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MICROFINANCE ALLEVIATES POVERTY IN PAKISTAN

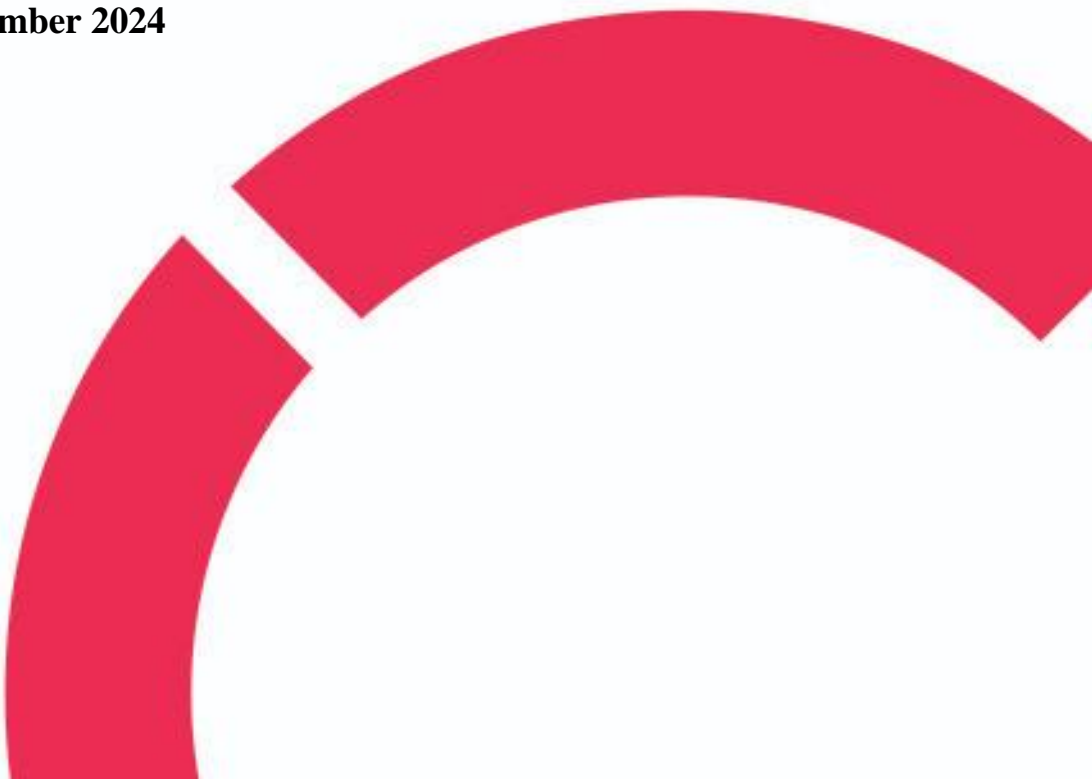
Case Study of FINCA Microfinance Bank Ltd.

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ABSTRACT



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<p>Poverty is a universal reality, and its fatal effect is undeniable all over the world. Although it is a global issue, it affects most developing countries like Pakistan. This survey-based research aims to evaluate the effect of microfinance on poverty reduction, provided by Pakistan's FINCA Microfinance Bank. The study attempted to examine how microfinance affects poverty using quantitative research methods.</p> <p>The entire client base of FINCA Microfinance Bank Ltd. served as the study's population, and Slovin's Formula was used to calculate the study sample. Following the survey, it was discovered that microfinance significantly reduces poverty by raising beneficiary income and household spending. People still have to deal with issues like excessive interest rates and guarantees from microfinance institutions, despite the importance of microfinance. Likewise, microfinance organizations encounter certain difficulties as well, such as debt recovery, and the majority of clients default.</p> <p>According to the outcome of the study, microfinance plays a very important role in poverty alleviation, but there is also room for improvement in the policies of banks to facilitate people in a better way.</p>		

Key words FINCA microfinance bank Ltd., household expenditure, microfinance, microfinance institutions, poverty alleviation

CONCEPT DEFINITIONS

BRSP	Baluchistan Rural Support Programme
FMBL	FINCA Microfinance Bank Ltd.
GDP	Gross Domestic Product
MFI	Microfinance Institutions
MSMEs	Micro, Small and Medium Enterprises
NGO	Non-Governmental Organizations
PACRA	Pakistan Credit Rating Agency
PPAF	Pakistan Poverty Alleviation Fund
SDGs	Sustainable Development Goals
UNDP	United Nations Development Programme

ABSTRACT
CONCEPT DEFINITIONS
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1 INTRODUCTION

In Pakistan, poverty has been the foremost challenge that the nation has faced since the creation of the country. This situation has many root causes, such as social and economic inequality and weak financial management. Pakistan is an agricultural country, and the population resides in rural areas with a lack of basic facilities like clean water, healthcare, and basic education. Unemployment makes the situation worse. According to Parker (2000), poverty is a multifaceted phenomenon that includes, among other things, a lack of assets and resources (material deprivation), and inadequate access to basic social amenities like clean water, health care, and education. It also includes deprivation of fundamental human rights that have an impact on the economy, society, and politics.

However, the government of Pakistan has initiated different poverty reduction programs based on the MFI model to reduce the gap between the privileged and the non-privileged. One of the programs is FINCA Microfinance Bank Ltd. (FMBL), which provides affordable and efficient financial services to underprivileged and low-income groups that contributes significantly to reducing poverty in Pakistan. Moreover, small companies are expanding their business and meeting their day-to-day needs through digital banking. They can also help with microfinance loans and agricultural loans.

FINCA Pakistan was founded in 2013 to promote financial inclusion by providing microfinance loans and other financial solutions. FINCA's Microfinance division focuses on micro, small, and medium-sized enterprises (MSMEs), serving 173,968 customers (FINCA, 2022) in rural and semi-urban areas. FINCA emphasizes the importance of sustainability, financial knowledge, and ethical lending as part of its objectives.

Despite significant efforts to increase income, develop human potential, and developing countries continue to face serious challenges, with around 700 million people living below the poverty line (World Bank, 2024). The fight against poverty is important because economic inequality is growing due to increasing reliance on corporate markets. Numerous studies conducted worldwide have provided significant evidence that microfinance is a considered an innovative tool for reducing poverty. (Simanowitz et al., 2000).

