrower, facilitating

\textsuperscript{10} Goheer, Nabeel. “Microfinance: A Prescription for Poverty and Plight of Women in Rural Pakistan.” Rural Finance for Growth and Poverty Alleviation

problem solving and enhancing consistent transparency\textsuperscript{12}. Constant contact with the clients in the clients’ own communities also ensures a high level of familiarity with sociocultural demands on and the economic needs of particular borrowers, and allows a tailor-made response to any obstacles that may arise as a result of these particular situations. The design of the system allows for a certain amount of flexibility in implementation, and as such the procedures of the program become “fine-tuned” by the staff in order to best suit their clients\textsuperscript{13}. Minor problems, such as issues of interference by husbands and family members, can be addressed by the field staff effectively and quickly as a result of this decentralized system. Furthermore, the transparency of the operating procedures instills a trust in the system that could not be earned were there not a decentralized, personalized system of monitoring.

Grameen’s emphasis on self-sufficiency and initiative is visible even on the organizational level: branches are encouraged to become self-sufficient as soon as possible. Branches monitor the center’s behavior and offer day-to-day contact with members. Area offices manage the branches, and function under the auspices of zonal managers. According to Hashemi, almost all major policy decisions are taken at zonal manager conferences in which “extensive critical


\textsuperscript{13} Hashemi, Syed M.
assessments” of performance and intensive deliberations occur. Each zone policy is thus geared towards managing the problems that occur in its own jurisdiction according to norms and cultural nuances in each. The ability of the staff to familiarize themselves and target the issues in their jurisdiction is reinforced by an intensive introductory training program as well as in-service staff training, intended to support “a problem-solving culture [which] puts total trust in the creative potential of its staff and clientele in crisis management”\textsuperscript{14}.

\textit{Approach to Social Reform}

Grameen’s approach to social reform is embodied in the Sixteen Decisions: these are an example of a social development program intertwined with microcredit delivery. Developed in 1984, the Sixteen Decisions are an integral part of Grameen Bank’s mission: all potential and current borrowers are expected to memorize them, and adherence to the Decisions is monitored by the Loan Officer. Additionally, the loan officer is to explore one decision per week in-depth, and reinforce its applicability to the borrower’s lives and answer their questions to that end. The decisions are:

1. We shall follow and advance the four principles of the Grameen Bank (discipline, unity, courage, and hard work) in all walks of our lives.
2. We shall bring prosperity to our families.

3. We shall not live in dilapidated houses. We shall repair our houses and work towards constructing new houses at the earliest possible.

4. We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.

5. During the planting seasons, we shall plant as many seedlings as possible.

6. We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.

7. We shall educate our children and ensure that they can earn to pay for their education.

8. We shall always keep our children and the environment clean.

9. We shall build and use pit-latrines.

10. We shall drink tube-well water. If it is not available, we shall boil water or use alum.

11. We shall not take any dowry in our sons’ weddings, neither shall we give any dowry in our daughters’ weddings. We shall keep the center free from the curse of dowry. We shall not practice child marriage.

12. We shall not inflict any justice on anyone, neither shall we allow anyone to do so.

13. For higher income, we shall collectively undertake bigger investments.

14. We shall always be ready to help each other. If anyone is in difficulty, we shall all help them.

15. If we come to know of any breach of discipline in any center, we shall all go there and help restore discipline.

16. We shall introduce physical exercise in all our centers. We shall take part in all social activities collectively.

The Sixteen Decisions are a social development agenda that places primary responsibility on members rather than on Grameen Bank for implementation; as such, the expenditure incurred by Grameen for this social development program is minimal. The simple approach is easily understood by the participants, and reinforced
through regular recitation and discussion. Furthermore, they are closely tailored to the setting of rural Bangladesh by having tangible and specific demands, rather than nebulous, ambiguous statements of principle.

**Kashf Model**

Established by a grant from the Grameen Trust in 1996, the Kashf Foundation is the most successful replication of the Solidarity Group Lending approach in Pakistan: its outreach as of June 2005 is estimated to be 70,929 active clients in 30 centers in the Lahore area. Though a multitude of other microfinance services exist in Pakistan (notably the First Woman’s Bank, the Microfinance Bank, Khushali Bank, the National Rural Support Program, Kashf is particularly unique in that it exists outside of state or quasi-state infrastructure. Kashf’s methodology hinges on the utility of social capital as collateral, loaning exclusively to women in an initiative to empower women. Kashf’s mission statement, as printed in a DFID evaluation in 2003, is: “to provide quality and cost effective microfinance services to the poor rural, urban, and peri-urban women, focusing on adding value to their existing economic activities in order to enhance their economic roles both as autonomous decision-makers and as direct contributors to family income; and through a sustained increase in client incomes, it
attempts to enable them to move out of the poverty trap within eight to ten years.”  

Most importantly, Kashf sees its role not only as one which can effectively alleviate poverty in Pakistan, but also one which is socially responsible for social and economic empowerment of women. By offering broader opportunities for impoverished women in the areas surrounding Lahore, Kashf believes that it can achieve its goals: “an increase in the income of working women and their family who make use of Kashf’s credit and auxiliary services; an increase in assets over time as a consequence of an increased income stream and increased savings leading to all forms of increased assets; a diversification of income sources for loanees and earning members of the family; greater control over economic and social resources by the working poor, particularly women; an increase in decision-making capacity of women within households on account of the loans that they bring in and the increase in income that follows; enhanced leadership skills and bargaining capacity of women who interact with others when they form a group which allows them access to credit; an awareness of, and improvement in, social networking at the neighborhood level; an improvement in inter-household gender relationships since it is they who actually bring in the loan; and an improvement in the financial management of household resources by borrowers and other

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beneficiaries.” To those ambitious ends, Kashf has diversified its offerings to include products besides simple microfinance services.

Who is eligible?

As per the Solidarity Group Lending model, Kashf requires that peer groups of five women form in order to obtain a loan. These groups are entirely self-selected, with the only requirements being that the five women must be geographically near to one another, and they cannot be blood related. The group then becomes the unit for all economic transactions conducted through Kashf, including loan appraisals, monitoring, enforcement of loan repayment, and conflict resolution; indeed, the group is intended to reinforce and promote behavior according to Kashf’s guidelines through peer pressure, rather than placing the burden of enforcement of Kashf staff.

Capacity building is the an important aim of group formation: as groups are being formed, the loan officer will concentrate on training so that members understand what is being asked of them and so that they are better equipped to manage their new resources and new economic environment. During this time, members are encouraged to discuss their economic and entrepreneurial plans with one another, Kashf, believing that the exclusion of men is undesirable and may pose a hurdle in the proliferation of its efforts, does create a space for men during this consultation process. They are invited to attend meetings and observe program conditions; furthermore, Kashf specifically
permits women to obtain loans on behalf of their husbands, so both women clients and their male relatives are encouraged to participate in training sessions so that all parties are made aware of the requirements of the program.

Infrastructure

Group leaders are also elected by members, and five groups are arranged together to form a center. Center meetings then occur on a fortnightly basis, during which the assigned loan officer meets at a predetermined home of one of the members to collect that term’s repayment. Unlike the Grameen model, no established center area exists: each center selects a woman’s house at which meetings will be held for the upcoming loan cycle. A center manager and a center secretary are also selected, and join with the group leaders to form a credit committee responsible for all social and economic transactions in the center.

Centers are then allocated under the auspices of branch management. Branches are managed by Area Offices, which are responsible for monitoring and collecting information regarding that branch’s jurisdiction. Social programs are also organized by the Area Office, as are six-month branch plans and targets.

