



State of Financial Inclusion of Women in Pakistan

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ABBREVIATIONS AND ACRONYMS

A2FS	Access to Finance Survey
BISP	Benazir Income Support Programme
CGAP	Consultative Group to Assist the Poor
CIB	Credit Information Bureau
DFI	development finance institution
DfID	UK Department for International Development
G2P	government-to-person
GBA	Global Banking Alliance
IFC	International Finance Corporation
KPK	Khyber Pakhtunkhwa
MFB	microfinance bank
MFI	microfinance institution
MSMEs	micro, small, and medium enterprises
NBMFI	non-bank microfinance institution
NFIS	National Financial Inclusion Strategy
OTC	over-the-counter
PMN	Pakistan Microfinance Network
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SMEs	small and medium enterprises

Exchange rate: PKR 104.8/ USD 1.0

(14-02-2016, SBPwebsite)



ACKNOWLEDGMENTS

This report was authored by the Pakistan Microfinance Network under the guidance of the Finance Competitiveness and Innovation Global Practice of the World Bank. Makanda Kioko provided overall and technical leadership during the preparation of the report. The analysis in the report draws on data from Pakistan's Access to Finance Survey 2015 conducted by Gallup Pakistan.

The report also benefitted from technical guidance provided by Sarmad Ahmed Shaikh, Mihasonirina Andrianaivo, Uzma Quresh, Stephen Francis Pirozzi, Margaret J. Miller, Ananya Wahid Kader, Faeyza Khan and Sheirin Iravantchi. Holly Honglin Li provided operational support during the finalization of the report, which further benefited from the work of Marc DeFrancis for editing and Aichin Lim Jones and Amy Quach for overall design and production services.

The team would like to thank the State Bank of Pakistan for extensive discussions, interactions, suggestions and insights provided during the

preparation of the report. The team would like to particularly thank Faiqa Naseem, the gender finance focal point in the National Financial Inclusion Strategy Secretariat at the State Bank of Pakistan. The team would also like to thank financial institutions and other stakeholders active in the financial inclusion landscape in Pakistan.

This report is made possible by the generous support from the Ministry of Foreign Affairs of the Kingdom of the Netherlands and the Bill and Melinda Gates Foundation. The support is provided through the Financial Inclusion Support Framework (FISF) Country Support Program for Pakistan.



EXECUTIVE SUMMARY

Economic policymakers in developing countries across the world are focusing on expanding financial inclusion. This agenda assumes greater significance for countries like Pakistan, where financial inclusion levels are quite low. It has led to several policy interventions in Pakistan over the past decade and a half, including the promotion of microfinance, the promotion of small and medium enterprise (SME) finance, and the enabling of digital finance. These interventions have begun to show results: over the period from 2008 to 2015, the proportion of the adult population served by the formal financial sector rose from 12 percent to 23 percent, according to data from two rounds of the Access to Finance Surveys (A2FS) for Pakistan (2008 and 2015).

To provide further impetus, the Government of Pakistan has launched its National Financial Inclusion Strategy (NFIS) in 2015, which lays out ambitious interim targets in pursuit of the goal of universal financial access. The NFIS headline target is to provide access to formal accounts to 50 percent of adult population by 2020. The strategy recognizes that achieving this target cannot be achieved without advancing the financial inclusion of women and sets the goal of reaching 25 percent of adult females with formal accounts by 2020, up from the 11.0 percent in 2015.¹

This background paper has been developed to inform the discussions on advancing women's financial inclusion in Pakistan. It seeks to map the current state of financial access for women and to provide insights into their financial behavior gleaned from the recently completed A2FS of 2015. Using available data, the paper also estimates the potential size of the financial services market for women (credit, deposits, insurance, and payments) and identifies growth drivers that could catalyze the market. More specifically, the report has three objectives:

- To create a convincing business case for enhancing women's financial inclusion by drawing on international literature;

- To catalyze interest within the financial sector in Pakistan with regard to women's financial inclusion by providing insights into both the state of their financial inclusion and their financial behavior; and
- To provide a starting point for debates on strategy and policy development with regard to women's financial inclusion to achieve the NFIS targets.

The business case for women's financial inclusion can be constructed across three dimensions: social, economic, and commercial. In terms of the *social* impact, access to finance has been linked to the empowerment of women by creating economic opportunities for them, providing them with secure and private means of saving, and enabling them to mitigate life-cycle risks. This empowerment, in turn, creates further social impact by enhancing the welfare of their families, since women tend to spend disproportionately more on the education and health of their children. The *economic* rationale of investing in women's financial inclusion rests on the untapped potential contribution women can make to a country's economy. For example, expanding credit to women-owned businesses can help such businesses grow and create jobs, and bringing the informally held savings of women into the formal net can strengthen financial intermediation in the

¹ Access to Finance Survey 2015, conducted by Horus Development Finance and Gallup Pakistan for the State Bank of Pakistan.

economy. Finally, there is a *commercial* case for financial institutions to target women as clients: women are more loyal customers (than men), they are currently one of the fastest growing consumer segments in the global economy, and they have added to the bottom line of those financial service providers that have focused on them as a key client base. In Pakistan's context, women remain disproportionately engaged in unpaid care work and their access to financial decision making at home and outside as well as their mobility remain severely limited. There is a need to change this way of thinking. Addressing this will require supporting extensive campaigns by various stakeholders (including FSPs) addressing both men's and women's perceptions on women's access to finance and decision making.

While there is clearly no easy or quick universal solution for advancing women's financial access, experiments by policymakers around the world provide useful lessons, such as the following:

- Setting quantitative targets supported by adequate reporting and monitoring frameworks helps create common and tangible goals for sector stakeholders.
- Gender-disaggregated data help dispel myths about women as less than viable customers and allow regulators as well as financial institutions to adapt their strategies to the needs of the market.
- Strengthening the financial industry's infrastructure—especially broadening the information base of credit bureaus, investing in financial education, and strengthening client protection frameworks—can contribute to creating an enabling environment for women's financial inclusion.

Efforts by policymakers and financial service providers in Pakistan have helped advance women's access to formal financial services. The results are evident, as the proportion of formally served women jumped from four percent in 2008 to 11 percent in 2015, based on A2FS Pakistan data (2008 and 2015). These gains have been largely driven by

an uptake of mobile money services, digitization of government payments under the Benazir Income Support Programme (BISP), and other social transfer programs, as well as by an increase in the number of women with bank accounts.

However, there are regional variations. The highest growth in the ratio of women with a bank account was seen in Baluchistan, driven by the digitizing of government transfers, whereas most of the growth in women's access to other *formal* services was concentrated in Punjab and Sindh. Also, increases in the inclusion of women were higher among those living in rural areas than among those living in urban areas. Interestingly, the rate of expansion of women's financial inclusion outpaced the rate of expansion of access for men during the 2008–15 period. While further research would be required to identify specific drivers of this difference, A2FS 2015 data suggests that the launch of BISP, which primarily targets poor women as beneficiaries, could partly explain the faster expansion in financial inclusion among women than among men over this period. Additionally, higher rates of initial adoption of mobile money services by women than by men also led to a faster rate of expansion of women's financial inclusion.

The sector-wise analysis of this expansion shows that two types of financial service providers—commercial banks and microfinance providers—have primarily been driving this growth. Pakistan's financial sector is diverse in terms of types of financial institutions, but the banking sector has historically accounted for the bulk of the assets as well as the number of people reached by formal financial services. The microfinance sector, in the last decade, has also contributed to bringing people into the formal financial sector. Nearly 4.1 million people have been reached through credit services, of which 54 percent are women, while 15.7 million people are being provided with savings services, of which 26 percent are women (Pakistan Microfinance Network 2016). A significant impact has also been created through enabling digital financial services in the country, offered currently by both commercial and microfinance banks.

The smaller subsectors of the financial industry, such as leasing and *modarabas*, asset management companies, and investment banks, have had limited impact in terms of expanding outreach. This is not surprising given that the products offered by these institutions tend to be more complex and, hence, unlikely to be the point of entry for new users of formal finance. It is thus anticipated that any major contribution to expanding access to formal financial services in the near to medium term will continue to depend on the strategies of the banking and microfinance sectors,² including their ability to leverage technology.

Although recent trends are encouraging, advancing the trajectory will require a strategic focus on women as a viable customer base, an approach that currently seems to be missing in most financial institutions. With the exception of a couple of commercial banks, most banks have relied on a feminization of existing products to attract women instead of developing demand-based products. Regarding the microfinance sector, women in this sector have consistently accounted for more than half of the borrowers and currently account for 26 percent of the savers, yet the sector is undergoing some shifts that could change these ratios downwards. For example, as microfinance banks move upmarket into lending to micro, small, and medium enterprises (MSMEs), their outreach to women may fall. In addition to the banking and microfinance sector, there is potential for expanding access through the government-backed Central Directorate of Savings, which appears to enjoy high levels of trust within the female population in the country.

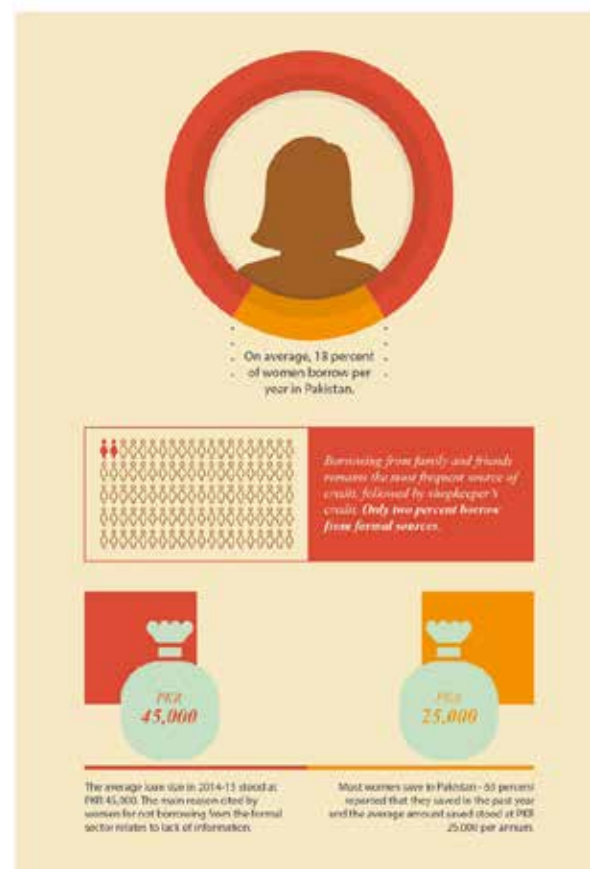
The A2FS 2015 provides insights into the financial behavior of women that can be used to develop strategies and products aimed at them. Following are some of the key take-aways emerging from the data.

- On average, 18 percent of women *borrow* each year in Pakistan.
- Borrowing from *family and friends* remains the most frequent method of obtaining credit,

followed by shopkeeper's credit. Only two percent of women borrow from formal sources.

- In terms of reasons for borrowing, the most frequently cited purpose was to “buy food,” followed by “for life cycle events” and “for dowry or weddings.”
- The average loan size in 2014–15 stood at PKR 45,000.
- The main reason cited by women for not borrowing from the formal sector relates to lack of information, that is, not having enough information about the products and the conditions of the loans offered by formal institutions.

Savings and Borrowing Characteristics of Women in Pakistan



² In this paper, the term *microfinance sector* encompasses both microfinance banks and non-bank microfinance institutions.

- Most women *save* in Pakistan: 63 percent reported that they saved in the past year and the average amount saved stood at PKR 25,000 per annum. The use of committee savings remains popular, with 29 percent women saving through this mode.
- In terms of formal savings products, just 11 percent of women save in bank accounts (including m-wallets). Most save for “meeting unexpected future expenses.” The reasons cited by women for not saving in formal institutions include (i) because doing so has no benefits, (ii) because they lack information about products and institutions, and (iii) due to lack of trust in financial institutions.
- Uptake of *insurance* remains low among Pakistanis in general, including women, with less than one percent of women reporting the use of any insurance product.
- The biggest change in financial behavior over the past few years seems to come from the uptake of *mobile money* services by women (and men) in Pakistan. Five percent of women reported using some sort of digital financial service. Most women who open a mobile account do so to send or receive money to/from family and friends, or to pay utility bills. Those who do not open such

accounts say this is because they do not know enough about m-wallets or find the process too cumbersome.

Given the low levels of women’s financial inclusion in Pakistan compared to the country’s regional peers, it can be easily assumed that the market is underserved and there is significant potential to expand. However, to provide some measures of how large the gap is, in this paper we construct mid-term demand estimates for potential women users of formal credit, savings, insurance, and mobile payments. These estimates, shown in the table below, capture the current non-users who are most *likely* to start using formal financial services given the similarity between their profile and that of current users. Further demand may be catalyzed by exogenous factors such as economic growth, changes in Pakistan’s economy, and population growth. For example, the adult female population is expected to expand by five million women over the next five years.

It must be mentioned here that these estimates are highly constrained by the unavailability of gender-disaggregated supply-side data in the financial sector, except in the case of microfinance. In the absence of such information, we have had to use proxy indicators and combine different datasets,³ which can be problematic for the accuracy and

Sizing the Market: Potential Demand for Formal Financial Services Among Women in Pakistan		
	Current Outreach (in millions)	Potential Market (in millions)
Number of Loans	2.26	9.9
Number of Accounts	15.6	90.3
Number of Micro-Insurance Policy Holders	2.1	8.4
Number of Mobile Payment Transactions (monthly)	6.7	16.0

Source: World Bank (authors’ estimates, detailed in Section 3 of this paper).

³ The demand-side information is from the A2FS 2015, and the supply-side information is from the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP).

robustness of estimates. Hence, these numbers are only *indicative* and are meant to illustrate the high levels of untapped potential. Although the results presented here need to be interpreted with all their caveats, the exercise itself highlights the urgent need to collect gender disaggregated data if sector stakeholders are to develop evidence based policies and products for advancing women's financial inclusion.

While reaching universal financial access for women is a long-term goal, the NFIS provides a medium-term goal post for the sector, namely 25 percent of women having formal accounts by 2020. Trends in supply and demand suggest potential drivers that could enable progress toward reaching this target. The following key drivers across the different financial services are expected:

- **Credit:** The currently prevailing low interest rate regime is expected to create pressures on commercial banks to look for new market segments, and women could be one viable such segment. Taking advantage of technological developments in credit scoring and digital credit and broadening the scope of credit information bureaus could facilitate women's access to formal loans. In addition, given that one key bottleneck for women seeking to access credit from formal institutions is the lack of understanding of products, more effective and customized marketing could be an important enabler, along with raising levels of financial literacy. Longer-term drivers will include the development of Islamic finance products for women, growth in women-led businesses and SMEs, and a robust client protection framework.
- **Savings:** Digital financial services will continue to be an important driver for the inclusion of women in the formal financial sector. There is potential to leverage these platforms to capture the growing women-held savings in rural areas as well as converting the funds currently held in prize bonds. In addition, SBP's efforts to introduce deposit insurance will help create confidence among women with regard to the formal institutions. However, an effective

marketing campaign would be needed to ensure that information about the scheme reaches women (and men) who are currently outside the formal financial sector. Deepening of financial inclusion through the use of more complex products could be enabled by strengthening the retail offerings of asset management companies. Partnerships between diverse types of financial institutions (such as non-bank microfinance institutions, microfinance banks or commercial banks, and insurance companies) could facilitate outreach in rural areas. Islamic savings products that target women could have tremendous potential in the longer term. Also, to continue pushing the inclusion frontier outwards, the sector will need to invest in innovation and in shifting the perceptions about formal institutions among women to gain their trust.

- **Insurance:** While there is some low-hanging fruit that can be captured to drive insurance uptake upwards soon, any long-term shifts in the growth trajectory of the industry would require significant investment in innovating products and processes and in shifting public perceptions about the insurance industry. Soon, partnerships across sectors (both financial and nonfinancial) that enjoy large footprints (digital and otherwise) could present an opportunity. Appropriately structured disaster-risk insurance also has potential to attract women, given the recent experiences with natural disasters in Pakistan. Data show that women affected by a calamity in the near past are the most likely to buy insurance. There is a need to raise awareness around mechanisms of recourse and client protections for users of insurance to create confidence in these services. Additionally, industry players may consider improving the gender balance within their organizations.
- **Mobile payments:** The fast uptake of mobile payments in recent years demonstrates the potential that demand-driven products have for advancing financial inclusion. Drivers of future growth could also include further digitization of government-to-person (G2P) payments, strengthening the e-commerce industry, and

increasing the network of point-of-service terminals. Other factors that will affect this subsector include growth in mobile ownership among women, the development of a network

of excellent-quality female agents, and the development of products that meet the specific needs of women by focusing on the following: convenience, security, reliability, and privacy.

I. THE CASE FOR ADVANCING WOMEN'S FINANCIAL INCLUSION: INTERNATIONAL EXPERIENCES

“Women often bear the brunt of poverty and limited access to economic opportunity, including unfavorable financial access.... Inequality is not just a moral issue—it is a macroeconomic issue.... Growth has to be more inclusive, and for this, finance has to be more inclusive...to close the gender and inequality gap.” *Christine Lagarde, Managing Director, International Monetary Fund**

The gender gap in access to financial services is significant globally, but it is even more so in the developing world. And this gap persists across all types of financial services. For example, there is a nine-percentage-point gap in account ownership in developing countries, and the largest gap is in South Asia (18 percent). Within South Asia, according to the Global FINDEX of the World Bank, Pakistan fares poorly in overall financial inclusion as well as the financial inclusion of women, with only 11.0 percent of the adult female population having an account (by themselves or together with someone else) at a bank or another type of financial institution (Table 1).

Why should policymakers and financial service providers worry about not only closing this gender gap but also raising the overall level of the financial inclusion of women? The case for women's financial inclusion is built not just on social justice arguments but also on the economic and commercial

benefits it brings to women's communities and national economies as well as the bottom line of financial institutions. As we think about developing strategies for expanding access to finance for women in Pakistan, it is useful to remind ourselves why this is an agenda of critical importance. In this section we discuss why ensuring women's financial inclusion is the smart thing to do and share examples of public policy from other countries that have had a positive impact on women's financial inclusion.

The Case for Women's Financial Inclusion

Pakistan's financial landscape is diverse in terms of the size and type of service providers. It has recently become more so with the roll-out of digital financial services and growth in Islamic finance. Institutions are motivated by different bottom lines, which imply that the case for women's financial inclusion needs to address different

Table 1: Financial Inclusion Indicators, by Country, South Asia

	Accounts, Female (%)	Accounts, Male (%)	Gender Gap (%)
Bangladesh	26.5	35.4	8.9
India	43.1	62.8	19.7
Pakistan	11.0	21.0	10.0
Sri Lanka	83.1	82.2	-0.9

Source: For Pakistan: State Bank of Pakistan, Access to Finance Survey 2015; for other countries: Global FINDEX, the World Bank.

* Statement at the International Forum for Financial Inclusion, Mexico City, June 26, 2014.

Box 1: What is Women's Financial Inclusion?

As with the case of financial inclusion in general, there is no universally accepted definition or indicator for levels of women's financial inclusion. However, we can agree that women's financial inclusion occurs when women have "effective access to a range of financial products and services that cater to their multiple business and household needs and that are responsive to the socioeconomic and cultural factors that cause financial exclusion in women and men to have different characteristics."

Source: DfID, 2013, p. 7.

institutional goals. While theoretically it has been long argued that there is a positive link between financial inclusion and development, the empirical evidence for this is also now mounting. Inclusive and efficient financial markets improve the lives of citizens, reduce transaction costs, spur economic activity, and improve delivery of other social benefits and innovative private-sector solutions. In the following, we consider evidence from around the world to demonstrate the different routes through which the financial inclusion of women exerts a positive influence within their households and communities as well as across the economy.

The Social Case

Women are equal members of society and deserve equal access to economic opportunities as men, hence there is a strong moral argument for closing the gender gap in access to finance. However, the case becomes even stronger when we consider the social returns this generates for the women themselves, their families, and their communities.

There are several pathways through which financial inclusion empowers women. For one, it increases the economic empowerment of women by creating opportunities to earn a living and improve the living standards of their families. This independent source of income also increases their bargaining power within the household (DfID and GIZ 2013). Additionally, there is growing evidence that

the economic empowerment of women leads to positive social spillovers for their households and communities. Women favor investments in their families' welfare, and increases in their income create far greater social returns as compared to increases in men's income (World Bank 2012).

For example, research in Bangladesh and South Africa has shown that an increase in women's assets increases the share of household expenditure on education (Maluccio and Quisumbing 2003). In Ghana, the share of assets and the share of land owned by women were found to be positively associated with higher food expenditures among rural households. Women also benefit personally through boosts in their self-esteem, lower rates of domestic abuse, and delayed early marriages and pregnancies (World Bank 2012, 2013). Additionally, financial inclusion can reduce the vulnerability of women by enabling consumption smoothing or by providing insurance against life-cycle risks. For example, Dupas and Robinson (2013) found that women with access to savings accounts invested 45 percent more in their businesses and were less likely to sell their business assets in case of emergencies.

