ADVOCACY STUDY 3 REPORT

Enhancing Financial Inclusivity for WMEs: A Comparative Study of Loan Acquisition Processes of Microfinance Providers

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List of Acronyms

Below is a list of acronyms used in this document.

Acronym	Full Form
CNIC	Computerized National Identity Card
DAMEN	Development Action for Mobilization and Emancipation
ECIB	Electronic Credit Information Bureau
FBLT	Financial Inclusion of WMEs through Business Booster Loan & Trainings
HBL MFB	Habib Bank Limited – Microfinance Bank
HNP	HomeNet Pakistan
JICA	Japan International Cooperation Agency
Kashf	Kashf Foundation
MFB	Microfinance Bank
MFBs	Microfinance Banks
MFIs	Microfinance Institutions
MFPs	Microfinance Providers
MIS	Management Information System
NADRA	National Database and Registration Authority
PMN	Pakistan Microfinance Network
SAFCO	SAFCO Microfinance Company
UN	United Nations
USAID	United States Agency for International Development
WIEs	Women Informal Entrepreneurs
WMEs	Women-Owned/Managed Enterprises

Executive Summary

The report investigates the financial inclusion of Women-owned/managed Microenterprises (WMEs) through the "Financial Inclusion of WMEs (priorly WIEs) through Business Booster Loan & Trainings" (FBLT) program, a collaboration between JICA Pakistan, HNP, HBL MFB, and PMN. This initiative aims to address barriers to financial inclusion and develop strategies to connect WMEs with formal banking services. WMEs, primarily home-based, significantly contribute to sectors like catering, tailoring, fashion, personal care, and handicrafts.

However, these enterprises are typically not registered with any regulatory agencies or relevant authorities, including labor, revenue, taxation, or social services. They are categorized as own-account or “informal enterprises.” This unregistered status restricts their access to formal banking services and often excludes them from formal government policy initiatives and support programs. In this context, the FBLT program aims to enhance financial inclusion and economic empowerment for these microenterprises that are unregistered and unrecognized.

The study explores the customer acquisition processes of microfinance providers (MFPs), identifies communication barriers, assesses challenges in loan application processing, and evaluates risk profiling and mitigation strategies for WMEs. The research employs a hybrid methodology, integrating primary and secondary research.

Initial desk reviews provide foundational data, followed by primary data collection through consultations with microfinance providers. Interviews with various personnel map out loan acquisition processes and challenges. A purposive sampling technique ensures diverse representation of MFPs and MFBs, enabling comprehensive analysis.

A detailed comparative analysis of loan acquisition processes reveals community mobilization strategies, customer engagement, and stages from initial contact to loan disbursement. The evaluation highlights the use of technology in verification, appraisal mechanisms, tailored customer interactions, and disbursement channels.

Key findings include several risks and recommendations. Among the risks identified are, significant ones include:

- The outreach difficulties due to the home-based nature of many WMEs,
- Cultural norms affecting women's interactions with male staff.
- Financial illiteracy among WMEs posing eligibility challenges.

To mitigate these risks, the report recommends developing strategies to effectively reach home-based WMEs, employing more female loan officers to facilitate better engagement with women clients, and implementing comprehensive financial literacy programs to improve eligibility and loan application success rates.

The report underscores the necessity of understanding WMEs' unique needs and challenges. **Tailored financial products and inclusive policies are crucial for**

improving financial inclusion and supporting the economic empowerment of WMEs. Further these insights gained from stakeholder consultations provide a foundation for developing more effective loan acquisition process, taking effective initiatives to support the economic empowerment of women owned/ managed microenterprises.

CHAPTER 1 - Introduction

Female Home-Based Workers, or Women-owned/managed Microenterprises (WMEs), previously referred to as Women Informal Entrepreneurs (WIEs), play a vital role in the national economy by producing goods and services for various markets. These women own/ managed microenterprises typically operate from home or work areas closely connected to their residences. This segment runs their business at a small scale, providing services in specific sectors mainly in catering, tailoring, fashion, clothing, personal care, manufacturing, and handicrafts. These WMEs are generally not registered with any entity including regulators, labor departments, or social protection hence their contribution in the local economy is not adequately highlighted. Which hinders their growth further, these WMEs face challenges in many fronts including access to finance, business expansion, developing business networks, receiving social support for their entrepreneurial ventures which hinder their economic growth and empowerment.

To address these gaps, and enhance knowledge collaboration, JICA Pakistan, in partnership with HNP, HBL MFB, and PMN, has launched the "Financial Inclusion of WMEs (priorly WIEs) through Business Booster Loan & Trainings" (FBLT) program. The program aims to:

- Identify barriers to financial inclusion for Women Informal Entrepreneurs.
- Understand the business dynamics of women managing informal micro-enterprises.
- Use this knowledge to develop strategies for connecting Women-owned/managed Microenterprises (WMEs), with formal banking services in collaboration with HBL MFB.
- Establish a knowledge platform for policy advocacy and ecosystem development to support the WIE segment.

Study Rationale

UN Women's (2016) study indicated the presence of approximately 12 million home-based entrepreneurs in Pakistan, primarily women, who encounter restricted access to formal financial services.[1] This substantial demographic presents a significant opportunity for bolstering financial inclusion and advancing women's economic empowerment, thereby fostering positive impacts on the local economy.

Nevertheless, Women owned/managed Enterprises (WMEs) have highlighted numerous challenges in securing micro- credit facility from Microfinance providers (MFPs),

[1] UN Women. Women's Economic Participation and Empowerment, 2016.

emphasizing the necessity to realign current financial products and processes to better cater to this segment's needs. Conversely, supply-side players contend that their microcredit facility and its acquisition procedures are tailored to be women-centric, designed within regulatory frameworks to streamline the process for WMEs smoothly. In response to this, FBLT partners and consortium members have agreed to conduct a ***Comparative Study of Loan Acquisition Processes*.**

The primary objective of this study is to enhance access to microfinance services for Women owned/managed microenterprises (WMEs) by comprehensively analyzing the challenges encountered by the supply side throughout the loan acquisition process. This analysis will encompass appraisal, verification, and disbursement procedures. Furthermore, the study will delve into the specific risk profiling mechanisms applicable to this segment. The findings of this research endeavor will serve as a foundation for accurate data collection, informed policy development, and the implementation of targeted interventions. Ultimately, these efforts aim to bolster financial inclusion, improve credit access, and provide enhanced support for WMEs.

Study Objectives

The study aims to explore following areas:

1. Examine the entire loan acquisition process of microfinance providers (including Microfinance Institutions and Microfinance Banks).
2. Identify barriers encountered by microfinance providers when communicating product eligibility criteria and other loan acquisition details to WMEs.
3. Explore the challenges and obstacles encountered by microfinance providers during the processing and acceptance of loan applications from WMEs.
4. Assess and evaluate the existing risk profiling mechanism of WMEs by MFPs.
5. Examine the current mitigation strategies used by MFPs to overcome risk factors in WMEs loan applications.

Study Outcomes

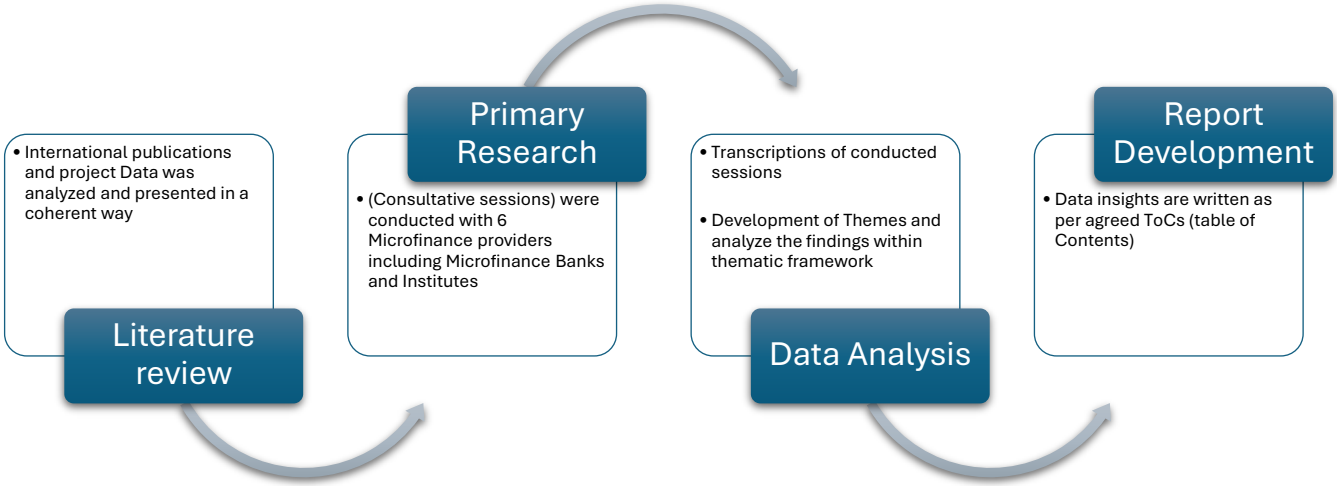
According to the Terms of Reference for Advocacy Study 3, PMN, in collaboration with FBLT partners and policy consortium members, is endeavoring to conduct this study with the following anticipated outcomes.

1- Enhanced understanding of the loan acquisition process of microfinance providers for the WMEs.
2- Identification of barriers and obstacles faced by microfinance providers in serving WMEs.
3- Insights into the effectiveness of existing risk profiling mechanisms and mitigation strategies.
4- Recommendations for improving the loan acquisition process and supporting the financial inclusion of WMEs.

CHAPTER 2 – Research Methodology

The research utilizes a hybrid methodology, incorporating both primary and secondary research techniques to gain deeper insights into the supply-side challenges within the WMEs (Women-owned/ managed Microenterprises) segment. The study is structured into two stages.

Figure 1- Research Stages



Stage 1 – Secondary Research

- In the preliminary stage, a desk-based investigation was undertaken, prioritizing the review of FBLT foundational data including project reports, baseline survey data and bottleneck analyses conducted within the project framework. Additionally, online publications pertaining to the target beneficiaries' challenges concerning women's financial inclusion were also reviewed. This facilitated a comprehensive conception of target beneficiaries' unique features including pain points and hurdles are covered that encountered while accessing financial services through microfinance entities.

Stage 2 – Primary Research

Expanding upon the insights gleaned from the desk review, pivotal themes for inquiries were delineated. Subsequently, a tool was crafted to gather primary data from Microfinance Providers (MFPs). At this juncture, our aim is to elucidate the impediments or challenges hindering the penetration of supply-side entities within the segment by comprehending their requisites.

To capture comprehensive insights into each research theme, a meticulously crafted sample was designed to encompass every layer of personnel involved in the loan acquisition process. This involves consultations with supply end staff including women champions, loan officers, verification officers, branch and relation managers, and risk officers from each entity to understand the intricacies of their loan acquisition processes. This approach aimed to comprehensively map out the entire process, including evaluation criteria, verification procedures, risk management protocols, and decision-making processes employed by these institutions.

Moreover, given that the majority did not share their risk assessment framework and policies, we increased the number of risk lead consultation along with conducted field observations of their loan disbursement process, in-person verification procedures, cash flow assessments, financial literacy modules, and counseling sessions.

Sample Selection

The sampling technique used in this scenario is purposive sampling. Purposive sampling involves selecting participants based on specific criteria that align with the research objectives. In this case, the research team purposefully selected Microfinance Institutions (MFIs) and Microfinance Banks (MFBs) that were already members of the policy consortium in this FBLT project, ensuring a diverse range of backgrounds and expertise. Selection criteria encompassed considerations such as types of clients, outreach, and geographical coverage of Microfinance providers by gender.