There are three main objectives of this study. The first goal of this study is to define FINCA Microfinance Bank Ltd., explain how it operates, and identify its primary consumers. The second goal

is to describe how microfinance has affected poverty and how quickly the pool of potential active borrowers has grown in recent years. The third objective is to concentrate on the effects of microfinance on household welfare, healthcare welfare, and education for children, as well as household expenses.

The study employs a quantitative survey approach to the impact of microfinance on poverty alleviation. A structured questionnaire with closed-ended questions along with a 5-point Likert scale was developed to gather data on demographics, financial information, household and asset information, and satisfaction with microfinance services from the respondents.

Figure 1 explains the conceptual framework of microfinancing and its impact on FMBL. The bank provides the loan to the recipients, and after the loan period, they repay it to the bank. This flow of capital helps recipients to improve their living standards. The social outcome of this process is poverty reduction.

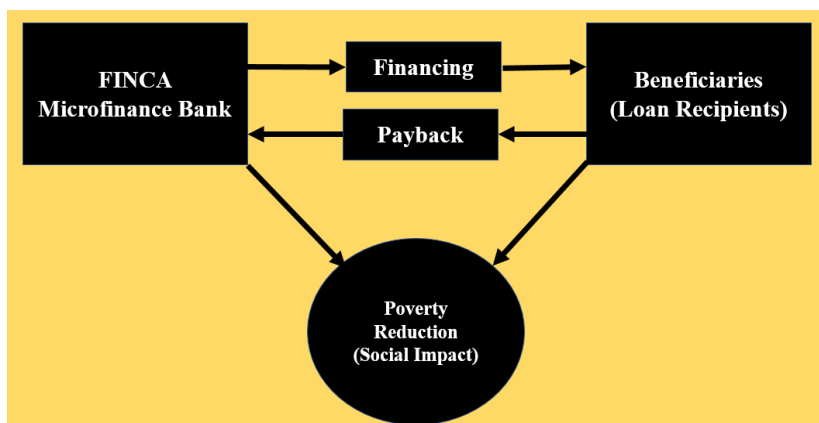


FIGURE 1. Conceptual Framework (source own)

2 FINCA MICROFINANCE BANK LTD.

A network of financial institutions provides low-cost banking and financial services to customers at the bottom of the pyramid in multiple countries, owned and controlled by a parent company called FINCA Impact Finance. One such subsidiary is FINCA Microfinance Bank Ltd. (FMBL) in Pakistan which since its incorporation has been driving the broader objective based on a mandate given to FMBL by the Government of Pakistan. FMBL was incorporated with a vision to promote broadened financial inclusion through the availability of accessible, affordable, and sustainable banking services related to loans and deposits (FINCA Pakistan, 2017).

FMBL has an extensive network of branches and service conveniences in all of Pakistan, both in urban and rural areas. This approachability helps residents of remote areas. For this purpose, digital and mobile banking applications are used. Through the SimSim mobile banking app, FMBL has made remarkable strides in digital banking beyond physical branches. SimSim enables customers to pay bills, transfer funds, open accounts online, and do other work without having to go to a branch.

2.1 Financial Information and Performance

The microfinance bank's performance has been on a continuous rise since its beginning. The financial model of FMBL is based on sustainable banking practices. Out of many performance indicators of the bank, assets and liabilities are more important. Due to an increase in the bank's loan portfolio and the number of clients, FMBL Pakistan has recorded impressive growth in its assets. Some of the bank's liabilities include customer deposits and borrowed money that were utilized in supporting its microfinance activities. The primary sources of income include revenue generated from loans and income from banking service fees.

Overall, in recent years the bank has shown remarkable growth in both gross loan portfolio and deposit base, and it is very evident in the financial reports. This shows that the financial performance of MFBL has been outstanding. Due to its continued focus on curtailing NPLs, the bank has also strengthened its balance sheet (FINCA, 2022). Pak-RATING A- (long term) and A2- (short term) with developing outlook for the year 2023 FINCA Microfinance Bank assigned by Pakistan Credit Rating Agency (PACRA). This rating does, however, pinpoint areas for performance improvement, and the scope for

further improvement in the bank's performance along with its strengthening measures for risk management is evident (PACRA, 2023).

2.2 Types of Loans Offered by FINCA Microfinance Bank Pakistan

To fulfil the needs of various demographic sectors, with emphasis on the poor, the microentrepreneurs, and the small business owners, FINCA Pakistan has come up with several types of loan products. The lending options include microloans, agricultural loans, women's loans, and home improvement loans. Similarly, FINCA presents tailored loans for farmers and agribusinesses because of Pakistan's significant agricultural area. FINCA presents many farmer loans, which include kashtkar karza, maweshi karza, and tractor loan. Farmers can purchase seeds, fertilizer, farm animals, and farming gadgets with the assistance of those loans.

2.3 Role in Poverty Alleviation

The contribution of FINCA Pakistan's role in fighting poverty is huge, and it helps in the reduction of poverty by focusing on providing financial inclusion and empowerment to low-income clients. FINCA offers small loans to customers for starting small businesses. This initiative can help many households to break the poverty cycle.

By offering loans and other services specifically designed for women, FINCA Pakistan helps women contribute to household income, which benefits their families and society. The welfare, education, and health of entire families have been shown to improve when women have greater financial power. Similarly, FINCA is playing a huge role in improving the agricultural industry. By facilitating farmers' access to capital for essential inputs, FMBL boosts rural development and agricultural productivity. Both of which help reduce poverty in rural areas (FINCA Pakistan, n.d.). In addition to improving the standard of living, it also creates financial stability when needed. The unbanked and underbanked are now, especially in rural areas, where financial services are accessible using the SimSim smartphone application by eliminating the need for physical branches (FINCA Pakistan, n.d.).

Even though FINCA Pakistan has achieved amazing progress in decreasing poverty, the corporation faces difficulties in monitoring reimbursement charges, especially in instances of financial despair, and

competing with unofficial lenders. As most clients are not financially literate, that makes it more difficult. In the future, FINCA Pakistan intends to broaden its reach in rural regions, grow its branch networks, and decorate its virtual services.

3 LITERATURE REVIEW

In this chapter, literature review is examined on the presented topic identifying the key contributions and gaps. It provides a foundation for understanding the concept of microfinance, poverty, and impact of microfinance on poverty reduction.