The recent mobile banking revolution is seen as an important driver of women's financial inclusion. Studies in Africa show that mobile phone banking improves personal security, and in South Africa it is one of the main reasons behind the popularity of basic bank accounts among women (Bankable Frontier Associates 2009).

The Economic Case

Access to financial services can open up economic opportunities for women. Credit can enable them to start and grow their businesses, while having bank accounts can open pathways to additional financial services by establishing relationships with financial service providers. These services can not only allow them to save securely and independently, but also help them insure against risks and borrow for investment or consumption smoothing. These gains at the personal level also create benefits for the overall economy through the creation of new businesses, growth of existing enterprises, cash

Box 2: Women's Financial Inclusion as a Driver of Global Growth

According to research by McKinsey & Co. and Goldman Sachs, lack of financial inclusion of women is one of ten “impact zones” currently holding back the developing world from achieving gender parity at work. Moreover, closing the gender gap in credit access could improve developing world growth rates by 1.1 percent.

Source: WWB, 2016.

flow and consumption smoothening, employment generation, and an overall positive impact on personal and household incomes.

Women entrepreneurs in developing economies make significant contributions to growth and to poverty reduction. But disparities in access to inputs (financial and nonfinancial) causes women's businesses to be under-resourced, undercapitalized, and caught in cycles of low productivity. The IFC (2011) estimates that there are roughly 8 to 10 million SMEs with full or partial female ownership in developing countries, of which about 57 to 71 percent are unserved or underserved by financial institutions. These firms can be an important driver for job creation and economic growth. A 2014 study by Goldman Sachs found that a credit gap of approximately US\$285 billion exists for women-owned SMEs in the formal sector in developing countries. If this gap were to be closed by 2020 in just 15 countries, including the BRIC countries, per capita incomes could rise by 12 percent, on average, by 2030 (Goldman Sachs 2014).

In addition to credit, access to appropriate savings services also improves the ability of women entrepreneurs to manage their businesses and increase productivity. A randomized evaluation in rural western Kenya found that access to a new commitment savings service enabled female market vendors to increase investments in their businesses by 38 to 56 percent over female vendors without

access to a savings account (Dupas and Robinson 2013). According to an FAO estimate, if women had the same access to financial and other productive resources as men have, they could increase yields on their farms by 20 to 30 percent (FAO 2011); this could raise total agricultural production in developing countries by 2.5 to 4.0 percent, which in turn could reduce the number of hungry people in the world by 12 to 17 percent. These are significant gains from which the economy can benefit if investments are made towards advancing the financial inclusion of women.

The Commercial Case

In many developing countries, private financial institutions account for most of the financial sector's assets. They are therefore the main vehicles for achieving the goals of financial inclusion; without their buy-in, universal financial access for women will remain a pipe dream. Financial institutions need to recognize the business case in addition to the social and economic case if they are to commit to this agenda, but the case is a strong one and it is growing stronger with time as women previously outside the labor force are becoming economically active. Nearly 900 million women are expected to enter the mainstream global economy or start their business during this decade, most of them coming from developing countries (Global Banking Alliance 2014).

According to a Boston Consulting Group study, women control more than US\$20 trillion in consumer spending globally, and women are increasingly becoming a major force as entrepreneurs running small and medium enterprises (Boston Consulting Group 2009). As mentioned above, there is an unmet global credit demand of nearly US\$300 billion every year among women-owned businesses. In addition, women are more prudent borrowers than men. Their risk averseness makes them less likely than men to borrow if they cannot repay. The Global Banking Alliance has estimated that, in 2013, the number of nonperforming small business loans within its members' portfolios was 54 percent

⁴ <http://www.gbaforwomen.org/> Accessed on December 11, 2016.

higher for men than for women.⁴ The experience of microfinance also shows that women are better at repaying loans than men and are also better at saving; for example, women are 16 percent more likely than men to save for future expenses and tend to be more loyal customers. Women not only stay with an institution longer, they are also more likely to recommend it to others.⁵

Case studies and performance analysis of financial institutions' data shows that serving women contributes to the profitability of financial institutions. The following are some examples (Global Banking Alliance 2014; Quinlan and Vanderbrug 2017):

- Women-owned businesses served by BHD León (the second largest private bank in the Dominican Republic) have a lower proportion of nonperforming loans than businesses owned by men, across all segments.
- Data from BLC Bank (one of the oldest banks in Lebanon) show that the average profit margin for SME loans to women is 15 percent higher than for SME loans to men.
- BLC Bank's program was profitable within 18 months, and Banca Mujer—a program focused on women-owned SMEs at Banco Nacional de Costa Rica, the largest bank in Central America—became profitable in its first year after a 60 percent growth in the number of women SME customers.

- Fundación Delamujer, a Colombian microfinance institution (MFI), found that 75 percent of the clients who had been with the firm for more than four years were women.
- Women customers of Westpac (the only Australian bank with a dedicated unit serving women) held a greater number of products than men in 2013 and accounted for top-line revenue of US\$1.5 billion.

The untapped potential of the women's market for financial services offers a tremendous opportunity to financial institutions in terms of growth and profitability. However, effectively serving this segment requires that banks and financial institutions understand that women have different attitudes toward finance than men have. They also lead economic lives that are different. Merely “feminizing” a product does not make it relevant to the needs of women customers.

In Pakistan, while women's participation in the labor force has doubled over the last 30 years it remains on the lower side as compared to its regional peers (see Table 2). This can be attributed to the social and cultural norms of the country.

While financial institutions clearly must have a pivotal role in any strategy for the financial inclusion of women, the experience of countries that have made strides in the right direction shows that government action is also a critical factor in the change. Hence, we now turn to look at policy

Table 2: Women's Labor Force Participation Rate, by Country (South Asia), 2017

Sr. No.	Country	Participation %
1	Pakistan	25
2	India	27
3	Bangladesh	33
4	Sri Lanka	35
5	Nepal	82

Source: World Bank.

⁵ <http://www.gbaforwomen.org/> Accessed on December 11, 2016.

interventions globally that have aimed at catalyzing women's financial inclusion.

Global Policy Experiences In Advancing Women's Financial Inclusion

"The differences in economic lives of men and women mean that unless a financial inclusion program or policy is designed to specifically include women, it may exclude them, or at least impact upon them differently to men." DfID (2013), p. 7.

Regulators and policymakers set the rules for their countries' financial systems, and in doing so they have a key role to play in creating an enabling environment for the financial inclusion of women. A key challenge for policymakers, especially regulators of financial systems, is how to create regulatory frameworks that do not stifle innovation but also do not compromise the health of the financial system. This requires "prudential regulation with openness to innovation and new products and delivery channels based on an objective and thorough assessment of risks and benefits" (DfID and GIZ 2013, p. 11). While it is true that policy needs to be formulated within particular country contexts, and also true that women's inclusion must take into account the particular ecosystem within which women live, lessons from global experiences can be useful for policymakers as they develop customized approaches to advancing women's financial inclusion.⁶

The absence of a movable collateral registry, gender gaps in inheritance laws impacting women negatively in different provinces, and lack of access to speedy justice in property and land cases further impede women's access to finance. Punjab is the only province that has amended and introduced new laws to improve women's access to inherited urban property and agricultural land.

The Alliance for Financial Inclusion (2016) recommends the following seven measures to policymakers as they develop their strategies for increasing women's financial inclusion:

1. *Greater focus on the value proposition of women's financial inclusion with explicit policy objectives and quantitative targets can lead to policies that are transparently women-inclusive:* For example, setting quantitative targets related to women in national financial inclusion strategies and linking them to implementation plans. The National Financial Inclusion Strategy (NFIS), adopted in 2015 by the Government of Pakistan, explicitly states that 25 percent of adult women shall be provided access to finance.

Country example: In Nigeria, an MSME development fund was created under its own National Financial Inclusion Strategy, with 60 percent of funding earmarked for women (see Box 3 for more information about the fund).

2. *Gender-disaggregated data collection and research make it possible to fine-tune policies:* Gender-disaggregated data on portfolio performance, for example, helps financial institutions dispel myths about the viability of women as customers and enables them to reach their target markets and offer appropriate products. It also helps policymakers adjust their frameworks to expand the outreach of quality, relevant financial services. At the moment, gender-segregated data in Pakistan remains a challenge for both regulators and FSPs, with the exception of the microfinance industry.

Country examples: Papua New Guinea and Rwanda refer explicitly to gender-specific tracking in their financial inclusion strategies. The Central Bank of Nigeria collects data disaggregated by gender from financial industry players using a template it developed.

⁶ As a special case, recommendations for regulators interested in leveraging digital financial services to advance women's financial inclusion are included here in Annex B; the recommendations are sourced from the World Bank (2015).

3. *Reforms in legal and regulatory frameworks can create space for innovation that supports greater women's financial inclusion:* Existing legal, regulatory, and supervisory frameworks may be discriminatory, especially stringent know-your-customer requirements and anti-money-laundering and anti-terrorism-financing frameworks. In addition, unwritten norms in financial institutions may also discriminate and act as a barrier for women, such as asking a woman to demonstrate that she has a male relative's permission to take a loan or open an account. Digital finance has especially provided

opportunities to create more enabling policies for women. Likewise, it is felt that digital finance provides an opportunity to expand access to finance among women in the country, keeping in view distinct cultural norms.

Country examples: Indonesia has enabled women's access through the establishment of basic accounts and through the promotion of savings for migrant workers. Malaysia has done so by developing an agent banking framework, electronic payments, and innovative delivery channels. Tanzania has done so through a risk-

Box 3: MSME Development Fund, Nigeria

The Central Bank of Nigeria launched the MSME Development Fund in August 15, 2013, with a share capital of NGN 220 billion (approximately US\$1.3 billion at the 2013 exchange rate). This fund was established to channel funds to MSMEs at low interest rates through several participating financial institutions.

Ten percent of the MSME Development Fund is earmarked for developmental objectives such as grants, capacity building, and administrative costs, while the remaining 90 percent is renewable capital that will be released to participating institutions at 2 percent for on-lending to MSMEs at a maximum interest rate of 9 percent per annum. For micro businesses, the loan repayment period is a maximum of one year, whereas for small and medium enterprises the tenure is a maximum of three years.

Eligible business activities that qualify for financing are agricultural value chain, services, cottage industries, artisans, trade and commerce, and any income-generating business as may be prescribed by the Central Bank of Nigeria. The MSME Development Fund operates as follows:

1. Prospective borrowers provide the requisite documents, including collateral, for SME loans.
2. Participating financial institutions appraise the loan applications; loan requests that are approved are then forwarded to the central bank for the release of funds.
3. The MSME Development Fund releases funds to borrowers through the participating institutions.
4. The accounts of benefitting borrowers are credited by the participating institutions within 5 working days upon the release of funds by the MSME Development Fund to the participating institutions.
5. Loans are granted at an interest rate of 9 percent per annum (all charges inclusive) irrespective of the type of eligible activity financed.
6. Borrowers are expected to pay back all loans as and when due, inclusive of any accrued interest to the participating institutions.
7. The MSME Development Fund at the Central Bank of Nigeria recycles all fully repaid loans transferred to it by the participating institutions.

Source: Central Bank of Nigeria; <https://www.cbn.gov.ng/MSME/>

based, tiered know-your-customer process, by establishing a national ID database, and by enhancing protections for small and unsophisticated borrowers.

4. *The development of financial infrastructure is critically vital to implementing sound policy:* Expanding the coverage of credit bureaus, establishing collateral registries, and expanding payments systems for innovative G2P programs all can help meet the overall challenge of financial inclusion and especially enable women's access to finance. For example, to overcome the collateral constraints that women face, two approaches can help build the case for permitting alternative forms of collateral: expanding the coverage of credit information bureaus to include several types of lenders (such as utility companies, telephone providers, and retailers); and tracking performance history on post-paid services. Requiring credit information bureaus and collateral registries to maintain and track gender-disaggregated data on lending and performance can also enable women's access to credit. With the adoption in 2015 of the country's CIB Act, more private-sector players are likely to enter into the arena. Plans are afoot to establish a collateral registry, and the development of payment systems is a key goal set out by the central bank. With all of this development in the financial infrastructure of the country, we are likely to witness more expansion in this sector.

Country example: The Kenya Credit Reference Bureau covers banks, savings and credit cooperatives, utility companies, and microfinance institutions, which broadens its coverage to include institutions with relatively more women borrowers.

5. *Refined and strengthened financial consumer protection regulation can address the concerns and issues of women clients, balancing protection with expansion of outreach:* Unbanked women or those who are inexperienced users of formal financial services can be at risk of unfair treatment given their lack of understanding about financial

products and the rules governing them. A terrible experience or mistrust of financial institutions can discourage women from accessing formal financial systems. To protect new users of formal finance and increase their access to financial products and services, strengthening financial consumer protection involves developing concrete requirements for the disclosure of key information clearly, fairly, and on a timely basis; implementing clear procedures for receiving and handling complaints; and ensuring the confidentiality, accuracy, and timeliness of information sent to credit bureaus. Also important is to raise awareness about the consumer protection measures in place to create confidence in the financial system. GRM is now in place with both regulators (SBP and SECP), with the aim of promoting responsible finance and protecting consumers from exploitation in the country.

Country example: In 2010, Senegal introduced its *Observatoire de la Qualité des Services Financiers* to oversee, from the financial consumer protection perspective, the products and services of banks, insurance companies, the postal system, and decentralized financial systems, including the establishment of a recourse mechanism. The challenge in its application is that the *Observatoire* is still little known by poor clients, suggesting that an information campaign is an important aspect of putting into place financial consumer protection mechanisms (GIZ 2013).

6. *Financial education and financial literacy programs for women are critical investments for promoting women's financial inclusion:* Many country-level financial inclusion strategies have incorporated measures to increase financial literacy and financial capabilities. Best practice suggests the use of multiple communication channels targeting different segments of the population, including women, using clear and compelling messages. To increase effectiveness, the process of designing the media campaigns should include both financial experts and gender experts.

Country example: Turkey has designed a comprehensive financial literacy program, which makes families and women a focus, albeit within the context of the household.

7. While beyond the scope of financial sector policy, legislation and regulations addressing social norms that constrain women's financial inclusion can have important repercussions for financial inclusion. Entrenched patriarchal interests and social structures can be important bottlenecks to women's participation in the financial system. Policy that takes into account these difficulties and finds innovative ways to counter them can even create social change. For example, promoting branchless banking that counters the mobility challenges women face in many developing countries can be a first step toward broader use of financial services.

A prerequisite to adopting these measures is raising awareness among regulators and policymakers about the financial needs of women in different market segments. Applying country-specific diagnostics, bringing women's associations and women leaders into the policy dialogue, and identifying documentation and research on specific policy changes and their impact on women's financial inclusion (what works but also what does not) are all approaches that can help raise the profile of the issue and create policy champions within the industry.

Country example: In Zambia, ownership of the agenda on women's access to finance resides at the highest level among central bank officials, such as the governor and deputy governor of the Bank of Zambia. This has led to a greater push for better gender-disaggregated data collection and to audits of gender differentiation in products and services by the financial institutions themselves (GIZ 2013).

There is clearly no easy, universal, and quick solution for advancing women's financial inclusion. Dealing with deep-rooted social biases and legal and institutional constraints that prevent the full participation of women in the formal financial system requires concerted efforts by market players as well as policymakers. However, it is also clear that there is a tremendous opportunity for both the private sector and the government to seriously address this agenda. Policymakers need to identify and enable 'gateways' that allow women's entry into the formal financial system given their country's stage of financial development, the demand-supply barriers faced by women, and economic priorities.

Several organizations in Pakistan have challenged these barriers and emerged as leaders in serving women within their particular market niches. Three such cases are presented in the sidebar titled, *Showcase 1: Leadership*.

SHOWCASE 1: LEADERSHIP

Despite the significant challenges and barriers to advancing women's financial inclusion in Pakistan, several institutions have demonstrated the possibility of achieving this goal. Three organizations that have played a leadership role in making an impact on Pakistan's access-to-finance landscape while serving women are showcased here.

First Women Bank Ltd.: The Bank for Women

First Women Bank Ltd. was created through an affirmative action taken by Pakistan's parliament in 1989 with a mandate to provide access to quality financial services for women in Pakistan. The bank has been pursuing its vision of providing access to the largely untapped female population segment by designing customized products and a commercially sustainable strategy. Its Business Loan for Women focuses on the "S" of the SME category by extending loans of up to PKR 2.0 million to businesswomen for the establishment of new businesses as well as the expansion of existing businesses. In addition to the loan facility, the bank's Financial Services Division also assists loan applicants with taxation, marketing, and legal issues. Several well known women-owned brands and businesses across a variety of sectors in Pakistan have benefitted from this product. As of the end of 2017, the GLP stood at PKR 10 billion.

Recognizing the challenges women face in meeting stringent know-your-customer and documentation requirements for opening bank accounts, the State Bank of Pakistan has introduced Asaan Accounts ("Asaan" means "easy" in Urdu). These accounts can be opened with a simple identity check and entail reduced administrative requirements on the part of the bank staff. The bank has also successfully partnered with the government on this initiative, whose product has allowed it to reach out to low-income customer segments such as daily wage earners and unskilled workers, as well as to housewives, pensioners, and young adults.

Kashf Foundation: Going Where No One Has Gone Before

Established in 1996, Kashf Foundation was the first microfinance provider in Pakistan to solely focus on women. Today it is the largest provider of microfinance for women in the country, serving 215,000 clients in 41 districts across Pakistan. Kashf's model is designed to engage with its clients not just at the individual level but also with the community and society. The foundation's management regards this broader engagement as key to understanding women's needs and creating an impact in their lives. While Kashf's business model has been adapted over time in response to changes in market conditions and internal learning, the focus on women has remained central. The commitment of top management and board members has been critical in ensuring that this focus is maintained. The tone at the top is put into action within the organization through a proactive approach that, at a minimum, involves the following principles:

- *Working with women requires you to be 'out there':* Kashf strives to maintain close contact with its customers by regularly soliciting client feedback, undertaking client-centric research for the design of products, maintaining a toll-free helpline, and collecting data from nearly 12,000 clients on a quarterly basis through on-site visits by the compliance department.
- *Tracking performance through meaningful metrics is key:* Kashf has developed a social performance dashboard, which is updated every six months and presented to the board. The dashboard not only tracks loans to women but also the usage of loans within the household. Given that there are no local benchmarks of performance related to gender, Kashf aspires toward international best practices and is connected to several leading forums on microfinance and financial inclusion of women.

SHOWCASE 1: LEADERSHIP (Continued)

- *Sensitivity to local norms matters:* Kashf does not present itself as a women-only organization within the communities where it operates. Men also lack financial access in low-income households, and refusing to serve them at all could be morally and socially difficult to justify. The organization thus offers a rickshaw loan for men but ensures that such loans do not exceed a given proportion of the portfolio by setting clear gender-disaggregated key performance indicators for its branches.
- *You have to walk the talk:* Kashf has an explicit policy of gender equality within staff across all management levels. It tracks its gender ratios on a regular basis and feeds them back into recruitment as well as staff development programs.

Akhuwat: Religion a Barrier or an Opportunity?

Religious and cultural norms are commonly cited as a key obstacle to expanding women's rights and access to services, including finance, in Pakistan. These norms will certainly be challenging to overcome if financial institutions approach the market with a one-size-fits-all strategy that mimics products and processes on offer in societies and cultures dissimilar to the one they operate in. To break barriers and, in turn, influence the prevailing norms themselves, institutions need to take on a leadership role in their sector.

Akhuwat is an Islamic microfinance provider operating in Pakistan that has managed to reach out to many women by designing its strategy around the family unit and places of worship, which are both central to community life in Pakistan. Starting with a single PKR 10,000 loan to a woman in 2001, its disbursements now exceed PKR 13.6 billion, benefiting more than 797,148 families. It has a network of 343 branches in more than 210 cities across the country, which each operate out of places of worship of different faiths.

Akhuwat uses its unique lending model to facilitate women's access to finance. Interest-free microcredit has formed the cornerstone of Akhuwat's operation since its inception, a derivative of Qarz-e-Hasan, which is based on Islamic teachings. It uses mosques and churches as its base of operation, since it finds that women are more comfortable interacting in such safe places. Use of the vast existing infrastructure of religious places also allows Akhuwat to minimize its operational costs, have extensive outreach to women, and function efficiently. Additionally, Akhuwat's most common product is the family enterprise loan, which accounts for 91 percent of its loan portfolio and is taken through a joint decision of husband and wife. Many women utilize these loans for themselves and their families. In working with women who have remained outside the financial sector, Akhuwat is expanding access to a segment that previously thought finance was irrelevant to their economic lives. In doing so, it is poised to not just provide access to finance but also influence norms in the process.

II. THE FINANCIAL LANDSCAPE OF PAKISTAN AND WOMEN'S FINANCIAL INCLUSION

A major impediment to advancing the financial inclusion of women is the unavailability of gender disaggregated data on the supply of and demand for women's financial services. While headline indicators are important for international benchmarking and target setting, more granular data are also essential for stakeholders: market players need data to design products and outreach strategies and to understand customer behavior, whereas regulators and policymakers need data to design evidence-based policies and gauge their effectiveness. The Access to Finance Surveys (A2FSs) completed in 2008 and 2015 in Pakistan provide a rich database that can be used to glean such insights into women's financial lives in the country. This chapter explores trends in women's financial access based on the A2FS data and provides a snapshot of the retail institutions in the financial sector to build a supply-demand picture.

