

# The Impact of Inflation on Microfinance Clients and its Implications for Microfinance Practitioners

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## INTRODUCTION

As the inflation rate in Pakistan crosses twenty-five percent per annum - the highest in almost three decades - there is justifiable concern that the Pakistani citizen, particularly the poor, will suffer the most and will bear the severest brunt of this economic crisis. Moreover, along with rising prices, indications suggest that Pakistan's economy is also facing serious constraints and the high growth rates between 2002-07, may have slowed down considerably affecting economic opportunities for all, but particularly for the poor. Pakistan Microfinance Network in Islamabad has commissioned this study in order to understand and document the impact of a slowing economy and in particular, of rising inflation on microfinance clients.

This short report highlights findings based on discussions with 245 microfinance clients, both men and women, from very wide and diverse backgrounds, and with the staff of microfinance providers (such as loan or credit officers) who interact with these clients at the local, first contact level and are far more aware about the conditions of their clients than are middle and senior management officers. It is important to state at the outset, that this study is not an overview or assessment of the microfinance sector, of microfinance clients, or of microfinance institutions or providers. It has considerably limited ambitions and objectives and simply aims to understand and document the impact of inflation on microfinance clients and, to a limited extent, its implications for microfinance practitioners.

The format of the report is as follows: in the next section we outline some of the more general economic issues and implications related to inflation, and then relate them to the poor and to microfinance users in general. While inflation is usually considered to be a problem, some arguments are also made in this section which show that it does not affect all consumers equally and that some individuals may even benefit from rising prices. Without understanding the nature, scale and impact of inflation, we cannot assess the impact on microfinance clients. Section III looks specifically at the Pakistan case, where we present a brief description of the nature and extent of inflation, and a short brief on both the downturn of the economy and the microfinance sector overall. Section IV outlines the methodology for this study, while section V presents findings from the discussions held with clients and providers. Sections VI summarises the overall arguments, while the concluding section lays out possible solutions and suggestions.

## INFLATION AND ITS CONSEQUENCES

Inflation is the phenomenon where prices rise. Hence, inflation is not at all an uncommon feature of any economy. In fact, low or manageable levels of inflation – depending on the nature of the economy – are highly beneficial to suppliers and producers and act as an incentive to produce. Not all levels of inflation are necessarily

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bad. However what concerns us here and what matters to us, is high inflation - again something that depends on the nature and state of the economy. For example, a rate of inflation of even 3 or 4 percent in developed and industrialised countries is considered to have serious consequences for the economy, and central banks and governments intervene in order to lower these rates. In developing countries, on the other hand, such rates of inflation are not necessarily seen to be negative and are far more manageable and acceptable than in developed countries. However, inflation rates of around 7 or 8 percent or more, in developing countries, can begin to have serious consequences.

Inflation affects different segments of the population very differently, a fact often forgotten by most people and often exaggerated or misrepresented in the media. In general, inflation affects the rich far less than the poor, where the rich hold greater assets and have higher incomes which let them adjust to rising prices. The poor, howsoever defined, have few or no liquid assets, very few if any savings, and hence, are forced to adjust to rising prices without any safety nets, especially where state programmes are inadequate and do not provide supplementary support to the poor. Salaried individuals tend to be affected a great deal by inflation, for when prices are rising by 20-25 percent on average per annum, their salaries are far 'stickier' and do not rise as much and at the same speed. In most cases, salaried individuals, if they receive inflation-adjusted pay increases, receive this increase at a rate below the inflation rate, and with a time lag, once inflation has already taken place and has been factored in.

In contrast to salaried individuals, inflation affects many categories of producers in a neutral manner or can benefit them. For example, to maintain their profit margins, many producers pass on all price rises as they take place. The best example of this is with perishable agricultural commodities which are produced daily or at short notice. If the cost of tomatoes, for example, rises in the vegetable wholesale market for some reason, the seller of tomatoes can raise his price to reflect this new, higher purchase price, and pass on the price increase. Similarly, in manufacturing or trade and retailing, many such chains of prices can be passed on to the final consumer. In such cases inflation of goods may be largely neutral. In other cases, such price rise pass-ons can also benefit traders and producers who raise their final price to compensate for the slowing down in the economy and the rise of other products such as fuel or utility prices, although the extent of demand as a result of higher prices would respond to the elasticity of demand for that product or service. Hence, it needs to be remembered that, for producers inflation can be neutral, negative or even beneficial, depending on their particular circumstances.

