Lappeenranta University of Technology
School of Business and Management
Master’s Thesis
Strategy, Innovation and Sustainability

Microfinance Institutions Contribution for Sustainable Entrepreneurship Development in Pakistan

Umar Draz
MSIS Student - 0499012

Supervisors

Timo Pihakala
Dr. Sc. Econ. & Bus. Administration

Marita Rautiainen
DSc. Econ. & Bus. Administration

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Abstract

Author : Umar Draz

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Microfinance providers offer microloans to poor people with or sometimes without collaterals. Microfinance considered as ‘best solution’ to fight poverty. The purpose of this master’s thesis was to find out some evidence of MFIs role poverty reduction and entrepreneurship development in Pakistan. Attention is given to form some comparison between conventional lending models (CLM) and Interest-free lending models (IFLM) or Akhuwat Model. Which model is better to boost entrepreneurial activities? An attempt was made to find suitable answers about MFIs role in selected sustainable development goals (SDGs) such as poverty reduction, income generation, eliminate hunger, provision of quality education and promote gender equality and women empowerment. It is a qualitative study where secondary, as well as primary data, is collected and analyzed through qualitative software NVivo and MS Excel. Secondary data consists of anecdotal evidence in the shape of success stories whereas primary data structured questionnaire and executive interviews.

Findings reveal that microfinance is not the panacea for all the problems. It is a necessary tool for development without any doubt. All borrowers will not become entrepreneurs. Underutilization
of loans is noticed where somehow 60% loan is utilized fairly and deviation of 40% recorded. Financial inclusion is the most important element of microfinance which provides small borrowers access to financial services. MFIs contribution towards entrepreneurship development services like enterprise skill development, entrepreneurial education, technical skills, and vocational training is evident. MFIs impact in following factors are noted 1) income generation/poverty reduction, 2) family well-being or improved living conditions, 3) education (primary and adult), 4) other workers jobs, 5) women empowerment, 6) capacity building and 7) sustainable business or asset development. Women empowerment does not only mean access to finances but includes leadership training and women rights education as well. CLM models are dominating the market with 90% market share where IFLM only stands for 10% of the total market size. Total market size is about 20 - 25 million and borrowers till 2017 stands at 5.7 million. Both models will carry on in future and the likelihood of IFLM replacing CLM model is very low. CLM models generally charge 20% -22% interest on their products. They also reported having a 95% return rate which means this is good business for them. IFLM is characterized by a new philosophy of brotherhood and solidarity rather than pure business. IFLM Models such as Akhuwat is getting popular and growing due to less administrative costs and no cost of capital. The myth of charging high interest and inability to pay back the loan is not all true. We can see the high loan repayment rate of MFIs using CLM models. Borrowers are not hesitant to use microfinance only due to interest factor.

There is a need to develop a centralized database for micro-entrepreneurs in order to get quantitative evidence rather than anecdotal evidence. There is a need for a comprehensive national strategy to attract more Microfinance Service Providers to fulfil market demands.
Acknowledgements

Accomplishing this master's thesis was the final and the largest step towards the degree of M.Sc. in Economics and Business Administration. Hence, I want to express my gratitude to my supervisors, professor Timo Pihakala and Marita Rautiainen, who has guided me and supported me during this long-term project. I also want to thank Mr Usama Awan and Dr Amira Khattak for their kindness, support, and guidance. To have been able to conduct a research about a topic that is of great interest of mine has truly encouraged me to believe in myself, not only in terms of academic thinking but also in terms of practice on future career paths. A special thanks to all microfinance professionals, practitioners, industry experts and CEOs who contributed with their time in my data collection by providing valuable information in terms of questionnaires, interviews and success stories.

The time in the city of Lappeenranta and Lappeenranta University of Technology taught me a lot about life and helped me to find my own path in studies, work, and other areas of life. I am blessed for having had the opportunity to study at a university that not only teaches but guides and encourages to open your mind. Living in Lappeenranta provided me with a lot of knowledge and skills, but also with many friends, of whom I am more than grateful. I would like to thank all my dear friends as well as the professors, teachers and other staff of LUT, who contributed to the success of my studies and overall life during the years. Finally, my heartfelt thank you go to my parents, siblings, uncle, and friends, and my beloved late cousin Mr Tahir Rasheed who had always supported me ever since I decided to apply to university.

Now it is time for me to focus on the next era of my life. Even though the future excites me and I am eager to seize new opportunities, a piece of me will always remain near and around Skinnarila area and the beautiful lake of Saimaa.

In Lappeenranta, Tuesday 6th November, 2018

Umar Draz
### Acronyms & Abbreviation List

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AKHUWAT</td>
<td>Akhuwat Islamic Microfinance Company</td>
</tr>
<tr>
<td>AP</td>
<td>Agahe Pakistan</td>
</tr>
<tr>
<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
</tr>
<tr>
<td>CLM</td>
<td>Conventional Lending Models</td>
</tr>
<tr>
<td>EBO</td>
<td>Established Business Ownership</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GLP</td>
<td>Gross Lending Portfolio</td>
</tr>
<tr>
<td>IFLM</td>
<td>Interest-Free Lending Models</td>
</tr>
<tr>
<td>IGL</td>
<td>Income Generating Loans</td>
</tr>
<tr>
<td>IRR</td>
<td>Internal Rate of Return</td>
</tr>
<tr>
<td>KF</td>
<td>Kashf Foundation</td>
</tr>
<tr>
<td>MFB</td>
<td>Microfinance Bank</td>
</tr>
<tr>
<td>MFI</td>
<td>Microfinance Institute</td>
</tr>
<tr>
<td>MFP</td>
<td>Microfinance Practitioner</td>
</tr>
<tr>
<td>MSP</td>
<td>Microfinance Service Providers</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
</tr>
<tr>
<td>NIGL</td>
<td>Non-Income Generating Loans</td>
</tr>
<tr>
<td>OSDI</td>
<td>Organization for Social Development Initiative</td>
</tr>
<tr>
<td>PMN</td>
<td>Pakistan Microfinance Network</td>
</tr>
<tr>
<td>PMR</td>
<td>Pakistan Microfinance Review</td>
</tr>
<tr>
<td>PPAF</td>
<td>Pakistan Poverty Alleviation Fund</td>
</tr>
<tr>
<td>Rs</td>
<td>Pakistani Rupees</td>
</tr>
<tr>
<td>RSP</td>
<td>Rural Support Program</td>
</tr>
<tr>
<td>SBP</td>
<td>Stat Bank of Pakistan</td>
</tr>
<tr>
<td>SDG</td>
<td>Sustainable Development Goal</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprise</td>
</tr>
<tr>
<td>SS</td>
<td>Success Story</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
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<td>WHO</td>
<td>World Health Organization</td>
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1. **INTRODUCTION**

1.1 Background

Microfinance providers offer microloans to poor people with or sometimes without collaterals. Microfinance considered as ‘best solution’ to fight poverty, help individuals to achieve financial independence, boost empowerment, improve living standards, promote basic education and encourages entrepreneurship development. Entrepreneurship supported through microfinance is called micro-entrepreneurship because the loan amount is quite small. Apart from that microfinance pave ways to encourage global partnership for development, women empowerment and enhance efforts towards gender equality as adopted in sustainable development goals (SDGs) by the United Nations. In 2015 all 191 members states of UN agrees on eight (08) development goals referred to as millennium development goals (MDGs). An improved form of MDGs is seventeen (17) SDGs which includes few new areas such as climate change, innovation, peace and justice, sustainable consumption and economic inequality among other priorities. Seventeen SDGs are followings:

![Sustainable Development Goals (SDGs)](UNDP website)

*Figure 1 -Sustainable Development Goals (SDGs)*

*Source: UNDP website*
Similar to MDGs these SDGs which are also called as Global Goals are also interdependent on each other and have specific targets and indicators to monitor the progress (WHO, 2018). However, in all 17 goals, not all are relevant with reference to microfinance. For example, industry infrastructure, sustainable communities, responsible consumption, life underwater, climate action, affordable and clean energy, peace, justice and strong institutions have very limited relation with microfinance. We will only consider those goals which have strongly correlated with the microfinance industry such as health, poverty reduction, quality and basic education, women empowerment and global partnerships etc.

**Microfinance Service Provider (MSP):** Organizations, credit unions, non-governmental organizations, associations and other small organizations offering financial and credit services to the poor are called MSPs. Historically speaking, at first special type of MSPs was developed with Govt. help to improve the productivity of the agricultural sector through subsidized credit. In the late 1970s, microcredit was given to poor families, especially women, to start a new business, engage in small business activities in order to become less vulnerable to poverty. At the individual level, the idea was first tested by Dr Muhammad Yunus when he offered a few bucks to a basket maker in 1974. This small loan gave little power to the poor to run a small business. Yunus founded Grameen Bank later and set an example for many to follow. Then, such an experiment creates NGOs that only credit the poor, promote savings and provide related services. MSP customers typically consist of female heads, retirees, retirees, poor farmers and poor people with little or no means and are extremely vulnerable to poverty. In general, MSPs can be defined as organizations, specialized banks, small-scale commercial banks, non-government financial organizations, cooperatives, associations and credit cooperatives that provide specialized financial services to the poor.

At present in Pakistan following three types of MSPs are operational;¹

- Microfinance banks (MFBs)
- Microfinance institutions (MFIs)
- Rural support programs (RSPs)

¹ As per Microfinance connect website Microfinance Connect, 2018. [http://www.microfinanceconnect.info/faqs](http://www.microfinanceconnect.info/faqs)
Microfinance Banks (MFB) are similar to conventional banks licensed and regulated by SBP to facilitate microfinance markets exclusively. Product offering includes loans, savings, insurance and other remittances products. MFBs are empowered and legally protected to accept and intermediates the deposits from the general public. MFBs are similar to commercial banks offering microcredits to groups as well as to individuals. The very first MFB was established under the presidential decree in the year 2000 and after that eleven (11) more MFBs are licensed. Table 1 provides details of all MFBs with abbreviation, purpose and their functions below,

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of MFB</th>
<th>Abbreviation</th>
<th>Purpose and Functions</th>
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<tbody>
<tr>
<td>1</td>
<td>Advans Pakistan Microfinance Bank</td>
<td>APMB</td>
<td>Lending carried out to groups as well as to individuals. Offer mobile account services. Ensure financial services access to all.</td>
</tr>
<tr>
<td>2</td>
<td>Apna Microfinance Bank Limited</td>
<td>AMFB</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Finca Microfinance Bank</td>
<td>FINCA</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Khushali Bank Limited</td>
<td>KMBL</td>
<td></td>
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<tr>
<td>5</td>
<td>Mobilink Microfinance Bank Limited</td>
<td>WMBL</td>
<td></td>
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<tr>
<td>6</td>
<td>NRSP Microfinance Bank Limited</td>
<td>NRSP Bank</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Pak Oman Microfinance Bank Limited</td>
<td>POMFB</td>
<td></td>
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<tr>
<td>8</td>
<td>Tameer Microfinance Bank Limited</td>
<td>TMFB</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>The First Microfinance Bank Limited</td>
<td>FMFB</td>
<td></td>
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<tr>
<td>10</td>
<td>U Micro Finance Bank Limited</td>
<td>U Bank</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Sindh Microfinance Bank</td>
<td>SMFB</td>
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</table>

Sources: [http://www.microfinanceconnect.info/microfinanceproviders/](http://www.microfinanceconnect.info/microfinanceproviders/)  

Table 1 - List of Microfinance Banks Operating in Pakistan

Microfinance Institutions (MFI) are non-banking, non-governmental institutions offering microfinance services. Registration of MFIs stated as non-banking microfinance institutes started with the security and exchange commission of Pakistan in 2016 after the new regulatory framework is introduced. At present 11 MFI obtains the license while 12 MFIs are in process.

Rural Support Programs (RSP) are established public institutes offering microfinance activities as part of the multi-dimensional rural development program. Efforts are made to achieve objectives such as poverty alleviation, enhance income levels, women empowerment and general improvement in the quality of life for poor people living in rural areas. They are also Non – Banking Microfinance Institutions offering microfinance services. There is a difference between RSPs and MFIs based on their focus, target areas and credit lending mechanism. They offer income generating loan (IGL) as well as non-income generating loans (NIGL). They provide loans to support current business and to set up new businesses. After the new regulatory framework, RSPs also required to register with security and exchange commission of Pakistan. Currently, 03 RSPs obtained the license while others are in process. In total there are 06 RSPs.
working in the country. Table 2 provides details of all RSPs with abbreviation, purpose and their functions below;

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of RSP</th>
<th>Abbreviation</th>
<th>Purpose and Functions</th>
</tr>
</thead>
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<tr>
<td>1</td>
<td>Ghazi Barotha Taraqiati Idara</td>
<td>GBTI</td>
<td>Rehabilitation and development of villages. Alleviation of poverty and development. Enhance income levels, women empowerment, and overall improvement of the quality of life. Help marginalized communities and disadvantaged people. Provide relief in case of droughts</td>
</tr>
<tr>
<td>2</td>
<td>National Rural Support Program</td>
<td>NRSP</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Punjab Rural Support Program</td>
<td>PRSP</td>
<td></td>
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<tr>
<td>4</td>
<td>Sarhad Rural Support Program</td>
<td>SRSP</td>
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<td>5</td>
<td>Sindh Rural Support Organization</td>
<td>SRSO</td>
<td></td>
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<tr>
<td>6</td>
<td>Thardeep Rural Development Program</td>
<td>TRDP</td>
<td></td>
</tr>
</tbody>
</table>

Source: [http://www.microfinanceconnect.info/microfinanceproviders](http://www.microfinanceconnect.info/microfinanceproviders)

Table 2 - List of Rural Support Programs operating in Pakistan

The portfolio and range of services for MFBs, MFIs are quite similar with marginal differences. While RSPs are striving to eradicate poverty and help the rural population to improve quality of life. The GLP share for MFBs, MFIs and RSPs were 68%, 20% and 12% respectively in 2016 as per statistics issued by PMR. The focus of this study has checked the role of MFIs in sustainable entrepreneurship development in Pakistan. Entrepreneurial activities supported by microlaons are termed as ‘micro-entrepreneurship’. Contrary to conventional banks MFIs did not invest in consumer finance. Poor people are motivated in a logical manner to carry on business and boost their income generating potential. That is how they can sustain even after the financial intervention. MFIs major criticism is ever increasing interest rate compared to conventional banking due to the high cost of money, transaction costs and administrative expenses (Miasam, 2015).

1.2 Pakistan – Some Basic Information

The Islamic Republic of Pakistan gains independence from the British regime after a long political struggle on August 14, 1947. The country is strategically located in the region sharing borders on the north with China, Iran on the south, India on east and Afghanistan on the west. Total area 803, 940 sq. km. with a coastline of 1,046 km. As of July 2017, the population is estimated at 204,924,861. The county is 6th largest in with world with respect to population (CIA world factbook, 2018). Primarily the administrative division outline four major provinces Punjab, Sindh, Khyber Pakhtunkhwa & Baluchistan. Furthermore, these provinces are subdivided into 26 divisions and 101 districts. The tribal belt or federally administrated tribal areas
called FATA is managed by the federal government and will be annexed with Kyber Pakhtunkhwa province soon. Apart from that autonomous political setups are available for Azad Kashmir and Gilgit Baltistan which are collectively referred to as ‘Northern Areas’. They are governed by the ministry of Azad Kashmir and Northern Areas. Islam is the dominant religion in the country with 97% of the population as Muslims while remaining 3% comprised of Hindus, Sikhs, Christians, and others. Urdu is the national language coupled with English as official language and several regional languages are also spoken. All over the country parliamentary form of govt. is prevailing which consists of Senate and National Assembly. They are also called upper and lower houses respectively. Cotton, rice, wheat and sugarcane are major crops with textiles, cement, steel, fertilizers, sugar, electronic goods, shipbuilding and information technology as major industries. (Pakistan Embassy in Germany, 2018).

As per the economic survey of Pakistan for the year 2016-17 the country has achieved 5.28% GDP growth for the year 2016-17 against the target of 5.7%. Thus extending the overall economy to $300 billion despite missing the GDP target. Fiscal deficit stands at 3.8% FY 2016-17. The inflation rate is 4.1% while the expected rate was 6%. Construction, agriculture, industrial sectors missed their growth targets and stand at 9.05%, 3.5%, and 5.0% respectively. Only services sector surpasses the growth target of 5.7% as it achieves growth of 6%. The national debt stands at Rupees 20.8 trillion which is less than 60% of GDP. Tax collection missed the target of Rupees 3,621 billion and the total collection was Rupees 2,518 billion (Ministry of Finance, 2018).

The county spends only 2.6% of GDP on health which results and witness high infant mortality rate where 52 deaths per 1000 live births are recorded. The life expectancy at birth stood at 68 years. Same as Health Sector Pakistan spend very little on education with 2.7% of GDP reported in 2015. The current literacy rate is 57.9 % which means 42.1% of the population is not able to read and write. The unemployment rate is 8.6%. National poverty rate decline from 55% to 39% between years 2004- 2015. There are 39% Pakistanis living in multidimensional poverty as per the report issued by Ministry of planning and development in June 2016. Pakistan rank at the 147th number by UN with respect to the human development index. The multidimensional poverty index score 0.237 which represent the population percentage the that is
multidimensionally poor adjusted by the intensity of the deprivations (UNDP, 2016). MPI index is very relevant in case of Pakistan where poverty not only means lower income levels but also include non-availability of elementary services such as proper sanitation, clean water, education, employment services, health, and financial services.

1.3 Entrepreneurship Situation in Pakistan

The country is a factor driven economy with relatively lower per capita GDP of $1,450 coupled with necessity-based entrepreneurship environment. Historically, the government policies were always made to favour certain elite class. These are the investors who offered incentives which include monopolies in protected markets, low land, subsidized inputs, and favourable credit lending mechanism. People of Pakistan with a positive attitude towards entrepreneurship is less than 50% of similar factor driven countries. A young student who leaves the university looking for a job instead of exploring an entrepreneurial career. According to the Global Entrepreneurship Monitoring Report, 31.24% of the working-age population which also includes entrepreneurs expressed that fear of failure restrains them from starting a new venture. This fear is the population is on the high side compared to peer factor-driven economic average. Entrepreneurship activities are mostly driven by needs by the people who do not have any other option. The motivation to start an entrepreneurial career is lower as well as the opportunities. There is gender inequality in EBO where males EBO rate is more than three times than female EBO rate. This point out the issue of the gender gap in EBO compared to other countries driven by innovation and efficiency. Women's participation in early entrepreneurial activities is the lowest of factor-driven countries (GEM, 2018).