Trends in Women's Financial Inclusion – An Overview

The two rounds of the A2FS⁷ in Pakistan (2008 and 2015) enable us to undertake longitudinal and trend analyses of service usage by different segments of the population. All data presented here are drawn from the 2008 and 2015 A2FS unless mentioned otherwise. A2FS divides financial access into four categories—*banked*, *other formal*, *informal*, and *financially excluded*—and breaks down the population in the same way. Specifically:

- The *banked* households are those that use conventional banking products such as basic savings/current accounts, Islamic bank accounts, debit/credit cards, mobile wallets, government assistance cards, and personal/business loans.
- The *other formal* category includes households using services such as mobile money payments/remittances, life insurance, microfinance, savings and investment shares, government savings certificates, and saving prize bonds.

- The *informal category* refers to households using committee-based saving mechanisms, shopkeeper credit, and loans from moneylenders.
- The *financially excluded* is a residual category, covering respondents that are not using any form of formal or informal finance.

All categories are exclusive and exhaustive in the sense that, taken together, they encompass the entire adult population of the country and there is no overlap between any two access substrands. For example, an individual who has used mobile financial services in the past year and relies mostly on informal financial service will be categorized in the *other formal* category.

Overall, access to formal financial services in Pakistan has grown significantly, from 12 percent in 2008 to 23 percent by 2015. This is in line with trends in the region: the percentage of Bangladeshis with formal financial services more than doubled between 2013 and 2015, going from 20 percent to 43 percent, while in India the rate of access jumped

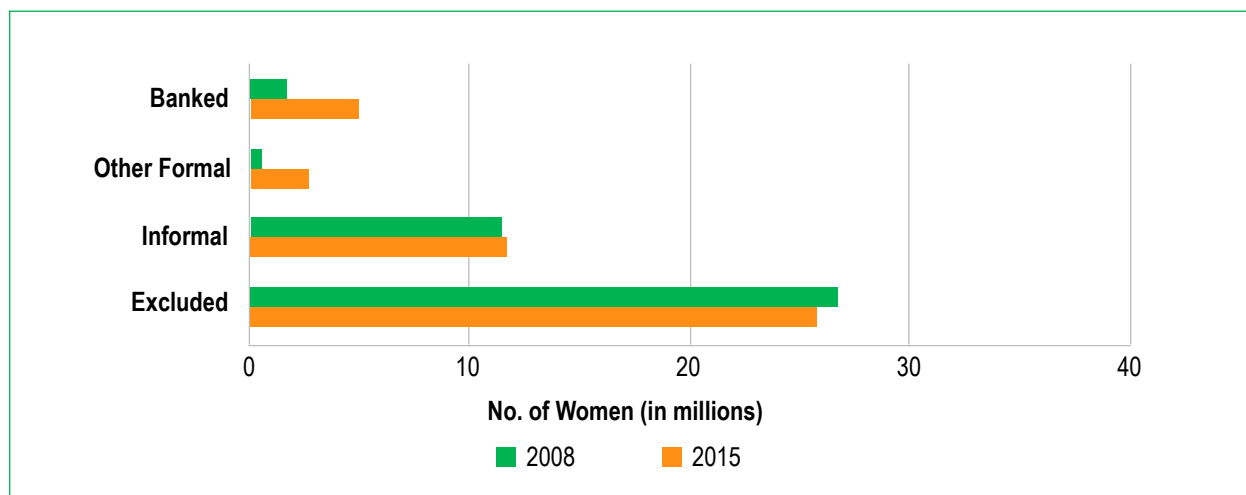
⁷ The first round was conducted in 2008 with a sample of 10,000 households (HH) across the four provinces of the country. The second A2FS was completed in 2015, again with a sample of 10,000 HH across Pakistan. A2FS is the largest demand side survey on financial indicators in Pakistan. Due to its large sample size, it has a high likelihood of maintaining sample power as we break down categories of respondents into segments that are meaningful for stakeholders such as provinces, urban/rural, income quintiles. Moreover, the A2FS questionnaires are the most comprehensive in terms of coverage of types of formal and informal financial services.

from 47 percent to 65 percent over the same period (Intermedia 2016). Formal financial access for women has also grown in Pakistan, with female users of formal financial services going from five percent in 2008 to approximately 17 percent in 2015. Analysis of the access strand is revealing in what it shows about where this growth has occurred in terms of services, regions, and income groups.

Access to formal financial services rose by 5.7 million among women (for context, the total female adult population in 2008 was 40.1 million and in 2015 stood at 45.3 million⁸)(see Figure 1). The

number of women with bank accounts jumped from four percent in 2008 to 11 percent in 2015. This was driven by growth across a number of services, including use of bank accounts, mobile wallets, microfinance, and use of government assistance cards. The use of other formal services also increased significantly over the 2008 – 2015 period (Table 3). While the overall number of women using informal services and the financially excluded increased marginally (by 0.4 million), the number of women that are financially excluded dropped by 0.8 million. However, in proportional

Figure 1: Financial Inclusion Among Women, by Category, 2008 vs. 2015



Source: State Bank of Pakistan, Access to Finance surveys, 2008 and 2015.

Table 3: Change in Financial Access Among Adult Females (in Percent), 2008 to 2015

	2008	2015	Change
Banked	4	11	+7
Other Formal	1	6	+5
Informal	28	26	-2
Excluded	66	57	-9

Source: State Bank of Pakistan, Access to Finance surveys, 2008 and 2015.

⁸ Pakistan has not had a population census since 1998. Population data is projected on the basis of 1998 statistics. Headline demographic indicators for Pakistan are provided in Annex A.

terms, the share of women using informal services dropped from 28 percent to 26 percent over the period of the analysis. Similarly, the proportion of financially excluded women fell from 66 percent to 57 percent.

These are encouraging trends for service providers as well as policymakers striving to advance women's financial inclusion in Pakistan. Analysis of major formal services contributing to the growth is also interesting in its implications.⁹ Policy interventions and financial innovation in the private sector both seem to be driving growth. Although the A2FS 2015 data do not allow us to assess the individual contribution of each product and service, patterns in their uptake do permit us to draw some broad conclusions.

- First, branchless banking has positively impacted access for women, as it rose from zero (in 2008) to nearly 2.3 million unique users in 2015. This also accounts for the significant growth in the *other formal* category evident in Figure 1.
- Second, channeling government payments through the banking sector seems to have impacted nearly 0.7 million women, most of whom are likely to be at the bottom of the income pyramid and to have previously been financially excluded. The main contributor in this context has been the national safety net program, the BISP, launched in 2009. Over the years, this program has transitioned to the use of banking channels (through smart cards, debit cards, and mobile phones) to make monthly transfers to women in the poorest households.
- Additionally, the number of women with bank accounts also increased significantly: 2.7 million women saved in banks in 2015 compared to 1.6 million in 2008. Mobile wallets' uptake seems to be contributing to this growth in a significant way. While the absolute levels of women with bank accounts remain low, they currently show an encouraging trend when viewed against the historical context of snail-paced growth.

- Growth has also come from the number of women participating in *government-led saving schemes*, including women saving in government savings certificates and prize bonds, which rose from 0.3 million to nearly two million over the 2008–15 period. That said, this sudden jump is also partially due to a change in definition of the other formal category between the 2008 and 2015 surveys: in 2008, prize bonds were not included in the *other formal* category, whereas they are included in the 2015 survey definition.

Also useful is an examination of trends in *informal* financial services. One trend that stands out is an increase in the number of women saving in *committees*, which rose from 5.7 million to 13.3 million over the 2008–15 period (Figure 2). The trend of increases across the different types of savings instruments, both formal and informal, suggests that more and more women are saving through some sort of institutional mechanism. This points toward a potential market for deposits that is likely to grow in the coming years. The only service that did not grow exponentially during this period was insurance. That is not surprising, however, as insurance is considered to be a complex financial product and is generally not the first point of entry into the formal financial system.

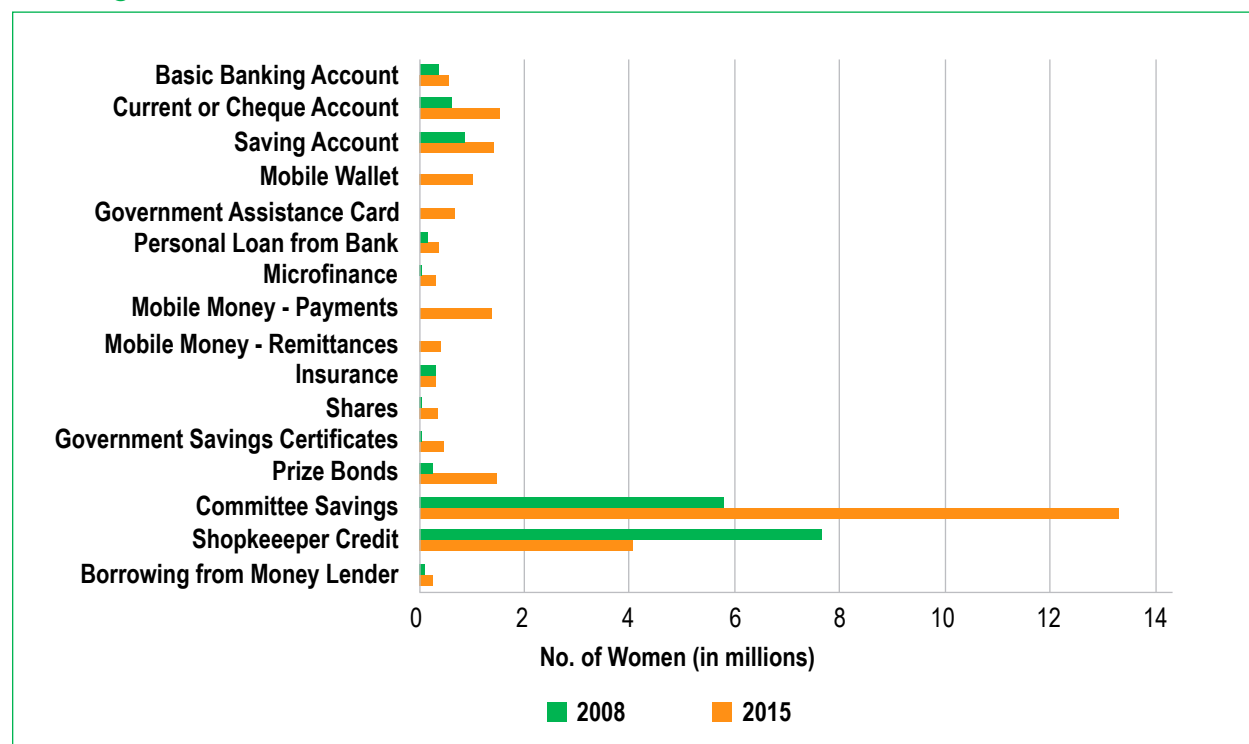
Comparing Growth Across Women and Men

Before we commence a deeper analysis of growth in women's access to finance, it will be useful to compare it to the growth in access for men since, as mentioned earlier, men and women lead different economic lives.

We do find that patterns of growth in financial access for men and women differ considerably in Pakistan. As with women, formal access for men has also increased since 2008, rising from 22 percent in 2008 to 29 percent in 2015. Given Pakistan's high levels of financial exclusion, advances in the use of formal finance by both sexes are a

⁹ These are not exclusive categories, i.e. a woman may be using different financial services at the same time

Figure 2: Growth in the Use of Major Financial Products and Services Among Women, 2008 vs. 2015



Source: State Bank of Pakistan, Access to Finance surveys, 2008 and 2015.

welcome development. However, differences in the patterns of growth indicate that current pathways of expanding access are affecting men and women differently. Figure 3 shows that both men and women are using more banking services, but over a million more women than men became included in the banked category. Interestingly, while the ratio of women that are financially excluded fell, that of financially excluded men rose by 6.3 percent. This last increase is only compensated by a drop in male users of informal financial services to allow overall inclusion of men to rise. Further research is required to understand whether users have been shifting from formal to informal, or vice versa, and what are the drivers of these changes.

Hence, while the story of women's access to finance in the past few years in Pakistan seems clearly to be one of increasing inclusion, in the case of men it seems to be relatively more complicated. Even to unpack the contributors to women's inclusion

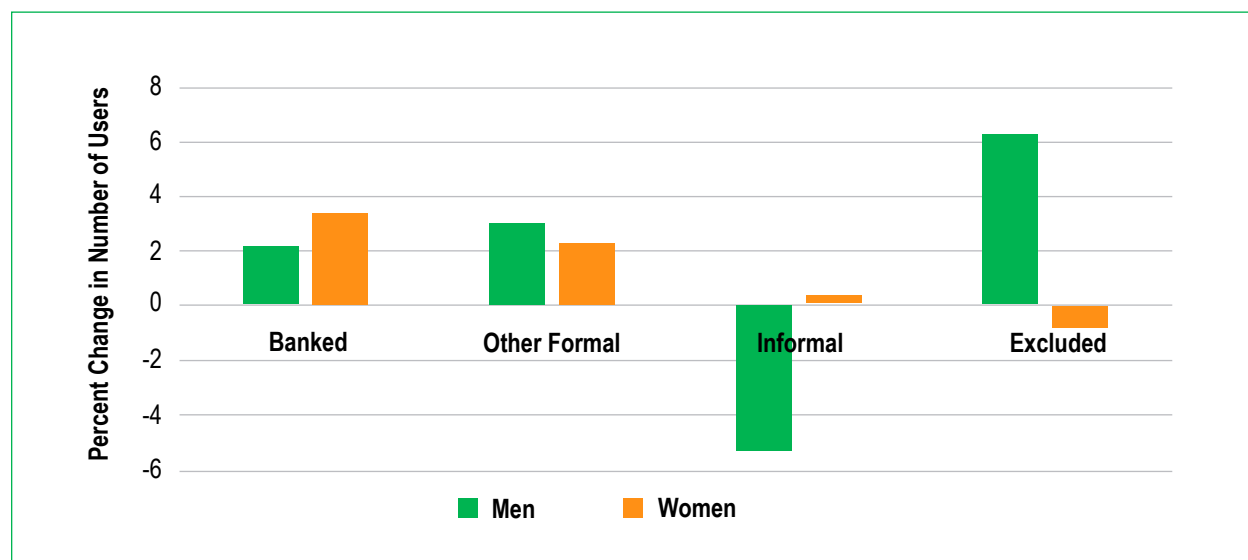
we need a better understanding of exogenous and endogenous drivers of change. While achieving that is beyond the scope of this paper, we can speculate based on A2FS and other economic data that changes in women's participation in the labor force and in the uptake of branchless banking are key pieces of the puzzle.

Geographic Trends

Both urban and rural areas contributed to the growth in women's financial inclusion, but rural growth played a bigger role. Out of the 12 percent overall increase in the proportion of financially included women over the 2008–2015 period, more than half (7 percentage points) came from rural areas.

Analyzing rural-urban growth patterns in the access strand also shows broad-based growth. By the end of the study period, a higher proportion of women reported that they were using bank accounts or using *other formal* services across rural as well as urban

Figure 3: Change in Financial Access Between 2008 and 2015, Women and Men



Source: State Bank of Pakistan, Access to Finance surveys, 2008 and 2015.

areas. Similarly, the proportion of women using *informal* finance or being *financially excluded* also dropped in both rural and urban areas.

Concerning provincial patterns, Punjab and Sindh accounted for most of the growth in usage of *formal* financial services by women. Punjab and, to some extent, Baluchistan accounted for the drop in the use of *informal* financial services that we observe at the national level. Encouragingly, the proportion of financially excluded women fell across all provinces, albeit at varying rates. Figure 4 shows the change in the proportion of women using different services across provinces. Baluchistan stands out as making the largest strides toward women's financial inclusion, with 15 percent more women with bank accounts in 2015 as compared to 2008. The picture in Sindh and Punjab is also encouraging. However, data from KPK (Khyber Pakhtunkhwa) show a drop in levels of inclusion and a parallel rise in the use of informal services.

Mapping the Supply-Side Landscape

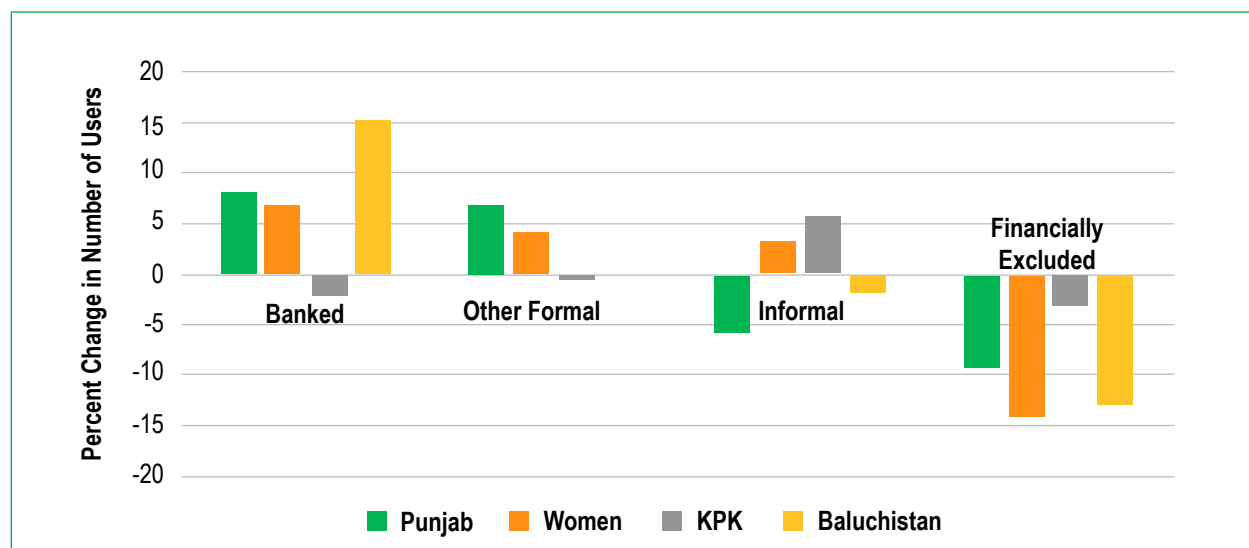
The financial sector in Pakistan has diversified in recent years, but it remains dominated by the banking sector, which holds more than 70 percent

of the financial sector's assets. Table 4 shows the main types of financial institutions operating in Pakistan. Generally, the landscape can be divided along the lines of regulators, that is, between those financial institutions that are regulated by the State Bank of Pakistan (SBP) and those regulated by the Securities and Exchange Commission of Pakistan (SECP). SBP regulates banks, development finance institutions (DFIs) and microfinance banks (MFBs) whereas SECP regulates the corporate sector, capital markets, insurance companies, non-bank microfinance institutions, other non-bank financial institutions and private pensions.

We develop in the following pages a supply-side picture of the financial sector in Pakistan based on the different types of institutions. Our objective is to understand how each type of institution is positioned in terms of its financial strength and market focus. This context will help us assess—in the demand-side analysis that follows later—how different institutions can be expected to contribute to advancing the financial inclusion of women in Pakistan.

We start with the SBP-regulated institutions and then proceed to the SECP-regulated institutions.

Figure 4: Change Between 2008 and 2015 in the Proportion of Women Using Selected Banking Services, by Province



Source: NEED TO ADD HERE.

Table 4: Financial Service Providers in Pakistan: A Summary

Type of Institution	Estimated Number	Details on Type of Institution
Commercial Banks	35	Regulated by SBP, they account for the bulk of the financial sector assets. They also include 6 Islamic banks.
Microfinance Banks (MFBs)	11	Regulated by SBP under a special MFI Ordinance 2001, with restrictions on operations in comparison to commercial banks
Development Finance Institutions (DFIs)	8	Specialized banks, mostly set up as joint ventures with friendly resource-rich countries by the government; they are regulated by SBP
Non-bank Microfinance Institutions	40	Recently brought under SECP regulations
Insurance Companies	47	37 non-life insurance companies, 9 life insurance providers and one reinsurer; 13 of them also offer takaful (Islamic insurance); SECP regulated
Leasing Companies	34	Regulated by SECP, there are 9 leasing companies and 25 modarabas in operation but many struggle to survive
Investment Banks	7	The sector's survival is threatened due to competition from commercial banks; regulated by SECP
Asset Management Companies	24	Regulated by SECP; these companies manage 170 mutual funds and 23 plans, and collectively account for more than 60 percent of the NBFIs asset-base
Directorate of National Savings	1	A government entity not supervised by SBP or SECP; raises debt for the public exchequer from the wider public

Source: State Bank of Pakistan and Securities and Exchange Commission of Pakistan.