Inflation, in 'traditional' or agricultural societies, is considered to be an urban phenomenon far more than it is a rural one. The assumption is that rural or agricultural inhabitants produce a great deal of what they consume and hence are far more immune to rising prices of essential items, particularly food as they are said to be self-sufficient. Moreover, the assumption is that rural inhabitants have less access to 'modern' facilities, commodities and goods (such as consumer items and utilities) the prices for which often rise fastest, and are hence protected from such price fluctuations. In addition, for most rural people, an assumption is made that these people are somewhat 'simpler' in their lifestyles and hence are immune from higher prices related to schooling, health care etc. Exactly the same, opposite, arguments are made for urban residents. The stereotype is that urban dwellers who live 'modern' lives are far more affected by inflation since they have to buy all their commodities, from food to utilities and services. While these caricatures of what is an urban dweller and who is 'rural' are highly problematic, unreal and exaggerated, there is some degree of truth in the claim that inflation affects urban consumers somewhat more than it does rural inhabitants. One needs to consider this

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factor with regard to the distribution of population in Pakistan between urban and rural, and particularly with regard to the fact that most Pakistani microfinance clients are rural. This fact has major implications for how we analyse the impact of inflation on microfinance clients.

Just as there is a difference of impact on producers and consumers, and on urban and rural inhabitants, of inflation, there is also a marked difference on savers and borrowers, which has implications for this study and on microfinance clients more generally. Savers suffer on account of inflation as they see the purchasing power of their monetary assets dwindle in value and hence have an incentive to dis-save, or consume, further. Similarly, those who have borrowed benefit as inflation rises, as the real value of their debt is reduced. For someone who has debt of Rs 30,000, high inflation say of 25 percent, can reduce a substantial portion of the real value of that money and the monthly fixed monetary instalments they pay back, of say Rs 3,000, over the year as inflation progresses or increases, become less of a burden.

As this study shows, it is important to understand the diverse and contradictory nature and consequences of inflation affecting different segments of the population differently. Just as we assume that many citizens will suffer the consequences of inflation, we should also be open to the possibility that some sections of the population will benefit from rising prices. This study tries to highlight where and how both trends persist amongst microfinance clients.

## THE PAKISTAN CONTEXT: INFLATION, THE ECONOMY AND MICROFINANCE

Before we turn to describe how this study was conducted, it is important to highlight some of the issues which relate to Pakistan's inflation rate, its economy, and the microfinance sector.

Like much of South Asia, inflation has seldom been a serious problem in Pakistan, and the inflation rate has been, for the most part, in single digits. For the last three decades or so inflation, while affecting different sections of the population, has been largely limited, low and manageable in Pakistan. However, for about a year, but perhaps more markedly since early 2008, the inflation rate in Pakistan has become the highest in over three decades, and has shot up dramatically from the annual 9 percent in fiscal year 2007-08, to between 23-28 percent on an annualised basis today.

Newspaper reports suggest that food inflation during August 2008 stood at 34.1 percent which resulted in the overall inflation rate – the CPI or Consumer Price Index – to be 25.33 percent, which showed an increase of 2.14 percent over the month of July 2008.<sup>1</sup> What is particularly interesting and important to point out, is that one year ago, in August 2007, the inflation rate as measured by the CPI was a mere 6.45 percent. This difference between 2007 and 2008 can be judged by the fact that in 2008 in July and August, the average inflation rate stood at 24.83 percent as compared to a mere 6.41 percent in July and August 2007. Similarly, the Wholesale Price Index for the two months in 2007 was 7.81 percent which had risen to 34.88 percent in 2008. Clearly what these trends and figures indicate is that the spiralling inflation being currently witnessed in Pakistan is a fairly recent occurrence.

