1. Many clients have a positive view of microfinance; former clients are slightly less satisfied; non-users are generally neutral.

2. Client comprehension of interest, fees, and mandatory insurance can be improved.

3. Interest and fees factor in MFP reputation.

4. Many clients are unaware of where to complain.
Key findings, cont’d

5. Reported incidence of harms is low.

6. Late repayment perceived as having negative consequences, but perceptions are worse than experiences.

8. Women and group borrowers report less harms.
I. Objectives and methodology
II. About the sample
III. Key findings
IV. Analysis of the sample by subgroup
I. Objectives and methodology

- **Objective:** Investigate the prevalence of problems with how MFPs* treat clients that emerged from qualitative research.
- **Methodology:** National sample (1,000) of current and former MFP clients, with a smaller sample of non-users included.
- Interviews conducted in the two most populous provinces, Punjab and Sindh (~78% of Pakistan’s population), only due to security concerns.
- We randomly selected tehsils (administrative units) with relatively higher concentration of microfinance clients for interviews. The 20% lowest concentration tehsils in each region were excluded.

* MFPs include deposit-taking microfinance banks and microfinance institutions.
I. Objectives and methodology

Methodology, continued

• We did not work with any MFIs to locate and identify clients.

• The survey firm used a random walk methodology. A Kish grid was used to select between eligible members of the household (current and former clients).

• An independent BFA-hired representative piloted the questionnaire and trained enumerators.
II. Describing the sample

- 90% of respondents are married.

Gender

- Women: 50%
- Men: 50%

Status

- Current clients: 60%
- Former clients: 30%
- Non-clients: 10%

Province

- Punjab: 71%
- Sindh: 29%

Location

- Urban: 67%
- Rural: 33%
### Languages and literacy

<table>
<thead>
<tr>
<th>Mother tongue</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Punjabi</td>
<td>57%</td>
</tr>
<tr>
<td>Saraiki</td>
<td>14%</td>
</tr>
<tr>
<td>Sindhi</td>
<td>14%</td>
</tr>
<tr>
<td>Urdu</td>
<td>11%</td>
</tr>
<tr>
<td>Balochi</td>
<td>2%</td>
</tr>
<tr>
<td>Kachchi</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
</tbody>
</table>

#### Can you read in Urdu?
- Very well: 41%
- With some difficulty: 36%
- Not at all: 23%

#### Can you write in Urdu?
- Very well: 46%
- With some difficulty: 32%
- Not at all: 22%
Describing the sample - schooling and numeracy.

<table>
<thead>
<tr>
<th>Sample description</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average age</td>
<td>37</td>
<td>39</td>
</tr>
<tr>
<td>Mean years of schooling</td>
<td>6.8</td>
<td>3</td>
</tr>
<tr>
<td>Percent of sample who have not studied at all</td>
<td>21%</td>
<td>56%</td>
</tr>
</tbody>
</table>

Despite low levels of schooling, some clients have basic math skills.
Majority of MFIs borrowers are either self-employed or work in the their homes

What activity(ies) do you do to make a living?

- 59% of female respondents work in the home.
- 51% of males and 31% of females are self employed.
- Self-employment is much higher among urban respondents (50%) than among rural respondents (34%).
- 28% of males are farmers, compared to 9% of females.
69% of the sample borrowed using the group or solidarity model.

- Group borrowers are only slightly poorer than individual borrowers: average monthly expenditure is approx. $12 less than for individual borrowers.
- Loan sizes are similar for group and individual borrowers.
- Group loans are more common among women: 67% of women have group loans, compared to 57% of men.

<table>
<thead>
<tr>
<th></th>
<th>Value of latest MFI loan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
</tr>
<tr>
<td>Individual borrowers</td>
<td>$251</td>
</tr>
<tr>
<td>Group borrowers</td>
<td>$219</td>
</tr>
</tbody>
</table>
Clients borrowing and saving in the sample.

- 69% of current and former client’s most recent loan was a group loan.
- Over 96% of clients borrow only, while only 4% save as well.
Current and former MFI clients rely heavily on other non-formal lending facilities.

<table>
<thead>
<tr>
<th>Type of loan</th>
<th>% of current MFI clients who currently have loans from</th>
<th>% of former and non-clients who currently have loans from</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Moneylender</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Friends and family</td>
<td>20%</td>
<td>23%</td>
</tr>
<tr>
<td>Shopkeeper</td>
<td>21%</td>
<td>23%</td>
</tr>
<tr>
<td>Agricultural agent</td>
<td>1%</td>
<td>0%</td>
</tr>
</tbody>
</table>
Business expense is the most common purpose for borrowing from MFIs.

- A larger proportion of rural clients (10%) than urban clients (5%) borrowed for emergencies.
- Similarly, rural clients (14%) borrowed for special occasions more often than urban clients (3%).

