Assessing the impact of a micro-finance programme: Orangi Pilot Project, Karachi, Pakistan

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Introduction

This chapter is about a microfinance programme initiated and sustained by the Orangi Pilot Project (OPP), a well know non-government organization in Pakistan. Despite its low income economy the country holds a geographically strategic position in South Asia. It borders with Afghanistan, Iran, China and India – the countries featuring in the headlines of growth and security. The total population of Pakistan is 150 million of which 36 per cent lives in cities. Demographers are of the opinion that upto 40 per cent of Pakistan's population is urban. The reason for under-estimation is the "faulty" definition of urban in the census. An estimated 10 million urban poor live in Pakistan. Most of the urban poor live in Karachi, Lahore, Faisalabad and Peshawar the four largest cities of the country. Karachi is the commercial centre of Pakistan and one of the fastest growing cities in the world, set to become the world 7th most populous city by 2015. The urban programmes of Orangi Pilot Project started in Karachi in 1980.

While Pakistan has recently been applauded for its devolution reforms, the country still needs to overcome major challenges of social and gender inequalities (DFID, 2005). According to the Human Development Report 2003, the country is facing a crisis of poverty and economic and social degradation. Poor health, illiteracy, un-employment, and gender and social discrimination are widespread. Every year, over half a million children die before the age of 5 and 25000 women die in child birth. The development priorities from the perspective of the poor in Pakistan are (DFID, 2005):

- More jobs and not just in urban areas
- Basic services, especially health care
- Access to political power and justice
- Access to land and water
- Improved safety nets.

These are considered necessary because of serious structural problems faced by Pakistan's economy after the World Bank IMF imposed structural adjustment (Arif Hasan, 2006). Various public and nongovernmental interventions in the development process seek to reduce poverty, enhance employment and improve the quality of life of the poor in Pakistan. Previously states played a more active role in the lives of citizens providing basic welfare and public goods, and in many cases, provided employment for life. In the 21st century, there is the rise of poverty and unemployment when (or perhaps, because of) the states' withdrawal from these responsibilities. For the most part, the responsibilities of the government have shifted to attempts at providing 'enabling environments', encouraging market institutions to provide goods and services.

Although hundreds and thousands of NGOs and community-based organisations (CBOs) now work with the underprivileged and poor and provide development services, the void created by the change of government policy has not been filled. Many NGOs and CBOs have become contractors in the process, financed by national government programmes or international official development assistance, while others have a broader mandate of developing community organisations and helping people identify their particular problems and their own solutions. With this intervention by NGOs, the nature of debate regarding development has also changed; large dams and grandiose projects are now opposed by civil society organisations who want them substituted by smaller, community based, projects and innovations. However, government planners still think in terms of mega-projects. In spite of this, small savings schemes, village organisations, agricultural water channels, neighbourhood committees, women's empowerment programmes and income generating projects are common activities within this form of development which claims to be participatory, inclusive and more egalitarian than the earlier statist interventions. In this regard, there has also been a growth in the concept and practice of the provision of microfinance for small-scale businesses, firms and households in urban and rural areas.

Microfinance is fast becoming the new buzzword of development involving both NGOs and government sponsored programmes. In Pakistan, the Pakistan Poverty Alleviation Fund, the Khushal Pakistan Programme, the Khushali Bank, the National Rural Support Programme and the Small and Medium Enterprises Development Agency among others now consider the provision of micro-finance as an important component of their agenda. Micro-finance interventions work on the belief that the most significant constraint towards the growth and dynamism of the small and medium (often informal) sector in urban areas and the small/family household farming sector is the timely availability of credit at affordable rates. While most such enterprises borrow in informal finance markets the rates are often extortionate. The argument is that if there was a fair and efficient financial market, small enterprises would grow and this would be employment-enhancing, poverty-alleviating and contribute to macroeconomic growth.

Since micro-credit, especially in the urban sector, is offered to entrepreneurs who own a business or offer a service, it is unlikely that these people are very poor. The very poor do not have the assets that could allow them access to formal loans. Unlike charity or safety nets, microfinance requires the recipient to be able to invest the loan in their business and importantly, in order to keep the programme running, to repay the loan. The programmes of Orangi Pilot Project started in the low income area of Orangi, Karachi in 1980. This chapter is adapted from an impact study (Reference of Akbar Zaidi Study) carried out for the micro-finance programme of OPP's Orangi Charitable Trust (OCT) established in 1987. This chapter includes an introduction to the programme and a livelihoods analysis to inform the strategies on urban poverty reduction. The end of the chapter draws conclusions for the benefit of similar programmes elsewhere.

