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From Micro to Small and Medium Enterprise: Catering to the Evolving needs of Female Clients

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Paper Abstract

This paper highlights the need for women’s economic participation, especially in the context of emerging economies and reiterates the case for women’s participation in the economy. It also highlights the role microfinance can play in unleashing the economic potential of women. Furthermore, the paper analyzes potential challenges that microfinance institutions face in targeting and retaining women clients juxtaposed against the current wave of commercialization in the sector. The paper then undertakes a comparative study of the Kashf Microfinance Bank of Pakistan and the CARD group of companies of Philippines focusing on graduating female clients to larger loan sizes, creating women led small enterprises, and the provision of other financial and non-financial services designed primarily to address women's needs. The conclusion provides lessons learnt and presents a brief and practical guide on how women clients can continue to be well served by microfinance entities even when they choose to become for profit entities.

From Micro to Small and Medium Enterprise: Catering to the Evolving needs of Female Clients

Chapter 1 - The Need for Women's Participation in the Economy

There are several dimensions that emerge when determining the advantages of mainstreaming women in the economy. At a very simple level, the arithmetic shows that by gainfully involving 50% of the population in the economy substantial headway will be made in the overall GDP growth rate, which will not only be sustainable but will also be equitable. A World Bank research has shown that if women's participation rate had been equal to that of men, the overall world GDP growth rate would be higher by 0.7% in the 90s, as opposed to the actual rate of 1.9% for the decade¹. The losses of not involving women in the economy translate into billions of dollars in lost opportunities, since economic growth would have been 37% higher if women had been fully engaged in the financial sector².

Moreover, enhanced economic agency of women is also linked to catalyzing intergenerational benefits such as an increase in the average age at marriage which results in lower fertility rates thus increasing generational gaps and reducing rampant population growth rates³. In low income countries, the impact of bringing down fertility rates is crucial and can, in many cases, break the endemic cycle of poverty since women comprise more than 47% of the global population and more than 70% of the world's poor⁴. One prime example of how women's participation in the economy can impact fertility rates is Bangladesh, where the fertility rate has halved to 2.3 while female labor participation has almost doubled over a couple of decades⁵.

At the household level, the advantages of mainstreaming women into the economy can be expressed in terms of diminishing triple burdens of reproductive, productive, and social responsibilities for women. A World Bank study on gender and development⁶ has shown that if women had fully participated in financial decision-making at the household level, household incomes would have been 25% higher on average in North Africa and the Middle East. A majority of research conducted on the spillover of women's economic participation has shown that an increase in the contribution by women towards household income significantly increases their access to/control over household resources, and consequently their decision-making power, which can often have an impact on the way household resources are allocated.

Kashf Foundation's impact assessments have highlighted that over the years, as women's contribution to the household income increases a greater percentage of the household budget is allocated to children's education, nutrition and health care. The Kashf impact assessment conducted in 2005 revealed that clients were spending 16% more on average per year on children's education, while another study conducted in 2007 by Akbar Zaidi reported similar results; Kashf borrowers, were found to be better-off in terms of household income and expenditure, and this has also had

¹ The World Bank (2004)

² *Ibid*

³ Frank, Christina (2008)pg. 12

⁴ From the UNIFEM website

⁵ Rahman. 2006.

⁶ The World Bank (2004)

a positive impact on assets and schooling of girls.⁷ Investment into the household, in terms of both food and non-food expenditure is positively correlated to female access to resources. In a large majority of cases, women are reported to take loans primarily so that they can invest in the future of their children and build better lives for them. According to a research undertaken by the WWB⁸ with Kashf clients, investments in the future of children are perceived as a primary desired outcome for accessing a loan.

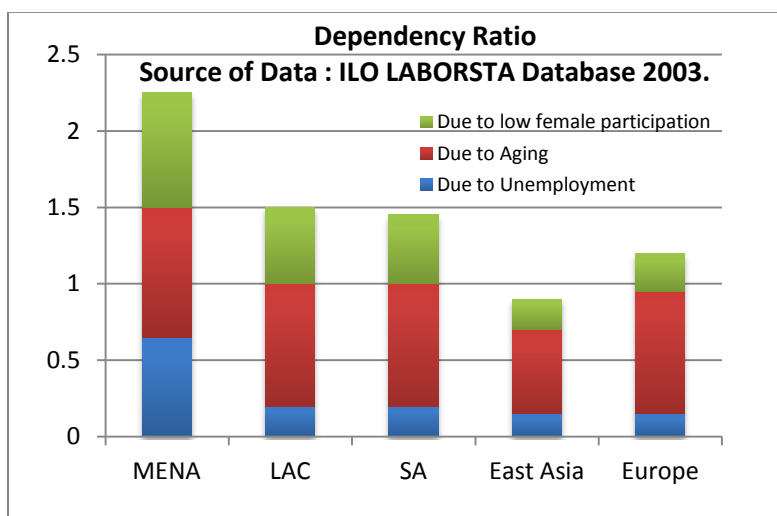
“After I took the loan and brought it to the house..... I was respected more. What we do is for our children. We were not doing anyone favors, we were doing our duty.”

- Kashf Foundation Client⁹

“Yes, by expanding my business, I managed to spend easily on my daughter’s wedding, made a three storied house..... Women have become active, become businesswomen rather than sitting at home. Now it’s not like before, women have their own businesses.....”

- Kashf Foundation Client¹⁰

Within the household, another aspect from a women’s participation perspective is the impact it has on dependency ratios, i.e. the number of non-earning members within a family. This not only has an influence on household’s ability to meet its existing needs (current well being), but is also correlated with the household’s ability to meet its future needs (investment in the next generation). Thus the involvement of women, as can be seen in the graph below, can greatly reduce the high dependency ratios in different regions and can make them more comparable with regions such as East Asia and Europe which are more equitable in this respect.



⁷ Zaidi, Akbar (2005) & Zaidi, Akbar et.al. (2007)

⁸ WWB (2008)

⁹ WWB (2008)

¹⁰ WWB (2008)

Furthermore, this has a major impact on controlling the household's vulnerabilities to both external and internal shocks. Some quotes shown below from Kashf Foundation clients illustrate how their credit relationship with the Foundation has impacted their ability to reduce their vulnerability.