The state of entrepreneurship in unhealthy due to inconsistencies in policy and program, low levels of research and development, poor physical infrastructure, lack of business opportunities and inappropriate support from the government. Government always supported bid industry and large enterprises. In the history of the country, policies were never neutral and the equal ground was never offered to all. In any economy, growth occurs when policies and management at all economic levels become entrepreneurial. Looking for rent (rent seeking) is characterized as a situation where individuals or companies make money manipulating the economic environment rather than making profits through trade and fair competition. Some examples of rental searches provide monopolies through licenses, sourcing under market prices, protection against
competition (for example, blocking the number of players on the market), government subsidies manipulation, tariffs, and taxes. Another reason is SMEs are constantly neglected. In reality, SMEs controls 40% of businesses which are engaged in the informal small-scale sector. This sector serves as a primary source of innovation in the country. A recent study conducted by the small and medium enterprises development authority shows that one can work in a small-scale industry with an investment of one-eighth of what causes him to work in a large-scale industry. Back in the late 1960s and early 1970s, there was a green revolution in a country which witnesses the rise of tubes well, tractors and high yielding varieties. Unfortunately, the three elements are the source of rent seeking. At the same time, another system with multiple exchange rate was introduced. The aim was to control consumer imports and lucrative subsidies offered to exporters. Here again, the main beneficiaries were big players and large factory owners who benefited at the expanse of small producers (Naeem, 2007).

The outcome of the policy is bank inequality and failure, disability innovation, lease search, and land development. A small entrepreneur faces problems such as the cost of corruption, lack of skills, unfriendly administration, lack of legal framework, lack of trust, social capital and funding constraints. Entrepreneurs are drowning in search of rent. If you want to develop entrepreneurship, you need an in-depth government reform that hinders lease searches, promotes innovation and promotes the company. The experts generally evaluate govt. intervention in support programs far lower than other innovation-driven economies. Culture and social norms are also reported to be more negative for entrepreneurship in Pakistan than other factors and in countries driven by efficiency.

However, few areas show active participation such as KPK and Sindh provinces reflected by 5.7% EBO. On the other side, Punjab has the highest expected rate to start a business over the course of three to five years. Currently, the main facilitator of entrepreneurship is the dynamism and openness of the internal market, a relatively good and improved financial environment, which combines microfinance initiatives aimed at women and teenagers and more attention to business education and training programs.
1.4 Microfinance Institutions in Pakistan

In 1982, the idea of microfinance was implemented through a pilot project in Karachi under the name of the 'Pilot Orangi Project'. By 1990, MFIs began to spread throughout the country as many NGOs were leading the newly emerging potential sectors. The KF was one of the pioneers that began operating in 1996 across the country preceded by Akhuwat in 2001. Reducing poverty is one of Musharraf’s government main goals as he tried to achieve during the 1999-2008 period and micro-financing was chosen as an intervention tool. In the year 2000 with the help of World Bank, PPAF was established. In 2001, PPAF has documented that microfinance is the most appropriate tool for empowering the poor and raising overall income levels. At that time, microfinance attracted academic researchers and policymakers. This idea is easy and interesting to provide financial services and help the door of the poor. The importance of microfinance has increased significantly not only in Pakistan but throughout the South Asian region. In addition to this opportunity, the sector faces many challenges in Pakistan (Sulaiman, 2010).

![Figure 2 - Overview of Pakistan Microfinance Industry – Active Borrowers FY 2013-17](source: PMR 2017)

As mentioned above, we only focus on MFIs and do not consider MFBs and RSPs. Table 3 provides general information on all MFIs operating in Pakistan with respect to credit lending model, interest calculation method, types of credit product offerings and website URLs. Credit products have been classified into three categories as IGL, NIGL and both. Information is taken
from the thorough study of the MFI websites and PMR 2016 an annual report published by the PMN. Currently, there are twenty-nine (29) MFIs operating in Pakistan, where twenty (20) follow a CLM with interest and four (04) follow the IFLM. The latest information is not available for five (5) MFIs and is not included in the annual PMR study either. We will also consider twenty-four (24) MFIs for additional investigation. As per the latest information shared by PMR the active borrowers reach 5.7 million in the year 2017 which is shown in Figure 2.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Abbreviation</th>
<th>Lending Model</th>
<th>Type of Interest (% Charged)</th>
<th>*Types of Credit Products</th>
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</tbody>
</table>

*Types of Credit Products (1 = Income generating, 2 = Non-Income generating, 3 = both)
*** Unknown / Data Missing (Updated information not available on the website about lending methodology, MFIs did not participate in 2016 microfinance review, updated information not available)
Sources: Pakistan Microfinance Review 2016 and Data extracted from MFIs websites

Table 3 - List of Microfinance Institutions operating in Pakistan

Thus, there are two different categories of MFIs based on conventional and non-interest-bearing models. The interest-free model or Islamic lending model clearly states that poor borrowers pay no additional amount as interest. The borrowers are not charged with any additional amount and
the principal amount is returned with the nominal administrative charges. MFIs that use CLM apply uniform, reducing balance or mixed interest rate methods for calculations and disclosures. Under the rules, it is made mandatory that MFIs should reveal interest costs using the declining balance method. This simply applies that rates are imposed on unpaid outstanding balances. MFIs show some resistance when changing from flat rates to declining methods. That is why many MFIs still use flat rates for interest calculation. The interest rate or service charge ranges from 16% -25% depending on the type of product offered. Almost all offer IGLs, while some MFIs also offer NIGLs. NIGLs are relatively small and are usually offered according to specific needs and offer a complete package of services to deal with competition. Keeping in view the main purpose of MFIs to help poor with finances and raise the level of their income. (PMR, 2016 and 2017) (See Table 3).

1.5 MFIs and High-Interest Rates

The idea of microfinance is simple and looks very promising but few issues are attached to it. Major criticism on MFIs is the high-interest rate which is a burden on poor borrowers. In fact, offering small loans to many people comes up with more cost than lending one big loan to a company. MFIs high-interest rates are due to high operational costs, cost related to credit losses and the cost of capital. The cost of acquiring new customers in microfinance is higher which result in a high transaction and operational costs. This high transaction cost can only be covered if MFIs charge higher interest rates than average bank loan rates. Due to the uncertain supply of subsidized funding growth and sustainability of MFIs is in question (Mazher, 2010). The costs associated with credit losses also play a role in calculating interest rates as MFIs need to maintain a default rate of 1% - 2% to ensure sustainability. MFIs usually lend to poor people which are denied access to finance through traditional banking institutions. Financing to MFIs is generally carried out at 10% or more, which is quite high than conventional banking. Then, the high cost of funds means it shows interest rates close to or higher than 23% of customers (Microworld, 2011).

Similar results have been reported by Jonathan Morduch in 2012 for a study conducted in Bangladesh’s marginal neighbourhood for microfinance interest rates. Borrowers are sensitive to interest rate hikes. They tend to be smaller and pay faster for the general reduction of the loan balance. It is reported that the MFI interest rate falls between 16% - 50% p.a. especially in places
where the rate of inflation is higher than 10% p.a. MFI s are of the opinion that the excess revenue generated by the loan is good enough to allow higher interest rates. However, in the opinion of Noble Laureate in microfinance, Dr Muhammad Yunus MFI should maintain their interest rates as close as possible with the cost of funds. He believes that interest rates should be the cost of capital plus ten to fifteen percent maximum. The average ratio of financial expenditure to assets is 6.1% calculated by the Micro Finance Information Exchange indicating that the interest rate should be between 19% -22% according to Yunus advice. That is why we see aggregate interest rates for Grameen Bank in Bangladesh are around 20% per annum. The findings of the study suggest that high-interest rates are reasonable to achieve sustainability at an early stage. Later, development and growth should be linked to market behaviour regardless of donor funds without capital cost. Natural fears remain where more interest rates will lower the demand for financial services (Morduch, et. al, 2012).

On the other hand, microfinance expansion is challenged and low take up observed in many Islamic countries due to the presence of interest. As per Sharia law interest is prohibited which hinder the participation of many individuals in microfinance programs. Such individuals are left out in financial inclusion programs. Irrespective of interest rates the idea of interest makes it impossible for many to participate in any activity directed to achieve social goals through microfinance. A substitute model without interest built on rotating savings and credit association. Although, there was a certain fee charged by the bank. In a laboratory setting in rural Egypt, this model attracts high take up compared to CLMs such as Grameen style model. So, Islamic microfinance can solve the high-interest rate issue while promoting IFLMs. This will help in attracting more customers and attract customers as well as donors (El Gamal et al., 2014).

1.6 Role of Government

The federal Govt. plays a critical role in creating an environment which boosts financial services development but not at the expanse of poor people. The important step govt. can take to support the microfinance industry by controlling dips in macroeconomic activity and maintain stability. Precautions should be taken to avoid a hike in interest rate limits and avoid distorting the market with subsidized lending programs and high splits that cannot be sustained. Through improving the overall business environment, making business easy, control corruption, expand the market and by building infrastructure facilities. In unusual circumstances govt. funding to strong MFIs
may be allowed when other funds are on the low. In Pakistan Commercial banks operating in microfinance are controlled by SBP. While attention to specialize MFI is initiated in early 2000 with the establishment of PPAF which is the top organization to function as intermediaries and wholesalers while partner organizations perform retail functions. PPAF implements three types of services for its partner organizations which include (i) granting credit to expand microcredit programs for poverty reduction (ii) providing funds to strengthen institutional capacity (iii) grants for community and physical infrastructure for the cost-sharing baseline social services sector. The establishment of PPAF and its financing function really helped the growth of this sector. Transformation can be seen from charitable organizations that rely on donor funding to organizations with clear business plans ensuring sustainability (Hussain, 2009).

1.7 Research Problem

Individuals tend to take small loans from MFIs with a view to achieving financial independence. They find it easy to pay back principal amount along with interest or service charges in small instalments. This encourages individuals to become micro-entrepreneurs and manage their daily needs by themselves. However, the interest rate of micro-loans is way higher than standard banking loan. In the end, the individual end, up paying more money in terms of interest than he earns through small business. Apart from that utilization of microcredit other than business activities also needs attention.

I need to observe whether money extracted from MFI are used for entrepreneurial activities or to satisfy short-term other life needs such as children education fees, medical bills coverage, home décor, necessities, and marriages etc. There are several models and methodologies used by MFIs to cater to poor people needs. Commonly known models include the Grameen model, group lending model, banco-sol model, conventional banking model, and Islamic financing model. At average minimum 10% and maximum 30% interest rate is charged on the principal amount. However, one of the MFI is carrying out interest-free lending in Pakistan. This new model is referred to as “Akhuwat Model” – Akhuwat is an Urdu word meaning brotherhood. The depositors don’t charge any amount and lend money as charity to MFI which saves the cost of capital. Akhuwat does not rely on international funding and most funds are raised from civil society. Apart from loan entrepreneurship education and technical assistance also provided by staff members to borrowers. On repayment, borrowers have the choice to pay any additional
amount in terms of service charges if he/she likes otherwise Akhuwat only requires principal amount. This new model is getting popular compared to traditional microfinance lending models with high-interest rates. We will examine the emerging model in detail and compare with the existing model used by MFIs in Pakistan (Mazher, 2010).

1.8 Research Objectives
- Find some evidence of MFIs role in entrepreneurship development in Pakistan
- Micro-entrepreneurship supported through MFIs is sustainable or not?
- Comparative analysis of CLM and IFLM or Akhuwat Model; which one is better to boost entrepreneurial activities?

1.9 Research Questions
An attempt will be made to answer the following questions during the course of study.
- Are MFIs helping to reduce poverty?
- Microcredit enable policymakers to achieve SDGs?
- How much effort is done to provide technical know-how and entrepreneurship education to poor people from MFIs platform?
- Can Akhuwat Model replace the conventional model in near future?

1.10 Limitations
The distance between Pakistan and Finland and language barriers make it quite impossible to organize large-scale interviews with borrowers, MFI professionals, and employees. This may be the cause of partial information about micro-entrepreneurship in Pakistan. It is worth mentioning here that the Akhuwat model is increasingly popular in the country, but there is little data available. However, all existing data sources, prior researches, case studies are referred to as a global vision of the role of microfinance in sustainable entrepreneurial development.
1.11 Structure of the Study

The study is divided into several sections as follows. Section 2 combines most relevant literature arguments which help in framing the conceptual framework from the theoretical discussion in Section 3. Section 4 provides details about research design, data collection methods. Section 5 and 6 will report data analysis, findings, and discussions. Section 7 explains the conclusions in detail.
2. LITERATURE REVIEW

This section entails the literature review concerning microfinance institutions contribution in promoting sustainable entrepreneurship, reduction in poverty and the achievement of SDGs in Pakistan. There is plenty of literature available as microfinance was the point of attention for scholars and policymakers after the 1980s. Relevant and recent literature is studied to understand whether MFI is really helping the poor or is it just another good business model compared to conventional banks. CLM will be compared with IFLM “Akhuwat Model” to check which one help more in entrepreneurship development. Review of this literature establish a framework for the study and highlight the gaps in previous studies.

2.1 Understanding of Microfinance

Microfinance is defined as providing small loans and other financial services to poor people. It was described in much detail by Bouman (1990) in the book small, short and unsecured. As per Bouman, "Microfinance is a very small loan that is repaid within a short period of time, and is basically used by low-income people and households with little assets that can be used as collateral."

According to world bank definition, microfinance is the provision of financial services to households and other small and medium enterprise that are not included in traditional commercial banking services. Generally, there are low income or self-employed individuals with no formalized ownership titles on their assets and with minimal or no identification paperwork (World Bank, 2015).

According to the PMN supply of loans, savings and other financial services to the poor. Poor people also need a diverse range of financial services like everyone else to run and manage their small business, build assets and shield themselves against anticipated risk. There is a range of services which includes consumer credits, savings, pensions, insurance, money transfers, and working capital loans. Access to financial services had proved as a powerful instrument to fight poverty, enable poor to increase their income and decrease vulnerability to the economic crisis (PMN, 2018).

SBP defined microfinance as the provision of financial services including credit, payment transfers, and insurance etc. of poor household and micro-enterprises (SBP, 2018).
According to CGAP availability of finances to low-income peoples is refereed as microfinance. It is the movement which confirms permanent access to affordable financial services to the poor. Initially, microfinance was closely associated with the term microcredit where small loans to unsalaried borrowers are offered with no or little collaterals. Over the period it has evolved and now includes auxiliary services such as insurance, transfers, remittances, payments, and savings (CGAP, 2018).

Financial service providers for the poor includes cooperatives, community-based development institutions such as self-help groups, credit cooperatives; commercial and state banks, insurance companies, non-cooperative NGOs and other unofficial selling points. Any of following three types of providers and offer microfinance a) formal banks, rural banks and cooperatives b) NGOs and semi-formal institutions c) other unofficial sources, such as lenders (Mazher, 2010). The providers of microfinance is generally referred as microfinance institutions and defined by microfinance ordinance 2001;

“Any institutions which extend micro-credit and other allied services to poor through any source other than public savings and deposits.”

A similar definition is given by UN where the term microfinance institutions refer to a wide range of companies dedicated to offering services to poor and includes non-governmental organizations, credit unions, cooperatives, private commercial banks, non-bank financial institutions and parts of State-owned banks.”

From above definitions following key functions of microfinance and MFIs are ;

- The poor people need a range of financial and non-financial services
- Microfinance is an effective and powerful instrument against poverty and boosts empowerment
- Focus on female households
- Microfinance means and includes a financial system that targeted to serve the poor only
- Microfinance means the provision of permanent financial services at the local level through MFIs
- Financial sustainability is crucial for success
Now, after understanding microfinance and its key functions; clarity is required with terms microfinance, microcredit and microfinance activities.

2.1.1 Microfinance and microcredit
Microcredit or micro-lending is a system which offers small loans to poor individuals for small self-employed ventures that generate income and allow themselves to uplift from poverty. Microcredit is extended to people with or without collateral, security or credit history to ensure loan repayment. The only surety is future expectations of earnings from borrowed capital. In general, the collateral is trust. Millions of individuals turned into entrepreneurs through microcredit. Both terms microcredit and microfinance are used interchangeably in literature but there is a distinction between the two. Microcredit is the act of offering the loan while microfinance is the process of providing financial services to the poor. Microlending is one function performed by MFIs while providing an umbrella of other allied services to the poor. In nutshell, microfinance is a broader term which contains microcredit function.

2.1.2 Microfinance Activities
Buyers and sellers form the basis for any economic activity. Before selling any product, buyers’
intentions and capacity are considered. Commercial banks invest in large projects and consumer finance. They borrow money from one and lend to other and difference is the bank’s profit. MFIs usually invest in microenterprises and boost micro-entrepreneurship. Efforts are directed to uplift people out of poverty and ensure a regular stream of income in a sustainable way. Although microfinance is directed to poor for business purposes and promotes micro-entrepreneurship there are some indirect impacts shown in figure 3.

2.1.3 Microfinance as Development Tool
In developing countries, people with low incomes have very innovative ideas and fell short of financial resources. A shopkeeper or open market seller may find a new way to earn more money but lack financial capital to fulfil his dream. Financial services provided by MFIs includes saving, insurances, payment and credit activities. Now one thing is important here that the core function of all MFIs are lending credit. However, it is not necessary that every MFIs must provide all other allied services to their borrowers. The range of services offered depends on the target market, institutional structure and MFIs own objectives. According to Ledgerwood (2000) MFIs work is not only limited to loan disbursement but act as financial and social intermediator. They act as a bridge between finances and poor people which results in poverty reduction, better health care, improvement in education and financial literacy. Social intermediation contains different activities such as training the borrowers on bookkeeping, general management and other nominal financial literacy activities. Development in social capital is the basic ingredient of sustainable development in poor people lives.