For instance, institutions like Kashf and Daman, primarily serving female clientele (borrowers) with a focus on women empowerment, were included. Others cater to both male and female clients. Geographically, SAFCO and Advans operate in Sindh (southern region), Daman Support Programme in Punjab (central and southern regions), while Kashf Foundation extends its services across various regions of Punjab, Khyber Pakhtunkhwa (KPK), and Sindh. HBL Mfb and Khushhali with a broad regional presence spanning multiple provinces of Pakistan, concentrates on offering microfinance and financial inclusion services to both urban and rural populations.

Additionally, the table below presents the outreach details for each microfinance provider which serve the basis of their selection in policy consortium and in this study.

Table. 1 loan portfolio and outreach of selected MFIs and MFBs (Microwatch Data)

MFB / MFI	**Active Borrowers**			**Gross Loan Portfolio**			**Average loan size**
		Number	**%**	**Gender**	**Amount (PKR)**	**%**	
HBL MFB	Male	335,587	74	Male	81,418,744,000	80.92	242,616

	Female	120,100	26	Female	19,202,000,000	19.08	159,883
	Total	**455,687**			**100,620,744,000**		**220,811**
KBL	Male	368,724	74	Male	58,602,816,634	77.68	158,934
	Female	132,881	26	Female	16,834,506,484	22.32	126,689
	Total	**501,605**			**75,437,323,118**		**150,392**
Advans	Male	16,409	97	Male	2,918,418,393	97.41	177,855
	Female	534	3	Female	77,524,987	2.59	145,178
	Total	**16,943**			**2,995,943,380**		**176,825**
SAFCO	Male	45,764	37	Male	1,643,268,305	41.17	35,907
	Female	77,581	63	Female	2,348,222,268	58.83	30,268
	Total	**123,345**			**3,991,490,573**		**32,360**
Kashf	Male	1,929	0.3	Male	139,911,063	0.5	72,530
	Female	755,563	99.7	Female	27,396,723,203	99.5	36,260
	Total	**757,492**			**27,536,634,266**		**36,352**
Damen SP	Male	1,206	1	Male	124,839,831	3.00	103,516
	Female	**94,383**	**99**	**Female**	**4,042,930,884**	**97.00**	**42,835**
	Total	**95,589**			**4,167,770,715**		**43,601**

To summarize the above table, the overall outreach of selected sample and their loan portfolio is:

Table. 2 Overall loan portfolio and outreach of selected sample.

Overall sample numbers	Number	Percentages %	Amount	Percentages %	Average loan size
Male	769,619	39	144,847,998,226	67	188,207
Female	1,181,042	61	69,901,907,826	33	59,187
Total	**1,950,661**		**214,749,906,052**		**110,091**

Respondents

Key informants such as women champion, loan officer, verification officer, branch manager and risk officer were invited from each entity for the interviews. This approach ensured that the selected participants have relevant knowledge and expertise related to the research topic, allowing for in-depth insights into the loan acquisition processes and risk assessment practices tailored for Women own/ manage Microenterprises (WMEs) within the microfinance sector in Pakistan.

During this study, following respondents were interviewed:

Table. 3 Consultative interviews with respondents

No. of Consortium Members	Consultation with Chief Risk Officer	Consultation with Branch and operation staff	Consultation with Branch Manager	Process Observations
HBL (MFB)	1	1	1	Loan Appraisal
Khushhali (MFB)	1	1	1	In person client verification process
Damen (MFI)	1	1	1	Risk Manuals, Loan Appraisal Forms
Advans (MFB)	1	-	1	-
Kashf (MFI)	1	-	1	Loan Appraisal Forms, Documentation of clients,

				Financial Literacy Training of clients and business planning
SAFCO (MFI)	1	1	1	Credit Scoring Model
Overall Interviews	**6**	**4**	**6**	**Total (16)**

Survey Tools – Consultative Interviews

For qualitative data collection, the research team used a discussion guide for these consultative sessions. This tool (discussion guide) was meticulously developed. This outlined the areas of inquiry, their sequence, and key questions to be explored with the informants. The development of a discussion guide was ensued after consultation with members of the policy consortium (PC members) and FBLT partners. Initially, the broader study objectives were outlined in the draft guide, which was then shared with PC members and FBLT project partners. Incorporating their feedback, the guide was refined to enable respondents to reflect on project objectives based on their engagement levels and to capture diverse perspectives from various stakeholders. The insights gleaned from discussion guidelines were utilized to complement and enhance the overall analysis.

Data Collection

The PMN research team meticulously planned and executed 16 Consultative interviews as part of the evaluation process. Out of 12, 6 consultative interviews were conducted with the risk leads of selected MFPs to analyze the risk profiling and risk management strategies, 4 interviews with branch and operation staff including business development officers, loan officers and, verification officers to study the loan appraisal process and 6 key informant consultation with branch managers to gain insights on overall challenges faced by MFBs and MFIs in accessing WMEs, loan acquisition process and potential risks involved in dealing with WMEs. Consultations with all respondents except risk officers were conducted by lead research team members who were actively involved in the design of the instruments and tools. Additionally, a risk expert (consultant) from the PMN team, in collaboration with lead research team members, facilitate the consultation with risk leads from Microfinance Banks (MFBs) and Microfinance Institutions (MFIs) to gain valuable insights into their risk evaluation and mitigation strategies. This approach ensured consistency and high quality in the collection of information. Most of these consultations were conducted onsite through physical meetings, facilitating direct interaction and engagement with the stakeholders, and observing the loan process firsthand. Typically, each consultation lasted for 1 hour. However, due to varying availability and time constraints, some consultations were scheduled virtually, allowing

for remote participation and flexibility in the interview process. All these consultations were recorded in audio format with ethical permission of the respondents.

Ethical Consideration

In accordance with standard research practices and principles, the interviewers, being experienced and responsible professionals, upheld research ethics throughout the process. Each respondent was briefed on the research purpose and the interviewer's role, ensuring their informed consent to participate in the study. Additionally, audio recordings of consultative interviews were conducted only after obtaining explicit permission from the respondents.

Quality Assurance Mechanism

The data collection team implemented various protocols to maintain consistency and ensure the collection of high-quality information. Additionally, several precautionary measures were employed to safeguard the accuracy and confidentiality of the gathered data. Some of these measures are outlined in the preceding discussion, while others are detailed below:

1. Deployment of senior research experts with extensive experience in conducting interviews / consultation for the qualitative data collection process.
2. Audio recordings of all consultative sessions were made, which was used for recording keeping purpose.
3. Transcription of recorded interviews/ consultation (with prior permission) in local language and the creation of duplicate backups to mitigate the risk of data loss due to technological malfunctions.
4. Maintaining regular communication and sharing updates among FBLT partners, as well as within the core team members.

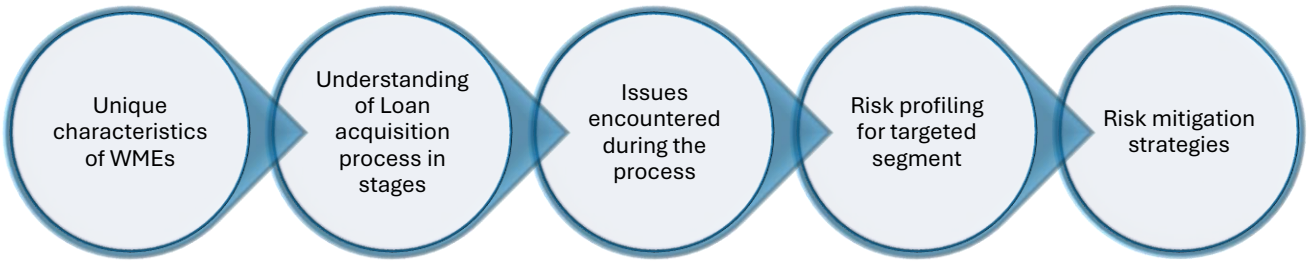
Challenges

During the study, some consortium members were unable to provide their policies and manuals related to risk, which presented a significant roadblock for the research team. According to the Terms of Reference (ToRs), the research team was required to gain insights by evaluating the risk assessment and mitigation processes employed by these organizations. However, due to confidentiality concerns and company policies, these documents were not shared. To address this challenge, the PMN team conducted consultation with the Chief Risk Officers of each consortium member organization who are participating in this study. This approach enabled us to understand their risk policies and how they address issues related to risk profiling.

Data Analysis

For analyzing the insights obtained from consultative sessions, Summaries of the responses collected against themes were made. The responses collected from MFIs and MFBs, against all the themes, were comparatively analyzed and documented. Major themes that satisfy our objectives are:

Figure 2 Research Themes



To validate the data, triangulation method is employed, cross-verifying information obtained from branch team and risk leads from similar MFIs/MFBs. This approach helped in addressing any gaps identified during the interviews and validating the data.

CHAPTER 3 – Literature Review

The Global Entrepreneurship Monitor (GEM 2012) estimates that a mere one percent of entrepreneurs in Pakistan are women, a figure that falls below the already low South Asian average of 10 percent.[2] However, GEM 2023 reports a significant increase in 2018, with female business owners comprising 14.4% of the total business owners in Pakistan, while male business owners accounted for 85.6%.[3] reflecting a positive trend towards women's entrepreneurship and their economic empowerment.

Studies conducted in past reflect that women across all developing regions are much more likely than men to be driven towards entrepreneurship by economic necessity rather than choice, that is, out of poverty and lack of labor market opportunities.[4] They also face severe mobility restrictions. Nevertheless, there is increasing recognition worldwide that women entrepreneurs are the new 'engines of growth' But to promote female entrepreneurship, it is critical to remove barriers in access to educational, economic, and financial resources for women. This will redress gender disparities and make economic growth more inclusive.[5]

[2] Global Entrepreneurship Monitor, 2012
[3] Global Entrepreneurship Monitor, 2023
[4] WBG: Pakistan Development Update 2017
[5] Ibid.

Substantial disparities exist in the entrepreneurial journey between women and men. Cultural norms often designate men as the primary breadwinners of the family and women as the natural caregivers. Consequently, women entrepreneurs tend operate micro-businesses, as they are burdened with managing household chores and caregiving responsibilities for dependents, including the elderly and children. This leaves them with limited time to focus on their businesses, hindering their growth compared to their male counterparts. Moreover, women face significant mobility constraints, often requiring permission from male family members to go out for their business activities.[6]

These challenges are exacerbated by obstacles in accessing financial services. Women entrepreneurs encounter similar prerequisites for obtaining financial services such as microcredit as their male counterparts. In many cases, they are obliged to provide male guarantors who may not be the family members to facilitate loan processing, which is particularly challenging in gender-segregated environments. Furthermore, even if a bank account is opened in a woman's name, it is common for her male relatives, or others, to utilize the funds for their own needs.[7] These cultural norms blur the line between personal and business accounts, complicating financial management for women.[8]

Despite these challenges, there is a growing global recognition of the pivotal role played by women entrepreneurs as the new 'engines of growth'.[9] However, to foster female entrepreneurship, it is imperative to dismantle barriers to access educational, economic, and financial resources for women. Addressing these barriers is crucial not only for mitigating gender disparities but also for fostering more inclusive economic growth.

Social and Economical Contribution of Women Home-based Microenterprises

In developing countries like Pakistan, home-based businesses run by women, often overlooked as economically inconsequential, significantly impact the economic and physiological well-being of women and their families. Despite being informal and unregistered, these businesses offer a vital employment option for women facing constraints in formal labor market participation due to socio-cultural norms, educational barriers, and family responsibilities. Moreover, the increasing participation of women in the labor force, though still below global averages, signifies a positive trend towards greater gender equality and economic empowerment. However, bridging the gender gap in labor force participation could unlock substantial economic potential, leading to significant GDP growth and overall societal advancement.[10]

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[6] The political economy of women's entrepreneurship initiatives in Pakistan: reflections on gender, class, and "development", 2019.
[7] Ibid.
[8] Safavian and Haq, Are Pakistani women entrepreneurs being served by microfinance sector? World bank, 2013.
[9] Ibid.