“From the earnings of my business which I expanded via Kashf credit I can comfortably afford the education expenses of my children. I can now pay for the extra coaching in the academy, sponsoring my daughter's bachelor's degree, and paying for both my sons' education. Such luxuries were impossible in previous circumstances.”

- (*Shameem Bibi, Fatehgarh Lahore, 2010*)¹¹

“Before the loan from Kashf, I had no access to credit. My children were young and my husband's income was not enough to cover the basic needs of the household. I used the loan I took from Kashf to start a small grocery shop; after 5 years my investment in business is more than Rs.50,000 in the form of inventory and Rs. 25,000 in fixed assets like deep freezer, furniture and fixtures etc.”

- (*Iqbal Begum, Ladhaywala, Gujranwala, 2010*)¹²

There are major variations in women's economic participation rates across regions, the lowest being MENA with 30% women's participation with South Asia and Latin America not being far ahead with 40% and 42% respectively¹³. There are several factors that impact the overall economic participation of women: the first of course is invisibility and lack of recognition of women's financial contribution, issues which are further nuanced by differences in cultural practices across regions. Women's invisibility as active economic providers is an increasingly grave concern primarily since a large number of women are making significant contributions to the economy without being recognized. This perception is further actualized by the fact that women have a propensity to dominate the informal sector of the economy as a result of which their contributions to the national economy go unnoticed¹⁴. According to estimates by UNWOMEN¹⁵ eight out of ten women workers in sub-Saharan Africa and South Asia are vulnerably employed in the informal sectors which directly impacts returns on labor. Thus, even though the contributions of women to economic activity are quite high across the developing world, it is not included in the formal economy.

Moreover, the informal sector is more susceptible to endogenous and exogenous shocks. According to the UNDP, women in the informal economy have been most severely hit by the global economic downturn. The ILO estimated that the economic downturn led to approximately 22 million unemployed women in 2009¹⁶. This not only sets back attempts to empower women, but has a significantly negative impact on the development of the global economy. Further exacerbating the issue is the perception that women are untapped human infrastructure forming part of the 'dependent' economy draining national resources, as corroborated by the earlier graph.

¹¹ Shorebank International Pakistan 2010

¹² Shorebank International Pakistan, 2010

¹³ Male Female Participation Rates; Source of Data: ILO

¹⁴ Mehra, Rekha (1997)

¹⁵ From the UNWOMEN website

¹⁶ From the UNIFEM website

In addition to the above issues of concentration and lack of visibility many social aspects, which vary by region and culture, also constrain the participation of women. Generally, women's economic participation is under-valued due to two main reasons; firstly female contribution towards household income is believed to be intrinsically linked to their roles as caretakers and care-givers, and secondly in most cases the income earned by females is assumed to be a social responsibility rather than a formal economic contribution¹⁷. In many developing countries traditional values typically limit the role of women to reproductive activities, thereby not recognizing women as proactive economic agents, while attitudes regarding girls' education, women's mobility and entrepreneurship also generate high barriers to their full participation and to generating equal pay for equal work. In many parts of the developing world, millennia of patriarchy often determine what women can or cannot do and many times the occupations and sectors they end up choosing are prescribed by social norms. In other words, women often face myriad challenges including but not limited to institutional, legal and socio-cultural barriers at every stratum in society, which are compounded by limited access to local, national and international resources and inequitable production systems¹⁸. Similarly, women face a variety of market based obstacles/constraints to accessing financial services, i.e. credit, savings and insurance, for starting up and/or expanding their businesses¹⁹. A majority of these obstacles stem from predefined gender relations that have intrinsically been weaved into the social fabric of most communities.

WWB²⁰ has identified six major market and cultural barriers to women's penetration in the larger mainstream informal and formal economy. Women's triple burden of reproductive, productive and social responsibilities creates time poverty²¹ that directly impacts their ability to invest their energies in their businesses. As mentioned earlier women's first priority is usually their family, and then their business, consequently they tend to spend less time maintaining their business. Similarly, women also tend to locate their businesses close to their homes due to cultural barriers to mobility, and the need to be close to the home because of child rearing responsibilities. Thus, women usually tend to pursue "businesses activities that are an extension of their household duties such as food preparation, sewing, beauty salon services and trading. These subsectors tend to be highly competitive with low barriers to entry"²². The suboptimal location of businesses hinders the longevity, growth potential and financial success of the business. Moreover, female entrepreneurs "reinvest in their business at a lower rate than male counterparts" because they prioritize investment in their children as a result of which the profits earned are "treated as supplemental household income"²³. Overall, women tend to remain in domesticated by-industries such as stitching, sewing, and food services because traditional cultural attitudes perpetuate that women lack entrepreneurial acumen. As a result, women are restricted to industries that limit their participation in industries which penetrate global commodity chains²⁴.

The following matrix delineates some of the socio-cultural, legal, economical, and financial barriers that women face in developing countries around the globe²⁵.

¹⁷ Mammen, Kristin and Paxson, Christina (2000)

¹⁸ Linda Mayoux, (1995) pg. 15

¹⁹ Johnson, Susan (2000) pg. 3

²⁰ Frank, Christina (2008)

²¹ Gunewardena and Kingslover (eds) (2004)

²² Frank, Christina (2008)

²³ *Ibid*

²⁴ Klapper, Leora & Parker, Simon (2010)

²⁵ Adapted from Johnson, Susan. (2000)

	Individual	Household	Wider community/global Context
Financial	Women lack access to banks/ financial services in own right	Men control cash income, men have specific expenditure patterns	Perception of men as the controller of money/loans
Economic	Women undertake activities which produce low returns; Women have a heavy domestic workload	Gender division of labor, unequal access and control of land, labor and inputs unequal control of joint household produce and income stream (from the produce)	Women underpaid for equal work; women locked in low-paid jobs; stereotypes of appropriate roles for women in the economy; women lack access to markets for inputs and output since mobility is constrained because of social norms
Social/ Cultural	Women not literate or education; girls education not prioritized	Limited role for women in household decision making; violence towards women	Banks and financial institutions do not view women as a potential market; women's mobility constrained by social norms
Political/ Legal	Women lack confidence to claim political/legal rights	Women lack legal rights to jointly owned household assets.	Women's legal rights to household assets not defined in law or useful for collateral; women lack political positions to establish appropriate laws; women lack legal rights to land both traditional and formal.