According to Morduch (2005), ‘the efforts made to build human and social capital needs sustainable financial intermediation for the poor’. The social capital will serve as a bridge between clients, groups of borrowers and MFIs. Trust and cooperation are the basics to establish such linkages. On top of that many MFIs do manage dinners, awards and other appreciation certificated distribution ceremonies where experienced people guide others, tips and tactics of business and useful suggestions shared with all. These are the actual benefits of MFIs where the combination of financial with social services is offered which provide a ripple effect in development. Such social intermediation is not applicable in traditional banking mechanism. Thus, one can conclude that microfinance is not just banking at a lower level or banking for poor but it is a tool for development of poor.
2.2 MFI’s, entrepreneurship development and poverty reduction

2.2.1 Entrepreneurship

Most widely used term in recent literature in fields of business, management, economics and other related fields is entrepreneurship. One of the most important things is that entrepreneurship has different meanings for different people, some use it in the sense of innovation, others use creativity, risk-taking, leadership and maximizing profits or in social contexts, and some consider it to be the start of a company, the method new production and various other meanings. The word entrepreneur is derived from the French word “Entreprendre” which literally means a person who undertakes to do a job or particular activity. A person who recognize and manage a business while undertaking risks associated within for profits. The exact definition of entrepreneurship based on the context which varies a lot based on the operating environment. Classical economists describe different characteristics of entrepreneurs. Richard Cantillon (1700) describe entrepreneurs as a rational decision maker while Adam Smith (1776) believes he does nothing but works as an agent. This view was further testified by Jean-Baptise Say (1803) as he believes an entrepreneur is the centre of the productive process who shift resources from an area of low productivity to higher productivity. Joseph Schumpeter (1934) comes up with the idea of the entrepreneur as innovator which was back by Alfred Marshall (1936) and the aspect of achievement was added by David C. McClelland (1951). The process that leads to set up a business entity, expansion and further development is called entrepreneurship (Shane & Scott – general theory of entrepreneurship). As phenomena entrepreneurship is quite rich which makes it interesting and resourceful field (Davidson, 2004). Whereas Gartner explains that it as the creation of a new organization, start-up and creating values. The view of Kirzner on entrepreneurship is all about finding opportunities and exploiting them to earn the profit. Besides earning profit innovation is a necessary element of entrepreneurship as per Schumpeter. (Swedburg, 2000). When we talk about microfinance and entrepreneurship than we are talking about micro-entrepreneurship. Here people need small loans to convert their entrepreneurial potential into microenterprise.
For the poor people, it is difficult to arrange even small capital which is required to start a small business. Due to the inability to generate such capital these microenterprises left out with many growth opportunities (Robinson, 2002). Microcredit is not for everyone as you need entrepreneurial skills to run the business and pay back the loan. There are several people who fall under the line of poverty not considered as good customers by MFIs. Researcher agree that such group of people are entitled to direct basic assistance (Morduch, 2002). There are various stages of poverty as extremely poor, poor, working poor and vulnerable in developing country such as Pakistan. Microcredit programs by leading MFIs are less successful in reaching extremely poor. There are people who are ill and can’t work due to other reasons. They needed to be supported through charity as they are not economically active (Obaidullah, 2008).

2.2.2 Micro-Entrepreneurship

According to Mondal (p3), Most of the research in microfinance revolve around poverty alleviation and empowering the poor while less focus is given on micro-entrepreneurship. Microfinance borrowers can be of two types. A micro-borrower who receive money MFI and return back and will receive money again to satisfy small routine needs. While micro-entrepreneurs are the ones who invest the money in existing or new business to bring innovation and creativity into practice and do things differently from others.

Access to finance helps poor individuals to realize their entrepreneurial potential. There are some critical entrepreneurial characteristics required to be successful in a normal business environment in order to protect their families against poverty (Mahmood & Hussain, 2014). A study conducted with field data from consumers four leading MFIs working in Pakistan to see the impact on poverty using concepts such as education of children, housing, food, ability to make assets and household expenditures. Mix results were found as programs offered by MFIs were not able to produce sufficient revenues and thus household incomes did not increase. The significant and positive relationship found in the children education and microfinance participation. Increase in household expenditure also noted but no significant effect is noted in housing conditions, food consumption and household ownership (Umara Noreen et al, 2011).
2.2.3 Sustainable Micro-Entrepreneurship

Sustainability means different to different people but in general, it consists of three aspects; economy, environment and society. It is one of the human challenges we face from past decade or so. They are complicated but interconnected. We say something is sustainable if we can maintain it for a while but not for indefinite time. In the last century, the entrepreneurial thinking was concentrated towards finding a good opportunity and capitalize on it. This thinking has been changing as entrepreneurs need to think about what social problem can be solved through their business activity. Sustainability covers broadly economic and environmental impact which means a continuous supply of finance to poor people to meet their needs and they will be able to carry on after the loan cycle. MFIs provide credit to poor people enabling them to become micro-entrepreneurs but is this activity is sustainable? Can these entrepreneurs carry on without any further help after a specific time? If MFIs are providing loans without any service charges or interest will they stay in the business?

Microfinance, entrepreneurship and sustainability are interrelated and interdependent on each other. Financing the poor can be profitable and socially sustainable (Robinson, 2002). As per Yunus a single most effective way to enable the poor to overcome the poverty is money. Once you invest credit in income generating enterprise as working capital which eventually leads to the establishment of micro-enterprise. Profit earned from such enterprise will boost poor people income levels. (Daley, 2002). Finance provided by MFIs to poor people have to be sustainable which means you need to charge interest or service charges that cover your costs (Littlefield, 2004). Many MFIs have demonstrated to stay sustainable and profitable at the same time. This is the core of sustainable micro-entrepreneurship. Microentrepreneurs face many financial and non-financial obstacles which include lack in business and marketing skills. They require others support and entrepreneurship development services to make their small business sustainable. There is a need for entrepreneurial training which includes basic business skills, opportunity identification, basic market knowledge, selling skills, basic financial literacy along with credit supply (Ferdousi, 2015).

This review emphasized the importance of new lending model which not only provide credit but also provide necessary technical entrepreneurial training and skills to help such people to stand on their own.
2.2.4 MFI's & Enterprise Development

According to the microfinance minimalist approach, MFIs' main goals are the provision of credit, reduce unemployment, access to financial products and minimize the gap between supply and demand credit and poverty reduction through income generation. Minimal or credit only approach is limited to financial and social intermediation. The minimalist approach assumes that low-income people's access to credit is the only lost part of raising income and therefore availability of microcredit is in the centre of the development strategy. This focus in this

![Diagram of Minimalist Vs integrated approach in microfinance](image)

*Figure 4 - Minimalist Vs integrated approach in microfinance*

*Source: Ledgerwood, 2000, pp. 65*
approach is given to the idea of on missing piece in the path of economic development for the poor. That missing piece is the availability of affordable credit in short term. The minimalist programs will realize that poor people may need social services and other development and think few other organizations will provide the same. The provision of these services is not their major concern. The benefit of this approach is cost-effectiveness due to its singular focus (Ledgerwood, 1999). However, the minimalist approach is not able to develop micro-entrepreneurship in the poor. The new integrated approach is redesigned by the MFIs which deliver a combination of financial and non-financial services and referred to as ‘integrated or maximalist approach’.

Now the focus is given to provide development and social services along with credit provision. These social and development services can be divided into two categories for better understanding; i) enterprise formation ii) enterprise transformation. Under this approach, MFIs offer social and enterprise development services through enhancing skills of micro-entrepreneurs. In the formation, MFIs offer technical support to individuals or groups to start a new business and turn their ideas into income generating business. They offer workshops and training on various business skills such as financial literacy, planning and production techniques. Social services include health and nutrition awareness, education, general awareness of basic human rights, literacy training. These training can be offered as stand-alone educational programs or community-based learning programs. There is empirical evidence available which conclude microfinance is the true lubricant for enterprise development when credit is complemented by non-financial services (Shetty, 2008). If we talk about which approach is more economically sustainable then minimalist approach score is better due to mono-focus on credit provisions. An integrated approach is not cost effective as all allied services incur additional costs.

2.3 MFI’s and Sustainable Development Goals

Microcredit is helping policymakers to achieve SDGs is another area of interest. SDGs focus to form policies for improvement in areas like food and nutrition, education, gender equality, inequality, environment, poverty reduction, clean drinking water, peace and rule of law, climate action, life underwater and health care. A detailed study based on primary data of 3000 borrowers and non-borrowers in one of top MFB operating in Pakistan reveals that SDGs and
commercial microfinance lending are not compatible with each other. However, there is some significant evidence found for health, women empowerment and other social indicators (Heather, 2011). Similar results were reported by Elizabeth Littlefield and Jonathan Morduch when they summarize evidence from different studies in 2003. They report microfinance enables the poor to increase their incomes and protect against the risk of poverty. It is a definite way to get out of poverty. Microfinance made them able to borrow a small amount and take advantage of the business opportunity, pay school fee for their children, add up missing cash flow and pay medical bills. Whenever poor people have new income from microfinance, they invest in children education. The significant and positive relationship found between microfinance consumers and the likelihood of their children attending the school. Illness is the main reason for failure to repay microfinance loans. People consuming microfinance products and services are reportedly noted with good health compared to non-consumers. That all add up in the reduction of poverty and prevent poor households from extreme financial weakness. The poor are looking for jobs, health care, education and access to financial services. Extreme poor are looking for a quick transfer to income for survival. That all is possible if their income level increased and they have greater control over financial resources. The more microfinance programs become sustainable more benefits and income distribution will be the result ultimately moving towards SDGs. Sufficient literature documents increase in income, assets and reduction in poverty among microfinance consumers (Littlefield & Morduch, 2003).

Women empowerment is still in question as loans disbursed to women for new business start up not always end up with the desired goal (Mahmood, 2011). Not all but many MFIs are contributing towards SDGs one way or the other. A study conducted by asian development bank institute using data for one of the largest MFB of Pakistan reveal contribution towards development goals have been effected directly and indirectly. Evidence found for hunger reduction, basic schooling and basic health facilities. Direct beneficiaries of microloans were women which correlate to women empowerment and gender equality. As far as environmental awareness is concerned the contribution is rather indirect where preliminary information shared from same platform (Setboonsarng et. al., 2008). Thus, the issue of sustainable development must be handled locally as there is no blueprint available for all countries to follow. Poverty reduction, women empowerment, education are few areas in which microfinance is playing the
role but entrepreneurship development is not the standalone and specific target for commercial MFIs.

2.4 Microfinance Models

Microfinance institutions are using various lending models such as Grameen, group, individual, intermediaries, progressive lending, NGOs, peer pressure and village banking. Choice of the model depends upon social, ideological and political scenarios of the region of operation of MFIs. Few MFIs use a combination of more than one model to satisfy the need of their borrowers. These above-mentioned models can be grouped as CLM. We will look in detail two most commonly used conventional models and one emerging new model for better understanding and comparison.

2.4.1 Conventional Lending Models

*Grameen Model*

The most commonly known model for microfinance credit is given by Dr Yunus and referred as Grameen Model. The primary unit of the loan group consists of five members who apply for a loan. Generally, a bank unit is established with manager and field workers with a coverage area of 15 – 22 villages. In the first round, loans are offered to any two out of five members to use in their business. After both members paid back their loan, other two members will get the loan after four to six weeks time. The last member qualification depends on successful repayment of later two members. This process will continue for next loan and the basic principle is successful repayment. In case of default on part of any member, the whole group will be stopped from further loaning. Therefore, this is more than a financial guarantee, the social security involved. In that way, collective responsibility is serving as collateral for the whole group.

Every group is kind of small organization of its own with the respective president and secretary for coordination among and with other groups. At the central level, a total of eight groups are organized and one banking officer manages these groups. On a higher level, these eight groups also have a central chief and group leader respectively (Khan, Rehman, 2007).
Loans are small but sufficient enough to start micro-entrepreneurship such as purchasing of the rickshaw, milk cows, livestock, pottery, cloths. The flat interest rate on all loans is 16% and due to peer pressure very healthy repayment rate of 95% is observed (Grameen, 2018). In first-time bank offer loan equivalent to $100 and flat 10% interest rate is charged on annual basis. That interest rat ensures repayment and encourages the members to save rather than spending every earnings. Apart from that, another 5% of loan amount is being kept inside the group and not utilized. This amount serves as a remedy is any group member needs assistance in emergencies such as health expenditures.

These small groups have many benefits. Firstly, groups are usually encouraged to become members of one another. They can understand each other needs in a better way and communicate in case of any problem. Secondly, in case of absence or non-participation by any members in group meetings the leader of the group can act on his/her behalf and pay fees and instalments. There is harmony between the members of the group. Thirdly, in South Asia in general and particularly in Bangladesh the social pressure through group members makes it quite impossible to avoid or instalment and fees. Generally, group members have close social ties which form undeniable social pressure. In the case on member do not pay the fee than then social pressure is imposed on all members and that is how the risk is mitigated (Sengupta, 2008).

**Progressive Lending – Banco Sol Model**

It is clear from the name that loaning is progressive once the first loan is repaid. Contrary to the Grameen model where the lending primary focus is given to poor villagers, group formation, small loan amount and no facilities for individuals. In progressive lending, group lending is being replaced by individual lending. Amount of loan keeps on increasing after successful repayment of the previous loan. However, a few other attributes of Grameen still included in this model like a loan for only poor people, targeting women in groups and public payments. We can refer progressive lending as an extension of the Grameen model and individual lending is adopted by many MFIs lately. Microlenders are quite flexible towards collateral in progressive lending. Model is best for areas with low population densities and other areas where the formation of the group is not an easy task. The only considerable aspect is the ratio of safe and risky borrowers in the area of operations. The model was first adopted by Banco Sol in Bolivia
when the situation was uncertain after the populist regime left the government and unemployment was on the high in urban areas (Agion & Morduch, 2003). Hence social conditions played a role to evolve a progressive lending model in Latin America. However, the element of commercial profitability was kept in the forefront and introduced at very early stage under this model (Weiss & Montgomery, 2004).

2.4.2 Interest-Free Lending Models

*Islamic Financing*

Flexibility in microfinance models makes it possible to reach a vast number of people who generally denied access to financial services through conventional channels. These models can be replicated or tailored according to local tastes and various cultural features. There is a huge unmet market for microfinance which requires more tailored products. Especially in countries where the majority of the population is Muslim and Islamic principles of financing played a great part in their dealings. Survey results (Ibrahim, 2004) clearly outlines the demand of Islamic banking in societies where religion plays an important role in people lives. According to Islamic scholars, there are three basic differences between Islamic and conventional financing. These are the exclusion of interest, profit and loss sharing and evasion of Gharrar (a transaction which that contains speculation and excessive uncertainty) (IFLR, 2005). The exclusion of interest is the key to Islamic finance. Lending money should not generate unjustified income. The word ‘riba’ is similar to the interest which in sharia terms refers to premium borrower pay to the lender along with the principal amount. The interest is prohibited in Islam in totality with all forms and shape. Interest relates to the unjustified advantage of lender over the borrower. Money is nothing but a store of value or medium of exchange. There is no guaranteed return on investment, unlike conventional finance. So, the element of risk should be present in any form of investment. Any transaction that involves Gharrar is restricted. A transaction is referred as Gharrar when parties do not have knowledge about the subject matter and element of speculation and uncertainty in available. Basically, the prohibition of unproductive speculation, unearned income and excessive uncertainty (Segrado, 2005). Apart from differences at very basic level lending of loans without collaterals share common aims between microfinance and Islamic finance. Thus, both may complement each other in practical and ideological terms.
Islamic financing contracts (Zahier & Hassan, 2001) can be of five types (i) Modaraba (ii) Musharaka (iii) Murabaha (iv) Ijara (v) Istisna. (Dhumale and Sapcanin, 1999) analyze how one can combine Islamic financing principle with microfinance. To design a successful microfinance program, they consider three main instruments of which are Modaraba, Musharaka and Murabaha Model.

**Modaraba (Participative financing model):** Modaraba means a transaction between financial institution and borrower and for this option, both lender who is the capital provider and a borrower who will be the entrepreneur has no pre-decided amount as an interest but carry on their dealing on profit and loss sharing basis. Modaraba is similar to a limited partnership structure found in western culture where one party contribute only capital while other manage the business. It is trust based financing where agreement between the investor (bank) and the agent or mudarib (entrepreneur) for a particular project or business. The profit or loss is shared on a negotiated percentage of ownership. In the event, business suffers a loss the investor (bank) earn nothing or negative return and agent (entrepreneur) receives no compensation for his/her efforts.

**Musharaka (Joint Venture):** This is very much close to the joint venture where both parties provide the capital or manage the business jointly. Losses are borne by capital ratios while profits are shared on pre-agreed ratios. It is different from Modaraba because it involves management capacity and decision making of both parties in the success or failure of a business. The relationship between parties is different and not restricted to profit and loss sharing only.

**Murabaha (Working capital and leasing method):** In this type investor (bank or MFIs) purchase the items and resell it borrowers after adding some reasonable profit in the value. Afterwards, the lender and borrower will decide the return amount (equal instalments) and duration of repayment. Ownership of goods or assets will remain in the name of investor unless all instalments are paid in full. Here additional value added in the price is considered an administrative cost which is minimal and by far less than the prevailing interest rate in the market. As per Dhumale and Sapcanin Murabaha is similar to trade finance with the context of
working capital and to leading with the context of fixed capital loans. It is considered quite a suitable method for MFIs due to easy and clear methodology (Dhumale & Sapcanin, 1999).

*Microfinance with Difference: Akhuwat Model – Interest-Free Islamic Lending*

The word Akhuwat is an Urdu word meaning ‘brotherhood’. The basic principle of this model based on brotherhood and solidarity with an aim to help the poor and create a bond between ‘haves’ and ‘have-nots’. They do not receive any foreign aid or grant and collection of funds being carried out purely on local charity and donations. Akhuwat model can be understood by four main factors which are also evidence of model sustainability form the very beginning. (i) Interest-free lending based on Islamic principles of Qarz-e-Hasna (ii) Less administrative costs due to use of religious infrastructure (masjids, churches, temples, gurdwaras etc.) (iii) Customized and targeted loan product offerings (iv) Virtuous cycle rather than a vicious cycle (Ikin, 2013).

We will look in more detail of each factor. Interest or Riba is prohibited in Islam and CLMs are in contradiction with religion. This is the reason many poor people are reluctant in participating microfinance schemes. The contradiction is settled by interest-free loans as Akhuwat provide a much-needed alternative with loan products of zero interest rates. The process of Qarz-e-Hasna is quite simple where a lender gives out the money to the borrower without charging any interest on top. The lender will not ask for early repayment as the borrower will return the principal amount on the agreed date (Mirakhor & Iqbal, 2007). However, while giving the loans few peculiarities should be mentioned in the lending contract between lender and borrower such as date of repayment, loan contract, the presence of two witnesses and nominal administration fee. They do charge a one-time administration fee of 5% but it is even waived off for extreme poor borrowers with loans under Rs. 4000 PKR. So, borrower returns only the principal amount. They achieve efficiency and save administration and overhead costs because mosques and churches are key components of the operational strategy. These places are used for a short time during the day for prayers while remain vacant for the rest of the time. Civil participation is boosted while disbursing loans from religious places and many borrowers can see their loans linked to their religion. They treat the loan amount as a sacred gift and treat it with respect and do everything
possible to repay on time. This is the key reason we can witness a very high repayment rate of 99.85% in Akhuwat loans.