Services Offered

Kashf offers a variety of products for those who do choose to participate in their program, however, rather than affiliating
themselves with other microfinance schemes present in the Punjab region of Pakistan. These products include:

**General Loan**: Repayable in 22 installments per year, the General Loan is a minimum PRs.8000 loan designed to finance income-generating activities.

**Emergency Loan**: Those who have joined Kashf to supplement their entrepreneurial activities are also eligible for the Emergency Loan, described by Kashf to be similar to a “credit card for the poor”. Immediate and emergency consumption needs can be met by applying for the PRs. 2000 loan which can be repaid over a period of 6 months (11 installments). Utility bills, school books, clothes, and health care can all be paid for by this loan.

**Savings**: A voluntary savings product is also offered by Kashf. Clients are able to deposit and withdraw at their leisure at center meetings or at the branch office. While the Grameen model has compulsory savings accounts, Kashf has commoditized savings into an optional endeavor. Frugality and consciousness for the future are key components of the Grameen approach to savings; for Kashf to make savings optional removes this emphasis from the microfinance program.

**Life Insurance**: In case of the death of either the client or the spouse, Kashf pays PRs. 7500 to the deceased’s family for
expenses in addition to absolving the loan. The premium charged is PRs. 100 for a loan of PRs. 10,000, and a PRs. 10 increase for every subsequent PRs. 1000 increase in loan amount.

Two types of loan are offered. The General loan is intended for productive purposes. Initially it was only available in a standard loan of Rs. 4,000 but now loan size is more flexible and determined by capacity to repay and absorptive potential of the business. It is repayable by 22 equal instalments over 12 months and can be renewed and increased annually. However renewal is contingent on both the group and the centre’s ability to repay all their loans. The Consumption loan of $30 maximum is intended for unforeseen emergencies and is repayable by 12 equal instalments over six months. The size of this loan was originally tied to the customer’s savings – up to three times the amount saved could be borrowed. However in 2001 the savings requirement was dropped.

Approach to Social Reform

Whereas Grameen relies on market influence and natural progression of social liberalization via financial freedom, Kashf institutes what it terms “social intermediation services” along with its financial provisions. The Social Advocacy and Capacity Building program aims to “strengthen community solidarity to build client trust in Kashf” as well as to promote awareness of gender issues. Dialogue is promoted in scheduled training meetings, in which women are
encouraged to examine social myths and their own changing perceptions of themselves. Distinct programs are offered within the Social Advocacy framework: leadership training, which focuses on team building and conflict resolution; gender training, in which men and women both discuss issues of sex, gender in society, and domestic violence; and reproductive health training, which gives pre and post natal care and addresses myths surrounding contraception and sexual issues. These programs are a more pre-planned and targeted sort of approach to social reform than those of Grameen, and as such require more financing as well.

**Grameen Model and Evaluation:**

Grameen’s model is well-tailored to the environment in which it thrives: it takes into account the social relationships which govern the village as well as the social norms which constrict women’s access to other financial means. That most financial transactions are conducted in the village rather than the branch office is an example of such understanding: services are therefore more accessible to village women who traditionally rarely leave the village, and would most likely be intimidated by the atmosphere of a commercial bank. Taking into account the likelihood of intimidation, Grameen simplifies many of its rules not only so they are easily comprehensible (especially to the illiterate), but also because of the trust it elicits through the transparency of transactions. The primary group of five is small enough
to make close personal relationships and frequent contact among members possible; the 30-40 member centers are a more efficient size for conducting credit transactions, and large enough to create an identity within a community and to give the individual member a sense of belonging to an organization.

Furthermore, weekly repayment allows the borrowers to pay their loan installments from generated income, rather than the original capital. As such, borrowers were shown to accumulate capital as soon as they joined Grameen, indicated by a study by H.I. Latifee in 2003. Also shown in the study was that the borrower’s capital base increases drastically as subsequent loans are taken, allowing for medium and long term investments such as machinery, cattle, tools, and equipment. This investment pattern promotes the household’s capacity to sustain their gains over a long period of time. Moreover, the investments and savings accumulated have demonstrated themselves to improve the coping mechanisms of the poor in light of natural disaster, such as the 1998 floods in Bangladesh\(^\text{16}\).

The emphasis on self-initiative and self-employment rather than consumption also creates new employment, significant in that it brings a new labor demographic into the market: women. Thirty-one percent of borrowers reported themselves as unemployed prior to joining Grameen, ostensibly because these women did not have the

\(^{16}\text{Yunus, Muhammad. “Expanding Microcredit Outreach to Reach the Millenium Development Goals”. Presented at the International Seminar on Attacking Poverty with Microcredit. Dhaka, Bangladesh. 9 January 2003.}\)
opportunity to work outside of their own homes. Self-employment addresses many of the social issues surrounding the ability to work: many surveyed women were able to incorporate their businesses without excessive difficulty into their daily duties of child rearing and household management, duties which cannot easily be foregone in a traditional environment. Hossain also found that the average age of employment for members increased from about 6 working days to 18 working days per month\(^{17}\). Naturally, income increase is also an outcome from increased employment: income in member households were 28% higher than in nonparticipating households in Grameen villages. The higher incomes of Grameen households were attributed to increases in income from processing and manufacturing, trading, and transport services financed with loans from Grameen Bank. Per capita food consumption also increased in member households, as did investments in housing, education, and sanitation\(^{18}\).

Though the emphasis of Grameen is not on consumption, a World Bank study found that “profits from Grameen-financed businesses were increasing borrowers’ consumption by 18% per year, and that the percentage of Grameen borrowers living in extreme poverty was reduced by 70% within 4.2 years of joining.” (WORLD BANK VIA 3502).


A Grameen Bank internal survey reported that by 2001, 42% of all member families had crossed the poverty line; the assertion was made by an evaluation of ten indicators (loan size, savings amount, housing condition, house furniture, clothing, education, etc). Understandably, more than 91% of borrowers reported that Grameen had made a positive contribution to their standard of living. Housing loans provided by Grameen have also allowed for 528,385 new houses to be built, with women owning 92% of these houses and owning the property on which the houses were built.

The Sustainable Group Lending model pioneered by Grameen is most fascinating when studied in its light on family units, not just individuals. That women are targeted by Grameen is key: the Special Unit on Microfinance of the UNCDF reported that “women’s success benefits more than one person. Several institutions confirmed the well-documented fact that women are more likely than men to spend their profits on household and family needs. Assisting women therefore generates a multiplier effect that enlarges the impact of the institutions’ activities.”

Naila Kabeer adds that it has been popularly demonstrated that “women’s interests are likely to be better served by investing effort and resources in the collective welfare of the

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20 Deshpanda, 15.
household rather than in their own personal welfare.” Proponents of targeting women cite women’s repayment records as evidence of their benefit to institutional sustainability, reinforcing the collective wisdom that women’s repayment rates surpass those of men. Lower loan loss rates do have an important effect on the efficiency and sustainability of the institution.

But the Sustainable Group Lending model does alienate some: the Grameen system capitalizes on the ability of women to pressure one another to repay loans. That social capital is so vital to living in a village translates into the exclusion of those women who doubt their own ability to make timely repayments and comply with the rules of Grameen Bank; this protects Grameen from loan default, but also requires then that many borrowers already have some sort of confidence in their own abilities before they approach Grameen. Rahman and Hossain estimate that roughly half of the rural poor in Bangladesh are “hard core poor”, or those forced to subsist on a per capita income that is less than half of that of the poverty line. Many of the “hard core poor” self-select out of participation in Grameen out of a lack of faith in their own abilities; though they are poor, they do not believe themselves to be bankable. Similarly, Khandker studied

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attrition rates in Grameen villages, concluding that the factors which prevented many from joining in the first place also were the same factors which led to drop-out after a cycle or two: those who either lacked access to a reliable source of income from which to pay weekly installments or those who were married to irresponsible men (and therefore did not have a means of insuring the security of their weekly installments) were forced through social pressures to leave. In short, the effect of poverty is more than deprivation of financial opportunity: it may, in some situations, cultivate an environment which deprives many of the ability to grasp opportunity at all. This poses a problem for the model’s ability to reach the masses, as there are simply masses who cannot be reached through such means; however, as Grameen’s mission is to help others “help themselves”, this result is not entirely problematic to Grameen’s existence or its claims.