Despite the numerous barriers and constraints on women's economic participation, women continue to play a major role in augmenting economic growth across the developing world despite their contributions being under-recognized and under-valued. Microfinance providers have been pivotal in helping low-income women become economically active in a majority of developing countries via support for home-based businesses and micro-businesses. The next chapter illustrates this link and shows how microfinance institutions are addressing cultural, social and market barriers to women's economic participation.

Chapter 2 - The Role of Microfinance in Women's Economic Participation

Microfinance Institutions have played a vital role in recognizing and addressing barriers to economic mainstreaming via developing products and services that tackle environmental and contextual issues hampering women's access to financial services. For most women the only permanent way to escape poverty and steadily improve long term well-being is to build assets, i.e. physical assets which include land, animals, stored food, household appliances, financial assets such as all types of monetary resources, human assets including skill, knowledge, self esteem, bargaining power, and social assets i.e. networks, group memberships, etc²⁶. Micro-enterprises or self employment is usually the only route available via which low-income households, especially females, can build assets since they usually lack adequate skills and agency to be employed by the formal sector. Thus, the *raison d'être* for the provision of microfinance services to women is to develop their capacities and capabilities in order to increase their entitlements²⁷. The table²⁸ below provides some ways in which MF approaches have helped female entrepreneurs overcome the constraints mentioned in the previous chapter:

	Individual	Household	MF Strategies to address these constraints
Financial	Women lack	Men control cash	Designing pro women strategies that reflect the

²⁶ Matul, Michal (2009)

²⁷ Sen, Amartya (1999)

²⁸ Adapted from Johnson, Susan. (2000)

	access to banks/ financial services in own right	income, men have specific expenditure patterns	concept of agency and removes the need for physical collateral. Building group mechanisms that allow procuring loans in proximity to the community, while enhancing women's role within the family and the community. Promoting and providing affordable and accessible savings services can also help overcome this constraint.
Economic	Women undertake activities which produce low returns; Women have a heavy domestic workload	Gender division of labor, unequal access and control of land, labor and inputs unequal control of joint household produce and income stream (from the produce)	Introducing graduated lending schemes that involve a feel-good approach and also cater to conflicting demands on women's time, i.e. allowing them to focus on sectors with low barriers to entry so exit is easier. However, also allowing women the opportunity to stretch the range of their opportunities with regular access to financial services, while twinning this with business development services and value chain creation.
Social/ Cultural	Women not literate or education; girls education not prioritized	Limited role for women in household decision making; violence towards women	The group lending approach has been one way of overcoming many of these aspects by coalescing associative strength. This has been further complemented by broadening the suite of products being offered to female clients especially savings and financial education.
Political/ Legal	Women lack confidence to claim political/legal rights	Women lack legal rights to jointly owned household assets.	Linking certain types of products to women's rights to property e.g. housing loans. Savings products especially designed to target women. The agency role of groups as already mentioned provides women an enhanced bargaining position.

As highlighted in the above table, microfinance institutions have been successful in mainstreaming women into the economy not only through the provision of credit and savings mechanisms which would otherwise be un-accessible due to a dearth in physical and reputational collateral²⁹; but also through recognizing the socio-cultural constraints women face and helping them integrate into the economy while managing their reproductive and social priorities. MFI supported micro-enterprises have “particular advantages for women: their flexibility and location in or near women’s homes, ease of entry and links with local markets” encourage women to integrate themselves into the local economy without having to leave their comfort zones³⁰.

Impact assessments undertaken by Kashf Foundation and third party assessors over the past 10 years provide ample evidence for this, according to the most recent study undertaken by ShoreBank International Pakistan, 34 % of clients that have been with Kashf Foundation for over 4 years consistently reported improved economic situation over the last 12 months. This demonstrates the poverty reducing effect of Kashf microcredit. When asked about the basis for stating improvement in their economic situation clients reflected on the long-term benefits of the loan, i.e. improved food security, improved standard of living, and improved ability to build household assets. Moreover, nearly two-thirds of clients that have been with Kashf Foundation for more than 4 years reported increased savings over 2009-2010. This trend is particularly important keeping in mind the inflationary crisis plaguing the economy during this time which severely constrained the saving capabilities of average low-income households. The fact that a large number of Kashf Foundation clients have experienced

²⁹ Reputational collateral here refers to the traditional ideas the assume women's role to be limited to reproductive responsibilities .
Frank, Christina (2008)

³⁰ Linda Mayoux, (1995) pg. 6

higher savings is a testament to the role of microfinance in enhancing income and reducing cash flow irregularities within the household.³¹

Existing literature from Asia suggests that there are three types of women entrepreneurs: chance, forced or compelled, and created entrepreneurs³². The difference between the three is primarily based on internal or circumstantial determinants: the first set of entrepreneurs are essentially running enterprises as a hobby without a clear established plan, while the second had to take on this role due to a family emergency like the death of a spouse, while the third type is created through enterprise development initiatives or through accessing microfinance services. Largely the most common form of female entrepreneurship results from changes in family circumstances. The focus and availability of financial services during such cases enables women to take the leap of faith. Furthermore, if financial services are combined with enterprise development and financial education, then all 3 sets of entrepreneurs can benefit.

Kashf Foundation has tried to target all segments of female entrepreneurs by introducing a financial education program with a special focus on business planning for women and their families alongside their credit operations. The larger vision of this program is to help women entrepreneurs formalize their businesses and generate higher revenues since data shows that only 10% of female led businesses naturally graduate from income generating activities to small enterprises. Thus, there is considerable need to embed enterprise development mechanisms to support the growth of women-led businesses and considerable effort needs to be made by the microfinance sector to catalyze the graduation of female businesses.

Interventions such as financial education trainings are thus an important tool for microfinance providers to help their clients become savvier users through a higher level of awareness regarding savings, investments, borrowing, and expenditure. Female microfinance users that have participated in such programs develop an increased ability to earn higher incomes and this economic empowerment eventually leads to improved well-being along with wider social and political empowerment. Some client quotes from participants of the Kashf Foundation financial literacy trainings which highlight the impact of the trainings can be seen below:

“Before this training, I was not able to keep balance in my Income and expenditures. But this time before getting loan I received a training which has helped me tremendously in making my household budget.”

- Lubna Baji, Multan Branch³³

“The Basic Financial Literacy training has had a very good effect on my life, as I came to know about the importance of saving and budgeting. Now I keep record of my daily expenses and try to save money on daily and weekly basis.”