Background of Karachi and the Orangi Pilot Project

To understand the livelihoods impact of the OPP-OCT microfinance programme, it is important to understand the urban context of the city and other programmes of OPP. Karachi was built in the late eighteenth century to serve trading routes to the Indian sub-continent and central Asia (Hasan, 2002). The city has observed a phenomenal increase of population in the last 200 years and has always been a host for important educational, health and cultural institutions. After Pakistan's independence in 1947 some 600,000 refugees from India moved to the city and the city was made the capital of the country. Since 1947 to date Karachi has seen a steady population and economic growth. Today an estimated one million refugees and illegal immigrants from Afghanistan, Bangladesh, Iran and Burma work in the city of 13 million people.

A number of social and political changes have taken place in Karachi in the last 20 years. Despite the problems of riots and growing number of crimes, the city remains a major employer for the urban poor. A majority (75 per cent according to the Karachi Development Plan 2000) of income earning and employment activities are in the informal sector, while the city port, formal sector manufacturing industry, trade and municipal institutions also provide jobs to the urban poor. Informal housing and related physical and social facilities now serve the needs of more than 40% of the city's population. These services range from schools, child care, water, sanitation, waste collection, transport and electricity. An estimated 40% of the Karachi population live in the squatter settlements which are expanding gradually.

A number of factors contributed to the formation of squatter settlements in Karachi. The settlements formed nearer to the industrial areas and have grown rapidly because of migration – both rural urban and regional, house-price speculation, mutual support and security of assets among the urban poor. The large squatter settlements of Orangi and Shershah are situated in the West of the city, hosting a population of more than 1 million people. There are more than 900 squatter settlements within and around the city.

Dr Akhtar Hameed Khan, a well know social scientist started work in Orangi in 1980. He believes in an open ended approach of investigation, consultation, experiment and evaluation. The well know programme on self-help sanitation started in 1981, using households living on the same street as the unit of organisation for underground sewerage systems. The process involved the recognition of the different levels of sanitation.

- Inside the house—the sanitary latrine.
- In the lane—underground sewerage lines with manholes, settling tank and house connections.
- Secondary or collector drains.
- Main drains and treatment plants.

In Orangi, OPP found the house owners willing and competent to assume the responsibility of constructing and maintaining all sanitary arrangements at the first three levels with their own resources and under their own management. These three levels constitute 65 to 80 per cent of the cost of the system. The main drains and the treatment plant must remain, like main roads and water lines, the responsibility of a central authority.

According to Dr Khan there are four major barriers for communities to work together and develop their infrastructure at their own cost (Khan, 1996): These bearers that need to be overcome are:

1) Psychological Barrier: The mistaken belief in communities that they would get sewerage and sanitation from governments and politicians as a free of charge service.

2) Social Barrier: This is removed by developing trust and the facilitation of mechanisms for collective working of households at the street and ward levels.

3) Technical Barrier: This is removed by developing simple and appropriate technology, provision of maps, estimates and tools for construction.

4) Reducing cost to an affordable level through research and extension.

The OPP economic programmes started immediately after the establishment of the sanitation programme. The small programmes on women entrepreneurs and family enterprises started in 1984 and 1987 respectively. The initial focus was on buying sewing machines for women entrepreneurs. Later women's work centres were established and OPP staff assumed the role of the 'middlemen' – arranging orders from exporters to women's small enterprises. Based on research that reflected on the earlier programmes, it was revealed that there is no shortage of entrepreneurial skills in Orangi. There is a significant demand for products and services and the enterprises are extremely competitive. OPP then decided to establish a trust called Orangi Charitable Trust (OCT) in 1987 (Khan, 1996 page 103) which has focused on microfinance. OCT's stated objective is to provide capital to emerging family enterprises, in other words not specifically give loans to the poorest of the poor to address poverty. OCT relies on the undoubted multiplier effect on incomes and employment amongst the poorest when it invests in the micro-enterprises one rung up the economic ladder. The other main features of OCT's microfinance programme are as follows:

- Promotion of lenders groups on the basis of similar trades or services
- Use of agents or activists to promote group co-operation and identify potential businesses
- Loans are made to individuals who are backed by two guarantors
- Continuous monitoring of group performance, type of business, regions etc. to advise lenders and assess loan application.
- No stress on savings particularly in the environment of reducing interest rates leading to lower values of capital
- Developing partnerships with other NGOs in the country and provide training on similar programmes

The Orangi Pilot Project (OPP) is now one of Pakistan's best-known NGOs and has been involved in numerous community interventions including the provision of micro-finance to entrepreneurs in Orangi (Karachi) and elsewhere in Pakistan. As we show below, the OPP's credit programme has a very low default rate, and is considered to be successful. However, there has been only one previous study to look at the impact of credit provision on the standard and quality of life of the borrowers. (Reference) This study uses a larger database and a different methodology to evaluate the impact of micro-finance on the standard and quality of life of the borrowers.