[10] S. Muhammad, K. Ximei, S. Saqib, N. J. Beutell, *"Women's Home-Based Entrepreneurship and Family Financial Position in Pakistan"*, 2021.

In the labor force, women constitute approximately 22% to 25% in both urban and rural areas of Pakistan, of which only 1% are WMEs.[11] However, according to World Bank data, the percentage of women's labor force participation in Pakistan has seen an upward trajectory, escalating from 14% in 1990 to 25.12% in 2018. Globally, women form 38.8% of the labor force, but just around 20% in Pakistan, one of the lowest in South Asia.[12] Achieving gender parity in labor force participation in Pakistan could result in a remarkable 60% GDP increase by 2025. Furthermore, closing the gender gap in workforce engagement is estimated to generate a one-time 30% surge in GDP.[13]

These insights are considered foundational for initiating efforts to enhance financial inclusivity for women entrepreneurs which is the primary objectives of FBLT project. Under this mandate, a variety of activities have been rigorously implemented, including capacity-building initiatives, research, and policy advocacy in FBLT.

Learnings from Baseline and BNS Study

One of the key research initiatives of FBLT is baseline study, which offered foundational insights about Women-owned/managed Microentrepreneurs (WMEs). These insights highlighted the critical role of WMEs in the financial ecosystem and underscored the necessity for targeted support to foster their growth and sustainability.

Following are the brief highlights of this study. As per the finding of this research, Women-owned/Managed Microentrepreneurs (WMEs)are driven to improve their prospects through microfinance opportunities, with many utilizing loans to expand their businesses. However, their levels of education, financial literacy, and digital literacy appear to be low, creating obstacles to effectively engaging with financial institutions. Additionally, it has been observed that many WMEs lack proper record-keeping of their business transactions, both with vendors and customers. This deficiency not only disrupts their financial management but also restricts their ability to monitor business performance and make informed decisions. Consequently, they encounter challenges in providing the necessary business documentation to Microfinance Providers (MFPs).

A significant portion of surveyed still lack access to banking services, and among those who do, reliance on traditional banking methods prevails. While mobile-based banking offers a promising avenue for fostering financial inclusion, its adoption remains limited among WMEs. Since the majority of WMEs lacks access to cellphone and internet connectivity. Furthermore, there are notable deficiencies in digital literacy and the effective utilization of technology, resulting in minimal engagement with online financial and marketing tools. This reluctance to embrace digital resources impedes their ability to access financial services efficiently and leverage digital platforms for business expansion.

[11] PBS, Labour force survey, 2018.
[12] www.theglobaleconomy.com
[13] IGC, Women's Economic Empowerment and Inclusive Growth, march 2023.

For the target beneficiaries, accessing microcredit facilities offered by Microfinance Providers (MFPs) poses a significant challenge, primarily due to various perceived obstacles. These include a lack of awareness about available microcredit options, concerns about defaulting on loans, apprehensions regarding stringent loan conditions, and the financial burden associated with transaction costs. Additionally, some Women-Owned/Managed Microenterprises (WMEs) encounter difficulties in meeting loan repayment deadlines and are reluctant to pledge assets or provide guarantee cheques. These challenges are further exacerbated by their limited access to bank accounts, compounding their struggles in accessing essential financial services.

These also demonstrate a limited understanding of available microcredit products and lack networking opportunities with organizations that could help, highlighting the necessity for facilitated networking initiatives.

One of notable finding was, some WMEs who have previously benefitted from microfinance have transitioned into intermediary roles, unfortunately hindering others' access to loans by spreading negative sentiments about the process.

Further these WMEs running unregistered business, considered as a significant challenge, with most failing or don't have an intention to register their businesses. As these don't recognize the benefits of formalization and branding. This informal approach presents various obstacles, including restricted access to financial services, less credibility in the market, and limited prospects for business expansion. Moreover, many WMEs supply their products directly to shops or markets, frequently encountering exploitation by intermediaries. Encouraging WMEs to formalize their enterprises through registration and embracing branding strategies can mitigate these challenges. Formalization not only enhances visibility and access to resources but also reduces the risk of exploitation by intermediaries, fostering fair compensation for their products. To facilitate this transition, efforts should focus on raising awareness about the advantages of formalization and providing support for business registration and branding initiatives. These measures are essential for promoting the sustainable growth and success of WMEs in the entrepreneurial landscape.

Followed to Baseline Survey PMN conducted a bottleneck study (BNS) from April to June 2023. To gauge holistic insights, this study included a survey of WMEs, Focus Group Discussion and several consultative sessions with microfinance providers. The aim of this study was to identify the major gaps that limit women's awareness of and access to formal financial services. The main highlights of the study are summarized as follows:

Table. 4 Challenges encountered by WMEs in accessing financial inclusion.

Category	Details

Economic Necessities	***Over 70% of women pursue entrepreneurship due to financial constraints for household needs***, highlighting the need for supportive environments and resources to facilitate their success.
Freedom of Movement Constraints	Safety concerns and traditional family roles significantly restrict women's mobility and access to financial services. ***52% need permission to travel, despite 86% acknowledging women's right to work or start a business*.**
Sector Concentration	***Societal constraints confine women to sectors like food, fashion, and personal care, limiting their opportunities in more profitable ventures***. Breaking these barriers can lead to broader sector participation and greater economic empowerment.
Lack of Decision-Making Power	Women often have limited control over land ownership and business decisions. ***40% of women entrepreneurs reported they do not make business decisions themselves***, reflecting gender disparity in authority and autonomy.
Lack of Awareness and Access	Limited financial literacy and low awareness among microfinance providers restrict women's access to financial services. ***Over 90% of surveyed women had not been to a bank, and 57% needed permission to go to a bank*.**
Social and Cultural Factors	Gender-based social reservations result in reluctance from customers and suppliers to engage with female entrepreneurs. **Women spend about 20% of their time on unpaid domestic work compared to less than 2% for men, constraining their business activities.**
Documentation Insufficiency	***Insufficient documentation, low literacy, and limited business management capabilities hinder WMEs' access to higher loan amounts*.** Improving documentation practices and providing business management support are essential.
Limited Networking Opportunities	***Predominantly male-dominated business associations and trade unions discourage women's participation***, limiting their access to networking, professional development, advocacy, and market opportunities. Addressing gender disparity is crucial for inclusive business networks.

These are further explained below:

Economic Necessities

The impetus behind the entrepreneurial pursuits of over 70 percent of women stems from financial constraints in meeting household requirements. Unlike starting businesses driven by entrepreneurial aspirations or unique skills, these women are motivated by economic necessity. This statistic underscores the vital role entrepreneurship plays in addressing economic survival and livelihood generation needs for many women. It emphasizes the importance of fostering supportive environments and providing resources to facilitate their success within the business landscape.

Freedom of Movement Constraints

The tangible and perceived risks associated with safety concerns and traditional family roles significantly constrain women's mobility and hinder their access to formal financial services, thereby limiting entrepreneurship opportunities. Despite 86 percent of respondents from BNS acknowledging women's right to pursue employment or entrepreneurship, 52 percent still indicated the need for permission to travel or leave their homes. These findings underscore the enduring societal barriers that impede women's economic participation and highlight the need for targeted interventions to promote gender equality and empower women in accessing entrepreneurial opportunities.

Sector Concentration

Societal constraints confine female employment and ownership primarily to sectors such as food, fashion, and personal care, thereby restricting women's choices regarding sectors and entrepreneurial opportunities. This limitation hampers their ability to explore new or potentially more profitable business ventures outside of these traditional domains. By breaking down these societal barriers and promoting gender equality in entrepreneurship, women can access a broader range of sectors and opportunities, leading to greater economic empowerment and innovation.

Lack of Decision-Making Power

The lack of decision-making power among women is manifested in their limited control over land ownership and autonomy in decision-making processes. This constraint reflects the disparity in authority and autonomy between genders, where women often face restrictions or barriers in exercising control over land assets and participating in critical decision-making activities within their households or businesses. 40 percent of women entrepreneurs surveyed said they do not make business decisions themselves.

Lack of Awareness and Access

Limited capacity and financial literacy hinder accessibility to financial services for WMEs. Low awareness among microfinance service providers (MFPs) about this segment further restricts access to finance and banking services. Of the surveyed female respondents, over 90 percent said they had not been to a bank, and 57 percent said need permission to go to the bank.

Social and Cultural Factors Hindering their Potential

Social reservations about gender result in reluctance from customers and suppliers to engage with female entrepreneurs. Family expectations of domestic care duties further constrain women's time for business activities. Women are significantly more time-constrained than men, spending almost 20 percent of time on unpaid domestic work compared to less than 2 percent for men.

Documentation Insufficiency

Insufficient documentation, low levels of literacy, and limited business management capabilities among Women-Owned/Managed Enterprises (WMEs) present significant obstacles to their operations. These limitations result in their inability to provide the necessary proof of business viability to Microfinance Providers (MFPs), hindering their accessibility to higher loan amounts. Without proper documentation and evidence of financial stability, WMEs may struggle to secure the funding needed to expand their businesses or invest in growth opportunities. Addressing these challenges requires targeted interventions aimed at improving documentation practices, enhancing literacy levels, and providing tailored business management support to empower WMEs and facilitate their access to essential financial resources.

Limited Networking Opportunities

In Pakistan, Business associations and trade unions are predominantly male dominated, leading to reluctance among women to join and limiting their access to valuable networking and market linkages. This gender imbalance creates an environment where these WMEs feel unwelcome or marginalized, discouraging their participation. Consequently, women owned/managed enterprises miss out on opportunities for professional development, advocacy, and collaboration that these organizations provide. This exclusion hampers their ability to grow their businesses, access new markets, and fully integrate into the economic landscape. Addressing this gender disparity is essential to create inclusive and supportive business networks for women.

CHAPTER 4 – Main Findings by Key Consultative Sessions and Observations

In this section, we delve deeper into the challenges encountered by microfinance providers in extending financial services to Women-Owned Microenterprises (WMEs), loan acquisition proves, risk profiling and mitigation strategies used by MFIs and MFBs. Such initiatives aim to foster the economic empowerment of women-owned microentrepreneurs, facilitating their advancement within their enterprises. Presented herein are the key unique features of this segment explained by stakeholder.

WMEs as a Potential Segment to Serve

During consultations with microfinance providers, it became evident that they view women-owned and managed enterprises (WMEs) as a promising segment for several reasons.

The Repayment Behavior

According to feedback from supply-side stakeholders, women clients especially women-own/ managed microenterprises (WMEs) consistently exhibit responsible and diligent loan repayment behavior, which contributes significantly to their credibility as borrowers. I. It is also validated through multiple publication including State Bank and World bank published a diagnostic survey report on WMEs in Pakistan, which states that women have more credibility and responsible repayment behavior than men borrowers.[14]

Despite encountering various challenges, such as cash flow management issues due to receiving payments from clients in instalments, market constraints, inflationary pressures, and unforeseen expenses, the majority of these microenterprises prioritize the timely repayment of their loans. This commitment underscores their dedication to fostering positive relationships with financial institutions and maintaining their creditworthiness.

Additionally, stakeholders highlighted that many WMEs demonstrate prudent financial management practices to ensure successful loan repayment. They strategically allocate their revenues, setting aside funds specifically for loan instalments. Moreover, of these adopt cost-saving measures and diversify their income streams to generate sufficient funds for loan repayment, thereby minimizing financial risks and strengthening their financial resilience. For instance, they may engage in auxiliary business activities such as selling cosmetics or clothing alongside their primary business or offering tutoring services in addition to selling clothing. These strategies enable WMEs to navigate challenges effectively and fulfill their financial obligations while safeguarding the sustainability of their businesses.