Grameen’s credit environment must be observed when analyzing its success: as the pioneer of Solidarity Group Lending, Grameen did not face competition when entering the market for microfinance. That this notion was unheard of led to particular difficulties in establishing credibility, as Yunus and Nurjehan Begum elucidate in interviews. Women were initially distrustful of the system, as its aim to provide credit to the non-creditworthy seemed contradictory; men were opposed because of the possible social upheaval of women generating credit.

their income. Through a process of individual convincing of villages, however, Yunus and Nurjehan Begum managed to bypass these obstacles with a small group. The group’s success allowed for the idea to spread. That this was a revolutionary concept instilled at a time of widespread destitution (after debilitating famines in Bangladesh) most likely enhanced the reception of such an unconventional idea: conventional means of alleviating poverty were failing, and as such those who were suffering were more willing to try something to better a dire situation. Furthermore, the revolutionary status of the idea benefited Grameen’s growth: that it was a new idea granted it publicity and therefore generated interest. Grameen’s efforts have obviously grown remarkably, and its current credit environment does face some competition. BRAC is a major competitor of Grameen in many villages, with significant overlap in the target areas of both groups: upon questioning of villagers, it was not unheard of to hear BRAC and Grameen functioning in the same villages. BRAC’s concentration is more focused on capacity building than is Grameen: BRAC’s strategy therefore includes human rights and legal education courses, provision of legal aid clinics, theater as a means of raising awareness of social problems, household visits by volunteer health workers, and gender equity training. Furthermore, BRAC’s mission statement claims that it aims to reach the “hard core poor” mentioned above, entailing a more aggressive, intensive approach than that of Grameen. That Grameen
does not operate in urban areas also limits its target size: for urban poverty, groups such as Manabik are necessary. Grameen’s niche in the credit market particularly targets self-motivated rural women who require capital to develop their entrepreneurial ability.

Finally, Grameen must be lauded for its extraordinarily strong institutional identity. That Grameen is a well-established chartered bank grants the institution more legitimacy than if it were to be simply another NGO. Conflict with the government has been minimal as well, as it is supported publicly, not financially, by the government; were the support to extend to explicit financial donation, worries of corruption could possibly spread. The transparency of the organization on every level does lessen these concerns of corruption among those villagers willing to participate, yet highly distrustful of initiatives backed by a government which has previously shown itself to be corrupt. Grameen’s transparency, coupled with the cultivation of a strong identity and compelling vision, has been highly important in generating support and guiding its staff on the field; furthermore, it lends an air of credibility to the Bank’s functions, instilling the trust that is a prerequisite to participation in microfinance itself.

**Kashf: Model and Evaluation**

Asian Development Bank reports affordable microfinance in Pakistan to have an outreach of less than 5% of poor households, leaving unutilized a significant factor of the local economy. The
outreach of NGOs is estimated to grow only to 400,000 households (from only 60,000 currently targeted) by the end of 2004\textsuperscript{24}. Kashf has reached more than 4000 borrowers: though impressive and commendable, this represents only a fraction of the possible market.

Kashf, with its efforts concentrated in Punjab, states its repayment rate to be an astonishing 100%, with the total amount of loan disbursement to be approximately $600,000. Though savings are not mandatory, Kashf has mobilized more than 64% as savings from its members, with 35% operating self-sufficiency\textsuperscript{25}.

Notably, Kashf employs a more cohesive approach to microfinance, with an approach that incorporates education and training more so than Grameen’s strict emphasis on entrepreneurship and self-initiative. Women in Pakistan, as in Bangladesh, have historically been poorer, less healthy, and less educated than men, indicated by comparisons in the Male and Female Human Poverty index. Rather than decreasing, this gap has increased over time; women in 1995 were demonstrated by the HPI to be worse off than they were in 1970\textsuperscript{26}:

\begin{footnotesize}
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\item \textsuperscript{26} Goheer, Nabeel. “Microfinance: A Prescription for Poverty and Plight of Women in Rural Pakistan.” Rural Finance for Growth and Poverty Alleviation.
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<table>
<thead>
<tr>
<th>YEAR</th>
<th>MALE HPI</th>
<th>FEMALE HPI</th>
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<tbody>
<tr>
<td>1970</td>
<td>60.6</td>
<td>70.1</td>
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<tr>
<td>1975</td>
<td>56.9</td>
<td>67.0</td>
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<td>1980</td>
<td>53.7</td>
<td>64.2</td>
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<td>1985</td>
<td>50.0</td>
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<td>1990</td>
<td>46.1</td>
<td>58.9</td>
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<tr>
<td>1995</td>
<td>41.0</td>
<td>55.8</td>
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Though the HPI does indicate that the living standards decreased among both genders, the gap increased from 9.5 index points in 1970 to 14.8 index points in 1995. Women suffered more drastically than men from the decrease in Human Poverty Index, which is calculated through an analysis of education levels and opportunity, health care, and living standards. These factors faced a drastic decline in the years prior to Kashf’s establishment, and as such help explain Kashf’s targeting of other factors rather than simply financial access and economic improvement.

An analysis of Kashf’s performance must take into account its credit environment and other competitors in the market: Pakistan’s rural credit market is marked by the coexistence of formal, semi-formal, and informal lenders. The Agricultural Development Bank of Pakistan (ADBP) is the primary formal institution, while NGOS participating in smaller microfinance and support operations constitute the semi-formal\textsuperscript{27}. Aleem and Ghate report that formal and semi-formal

financial institutions have historically covered a very small share of rural credit markets\textsuperscript{28}. Qureshi, Nabi, and Faruqee add that only 10% of rural borrowing households in Pakistan borrowed from formal sources, and less than 1% from semi-formal sources\textsuperscript{29}. Importantly, Kashf’s model targets those who are unable to access formal sources, and therefore must turn to informal sources. The credit environment which Kashf entered was dominated by informal credit sources, based on personal contacts and local access. Goheer reports that the informal market was divided into four categories\textsuperscript{30}:

- **Social arrangements:** Representing one-third of non-institutional credit, friends and relatives often do not charge interest and operate with assumed reciprocity. Availability is dependent on location and contacts.

- **Commercial arrangements:** Often intermediated by commission agents or traders, this sort of credit is linked with the supply of input or purchase of output. This is also common among the rural poor. A high rate of interest is common, ranging from 10 to 15% per month.


- **Land-based arrangements:** Credit is extended by landlords to tenants and subsistence farmers for purchase of inputs and consumption. Though no collateral is required, rural credit surveys show that rates charged by landlords are about 60% higher than institutional rates.

- **Moneylenders:** This does not constitute an important source of informal credit, as moneymaking is considered by many to be an unworthy profession in Islam. There is great variation in interest rates.