<table>
<thead>
<tr>
<th>Purpose of borrowing from the MFI</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business expense</td>
<td>87%</td>
</tr>
<tr>
<td>Consumption</td>
<td>8%</td>
</tr>
<tr>
<td>Emergency</td>
<td>10%</td>
</tr>
<tr>
<td>Special occasion</td>
<td>4%</td>
</tr>
</tbody>
</table>
III. Key findings
1. Many clients have a positive view of microfinance; former clients are slightly less satisfied; non-users generally neutral.
Most current/former clients are satisfied with MFI services.

Overall, how satisfied are you with your experience with MFPs?

- **Very satisfied**: 38%
- **Somewhat satisfied**: 47%
- **Neutral**: 11%
- **Somewhat dissatisfied**: 3%
- **Very dissatisfied**: 2%
Former clients are less satisfied with their experiences; 7% are somewhat dissatisfied compared (current clients at 3%).

Former clients completed on average 1.4 loans from the most recent MFI used. Only 28% of former clients completed more than 1 loan with their most recent MFI.

Why did you stop using this (these) MFP? (open-ended)

- No longer need to borrow: 58%
- Fees too high: 9%
- Repayment terms inconvenient: 8%
Clients reported positive responses about MFPs, especially regarding business ventures.

What do you and people you know like about microfinance?

- They are helpful for the poor: 7%
- Financial situation improves: 7%
- No interest: 9%
- Nothing: 10%
- Good attitude: 10%
- They do not annoy: 13%
- Helpful in time of need: 14%
- The loans: 15%
- Helpful when starting a business: 22%
In response to what they like about MFPs, clients mentioned various positive responses.

A selection of responses:

- It is easy to obtain the loan
- Household needs are easily met (through the loan)
- They MFP staff are very nice
- They give interest-free loans
- They give you the loan quickly
- They give you loans to expand your business
- They give loans to poor people which is good
- They give you a loan during your time of need
- They give poor people an opportunity to start a small business
- They help poor people
- It helps you expand your business
- They are nice to us
- Poor people are able to get loans
- They charge less than commercial banks
- You get the loan easily and you don’t have to beg anyone
- They give you the loan on time
- They are good people, they are respectful, and help us when we are in need
- It’s a small loan so it’s easy to pay back
- They staff is good and they give good advice about my business
- Loans help you in times of need
Most non-clients are neutral about MFPs. But about a fifth have negative views.

View of microfinance from non-clients (n=100)

- Positive: 23%
- Neutral: 58%
- Negative: 19%
Many non-clients don’t know enough about services, while others cite many product features.

- 43% don’t know enough about services or how to become clients.
- But 12% keep away because they heard negative feedback from MFP clients.
- Many cite service features, such as loan size, group requirement, and interest rates.

For what reasons have you never used an MFP to save or borrow?

- Interest rates 12%
- No need 16%
- Loan amount is too small for my needs 31%
- Have heard bad things from other MFP clients 12%
- Afraid of becoming indebted 26%
- Difficult to form a group 23%
- I tried to join one but was denied 4%
- Don't know how to become a client 12%
- Don't know enough 31%
2. Client comprehension of interest, fees, and mandatory insurance can be improved.
Confusion regarding fees and interest; nearly half did not understand all the terms.

- Information of fees and interest was mainly offered by MFI staff (90%) or by group leaders (10%).
- Level of understanding does not differ based on who provided information, urban-rural location, or gender.
- Level of understanding correlates with literacy (and numeracy):
  - 8% of those who read well did not understand at all, compared to 14% of those who do not read at all.
Only 27% of literate clients received written information.

<table>
<thead>
<tr>
<th></th>
<th>% received written information</th>
<th>% received verbal information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Literate</td>
<td>27%</td>
<td>72%</td>
</tr>
<tr>
<td>Illiterate</td>
<td>16%</td>
<td>65%</td>
</tr>
</tbody>
</table>

- 75% of former and current clients received written OR verbal information about the fees and interest associated with the loan.

- The percentage of respondents who received written information is lower among rural respondents (17%) than for urban respondents (29%).
78% of those who paid interest do not know the interest rate they paid.

- But 91% of all clients say they do know how much they will pay in total for their loan (even if they do not know the rate).
- Interest free loans are slightly more common among urban respondents (18%) than rural (12%).
- The respondents who do not have interest free loans, pay on average 20.5% (20% at the median) interest per year.
- In rural areas, interest rates are slightly higher than in urban areas (21% vs. 20%, on average).

Definition: Interest rate per year=(Total amount paid back/Amount borrowed net of fees)^(12/Duration of loan in months-1).
Confusion around how to use mandatory insurance.

