IMPACT OF MICROFINANCE INSTITUTIONS ON ECONOMIC GROWTH OF PAKISTAN

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CERTIFICATE

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Dedication

I dedicate my thesis to my family.

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Hina Daniel

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List of Abbreviations

ADB	Asian Development Bank
AKRSP	Aga Khan Rural Support Program
AMFB	Apna Microfinance Bank Ltd.
AMRDO	Al-Mehran Rural Development Organization
BEA	The Bureau of Economic Analysis
BEDF	Badbaan Enterprise Development Forum
BOK	The Bank of Khyber
BRAC	Bangladesh Rural Advancement Committee
CFI’s	Commercial Financial Institution
CPI	Consumer Price Index
CSC	Community Support Concern
CWCD	Centre for Women Co-operative Development
DAMEN	Development Action for Mobilization and EmancipatioN
FE	Fixed Effects
FFO	Farmers Friend Organization
FINCA	FINCA Microfinance Bank Ltd.
FMFBL	The First Microfinance Bank Ltd.
GDP	Growth Domestic Product
INF	Inflation
JWS	Jinnah Welfare Society
KBL	Khushhali Bank Ltd

KMFB	Kashf Microfinance Bank Ltd.
LTA	Log of Total Assets
LTC	Log of Total number of Clients
LTD	Log of Total Deposits
Ltd.	Limited
LTL	Log of Total Loans
LTS	Log of Total number of Staff
M1	Money Supply
M2	Broad Money Supply
Max	Maximum
MFB	Microfinance Banks
MFI	Microfinance Institution
Min	Minimum
MMFB	Mobilink Microfinance Bank Ltd
MO	Micro-Options
NGO	Non-governmental Organization
NMFB	Network Microfinance Bank Limited
NRSP	National Rural Support Program
OCT	Orangi Charitable Trust
OPD	Organization for Participatory Development
OPP	Orangi Pilot Project
ORIX	Orix Leasing Pakistan
OSDI	Organization for Social Development Initiatives

PKR	Pakistani Rupee
PMN	Pakistan Microfinance Network
POMFBL	Pak-Oman Microfinance Bank Ltd.
PPAF	Pakistan Poverty Alleviation Fund
PRSP	Punjab Rural Support Program
RCDP	Rural Community Development Program
RE	Random Effects
RMFB	Rozgar Microfinance Bank Ltd.
RSP's	Rural Support Program
SAFWCO	Sindh Agricultural and Forestry Workers Coordinating Organization
SBP	State Bank of Pakistan
SME's	Small and Medium Enterprises
SRDO	Shadab Rural Development Organization
SRSO	Sindh Rural Support Organization
SRSP	Sarhad Rural Support Programme
Std. dev.	Standard Deviation
SVDP	Soon Valley Development Program
TA	Total Assets
TC	Total number of Clients
TD	Total Deposits
TL	Total Loans
TMF	Thardeep Microfinance Foundation
TMFBL	Tameer Microfinance Bank Ltd / Telenor Microfinance Bank Ltd

TRDP	Thardeep Rural Development Program
TS	Total number of Staff
U-Bank	Ufone-microfinance Bank Ltd
VDO	Village Development Organization

Abstract

Microfinance also known as microcredit, is a service given to the people who are ignored from general banking and unemployed or earning very little. Micro financing is an important tool for economic development, reducing poverty and giving empowerment to the communities at low level. Microfinance is known as the poverty alleviation tool. Microfinance is having two major objectives: firstly providing cheap loans to those needy poor people who are ignored by the recognized financial sector, and secondly to remain itself financially sustainable. The main objective of this study is to examine the factors that influence the performance of microfinance institutes of Pakistan. This research focuses on the efficiency of the MFIs in Pakistan, and will be helpful in policy making to monitor and enhance the economic growth and development through MFI. Most of the researcher focuses on the clients exclusively but there in more than that, there is a wider impact on non-client beneficiaries as well. To examine the impact of microfinance institutions on economic growth of Pakistan, A mixed method approach is utilized. The study is based on both primary and secondary sources of data as. The data have been collected for the period of 2007 to 2016 from 11 microfinance institutions leading to total 110 observations. And semi-structured interviews were conducted from the beneficiaries of MFI. The pooled OLS regression was estimated to test the significance and impact of microfinance institutions on economic growth of Pakistan. Furthermore, thematic analysis is used to analysis interviews. Gross domestic product is the dependent variables. The independent variables are, total number of clients, total deposit, inflation and broad money supply. The research shows that TC (total clients) is directly related with GDP. It reveals that more the clients of MFI's, higher would be the GDP. It is additionally seen that there is a positive relationship of TD (total deposit) with GDP. This shows that with the increase

TD (total deposits) GDP will also increase. Thus, the research shows that there is no such significant relationship of M2 with economic development of Pakistan. This demonstrates that change in M2 will not bring any significant change in economic development. The pooled OLS results show that TC and TD have positive impact on GDP though inflation has a negative effect on GDP in Pakistan. However, M2 have a no such significant impact on GDP. Effective MFI is one that targets poor members of community for giving them credit, makes sure that credit is used in effective way and having positive impact on lives of poor people of a community. Furthermore, an MFI is ideal one when it ensures financial sustainability of program over long run. In literature, it is assumed that once credit is provided it will definitely bring positive impact on lives of deprived people. Hence it is refers that it very important to study mechanisms which can improve financial performance as well as efficiency of MFI. So that social as well as economic objectives of MFI can be achieved. Over the years, microfinance has become an effective strategy for enhancing economic growth in developing countries.

Chapter 1
Introduction

Microfinance also known as microcredit, is a service given to the people who are ignored from general banking and unemployed or earning very little. However, institutions involved in the microfinance sector normally provide loans, ranging from minimum 5000/- Rs. to 100,000/- Rs. maximum, many banks often offers some more facilities, such as check and balance on saving accounts, as well as insurance products; and even some banks provide business guidance to the people. In short, the goal is to give needy people opportunities so that they become self-sufficient through Microfinance. It is established to eradicate poverty from the grass root level, by giving small amount of loans to people and generally is for short period like a year. Micro financing is an important tool for economic development, reducing poverty and giving empowerment to the communities at low level. People living in poverty are naturally capable of working their way out of poverty with dignity, and can show creative potentials to improve their situation when an enabling environment and a right opportunity exist. It has been noticed that in many countries of the world, micro-credit programs, give access to small capitals to people living in poverty. Microfinance institutions (MFIs) target to facilitate the poor people with credit facilities who do not have access to commercial banking system (Hermes & Lensink, 2007). Mostly, these kinds of institutions receive financial support from NGO's or commercial banks, which lend to microfinance institutions, often at the lower rate than the general market also from western donors. Microfinance institutions lend this money to small enterprises and poor agents. The amount of loan varies, but is normally small. Besides these loans, MFI also offer a broader range of financial services, such as insurance and savings. In addition, they also play an essential role in training potential borrowers in running a business and managing health care. These kinds of noncredit activities have become important in recent years. Microfinance provides a wide array of financial services, such as small loans, deposits, payment services, insurance and transfers of funds to poor people. These services of microfinance are of three categories: formal, semi-formal and informal. In formal it means with banks and MFI. By semiformal it means NGO's and by informal it means local lenders and borrowers. Institutional microfinance includes microfinance services provided by formal and semi-formal institutions. Microfinance institutions are defined as institutions primarily engaged in providing microfinance services. (ADB, 2000) On the hand, Economic growth is the increase in goods and services produced by an economy over a given period. It is an ability of an economy to increase its production capacity by producing additional units of goods and services. Economic growth is usually measured in terms of increases (or growth) in real national income, gross domestic product, or per capita income. National income or product is usually expressed in terms of the overall value-added output of the national economy called the gross domestic product and, when it increases, economists call it "economic growth". Microfinance banking plays an important role in modern society by providing microcredit loans to small and medium-sized farms businesses. Over the years, microfinance has become an effective strategy for enhancing economic growth in developing countries. (Oli, 2018)

1.1 Background

The application of microfinance is new but the concept is not as new as it seems. This concept was present in 18th century. Jonathan Swift endorsed the first manifestation of this concept to the Irish Loan system. The thought was to facilitate the citizen of Ireland. A political philosopher, utilitarian and entrepreneur of 19th century Lysander Spooner wrote the idea and concept of small loans, that small loans can bring a big change in poverty alleviation. It is not a new concept but is organized and developed in the mid of 1970's in Bangladesh and in Latin America as well. Dr. Muhammad Yunus, who won noble prize (2006) for his work in poor among his country, is considered the pioneer of the microfinance. He realized that there are people who are willing to work and run small businesses but cannot make it due to lack of capital resources, so he took the initiative of Grameen bank (Bangladesh) in 1983 by providing small loans to poor people. Since then, this model gained popularity and been reproduced in many countries. Second pioneer of microfinance is Dr. Akhtar Hameed Khan. He established the Comilla model for rural development in Pakistan in 1959. Which was introduced by Pakistan Academy for Rural Development latter renamed Bangladesh Academy for rural Development in 1971. In the year of 1980 he took the initiative of Orangi Project in Karachi, latter it became a model of development for the people who live in marginalized areas. He also introduced microcredit programs for the rural deprived and slums communities.

1.2 Overview of Microfinance in Bangladesh and Other Countries

During the early 1980s and mid of 1990s, there was an increase of semi-formal financial institutions focusing on poor women micro entrepreneurs with no collateral. To reach the poor, new lending schemes, widely known as microfinance, were developed by NGOs and banks with special charter such as the Grameen Bank in Bangladesh and the village banks of the Bank Rakyat Indonesia.

In countries such as India, Indonesia, Sri Lanka and Vietnam, government owned banks are key suppliers of microfinance services. Many of these banks are reliant on substantial subsidies for their operations. An exception is the Bank Rakyat Indonesia (BRI) where a unit desa system is used to ascertain financial sustainability. BRI focuses on the issue of loans to the "better off" poor as well as non-poor households (Morduch 1998). In Bangladesh, Cambodia, Nepal, Philippines, and Sri Lanka, NGOs are the predominant suppliers of microfinance services. There are more than 1,000 NGOs in Bangladesh who service more than 10 million households (Haque 2006). The largest NGOs in Bangladesh, are the Bangladesh Rural Advancement Committee (BRAC), the Association for Social Advancement (ASA), and Proshika. These NGOs account for 73% of the total outstanding loans (Thapa, 2007).

In Bangladesh, the Grameen Bank is the largest provider of microcredit among chartered banks. The Grameen Bank originated in 1976 when Professor Muhammad Yunus, Head of the Rural Economics Program at the University of Chittagong, executed an action research project to explore the idea of designing a credit delivery mechanism to provide banking services to the rural poor (Grameen Bank). The objectives of the Grameen Bank (named Grameen, which in the Bangla language means “rural” or “village”), include the following (ibid):

1. Provide banking facilities to the poor.

2. Prohibit the exploitation of the poor by money-lenders.

3. Create opportunities for self-employment for the unemployed in rural Bangladesh.

4. Enable the disadvantaged, particularly women from the poorest households, to be selfsufficient.

5. End the vicious circle of "low income, low saving & low investment", and create a virtuous circle of "low income, injection of credit, investment, more income, more savings, more investment, more income".