Customers which frequent the aforementioned sources are quite obviously shut out of the formal market; therefore, Kashf’s entrance into the market provides an opportunity for legitimate, consistent, formal credit without exorbitant interest rates. Kashf has also molded itself to the specific demand attributes in Pakistan, as outlined by the Asian Development Bank (ADB), including: “small and frequent loans; terms compatible with the nature of activity; preference of women, due to restricted mobility; and significant and sustained social preparation to familiarize the poor with entrepreneurship”. DFID, in their impact assessment of Kashf’s microfinance program in 2003, stated that the committee system used by Kashf (and pioneered by Grameen) may be the “most effective form of savings and credit system” for the underdeveloped world. Customer satisfaction is reported to be 94%, with 75% stating that without Kashf, business activities would have

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been impossible. Sixty-three percent of clients said that credit was aimed at economic activities, and notably, 32% of client households have moved across the poverty line in one year.

Though Kashf has been successful in helping those who join, it has not sufficiently penetrated the market. ADB suggests that non-financial constraints to microfinance outreach remain significant, including “barriers affecting women’s access, vulnerability of the poor to economic and physical downturns, lack of skills for effective utilization of microfinance services, and inadequate access to basic infrastructure facilities.” While it is true that Kashf’s microfinance efforts have well-served its existing clients, microfinance in Pakistan has only penetrated less than 5% of the 6.3 million poor households.

**Differences in Models and Results**

The Grameen model and the Kashf adaptation model contain key differences as a result of the environment in which they were instituted. Kashf’s purpose is diversified from simple financial advancement due to the poverty index factors developed prior to Kashf’s inception; Grameen responded purely to the lack of financial availability and access faced by the poor in Bangladesh. Though later a more extensive look at environmental differences will be elaborated

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upon, below are several of the key differences in the respective versions of the model:

**Intention of loan:**

In the Grameen model, loans are strictly intended to promote income-generating activities so that it is ensured that loan repayment will occur without detriment to the client. Promoting income generation also allows for an accumulation of capital, as repayment is often taken from additional income made on a weekly basis. By contrast, loans from Kashf can be used for supplementing consumption purposes. As stated above, only 63% of loans were actually used toward income generation. Kashf claims that this approach grants households with greater flexibility and reduced vulnerability to financial fluctuations.

**Gendered loans:**

Grameen makes provisions for male lending: if men organize groups and centers following the same methodology as women, they are also eligible for loans through Grameen. Six percent of Grameen clients are men organized in this fashion; this is Grameen’s method of offering financial access to men, rather than explicitly excluding them from financial opportunity. Kashf makes no such provisions. Men are included in the process, however, by being told that they can receive loans through their
female relatives: a woman is explicitly allowed to borrow money on behalf of her husband or for his business.

Such behavior, though it occurs in the Grameen model, is not encouraged as it is believed to prevent women from taking control of their own financial destiny. Kashf, on the other hand, believes that allowing women to help their husbands with the loan increases their value in the household, as they are a means of financial income. It is worth noting, however, that such a rule makes a woman particularly vulnerable in case of default. The Grameen model uses peer pressure to discourage this practice, effectively reducing its occurrence.

*Stage in which loan is received:*

Taking part in Grameen is open to any woman who believes herself to be capable of managing a business. Kashf, however, restricts access only to married women. The rationale is that unmarried women are prone to moving out of a geographical location upon getting married, and moving implicitly indicates loan default. Furthermore, the exclusion of unmarried women disallows single women to develop enough capital and self-sufficiency prior to marriage that would allow them to enter a contract with a certain amount of economic bargaining power. Were Kashf to allow single women to participate, the system could work to empower women prior to
their marriage: as observed in Grameen, participation in entrepreneurial activity enhances women’s self-empowerment and initiative, a development which could positively benefit gender relations in marriage. Furthermore, the exclusion of single women also restricts the choices in group formation. If single women were really too risky to accept into a group, their exclusion would be decided upon during the group formation process.

Training vs. Creativity:

Kashf, realizing that a lack of confidence and resources can prevent successful entrepreneurship, offers training and what it terms a “customer responsive approach based on understanding the market”. The latter is the largest deviation from the Grameen credit model, as Grameen does not engage in “social preparation,” choosing instead to let one’s own initiative guide entrepreneurship. A refrain from engaging in training reduces quite a bit of overhead cost borne by Grameen, and also allows women to self-develop their skills. Of course, this approach makes little provision for difficulties encountered while embarking on income generation activities. Kashf offers training and advice in case of such difficulty.

Savings rates:
Kashf and Grameen have very different approaches to the Savings aspect of the microfinance model. Grameen believes that mandatory savings builds up a safety measure in case of future disaster as well as encouraging future planning, the likes of which is conducive to promoting long-term investment and growth. Kashf, on the other hand, believes that savings must allow customers flexible and open access to their own money\(^35\). The Kashf savings program then is not structured in a manner which would encourage further savings, nor does it cultivate a culture of saving and discipline in the manner of Grameen.

**Interest rates:**

There is quite a discrepancy between the interest rates charged by Kashf and Grameen, though both rates draw ire from clients. Kashf charges 20% flat interest. Grameen charges 20% interest on a declining balance, which averages to be approximately 10%. Kashf’s interest rate has been criticized by many as being extortionary, but is explained as necessary to maintain overhead cost. Regardless, criticism of Kashf’s high interest rate is vocalized by the participants and general observers alike. Prospective clients may be put off by the high interest rate and decide not to join for that reason.

**Attrition rate:**

Kashf’s own 2001 report demonstrates a concern over relatively high attrition rates from the program. Branch level reviews indicate that much of the attrition results “from client expulsion for poor performance rather than from them opting to leave”; the mechanism by which self-selection occurs in group formation must be examined at greater depth to answer this question. Better client screening could alleviate problems of client expulsion. Other reasons to leave include: the heavy opportunity cost of meetings, insufficient size of loans, and relocation from center area. Grameen’s reports do not demonstrate a similar concern over attrition rates.

**Disciplinary issues:**

Observation demonstrates that issues of attendance at center meetings seem to be more of an issue at Kashf rather than at Grameen. In response, Kashf has instituted certain policy changes to spur customer loyalty, including relaxing the requirement of attendance at center meetings\(^{36}\). Such a move, though addressing the concerns of clients, does remove a key component of the success of the Grameencredit model; Grameen prides itself on the discipline instilled in its clients, reinforcing discipline through salutes, chants, and repetition of the Sixteen Decisions. Ostensibly, a lack of discipline in center meeting attendance

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attendance could reduce the amount of reverence and respect given to the Kashf institution and cause problems later.

Interestingly, Kashf states that it has a “clear by women for women” approach which it believes increases accessibility and empowerment. In a report compiled by Sarah Mosedale for Kashf, there is a mention of “men/women carrying the message [and] thus diluting the focus [and] accessibility”. Though quite commendable, interviews at Grameen showed that women were more likely to respect men in terms of discipline at meetings. Chants, salutes, and repetition of the Sixteen Decisions were also mentioned as methods which encouraged discipline and structure. Hashemi’s findings also suggest that client discipline is reinforced by the structure of the meetings, in which groups are arranged in lines with leaders at the head, and all discussions are conducted in a similarly structured manner. A strong group identity is granted through this structure, and women are provided with a public identity, an ability to organize and hold meetings, speak formally, and carry out banking transactions in an orderly manner; these all contribute to the cultivation of a culture of discipline, and discipline ostensibly carries over to repayment schedules and entrepreneurial management. Similar discipline-cultivating measures are not instituted at Kashf:

centers observed did not have a highly organized meeting pattern, and 6 of the 8 centers observed suffered from the extreme lack of punctuality of its members.

**Environmental Differences**

Bangladesh and Pakistan, as former halves of one nation, have quite variant environmental deviations which could lead to the differences in the success of the spread of microfinance. Observation of both Kashf and Grameen did elucidate certain institutional differences, which would be the most apparent factor for variation; however, examining the similarities in culture and environment and the resulting responses may give insight as to why the success of Grameen has not been repeated in Pakistan with the same efficacy.