SBP-Regulated Financial Institutions

SBP plays a leadership role in financial policy development in Pakistan, especially in terms of financial inclusion. Its policy interventions over the past decade and a half have borne good results in advancing the frontier of formal financial access for women as well as men. It is also steering the implementation of the recently launched National Financial Inclusion Strategy (NFIS). Given this leadership role, as well as its role as a custodian of the banking system, which accounts for most of the financial sector's assets, its approach to women's financial inclusion will be critical in setting the direction of the institutions it regulates.

To implement the NFIS, the SBP and SECP will issue policy and encourage and influence regulated entities under it. Where necessary, interventions will also be made. The entities implementing the NFIS are commercial banks, MFBs, NBMFCs, and development financial institutions. These targets are being overseen by the NFIS Secretariat, housed in SBP, with dedicated staff and personnel who will be monitoring and evaluating the outcomes of the policies. The implementation and follow-up responsibility is also assigned to the NFIS Secretariat. SECP is also a member of the NFIS council. Some of the specific interventions include these:

- Lines of credit are being extended to MFPs by SBP, funded by the World Bank with a condition that 60 percent of new borrowers should be women.
- Refinance and credit guarantee schemes for women entrepreneurs in underserved areas have been launched by SBP with the aim of promoting improved access for women entrepreneurs. A maximum financing facility of PKR 1.5 million is available for women entrepreneurs with a tenure of up to 5 years. This amount can be used for setting up of new business or for the expansion of existing ones. Of the outstanding principle, 50 percent is guaranteed by SBP in case of default.

- SBP has launched a financial literacy campaign – this campaign is being implemented through MFPs, commercial banks and DFIs where special focus on women is incorporated into the campaign.

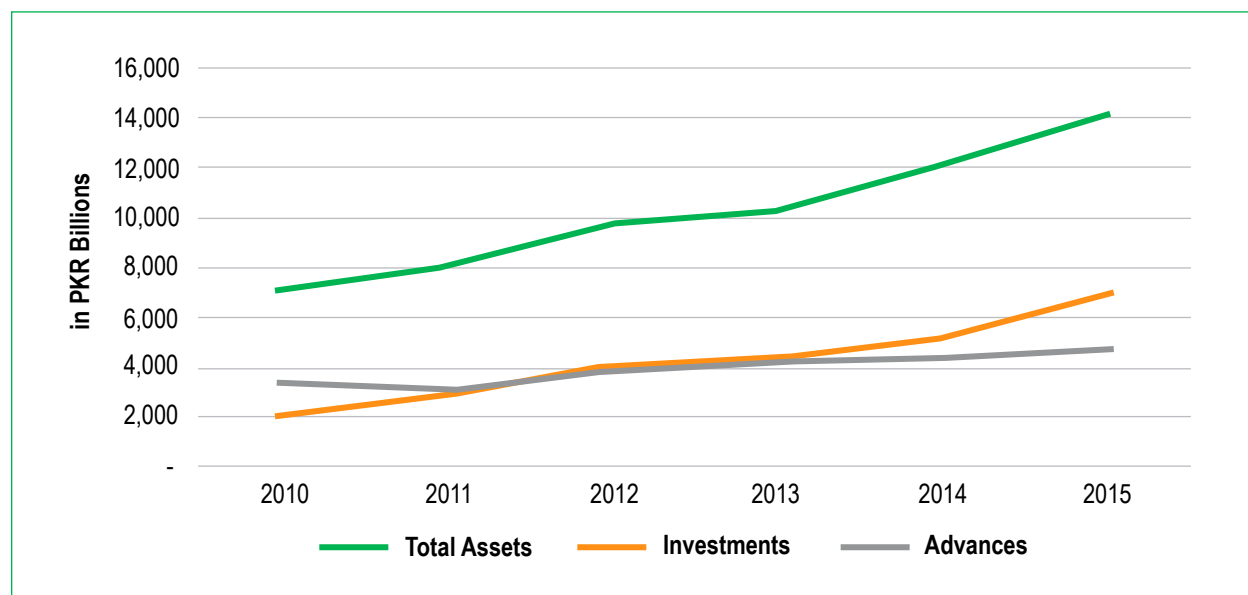
Commercial Banks

There are 35 *commercial banks* in the country, which can be further categorized as government-owned banks (5), private banks (22), foreign banks (4), and specialized banks (5). The total asset base of the commercial banks is PKR 15.4 trillion, with advances accounting for 34 percent of total assets and investments accounting for 50.7 percent (SBP 2016a). Of the sector's total assets, 80 percent is held by private banks. The *specialized banks* were set up by different governments throughout Pakistan's history to provide financing for neglected economic sectors such as agriculture (ZTBL) and SMEs (SME Bank). One of the government-owned commercial banks, First Women Bank Ltd. (see Showcase 1, boxed in Section 1), was set up in 1989 primarily to serve women across Pakistan; for all practical purposes, this bank also operates as a specialized bank.

Commercial banks have the largest brick-and-mortar footprint among financial institutions, with more than 13,000 branches across Pakistan as of end-September 2016 (SBP 2016b). However, despite their long history and wide footprint, their contribution to advancing financial inclusion in Pakistan has been limited. In terms of credit, they largely cater to the upper end of the firm spectrum (corporates or, at best, medium-size enterprises) as well as to high-net-worth individuals. In terms of deposits, the client base is relatively more diverse, with the five largest banks accounting for 50 percent of customer deposits because of their long history and large branch networks.

The private-sector credit offered by commercial banks has more or less stagnated over the past few years (Figure 5), despite the easing of monetary policy over the last three years that brought the policy rate down to 5.8 percent (in November 2016)

Figure 5: Asset Growth in the Banking Sector, 2010–2015



Source: State Bank of Pakistan.

from 10.5 percent (December 2013). Commercial banks have instead been placing funds in risk-less government paper and have shown little appetite for extending the banking frontier and tapping unserved segments.

In terms of serving women, we mostly see a feminization of banking products, such as pink-colored credit cards or the rebranding of existing products as “serving women’s needs”¹⁰ instead of real innovation to meet women’s needs. Among commercial banks, First Women Bank Ltd. is the only bank that has a mandated mission to serve women, but this bank has been plagued by sustainability issues for the better part of its existence, and its market share remains marginal. Recently, one of the biggest commercial banks in the country, Habib Bank Limited, has launched a program that aims to convert Habib Bank Limited into “the bank of choice for women” in Pakistan. Its case is documented in Showcase 3, boxed in Section 3.

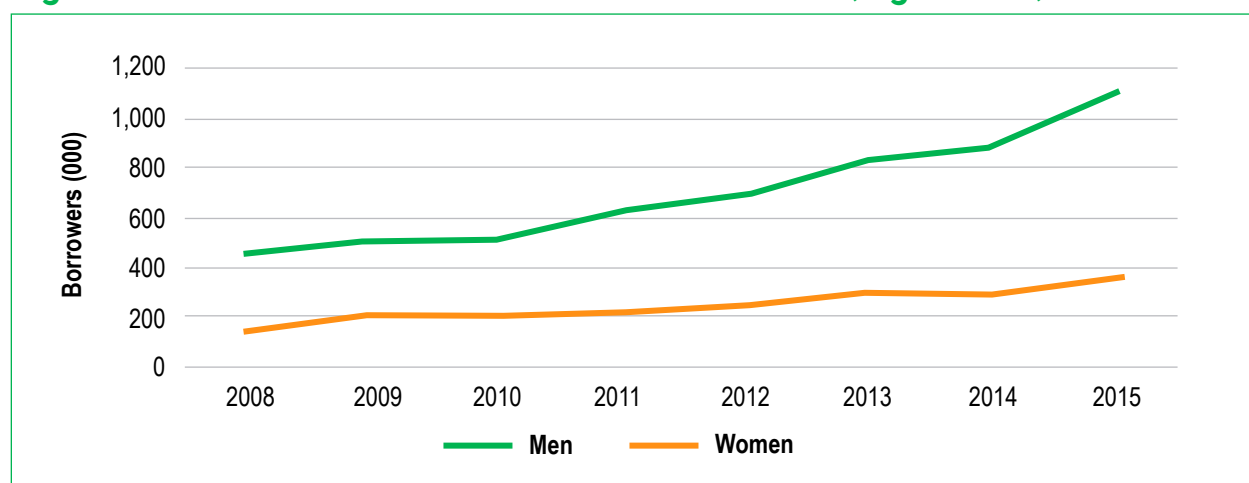
Microfinance Banks

Regulated under Microfinance Ordinance 2001, the microfinance banks (MFBs) are deposit-taking entities regulated by SBP that are formed with a double-bottom-line objective, that is, not only to earn a profit but also to create a positive social impact. There are currently 11 MFBs in the country and they have a diverse set of sponsors, including local commercial banks, mobile network operators, international investors, and NGOs. They account for more than 60 percent of the microfinance industry’s loan portfolio and 40 percent of its active borrowers (the rest are accounted for by non-bank MFIs, regulated by SECP and discussed below).

The microfinance sector is perhaps the only subsector within the financial industry that regularly collects and publishes gender-disaggregated data. Although the MFBs have posted significant growth in both borrowers and portfolio value over the past few years, the rate of growth among men has outstripped the rate among women. Analysis of

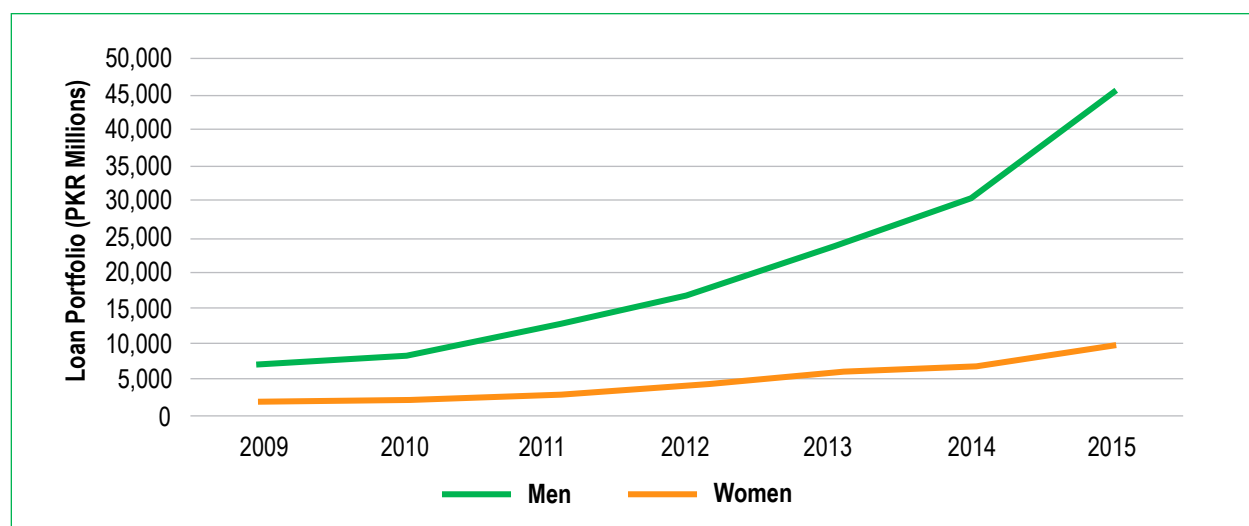
¹⁰ For example, a mid-sized commercial bank offers a women’s saving plan product and markets it as suitable for all categories of women, whether housewives or working women. It is not clear how one product can serve such diverse market segments equally well.

Figure 6a: Growth in Microfinance Bank Borrowers, by Gender, 2008–2015



Source: Pakistan Microfinance Network, *Pakistan Microfinance Review*, 2015.

Figure 6b: Growth in Microfinance Bank Portfolio Value, by Gender, 2009–2015



Source: Pakistan Microfinance Network, *Pakistan Microfinance Review*, 2015.

outreach data shows that (as of 2015) men account for 76 percent of MFBs' client base and 82 percent of their loan book (Figures 6a and 6b). The shift has been more drastic in the case of loan portfolio value, as most of the large MFBs have started to move toward larger individual loan and microenterprise lending (discussed below). This trend is in sharp contrast to the non-bank MFIs segment, which is discussed below in the subsection on SECP-regulated financial institutions.

Recent changes in regulations, as well as financial innovation in the form of branchless banking, have created opportunities for MFBs to expand their outreach to women. However, other changes pose some risks. For example, an amendment to the Prudential Regulations for MFBs in 2012 allowed the banks to lend up to 40 percent of their portfolio to microenterprises. These loans could be in amounts higher than the previous limit of PKR 150,000, increasing to as high as PKR 500,000.

However, this change may also be viewed as a risk to women's access to finance. If banks move upmarket into client segments where women-owned enterprises tend to be fewer and costlier to identify, there is a danger of further declines in the share of women in the outreach of MFBs.

Development Financial Institutions (DFIs)

Development financial institutions (DFIs) are government-owned entities designed to promote investment in the private sector and spur economic activity in the country. There are eight DFIs in the country, nearly all having been set up as joint ventures between resource-rich countries and Pakistan (except for the House Building Finance Corporation). These institutions offer specialized financial products and services with a focus on project financing and long-term financing solutions for targeted sectors. The asset base for the DFI industry is PKR 191.3 billion, with investments accounting for PKR 108.4 billion, followed by advances worth PKR 63.4 billion (SBP 2016a, p. 24).

Despite having a development agenda and an aim to promote growth, DFIs have shied away from reaching out to women and confined their activities to big-ticket borrowers. However, there remains some scope for DFIs to work in the area of women's access to finance, particularly for the House Building Finance Corporation. Low-cost housing loans for women remain an underdeveloped and under-researched area. Keeping this in view, the World Bank has just initiated a USD 145 million project in early 2018, which aims to crowd in commercial financing for home ownership and to provide greater incentives for women to become home owners.

SECP-Regulated Financial Institutions

The Securities and Exchange Commission of Pakistan (SECP) was established in pursuance of Securities and Exchange Commission of Pakistan Act of 1997 and became operational on January 1, 1999. Initially, the SECP was responsible for the regulation of corporate sector and capital markets.

Over time, its responsibilities have been expanded to include supervision and regulation of insurance companies, non-banking finance companies, and private pension schemes. It is also engaged in overseeing various external service providers to the corporate and financial sectors, such as chartered accountants, rating agencies, corporate secretaries, brokers, and surveyors.

In recent years, the SECP has shown an interest in expanding the penetration of the services it oversees beyond their conventionally tapped market segments. To this end, it promulgated micro-insurance regulations in 2014, expanded its ambit to regulate non-bank MFIs in early 2016, and in June 2015 also launched a three-year Investors' Education Program aimed at the public-at-large.

While the financial institutions SECP oversees are small in comparison to SBP, they are more diverse and offer scope for innovation and growth into markets that have hitherto been ignored in terms of women's inclusion. Table 5 shows the size and composition of the non-bank financial sector regulated by the SECP.

We discuss next the subsectors regulated by the SECP that may have relevance to advancing women's financial inclusion.

Leasing Companies and *Modarabas*

The leasing industry in Pakistan traces its origin to the Islamization of the economy in the 1980s. At its peak, there were 41 leasing companies in operation. Key business lines included consumer auto leases, commercial vehicle finance, leasing to SMEs, and corporate and operating leases. There are currently eight leasing companies operating in the country with a total asset base of PKR 42.3 billion (as of June 2016). In addition, there are 25 *modarabas* with an asset base of PKR 36.5 billion (SECP 2016a).

The decrease in the number of leasing entities has been due to the encroachment of commercial banks and DFIs into the clientage of leasing companies, eroding their market share. In addition, leasing companies are secondary lenders and depend

Table 5: Snapshot of the Non-Bank Financial Sector (June 2016)

	No. of Entities	Total Assets (in PKR Millions)	Assets as Percent of Total Sector Assets
Mutual Funds	172	546,222	59.06
Asset Management Companies	23	37,334	4.04
Portfolio Management Assets	0	139,229	15.05
Real Estate Investment Trusts	1	27,165	2.94
Investment Finance Companies	10	76,855	8.31
Leasing Companies	8	42,262	4.57
Modarabas	25	36,538	3.95
Pension Funds	17	19,317	2.09
TOTAL	256	924,922	100

Source: SECP Annual Report 2016.

on funds from commercial banks. Therefore, the withdrawal of credit lines in the aftermath of the 2008 financial crisis adversely affected the leasing industry. This, coupled with an increase in the minimum capital requirement, has led to a number of entities going out of business. Moreover, the slowdown in growth and investment in the economy has led to a decline in leasing activity in the country.

However, the prevailing environment of low interest rates provides the leasing industry with an opportunity to finance microenterprises and SMEs, given that commercial banks are not focused on these segments. For example, Islamic leasing for fixed assets in business sectors such as bakeries, dairy, gems and jewelry, and dry cleaning services appears to have the potential to target women. SBP has undertaken detailed studies on several SME subsectors¹¹ that have scope for leasing, but the studies do not collect gender-disaggregated data. By incorporating a gender lens in studies of business

clusters and value chains, we can identify sectors where women's participation is growing and where the opportunity for women-focused leasing and financing products is high.

Asset Management

The asset management industry in Pakistan has grown rapidly. Although the first mutual fund was launched in the country back in 1962, the industry really took off in the 2000s with the entry of private fund managers. Currently, the industry is made up of 24 entities with assets under management worth PKR 550 billion. With more than 170 mutual funds and 23 plans, this segment accounts for more than 60 percent of the asset base of non-bank financial institutions (SECP 2016a). The funds invest in both money and capital markets.

Despite being a flourishing industry, asset management accounts for only 5.4 percent of the total deposit base of the country, as compared with 11.8 percent in India.¹² A key reason for this has

¹¹ Available at <http://www.sbp.org.pk/publications/Pub-Occa.htm>

¹² Mutual Fund Association of Pakistan, <http://mufap.com.pk/pdf/presentations/2012/presentation1.pdf>

been a small retail base, which has also led to a lack of attention to women as potential clients. As the retail customer base for these funds expands there is a strong chance that the women clientage would also increase. However, such growth is not expected to help expand the access frontier for women, since the customers of asset management companies tend to be people who are already availing themselves of formal banking services, especially bank accounts. The most likely female target market for asset management companies will be formal sector employees in urban centers and financially literate women. Nevertheless, this should lead to deepening financial inclusion for women over the long term.

Investment Banks

Investment banks provide long-term funding solutions separately from normal banking channels, but they do not provide retail banking services. There are currently seven investment banks in the country, and the space for them is shrinking over time due to their inability to compete with the investment banking wings of commercial banks, which have large pools of funds available. Moreover, overall stagnation in the economy has led to a reduction in IPOs, mergers and acquisitions activity, and the privatization of state-owned activities. In addition, the liquidity mismatch due to long-term loans and short-term liabilities remains a key hindrance in this regard.

The total asset base of the industry is currently at PKR 9.7 billion; this means it has shrunk by two-thirds from its 2010 total of PKR 29.7 billion (SECP 2016b). Most of the entities have equity below minimum capital requirements and are struggling to survive.

With their current outlook, the investment banks are unlikely to reach out to unserved segments such as women. Further research and a focused strategy are required to understand whether and how this sub-industry can contribute to the overall goals of advancing women's financial inclusion in Pakistan.

Non-Bank Microfinance Companies

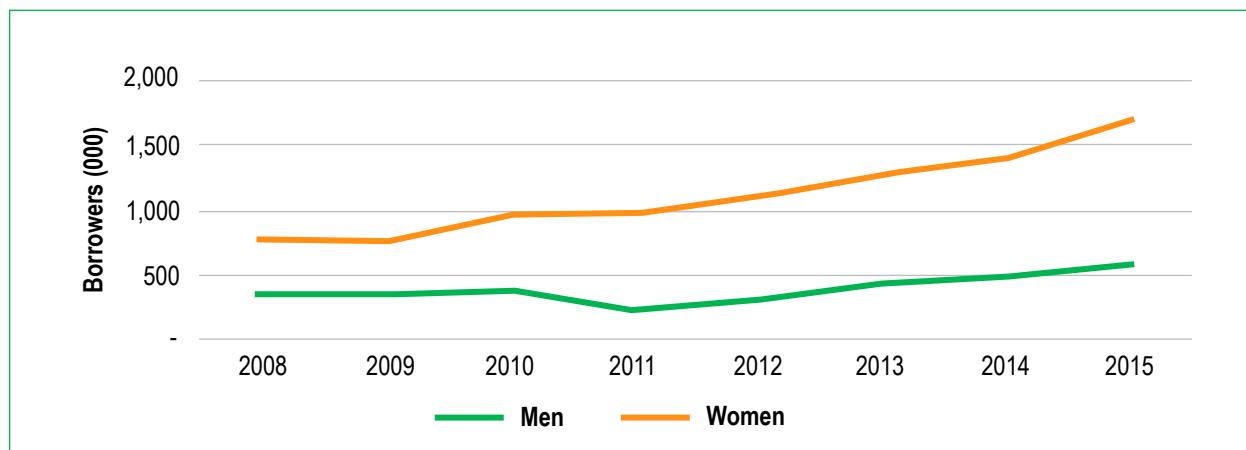
Non-bank microfinance companies are a diverse group of institutions, which include NGOs working exclusively in microfinance, microfinance programs that are part of rural support programs, and NGOs with integrated programs. There are more than 40 such entities in Pakistan. Previously, they had been operating outside any regulatory umbrella, but by 2015 they had been transformed to non-bank microfinance companies under the non-bank financial institution rules.