Yunus' action research project became successful in Jobra (a village adjacent to Chittagong University) and in some of the neighboring villages during 1976-1979. Over time, and with the sponsorship of the central bank of Bangladesh and the support of the nationalized commercial banks, the project's outreach was extended to the Tangail district in 1979. Given the success of the program in Tangail, the project was further extended to other areas in the country. In October 1983, the Grameen Bank Project was converted into a formal bank by government legislation. Currently, the Grameen Bank is owned by its members who are the rural poor. Member borrowers of the Bank own 90% of its shares, and the remaining 10%, is owned by the government of Bangladesh (ibid). The Grameen Bank's lending model has been replicated worldwide, including China, India, Malaysia, Philippines, Sri Lanka, Thailand and Vietnam. The self-help group model (SHG) was designed by NGOs in India and is currently used by many MFIs and banks. This model is widely used in some parts of South East Asia, including Indonesia and Africa (Thapa, 2007).

Cooperatives are also major providers of microfinance in countries like India, Philippines, Sri Lanka, Thailand and Vietnam. In 1999, in Sri Lanka, there were 1,418 cooperative rural banks with 5.3 million deposit accounts and 1.23 million loans outstanding (Fernando, 2002). There were 8,400 thrift and credit cooperative societies that serviced 786,000 members (Thapa, 2007).

Chapter 2

Microfinance in Pakistan – An Overview

Pakistan, although starting late in this sector, has also significantly developed microfinance. Although non-governmental organizations (NGOs) and Rural Support Programs (RSPs) have been providing microloans in the country since the 1980s, the coverage and scope of their operations have generally been rather limited. The increased international focus on microfinance at the dawn of the new millennium has accelerated the growth of the microfinance sector in Pakistan.

In the case of Pakistan, the recent moment of microfinance was started in 1982. Pakistan's first microfinance institute is the [1]Orangi pilot project in Karachi and after that the Aga Khan Rural Support Program (AKRSP). AKRSP is at the origin of the rural support movement, which represents about 70% of NGOs' microfinance action and includes some of the largest suppliers in the country.

In 1990, as microfinance facilities were widespread in the country, many NGO's gained momentum in this sector. In 1996 The KASHF Foundation was founded. This was started to provide microfinance facilities throughout the country. In the regime of Musharraf (1999 to 2008), the government focused strongly on the poverty reduction program. Thus, at that time, the microfinance network grew strongly because the government chose microfinance as an instrument to compete against poverty. To this end, the *Pakistani government established* the Pakistan Poverty Alleviation Fund (PPAF) with assistance from the World Bank in 2000.

[1] World Bank Report on 'Performance and Transparency: A survey of microfinance in South Asia'.

Another *government initiative* in which microfinance has been used as a poverty alleviation instrument was [2]Khushhali Bank that has provided and expanded the microfinance product such as personal loans, insurance, leasing, remittances, and housing finance, especially in rural areas of the country. In the annual report of Khushhali Bank published in 2007, many investors have expressed interest in microfinance because of the rate of return of microfinance was greater than the regular banking system. As reported by several studies, the risk in the sector of microfinance is lower and it will dominate in the private sector by 2015.

[3]The network of microfinance is growing very strongly in Pakistan. Government support is also the key factor in speeding up this sector in Pakistan. Mentioned by Khushalli Bank's report, the clients using microfinance facilities were 100,000 in 2001 and 1,400,000 in 2007.

2.1 Microfinance Institutions in Pakistan

Following mentioned MFI are currently functioning in Pakistan:

2.1.1 Microfinance Banks:

These banks are like other conventional banks authorized and prudentially managed by the SBP to solely support the microcredit showcase. In 2000 first MFB was propelled under a precedential pronouncement. From that point forward, numerous microfinance banks have been authorized under MFI ordinance, 2001. Microfinance banks are legitimately engaged to acknowledge and moderate stores from general society.

[2] Khushhali Bank's Annual report 2007

[3] Khushhali Bank's Annual report 2007

At present following are the MFB in Pakistan:

1. KBL
2. FMFBL
3. TMFBL
4. POMFBL
5. RMFB
6. NMFB
7. KMFB
8. AMFB
9. U-Bank
10. FINCA
11. MMFB
12. ADVANCE and
13. WASEELA

2.1.2 Microfinance Institutions:

MFIs are enlisted as non-revenue driven association and furthermore known as non-business association that give its administrations to under benefit people so as to lighten destitution. MFIs gives little loans to the low pay individuals including different administrations like leasing, saving, protection, renting, etc. MFIs additionally work for other social purposes like training and medical care and so on. MFIs can be set up under the Voluntary Social Welfare Agencies Ordinance, 1961 ORDINANCE No XLVI (the "Social Welfare Ordinance").

At present following are the MFI in Pakistan:

1. KASHF
2. SAFWCO,
3. DAMEN,
4. CSC,

5. CWCD,
6. ASA-P,
7. BRAC-P,
8. JWS,
9. Akhuwat,
10. OPP,
11. ASASAH,
12. Sungi,
13. OCT,
14. GBTI,
15. FFO,
16. MO,
17. RCDP,
18. Agahe,
19. OPD,
20. AMRDO,
21. SAATH,
22. SRDO,
23. SVDP,
24. VDO,
25. OSDI,
26. DEEP,
27. BEDF,
28. Wasil,
29. BAIDARIE,
30. Naymet,
31. Mojaz, and
32. RCDS.

2.1.3 Rural Support Program:

The Government of Pakistan set up RSP's by keeping in view of the Agha Khan Rural Support Program model. According to Mustafa. K. (2000) the motivation behind RSPs is to develop economic states of the rural areas and reduce poverty in the provincial zones of Pakistan. These foundations are running microfinance activities as a component of multi-dimensional rural support program.

At present following are the RSP's in Pakistan:

1. NRSP
2. SRSP
3. PRSR
4. TRDP
5. TMF and
6. SRSO

2.1.4 Commercial Financial Institution:

Commercial Financial Institutions are those institutions that provides loan to the SME's (small and medium size-enterprises).

At present following are the CFI's in Pakistan:

1. Orix Leasing Pakistan and
2. The Bank of Khybar

2.2 Research Questions

- To what extend does microfinance institutions impacts the economic growth of Pakistan?
- What is the relationship between total deposits and economic growth in Pakistan?
- Is it going to improve the economic growth of Pakistan, if we introduce more microfinance institution?

2.3 Research Objectives

- To observe the efficiency of microfinance institutions functioning in Pakistan, and its contribution towards economic growth/development.
- To discover the relationship between total deposits and economic growth in Pakistan.
- To investigate whether introducing more microfinance institution will be helpful to improve economic growth of Pakistan.

2.4 Purpose of the research

The purpose of this research is to understand the detailed procedure and work of microfinance institutions and the main goal and objective is to investigate its impacts on economic growth in Pakistan. So this research study mainly focused on the role and performance of Microfinance institution. Furthermore its' implications on the overall credit market were also seek out. This study aimed at identifying the role and contribution made by MFI and its effect on credit access. Specifically, it sought to establish whether MFI helped effectively in reducing credit risks, overlapping in loans, and helped in enhancing the microcredit extension.

2.5 Significance of Research

Some of the studies have been conducted predominantly on social missions, targeting to outreach to women for empowerment and to alleviate poverty. Others focus to promote private small business to reduce unemployment and poverty. The recent literature suggests that MF provider's explicit goal is to reduce poverty reduction. As studies reveled that microfinance has become a tool to eradicate poverty and increase the economic growth. This research seeks to examine the impacts of microfinance institutions that how these institutions are contributing in the economic growth and development of Pakistan.

My research has taken a macro-micro level approach for the issue previously seen on a micro-level level basis providing a different face of the MFIs. This research states a quite significant relationship of MFIs with the GDP growth, providing an advancement of literature and work in the field. This research focuses on the efficiency of the MFIs in Pakistan, and will be helpful in policy making to monitor and enhance the economic growth and development through MFI.

2.6 Hypothesis

Followings are the some of the Hypothesis developed from literature.

Ho: there is no positive relationship between the deposits and economic development.

H_A: there is positive relationship between the deposits and economic development.

Chapter 3
Review of Literature

Reviewing previous work helps a researcher in identification of the scope of the study. The purpose of reviewing literature is to correlate the study with existing theories on the issue under examination. It gives a general idea to researcher whose dealing with same issues that can support in deciding the problems in existing work and furthermore make conceivable to put research in wide framework with the goal that new ends may be discovered.

3.1 Review of literature

Microfinance is an important tool for economic development as it reduces poverty and empowers communities at the lowest levels. People living in poverty are naturally able to lift themselves out of poverty with dignity and can show creative potential to improve their situation when a favorable environment and a real opportunity given. It has been found that in many countries around the world, enable microcredit programs for people living in poverty to access small capitals. Although the literature and policies on economic development have ignored the financial debate over many decades, following by Joan Robinson's verdict that " *where the real economy leads, finance follows*", in the last two decades a growing focus on finance sectorial issues in developing countries have been seen. Renee Loth renowned journalist wrote in 2002 in an article for the Boston Globe entitled Women Entrepreneurs, "[4]*This explores how this type of loan possibly originated. In the article Loth suggests the system started in Bangladesh in 1976, when an economics professor loaned a group of women $27 to finance their own small business. Amazingly the women repaid the loan and were able to sustain the business*."

[4] Source https://www.investopedia.com/terms/m/microcredit.asp

Microfinance has grown into a scheme of economic development for low income people. This expression refers to the facilitating with the financial services to low income clients, together with the people who are running small business i-e shopkeeper etc. Financial intermediation generally includes savings and loans; though, some MFI also give insurance services. In addition to financial intermediation, many MFIs provide social intermediation services such as group formation, self-esteem building, and financial literacy and management skills training among group members. . Therefore, the definition of microfinance often includes both financial intermediation and social intermediation. "*Microfinance is not just a bank, it's a development tool.*" (The World Bank).

Microfinance is growing and gaining popularity around the world Russia, Eastern Europe and China as a mean to eradicate poverty and encourage small private businesses to those who normally don't have access to the general capital market. Microfinance keeps its promise of achieving both the goals of reaching to the poor for private business and poverty alleviation by using novel method. It is not clear-cut that joint group lending is the sole reason that drives these results, but some more aspects like public repayments, facilitation of education, and participation as well plays the role in it. (De aghion & Morduch, 2000). Advocates of microfinance claim that microfinance can help to reduce poverty significantly. Access to solvency can add to a sustainable income growth through increased investment in income-engendering activities and possible variation in income sources; this can add up to an increase of assets; it will also be able to moderate the vulnerability of disease, famine and the failure of crops to produce in a marketable surplus, it can also contribute to get better health, education, and borrowing of the houses. The opponents of microfinance are of the view that MFI does not reach the poor or the deserving ones properly, mostly these core poor the deserving ones are deliberately been omitted from the microfinance programs. Extremely poor people usually do not participate in such programs because they feel that loans are too risky for them. The poorest of the poor, are generally too reluctant to borrow in order to invest in future. Hence a very small number will get benefit from such microfinance programs. (Hermes & Lensink, 2007)

As reported by Kimotha (2005) microfinance is basically about providing small loans to the poor to help them get into new productive activities and improve existing ones. Nevertheless, microfinance now includes various types of services with the passage of time. These largely includes saving opportunities, credit, money transfers, and insurance to the poor, who did not have access to typical financial institutions, needed variant financial products to improve their business significantly.

Dandana and Nwele (2011) are of the view that microfinance banking plays a significant role in contemporary society as it provides solvency to small and medium-sized businesses. In the course of time, microfinance has become an effective approach for boosting economic growth in developing countries. While discussing microfinance, it is good to be more accurate whenever we consider reaching to the poorest, especially when we say, "*that microfinance is not for the poor*". Results shows that while community-managed microfinance it can reach more poor people than more traditional microfinance institutions (Lonborg & Rasmussen, 2014). Credit distribution is an influential approach to fight against poverty, increased productivity, production and economic growth (MF report, Nigeria, 2005).