**Socio-political Factors:**

**Feudalism**

Notably, the areas in which Kashf operates are still heavily influenced by feudal society; the presence of a feudal structure does not encourage individual entrepreneurship. Indeed, the long-standing feudal history and pseudo-feudal infrastructure and norms which remain could very well instead provoke a suspicion of any sort of self-sufficiency program in which individuals are informed that they can better themselves without the help of any others.
Bangladesh does not have such a strong history of feudalism and therefore did not have a formalized, institutionalized indicator against individual motivation. Feudal hold over the distribution of income has historically prevented economic growth from trickling down successfully to the masses; for example, though Pakistan enjoyed a high rate of GDP growth from 1960-1990, poverty was not reduced and instead a lower HDI resulted. Furthermore, land-based credit is an important informal instrument of credit available to the poor, especially in Sindh, Baluchistan, and Southern Punjab. As mentioned above, no collateral is required, but the interest rate is approximately 60% higher than institutional rates at any given time. The entrance of an institution which encourages individual economic growth, self-empowerment, and self-employment while removing the income derived from informal credit offerings would obviously not be welcomed by feudal loads. To operate in an area dominated by feudal control, therefore, would be extremely difficult: the opposition faced on this front is more pervasive and more widespread than what is faced by Bangladeshis in their pursuit of affordable credit. Negotiating with feudal lords on the notion of microfinance seems moot, as they are definitively excluded from the process. Economic self-sufficiency of the poor

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is not in the interests of feudal lords. As such, they pose a significant obstacle to the microfinance institutions operating in their areas.

**Opposition from Cultural Interpretation of Religion**

Grameen countered religious opposition early in its institution by engaging local religious leaders in the process: Muhammad Yunus’ book, *Banker to the Poor*, documents how imams were addressed by Grameen officials visiting each village so that it would be perfectly clear that microfinance was not inherently encouraging anti-religious behaviors. Indeed, Grameen had to deal specifically with the issue of “purdah” widespread in rural Bangladesh: women who participated in purdah did not believe in ever leaving their own homes, let alone closely encountering unrelated men in any social context.

Kashf’s operating area in Punjab does contain regions in which there are more restrictive interpretations of the public activities of women, but they are not more preventive than the idea of “purdah”. Women interviewed while in Ravi Raian enjoy a limited sense of mobility, especially those who work as day laborers. The status of the women is dissimilar from those rural Bangladeshi women who were prevented from work; rather, the Punjabi women interviewed were not as restricted from the public sphere as their Bangladeshi counterparts. This should
lessen the objection to women’s entrepreneurial activities, so perhaps the cultural objection to women’s participation in the public sphere cannot so easily be identified as the reason for Kashf’s stifled growth in the region.

In any case, the entrepreneurial activity of women does pose a challenge to traditional conceptions of the feminine role: the Solidarity Group Lending model of Grameen does require its members to counter traditional patriarchal norms by assembling in public and interacting with men from outside the community. Receptivity to the upheaval of these norms depends on the intensity of the desire to economically benefit: Grameen’s growth flourished not only because Yunus and Nurjehan Begum engaged religious officials and convinced them of the merit of microcredit, but also because the economic situation was so dire that there was more willingness to experiment with unconventional ideas. Deeply entrenched cultural beliefs can be expected to pose some sort of obstacle, but it is overly simplistic to attribute all obstacles to microcredit as a result of these beliefs.

**Men’s Role in Microcredit**

Grameen began as a program offering microcredit services to the poorest of the poor: initially this included impoverished men and women. Yet as the program developed, it became clear that not only were women poorer than men in terms of assets
and opportunity, but also that men were more likely to default on their loans and were, as such, less reliable risks. Though the majority of clients are now women, men still participate in Grameen as 6% of the clientele base. Men are expected to follow the same rules as Grameen-participating women, in that they must find four other unrelated men to form a group and use that unit as a means of obtaining credit.

Kashf, recognizing that women in Pakistan are the poorest of the poor in terms of opportunity access, has crafted their program to be exclusively open to women. ADB has specifically recognized that “social intermediation costs to enhance women’s access to microfinance are significantly higher in Pakistan”: mobility constraints, cultural norms dictating social interaction, and an absence of cohesive skills development are large obstacles facing Pakistan more so than in other countries, including Bangladesh. A Pakistani approach to finance must then address those social intermediation costs as well as the male role in microcredit; exclusion from the process is not an option, as a paternalistic and chauvinistic society will not tolerate a program promoting financial independence on any other terms but their own. Kashf’s program has attempted to incorporate men by allowing women to borrow loans for the enhancement of their husband’s business, but this may act counter to their goal
of female development and empowerment through a realization of their own financial initiative. Furthermore, this does not actually address those men who feel threatened by the notion of microcredit as a whole.

**Economic Factors:**

**Bangladeshi Famine of 1974**

Economic activity lagged in Bangladesh after its war for independence with Pakistan: a downward spiral of real income and rising unemployment continued as the task of rehabilitating returning refugees and recovering from disruption during the war took its toll. The living standard of the majority of the population would reach crisis levels by the end of 1973. To exacerbate this situation, Bangladesh experienced successive natural disasters teamed with international inflation, global food and oil crises, and poor domestic administrative and economic management. The famine that would result would be mainly a rural phenomenon, spurring the migration of thousands to the cities and the deaths of hundreds of thousands that would stay in the rural areas.

Yet the tragedy provided a perfect opportunity for the establishing a new system of credit; confidence issues, though still pertinent, could have ostensibly been dismissed in light of an optimistic new process of self-sustenance. The presence of such
dire poverty most likely created an opportunity for Grameen’s success. Furthermore, a lack of confidence in new measures was most likely obliterated because of the desperate desire for growth.

**Government Presence + Economic Policy**

Government intervention in creating a suitable environment in which microfinance can flourish is absolutely imperative. Muhammad Yunus himself lauds the government support Grameen received as instrumental in sustaining the institution’s growth. The need for a microcredit wholesaler, says Yunus, is the most critical issue facing NGOs today: without one, long-term sustainability is precarious at best and the efforts of NGOs will likely come to a “virtual halt in their expansion program, and find it difficult to continue their present program because of lack of [consistent] funds.”39 The interest rate policy of wholesale funds must therefore be carefully designed, with a near-zero interest rate for start-up programs and no more than the market-rate for more mature programs. In this fashion, the interest rate policy is facilitating start-ups while maintaining its

sustainability by gradually offering market rates for the purchase of wholesale funds for distribution.

Both countries have commendably created microcredit wholesalers through governmental intervention. Bangladesh, with the cooperation of the World Bank, created a national wholesale fund called PKSF. PKSF is responsible for making funds available to NGOs in order to spur growth rate and ensure the consistent availability of funds. Approximately $262 million to nearly 200 NGOs, according to Muhammad Yunus, has been distributed to make available funds for the start-up of microcredit programs and expansion. Upon creation, the PKSF is kept separate from Government influence and control, to prevent the funds from becoming vulnerable to political tumult and turnover. In Pakistan, the Pakistan Poverty Alleviation Fund has fashioned itself as a distributor of funds to microfinance groups looking for start-up capital, and thereby is encouraging the expansion of MFIs in the country.