About 96% of respondents never used their insurance(s). This group was asked: “If you needed to use this insurance (these insurances), would you know how to do so?”

87% said they would not know how to use the insurance(s).
Some client are confused about repayment amount.

- Once they started to repay, only 5% said they were surprised by something related to the loan.

Of those who were surprised:
- 35% said they were surprised that the amount received was less than expected.
- 25% said they were surprised by the amount to be paid in each installment.
- 22% said they were surprised by late fees.
3. Interest and fees factor in MFP reputation.
Former clients and non-users cite interest and fee-related concerns.

- 27% cite high fees/interest.
- 27% said they would return to MFPs if they stopped charging interest.
- However, qualitative probing revealed that ill treatment was more important than interest. **Interest can be the de facto first answer in Pakistan due to societal norms.**

![](chart.png)

- 12% of non-users say they do not use MFIs because they charge interest.
Those with interest-free loans tend to report being “very satisfied” with MFP service.

- 18% of respondents reported receiving interest-free loans. However, most were clients of Akhuwat, an MFI with a good reputation, that is known for its strong connection to communities.
4. Many clients are unaware of where to complain.
Majority of respondents not informed about recourse options in case of mistreatment.

- Only 34% of respondents were told where they could make complaints.
- The proportion is in fact higher among rural respondents (38%) than among rural respondents (28%).
- 2% of all respondents say they ever had reasons to complain.
- Only 3 respondents ever made a complaint.
5. Reported incidence of harms is low.
9% of sample experienced harms.

- The most common harm is being “shamed” (made to feel ashamed by MFP staff, such as with taunting, or making it known to the community the client paid late) due to a late payment.
43% see no problems with MFIs.

What do you or people you know not like about microfinance?

- Forming groups: 6%
- Too much time to receive the loan: 7%
- The loans are too small: 8%
- MFIs make too many inquiries: 8%
- MFIs charge interest: 24%
- Nothing: 43%
Clients mention diverse harms, although only a small portion had experienced these problems.

- They charge high interest rates
- They call you to meetings again and again
- You have to get guarantees for the loan
- They take as guarantees jewelry and other valuable items
- They take interest and interest is haram
- They charge interest and also take fees
- Their loan amounts are too small
- You have to get the loan in a group
- The terms and conditions are so complicated that even a literate person can’t understand
- When you pay late they are rude to you
- It is hard to obtain a loan
- When you apply for a loan they ask too many questions
- Because of inflation it is hard to pay back
- They give the loan amount late
- It is not good to take on debt

- You have to keep going to the offices to obtain a loan
- They really bother you when you apply
- When you pay late they disrespect and threaten you
- They take too much profit
- It is hard to find a group and guarantees
- You have to give a lot of documents
- They make you pay back more than the original loan amount
6. Late repayment perceived as having negative consequences, but perceptions are worse than experiences.
62% of respondents believe those late with repayments will not receive future loans.

What are the consequences for a person if they pay an installment late?

- That person would pay a penalty: 31%
- That person would not receive a loan in the future: 62%
- That member would be removed from the group: 29%
- The other group members would have to pay: 18%
- This person would be an example to discuss during group meetings: 10%
- MFP staff would come to this person’s house and make a scene: 17%
- Assets would be taken from this person’s house or business: 5%
Mixed opinions about whether the privacy of the late payer is respected.

“Do you think that the MFP staff respects a person’s privacy if they pay late?”

- **Always**: 42%
- **More or less**: 41%
- **Never**: 17%

- Surprisingly, group borrowers think privacy is better protected, than individual borrowers.
- 49% of group borrowers think privacy is always protected in case of late payment, compared to 26% of individual borrowers.
- 15% of group borrowers think privacy is never respected, compared to 22% of individual borrowers.
Nearly one-third were shamed for late payment.

Harms suffered by clients who paid late (N=88)

- Shamed because of late payment: 30%
- Shamed because someone else paid late: 14%
- Physically threatened by collection agent: 8%
- Asked for a bribe by MFP staff: 5%
- Assets seized: 6%
- Unable to withdraw savings: 3%
- Mistreated by mobile money agent: 3%
- Physically threatened by group leader: 1%
- Other problem: 11%
However, the most common reported consequence is paying a penalty.

Only 10% of respondents claimed to have made late payments.

Actual consequences of late repayment (N=88)

- Penalty: 41%
- Would not receive a loan in the future: 8%
- MFP staff would came to my house and made a scene: 30%
- Assets would be taken from this person’s house or business: 1%

Only 10% of respondents claimed to have made late payments.
Clients reported being late mostly due to insufficient funds, b special events.

---

**Why were they late (N=88)**

- School fees: 2%
- Emergency: 15%
- Special event: 32%
- Difficult to collect money: 49%
IV. Do different client groups experience different harms?
Comparison by segments
7. Women and group borrowers are less likely to report harms.
Women and group borrowers are less likely to report harms.