3.1 Microfinance

Since its introduction by Dr. Muhammad Yunus in 1976, microfinance has become widely recognized as a means of reducing poverty. His Grameen Bank venture in Bangladesh gave low-income people who could not access regular financial institutions small loans. By fostering chances for self-employment, this strategy played a crucial role in assisting people in raising their standard of living. When Yunus was awarded the Nobel Peace Prize in 2006, his efforts brought him international recognition (Murshid, 2020; Asimwe, 2018). Nowadays, microfinance is seen as a vital tool for economic development, particularly for underserved populations. The growth of microfinance institutions (MFIs) in several nations, emphasizing financial inclusion as a strategy to combat poverty, has been aided by Yunus's successful work (Banerjee, 2017).

Microfinance began in the 1980s when many developing nations set up financial organizations to give low-income business owners small loans. Bank Rakyat in Indonesia, Banco Sol in Bolivia, and Grameen Bank in Bangladesh are notable instances. The worldwide microfinance movement, which has since grown to become an essential part of measures for reducing poverty, was made possible by these early institutions (Hermes & Lensink, 2007). Policymakers and academics now view microfinance as an essential instrument for accomplishing development objectives like economic inclusion, income redistribution, and poverty reduction (Banerjee, 2017).

Microfinance still confronts several obstacles despite its achievements. One major problem is that some borrowers use their loans for immediate consumption requirements, meaning that not all microfinance users use them for productive purposes. Furthermore, some MFIs demand exorbitant interest rates, which might offset the benefits of the loans and leave borrowers in a worse situation than before. In certain situations, the efficacy of microfinance is further hindered by the absence of infrastructure, modest loan amounts, and restricted business options in underdeveloped areas (Rashid & Ejaz, 2019).

Microfinance has been criticized, meanwhile, for not always producing the expected economic results. The overall impact on reducing poverty is limited because some users use microloans for short-term consumption rather than long-term company investment (Mahmood, Hussain, & Matlay, 2014). However, research such as that done by Tiberti et al. (2018) indicates that microfinance helps reduce poverty by giving people the financial resources they require to better their situation, even when those improvements are modest.

3.2 Poverty

Lack of access to essential resources like clean water, healthcare, and education is one of the numerous ways that poverty appears, especially in developing countries like Pakistan. About 31.8% of Pakistanis were living in poverty, with rural areas being the most afflicted, according to the country's Economic Survey (2002–2003).

Baar (2005) defined poverty as the inability to pay for essentials like food and medical care. Twenty-five percent of Pakistanis lived in extreme poverty by 2007–2008, with 22.3% of the population living below the poverty line. Malnutrition, a shortage of potable water, and the incapacity to educate their children were among the difficulties these people encountered. The percentage of people living below the poverty line increased to 24.3% by 2015–2016, and over 44% of people were at risk of becoming impoverished as a result of economic shocks (Nizami & Hizam, 2023).

Poverty affects both individuals and communities, hindering progress and perpetuating inequalities. Today's understanding of poverty focuses more on aspects of lack, like healthcare access and education opportunities, than just income levels like the World Bank poverty line .90 per day set in the past (Parker 2000; Visconti 2012). Since the initiative of microfinance by Yunus, countless individuals across Asia, Africa, and Latin America have experienced the impact of the adoption of microfinance (Aghio & Morduch 2004). The effectiveness of the approach taken by the model established by the Grameen Bank demonstrates the potential of microfinance in providing tailored services to underserved communities in a manner over time.

3.3 Evaluation of Microfinance in Pakistan

The first official microfinance in Pakistan was established in 2000 with the founding of Khushhali Bank. The Microfinance Institutions Ordinance, which established the legislative foundation for MFI regulation, came next in 2001. Since then, Pakistan has seen the establishment of numerous microfinance organizations that offer financial services to marginalized groups (Noreen et al., 2011). As a key feature of the United Nations Sustainable Development Goals (SDGs), financial inclusion, gender equality, and poverty alleviation are an integral part of the policy agenda. Now this vision lies along with the efforts of the Pakistani government to achieve. Microfinance institutions like Pakistan Poverty Alleviation Fund (PPAF), FINCA Microfinance Bank Ltd. (FMBL), Baluchistan Rural Support Program (BRSP), and Akhuwat Foundation play their part in removing these barriers by providing interest-free microloans along with other essential services. Microfinance is developed as an actual method for the long-run destination to end poverty through means like the promotion of self-employment opportunities.

In Pakistan, FINCA Microfinance Bank Ltd. (FMBL) has developed into one of the top microfinance institutions in the nation. It has established itself as a significant force in the financial inclusion space since its founding in 2013. In Pakistan, MFIs include non-governmental organizations (NGOs), rural assistance initiatives, and specialist institutions such as FINCA Microfinance, Khushhali Bank, and Tameer Bank.

Infrastructure Investment Initiative and assistance with network development projects Pakistan Poverty Alleviation Fund (PPAF) has also been actively involved in poverty reduction. Similarly, organizations such as the Akhuwat Foundation have adopted interest-free lending models based on Islamic finance principles. This allows low-income Muslims who may be excluded from interest-bearing loans because of their religious beliefs to access microfinance. Many low-income households benefit from Akhuwat's community strategy. This allows them to start small businesses and raise and support living standards. This allows low-income Muslims who may refrain from interest-bearing loans due to their religious beliefs to access microfinance. Many low-income households benefit from Akhuwat's community strategy.

Microfinance's full potential as a strategy for reducing poverty in Pakistan is still vulnerable to issues like income disparity and economic instability. Although microfinance has helped to lower poverty, Haq (2008) notes that it has not been enough to address the more fundamental structural problems that keep the nation's poverty rate high. These include the absence of industrial growth in rural areas and the income disparity.

3.4 Impact of Microfinance on Poverty Alleviation

By providing financial services to those with little or no access to traditional banking, microfinance plays a crucial part in lowering poverty. It helps low-income people stabilize their consumption, enhance their living conditions at home, and invest in small companies (Ehigiamusoe, 2005). According to Robinson (2001), microfinance organizations help low-income households better manage their financial risks by offering savings products in addition to loans.