- Rozeena Baji, Faisalabad Branch³⁴

³¹ Shorebank International Pakistan, 2010

³² Tambunan, Tulus (2009)

³³ Kashf Foundation, 2011

³⁴ Kashf Foundation, 2011

Broadening the suite of products being offered to women clients, has been another way that microfinance institutions have attempted to create a level playing field for female entrepreneurs, particularly in terms of providing access to savings, insurance etc. which help clients manage turbulences in income. Low-income households have a high likelihood of being confronted with economic shocks, which in the absence of safety nets hamper their ability to progress out of poverty as managing these shocks deplete incomes and revenues from businesses. These shocks can be endogenous such as cycle events or exogenous such as inflation, natural disasters, and security issues. Saving services provided by microfinance institutions help low-income households to build safety nets which can be utilized to deal with both exogenous and endogenous shocks³⁵ and at the same time improve the bargaining position of women within their households. Other innovations by microfinance institutions such as the CareGiver product, which is a gender sensitive micro-insurance product introduced by the Microfinance Fund for Women Jordan, helps women deal with endogenous shocks through helping cope with financial burdens associated with medical emergencies. The product provides coverage to clients for incidental expenses associated with hospitalization, such as medical fees, lost income and childcare. Clients are automatically covered when they take a new loan from MFW; they do not need to have a medical exam, and there are no exclusions for pre-existing conditions and pregnancy is also covered. Clients can use their coverage on anything they choose, from transportation costs, nutritious food to covering financial losses from their business incurred due to their hospital confinement. The product thus helps women and their families in managing risk and using their assets more productively and provides a necessary safety net for losses in income and medical expenses undertaken.³⁶

A major exogenous shock impacting women is macro-economic turbulence, an ILO study conducted in 2010 revealed that the gender participation rate will worsen further as a result of the economic crisis in the developing world, where female unemployment will be worse hit than that of men³⁷. This is further exacerbated by the fact that the number of individuals living in extreme poverty or at \$1.25 is expected to increase by 9% in regions like South Asia, South East Asia and Sub-saharan Africa. Thus, microfinance institutions that are supporting home-based and self-employment sectors are also providing another imperative safety net to low-income households, especially women to help them deal with the adverse pressures of the global economic crisis. Additionally, there is wide scale agreement that structural adjustment programs introduced in response to the global crisis have compounded women's economic and social vulnerabilities by implementing socio-economic, legal and institutional frameworks without assessing the gender specific implications of these interventions and changes³⁸.

At the end of 2009 there were around 128.2 million microfinance users around the world, 81.7 percent or 104.7 million out of which were women. The growth in the number of very poor women reached has gone from 10.3 million at the end of 1999 to 104.7 million at the end of 2009. This is a 919 percent increase in the number of poorest women reached from December 31, 1999 to December 31, 2009.³⁹ Through female specific interventions, research, optimized products and processes, microfinance providers have uplifted the dynamic yet neglected sectors of the economy that are dominated by women, mainstreaming them not only in the economy, but also creating inroads for them into the formalized system.

³⁵ Meagher, Patrick (2010)

³⁶ Interview, Fatima Abu Okab, March 2011

³⁷ ILO (2010)

³⁸ Gunewardena and Kingslover (eds) (2004) pg. 3

³⁹ Reed, Larry (2011)

In the last two decades, there has been a global trend of commercialization of the MF to reduce lending costs, expand the suite of products and services offered, and to ensure long term sustainability. Commercialization, however, poses significant challenges to the original mission and vision of MF institutions. Some of these challenges are presented in the following chapter.

Chapter 3 - Challenges faced by MFIs in targeting and retaining women clients under a for profit, commercial paradigm

In order to optimize its outreach to the unbanked, the microfinance industry has evolved to include several legal and institutional changes that have primarily transformed non-profit microfinance institutions to profit making enterprises⁴⁰. This has been based on the push towards achieving scale and the fact wherever microfinance has been able to achieve scale, for example in Indonesia, it has been a result of organizations that have been able to mobilize local deposits, and hence needed to be regulated entities⁴¹. Commercialization of NGO MFIs into formal, regulated financial institutions (RFI) was catalyzed in the 1990s in order to reduce lending costs, expand the suite of products and inculcate long term self sustainability, so that MFIs could achieve maximum outreach to poor households. Although, transformation is primarily meant to induce growth at the institutional level so that the microfinance sector's social mission to combat poverty can be realized more efficiently, the process in a majority of cases results in a mission drift that reduces the retention of female clients. While the overall number of female clients in a transformed MFI tend to increase, however, typically

“there [has been] an unmistakable drop-off in the percentage of women clients served by RFIs in the years following transformation . . . when the microfinance industry is disaggregated by legal structure, MFI NGOs have a significantly higher percentage of women borrowers than comparable transformed or regulated institutions”⁴²

Moreover, the percentage of women borrowers (as a fraction of the entire client base) served by transformed entities has registered a decrease from 88 percent to 60 percent—implying a decline of 7.3 percent per annum in the percentage of women clients being served. There is therefore, a general concern that a microfinance institution's original mission to eradicate abject poverty through gender mainstreaming in the formal economy can be impaired due to transformation. Formalized MFIs face several market centered challenges at the institutional level that directly affect the retention and inclusion of female micro entrepreneurs in the formal banking system.

The paradigmatic shift of MF NGOs to RFIs demands that they rapidly expand their existing portfolios by increasing their loan size and by penetrating industries and entrepreneurs that have a higher credit absorption capacity⁴³. Both these factors tend to put pressure on transformed MFIs to diverge their efforts away from small scale enterprise, mostly dominated by women, with low debt absorption capacities towards medium enterprises which have higher debt absorption capacities.

⁴⁰ Frank, Christina (2008) pg. 1

⁴¹ It is true that Bangladeshi MFIs, other than Grameen Bank are not regulated deposit taking institutions. However, this is an anomaly rather than the norm.

⁴² Frank, Christina (2008) pg. 13-14

⁴³ Frank, Christina (2008) pg. 13-14

Consequently, the development sector, agencies and stakeholders are generally concerned that “MF NGOs mission to alleviate poverty through gender empowerment tends to get diluted due to an influx of private capital and the need to generate profits⁴⁴. The International Labour Organization avers that there is a dire need for transformed MFIs to adopt and develop perennial strategies that can penetrate small scale, female headed enterprise in order to truly ameliorate their economic status and recognition in the economy⁴⁵. As has been stated in earlier sections reaching out to women requires concerted and consistent efforts and more organic growth models. However, most recently transformed entities are unable and/or unwilling to pick up the financial cost of such interventions. Moreover, these entities argue that such strategies can only be designed and employed once the mutually reinforcing constraints on female micro-enterprise are addressed.

