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PAKISTAN

SUCCESS STORY

Small Loans Bring Income, Independence

Rural communities increase income and gain dignity



Photo: USAID/Kaukab Jhumra Smith

Zarina Baloch, a resident of Ramzan Pathan village, bought two goats and cow with a USAID-supported loan.

“Before these loans, our whole household ran on one person’s income. Now my husband is happy I am helping too,” said one loan recipient. Villagers who were once exploited by local moneylenders now make low monthly payments for USAID-funded loans.

Telling Our Story
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When rural residents of Pakistan’s southeastern Sindh province need loans for crops, livestock, or trade, they usually turn to local moneylenders and landowners. Traditional lenders charge at least 100 percent interest and demand a hefty share of profits and repayment in 15 days. So when residents heard of a bank that provided microfinancing — a system that included small loans at low interest, repayment terms of up to a year, and community-created savings accounts — they suspected there was a catch. According to residents, moneylenders played on these suspicions, encouraging them to stay away from the new loans. “They said the bank staff will kidnap you, they will sell you as a slave,” said Qadir Bux of Shaikh Rehan village. Residents were afraid that an official entity like a bank would run off with their savings.

Three years later, no one believes the moneylenders. An \$8 million program funded by USAID and run by the government-established Khushhali Bank has disbursed 131,000 loans in three years, across 14 rural districts in Sindh and Balochistan provinces. To be eligible for loans of 3,000 to 10,000 rupees (\$50 to \$167), community members organize into groups and agree to take responsibility for each other’s repayments. Payments are made quarterly, biannually or, for farmers dependent on harvest, annually. Each of the 18,000 community groups saves 10 percent of the loans disbursed in a joint bank account to fund community projects like building a town hall. After paying off one loan, borrowers qualify for a second loan that is 20 percent larger. Residents of several Sindhi villages who completed two loan cycles say their income jumped by 30 percent, thanks to investments in areas including livestock, merchandise for stores, or fertilizer for crops.

Many of the loan recipients have invested in livestock. Before, they could only afford to buy very young animals that they raised for two or three years before selling. Now, they can buy mature livestock and get a faster return on their investment. For instance, Asha Pathan of Ramzan Pathan village bought a cow for 10,000 rupees and sold it for 18,000 during the Muslim festival of Eid. The best part of the program, said Mohram Ali of Khan Mohammed Leekhi village, is the dignity it brings. “You don’t have to ask favors of anyone,” Ali said. “You earn yourself, and pay back the loan yourself.”