Some of these organizations are among the pioneers of microfinance in the country and enjoy good outreach in rural areas. Currently, they account for 40 percent of the industry loan portfolio and 60 percent of borrowers. Their clients are predominantly women, and the share of women in their portfolios has been increasing over time (Figure 7a). In addition to credit, these organizations are also providing micro-insurance products using different business models. If they had adequate funding lines for on-lending, these institutions could play a crucial role in women's access to finance in the lower income segments. These institutions have also proven to be more open to innovation and testing new ideas, given their localized scale and relatively lower levels of formalization. Two examples of innovations in product and process by non-bank microfinance companies are discussed in Showcase 2.

Insurance

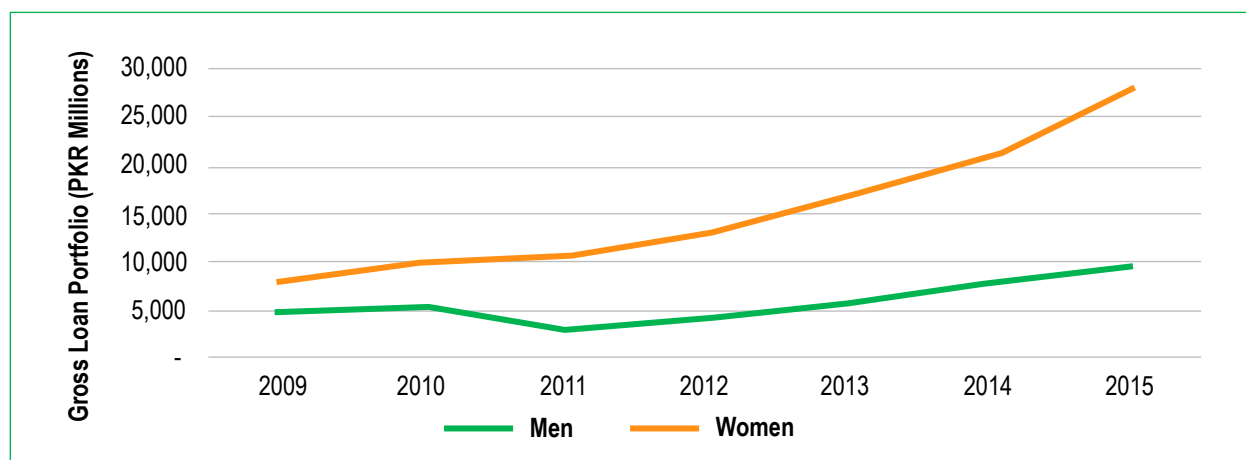
The insurance industry is a crucial component of any country's financial landscape, since it provides mechanisms for individuals and businesses to manage the risks they face. The insurance industry in Pakistan can be divided into two types of companies: those selling life insurance and non-life-insurance companies. There are currently 41 non-life-insurance companies, nine life insurance providers, and one reinsurer. Out of the 41 non-life-insurance providers, three have been allowed to extend general *takaful* (Islamic insurance), while two life insurance companies can extend family *takaful* products (SECP 2016a).

Figure 7a: Growth in Borrowers from Non-Bank Microfinance Companies, 2008–2015



Source: Pakistan Microfinance Network, *Pakistan Microfinance Review*, 2015.

Figure 7b: Growth in Non-bank Microfinance Company Loan Portfolio Value, 2009–2015



Source: Pakistan Microfinance Network, *Pakistan Microfinance Review*, 2015.

Insurance penetration in Pakistan is quite low at 0.8 percent, as compared with 4.1 percent in India and 4.4 percent in Thailand (FIOP 2015). A key impediment for the life-insurance sub-industry has been low awareness of its products among the general public. Also, the life-insurance sector is dominated by the state-owned insurer, which has skewed the sector. Micro-insurance has emerged as an attractive option for insurance companies, and it has been expanding over time in the credit, life, and health segments. Despite the low penetration,

across the entire insurance sector insurers have launched specific products for women clientele. However, these initiatives are relatively new and their success remains to be seen.

Central Directorate of National Savings

The Directorate of National Savings does not fit into the picture of financial regulation overseen by the SBP and the SECP. Its existence predates Pakistan's independence, with the first national savings bureau being set up in 1943 as an attached department

of the Ministry of Finance under colonial rule. Post-independence, the Pakistan Savings Central Bureau was created, and the savings work was entrusted to it by the Government of Pakistan. In 1960, it was renamed the Central Directorate of National Savings and was entrusted with all policy matters and the execution of various national savings schemes. In 1972, the scope of the directorate was broadened whereby it started selling prize bonds, and subsequently it rolled out other savings schemes. Currently, the directorate is headed by a director general of national savings, who is a senior bureaucrat within the government.

The Central Directorate of National Savings currently offers various saving schemes for individuals, including those targeting women. For example, its *Behood* savings certificate is targeted at widows and senior citizens and can be purchased in denominations as low as PKR 5,000. Its other certificates are also popular, and A2FS 2015 data show that its uptake among women has been increasing. The directorate sells its products through its 375 branches in cities across Pakistan as well as through the government's post offices. At end-September 2016, investment in its different products stood at nearly PKR 72 billion.

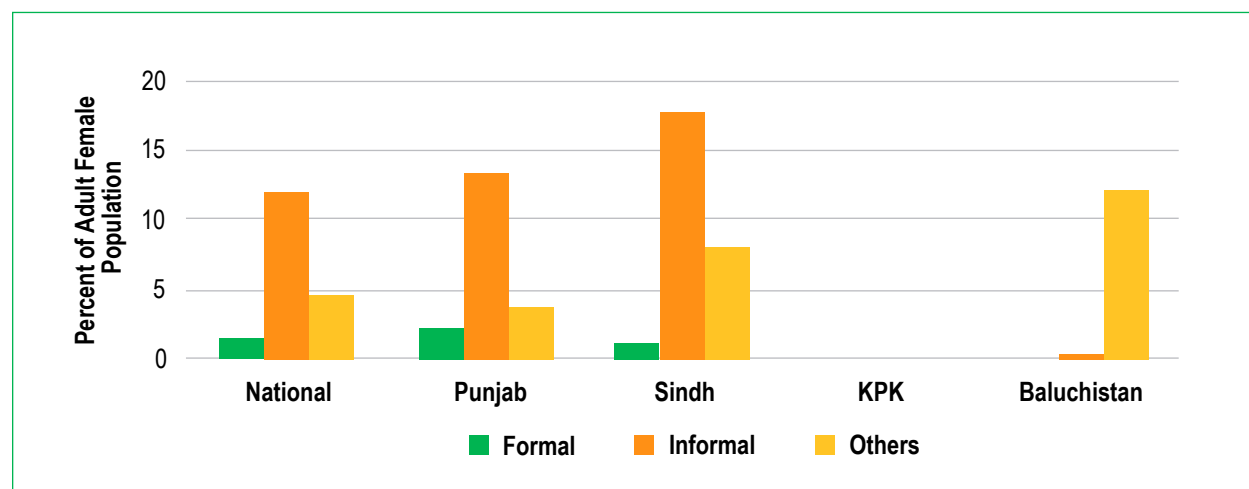
Usage of Financial Services Among Women

To complement the institutional supply-side analysis, we now turn to the usage of formal as well as informal financial services among women in Pakistan, using A2FS 2015 data. In order to have a meaningful discussion, we have disaggregated the data into different population segments based on geography (provinces, large cities, small towns and rural locations) and income. This generated 37 subcategories, or population segments.

Within each category, we then examined service usage by type of service, reasons for using or not using particular services, frequency of use, and average transaction amounts (where available and applicable). Given the span of data, only the interesting results are presented here. These can be used to push the discussion forward in further identifying potential market segments for women's financial inclusion.

Some caveats are warranted on the data used: The sample size for some segments was too small to obtain any meaningful conclusions; these segments were not used in the analysis. Also, the relatively

Figure 8: Credit Usage Among Women, by Province, 2015



Source: State Bank of Pakistan, Access to Finance Survey, 2015.

Note: The *Others* category mainly includes borrowing from friends and family.

SHOWCASE 2: INNOVATION

The microfinance sector in Pakistan has been at the forefront of innovation within the country's financial sector. While most attention in this context goes to the branchless banking segment, there are other promising innovations of product and practice among smaller microfinance providers that also merit attention. Two examples from non-bank MFIs are presented here, one from Punjab and the other from Sindh.

Damen: Experimenting with Micro-Insurance

DAMEN is a women-focused non-bank microfinance institution based in Punjab with a customer base of 50,000 women borrowers. It operates in five districts, mostly in the rural areas and urban slums. DAMEN has partnered with MicroEnsure to offer health insurance to cover its clients against loss of income. MicroEnsure is a specialist provider of insurance to the mass market with more than 15 million customers in 17 markets across Africa, Asia, and the Caribbean; it provides insurance services (including life, health, and property products) via a range of distribution partners that include microfinance companies, co-operatives, and mobile network operators.

DAMEN's product protects its clients in situations when there is a break in household income due to an unforeseen event. The product, called *Damen Sehat*, is offered to every customer through a premium sharing arrangement between DAMEN and the clients. An insurance claim can be made at all major hospitals across Pakistan. The coverage is provided to both the client and her spouse. A pilot was conducted in early 2015 with 10,000 clients, and since then it has been rolled out to cover 45,000. The claim-to-premium ratio to date is 52 percent, and more than 800 claims have been processed since the program started in 2015.

Thardeep's E-Appraisal System: Levering Technology to Facilitate Women Clients

Thardeep Microfinance Foundation operates in seven districts of Sindh, in areas where difficult terrain makes the cost of delivery high and creates mobility challenges for clients. In January 2016, Thardeep began transitioning to a paperless environment by introducing an online appraisal system. This e-appraisal system has been introduced not only to serve the overall market but especially to facilitate women's financial access. The old manual system used to take 10 to 15 days for processing, with loan officers going door-to-door for documentation and other requirements. Major hurdles were faced by women who had difficulty arranging for copies of CNIC and photographs. In Sindh, women are not easily allowed to go outside their homes into the town to arrange for the required documentation but instead need to rely on their spouses. Furthermore, providing a photo to a stranger is frowned upon, especially if it is handed over to a man. The new system circumvents these problems and facilitates women in the comfort of their homes. Women have placed confidence in the new e-appraisal system, with 65 percent of the first 60,000 applicants that used the system being women.



SHOWCASE 2: INNOVATION (continued)

How the system works: The e-appraisal system integrates all levels of operation, ranging from the loan officer in the field to the head office, allowing for real-time data sharing and quick loan processing. Basic technology is employed: a tablet, a biometric device, and a mobile SIM card with internet connectivity. Once the processing is completed, the loan is disbursed through branchless banking channels.

Thardeep believes that use of such a mechanism can greatly reduce the additional costs, both at the organizational end and at the client's end. The expected total saving for the clients is about PKR 220 per loan cycle. And with regard to TMF's own cost saving, an amount of PKR 9.5 million is expected to be saved from an organizationwide roll-out to its 100,000+ clients.

small sample sizes from KPK and Baluchistan meant that it was more difficult to disaggregate data from these provinces in a robust manner; consequently, these two provinces are only analyzed where the sample power was sufficient.

Credit

Approximately 18 percent of women in Pakistan borrow, mostly from informal sources. However, this number varies considerably across provinces (Figure 8). For example, the credit culture seems to be strongest in Sindh, followed by Punjab and Baluchistan. While informal sources, such as shopkeepers' credit, seem to be playing an important role in meeting the credit needs of women, most of the borrowing in Baluchistan is from sources that are neither formal nor informal, such as borrowing from friends and family. KPK data show a weak credit culture, with hardly any women reporting that they have borrowed in the past year.

Trends also vary across rural and urban areas in the different provinces. Generally, we find that more women borrow in rural areas or small towns. For example, about 16 percent of women in large urban centers borrow, whereas in rural areas 22 percent borrow. In Baluchistan, hardly any women in large cities borrow, whereas 37 percent of those in small towns and 16 percent of rural women borrow.

Sindh dominates in terms of the credit culture among women across its cities, towns, and villages: a higher proportion of women borrow in the large cities of Sindh compared to anywhere else in the

country (37 percent), and even in Sindh's small towns (16 percent) and rural areas (27 percent) women's borrowing occurs at relatively high rates. There also seems to be a connection between income levels and borrowing: women in lower-income segments tend to borrow at higher rates than wealthier women. This is not surprising given some of the other trends revealed by the A2FS 2015 data concerning reasons for borrowing and sources of credit. For example:

- The *top reason for borrowing* is to purchase food, and this is common across provinces, in both urban and rural areas. Other reasons that appear across provinces, although in varying priorities, include borrowing for life-cycle events, such as weddings and dowry, and meeting educational expenses. In Punjab, unforeseen emergencies also lead to women borrowing. In rural Sindh, women are more likely to borrow for unforeseen emergencies, whereas in small and large cities it is more likely to be for life-cycle events.
- The *top three sources* of credit are similar across Punjab, Sindh, and Baluchistan. These include loans from friends or family, advances from shopkeepers (or moneylenders in the case of Baluchistan), and goods received on credit. Besides friends and family, shopkeepers' credit emerged as the top source of finance across rural and urban areas of Punjab and Sindh, as well as areas outside big cities in Baluchistan. On the other hand, in Punjab and Sindh the most frequent source of formal credit is a microfinance provider.

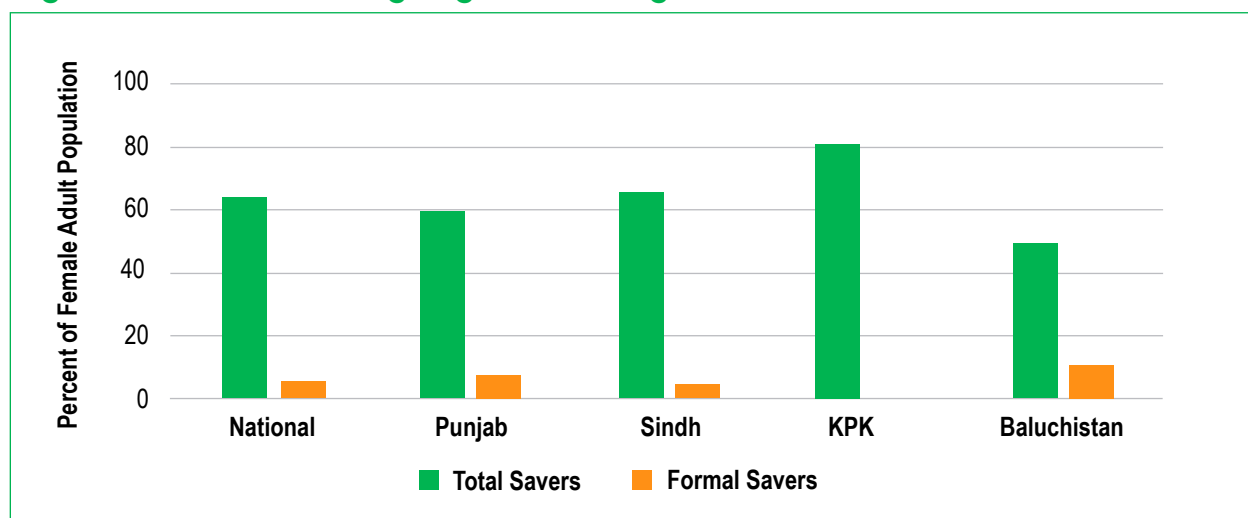
- *The average loan size* for women is about PKR 45,000. Most women who borrow do so once a year.
- *Reasons for not borrowing from formal institutions* vary across the two provinces for which data are available. In Punjab, these relate to lack of information, such as not knowing whether an institution offers loans or not understanding enough about or knowing the conditions of loan products offered by financial institutions. In Sindh, information gaps also matter, but another reason for not borrowing is the debt management strategies used by women: they want to pay off any existing loan before seeking a new one from a formal institution. In the rural areas of Punjab, the main reason for not borrowing is the “shame” associated with going to an institution for borrowing. Reasons also vary by income groups, although the findings on this are limited to Punjab given the data limitations. Informational constraints apply more to low- and middle-income groups, whereas among the upper-income group there seems to be a social stigma attached to borrowing; indeed, the statement that “it was not common in their community” was often cited as the main reason not to borrow.

Savings

According to the A2FS 2015 data, 63 percent of women in Pakistan save, and of these women only about 11 percent save through formal financial institutions. While the gap between the proportion of women who save and the proportion who do so using a formal financial institution is large in all four provinces, it is highest in KPK, where hardly any women are using formal financial services (Figure 9). On the other hand, Baluchistan has the lowest overall saving ratio but the highest use of formal institutions. This may connect back to the Benazir Income Support Programme (BISP), a high number of its beneficiaries being located in Baluchistan and the use of formal financial channels to disburse cash grants to them. While women save in high proportions across all income segments across all provinces, relatively more women save in higher income groups, formally as well as informally. Other trends related to savings that emerge from the A2FS 2015 data include these:

- The *most common motivation for saving* is to “meet future unexpected expenses.” Rural and urban women alike across all provinces cited this as the topmost reason, while in Baluchistan the main motivation was to buy household goods.

Figure 9: Formal Savings by Women, by Province



Source: State Bank of Pakistan, Access to Finance Survey, 2015.

Other key reasons relate to meeting unforeseen risks, such as medical expenses or funds needed for family members in case the saver experienced some unfortunate incident.

- The *most popular mode of saving* is at home or with friends and relatives, followed by saving in committees. In Punjab, the third most commonly used mechanism is banks, whereas in Sindh holding savings in the form of gold, silver, or jewels (to be sold in times of emergency) was cited instead. In rural Sindh, saving in livestock is also common among women.
- *Reasons women give for using these modes* are particularly revealing about women's preferences in choosing saving mechanisms. For each of the three top-ranked mechanisms, women said they use them because (i) they are cheap, (ii) they are commonly used in their communities, (iii) they allow the women to solve their problems (meet their needs), and (iv) they are found to be "easy to handle." Cost effectiveness was the most frequently mentioned reason. Reasons relating to safety and risks of losing money were only cited by women in large cities in Punjab and KPK.
- Most women save at least once a month.
- *The average value of savings* by women per annum is approximately PKR 25,000, with higher levels of saving per person in urban areas.
- *Top reasons women cited for not saving in financial institutions* were: (i) because they thought saving would bring them no benefits, (ii) because they lacked information about products and institutions, and (iii) because they lacked trust in financial institutions. Lack of trust is especially common among the low- and middle-income quintiles in Sindh, whereas the belief that a bank account will provide no benefit was common across all income groups.

Insurance

Less than one percent of women in Pakistan use any kind of insurance, according to the A2FS 2015 data.

Nearly all women who use insurance live in urban areas and belong to the upper income quintiles. The low levels of insurance penetration translated into small sample sizes in KPK and Baluchistan, making any meaningful analysis of usage difficult. Nevertheless, a few general findings do emerge from the data:

- In KPK and Baluchistan, women sought insurance because of a bad experience they had in the past against which they were not insured, whereas in Punjab and Sindh women who sought insurance were motivated to purchase it either by friends and family or by an insurance company agent.
- *The most common insurance instruments* used by women in Punjab and Sindh include life insurance and postal life insurance*, whereas in KPK and Baluchistan the most common is vehicle insurance. Women in rural Punjab also reported use of agriculture/crop insurance.
- *Reasons for not using insurance* include (i) lack of information and understanding, (ii) mistrust of insurance companies, and (iii) the high cost of insurance.
- *Top risks that women face.* The most common risks women face include unforeseen medical expenses, the death or disability of a member of the household, and the birth of a child (including cesarean birth). There are, however, variations across rural and urban areas. For example, in Punjab's large cities, security-related threats such as theft or robbery matter more, whereas in rural areas unforeseen medical expenses are seen as the top risk. In the big cities of Sindh, medical expenses are a significant risk, whereas in rural areas the death of a family member is identified as the biggest risk. Among women in large cities in Baluchistan, the risk of loss of property due to natural disasters is considered most threatening.

Remittances and Payments

Overall, 3.0 percent of women send and receive money, and only one-third of these women use formal channels to do so. Most of these women receive

* Postal life insurance products are sold through the Pakistan Post at post offices across the country.

money at least once a quarter whereas they send money at least once a year. The frequency of sending and receiving money varies across provinces, being lower in Punjab where women send/receive money only once a year on average and higher in KPK and Sindh where remittances are often monthly or even weekly. Women's participation in the remittance market appears to be as net receivers of money. When they do remit, they prefer to deliver the money personally by hand. Reasons for not using formal channels relate to the cost of using these services and the lack of trust in them.

Payments have slightly higher penetration among women, with 4 percent of women making some sort of payments and 3 percent using mobile platforms to do so. The main reason for not using formal channels for payments is the perceived cost associated with them.