Although Akhuwat started group lending method which is similar to the Grameen model they moved away towards individual lending. They kept people certain needs at the centre and offer products accordingly. Contrary to other models where emphasize given on capital expenditure and loans only given for working capital purposes. Customized loan offering includes family loans to start or expand small family owned business. After analysis of borrower business plan loans amount is disbursed ranging from 3000-25000 PKR. Liberation loans issued to people to get out from debts with higher interest rates. These loans are typical of large volumes with instalment amount is around 25,000 PKR. Housing loans cater the needs for building a new room in the house or repair an old room etc. Wedding loans are designed to help extremely poor people in arranging their daughter marriages. As adequate health services not available for poor people in the country so health loans issued to pay off expensive health expenditures with a return period of one year. Another important product is educational loan where funds are provided to pay off tuition fees for students. On the other hand, aspiring educational entrepreneurs are funded to open new private schools.

The unique part of Akhuwat model is a virtuous cycle rather than vicious cycle. This happens when borrowers and micro-entrepreneurs feel that they get out of poverty by funds provided and not exploited by the institution. They find it unjust to exploit their customers too and this trickledown effect makes it possible where borrowers become donors, act as a volunteer and boost local philanthropy. Each borrower receives a small donation box and whenever borrower or his customers have few extra rupees that money goes into the box. This money later collected and further issued as loans to other borrowers. When Employees felt they are playing their part for community development and willing to work on lower salaries. That is how the staff turnover rate is very low between 2%-3% confirmed by a human resources manager. Management of Akhuwat believes microfinance industry may follow this virtuous cycle concept as it is sustainable and will help the industry to bring down the interest rates. Operations are very simple where offices do not have any luxuries like air-conditioning, power generators, lavish cars and expensive furniture. They work with electric fans, basic office furniture, and rugs for sitting.
Their offices share the same comfort as of borrowers. From an operational point of view more is achieved with minimal overheads (Ikin, 2013).

### 2.5 Comparison of Models: IFLM Vs CLM

After detail analysis of selective literature, case studies and examining websites of various MFIs working in Pakistan a comparative table is constructed to have a better overall view of commonalities and differences. As mentioned above in the introduction section there are two different types of MFIs based on conventional and non-interest-bearing loans. Table 4 explains nineteen criteria of comparison between IFLM and CLM.

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<tbody>
<tr>
<td>1</td>
<td>Lending Method</td>
<td>Primarily Individual Lending</td>
<td>Primarily Group Lending</td>
</tr>
<tr>
<td>2</td>
<td>Interest Rate</td>
<td>Zero or Islamic financing instruments</td>
<td>10%-30% (varies)</td>
</tr>
<tr>
<td>3</td>
<td>Philosophy</td>
<td>Brotherhood &amp; Solidarity</td>
<td>Help the poor</td>
</tr>
<tr>
<td>4</td>
<td>Operational Overheads</td>
<td>Minimal</td>
<td>Medium to Large</td>
</tr>
<tr>
<td>5</td>
<td>Deposits Accumulation</td>
<td>Local Charity &amp; small donations, philanthropic contribution but No foreign AID</td>
<td>Borrowing from banks and other foreign institutions, Foreign AID</td>
</tr>
<tr>
<td>6</td>
<td>Target Group</td>
<td>Family</td>
<td>Primarily Women</td>
</tr>
<tr>
<td>7</td>
<td>Product Offerings</td>
<td>Customized and Targeted where customers’ needs are at centre</td>
<td>Limited customization</td>
</tr>
<tr>
<td>8</td>
<td>Contribution towards SDGs</td>
<td>Direct and positive but not covering all SDGs</td>
<td>Direct, positive but limited</td>
</tr>
<tr>
<td>9</td>
<td>Funds Transferred</td>
<td>Cash and goods transferred</td>
<td>Cash gave</td>
</tr>
<tr>
<td>10</td>
<td>Social development programs</td>
<td>Religious (Behavioral and social ethics)</td>
<td>Secular, behavioural, ethical and social development</td>
</tr>
<tr>
<td>11</td>
<td>Dealing with Default</td>
<td>Group centre guarantee and Islamic ethics</td>
<td>Group centre / pressure and threat</td>
</tr>
<tr>
<td>12</td>
<td>Application Fee</td>
<td>Rs. 100-200 per application</td>
<td>Rs. 200-500 per application</td>
</tr>
<tr>
<td>13</td>
<td>Mutual Support Fund</td>
<td>1% of loan amount (Voluntarily)</td>
<td>Mandatory</td>
</tr>
<tr>
<td>14</td>
<td>Deduction at Inception</td>
<td>No deduction at inception</td>
<td>Part of funds deducted at inception</td>
</tr>
<tr>
<td>15</td>
<td>Administration Charges</td>
<td>5% (Once only)</td>
<td>Recurring</td>
</tr>
<tr>
<td>16</td>
<td>Loan Processing Fee</td>
<td>Zero</td>
<td>Charges on each loan (varies)</td>
</tr>
</tbody>
</table>
Repayment Rate | 99.85% | 90% - 95%  
|-------------------|-------------------|-------------------|
| Employees Turnover | 2%-3% (lower) | Usual market turnover   
| Work Incentives to Employees | Monetary & Religious | Monetary |

Source: Self-constructed after extensive literature review

**Table 4 - Comparison of Interest-Free and Conventional Lending Models**

**MFIs Following IFLM:**

MFIs following IFLM lending loans primarily to individuals and groups with zero interest rates like Akhuwat model of brotherhood. In few products of Islamic financing service charges are charged where an agreed amount is added in the value of an asset like Modaraba and Murabaha. They work on the philosophy of brotherhood and solidarity and donors for such MFIs consider a collective religious liability to help poor people from the wealth given to them. Efficiency is achieved due to minimal operational overhead with good enough working environment and absence of lavish office infrastructure. Deposits are accumulated through a local charity, donations (small and large), philanthropic contributions and collection of annual contributions by Muslims given out from their wealth to help poor people called as “Zakat”. They do not rely primarily on foreign AID but such aid is available then it can be considered as there is no restriction to accept it. Target group if the poor family unit and products are designed where customers need to remain at the centre. Positive effort contributed toward SDGs but not all are addressed with the same intensity. Poverty reduction, education, gender equality, women empowerment, health improvement and global partnership for development have a direct impact through their products. Cash funds as well as goods transferred to poor families particularly in Islamic Financing where the asset is purchased and handed over to the beneficiary. The beneficiary will start using the asset and carry on income generation while the ownership stays with MFIs. Once the whole amount is repaid the ownership transferred to the beneficiary. In case of default and borrower inability to repay the loan, no pressure is exerted. In terms of an administration fee, a nominal application fee is charged against every application and in some cases, some percentage of the loan amount is charged. Voluntary contribution option is given to borrower to join mutual support fund while no loan processing fee is charged. With all that repayment rate is recorded at 99.85% and employees are very motivated to provide their
services. The main incentive for employees is not only money but inner satisfaction as they are performing their collective religious duty which can be seen in very low employee turnover rate.

*MFIs Following CLM:*

On the other hand, MFIs following CLM lend loans primarily to groups with varied interest rate from a minimum 10% to 30 like the Grameen model. They consider credit offering is the main tool for poverty reduction and work on the philosophy to help the poor and uplift their living standards. Operation overheads are moderate but not minimum which affects profitability as well as the effectiveness of the programs. Proper infrastructure and operational space are utilized with come with considerable costs. For funds generation and deposits accumulation main sources are loans from commercial banks on discounted rates, foreign AID and loans from governments and other poverty relief programs like PPAF in case of Pakistan. The primary target group of borrowers is women generally female household heads of the family. They offer standard products with limited customization as commercial success is another important aspect of their operations. They have to achieve economies of scale by offering standard products to the large mass of customers. Significant impact and contributions are noted towards SDGs but not all are addressed with the same intensity similar to MFIs following IFLM. Generally, cash is given to applicants but in few cases, cash equivalents or assets are also transferred to borrowers. The default cases are handled by the group centre through group leader by applying some kind of social pressure on the borrower. Very limited social development program offered alongside financial disbursements. In terms of administration fee slightly higher application fee is charged against every application and the recurring percentage is also charged for loan processing. Mandatory contribution is taken from the borrower to join mutual support fund or insurance schemes. At the start of the contract part of funds are deducted to meet emergency medical needs of any of the group member. However, the repayment rate for this category of MFIs stands between 90% -95%. Employees do not have any special motivation and consider their work like a normal job where turnover rates go with the market as monetary benefits are the only incentive for them.
3. THEORETICAL FRAMEWORK

After summarizing the arguments from literature, the theoretical framework of this study is constructed and presented in figure 5. The Research questions are linked with theory and major concepts are entailed to form the overall research framework. Table 5 below provides details of these blocks where each research question is examined against theory and main concepts.

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<thead>
<tr>
<th>Research Question</th>
<th>Theory</th>
<th>Concept</th>
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</thead>
<tbody>
<tr>
<td>Are MFIs helping to reduce poverty</td>
<td>PPAF, Sulaiman (2010), PMR (2016),</td>
<td>Poverty reduction through micro-entrepreneurship, Empowering the poor, Access to financial services</td>
</tr>
<tr>
<td>How much effort is done to provide technical know-how and entrepreneurship education to poor people from MFIs platform?</td>
<td>Minimalist vs Integrated approach (Lidgerwood, 1999)</td>
<td>Enterprise development services, Microcredit as a development tool, Sustainable micro-entrepreneurship development</td>
</tr>
</tbody>
</table>

Table 5 - Research Question Linkage with Literature and Conceptual Framework

First RQ is MFIs contribution in the reduction of poverty which is carried out by providing microcredit. Thus, micro-entrepreneurs came into existence and this activity boost empowerment among poor people. Microcredit enables policymakers to achieve few SDGs is the second RQ. Throughout the literature, sufficient evidence found where microcredit programs have a direct contribution towards poverty reduction, education, women empowerment and raising income levels in general. The limited contribution was recorded in other SDGs such as gender equality, health care, environment and global partnership for development. Other SDGs such as industrial infrastructure, sustainable communities, responsible consumption, life underwater, climate
action, affordable and clean energy, peace, justice, and strong institutions have very limited relation with micro-credit programs. Through an integrated approach, we understand the role of MFIs in enterprise development by offering support and other social services. Once borrower starts using microcredit products, he/she is linked with the network where complementary services, business skills, general and financial awareness, and training are offered to carry out business operations smoothly. Interest rates have an impact of taking up of microfinance products in Islamic countries where non-interest-based models are preferred. The high-interest rate is the biggest challenge and new models such as Akhuwat is getting popularity among poor people. However irrespective of credit lending model Microsoft programs directly contribute to micro-entrepreneurship.

![Diagram](image_url)

**Figure 5 - Theoretical Framework**
4. RESEARCH DESIGN

The section entails the research strategy, data collection, data analysis and reliability of data sources. What methods are used to find evidence to support the theoretical framework.

4.1 Research Strategy

The qualitative research method is used to analyze collected data to address research questions. The objective of the qualitative approach is to broaden the understanding of research topics by providing more practical implications to understand the contributions of microfinance to develop entrepreneurship in the country. It is quite difficult to find empirical evidence due to time and distance constraint. A qualitative approach will help the reader understand the role of MFIs in entrepreneurship development and their contribution towards SDGs. To take a holistic view of all parties involved in the microlending process primary and secondary data is collected through the following steps;

- To take borrowers view and impacts of microfinance in their lives success stories of different micro-entrepreneurs will be analyzed and impact factors will be highlighted through tables and graphs. For this purpose, secondary data of fifty-nine (59) stories have been taken from various MFIs.

- A structured questionnaire will be distributed in microfinance practitioners who are working in the industry for a minimum of two years and beyond. These practitioners are branch managers, middle or higher executives who had worked in operations, credit lending, human resources, and finance department of selected MFIs. They have real time experience and their valuable feedback is considered. The questionnaire was sent to eighty (80) practitioners but the response is received from thirty-seven (37) practitioners.

- To understand the vision of industry leaders two (02) executive interviews are also conducted. One from MFI following IFLM and another following CLM.

All data except success stories will be analyzed with the help of qualitative software NVivo for better interpretations. Success stories were analyzed using Microsoft Excel.
4.2 Data Collection Methods

The research design is basically qualitative. This method can be kept the most suitable for this study due to several reasons. First of all, the purpose is to focus on only MFIs working in Pakistan and not considering the overall microfinance industry including MFBs and RSPs. So, cross-comparison and peer group analysis among different industry players would not be possible. Secondly, the borrowers from MFIs are not literate and represent mix geographic and demographic profiles with urban and rural classifications. The concentration of borrowers remained dominant is rural segment compared to the urban segment of the population. Their participation in the research would have been limited (PMR, 2016). Their experiences of using microfinance are taken from studying various success stories. These success stories are taken from websites, annual reports and other publication submitted by MFIs to PMN. Various Micro-Entrepreneurs success stories have been studied in detail to grasp the realistic view of the actual contribution of MFIs in Pakistan. Thirdly, the focus is given on selected MFI’s who participated actively in PMR 2016. Table 3 provides general information on all MFIs operating in Pakistan with a credit lending model, interest calculation method and types of credit product offerings. Currently, there are twenty-nine (29) MFIs operating in Pakistan, where twenty (20) follow CLM and four (04) follow the IFLM. The latest information is not available for five (5) MFIs and is not included in the annual PMN study either. We will also consider twenty-four (24) MFIs for our primary data collection through a structured questionnaire. All considered MFIs are contacted but responses are not received from few.

The questionnaire designed to address the research questions in details and have five sections. The first section has general information about MFI like name, abbreviation, number of branches, number of employees and year of establishment. It also contains information on respondent on behalf of an organization such as name, designation, years with the organization and professional profile links to ensure validity and reliability of data. The second section consists of three question regarding micro-entrepreneurship development. These questions are about the type of loan, categories of IGL and the total number of micro-entrepreneurs provided with the loan so far by MFI. We are not very focused on NIGL as no entrepreneurial activity can result in such offerings. The third section contains three questions about high-interest rates and their impact on low take up. This section is significant in a county like Pakistan where religion plays a great role in microfinance activity participation. Fourth section deals with various social
service development and contribution towards few SDGs. Questions in this section entail about the educational loans, general awareness, financial literacy, women empowerment and health services offered MFIs. The fifth and last section contains one important question about types of enterprise development services offered by MFIs. The questionnaire was developed using google forms and available in the following the link (https://goo.gl/forms/z9JkiWD2cVnMV94k2).

To understand the vision of industry leaders, face to face interviews are conducted with two executives. Firstly, Dr Amjad Saqib of Akhuwat is interviewed which follow interest-free lending model based on brotherhood and solidarity. Secondly, Mr Barak Ullah Khan was interviewed by AP which follow the CLM. In executive interviews an attempt is made to find out answers of the role of MFIs in entrepreneurs skill development, issue of low take up, criticism of interest, sustainability issues, model domination and vision for future. The executive interviews were recorded and later transcribed.

For secondary data collection sources various research articles, reports published by PMN, UNDP, SBP, WHO and working papers have been consulted. Akhuwat book “Akhuwat Ka Safar, second edition (2016)” (Journey of Akhuwat, version 2016) is consulted in detail to understand Akhuwat Model of lending while making the comparison between CLM and IFLM. Participating MFIs websites have been thoroughly consulted while discussing the findings and conclusions.

4.3 Data Analysis Methods
Generally, there are two techniques used for qualitative data analysis. An inductive or grounded theory where researcher form theory based on some specific data. Raw data such as words, phrases are identified and classified into categories to form a theory. Deductive or framework approach contains a study of various themes by the researcher and then interviews/questionnaires developed which fits well with the themes or framework. In our work, the data will be analyzed via deductive approach. Responses received from participating MFIs against questionnaires would be summarized, tabulated and analyzed in NVivo and Microsoft Excel. Results will be shown in graphs, charts, and tables. The discussion is carried out with respect to the framework constructed above and arguments discussed in the literature review chapter. The purpose of this analysis is to summarize the overall arguments under examination which connect the results into wider phenomenon concerning the topic. As rightfully declared by Miles and Huberman (1994)
‘The strength of qualitative data rests on the competence with which their analysis is carried out’. However, the main criticism of qualitative data analysis is limited generalizability of findings beyond local participants. The same approach is utilized in another region may not provide the same results.