Associated to other poverty alleviation processes, microfinance seems efficacious and relatively inexpensive to eradicate poverty for the people who are on edge, but is ineffectual to labor market and arrangement procedures, to eradicate poverty. (Mosley, 2001). The microfinance institutions (MFIs) has accepted an extensive growth policy and made some progress with various indicators of outreach and performance, the challenge is to increase the scope and breadth, depth at low-cost. (Rauf & mahmood, 2009). According to Bhuiya et al, (2018) there is a positive relationship with health care, and have witnessed a significant improvement in health care activities. A direct relationship between clients of microfinance programs and health services have been found but with a little empirical evidence. Similarly, Sharma (2004) argued that access to financial services fortifies the ability of the poor to achieve the MDGs in a sustainable way. Evidence shows that the poor choose to invest in a wide range of assets, better nutrition, better health, access to schooling, a better roof for their homes, and the expansion of their small businesses. In developing countries multigenerational poverty is common. Unemployment, Illiteracy, and health problems needs be addressed properly to break the poverty cycle. In their research they describe the process of scheming, analysis and applying with the help of microfinance model to eradicate multigenerational poverty in an underprivileged village, in Uganda. They descried some basic decisions in evolving the model at the grassroots level that later many NGOs can get benefit from this and consider lending programs in developing countries, as well as in other academic institutions concerned in applying sustainable programs that allow opportunities for students working on global problems in developing countries. (Garrity & Martin, 2018). Small enterprises are turning to microfinance institutions (MFIs) for a range of financial services. Access to financial services enables poor households to spend every day of their survival planning for the future, investing in better nutrition, education and health for their children and empowering women socially. (MF report, Nigeria, 2005)

There is a relationship between social and economic empowerment. Pakistan's poverty reduction approach is to maintain a moderate rate of economic growth with a focus on equity in the distribution and development of human resources. (Simojoki, 2003). Likewise Oli (2018) observes the impact of MFI on Nepal's economic growth. There is a direct relationship related to economic growth of Nepal with all the independent variables. It shows that, the more the members of microfinance institutions the more will be the economic growth. On the other hand, the research shows that there is an inverse relationship between economic growth and inflation in Nepal. This directs that if inflation increases, economic growth decreases. According to Oloni (2013), economic growth depends on the level of employment opportunities. Many studies of the employment situation in Nigeria have made the unemployment rate one of the main determinants of economic growth.

According to Ahmad & Weber, (2014) increasing loan cycle increased empowerment. But you cannot say that one term loan can influence such social concepts as women empowerment. It needs to be more organized. For the economic growth and economic development in microfinance plays a significant role. Microfinance is facilitating under developed and developing countries to have economic growth more rapidly. Microfinance is making a significant improvement in the living standards: better health and education facilities. Further reduction has been seen in the crime rate as well as in poverty and more recruitment. The appropriate mechanism of microfinance loans, have a very positive effect on the country's economy. (Raza, 2017). Microfinance institutions (MFIs) are developed to facilitate with financial services to the core poor community in a society that are generally deprived in marketed institutions. Profitability has a positive impact on performance of MFI in terms of scope. In addition, the risk portfolio badly affects the efficiency of MFI. MFI’s with a large proportion of assets also have a very positive impact on the proximity efficiency of MFIs (Saad, 2017).

Efficiency, productivity and results of MFI vary from country to country or reign to reign as customs, attitudes, and philosophy of the clients varies. There are huge differences between

Grameen Bank and Orangi Pilot Project-Orangi Charity Trust in terms of lending manner, background, scope and institutional attitude. These differences, Grameen Bank and OPP-OCT have had marked the similar social influences in the communities in they are practiced (Naheed, 2000).

Mazumder & Lua (2015) studied the impact of different microfinance institutions on basic rights and the standard of life. Microfinance seems to strengthen the fundamental rights of participants and help them to improve the standard of life. It states that microfinance appears to have a positive effect in increasing the basic rights of their respondents and improving the quality of their lives. Their research reveals that the respondents showed increased nutrition levels, reduced food insecurity, improved housing and sanitation etc. with the microfinance. It was also noted that the microfinance programs by the NGOs were better in achieving the goals of microfinance than the Government organizations for the same purpose in the taken time.

Wagner and Winkler (2013) have discussed empirical evidence for the credit growth patterns of microfinance institutions in the early 2000s. The research takes in account the pre and post conditions of credit growth patterns of the 2008-09 financial crises. They draw the conclusion that microfinance has become affected by the financial fluctuations. The panel analysis conducted showed that the financial crisis did affect the real credit growth in the microfinance institutions. The cross-section analysis similarly showed the boost and bust patterns to be in effect clearly in the credit growth of the tested microfinance institutions. The effect was observed to be negative; the real credit growth responded to the global financial crisis reversely. Tchuigoua (2017) has studied that the prime characteristics affecting the loan approval were size, cooperative status, and solidarity lending. The research also showed that the allocation of the decision-making authority to a loan officer improved the microfinance institution’s reach but didn’t affect the portfolio characteristics of the institution.

Mumtaz and Rahat-Ul-Ain (2012) have done a comparative research between the performance of microfinance institution and commercial banking system for micro financing. The research shows that the commercial banks have shown a better performance as compared to the microfinance institutions in Pakistan. It has been noted that the microfinance banks have shown low sustainability due to higher service costs. Commercial banks show better profits and sustainability as they have advanced technology employed and risk management techniques in use.

Park and Changqing (2001) government and non-government microfinance programs from a cultural perspective find that non-governmental programs are effective in reaching the core poor of a community (targeting), in guiding financial and operational performance (sustainability), and in establishing program benefits (impact). Ademola & Arogundade, (2014) Assets and deposit liabilities have insignificant impact on economic growth, while loans and Progress with the public has a significant impact on economic growth in Nigeria. Beck et al. (2002) concluded that the relationship between the financial institutions and real GDP per capita growth and total factor productivity growth is economically important and statistically significant. Oloni (2013) shows that a positive relationship between broad money supply (M_2) and economic growth.

According to Satta (1999) the financial access and participation has the positive impact on economic growth.

Liñares-Zegarra and Wilson (2017) have investigated the relationship between the size and growth of the microfinance institutions with different formats around the world. The size was taken in the terms of the total assets and the number of total borrowers of those institutions. The research found out that the growth of the microfinance institutions was independent of their size and growth was seen to be not persistent.

3.2 Research Gap

Research gap developed from literature review, some studies have conducted on social missions, aimed at sensitizing women to empowerment and reducing poverty. Others focus on promoting small private enterprises to reduce unemployment and poverty. Based on literature review, there is a little research on the impact of MFIs directly on GDP and whether MFIs contribute to economic growth and development or they do not. While numerous researches has showed in different countries like, Nepal, Nigeria, India and Sir Lanka on this particular topic. The main objective of this research is therefore to determine the functioning of MFIs and to evaluate their performance in Pakistan.

I have established a framework to examine the effect of MFI’s on GDP of the country. The previous studies covered in the review depict a trend of micro-level analysis based on community wellbeing, women empowerment etc. While a sheer lack of macro-level analyses is obvious Specifically in the case of Pakistan, the major focus remains on women empowerment Therefore, very less macro level impact of the MFI have been monitored in the case of Pakistan which my study is aimed to examine. My research aims to mitigate this gap in the previous researches.

3.3 Conceptual Framework

In order to understand the role of microfinance institutions on their clients’ live a conceptual framework has been developed, which is shown below (Figure 1). This has been developed based on an initial literature review undertaken on the impact of microfinance. The conceptual framework consists of following major components;

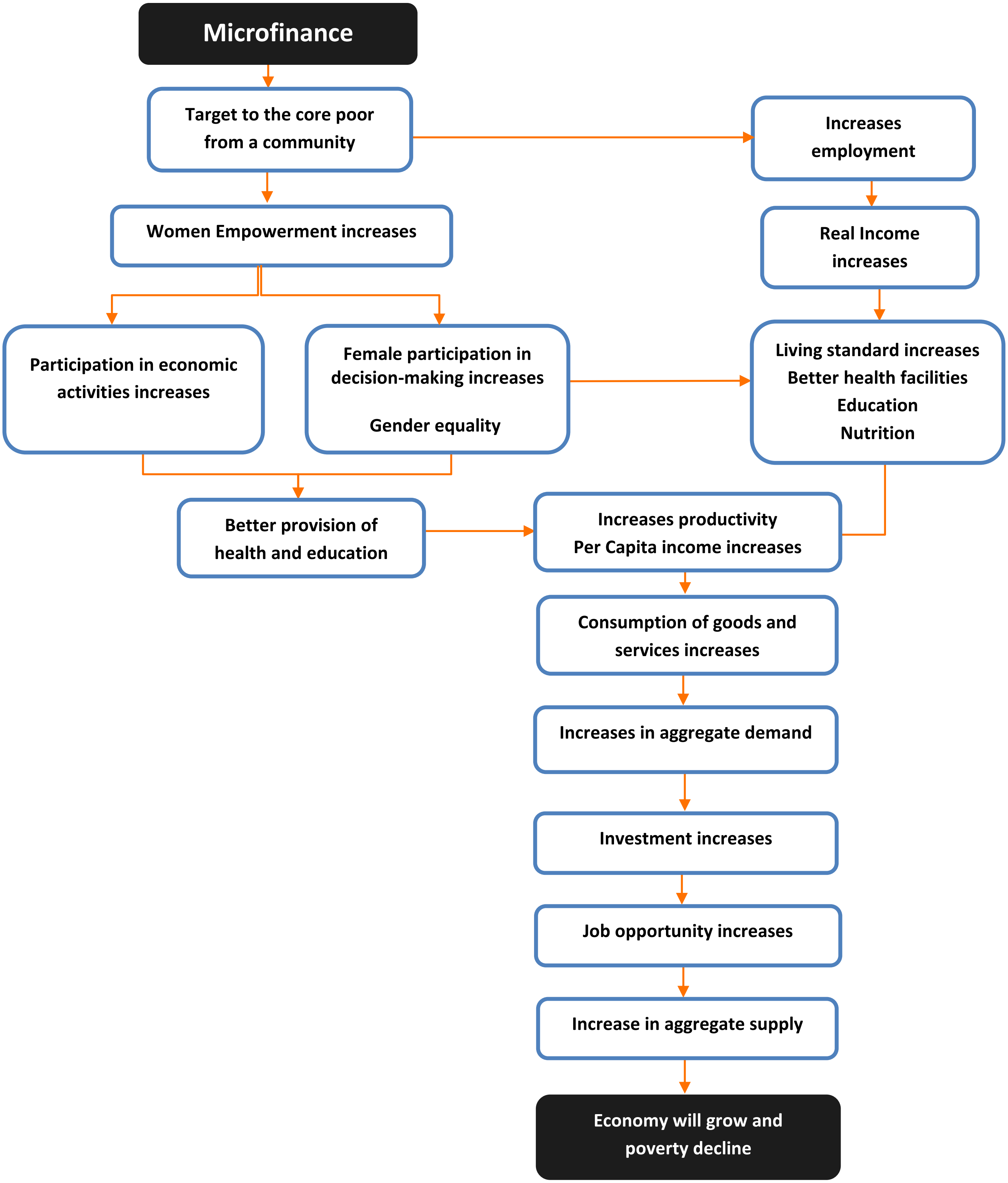
First, the financial services are the driving force of the socioeconomic development of poor people and poverty reduction. The financial services of microfinance are generally known as the credit and saving, insurance, payment and repayment services (Ledgerwood, 1999). Loan is a main product of microfinance institutions which refers to the small amount of credit given to poor people at reasonable interest for generating income through self-employment. The terms of the given loan are important determinants to the clients' wellbeing and household improvement and their businesses' performance.