Mobile Money

The A2FS data show that technology has been important in enabling the expansion of access and usage of formal financial services for women (and men) in Pakistan over the past eight years. Overall, five percent of women reported using mobile money (m-wallets and OTC) in the 2015 survey, which is quite significant given that only 6.4 percent reported using conventional banking services despite the long history of commercial banking in Pakistan. Thus, although digital financial services are only *enablers* of financial inclusion leading to uptake of financial services like credit, savings, and insurance, their recent contribution to the surge in usage of formal financial services makes it important to analyze who they are reaching, what they are being used for, and why. This will help inform sector stakeholders as they consider strategies for further expanding women's access to formal financial services through mobile-based solutions.

Most of the women who reported themselves as users of mobile money services live in the small cities and rural areas of Punjab. Users are more or less spread out across income groups in the province, with usage being lowest in the lowest quintile. In terms of the services these women use, OTC payments are dominant (3 percent), followed

by m-wallets (2 percent) and OTC remittances (1 percent). The key reasons for opening mobile accounts include needing to send (or receive) money to (or from) family and friends and paying utility bills. Those who did not register said they did not do so because they did not know enough about m-wallets. This was the top reason across provinces and income groups, followed by "finding the process too complicated" and mistrust in financial institutions. In large urban centers in Sindh, women did not register because they did not see any benefits in opening a mobile account.

Lack of information is a pervasive barrier, despite a high proportion of women expressing confidence in their understanding of mobile money. At a basic level, 74 percent of women had heard of mobile money services, though just 36 percent understood what they mean. These relatively high levels of awareness are spread across rural and urban areas of Punjab, Sindh, and KPK. By contrast, women in Baluchistan lag considerably in their awareness levels, with only 28 percent saying they had heard of these services and only one percent claiming to understand them.

The challenge of awareness brings us to the issue of financial literacy among women in Pakistan. Although the debate continues, there is mounting evidence that improving the financial literacy of men and women can promote financial inclusion (Alliance for Financial Inclusion 2016). We use A2FS data to analyze levels of financial literacy among various segments of Pakistan's female population next.

Financial Literacy

The A2FS 2015 data show that 55 percent of women in Pakistan have heard of and understand some of the commonly used financial terms, such as *bank*, *pension*, *interest*, *bank account*, and *committees*. Awareness levels across provinces are as follows: Punjab, 59 percent; Sindh, 56 percent; KPK, 49 percent; and Baluchistan, 13 percent. Awareness at the national level drops to 18 percent for more sophisticated terms such as *insurance*, *shares*, *investments*, *insurance premiums*, *stock exchange*, and *exchange rate*.

There is also an urban bias, with women in urban centers in Punjab and Sindh having the highest levels of understanding. Similarly, more women in higher-income groups have knowledge of financial terms, with the knowledge gap between high- and low-income segments being wide. For example, only 43 percent of women in the bottom income quintile understand basic financial terms, whereas this ratio is 80 percent for the top income quintile. Similarly, only women in high income brackets show any significant levels of understanding of more complex financial terms. Even knowledge about Islamic banking is quite low, with only 7 percent of women at the national level saying they understand what it is (Box 4).

An analysis of the gender gap in levels of financial literacy shows interesting trends. For one, we find that the gap between genders is significantly different across provinces: in Punjab, levels of understanding of basic financial terms differ between men and women differ, on average, by only 2 percent, but the gap widens in other provinces. In Sindh, this difference is 9 percent, and in Baluchistan and KPK it is nearly 17 percent. Additionally, in urban areas and within the top income quintiles, levels

of understanding tend to be higher and the gap between men and women tends to be smaller.

As we think about designing products for women as well as our outreach strategies, it is important to understand the level of autonomy women have in financial decision making within the household. As the A2FS 2015 data show, only 4 percent of women in the country make financial decisions on their own, whereas 47 percent of them make decisions in consultation with their spouses (18 percent of men said they make financial decisions independently while 23 percent said they did so in consultation with their spouse). Women in higher-income groups are more likely to make decisions independently, but the overall levels of autonomy remain low.

Insights from the A2FS in 2008 and 2015 into women's financial behavior and preferences can be used by policymakers, financial service providers, and technology platforms as well as researchers to design evidence-based policies and financial products and solutions. The two rounds of data also make possible some ballpark estimates about the potential market size for formal financial services among women, an exercise that is taken up in the following section.

Box 4: Islamic Banking and Women's Financial Inclusion

In 2001, SBP initiated a strategy to facilitate the establishment of Islamic banks as well as Islamic banking subsidiaries and branches of conventional commercial banks in Pakistan. It issued detailed licensing criteria, instructions and guidelines for *Shariah* compliance; profit and loss distribution and pool management; and new prudential and other standards. Since the introduction of the regulations, Islamic banking has grown at a fast pace, with six dedicated Islamic banks and 16 banks with dedicated Islamic banking branches operating in the country by June 2016. At this time, total assets of Islamic banks equaled PKR 1,745 billion, equivalent to 11.4 percent of total banking assets.

In the absence of gender disaggregated data, it is difficult to see which Islamic banking institutions are serving women and how the segment has grown over time. However, the demand-side A2FS data shows some growth in usage over the period 2008-2015: women with Islamic bank accounts went from 0.01 percent to 0.4 percent. The survey also tells us that religious beliefs are an important reason for women to not open a bank account, with 34 percent of women citing it at the national level. This barrier is particularly important in small towns and rural areas across all provinces and high income quintiles in Sindh and Baluchistan. Nevertheless, a strategic focus on women within the Islamic banking industry seems missing at present.

Source: Data from SBP Banking Compendium (2016)

III. SIZING THE WOMEN'S MARKET FOR FORMAL FINANCIAL SERVICES IN PAKISTAN

The supply-and-demand-side analysis of the financial sector from a women's inclusion lens sets the background for thinking about untapped potential and ways to convert it into access and usage by and for women. Given the low levels of financial inclusion of women in Pakistan as compared to its peer countries, it may be assumed that the market is underserved and holds significant potential to expand. However, to provide some measure of how large the gap is, in this section we construct midterm demand estimates for potential women users of formal credit, savings, insurance, and mobile payments.

It must be mentioned here that these estimates are constrained by the unavailability of gender disaggregated data within the financial sector, except in the case of the microfinance subsector. In the absence of such information, we have had to rely on proxy indicators and had to combine different datasets, which can be problematic for accuracy and robustness of the estimates. Hence these numbers are *only indicative* and are meant to illustrate the high levels of untapped potential. Although the results presented here need to be interpreted with all their caveats, the exercise itself highlights the urgent need to collect gender disaggregated data.

Estimating the Potential Demand for Formal Financial Services

In this section, we estimate the market gap across four key services that are most relevant to women's financial inclusion in Pakistan in the medium term. The key data challenge in this context was the choice and use of available data. On the one hand, we have demand-side data from A2FS, but on the other hand, the supply-side data comes from financial service providers and regulators. For various reasons (discussed below) there can be substantial differences between the two sets of information, making it challenging to combine them. In the next subsection we lay out our

methodology for combining the two sources in order to construct demand estimates and subsequent growth projections for the period 2016–20.

The Methodology

Using demand-side data from A2FS data, we undertake a statistical analysis to estimate the size of the potential demand for formal financial services among women in Pakistan. To keep the numbers as realistic as possible, the exercise focuses on identifying the nonusers of each formal financial service who are *most likely to convert* to becoming users. The statistical analysis was approached as follows:

1. Existing users of informal services for each financial service (credit, savings, payments and remittances) were used as a baseline number to estimate the size of the population that forms the broadest convertible (to formal financial services) segment.
2. A further analysis of usage (frequency, ticket size, and distinction between different services) of the users of informal services, together with a comparison with the nature of the formal financial services available, was used to filter down this estimate.

3. These estimates were further refined using regression models to identify factors that had a statistically significant impact on the likelihood of usage of formal financial services. The demographic factors used included education, age, education of female household head, mobile ownership, financial literacy, and marital status (for full models and regression results, see Annex C).
4. For insurance services, in the absence of an alternative in the informal sector, a combination of demographic data and usage of related formal financial services was used to estimate the unmet demand.
5. Usage data, demographic data, and economic data were all used to assess the potential *value* of this unmet demand in the different segments.

However, using the A2FS data to create midterm projections is problematic because, as mentioned earlier, these data do not match the supply-side data used by industry players. This mismatch can lead to the following issues.

First, the A2FS (and other demand-side surveys) generates data on unique users of a financial service. For example, when the data show that 11 percent of women in Pakistan have bank accounts, this is a count of the *number of women*. By contrast, the available supply-side data do not track individual users but *accounts*, and since one person may have more than one account that person can be double- (or multiple-) counted. This creates a mismatch between the financial inclusion data generated by the surveys and the actual supply-side data that institutions track and have available. While targets for inclusion are also often set in terms of individuals, currently there is no supply-side data available to identify unique users.

Second, the A2FS is based on a national sample, which is used to infer information about the population (Pakistan's adult population). As with any inference exercise that uses a randomly selected and representative sample and other standard survey implementation procedures, the resulting data points are still subject to a margin

of error and statistical significance qualifications. When proportions and numbers emerging from the survey are as low as we have in Pakistan's financial inclusion data, this margin of error can take on additional significance. It also results in differences between A2FS data and the supply-side numbers.

A *third* challenge of using demand-side data/indicators is related to the regularity of reporting and tracking financial inclusion indicators. The industry at the moment is set up to track supply-side indicators, such as number of accounts and number of loans, on a regular basis. It is thus pragmatic to create growth projections using these indicators.

Hence, for our purposes, we draw on A2FS-based estimates of the potential market and then relate that to current levels of industry data to create projections for women's financial inclusion over the next five years. We do so as follows:

- We undertake a statistical analysis using A2FS data to generate the extent to which the market is underserved, that is, how many multiples of current outreach remain untapped. Hence, what matters for this exercise are the potential *growth rates* rather than absolute numbers emerging from the A2FS.
- We then apply these growth rates to the actual supply-side data for the year 2015 to estimate potential demand in the market. Various sources were used to obtain base year data for several types of financial service providers. These are referenced in the text.
- Growth projections are presented using supply-side data instead of A2FS numbers, since these are the indicators most likely to be tracked and used by institutions and policymakers in their planning.

In this section we discuss the potential demand and the gap in the market, and we turn to growth projections in the following section. It is important to bear in mind that whatever data we use, we find that the gap between existing female users of formal financial services and the potential users is large. The stakeholder consultation should

preferably focus on how to advance women's financial inclusion, given that these estimates only confirm what we know from institution-level data and demand-side surveys.

In addition to the estimated gaps based on the current demographics of the adult female population, further demand can be expected from exogenous factors such as economic growth, shifts in economic activity, and population growth. For example, between 2016 and 2020 five million more women are expected to be added to the adult female population base in Pakistan,¹³ showing on one hand the potential to grow but on the other, the challenge for inclusion to outpace population growth.

Potential Demand for Credit

To identify demand for credit, we started the analysis by looking at female borrowers who borrow from informal sources, ranging from shopkeepers to money lenders. Based on the frequency, nature, and size of the borrowing from shopkeepers, nonusers of formal financial services who were only borrowing goods or cash from shopkeepers were excluded from the potential demand figure. The demographic factors were tested on the use of formal borrowing sources by women using a regression analysis.

The analysis found that mobile ownership is the only factor that had a statistically significant impact on the chances of using formal borrowing services, controlling for other factors. Mobile ownership was then used as a final filter to determine the demand in terms of the number of potential borrowers. The value of potential borrowing was then estimated using the figure of PKR 45,000, which was the average size of borrowing in the last 12 months (according to the respondents in the A2FS 2015).

The female adult population in Pakistan in 2015 was 45.3 million,¹⁴ of which only 1.7 percent or 0.8 million women had used formal credit

services in the year preceding the reference period (per A2FS 2015 data). Using the demand-side A2FS data, an analysis of various characteristics of users of formal credit was done to understand the key characteristics that drive demand. Mobile ownership was found to be critical, along with the usage of informal credit (excluding store credit) and informal saving mechanisms. Nonusers with these characteristics—that is, those who own a mobile phone and are using informal credit and saving mechanisms—are most likely to use formal credit soon. These are estimated to be 7.8 percent of the adult female population, equaling 3.5 million women. This represents a growth potential of about 438 percent.

As discussed above, to convert these demand-side estimates into indicators that can be tracked by financial sector stakeholders, we proceed by taking this growth ratio and applying it to the actual supply-side data published by SBP (for commercial banks) and the Pakistan Microfinance Network (PMN) (for the microfinance sector). Based on our estimates, the total number of loans made to women at end-December 2015 by the commercial banks and microfinance sector stood at 2.9 million loans. Applying the potential growth of 438 percent to this baseline, and holding population levels and other socioeconomic indicators constant, we estimate that the total size of the credit market for women is 12.7 million loans. *The currently underserved market is thus 9.8 million loans.* This estimation is shown step-by-step in Box 5.

A2FS data allow us to break down the unmet demand by province. We find that 75 percent of the demand is located in Punjab and 18 percent in Sindh. Within all the provinces, 48 percent of the demand is in rural areas, followed by large cities and then, lastly, small towns. In Sindh, on the contrary, 67 percent of the demand comes from large cities and the remaining from rural areas.

¹³ Assuming the population growth rate stays the same at 2.1 percent. Estimates based on WB data. <http://data.worldbank.org/country/pakistan>

¹⁴ Source: The World Bank (<http://data.worldbank.org/country/pakistan>) for data on total population, and 1998 Census (http://www.pbs.gov.pk/sites/default/files/other/pocket_book2006/2.pdf) for the percentage of female population.

Box 5: Step-by-Step Estimation of the Potential Market for Credit Services Among Women

- Women borrowing from formal sources in 2015 = 1.7 percent = 0.8 million women (A2FS 2015 data).
- Potentially underserved women borrowers = 7.8 percent = 3.5 million women (estimated through regression analysis using A2FS 2015 data).
- Growth potential = $(3.5/0.8) \times 100 = 438$ percent.
- To convert this into supply-side targets, we use baseline data from the sector being tracked by SBP. According to SBP's Statistics on Scheduled Banks (Dec 2015)¹⁵, the total number of loans to the private sector by scheduled banks (including personal loans) = 3.2 million. These data are not available in gender-disaggregated form, so a proxy ratio is used. An estimate by SBP for December 2013 suggests that five percent of loans to the private sector by banking sector are going to women.¹⁶ Applying this ratio, we estimate that at end-December 2015, the baseline number of loans made to women by scheduled banks = 160,000 loans.
- To this, we add the number of loans to women by the microfinance sector, sourced from PMN's MicroWATCH.¹⁷ These data are available in gender-disaggregated form, and stood at 2.1 million loans at end-December 2015.
- Together, the 160,000 loans from the scheduled banks and the 2.1 million loans from the microfinance sector give us a baseline for December 2015 of 2.26 million loans to women.
- Applying the potential growth ratio of 438 percent to this number, we find that the total potential loans to women = 9.9 million loans.
- The currently missing market thus is 9.9 million minus 2.26 million = 7.6 million loans to women.

Potential Demand for Savings

Only 2.8 million women in Pakistan (6.4 percent) save formally using conventional bank accounts, according to A2FS 2015. The starting point for estimating potential demand for saving was an observation concerning women who only use informal services to save, such as saving cash at home, saving in assets, or saving with third parties. This pool was further filtered down by excluding savers who were only saving with cash at home or with family/friends/neighbors. The lack of use of external third parties or any kind of non-cash assets of value made them less likely, in our opinion, to seek out savings solutions from formal financial institutions.

Demographic factors were tested on the use of formal borrowing sources by women using regression analysis. It was found that high financial literacy, education higher than middle school, and mobile ownership all improved the chances that an informal saver would be a formal saver. These three factors were used to filter down the demand numbers further to reach the final size of the savings gap. The value of potential savings was then estimated using the figure of PKR 25,000, which was the average size of borrowing during the last 12 months quoted by female respondents in the 2015 AF2S. Using the characteristics of typical savers and the average saving amount, the potential demand for formal saving is 6.1 percent or 2.6 million individuals,

¹⁵ Available at http://www.sbp.org.pk/publications/schedule_banks/Dec-2015/Advances.pdf. Please see Section 3.2 (p. 65) on *Advances Classified by Borrowers - All Banks*.

¹⁶ SBP, *Key Indicators on Gender Mix*, Available at <http://www.sbp.org.pk/acd/Access-Finance-Indicators-mix.pdf>; See Table 1. We exclude microfinance banks in this estimate.

¹⁷ Available at <http://www.microfinanceconnect.info/assets/articles/52d457480386fcfc1ae14805b86aa058.pdf>

representing a growth potential of approximately 93 percent in terms of new depositors.

As we did for the analysis of credit demand above, here we apply the growth ratio to the actual supply-side data published by SBP (for commercial banks) and PMN (for microfinance banks). Based on our estimates, the total number of bank accounts held by women at end-December 2015 in commercial banks and microfinance banks stood at 15.6 million. Using the potential growth of 93 percent on this baseline, and holding population levels and other socio-economic indicators constant, we estimate that the total size of the savings accounts market for women is 30.1 million accounts. These

estimates assume one account per woman, since the A2FS data allow us to estimate the *number of potential users*.

If we also take into consideration the possibility of multiple accounts, this estimate would increase significantly. CGAP (2009) estimates that the number of accounts per banked adult is between 2.2 and 3.8, and notes that this does not vary significantly across developing and developed countries (p. 12). If we assume the average to be three accounts per person, then the potential number of women-held deposits would be 90.3 million accounts. This estimation is laid out step-by-step in Box 6.

Box 6: Step-by-Step Estimation of the Potential Market for Formal Accounts Among Women

- Women saving formally in 2015 = 6.4 percent = 2.8 million women (A2FS 2015 data).
- Potentially underserved formal female savers = 6.1 percent = 2.6 million women (estimated through regression analysis using A2FS 2015 data).
- Growth potential = $(2.6/2.8) \times 100 = 93\%$.
- To convert this into supply-side targets, we use baseline data from the sector being tracked by SBP. According to SBP's Statistics on Scheduled Banks (Dec 2015)¹⁸, total personal accounts held in commercial banks stood at 32.9 million. These data are not available at a gender disaggregated level, so we proxy the breakdown by using the ratio of women-to-men who reported that they had a bank account in the A2FS 2015. About 6 percent of women (as compared to 10 percent of men) said they had a bank account. Although this seems high, we use this ratio in the absence of better data, and break down the total personal accounts reported in the SBP Statistics by gender: 37.5 percent of accounts (12.3 million) are held by women in commercial banks.
- To this, we add the number of accounts held by women in microfinance banks, sourced from PMN's MicroWatch.¹⁹ These data are available at a gender-disaggregated level, and they stood at 3.3 million female depositors at end-December 2015.
- Together, the 12.3 million accounts held in scheduled banks and the 3.3 million accounts held in microfinance banks give us the baseline for December 2015 of 15.6 million formal accounts held by women.
- Applying the potential growth ratio of 93 percent to this number, the potential formal accounts held by women = 30.1 million accounts.
- Given the possibility of multiple accounts per depositor and CGAP's estimate that this lies between 2.2 and 3.8 accounts per person, we can estimate the total potential number of women-held deposits in Pakistan to be 90.3 million.

¹⁸ Available at http://www.sbp.org.pk/publications/schedule_banks/June-2016/Deposits.pdf. Please see Section 2.2.4 (p. 29) on *Deposits classified by Depositors - All Banks*.

¹⁹ Available at <http://www.microfinanceconnect.info/assets/articles/52d457480386fcfc1ae14805b86aa058.pdf>

Of this total savings account potential, 61 percent lies in Punjab, and 31 percent in Sindh. It is interesting to note that the demand is equally distributed over urban and rural areas in Punjab, creating a business case for financial institutions to tap rural markets. In Sindh, 25 percent of the potential lies in rural markets.

Potential Demand for Insurance

For insurance, there is no clear alternative provided by informal sources other than saving. Based on industry research and statistical analysis, it was determined that the most likely users of formal insurance services are women who are already saving at formal financial institutions. These women already have relationships with these institutions and would have the relatively high financial literacy levels needed to engage with insurance providers and understand the product offerings. This demand number was further filtered down to women who

are saving through banks and not just any formal product/service/avenue. The analysis found no reliable source of the average insurance premiums per policy from the survey or industry reports. Based on a 2011 number from an *Express Tribune* news report, we have estimated the average value of a premium to be PKR 5,000.²⁰

In the analysis of how men and women view risks differently, we also found that, as compared to men, women are more likely to identify the death of a household member and unforeseen medical expenses as the biggest risks they might have to cope with. Insurance penetration among the adult female population is only about 1 percent, meaning 0.43 million women have insurance policies. The nonusers most likely to buy insurance are already saving with the banks. They represent 3 percent or 1.3 million women. This therefore represents a growth potential of 302 percent.