It would be worth our while to also list some inflationary trends in some key commodities in order to understand the constituents of overall inflation in Pakistan today. One key

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<sup>1</sup> All the numbers about inflation quoted here are drawn from recent newspaper reports and accounts. These are tentative numbers but the more important point is to examine the trends and the scale of the trends. The actual numbers are merely suggestive and indicative of the scale of the problem.

indicator of a consequence for overall inflation in Pakistan, has been the depreciation of the Pakistani rupee. In just nine months, the rupee has lost around 27 percent in value in terms of the dollar. Given Pakistan's high import bill for essentials and non-essentials, this depreciation has affected what is known as 'imported inflation'. Other increase in indices over one year between August 2007 and August 2008 are as follows: transport and communication 41 percent; food and beverages 34 percent; and fuel and lighting 21 percent. Many of these items are consumption items, and hence a look at producer prices also needs to be considered to see the true impact of inflation. Tomato prices, for example, are up 46 percent compared to a year ago, and onions 35 percent, while numerous vegetables (11 percent) and other food prices have also risen. Wheat was 45 percent more expensive, gram about 57 percent and rice 65 percent. For the purposes of our analysis, we must emphasise that inflation or the high prices for consumers for different food items, are the selling price (income, profit) for producers and growers. Government announced support prices for key food grains have also been revised upward markedly and will affect producers/growers and consumers very differently.

While inflation has been perhaps the most visible of Pakistan's economic problems in the last few months, economic slowdown, as illustrated by falling levels of investment and slowing economic growth, have been equally troubling. The high growth period of 2002-07, in which growth averaged over 6 percent of GDP per annum, has been replaced with a forecast for financial year 2008-09, which could be nearer 4 percent of GDP growth. Similarly, there are predictions that a slowing economy and high inflation may raise the unemployment level in Pakistan. Most economists agree that economic activity, at least for the next year or so, will be well below the level of the last five years, affecting profitability, investment, employment and the poverty level. There are concerns that the dual problem of rising inflation and a slowing economy will push more people below the poverty line.

Microfinance has been seen by many, both globally and in Pakistan, incorrectly one feels, largely as a tool to eliminate poverty. However, research from much of the world and from Pakistan has shown that despite perceptions, microfinance reaches that section of the population which is primarily already above the poverty line. Many, if not all, clients have assets to invest in or are already involved in some income generating exercise. Despite issues of fungibility and the fact that the loan is used by other than those whose name in which it is borrowed, evidence seems to suggest that most of the loans are meant for productive purposes. There are reported to be 1.8 million microfinance clients in Pakistan, which represent different arrangements of loans – group, individual, etc. Of these, a great majority are rural clients, which has important implications for how inflation has an impact on them. Almost half of microfinance clients are women. Often, the average profile of a microfinance client in Pakistan is that she is either a rural entrepreneur, involved in livestock development or passes on her loan to a male member of her family. Also, importantly, it seems that a very large majority of microfinance clients are repeat clients and once they begin to use microfinance services, most of them stay loyal to the microfinance provider. These characteristics of microfinance clients will help determine how inflation affects them.

## METHODOLOGY

There is an extensive literature on the methodology of measuring the impact of microfinance interventions on clients and on their income and assets. There is less literature on measuring the impact of inflation particularly on microfinance clients, although a number of studies exist which show the impact of inflation on the poor. Ideally,

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a large panel data-base would have been useful to examine how rising prices have had an impact on the living standards of microfinance clients. Such studies do capture an extent of the impact of microfinance loans on clients, yet such studies are costly both in terms of time and expenses. Due to lack of data, shortage of time and resources, such an extensive study is not being undertaken, and we are using a much shorter, imprecise yet indicative, methodology.

This study to assess and observe – but not to measure – the impact of inflation on microfinance clients, is built around the Focus Group Discussion (FGD) approach. This approach has many limitations, is imprecise, and merely indicative of trends. However, it has the advantage of being a quick study which can give an understanding many of the trends in the community. It is also supposed to be participatory and to some extent, democratic, where all members of an FGD have equal voice. However, as anyone who has done such studies realises, voice can also be misrepresented and manipulated by dominant members in a Group. Despite its many limitations, we feel that under the circumstances, the FGD approach allows us to draw broad conclusions about the impact of inflation on microfinance clients.

A selection was made of different sorts of microfinance providers – NGOs, banks – which give out credit (see Appendix for list of institutions visited). In all, nine institutions were selected in three provinces and 12 FGDs were held. In total, 245 clients were present at the FGD of which 189 (77 percent) were women.