Ease in Maintaining the Contact

WMEs often conduct their business activities from the convenience of their homes, presenting a distinctive advantage for microfinance entities in their efforts to locate and engage with them. The home environment serves as a consistent and readily identifiable point of contact for microfinance institutions while dealing with their women clients, facilitating direct communication and interaction with women entrepreneurs at their convenience. Helps in understanding their needs and challenges. Many microfinance institutions, such as Kashf, SAFCO adhere to policies that involve periodic visits to these women-owned/ managed microenterprises to verify the utilization of loan funds and provide support as needed. Additionally, MFPs often establish a schedule for regular visits to these entrepreneurs' homes every two to three months to maintain ongoing engagement and support.

On the other hand, in instances where women borrowers experience delays in loan repayment, microfinance providers may visit their homes to inquire about the reasons for the delay. In cases where genuine reasons are identified, microfinance providers may

[14] World Bank and State bank, Diagnostic survey report of women SMEs in Pakistan, “Designing & Implementing Women Linkage Program”, 2023.

offer a grace period of 5 to 10 days to accommodate the borrower's circumstances. This proactive approach ensures that microfinance providers maintain a supportive and responsive relationship with WMEs while also addressing any challenges or issues related to loan repayment in a timely and compassionate manner.

Aspirant of Business Growth

Based on the findings of the BNS, literature review and consultative session with supply side, it is evident that a significant proportion of WMEs embark on their entrepreneurial journey out of necessity, subsequently becoming crucial contributors to their household finances. As a result, WMEs exhibit a notable commitment to economic empowerment, focusing on the growth of their businesses and the enhancement of their families' living standards. This dedication is characterized by their diligent efforts and unwavering focus on business expansion.

This distinctive attribute of WMEs has garnered widespread recognition from microfinance providers, who view it as a key advantage of this segment. Unlike their male counterparts, WMEs display a high level of seriousness and dedication towards business growth, making them less risky and more promising ventures.[15]

Their proactive approach and genuine concern for the success of their enterprises contribute to the overall resilience and potential of this segment in the eyes of microfinance institutions.

Challenges Dealing with Women owned/ managed Microenterprises

Despite the benefits, supply-side participants have identified several challenges when engaging with this segment, with communication barriers being a primary obstacle.

Limited Understanding

In Pakistan, many WMEs encounter challenges stemming from their limited formal education, which can impede their comprehension of terms, conditions, related with microfinance products and services. As a result, they often struggle to access accurate information and understand how to leverage it to address their business needs effectively. Consequently, due to diverse natured challenges of informal entrepreneur segment Microfinance Providers (MFPs) frequently invest additional time to understand this challenges and utilize additional resources to facilitate their requirements, enabling them to make well-informed financial decisions for their enterprises through different initiatives such as Financial Literacy Trainings.

Lack of Formal Business Training

Women Micro-Entrepreneurs (WMEs) in Pakistan often encounter difficulties in showcasing their business acumen due to their limited educational background and lack of exposure to business environments. Consequently, they may find it challenging to

[15] World Bank and State bank, Diagnostic survey report of women SMEs in Pakistan, “Designing & Implementing Women Linkage Program”, 2023.

furnish the necessary documentation, such as proof of their business operations and financial records, when interacting with financial institutions.

As this segment often do not have sufficient exposure to formal business environments, many WMEs may not be familiar with standard business practices and terminologies of financial institutes. This can create a significant gap in dealing with financial institutes. his limitation extends to providing collateral requirements, further impeding their access to financial services. Their constrained education and minimal exposure to business practices may obstruct their capacity to maintain organized records, articulate coherent business plans, and furnish the requisite documentation for obtaining loans or other financial assistance. These obstacles can result in prolonged processing times for loan applications and hinder the achievement of financial stability and business growth for WMEs.

Continuous Monitoring & Handholding

One notable observation highlighted by a Microfinance Institution (MFI) is that Women Owned/Managed Microenterprises (WMEs) often make emotionally driven decisions, impacting their financial choices. This emotional orientation occasionally leads to impulsive actions or decisions that may adversely affect their credit history. For instance, during Eid holidays, MFIs typically encourage borrowers to pay installments on time or in advance, especially if the repayment date coincides with the holiday period. However, WMEs commonly express reluctance, citing additional expenses associated with Eid celebrations. They often propose delaying payment until after the holiday. In such instances, MFI staff members are tasked with persuading borrowers, emphasizing the importance of timely loan repayment despite festive occasions. Hence it is considered that this segment needs continuous monitoring and counselling in making their financial decisions. Capacity building training programs will also help WMEs in gaining business acumen and skills to improve business strategies which will ultimately help them grow their businesses independently

Comparative Evaluation of Loan Acquisition Processes in Microfinance Institutions (MFIs) and Microfinance Banks (MFBs)

The acquisition of loans in the microfinance sector plays a pivotal role in fostering financial inclusiveness and mitigating risks associated with lending. This comparative evaluation aims to analyze and juxtapose the loan acquisition processes employed by Microfinance Institutions (MFIs) and Microfinance Banks (MFBs), shedding light on their respective approaches, efficacy, and impact on promoting access to finance, particularly for underserved segments.

Customer's Journey: Loan Acquisition Process

Figure 3 Loan Acquisition Process

Community Mobilization and Market Scouting

Microfinance providers employ a multifaceted approach to outreach, tailoring their strategies to different mobilization modes to effectively connect with potential clients. The market scouting process is undertaken to advertise institutional products to find appropriate customers. This phase includes community engagement, market outreach and door-to-door visits. (for more details please see Table. 5)

Needs Assessment of Potential Borrower

In this step, microfinance providers prioritize establishing meaningful interactions with potential clients to gain a comprehensive understanding of their financial needs and preferences. This is the first engagement where the potential customer expresses his needs and hence this step is fundamental in shaping the subsequent stages of the customer acquisition journey and ensuring that loan products are tailored to meet the specific requirements of each client.

Engagement with customers begins with active listening and open dialogue, where BDOs or customer service representatives take the time to listen to the client's financial goals, challenges, and aspirations. Through this process, microfinance providers seek to build

trust and rapport with clients, creating a conducive environment for honest communication and mutual understanding.

During these interactions, microfinance professionals employ probing questions and qualitative assessments to delve deeper into the client's financial situation, including their income sources, expenses, existing debts, and cash flow patterns. They also conduct preliminary screenings, which encompass the collection of valid Computerized National Identity Cards (CNIC), biometric verification, and the review of eCIB reports. By gathering comprehensive information, microfinance providers can identify the client's immediate financial needs, repayment behavior as well as their long-term objectives, enabling them to offer tailored solutions that align with the client's goals and capacity to repay.

One key aspect of this phase involves the offerings of customized loan products to suit the unique requirements of each client. Microfinance institutions recognize that one-size-fits-all approaches may not be suitable for all clients, especially those from diverse socio-economic backgrounds or with varying business needs. As such, they offer a range of loan products from their product portfolio to accommodate different client profiles and preferences. This is the step where a risk of exclusion exists.

For example, microfinance providers may offer varying loan amounts and recommend repayment intervals based on the client's creditworthiness, business type, and repayment capacity. The perceived risk in the mind of BDO or verification officer at branch-level interacting with potential customers influences the offered loan amount (ticket size). Seldom, the loan amount approved is same as the amount requested, as evident through frequent claims made by the customers.

Client Screening and Verification

This is a crucial step as it has a role to play in risk mitigation through ensuring the accuracy and reliability of client information. This phase involves a combination of manual verification methods and technological solutions to conduct comprehensive assessments of client eligibility and creditworthiness.

Firstly, branch staff undertake thorough loan application screening / review process followed by verification, employing a range of methods to authenticate the information provided by the client. This includes conducting physical visits to the client's residence or place of business to verify the authenticity of documents, such as identity of loan applicant, business proofs, utility bills, and property ownership records. At this stage, Microfinance Provider staff diligently conduct cash flow assessments to evaluate the disposable income available for timely repayment. In some cases, they also provide counseling for business diversification to mitigate potential risks. Followed by cross-verification of information by contacting references, neighbors, or other relevant parties to corroborate the client's claims and assess their credibility.

Predominantly these activities are conducted by female staff. In instances where a male Business Development Officer (BDO) is involved, a female colleague must accompany

them to ensure cultural sensitivity and address gender-based challenges faced by Women Micro-Entrepreneurs (WMEs).

Measures to Ensure Transparency

To ensure the transparency of this process, multiple team members (2-3) visit loan applicants. This approach aids in evaluating the application impartially, minimizing any potential bias.

Furthermore, microfinance providers leverage technology to enhance the accuracy and efficiency of the verification process. This involves the use of credit risk scoring models and digital verification tools to analyze client data and assess their creditworthiness. As per the findings of this study, all of the policy consortium members (MFIs and MFBs) affirm that they are using credit risk scoring models for assessing the customer profiles however names of this module can be varied. Credit risk scoring algorithms consider various factors, such as credit history, repayment behavior, and financial stability, to assign a risk profile to each client. This enables microfinance institutions to quantify the level of risk associated with lending to a particular client and make informed decisions regarding loan approval and terms.

Digital Verification Tools

Digital verification tools are essential and employed by each MFP in streamlining the verification process for loan applications. They automate data collection and analysis, making the process more efficient and less prone to errors.

i. **Electronic Credit Information Bureau (eCIB)**:

- The eCIB is a comprehensive database maintained by the State Bank of Pakistan (SBP) that contains credit information of borrowers.
- **Procedure of eCIB**:
  - **Data Submission**: Financial institutions (MFBs) submit credit information of borrowers to the eCIB regularly.
  - **Data Compilation**: The eCIB compiles this data into credit reports, which include details of all loans, credit card information, and other credit facilities.
  - **Accessing Reports**: When a borrower applies for a loan, the MFI or MFB accesses the eCIB report to assess the borrower's credit history and repayment behavior.
  - **Analysis**: The eCIB report helps in making informed lending decisions by providing a comprehensive view of the borrower's creditworthiness.
  - **Tasdeeq and Data Check**: MFIs are not regulated by the State Bank of Pakistan. Therefore, MFIs reach out to Tasdeeq and / or Data

check, two real-time credit reporting and verification services which provide data to MFIs for verification purposes. In some cases, MFBs also requested their reports.

ii. **NADRA's Biometric Verification**:

- The National Database and Registration Authority (NADRA) provides biometric verification services to verify the identity of loan applicants.
- **Procedure**:
  - **Biometric Data Capture**: MFPs capture the applicant's biometric data by collecting CNIC
  - **Verification**: This data is sent to NADRA's database for real-time verification. (fingerprints, facial recognition[16]. NADRA's veriSys provides detail of borrower (name, address and picture) through confirmation / response**Confirmation**: Once verified, the applicant's identity is confirmed, ensuring that the information provided is accurate and the individual is legitimate.

Loan Appraisal and Approval

This is the stage where the decision is made. In the majority of Microfinance Providers (MFPs), the Branch Manager is usually involved at this stage. Typically, a credit committee is established comprising key stakeholders, including loan officer, risk management expert, branch manager and relationship manager. These committees are responsible for reviewing loan applications, analyzing appraisal reports, and making informed decisions regarding loan approval or rejection.

There is a subjective aspect to the evaluation as well which greatly depends on the inputs provided by the BDO because he is considered responsible for collecting repayment timely. It involves assessment of the alignment of the proposed loan with the client's business objectives, financial needs, and repayment capacity. The subjective feasibility of the proposed business plan, and the potential impact of the loan on the client's livelihood and financial well-being.

Loan Disbursement

This stage encompasses the actual transfer of funds to clients through a variety of channels and mechanisms, aiming to facilitate timely access to financial resources for business growth and development.