Second, the nonfinancial services such as enterprises development trainings are important factors to effectively use the financial services and advance the clients' wellbeing and their businesses' performance. The commercialization of microfinance institutions led to a massive competition in the arena of microfinance market. This competition forced microfinance institutions to develop and improve their products and services, which lead to enhance the sustainability of those institutions through reaching a large size of clients. However, in order to achieve deep outreach, improving the quality of microfinance services and reducing the cost are required. The entrepreneurial and business developments trainings have been recognized as the engine of effectively use the financial services that lead to enhance the performance of the clients.

Thus, embedded financial services with entrepreneurial and business development training are inevitable for creating successful entrepreneurs. Ledgerwood (1999) argues that microfinance is not a simple lender; it is also a development tool of human skills and capabilities.

Finally, microfinance is an urgent need to help the poor to create jobs and improve their living standards; as increase in income leads to better health facility, better education facility, better food and nutrition and last but not the least increase in income has a great impact on increase in gender equality, which is directly related to poverty reduction.

Figure 1


Microfinance
Target to the core poor from a community
Increases employment
Women Empowerment increases
Real Income increases
Participation in economic activities increases
Female participation in decision-making increases
Gender equality
Living standard increases
Better health facilities
Education
Nutrition
Better provision of health and education
Increases productivity
Per Capita income increases
Consumption of goods and services increases
Increases in aggregate demand
Investment increases
Job opportunity increases
Increase in aggregate supply
Economy will grow and poverty decline

Chapter 4
Methodology

This chapter comprises all the techniques we have embraced and applied in this research. In this section we present research strategy, research design, research method, interviews, data collection, sampling, model specification and estimation & analysis of data on the impact of microfinance institution on the economic growth of Pakistan for the time period 2007 onwards 2016.

4.1 Research strategy

In social sciences research strategy are mainly of three types; qualitative, quantitative and mixed method (Creswell, 2014). The research is based on a concurrent, two-studies design where qualitative and quantitative data are both collected and analyzed separately (Johnson et al. 2007). Mixed methods research is the type of research in which a researcher or team of researchers combines elements of qualitative and quantitative research approaches (e. g., use of qualitative and quantitative viewpoints, data collection, analysis, inference techniques) for the broad purposes of breadth and depth of understanding and corroboration. Mixed methods research or MM is the sibling of multi-method research in which either solely multiple qualitative approaches or solely multiple quantitative approaches are combined. Using both quantitative and qualitative research should involve a mixing of the research methods involved and not just using them in tandem. In other words, the quantitative and the qualitative data deriving from mixed methods research should be mutually illuminating (Bryman, 2012).

This research is based on mixed method research strategy. To bring together a more comprehensive account of the impact of microfinance institution on the growth/development of Pakistan.

4.2 Research Design

A Research design provides a framework for the collection and analysis of data (Bryman, 2012). In the view of Bryman and Bell (2007), the decision of research design is affected by epistemological position. In this research, my research design is descriptive and epistemological position is positivist that suggests a cause and effect approach dependent on estimations.

Research design is researcher's plan on how to direct research to answer the inquiry. The structure is the specialist's arrangement for the examination, which incorporates the strategy to be utilized, what information will be assembled, where, how and from whom (Razieh, 2010).

Descriptive research design does not fit perfectly into the meaning of neither qualitative nor quantitative research strategies, however rather it can use components of both, inside a similar research. This term also indicates to the nature of research questions, and analysis of data. Descriptive statistic determine what is, while attempt to decide circumstances and logical results with rationale. In the view of Glass and Hopkins (1984), descriptive research can be either qualitative or quantitative. Descriptive research includes collecting information that portray events and afterwards sorts out, organizes, delineates, and depicts the information assortment.

In Quantitative sections research design is presented as to hypothesize and observe correlations among the variables. In Qualitative section the research design is adoptable and interviews were conducted to examine the impact on the lives of beneficiaries.

4.3 Research Method

A research method is simply a technique for collecting data. It can involve a specific instrument, such as a self-completion questionnaire or a structured interview schedule, or participant observation whereby the researcher listens to and watches others (Bryman, 2012).

Primarily the data is collected through two sources, primary data through interviews and secondary data gathered from different microfinance institutions reports in Pakistan for the period of 2007 to 2017. The main sources of data are Pakistan Microfinance Network reports, Microfinance Institution's reports and World Bank report. The multiple regression model is estimated to test the significance and impact of microfinance institutions on economic growth of Pakistan.

4.4 Units of Data Collection

For this research my UDC's will be;

UDC 1 : Annual Reports of MFI's and PMN.

UDC 2 : Interviews of beneficiaries.

4.5 Data Collection

This research contains on both quantitative and qualitative data. Semi-structured interviews were developed and information was gathered through interviews. Interviews were managed in October 2019 from the beneficiaries of eleven MFIs.

There was a research directed in 2003 by Valdivia. M, Bauchet. B on Information Sharing and microfinance in Peru and met the staff of just 9 MFIs. In this research the respondents were the key informants and chose through purposive sampling and their choice was made by the in-formal dialogs with MFs' authorities. After selecting interviewees, individual meetings were directed and information was gathered. The choice of key sources depended on the need to get significant data from the respondents and it was absolutely subject to the accessibility of the distinguished staff individuals. I acquired the viewpoint of both ranking director and specialized official. The quantitative informational collection comprises of ten years from 2009 to 2016.

4.6 Data

The research is utilizing Panel data got from the annual reports of MFI’s. Data is gathered for 53 MFIs working in Pakistan. The data is gathered uniquely of those MFIs which have in any event 10 years reports of their work. The explanation of picking these MFI’s for data assortment is that, the data is dependable and accessible for various years. As this research will evaluate the relations on different years, so time is watched. In this examination, data is gathered distinctly of 11 MFIs. The sample under this research incorporates various sorts of MFIs. It incorporates MFI’s, MFB’s, RSP’s and CFI’s. The information is gathered from fiscal reports of MFI’s which are gotten from Microfinance Network Pakistan yearly reports .Data is gathered from year 2007 to 2016. Data is gathered on yearly basses. In this way, as indicated by this, each MFI has 10 observations in data. In this way, there are absolute 110 observations.

Two distinct procedures are applied for the standardization of data. The data is gathered from online source for 53 MFIs from 2007 to 2016. A lot of data is absent (as the MFI are founded or came into being in different time period) in information pool which can influence the consequences of estimations and make them less precise. In other words, data was unbalanced. Major reason of this is that data isn't accessible anyplace including PMN site and I have likewise no immediate access to these MFIs so I can't gather the missing information. Because of these reasons, right off the bat I have utilized the interpolation technique to adjust the data. It contains data of total deposits, total clients, inflation rate, and M2. The data is diverse in its tendency like both macro and micro variables are in the model.

Because of these distinctions in model may lead to unusual and bias results. To handle this issue, this research utilizes logarithm to standardize the data. In addition, Non-linearity from the data is excluded. Thus, the results after this treatment with data will be reliable.

4.7 Sampling

The area of this research is Pakistan thus; sample size of this research is contained on eleven MFPs including three MFBs, five MFIs, two RSPs, and one CFI. From the overall population, sample size was 34% for this research. According to Kerlinger (1989) and Hunch, M., and McKenzie, H. (2006) a sample should be minimum 30% of the population being studied. In this research the motivation to choose these microfinance institutions is that since the history of microfinance in Pakistan all these institution has most time periods of serving among poor.

For the qualitative section I opted purposive sampling to select the target population for interviews. Purposive sampling, also called selective or judgmental sampling. Purposive sampling is a form of non-probability sampling that centers around testing strategies where the units that are explored depend on the anticipation of researcher. Researchers choose the target group based on their research’s judgment.

I have used purposive sampling because I wanted to investigate from the beneficiaries about their experience with MFI and also I wanted to investigate the outliers from normally we thing about MFI and what their reports tells us about. Furthermore, it is easy for me to draw conclusion, and I can cross check as well.

4.8 Interview Schedule

A semi-structured interview is where the interviewer does not carefully follow a set of questions. Interviewer asks as discussion progress, it is more open-ended question that a interviewee can share his/her thoughts, taking into consideration a discourse with the interviewee as opposed to a direct inquiry and answer position. For this research a plan was built based on factor separated into three segments first for general data (profile) of Beneficiaries, second in regards to affect MFI's raised in their lives and third social impact. The interview schedule had major part of open-ended question and a little part of close ended questions. The interview was focused on how and why they have to get credits from MFI's and its effects on their lives and on the lives of those who are directly and indirectly related with them.

4.9 Unit of Analysis

For this study, we will utilize an expressive example of various sorts of MFI; as mentioned below:

1. Microfinance Banks
2. Microfinance Institutions (NGOs and other foundations)
3. Rural Support Programs
4. Commercial Financial Institution

4.10 Methods of Analysis

This research comprises of both quantitative and qualitative data. Qualitative data investigation is based on interviews. This research utilizes descriptive research design in this study; some essential statistical strategies (Mean, Min, Max and Std. dev.) were utilized on the data to examine the progressions on the previously mentioned pointers throughout the years. Descriptive statistics is a way to present larger data in summary and in meaningful manner, with the help of tables. The outcomes are exhibited in chapter four.

4.11 Regression

Regression analysis is a statistical technique for estimating the relationships among variables. It includes many techniques of modeling and analyzing of several variables, when the focus in on the relationship between dependent variable and one or more independent variable(s). More specifically, regression analysis helps one to understand how the typical value of dependent variable changes when any of the independent is varied, while the other independent variable(s) remains the same. Most commonly regression analysis estimates the conditional expectation of the dependent variable given the independent variable(s) that is the average value of the dependent variable when the independent variables are fixed. Less commonly, focus is on a quantile, or other location parameter of the conditional distribution of the dependent variable given the independent variables. In all cases, the estimation target is a function of the independent variables called the regression function. In regression analysis, it is also of interest to characterize the variation of the dependent variable around the regression function, which can be described by a probability distribution. Regression analysis is widely used for prediction and forecasting, where its use has substantial overlap with of machine learning.

4.12 Model specification

The research assumes that the economic growth depends on selected micro-finance related variables like, total clients, total deposit, inflation and broad money supply (M_2). Therefore, the models take the following form GDP as dependent variable and rest as Independent variables:

Economic growth = Ƒ (total number of clients, total deposit, inflation and broad money supply).

More specifically,

$$GDP = \beta 0 + \beta 1\ (TC) + \beta 2(TD) + \beta 3(INF) + \beta 4(M2\ ) + \varepsilon$$

Where:

GDP = Gross domestic product in %

TC = Clients defined as the total sum of people having account with a particular MFI.

TD = Total sum of deposit in a MFI, PKR in million.

INF = Inflation defined as % change in consumer price index, in %.

M2 = M2 defined as change in growth of broad money supply, in %.

ε = error term

t = time

4.13 Dependent Variables

In statistics, the estimations of dependent variables rely upon the estimations of independent variables. The dependent variables reflect through the result. We study the variation in dependent variable's result.

4.13.1 Gross Domestic Product (GDP)

"Gross domestic [5]product (GDP) is the value of the goods and services produced by the nation's economy less the value of the goods and services used up in production. GDP is also equal to the sum of personal consumption expenditures, gross private domestic investment, net exports of goods and services, and government consumption expenditures and gross investment."