These FGDs were conversations with clients about the nature, use and extent of their loans. At first a general discussion took place in each of the 12 FGDs without raising the question of inflation or its impact. Also, the clients were not told in advance that this is a study on the impact of inflation on clients. It was felt that it would be better for clients to volunteer information and opinions about their concerns themselves and to prioritise their own issues, of which inflation ought to have been one. At times, the issue of inflation and its consequences was raised by the FGD, but if it was not, the study team intervened in the conversation and asked questions directly related to inflation and its impact.

The FGDs were used to understand how inflation had an impact on borrowers and how they were coping under inflationary pressures. Questions were asked to find out if clients were having problems repaying their monthly instalments, whether their economic activity had fallen, and how this affected their household consumption. Information was acquired to see if household consumption patterns had changed in the last year or so as prices had risen. Did any clients have to undertake asset-stripping, by selling their assets in order to cope with rising overall prices? Had any of them been forced to take out children, particularly girls, from schools in order to cut costs? How were households adjusting to rising prices generally? Were clients acquiring additional debt from non-MFP sources? Were they withdrawing savings? Had the relationship between clients and the MFP changed in anyway if there were problems of repaying instalments? An attempt was also made to assess whether different types of arrangements for loans – such as group loans, individual – differed in their ability to deal with inflation. Did group solidarity work better in such times? Was there increased internal borrowing/covering-up within groups in economic crises? There was also discussion on how clients were prioritizing loan instalments in relation to other household expenses in this inflationary environment compared to the past.

Discussions were held with loan officers and MFP management to assess whether they saw any changes in borrowers' behaviour and their demand for loans and repayments. Had it become more difficult to acquire lent funds? Were clients asking for larger loans?

How did MFP staff assess the economic position of their clients? Were MFPs more cautious about lending now? Did they see their default rate rising?

In the original design of the study, it was also hoped to hold some FGDs with non-borrowers who had similar characteristics as did borrowers, to assess whether borrowers were behaving differently from similar actors. This would have helped throw some light on issues which focused on the loan itself and isolated the inflationary impact which should have affected similar groups of people in a similar fashion. This was to be a treatment/control comparison. However, unfortunately, it was not possible to organise any FGD of non-clients with similar characteristics to see whether the microfinance clients were a special case. This is unfortunate for such a comparison would have highlighted the differences of the impact between borrowers and non-borrowers. Nevertheless, even without this treatment group, we can still observe the impact on borrowers themselves.

## FINDINGS FROM FOCUS GROUP DISCUSSIONS

The results from the discussion with microfinance clients regarding the impact of inflation on their incomes, assets and repayment capabilities, come as a complete surprise. Our assumption was, as it is of most people, that the high inflation rate in Pakistan has been a disaster for most Pakistanis. However, a predominant majority of clients who spoke, irrespective of gender, location, type of activity, amount and purpose of loan, or by any other criteria, was that inflation was 'not a problem'. While almost every single participant in the 12 FGDs felt that the loans were in general highly beneficial to them and to their economic activities, except for a very small minority, most felt that inflation was not resulting in a significantly negative impact on their businesses or lives. In fact, there were a large number of clients who felt that inflation was a positive aspect and that they were capturing higher profits on account of the price rises.

Overall, one can safely conclude that on the basis of the FGDs, it was clear that a huge majority felt that inflation had a neutral influence on them, while a substantial proportion of the clients felt that inflation was substantially beneficial.

The explanations of these unexpected findings were given by the clients themselves. Many felt that in their line of business, it was easy to pass-on costs which were imposed on them. They felt that they were not losing out as a consequence and that they were adjusting their own prices for inflation. Moreover, there were certain clients who confessed that they were passing on larger amounts of the rise in their costs and were also 'causing' inflation. For the most part, whether they were rural or urban clients, inflation did not seem to be a major problem for them. Numerous reasons were given why this was the case and many clients were able to argue how the loan had made it easier for them to deal with inflation.

It has to be remembered, that all these clients had been given loans in the past and were now repaying the instalments. Hence, inflation for them was a relatively more recent phenomenon and took place largely after they had made use of their loan. Many urban clients, such as those who had shops or small outlets, all felt that a lump sum loan allows them to buy goods in bulk and stock-up. All those clients who had taken a loan to buy stocks in the past had done so and were now able not just to pass on prices, but also to increase the prices of goods that were cheaper earlier. For example, if small shop owners were able to buy essential items like ghee, atta, dal and other eatables at lower prices and stock up, the constant and continuous rise in prices meant that they could sell these cheaper commodities at the new, higher, market prices. This was a story recounted by many shop owners who had benefitted due to prevalent stocks and the rise in inflation.