[16] Facial recognition refers to picture of borrower in MFI/MFB records. There are two points here: i. When CNIC is verified through veriSys, NADRA system provide picture of each CNIC holder ii. MFPs may take borrowers' picture for their own records (in case NADRA's picture is older). This verification is done by all MFPs.

Microfinance providers offer multiple options for loan disbursement, including traditional banking channels and innovative digital platforms, to cater to the diverse preferences and needs of clients. Through traditional banking channels, such as bank transfers or cheque issuance, microfinance providers facilitate direct transfer of funds to the client's designated bank account. This method offers a secure and transparent means of disbursement, leveraging the infrastructure and networks of established financial institutions to deliver funds efficiently.

In parallel, microfinance providers increasingly leverage innovative digital platforms to streamline the disbursement process and enhance accessibility for clients. Digital disbursement solutions, such as mobile money transfers or electronic wallets, enable clients to receive funds directly on their mobile devices, eliminating the need for physical bank visits or paper-based transactions. These digital platforms offer convenience, speed, and flexibility, particularly for clients in remote or underserved areas with limited access to traditional banking services.

Throughout the disbursement process, microfinance providers prioritize ensuring timely and secure transfer of funds to approved clients, adhering to pre-defined disbursement schedules and protocols. This involves implementing robust internal controls and verification procedures to mitigate risks associated with fraud, errors, or unauthorized transactions. Microfinance institutions also collaborate closely with banking partners and payment service providers to facilitate seamless fund transfers and minimize processing delays.

Moreover, microfinance providers emphasize the importance of client education and transparency during the disbursement process, providing clients with clear information on loan terms, repayment obligations, and applicable fees or charges. This fosters trust and confidence among clients, empowering them to make informed decisions and effectively manage their loan proceeds for productive use.

Monitoring and Follow-Up

Post loan disbursement, monitoring and follow-ups are made as per the loan profile i.e. monthly repayment or bullet repayment. In the case of monthly repayments, regular follow-ups are made through phone calls or visits to ensure timely installment recoveries. For bullet loan repayments, periodic follow-ups are made through visits and phone calls.

Other Initiatives

At the time of loan disbursement phase, majority of microfinance providers including HBL Mfb, Khushhali, SAFCO, Kashf, Daman SP offer financial literacy training and business development support to clients, equipping them with practical tools, techniques, and insights to make informed financial decisions and navigate the challenges of entrepreneurship successfully. Further, State Bank of Pakistan has National Financial Literacy Program through which all of MFBs are bound to conduct

financial literacy trainings. These training programs cover a range of topics, including budgeting, savings management, debt management, cash flow forecasting, and basic accounting principles, tailored to the specific needs and priorities of clients.Moreover, microfinance providers integrate business development support into their training programs, offering guidance and resources to help clients develop and implement effective business plans, identify growth opportunities, and overcome operational challenges. This may involve providing access to market information, networking opportunities, mentorship programs, and technical assistance services, empowering clients to optimize their business performance and achieve sustainable growth.

Comparative Analysis of MFI and MFB Customer Acquisition Processes

Microfinance Institutions (MFIs) and Microfinance Banks (MFBs) cater to distinct market segments and employ different approaches in their loan acquisition processes. These differences are evident in various aspects, including their targeted markets and composition of their customer base, financial capacity of their customers, and their affordability, and purchasing power, as reflected in their mark-up rates. Below are the differences between the approaches of MFIs and MFBs during loan appraisal process.

Targeted Market and Female Customer Proportion

The primary disparity between MFIs and MFBs lies in their targeted market segments. MFIs predominantly focus on serving communities with focused agendas and programs. Consequently, MFIs boast a significantly higher proportion of female customers, typically comprising 60-70% or more of their loan portfolios. In contrast, MFBs prioritize marketing their products in markets and commercial places, targeting a broader spectrum of clients. As a result, the proportion of female customers in MFBs tends to be lower, ranging from 10-30% of their loan portfolios.

Financial Capacity, Affordability, and Mark-up Rates

Another differentiating factor is the financial capacity, affordability, and purchasing power of clients served by MFIs and MFBs, reflected in their mark-up rates. MFBs typically impose higher mark-up rates on loans compared to MFIs, catering to clients with relatively higher financial capacity and willingness to pay premium rates for their services characterized by higher ticket sizes. However, a majority of MFBs are currently providing a 1% subsidy on mark-up rates to women entrepreneurs. In contrast, MFIs adopt a more cautious approach, offering competitive and affordable rates tailored to the economic realities of their predominantly low-income clientele.

The changes in markup rates are based on cost of funds and the overall cost structure of MFIs / MFBs. These changes also arise due to MFIs / MFBs vision or mandate for women financial inclusion along with difference in structure of costs, and MFI / MFBs strategy to

promote any specific loan product. Procedural differences are justified by the unique characteristics of their respective markets and clients.

Procedural Differences

Community Mobilization Techniques

Microfinance Institutions (MFIs) and Microfinance Banks (MFBs) employ distinct community mobilization techniques tailored to their target markets and institutional objectives. These approaches reflect the broader strategies of MFIs and MFBs, influenced by their mission, clientele, and organizational philosophy.

Table. 5 Mobilization strategies of MFBs and MFIs

Microfinance Institutions	Microfinance Banks
MFIs prioritize community engagement strategies rooted in grassroots mobilization efforts, drawing inspiration from rural support programs and the methodologies of non-governmental organizations (NGOs). The primary goal of MFIs is to reach underserved populations in remote and rural areas, where traditional banking services are often inaccessible. To achieve this, MFIs employ community-based approaches characterized by: 1. **Door-to-Door Visits**: MFIs deploy field officers to conduct door-to-door visits in target communities, fostering direct interactions with potential clients in their homes or places of business. These visits facilitate personalized communication and trust-building, allowing MFIs to understand the unique needs and challenges of their clientele. 2. **Local Events and Workshops:** MFIs organize local events, workshops, and community gatherings to raise awareness	In contrast, MFBs adopt market-oriented approaches inspired by commercial banks, focusing on market outreach initiatives to target a broader audience in commercial hubs and urban centers. MFBs aim to leverage economies of scale, diversify their client base, and maximize profitability through strategic market penetration strategies, including: 1. **Market Outreach Events:** MFBs organize promotional events, product launches, and marketing campaigns in commercial hubs, marketplaces, and urban centers to attract a diverse clientele. These initiatives emphasize brand visibility, product differentiation, and customer acquisition, positioning MFBs as competitive players in the financial market. Apart from outreach in commercial hubs, some MFBs conduct door-to-door marketing specifically targeting women enterprises and home-based women. 2. **Outreach and marketing initiatives** for MFBs are likely to be **more centralized** at regional or even national levels. These

about their services, disseminate financial education, and engage with community members. Usually, these events are organized on a small scale. These events serve as platforms for dialogue, collaboration, and capacity-building, empowering individuals to make informed financial decisions and access essential resources. In emulating the methodologies of NGOs, MFIs prioritize social impact and community development alongside financial sustainability. They integrate principles of participatory development, empowerment, and social responsibility into their operations. They keep their staff community-centric and tend to hire BDOs from within the community.	initiatives usually include outdoor advertisements and social media marketing. Drawing inspiration from commercial banking practices, MFBs often prioritize efficiency, innovation, and customer service excellence. They leverage technology and digital channels to optimize operations, enhance customer experience, and drive business growth.

While both MFIs and MFBs aim to expand financial access and promote inclusive growth, their community mobilization techniques reflect their distinct organizational philosophies and strategic priorities. MFIs prioritize community engagement and social impact, drawing inspiration from rural development models and NGO methodologies. In contrast, MFBs adopt market-oriented approaches inspired by commercial banks, focusing on market outreach initiatives and customer-centric strategies to drive business growth and profitability in urban centers and commercial hubs.

Customer Verification Requirements and Process

Microfinance Institutions (MFIs) and Microfinance Banks (MFBs) adhere to distinct customer verification processes tailored to their risk management strategies, client demographics, and regulatory requirements. These processes reflect the differing priorities and operational frameworks of MFIs and MFBs, influencing their approach to customer verification and collateral requirements.

Table. 6 Differences in verification process

Microfinance Institutions	Microfinance Banks
MFIs prioritize stringent verification processes aimed at minimizing risks associated with lending unsecure loans	MFBs also adopt a stringent verification process, leveraging the established financial histories of their clients and the

(without collateral) to underserved populations, often with limited financial histories. MFIs acquire data from NADRA as well as credit histories from CIBs. Key characteristics of the customer verification process in MFIs include: 1. **Verification Process**: MFIs conduct thorough verification procedures, which may include physical visits to the client's residence or place of business to authenticate information provided in the loan application. These visits enable MFIs to assess the client's credibility, assess the viability of the proposed business, and verify collateral assets, if applicable. Typically, it is conducted with the help of Business Development Officers (BDO), however in some cases branch managers also get involved in it. 2. **Collateral Requirements:** While MFIs may require property deeds, or personal guarantees, and postdated check to secure certain types of loans- often with larger ticket sizes. These collateral requirements provide additional assurance to MFIs and mitigate the risk of default.	infrastructure of traditional banking systems. MFBs also verify the applicants through NADRA's and CIB's databases. Key characteristics of the customer verification process in MFBs include: 1. **Verification Process:** MFBs also conduct thorough verification procedures which may include physical visits to the client's residence or place of business to authenticate information provided in the loan application. These visits enable MFBs to assess the client's credibility, assess the viability of the proposed business, and verify collateral assets, if applicable. Unlike MFIs where just one department that is business development is involved, however, multiple departments of MFBs including Business Development, Verification/Risk, and Relationship department are involved. Furthermore, while MFIs primarily have females for verification visits, loan officers and staff deployed for verification by MFBs can be both males and females. 2. **Opening Current Accounts**: MFBs open current accounts for customers after verification, providing a formal banking relationship and facilitating transactions. This process enables MFBs to offer a broader range of financial products and services, it also secures the credit provided to the client. 3. **Post-Dated Cheques:**: MFBs often require post-dated cheques of the same account as collateral, even with zero balance, to secure loans. This practice serves as a

	form of assurance for MFBs and provides recourse in the event of default, minimizing financial risk.

The customer verification process is a critical aspect of risk management for MFIs and MFBs alike, that is why verification processes for both seems to be similar. However, as both the institutions and banks are catering to slightly different markets, the risk appetite of both types of organizations may differ.

Loan Appraisal and Approval

The processes of loan appraisal and approval in two categories of microfinance providers is also reflective of their distinct operational philosophies, client profiles, and risk management strategies. These differences influence the criteria and decision-making processes employed by MFIs and MFBs in assessing loan applications and approving credit facilities.