Microfinance Programme of Orangi Charitable Trust (OPP–OCT)[1]

The Orangi settlement is a huge, sprawling, complex web with a well-rooted, well-established, and efficient informal economic and financial sector consisting of transport, housing, credit, education, health, and related activities. Many of the informal activities undertaken in Orangi, and elsewhere in Karachi and Pakistan, are considered to be 'illegal' and un-regulated by the government. Nevertheless, whether it is informal, illegal, or legitimate, activities in Orangi provide employment to many households and create income and assets. The Orangi

[1] Parts of this section are drawn from *Housing by People in Asia,* Newsletter of the Asian Coalition for Housing Right, Number 14, February 2002, p 8-9, .

Pilot Project-Orangi Charitable Trust OPP–OCT (henceforth OCT), was registered in 1987 to support people's economic development efforts in urban and rural areas through the provision of credit. The objective of the programme is to make the credit accessible to existing micro enterprise units and farmers at bank rates of interest.

According to the Karachi Development Plan 2000, 75 percent of Karachi's labour force is employed in the informal sector. The informal sector takes loans from the informal market with an interest rate of 8 to 12 per cent a month. OCT estimated that there are 23,000 small businesses in Orangi employing more than 120,000 persons and their research suggested that the production and employment could be increased if credit was accessible. The programme provides loans to existing businesses without complex, lengthy procedures and collateral. These loans vary between Rs. 1,000 to Rs. 50,000 with the average loan amount of Rs.15,000 to Rs. 25,000. The interest rate is the market rate of 18 per cent per annum in late 1980s. Between September 1987 and September 2002, OCT provided loans to 9,197 units amounting to Rs.184.67 million in urban and rural areas. Out of this Rs.156.62 million has been recovered with service charges amounting to Rs. 29.34 million. The rate of recovery is around 95 percent. Between the financial year 1987-88 to August 2005 the OCT has given loans of Rs 317,651,663 of this, Rs 176,566,479 has been given outside of Orangi. Its overheads have been 10.43 per cent of the loan and its service charge has been Rs 46,690,950 which is 144.75 per cent of the overhead. The repaid principle amounts to Rs 258,436,606. The loan has been utilised by 24,319 units of which 15,954 are outside of Orangi. Since 1992 to August 2005, 397 groups from NGOs and CBOs from all over Pakistan consisting of 2,399 participants have received training and/or orientation. A total of 32 NGOs/CBOs have been supported in Sindh and they are providing loans in 255 locations and villages. 14 NGOs and CBOs have been supported in the Punjab and they are providing loans in 153 locations and villages. One NGO each in Balochistan and NWFP are also being supported and they are working in 15 areas and villages.

At the initial stages, OCT provided loans from its revolving fund borrowing from commercial banks through overdraft facilities and depositing recovered instalments back into the account. Since receiving annual grants for overheads and donations for revolving loan funds, OCT has become less dependent on bank overdrafts. The programme has been replicated by 47 NGOs/CBOs from several urban and rural areas of Pakistan. In Sindh, Rs 105,881,228 has been given as loans to 8,813 units through 47 CBOs and NGOs partnerships in 255 locations and villages. In Punjab, Rs 63,162,330 have been given as loans to 4,134 units through 17 NGOs and CBOs partnerships in 153 locations and villages, while in the NWFP and Balochistan, one such partnership each has received a loan. The figures for Sindh are from 1994 to August 2005 and for the Punjab are from 1997 to August 2005. The NWFP credit programme began in 2002 and the Balochistan one in 2005.

The success of the micro-finance programme has attracted many NGOs and groups from several areas of Pakistan wanting to replicate the programme. The OPP philosophy is that replication should go beyond the programme to the capacity building of the institution replicating the programme at the local level. To replicate the micro-finance programme, OCT provides three types of support to strengthen CBOs and NGOs. The first support is training and guidance on the concept and methodology of the programme; 73 CBOs and NGO partnerships in 25 cities have already received training. The second is core funding for operational expenses; this has been provided to six CBOs. The third is a line of credit for these organisations enabling them to on-lend to entrepreneurs.