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For the most part, in urban areas, with the exception of men in Orangi (more below) most clients, such as women who ran beauty parlours in neighbourhoods or women who were in the small business of making jewellery or clothes, all claimed to pass on at least the full impact of inflation, and hence neutralise the impact of inflation on them. All said that they had raised the prices of their services and products at least in line with prices that had arisen along the input and supply chain. Many said that they raised their prices even further. On being asked if their clientele had declined or their profits denuded on account of higher prices for the goods and services they provided, most said that they had not.

There was also a general understanding about the inflation phenomenon in Pakistan by almost all clients. For example, while explaining the fact that they were raising the prices of their own products, they also cited numerous references of the rise of labourers' wages, of a general price rise in the economy, and so on. This was used to justify the increases in prices that they themselves made. When asked whether people could purchase the more expensive goods or services, they would say that now even a labourer earned Rs 300 per day compared to Rs 200 a year ago.

A repeated answer to how these clients, all across Pakistan, had become immune to inflation and neutralised its impact was, that they were all using their loans for productive purposes rather than for consumption needs, and hence would be able to recoup their investment. Most clients even realised that the instalments they were paying back every month were declining in real value due to inflation. Not a single client complained that they were unable to repay their instalments.

Moreover, two further explanations were given as to how in times of high inflation – and every single client was cognisant of the fact that these were such times – managed to make profits, were as follows. Firstly, clients stated repeatedly, that they were working much harder than they had in the past. They said that they had no choice in the matter and were 'forced' to work longer hours. The second explanation of how they were dealing with inflation was that they would include more members from their household in their economic activity if they could. Many women who had set up small shops in their homes stated that their children would help out as well. In general, many clients said that there were also more earners in their family and this was helping them tide these times.

Without doubt, the greatest beneficiaries of inflation were agricultural producers and rural dwellers, the latter happen to be the majority of clients in the microfinance sector in Pakistan. Those who grew some agricultural crop were benefitting from the higher crop prices and said that they had made many times the income they anticipated. As microfinance clients they stated that the lump sum loan amount had allowed them to purchase inputs for their land in bulk some months ago, and hence cheaply, and now they were enjoying the double benefits of higher support prices for key food crops and for cotton. It seems that many farmers would have benefitted from the higher output prices of agricultural products, but the advantage of microfinance clients would be that they could use the loan to purchase inputs in bulk and more cheaply. While many farmers borrowed from numerous sources, it seems that those who borrowed from non-traditional, formal systems claimed that they were better off.

Another category in the rural and peri-urban sectors who said that they benefited markedly by the price rise were those who had taken loans for livestock, and particularly for buffaloes and milk production. At every FGD, clients claimed that the increase in the purchase price of raw milk had caused their incomes to grow very substantially. In Sindh, for example, a very large number of rural women said that within a year the price of milk had doubled and hence, livestock owners were getting twice as much income as they were last year from the same animal purchased with the loan money. Similarly, flower

**“To deal with inflation, we have adjusted our household expenditures - choosing cheaper meals , forgoing luxuries etc. Plus we can no longer save.”**

**- Asasah Clients  
Lahore**

producers in Pattoki also stated that while their input prices had risen slightly, the price they received for flowers in Islamabad and Lahore was considerably higher and consequently despite factoring in the rise in transportation costs, these flower growers claimed to benefit very substantially.

There were a very small minority who stated that inflation had made them worse off. Of these individuals, perhaps three or four mentioned that they may have had to sell a household asset – like a mobile phone – because they could not afford it and because they needed the money. There was just a single case of a woman who said that she had to switch her child from a private school to a public school. But these examples were almost non-existent. However, all the seven clients of the Orangi Charitable Trust in Karachi stated that they were having great difficulty coping with repayments, not so much because of inflation, but because of economic slowdown. These clients were all involved in the loom/textile sector, a sector which has suffered a great deal in recent years, and it was clear that they were struggling. For the most part, inflation, per se, was not seen as the main culprit. However, when asked how they dealt with current inflation, some clients said that they had made adjustments in household expenditure, choosing cheaper meal options over more expensive ones, forgoing luxuries, etc. Additionally, most clients stated that they were no longer able to maintain any savings.