4.4 Reliability and Validity

To assess the research is valid, conclusions and results are making sense to answer the social reality or not. It is associated with questions on how the subject matter is understood by the researcher. In this case, questions are framed based on the audience. A practitioner who is industry experts is asked a question in various sections covering all research objectives. Reliability, on the other hand, can be seen by the consistency of method, the stability of measures and consistency in results. Research needs to draw inferences in case of success stories and factors of impact in lives of borrowers through microfinance. Firstly, the researcher was not able to meet many borrowers due to time, distance and language constraints. This might affect the reliability of results for one stakeholder. Total of fifty-nine (59) success stories have been taken from leading MFIs which will help generalize the finding and improve the reliability. Secondly, microfinance practitioners were properly investigated through a structured questionnaire which is well documented and analyzed with the help of NVivo. All participants of questionnaires are executive, managers, head of departments working in various MFIs. Total of thirty-seven (37) participants submit their feedback in a given time. These participants have minimum two and maximum seventeen (17) years of experience in the microfinance industry. Table 6 provides a list of participants with their valid email IDs. Their feedback is very reliable as they provide key insights and clarify certain myths about microfinance.
<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of Respondent</th>
<th>Designation</th>
<th>Years with MFI</th>
<th>MFI</th>
<th>Email</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Muhammad Waseem</td>
<td>Meal Officer</td>
<td>2</td>
<td>AP</td>
<td><a href="mailto:wasimayyaz@gmail.com">wasimayyaz@gmail.com</a></td>
</tr>
<tr>
<td>2</td>
<td>Muhammad Farooq</td>
<td>Program Coordinator</td>
<td>5</td>
<td>AP</td>
<td><a href="mailto:pc.odf@agahe.org.pk">pc.odf@agahe.org.pk</a></td>
</tr>
<tr>
<td>3</td>
<td>Muhammad Imran Akbar</td>
<td>Program Manager</td>
<td>9</td>
<td>AP</td>
<td><a href="mailto:pm.mf@agahepakistan.org">pm.mf@agahepakistan.org</a></td>
</tr>
<tr>
<td>4</td>
<td>Mubeen</td>
<td>HR Manager</td>
<td>7</td>
<td></td>
<td><a href="mailto:hr@agahepakistan.org">hr@agahepakistan.org</a></td>
</tr>
<tr>
<td>5</td>
<td>Muhammad Ferhan</td>
<td>Branch Manager</td>
<td>3</td>
<td>Akhuw</td>
<td><a href="mailto:Ferhanfarri@gmail.com">Ferhanfarri@gmail.com</a></td>
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<tr>
<td>6</td>
<td>Arshad Mehmood</td>
<td>Project Manager</td>
<td>1</td>
<td>Akhuw</td>
<td><a href="mailto:arshad.mehmood@akhuwat.org.pk">arshad.mehmood@akhuwat.org.pk</a></td>
</tr>
<tr>
<td>7</td>
<td>Shahid Safdar</td>
<td>Manager Training</td>
<td>14</td>
<td>Akhuw</td>
<td><a href="mailto:shahid@akhuwat.org.pk">shahid@akhuwat.org.pk</a></td>
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<tr>
<td>8</td>
<td>Awais Masud</td>
<td>Manager</td>
<td>5</td>
<td>DSP</td>
<td><a href="mailto:awais@damensp.com">awais@damensp.com</a></td>
</tr>
<tr>
<td>9</td>
<td>Abul Hassan</td>
<td>Deputy Manager Operations</td>
<td>5</td>
<td>DSP</td>
<td><a href="mailto:operations@damen-pk.org">operations@damen-pk.org</a></td>
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<tr>
<td>10</td>
<td>Zainab Saeed</td>
<td>Head of Research and Development</td>
<td>9</td>
<td>KF</td>
<td><a href="mailto:zainab.saeed@kashf.org">zainab.saeed@kashf.org</a></td>
</tr>
<tr>
<td>11</td>
<td>Shahzad Khurshid</td>
<td>Senior Associate Internal Audit</td>
<td>10</td>
<td>KF</td>
<td><a href="mailto:shahzadkhurshid@hotmail.com">shahzadkhurshid@hotmail.com</a></td>
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<tr>
<td>12</td>
<td>Asif Kamran</td>
<td>Assistant manager</td>
<td>10</td>
<td>KF</td>
<td><a href="mailto:asifkamran5@gmail.com">asifkamran5@gmail.com</a></td>
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<tr>
<td>13</td>
<td>Riffat Anwar</td>
<td>Assistant regional manager</td>
<td>17</td>
<td>KF</td>
<td><a href="mailto:riffat.anwar@gmail.com">riffat.anwar@gmail.com</a></td>
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<tr>
<td>14</td>
<td>Ejaz Karim</td>
<td>Area manager</td>
<td>14</td>
<td>KF</td>
<td><a href="mailto:ejazkarim@yahoo.com">ejazkarim@yahoo.com</a></td>
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<tr>
<td>15</td>
<td>Aamir Rao</td>
<td>BM</td>
<td>12</td>
<td>KF</td>
<td><a href="mailto:muhammad.aamirrao86@gmail.com">muhammad.aamirrao86@gmail.com</a></td>
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<td>Samina Saleem</td>
<td>Sr. Associate</td>
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<td>KF</td>
<td><a href="mailto:samina.saleem2@gmail.com">samina.saleem2@gmail.com</a></td>
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<tr>
<td>17</td>
<td>Saima Batool</td>
<td>Program manager</td>
<td>7</td>
<td>MO</td>
<td><a href="mailto:saima.ch512@gmail.com">saima.ch512@gmail.com</a></td>
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<tr>
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<td>Hamid Minhas</td>
<td>Program Manager, Sector Development and Compliance</td>
<td>1</td>
<td>MOJA</td>
<td><a href="mailto:compliance@mojaz.org">compliance@mojaz.org</a></td>
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<tr>
<td>19</td>
<td>Sulman Tariq</td>
<td>Manager Accounts, Finance and Compliance</td>
<td>10</td>
<td>OPDSP</td>
<td><a href="mailto:sulman.tariq@opdpak.org">sulman.tariq@opdpak.org</a></td>
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<tr>
<td>21</td>
<td>Akbar Baig</td>
<td>Manager Field Operations</td>
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<td>Program Manager</td>
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<td>OCT</td>
<td><a href="mailto:bhurt.sarfaraz@gmail.com">bhurt.sarfaraz@gmail.com</a></td>
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<td>23</td>
<td>Ather Siddiqui</td>
<td>Chief Accountant/Admin Manager</td>
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<td>OSDI</td>
<td><a href="mailto:ather@osdi.org">ather@osdi.org</a></td>
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<td>24</td>
<td>Shehryar</td>
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<tr>
<td>25</td>
<td>Babar</td>
<td>Sr. Associate Manager Livelihood Assistance Program</td>
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<td>OSDI</td>
<td><a href="mailto:babar@osdi.org">babar@osdi.org</a></td>
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<tr>
<td>26</td>
<td>Fizza Rizvi</td>
<td>Senior Communications Officer</td>
<td>2.5</td>
<td>OSDI</td>
<td><a href="mailto:fizza@osdi.org">fizza@osdi.org</a></td>
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<td>27</td>
<td>Usman Malik</td>
<td>Head of Finance</td>
<td>13</td>
<td>RCDP</td>
<td><a href="mailto:usman@rcdpPk.org">usman@rcdpPk.org</a></td>
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<tr>
<td>28</td>
<td>Rashid Ahmad</td>
<td>Head HR</td>
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<td>RCDP</td>
<td><a href="mailto:rashid@rcdpPk.org">rashid@rcdpPk.org</a></td>
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Table 6 - Participants of Research Questionnaire – Microfinance Practitioners

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Position</th>
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<tr>
<td>29</td>
<td>Shahid Mahmood</td>
<td>Manager Operations</td>
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<td>RCDP</td>
<td><a href="mailto:shahid@rcdppk.org">shahid@rcdppk.org</a></td>
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<td>30</td>
<td>Ali Mustafa</td>
<td>HR Head</td>
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<td>SMFP</td>
<td><a href="mailto:hr.saath@gmail.com">hr.saath@gmail.com</a></td>
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<td>31</td>
<td>Arslan Khan Samo</td>
<td>Finance Officer</td>
<td>0.5</td>
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<td>32</td>
<td>Mirza Khan Ghangrho</td>
<td>CEO</td>
<td>2</td>
<td>SMFP</td>
<td><a href="mailto:khairmuhammad.smfp@gmail.com">khairmuhammad.smfp@gmail.com</a></td>
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<td>33</td>
<td>Rameez Iqbal Memon</td>
<td>Manager Compliance</td>
<td>7</td>
<td>SSF</td>
<td><a href="mailto:rameez.memon@safcosupport.org">rameez.memon@safcosupport.org</a></td>
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<tr>
<td>34</td>
<td>Syed Sajjad Ali Shah</td>
<td>Managing Director</td>
<td>9</td>
<td>SSF</td>
<td><a href="mailto:syed.sajjad@safcosupport.org">syed.sajjad@safcosupport.org</a></td>
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<td>35</td>
<td>Muhammad Qamar</td>
<td>Manager Human Resource</td>
<td>5.5</td>
<td>SVDP</td>
<td><a href="mailto:qamar@svdp.org.pk">qamar@svdp.org.pk</a></td>
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<td>36</td>
<td>Hussain Ayaz</td>
<td>Manager Monitoring &amp; Research</td>
<td>5</td>
<td>TMF</td>
<td><a href="mailto:hussainayaz@tmf.org.pk">hussainayaz@tmf.org.pk</a></td>
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<tr>
<td>37</td>
<td>Rafique Muhammad</td>
<td>Chief Executive Officer</td>
<td>12</td>
<td>VDO</td>
<td><a href="mailto:vdopk93@hotmail.com">vdopk93@hotmail.com</a></td>
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</tbody>
</table>

Thirdly, face to face extensive interviews were conducted with two top executives. Firstly, Dr Amjad Saqib of Akhuwat is interviewed which follow interest-free lending model based on brotherhood and solidarity. He is also vice chairperson of PMN. Secondly, Mr Barak Ullah Khan was interviewed of AP which follow the CLM. In executive interviews an attempt is made to find out answers of the role of MFIs in entrepreneurs skill development, issue of low take up, criticism of interest, sustainability issues, model domination and vision for future. The executive questionnaire is also available in appendices. However, it can be assumed that the reliability increased due to the fact that all the companies and respondents remained anonymous throughout the study. In executive interviews, answers were recorded and transcribed in detail before analysis.
5. FINDINGS

This section simply presents the findings with very little explanation along with each finding. Detail discussion will be carried on in the next section.

5.1. Analysis of Success Stories

As discussed, the borrowers are primarily concentrated in rural areas. It is not easy to communicate with them directly due to the distance and language barrier. That is why their opinion is taken from their life or success stories. Success stories explain in detail how their life changed after taking a loan(s) from MFIs and how they get themselves out of poverty. For that purpose, all twenty-four (24) MFIs websites, annual reports and other publications of all participating MFIs have been thoroughly examined. With limited data availability total of 59 success stories from fourteen (14) different MFIs have been included in the research as shown in figure 6.

![Figure 6 - Success stories distribution of selected MFIs](image-url)
Out of 14 MFIs, 10 were using CLM model while 4 were using IFLM model. Total 35 stories are taken from MFIs using CLM and 24 from MFIs using IFLM model respectively. This makes the analysis quite fair as a percentage share of both models stands at 59% and 41% respectively as shown in figure 7.

![Figure 7 - Distribution of success stories w.r.t. lending model (%age of total)](image)

After detail analysis of individual success stories impact areas is highlighted. The criteria for selecting impact areas were a condition before taking the loan or starting the business and change after the loan or starting the business. There are seven factors marked after extensive analysis which are; 1) income generation/poverty reduction, 2) family well-being or improved living conditions, 3) education (primary and adult), 4) other workers jobs, 5) women empowerment, 6) capacity building and 7) sustainable business or asset development. We say the impact is positive if children of borrowers are going to school, business is able to employ more workers which means another household is being taken care of through microfinance. In many cases, women
have left with no option due to circumstances such as illness or death of their husbands or breadwinners were not able to provide for family needs. She needs to take responsibility and work to support the family as society does not have any significant social security system. If the borrowers are provided training along with money which helps them in running their business successfully than the impact of the capacity building if positive if otherwise then the negative impact is noted. Many borrowers are provided with a loan in kind or in shape of an asset such as dairy animals etc. If the loan amount is utilized to develop an asset which is and will be utilized in future than positive impact is noted and vice versa. On the availability of each factor positive score is marked and in case of non-availability negative score is marked. Irrespective of the lending model all borrowers respond to the increase in their income and reduction in poverty. The impact in poverty reduction is positive and significant. However, in other factors mix results are noted which are shown in figure 8 and 9 w.r.t. to lending models.

![Impact Areas SS - Borrowers using CLM](image)

**Figure 8 - Impact areas – SS borrowers using CLM**

In figure 8 where borrowers are utilizing the CLM model, 40% to 60% stated positive impact on all the factors with poverty reduction with leading 100%. Less emphasize given on capacity building and training by MFIs working with CLM model and the negative impact is visible clearly. Mix impact is noted for other workers jobs, education and family wellbeing where net
impact ranges from 10% -20% only. This means in several success stories living conditions have not been improved and borrower only manages to get out of extreme poverty. As most of the borrowers are female which shows positive impact with 80%.

Compared to CLM if we look in figure 9 where borrowers represent IFLM model than women empowerment along with poverty reduction shows 100% positive impact. Capacity building is still in question which means MFIs are only focusing on loan disbursement and less attention is paid towards training the people. Here again in the case of education and other workers job negative impact is dominant which clearly means that microfinance can only improve poverty situation, empower women, improve living standards to some extent and develop some asset. It is not the solution for all the problems. It can be considered a way forward and starting point.

![Impact Areas SS - Borrowers using IFLM](image)

**Figure 9 - Impact areas – SS borrowers using IFLM**

5.2. Survey Results

The results from the structured questionnaire are reported here section wise. Total of eighty (80) practitioners was contacted and total thirty-seven (37) responses received from fifteen (15) various MFIs. Before discussing results against each question and section, it is important to have a look at the respondent’s demographics.
5.2.1. Respondents Demographics and Classifications

The first section of our questionnaire was all about respondent demographics. In figure 10 survey respondent distribution is given w.r.t. to MFI, lending model and a number of years working with MFI. The highest number of responses received from KF with 07 responses followed by AP, OSDI, OPDP, and Akhuwat. Respondents have maximum 17 and minimum 2 years’ experience working with the MFI which make an average experience of the respondent is 7 years. Out of total 37 respondents, 30 belongs to MFIs following CLM model and remaining 07 using IFLM. This might seem unfair but in reality, the microfinance industry is dominated by the CLM model which represent 85% of the market and only 15% are represented by IFLM (PMR, 2017). As discussed, IFLM model is new and evolving that is why the participation is not equivalent.

Figure 10 - Survey responses distribution w.r.t. MFI, lending model and experience
That is why we can see CLM represent 81% of respondents and only 18% represented by IFLM. However, these respondents are branch managers, middle or higher executives who had worked in operations, credit lending, human resources, and finance departments. They have real time experience and their valuable feedback is of vital importance to draw conclusions.

5.2.2. MFIs & Micro-Entrepreneurship Development

The second section of questionnaire deals with a question about micro-entrepreneurship development. Figure 11 shows categories of loans provided to support entrepreneurship. MFIs can provide loan either to start a new business or expand existing business and for both. 73% of respondents express the MFIs usually provide loan for new as well as the expansion of existing running businesses.

Which of the following categories of loan your organization provide to support entrepreneurship?

![Bar chart showing categories of loans for entrepreneurship]

**Figure 11 - Categories of loan for entrepreneurship**
Whereas figure 12 provide details for IGL provided by MFIs. An open-ended question was asked about what types of IGL. The figure explains the two most common categories of microloans and livestock. As discussed, MFIs work with rural as well as urban areas. Microloans usually provided in the urban area whereas in rural areas loans are provided to buy livestock or for agriculture production and harvesting. There were few other categories mentioned in responses such as loans for solar energy products, tube wells, and housing. Consequently, the main two categories of IGLs are micro-loan and livestock (includes agricultural loans).

Figure 13 and 14 provide results for a number of entrepreneurs provided with loans by participating MFIs. Highest responses noted in 500,000 and more categories which are represented by 32% in figure 13. This is followed by 0.-20,000 with 30%, 100,000 to 500,000 with 22% and lowest 16% responses noted for 20,001- 50,000 entrepreneurs. In figure 14 participating MFIs are divided and shown under each category. This actually represents the outreach of MFIs. If we look from right to left than in green colour Akhuwat, KF and SSF are presented as they have provided loans to over 500,000 entrepreneurs. They are key players in the microfinance industry.
We can see mix classification of MFIs following of CLM and IFLM. KF is leading player in the industry following the CLM model while Akhuwat is the closest rival following IFLM model. Both are represented in 500,000 above classification. This clearly indicated that both models are well received by the market and growing consistently. Then in blue colour MO, OPDP, SVDP, and VDO can be found as they manage to provide loans to entrepreneurs ranging from 100,000-500,000. In end, yellow colour MFIs providing loans up to 20,000 entrepreneurs are shown.
which includes AP, OSDI, SMFP. Here again, we see a mix of models as AP, SMFP follow CLM and OSDI follow IFLM.

![Figure 15 - Gender profile (%) of entrepreneurs](image)

We know the main target of MFI is household females which are represented against all responses in figure 15. On the horizontal axis, respondents are available while on vertical axis % of total borrowers in three classification males in blue, females in orange and transgenders in grey colour. The industry is concentrated on female borrowers as it can be seen clearly with all orange lines. However, we cannot say that MFIs only provide loans to females only. We can clearly see a number of blue lines showing a significant percentage of male borrowers. Similar results were reported in the annual publication of PMN where gender distribution was noted as 70% females and 30% males through MFIs (PMR, 2017). Initially, in the early days, the sector was completely dominated by the female borrower but now MFIs are also considering male and transfers borrowers too. However, transgenders borrowers are not the priority of many MFIs. Akhuwat is single MFIs offering products customized only for Transgenders. This also means the industry is slowly moving towards gender balance.
One of the most important questions in this section was loan repayment rate. The closed-ended question with four options was asked and all 37 responses received and shown in Figure 16. We can clearly see 78% of responses lie in 95% and more option. This is followed by 16% of responses in 81% - 90% and 3% each for 71% - 80% and less than 70%. The general outlook of this result shows that all MFIs loans are being paid back and risk of loss or bad debts remains quite low.

![Pie Chart](image.png)

*Figure 16 - Loan repayment rate observed by MFIs*

Same responses have been analyzed against the lending model to get a better understanding as shown in figure 17 below. A stacked column with respect to lending model shows the rate of return. Surprisingly 80% of survey respondents believe that MFIs following CLM model having a return rate of over 95% and more. While responses of other 20% lie in all other options where almost 15% believe the return rate of their organization is 81% - 90%. Only 5% or fewer respondents believe that return rate of their organization is between 71% - 80%. There is not a single response received which shown less than 70% of return rate in MFIs following CLM models. On contrary MFIs using IFLM 50% of responses shows 95% and more return rate followed by 40% responses with 81% - 90% return rate. There are a significant 10% responses
which show less than 70% return in case of MFI’s using IFLM models. This is little different than what is perceived in the literature review. In survey respondents, there are two MFI’s using IFLM models Akhuwat and OSDI. Individually Akhuwat return rate is over 99.98% but return rate of OSDI is noted between 81% - 90%. There was also one response from OSDI which shows less than 70% response. We cannot neglect these responses and this requires further investigation. OSDI is involved more in agricultural loans in rural areas than microloan for a new business in urban areas. When we club the responses from both organizations the deviation arises. However, as a researcher, I have to present the findings as received to get a better understanding of phenomena and find suitable answers to research questions.