There are however, some institutions that have been able to mitigate mission drift and after transition have not only been able to retain female clients but are providing more holistic services to a more diverse target audience. The following section provides an overview of CARD MRI from the Phillipines and the Kashf Microfinance Bank Limited from Pakistan that have employed a dynamic approach to ensure retention of women clients while providing new products and services to their clients.

Chapter 4 - Case Studies and Examples

As shown earlier in this paper, there is a very high likelihood of exit of female clients from transformed entities as there is a greater push within institutions (after transformation) to increase profitability through provision of higher loan amounts, which implies targeting businesses with higher debt absorption capacities which in essence excludes the female dominated micro and small enterprises⁴⁶. As mentioned in earlier sections, women led businesses tend to concentrate within the self employed, micro sector which transformed entities may not serve over time⁴⁷. This has been a major concern raised against transformation. Some transformed entities however have been able to avoid this kind of mission drift through innovating new and hybrid approaches to ensure mission alignment post transformation.

This section examines two such case studies, the Kashf Microfinance Bank Limited (KMB) in Pakistan and CARD Mutually Reinforcing Institutions from the Phillipines. These case studies have been highlighted because they provide good analysis reference points, especially since the case study from Pakistan shows how a recently transformed microfinance bank can undertake conscious effort and action-steps to prevent mission drift, while the case study from the Phillipines showcases a mature transformed institution which has been successful in avoiding mission drift post-transition. Moreover, both countries display diverse social, political and economic contexts, and thus highlighting these two examples helps practitioners across the world coming from varying contexts take direction towards mitigating mission drift.

⁴⁴ Frank, Christina (2008)

⁴⁵ Chant, Sylvia and Pedwell, Carolyn (2008)

⁴⁶ WWB, 2008

⁴⁷ Frank, Christina (2008)

Kashf Microfinance Bank Limited – Pakistan

The Kashf Microfinance Bank's establishment was premised on the success of Kashf Foundation which is Pakistan's first specialized microfinance institution. Established in 1996, Kashf Foundation has successfully provided micro-credit to over a million low-income, self-employed women with a number of credit products and has been able to effectively demonstrate the business case for investing in female entrepreneurship in Pakistan. The hallmark of the Kashf initiative was to specifically design and develop women focused financial products and to ensure a sustainable delivery methodology.

However, in line with the regulatory framework in Pakistan, Kashf Foundation being a non banking institution cannot provide deposit services to its clients, thus the provision of a complete suite of financial services with Kashf Foundation as a stand-alone entity has not been possible. To enable Kashf clients to access micro-savings services and to ensure scale and sustainability Kashf Foundation undertook a partial transformation in 2008, transferring a part of its portfolio, essentially its small business portfolio to a separate entity i.e. Kashf Microfinance Bank along with developing a strategy to provide "universal" savings services to low-income households especially Kashf Foundation clients. The Kashf approach was therefore not a typical transformation and involved the establishment of a conglomerate of financially inclusive companies – the Kashf Foundation which targets poverty lending, primarily female, clients and the Kashf Microfinance Bank which provides small business finance coupled with a diversified deposit mobilization strategy. At the very outset, a joint vision was established for the companies which was articulated as follows:

“The vision of the Kashf group of companies is to promote financial inclusion and economically mainstream low income households and small entrepreneurs with a special focus on women. Kashf offers solutions that aim to increase access of such households to micro-credit, micro-savings, micro-insurance and other financial services. This mission is at the core of everything Kashf does.”

Guided by the above vision, Kashf Microfinance Bank has been able to successfully develop a strategy for targeting female clients. This has been done via (1) the undertaking of a partial transformation, (2) investments to create a savings culture, (3) the optimization of a pro-woman and need specific savings strategy, and (4) the continuation of mission orientation and good governance through the Board of Directors.

Innovative nature of partial transformation—a hybrid approach to transformation was adopted by Kashf in order to ensure that poverty-lending clients of the Foundation, i.e. low-income women, could gain access to affordable micro-savings services. Thus, while the Kashf Microfinance Bank targets successful small entrepreneurs with average incomes of USD 10-15/day on the lending side, on the deposit side it focuses on all segments of the population including the micro sector (Kashf Foundation clientele) especially women and has set up a special provision for mediating savings services through Kashf Foundation branches. This strategy provides a one window operation for all financial products to women, where the Foundation's loan officers market the savings products to existing and potential clients, and the bank staff handles the back end, which is conveniently located within the Foundation's branches. This has been pivotal in providing bottom of pyramid women access to savings services as the presence of Kashf Foundation at the core of the communities alongside the familiarity of the premises, staff and the approachable nature of the operations give the target audience higher level of comfort in

transacting with the bank. Currently this hub-spoke model of operations is being piloted in 5 branches of the Foundation, where over a period of 9 months 3,500 accounts have been opened and women clients are regularly saving to build up savings for targeted, goal oriented purposes. The results of this pilot have been highly encouraging, and the Foundation and the Bank will establish a long term agency relationship in order to roll this out across its entire network of 150 branches and thereby be able to serve 300,000 female clients jointly. The financially inclusive vision of both entities is reinforcing and has made this women focused intervention possible, while at the same time ensuring the affordability of the deposit mobilization structure. A stand-alone MF bank would not be able to access low income depositors given the high costs for collecting small ticket sizes, while through an embedded model this can be achieved in the medium term along with maintaining affordability.