**Institutional Factors:**

**Strong Leadership**

Yunus has cultivated an image which garners much respect from the clientele, and indeed the population at large: he is seen as a charismatic, conscientious, humble leader with a simple approach to helping the poor. Such an image has helped him
maintain a favorable political ambiance. Furthermore, Yunus’s efforts in the field and his hands-on approach have earned him the trust of many prospective clients, who view him as a caring father-figure, rather than a distant head of a financial organization. This increases the atmosphere of transparency and accessibility. Participants in Grameen villages were able to easily name him as the founder of the institution; comparatively, women in Kashf programs were not able to do the same for the leadership of that institution, indicating perhaps an increased feeling of distance from the management of Kashf. Transparency and accessibility are two large components of creating the sort of trust needed for the healthy management and growth of microfinance endeavors, in order to allay suspicions and fears of exploitation and corruption.

**Emphasis on Disciplined Organizational Style**

As discussed earlier, Grameen maintains an operating style centered on disciplined behavior. The operating style of Grameen is characterized further by austerity and a “lack of frills” for the entire organization: the institution not only advocates living frugally and within one’s means to ensure future financial stability, but follows this advice wholly. Field staff are encouraged to dress and live simply, and walk from village to village to demonstrate their humility and accessibility to their
clients. Yunus himself conducts his business in a modest office in a building which is not air-conditioned. Such small details reflect an orderly style of operating which allay fears that corruption or exploitation is taking place.

That Kashf chooses a more comfortable operating style is not inherently undesirable, but it does not do much to make itself absolutely accessible to those who participate. Clients, as a result of exploitation by the informal credit sources detailed earlier, are already wary of money-lending institutions; perhaps an added effort to encourage transparency and address these fears would benefit Kashf’s image among potential clients. Kashf is excellent in its selection of loan officers, choosing those women who come from the locality and thus ensuring the trust of many prospective clients through those means; however, it could be beneficial to Kashf if that sort of familiarity extended throughout the organizational hierarchy.

**NGO versus Bank**

Until very recently, Kashf existed as an NGO rather than a financial institution: this designation prevented them from directly accumulating funds from clients. Instead, Kashf would collect funds and then the loan officer, center leader, and center secretary would travel to deposit it in another bank. NGOs are
unable to take public deposits as they are not legally financial institutions.

The transformation of an NGO into a microfinance bank allows money to be mobilized to its full extent. This method allows for self-reliance, and Kashf’s transition into an NGO should decrease overhead costs so that Kashf can operate more effectively and perhaps decrease the interest rate on loans to reflect the increased efficiency.

Product Diversity

A diverse array of products offered to clients may comprehensively address all needs of the poor, but the development of these products may detract from resources needed for market penetration. “Inadequate specialization” is quoted by the ADB to be a common barrier to sustainability of microfinance operations conducted by NGOs. Qureshi, Nabi, and Faruqee in their 1996 study demonstrated that breadth of approach, though commendable, makes the mandate of such microfinance efforts too broad. A combination of social services and credit divides the possible funding which could be poured into outreach initiatives. In fact, breadth of outreach and breadth of services cannot easily coexist: the Qureshi study quotes the

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Comilla Cooperative Model of Bangladesh as an example, which faced “serious repayment and viability problems” when its social service-oriented microcredit program when replicated nationwide. Other NGOs in Pakistan, such as the Aga Khan Rural Support Program and the National Rural Support Program, have tried to address deficiencies in outreach through social services, but have been met with only limited success. Kashf maintains diversified social services such as training programs.

Though social services may hinder outreach funds, it is important to realize that some form of risk aversion service may be necessary as a precursor to outreach. ADB, in its assessment of Pakistan’s microcredit environment, noticed that poor households are likely to “forego potentially viable technologies, production choices, and income opportunities due to risk aversion”. Services and training aimed at risk aversion may actually be helpful in subverting these prohibitive attitudes, and therefore aid in outreach and expansion of services.

**High Interest Rate**

Interest rate sensitivity is particularly important in understanding possible aversion to joining microcredit programs. Though addressing the religious aspect of distaste for interest is more difficult, the actual rate charged by the institutions is

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42 Goheer, Nabeel. “Microfinance: A Prescription for Poverty and Plight of Women in Rural Pakistan.” Rural Finance for Growth and Poverty Alleviation
directly under their respective control. Higher interest rates increase the apprehension associated with becoming indebted due to failed enterprises, and may be exacerbated because of prior experiences with unfair and exploitative informal lending sources\textsuperscript{43}. A sustainable credit delivery system must balance its own overhead costs and costs of risk with availability and affordability to the clients; the rate must remain at a level low enough to be accessible but high enough to ensure sustainability.

Grameen maintains that its policy is to keep the interest rate as close to the market rate in the commercial banking sector as possible. The market rate is taken as the reference rate, rather than the moneylender’s rate\textsuperscript{44}. Kashf, which maintains a much higher interest rate on its loans, states that the higher rate is a result of absorbing operation costs due to its status of an NGO.

Though high operating costs are understandable, a higher interest rate can draw quite a bit of criticism and even make potential clients averse to participation. In NWFP, for example, practitioners of microfinance have discovered that almost half the population is averse to taking loans on fixed interest: NGOs

\textsuperscript{43} Ibid.
\textsuperscript{44} Yunus, Muhammad. “Expanding Microcredit Outreach to Reach the Millenium Development Goals”. Presented at the International Seminar on Attacking Poverty with Microcredit. Dhaka, Bangladesh. 9 January 2003.
have been criticized and attacked for perpetuating a perceived “non-Islamic” practice, and as such resentment against their actions has grown amongst the clergy\textsuperscript{45}. The grounds for opposition have been that charging such interest has been exploitative: high interest rates, such as those charged by Kashf, are easily prone to that charge. This may be a barrier to Kashf’s expansion of its services: poverty cannot be eliminated if it is seen as threatening a tenet of an entrenched faith.

**Gender Trainings**

In patriarchal societies such as those seen in rural Bangladesh and rural and peri-urban Pakistan, gender training seems necessary for the adequate preparation of women to successfully embark on entrepreneurial endeavors in which they would encounter men in a fashion otherwise inaccessible to them. Inadequate social \textsuperscript{46} preparation can disrupt group cohesion and ultimately the sustainability of microfinance operations, so simply targeting the gender orientation of organizations to women may not be sufficient\textsuperscript{47}.

Kashf provides gender sensitivity trainings so that men and women are encouraged to critically examine their approach to

\begin{footnotesize}
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\item \textsuperscript{45} Association for Creation of Employment. “Islamic Modes of Financing.” 10 November 2000.
\item \textsuperscript{46} Goheer, Nabeel. “Microfinance: A Prescription for Poverty and Plight of Women in Rural Pakistan.” Rural Finance for Growth and Poverty Alleviation.
\item \textsuperscript{47}
\end{itemize}
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social roles. Though commendable, the DFID examination of Kashf demonstrated that over 71% of participants in such trainings could not recall what was told in these trainings 2 months after they were conducted. This indicates that perhaps the gender sensitivity approach is not effective in dispersing information. Additionally, conducting such trainings unnecessarily use funds that could be allocated to other products and programs. Grameen’s approach is minimalist, and does not offer any training or technical assistance, relying instead on the ability, innovation, and expertise of individuals to deal with their particular situations. Issues that arise are dealt with at the group and center level with the guidance of the center manager and the assistance of peers, but otherwise there is no formal mechanism in place to specifically deal with these issues. This reduces overhead cost and allows for problems to be addressed on a local, more intimate and personal level.

Savings Program

Interestingly, Grameen Bank’s approach to savings has been widely criticized by many, including participants and academics, for imposing strict restrictions on the withdrawal of savings. Though members are able to open individual accounts to which they have easy access, most member savings are in the form of group funds, which are built up through a mandatory
weekly deposit of a minimum of 2 taka per week; this savings amount can be, as observed in my experience, increased to an amount of 10 takas, to be determined by the center manager. These funds can be used by the group to make interest-free loans to members or alleviate pressures in case of emergencies such as health crises or business troubles. Critics stated that “such restrictions have the unintended effect of discouraging savings, and thereby fail to take advantage of the substantial unmet need for savings facilities among the poor”, leading to a revamp of the system: savings can be withdrawn by individuals with accumulated interest (8.5%) after ten years. This modification still encourages a patient view of group savings and a concentration on the future.