Table. 7 Differences in loan appraisal and approval process

Microfinance Institutions	**Microfinance Banks**
In MFIs, the focus of loan appraisal and approval is on assessing the viability of clients' business plans and repayment capacity within the context of their local communities. Key characteristics of the loan appraisal and approval process in MFIs include: 1. **Local Context Consideration:** MFIs prioritize understanding the unique dynamics and challenges of clients' businesses within their local communities. Loan officers/BDOs or approval committees are themselves familiar or may include representatives familiar with community dynamics, enabling them to assess the feasibility of proposed ventures and their potential impact on community development.	In contrast, MFBs prioritize creditworthiness and financial stability in the loan appraisal and approval process, often relying on credit reports and collateral assessments to assess risk. Key characteristics of the loan appraisal and approval process in MFBs include: 1. **Emphasis on Creditworthiness:** MFBs place greater emphasis on evaluating clients' creditworthiness, considering factors such as credit history, debt-to-income ratio, and repayment capacity. Loan officers or approval committees may rely on credit reports and financial statements to assess the client's financial standing and ability to repay the loan. 2. **Collateral Assessments:** MFBs often require collateral to secure loans, such as postdated cheques,

2. **Assessment of Repayment Capacity:** MFIs emphasize evaluating clients' repayment capacity based on their income sources, cash flow projections, and historical repayment behavior. Weight is given to what BDOs, or branch managers, consider the client's ability to generate sufficient income to service the loan while meeting other financial obligations, such as household expenses and business expenses. 3. **Holistic Approach to Risk Management:** MFIs adopt a holistic approach to risk management, balancing financial considerations with social impact objectives. Credit history from CIBs has been integrated into the processes. Group lending approaches are popular when lending to women.	deeds or titles, or other valuable assets like gold. Collateral assessments play a crucial role in determining the loan amount, terms, and interest rates, providing a form of security for MFBs in the event of default. 3. **Expertise in Risk Management:** Loan approval committees in MFBs typically comprise banking professionals with expertise in risk management and financial analysis. These committees conduct thorough assessments of loan applications, considering quantitative metrics, such as financial ratios and credit scores, as well as qualitative factors, such as industry trends and market conditions.

Challenges Faced by Supply Side in Loan Acquisition

In this section, we thoroughly review the challenges faced by supply-side stakeholders in providing microcredit to women, particularly those who Women Own / Manage Enterprises (WMEs). The aim is to understand the obstacles that lead supply-side stakeholders to reject loan applications or offer lower amounts of credit than requested. By comprehending these dynamics, relevant stakeholders can offer more effective advisory services and advanced support to the beneficiaries of FBLT, helping them secure the requested loan amount in less time.

Community Mobilization and Market Scouting – Customer Outreach

During the consultations with supply-side stakeholders, a prevailing consensus emerged highlighting two primary challenges in identifying Women Owned/Managed Microenterprises (WMEs) as a potential customer

Outreaching to Women-Owned Microenterprises (WMEs), particularly those operating from home, poses a significant challenge for Microfinance Providers (MFPs) in identifying or locating them. Many stakeholders on the supply end have indicated that many WMEs lack visible signage or merchandising and are operating on small scale making them less

conspicuous to MFPs. Consequently, alternative techniques are employed to locate and engage with this demographic. Some of MFBs considered that this is an additional cost for the business operations.

Prevailing social norms further complicate Microfinance Providers' (MFPs) engagement with women clients. The cultural context dictates that it is not favorable for women to interact with unfamiliar men, directly impacting their prestige and reputation. Consequently, in many instances, women prefer to engage with female staff members only. This preference fosters an environment conducive to open communication and the sharing of concerns related to formal financing, thereby facilitating smoother business operations.

Needs Assessment of Potential Borrower – Communication Barriers

Stakeholders on the supply side often confront hurdles when assessing the needs of Women Owned/Managed Microenterprises (WMEs) and communicating eligibility criteria to them. These obstacles arise from various factors, including the WMEs' limited education, less exposure, low financial literacy, and inability of communicate effectively. Consequently, these impediments obstruct WMEs' understanding of the complexities associated with loan approval requirements and terms and conditions. This can lead to a disconnect between their expectations and the practices of microfinance providers.

~~New applicants, in particular, frequently struggle to comprehend the concept of interest charges since it is forbidden in Islam and by this cost they have to pay additional repayment installments for they are hesitant to pay~~

New applicants, in particular, often struggle to understand the concept of interest charges. Since interest is forbidden in Islam, further they are hesitant to accept the additional repayment installments this cost entails. This hesitancy can lead to reluctance in taking on loans and hinder their business growth. In response, organizations often offer counseling in a language that resonates with the applicants. They also clarify that interest charges represent a processing fee utilized to cover the operational expenses of the institution.

Furthermore, WMEs often encounter difficulties in substantiating the longevity of their businesses due to a lack of track records such as transaction receipts or relevant documents. Additionally, their lack of confidence and business training inhibits their ability to effectively articulate their business plans and accurately convey the true status of their business acumen.

Screening Verification Stage – Social & Technical Appraisal

At this stage, supply-side stakeholders have identified multiple roadblocks that hinder the loan allocation process for WMEs, making it more time-consuming and resource-intensive for them.

One of the instance is, some women micro-entrepreneurs (WMEs) might not possess a valid CNIC card, which is a critical prerequisite for accessing financial services. This insight is also validated from the recent Gallup Pakistan Survey, as per their findings 25.81% of adult women does not possesses National Identity Cards (CNIC) due to multiple reasons. The absence of a CNIC can be attributed to various factors, including a lack of awareness about its importance and the absence of essential legal documents such as birth certificates. Additionally, some women have CNICs that require renewal, and the lack of necessary documentation, such as marriage or divorce certificates, hinders this process. On the other hand, microfinance providers (MFPs) require loan applicants to present a valid CNIC before they can proceed with their applications. This requirement becomes a significant barrier for many WMEs, preventing them from accessing the financial support needed to grow and sustain their businesses.

In the loan acquisition process, its CIB reports serve as the second crucial step. Microfinance providers (MFPs) obtain the CIB/CIR report of each loan applicant to evaluate their creditworthiness effectively. This document offers a comprehensive overview of the applicant's credit history, encompassing details of current and previous loans, repayment patterns, and instances of rescheduling or write-offs. When red flags are identified, typically indicating a higher risk, MFPs may refrain from extending loans. However, it is noteworthy that the incidence of such red flags is relatively low among women micro-entrepreneurs, as reported by many of the supply-side stakeholders. This access to credit information enables lenders to make informed decisions, ensuring responsible lending practices and safeguarding the financial interests of both parties involved.

After clearance from these stages, loan application moved to next stage which is in-person verification.

In certain instances, women micro-entrepreneurs (WMEs) may encounter difficulties in addressing representatives' inquiries for various reasons. These challenges often arise from inadequate documentation practices, such as the lack of business records for customer transactions or missing receipts for transactions with vendors. Moreover, delays in making utility bills may signal potential risk factors. Additionally, insufficient inventory management practices can also create a less favorable impression. Furthermore, gaps in business planning and forecasting future earnings may pose additional challenges in securing the requested amount.

Loan Appraisal and Approval

At this stage, the loan application, along with the in-person verification report, is presented to the Credit Committee for final review. This committee typically consists of 2-3 members who meticulously discuss all case details and analyses. To ensure transparency and impartiality in the process, there are instances where the branch manager personally visits loan applicants to assess the situation firsthand. However, the judgment of the Business Development Officer (BDO) or verification staff is also valued,

as they possess a comprehensive understanding of the loan applicant's dynamics. This department undergoes specialized training and possesses field experience.

Moreover, at this stage, the loan amount is determined by considering various factors, such as cash flow assessment, creditworthiness (eCIB), internal credit scoring/loan management system, and technical and social appraisal. This evaluation may lead to either the rejection of the loan application or an offer of a lower amount than requested. At this juncture, they often articulate the reasons for loan rejection explicitly. Furthermore, they offer counseling to promising cases, guiding them on necessary improvements and encouraging them to reapply for the loan later.

Loan Disbursement

While this stage typically progresses smoothly, the limited financial literacy and experience of women micro-entrepreneurs (WMEs) in financial transactions can impede their ability to independently withdraw funds seamlessly. In such instances, dedicated staff members offer counseling and tailored support to WMEs requiring assistance, facilitating the process.

Monitoring and Follow-up

Upon disbursal of the loan, loan officers conduct visits to the loan applicants within the initial 45 days to oversee the utilization of funds. Any indications of loan diversion, misappropriation, or hijacking raise red flags, as the funds may not be used as intended, thus increasing the risk of defaults. This risk assessment mechanism is then extended to other potential loan applicants of similar demographics. Consequently, these organizations implement a more stringent verification process and prioritize working with repeated clients with a proven repayment history. Additionally, they conduct regular visits to monitor the financial well-being of their clients, facilitating timely loan recovery, especially for first-time borrowers.

Major Risks While Dealing with WMEs

This section outlines the potential risks faced by MFIs and MFBs when dealing with WMEs. Despite being acknowledged as a promising segment characterized by commendable repayment behavior and a commitment to growth, this demographic presents significant challenges and risks to the microfinance sector. These risks often lead to loan rescheduling or write-offs, which are unfavorable outcomes for microfinance providers. Some of the challenges identified by stakeholders are as under:

Table. 8 Major risks faced by MFPs in dealing with WMEs.

Key risk	Description

Loan Hijacking	Unauthorized diversion of loan funds by male family members or acquaintances.
Loan Sharing	WMEs applying for loans to share with others, such as friends or family.
Mobility of Unmarried Women	Policy of not extending loans to unmarried women, especially in rural areas.
Issues with Family / Health	Health issues affecting WMEs or their family members, leading to business disruptions.
Disasters/Emergencies	Impact of climatological events like droughts, floods, earthquakes on WMEs' businesses.
Temporary/Rented Residence and Mobility	Risk of default among WMEs in rented accommodations due to relocation.

These risks and the risk mitigation strategies adopted by MFIs and MFBs are further elaborated below:

Loan Misutilization /Hijacking

Loan hijacking emerges as a paramount risk highlighted by stakeholders, presenting a significant threat to Women Micro-Entrepreneurs (WMEs) and warranting careful attention within the microfinance sector. This phenomenon entails the unauthorized diversion or misapplication of loan funds acquired from microfinance institutions, primarily orchestrated by male family members or acquaintances. These individuals gain control over the loan proceeds earmarked for WMEs and divert them for purposes contrary to those outlined in the loan agreement.

Often, male family members orchestrate this scheme by coercing or persuading women family members to submit loan applications, thereby enabling them to access the funds. Additionally, some may exploit this process to qualify for interest subsidies or other financial benefits. Furthermore, individuals burdened with existing debts may seek additional loans through this mechanism to alleviate their financial strains.

Several factors contribute to the vulnerability of WMEs to loan hijacking. Societal norms and gender dynamics in Pakistan may limit women's access to and control over financial resources, making them susceptible to coercion or manipulation by male family members. Additionally, limited financial literacy and business acumen among some WMEs may render them unaware of their rights and responsibilities regarding loan utilization, increasing their susceptibility to exploitation.

Efforts to address loan hijacking among WMEs require a comprehensive approach. Microfinance institutions such as HBL Mfb, Khushhali, and Kashf have implemented stringent protocols to ensure that loans are utilized for their intended purpose. They conduct in-person verification processes and make periodic visits after loan disbursement to monitor usage. Additionally, certain policies, such as prohibiting multiple loans within the same family, help prevent misutilization.

Moreover, these institutions provide Financial Literacy Trainings (FLT) and awareness campaigns to educate WMEs about their rights and responsibilities regarding loan utilization. They emphasize the availability of alternative financial products for male family members and the potential consequences of misappropriating loans intended for WMEs. By empowering WMEs with knowledge and resources, microfinance providers aim to mitigate the risk of loan hijacking and promote the financial empowerment of women entrepreneurs.

Loan Sharing

Some Microfinance Banks (MFBs) have observed that certain Women Micro-Entrepreneurs (WMEs) apply for loans with the intention of sharing the funds with another individual, such as a friend, neighbor, or male family member. The reasons for this sharing vary, including the other person's inability to secure a loan due to factors like existing indebtedness or personal financial commitments. In response to such situations, staff members provide counseling to advise against obtaining a loan on behalf of another person or in a sharing venture. Instead, they encourage individuals to explore and avail the financial products that best suit their own needs and circumstances.

Change of Marital Status

Some Microfinance Institutions (MFIs) have established a policy of not extending loans to unmarried women, particularly in rural areas. Upon inquiry, these MFIs have disclosed that they had previously provided services to unmarried women; however, they encountered challenges with loan recovery in such cases. For instance, when unmarried women who received loans for business operations at their father's residence and later moved to their husband's household, they often faced difficulties continuing their entrepreneurial journey. Consequently, these loans had to be written off. In light of these experiences, these institutions implemented a policy of not extending loans to unmarried women to mitigate the associated risks.