Several studies have documented the impact of microfinance on poverty reduction in Pakistan. Each study emphasizes different aspects of its effectiveness. For example, Noreen (2011) observed that microfinance affects the spending of Pakistani households. Noreen has found that microfinance programs improve housing and food security. Despite the success, there are still some difficulties. According to Ghauri and Wang (2017), local microfinance institutions and government organizations should work together to effectively reduce poverty. Lack of cooperation and funding in these sectors has limited the scope and viability of microfinance efforts, but MFIs remain vital to Pakistan's poverty alleviation efforts. This is because they provide vital financial services to people who do not have access to formal banks. Similarly, by raising asset creation, crop production, savings, and overall household standards of living, microfinance helped reduce rural poverty, according to (Pakkanna et al., 2020).

Microfinance's influence on women's empowerment is among its most important contributions. Women experience income disparity, lack of access to education, and disproportionate financial exclusion in many developing nations. By giving them access to loans and other financial services, microfinance has become a vital tool for women's economic empowerment (Wood & Sharif, 1997). Research from nations like Bangladesh and Nigeria shows that women are trustworthy borrowers who use microfinance to raise their families' standard of living (Gibbons, 2000; Hossain, 2012).

Numerous socioeconomic indices, such as household spending, healthcare, and children's education, have improved as a result of women's empowerment through microfinance (Chandarsekar & Parkash, 2010; Mayoux, 2001). According to (Rahman, Junankar, and Mallik (2009)), women's skills and the money they make from their abilities are other important components of empowerment. Additionally, it is much safer to lend to women than to men. With less portfolio risk, MFIs that lend to women can have a high yield on their holdings (Janda & Turbat, 2013). Over 50% of Pakistani women make economic contributions, but they do not have access to elementary banking facilities. In addition to assisting women in becoming financially independent, microfinance services increase household resilience to economic shocks (Mushtaq & Bruneau, 2019).

Furthermore, even though microfinance has been successful in many instances, its effectiveness is dependent on several variables, including loan repayment rates, nongovernmental organization outreach, and the continuing viability of MFIs. According to (Khandker et al., 2016), efficient loan use and borrowers' capacity to make timely loan repayments are essential to microfinance's long-term viability. Research from some developing nations, such as Nigeria, Ethiopia, and Pakistan, highlights the necessity of expanding healthcare and education facilities to guarantee long-term poverty reduction (Benti, 2019; Ghauri & Wang, 2017).

In addition to financial services, microfinance organizations frequently provide non-financial services that are essential to small business development. According to Bongomin, Woldie, and Wakibi (2020), traditional banks frequently overlook nonfinancial services including budgetary guidance, business management support, and financial literacy training. These services raise the possibility of long-term success by ensuring that microfinance consumers have the information and abilities needed to use their loans effectively.

Microfinance is a practical way to start and run small businesses in developing nations like Pakistan, where there is little industrial development and outside investment. According to Dandgund and Honnurswamy (2012), by assisting small enterprises, microfinance raises wages, purchasing power, and general living standards. However, as noted by Haq (2008), income inequality is still a major problem in Pakistan, making it challenging to maintain poverty reduction throughout recessions. The examined literature emphasizes how important microfinance is to reducing poverty, particularly in emerging nations like Pakistan. Microfinance helps raise living standards, generate jobs, and encourage financial inclusion by offering financial services to underserved populations. Microfinance

is still a vital instrument for empowering low-income groups, despite issues including exorbitant interest rates, inadequate infrastructure, and inappropriate loan use.

Because microfinance increases women's capacity to contribute to the economy and improve home welfare, it is especially important for women's empowerment. However, more extensive policies and more services in infrastructure, healthcare, and education are required for microfinance to realize its full potential. Future studies ought to examine the microfinance programs' long-term viability as well as their wider socioeconomic effects.

Microfinance has significantly reduced poverty around the world, but addressing the remaining issues will be necessary to fully realize its promise. Developing countries may significantly reduce poverty and achieve sustainable economic growth by expanding the reach and efficiency of microfinance programs.

4 RESEARCH METHODOLOGY

The approach used in testing how the microfinance initiatives introduced by FINCA Bank are affecting poverty reduction in rural areas of Pakistan is discussed in this chapter. The research is practiced on those who have been actual borrowers of loans from FINCA Bank with a consistent record of paying back their loans which mainly consists of rural borrowers from Pakistan. Several studies have utilized per capita income as a stand-in for poverty (Waheed, 2009). The current study also used per capita income as a stand-in for poverty in light of the aforementioned findings. Taking into account variables including income, business expansion, lifestyle enhancements, education, and housing circumstances, the main goal is to evaluate how microfinance affects the social and financial well-being of low-income rural populations. To assess how well microfinance works as a means of reducing poverty and to look into the microfinance practices of customers and how they affect the development of household facilities a quantitative research approach is used that involves creating a questionnaire to collect data.

This section offers a thoughtful explanation of how this is done, starting with the choice of a suitable case study location and MFI, followed by the data collection process and analysis method. Therefore, it was not by chance that FINCA Microfinance Bank Limited (FMBL), Pakistan was chosen as the case study for this study. The researcher is from Pakistan, where he also has FMBL job experience. The selection of Pakistan aligns with the purpose of this argument as well. Pakistan meets the criteria because of its high rates of poverty and the quick growth of microfinance.

The researcher chose the FMBL as the case study for this investigation based on the predetermined criteria. Given the study's emphasis on context, the researchers' familiarity with the state's cultural, economic, linguistic, and social features also played a role in their selection. This supports the claim that before beginning data collection, researchers conducting fieldwork should have a thorough understanding of the values, social structure, and economic concerns of the studied area (Hershfield et al., 1983). With the high rate of illiteracy among respondents, being able to speak in the common language of the study area was very crucial. The majority of Pakistan's impoverished speak their native tongue or the country's official language that is Urdu and the literacy rate among them is low. As a result, "Urdu" had to be used when conducting the questionnaires and interviews. Being able to administer and translate the questions independently gave the researcher excellent control over the fieldwork exercise, which was a major benefit of knowing the local language.

4.1 Quantitative Data Collection

Random sampling technique is used in this study. The level of variability, the error margin, and the level of confidence of the targeted population are the main factors that decide the sample size. In social science research, .05 or .01 confidence levels are frequently utilized. Following Slovin's formula is used to estimate the sample size.

$$n = N / [1 + N(e)^2]$$

Where, N = Population, n = the Sample Size, and e = Estimated Error Level.