Grameen’s rationale for mandatory group savings is to enable members to have a contingency plan in order to withstand crises they may naturally encounter. Women are susceptible to pressure from their families, and were they able to make individual withdrawals at their own whim, it would be difficult for them to maintain a high level of savings that could be effectively helpful in case of serious crisis. A pooled savings system also works to draw groups together: the prospect of losing one’s savings discourages group attrition due to trivial conflicts.
Kashf’s savings system differs quite extensively, and allows individual withdrawals often. As such, it does not provide the same sort of binding that a pooled savings system can provide, and thus might contribute to a lessened aversion towards attrition. Furthermore, savings are hard to maintain in this manner; there is no mechanism to ensure long-term savings, and observations and interviews revealed that savings were often depleted around Eid and wedding celebrations. Maintained savings help change the approach of poor women to money as well as encourage long-term planning and discipline. Kashf would be able to benefit from the development of such a program, and in doing so could strengthen group bonds and reduce attrition rates of clients.

**Loan Officers**

The gender of the loan officers can affect the level of female participation in some social situations. Female LOs are necessary in strictly traditional areas, where interaction with an unrelated male would preclude many from participation. Where female loan officers are more desirable, however, there can be a shortage of qualified women either because of a lack in educational opportunities or because of a concern for safety of the LO (i.e. for evening visits and travel). Despite the
requirements of traditional rural environments, less than one-third of Grameen’s field workers are female.

Observations have shown that women respond to discipline administered more positively when administered by a male LO. Perhaps this can be attributed to the cultural view of men as more familiar with and more able to perform financial transactions, and as such respect allocated to their statements and orders is deeper than that given to women, who tend to be viewed more as peers than leaders. Kashf maintains that women LOs can identify with the women more successfully, by engaging with them on a more personal level; therefore, they employ a majority of women LOs. Further research is necessary to see which is more suited to the Pakistani environment.

**Success Evaluation via Empowerment**

Empowerment as a means of evaluating success proves more difficult than an examination of market penetration: though certain markers can be considered as indicative of empowerment, accurate data was unavailable during this study. Microfinance as an institution has been argued as inherently empowering, as women are offered self-development initiatives previously unavailable to them. According to Cheston, women have been limited from social advancement not only because of the lack of affordable credit, but also because of an inability
to develop a competitive skills base and the unavailability of a strong social support network. Grameen’s Solidarity Group Lending model provides the latter due to the importance of the group and center in social and economic support; however, Grameen offers no skills development training, relying instead on the “inherent knowledge and expertise” of each woman. Kashf, on the other hand, does offer training workshops and consulting.

Inherent Empowerment through Opportunity?

UNIFEM defines empowerment as “gaining the ability to generate choices and exercise bargaining power,” “developing a sense of self-worth, [and] a belief in one’s ability to secure desired changes” 48. Accepting microfinance services is arguably an inherently empowering act: participation implicitly recognizes a mobilization against institutional barriers previously preventing the truly destitute from any semblance of self-sufficiency. As Baden and Milward explain, though “women are not always poorer than men, the weaker basis of their entitlements [makes them] generally more vulnerable...and once poor, [women] have fewer options in terms of escape” 49. Access to financial services which allow for income-generating endeavors expand the options for “escape” from poverty; with the option of microfinance as an tool for income generation, women should, theoretically, no longer be restricted to economic dependency on others. This reduction in

vulnerability provides a platform for self-empowerment should a woman choose to take that avenue. Processes of decision making, resource utilization, and negotiation required by the participation in a microfinance program result in what Naila Kabeer terms “agency,” or the ability to act as one’s own agent for change. Though many women participating in microfinance programs have previously been denied this sense of agency, their activities once with an institution should theoretically require the exercise of said agency in order to reach their stated goals. As resources should be used to the ends established by women clients of microfinance, the development of a sense of agency is therefore inherent; as such, empowerment occurs. Furthermore, financial security should allow the expression of this agency without fear of economic repercussions.

One could thus conclude that participation in a microfinance program is sufficient for germinating empowerment. Other research indicates, however, that coupling financial services with proactive social development initiatives not only stimulate the self-empowerment of women, but also result in more financial success: Dunford’s research demonstrates that financial services coupled with social development initiatives such as education can allow for the creation of “economies of scope” by “packaging two or more services together to minimize delivery and management support costs [as well

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as] maximizing the variety of benefits for people’s multiple needs and wants.”

Encouraging education and literacy training, for example, reinforces the self-motivation and curiosity necessary for success in an entrepreneurial environment. Discussion and support groups also facilitate improved business endeavors, as well as provide the strong social network needed by women in an otherwise paternalistic and patriarchal society. Development of leadership abilities contribute to the aim of empowering women as well, by raising their propensity to assert themselves in environments where they were once otherwise discouraged to do so.

The benefit of such gender development is surely not limited to the inherent human rights ideals surrounding the empowerment of women; rather, it is also more pragmatically linked to economics and growth. A World Bank report expands upon this theory, concluding that societies in which gender discrimination is institutionalized suffer from greater incidences of poverty, slower economic growth, weaker governance, and a lower living standard. UNDP too reported a strong correlation between gender empowerment measures, gender-related development indices, and the Human Development Index. And CIDA’s gender policy makes explicit that any comprehensive poverty reduction priority must include “increased access to productive assets,

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processing and marketing for women” if it intends to mobilize women’s productive capacity and maximize gross economic output. Within this context, entitlement to financial services and the resulting empowerment is necessary not from a perspective of inherent equality and justice, but rather from one concerned with the sustained growth of the society at large and the notion that such an end can only be reached through full participation from all citizens. For women to be excluded from full economic and social participation in society is therefore extraordinarily problematic from a development perspective: initiatives which do not address empowerment cannot develop to their fullest potential, depriving both men and women of advancements in their living conditions.

Both Grameen and Kashf cater almost exclusively to women as they recognize that women are disproportionately represented among the world’s poorest people: the UNDP reports that 70% of the 1.3 billion people living on less than $1 a day are women. Furthermore, women often make up the majority of the lower paid, unorganized informal sector of many economies in the underdeveloped world. Such a recognition of the feminization of poverty therefore makes it imperative to address financial services in the context of

empowerment, yet dispute still exists over the efficacy of specific institutionalized initiatives targeting gender empowerment.

Dunford, for example, elaborates upon the common fear that soft services such as literacy training, health education, business training, and support groups are costly and often lack definitive positive outcomes\textsuperscript{56}. Cheston adds that empowering elements in MFI programs may limit access to funds from bilateral and multilateral donor agencies, as most agencies’ funding criteria focus on outreach rather than an ambiguous and difficult to measure social impacts on clients. Empowerment-oriented programs may also take away from financial sustainability ratios by taking away valuable funds from outreach and market penetration efforts; empowering programs become designated as luxuries rather than a key element of program design and goals.

A comparison of Grameen and Kashf show the two divergent views on this issue. Grameen embodies the concept of “helping people help themselves,” refusing to provide job training or gender training specifically for its clients; rather, Grameen has instituted a low-cost, low-maintenance program of the Sixteen Decisions to be elaborated in further detail below. Kashf, on the other hand, has dedicated its efforts toward significant social advocacy programs as briefly outlined above. But to what end are these efforts? They can be seen as encouraging a certain amount of agency to women in impoverished areas, allowing

them not only to better their lives and the lives of their families, but also become fully functioning members of their societies.