Gross domestic product is the total of gross worth included by every single producer in the economy in addition to any item charges (taxes) and any subsidies excluded from the estimation of the items. It is determined without making derivations for devaluation of manufactured resources or for exhaustion and consumption of characteristic assets. Gross domestic product is the market estimation (value) of all authoritatively perceived final goods and services manufactured inside a nation in a given timeframe. According to Levine (2002); Levine (1997) and Phumiwasana (2003), Gross domestic product per capita is frequently viewed as an indicator of a nation's way of life. Gross domestic product per capita isn't a measure of individual's salary. Under economic hypothesis, Gross Domestic Product per capita precisely equal to the GDI (Gross Domestic Income) per capita. Gross domestic product is identified with national records, a subject in macroeconomics.

4.14 Independent Variable

The independent variable is called repressors in a statistical model. In an examination model, any variable that the researcher can control is called an independent variable. A researcher controls the estimations of the independent variable to examine its impact on another variable.

[5] Definition of GDP by The Bureau of Economic Analysis (BEA).

4.14.1 Total Number of Clients (TC)

A total client of particular MFI is characterized as the total clients having account with the specific MFI. Total number of clients shows that people are aware about the financial statures and its easy availability to poor. As per Satta (1999) the access of financial services and support has the positive effect on economic development. According to Temu and Ishengoma (2010) in Tanzania MFI gained much popularity, as the most helpful financial aid to greater part of the poor individuals. This has been supporting them to build the efficiency.

4.14.2 Total Deposit (TD)

Total deposit is the total number of all the savings in MFI by its individuals. One of the most significant methods for capital developments, high monetary development and security is saving (Najarzadeh, 2014). According to Hemmi et al. (2007) with increment in saving funds could bring a favorably effect for economic growth/development. As per Tinaromm (2005) economic growth is directly or indirect effected by savings.

4.14.3 Inflation rate (INF)

Inflation rate has been estimated by change in the CPI (Consumer Price Index). An investigation of Claessens and Perotti (2007) found that inflation has a negative impact on economic growth. As indicated by Hasanov (2011) zero inflation level may influence the economic development adversely and diminishes the inspiration of producers.

4.14.4 Broad money supply (M_2)

Money supply is the absolute estimation of financial resources accessible in an economy at a particular timeframe. M2 is proportion of money supply that incorporates money and checking stock (M1)togather with near money. M2 is consist of saving, deposits, currency market shared assets and other time deposits, these are less liquid and not as reasonable trade mediums yet can immediately change over into money. Oloni (2013) shows that there is a positive connection between M2(broad money supply) and economic development.

Chapter 5
Results and Discussions

This chapter directs to the define the performance of MFI. This research utilizes descriptive research design. Descriptive analysis was made to evaluate the potential effect of MFI in economic growth. This part involves on two segments; first section dependent on quantitative data and second segment qualitative research (dependent on the data got from the benefices). This section examined the statistical data points dependent on the data accumulated through interviews from benefices and quantitative data gathered from the Microfinance institutions. Besides this data is constrained to individuals to a couple of MFI.

5.1 Estimation Technique

Panel data estimation technique is extensively used in the research. Different econometrics procedure exist for estimating the relation of MFI and economics growth but this research has employed panel data model, pooled data model and random and fixed effects.

5.1.1. Dynamics of Panel Data

Panel data also called; multi-dimensional data and longitudinal data including estimations over the time, contains numerous observations acquired over various timespans for similar firms, people, nations and so on. As of now, Panel data is growing in popularity in various circles of economics. As indicated by Baltagi, (2008) panel data consistently have a similar cross-section on the diverse timeframe.

5.1.1.1. Reasons for using Panel Data

1. Panel data can take explicit account of individual-specific heterogeneity, for individual it means that it relates to the micro-unit.

2. By combining data in two dimensions, panel data gives more data variation, less collinearity and more degrees of freedom.

3. Panel data is better suited than cross-sectional data for studying the dynamics of change.

4. It is better in detecting and measuring the effects which cannot be observed in either cross-section or time-series data.

5. Panel data enables the study of more complex behavioral models like the effects of technological change, or economic cycles.

6. Panel data can minimize the effects of aggregation bias, from aggregating firms into broad groups.

5.1.2. Descriptive Statistic

Table 5.1: Descriptive Statistic

Variables	Obs.	Min	Max	Mean	Std. dev.
GDP growth	110	1.606	5.526	3.655	1.316
TLC	110	9.074	13.384	11.305	1.261
TLD	110	9.880	17.141	15.430	0.900
M2 of GDP	110	48.100	58.867	53.162	2.916
INF	110	0.400	20.666	9.649	6.216

Note: This table shows the descriptive measurements for MFI related macro and micro variables. GDP (Gross Domestic Product, in %) is the dependent variables. Log of TC (Total Clients in an institution), Log of TD (Total deposits, PKR in million), INF (Inflation, in %), and M2 (broad money supply, in %) are the independent variables.

This table shows that the GDP ranges from min of Rs. 1.606 billion to max of Rs. 5.526 billion with a mean of Rs. 3.655 billion. Correspondingly, LTC ranges from min of 9.074 individuals to max of 13.384 individuals with a mean of 11.305. In addition, LTD ranges from least of Rs.9.880 million to limit of Rs. 17.141 million with an average of 15.430.

5.1.3. Categories of MFIs

The table beneath showing some broad data of the all MFIs, In Pakistan there are four major kinds of microfinance institutions. The table given beneath displaying some broad data of the all MFIs.

5.2: Categories of MFI

Category	MFI	Founded in	Target Areas	(Borrowers)
MFBs	KBL	2000	Rural and Urban	Male and Female
	FMFBL	2002	Rural and Urban	Male and Female
	TMFBL	2005	Urban	Male and Female
MFIs	Kashf	1996	Rural and Urban	Female
	Asasah	2003	Urban	Female
	Akuwat	2001	Urban	Male and Female

	CSC	1999	Urban	Male and Female
	DAMEN	1996	Rural	Females
	SAFWCO	1986	Rural	Male and Female
RSPs	NRSP	1998	Rural	Male and Female
	PRSP	1991	Rural	Male and Female
CFI	ORIX	2004	Urban	Male and Female

The table 5.2 showing that the 3 MFIs are performing activities in both urban and rural regions; 5 MFIs are working in urban region while just 4 MFIs are working in rural region. Most of the MFIs are working in urban sectors. Nearly all MFIs are working for both gender; men and women while just three of the MFIs are focusing on women.

5.1.4. Correlation Analysis

Having shown the descriptive measurements, correlation coefficients are calculated and the outcomes are displayed in Table 5.3. More explicitly, it shows the connection among independent variables and dependent variables. The correlation matrix shows the correlation among the variables used in this research. The presence of multi-colinerarity among the variables has been tested and the results reveled that variables are not highly correlated with each other. There is better correlation with dependent variable. So it is started that low correlation among the variables directs that there is no multi-colinearity between variables.

5.3: Correlation Matrix

Variables	LTC	LTD	M2 of GDP	INF
LTC	1.0000			
LTD	0.0324 0.7229	1.0000		
M2 of GDP	-0.124 0.8974	-0.2203* 0.0208	1.0000	
INF	-0.1419 0.1393	-0.3371* 0.0003	-0.5767* 0.0000	1.0000

Note: This table shows the correlation analysis for MFI's related macro and microeconomics variables. TC (Total Clients in an institution), TA (Total assets PKR in million), TL (Total Loan, PKR in million), TD (Total deposits, PKR in million), INF (Inflation, in %), and M2 (broad money supply, in %).

In this table results describes that more clients in MFI's, higher would be the Gross domestic product. In like manner, total deposits of a MFI are directly related with the Gross domestic product. This shows increment in absolute store prompts increment in Gross domestic product. Additionally, through CA (correlation analysis) we get to know that there no such significant relationship between M2 (broad money supply) with economic growth in Pakistan. On the other hand, inflation has negative association with economic growth in Pakistan. This shows that increase in INF will leads to decrease in economic development.

5.1.5. Fixed and Random effect

Fixed effect (FE) is used whenever one is interested in analyzing the impact of variables that vary over time.

FE explores the relationship between independent and dependent variables within an individual. Each individual has its own different characteristics that may or may not influence the independent variables. When using FE we assume that something within the individual may impact or bias the independent or dependent variables and that need to control. This is the rationale behind the assumption of the correlation between entity's error term and independent variables. FE remove the effect of those time-invariant characteristics so we can assess the net effect of the predictors on the outcome variable. Another important assumption of the FE model is that those time-invariant characteristics are unique to the individual and should not be correlated with other individual characteristics. Each entity is different therefore the entity's error term and the constant should not be correlated with the others. If the error terms are correlated, then FE is no suitable since inferences may not be correct and you need to model that relationship, this is the main rationale for the Hausman test.

On the other hand, random effects (RE) model, the variation across entities is assumed to be random and uncorrelated with the predictor or independent variables included in the model:

"…the crucial distinction between fixed and random effects is whether the unobserved individual effect embodies elements that are correlated with the regressors in the model, not whether these effects are stochastic or not" (Green, 2008)

If you have reason to believe that differences across entities have some influence on your dependent variable then you should use random effects. An advantage of random effects is that you can include time invariant variables i.e. gender. In the fixed effects model these variables are absorbed by the intercept.

Random effects assume that the entity's error term is not correlated with the predictors which allows for time-invariant variables to play a role as explanatory variables. In random effect that need to specify those individual characteristics that may or may not influence the predictor variables. The problem with this is that some variables may not be available therefore leading to omitted variable bias in the model. RE allows to generalize the inferences beyond the sample used in the model.

5.1.6 Hausman Test

To decide between fixed or random effect one can run a Hausman test where the null hypothesis is that the preferred model is random effects vs. the alternative the fixed effects (Green 2008). It tests whether the unique errors (ui) are correlated with the repressors; the null hypothesis is they are not.

In this research to check whether random effect or fixed effect is suitable, Hausman test is applied. In 1978 Hausman presented "The Hausman test". The advantage of this test is that it helps in settling on decision between random effect method and fixed effect method. Hausman test in solicitous about investigating the correlation in dependent and independent variables, in panel data. Hausman test examines the connection between independent variable and individual impacts. Hausman test investigates RE is as good fitted and FE. Null hypothesis of Hausman test expresses that the RE is reliable and appropriate while alternative expresses that the FE is reliable and appropriate. Hausman test has been utilized.

Based on the outcome of the Hausman test, Null is random effect that is rejected. Therefore, for this research RE model is not appropriate. Then I did another test to examine if FE is appropriate model for this research, that method called Testparm. It was a joint test to check if the dummies for all years are equal to 0. Because there is an assumption of this, test that if all the dummies are equal to 0 then fixed effects model is not needed as well.

$$F(10, 95) = 0.23 \quad Prob > F = 0.9928$$

The Prob>F is > 0.05, which means this failed to reject the null that the coefficients for all years are jointly equal to zero, therefore no fixed effects are needed in this case. As a result, for this research pooled ols is appropriate model.

5.1.7 Testing for random effects: Breusch-Pagan Lagrange multiplier (LM)

The LM test is to decide between a random effects regression and a simple OLS regression.

Breusch and Pagan Lagrangian multiplier test for random effects

GDPgrowthannual [ID,t] = Xb + u[ID] + e[ID,t]

Estimated Results:

	Var	sd = sqrt(Var)
GDPgrowthannual	1.732964	1.316421
e	.8903826	.9436009
u	0	0

Test: Var(u) = 0

chibar2(01) = 0.001

Prob > chibar2= 0.0009

Here we failed to reject the alternative and conclude that a random effect is not appropriate. Therefore, for this research pooled ols is appropriate model.