Discussions with loan and credit officers about whether it had become particularly difficult for clients to make the instalment repayments, suggested that there had been some change, but not a great deal. In the case of Karachi, it was clear that loan officers for the Orangi Charitable Trust had to make extra visits and accommodate clients. Officers in other microfinance institutions did not state that the default rate had risen and few stated that they had significant problems.

To end this section, one can state, that inflation, as such, did not have the negative outcome we thought it would. Many clients were using inflationary times to their advantage. Moreover, in urban areas, most people were complaining about the lack of electricity and power – and not its price – than they were of overall inflation. The table below summarizes the findings from the FGDs.

### IMPACT OF INFLATION ON DIFFERENT CATEGORIES OF MICROFINANCE CLIENTS

|                              | Positive | Neutral | Negative | Uncertain |
|------------------------------|----------|---------|----------|-----------|
| <b>Urban</b>                 |          |         |          |           |
| Shopkeepers                  | ✓        | ✓       |          |           |
| Traders                      | ✓        | ✓       |          |           |
| Small Manufacturers          | ✓        | ✓       |          |           |
| Textile related business     |          |         | ✓        |           |
| Fixed Income activities      |          |         | ✓        |           |
| Livestock non-milk producers | ✓        |         |          |           |
| Milk Producers               | ✓        |         |          |           |
| <b>Rural</b>                 |          |         |          |           |
| Shopkeepers                  | ✓        | ✓       |          |           |
| Traders                      | ✓        | ✓       |          |           |
| Food crop producers          | ✓        |         |          |           |
| Other cash crop producers    | ✓        |         |          |           |
| Livestock non-milk producers | ✓        |         |          |           |
| Milk producers               | ✓        |         |          |           |
| Household handicrafts        |          |         | ✓        | ✓         |

“Credit history of our group is very important to us. This is why we make loan repayment a high priority. If for some reason one member cannot pay back an installment, then often group members maybe relied upon to provide support.”

- Kashf Clients  
Gujranwala



## IS INFLATION A CONCERN FOR MICROFINANCE CLIENTS?

Apparently, it seems, it is not. If we assume that most clients are accommodating inflation and even benefitting from it, is this a matter of concern? We believe it will be, and we try to answer the question posed as the title of this section.

There are a couple of reasons why inflation did not seem to be a problem for microfinance clients. The first, and very probable explanation is that perhaps inflation has not really hit the clients or producers in general, in term of their profits and income stream. It is quite possible that the impact of inflation has not been fully passed through to these clients. If this is the case, then we can be quite sure that some months from now, if inflation continues, it will have a strong impact on the livelihoods of microfinance clients. This conclusion suggests that perhaps it was a few months early to undertake this study and only at a later stage will we see the clear impact of inflation.

Another possible explanation is that the FGD format does not allow for a fair and honest depiction and representation of what is actually going on. Perhaps inflation is affecting clients quite severely but they are not expressing this concern. However, we feel, for the reasons given above, that this is unlikely to be the case. While it is true that the FGD format has limitations, it is improbable that it would have repressed sentiment to such an extent that observers would not have been able to probe further and get to the truth.

What also emerged from the FGD was that most clients, realising that we were living in inflationary times, felt that the loan amounts made available were insignificant and should be increased. However, many did also state that the instalment amounts should not be raised too significantly as this would make repayments difficult. Nevertheless, because the loan amount which people were given, say last year, had lost value by almost 25 percent, most clients felt that in line with inflation, the credit line should also be increased. For example, those who had shops or stores stated that last year they could buy a certain amount of goods with their loan of Rs 25,000, but this year the same amount of money would get them far less. They were interested in inflation-indexed loans.

For microfinance providers/institutions rather than clients, the concerns that will emerge in the future relate to delinquency, delayed payments and default. At the moment, it does not seem like these issues are threatening the functioning of institutions, but it is possible that they might put a strain on the profitability of some institutions. Also, it is very clear that if inflation stays at around 20-25 percent, most microfinance providers will have to raise their credit levels to match the real value of the loans. Whether microfinance providers can do that, will depend on their overall financial strength and their access to funds.