Building a regular savings culture- This has been a considerable challenge for the Kashf Microfinance Bank, as a culture of regularized savings has not developed in most target communities, since the product designed by KMB is a goal oriented savings product modeled on the ROSCA (see section below on product design). Generally asset building is an incremental process for low-income households requiring a considerable buildup of regular savings since the ticket size of these savings is very small. While most clients understand the advantages of savings and also show an inclination towards building up their savings, they are more attuned to informal savings options like ROSCAs, which are ubiquitous amongst low-income communities. Thus, building up a culture of regularity and formality in savings has been an important component of the savings strategy for the Kashf Microfinance Bank, along with institutionalizing the right savings product that caters for its clients' particular needs. To this end, the Kashf Microfinance Bank and Kashf Foundation have invested a great deal in building a culture of savings via the following:

- Investments in Basic Financial Literacy Trainings – these trainings are undertaken by Kashf Foundation with its clients to familiarize them with basic concepts of financial literacy including rudimentary knowledge on budgeting, savings, necessary and unnecessary expenses, financial responsibility etc. The key messages of the training are provided to clients in pictorial form and most such trainings are undertaken at the homes of clients and also targets all family members.
- Investments in Systemized Financial Literacy Trainings – these trainings are undertaken by Kashf Foundation and provide in-depth information and training on four major themes, savings, budgeting, debt management and financial transactions. The trainings are more rigorous and detailed as compared to the basic financial literacy trainings, involve a certification process and is conducted in cohort groups of 10-15 participants each via specialized trainers. This training also targets potential clients and creates “financial” champions within the communities, where trainees are encouraged to not only apply their learnings to their day-to-day decisions, but also share it with others in the community.
- Investments in social mobilization through theatre performances at the community level – these social theatre performances are undertaken on key issues of financial literacy especially focusing on the benefits of good credit and good savings behavior.

Kashf Foundation and Kashf Bank have been undertaking these front-end investments in the short term to help clients realize the long term benefits of savings. In most instances, for models working to mobilize savings in other parts of the world where there is a general culture of regular savings, MFIs/MFBs would not have to make such investments. However, in the case of Pakistan these front-end investments are necessary to realize the long-term success of such projects, and in particular to economically empower women and enhance their role in the household's financial decision-making.

That said, most commercial entities such as RFIs would not be able to make such investments as imperatives of commercialization do not allow them to front load mobilization, training and culture-setting costs.

Developing the right product—In order to ensure female client retention and satisfaction through savings mobilization, during its inception, the Kashf Microfinance Bank conducted considerable field surveys within different market segments in the catchment communities to gauge demand for a variety of micro-saving products. The purpose of this research was to specially design products in order to overcome women’s triple burden of productive, reproductive and social obligations and thereby mainstream women’s contribution in the formal sector. By designing pro-women and pro-poor savings products the Kashf Microfinance Bank facilitates the accretion of a strong asset base that can serve to cater to lifecycle needs so that women can reinvest their profits in their businesses rather than spending it to meet household contingencies. The Kashf Microfinance Bank currently has four different saving products that allow low-income households to build up their savings, within this case study the focus will be on the Kashf Kamal Committee – a programmed savings account designed for Kashf Foundation microfinance borrowers.

The Kashf Kamal Committee (KKC) is a goal oriented savings account that allows women to save for a specific purpose such as marriage, education, transport, pilgrimage, home construction and consumables such as televisions, refrigerators etc. It is also designed to assist low income households in dealing with life cycle events such as investments in the future of their children. The account is similar to a ROSCA⁴⁸; however, the client selects a fixed amount to pay in each month for a specific purpose and for a predefined period of time within 1 – 10 years tenure. In order to motivate savings and build a culture of savings the product also has a rewards program under which clients with good savings behavior qualify for a raffle scheme, which is drawn on a quarterly basis and only such clients qualify who have been meeting their monthly targeted saving obligation. Furthermore, given the ability of the such households to save, during the research it was found out that over 90% of households save between Rs 300-1500 (US\$ 3.5 to 17.5) per month. Keeping this in view, the minimum amount for the monthly saving was set at Rs 300, while clients are encouraged to save at least Rs 500 per month to make the investment viable.⁴⁹

In the course of the research undertaken for product design, saving for life cycle events was evident across responses from both men and women. Some excerpts from focus groups are given below:

“There is a difference [in the way that women and men spend money]. A woman will think of her child, daughters dowry. . . . (Some) women worry more, a woman will say I want to give this or that to my daughter a husband is not thinking so much about it.” [Female client]⁵⁰

“She gathers money for the committee (rosca) and it’s good because we can take that money when we need it on happy or sad occasions.”[Male Response]⁵¹

⁴⁸Putnam, 1993

⁴⁹WWB, 2010

⁵⁰WWB, 2008

⁵¹*Ibid*

Thus, the KKC encourages women to save for expenditure towards anticipated life cycle events. This not only reduces their triple burden but it also keeps them from dipping into their business capital, while at the same time improving the client's self esteem. The product has a low transaction cost and replicates many elements of current savings behavior already present in the rotating credit associations that most low-income households save with. The low minimum investment of the KKC allows women to save according to the financial situation within their households, even though higher minimum investments would have made better business sense for the Kashf Microfinance Bank. However, the higher minimum amount would have also excluded a large segment of women from accessing the KKC. Moreover, higher minimum investment amounts would also increase the burden on low-income households to meet their savings obligations.

Good governance through the BOD – This has been a key factor in maintaining strong mission alignment for the Kashf Microfinance Bank, and was further strengthened by the fact that the original investors included the Foundation and other like minded institutions as majority stake holders. The current members of the BOD present a good skill mix that complies with the best standards of corporate governance and ensures that there is high value creation to the business, along with keeping an eye on the social objectives of the bank. The board provides strategic oversight that helps ensure that the mission of the company is preserved while meeting the objectives of mission and business. At the same, it is also important to count the results that relate to gendered objectives for the bank – keeping this in view a regular monthly score-card has been established which is shared with the board and which provided gender disaggregated data. The current strategy for addressing women focused impact is linked to the ability of the bank to show results on scaling up a low income deposit mobilization strategy, through its on-going focus on strengthening its collaboration with Kashf Foundation. The objects in terms of enhancing women's access to business credit is a more longer term objective, which also requires front line investments – the Kashf Foundation is establishing business incubation centers for talented business women across its network, and will over the next 5 years assist at least 30,000 successful business women graduate to the bank.

Centre for Agricultural and Rural Development – Philippines

“Ensuring that our original mission is not diluted has been a central KPI for CARD. The key has been staying abreast with client pulse and undertaking a concerted effort to satisfy our customers. CARD is proud to state that mission drift has been avoided through our mutually reinforcing group of companies.”

– **Ms. Aniceta Alip**, Director Research, CARD Bank

In 1986 a group of 15 rural development practitioners set up the Center for Agriculture and Rural Development (CARD) Inc. as a social development foundation providing training-focused community and livelihood assistance programs to respond to the growing challenges of poverty in the Philippines. The lending methodology was premised on the solidarity-group lending model followed by the Grameen Bank in Bangladesh.