<table>
<thead>
<tr>
<th>Logit regression</th>
<th>Coefficient (p-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experienced at least one harm (dummy)</td>
<td></td>
</tr>
<tr>
<td>Rural (dummy)</td>
<td>0.05 (0.857)</td>
</tr>
<tr>
<td>Female (dummy)</td>
<td>-0.71** (0.008)</td>
</tr>
<tr>
<td>Group borrower (dummy)</td>
<td>-0.49* (0.054)</td>
</tr>
<tr>
<td>Urdu illiterate (dummy)</td>
<td>-0.13 (0.631)</td>
</tr>
<tr>
<td>Log of household monthly consumption</td>
<td>-0.18 (0.225)</td>
</tr>
<tr>
<td>Months client</td>
<td>0.01 (0.443)</td>
</tr>
<tr>
<td>Former client (dummy)</td>
<td>-0.11 (0.682)</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.11 (0.941)</td>
</tr>
</tbody>
</table>

P-value in parentheses
***p<0.01%, *p<0.1

The likelihood of experiencing harms is not affected by rural/urban location, literacy, level of consumption (as a measure of wealth), time a client was with MFP, whether the respondent is a current or former borrower, or years of schooling (not reported).
Respondents prefer individual loans.

<table>
<thead>
<tr>
<th>Loan type</th>
<th>% who have</th>
<th>% who prefer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group loan</td>
<td>69%</td>
<td>32%</td>
</tr>
<tr>
<td>Individual loan</td>
<td>31%</td>
<td>64%</td>
</tr>
<tr>
<td>No preference</td>
<td>4%</td>
<td></td>
</tr>
</tbody>
</table>

- Nearly 70% of respondents have or had a group loan.
- Urban respondents are even more likely to prefer group loans (67%) than rural respondents (62%).
- Men (69%) are even more likely to prefer individual loans than women (60%).
64% of all respondents prefer individual loans.

- Among group borrowers, 53% say they prefer individual loans.

Why do you prefer individual loans?

- Mistreatment by group leaders or agents: 5%
- MFIs offer individual borrowers more flexibility: 7%
- Do not have to attend meetings: 24%
- Can get bigger loans: 24%
- More private: 63%
- Not responsible for other individuals: 83%
Although individual loans are preferred, group borrowers report fewer harms and report being happier with the MFI experience.

- Of group borrowers, 42% are very satisfied with their MFP experienced, compared to 29% of individual borrowers.
- Individual borrowers experienced being shamed more often, either because they were late or because some else they were guaranteeing for was late.
- BUT more group borrowers have interest free loans (23%) than individual borrowers (only 6%).
Illiterate borrowers do not report experiencing more harms than the literate.

• More than 43% of the current and former clients are illiterate. However, we see no evidence that illiterate (or innumerate) borrowers are more likely to experience harms than literate borrowers.

• In fact, fewer illiterate borrowers (7%) report having experienced a harm from an MFI than literate borrowers (10%).

• Illiteracy is also correlated with gender.
Illiterate borrowers are more likely to borrow in groups, and to have a poorer understanding of rules of the loan.

- Illiterate borrowers borrow in groups in slightly higher proportions than literate clients (67% as opposed to 58%).
- 14% of illiterate borrowers *did not understand at all* the terms and conditions of the loan, as opposed to 9% of the literate borrowers. A similar proportion of illiterate (9%) and literate (8%) borrowers do not know how much they will pay in total for their loan.
- Only 12% of illiterate borrowers say they know (even approximately) the interest rate they will pay on their loan, compared to 31% of literate borrowers (statistically significant difference at 1% significance level). Nonetheless, the illiterate are not statistically different from the literate in terms of understanding the total amount they have to pay.
MFP Borrowers vs MFI borrowers.

• Unfortunately, enumerators were unable to tell if respondents borrowed from either the bank or MFI units of the following institutions: Kashf Bank vs. Kashf Foundation; and NRSP Bank vs. NRSP. Therefore, we were unable to do a meaningful comparison of client experiences with microfinance banks vs. with MFIs.

• In addition, there are no significant differences between client experiences with more well-know/national vs. regional MFPs.
Differences between qualitative and quantitative results.

- Most of the quantitative survey respondents were recent borrowers, making it harder to pick up on “shaming” issues. 43% of current clients are on their first loan; 35% completed 1; among former clients 67% had completed only one cycle.

- We expected to see an urban/rural difference in terms of lack of transparency regarding loan terms. However, this did not surface prominently in quantitative survey. But the transparency issue could be an issue with smaller MFPs, clients of whom we may have been unable to interview in the quantitative due to the sampling methodology (excluded areas with low concentrations of clients).