5.2 Empirical Results

Pooled OLS estimation procedure is utilized for the model in light of the fact that the data is of 11 MFI's for the time of 2007 to 2016. I have collected the data from all 53 MFI's working in Pakistan, but here I am using data of 11 MFI only because, different institutions were launched in different period of time, which created the problem of, unbalanced data for me. To overcome that issue I am using the data of those 11 MFI who has the maximum years of services.

For the analysis of data, Stata is used. Further, the analysis of the impact MFI's four indicators are utilized: log of total number of clients, log of total number of deposits, inflation and broad money supply. Pooled OLS is utilized as estimation strategy for the model.

5.4: Regression Analysis

GDP Growth Annual	Coefficients	Std. Err	p-value	(95% conf.	Interval)
LTC	.0370119	.0110091	0.001	.015156	.588679
LTD	.035798	.0087122	0.000	.0185022	.0530939
M2 of GDP	-.0087654	.0027451	0.002	-.0142151	-.0033158
INF	-.0104308	.0013628	0.000	-.0131362	-.0077254
Cons	25.56453	.2738779	0.000	25.02082	26.10825

Prob>F = 0.3107

F test that all u_i=0   F (10,95) = 10.18

Pooled OLS is used as estimation technique for number of total clients, total deposits, broad money supply and INF.

The results shows that as increases more number of clients it positively impact the GDP of a country, as the experience of MFIs increases they give loans to more borrowers. Non-profit organizations cater more borrowers. The p-value of F-statistics tells overall goodness of the fit.

There is a positive and highly significant effect of total deposits on GDP. When there is an increase in TD, GDP increases, and if there is a decrease in TD, GDP decreases. This variable is significant at the level 1%. Therefore, our hypothesis that there is a positive and significant relation between TD and GDP has been accepted.

5.3 Thematic Analysis

Thematic analysis is a technique for breaking down qualitative information. It is generally applied to writings (text), for example, transcripts of interviews. The analyst intently looks at the information to recognize basic subjects (themes) main points, and draw meanings from it.

5.3.1. Reasons for loans:

Micro-finance typically aids the low-income sector of the economy where small-scale businesses benefit the most from them. Different beneficiaries of the micro-finance programs have similar reasons for the loans. Most of the beneficiaries have small businesses of basic traditional level to slightly formed and commercial ones. A large number of female beneficiaries of the micro-finance institutions exist as they are highly encouraged to benefit from them. Secondly, multiple micro-finance institutions solely focus on the female entrepreneurs. Majority of the female entrepreneurs are forced to take up the position of the bread earner for their families after the demise of their husbands. Daulat Habib is a widow who lives in Karachi with her three children is one example. She had worked multiple small food related business such as packing of popcorn, cooking as a roadside vendor and making Gur. She had various accidents, health issues and problems due to which her work was always suffering, and she could not manage her home well. She took a loan from the MFI to buy a gas cylinder for her food making work.

Similarly, Nargis Bibi had to work as her husband was unemployed since marriage and he did not possess any specific skill to earn subsistence for the family. Nargis had to fend for her family due to absence of any substantial income source. Bibi Rano is a widow with five children and no income source. She initially took a loan from a reputed MFI for cultivation of potatoes and for sustaining her family on the land of her late husband. Sakina Bibi belongs to Baltistan. She is a widow with four children and was abandoned by family. She was even deprived of the fair inheritance of her husband from her in-laws and had to fend for herself. She runs a vocational center and dress shop. She applied for a loan from MFB after receiving vocational training from the AKRSP. She was granted a loan to invest in her vocational center. These women had no earning source, and most were abandoned by their families.

Certain beneficiaries have slightly different reasons for applying for loans apart from the more common sewing business. Nargis from Kot Abdul Malik has a family of 6 kids and a husband. The business of her husband stopped due to cash deficiency. She took a cash advance from DSP for the silver bangle business of her husband. Ayesha's husband had to sell their agricultural land for some urgent need, which left them with very low cash. She wanted to purchase a cow, but her savings were not enough for the purpose. So, she took a loan for the cow from DSP and purchased one with the advance. She started earning good by selling the milk. Fareeda Imtiaz's mother in law was diagnosed with cancer and her treatment cost her family its savings and all finances. She took training from AKRSP and then applied for micro-finance at MFB Pakistan to start a poultry farm. One beneficiary, Rukhsana from Faisalabad states a surprising increment of her electricity bill, which she could not manage with her income to the reason for taking the loan as she is the sole earner for her mother and three children. This might seem a little inconvenience, but she was already using micro-finance for her business at a small scale. Similarly, Zubaida from Sukkur was expecting a child for which she availed the health insurance from MFI.

Traditionally, the females in our socio-cultural setup are skilled in sewing and handicrafts related work. Many female entrepreneurs have utilised the loan to start similar business of opening vocational centres for sewing and making handicrafts and embroidery. Mariam Bibi from Haripur went for financial training from MFI training for her embroidery business to make profit. Bushra Bibi from Multan similarly used the same training and education program for her embellishment business as her revenues were not growing. She was told by her clients that her process were very high even though she was only charging at break-even point. Fauzia lives in Gujrat and stitches footballs after she heard about the training from Kashf's Training centre for girls to be able to provide a little for her household. Shehnaz Bibi lives in Shahpur with her five children. her husband was wrongfully accused of a murder for which she had spent all her fortune. Since her husband was also the sole earner of the family, him being behind the bard made the household low in finance and sustenance. She took credit from DSP to buy a sweater weaving machine to sell her work.

Similar to the other female entrepreneurs, Kiran is a mother of 5 in a joint family system. She took a loan from DSP as her husband was the sole provider for the whole family and the family could not be supported by him alone. Kiran then took the financial help for embroidered dresses as she knew the craft. Tasleem is a tailoress with four children. Her and her husband's salary does not provide amply for their family for which she thought of expanding her work. She took a loan from FMFB for purchasing raw materials such as fabric and sewing supplies for her business. Marina belongs to Gilgit and runs a tailoring, handicrafts and livestock business successfully. She had the skills for the works she does now but did only indulge in them as an economic opportunity when her husband failed to provide sufficiently for the family. She took a loan from FMFB to expand her business. Aisha Nusrat belongs to Chitral and runs a sewing centre and lady's shop. She belongs to a very poor family and married at the age of 12 and has four children. her husband has remained usually unemployed which has proven extremely bad for her family's economic conditions. She went for micro-finance initially for milk-selling which did not take off. She then took another loan to make her ends meet and to start another business.

Male beneficiaries have also shown a great success for different kinds of businesses. They typically take loans for agriculture etc. Purdum Wali Khan resides in an underprivileged village of Chitral raised as an orphan by his uncle. He had to help his uncle financially due to their bad economic conditions since his childhood. Purdum undertook a training programme by AKRSP on basic crops which gave him the idea of own business for which he took a loan of 1,000 PKR from FMFB. Shakoor belongs to Shigar, Baltistan and is the provider for a family of nine including his mother, children and siblings after his father's death. Shakoor father had a mining and processing business of the gem Zeher Mohra which was unprofitable due to use of traditional methods. Shakoor took a loan to advance the methods and create better sustenance for his family and better the quality of life. Mohammad Sabir Shah is the recipient of National Entrepreneur Special Category Runner-up Award 2014. Sabir has lost his left arm in an accident with heavily fractured legs which made him depend on his wife and brothers for maintaining his home. Sabir decided at last to find a way for him to generate income.

5.3.2. Use of loans:

The small-scale businesses need small-scale capital initially. Many women used the loans to buy just a couple of items for their vocational centers and spun them into profits. Similarly, many male beneficiaries also used loans for purchasing machinery at a small scale. Purdum was introducing to the MFB micro-finance service by the training department of AKRSP in his village. He used the loan to purchase insect spray machine and pesticides for crops. Several further loans have helped him attain expansion into livestock, shops and ownership of 200 cattle. Muhammad Sabir Shah made a decision to become economically independent being bedridden due to his accident. He got to know about the MFB and the micro-financing which he utilized. Sabir got the loan to start a business; he used the loan to establish a small inventory initially. Further, he expanded his work by increasing the number of products and taking his work to the supply and recruitment of labor in his area. Shakoor underwent training for stone processing and its marketing under the AKRSP. He approached the MFB after gaining knowledge of processing and marketing to enhance his existing work. he took an initial loan of 30,000 PKR and used it to meet his working capital requirements and for hiring extra labour given the very short period of extraction and mining for the stone. He used further loans to improve the technology he used and for hiring labour and the marketing and production of the processed Zeher Mohra.

Rukhsana took the loan from the MFI which was granted to her fairly easily. She then used the loan to pay her electricity bill and returned the bill on installments without any hassle. Zubaida used the Kashf Health Insurance for her maternity health issues. Mariam Bibi also used the MFI Financial Education and Training to benefit her business. Bushra also used the MFI training and used it to develop market connection and then get larger orders for her business. Fauzia from Gujrat had multiple friends who knew football stitching and she was interested in it. she got to know about the MFI's training for this and took the training successfully. DSP proved a substantial help to Shahnaz as she took the loan for a machine and also confided in the organisation for financial and market help. A friend of Nargis informed her about the DS and its financial help for which Nargis applied. She got an easy advance which was used by her husband's business and purchased a new hall for the manufacturing.

Kiran took financial aid from DSP for materials regarding the embroidery and dresses which she later sold locally and also internationally. Ayesha was informed about the micro-financing of DSP from someone in her area and she went for further information as they loaned the female entrepreneurs. She used the loan for buying a cow and also spent on multiple other businesses as weaving cots and chairs and also stitching ladies dresses. She also started a food shop with the savings from the income of her work. Tasleem got to know about the micro-finance services as she could not afford to take an informal loan at high interest rates. She easily got the loan for her tailoring business and then used it to purchase fabric and supplies and produced more dresses than before and also developed a training center.

Fareeda heard about the financial aid from another MFI, that she used to buy a small poultry farm. Furthermore, she started a bee-keeping with the finance also and cultivation of tomatoes in her area in Gilgit. Daulat Habib also took a loan from the MFI working in Pakistan after getting information from a community member. She was aided well through the microfinance and emotional support. She bought a gas cylinder for her shop and also took further loans for advancements in her work. Rano Bibi applied for an agricultural loan from a MFI to cultivate potatoes on the lands that her husband had left. She cultivated potatoes and then fruits on those lands and established her home to have necessities of life.

Nargis took a vocational training under the AKRSP and approached a MFI for a loan to establish a training centre at her home. She was granted a 10,000PKR loan by which she purchased a sewing machine and used further loans to expand her training capacity and making products like cushions, sofa covers etc. Marina took a loan of 20,000 PKR initially to expand her business. She used the loan and purchased electric and manual sewing machine and chairs to expand her tailoring business. She got to know about the micro-finance through an organization in her village regarding the loans from MFI. With subsequent loans, she expanded her vocational training centre and started making handicrafts to sell them in the local markets. Furthermore, she used other loans to raise a livestock of her own too, all of which she is managing with profits. Sakina from Baltistan applied for a loan from FMFB. She used the loan for expansion of her vocational training centre to include more females for training. The business expansion with the loan also helped Sakina open a lady's dress shop too. Aisha from Chitral took a training of embroidery and sewing from a community member. She went for a training in her local village organization. She took her first loan from MFI for milk selling business, but it did not take off. Her second loan was to establish a sewing centre. She started her sewing centre with the help of a cycle of loans as an individual entity.

5.3.3. Social impact:

If one takes a look at the beneficiaries of the micro-finance institutions, a direct social change can be witnessed clearly. People who had nothing to feed their families are earning good livelihood in a short time period. Many of the businesses have taken about four to five months to start providing the beneficiaries with a better income generation. Similarly, the social effects in the aspects of employment generation in the communities, beneficiaries educating their families and increasing their quality of life are huge accomplishments. From the market perspective, almost all of these businesses have been exceptionally profitable. Secondly, they have generated employment opportunities for many people in their communities while also developing the local markets into more sophisticated ones.