In the late 1990s, the management of CARD decided to make the transition towards becoming a regulated bank, this decision was made on the twin objectives of ensuring scale and sustainability for the organization and allowing deposit mobilization from clients to help them build and control assets.

CARD transformed into a formal financial intermediary in order to increase its outreach to the unbanked, to mobilize savings and most importantly to become a self sustaining entity⁵². Hishigsuren⁵³ concurs “CARD’s transformation process did not involve raising equity from outside commercial or institutional interests. Because of the low capital requirements of Philippine rural banks, CARD did not need to attract outside investment to fulfill minimum capital requirements” and instead focused on becoming self-sustaining through transformation⁵⁴.

Thus, in 1997 CARD Inc’s NGO, CARD NGO partially transformed into a bank to obtain the legal basis for mobilizing deposits from the public, and enable CARD Inc. to tap the commercial loan market. There was special emphasis on ensuring that the original mission and vision of the organization were retained, and to avoid mission drift the organization adopted a phased approach to transformation, which was seen to be integral for avoiding mission drift and retaining female clients. Four of thirteen CARD NGO branches were converted into CARD Bank, while the remaining branches continued to operate under CARD NGO, involving its clients or members and employees into its integrated microfinance-based ventures⁵⁵.

CARD has been able to successfully prevent mission drift, in terms of female exits from the program. This has been done via (1) ensuring product optimization to client needs, (2) establishing mutually reinforcing institutions catering to the holistic needs of the client base, (3) incorporating feedback of clients into the policies of the company via concerted and sustained linkages with the client base, and (4) Maintaining representation from the former NGO board after transformation.

Ensuring product optimization to client needs- About two years into the transformation, CARD experienced a client exit of around 19%, which was unprecedented in the history of CARD. Research and analysis showed that the exits were a result of the joint liability of clients under the solidarity group lending model, i.e. the joint liability had become too burdensome for clients in light of the deteriorating macro and micro economic context existing within the Philippines. CARD took immediate steps to attenuate the exit rate by launching motivation campaigns targeting clients as well as field staff. Moreover, the lending methodology was changed with repayment responsibility being more individualized, thus reducing the burden of joint liability that was being borne by clients. Moreover, based on the needs of clients, CARD launched an intensive research and development drive wherein new products were developed, tested, and scaled up. These products helped the clients deal more effectively with their reproductive and productive responsibilities via modifications in the loan tenures, loan sizes, and service charges. Currently, CARD offers three types of productive loans; agricultural loans, multipurpose loans which include housing loans, health loans, salary loans, and calamity loans.

Establishing mutually reinforcing institutions- Reinforcing institutions have played a vital role in helping CARD avoid mission drift. Currently there are six organizations under the CARD umbrella; CARD NGO, CARD Bank, CARD Mutual Benefits Association (MBA), CARD-MRI Development Institute (CMDI), CARD-MRI Insurance Agency (CAMIA) and CARD Business Development Services (BDS) Foundation. Each of these institutions are independent legal entities being registered with the

⁵² Banez, Lorenzo (2007)

⁵³ Hishigsuren, Gaamaa (2006) pg. 14

⁵⁴ Hishigsuren, Gaamaa (2006) pg. 14

⁵⁵ Alip, Aniceta and Joyas, Lalaine (2003)

Securities and Exchange Commission of the Philippines⁵⁶. These institutions aim to provide specialized services such as insurance, business development, health insurance, which the NGO or RFI could not have provided as a stand-alone entity. This model not only helps CARD remain sustainable but is also value driven and perceptive with a “long term vision to expand the market and provide services that are responsive to their clients’ demand”⁵⁷. By providing an array of services through mutually reinforcing institutions such as voluntary savings, micro-insurance, health packages (group card- discount of 5-10% at specific hospitals) that include access to cheap medicines and health loans (available only to CARD clients)⁵⁸, CARD enables its female clients to manage all aspects of their financial needs and at the same time become successful entrepreneurs.

Incorporating feedback of clients – An over-arching focus of the institution has been increased field presence of all tiers and constant interaction with clients to remain in touch with all developments in the communities and lives of clients. There is a concerted effort by the organization to make field visits a key part of the KPI of field staff and management. This kind of client interaction has become a major factor in the organization being extremely receptive to client needs which has enable CARD to build long term relationships with their clients. According to Ms. Alip (Research Director, CARD), “Female clients stay with CARD because we cater to their needs, we listen to them, and try to understand their needs. Women in the Philippines are primarily assigned with reproductive responsibilities which means that even for business-women there are many home and family expectations. CARD has thus developed many products and services that support women in their social predicament so that are able to invest their time in energy in productive and reproductive activities efficiently.”⁵⁹

Additionally, there is significant client inclusion on the BOD of CARD, in 1999 CARD Bank had around 33.1% client ownership. CARD now offers preferred stock to individual members who meet certain eligibility criteria –such as having completed a fourth loan cycle and having maintained a repayment rate of 100% for all loans⁶⁰. The prospect of becoming owners of their own bank has inspired CARD clients to not only practice credit discipline but has also provided an avenue for involvement into the steering the direction of processes and policies of the organization. “[Being on the board of the Bank] encourages poor clients to build an asset base and potentially increase their income, but also contributes to the positive financial performance of the institution. Having a financial stake in the organization may cause them to be more motivated in looking for higher repayment and financial return”⁶¹. Complemented with the agency to guide decision and policy making for CARD, this involvement of clients in the board of the company has helped the institution retain clients and stay in line with the original mission.

