

The Miracle of Financial Inclusion
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The founder of the Kashf Foundation argues that microfinance can improve the lives of Pakistan's next generation **BY ROSHANEH ZAFAR**

WRITING THIS ESSAY takes me back to November 1994 when I embarked on a journey to Bangladesh. My purpose was to spend time with Muhammad Yunus and his team at Grameen Bank to learn about microfinance firsthand. Perhaps it was the intrepidity of youth or perhaps it was sheer foolhardiness to have left a promising career at the World Bank to follow a dream. Many years later, I met the novelist Paulo Coelho, and his words continue to resonate in my mind. He told me, “Roshaneh, remember to pay the price of your dream!” So what was this “grand dream” that propelled me to cross the length of South Asia?

I remember arriving at Dhaka airport, clutching a notepad and holding a pen, with the immense desire to understand how Grameen had managed to empower millions of poor women through the simple technique of providing small, affordable loans. What was this fairy dust that allowed millions the ability to turn their dreams into reality? There were many things I learned during my 10-week sojourn in Bangladesh. They are perhaps best reflected in the story of Khairunissa Begum, a woman in her 50s whom I met in a remote village in the Bay of Bengal. It took me 24 hours on a launch from Dhaka to reach her small village in Patuakhali. I was stuck both by the area's majestic natural beauty and by the simple lifestyles of the people.

Khairunissa had taken a loan of \$100 from the Grameen Bank and invested it in her business. From that first loan transaction and the confidence it imparted, over time she built up a mini-financial empire in her community by owning a *mithai* (sweetmeat) store, a poultry farm, and a thriving public telephone call office. In other words, Khairunissa had become the business tycoon of her area. Khairunissa's story is typical of many microfinance clients who start life in the throes of poverty facing an ocean of indignity, where the only things they own are the clothes on their back. In her case, she started her life owning only one sari, which she would wash from one side first and then wrap the wet end around herself before washing the other side, as she did not have the resources to buy another. Through the help of microloans, she now owns dozens of colorful saris, along with assets like a home and livestock, which she never could have imagined possessing a decade ago.

I was bitten by the microfinance bug after spending time at Grameen. But I was not entirely confident that I could transfer the learning to Pakistan. Yunus was adamant that Pakistan needed a similar enter-

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prise, and he was willing to give me a loan of \$10,000 to start a project along Grameen's lines. But where was I to start and how? The first thing I had to do was to overcome my own insecurities; the fear of failure tormented me. But Yunus said, “Roshaneh, if you fail, tell the world it was Dr. Yunus's fault!” I was lucky to have mentors like him who understood what it meant to set up a new entity from scratch.

The first step involved an extensive dialogue with women across urban and rural Pakistan, where my colleagues Sadia Khan and Mahbina Waheed and I set out to understand the constraints and challenges facing female business managers. I heard time and again from self-employed women that they had the skills, knowledge, and aspirations to grow their businesses, but they lacked access to capital to expand to the next level. During this research expedition, I was sitting with a young woman in a remote community in Okara, Punjab, who wove extraordinarily beautiful baskets and dreamed of selling her wares in Lahore,

Pakistan's second largest city. I realized that I had to help her with a financial solution, and that a specialized microfinance program targeting women from low-income communities was the need of the hour.

From 1995 to 1998, I launched a small action research program for microlending in three communities around Lahore. This was a period of myth-breaking for me and for many people—economists, civil activists, academics—who questioned the wisdom of what I was planning to do. I was extremely lucky that my own family, who are broad-minded intellectuals and have excelled in the diverse fields of law, art, and civil society, was sold on the idea of my development experiment and supported me from its inception. The first myth that I had to break in my mind was the visibility of women's role in the local economy. I had grown up with the belief, corroborated by Muslim feminist literature, that low-income communities are divided into male and female spaces.

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Thus I assumed that the moment I arrived in a village, I would not see women transacting business in marketplaces and that most female businesses would be home-based.

So on my first day of work as a Kashf loan officer in a village 25 kilometers outside of Lahore, I was pleasantly shocked to meet a female entrepreneur. When I went up to her to ask her whether she was sitting at her husband's store while he was away on an errand, she was both offended and amused by my question. At that moment I realized that I had imbibed millennia of patriarchal attitudes by making this assumption, and that I needed to change how I saw my own society. When I went into the store, she had customers. She asked me to sit down while she sold her male clients cigarettes and other items. Then she told me about a dozen other women like herself who were buying and selling, negotiating and contracting business, within and outside this community, and intermingling in the world of men.

Pakistan has been associated closely with the war on terror and highlighted as a country that continues to be a nursery for radical extremism. There is some truth to this picture. And yet, if we use this brush to paint a portrait of the country, our view will be too simplistic, for Pakistan is a complex country facing major economic, social, and political issues. Unlike other parts of South Asia, Pakistan was a latecomer to the field of microfinance, and it was only after the Kashf Foundation's inception in 1996 that the concept of low-income microfinance emerged. Like other parts of the region, however, the microfinance sector in Pakistan grew rapidly, at an average rate of 40 percent per annum until 2007 and with a market penetration rate of 10 percent. In other words, despite the rapid growth of the microfinance industry, today it meets the needs of only 10 percent of the overall households that require such access.

A recent study by the UK Department for International Development, titled Access-to-Finance, has shown that more than 86 percent of households that require microfinance and other financial services in Pakistan are deprived of them. Also, overall microfinance operations in Pakistan are focused on retailing loans through a group lending approach, and there is little work being done on microsavings. Since 2002, however, eight microfinance banks have been established to offer savings accounts. Yet only 2.9 million people have access to these savings services, or around 12 percent of those who need them.

Currently, Kashf is providing loans from \$150 to \$500 to 300,000 families through a network of 150 branches. Originally, we followed a group lending approach, like Grameen Bank, but two years ago we moved to a business appraisal lending model, where we focus on building the entrepreneurial capacity of women and their families. The past few years have been difficult

for the country, however, both economically and socially. Some politicians, seeking cheap public favor, have instituted loan write-offs, weakening consumer credit discipline and our ability to expand our programs. In turn, we have modified our methodology by focusing on a more

customized lending approach.

Our new approach involves an extensive appraisal with our clients of the businesses they intend to invest in, as well as advice and training in areas such as debt management, financial budgeting, and savings. This focus on client education ensures that a strong and responsible relationship can be established between the customer and the microfinance institution, and that financial decisions result in economic opportunities for the client and her family. We have introduced an extensive client relations program, which includes a complaint resolution process and telephone hotline. Furthermore, over the past 17 years, we have realized that there was a missing link in our work: Savings is equally important for the economic empowerment of women and their families. As a result, we established the Kashf Microfinance Bank, a licensed entity that offers savings products to our clients along with credit and insurance.

Many people ask me whether the work of Kashf can make a difference in a country where 85 percent of households live on \$2 or less a day. This question reminds me of the story of a boy who found himself on the seashore surrounded by thousands of dying fish. The boy started to pick up one fish at a time and throw them back into the sea. A man watching him from afar came up to him and asked why he was wasting his time. The boy said that if he could save even one fish, he would have fulfilled his purpose in life. I agree that microfinance is not a silver bullet, but it certainly changes lives. I recently met Kiyenat (which means universe in Urdu), the daughter of one of my clients. She was dressed in a clean blue uniform with blue ribbons in her pig-tails, and when I asked her about her school day, she quickly took out her English workbook and proudly shared her lesson with me. That is the change that microfinance can make. It can change the opportunities for the future generations. ■