In terms of promoting agency, microfinance seems to be perfectly suited to this end. Yet a significant obstacle to developing agency exists: women in microfinance may be obtaining loans on behalf of their husbands, therefore negating any possibility of enhancing their economic agency. Villages where women exercised less control over loan-funded enterprises tend to be in more economically depressed areas, where competition for economic resources was highly intense. In situations where such scarcity exists, men are more likely to appropriate women’s loans and use them for their own means, therefore acting as an obstacle to the development of agency by women.

Interestingly, however, Hashemi suggests that women with little or no control over their own loans still have more empowerment than nonmembers: “credit program members who were contributing to family support were more likely to be empowered than those who were not contributing; however, members who were not contributing were more empowered than nonmembers.”57 This suggests that empowerment of agency is available to those women who merely provide access to capital for their husbands, or use the loans for consumption needs rather than income-generating activities.

Grameen, however, discourages women from operating in this manner and instead encourages income-generating activities perpetuated by the clients themselves. This is not to say that loans obtained for husbands does not occur: it does, but is strictly discouraged by group members and center leaders alike. Kashf, on the other hand, has made explicit provisions permitting such an arrangement.

**Final Conclusions and Recommendation for Further Market Penetration**

One of the most fascinating observations of Grameen Bank in Bangladesh is the method by which it has managed to become a brand name. Traveling through Dhaka and beyond, one would be hard-pressed to find someone who had not heard of Grameen Bank, or someone who did not at least recognize its ubiquitous logo. The Grameen building is the largest in the city, and its position in the city landscape is one of a landmark. Cultivating such an image is no easy task, and Grameen’s diversification into myriad industries has certainly improved its ability to reach into all aspects of life. The creation of Grameen into a sort of trademark or name brand has, in my opinion, allowed it to gain the very sort of customer confidence and optimism necessary for an institution premised on an idea of individual self-help.

Microfinance necessitates optimism and confidence in order to function. The very idea of providing financial services to those without
collateral is antithetical to the established structure of institutions, which refuse to engage those who are thought to embrace the most risk of default, i.e. those without the funds or opportunity to repay loans. For those who have been rejected by traditional institutions and/or exploited by moneylenders, the concept of microfinance may seem to be yet another scam. Confidence-building is therefore absolutely imperative. Grameen successfully gathered confidence by addressing religious leaders, male relatives, and the women themselves in the process of establishing its services, but did not stop there: Grameen’s overall transparency in its operations lends quite a bit to its credibility and trustworthiness. That Grameen’s building is sparsely furnished and with minimal amenities makes it accessible to its clients. Furthermore, its emphasis on frugality and simplicity reaches the impoverished and prevents resentment and distrust towards business owners, which are often associated with frivolous wealth.

Grameen continues to spread its frugal yet forward-oriented message through its involvement in a variety of different sectors. By establishing itself in telecommunications, textiles, energy, and the like, Grameen created an empire which centered on a name brand dedicated to serving the people. Through the ubiquity of this name brand, people developed a trust of the product. Grameen was no longer an unknown: instead it was renowned for its prowess in a
multitude of fields, increasing consumer and client confidence in the institution.

Grameen inhabited public space in the village as well: the creation of a weekly meeting space serves as a highly visible and tangible reminder as the village’s status as a “Grameen village”. For women to pass by this meeting place daily reminds them of their responsibilities and newfound roles, reinforcing their desire to help themselves out of poverty. Grameen’s institutionalization of itself into the daily life of the village not only reminds women of their obligations to group members and their families, but also encourages publicity of the project throughout the village. Furthermore, the presence of a weekly meeting space also ensures those hesitant that Grameen is not a “fly-by-night” exploitative scheme, and is instead seriously dedicated to the improvement of the inhabitants of the village.

Kashf would benefit from this sort of very dramatic assertion in the public space. An informal questioning of 22 Lahore residents unfamiliar with Kashf’s efforts drew confusion and a dearth of information regarding Kashf’s very noble work. Many are unfamiliar with the institution’s work, and are unsure of where the group is operating; that those involved with development work in Lahore are aware of its existence is not sufficient for improved growth. A more developed marketing and public relations department would be a great help to this end.
Furthermore, Kashf must establish itself as a fixture in the public sphere on the village/community level as well. This can be done not only through advertising and self-promotion, but also the establishment of a permanent center location in each operating area. This reaffirms the presence of Kashf in daily life. Without such a tangible marker, Kashf can easily be compartmentalized as simply a financial aid tool, rather than the life-altering socially empowering mechanism it has the potential and the intent to be. Failure to recognize the latter on the part of the clients contributes to the ease in which clients depart from the program: whereas Grameen clients sang the praise of the system as a means of revolutionizing their existence, Kashf clients praised the group only for providing funds, and conspicuously failed to mention its improvement in social relations.

Distrust of Kashf by potential and actual clients also seemed to be fueled by a lack of transparency: though clients reported that the branch and center level was quite helpful, they seemed less sure about the organization past those levels. Few had any idea about the workings of the organization in that manner, and could not identify the head of Kashf. By contrast, all members in Grameen villages were able to identify (and continually laud) Muhammad Yunus for his program. Increased efforts to promote transparency would ostensibly attract more members and could address the attrition problem Kashf is facing. It should also be mentioned that Kashf does not seem to promote the
same emphasis on frugality that its model does. Moreover, there is little emphasis on savings programs, which does not have the long-term transforming effect on clients that is seen when continual cognizance of the future and its requirements is emphasized.

Criticisms that blame religious fundamentalism as a primary barrier to the growth of microfinance in Pakistan may be overlooking other institutional factors as detriments to growth and sustenance of microfinance institutions. As seen in the Grameen model, negotiation with religious authorities in operating areas can counter much of the opposition to microfinance. Religious opposition to interest is understandable and must be couched in terms that are acceptable to the clientele: presenting interest rates as “mark-up” rates or facilitation fees may reduce the opposition to the concept. Interest, then, must be approached with the utmost of care: high rates, such as those charged by Kashf, must be addressed as soon as possible so that those religious authorities levying charges of institutional extortion can be addressed.

The environment in which Bangladeshi microfinance flourished was also one which was responding to great crisis due to mass famine; it can be hypothesized that perhaps that situation made potential clients more willing to try a revolutionary method of income generation and entrepreneurial sustenance. The traditionally patriarchal society in Bangladesh at the time of Grameen’s inception was arguably more
objectionable to the idea of female entrepreneurship: the concept of *purdah* is not entrenched in the surrounding areas of Lahore to the extent that it is in Bangladesh. That Grameen was able to use the Solidarity Group Lending model as a means of social improvement is also commendable: its success in this matter can be attributed not only to the inherent liberalizing factors of microfinance, but also to the effective use of the Sixteen Decisions. Furthermore, the use of the Sixteen Decisions is less costly than the system implemented by Kashf; moreover, it seems to be more effective in instilling these values into the client community. Kashf might be better serving its goals of social reform if it were to find an alternative to its current gender training program.

An examination of both Kashf and Grameen and a familiarity in the areas in which they operate did not lead to the conclusion that the environment or religiosity, as postulated by some, proves to be a barrier to the success of microfinance. The lack of adequate publicity and confidence-building and trust-enabling factors seem to be larger barriers to the successful spread of microfinance in Pakistan. To address such deficiencies, microfinance institutions must promote a coherent and consistent image of frugality and money-consciousness, while simultaneously promoting their clear, strong focus on social development. Institutional focus and presentation can provide for
further market penetration and allow microfinance to reach the masses for whom it was intended.