The researcher was not given access to the entire clientele in a particular area at FINCA Microfinance Bank Ltd. in Pakistan since it was deemed confidential. However, the total number of clients as of December 31, 2022, was 173,968 (FINCA Financial Statement, 2023). The sample size is estimated using the formula above.

$$n = 173,968 / [1 + 173,968(.05)^2] = 399.08$$

However, it becomes clear that the researcher cannot cover this sample size due to time and resource restrictions. As a result, 150 responses were chosen as the sample size. The questionnaires are given out in the service users' homes in the evenings, just like the interviews. The researcher can still perform important statistical analysis using this.

4.2 Questionnaire Construction and Management

The purpose of the questionnaire (see Appendix A) is to produce quantitative data that is pertinent to gauging service users' assessments of microfinance's capacity to expand. The survey is divided into four primary sections, each of which is intended to gather particular kinds of data about FINCA Microfinance Bank Ltd. Pakistan customers. An examination of each section and how it adds to a thorough knowledge of the client's home conditions, financial background, demographics, and the effects of microfinance services are provided here.

Personal and demographic data are gathered in Section 1. Now more specific data like age, gender, marital status, education level, and employment status along with family size is collected here. The responder to each question is aided by multiple-choice answers which makes selection simpler, and that also speeds up the process of data processing. With an emphasis on demographic factors as the

backbone of its analytics, FINCA will be able to view a snapshot of the average customer in an effort to understand the unique characteristics of those who use its services.

The second portion then discusses loan use and financial information. The financial histories of the clients and their experiences with microloans are examined. Monthly income, sources of income, previous company experience, loan size, purpose, length, and household expenses are all covered in the questions. The questionnaire can classify clients' economic conditions and the main reasons they are looking for a microloan by using income bands and purpose-based alternatives.

Understanding how microloans are being used and if they support FINCA's goals of financial inclusion and empowerment requires knowledge of this section. We collect household and asset information in section 3. Inquiries concerning children's education, access to healthcare, asset ownership, and utility access are made at this part. This data provides insight into the client's quality of life and financial stability by illustrating their living standards and the atmosphere in their homes. Additionally, the asset base that customers may leverage or expand through microfinance services is highlighted by the ownership of goods like cattle, land, and agricultural machinery.

Four questions concerning the impact of microfinance services and customer satisfaction are listed at the end of the section. This last component evaluates how satisfied customers are with microfinance services and how these services have affected their lives. Clients score statements on how easy it is to apply for a loan, interest rates, income, household spending, access to healthcare and education, and general satisfaction with loan terms on a 5-point Likert scale. To promote service changes and evaluate the success of FINCA's microfinance efforts, this section offers quantitative insights into client views and satisfaction.

To expedite responses and make analysis easier, the questionnaire combines closed-ended questions with Likert scale evaluations. This questionnaire structure allows for some degree of personalization through "Other" options while also ensuring data consistency, speeding up completion, and supporting quantitative analysis. Insights into client demands and service efficacy are provided by this architecture, which effectively collects extensive data on client profiles, financial situations, and the impact of FINCA's microfinance services.

4.3 Result Analysis

In this chapter, the feedback from the respondents is presented and will be expressed and understood through graphical design.

In Table 1, the answers to numerous questionnaire questions about the role of microcredit in reducing poverty are listed. The results indicate that most credit seekers [(N=88) (58.67%)] are men, and the majority of borrowers [(N=57) (38%)] are in the 31–40 age range. Most people in the population (N=104; 69.3%) are married. The vast majority[(N=69) (46%)] are graduates. The majority of persons [(N=54) (36%)] are self-employed. The table shows that the respondents' monthly income has been enhanced after taking the microcredit facility. Similarly, [N= (110) 73.3%] people were able to improve their household expenditures. Although, only (N= (53) 35.3 %) people were able to do savings. Likewise, 58% and 64% of people observe an increase in education and health facilities respectively. Also in the table below [(N=91) (60.7%)] people said that we are facing challenges from microfinance institutions because of higher Interest rates.

TABLE 1. Descriptive Statistics

Demographic Characteristics	Categories	Frequency	Percentage %
Gender	Male	88	58.67 %
	Female	62	41.33 %
Age	Below 20	10	6.7 %
	21- 30	48	32 %
	31- 40	57	38 %
	41 - 50	30	20 %
	50 and Above	5	3.3 %
Marital status	Married	104	69.3 %
	Unmarried	46	30.7 %
Education	Illiterate-Primary	21	14 %
	Middle – Matric	41	27.3 %
		69	46 %

	Intermediate – Graduate	19	12.7 %
	Master’s - Above		
Occupation	Self-employed	54	36 %
	Government Employee	28	18.7%
	Private Sector Employee	54	36 %
	other	8	5.3 %
		6	4 %
What was your initial working capital before receiving the Microfinance facility?	> PKR25000	72	48 %
	25000 – 35000 PKR	36	24 %
	35,001- 50,000 PKR	24	16%
	50001- 75,000 PKR	13	8.7 %
	< 75,000 PKR	5	3.3 %
What is your working capital after obtaining the Microfinance facility?	> PKR25000	48	32 %
	25000 – 35000 PKR	45	30 %
	35,001- 50,000PKR	38	25.3 %
	50001- 75,000 PKR	13	8.7 %
	< 75,000 PKR	6	4 %
Have you noticed any changes in household expenditures after utilizing the Microfinance facility?	Increased	110	73.3%
	Decreased	15	10 %
	Unchanged	25	16.7 %
What is the status of your savings after obtaining the microfinance facility?	Increased	53	35.3 %
	Decreased	21	14 %
	Unchanged	76	50.7 %

What challenges did you face while accessing the Microfinance facility?	Interest rate	91	60.7 %
	Security	37	24.7 %
	Loan repayment	14	9.3 %
	Accessing loan	08	5.3 %
How has your monthly income changed after receiving the Microfinance facility?	Increased	108	72 %
	Decreased	18	12 %
	Unchanged	24	16 %
Access to education after receiving the microfinance loan.	Increased	87	58 %
	Decreased	17	11.3 %
	Unchanged	46	30.7 %
Access to healthcare after receiving the microfinance loan.	Increased	96	64 %
	Decreased	18	12 %
	Unchanged	36	24 %