Mariam Bibi was able to achieve larger market connections and thus expand her profit to about 20,000 Rs per month within four months of the program. The beneficiary ended with a proper financial education to run a successful business. Bushra profited from the training substantially as she saw an increase of around PKR 35,000 every month. The expansion of her business has been positive for the society being a successful entrepreneur as she then hired 5 workers also. Rukhsana used the loan for electricity while expanding her business. Zubaida used the health insurance facility which was reliable and thus had no worries regarding expenses of her delivery. The safety net proved a reliable solution for the maternity expenses for a household belonging to a lower income group.

Fauzia became an active member of her household by financially contributing to the house. She exclaims that she is now an active part of the decision making at home also which is a proof for her empowerment through the work she does. Shanaz found earning in shape of a profitable work and also has enough finance to aid her husband out of the jail. The beneficiary has been helped and strengthened by the micro-finance institution and also helped her gain a better existence in the society where even her family members had left her. Nargis and her family has employed 8 workers for the bangle business where she is also planning on further expansion of the work due to profitability. The micro-finance aided her to have a steady business and income while also making her an employment source for eighth persons in the community, therefore providing eight households with income too.

Kiran's business of embroidered dresses has flourished so much that she is providing 50 women by employment thus increasing the wellbeing of 50 households in the community while also sustaining her household efficiently. Ayesha was financially and socially strengthened by the financial aid by DSP where she started multiple businesses simultaneously, managed them efficiently and made profits. She also took up the habit of saving which made her open a food shop which she runs by her husband and son's help as workers. She has also given employment to 4 persons thus financially aiding 4 households in this way. Fareeda's bee keeping and tomato business are one of the most successful and largest in her area where she is now maintaining her house very well with the micro-finance while also being an example for the community. She has been very successful in making the living conditions of her family to a high level.

Daulat had proven to be a resilient woman and successful entrepreneur, who has expanded her business successfully while hiring workers for her work. therefore, she has also opened earning opportunities for other people too, including her sons. Tasleem's dress making business proved well for her family's position and also paved way for community members to take benefit from the training centre that she had established. Savings have also been Tasleem's focus as she has started saving for daughter's wedding and unforeseen situations. Rano's cultivation of fruits and potatoes was very successful and even with a loss due to floods she managed to come out of it. she is a beacon and a role model for small entrepreneurs as she has provided employment to at least 3 people on her farms. The greatest contribution of Rano's work can be seen by the management of her family as she has educated all her children where her two sons are studying in the US on scholarship. She aims at sending her third son for foreign qualification too. Nargis Bibi's vocational training centre has trained various females in her community while she also supports her family well. About 50% of her students have employed their skills for economic benefits. Nargis also sells products successfully. She has enrolled her husband in a Wire Work training by HDGI in Gilgit by which he also ha been employed. Nargis also takes care of many of her in-laws while supporting his brother-in-law’s education also. She has been a remarkable example of changed gender dynamics for sustenance and has proven to be an ideal in that sense.

Purdum has been a great success due to his agricultural training and the micro-financing through AKRSP and FMFB. He has not only been a success story, but he also has created training opportunities for his community members. Besides the training programme that he runs, he has provided employment to over 50 community members thus facilitating 50 households. His agricultural training includes diversity where females and females are trained alike. He now utilises health and life insurance of his family members and his trainings have proved a great aid to trainees for establishing themselves. Purdum has been a critical factor in his community’s welfare due to the small financial aids and his hard work. Mohammad Sabir has been successful in creating a micro-enterprise in his area where he is efficiently dealing with the recruitment and supply of labours as well as the storage and supple of construction material. He has proven well in terms of the employment generation in his community beside taking care of his family by being financially independent through his profitable work. Shakeel is a successful provider of the Zeher Mohra in the market due to advancements in his work of extraction and processing of the stone. He has been a great financial support for his family where he has increased their quality of life substantially. He is educating his children in top notch institutions and also has educated his sisters. His business has also proven well for his community as he has employed 6 permanent workers and employs 10 daily wage workers in the mining season thus facilitating them economically.

Marina has been a great success. She got her husband a car, educated her children where her two daughters are graduates and her son is becoming a professional chef in Karachi. Besides educating her children and increasing the quality of her life, she has also looked after the marriages of her brother and sister-in-law while also constructing own house. Marina is also looking forward to expanding her handicrafts business to the larger market in Gilgit while she has provided employment opportunity for 10 people.Sakina has been an award winner for 10th Citi-PPAF Micro-entrepreneurship Awards due to her success in her businesses and her social impact in her area of Baltistan. Sakina successfully runs her vocational center and dress shop where she has trained more than 1,500 females to date and 300 students of hers have been generating their incomes from the training. She has educated her children as they are studying in good private schools whereas two of her daughters have completed their undergraduate degrees. Her work has proved well for her quality of life. Sakina has been a great example of social contribution of success as she has employed 10 people for her businesses while also providing more than a 1000 females the skill to earn their own livelihood. Besides this, she is the President of her NGO Al-Shehbaz Women Organization Markunja where she works for awareness of female rights and empowers the women in her area. Under her NGO, she is working for the betterment of the society around her and to make women aware and in control so that they must come out of their brutal circumstances as she herself once did. Aisha who resides in Chitral and runs a sewing centre and sells ladies' products. She has accomplished much through her hard work and has revamped her life. She is providing well for her family while also being productive for the society. She is an independent business owner and helps the women of her village and trains them at her vocational institutions.

Chapter 6

Conclusion & Recommendation

This chapter presents conclusion of this thesis and the next section provides directions for policy recommendations. The final section provides the way forward for future.

As this is a mixed method research, I have presented my conclusion in two different segments; firstly, I have discussed about quantitative outcome then qualitative outcomes.

6.1 Quantitative

From the beginning, Microfinance is known as the poverty alleviation tool. Microfinance is having two major objectives: firstly providing cheap loans to those needy poor people who were ignored by the recognized financial sector, and secondly to remain itself financially sustainable. The main objective of this study is to examine the factors that influence the performance of microfinance institutes of Pakistan.

The research endeavors to analyze the impact of MFI on economic growth/development of Pakistan. This research examines the secondary data from 11 MIF's with 110 observations for the time of 2007 to 2016.

The research shows that TC (total clients) is directly related with GDP. It reveals that more the clients of MFI's, higher would be the GDP. It is additionally seen that there is a positive relationship of TD (total deposit) with GDP. This shows that with the increase TD (total deposits) GDP will also increase. Thus, the research shows that there is no such significant relationship of M2 with economic development of Pakistan. This demonstrates that change in M2 will not bring any significant change in economic development. The pooled OLS results show that TC and TD have positive impact on GDP though inflation has a negative effect on GDP in Pakistan. However, M2 have a no such significant impact on GDP.

6.2 Qualitative

If one observes at the recipients of the microfinance institutions, a huge change can be witnessed clearly. People who had nothing to feed their families are earning good income in a short time period. As per interviews result borrowers of the microfinance system suggest that MFB should provide assets not money in form loan that are required by them to start or upgrade their business. On the basis of finding, our hypothesis is fulfilled that there is a positive relationship of economic development with microfinance.

Performance evaluation criteria vary from firm to firm depending on nature of firms operations and business. Higher rate of return may serve as indicator of success for a particular business concern but fails to serve the purpose for other concern. According evaluation criteria for performance of MFI is different from other institutions. Microfinance model is unique as it strives to achieve three things simultaneously, which makes it different from other existing rural credit facilities.

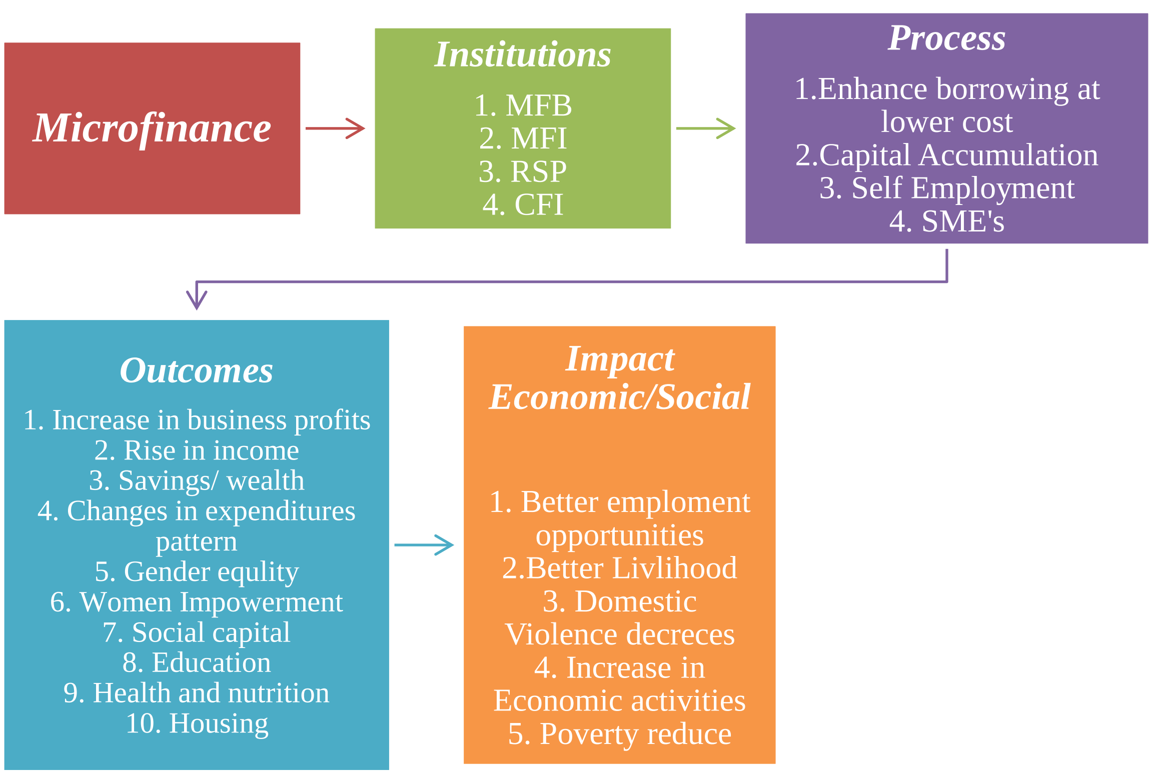
Effective MFI is one that targets poor members of community for giving them credit, makes sure that credit is used in effective way and having positive impact on lives of rural community individuals. Furthermore, an MFI is ideal one when it ensures financial sustainability of program over long run. In literature, it is assumed that once credit is provided it will definitely bring positive impact on lives of deprived people. Hence it is refers that outreach and financial sustainability are used to explain successful MFI. Outreach is considered as social objective, and financial sustainability is considered as commercial objective. Financial sustainability of MFI has to face lots of challenges as there involves high transaction and information cost while dealing with poor clients. Even in the dependent as well as developing economies, mostly MFIs are dependent on donors fund for meeting their high cost, which shows that they are still not financially sustainable.

Expansion in the business of beneficiaries has been positive for the whole economy. Social impact in the aspects of employments generation, educating their families, better food to eat, better nutrition and gender equality are huge accomplishments.

Likewise, from the perspective of market almost all of these businesses have been exceptionally profitable. Secondly, they have generated employment opportunities for many people in their communities while also developing local markets into more sophisticated ones.

Microfinance plays an important role in reducing poverty and improving the living standard of developing countries, like Pakistan. In the figure below, it can be seen the pathway how this whole thing exists.