Lending and Loan Procedures

OCT makes loans directly to individuals and increasingly through bulk loans to NGOs, community organisations, trade associations and farmers' collectives, which then select borrowers and manage repayment and collections. In the area that OCT directly manages, loans are made only to established entrepreneurs who wish to expand, or who have been engaged in a business and want to start out on their own. OCT evaluates all loan applications through a committee of area supervisors and after careful scrutiny of the application, makes a decision to lend. Only a verbal collateral is required when someone vouches for the borrower. This could be another borrower, or an NGO or a community organisation; this person or group must know the person applying for the loan and is required to take responsibility for getting the money back and for chasing the borrower if he defaults or is likely to default. The process of selecting borrowers is casual, and draws heavily on the myriad of informal networks and the “grapevine” within Orangi’s lanes and neighbourhoods. Some borrowers are introduced by the programme’s five social organisers who have social links with local people. Many borrowers suggest themselves, some are recommended by other borrowers.

The Need and Purpose for the Study

OCT wished to examine the impact of the credit that they provide on livelihoods, and to evaluate how increased income has been used to improve living conditions, physical asset accumulation, housing, education and health. Hence they established a study to examine the impact of the credit programme on income generating activities and urban livelihoods including the studying of impact on a host of related activities. The objective was to determine and document whether income generated through businesses on account of credit supplied has improved physical, financial, human and social asset creation. The specific questions are:

- Is there improved physical asset creation in terms of better housing/living conditions?
- Is there more access to water and sanitation?
- Has improved income resulted in more children, particularly girls, going to school?
- Has improved income resulted in better health care?

In addition to sectors such as physical, human or financial asset creation, the study sought to capture the impact on social capital such as the greater involvement in community organisations.

Methodology

Unlike more traditional poverty reduction mechanisms such as the provision of water and sanitation, credit disbursement and its use is an individually orientated activity with few visible external impacts. Hence, the household/business was the focus for this study. There were three sources of information:

- separate interviews with all the potential respondents in a number of clusters;
- secondary data -- records of borrowers who have taken loans two or more times from OPP-OCT; and
- focus group discussions.

An attempt was made to measure, or at least observe, the impact of more traditional and standard credit-related interventions and repercussions on households, business and neighbourhoods. In addition, the study tried to examine the possible negative repercussions of successful interventions as well:

- Has greater income on account of credit had any negative impacts?
- Are women treated better or worse after income enhancement?
- Are there any negative environmental impacts due to relatively greater affluence?
- Are children asked to trade off school/learning time for help with a growing business?

Three areas were selected for the study. OCT has provided loans to 9,197 enterprises out of which 5,409 units are in Orangi. In Orangi, ten clusters were selected. Loan recipients were selected from those who had taken loans between 1999 to 2002, paid their loan back and applied for the second loan. Out of a total 1553 such units, a random sample of 110 clients was drawn. This sample comprised of 96 men and 14 women. Lyari and Eisa Nagri were selected as clusters where OPP-OCT is not providing a loan. Sixty nine interviews, including 63 men and 6 women were conducted of the enterprises which had never taken a loan from OPP-OCT. Enterprises were categorised with respect to their size as follows: large: assets more than Rs.100,000; medium: assets between Rs. 50,000 to 100,000; small: assets between Rs. 25,000 to 10,000; and very small: assets less than Rs. 10,000. Respondents from all the major ethnic backgrounds were interviewed. In addition, twenty women were interviewed who had taken loans from OCT, and six from women entrepreneurs who were non-OCT borrowers. See Tables 1-3 for the survey distribution.

Background of Interview Respondents

Table 1: Male Entrepreneurs Who Borrowed Loans from Elsewhere

Assets	Manufacturing	Trading	Services	Total
Large	4	3	8	15
Medium	5	11	3	19
Small	0	4	3	7
Very Small	2	13	7	22
Total	11	31	21	63

Table 2: Female Entrepreneurs Who Borrowed Loans from Elsewhere

Assets	Manufacturing	Trading	Services	Total
Large	0	0	0	0
Medium	0	1	0	1
Small	0	0	0	0
Very Small	2	3	0	5
Total	2	4	0	6

Table 3: Male Entrepreneurs Who Borrowed Loans from OCT

Assets	Manufacturing	Trading	Services	Total
Large	6	7	0	13
Medium	12	9	1	22
Small	10	22	9	41
Very	9	9	2	20

Small				
Total	37	47	12	96

For female entrepreneurs who borrowed from OCT, the breakdown of the sample is not available. However, a total of 14 women were interviewed, including 2 in large assets, 4 in medium assets, 5 in small assets and 3 in very small assets.