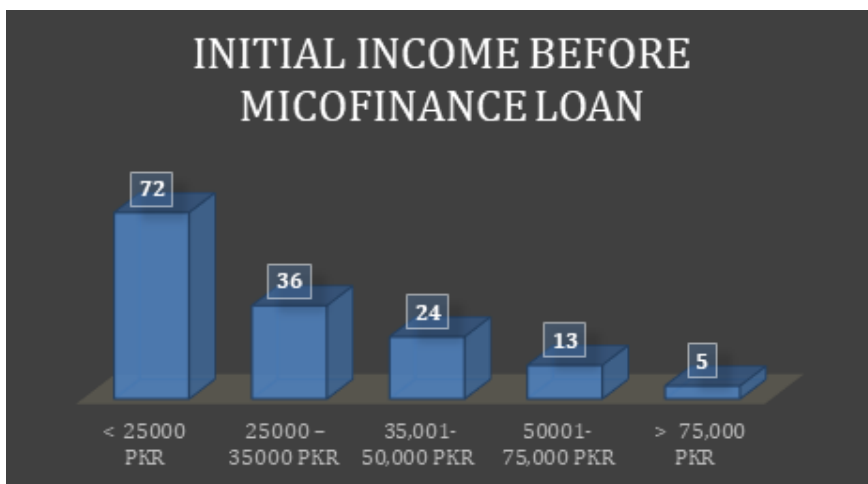


FIGURE 2. Initial income

Figure 2 shows how people's incomes were distributed before receiving a microloan. The majority of microfinance consumers had a moderate income level before getting the loan, as seen by 72 (48%),

who reported an income of less than 25,000 PKR. People whose income falls in the second most diverse range, that is, between 25,000 and 35,000 PKR, are followed by those whose income is between 35,001 and 50,000 PKR. A long way down the list are the 5 clients who earned more than 75,000 PKR, while in the self-reported category, for 50,001-75,000 PKR, 13 consumers were in conformity.

The trend hints that a considerably wide range of microfinance clients are coming from lower to middle levels of income, whereby these incomes, though low, do not fall at the very bottom end of the income pile.

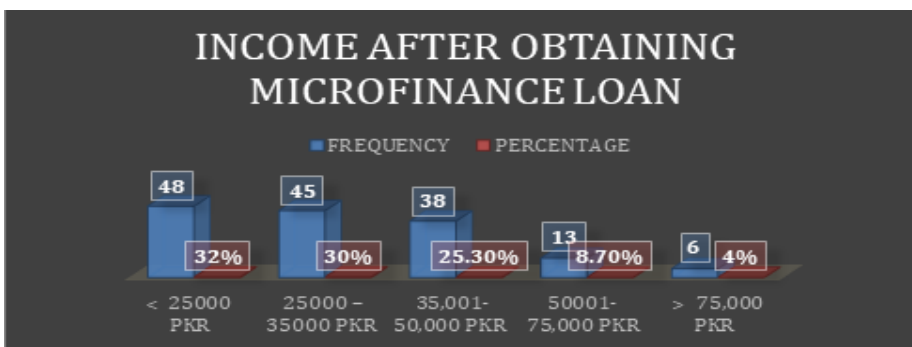


FIGURE 3. Income after loan

Figure 3 shows that there are 32% of people are living under 25000. The second most widely dispersed income bands are the people whose income is between 25,000 to 35,000 PKR and 35,001 to 50,000 PKR. Merely 13 people are making money between 50,001-75,000 PKR and only six people are earning above 75,000. A possible theory may be that a higher diversity percentage of microfinance clients might largely be under the bracket of poor to medium levels of income; whereby these while perhaps very low, do not pertain to the very bottom of the income distribution.

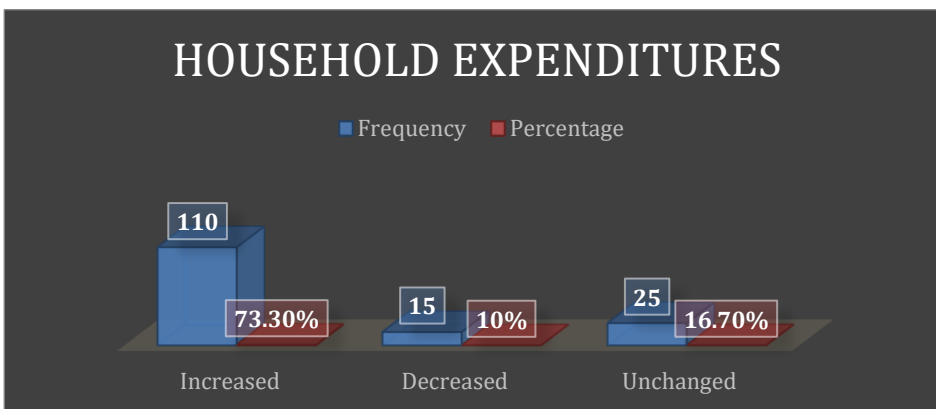


FIGURE 4. Household expenditures

Figure 4 shows that 110 respondents, or 73.30% of the respondents, said that using a microfinance loan facility had increased their household expenses, 25 respondents, or 16.70%, said that their household expenses had not changed, and only 15 respondents, or 10%, said that their household expenditures had decreased.

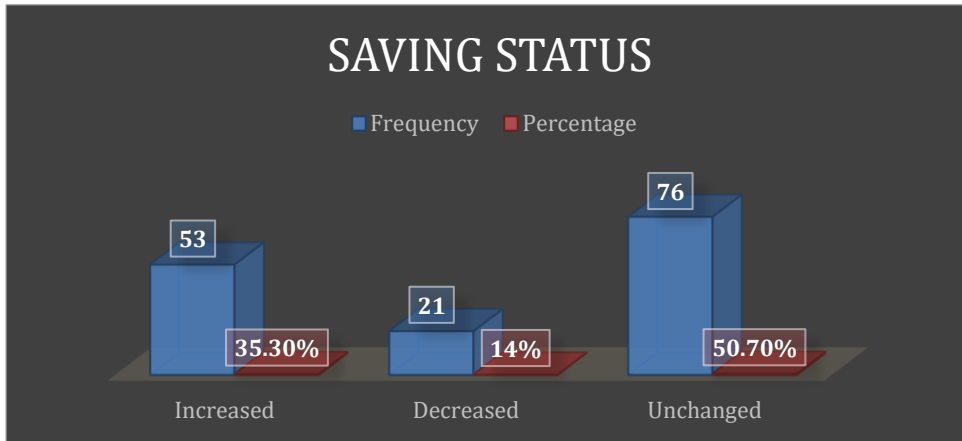


FIGURE 5. Saving after loan facility

The most frequent result, as shown in figure 5, was that 76 respondents (50.7%) said their savings had not changed. On the other hand, 21 people (14%) reported a drop in savings, whereas 53 people (35.3%) reported an increase. This distribution shows that while fewer people saw changes in their saving status, the majority of people's savings stayed constant.