Box 7: Step-by-Step Estimation of the Potential Market for Micro-Insurance Among Women

- Women using insurance in 2015 = about 1.0 percent = 0.43 million women (A2FS 2015 data).
- Potentially underserved market for women with respect to insurance = 3.0 percent = 1.3 million women (estimated through regression analysis using A2FS 2015 data).
- Growth potential = $(1.3/0.43) \times 100 = 302\%$.
- To convert this into supply-side targets, we need baseline data from the sector stakeholders. PMN in its MicroWatch tracks data on micro-insurance policy holders at a gender-disaggregated level, and places the number of women with micro-insurance at 2.1 million at end-December 2015. Data outside the microfinance sector from the wider insurance industry are not publicly available concerning the number of policy holders or the average value of premiums. The headline indicator of insurance penetration (estimated as the ratio of premiums underwritten in a particular year to the GDP) is not helpful for tracking inclusion. We thus limit our analysis to micro-insurance policy holders here.
- There were 2.1 million female micro-insurance policy holders as of December 2015.
- Applying the potential growth ratio of 302 percent to this number, we find that the total potential market for female insurance policy holders = 8.4 million policies.
- The currently missing market thus = 8.4 million minus 2.1 million = 6.3 million insurance accounts for women.

²⁰ <http://tribune.com.pk/story/454814/increasing-coverage-why-pakistans-life-insurance-business-is-taking-off>

Data on number of policy holders is not aggregated and published at the industry level within the insurance sector. The headline indicator in the sector tends to be “insurance penetration” (the ratio of total premium to GDP), which is not useful in terms of tracking inclusion. The only subsector for which data on the number of policy holders is available is micro-insurance. According to PMN, the total number of female micro-insurance policy holders as of December 2015 was 2.1 million.²¹ Applying the potential growth rate from the A2FS 2015 data above to these data from the microfinance sector, we estimate the potential size for women-held micro-insurance to be 8.4 million policies/plans.

Special caution should be exercised in interpreting potential users for insurance and the total premium paying capacity. Life insurance is the most prevalent form of insurance in Pakistan (Intermedia 2016). For this type of policy, insurance companies usually target households and not individuals. For instance, the person in the household who is the chief income earner, usually a male, is most likely to be insured. Given this business practice and household norm, accurate estimation of demand for insurance by women is tricky. Further, as mentioned at the start of this section, since insurance is a difficult concept to understand even for those with a moderate level of financial literacy, it is not unreasonable to assume that it cannot be the first point of entry for individuals, especially for women who have not used any other formal financial service.

Potential Demand for Mobile Payments

To identify demand for mobile payment services, the first cut was to identify women who made any sort of payments. The next step was to filter those numbers down to the women who stated that they paid utility bills for their families, since utility bills are the gateway for women into mobile money

transactions. Regression analysis showed that women who had a low or medium level of financial literacy and were above age 40 were more likely to use mobile money to pay their bills. We used these cuts to filter the potential demand size further. It is important to note that there are wide variations among provinces in gender comparison in terms of who pays the utility bills, with Sindh standing out as the province where more women claimed to pay utility bills than men.

Nationwide, 1.3 million (1.3 percent of) women use mobile money services for bill payments, that is, they go to an agent or use their mobile phones for payment. The majority of non-users who are most likely to use mobile money services are over age 40 and have a low to medium level of financial literacy. This segment consists of 3.2 million women, representing a growth potential of over 240 percent.

As we did for the other services analyzed above, we apply this growth ratio to the supply-side data published by SBP in its *Quarterly Branchless Banking Newsletter* (April - June 2016) (SBC 2016c). On average, 33 million customer-oriented branchless banking transactions take place every month, of which 26.7 million relate to payments (excluding cash deposit/withdrawal and mobile top-ups). Based on our estimates, we find that 6.7 million of these transactions are undertaken by women. Using the potential growth of 240 percent on this baseline, holding population levels and other socioeconomic indicators constant, we estimate that the total size of the mobile payments market for women could be 16.0 million transactions per month. This estimation is laid out step-by-step in Box 8. Capturing these transactions would provide a gateway for women’s entry into the formal financial sector as well as create opportunities to cross-sell products for financial institutions.

²¹ PMN *MicroWatch* Issue 38.

Box 8: Step-by-Step Estimation of the Potential Market for Mobile Payments Among Women

- Utility bills tends to be the entry point into mobile financial service usage. Hence we match profiles of current female users paying utility bills through mobile services to estimate the number of non-users with similar profiles.
- Current female users of mobile services for utility payments number 1.3 million, and potential additional users are estimated to be 3.2 million, showing a growth potential of 240 percent.
- To convert this into supply-side targets, we use the baseline data from the *Quarterly Branchless Banking Newsletter* (Apr-Jun 2016). Data on number of transactions is broken down into OTC and m-wallet as well as by type of transaction. On average, 33 million customer-oriented transactions are undertaken per month across OTC and m-wallets.
- Of these 33 million transactions, 26.7 million relate to payments (excluding cash deposit/withdrawal and mobile top-ups). The data are not available at a gender disaggregated level, so we proxy the breakdown by using the ratio of women-to-men who reported that they have used a mobile platform for payments in the A2FS 2015. About 3 percent of women (compared to 9 percent of men) said they had used mobile financial services this way. This is not an implausible ratio given that an SBP estimate suggests 38 percent of m-wallets are opened by women (SBP 2016d). In the absence of more precise and updated data, we rely on this ratio and break down the total transactions reported in the SBP newsletter by gender: 6.7 million transactions per month by women.
- Applying the potential growth of 240 percent to this baseline, and holding population levels and other socio-economic indicators constant, we estimate that the total size of the mobile payments market for women could be 16.0 million transactions per month.

Gap Analysis and Pathways of Growth

The foregoing analyses suggest that the potential demand for formal financial services among women is large and indicates a large untapped market. The challenge before the financial sector is to find pathways to meet that demand. The discussion here focuses on potential pathways to advance the financial inclusion of women in Pakistan. These pathways are discussed under two categories:

- *Low-hanging fruit:* These are the opportunities that are easiest to capture and do not require structural changes that would need a longer time to materialize. A time horizon of five years has been kept in mind when identifying these drivers.
- *Long-term opportunities:* These are interventions and ideas that require more time to germinate and show results.

We also develop growth projections (2016–20) for women’s inclusion, separately for credit, savings, insurance, and mobile payments. These projections are meant to guide the industry’s thinking in terms of levels of funding and strategies that would be required over the next five years instead of being hard targets.

Projections and Growth Drivers for Credit

Supply-side information on the strength of institutions, outreach levels, and policy environment, as well as demand-side data on usage, attitudes, and characteristics of women users (and non-users) of financial services both suggest that two sets of institutions are most likely to contribute to expanding women’s access to credit. These are the commercial banks and microfinance providers (including both MFBs and non-bank microfinance institutions). Based on this, we develop growth projections for these two sets of institutions, shown in Table 6.

As estimated in the section above, at end-December 2015, loans to women by commercial banks stood at 160,000 loans, whereas loans to women by the microfinance sector stood at 2.1 million loans. Collectively, the two sectors issued 2.26 million loans to women in 2015. Given that the NFIS target envisions an approximately *fourfold increase in women with formal (savings) accounts*,²² we considered applying the same rate of growth to credit (loans). Using these baseline numbers, this would mean increasing the total number of loans to women by 2020 to 9.0 million. However:

- The microfinance sector has developed its own growth strategy through its industry association, and aims to reach 4.0 million women borrowers by 2020, up from 2.1 million in 2015. The microfinance growth strategy thus envisions doubling loans to women through microfinance providers.²³
- Consequently, the commercial banks would have to reach 5.0 million loans to women over the next four years if both sectors are to collectively reach 9.0 million loans. This seems like an extremely ambitious target.

Instead, we suggest a more realistic yet ambitious target which would require the commercial banks to increase their outreach *four-fold*, that is, go from 160,000 to 640,000 loans to women by 2020. While

this number may seem low, setting a realistic goal will provide impetus to banks to develop strategies for targeting women, which can then create higher growth trajectories in the coming years. A target that seems out of reach may only discourage financial institutions and prove counterproductive.

Table 6 shows the growth projections based on the goal of doubling the credit outreach to women over the next five years. We expect growth to be faster in the later years than in the immediate future, as financial service providers develop their strategies, design products, and adapt internal operations to serve this market segment. Hence growth is projected to be relatively slower in 2016–17 and to pick up in 2018–20. All targets are indicated for the end of the calendar year (end-December).

What will drive this growth? We draw on both demand- and supply-side data to propose a few key drivers of credit growth for women.

Low Hanging Fruit: Short-Term Drivers

1. *Low interest-rate regime*: With the benchmark policy rate at its historical low, the profit margins of financial institutions, particularly commercial banks, have been squeezed. In order to maintain profitability, mid-sized and smaller banks are exploring newer areas and market segments. Some large commercial banks are also starting to tap into the female market segment, but currently

Table 6: Growth Projections for Credit (Number of Loans) to Women, 2015–2020 (in Millions)

	Baseline 2015	2016	2017	2018	2019	2020
Loans by Commercial Banks	0.16	0.25	0.34	0.44	0.54	0.64
Loans by Microfinance Sector	2.1	2.3	2.6	3.0	3.5	4.0
TOTAL	2.3	2.6	3.0	3.4	4.0	4.6

Source: Projections by authors and Pakistan Microfinance Network (*Microfinance Growth Strategy 2020*).

²² The NFIS 2015 (p. 21) sets a target of 25 percent of adult females having a formal account by the year 2020. A2FS data indicates that, in 2015, approximately 6.4 percent of women had formal accounts. This suggests that the financial sector would need to expand outreach of accounts to women by four times to reach the NFIS target.

²³ Available at <http://www.pmn.org.pk/assets/articles/fcf3e6c087ccd7077abe4908ae310e70.pdf>

the focus is limited to high-end customers. Helping these institutions go down-market to tap middle-income women will be key to meaningful growth in access.

2. *Digital credit*: This involves extending credit to clients by assessing their creditworthiness and borrowing capacity based on their cellphone usage. This not only expands the customer base for lenders but also reduces the customer acquisition cost significantly. Mobile-network-operated MFBs are already developing and piloting such products. Documenting the results of these pilots will be important to understand the risks and benefits such loans bring to clients and service providers. Also, our findings show that shopkeeper's credit is one of the most common forms of credit used by women. Digital credit products can be designed to convert this informal market into one that is served formally.
3. *Expanding the scope of credit bureaus*: Women in Pakistan lack credit histories, but this can be addressed by expanding the scope of existing credit bureaus to cover other transactions, such as cell phone usage and utility payments. This will not only address the collateral issue but also enable institutions to offer terms that reflect the actual risk women present instead of the perceived risk.
4. *Effective marketing*: A major reason for women not borrowing from formal financial institutions is lack of information about the products and services. The challenge is not just in providing information but also in how the messages are designed and received by potential clients. An assessment of the marketing and branding of banking products among women from different socioeconomic groups and geographic areas could guide institutions in ways to better design marketing strategies.
5. *Funding for growth*: Overall, the commercial banks have adequate liquidity to meet the needs of credit expansion. The advances-to-deposits ratio of the banking industry stood at a multiyear low of 51 percent in 2015, down from 60 percent in 2010. In the same timeframe, the deposit

base of banks has increased by 66 percent, with 70 percent of the deposits being low-cost deposits. However, the same cannot be said for the microfinance providers, especially the non-bank microfinance companies that depend on borrowings for on-lending. In order to reach out to 4.0 million women microfinance borrowers, they require about PKR 120 billion in additional funds. A third of these funds will be raised by MFBs through deposits, while the rest will be raised through loans. A diversified set of sources will need to be tapped to raise this amount, such as the newly formed Pakistan Microfinance Investment Company (PMIC), money and capital markets, international lenders, commercial banks, and DFIs.

Long-Term Drivers

1. *Islamic finance*: A substantial proportion of women cited religious reasons for not borrowing from a bank. Pakistan has a growing Islamic banking industry, but it lacks any focus on women. SBP could work with the Islamic banking industry to develop a strategy for targeting women and monitoring its implementation.
2. *Growth of women-owned SMEs*: Most women-owned businesses operate in the informal sector and fail to achieve their growth potential. However, little is known about women-owned SMEs in Pakistan. Understanding their financing and business needs may make it easier to structure programs and interventions to help them not only access finance but also grow. Use of technology and mobile money platforms within value chains can also create a win-win situation for women entrepreneurs by reducing their transaction costs, securing their financial transactions, and expanding access to formal financial services for women. The potential for doing so is reflected in two cases of digitizing value chains—one from Pakistan and one from Colombia—that are discussed in Box 9.
3. *Client protection*: Awareness about mechanisms of client protection and recourse is low among women. Wider dissemination of information about such mechanisms, along with a strengthening of

Box 9: Digitizing Value Chains

Although the examples we cite here do not directly relate to women-led value chains, they help illustrate the potential benefits of leveraging technology in such relationships.

Telenor and Nestle Partnership: To further financial inclusion and increase digitization within the agricultural sector, Telenor partnered with Nestle Pakistan to provide SIM cards and mobile accounts to 15,000 farmers across Pakistan. Under this arrangement, farmers are paid on a weekly by Nestle (as a proxy of the supplier) through their mobile money account. Compared to the previous method where dairy farmers received cash payments by the supplier (routed through a bank), this payment mechanism increases convenience since farmers do not have to travel long distances to receive their payment (since the amount can be cashed out at the nearest agent) and reduces risk of robbery and theft.

Although the examples at scale of businesses successfully digitizing payments are limited, one successful case is from the Colombia coffee sector. The Colombia Coffee Growers Federation issued ATM cards to 82 percent of its out-growers. This helped the company reduce its disbursement costs by up to 79 percent compared to cash, a saving of USD 15.5 million. Similarly, Multiflower, a seed and cuttings exporter based in Arusha, Tanzania, conducted a pilot in 2013 where they issued loans totaling USD 6,000 to 200 farmers and paid USD 67,000 to 300 farmers via M-Pesa's mobile money product. The switch from cash to digital payment resulted in an average saving of USD 10.75 in transport costs and 8 hours per payment per farmer. Over the duration of the pilot, participating farmers saved a total of approximately 6,000 hours because they did not have to travel to collect their payments.

Accessing Low-Cost Fertilizer in the Agribusiness Value Chain by Meezan Bank Limited: In 2016, Meezan Bank Limited piloted a seasonal inventory financing program for urea distributors. Working with 74 small and medium sized dealers, Meezan Bank created a technological based eco-system whereby it combined SME dealer finance with direct digital lending products for fertilizer purchase to the end retail farmer. The model also linked up with informal credit providers as well as microfinance institutions to cater for this niche credit market. According to Karandaaz Pakistan, which supported the pilot, the experiment shows that there are opportunities to leverage digital financial channels to serve previously unserved markets and boost financial inclusion at the base of the pyramid in rural areas.

the mechanisms, could raise trust levels among women, enabling the entry of more users into the formal financial system.

Projections and Growth Drivers for Savings

Based on current outreach, on recent growth and sector capacity, and on demand-side information on the saving preferences of women who use (or do not use) formal savings services, it is expected that three types of institutions will play a role in advancing women's use of formal sector saving products and services. These are the commercial banks, microfinance banks, and the Central Directorate of National Savings (CDNS), with technology acting as an enabler through m-wallets.

Formal savings accounts tend to be the most likely point of entry for men and women into the formal financial sector. Thus, the number of people with formal accounts tends to be one of the basic indicators that sector stakeholders and policymakers use to gauge levels of financial inclusion. However, the challenge in tracking this indicator in Pakistan is that financial service providers do not track *unique users*, and the data include people with possibly more than one formal account. Tracking the NFIS target—reaching 25 percent of adult females with a formal account by 2020—presents the same problem in the absence of data on the *unique number of women* with accounts.

With that caveat in mind, we turn to creating growth projections for the number of women-held deposits in the formal financial sector. We focus on the microfinance and commercial banks, as we did in the case of credit. Baselines for the year 2015 for the two sub-industries, as estimated in the above section, stood at 12.3 million women-held accounts in commercial banks and 3.3 million women-held accounts in microfinance banks. To develop growth projections, we consider the following:

- The microfinance industry, in its own growth strategy, has projected an ambitious target of 12.5 million accounts by 2020.
- On average, CGAP (2009) estimates that the number of accounts per banked adult is between 2.2 and 3.8, and this does not vary significantly across developing and developed countries (CGAP 2009, p. 12).
- If we assume the average number of accounts to be three per person, then to reach 25 percent of the adult female population we would need 34 million accounts by 2020 at current levels of population.²⁴
- If MFBs reached 12.5 million accounts by 2020, the commercial banks would then need to reach another 21.5 million accounts held by women.

Overall, reaching the NFIS target women's inclusion implies that the financial sector—

primarily the microfinance sector and commercial banks—collectively needs to double its existing levels of outreach to women.

Women want saving services that are cheap, that meet their needs, and that are easy for them to manage. Given that 63 percent of women save on a regular basis and only 11.0 percent save with a formal institution, the scope to tap into women's savings market is huge. Savings is also key as it is often an entry point for women to enter the formal financial sector. Some short and long-term drivers for growing the women-held deposit market in Pakistan are discussed below.

Low Hanging Fruit: Short-Term Drivers

1. *Increasing uptake of m-wallets:* M-wallet accounts provide a golden opportunity to offer savings products in a hassle-free and inexpensive manner. With commercial banks and microfinance banks both utilizing branchless banking channels, m-wallets offers the quickest way to reach unbanked women. We can already see the potential for mobile money to transform the financial inclusion landscape from the jump in inclusion data in Pakistan between 2008 and 2015. This needs to be built upon. Also, industry experts believe that the prevailing incentive structure for agents is skewed toward OTC transactions. Affecting change in these structures can have a positive impact on women's use of m-wallets, although the potential is currently

Table 7: Growth Projections for Savings: Number of Accounts Held by Women (in Millions), 2015–2020

	Baseline 2015	2016	2017	2018	2019	2020
Accounts with Commercial Banks	12.3	14.1	15.9	17.8	19.6	21.5
Accounts with Microfinance Banks	3.3	3.3	4.3	6.2	8.5	12.5
TOTAL	15.6	17.4	20.2	24.0	28.1	34.0

Source: Pakistan Microfinance Network, *Projections and Microfinance Growth Strategy 2020*.

²⁴ 25 percent of the 45.3 million adult females in 2015 = 11.3 million women.

limited by low levels of mobile ownership among women in Pakistan. Only 30 percent of women own a mobile phone, and there are social stigmas attached to women using phones independently. Khan (2016), using the Financial Inclusion Insights 2015 (FII) survey for Pakistan, finds that 18 percent of nonusers did not use a phone because they were “not allowed to use by family”; Khan suggests that promoting female mobile money agents and countering the stigma through advocacy efforts may help overcome these social biases.

2. *Deposit Insurance:* SBP is set to launch deposit insurance, which should help mitigate the trust issues women have concerning financial institutions, which were among the top three reasons for not saving formally cited across several socioeconomic groups of women. The launch of deposit insurance would need to be complemented with a publicity and awareness campaign that could reach different socioeconomic groups in order to have an impact on demand.
3. *Partnerships to tap rural markets:* The rural market is largely untapped, and its potential is high, especially in Punjab and Sindh. Concerted efforts are needed to tap this market segment through appropriate, affordable products based on a good understanding of the needs of rural women. Partnerships between rural NGOs that have a grassroots presence and financial institutions can play an important role in reaching these women and building trust.
4. *Conversion of savings locked in prize bonds:* Investment in prize bonds has grown significantly in the past few years, especially in small towns. There is a need to understand what makes these instruments attractive to women and to offer savings products that can convert these monies into deposits. Digital financial services can provide an opportunity for capturing these savings through customized and innovative product design as well as partnerships with the Central Directorate of National Savings.

5. *Retail investments and saving plans by asset managers:* Due to a decrease in the savings rates on deposits, mutual funds being offered by asset managers could be attractive to women. However, given women’s preference for familiar products, fund managers need to design products and marketing material to suit women’s preferences. Mutual funds are already starting to focus on expanding their retail client base, and considering women as a priority segment could be a win-win for both the mutual funds and female savers.

Long-Term Drivers

1. *Islamic saving instruments:* A substantial number of women avoid placing their savings with banks due to faith-based sensitivities. Islamic banking could attract these women clients to formal channels. In addition, shariah-compliant mutual funds and saving plans being offered by asset managers can also be targeted toward women. (See Box 10.)
2. *Innovation:* The approach of feminizing products will not be fruitful in the long term; a more strategic approach is needed by financial institutions for effectively meeting women’s saving needs. Moreover, both long- and short-term products with attractive returns need to be offered to lure women away from saving through informal channels in illiquid or nonproductive assets like gold and real estate. Doing so requires innovation. Making funding available to test new products, new processes, and new segments and then documenting and disseminating the findings could catalyze the expansion of services to new sectors.
3. *Shift in perceptions:* There is a trust deficit among women when it comes to financial institutions. Many also feel these institutions are not relevant to them and that opening an account will bring them no benefit. Shifting these perceptions will be important for building long-term, sustainable relationships with women clients.

Box 10: Islamic Finance Products for Women – Examples from Other Countries

The Islamic finance industry has been growing rapidly around the world and now covers a broad range of product types, such as *ijarah* (leasing), *mudaraba* (profit sharing), *musharakah* (partnerships), and *takaful* (Islamic insurance). We showcase here some examples of products that have been particularly designed for women or have proven to be attractive to women.