Figure 17 - Loan repayment rate as per lending model

5.2.3. High-Interest Rates & Low Take-ups

Third and most debatable section of the questionnaire is about interest and low take-up in Pakistan. This section explores questions about kind of charges, people reluctance to use microfinance and model domination in the Pakistan microfinance market. As discussed, MFI’s bound to take some percentage on loans in order to cover the cost of capital, administration expenses and unrecoverable loans in case they might exist. MFI’s following CLM charge
borrowers interest rates on fixed or declining balance method. Interest charges are also called service charges by many organizations. While IFLM following MFIs does not charge interest. However, both type of MFIs does charge additional charges such as processing fees, voluntary and involuntary insurances etc. In Figure 18 most common types of charges are shown with a percentage of respondents. The question was open-ended and respondents can select all the options applicable to their organization. Loan processing fee, interest charges, and service charges are charged by all MFIs. But the percentage of service charges is higher than interest charges because MFIs using IFLMs such as Akhuwat and OSDI only charge service charges or processing fee. Some MFIs do offer voluntary insurance services on loan amounts while another offer compulsory. It is equally important to review the different type of charges which might have an effect on return rate.

**What kind of charges taken from entrepreneurs against services provided? (Select all that apply)**

37 responses

![Bar chart](image)

**Figure 18 - Types of charges and fees collected by MFIs**

Figure 19 provides a vivid view of how much interest rate is charged by MFIs using CLM model. It is clear that on average 16% response indicates that MFIs charge above 25% or more interest on the principal amount. The red stack in the pie chart of Figure 19 shows 62% of responses suggest MFIs charge 20% on the original amount. This is the dilemma in many cases that how an entrepreneur is able to generate so much profit from small activity to pay back the interest as well as gain economic independence and get out of poverty. Here IFLM plays an
important role as we can see 19% respondents fall in the category of 0% interest charges. These MFIs might charge loan processing fee as mentioned above but its one-time fee only for each loan. So, the borrower needs to return only principal amount without any additional amount on top. A smaller fraction of MFIs charging 10% or less is also presented in Indigo colour with makes 3% of total respondents. As discussed in previous chapter IFLM is evolving and still represent significant portion in the overall market. This can be seen in our survey responses as well where 81% of participating MFIs do charge interest and only 19% do not charge any interest.

![Average interest rate charged by MFIs](image)

*Figure 19 - Average interest rate charged by MFIs*

The high-interest rate is also linked up with low take up where people tend not to choose the option of microfinance. Before starting the research, my personal bias was that interest is solely the reason of low take up. This perception was also supported by substantial literature evidence where people prefer to opt for other models and arrangement without interest. Similarly, I felt Pakistan is an Islamic country and religion might play a great role. Many poor people will stay out of the country’s financial inclusion efforts just because of interest. To check my perception and know the facts two questions were asked by our respondents. The first question was about
borrower reluctance of using microfinance due to interest. The respondents need to agree or disagree with the statement on a Likert scale. We can see the result of our question in Figure 20 where the pie chart shows only 22% of respondents agree that interest is the only cause of low take up in Pakistan. This is shown dark and light green areas of pie charts. Total of 51% respondents disagree with the statement comprise of 38% disagree and 13% strongly disagree. Surprisingly, a very significant number of respondents 27% stays neutral or neither agree or disagree with the statement. Given the result, it can be seen the respondents do not believe that people are reluctant to use microfinance just due to interest factor. There can be other factors such as lack of awareness, availability, and desire to carry on a business.

![Pie Chart](image)

**Figure 20 - People reluctance attributes towards microfinance due to interest**

The second question in the same setting was straighter and, on the point, where respondents were asked to choose in light of their experiences whether interest is the only cause of low take up or not. We know these respondents have an average 7+ experience working in the microfinance industry. Figure 21 result clarify any misconception about interest being the sole reason of low take ups. We can see 24 respondents out of 37 believe interest is not the only reason. Only 12 respondents feel interested is the reason while one respondent opted for “I do not know” option.
From the above two figures and results, it is clear that MFIs using IFLM model are getting accepted and maintain a significant presence in the market. MFIs using CLM models were the ones who started the microfinance in Pakistan back in 1995-96. These MFIs can also acquire capital and grants from international credit market and charge 20% or more interest in their products. In such scenario, a question arises will CLM model will continue to dominate or IFLM model will take a strong position in the future. Keeping in view that Pakistan total microfinance market demand is not yet met. Pakistan is the market of 20 million borrowers who need microfinance products while by end of 2017 total borrowers served including all players (MFI+RSPs+MFB) is about 5.7 million borrowers (PMR, 2017). To ascertain how the market will behave in future and which model will be dominating and the statement was put in front of respondents that will CLM model be replaced by IFLM model in future. Responses were in Likert scale from very likely to very unlikely. In Figure 22 the respondent results are shown in Pie chart where 33% of respondents believe it is somewhat unlikely the CLM model will be replaced. Followed by a total of 38% respondents feel it is likely CLM models will be replaced with the rise of IFLM in the country. Only 5% of respondent think it is very unlikely that IFLM will take over. However, 24% respondents (dark green area of the pie) believe both models will remain which seem quite logical given the scenario.
We can draw some conclusions from this section that MFIs using CLM models generally charge 20% -22% interest in their products. However, interest is not the only reason for low take up and other reason needs to be explored. Religion has very little role in microfinance borrowing in the country. However, IFLM models are getting popular with every passing day. But both models will carry on as usual with a steady rise in IFLM models.

5.2.4. Social Services Development and Contribution towards SDGs

The third section of questionnaire deals with MFIs role in social services development and efforts made towards SDGs. In our research framework, we proposed MFIs direct contribution in the reduction of poverty, provision of quality education and gender equality. Apart from that general health and wellbeing, global partnership and climate actions are proposed for indirect contribution. A closed-ended question was asked from respondents whether they are aware of SDGs or not. All the respondents are aware of SDGs which means they are updated with international development and goals set by UNDP.
MFIs do engage in the different type of social services and that is why all open-ended questions were asked to examine what type of service participating MFIs are providing. The first question was about education and social services offered by MFIs and most commonly provided services can be seen in a word cloud of Figure 23 below.

**Educational and Awareness Services Offered by MFIs**

Figure 23 - Word Cloud of most frequent educational and awareness Services

Most commonly used words in responses were basic literacy, financial training, basic accounting, quality education, general wellbeing, and child education.

Figure 24 represent word frequency blocks for SDGs contributions by MFIs. Words like quality education, wellbeing, education, child, poverty, gender, empowerment, women are the most repeated words in responses. These words are repeated from 45-70 times and cover 7% - 12% each of total responses. Climate action and global partnership for development were mentioned 19 and 18 times respectively. There were other words such as hunger, clean drinking water and sustainable which can be seen in with lower repetitions We can see gender equality, women empowerment, child and adult education, no poverty and general health and wellbeing are most commonly reported by all respondents. In our initial framework, we categorize general health and wellbeing under indirect contribution but following results show MFIs are paying great attention towards borrower’s health and wellbeing.
Based on these results we can say that all SDGs mentioned in the research framework are directly contributed by MFIs. Only global partnership and climate action were reported less frequently which means MFIs are paying fewer attention towards these two goals of SDGs.

In the previous section of the questionnaire, we asked about IGL by MFIs and noted two categories of IGLs are micro-loan and livestock (includes agricultural loans). Here in this section, an open-ended question was asked about NIGL. MFIs do help and provide support to people who are in need other than business loans. Such offerings are called with many names like liberation loans, emergency loan, consumption loans, educational loans or simply NIGLs. Figure 25 provides detail of responses for the type of NIGL provided where words code in NVivo shown in one column and second column present % coverage of overall data. We can see education loans cover 37.28% of responses followed by housing and emergency loans with 25.95% and 10.95% respectively. This means MFIs are offering loans to support education which is one of the key goals adopted in SDGs.
As we get to know educational loans are the priority for MFIs in NIGL offerings. Now next question explores further what level of educational loan do they offer the most. Figure 26 provides the answer and we can see Primary and basic education represent 41.05% coverage followed by higher and university level education with 35.26%. Secondary and college level education represent and coded with least coverage of 23.68%.

Another important goal from SDGs is women empowerment or gender equality. We do know that it is directly contributed by MFIs. To further explore what type of services offered for women empowerment a closed-ended question was asked with options to select from leadership training, women rights education, counselling and support for home violence victims.
Figure 27 - Most common women empowerment services

The query result in Figure 27 shows two out of four options were most commonly reported by all respondents. Leadership training with 53.13% and women rights education with 46.87% coverage are represented. One or two respondents also opt for legal counselling and support for home violence victims. But major variance is explained by two types mentioned in query results. The last question was about the type of medical services offered by MFIs. An open-ended question is asked and the majority of respondents replied with basic medical services and medical camps. Few MFIs offered occasional community medical camps in collaboration with local community and welfare organizations. Less emphasis is given on specialized medical services for children and women.

Figure 28 - Social services development section clusters w.r.t. word similarity

This sums up the section of social services and MFIs role and contribution towards achieving SDGs. Figure 28 shows common items clustered by word similarity. Clusters help understand the information better where similar attributes, values, and services are clubbed or merged under one major cluster which represent most of the data. We can see there are two main clusters. One covers educational and awareness and health services while other covers SDGs contribution. SDGs cluster is further divided into two main services; Educational loans and women empowerment.
Figure 29 - Relationship among various social services development themes (Pearson Coefficient)

Figure 29 explains the relationships between commonly provided social services generated with the help of NVivo. Each service is checked against all other services and the third column represent the relationship or correlation coefficient. The Pearson correlation measures the strength of the linear relationship among variables, values or attributes. If the relationship between two variables is not linear than coefficient does not adequately represent the strength of the relationship between them. The values of the Pearson coefficient can range from -1 to +1. In case the value is -1 which means a perfectly negative linear relationship between variables. In case the value is 0 which indicate no relationship. The relationship is called perfectly positive when the value is +1. In our finding the positive correlation is available between women empowerment services and education loans, educational and awareness services, SDGs contribution. This means MFIs who are providing empowerment services also providing awareness and education loans to their borrowers. However, the weak or negative relationship is recorded health services offered. It is not mandatory that an MFI which provide women empowerment services will also provide health services. It can also be said that it is not imperative that MFIs providing educational loans will also provide health services to its borrowers.

5.2.5. Enterprise Development Services

The last question was about enterprise development services. MFIs are not working only to provide finances and increase financial inclusion. One of the objectives of MFIs is to boost
entrepreneurship and make poor people able to sustain their economic independence through micro-businesses. This is not possible if no training and business enhancing skills were not offered. MFIs do not need to provide state of the art and advanced level training to borrowers. They need to provide basic literacy, accounting, technical and vocational training to run and expand their small businesses in the future. These services are clubbed under this section of enterprise development services. An open-ended question was asked where three options were provided to choose from and free text option is also given to respondents. In the first option of enterprise skill development services include entrepreneurial education, vocational and non-vocational training and business creation programs. The second option consists of areas general business skills, management training, business development services. The third option consists of community-based learnings and workshops.

<table>
<thead>
<tr>
<th>Types of enterprise development services</th>
<th>% Coverage</th>
<th>Cases Coded</th>
<th>Words Coded</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 : Enterprise Development Services</td>
<td>17.96%</td>
<td>29</td>
<td>671</td>
</tr>
<tr>
<td>2 : business development services</td>
<td>0.86%</td>
<td>2</td>
<td>32</td>
</tr>
<tr>
<td>3 : business loans</td>
<td>0%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4 : enterprise skills development</td>
<td>16.86%</td>
<td>26</td>
<td>630</td>
</tr>
<tr>
<td>5 : entrepreneurial education</td>
<td>16.86%</td>
<td>26</td>
<td>630</td>
</tr>
<tr>
<td>6 : general business skills</td>
<td>15.18%</td>
<td>21</td>
<td>567</td>
</tr>
<tr>
<td>7 : good business</td>
<td>0%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>8 : literacy training</td>
<td>0.24%</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>9 : technical skills</td>
<td>15.18%</td>
<td>21</td>
<td>567</td>
</tr>
<tr>
<td>10 : vocational trainings</td>
<td>16.86%</td>
<td>26</td>
<td>630</td>
</tr>
</tbody>
</table>

Figure 30 - Most common enterprise development services w.r.t. coverage, cases, and words

From all respondents list of various types of enterprise development services were generated from NVivo with percentage coverage, cases and words coded as shown in Figure 30. We can see most of the respondents select enterprise skill development, entrepreneurial education, technical skills and vocational training with coverage ranging from 15% - 17% each. We can see the emphasis is given on skill development, entrepreneurial education, and vocational training.
5.3. Executive Interviews

To understand the vision of leaders working as the backbone for leading MFIs executive interviews were conducted. I was able to get hold following two CEOs during my short visit to Pakistan.

<table>
<thead>
<tr>
<th>Sr.</th>
<th>Person</th>
<th>Designation</th>
<th>MFI</th>
<th>Lending Model</th>
<th>Profile Picture</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Dr. Amjad Saqib (Amjad)</td>
<td>CEO</td>
<td>Akhuwat</td>
<td>IFLM</td>
<td><img src="image" alt="Dr. Amjad Saqib" /></td>
</tr>
<tr>
<td>2</td>
<td>Mr. Barak Ullah (Barak)</td>
<td>CEO</td>
<td>Agahe Pakistan (AP)</td>
<td>CLM</td>
<td><img src="image" alt="Mr. Barak Ullah" /></td>
</tr>
</tbody>
</table>

The idea was to talk about whether MFIs knows about SDGs, the role of their organization in poverty reduction, the process of providing a loan, applicant screenings, model domination and their vision about future of microfinance as an effective tool for entrepreneurship development in Pakistan. Interviews were recorded and later transcribed for analysis. The analysis carried out in NVivo and following main themes after coding were are shown in Figure 31 below;
On the vertical axis, we can see top themes mostly coded in the interviews data. On the horizontal axis, their respective percentage coverage is given. We can clearly see impacts and benefits of Microfinance, Market potential, Control processes, Philosophy and vision and interest-free financing as a top or most coded themes with percentage coverage ranging from 29.06% to 21.55% respectively. These themes are further analyzed in form of maps and hierarchy charts for better understanding and interpretations and shown below.
In Figure 32, we can see the impact and benefits of microfinance as per CEOs of both organizations focus on basic education, poverty alleviation, and reduction where 50% of the population comes in formal streams which also means financial inclusion and availability of financial services for them through microfinance. Entrepreneurship development services first categories type of entrepreneurs and then decide whether training services are required or not. Barak explains that in terms of entrepreneurship development, we have two types of streams. Firstly, people who have skills are only provided capital based on their needs. Secondly, people who do not have the skills we try to improve their skills. We segregate borrowers through poverty ranking model. Once we profile our area, we also rank poverty level, based on rating we decide which type of intervention is required. For example, if poverty score is 0-11 than we offer cash grants/asset transfer up to the value of Rs. 50,000. Moving to next tier 11-18 poverty score these are people who are not vulnerable than we offer them capital and technical training. Amjad added that There are people who know their business well enough and we just provide the financial means and they are good to go. We provide training of leadership and capacity building through Akhuwat Institute of Social Enterprise and Management. There are 150 small businesses/works / micro-businesses which can be initiated with the provision of trivial financial loans. The number of loans many ranges between Rs. 10,000 to Rs. 100,000. In our experience, these poor people have a lot of ideas on how to earn their living. They never fell short of ideas but often fell short of financial resources. We’re just trying to provide what they fell short of. While Barak explains as they have an agreement with National Highway Authority to train
drivers and then they can get some vehicle through AP and earn their living. Akhuwat also manage

The only key impact is on women empowerment by offering them loans by both organizations. Amjad added that Microfinance is a necessary condition for poverty alleviation. It will not eliminate poverty from all but will provide means to those who are willing to get out from their current state. When a woman having the potential to earn her living is being provided with the loan, she is empowered. She can now take care of education and health issue of her family. So, MFI in one way or the other helping to achieve SDGs.

However, CEOs believe that many MFIs do not know much about SDGs but attention is given to international linkages and implementation of government strategy. Govt. of Pakistan had made it compulsory for MFIs to make a sure loan is only given for entrepreneurial purposes and enhanced financial inclusion. Both MFIs does offer few consumption loans but the percentage is quite low and most loans are issued for business purposes. CEOs share their views that consumption loan option is not existed in the industry in general. One great aspect of Akhuwat was turning borrowers into donors. Amjad shares the statistics for last financial year where Akhuwat collected Rs. 280 million (1.95 million EUR Approximately) from poor people with the small denomination. These are the people who are our borrowers and now become donors too. He added, this is another indication that our model (IFLM) is successful, he is earning and paying back with a small contribution.

Figure 33 shows the link between market potential and model domination. We do have a market of 20 – 25 million borrowers and there is the unserved market is about 15 -18 million borrowers. I can see new MFIs coming in and filling the gap. We can consider microfinance an effective tool for building successful entrepreneurs Barak explains that MFIs following CLM have a strategy and quite ready to reach 10 million borrowers by 2020. Now, from 5.5 million to 10 million that is an additional 4.5 million borrowers in 02 years. If we compare it with Bangladesh from where microfinance has emerged where there are 25 million active borrowers in Bangladesh while in Pakistan active borrowers are only 06 million. Although our population is way more. If we are able to target 25 million borrowers then many people will get employment and economic activity will be boosted. Indirectly many children get access to education.
Akhuwat hires street smart people with starting salaries of Rs. 15,000 and employee can grow with them. AP offer more competitive salaries and criticize Akhuwat salary structure. When it comes to model domination both CEOs agree that both models will continue to excel. Barak explains if we look at statistics than 90% of total sector represented by CLM and only 10% by IFLM. I believe this trend will continue as it is and both models will play their part. Amjad also compliments Barak views that both models will do their job. There is no need to compare and talk about the domination in the future. I feel both will exist but the growth will vary. The thing we need to understand that there is a need for credit. Both models will work until the need is fully satisfied. Someone needs to reach that 20 million markets one way or the other. What I can see that both models carry on.

Figure 34 is extracted from NVivo to show in detail the control and follow up the process. Both organizations follow a certain method to qualify and screen applicants before extending loans. Once the applicant applies for a loan the process begins with certain eligibility criteria. Barak explains that AP follow the process of due diligence and social and economic appraisal. Usually, it is conducted by a relevant loan officer who will verify his business, assess his skill set, physically visit the place of business for verification, household income streams and expenditures are recorded to ascertain need of capital. In short, the evaluation applicant and
household financial health are carried out which is well documented. Once the amount is determined and recommended than higher officer went for cross verification followed by approval and disbursement or rejection in few cases.