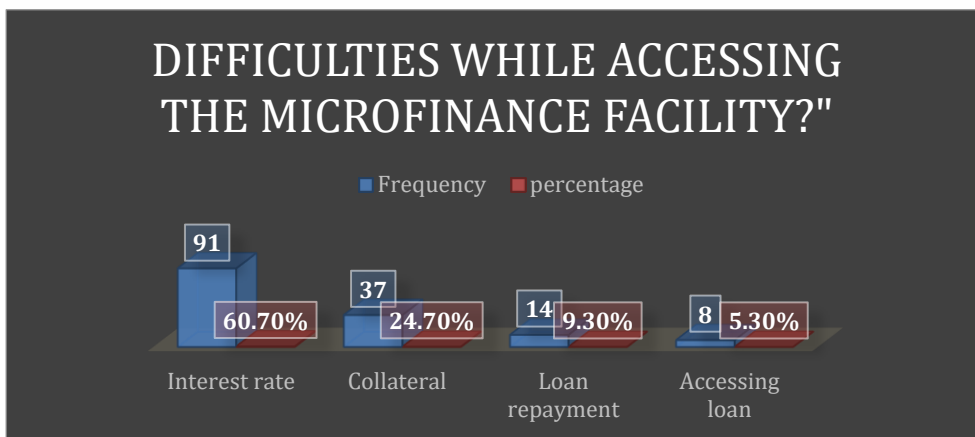


FIGURE 6. Difficulties while accessing the MF facilities

The graph uses both frequency and percentage to show the primary challenges people encounter when trying to utilize the microfinance facility. The interest rate, which affects 91 people or 60.7% of respondents, is the most commonly stated difficulty. With 37 people or 24.7% of all respondents,

collateral requisites have been named as the second most prevalent issue. Although there are 8 people (5.3%) who are having difficulties in getting the loan itself, 14 people (9.3%) have the problem of repaying their loans. Microfinance beneficiaries have to deal with high lending rates and collateral requirements to overcome the main obstacles, as the dispersal shows.

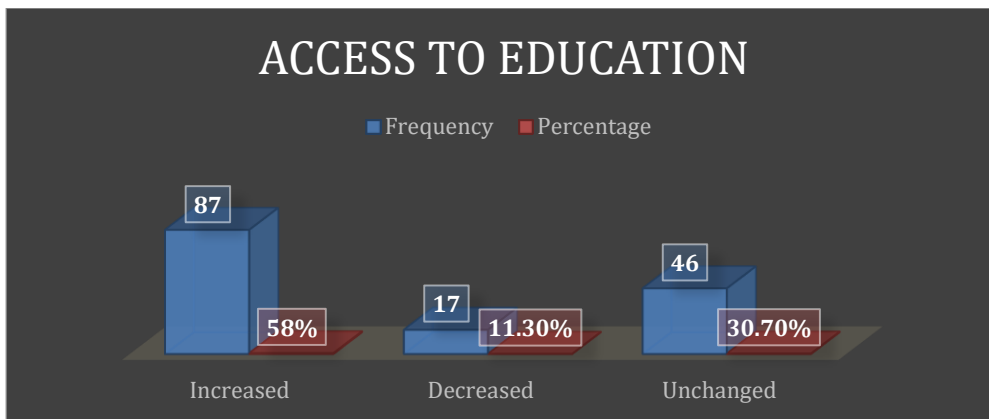


FIGURE 7. Access to education

As shown in the figure 7 that 87 respondents, or 58% of the sample, stated that using a microfinance loan facility had improved their access to education, 46 respondents, or 30.7%, said they had not noticed any change, and only 17 respondents, or 11.30%, stated that using a microcredit facility had decreased their chances of receiving an education.

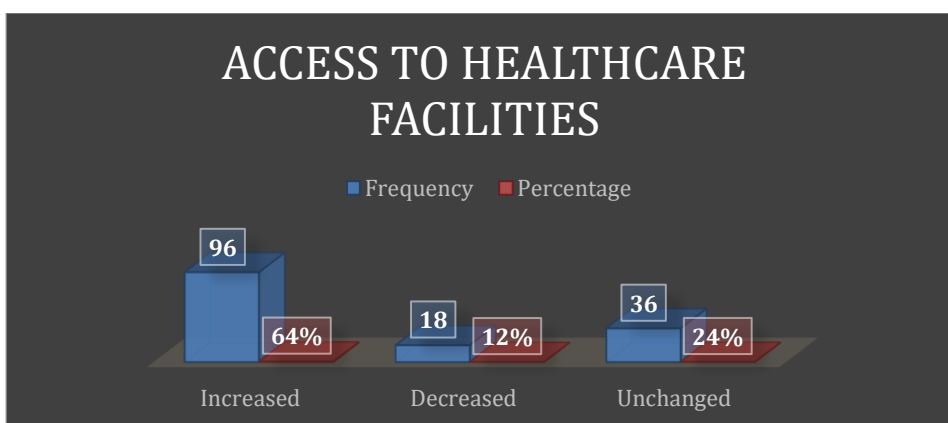


FIGURE 8. Access to healthcare facilities

The graph above shows that 96 respondents, or 64% of the sample, said that using a microfinance loan facility had improved their access to healthcare facilities, 36 respondents, or 24%, said they had not noticed any change, and only 18 respondents, or 12%, said that using a microcredit facility had reduced their access to healthcare services.

5 LIMITATIONS OF THE STUDY

This study is however, faced with certain limitations. One of the main drawbacks was the expense as the clients of MFLB are spread out geographically, and visiting them is expensive. Also, data analysis shows customer's dissatisfaction with firms' excessive interest rates, particularly those associated with opening an account with the relevant bank, insurance premiums, late payment penalties, and other service fees. Microfinance customers are under a high financial strain.