The Orangi Charitable Trust in Karachi has already started looking at ways to adapt to the changing situation and has had discussions internally and with clients. They feel that it will be beneficial to increase the duration of a loan – a suggestion that was made to us by many clients – so that the instalment burden would be decreased. This was seen to be beneficial to both, the client and the provider, as the client would have a lower monthly burden, while the provider would end up getting a larger amount over a longer period of time. OCT also felt that there is a need to increase the loan sizes to accommodate inflation. Also, the initial loan sizes are to be increased, as is the maximum loan size. Clearly, other microfinance providers will have to come up with innovative responses based on their own structure, mode of operation and focus.

**“So far there haven’t been any visible changes in default rate for either urban or rural clients. However, in both cases, a slight increase in delayed installment has been observed.”**

**- FMFB Staff  
Pattoki**

## CONCLUSIONS

If inflation has not had a damaging effect on microfinance clients in the first nine months of 2008 when inflation has touched 25 percent, as a very high majority of clients claim, it is very likely that it will have an effect some months from now if inflation continues to persist. However, if as expected, inflation begins to fall and becomes more manageable, it seems that the concern for the impact of high inflation will no longer exist and that we will return to the situation of a few years ago. This short, illustrative study suggests that most clients have been able to deal with inflation and many, particularly those producing food crops and agricultural commodities, have actually profited a great deal from it. These conclusions come as a surprise, for conventional wisdom would have suggested that all citizens suffer the impact of inflation.

What emerges from this survey also, is the clear fact that loans have helped clients, largely because they have been able to buy cheap, or in bulk, and have been able to sell at the increased market price. In some cases, the lump sum loan allows borrowers to invest in raw materials, in stocking up supplies, and in expenses towards inputs for cultivation. Clearly, those who have access to credit are at an advantage compared to those who do not have access to credit at cheap rates. This has been the general principle of microfinance and it seems to have particular significance in the times of high inflation.

If inflation rates persist, some rethinking on the behalf of microfinance providers may be necessary. They might have to raise their credit ceilings keeping in mind the real value of the loan, and may be required to increase the loan instalment process by some months to ease the likely pressure on clients.

**“Existing loan amounts and donations should be increased as they are no longer sufficient because of inflation.”**

**- SRSP Clients  
Abbottabad**

# APPENDICES

## APPENDIX: INSTITUTIONS VISITED

| Date         | Institution Visited   | Group Characteristics                          |
|--------------|---|--|
| 18 August    | SRSP, Abbottabad  | 15 Women, 10 Men, Group Loans, Urban and Rural |
| 22 August    | SAFWCO, Bhit Shah   | 16 Women, Urban, Group Loans                   |
| 22 August    | SAFWCO, Shahdadpur, Village Fazal Tarani                          | 25 Women, Rural, Group Loans                   |
| 23 August    | First MicroFinance Bank, Ahmad Khan Baloch Village, Mirpur Sakhro | 18 Men, Rural, Group Loans                     |
| 28 August    | Asasah, Mughalpura Branch, Lahore                                 | 43 Women, Urban, Group Loans                   |
| 28 August    | First MicroFinance Bank, Purani Mandi, Pattoki                    | 5 Men, 6 Women, Urban                          |
| 28 August    | First Microfinance Bank, Tara Garh, Chak 44, Pattoki              | 16 Women, 5 Men, Rural, Group Loans            |
| 29 August    | Kashf, Ferozepur Road Branch, Lahore                              | 5 Women, 5 Men, Urban, Individual Loans        |
| 29 August    | Kashf, Gujranwala Branch  | 16 Women, Urban, Group Loans                   |
| 6 September  | UPAP, Barrara Town, Multan  | 18 Women, Urban, Group Loans                   |
| 23 September | Pak-Oman Microfinance Bank, Karachi                               | 19 Women, 6 Men, Urban, Group Loans            |
| 24 September | Orangi Charitable Trust, Karachi                                  | 8 Men, Urban, Individual Loans                 |



## Pakistan Microfinance Network

### **MicroNOTE: The Impact of Inflation on Microfinance Clients and its Implications for Microfinance Practitioners**

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