Family Health and Wellbeing

Another notable risk encountered in the realm of WMEs pertains to health issues affecting either the entrepreneurs themselves or their family members, including children or husbands. In such scenarios, these individuals may find themselves unable to sustain their business operations or may deplete their business earnings and savings on medical expenses. Consequently, they may seek a grace period for loan repayment or, in severe cases, request to reschedule the loan entirely.

To address this challenge, microfinance providers offer medical insurance tailored to the needs of WMEs. For instance, institutions like Kashf have taken proactive measures by providing medical insurance to WMEs and their families at nominal charges. This insurance coverage empowers WMEs to navigate their repayment schedules more effectively, mitigating financial strain during periods of health-related crises. Moreover, it fosters trust in the microfinance institution while ensuring the sustainability of these enterprises, thus serving as a dual benefit.

Disasters/Emergencies

As a result of climatological fluctuations such as droughts, floods, earthquakes, or storms, businesses often suffer substantial losses due to livestock fatalities and inventory/house damage caused by flooding or earthquakes. These losses directly impact the repayment capacity of WMEs, leading to delays in repayments and, in some cases, client defaults.

Temporary/Rented Residence and Mobility

Consultative interviews uncovered a prevalent issue among microfinance providers (MFPs) regarding default cases involving WMEs residing in rented spaces. The transient nature of rented accommodations poses a significant risk, as these women may relocate to another city at any time, potentially leading to defaults on their loans. Some MFPs have mitigated this risk by implementing policies that exclude rented customers from their lending criteria. However, others are more lenient and continue to provide loans to clients residing in rented spaces despite the associated risks. This divergence in approach highlights the varying risk management strategies adopted by MFPs to navigate the challenges posed by WMEs in rented accommodations.

Strategies for Risk Management

In Pakistan, Microfinance Banks (MFBs) and Microfinance Institutions (MFIs) have developed targeted strategies to manage the risks associated with lending to WMEs, who often operate outside the formal economic frameworks. Understanding the unique challenges faced by these entrepreneurs, such as lack of collateral, formal business documentation, and limited credit history, MFIs and MFBs have implemented the following risk management models and strategies to address the risks:

i. The use of group lending models where loans are provided to groups of women who guarantee each other's loans, fostering a collective responsibility for repayment. This model not only mitigates the risk of default but also leverages peer support to improve business success rates.
ii. Character-based lending, where loan approvals are based on an assessment of the borrower's reputation and trustworthiness within her community, along with the financial metrics.
iii. Credit scoring model (asking questions and scoring based on responses and disbursing loans only to WMEs with score above certain threshold)

iv. MFIs and MFBs are increasingly offering tailored financial literacy programs to WMEs, aimed at enhancing their understanding of financial management, which helps in reducing the risk of financial mismanagement and NPLs at a later stage.

Analysis of Risk Models in Use

The rationale behind the risk management models in use is to mitigate the inherent risks of non-traditional banking populations and to account for the variable financial footprints of WMEs. However, having mentioned this, one of the key findings from discussions and interviews was the potential size of the segment (lower as compared with other customer segment) and societal issue of women not being active part of the businesses in general keeps the lending at lower scale as compared with other loan segments. Further, to deal with WMEs, MFIs and MFBs consider that female loan officers are a must (owing to culture and societal norms), thereby, increasing cost of doing business for MFIs and MFBs. During our research it was revealed that for women loan officers MfBs require to make certain arrangements. As for outreaching to women clients, Women loan officers need transportation. Typically, these women loan officers cannot drive or ride a bike. This requirement leads to the purchase of vehicles, resulting in additional costs such as fuel, insurance, and maintenance. Consequently, these expenses significantly contribute to the higher administrative costs for Microfinance banks, thereby impacting the overall cost of operations in providing financial inclusion to women borrowers.Advans Bank uses a comprehensive approach that evaluates cash flows and business transactions but also incorporates checks like neighborhood background verification. This hybrid approach helps in understanding the real financial behavior and community standing of WMEs, crucial in environments where formal financial footprints are minimal.

During our study, a trend shift is noted from group to individual lending approach. Khushhali Bank is the prime example as they have shifted from group lending to individual credit scoring under the "Khushhali Niswan" program. This program has lower interest rates and the backing of international funds like USAID for risk sharing. This shift was necessary due to the high non-performing loans (NPLs) experienced in group lending setups. The bank utilizes a combination of physical and telephonic verifications to ensure loan use is strictly for the stated purposes, which significantly mitigates misuse risks.
The risk management models employed by HBL MFB, DAMEN, SAFCO, and Kashf demonstrate a blend of traditional financial metrics and innovative, localized strategies, reflecting a deep understanding of the unique challenges in lending to WME in Pakistan. Each institution has tailored its approach to not only mitigate risk but also to align with the cultural and economic realities of its borrowers, which varies significantly across different regions of Pakistan.

HBL MFB utilizes a traditional risk assessment approach that did not initially differentiate between male and female borrowers. However, recognizing the need for specialized products to cater to women, they launched "Mashal Enterprise Finance," which focuses on both the asset and liability sides for women. This product aims to address the lack of

collateral and the high reliance on male-controlled mobile financial services by incorporating third-party guarantees for higher loan amounts. The main challenge remains the cultural barriers that restrict women's economic activities, which HBL MFB attempts to mitigate by relying on digital finance solutions. However, the high inflation and interest rate environment pose significant risks to the viability of these enterprises, highlighting the need for targeted financial products that can withstand economic pressures.

DAMEN employs a risk management model that includes a thorough verification process, leveraging data from national databases (like NADRA and ECIB) and on-site assessments to ensure appropriate checks before loan disbursement. This model is particularly robust in identifying and mitigating risks related to borrower identity and creditworthiness. Further, DAMEN also check the credit history (eCIB) of their spouses to ensure the risk of loan misutilization and hijacking. DAMEN's approach focuses heavily on geographic and business-related risk factors, tailoring their loan products to be region-specific and suitable for the business environment typical in Punjab. The organization uses a detailed risk profile system based on thirty indicators to categorize clients, which helps in customizing their lending and risk management strategies accordingly.

SAFCO and Kashf focus on products specifically designed for women, with SAFCO creating dedicated loan products for rural and urban women entrepreneurs, and Kashf ensuring loans support genuine female-led businesses. SAFCO utilizes a risk profile developed at the product design stage and adjusts its offerings based on the socio-economic dynamics of the target market. Their model incorporates flexibility in repayment and disbursement through agents or smartphones to accommodate the logistical challenges faced by women in rural areas. Kashf's risk management includes post-loan disbursement checks to verify the use of funds, coupled with a strong focus on financial literacy to ensure borrowers understand the implications of loan management and repayment. Both organizations aim to mitigate the misuse of loans and address the non-utilization of funds for intended business purposes through these rigorous verification and follow-up processes.

Evaluation of Risk Models and Mitigation Strategies

The effectiveness of these risk models varies.

While credit scoring is efficient and objective, it often fails to capture the full picture in a predominantly informal sector where women may lack formal credit histories and scores are based on verbal responses. Cash flow assessment, although more relevant, is also based on 'verbal' responses and is subject to bias of interviewee (due to lack of formal documentation by the businesses).

The evaluation of the risk management models shows that while traditional financial metrics are foundational, the integration of localized and social indicators allows MFIs to better address the nuanced risks of lending in the informal sector. Damen Support

Programme and SAFCO utilize robust verification processes, including checking with national databases and physical site visits, which help in effective risk mitigation.

These institutions face challenges such as the "fronting" problem, where male family members use loans intended for women, which Damen addresses through stringent disbursement checks and ensuring that the loan is utilized by the women borrower and not the male member of the household. SAFCO's approach includes specialized products for women, ensuring that loans support actual women-led enterprises.

Based on the interviews, the mitigation strategies observed include:

1. **Comprehensive Client Profiling and Credit Scoring:** Institutions like DAMEN and Khushhali Bank use detailed profiling that includes not only financial metrics but also socio-demographic data such as geography, business turnover, and family status. This profiling is combined with rigorous credit scoring systems that are adapted to local economic conditions and cultural norms. For example, DAMEN utilizes a scoring system based on certain indicators to categorize clients, which helps in tailoring loan terms to each borrower's risk profile.

2. **Physical and Biometric Verification**: This strategy is notably used by Khushhali Bank and SAFCO, where physical verification of the borrower and their business is conducted alongside biometric verification. These checks ensure the authenticity of the borrower and the legitimacy of the business operation, which is crucial in informal sectors where formal business documentation is often lacking. Khushhali Bank's use of biometric data prior to disbursement helps prevent fraud. Such biometric verification is followed by physical visits and client assessment on their business planning through discussion to ensure that the loans are utilized for their intended purposes.

3. **Gender-Specific Products and Cultural Adaptations:** HBL MFB and SAFCO have developed specific loan products tailored for women, acknowledging the cultural barriers they face in accessing finance. For instance, SAFCO's strategy includes lending and repayment flexibility through agents or smartphones, catering to women who may not frequently travel in rural areas. Additionally, SAFCO's women-only branches staffed by females in regions like Hyderabad are a direct response to cultural sensitivities around gender interactions.

4. **Robust Post-Disbursement Monitoring and Support**: Institutions like Kashf implement strict post-disbursement monitoring where the utilization of the loans is verified to ensure that funds are used for the intended business purposes. This is complemented by ongoing support through financial literacy training and, in some cases, technical skills training, which not only aims to reduce non-performing loans (NPLs) but also boosts the business acumen of women entrepreneurs.

5. **Insurance and Risk Sharing Mechanisms**: Certain institutions adopt risk-sharing mechanisms to mitigate the financial risks associated with lending to informal sectors. For example, Khushhali Bank benefits from a guaranteed

scheme backed by USAID, which shares the credit risk. Moreover, institutions like DAMEN and SAFCO offer livestock insurance to hedge against losses from natural disasters or other unforeseen events, providing a safety net for both the borrower and the lender.

The effectiveness of a risk management model in microfinance is primarily measured by its ability to accurately assess risk, ensure loan repayment, and support the sustainability of borrowers' enterprises. The tailored approaches of DAMEN, SAFCO, and Kashf, which integrate socio-cultural understandings into their risk assessments, are particularly effective in the Pakistani context with reference to WMEs. These institutions have adopted models that consider local nuances such as community standing, the involvement of family members in businesses, and the economic activities typical of the regions they serve.

For instance, SAFCO's and Kashf's models which include checks like physical verification, biometric validation, and financial literacy programs, are effective in reducing default rates and ensuring that loans are used for their intended purposes. These practices help in mitigating the risk of loan misutilization, which is a common challenge in lending to informal sectors.

Efficiency of Risk Management Models

Efficiency in risk management models is gauged by the cost-effectiveness of the processes and the ability of the institutions to manage these processes without undue complexity or resource drain. The use of digital and biometric verification methods by institutions like HBL MFB and the structured yet flexible lending models of SAFCO represent efficient risk management practices. These methods streamline the loan approval and disbursement process, reducing the time and manpower needed for loan processing. Moreover, leveraging technology for loan servicing and monitoring helps these institutions maintain efficiency even as they scale up their operations.

However, there are still challenges related to efficiency, particularly when dealing with the rural segments of the market where digital literacy and infrastructure may not be as developed. In such cases, the reliance on traditional verification and follow-up can increase operational costs and reduce overall efficiency.

CHAPTER 5 – Adaptation to Global Best Practices

Globally, best practices in microfinance risk management emphasize the importance of client education, the use of technology for data management and analytics, and the adaptation of financial products to fit the specific needs of target clients. Pakistani MFIs like DAMEN and Kashf are aligning well with these practices by focusing on financial literacy and using data analytics to refine their lending models.