Maintaining representation from the former NGO board – During the inception of CARD bank and in the initial phase of their transformation CARD retained a significant representation of their NGO BOD in the bank. Currently, three of the bank’s board members are from the former NGO board. This strategy has been incredibly successful in avoiding mission drift at an institutional level and has ensured that the transformed entity maintains its social mission. Transferring former governance to the new entity also

⁵⁶ Alip, Aniceta and Joyas, Lalaine (2003)

⁵⁷ Hishigsuren, Gaamaa (2006) pg. 14

⁵⁸ Interview, Ms. Aniceta Alip

⁵⁹ Interview, Ms. Aniceta Alip, March 2011

⁶⁰ Hishigsuren, Gaamaa (2006), pg. 24

⁶¹ Hishigsuren, Gaamaa (2006), pg 25

helped in creating a positive impact on the human infrastructure of the institution, making the transition smoother for the organization on the whole.⁶²

Chapter 5- Lessons from Transformed Entities vis-à-vis Women Clients

The two case studies highlight some very interesting propositions for transforming and transformed entities, with respect to the retention of female clients. The common factors between the experiences of the two entities can be summarized as follows:

1. The first step in both cases was clarifying the overarching vision for transformation and ensuring that this was completely and fully embedded within the transformation process. In both cases, it was felt that as a not-for-profit entity a glass ceiling had been reached in terms of product offerings, that is, the missing half of microfinance – deposits - could not be provided to clients. Both entities were driven by this desire to ensure that a full service product approach, which also includes savings, could be provided to women.
2. The second commonality was the focus on sustainability and affordability – this is particularly important when it comes to the need for demonstrating a strong business case for investing in women's enterprise and financial development. It was felt in both instances that along with having a vision to serve women well and fully, any institutional option must also be long term and sustainable.
3. Interestingly enough, in both instances, the notion of mutually reinforcing institutions or conglomeration of financially inclusive companies was developed in order to go beyond just the provision of financial services. In the case of the Kashf MFB, it has been the collaboration with the Kashf Foundation in both ensuring affordable delivery mechanisms for savings along with an up-front investment in the financial education of women and their families, while in the case of CARD it has been the access to auxiliary services like health, insurance and other products that has further built up and sustained women's enterprises and access. Furthermore, the role of the original NGO in both cases also helped to solidify the female client base and to address their needs more proactively.
4. Both entities have focused on research and development in designing products and in understanding women's needs when offering financial products. This was undertaken by KMB during the process of need identification for savings and in the entire product design stage, while a similar focus continues throughout the pilot as well. For CARD this is a continuous learning, where clients are provided channels to communicate their needs and trends are analyzed to identify and address key gaps in the methodology and the products.
5. The role of the board to maintain a focus on mission and vision has been another important aspect of the approach to ensure women's participation within the client base. In the case of CARD, it includes representation of NGO board members along with client participation, while in the case of KMB it is fully realized by the type of board members and the initial investors in the bank, along with ensuring transparent tools for mapping the gender objectives at all levels.
6. In both cases the approach towards transformation has been innovative and non-traditional. Both entities have retained the parent NGO, which continues to focus on key aspects of women specific financial needs, and the new entities continued forward with segments of the original portfolio – in the case of CARD the strategy was to transform a few branches at a time, while in

⁶² Interview, Ms. Aniceta Alip , March 2011

the case of KMB the small business portfolio was taken over. Essentially both entities have approached women's economic empowerment as a complex and a multi layered issue which requires a more upfront investment in supportive opportunities such financial education, health insurance, business development etc. The question this raises of course is the need to make such interventions sustainable, which CARD has been able to demonstrate through its mutually reinforcing model, and which KMB still needs to demonstrate in terms of scalability.

There are however also some differences in the approaches that the two entities have followed and which may also be true to the context in which they operate:

1. In the case of CARD there was a conscious effort made in terms of not getting outside investors, though this was also a result of the low minimum capital requirements of rural banks. While in the case of KMB, outside investors were sought in the initial phase that had a clear vision, alignment with the vision and were going to be both conscious about the social objectives and considerate of the profitability requirements; this included a combination of social and commercial investors. The ownership structure is of course different also to the extent that CARD bank is owned by its clients, which can have a direct beneficial impact on mission alignment.
2. The role of the original NGO has been different in both cases. In the case of the KMB, the NGO is a partner and is working towards broadening the deposit market base along with strengthening the demand for savings through concerted financial education trainings. For CARD the NGO has not only spawned the operations to the bank, but has also been providing continuous research and development support, while the remaining entities are reinforcing this vision.

Chapter 6 - Conclusion and a To-do List for Women's Inclusion

The above analysis has provided some broad guidelines on the 'To-do's' of transformation from a women's participation perspective, these include:

1. UNDERSTANDING that women's economic participation is a multi layered and complex issue and needs to be contextualized to different societies, while at the same time investing time and effort in getting to know what women clients' want is an essential part of the transformation process.
2. KNOWING that there is not one path to transformation and often hybrid and innovative solutions can work in strengthening the mission and vision of retaining female clients within the framework of ensuring long term profitability.
3. ARTICULATING a clear rationale and vision for the need to transform and conducting stress tests of that in the light of retaining female clients through a continuous process with all stakeholders.
4. BUILDING buy in at the board level for promoting women's access and retaining women's clients and developing ownership structures that can build long term commitment to women's access, along with establishing tools to map gender outcomes.
5. DEMONSTRATING a model that is scalable, replicable, profitable, and which ensures that the women segment of the business can generate long term returns to all stakeholders, thus overcoming market based pressures to generate returns.

6. EMBEDDING the concept of front end investments to promote women's economic empowerment through financial education, enterprise development and other interventions that support women's economic participation and create a level playing field for female clients.
7. LEARNING that women's empowerment is a long term strategy and that women require products beyond credit, especially savings which have to be convenient, accessible and affordable, thus deepening and broadening the suite of products.
8. ENGAGING with female clients at all levels through a continuous research and development process and designing pro women products and systems which can be mutually reinforcing, while building product thresholds that are inclusive for female clients and affordable/profitable for the transformed entity.
9. SELECTING investors who are committed to promoting women's access and ensuring that the original NGO (parent) is involved/does participate in governance structures.
10. DELINEATING the roles of the NGO (parent) in a way that it can improve and sustain women's empowerment and support the work of the transformed entity.
11. ENSURING that lessons learnt in the past by the NGO (parent) are not ignored or forgotten during the zeal of the transformation process, but are in fact a key driving force for the transition process.
12. BUILDING a team within the transformed entity that believes and espouses a commitment to retaining and sustaining female clients and engaging with them at the levels to establish gender accountability matrices which cascade at all levels in the organization.
13. SEGMENTING the women's market in order to highlight the needs of female clients and offer solutions that address these needs, while ensuring that the top tier leadership continues to push for greater achievements in this area.
14. LEVERAGING on networks and building collaborations with other entities in order to ensure scalability and affordability of products targeting women and also utilizing technology and alternative delivery mechanisms to achieve results and retain female clients.

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