A questionnaire was designed to capture the impact on the business in terms of changes in incomes and livelihoods. Data was collected about initial own investment and its use (before loan); loan and its use; house assets and basic facilities (before and after loan); income/saving ratio (before and after loan); income in relation with business enhancement (before and after loan); business assets before and after the loan; and livelihood status, i.e., housing, nutrition, dress, medical treatment and education (before and after loan). Two focus group discussions were also held with around 60 borrowers, some of whom were loan defaulters.

Perhaps the greatest disappointment was an inability to quantify the gains that have been made on account of the loans, either for the business, or subsequently on the standard of living of the borrowers. The original purpose of this exercise was to estimate, with as great a degree of accuracy as possible, the numerical – whether in monetary terms, percentages, or in terms of quantifiable assets – impact of the loans, but for numerous reasons, we have not been able to do this. One reason is that there are too many variables that affect business output and it is not easy to isolate the impact of the loan. Even if we are to assume, as many respondents have told us, that the loan has made a difference to their business and livelihoods, it is not possible to quantify this difference. Such variables include the political conditions in Orangi, political changes in the country, the military government taking over, theft at their business premises and additional hours at work. In addition, in a majority of the cases, we find that households are not dependent on their business income alone but substantial income is brought into the household due to family members working elsewhere. Due to collective income and expenditure patterns, with income from one households being utilised in others, it is not easy to estimate the impact of the loan on business outcomes.

Hence, while many borrowers talk about the improvement in their livelihood pattern in terms of better food intake and good medical services, it is not possible to estimate any numerical value for this improvement. Due to this, the discussion that takes place in the next sections is, unfortunately, limited to description, analysis and discussion in a qualitative manner, and not as we originally set out to do, to quantify the increase in business and livelihoods of borrowers.

Results and Observations

Not a single borrower said that his/her business had suffered on account of the OCT loan. There may be other factors that have resulted in businesses not doing well, such as illness, theft, the overall environment but, not surprisingly, the OCT loan does not have a negative impact on business or living standard of borrowers. Even those, and there are a large number, who say that they are having difficulties in repaying the loan at the moment, do not hold OCT or the loan responsible for their current predicament.

Almost all those who have taken an OCT loan said that their business had expanded and their livelihood pattern and standard of living has remained the same or has improved. However, many borrowers who claim that they live better now, say that this is because of non-loan related factors, such as hard work, extra hours, no holidays and income supplements from other family members. In addition, there are many businesses whose business and income have deteriorated despite taking the OCT loan.

If we examine the replies from those who have not taken loans from OCT, our control group, we see that even without taking loans, the majority of respondents feel that their businesses and quality of life have improved. This is particularly so at the higher end of the business scale. A reading of the non-OCT replies, for the most part, seem very similar to those entrepreneurs who have taken OCT loans and there does not seems to be much difference in terms of assets and profits. Most non-OCT borrowers have as many or as few household goods as those who borrow from OCT. Numerous business people have never taken a loan, say they don't need one or want to take a loan, and manage on retained earnings or on money from communal saving schemes. Bisees seem to be the largest source of saving/investment and credit for most entrepreneurs, when they put aside a portion of their turnover. This is common among the borrowers, both OCT and non-OCT.

The difference between the non-OCT and OCT borrowers is particularly acute at the lower end of the entrepreneur divide. The small and very small OCT borrowers seem to have somewhat better standards of living than the non-OCT borrowers. Perhaps this suggests that micro-finance is needed more at the lower end of the entrepreneurial/income scale. Possibly this can partially also be explained by the fact that those who are in the medium or large category of business usually have other sources of available credit from relatives or from suppliers, and some sources of alternative collateral. For micro-credit or for informal credit from the market, collateral is not required. This does not seem to be so in the case of the small and particularly, very small, category.

Another difference is the location of the businesses. It seems that businesses in Khadda Market and particularly in Eisa Nagri (the control area), are, as a whole, less well-off than those in Orangi. This could be due to the social and economic differentiation between the different locations.

Trends facing OCT borrowers

The three tables below, give some indication on the impact of the loans on different sizes of businesses. Table 4 shows what the borrowers think about the impact of the loans. This table has been constructed by summarising the arguments made by the respondents and cross checking interview data. In the 'Unambiguously Yes' category, we are certain that the data given by the respondents corroborates their own impression about the impact of the loan. The second column in Table 4 shows that while they themselves feel that the loan has helped, other information that they have given the interviewer contradicts with this impression. For example, while a respondent can claim that the OCT loan has been good for them and/or their business, often they will reveal that their income is half or much less than what it was a year or two ago, or that they have had to lay off workers. To really understand the impact of the OCT programme and the reasons for the responses, an indepth evaluation of the external factors such as impact of recession and inflation on businesses in the informal sector is required. The study has not aimed at doing this. The third column is for those who say that their standard of living has not improved or the very few who feel that it has deteriorated. It is important to point out that while these numbers reveal that the standard of living of the borrowers may have improved, it may not necessarily be on account of the loan.