Moreover, the global shift towards more inclusive financial products that consider gender-specific needs is reflected in the offerings of these institutions. Products tailored for women, such as those provided by SAFCO and HBL MFB, which consider cultural

restrictions and provide opportunities for women to engage in entrepreneurship within their socio-cultural boundaries, represent a significant alignment with global practices.

Below table summarizes the best practices of risk management throughout loan disbursement cycle:

Table. 9 Best practices in disbursement of loan

Stage of Loan Disbursement	Best Practices	Risk Mitigation Strategies
Application Assessment	Collect applicant data including personal, business, and financial information. Use both formal (if available) and informal sources like community feedback.	Implement hybrid risk models combining quantitative (credit scores, financial data) and qualitative (community standing, network strength) factors to create a comprehensive borrower profile.
Risk Analysis	Analyze the data using scoring models that account for the unique challenges faced by WMEs, such as informal business structures and lack of traditional collateral.	Employ machine learning algorithms to enhance the predictive power of risk models, adapting them to recognize patterns and insights specific to the local context of informal entrepreneurs.
Loan Approval	Decision-making based on a combination of automated scoring and manual review by loan officers, who consider local socio-economic factors.	Use group lending models where responsibility and guarantee are collective, reducing default risk and fostering community-based support structures.
Loan Structuring	Tailor loan products to suit the specific needs of WMEs, including flexible repayment schedules aligned with business cash flow cycles.	Introduce micro-insurance products and savings schemes as part of the loan package to protect against unforeseen business disruptions and enhance financial stability.
Loan Disbursement	Provide loans through convenient channels such as mobile banking or local microfinance branches, ensuring accessibility for WMEs.	Conduct financial literacy workshops at the point of disbursement to educate borrowers on effective financial management, repayment obligations, and risk management.
Monitoring and Repayment	Regular monitoring of loan repayment through field officers	Establish early warning systems using digital tools to

	and digital platforms. Maintain open lines of communication with borrowers for support and feedback.	detect signs of financial distress among borrowers, enabling proactive intervention.
Post-Loan Support	Offer continuous support including additional training, upskilling opportunities, and access to larger networks for business growth.	Develop community support programs that provide peer mentoring and advice, reinforcing the financial and operational stability of WMEs.

Industry Insights from Risk Assessment Experts

Interviews with industry experts highlight a cautious but optimistic approach towards lending to WMEs. Following are certain insights emanating from the interviews:

i. **Diverse Risk Profiles and Scoring Systems:** Certain institutions have implemented detailed risk profiling based on multiple indicators such as geography, turnover, and business details. This system helps categorize clients into high, medium, or low risk, allowing for more tailored risk management strategies specifically addressing the unique challenges faced by women entrepreneurs.

ii. **Robust Screening and Mitigation Measures:** To enhance risk mitigation, institutions employ rigorous screening processes including the use of "NADRA Verification System" and ECIB checks. This is crucial in ensuring that loans are disbursed to eligible and reliable clients, particularly in a demographic where women might not have independent financial identities.

iii. **Specialized Financial Products for Women**: Certain products are specifically designed for women entrepreneurs, demonstrating an institutional recognition of the need to provide targeted financial services that support women's entrepreneurship. These products often come with additional support structures such as women-only branches or dedicated training programs.

iv. **Challenges with Loan Utilization Verification**: A common challenge highlighted is the verification of loan utilization where loans disbursed for women are sometimes utilized by male family members. This misallocation poses significant risks, requiring institutions to implement more stringent post-disbursement monitoring mechanisms.

v. **Employment of Female Loan Officers**: Institutions are increasingly recognizing the cultural barriers that inhibit effective risk management, such as male loan officers facing restrictions in certain areas. Hiring female loan officers, particularly those who speak local languages, is a strategic move to enhance the effectiveness of the loan process and follow-up in rural areas.

vi. **Integration of Digital and Mobile Banking Solutions:** Leveraging technology, like mobile banking for recovery processes, addresses several challenges related to

women's mobility and access to financial services. This approach not only enhances efficiency but also aligns with the growing trend of digitalization in banking.

vii. **Addressing Societal and Cultural Barriers**: The document underscores the necessity of modifying societal attitudes and practices that hinder women's active participation in business. This includes training and sensitization programs to cultivate a supportive environment for women entrepreneurs.

Insights on Risk Persona and Local Practices

The Risk personas are developed by MFIs and MFBs through extensive data collection that includes personal details like CNIC, business turnover, geographic information etc. The detailed categorization into high, medium, or low risk is based on a variety of indicators, utilizing both qualitative and quantitative data. This approach allows financial institutions to tailor their services and risk management strategies effectively, addressing the diverse needs of their clientele. By linking the risk profile to actual client data, institutions are able to implement a more dynamic and responsive risk management framework.

The risk personas of WMEs in Pakistan are influenced heavily by local cultural and economic practices. The employment of female loan officers and the establishment of women-only banking branches are significant practices aimed at overcoming cultural barriers that may prevent women from accessing financial services. For instance, in rural Sindh, cultural norms restrict male loan officers from interacting with female borrowers, prompting MFIs like Advans to consider hiring more female staff. Additionally, the importance of adapting risk management strategies to local conditions and context is a must, such as the recruitment of staff fluent in local languages and understanding of local customs based on provincial norms. These practices are vital for ensuring the effectiveness of the screening and loan disbursement processes, particularly in rural areas where cultural sensitivities might restrict interactions between male staff and female clients. Such localized strategies are essential for mitigating risks associated with non-compliance and improper loan utilization, thereby enhancing the overall sustainability and impact of microfinance initiatives targeted at empowering women entrepreneurs.

CHAPTER 6 – Recommendations and Conclusion

Based on our detailed assessment, we provide certain recommendations for future consideration which may result into more focus on WMEs:

Table. 10 Recommendations

Recommendations	Description	Recommended Actions
Policy Support for Female Entrepreneurship	Encourage policies that support financial products tailored for WMEs	- Subsidies - Risk-Sharing Mechanisms - Policy Advocacy
Enhanced Regulatory Frameworks	Develop an ecosystem that supports innovations in microfinance lending practices	- Regulatory Support - Inclusive Financial Growth
Focusing on Customer Segmentation	Enable MFIs and MFBs to better serve WMEs	- Segmentation - Coordination and Collaboration - Data Sharing
Loan Utilization Monitoring Systems	Ensure loans are utilized for their intended purposes	- Regular Monitoring - Technology Use - Community Reporting
Promotion of Digital Financial Services	Increase adoption of digital financial services among WMEs	- Mobile Banking - Digital Literacy Campaigns - Partnerships.
Support for Business Formalization and Branding	Encourage WMEs to formalize their businesses and enhance market visibility	- Registration Assistance - Branding Workshops - Market Linkages

The above are explained below:

i. **Enhance Female Staffing**:

To address cultural sensitivities and improve loan follow-up and repayment rates, more female staff is required in rural and urban areas. This can be implemented by considering the following factors:

- **Recruitment**: Actively recruit female loan officers who are native to the rural areas they will serve.
- **Training**: Provide comprehensive training in local languages, focusing on financial products, customer service, and cultural sensitivity.

- **Community Engagement**: Encourage female staff to participate in local community events to build trust and rapport with potential clients.

ii. **Dynamic Risk Assessment Models**:

For developing more sophisticated risk assessment models that integrate real-time economic indicators, financial institutions need to adopt objective approach and design data driven tools. This can be implemented by considering the following factors:

- **Economic Indicators:** Incorporate real-time economic data, such as inflation rates, employment statistics, and local economic activities.
- **Technology Integration:** Utilize advanced analytics and machine learning algorithms to predict borrower repayment capacities under fluctuating economic conditions.
- **Regular Updates:** Continuously update the models based on the latest economic trends and borrower data.

iii. Financial Literacy Training:

Financial literacy programs, tailored particularly for WMEs are required by considering the following key areas:

- **Digital Tools Training:** Include modules on using digital financial tools like mobile banking apps, online bookkeeping, and digital payment systems.
- **Independence from Male Family Members:** Design programs to empower women to manage their finances independently, reducing dependency on male family members.
- **Business Skills:** Enhance training on business planning, marketing, and financial management to improve the business capabilities of women entrepreneurs.

iv. **Customized and Interactive Financial Awareness Content**:

To make WMEs aware of savings, budgeting, cash flow, and loan management, following needs to be considered:

- **Interactive Curriculum:** Develop interactive financial literacy materials, including videos, quizzes, and practical exercises.
- **Review and Update:** Regularly review and update the curriculum to reflect changing economic scenarios post-COVID-19.
- **Local Adaptation:** Adapt content to local contexts, languages, and cultural nuances to ensure relevance and engagement.

Implications for Policy and Practice

From policy perspective, following areas may be considered:

1. **Policy Support for Female Entrepreneurship**:

To encourage policies that support financial products tailored for WMEs, following may be considered:

- **Subsidies:** Provide government subsidies for loans to WMEs to make borrowing more affordable.
- **Risk-Sharing Mechanisms:** Develop risk-sharing mechanisms, such as guarantee funds, to incentivize MFIs to lend more aggressively to WMEs.
- **Policy Advocacy:** Advocate for policies that promote female entrepreneurship, such as tax incentives for female-owned businesses and funding for business incubators focused on women entrepreneurs.

2. **Enhanced Regulatory Frameworks**:

To facilitate the development of an ecosystem that supports innovations in microfinance lending practices, following may be considered:

- **Regulatory Support:** Encourage regulatory bodies to support the development of innovative lending practices tailored to women entrepreneurs.
- **Inclusive Financial Growth:** Promote policies that ensure sustainable and inclusive financial growth, such as mandatory financial literacy training for all borrowers and regulations that protect borrowers from predatory lending practices.

3. **Focusing on Customer Segmentation**:

To enable MFIs and MFBs to better serve WMEs, following may be considered:

- **Segmentation:** Differentiate loan products and services based on the unique needs and risk profiles of different customer segments.
- **Coordination and Collaboration:** Foster coordination and collaboration between MFIs and MFBs to enable a smooth transition for WMEs graduating from MFI loan cycles to MFBs for larger loan disbursements.
- **Data Sharing:** Establish data-sharing agreements between MFIs and MFBs to streamline the customer transition process and ensure continuity in financial services.

Additional Recommendations

To enhance financial access and increase the loans among WMEs, following may be considered:

1. **Implementation of Loan Utilization Monitoring Systems**:

To ensure that loans are utilized for their intended purposes, Financial institutions may consider adopting following measures:

- **Regular Monitoring:** Conduct periodic visits and audits to monitor loan usage.

- **Technology Use:** Leverage technology, such as GPS tracking and mobile reporting, to enhance monitoring efficiency.
- **Community Reporting:** Establish community-based reporting mechanisms where local community members can report misuse of loan funds.

2. **Promotion of Digital Financial Services**:

To increase the adoption of digital financial services among WMEs, financial institutions may consider the following:

- **Mobile Banking:** Promote mobile banking and digital wallets as secure and convenient options for financial transactions.
- **Digital Literacy Campaigns:** Conduct campaigns to improve digital literacy among WMEs, emphasizing the benefits of digital financial inclusion.
- **Partnerships:** Partner with fintech companies to develop user-friendly digital financial products tailored to the needs of WMEs.

3. **Support for Business Formalization and Branding**:

To encourage WMEs to formalize their businesses and enhance their market visibility, financial institutions may consider:

- **Registration Assistance**: Aid and incentives for business registration and formalization.
- **Branding Workshops:** Conduct workshops on branding, marketing, and product differentiation.
- **Market Linkages:** Facilitate linkages between WMEs and larger markets, including online marketplaces, to expand their customer base.

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