Bangladesh

A Rural Development Scheme (RDS) operates mainly for the poor women of the rural areas of Bangladesh under the Islamic Bank Bangladesh Limited (IBBL). As of 2012, RDS had disbursed approximately US\$577 million, benefitting 625,000 women in over 13,000 villages across 61 districts. IBBL plans to extend the RDS program to all of its 266 branches across the country's 64 districts in the coming years. The scheme works as a fund whereby each member of the group has to deposit a minimum of Tk.2.00 (Bangladeshi Taka) per week in the Centre Fund. This fund is kept by opening a Mudaraba Savings Account in the name of the respective center, and branches of IBBL have been encouraged to invest their deposits in their respective areas.

United Arab Emirates (UAE)

Abu Dhabi Islamic Bank (ADIB) offers specific products and services tailored for women in UAE under its Dana banner, which it launched to upgrade its existing services in women's banking. It offers deposit, savings, and investment accounts to women along with credit cards, various financing modes, and women-specific offers and promotions.

Dubai Islamic Bank (DIB) is the largest Islamic bank in UAE and has over 35 years of experience in Islamic banking. DIB has an extensive list of products and services, from conventional banking products to insurance (*takaful*). It offers women roughly eight different types of accounts, which include deposit and savings accounts, and around four different types of credit cards. Financing includes home, auto, and education loans along with personal/running finance. Finally, DIB has a wide range of *takaful* products that include life, health, education, and savings/investment insurance.

Indonesia

Maybank Indonesia is one of the largest private banks offering Islamic products and services to women in the country. It has been offering *takaful* and financing to women, in addition to savings and deposit accounts and credit cards. *Takaful Persona Lady* and *Premier Lady Savers* are the bank's flagship products.

Sources: UNDP, Poverty Reduction: Scaling Up Local Innovations for Transformational Change (2012); Dubai Islamic Bank: <http://www.dib.ae/johara-ladies>; ADIB: http://www.adib.ae/en/Pages/ms_personal_dana_about.aspx

Projections and Growth Drivers for Insurance

The insurance industry has struggled to make inroads in Pakistan and continues to have low penetration levels, especially among women. Only 1 percent of women use any form of insurance, and growth in the industry is unlikely without major product or process innovation. That said, there are some pilots underway that use technology and mobile platforms as conduits and could enable the insurance sector to break out of its stagnation.

Micro-insurance and life insurance are the most likely products to be able to contribute to this growth. Table 8 presents growth projections for micro-insurance only, due to the paucity of baseline data for other subsectors; these projections have been developed by the microfinance industry through the PMN. The industry aims to more than double its micro-insurance outreach to women in the five-year period of 2015–2020.

While we are constrained in developing projections for the broader insurance industry’s outreach to women, we next identify drivers of growth that apply across the industry.

Low Hanging Fruit: Short-Term Drivers

1. *Leveraging of technology*: Digital channels like telesales can be used to extend insurance products. Telecom companies have access to a wealth of data that can be mined to develop better insurance products and better underwriting policies. These channels can be especially effective at reaching young and “time-poor” women. Technology can also enable delivery of after-sales services and premium payments. Also, while several pilots of micro-insurance products have been rolled out by telecom companies in recent years, there is no

available documentation of their experiences or of the current status of those product lines. Future use of technology is likely to be informed by past experiences, and research on successful and unsuccessful experiments would help the sector avoid past mistakes.

2. *Customization of products*: The tendency to think of women as one big market segment leads to the development of generic products that in the end meet no one’s needs. The female economy is growing in Pakistan and it is likely to continue growing in the coming decades. To tap into this potential market, insurers should understand the various needs of women and the varying submarkets among women and design an appropriate variety of products.

3. *Partnerships*: MFPs and insurance companies can partner to extend insurance services to women at the base of the pyramid. MFPs that have predominantly women clients can offer dovetailed and standalone insurance products acting as agents of insurance companies, as in the case of DAMEN (documented in Showcase 2, boxed in Section 2 of this report.)

4. *Disaster risk insurance*: The areas where insurance penetration was relatively higher among women were regions struck by disasters in the recent past. Women and households vulnerable to climate change and natural disasters require products to protect them.

Long-Term Drivers

1. *Creating understanding about insurance*: There is little awareness among women in Pakistan about insurance products and how they can help mitigate risks. Women find these products to be

Table 8: Growth Projections for Micro-Insurance Policies Held by Women (in Millions), 2015–2020

	Baseline 2015	2016	2017	2018	2019	2020
Micro-insurance	2.1	2.3	2.3	2.9	3.6	4.4

Source: Pakistan Microfinance Network, *Microfinance Growth Strategy 2020*.

too complex and often substitute their savings for insurance. Among the top three reasons to save, among women in Pakistan, are “[to] meet expenses related to medical emergencies” and “[to] provide for the family in case of [their] own demise.” Creating an understanding of how insurance differs from savings and creating awareness about its value-add are both important for enabling uptake.

2. Building awareness of client protection mechanisms: Women’s low levels of trust with regard to insurance providers also need to be addressed. Organizations need to strengthen their own frameworks of client protection and provide clients with speedy and effective recourse mechanisms, and the industry and regulators also need to raise awareness of the mechanisms they have put in place to protect the public.

3. Improving gender balance in the industry: In comparison to other types of financial service providers, the gender balance within the insurance industry is highly skewed toward men. As the experience of institutions like the Kashf Foundation and Habib Bank Limited shows, success in reaching more women is affected by the gender balance within the organizations. Affirmative recruitment and staff development policies could be considered to improve gender balance in insurance companies.

Projections and Growth Drivers for Digital Payments

Usage of mobile money and digital financial services has consistently grown in the past few years in Pakistan. Measured by the number of

transactions, growth rates remain high, reaching nearly 30.3 million user transactions per month. The introduction of biometric technology and SIM verification in account opening has also pushed the number of m-wallets upwards in recent months.

As estimated above, currently women undertake about 6.7 million payment transactions per month using branchless banking platforms, and the single most common use of these platforms is for paying utility bills. As women become familiar with these payment platforms, we can expect not only that more women will use the services but also that they will diversify their usage. According to a GSMA report, women require five to 10 interactions before they become comfortable with the use of a mobile money service (GSMA 2014, p. 8). Growth in the overall number of branchless banking transactions over the 2014–15 period stood at about 35 percent, as per the SBP (SBP 2016e, p. 121). We can expect these growth rates to taper down as market penetration increases. Our projections for mobile payments by women are thus based on a goal of doubling the number of transactions by 2020. This would mean reaching about 13.4 million transactions by women per month (Table 9).

Low Hanging Fruit: Short-Term Drivers

1. G2P payments: G2P (government-to-person) payments provide an excellent avenue to increase the spread and adoption of branchless banking channels. The potential of this shift is clear from the rise in the inclusion of women in Baluchistan due to digitizing BISP payments. According to a CGAP study conducted in 2013, cash transfers make up 11 percent of government flows, while salaries account for 68 percent and pensions 21 percent (CGAP 2013). According to CGAP

Table 9: Growth Projections for Mobile Payments by Women (Number of Transactions per Month, in Millions), 2015–2020

	Baseline 2015	2016	2017	2018	2019	2020
Mobile Payments	6.7	7.7	8.7	10.4	12.2	13.4

Source: Pakistan Microfinance Network, *Microfinance Growth Strategy 2020*.

estimates, up to 75 percent of the cash flows could be digitized by 2018. This means reaching out to 11 million individuals, out of whom 7 million are cash transfer beneficiaries who are mostly women clients. This move alone could be one of the game changers in reaching out to the unbanked and expanding outreach to the last mile.

2. *E-commerce*: Though Pakistan may be a late entrant into the e-commerce sector, the market is now expanding rapidly. The combined increase in internet outreach, the launch of 3G and 4G LTE services, and the increasing availability of affordable smartphones are all contributing to this growth. While established global players like Amazon have yet to launch in Pakistan, a number of local and international portals are providing online shopping services. Currently, an estimated 3 percent of the population is using online shopping, with nearly 95 percent of the transactions being handled through cash on delivery. There is thus a huge potential for branchless banking to provide payment solutions and capture this fast-growing segment. The increasing sophistication of these payment solutions in service delivery, innovation, and product development is likely to attract more players to this field including established global players.

3. *Increase in POS terminals*: An increase in POS terminals from the present low of 50,000 would lead to an increase in use of electronic payments.

Long-Term Drivers

1. *Mobile ownership*: Currently, only 30 percent of women own a mobile phone in Pakistan. Growth in mobile ownership in coming years will also enable further growth in the use of mobile money services.

2. *User-friendly interfaces*: By diversifying the types of interfaces customers can use to access mobile money accounts, service providers can target different market segments. Graphic interfaces that are easy to use for women with low levels of literacy and little familiarity with data services could improve the chances that women will use mobile money. Additionally, well-designed apps could dramatically enhance the user experience by providing rich user interfaces and enhanced functionality.

3. *Agent network*: The maturity of the agent network and its ability to deal with a large number of transactions and big volumes are important for the adoption of these channels by women clientage.

SHOWCASE 3: STRATEGIES

In order for women's financial inclusion to advance at rates projected in this paper, retail institutions must start treating women as viable customers and as an integral part of their business strategy. Some financial institutions have begun to do so. We document two such cases here.

Habib Bank Limited's Nisa Program: Becoming the 'Bank of Choice' for Women

Habib Bank Limited's Nisa (meaning woman) is a banking platform, launched in 2015 by one of the largest banks in Pakistan, based on the recognition that most women remain un-served or underserved. The products currently available in the market for women are limited in scope, with restricted market reach. This leaves a large portion of a business segment completely untapped. By providing products and services according to the financial needs of its women customers, Habib Bank is determined to grow its client and deposit base, thus making this effort a matter of good business sense. Additionally, bringing women into the banking fold serves their financial inclusion well and will have an impact on the economy at large.

Nisa's aim is to understand women's financial needs, educate women, and develop products and services that cater to them. Building on its current strong base of 2.0 million female customers, Habib Bank Limited aims to become the bank of choice for women across the nation. With support from IFC, the bank undertook research to answer the questions, "How are women different?" and "How can this be leveraged for growth?" The resulting knowledge has been used to design the program's interventions. To date, these have included the following:

- *Encouraged internal diversity by building a critical mass of female employees:* This has involved lowering age criteria, implementing sexual harassment laws, and undertaking new human resource recruitment initiatives and female-focused job advertisements in print and online media.
- *Gender sensitization training across its staff to begin influencing staff attitudes toward women customers and colleagues.* This, Habib Bank Limited says, is good business sense as it affects customer service.
- *Developed a segment focus:* A Women's Market Unit plays a leadership role in executing the Nisa program and identifying/developing products and services targeted at women. Some of the products rolled out include women-identity-based customized debit cards and cheque books, women-oriented lifestyle and dining discounts, and preferred pricing on financial products and locker services for NISA customers.

SHOWCASE 3: STRATEGIES (continued)

EasyPaisa: Strategic Partnerships to Expand Access

As Pakistan's first and largest branchless banking solution, EasyPaisa is positioned to serve women in different segments of society. It already has an active customer base of 15 million, many of whom are women. With innovation at the heart of EasyPaisa's business strategy, the platform is constantly seeking ways to expand its engagement with new customer segments. While the mode of branchless banking itself enables inclusion of previously excluded women by providing them with instant, safe, and convenient access to funds within their own communities, EasyPaisa has also taken the lead in developing strategic partnerships that target women. Highlighted here are some of these partnerships with the government.

EasyPaisa has developed a cash-distributing solution for the Benazir Income Support Programme (BISP) that overcomes geographical, cultural, and logistical barriers by bringing financial services to local corner shops and therefore enabling women to register for and get their disbursements without having to travel to a bank. Within the scope of the BISP program, EasyPaisa plays a larger role in providing timely, safe, and convenient disbursements, in empowering women in Pakistan, and also in helping the country eradicate corruption. EasyPaisa disburses to more than 1.2 million women in approximately 36 of the most inaccessible and rural districts.

EasyPaisa is the sole partner of Care International in providing financial services to nearly 4,000 women via mobile wallets within its Cash for Work Program. To enable these women to open mobile wallets, EasyPaisa and Care provided them with free handsets along with a Telenor SIM connection. The overall goal for Care's 2011–26 strategy in Pakistan is to enable 28 million marginalized women to make financial choices that reduce vulnerability and impact their lives positively by giving them control over their productive assets and enabling them to exercise their rights in decision-making processes. EasyPaisa is working as a business partner with Care to help attain the same.

EasyPaisa collaborated with the Sindh Education Reform Program in 2014 to supply more than 400,000 girls with ATM cards, which they could use at any ATM machine nationwide. The program operates in 23 remote districts of the Sindh province, where it is providing educational stipends to female students in grades 6 through 10. No fee is charged to the program, but instead a float-based business model has been adopted.



IV. THE WAY FORWARD

The section will be finalized after the consultative workshop. The overall background paper will be updated post workshop to incorporate feedback given on the data analysis and proposed pathways of growth during the workshop. In addition, this section

will reflect key learnings from the consultative workshop (including areas for future research identified during the workshop and data disaggregation agenda that emerges from the analytical exercise for this background paper).

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ANNEX A: DEMOGRAPHIC AND INCOME DATA

Population Statistics, 2008 and 2015

	2008	2015
Total Population	167 million	189 million
Adults	50%	50%
Female (among Adults)	48%	48%
Urban	38%	39%
Rural	62%	61%
Punjab	56%	56%
Sindh	23%	23%
KPK	13%	13%
Baluchistan	5%	5%

Source: World Bank <http://data.worldbank.org/country/pakistan> and 1998 Census

Monthly Household Income Quintiles, 2008 and 2015

Income Quintiles	2008	2015
1st	Less than 9,000 PKR	Less than 18,000 PKR
2nd	9-11,000 PKR	18-23,000 PKR
3rd	11-15,000 PKR	23-26,000 PKR
4th	15-20,000 PKR	26-42,000 PKR
5th	More than 20,000 PKR	More than 42,000 PKR
National Average	14,456 PKR	30,999 PKR

Source: Pakistan Bureau of Statistics - HIES 2007-08 and HIES 2013-14



ANNEX B: DIGITAL FINANCIAL SERVICES AND WOMEN'S FINANCIAL INCLUSION: WHAT CAN GOVERNMENTS DO?

Digital financial services offer a viable solution to bridge the gender gap in account ownership and increase formal financial activity in both the volume and value of transactions. Digitization can produce a favorable environment that promotes transparent, affordable, accessible, and high-quality financial products and services for women. The outcomes include providing women the ability to save formally, which could increase their formal participation in the economy. Women particularly value privacy and reducing the risk of family members confiscating funds. Digital financial services also reduce travel and waiting time to access banks or make payments for services such as utilities, and they lower the risks of traveling with cash. Improving access to credit, increasing access to insurance, reducing the risks of theft, and lowering administrative and disbursement costs are all ways that digital financial services support women-owned businesses. The financial footprint made possible through digital payments also allows for alternative methods of assessing the creditworthiness of women who do not have traditional credit assets or a financial transaction history.

The benefits of digital financial inclusion provide a powerful basis for governments to act. Governments will unlock an economy where digital payments are widely available to women if they act to:

- Digitize the payments and direct benefit transfers they make and receive. This presents governments with a powerful opportunity to expand women's financial inclusion, while also reducing economic leakage caused by corruption, fraud, and other inefficiencies. In so doing, governments help make the business case for private sector innovation and investment in commercial services to reach low-income women.
- Adopt and promote a financial customer protection framework to ensure that new female customers are treated fairly and have sufficient financial skills so they know and trust digital financial services enough to adopt them. This should include adequate disclosure requirements and legally authorized redress mechanisms.
- Leverage modern technologies, such as biometrics, to overcome the lower levels of technical adoption and literacy among women in some countries.
- Create a digital financial identification system.
- Provide a favorable regulatory environment that allows mobile financial services to be offered and align banking and telecom sector regulations.
- Reform discriminatory policies that, in practice, make it harder for women to access or adopt digital financial services. Examples include requiring property or physical assets as collateral where there are limitations to women's ownership, or requiring the signature of men to open an account or to borrow.
- Digitize business registration procedures and license fee payments.

Source: Reproduced from The World Bank, "Digital Finance Solutions to Advance Women's Economic Participation" (Washington, DC: 2015).



ANNEX C: REGRESSION MODELS

The following regression models were used to inform the construction of the demand projection as outlined in the methodology section of the report. The relevant variables used from each model are highlighted in bold.

Variables	Parameters
age40p	= 1 if age greater than 40 years old, 0 otherwise
borrower	= 1 if borrowing from formal financial institution, 0 otherwise
edu5p	= 1 if education greater than matric, 0 otherwise
finlit	= 1 if financial literacy is high on low, medium, high scale, 0 otherwise
finlitmid	= 1 if financial literacy levels are medium on low, medium, high scale, 0 otherwise
informalborrow	= 1 if borrowing from informal sources, 0 otherwise
informsaver	= 1 if informal saver, 0 otherwise
insured	= 1 if using insurance services, 0 otherwise
mown	= 1 if owns mobile phone, 0 otherwise
notsingle	= 1 if not single, 0 otherwise
payor	= 1 if using mobile money, 0 otherwise
rural2	= 1 if resident in a rural location, 0 otherwise
saver	= 1 if saving with formal financial institutions, 0 otherwise
utility	= 1 if respondent pays utility bills, 0 otherwise

Model 1: Credit						
Source	SS	sf	MS		Number of obs = 4,470	
Model	0.30	6	0.05		F(6, 4463)	= 4.04
Residual	55.97	4,463	0.01		Prob > F	= 0.005
Total	56.27	4,469.00	0.01		R-squared	= 0.0054
					Adj R-squared	= 0.0041
					Root MSE	= .11199
borrower	Coef.	Std. Err.	t	P> t	[95%	Conf.]
age40p	-0.001	0.004	-0.310	0.753	-0.009	0.006
edu5p	0.003	0.005	0.500	0.617	-0.007	0.012
notsingle	0.003	0.006	0.470	0.639	-0.009	0.015
rural2	0.003	0.004	0.870	0.383	-0.004	0.010
mown	0.014	0.004	3.890	-	0.007	0.021
_cons	-0.003	0.009	-0.350	0.727	-0.020	0.014
Model 2: Savings						
Source	SS	sf	MS		Number of obs = 4,470	
Model	6.28	8	0.78		F(8, 4461)	= 52.62
Residual	66.50	4,461	0.01		Prob > F	= 0.0000
Total	72.77	4,469	0.02		R-squared	= 0.0862
					Adj R-squared	= 0.0846
					Root MSE	= .12209
saver	Coef.	Std. Err.	t	P> t	[95%	Conf.]
informsaver	0.075	0.011	7.030	-	0.054	0.096
mown	0.036	0.011	3.270	0.001	0.014	0.058
finlit	0.053	0.011	4.680	-	0.031	0.075
age40p	-0.027	0.011	-2.420	0.016	-0.050	-0.005
edu5p	0.035	0.015	2.340	0.019	0.006	0.064
_cons	0.061	0.009	6.410	-	0.042	0.079

Model 3: Insurance						
Source	SS	sf	MS		Number of obs = 4,470	
Model	1.53	9	0.17		F(9, 4460)	= 19.47
Residual	39.08	4,460	0.01		Prob > F	= 0.0000
Total	40.61	4,469	0.01		R-squared	= 0.0378
					Adj R-squared	= 0.0359
					Root MSE	= .09362
insured	Coef.	Std. Err.	t	P> t	[95%	Conf.]
saver	0.0398663	0.004333	9.2	0	0.031	0.048
borrower	0.0457108	0.0114844	3.98	0	0.023	0.068
informsaver	0.005195	0.0029533	1.76	0.079	-0.000	0.01
informalborrow	0.0016038	0.0074529	0.22	0.83	-0.013	0.016
mown	0.0049644	0.0030359	1.64	0.102	-0.000	0.010
finlit	0.00337	0.0031275	1.08	0.281	-0.002	0.009
age40p	0.0029927	0.0031248	0.96	0.338	-0.003	0.009
edu5p	0.0063656	0.0040934	1.56	0.12	-0.001	0.014
_cons	-0.006466	0.0026062	-2.48	0.013	-0.011	-0.001
Model 4: Payments						
Source	SS	sf	MS		Number of obs = 4,470	
Model	3.80	7	0.54		F(7, 4462)	= 25.53
Residual	94.92	4,462	0.02		Prob > F	= 0.0000
Total	98.72	4,469	0.02		R-squared	= 0.0385
					Adj R-squared	= 0.0370
					Root MSE	= .14585
payor	Coef.	Std. Err.	t	P> t	[95%	Conf.]
utility	0.057019	0.0045869	12.43	0	0.048	0.066
mown	-0.0029705	0.0046348	-0.64	0.522	-0.012	0.006
finlit	-0.0142273	0.0066965	-2.12	0.034	-0.027	-0.001
finlitmid	0.0123058	0.006053	2.03	0.042	0.000	0.024
age40p	0.0127001	0.0048659	2.61	0.009	0.003	0.022
edu5p	0.0101757	0.0063914	1.59	0.111	-0.002	0.022
_cons	-0.0042129	0.0056259	-0.75	0.454	-0.0152	0.006