After one month, we verify again by checking in the business or at home to ensure the amount is properly utilized. Somehow 60% utilization is fair where money is utilized on agreed business activity and 40% deviation is recorded. In my experience, even in case of deviation, the loan amount is not that big which can satisfy the major needs of the household. Few cases of underutilization are also recorded. In case of deviation next loan is never issued to such borrowers

While Amjad believes that use of loan other than the entrepreneurial loan is not common in Akhuwat. It just did not happen with us. We screen it from the very beginning and if we found out the intentions of misuse loan is not disbursed. There are few cases in which such practice is noticed afterwards. In that case, the second loan is not issued to such borrower. We also have an agreement with Govt. to issue loans only for business purposes. Although underutilization is
possible you cannot eliminate it fully. You can manage and minimize it. For instance, someone took Rs 10,000 as a loan and use half of it for business and another half for personal use. Such underutilization is noticed and happened sometimes. In fact, after following the process there are instances of underutilization of funds in business and money is utilized for other purposes. Once the loan cycle is completed borrower showed continued interest for the second or third loan. In some cases, MFI decides based on his repayment behaviour whether he will carry on with another loan or not. If borrowers say I am sustainable now and do not need a further loan we look for someone else who is in more dire need of funds.

Amjad believes the MFIs leaders who started early when the market was shaping in Pakistan missed a great opportunity. MFIs gain popularity in Pakistan in last three decades and regulating infrastructure was also available. However, MFIs were not able to reach the full potential of the market. There were several reasons which include a lack of awareness in public, lack of leadership on part of MFIs and lack of customized product offerings. MFIs following CLM only focus on their growth without any strategic vision and did not spend needed time in public awareness about microfinance. Later on, MFIs following IFLM models started awareness programs where they not only provide loans but also share their vision with borrowers. Amjad explains in case of Akhuwat the principal of solidarity and brother is explained in detail at the time of disbursement.

CEOs believe it is surely due to lack of leadership and lack of public and private partnerships. An organization who started microfinance earlier never thought about growth. If they did then they were not very aggressive which they should be. Amjad feels that we have missed a great opportunity. We have a market of twenty (20) million borrowers which is untapped. In the case of Pakistan, the regulations were in place earlier as compared to the south Asian region and better compared to other parts of the world. The advantage is not taken fully from such regulatory mechanism. If people were unaware than organization never tried to reach out to them. Figure 35 chart out the philosophy, vision and leadership with respect to a number of references coded in the data. Each box represents a number of references each item is coded in the data. It is noted that MFIs lack in leadership not able to capitalize on the opportunity.
MFIs following CLM model only rely on foreign funding which limits their operation. MFIs following IFLM bring some innovation through a public and private partnership which help them to excel at a faster pace. They promote solidarity and brotherhood within the borrowers and donors which makes the model sustainable. Amjad wishes to establish Akhuwat Bank – Interest-Free Bank and wish to see interest in free society. I am inspired by JAK Bank of Sweden which actually work to abolish interest. We want to show the compassionate face of Pakistan and Islam. We want to tell the world that Islam is the religion which provides a solution to economic deprivation. For future products and services, CEOs believe that clear understanding is required. Getting out of poverty and becoming self-sufficient is a gradual process and you need a diversified products portfolio. At the start the borrower capital and training requirement is different. Over a period of time requirements will be changed and MFIs need to offer customized products. For instance, insurance products, technical skills, and more capital are few requirements down the line.
Figure 36 - Hierarchy chart of Interest-Free Financing

Figure 36 chart out the options available for interest-free financing. It is important to note that either people are unaware of the available interest-free programs or the perception about interest hinders participation. Secondly, interest-free financing is not widely available which limit the growth of MFIs following IFLM models coupled with sustainability issues. There are few steps taken by Govt. such as the introduction of Prime Minster Interest-Free Loans through MFIs following IFLM but in comparison to CLM, the volume is quite low. However, both CEOs believe that interest is not the only factor in low take up of microfinance products. It is a mere perception among the few who really believe and avoid interest. Pakistan is market of 6 million active borrowers and interest-free borrowers count around 1 million. Remaining 5 million are borrowers of CLMs. Secondly, interest-free funding not available from any centralized bank or credit lending institute. Although SBP promotes Islamic banking system and has a separate department working to offer shariah compliance products in conventional banking mechanism no such facility is available to microfinance industry. It is not possible for every MFI to follow IFLM. There is the cost of capital which needs to be recovered and paid. Apart from that people are unaware of interest-free models and products.
On the question about the sustainability of interest-free financing and MFI s following IFLM models, the views of CEOs differ completely. Barak believes that to reach the full market potential you cannot just rely on charity and donations. He thinks international investment and additional governmental efforts are required to fulfil the market demand of credit. While Amjad explains that Akhuwat started very late and our model is very difficult to understand in terms of sustainability. But with the grace of ALLAH, we have challenged many conventional organizations and even microfinance banks such as Khushali Bank (a conventional microfinance bank).

Amjad believes that Akhuwat model is very sustainable and the main evidence is we are running successfully. We believe in solidarity, giving more and sharing what we are blessed with. Don’t compare Akhuwat with CLM because where CLM ends Akhuwat and its spirit of solidarity and brotherhood starts. Programs like Akhuwat will carry on until there are two type of people; Firstly, people who wish to donate in the name of Allah / God and, even though they do not believe in Islam or any religion but want to build the society, they will provide money for our credit pool. Secondly, people who don’t want to live as beggars. People who want to excel in their lives, who want to do something. In any society irrespective of religion and region, if these two types of people are available, models without interest (IFLM) is sustainable. It is due to the solidarity that donors donated Rs. 66 billion and borrowers repaid all of it. The evidence of sustainability is right here. There is a govt. program which offers interest-free loans through MFI s to eradicate poverty. Akhuwat made full use of such programs and also train other institutes to take benefit from it.

Figure 37 throws light on local issues faced by MFI s and borrowers. People are not very aware of options available for them and that is why hesitate to take part in microfinance programs. In Pakistan where foreign investment is not coming due to several reasons and no new domestic industries are established. People have to do something to survive. They take small loans and start earning their living. Unfortunately, there is no central database of micro-entrepreneurs. That is why it is very difficult to find evidence. This also shakes investors and donor’s confidence while providing credit to MFI s.
Both CEOs believe on anecdotal evidence in which people share their little success stories to support our claim. Amjad said each day when I meet ten, twenty and fifty people with tears in their eyes. They share their journeys of success. They tell you we had nothing and now we are earning Rs. 1000 or 2000 daily. So, it is not a panacea, it is not the remedy for every problem. It is the necessary tool for development. With microfinance, you broke basic shackles of poverty and access to finance granted to all. If a person has the risk-taking ability or any other skill including the factor of production than microfinance can help him. Barak also supports Amjad claim of anecdotal evidence and can share 1000 plus success stories on individual and branch level. There are a couple of platforms available which recognize and appreciate successful entrepreneurs with awards nomination. One such platform organized city micro-entrepreneurship award which is managed by City Foundation. There is a need for a centralized platform to encourage and promote micro-entrepreneurs.
6. DISCUSSIONS

This section unrolls the main results, themes and explains them in detail with while linking with the literature review. Keeping in view of research objectives and questions main findings are explained. A new perspective and interesting points are highlighted which will help in making a conclusion and suggestion.

6.1. Microfinance and Entrepreneurship Development in Pakistan

6.1.1. Panacea of Microfinance

Firstly, microfinance is not the panacea for all the problems. It is not the remedy for every problem. There is no doubt that it is a necessary tool for development. My analysis, as well as previous researches, also support this statement. Robinson and Morduch in 2002 pointed towards same aspects of microfinance. Lack of capital slow growth of microenterprise but apart from capital one also need entrepreneurial skills to carry on the business activity and ensure repayment of the loan. For example, primary education may not guarantee a good job but basic civic sense may be learned through basic education. In a similar way, with microfinance, you broke basic shackles of poverty and access to finance granted to all. If a person has the risk-taking ability or any other skill including the factor of production than microfinance can help him.

“One thing is important here that all borrowers will not become entrepreneurs. From that pool few will continue their entrepreneurial journey, few will graduate and go even further through taking repeat loans.” (Extracts from the CEOs interviews)

Secondly, MFIs only provide loans for business either to start a new business or expand an existing business. In our analysis, we find out about 73% of participating MFIs provide loan for both categories. Loans are offered as microloans for business, agricultural loans, and livestock development. These all are IGL which ensure the borrower will definitely get out of poverty if he/she has some skill to manage the business. So, poverty alleviation is a direct target of MFIs. However, as per Obaidullah finding in 2008, there are various stages of poverty which are extremely poor, poor, working poor and very vulnerable poor. Leading MFIs have less success in reaching to vulnerable people who directly required financial assistance and support through
customized charitable products. In our findings, one CEO (Barak) of AP reported that borrower’s segregation is done by poverty ranking model. Once the area is profiled based on poverty ranking respective ratings are assigned. Based on ratings they decide what kind of intervention will be best suited. For example, if poverty score is 0-11 than cash grants/asset transfers up to the value of Rs. 50,000 are offered. Moving to next tier 11-18 poverty score these are people who are not vulnerable than we offer them capital and technical training. Other MFI such as Akhuwat working on IFLM model have customized products which fall under the consumption loan category where emergency loans or liberation loans are also offered to help people get out of debts. Other MFI following CLM model do not have such facilities. They only provide entrepreneurial loans.

Thirdly, underutilization is still an issue which needs to be addressed. It is found that even after following comprehensive screening somehow 60% loan is utilized fairly for the purpose it was originally issued. A deviation of 40% recorded by MFI practitioners based on their experience. Quantitative evidence is not available as borrowers will not share where they have used the funds. They will show you their business and fulfil all the conditions but funds will not be used for the desired purpose. The money can be utilized to satisfy other needs of the household. In case of such deviation, MFIs do check the performance of borrowers, repayment schedule and will not issue the next loan to such borrowers.

Lastly, the question of finding the scientific or quantitative evidence still exists. MFIs practitioners and executives both believe in “anecdotal evidence” where borrowers their stores and changes are visible. One CEO (Amjad) mentioned he met 10-15 borrowers on each disbursement and you can see in their eyes how much happy they are from having nothing to running a small business. At the branch level or individual practitioner level one can share more than 100 stories each but unfortunately, there is no centralized database for all of them. We have analyzed success stories in the first part of our analysis and poverty alleviation and income generation was at the top among other impact areas. Recently, there are few initiatives taken by NGOs and one notable name is City Micro-entrepreneurship Award. The recognize the achievement of such entreprenerds and offer them awards which encourage them to carry on the struggle and improve their economic conditions even further.
6.1.2. Financial Inclusion

Impact of microfinance can be seen on basic education, poverty alleviation and reduction where 50% of the population comes in formal streams which also means financial inclusion and availability of financial services for them through microfinance. Previous literature in microfinance talk about only poverty reduction and empowerment. An important element of microfinance is the financial inclusion of poor borrowers. They now have access to financial services which were denied by formal banking channels previously. As per Mondal, such inclusion makes it possible for micro-entrepreneurs to invest the money in money making activities. Mahmood and Hussain in 2014 also pointed out that financial inclusion and access to finances help poor people to realize and try their entrepreneurial potential. As per integrated approach of microfinance MFIs offer financial and other social services to borrowers. Equal importance is given to social services development along with credit supply. In our findings (Figure 14) participating MFIs are segregated into various categories with respect to outreach. In the first category with green colour, three MFIs were able to reach more than 500,000 borrowers. In the second category with blue colour, four MFIs are reported to reach borrowers from 100,000 – 500,000. This means another 500,000 borrowers are included. Lastly, other MFIs represented by yellow colour reaching under 20,000 borrowers. All such borrowers were not able to utilize conventional banking channels but now they have access to finances as well as insurance and other standard banking and financial products.

6.1.3. Entrepreneurship Education and Technical Know How

MFIs provide financial and non-financial services based on the integrated approach of microfinance. Shetty’s finding in 2008 explains MFIs role in technical support to individual and groups which includes training on business areas such as marketing, planning, production techniques and social services like health, hygiene, basic human rights, and general awareness. Apart from that literacy training, basic accounting, bookkeeping and other community-based training programs also introduced by MFIs. Based on empirical evidence he concluded that microfinance is basically true lubricant for enterprise development which complements financial services. In our analysis microfinance practitioners’ responses point out main areas of
entrepreneurship development services like enterprise skill development, entrepreneurial education, technical skills and vocational training with major coverage ranging from 15% - 17% each. A word cloud is also extracted from the data which shows emphasis is given on skill development, entrepreneurial education, and vocational training. Each MFI has its own program for entrepreneurship development. Ideally, they categories borrowers in the initial screening and decide whether training services are required or not. Borrowers are categorized by two types of streams. Firstly, people who have skills are only provided capital based on their needs. Secondly, people who do not have the skills we try to improve their skills.

There are few people who are experts in their business or profession and only fall short of money. Once the finance problem is solved, they are all set to take off. Amjad explains that there are 150+ small businesses can be stated with very minimum financial intervention. In our experience, these poor people have a lot of ideas on how to earn their living. They never fell short of ideas but often fell short of financial resources. We’re just trying to provide what they fell short of. They also provide training of leadership and capacity building through Akhuwat Institute of Social Enterprise and Management. Other MFIs have MOUs and agreement with training companies to get their borrower train on a required skill before loan disbarment (Extracts from the CEOs interviews).

6.2. Microfinance Contributions towards Sustainable Development Goals

There is no doubt microfinance help in achieving few of SDGs taken up by UN. Previous researchers Ledgerwood (2000), Littlefield and Morduch (2003, 2005), Setboonsarn et. al., (2008) Umara Noreen et. al, (2011), Heather (2011) reported that MFIs work as financial and social intermediator, a bridge between poor and rich and boost development. Social capital is the basic ingredient for sustainable financial development. Empirical evidence noted impacts on poverty reduction, children education, housing, food, and household expenditures. Particularly significant relationship recorded in children education and microfinance participation programs. It is found that poor people tend to invest more in children education when their income increased. Basic schooling, health care, and women empowerment are other areas of impact recorded by above-mentioned researchers in their findings.
In our findings during case studies analysis seven factors of impacts are highlighted which are 1) income generation/poverty reduction, 2) family well-being or improved living conditions, 3) education (primary and adult), 4) other workers jobs, 5) women empowerment, 6) capacity building and 7) sustainable business or asset development. Figure 8 and 9 represent the findings where borrowers are utilizing CLM model 40% to 60% stated positive impact on all the factors with poverty reduction with leading 100%. Less emphasize given on capacity building and training by MFIs working with CLM model and the negative impact is visible clearly. Mix impact is noted for other workers jobs, education and family wellbeing where net impact ranges from 10% -20% only. This means in several success stories living conditions have not been improved and borrower only manages to get out of extreme poverty. As most of the borrowers are female which shows positive impact with 80%. MFIs using IFLM also show 100% positive impact on poverty reduction. Capacity building is still in question which means MFIs are only focusing on loan disbursement and less attention is paid towards training the people. Here again in the case of education and other workers job negative impact is dominant which clearly means that microfinance can only improve poverty situation, empower women, improve living standards to some extent and develop some asset. It is not the solution for all the problems. It can be considered a way forward and starting point.

During analysis of microfinance practitioners’ similar findings were reported where most common responses include words like quality education, wellbeing, education, child, poverty, gender, empowerment, women are most repeated words in responses. These words are repeated from 45-70 times and cover 7% - 12% each of total responses (Figure 24). We can see gender equality, women empowerment, child and adult education, no poverty and general health and wellbeing are most commonly reported by all respondents. MFIs also support people who are not able to run and manage a business. They need direct financial assistance and offered customized products such as emergency loans, liberation loans categorized as NIGLs. They cover education loans, housing loans, and emergency loans. In education primary and basic education covers 41.05% followed by higher and university level education with 35.26%. Secondary and college level education represent and coded with least coverage of 23.68% (Figure 26).
In our initial framework, we categorize general health and wellbeing under indirect contribution but the following results show MFls are paying great attention towards borrower’s health and wellbeing. Based on these results we can say that all SDGs mentioned in the research framework are directly contributed by MFls. Majority of respondents replied with basic medical services and medical camps. Few MFls offered occasional community medical camps in collaboration with local community and welfare organizations. Less emphasis is given on specialized medical services for children and women. Only global partnership and climate action were reported less frequently which means MFls are paying less attention towards these two goals of SDGs.

Our analysis also suggests the industry is concentrated towards females’ borrowers. Microfinance usually targets female households but the number of male borrowers is also increasing. According to statistics reported by PMN gender distribution of overall microfinance industry is 70% females and 30% males in the year 2017. Initially, in the early days, the sector was completely dominated by the female borrower but now MFls are also considering male and transfers borrowers too. When a woman having the potential to earn her living is being provided with the loan, she is empowered. She can now take care of her family health and educational needs. However, transgenders borrowers are not the priority of many MFls. Akhuwat is single MFls offering products customized only for Transgenders. This also means the industry is slowly moving towards gender balance.

Women empowerment does not only mean access to finances but training and awareness of women about their rights, prepare them for future through leadership training and support for home violence victims. In our analysis leadership training with 53.13% and women rights education with 46.87% coverage are represented. Based on results word cloud is extracted and shown in Figure 27. One or two respondents also opt for legal counselling and support for home violence victims. But major variance is explained by two types mentioned in query results. While basic
6.3. Lending Model Domination

6.3.1. Market Potential and Growth Opportunities

Prior to the introduction of IFLM or Akhuwat Models microfinance industry in Pakistan was dominated by MFIs using CLM models. They are the ones who introduced much need microfinance in the mid-1990s. Such MFIs usually accumulate capital from credit market on a certain rate and lend money to borrowers on interest ranging from 20% to 25%. Later on, interest criticism and people reluctance in using microfinance products create the space for MFIs using IFLM models. Barak shared market share statistics where CLM models are dominating the market with 90% market share where IFLM only stands for 10% of the total market size. However, the market is not yet saturated. As per the statistics released by PMR in 2017, Pakistan is the market of 20 - 25 million borrowers who need microfinance products while total borrowers served by the end of the year remains at 5.7 million including all industry players (MFI+RSPs+MFB).