Table 4: Has your standard of living improved since you started taking the OCT loans? (in percentages, for men)

Size of Business	Unambiguously Yes	Yes, but contradictory evidence	No improvement or Worsening
Very Small	33	17	50
Small	62	14	24
Medium	82	14	4
Large	79	14	7

From the table it seems that in all categories other than the very small business category, entrepreneurs feel that their standard of living (livelihood pattern) has improved markedly and unambiguously after they took the loans. In the medium and large category, this is particularly the case. It is only in the very small category, where a very large percentage (50 percent) feel that there has been no improvement in their living standard. This could be due to the vulnerability faced by small businesses in times when the business environment is not particularly good.

Table 5: Were household goods and expenditures on the house/weddings greater before or after taking the OCT loan? (in percentages, for men)

Size of Business	Before	After
Very Small	33	65
Small	57	43
Medium	48	52
Large	36	64

Table 5 shows that in terms of household assets and expenditure patterns mainly on non-essentials, the very small business category has done better than the results suggested by Table 4. How can 65 percent of small businesses add to assets when 50 percent of the sample says that there has been no improvement in their standard of living? Perhaps the explanation to this quandary could be that very small businesses buy basic household goods as soon as they make a profit, and these goods are more essential to them than to people on the higher side of the assets bracket. This could also be the explanation of Table 4: that very small businesses do not show much expansion in their businesses, because they end up buying household goods as soon as they can afford them. Perhaps they have less profit to reinvest in their businesses and have shorter time horizons. From Table 6 it does seem that most very small businesses are able to repay their installments easily.

Table 6: Is repayment of the OCT loan easy or a strain on resources? (in percentages, for men)

Size of Business	Easy	Difficult
Very Small	70	30
Small	89	11
Medium	73	27
Large	93	7

Tables 7-9 present similar findings for women entrepreneurs, but because their sample size is much smaller, results are far less conclusive and merely indicative. For example, with just two large businesswomen, our results in this category reveal very little.

**Table 7: Has your standard of living improved since you started taking the OCT loans?
(in percentages, for women)**

Size of Business	Unambiguously Yes	Yes, but contradictory evidence	No improvement or Worsening
Very Small	75	0	25
Small	50	50	0
Medium	66	17	17
Large	0	50	50

Table 8: Were household goods and expenditures on the house/weddings greater before or after taking the OCT loan? (in percentages, for women)

Size of Business	Before	After
Very Small	75	25
Small	0	100
Medium	67	33
Large	50	50

**Table 9: Is repayment of the OCT loan easy or a strain on resources?
(in percentages, for women)**

Size of Business	Easy	Difficult
Very Small	60	40
Small	75	25
Medium	83	17
Large	100	0

Before we turn to other findings, a few words are necessary to elaborate upon the impact argument. While many entrepreneurs appear to underrate the impact of the OCT loan and said that there has been an improvement because of their hard work (ie. working 14-16 hours a day and not taking a day off) what they have missed is that the OCT loan may have been the impetus to getting their business on to a stable and strong footing. Many entrepreneurs did mention the fact that the loan did help them initially, especially those who were in the trading sector, where they were able to buy goods in bulk, cut down on their transaction costs and reduce overall costs. On reading the survey forms closely, we feel that perhaps some entrepreneurs have been a little ungenerous about the role the OCT loan has played in supporting their business.

Our survey revealed that a very large number of individuals improved their houses as their incomes increased, installing cement floors and replacing their tin roofs with more permanent roofs. Most respondents already had water and sanitation facilities since these entrepreneurs were not part of the very poor. In terms of education as well, with very few exceptions we found that most children were going to school before the loans. However, some respondents did say that after the loan when their income had increased, their children were going to better schools. For health care, there was a clear improvement in terms of a larger proportion of borrowers saying that the increased income allowed them access to private hospitals and doctors.

These factors further support the claim that there has been a clear and visible improvement in living standards of borrowers. This qualitative improvement also compares favourably with non-OCT borrowers, where the overall standard of living seems somewhat lower than those who took the OCT loan. During piloting of the questionnaire, a few defaulters who were not able to repay the OCT loan were included and all stated that their incomes had fallen markedly, that they were very poor due to their circumstances, and were forced to sell their assets and property, with one respondent saying that he had to remove his daughter from school. So while there is very clear evidence from those who's living standard has deteriorated on account of their business failing, one can assume the reverse, that an increase in business prosperity is likely to improve the standard of living. This has been corroborated clearly from this study.