There are also some general limitations for microfinance institutions in Pakistan that undermine their effectiveness in poverty alleviation. Political intervention especially in rural areas usually triggers a need for more effective transparency. Increasing competition among microfinance institutions (MFI) has increased service expectations, but many of them do not even have sufficient resources to fulfill them properly. Most Microfinance Institutions (MFIs), that were initially founded as NGOs, also face the problem of difficulty in management, thus blocking efficient operations. The credit card preference that contributes to the industry's obvious over-provision of credit over insurance, savings, or other services has generally interfered with the microfinance sector of poor people whose benefits were related to development as a tool. The financial deficit is still the main point of reconciling bank accounts which is the one still far, moreover, it is an obstruction for the MFIs that want to strengthen their operations.

Furthermore, a weak regulatory framework that includes the areas of savings, insurance, and the transfer of funds further complicates the operating processes of the MFIs thus resulting in increased costs and also reduced innovation. The lack of government support for the development of rural infrastructure is also a strong disincentive for non-public investment and in this way, agricultural producers fall to further costs. One of the human resource barriers that are funding the budget cuts is the lack of training of teachers and the fact that high interest rates and fees are a heavy economic burden on the customers thus, reducing the efficiency of microfinance as a tool to get rid of poverty.

6 CONCLUSION

The aim of the current study is to investigate the role of microfinance in poverty eradication. By analyzing the research it is observed that microfinance has a positive effect on human development in terms of both social and economic. The outcome of the descriptive statistics shows an obvious improvement in the households of FMBL borrowers. Data was collected from FMBL clients through questionnaires. It has also been concluded from the analysis result that beneficiaries of microfinance have raised their household expenditure, income, savings, and living standards. Results show that microfinance also has a strong positive impact on children's education and healthcare facilities.

Despite these wonderful achievements of the microfinance scheme, there are still some challenges as the demand for guarantees and high interest rates that people are facing. On the other hand, microfinance institutions also face some challenges, like loan repayment. Conclusively, poverty has significantly reduced due to microfinance. Therefore, the government should focus on motivating and encouraging microfinance institutions that can provide small loans to poor people in society. For this purpose, the government needs to make policies that facilitate the loan-taking process.

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QUESTIONNAIRE

Section 1: Personal and Demographic Information

1. **Name:** _____

2. **Age Group:**

- > 20
- 21 - 30
- 31-40
- 41-50
- 51 and above

3. **Education Level:**

- Illiterate-Primary
- Middle-Matric
- Intermediate-Graduate
- Master's or above

4. **Gender:**

- Male
- Female

5. **Marital Status:**

- Married
- Unmarried

6. **Employment Status:**

- Self-employed
- Government Employee
- Private Sector Employee
- Other (specify): _____

7. **Family Size:**

- 2-4

- 5-7
- 8-10
- 11 and above

Section 2: Financial Information and Loan Use

1. Average Monthly Income:

- Less than PKR 25,000
- PKR 25,001 - PKR 35,000

2. APPENDIX 2/2

- PKR 35,001 - PKR 50,000
- PKR 50,001 - PKR 75,000
- Above PKR 75,001

3. Sources of Income:

- Self Employed
- Government Employment
- Private Employment
- Other (specify): _____

4. Previous Business Experience Before Joining FINCA Program:

- None
- Less than 1 year
- 2-3 years
- More than 3 years

5. Loan Amount Received from FINCA or Other MFIs:

- PKR 25,000 - PKR 50,000
- PKR 50,001 - PKR 75,000
- PKR 75,001 - PKR 100,000
- Above PKR 100,000

6. Primary Purpose of Loan:

- Business investment
- Buying livestock or dairy animals
- Agricultural inputs
- Social needs
- Daily household expenses
- Emergency funds

7. Loan Duration:

- 1 year
- 2 years
- 3 years
- More than 3 years

8. Time as a FINCA Borrower:

- Less than 1 year
- 1-2 years
- 2-3 years
- More than 3 years

9. Average Monthly Household Expenses:

- Less than PKR 25,000
- PKR 25,001 - PKR 35,000
- PKR 35,001 - PKR 50,000
- PKR 50,001 - PKR 75,000
- Above PKR 75,001

Section 3: Household and Asset Information**1. Number of Children Attending School (Ages 6-11):**

- None

- 1-3
- 4-6
- 7 or more

2. Access to Healthcare Services:

- Extremely difficult
- Slightly difficult
- Normal
- Slightly easy
- Extremely easy

3. Household Assets Owned:

- Farmland/buildings
- Livestock
- Agricultural machinery
- Car/Motorcycle
- Other (specify): _____

4. Land Ownership (rural/urban, commercial/agricultural):

- Yes
- No

5. Ownership of Livestock (e.g., buffalo, cows, sheep, goats):

- Yes
- No

6. Home Appliances Owned (e.g., Refrigerator, TV, Washing Machine, Sewing Machine, Motorcycle):

- Yes
- No

7. Agricultural Machinery Owned (e.g., Tractor, Trolley, Cart, Thresher):

- Yes
- No

8. Residence Ownership Status:

- Owned
- Joint family property
- Rented
- Other (specify): _____

9. Basic Utilities in Your Home:

- Electricity:

Yes No

- Gas:

Yes No

Water Pump:

Yes No

Permanent Boundary Wall:

Yes No

Proper Ventilation:

Yes No

Sanitation System:

Yes No

Cooking Fuel:

Yes No

Section 4: Satisfaction and Impact of Microfinance Services

For each statement below, please rate your level of agreement on a scale of 1-5:

- 1 = Strongly disagree
- 2 = Slightly disagree
- 3 = Neutral
- 4 = Slightly agree
- 5 = Strongly agree

Statement	1	2	3	4	5
The loan application process with FINCA is easier than conventional banks.					
The interest rate for microfinance is reasonable.					
My income has increased after obtaining a microfinance loan.					
My household spending has increased since receiving the microfinance loan.					
My savings have increased since receiving the microfinance loan.					
Access to education has improved since receiving the microfinance loan.					
My household assets have increased since using the microfinance loan.					
Access to healthcare has improved since receiving the microfinance loan.					
Employment opportunities have increased due to the microfinance loan.					
The loan has improved my family's living standards.					
The repayment schedule is manageable.					
The terms of the microfinance loan are satisfactory.					