In our findings, both CEOs agrees on the fact that both models will prevail in the market until the market demand is fully met. In the total market size of 20 – 25 million borrowers, there is the unserved market is about 15 -18 million borrowers. There is a room available for new MFIs to start the operation and fill the gap. MFIs following CLM have a strategy and quite ready to reach 10 million borrowers by 2020. Now, from 5.5 million to 10 million that is an additional 4.5 million borrowers in 02 years. Amjad emphasizes the need for both models to carry on operations to serve the market. He added, there is no need to compare and talk about the domination in future. I feel both will exist but the growth will vary. The thing we need to understand that there is a need for credit. Both models will work until the need is fully satisfied. Someone needs to reach that 20 -25 million market one way or the other. It is due to the lack of leadership in early microfinance institutions. An organization who started microfinance earlier never thought about growth. If they did then they were not very aggressive which they should be. They have missed a great opportunity. In the case of Pakistan, the regulations were in place earlier as compared to the south Asian region and better compared to other parts of the world. The advantage is not taken fully from such regulatory mechanism. If people were unaware than organization never tried to reach out to them. What I can see that both models carry on. If we
compare it with Bangladesh from where microfinance has emerged where there are 25 million active borrowers in Bangladesh while in Pakistan active borrowers are only 06 million approximately. Although our population is way more. If we are able to target 25 million borrowers then many people will get employment and economic activity will be boosted. Indirectly many children get access to education.

Further, it is found from microfinance practitioners’ questionnaire (Figure 22) that only in our findings that 33% of respondents believe it is somewhat unlikely the CLM model will be replaced. 24% respondents (dark green area of the pie) believe both models will remain which seem quite logical given the scenario. This sums up to a total of 57% of total respondents and gives clear idea that both models will carry on. Likelihood of IFLM taking more market share and even replacing the CLM model is very low. Only 5% of respondent think it is very unlikely that IFLM will take over.

6.3.2. Philosophical Differences (Business vs Brotherhood)

The rise of Akhuwat and other MFIs using IFLM is characterized by a new philosophy of brotherhood rather than pure business. They are able to communicate borrowers what we are here to help not to exploit. Ikin in 2013 reported the uniqueness of Akhuwat lending model is virtuous cycle rather than vicious cycle. This happens when borrowers and micro-entrepreneurs feel that they get out of poverty by funds provided and not exploited by the institution. They find it unjust to exploit their customers too and this trickledown effect makes it possible where borrowers become donors, act as a volunteer and boost local philanthropy. This initiative helps Akhuwat to turn borrowers into donors supported with monetary evidence. Amjad shares the statistics for last financial year where Akhuwat collected Rs. **280 million (1.95 million EUR Approximately)** from poor people with the small denomination. These are the people who are our borrowers and now become donors too. He added, this is another indication that our model (IFLM) is successful, he is earning and paying back with a small contribution.2

MFIs using CLM models generally charge 20% -22% interest on their products. They also reported having a 95% return rate which means this is good business for them. If you compare

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2 1 Euro = 141.66 Pakistani Rupees
microfinance with conventional banking loan you get more return. This is pure business for conventional providers as social help takes the back seat. Barak added in his comments, 

“In the Microfinance industry, nobody cares and ask where you are going to use the funds.”

This is due to the cost of capital and huge administration charge. MFIs following CLM model only rely on foreign funding which limits their operation. MFIs following IFLM bring some innovation through a public and private partnership which help them to excel at a faster pace. They promote solidarity and brotherhood within the borrowers. Both models show an impact on poverty reduction, the rise in income generation and social serviced development. However, getting out of poverty and becoming self-sufficient is a gradual process and you need a diversified products portfolio. At the start the borrower capital and training requirement is different. Over a period of time requirements will be changed and MFIs need to offer customized products. For instance, insurance products, technical skills, and more capital are few requirements down the line.

6.3.3. Sustainability Debate

As per the father of Microfinance Dr Muhammad Yunus a single most effective way to enable the poor to overcome the poverty is money. Once you invest credit in income generating enterprise as working capital which eventually leads to the establishment of micro-enterprise. Yunus suggested that MFIs should charge interest rate closer to the close of capital to make the overall operations sustainable. Grameen bank interest rate is about 20% per annum which is good enough for them to get going. This seems quite logical for continued operations of MFI and covers their administration cost. Littlefield (2004) reported that finance provided by MFIs to poor people have to be sustainable which means you need to charge interest or service charges that cover your costs. This raises the question on MFIs such as Akhuwat using IFLM where no or zero percent interest is charged from borrowers. The do take minimal one-time application process fees or service charges. How they will bring change in the lives of borrowers if they are not able to survive themselves? Many organizations demonstrated to stay sustainable and profitable at the same time as reported by Ferdousi (2015).
We challenged Dr Amjad Saqib of Akhuwat on this issue but he replied that Akhuwat model is very sustainable and the main evidence is we are running successfully from the last seventeen years. Although it is very difficult to understand our model w.r.t. sustainability. Ikin (2013) explains Akhuwat model with the following main factors. These are interest-free lending based on Islamic principles of Qarz-e-Hasna, less administrative costs due to use of religious infrastructure (masjids, churches, temples, gurdwaras etc.), Customized and targeted loan product offerings and virtuous cycle rather than vicious cycle. They save the cost of capital as money accumulate is from charity, donation and governmental aid. They work with electric fans, basic office furniture and rugs for sitting. Their offices share the same comfort as of borrowers. From an operational point of view more is achieved with minimal overheads. When you have no cost of capital and minimal overhead it is very likely you will sustain. We believe in solidarity, giving more and sharing what we are blessed with. Don’t compare Akhuwat with CLM models because;

“Where CLM ends Akhuwat and its spirit of solidarity and brotherhood starts.”

Akhuwat is anti-CLM and evolves to challenge the monopoly of CLM. Programs like Akhuwat will carry on until there are two type of people; Firstly, people who wish to donate in the name of ALLAH / God and, even though they do not believe or motivated through any religion (Islam, Christianity or Hinduism) but want to build the society, they will provide money for our credit pool. Secondly, people who don’t want to live as beggars. People who want to excel in their lives, who want to do something. In any society irrespective of religion and region, if these two types of people are available, models without interest (IFLM) is sustainable. Akhuwat is a single MFI in Pakistan who enjoys 99.98% loan repayment rate. Amjad explains during interview;

“It is due to solidarity that donors donated Rs. 66 billion and borrowers repaid all of it.”

This is the key reason we can witness a very high repayment rate of 99.85% in Akhuwat loans is solidarity and brotherhood. The evidence of sustainability is right here. So, please don’t compare Akhuwat with another CLM. We have turned borrowers into donors. Last year alone we collected Rs. 280 million from poor people with the small denomination. These are the people who are our borrowers and now become donors too. This is another indication that our model is successful, he is earning and paying back with a small contribution.
However, not everyone agrees with Amjad’s reply as his counterpart Barak of AP believes that small donations are quite insignificant to cover operational costs. I do not think they can meet their expenses. Akhuwat has an advantage which other organization do not have such as glazing personality of Dr Amjad which earn people trust. He does fundraise events and people donate money to them. I am not convinced that “Lenders will become Donors” if so then it will take some time but to some extent.

6.4. Interest and Service Charges Dilemma

6.4.1. Myth Vs Reality

Both models CLM and IFLM do charge additional charges such as processing fees, voluntary and involuntary insurances etc. In our findings most commonly, charged items are Loan processing fee, interest charges and service charges are charged by all MFIs (Figure 18). Some MFIs do offer voluntary insurance services on loan amounts while another offer compulsory. It is found that on average 16% responses indicate that MFIs charge above 25% or more interest on the principal amount. The red stack in the pie chart of Figure 19 shows 62% of responses suggest MFIs charge 20% on the original amount. Hence the average interest rate for CLM is about 20%-22%.

This is the dilemma in many cases that how an entrepreneur is able to generate so much profit from small activity to pay back the interest as well as gain economic independence and get out of poverty. There is perceived myth that CLM models charge heavy interest which might affect borrower’s ability to achieve economic independence as well as a decline in loan repayment rate. The findings, however, tell a different story. Surprisingly 80% of survey respondents believe that MFIs following CLM model having a return rate of over 95% and more. While responses of other 20% lie in all other options where almost 15% believe the return rate of their organization is 81%-90%. Only 5% or fewer respondents believe that return rate of their organization is between 71%-80%. There is not a single response received which shown less than 70% of return rate in MFIs following CLM models. On contrary MFIs using IFLM 50% of responses shows 95% and more return rate followed by 40% responses with 81%-90% return rate. There are a
significant 10% responses which shows less than 70% return in case of MFIs using IFLM models. This is little different than what is perceived in the literature review.

In our survey from practitioners, we have Akhuwat and OSDI two MFIs using IFLM while all other using CLM. At individual level, Akhuwat return rate is over 99.98% but return rate of OSDI is noted between 81% - 90%. There was also one response from OSDI which shows less than 70% response. We cannot neglect these responses and this requires further investigation. OSDI is involved more in agricultural loans in rural areas than microloan for a new business in urban areas. Loan repayment rate in rural areas is lesser compared to urban areas for certain reasons such as lack of awareness, inability to manage the business, uncertain losses (theft, flood, disease spread or other natural calamities). When we club the responses from both organizations the deviation arises. However, as a researcher, we have to report the findings as received to get a better understanding of phenomena and find suitable answers to research questions. We can draw some conclusions from it that myth of charging high interest and inability to pay back the loan is not all true. We can see the high loan repayment rate of MFIs using CLM models.

6.4.2. Role of Religion and Low Take-up

Previous studies in the field by Zahier & Hassan (2001), Ibrahim (2004), Segrado (2005) and Mirakhor & Iqbal (2007) emphasizes the prohibition of interest which implies a rise in Islamic banking products in Muslim countries. In countries where religion plays a great role in socio-economic system Gharrar or most commonly known interest is prohibited. Here a transaction is referred to as Gharrar when parties do not have knowledge about the subject matter and element of speculation and uncertainty in available. Basically, prohibition of unproductive speculation, unearned income, and excessive uncertainty. Literature also points out the role of Qarz-e-Hasna where lender offers money without charging any additional amount or interest on the principal. The borrower will return the principal amount on a decided date and lender will not demand for money before time. The high-interest rate is also linked up with low take up where people tend not to choose the option of microfinance. Before starting the research, my personal bias was that interest is solely the reason of low take up. This perception was also supported by substantial literature evidence where people prefer to opt for other models and arrangement without interest. Similarly, I felt Pakistan is an Islamic country and religion might play a great role. Many poor
people will stay out of the country’s financial inclusion efforts just because of interest. When we check our perception and put our concerns in front of practitioners and executive, we realize religion has a very little role to play. People tend to take the loan from any possible sources when in need. People are not reluctant to use microfinance products just because of interest. In figure 20 where the pie chart shows only 22% of respondents agree that interest is the only cause of low take up in Pakistan. This is shown dark and light green areas of pie charts. Total of 51% respondents disagree with the statement comprise of 38% disagree and 13% strongly disagree. Surprisingly, a very significant number of respondents 27% stays neutral or neither agree or disagree with the statement. Given the result, it can be seen the respondents do not believe that people are reluctant to use microfinance just due to interest factor. There can be other factors such as lack of awareness, availability, and desire to carry on a business.

To drill down even further another question was asked from respondents that in light of their experiences whether interest is the only cause of low take up or not. We know these respondents have an average 7+ experience working in the microfinance industry. Figure 21 result clarify any misconception about interest being the sole reason of low take ups. We can see 24 respondents out of 37 believe interest is not the only reason. Only 12 respondents feel interested is the reason while one respondent opted for “I do not know” option.

Both CEOs (Amjad and Barak) believe that interest is not the only factor in low take up of microfinance products. It is a mere perception among the few who really believe on Islamic principles and avoid interest at any cost. Pakistan is market of 5.7 million active borrowers and interest-free borrowers count around 1 million. Remaining 5 million are borrowers of CLMs. Secondly, interest-free funding not available from any centralized bank or credit lending institute. Although SBP promotes Islamic banking system and has a separate department working to offer shariah compliance products in conventional banking mechanism no such facility is available to microfinance industry. It is not possible for every MFI to follow IFLM. There is the cost of capital which needs to be recovered and paid. Apart from that people are unaware of interest-free models and products. However, down the line, Amjad wishes to establish Akhuwat Bank – Interest Free Bank and wish to see interest free society. I am inspired by JAK Bank of Sweden which actually work to abolish interest. We want to show the compassionate face of Pakistan and Islam. We want to tell the world that Islam is the religion
which provides a solution to economic deprivation. So, interest is not the only reason for low take-up and religion has a very little role to play in the microfinance industry of Pakistan. IFLM models are getting popular with every passing day but models will carry on as usual with a steady rise in IFLM models.
7. CONCLUSIONS AND SUGGESTIONS

The main objective of this study was to find out some evidence of MFIs role in entrepreneurship development in Pakistan. Borrowers turned into micro-entrepreneurs supported thorough microfinance are sustainable and will stay out of poverty even after the program ends. The purpose was also to form some comparison between CLM and IFLM or Akhuwat Model. The idea was to check which one is better to boost entrepreneurial activities. An attempt was made to find suitable answers about MFIs role in poverty reduction, income generation, eliminate hunger, provision of quality education, women empowerment and gender equality. On the sidelines, the impact of microfinance also noted on general health and wellbeing, people awareness, global partnership for development and climate actions. These factors taken from SDGs laid down by UNDP.

The study was conducted as a qualitative research, for which primary and secondary data is collected. Secondary data in the form of success stories taken from MFIs websites to take borrowers view and impacts of microfinance in their lives. Secondary data collection sources include various research articles, reports published by PMN, United Nations development program, State Bank of Pakistan, World health organization and working papers. Akhuwat book “Akhuwat Ka Safar, second edition (2016)” (Journey of Akhuwat, version 2016) is consulted in detail to understand Akhuwat Model of lending while making the comparison between CLM and IFLM. Participating MFIs websites have been thoroughly consulted while discussing the findings and conclusions. A total of fifty-nine (59) stories have been taken from participating MFIs.

Primary data, a structured questionnaire is distributed among microfinance practitioners with an average experience of 7 plus years. These practitioners are branch managers, middle or higher executives who had worked in operations, credit lending, human resources, and finance department of selected MFIs. They have real time experience and their valuable feedback is considered. At present, there are twenty-nine (29) MFIs operating in Pakistan, where twenty (20) follow CLM and four (04) follow the IFLM. The latest information is not available for five (5) MFIs and is not included in the annual PMN study either. We will also consider twenty-four (24) MFIs for our primary data collection through a structured questionnaire. All considered MFIs are contacted but responses are not received from few. The questionnaire was sent to eighty (80)
practitioners but the response is received from thirty-seven (37) practitioners. Secondly, to understand the vision of industry leaders two (02) executive interviews are also conducted. One from MFI following IFLM and another following CLM. All data except success stories will be analyzed with the help of qualitative software NVivo for better interpretations.

It is clearly turned out from literature and findings;

- Microfinance is not the panacea for all the problems. It is not the remedy for every problem. However, it is a necessary tool for development without any doubt.
- All borrowers will not become entrepreneurs. From that pool few will continue their entrepreneurial journey, few will graduate and go even further through taking repeat loans.
- Underutilization is still an issue which needs to be addressed. It is found that even after following comprehensive screening somehow 60% loan is utilized fairly and deviation of 40% recorded by MFI practitioners based on their experience.
- MFIs practitioners and executives both believe in “anecdotal evidence” where borrowers share their stores and changes in economic state can be traced.
- Financial inclusion is the most important element of microfinance which provides small borrowers access to financial services not offered by formal banking channels.
- MFIs contribution towards entrepreneurship development services like enterprise skill development, entrepreneurial education, technical skills, and vocational training is evident.
- MFIs impact in following factors are noted 1) income generation/poverty reduction, 2) family well-being or improved living conditions, 3) education (primary and adult), 4) other workers jobs, 5) women empowerment, 6) capacity building and 7) sustainable business or asset development.
- In our initial framework, we categorize general health and wellbeing under indirect contribution but MFIs are paying great attention towards borrower’s general health and wellbeing. So, direct contribution in general health and wellbeing is recorded.
- According to statistics reported by PMN gender distribution of overall microfinance industry was 70% females and 30% males in the year 2017.
- Women empowerment does not only mean access to finances but includes leadership training and women rights education as well.
- CLM models are dominating the market with 90% market share where IFLM only stands for 10% of the total market size. However, the market is not yet saturated. As per the statistics released by PMR in 2017, Pakistan is the market of 20 - 25 million borrowers who need microfinance products while total borrowers served by the end of the year remains at 5.7 million including all industry players (MFI+RSPs+MFB).

- There is an unserved market of 15 -18 million borrowers. There is a room available for new MFIs to start their operations and fill the gap. MFIs following CLM have a strategy and quite ready to reach 10 million borrowers by 2020. Now, from 5.5 million to 10 million that is an additional 4.5 million borrowers in 02 years.

- Both models will carry on in the country and the likelihood of IFLM taking more market share and even replacing the CLM model is very low.

- CLM models generally charge 20% -22% interest on their products. They also reported having a 95% return rate which means this is good business for them. “In the Microfinance industry, nobody cares and ask where you are going to use the funds.”

- IFLM is characterized by a new philosophy of brotherhood and solidarity rather than pure business.

- IFLM Models such as Akhuwat is getting popular and growing due to less administrative costs by using religious infrastructure (masjids, churches, temples, gurdwaras etc.), customized and targeted loan product offerings and turning borrowers into donors. They save the cost of capital as money accumulated is from charity, donation, and governmental aid.

- Where CLM ends Akhuwat and its spirit of solidarity and brotherhood starts. It is due to the solidarity that donors donated Rs. 66 billion and borrowers repaid all of it. This is the key reason Akhuwat enjoys a very high repayment rate of 99.85%

- The myth of charging high interest and inability to pay back the loan is not all true. We can see the high loan repayment rate of MFIs using CLM models.

- Given the result, it can be seen the respondents do not believe that people are reluctant to use microfinance just due to interest factor.

- Interest is not the only factor in low take up of microfinance products. It is a mere perception among the few.
**It is suggested**

1. To develop a centralized database for micro-entrepreneurs working to achieve economic independence through microfinance in Pakistan. This will help in getting some quantitative evidence rather than anecdotal evidence.

2. We have only analyzed MFIs which are non-governmental institutions. A separate study can be carried out with a quantitative or mixed method for all industry players including MFBs and RSPs.

3. There is a need for a comprehensive strategy to invite more Microfinance Service Providers in order to serve the unmet market demand of 15-18 million borrowers.
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