The study started with a possible hypothesis to perceive the negative impact of income expansion; did a family business which was expanding involve more family labour perhaps at the cost of taking children out of school? However, the study found no evidence of this; if business was going well, members of the family would help but they would not remove their children from school. Those who said that their family members helped emphasised that they did so after school or after work elsewhere. This dual burden school/work or two jobs may be very difficult but this did not come through during the course of the survey. Unfortunately, it was also not possible to observe the impact of improved livelihoods on gender relations.

One of the findings is that a very high proportion of borrowers take money for running finances and to buy raw material or to buy in bulk. Very few borrow to purchase machinery or make such substantial investments. For many borrowers, lack of finance seems to be a short-term constraint related to the need to pick up a bargain, buy in bulk or stock up their shop. This means that many entrepreneurs can delay taking the loan since such bulk buying is unlikely to be essential. If entrepreneurs are borrowing to ease over slow periods or temporary financial shortfalls, they can often temporarily reduce the scale of their operation. The results from non-borrowers suggest that many entrepreneurs do not seek credit, and manage well without it.

Tables 6 and 9 show that a very large majority of borrowers face little problem in repaying the installments each month with indicative improvements for income, savings and livelihoods. The amount that each borrower is paying back each month is taken from extra income generated. While the repayment period is in progress, this repayment is a net loss to the borrower. But, from the month that the loan has been paid back, the installment amount becomes a net gain to the former borrower. What the OCT loan does, is that it takes the borrower to one higher level of income, equivalent to the installment, as a consequence of taking and repaying the loan. When asked what the borrowers would do with their loan repayments once they did not have to repay OCT, most answered that they would reinvest it in their businesses. This shows that the OCT loans do have a positive impact on livelihoods and income after the loans have been paid back in full.

One interesting finding is that almost all entrepreneurs, including the smallest, are part of some savings committee, putting aside some income into a savings scheme that gives them an occasional interest-free capital sum as the funds revolve around the contributors. With very few exceptions, spending on almost all household goods, purchase or renovation of the house, and particularly on marriage ceremonies, comes from this form of savings. The bisee is the mainstay of a very large entrepreneurial sector in Pakistan. This form of savings may also explain why many businesses did not need a loan and relied on their bisees. Many OCT borrowers who were complaining about the ability to repay the OCT loan installment, were, nevertheless, putting aside money into a committee. Savings committees rather than lines of credit seems to be the source of capital on which much of their business and non-business survival and livelihoods depend. Another observation about the bisee system is that there are no interest payments involved. If this entrepreneur is part of a committee, and receives the capital at the beginning of the process the capital is acquired interest free, if later in the period there is an opportunity cost. In addition, the capital amount is far higher than the amount available from the OCT. ADD AMOUNT

In the survey, some cases stood out. For example, one woman has taken two loans from OCT worth Rs 5,000 and Rs 10,000 and she herself has contributed Rs 50,000 and Rs 175,000, respectively, with each loan. If she has recourse to such large sums of money, what difference will the OCT loan make to her livelihood pattern? The usefulness of the loan, at the margin, seems somewhat irrelevant in this case.[2] Another woman has just spent Rs 500,000 on two weddings and has a well established business, how essential is the OCT loan for her? She claims that she needed the money since the amount required was short, but it seems odd that Rs 10,000 would have made such a large difference. In both cases, there is no difficulty repaying the loan. The question arises as to whether these two entrepreneurs should be part of OCT's clientele. After all, many entrepreneurs from our non-OCT sample also get by, and prosper, by not taking loans from OCT. There are some other cases where it seems strange that they are asking for OCT loans and one wonders whether they should have received the loan in the first place. For example, W 7 saves Rs 6,500 each month, S 16 saves Rs 7,100 each month, A 1 has savings of Rs 70,000, while S 12 has savings of Rs 260,000: are these entrepreneurs candidates for livelihood improvement according to OCT criteria? There is also the unique case of J 12, a jharoo (WHAT IS THIS?) (A jharoo is a broon) manufacturer, who makes a profit of Rs 1,400 per day. Should someone like this need an OCT loan?