Figure 2



6.2.1 Microfinance impact on income

It has been seen that increase in income has positive impact on household. Studies have assessed the impact of microfinance on incomes of poor; Hulme and Mosley (1996) in a comprehensive study on the use of microfinance to combat poverty, argue that well-designed programs can improve the incomes of the poor and can move them out of poverty. They state, "There is clear evidence that the impact of a loan on a borrower's income is related to the level of income" as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit the "middle and upper poor". However, they also show that when MFIs such as the Grameen Bank and BRAC provided credit to very poor households, those households were able to raise their incomes and their assets.

6.2.2 Microfinance impact on poverty

Poverty is one of the most debated issues in terms of the outcome of microfinance interventions. According to Professor Muhammad Yunus observed that conventional banking practices had in-built constraints and were aimed only at those who were already well off. In this context, Professor Yunus contemplated an alternative institutional framework that could be used to raise the wellbeing of impoverished sections of society.

Attempts to reduce poverty were carried out worldwide through micro finance programs that are aimed at helping the poor to accumulate their own capital and invest in employment generating activities.

6.2.3 Microfinance impact on employment

There exists little evidence of quantum increase in employment in the villages. Employment opportunities had increased at a moderate rate. The clients started their own business and earn more profit. The Living standard is very important issue in all developing countries. In many developing countries like Bangladesh, Pakistan and India, microfinance is now being used as a tool to increase the living standard of poor societies. There is a positive impact of micro financing on income level and better services of microfinance institutes on increase in satisfaction level of customer (Akram & Hussain, 2011).

Microfinance gives the unemployed and the poor some opportunities, hope and self-esteem. Being employed whether self-employed or by an employer gives a person a significant boost to his/her sense of self-respect and dignity. Furthermore, microcredit allows people to signal their creditworthiness. If their success makes banks more willing to lend them larger sums of money and leads to more economic activity, then that should help reduce poverty in the long run. Being successful business ventures, MFIs themselves have also created a large number of good paying jobs. Gender differentiated impact analysis reveal that female employment has grown. The increase in female employment has been largely in the non-farm employment. Further, majority of the studies have reported increase in male wages as well.

6.2.4 Microfinance impact on women empowerment

Mayoux (1997) has said that small increases in women’s income are also leading to a decrease in male contribution to certain types of household Whereas, other believe that investing in women’s capabilities empowers them to make choices which is a valuable goal in itself but it also contributes to greater economic growth and development.

According to the Hashemi (1996), women's access to credit has an impact on their lives, irrespective of who had the managerial control. Their results suggest that women's access to credit contributes significantly to the magnitude of the economic contributions reported by women, to the likelihood of an increase in asset holdings in their own names, to an increase in their exercise of purchasing power, and in their political and legal awareness as well as in composite empowerment index. They also found that access to credit was also associated with higher levels of mobility, political participation and involvement in major decision-making for particular credit organizations.

6.2.5 Microfinance impacts on society

This (Figure. 3) shows how economic impact and social impact work parallel and reduce problems from the society.

Figure 3

Social problem are inter linked with financial or economic problems. Most of the researcher focuses on the clients exclusively but there in more than that, there is a wider impact on non-client beneficiaries as well. When a loan is given to a one particular person, this brings positive impacts on overall society. There is an increase in the living standards of that person and a huge reduction in social problems like; domestic violence, suicide, divorce etc. Because high unemployment rate leads to social and economic problems in the community as whole, or vice versa. On the other hand, most of the beneficiaries, especially women employed other women from their neighborhood; this brings a positive impact on the society.

6.2.6 Microfinance and its impact in development

Microfinance has a very important role to play in development. Researches have shown that microfinance plays mainly three roles in the process of development.

1. It helps very poor households meet basic needs and protects against risks,
2. It is associated with improvements in household economic welfare,
3. It helps to empower women by supporting women's economic participation and so promotes gender equity.

Various ways, in which microfinance contributes in combating poverty, she states that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty. MFI by providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999).

Mayoux (2001) states that while microfinance has much potential, the main effects on poverty have been: credit making a significant contribution to increase incomes of the better-off poor, including women, microfinance services contributes to the smoothening out of peaks and troughs in income and expenditure thereby enabling the poor to cope with unpredictable shocks and emergencies.

All these considerations make it very important to study mechanisms that can improve financial performance as well as efficiency of MFI. So that social as well as economic objectives of MFI can be achieved.

Interestingly, contrary to general perception and some evidence by other studies, this research shows the funds borrowed from microfinance institutions contribute more towards income earning activities than just consumption. This behavior has very important implications that the productive activities can be increased in the economy by providing small loans to underprivileged segments of the society.

6.3 Policy Recommendations

Major flaws, that I have found after doing this research that majority of MFI, are now focusing on the profit like conventional banks rather than reaching out to poor.

1. PMN should restrict the MFI to improve their standards and monitor them.
2. Evaluation of variance between claims and actual results of MFI's need regular monitoring.
3. MFI should have a designated team for interviewing clients regarding their concerns. It can improve microfinance institutes as well.
4. MFI should be accountable; it can lead them to improvement.
5. The reduction of operational cost is impotent because only then MFIs become sustainable, provide loans in the poor, and meet the core objective.
6. Subsidies should be provided to the MFIs to make them sustainable.
7. Non-profit organization are doing well in reaching the poor, there role should be increased.
8. While providing loan to poor better restrict them to use it for business activity so that on the one hand repayment risk is reduced and on the other borrower become self-sufficient.
9. There should be a proper law enforcement agency from government side for all MFIs.
10. PMN should launch a quality management mechanism to monitor the quality of data.
11. Still many area/deserving people are unaware about the MFI. The organizations should run campaigns on voluntary basis across the country by engaging students of the educational

institutes under tree of social welfare activities and in this way, the awareness about micro financing practices may spread and reach out to the ears of needy people in Pakistan.

12. Interventions should target sustained income generations through asset creation. The benefit accrued in terms of savings in interest cost due to MF borrowing does not necessarily lead to sustained benefits.

6.4 Limitation of the Research

For me data collection was the major limitation for this research. Somehow, I have managed to collect the data from all the 53 MFI's but because all the MFI's lunched in different years I have faced unbalanced data set. For this reason I short listed 11 MFI which has the maximum year services, but it also squeezed my research.

6.5 Future Research

This research can be extended in different aspects. An increase in sample size can be analyzed to reach substantive decision about the influence of MFI on the lives of people. Further, use more advance empirical techniques that can allow us a more clear view about MFI in Pakistan.

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Appendix 1

Descriptive Statistic

Variables	Obs.	Min	Max	Mean	Std. dev.
GDP growth	110	1.606	5.526	3.655	1.316
TLS	110	3.496	8.224	3.266	1.345
TLC	110	9.074	13.384	11.305	1.261
TLA	110	11.063	17.407	14.495	1.558
TLD	110	9.880	17.141	15.430	0.900
LTL	110	10.838	16.964	13.970	1.474
M2 of GDP	110	48.100	58.867	53.162	2.916
INF	110	0.400	20.666	9.649	6.216

Note: This table shows the descriptive measurements for MFI related variables, and economic growth macro and micro variables. GDP (Gross Domestic Product, PKR in billion) is the dependent variables. TS (Total staff in an institution), TC (Total Clients in an institution), TA (Total assets PKR in million), TL (Total Loan, PKR in million), TD (Total deposits, PKR in million), INF (Inflation, in %), and M2 (broad money supply, in %) are the independent variables.

This table shows that the GDP ranges from min of Rs. 1.606 billion to max of Rs. 5.526 billion with a mean of Rs. 3.655 billion. Correspondingly, TS ranges from min of 3.496 people to max of 8.224 people with a mean of 3.266. TC runs from min of 9.074 individuals to max of 13.384 individuals with a mean of 11.305. In addition, TA ranges from min of Rs. 11.063 million to max of Rs. 17.407 million with a mean of 14.495. TL ranges from min of Rs. 10.838 million to max of Rs. 16.964 with a mean of 13.970 and TD ranges from least of Rs.9.880 million to limit of Rs. 17.141 million with an average of 15.430.

Appendix 2

Linear regression

Number of obs = 110
F (4, 105) = 61.15
Prob > F = 0.0000
R-squared = 0.5414
Root MSE = .90831

GDP Growth Annual	Coef.	Robust Std. Err.	T	p>|t|	95% coef.	Intervals
LTC	.0771485	.0729061	1.06	0.292	-.0674107	.2217078
LTD	.3485493	.0974081	3.58	0.001	.1554071	.5416916
M2 of GDP	.1024899	.0355708	2.88	0.005	.0319595	.1730203
INF	-.1027344	.0160046	-6.42	0.000	-.1344687	-.0710002
Cons	-7.051996	3.114441	-2.26	0.26	-13.22736	-.8766352

Appendix 3

Source	SS	df	MS	
				Number of obs = 110
				F(14, 95) = 8.37
Model	104.306765	14	7.4504832	Prob > F = 0.0000
Residual	84.5863463	95	.890382592	R-squared = 0.5522
				Adj R-squared = 0.4862
Total	188.893111	109	1.73296432	Root MSE = .9436

GDPgrowtha~l	Coef.	Std. Err.	t	P>t	[95% Conf. Interval]	
LTC	.2268525	.1883046	1.20	0.231	-.1469795	.6006844
LTD	.3792217	.1490162	2.54	0.013	.0833872	.6750562
M2ofGDP	.1175132	.0469526	2.50	0.014	.0243005	.2107259
INF	-.0928639	.0233092	-3.98	0.000	-.1391385	-.0465892
Institutes2	-.1031837	.5175611	-0.20	0.842	-1.130672	.9243049
Institutes3	-.2299162	.504151	-0.46	0.649	-1.230783	.7709501
Institutes4	-.3648339	.4661058	-0.78	0.436	-1.290171	.5605032
Institutes5	.1348852	.6925217	0.19	0.846	-1.239944	1.509715
Institutes6	.0883864	.6638191	0.13	0.894	-1.229461	1.406234
Institutes7	.274315	.7836993	0.35	0.727	-1.281525	1.830155
Institutes8	-.0135155	.6047803	-0.02	0.982	-1.214156	1.187125
Institutes9	.2792226	.7870262	0.35	0.724	-1.283222	1.841667
Institutes10	-.4653045	.4539394	-1.03	0.308	-1.366488	.4358791
Institutes11	-.0497297	.5853107	-0.08	0.932	-1.211718	1.112259
_cons	-10.07082	4.709821	-2.14	0.035	-19.421	-.7206466

Testparm

(1) Institutes2 = 0

(2) Institutes3 = 0

(3) Institutes4 = 0

(4) Institutes5 = 0

(5) Institutes6 = 0

(6) Institutes7 = 0

(7) Institutes8 = 0

(8) Institutes9 = 0

(9) Institutes10 = 0

(10) Institutes11 = 0

$F(10, 95) = 0.23$

Prob > F = 0.9928

The Prob>F is > 0.05, which means this failed to reject the null that the coefficients for all years are jointly equal to zero, therefore no fixed effects are needed in this case.

Appendix 4

Interviews

1. Name?
2. Material Status?
3. Family Members?
4. Occupation?
5. Why you use MFI?
6. Which MFI do you have account with?
7. What improvement this brought to your life?
8. Have you employed others in your business to?
9. How did you get to know about MFI?
10. How many times you applied for loans from MFI?
11. Do they always ask for securities before granting loans?
12. What kind of collateral do they request?
13. Have you ever felt the need to acquire a loan for other purpose apart from business?
14. Do you think these loans leads to growth in your business?
15. Have you bought any household items from these loans?