While there are many entrepreneurs who need the loan, have used it well and have improved their living conditions, there seem to be a few cases where the entrepreneur has become dependent on OCT loans and now would collapse without them. A 2 and J 7 seem to feel that the OCT loan is their lifeblood now and they could not otherwise survive. The cases of W 3, W 5 and J 2 are also

[2] This observation raises some important issues. It suggests that while OCT is trying to improve the quality of life of some of the small entrepreneurs, it is also 'in the market' more generally, tapping all types of borrowers. Perhaps due to information flows at the community level, this is a good strategy which does attract more needy borrowers than this case depicts. Another explanation for OCT making such loans is that they have a low cost and are sure to be returned and the organisation is taking very little risk advancing these loans and these borrowers generate funds which are then lent on to more needy borrowers.

interesting: all three claim that their businesses are dying out due to competition and changes taking place in the economy. The OCT loan seems to keep them afloat. But should the OCT be doing this? Clearly the OCT loan is helping, but it does not seem likely that these units would survive without the loan. How long can OCT continue doing this? BUT IF THEY ARE REPAYING IS IT A PROBLEM?

Conclusions and Lessons Learnt

trades/business, the need and role of the activist and no particular stress on savings.

The context of OPP does not represent a typical slum area with high density, poor quality housing and no infrastructure. Orangi is actaully a stable local economy of people living on low income. In terms of assets, residents of Orangi are not among the city's poorest. Particularly after 1971 many skilful immigrants moved to Orangi from former East Pakistan (now Bangladesh). These immigrants brought a range of assets for example, good education levels, political capabilities to organise, influence and vote, and entrepreneurship. OPP programmes leading to a better quality life, such as lane sanitation, health and microfinance had received a favourable response from an already aware and motivated population.

OCT microfinance programme addresses poverty alleviation and livelihoods but does not directly target the poorest fraction of the population. It expects a multiplier effect (trickle down) of the microfinance on all sections of population. It believes that successful and growing enterprises will create employment, increase income, generate work, build skills and enhance spending powers of the poor – both within and outside Orangi. Improvements in housing, infrastructure and services may be just one set of positive outcomes of a whole set. This also raises challenges of measuring the impact and outcomes of the microfinance programme within the limits of time and focusing on few variables.

OCT lends only to already established businesses who have demonstrated their potential to improve themselves and in many cases, borrowers already have a high livelihood status. Moreover, the OCT usually prefers that the client contributes some of his/her own savings along with the loan. The low default rate (around 5 per cent) suggests that the clientele have been carefully selected and that they are able to repay the loans.

OCT micro-credit has a marked, and in some cases critical, impact on the livelihoods of borrowers. What we have not been able to do is to quantify that impact. Nevertheless, a very large majority of households have prospered on account of the loans. Most of the loans have been for bridging finance or to buy raw materials and increase stocks; there have been far fewer cases of borrowers buying machinery.

We have also examined the profiles of a large number of non-OCT borrowers and found that many are not interested in taking loans, instead using retained earnings for their business. The livelihoods profile of most of the non-OCT borrowers did not seem to be strikingly different from the OCT borrowers. However, at the lower end of the assets scale, in the cases of small and very small entrepreneurs, there is a clear difference and OCT borrowers are far better off. This shows that OCT can make a significant contribution in enhancing the livelihoods status of small and very small entrepreneurs. Those at the lower asset end – small and very small – need loans the most, and the improvement of livelihoods at this level, at the margin, is likely to be greater. OCT should concentrate further on small and very small entrepreneurs if it wants to play a role in improving livelihoods.

OCT promotes collective action and identifies activists but does not promotes the formalisation of the such organisations. They understand that existing social capital is enough to build further on and formalisation of credit groups may not add any more value. This is different from many other programmes where formalisation of the community groups is emphasised. OCT uses enhanced collective action for a better identification of lenders and recovery of loans.

It remains important to capture the extent of livelihood improvements in numerical terms. For this purpose, OCT should carry out a quarterly survey of a selection of borrowers interviewed for this survey, and keep a track of their savings, investment and income pattern. Such a longitudinal study will give a far better picture of the *extent* of livelihoods impact. OCT should start surveying all new borrowers before they start giving the loan, and acquire information about the nature of assets, income levels and living standardand then follow up over a period of time. It is suggested that OCT carry out comparative studies in the different areas where it lends. The role of committees/bisees has been very important as a substitute and/or supplement to loans. Perhaps OCT should carry out a study which looks at the relationship between the two. If possible, it would also be interesting to do comparative studies of other NGO micro-credit programmes in Pakistan to compare and contrast the performance of the OCT programme.

It is clear that the Orangi Pilot Project-Orangi Charitable Trust micro-credit programme is an efficient and successful programme, and that it has played an important role in improving livelihoods. OCT provides a number of key lessons on the management of microfinance programmes in areas such as: the assessment of existing entrepreneurial capacity, business experience, group promotion, comparing performance of similar

References: