EXPLORING THE IMPACT OF MICROFINANCE ON THE BORROWERS' WELL-BEING IN HAFIZABAD



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CERTIFICATE

This is to certify that this thesis entitled: **"Exploring the Impact of Microfinance on the Borrowers' Well-being in Hafizabad."** submitted by Fareeha Tabbasum is accepted in its present form by the PIDE School Policy, Development and Governance, Pakistan Institute of Development Economics (PIDE), Islamabad as satisfying the requirements for partial fulfillment of the degree in Master of Philosophy in Development Studies.

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Author's Declaration

I, Fareeha Tabassum Awan, hereby state that my MPhil thesis titled *Exploring the impact of borrowers' Well-being in Hafizabad* is my own work and has not been submitted previously by me for any degree from Pakistan Institute of Development Economics or anywhere else in the country/world.

At any time, if my statement is found to be incorrect, even after my Graduation, the university has the right to withdraw my MPhil degree.

Signature of Student

Fareeha Tabassum Awan

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ABSTRACT

In both rich and developing nations, microfinance is seen as a potential way to combat poverty and foster entrepreneurship. The aim of this thesis is to explore the impact of microfinance financial services on the growth of borrowers' microenterprises and their well-being. The present study has gained guidance from previous studies on microfinance and wellbeing, which serves as the study's compass. To serve this purpose, this study used the Explanatory Sequential Research method and collected 145 questionnaire responses from both male and female microfinance clients from two microfinance banks, FINCA and Khushhali Bank, of Hafizabad, which served as the basis for the empirical study. In order to elaborate further on the outlying results of the survey, 10 interviews were conducted with both female and male borrowers to have a better understanding of the challenges faced by borrowers.

The findings indicate that women's enterprises do not show satisfactory improvement after microfinance compared to men. Furthermore, microfinance does not help new enterprises to grow but to just sustain themselves, compared to existing enterprises, which show somewhat economic growth and expansion after microfinance. Results of qualitative analysis revealed that the main reason behind no enterprise development is the small loan size, especially for small business owners. Therefore, results suggest that providing the optimal sized microfinance to new enterprises can boost the business's profitability, which raises the household income and enhances family wellbeing.

Whether the small or existing enterprises reported growth or development, the borrowers' and families' well-being were somewhat enhanced, as compared to people who used the loan for consumption did not report well-being at all. Therefore, to achieve the objective of borrowers' microenterprise growth, microfinance banks are recommended to prioritise those microfinance schemes that include larger loan packages while taking inflation into account, and low interest rates with flexible instalment repayment. By examining Pakistan's comparatively understudied emerging economy, these empirical findings add to the larger body of scholarship on microfinance. The work advances the field of microfinance research both theoretically and methodologically.

Keywords: Microfinance, Microenterprise, Wellbeing, Borrowers, Entrepreneurship, Business Loan, and Consumption loan.

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LIST OF ABBREVIATIONS

AKRSP	Agha Khan Rural Support Programme
BM	Bank Manager
FINCA	Foundation for International Community Assistance Bank
HDI	Human Development Index
KB	Khushhali Bank Limited
MFB	Microfinance Banks
MFI	Microfinance Institutions
NGO	Non-Governmental Organisation
NAVTTC	National Vocational and Technical Training Commission
OPP	Orangi Pilot Program
PMN	Pakistan Microfinance Network
RSPs	Rural Support Programme
SBP	State Bank of Pakistan
SPSS	Statistical Package for the Social Sciences
UNDP	United Nations Development Programme
VIF	Variance Inflation Factor

CHAPTER 1:
INTRODUCTION

1.1 Background

Microcredit is a small amount of money that the impoverished in developing nations can use to start microenterprises and earn a sustainable livelihood. Microfinance is financial programme which not only include credit but also provide the training regarding business management skills and budgeting for people. A culture of entrepreneurship is fostered in nascent economies by extending microfinance to encourage self-employment amongst unemployed people (Mahmood, 2013). The idea of using entrepreneurship and financial inclusion to economically empower people and bring them into the economic mainstream has evolved over the centuries. But the 1970s saw the start of the first organised efforts to promote financial inclusion for poor people, especially through microfinance operations. Dr Muhammad Yunus pioneered the microfinance movement by establishing the first financial inclusion initiative, Grameen Bank, in Bangladesh in 1983 (Single, 2024). This bank extended small loans to marginalised individuals, devoid of conventional bank facilities. The intervention was initially called microcredit and subsequently renamed microfinance. Microfinance was soon dubbed the ideal development intervention. Studies indicated that it could effectively alleviate poverty and empower marginalised and unemployed people (De Goey, 2012; Zulfiqar, 2013; Gichuru et al., 2019; Dayo et al., 2023).

Access to finance is one of the globally recognised development interventions in addressing people's socio-economic well-being (Ebakeh, 2023). This is based on the strong belief that financial services contribute to the creation of sustainable livelihood opportunities, the reduction of poverty and the enhancement of well-being. Policy makers and development practitioners believe that financial inclusivity provides people with greater access to resources to meet their financial needs, such as managing cash flows, smooth consumption, increasing income, building assets, enhancing savings for future investments, including education, capitalising on business opportunities, confronting shocks, reducing vulnerability to risk and income inequalities, and facilitating socioeconomic well-being (Ebakeh, 2023).

Research in the field of microfinance is thought to be crucial given the importance microfinance continues to receive by donors, policymakers and global institutions in

terms of concerns of economic empowerment, poverty alleviation, and wellbeing in developing nations. However, some places are rich in study (Like urban areas) while others lack thorough coverage of the concerns due to access obstacles. Therefore, this study will focus on Microfinance banks in the city of Hafizabad, which is predominantly a rural area. Given Pakistan's demography and economic difficulties, rural microfinance banks must receive special attention. In particular, there is a dearth of research on the progress of microfinance banks in terms of entrepreneurship and well-being in rural areas of Pakistan. This study aims to close the gap in the literature by highlighting the importance of microfinance in enhancing well-being through entrepreneurship in the rural sector of Pakistan.

1.2 Problem Statement

According to the 7th National Population and Housing Census, Pakistan is the fifth most populous country in the world, with 241.5 million people (Pakistan Bureau of Statistics, 2024). Of them, 44.7 per cent live below the poverty line, set at $4.2 per day (World Bank Group, 2025). On top of that, as per the World Bank's 2025 estimate, the level of national poverty in Pakistan has increased from 21.9% to 25.3% from 2018 to 2025 (World Bank, 2025). This decline is worst in rural areas, where the poverty rate is more than twice that in urban areas (Pakistan Today, 2026). This growing poverty presents a serious challenge for the nation's foreign donors and policymakers. This situation is as alarming at the district level: Hafizabad district has a multidimensional poverty index of 26%, according to the Pakistan Social and Living Measurement Survey (PSLM) (2019–20) (Planning Commission of Pakistan, 2021). The majority of Hafizabad district is composed of rural areas, which shows that almost half of its population is poor. According to Iitondoka (2018), one of the main obstacles preventing poor people from utilising economic possibilities to raise their level of productivity and escape poverty is their inability to obtain loans from conventional banks. Commercial banks deny loans to youth for a number of factors, including the fact that poor people are high-risk borrowers due to their lack of assets and their susceptibility to market fluctuations.

One of the biggest challenges facing Pakistan is reducing unemployment and improving the socio-economic well-being of its people so that they can meaningfully contribute to national progress. Iitondoka (2018) found that the expansion of micro-enterprises offers the strongest opportunity for income generation, particularly given

Pakistan’s persistently low employment growth. Against this backdrop, the Government of Pakistan established First Microfinance Bank Limited in 2002 to help deprived people who were struggling financially and socially. The goal was to encourage entrepreneurship and self-reliance as a way to overcome poverty. Since then, the microfinance sector has grown significantly as a way to include more people in the financial system. The number of active borrowers increased from around 5 million in 2017 to over 12.3 million by December 2024 (State Bank of Pakistan, 2025; Finance Division, Government of Pakistan, 2025). This growth covered 139 districts and had a total loan portfolio of PKR 604 billion. This shows that microfinance has become an important tool for financial inclusion in Pakistan. Even with the sector growing so fast, it's still not reaching everyone equally. For example, only about 18% of the people getting loans are women, and the rural areas are not getting the same help as the cities. In Punjab, the poverty rate is the lowest in the country at around 16.3%, but because it's such a big province, it's still home to 40% of all the poor people in Pakistan. In rural and semi-rural areas of Pakistan, it's not entirely clear how much difference microfinance services really make in people's lives and in helping them start their own businesses. So, this study is trying to figure that out by looking at how microloans affect people in Hafizabad, and how they can help people start small businesses, learn new skills, and create stable ways to make a living that improve their overall quality of life. By doing this, we hope to understand how microfinance can really empower individuals and make a positive impact on their well-being.

1.3 Research Objectives

This study is an attempt to elaborate on and examine the relationship between microfinance and the well-being of borrowers in Hafizabad, Pakistan. This aim will be achieved by following the objectives:

1. To determine the influence of microfinance on improvement in borrowers’ well-being in Hafizabad.
2. To assess the extent to which microfinance contributes to the growth and sustainability of borrowers’ microenterprises in Hafizabad, Pakistan.
3. To identify and investigate the factors that affect the microenterprises' growth.

1.4 Research Questions

The following research questions are carved out of previous studies and thus explain the aim and themes of the present study:

1. To what extent microfinance influence the growth and sustainability of microenterprises and what factors affect this growth?

The first research question concerns the growth of borrowers' enterprises after availing microfinance. In this study, microenterprise development involves the growth of enterprises of borrowers. Complementing factors that can measure the impact of microfinance on enterprises include demographic and microcredit information of borrowers. Since the second question presents the main focus of the study, which is well-being, the first research question is used as an indirect measure of borrowers' well-being.

2. Does a microfinance loan have an impact on the well-being of borrowers and their families?

The Second research question examines the borrowers' and their families' wellbeing. To extensively measure the wellbeing of borrowers, the following factors are important: the ability of borrowers to increase their household income and sustain their business, and the role of microfinance in improving the nutritional health of borrowers and their families. Improvement in socioeconomic status and the well-being of the family.

To address research questions, a microfinance framework has been constructed, which connects the enterprise development of borrowers to their overall well-being. The model will be tested in Hafizabad city in Pakistan. The findings will help in formulating policy recommendations for microfinance banks.

1.5 Scope of the Study

This study will be conducted in Pakistan, which is classified as a developing country. Islamabad is the capital city, and Pakistan is divided into four provinces: Punjab, Sindh, Khyber Pakhtunkhwa, and Balochistan. Additionally, Pakistan has two self-governing administrative territories: Azad Jammu and Kashmir and Gilgit-Baltistan. This study will be focused on Punjab province, more especially the Hafizabad city of district Hafizabad, which the researcher can reach.

Hafizabad is the capital city of Hafizabad district, located in the Punjab Province of Pakistan. Hafizabad is spread over 2,367 square kilometres, with an estimated population of 1.156 million in the census of 2017 (Pakistan Bureau of Statistics). A large segment of Hafizabad's population, roughly 35%, lives in urban areas. According to the 2017 census, the literacy rate of Hafizabad is 60%. According to the Pakistan Labour Force Survey 2020-21, 67.5% of the Hafizabad population above age 15 is unemployed. Hafizabad district has the highest percentage (68.02%) of active borrowers in Punjab province (Sheikh, 2019). There are several reasons behind the selection of Hafizabad as a study area. One key reason is its socio-economic status. Although it's located in Punjab, the province with the lowest poverty rate in Pakistan, Hafizabad's own poverty rate is surprisingly high. According to the Pakistan Social and Living Standards Measurement survey (2019-20), about 26% of the Hafizabad's population lives in multidimensional poverty. This is significantly higher than the average for the entire province, which suggests that poverty rates can vary greatly from one district to another, even within the same province.

Hafizabad is a great place to study how microfinance works because it is a mix of rural and urban areas, where people make a living from farming and other jobs. This makes it a good example of how microfinance works in areas that are not fully rural or urban, which is something that's been missing from the research so far. It's rural-urban nature makes it different from big cities like Lahore or Faisalabad, where most microfinance studies have been done. Another reason Hafizabad is a good choice is that it has a very high rate of microfinance use. In fact, it's the highest in Punjab, with 68.02% of people actively borrowing money (Sheikh, 2019). This means that the microfinance market in Hafizabad is quite mature compared to other districts in Punjab, like Attock, Chakwal, or Mianwali. This gives us a chance to see how microfinance works in a place where people have good access to credit, but are still struggling with poverty and unemployment. We can get a better understanding of whether having access to microfinance really improves people's well-being. Also, the fact that there are two well-established microfinance banks, FINCA and Khushhali Bank, in the district makes it easier to collect data from a significant number of borrowers. All these factors combined make Hafizabad a great place to study the relationship between microfinance and how it affects borrowers' lives. It's a strategic choice that will give us rich and detailed information to analyse.

1.6 Conceptualisation of Key Terms

1.6.1 Well-being

The concept of well-being is closely entwined with poverty. In the 1980s, Chambers coined the word "well-being" in his work on non-monetary poverty (World Bank, 1980). The economist Amartya Sen defined poverty as the lack of individual freedom or the opportunity to exercise a set of valued choices (Sen, 1999). It was a shift in the debate of poverty away from economic dimensions. By the end of the decade, a blend of economic and non-economic measures of well-being emerged, owing to Amartya Sen's Capability Approach. Sen shifted the focus of well-being from means (income and consumption) to the ends (nourishment and literacy). According to Sen, well-being can be achieved by exchanging entitlements (like command over commodities) for capabilities (a set of opportunities) (Sumner, 2004). Operationally, well-being can be measured both in monetary and non-monetary terms. In monetary terms, by measuring income, consumption, and household assets. In non-monetary terms, through health, education, social relations, self-confidence and self-perception. In this thesis, the well-being of borrowers and their families is considered in both monetary and non-monetary dimensions.

1.6.2 Microfinance

The World Bank published "Microfinance Handbook" in 1998, which defined microfinance as an intervention that spurs entrepreneurial activity and economic development, alleviates poverty and empowers women (Zulfiqar, 2013). Robinson (2001) defined microfinance as the provision of a wide range of small-scale financial services encompassing loans, savings, money transfers, insurance and related services to the people who do not have access to conventional banks. These loans help them to start their own micro and small enterprises, save income, improve living standards and contribute to economic development. In this study's context, microfinance is viewed as microloans provided to people to empower their microenterprises and improve living standards.

1.6.3 Microenterprise

The State Bank of Pakistan defines microenterprises as projects or companies in the commerce, manufacturing, services, or agricultural sectors that improve livelihoods and generate revenue (Ahmed, 2012). Additionally, the microentrepreneurs behind

these projects/businesses are either self-employed or employ a small number of people, no more than ten, excluding seasonal labour.

Microenterprises in Pakistan, which can take many different forms, have historically lacked access to commercial financial services. These include carpenters, electricians, food vendors, farmers, livestock, lathe machines, mechanics, and more.

1.7 Structure of the Thesis

The thesis is composed of nine chapters. The first chapter includes the aim, objectives and research questions of this study. The second chapter consists of a literature review on microfinance, entrepreneurship, and the well-being of borrowers and their families, which lays the foundation for the theoretical and conceptual framework of the study. The third chapter covers the research methodology, which includes research design and method, data collection tools and sampling techniques. This chapter goes into great detail about the administration of data, data analysis techniques, and operationalisation of the variables and indicators. Fourth, fifth and sixth, these three chapters comprise quantitative analysis, which uses the Statistical Package for the Social Sciences (SPSS) to analyse quantitative data using various statistical methods. The descriptive and Bivariate analysis of the survey is presented in Chapter 4. Both the fifth and sixth chapters employ an ordinal logistic model to examine the first and second hypotheses that address the first and second research questions, respectively. Chapter seven provides the qualitative analysis of interviews from borrowers to further dwell into quantitative results, while interviews from bank managers help to understand the structure and hierarchy of MFBs. The eighth chapter is a discussion chapter which comprehensively compares both quantitative and qualitative results with previous literature. The ninth and last chapter concludes the findings of the study with recommendations for higher-ups in the microfinance sector. Lastly, the chapter concludes by outlining the study's shortcomings and offering suggestions for future research directions.

CHAPTER 2:
LITERATURE REVIEW

2.1 Evolution of Microfinance Program in Asia

The idea of microfinance has been a part of medieval communities for centuries, but around the 1950s to 1970s, microcredit programs began to surface in the developing world, especially Bangladesh and Brazil (Mahmood, 2013; Helms, 2006). Initially, the government and donors focused mostly on giving agricultural microcredit to poor farmers with subsidised interest rates to bring productivity and economic prosperity. These schemes did not end well because of low repayment rates and loans not reaching deserving farmers (Helms, 2006). Microcredit programs had not been showing progress in South Asia until the birth of Grameen Bank in 1976 in Bangladesh (Helms, 2006; Mahmood, 2013; Madhani, 2015). Grameen Bank was the first microfinance project pioneered by Muhammad Yunus in Bangladesh in an endeavour to alleviate prevailing poverty in rural areas (Madhani, 2015; Rallens & Ghazanfar, 2006). Muhammad Yunus started lending microloans to impoverished women entrepreneurs of the village Jorba from his resources. Later on, when his project succeeded, the government helped him to establish the first-ever microfinance institution in 1983, Grameen Bank (Rallens & Ghazanfar, 2006; Mahmood, 2013). Grameen was the first bank to use the *Microfinance* term instead of microcredit, which includes services like savings, life and health insurance, and skills training in addition to loans (Helms, 2006; Madhani, 2015). Helms (2006) and Mahmood (2013) state the examples of some pioneer microcredit programs implemented in Asia from the 1980s onward. In 1972, the Self-Employed Women's Association Bank was established in India to offer financial services to rural, unprivileged self-employed women. As per the microfinance programs in 1980, the poor, particularly women, had a high repayment rate for loans they received, and the banks were able to pay their expenses since the borrowers paid back their loans with agreed interest. In 1983, Bank Rakyat Indonesia (BRI) failed because of subsidised lending, and the government granted authority to BRI. By 2006, the bank was providing services to 30 million deprived people (Helms, 2006; Mahmood, 2013). Since poor people mostly lack any collateral or property to guarantee, traditional banks do not give microcredit to poor people. On the other hand, the goal of microfinance banks is to give loans to this susceptible group to reduce poverty and advance social benefits in a long-term

manner. In terms of loan and savings facility outreach, Bangladesh and Indonesia are the most advanced countries in the microfinance industry (Weiss et al., 2005). In contrast, microfinance outreach is less extensive in nations like China, India, Pakistan, and Afghanistan (Helms, 2006).

2.2 Evolution of Microfinance in Pakistan

Although microfinance has existed in Pakistan for some time now, it is still in the early developmental phase compared to other neighbouring countries in the region. Hussein and Khan (2009) state that in the 1960s, the priority of agriculture banks was the microfinance initiatives to make farmers more financially stable to buy seeds, equipment, and fertiliser. Later, this trend shifted to non-farm businesses. The Aga Khan Rural Support Program (AKRSP) in Pakistan's rural agrarian frontier in the country's northern regions was launched in 1982, and the Orangi Pilot Program (OPP) in Karachi in 1987 (Khan & Plateau, 2007; Hussein & Khan, 2009; Madhani, 2015). Both organisations' primary goal is to reduce poverty via community development. The credit for spearheading the microfinance sector in Pakistan goes to these two development institutions: the Orangi Pilot Project (OPP) and the Aga Khan Rural Support Program (AKRSP). These NGOs first started offering microfinance services on a limited scale in the early 1990s after realising that financing was a necessary component for raising incomes and productivity (Hussein & Khan, 2009; Zulfiqar, 2013). Following the footsteps of AKRSP, many other National Rural Support Programs (NRSPs) in 1990 were created around the country, including the Sarhad Rural Support Program in Peshawar, the Punjab Rural Support Program in Lahore, and the National Rural Support Program in Islamabad (Hussein & Khan, 2009; Madhani, 2015). There are currently eleven National Rural Support Programs (NRSPs) in all, and each one provides microfinance, which includes microcredit, micro-savings, and microinsurance (Zulfiqar, 2013). According to Rasmussen et al. (2004), by the late 1990s, RSPs represented 80% of all active microcredit clients in the country.

Later in the 1990s, financial institutions, including commercial banks and leasing companies, started participating in the microfinance sector, primarily operating in the large cities of Pakistan (Madhani, 2015). The financial services offered to the impoverished were largely socially motivated, heavily subsidised, and had less interest in recovering overdue loans. The Kashf Foundation was one of the

microfinance NGOs that NRSP formed in 1996 to solve these challenges (Madhani, 2015; Hussein & Khan, 2009). Many of these NGOs provided credit mainly to women and were founded solely as microfinance organisations. The conventional group-lending model was used by these MFIs. The Pakistan Micro-Finance Network (PMN), which represents MFIs throughout the nation, was established in 1998. Subsequent changes occurred in 2000 when the micro-finance bank ordinance altered the sector's dynamics (Madhani, 2015; Hussein & Khan, 2009). In 2000, the government established a Khushali Bank under a separate ordinance to offer microcredit to marginalised and underserved people in the country (Hussein & Khan, 2009). Later, in 2001, the State Bank of Pakistan proposed a Microfinance Institutions Ordinance (2001), which enabled the private sector to start microfinance banks with significantly reduced reserve requirements (Hussein & Khan, 2009). Khushali Bank and First Microfinance Bank Limited (2002) were founded under the patronage of the Asian Development Bank and Agha Khan Funds for Economic Development, respectively (Khan & Plateau, 2007). To date, 11 microfinance banks are operating in Pakistan: Khushhali, The First MFB, U Microfinance Bank, Mobilink Microfinance Bank, NRSP, FINCA, Telenor, Pak Oman, Advans, and Sindh MFB; all are registered with the Pakistan Microfinance Network (PMN) (Zulfiqar, 2013). The State Bank of Pakistan regulates all these MFBs under the 2000 Microfinance Bank Ordinance. Sheikh and Waseem (2025) reported that all MFBs in Pakistan account for 8.63 million active borrowers. It means that MFBs cover 58% of the active borrowers in the country, while MFIs and RSPs account for the rest. Although they provide essentially the same service, the main distinction between them is found in their regulations. According to the MFB ordinance, MFBs are governed by the State Bank of Pakistan (SBP) and are typically only allowed to provide savings accounts, microcredit, life insurance, and, infrequently, health insurance. In addition to providing life and family health insurance for the borrower, many MFIs also take part in community development and social mobilisation initiatives (Hussein & Khan, 2009; Madhani, 2015). Microfinance initiatives for community involvement and social mobilisation have historically placed a strong emphasis on group loan models. A group can consist of five to twenty persons; a group apply for a loan using the group lending method of microfinance without putting up any security (Mahmood, 2013). Although each group member is personally responsible for repaying the loan, in the event of default, all members must forfeit their future credit from the

microfinance organisation. Although group lending arrangements remain the foundation of the majority of Pakistan's microfinance programs, several MFBs and MFIs are changing their group lending models to substitute individual lending (State Bank of Pakistan, 2011). The terms micro-finance and micro-credit have been used interchangeably in Pakistan. Microcredit, micro-savings, and microinsurance are commonly referred to as microfinance in Pakistan (Madhani, 2015).

2.3 Microfinance, Poverty, and Gender Disparity

This part of the literature will shed light on the relationship between microfinance, poverty and gender disparity. Mawa (2008) asserts that microfinance is associated with the first and third Millennium Development Goals (MDGs) out of the eight. The Millennium Development Goals (MDGs) are the global objectives meant to be met by 2015, focused on reducing poverty and enhancing health and literacy rates worldwide.

Alleviation of poverty and hunger is the first and most important MDG. Poverty is recognised as a process that emphasises the resources and assets the poor have rather than what they lack (Cagatay, 1998). The United Nations Development Programme (UNDP) defines poverty in its Annual Report (2008). "*Poverty is not just about money; people's health, education, security, and chances to participate in politics are all impacted by a lack of access to basic resources*". People who lack possibilities are considered to be in human poverty, and this idea helps identify the root causes of poverty rather than just its signs. The idea of poverty aids in elucidating the connection between poverty and gender inequality because it emphasises gender disparities in the absence of health and education facilities, as well as societal restraints (Cagatay, 1998).

The third Millennium Development Goal (MDG) is about women's empowerment and gender equality, which is associated with microfinance as well. The World Health Organisation (2001) defines gender equality as "*Equal treatment of women and men in laws and policies, and equal access to resources and services within families, communities, and society at large*". Economic growth and poverty reduction are negatively impacted by gender disparity. According to Morrison et al. (2007), measurement of the association between gender equality and poverty, developing nations with more gender equality also tend to have lower rates of poverty. Similarly,

according to Francisco (2007), research on Southeast Asian nations shows that gender-based disparities hinder socio-economic development and progress.

Cagatay (1998) states that poverty affects everyone, but women are adversely affected by poverty because of gender inequality in the labour market, economic and political institutions, and the unequal distribution of income and property ownership (Cagatay, 1998). A similar study was conducted by Lucy et al. (2008) in Bangladesh, which found that while poverty affects all citizens, it disproportionately affects women and children. In their homes and communities, women and girls still experience discrimination in all spheres, including political involvement, education, employment, and health and nutrition. Women are, therefore, more susceptible to chronic poverty. Additionally, women are less wealthy since a large portion of their labour is unpaid and uncounted within the home, and work outside the home is also taboo for them.

Given that poverty and gender inequality are the two biggest problems facing the majority of the developing world and, occasionally, some areas of developed nations as well, methods and development initiatives that encourage self-reliance are needed. Microfinance has been seen as having the potential to significantly reduce poverty to accomplish this goal (Mawa, 2008). By creating a model, the State Bank of Pakistan Quarterly Report from 2005 illustrated how microcredit contributes to economic growth and poverty alleviation. Microfinance is thought to be a useful instrument for combating poverty by promoting self-employment (Mahmood, 2013). Improving their living standards and giving them more access to healthcare and education helps the impoverished people's financial situation. According to this paradigm, women are the focus of microcredit as the most impoverished group in society, which promotes their empowerment. Here, women's empowerment tackles the problems of gender equality, female economic engagement, and the growing influence of microcredit on family decision-making (Mahmood, 2013). As a result, the fertility rate lowers, and household wellbeing rises. Additionally, microfinance contributes to the growth of microenterprises, which in turn boosts employment and reduces poverty by increasing job opportunities. It demonstrates that microcredit positively affects the growth of women's microenterprises and the welfare of their families (Mahmood, 2013). Microfinance aims to assist impoverished individuals, both male and female, in becoming entrepreneurs by encouraging them to take the risk of launching a business (Haque & Harbin, 2009). However, according to Helms (2006), lending money to

those who are impoverished or have no source of income carries a significant risk because they might not be able to repay the loan. He asserted that grants, training and employment initiatives, and infrastructure development projects would be more advantageous for these individuals than microloans.

According to certain studies, microfinance only adds to the debt of the poor rather than reducing it. According to Coleman's (1999) research on Northeast Thailand's credit program, the program had little effect on tangible assets, as well as health and education. Coleman (2006) improved the methods of the previous work and found that credit programs are more likely to reach the well-off than the impoverished. He discovered that the programme proves more beneficial for the well-off members of the household than the poorer members. Subsequently, a study conducted by Hermes and Lensink (2007) supports this narrative that microfinance has still not reached the most impoverished segment of the poor. Microfinance is an effective way to combat poverty, but microfinance institutions must prioritise helping the poorest borrowers. According to Weiss et al. (2003), because of the significant risk of negative credit, microfinance loan officers and group lending participants may deny loans to the extremely poor.

2.4 The Effect of Microfinance on Microenterprise, Entrepreneurship and Overall Well-being

2.4.1 Microenterprise

Since the early 1970s, microfinance has been seen as having a growing potential for the growth of microenterprises. Research shows that the availability of microfinance supports the growth of microenterprises mostly in underdeveloped areas (Salia, 2015; Augsburg & Fouillet, 2013). Results of a study conducted by Olu (2009) show that the performance of microenterprises in Nigeria has so far benefited from microfinancing. This is most likely because microfinance banks now provide financial services to millions of small enterprises worldwide. Savings, informal credit, and other semi-formal credit are the main sources of funding for business establishments in developing nations (Dichter, 2007). Improved investment production and higher income are frequently the results of microfinance given to microenterprises (Salia, 2015). Karnani (2007) states that impoverished people use the money they make from starting microenterprises to enhance their economic development, well-being, and

sense of dignity. Entrepreneurs occasionally use a portion of their loans to purchase household goods that enhance their quality of life since they lack the funds to cover household bills (Agier & Szafarz, 2013).

In Tanzania, women microentrepreneurs reported that their entrepreneurial activities improved because of microfinance loans and training (Kuzilwa, 2005). Over the past 15 years, microfinance programs in America have grown significantly and become more diverse. In terms of microenterprise formation, survival, and economic effect, they have shown promising results (Else & Gallagher, 2000). Microfinancing not only strengthens the growth and survival of enterprises but also increases household income and assets. The study's findings, conducted by Salia (2015), demonstrate the beneficial effects of microfinance on microenterprises. Specifically, microfinance banks' financial services boost the capital stock, assets, and sales revenue of microenterprises while promoting entrepreneurial networking. Even though studies show a robust correlation between microfinance and the expansion of microenterprises, the association is weakened by the high interest rates that current microfinance banks charge. Taking part in microfinance programs strengthens business training and the development of microenterprises. These results boost microenterprises' productivity, creativity, and ability to compete. A study conducted by Ondoro and Omena (2012) highlights that the provision of microloans enables young entrepreneurs to start small businesses, which in turn can generate income for themselves and their families. The results of the study by Nyaga and Gongera (2014) demonstrate that, when combined with sustainable micro-entrepreneurship, microfinance can be a useful, inclusive, effective strategy for youth empowerment. Microfinance is an effective youth empowerment approach that promotes youth development and capacity building through active involvement and participation in national building, which would replace the traditional "risk-based" preventive approach to youth development.

However, micro-entrepreneurs occasionally face significant obstacles in the development of their microenterprises. Specifically, rules, training, leadership, culture, and customers' open-mindedness can either support or hinder the growth of microenterprises (Isenberg, 2010). In this setting, technical know-how is frequently an internal microenterprise component. On the other hand, a microenterprise's relative advantage may be influenced by external factors such as political stability, financial

accessibility, and infrastructure development (Aidis et al., 2008). Furthermore, a few of these elements are sector-specific and may affect the output of microenterprises.

While microfinance has shown some positive results, it's not a guarantee that it will always lead to the growth of small businesses. Some studies have found that things like the overall economic situation and the structure of the microfinance system can limit how much of an impact microloan can have on these businesses. A study in Pakistan found that microcredit can help small businesses get access to capital, but it doesn't always lead to significant growth (Idrees et al. 2022). This is often because the loans are too small and the interest rates are too high, especially for new businesses. These findings suggest that microfinance is not a magic solution for growing small businesses. It depends on things like getting the right size loan, having a stable economy, and having some experience running a business already. In other words, microenterprise growth through microfinance is not automatic, and several conditions need to be met for it to be successful.

2.4.2 Entrepreneurship Skills

"One who takes between" is the meaning of the French term "entrepreneur" (Deakins & Freel, 2012). By engaging in business and creating jobs for others, entrepreneurs contribute significantly to the nation's economic growth (Jalbert, 2000). Cantillon, a French economist, coined the term "entrepreneur", and sees the role of the entrepreneur as someone who combines many factors of production, which are essential for economic progress (Dhameja, 2004). The authors of the Austrian School are the source of many contemporary theories on entrepreneurs. According to one of the authors, Kirzner, an entrepreneur is someone who is watchful and seizes the chance to benefit from trade because he has extra market information that others do not. Knight, another author, sees the entrepreneur as someone who takes chances. According to Knight, an entrepreneur is someone prepared to take a risk in the hopes of making money. Successful entrepreneurs' personality attributes are provided by the psychological method (Deakins & Freel, 2012). The social behavioural approach holds that a society's culture has an impact on an entrepreneur's success. An overall image of the entrepreneur is given by all of these methods and perspectives from many authors. According to Lowe and Marriott (2012), the term "entrepreneur" is broad and can be narrowly defined as the driving force behind economic progress or,

more broadly, as a person who either naturally possesses the traits necessary for success or learns them.

Entrepreneurship was not acknowledged as a significant evolution for the advancement of civilisation until the end of the eighteenth century (Matlay, 2005). Many nations view entrepreneurship as crucial for creating plans for economic expansion. Sussan and Obamuyi (2018) opine those entrepreneurial skills are a major factor in the economic well-being of enterprises. An entrepreneur comes up with innovative business ideas to bring economic prosperity to his/her business. The entrepreneur needs money or funds to bring different factors of production together, such as labour, capital and technology. For every business to succeed and run efficiently, funds must be available to create new investments. To encourage the growth of entrepreneurship, numerous microfinance banks have created a variety of assistance programs. These consist of training, basic infrastructure provision, extension and advisory services, and money (Sussan & Obamuyi, 2018). Newman et al. (2017) assert that although access to finance is essential, it is insufficient to promote innovation and the establishment of sustainable and profitable enterprises. In other words, entrepreneurs in underdeveloped environments face more than just financing limitations; they also have challenges with decision-making, seizing opportunities, and taking calculated risks. Not everyone in poverty is equally adept at spotting or seizing business possibilities. Therefore, these entrepreneurial activities are crucial for the economic development of microenterprises. According to a study by Kosgei (2017), young people in Pakistan who received microloans were more likely to engage in entrepreneurial activities compared to those who did not. The study found that the majority of microfinance recipients reported an improvement in their business skills. This suggests that microfinance not only provides capital but also encourages the development of entrepreneurial skills, which can lead to sustainable income generation. A study conducted by Khadka (2024) in Nepal unveils the significant positive influence of microfinance practices on entrepreneurship development in Rolpa District. It finds that microfinance services, particularly lending services, training, and skills education, significantly contributes to entrepreneurial success, while savings services have a less pronounced effect. Following the same pattern, Salum (2014) looked at the obstacles to the growth of entrepreneurship, the difficulties faced by microentrepreneurs, and the problems that microfinance

organisations confront when providing services to them. The study emphasised the vital role microfinance plays in helping microentrepreneurs by providing loan services, advice, training, and enterprise monitoring. The main barriers to the growth of entrepreneurship were found to be high interest rates, inadequate management, and non-registration. Olu (2009) conducted a study in Nigeria on entrepreneurial development and also confirmed the results that microfinance services significantly affect the entrepreneurial productivity of small-scale enterprises.

Prior to 1970, men were mostly responsible for entrepreneurial activities. Historically, men have dominated the entrepreneurial space because of the common notion that men possess more natural business acumen and can generate higher profits because of their strategic and risk-taking behaviour. A study conducted by De Mel et al. (2009) shows similar results, that Sri Lankan microenterprise owners show that one-time financial gifts given to men have a greater effect on male-owned enterprises than female-owned ones. Similarly, Fafchamps et al. (2011) also confirm by asserting that one-time donations given to men-owned enterprises yielded more profit than women-owned ones. After the mid-eighties, the acceptance of women's participation in labour-force increased. Then, economists opined that women's contribution is significant to a nation's economic growth. If women are economically productive, they can boost a nation's economic growth (World Bank, 1994). The primary goal of poverty alleviation programs that focus on empowering women is not just to benefit the women but lending to women also raises the standard of living for all of their families and to enhance community progress (Zhizhi, 2015; Nader, 2008). This shift in trend led to the growth of women's enterprises. The number of women-owned businesses has risen to 33% of the total business market of the world (Mahmood, 2013). According to Anna et al. (2000), female entrepreneurs are typically found in the retail and service sectors. In Sri Lanka, women are mostly focused on sewing and clothing manufacturing, while in Pakistan, they are primarily linked to traditional businesses (Goheer, 2003). Women work in small businesses, cotton, and light manufacturing industries like clothing production in Bangladesh and India (Sinha, 2005).

Researchers, like Lal et al. (2023) found out that microfinance can help entrepreneurs make a living, but to really grow their businesses, they need training in business skills along with access to money. Another study by Blanco-Oliver et al. (2023) showed

that the size of the loan given to entrepreneurs has a big impact on how well their businesses do. They found that only loans of a certain size can help businesses grow, while loans that are too small or too big don't work as well. These studies highlight an important idea that's getting more attention: entrepreneurship is like a bridge between microfinance and doing well in life. This means that microfinance might not directly improve people's lives, but it can do so by helping them start or grow businesses, which can then increase their income and improve their families' health, education, and overall well-being. This is especially true in rural areas like Hafizabad, where starting a small business is often the only way for low-income families to escape poverty.

2.4.3 Wellbeing

Numerous studies conducted in both developed and developing nations have demonstrated the effectiveness of microfinance as a means of lowering poverty and enhancing well-being. According to a survey of Grameen Bank Bangladesh borrowers, microfinance has significant economic and social advantages and helps reduce poverty (Mawa, 2008). Numerous studies have examined microfinance's effects on reducing poverty, with both positive (Khandker, 2005) and negative findings (Durrani et al., 2011).

Studies on microfinance often present a positive picture of how microloans affect borrowers and household well-being. Sheikh and Zahra (2020) claim that Microfinance banks can improve the well-being of the low-income population of rural areas of Pakistan by facilitating easy access to financial services, time responsiveness and providing suitable information about the terms of service. According to Khandker et al. (1998), the results of three micro-credit programmes have a greater effect on household income, household assets, self-employment, labour in both men and women and the educational attainment of both boys and girls. Lhing et al. (2013) found that microfinance programs significantly increase the economic well-being of their borrowers by boosting their household income and consumption. Correspondingly, Lhing et al. (2013) confirm that microfinance programs increase the earning capacity of their borrowers by enhancing investment in their microenterprises, increasing their savings and consumption. Economic empowerment of the client ultimately amplifies their socio-economic well-being. Additionally, studies by Al-Mamun et al. (2011), Banerjee et al. (2015), Copestake et al. (2001), Montgomery

(2006), and Zapalska et al. (2007) show that microfinance improves household income, health care, clothes, education, and savings. The appropriate utilisation of the loan is necessary for microfinance to have a beneficial impact on well-being. Mahjabeen (2008) has maintained that the capacity of microfinance to enhance the well-being of micro-entrepreneurs paves the way for their escape from poverty.

Studies indicate that microfinance can have a positive impact on the well-being of borrowers by fostering economic empowerment (Malki et al., 2024). A study conducted by Spithoven (2020) in Sub-Saharan Africa emphasises the importance of economic empowerment for the well-being of people. People can improve their economic standing and, consequently, their quality of life by obtaining financial resources through microfinance. Their well-being is enhanced by this economic stability, which lowers poverty and boosts financial security. Similar results were shown by Iitondoka's (2018) study conducted on the Namibia Youth Credit Scheme in Otjiwarongo. The Namibia Youth Credit Scheme has enabled youth borrowers to start and grow their enterprises. These results improve the borrowers' social standing, economic stability, and independence, all of which improve their general well-being. A study by Bhuiyan and Ivlevs (2019) asserts that microcredit borrowing has an indirect, detrimental impact on entrepreneurs' overall well-being in rural Bangladesh by raising their anxiety levels. Additionally, female borrowers report greater levels of achievement in life and financial security, while borrowers who have more household assets report higher levels of financial security satisfaction. Dumo (2015) conducted impact research that demonstrated the beneficial effects of microfinance on the lives of Ethiopian borrowers residing in Hawassa's rural communities. Income, well-being, employment prospects, and living conditions all showed improvements. Leist et al. (2018) discovered that because microfinance increases access to food and healthcare services, it seems to have a positive impact on the health of people and their families. On the contrary, microfinance has no appreciable effect on the empowerment or well-being of the impoverished (Duvendack et al., 2011; Khandker et al., 1998).

A study conducted by Banerjee et al. (2015) in India shows that microfinance helps in starting new small businesses and the sustainability of pre-existing micro-businesses, but no significant improvement in well-being is seen. Brett (2006) also reported a decline in net household income, although the majority of studies on family well-being showed positive outcomes. Research by Dayo et al. (2023) looked at women

who borrowed money in Sindh, Pakistan. They found that getting small loans, also known as microfinance, slightly increased the money these women had at home, but it didn't really improve their overall well-being, such as their health or education. This is because they didn't have other support programs to help them. In Nepal, Dhungana (2023) found similar results. The women who borrowed money multiple times and used it for things that would make them money, like starting a business, saw big improvements in their lives. But the women who used the loans to buy things they needed right away, or only borrowed money once, didn't see much of a change. This shows that microfinance doesn't always have the same effect on everyone's well-being. It depends on how they use the loan, how much money they borrow, and what's going on in their community. Through women's empowerment, microfinance contributes to economic well-being and helps reduce poverty, particularly among women in developing nations. According to Khandker et al. (2008), women's employment opportunities show a highly positive effect on household consumption and assets compared to men's employment. Economic empowerment enhances women's well-being as finance gives women control over saving and economic decisions of the household and themselves. In Bangladesh, women microfinance borrowers are more empowered and show well-being because they participate in home activities and have greater access to financial and economic resources, as well as greater mobility (Pitt et al. 2006). A study conducted by Sanyang and Huang (2008) in rural Gambia shows that microfinance could be a powerful tool to empower women. Numerous beneficial effects on women's empowerment were discovered in a case study on an NGO in Bangladesh that offers microfinance to women in an effort to reduce poverty. Findings suggest that women's participation in microcredit programmes not only improves their household income and assets but also improves women's political engagement, mobility, and decision-making, all of which demonstrate empowerment. The detrimental effects of microfinance on female empowerment were also documented. Studies report that microfinance has no significant impact on women's empowerment and has not changed the status of women in the home because men still control the household income and have the ability to abuse the loan money (Kim et al. 2007; Goetz & Gupta 1996). Furthermore, giving women credit instead of men can lead to more domestic exploitation of women.

Literature shows that the impact of microfinance on borrowers' microenterprises and wellbeing require more research, especially in rural areas. It is imperative to study the effect of microfinance on well-being to fill the gap in the literature. Existing research on microfinance in Pakistan has primarily focused on urban areas, and interviews from those studies have highlighted that rural microfinance differs significantly from its urban counterpart (Zulfiqar, 2013; Mahmood, 2013). This study will fill the research gap by conducting research in the rural area of Pakistan to provide a more comprehensive understanding of the microfinance experience across the country. Table 2.1 shows studies on microfinance regarding entrepreneurship and wellbeing and the evolution and success stories of microfinance.

Table 2.1: Literature on Microfinance

Authors (s) & Year	Objective	Methodology: Research design, & Sample size	Key Findings	Relevance to the study
Agier & Szafar (2013)	Do men and women benefit from the same credit conditions?	Quantitative research, 34,000 sample size	Glass-ceiling effect concerning credit requirements, but finds no gender bias in loan denial.	Supports the perspective of access to finance through microfinance for both men and women.
Al-Mamun et al. (2011)	Analyse the effects of Amanah Ikhtiar Malaysia's (AIM) microcredit scheme on poor household income and poverty.	Qusai-experimental research design, 483 sample size	The quantity of productive assets has a positive relationship with the amount of loans obtained, which in turn causes a growth in household assets.	The study's focus is consistent with the present study's emphasis on the contribution of microfinance to entrepreneurship.
Banerjee et al. (2010)	Impact of a microfinance programme introduction in a market on household income.	Experimental research design, 2800 sample size	The average monthly expenditure per person is unaffected by microcredit, although business expansion and durable goods spending have both increased.	Provide a macro view of microfinance on poverty.
Brett (2006)	Explore the social and structural circumstances in which women take on debt	Ethnographic research design, 78 sample size	Through microfinance, women clients' gross income may rise, but their net household income falls.	Supports the idea of economic empowerment through microfinance.

Bhuiyan & Ivlevs (2019)	examining how entrepreneurship made possible by microcredit affects general life satisfaction, a crucial indicator of subjective well-being.	Quantitative method, 1430 sample size	It was discovered that microcredit borrowing has an indirect, detrimental impact on overall life satisfaction. Positively, female micro borrowers are more satisfied with their level of success in life and financial stability.	Highlights the well-being issue that this study is focused on.
Coleman (1999)	Impact of Group Lending on Borrower Welfare	Qusai-experimental design, 445 sample size	Results show no significant relationship between group lending and borrowers' welfare.	Provides a theoretical ground for the basis of this study.
Coleman (2006)	Assesses two microfinance programs' impact and outreach.	Qusai-experimental design, 444 sample size	Borrowers' home welfare is improved by programs.	Demonstrates the positive effects of microfinance on welfare and backs research.
Copestake et al. (2001)	impact of an urban credit program in Zambia on a variety of welfare variables and business performance.	Survey and interviews, 420 sample size	The average growth in household income and firm profits was considerably larger for borrowers who took out a second loan.	This directly relates to the focus of the study.
Durrani et al. (2011)	Microfinance's contribution to reducing poverty through social and economic factors.	Mixed method, 100 sample	Microfinance institutions can perform better and fulfil their role in reducing poverty more effectively than they now do.	Useful for building a foundation of study.
Dhungana (2023)	Examines how microfinance is thought	Quantitative design, 150	The study finds that microfinance significantly	This study variable is closely related to the well-being variable of the study.

	to have improved livelihoods in Nepal's Kaski area.	sample size	improves the livelihoods of the underprivileged people. The socioeconomic circumstances of clients have greatly improved as a result of microfinance operations.	
Duvedack et al. (2011)	Assess the microfinance effect on economic outcomes, human development outcomes and empowerment.	A systematic review, 58 studies	Strong evidence for long-lasting benefits was not discovered, even in important domains like children's educational outcomes or women's empowerment.	Its conclusions are relevant to the study. The study warns against overinterpreting positive evidence.
De Goey (2012)	Examines how microfinance, especially group loans, affects the welfare of female borrowers in Tanzania's Dar es Salaam Region.	Participatory Rural Appraisal (PRA) method, No definite sample frame	Positive changes in well-being, such as greater financial security, life direction, and confidence, were facilitated by group loans.	This study supports a focus on well-being and microfinance, especially in evaluating the ways in which economic empowerment results in wider financial and social advantages.
Ebakeh (2023)	Examines the contribution of microfinance to the enhancement of urban youth livelihoods by assessing the policies, strategies, financial products, and services accessible to young people.	Mixed method design, 400 sample	Youth livelihoods were positively impacted by microfinance, which helped to accomplish the Sustainable Development Goals (SDGs) and Agenda 2063.	This study offers empirical evidence on how microfinance affects livelihoods, just like the Focus of the present study.

Iitondoka (2018)	Analyses the impact of microfinance on youth economic empowerment.	Descriptive research, 72 sample	The study found that microfinance initiatives had raised young people's and their families' standards of living. Poverty has decreased, and young people have launched their enterprises.	This study provides the supporting literature for the present research variables.
Gichuru et al. (2019)	Investigates the effects of microfinance on the usage of contraceptives, female empowerment, and the nutrition of children.	A systematic review, 72 samples	A 64% increase in the proportion of women utilising contraceptives was linked to microfinance. There have been some encouraging developments in women's empowerment and Nutritional improvements for kids.	This study highlights microfinance and women's empowerment and living standards.
Goetz & Gupta (1996)	evaluates the extent to which women control loans after gaining access to microfinance.	Survey research method, purposive sampling	A sizable amount of loans taken out by women are directly controlled by their male relatives, and the female borrowers are responsible for repaying the debts.	Provide literature on the gender perspective in the microfinance field.
Karlan & Valdivia (2006)	The effect of business training in a group loan program for female microbusiness owners.	Randomised control trial, 3265 sample	Findings show that providing extant microcredit program clients with basic business training does not increase revenues or profits.	Provide the literature on one of the variables (entrepreneurship) of this study
Khandker et	To measure the effects of three main microcredit	Qusai-experimental	Microcredit programs increased average household income and	This study emphasises the financial effects of microcredit programs on rural populations,

al. (1998)	programs and how they affect employment, income, and production.	design, 1798 sample	employment, mostly through self-employment in non-farm sectors, and increased overall production.	which makes it pertinent to your research.
Khandker (2005)	Investigates the impact of microfinance on reducing poverty at the individual and overall levels.	Quantitative research method, panel data	According to the findings, having access to microfinance helps reduce poverty generally at the village level as well as for female participants in particular.	Emphasises the key aspect of microfinance impact which is required for undergoing study.
Khandker et al. (2008)	Measure the effect of microfinance on young women's entrepreneurship skills.	Quantitative research design, panel data	Women between the ages of 15 and 30 had higher household per capita expenditures and a greater need for microfinance than older women. Fertility has also decreased.	Provides the conceptual model for the variable of this study.
Kim et al. (2007)	Analysing the extent of women's empowerment and decline in intimate partner violence reported by the AIDS and Gender Equity Intervention with Microfinance.	Mixed method research, no definite sample frame	Findings show that women's social and economic empowerment can help lower the rate of violence against intimate partners.	Shows the positive relationship between microfinance and socio-economic living conditions.
Madhani (2015)	Investigates how participating in microfinance affects their mental health.	Qualitative, 32 women, 6 administrative, and 5 institutional	Microfinance was found to be a crucial component in enhancing mental health. Coping mechanisms included familial support, resiliency, and religious	The study emphasises how microfinance affects well-being in areas other than money, including mental health.

		documents.	traditions.	
Mawa (2008)	Evaluates how microfinance contributes to reducing poverty by looking at how it affects social aspects of life.	A systematic review, case studies of Bangladesh.	Although there are drawbacks, microfinance raises income levels, generates job opportunities, and increases social well-being.	The study offers empirical proof of microfinance's involvement in economic empowerment.
Montgomery (2006)	Impact evaluation of Khushhali Microfinance Bank on the absolute poor.	Survey research method, 2881 sample	The findings demonstrate that when extremely poor clients use the loans to invest in their microenterprises, the health and education of their children improve.	Provide empirical evidence of microfinance's impact on well-being and poverty.
Morris & Barnes (2005)	Assessing the impact of microfinance programs on borrowers' welfare.	Qualitative research method, panel data from 1997-99.	Customers saw an improvement in household income, better financial stability, increased sales, and enterprise growth. stability, asset accumulation, and business expansion.	This report supports the present study's focus on well-being, entrepreneurship, and economic empowerment.
Mahmood (2013)	Evaluate the impact of microfinance on economic empowerment of women, family welfare and access to commercial bank investments.	Triangulation method, 300 surveys, 50 interviews.	According to research, providing training and mentorship facilities along with microcredit to female-owned businesses boosts their profitability, which in turn raises their family welfare. Microfinance programs do not help in the development of	Useful in giving insights into the theoretical and conceptual framework of the present study because this study also employed the same variables.

			entrepreneurial abilities.	
Malki et al. (2024).	Examines how microfinance affects women borrowers' household welfare and entrepreneurial engagement in rural Pakistan.	Quantitative research method, 463 sample	Women who invest their loans in microenterprises have significantly higher socio-economic conditions. However, couldn't find a decrease in child labour or an improvement in health and education.	Highlights the multiple ways to measure the well-being variable of the present study.
Olu (2009)	Examines how microfinance affects the entrepreneurial growth of small businesses in Nigeria.	Survey research design, 48 sample	Microfinance has a positive impact on the growth of entrepreneurship in Nigeria. Microfinance provides access to financing for the development of entrepreneurship.	Highlight the empirical evidence of microfinance on entrepreneurship, which is a variable of this study.
Ondoro et al. (2012)	Examine how microfinance services affect young people's financial empowerment through youth savings.	Quantitative research method, 339 youth groups, and 513 young individuals.	No discernible correlation between youth investment or savings from microfinance services was found. Nonetheless, it was shown that microfinance services improved money management abilities.	Shares the same research focus as the present study by highlighting the youth economic empowerment.
Pitt et al. (2006)	Assess the microfinance effect on women's economic empowerment and household decision-making.	Quantitative study, 1798 sample.	Women's participation in microfinance enhanced household well-being, economic power, mobility, and financial decision-making.	This study bolsters present research by highlighting economic empowerment and decision-making.
Salum	Discovers obstacles that	Quantitative	High interest rates and	Provide the foundational ground for the

(2014)	hinder the growth of entrepreneurship, and difficulties that microfinance institutions encounter when delivering services to microbusiness owners.	research method, a sample of 120 responders.	inadequate management in microfinance institutions are found to be a major obstacle to the growth of entrepreneurs.	variable (entrepreneurship) of the present study.
Sheikh & Zahra (2020)	This study looks into how MFBs in Pakistan use the Loan Processing System (LPS).	Quantitative research method, and 190 sample size	The findings support that MFBs' simple loan processing systems and processes are essential to the welfare of low-income groups and people.	Provide the dynamic measure of welfare and well-being in Pakistan.
Sussan & Obamuyi (2018)	Evaluates the impact of microfinance on entrepreneurial skills development.	Quantitative research method, 192 samples	The results showed that microfinance banks have a major influence on the growth of entrepreneurship in Nigeria.	Provide empirical evidence on entrepreneurial development.
Zulfiqar (2013)	To compare the mission, outreach, and borrower experiences of microfinance banks and microfinance institutions to assess the efficacy of microfinance in Pakistan.	Mixed method, 140 interviews, 12 days of observation, PSLM survey	Microfinance has little effect on poverty or women's empowerment. MFIs are more involved in social mobilisation, whereas MFBs reach a larger audience. Pressure to repay loans and high interest rates continue to be major obstacles.	The present research is closely related to the study's empirical data on the effects of microfinance on financial inclusion, poverty alleviation, and empowerment.

CHAPTER 3:
METHODOLOGY

The third chapter presents the research methodology. The chapter is divided into three sections: the first section covers the research philosophy, research approach and design and the theoretical and conceptual framework. The second section deals with sampling methods and techniques.

3.1 Research Philosophy

The nature of the research philosophy and research question determines the research methodology that is used in any study. Research philosophy provides the lens to view the social world. It not only helps us to understand the essence of reality (ontology) but also provides the methods to comprehend true knowledge (epistemology) (Mahmood, 2013). Therefore, it is essential to comprehend the research paradigm because the research method is based on it. This study is underpinned by the ***Pragmatist*** worldview. Pragmatism is an overarching philosophy and is widely used in mixed-method research. It emphasises the focus of the research question rather than the method used; therefore, it advocates for the use of multiple methods to completely understand the research problem. The pragmatist paradigm sees the world both as a single (measurable) and multiple (perceivable) reality. In the pragmatist paradigm, the researcher both measures and explores the social reality. Pragmatism allows the researcher to use both a *deductive approach* (generate the hypothesis and verify the theory) in the quantitative phase and an *Inductive approach* (gather people's perspectives and lead to the generation of a theory) in the qualitative phase (see Table 3.1).

Table 3.1 shows that the ***ontological premise*** of this study is that the social environment of microfinance, borrowers' entrepreneurship, and wellbeing is a single, unchangeable truth. A single fact, however, has several realities because of the social and cultural context, which allows individuals to form their own perspective. Society is physical and objective, but each individual who plays a role in it is subjective, and each person has their own unique perspective of the world. It is essential to comprehend the significance of the social world and the individuals who inhabit it. Thus, the significance of individuals' subjective experiences within the concrete and objective social environment will be acknowledged in this study. It is crucial to

remember that this study does not directly monitor cultural and social aspects. However, these elements are linked to socioeconomic well-being, and borrowers, particularly in Pakistan, are inextricably linked to it. Consequently, social and cultural aspects are implicitly included in this study.

By measuring hard facts, the researcher may be able to address the problem of microfinance and its impact on the development of borrowers' enterprises by measuring the hard facts and comprehending the role of the borrowers, and the cultural ideologies that define the significance of such harsh realities. We must pay attention to the impact of sociocultural influences on entrepreneurship in addition to the microfinance system. Therefore, using a triangulation approach is crucial to thoroughly investigating the factors as well as the variables influencing the connection between microfinance and wellbeing.

Table 3.1: Elements of research philosophy

Philosophical questions	**Pragmatism**
Ontology *(What is the nature of reality?)*	Reality is both objective and subjective.
Epistemology *(What is the way to acquire knowledge?)*	Knowledge could be acquired in what works best for it. Like, what research method research questions demand, whether it is quantitative or qualitative or both.
Methodology *(What is the procedure of research?)*	Both inductive and deductive research approaches

Source: Creswell and Clark (2017)

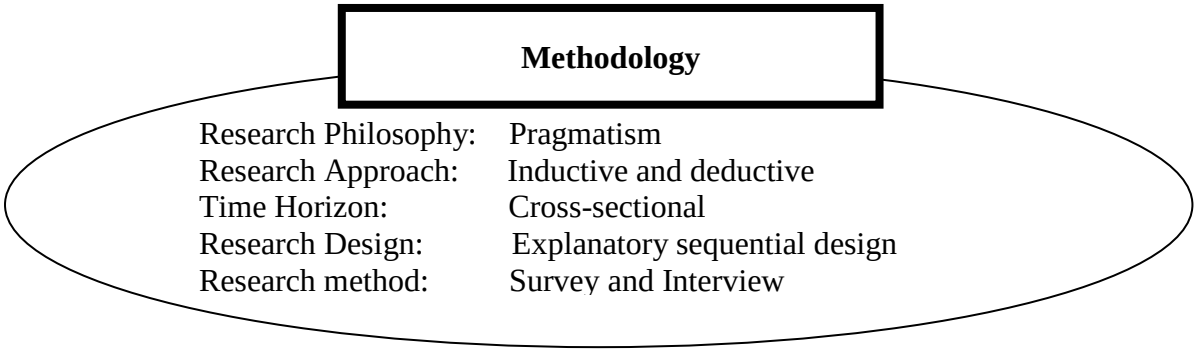
3.2 Research Design and Method

This research uses both inductive and deductive research approaches because the research questions call for it. It means this research is going in the direction of **Explanatory Sequential research design**. Explanatory design indicates that qualitative data explain the quantitative data of the research. This is best suited for situations when a researcher wants to get a holistic understanding of a phenomenon or when quantitative results require explanation, like how and why results occur. Therefore, this study uses both qualitative and quantitative research methods.

The triangulation strategy is better suited to address the research objectives of this study, given the complexity of the investigation. Furthermore, figures of quantitative data will not be able to adequately answer the effectiveness of microfinance; therefore, qualitative research will be needed to capture the borrowers' perspective to thoroughly understand the complexities of why and how microfinance works. The qualitative method will help us to carve a solution out of hard facts regarding the success and failure of microfinance in improving entrepreneurship and the well-being of marginalised people.

Research questions of the study define the research design of that particular study. Explanatory sequential design is better suited to address this study's questions. This study poses fundamental "what" questions, which call for a *survey research design* and it is also associated with a deductive approach. For example, the first question is: "What is the role of microfinance in the growth of microenterprises of borrowers?" or What is the role of microfinance in the well-being of borrowers?" These questions will be addressed through a ***questionnaire,*** a survey method. Then the questions of "why" such as "how microfinance improves the wellbeing or why microfinance could not improve the wellbeing?" will be answered to seek the explanation of survey findings. These enquiries will be adequately addressed through the use of the ***interview*** from managers of MFBs and clients. By answering the "how" and "why" question, the qualitative research design will offer a deeper understanding of the problem than the survey, which takes the shape of structured questionnaires designed to answer the "what" and "how much" research questions. To delve deeper, a survey will be administered first, followed by in-person interviews. Hence, this study employs the survey method in the first phase and the interview method in the second phase under the explanatory sequential design to collect and analyse certain data. Therefore, data is gathered from BMs and clients of two MFBs: FINCA and Khushhali Bank to get a deeper understanding of the problem.

Figure 3.1: Research Design



3.3 Theoretical Framework

It has been challenging and debatable to evaluate the impact of microfinance on borrowers' well-being. Before the 1990s, research on the topic concentrated on one dimension (economic measures) of well-being. It is encouraging that no perfect measure for well-being has yet been made because well-being is both difficult to quantify and significant due to the wide range of goals and preferences that define it. Connecting well-being measures to macroeconomic analysis presents difficulties. But then Amartya Sen, for the first time, gave the multidimensional measure of well-being at the end of the 20th century by introducing the "Capability Approach". Income has long been the standard economic indicator of well-being, a one-dimensional measure (Alkire & Sarwar, 2009). The capability approach shifts the conversation about well-being from a narrow focus on income to one that takes into account factors including inadequate access to food, clothes, housing, self-worth, health and education (Alkire, 2016).

This approach argues that instead of focusing on income and consumption, well-being should be conceptualised in terms of functioning and capabilities (Alkire, 2016). Capabilities and functions are the two fundamental components of the idea. *Functions* are the states of being or doing that individuals value, whereas *capabilities* are the freedoms people have to live the kinds of lives they love. Accordingly, well-being is seen from the capacity perspective as liberties to do things that individuals cherish (Alkire, 2016). When people have few options and no resources to guarantee their well-being, they are considered poor. Since the 1990s, the multifaceted perspective on well-being has gained momentum due to the capability approach (Zulfiqar, 2013). How does this theory assess the efficacy of microfinance on wellbeing, one might wonder?

According to the capability approach, everything that assists the impoverished in overcoming financial exclusion, which results in warding off their lack of access to official sources of credit, improves their capabilities. However, the capability approach emphasises that genuine progress must improve each person's overall well-being. In other words, rather than individual capabilities, the focus here is on combined capabilities (Zulfiqar, 2013). It means if microfinance only gives access to finance without bringing improvement in other aspects such as household assets, health and education, it performs poorly in comparison to other poverty-reducing

interventions like the creation of jobs in the formal sector, which also offers employee health benefits and other opportunities for improving wellbeing (Zulfiqar, 2013). For example, in case of this research, microfinance should not just increase the borrowers' household income and consumption (by expanding their enterprises) but also increase their health, education, and household assets and items as well.

Determining how to operationalise the capabilities approach is quite challenging. Amartya Sen offers a wide range of desired capabilities; therefore, there are practical considerations to make, such as which one to prioritise and how much to value a specific combination of capabilities (Zulfiqar, 2013). This is what Alkire (2007) calls Sen's "fundamental or assertive incompleteness." She argues in his favour that no single set of capabilities can be applied to all tests or evaluations. Instead, she makes the case for a collaborative process that takes into account the local context when creating a list of capabilities.

The researcher created the following set of indicators (both economic and non-economic measures of well-being), based on Alkire's recommendation, with the help of other theories to evaluate the experiences of microfinance borrowers in Pakistan. *The economic measure of wellbeing* will measure the microenterprise growth as an indirect measure of economic wellbeing. Microenterprise growth (economic measure) is grounded in Scott Shane's *General Theory of Entrepreneurship,* which defines entrepreneurship as "*an activity that involves the discovery, evaluation, and exploitation of opportunities to introduce new goods and services, ways of organising, markets, processes, and raw materials through organising efforts that previously had not existed*" (Shane, 2003). According to Shane's theory, microenterprise development occurs in three stages: opportunity identification, evaluation, and a conscious decision to take advantage of them. In this context, microfinance banks seek to enable the poor to start new businesses or grow already existing ones by providing both financial assistance and non-financial services. As a result, we should hope for an increase in the entrepreneurial abilities of borrowers, which should translate into tangible micro-enterprises growth as well. This microenterprise growth will be measured by establishing a new business or growing an existing one as a direct result of the loan; an increase in sales and labour, and an increase in profits will serve as an indicator of the economic well-being of borrowers. Improvements in *household income and consumption smoothing* are more recent economic indicators to

measure borrower well-being (Banerjee et al., 2009). These indicators measure the increase in household income and purchases.

Economic well-being is an individual capability and a critical factor in shaping borrower households' overall well-being, aligning with Sen's concept of Combined Capabilities. Therefore, to construct a *non-economic measure* of well-being, the researcher used three dimensions of well-being, namely, health, education, and living standards, used by the Human Development Index (HDI). The purpose of these non-economic measures is to gauge how much microfinance can improve borrower households' multidimensional well-being indicators. The well-being of borrowers and their families includes an increase in educational level, health, a decrease in household conflict and ownership of household assets. This theoretical and empirical linkage provides a robust framework for evaluating the impact of microfinance on borrowers' well-being.

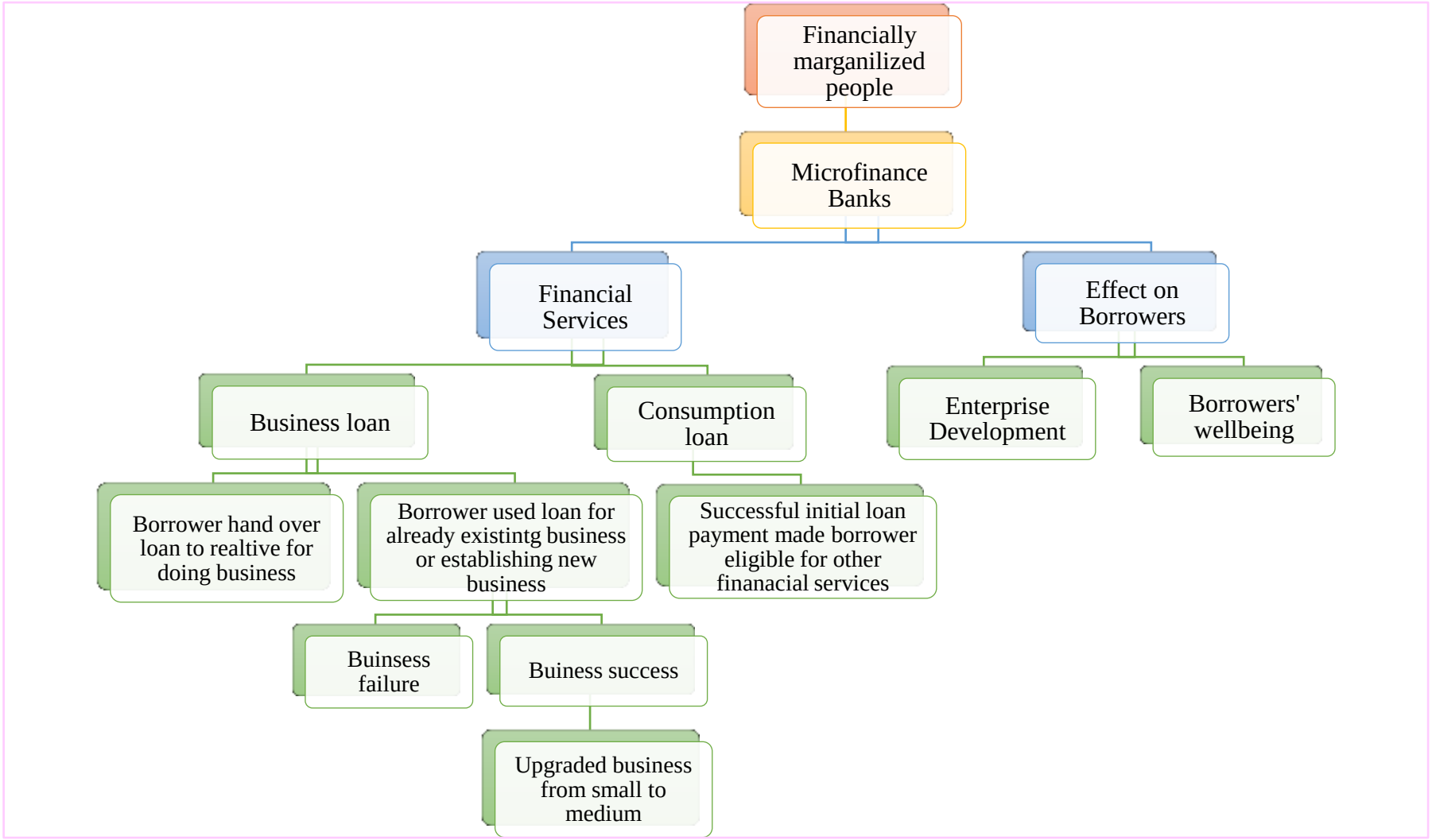
3.4 Conceptual Framework

A model is created based on these studies to comprehend how microfinance functions and affects borrowers in Pakistan. A few existing frameworks of microfinance and well-being in Zulfiqar (2013), Mahmood (2013) and Shane (2003) were also taken into consideration in the diagrammatic presentation of the model. Nevertheless, the impact of microfinance on the well-being of borrowers has not been the focus of these studies. To address the micro component of microfinance, the present study applied Mahmood's (2013) paradigms of entrepreneurship and microenterprise development to two microfinance banks in Pakistan.

The financial services microfinance institutions offer include business loans for new and old entrepreneurs and consumption loans for borrowers. While consumption loans are intended to meet borrowers' immediate requirements, such as unforeseen medical bills, weddings, education and personal use, business loans are intended to invest credit in new and existing enterprises. Borrowers' entrepreneurship and family well-being are all impacted by the financial services provided by MFBs. This demonstrates that borrowers who have more access to microfinance have improved health, education, and well-being of themselves and their families, as well as increased income and savings. A microenterprise is created if a person uses the loan to run his/her firm and it turns a profit. The borrowers and their families' well-being and

economic empowerment both rise due to these improvements. More research is needed to determine how microfinance helps improve borrowers' well-being and build their enterprises, boost their entrepreneurship and ultimately reduce poverty. Figure 3.2 shows a conceptual framework for the present study by incorporating literature on microfinance, particularly in the areas of well-being, and entrepreneurship.

Figure 3.2: Diagrammatic Presentation of Conceptual Framework



3.5 Data Collection Instruments

The collection of data is a sequential process where every step is connected. The first step is the creation of a questionnaire, a data collection tool. The existing literature on the field of microfinance, well-being and entrepreneurship guided the design of this questionnaire. Mahmood (2013) studied women entrepreneurs in Pakistan, and wellbeing and demographic questions were adapted for developing the questionnaire for this research. Ebakeh (2023) worked on microfinance and urban youth livelihood in Ethiopia; the indicators used in this study were used in the selection of entrepreneur profile questions. With the help of these two studies, Mahmood (2013) and Ebakeh (2023), the questionnaire of the present study was developed.

The structured questionnaire is meant to collect numerical data through which the researcher examines the relationship between microfinance, borrowers' well-being and entrepreneurship. The questionnaire is composed of closed-ended questions and five sections include: Demographic information; household Income, Consumption and assets; Microfinance loan; Borrowers' enterprise; and borrowers' and their families' well-being (see questionnaire in Appendix A). The questionnaire is made in the English language for academic reporting, but for respondents, it was translated into Urdu.

Interviews with borrowers and bank managers were conducted in the Urdu language. Separate interview guides were prepared for borrowers and bank managers. The interview guide for BM includes questions related to the structure and process of microfinance to understand the basic function of microfinance and its relation to wellbeing. While the borrowers' interview guide contains the questions about the well-being and entrepreneurship (see Appendix A). The focus of these interviews was to unpack the outlier results of quantitative data.

Gaining the trust of MFBs was a difficult part, but through showing a reference letter from the university and communication, access was gained. The questionnaire, interview guide and thesis proposal were presented to MFBs to get their consent for interviews and data collection from clients. The list of active clients has been provided by both MFBs after persuasion and ensuring them that it will solely be used for academic purposes. BMs and participants were again assured that their confidentiality would be maintained during face-to-face interviews and before the

survey. The questionnaire did not contain the names of respondents to maintain their privacy.

3.6 Sample and Sampling Technique

For this study, the borrower is defined as *men and women who have taken or are currently taking a loan from a microfinance bank*. Therefore, the clients of two MFBs, FINCA and Khushhali, are the targeted population of this study. The study will be carried out in Hafizabad, Pakistan. The total number of active borrowers of the two MFBs under study is 1150.

A sample size of 297 was selected by the *Simple Random Sampling method* for the survey so that each borrower would have an independent chance of being chosen to reduce bias. Since the sample frame was provided by the Hafizabad branches of FINCA and Khushhali Bank, random sampling was used to ensure that the sample would be free of selection bias. The sample size is calculated by Yamane's (1967) formula for a finite (smaller) population. Sample size 297 is calculated as follows:

$$n = \frac{N}{1 + N(e^2)}$$

Here *n* is the sample size, and N is the population size (1150). *e* represents the margin of error, which is 5% in this case.

$$n = \frac{1150}{1 + 1150(0.05^2)}$$

$$n = \frac{1150}{3.875}$$

$$n \approx 297$$

It shows that the 297 sample would be the representative of this study's population in this specific area. *The Purposive Sampling technique* was used to select the sample of borrowers for the interview. The following criteria were used to select borrowers:

1. Borrowers who take microcredit from FINCA and Khushhali Bank
2. Borrowers who start or run a business with microcredit
3. Borrowers who were willing to give an interview

The interview sample from the manager would include only the branch managers of FINCA and Khushhali Bank. 10 borrowers were selected for an interview to get qualitative data.

Table 3. 2: Sampling Technique and Unit of Analysis

Research Tools	**Questionnaire**	**Interviews**
Unit of analysis	Individuals (male and female Borrowers)	Individuals (male and female Borrowers)
Sampling Technique	Simple random sampling	Purposive sampling

3.6.1 Administration of Survey and Interview

Clients from MFBs' lists were dispersed throughout the whole Hafizabad city, and it was not feasible for the researcher to get to each client to get the questionnaire filled out. Therefore, questionnaires were administered to 297 selected participants, either sent to participants through email or to participants who were illiterate and could not fill out the questionnaire, the researcher read the questions to them and filled out the questionnaire for them on a phone call. For participants who can fill the questionnaire, the purpose of the survey was explained on the first page of the questionnaire, and for participants who cannot fill the questionnaire, the purpose of the survey was first explained to them. A total of 297 questionnaires were administered electronically, either through email or structured interviews on phone calls, but only 182 questionnaires were completed, and 37 of those were rejected because they were not complete. Therefore, 145 questionnaires were used to analyse the data. Although the obtained sample of 145 is below the target sample of 297 proposed by Yamane (1967) for an appropriate sample size, with a margin of error of 5%. However, a response rate of around 49 per cent is acceptable for a remote survey by phone and email, where respondents are scattered across the city, and many of them are illiterate (Field, 2009). A sample of 145 is 12.6 per cent of the total active respondents, and it is enough to run the statistical tests used in this study. Out of 145 questionnaires, 21 were filled by women, and 124 were filled by men. 83 respondents were running a business from microcredit, out of which 73 are men and 10 are women. The excess number of males in respondents also reflects the true composition of borrowers of FINCA and Khushhali bank in Hafizabad, where the number is too large in

comparison to females, and it is not a part of selection bias. 55 questionnaires were filled out by FINCA bank clients, and 90 questionnaires were from Khushhali bank because the Khushhali branch has a larger client network and more active clients than FINCA bank.

First, the interviews of bank managers were conducted and then borrowers were interviewed. A total of 10 interviews were conducted, 4 from FINCA and 6 from Khushhali Bank. Interviews were recorded on the phone. In explanatory sequential research, the qualitative phase is there to explain and add context to the quantitative findings rather than being statistically representative. Therefore, a small purposive sample is enough to do the job (Creswell & Clark, 2017). In this case, respondents were carefully chosen from two banks, with the number of people from each bank being roughly in line with the size of each bank's customer base in Hafizabad. By interviewing these people, some common themes emerged, which showed that the main parts of the borrowers' experiences were being covered.

3.7 Quantitative Data Analysis

Regression analysis is utilised in quantitative analysis together with descriptive and inferential statistics. SPSS is used to analyse the data for descriptive and inferential statistics. Descriptive statistics provide the descriptive statistics of demographic information and cross-tabulation. Since the data is ordinal and nominal and not normally distributed, non-parametric tests such as the Chi-Square and the Mann-Whitney test will be used to find the statistical relationship between variables and the difference between independent groups, respectively. The Mann-Whitney test will assess the difference between two distinct comparison groups. The first comparison examines the differences between entrepreneurs who utilise a business loan and non-entrepreneurs who take a consumption loan. The second comparison focuses on differences between women entrepreneurs and men entrepreneurs. The first comparison aims to assess how the investment of loan funds into business activities contributes to enhancing the borrowers' well-being by promoting business sustainability. The second comparison seeks to explore gender differences in the impact of microfinance, particularly regarding the well-being of borrowers and their families.

Furthermore, two regression models were made for two variables of research, well-being and entrepreneurship and the association between these variables was examined by ordinal logistic regression. Given the goal of assessing the association between the provision of microfinance and well-being, a regression analysis will be carried out to determine how the outcome changes in the microenterprise's development (dependent variable) depending on the provision of microfinance (independent variable). Regression analysis, according to Montgomery et al. (2012), is best suited for assessing quantitative data in a study that aims to determine the impact of an independent variable. Given below are the two hypotheses of the study:

First hypothesis:

Borrowers' microenterprises will grow more rapidly with more financial services provided by microfinance banks.

H_1: Microfinance financial services grow the borrowers' microenterprises.

H_0: Microfinance financial services do not grow borrowers' microenterprises.

Second hypothesis:

Borrowers' involvement in microfinance programs will improve their own and their families' living standards.

H_2: Microfinance services enhance the well-being of borrowers and their families.

H_0: Microfinance services do not enhance the well-being of borrowers and their families.

3.7.1 Ordinal Logistic Regression Models

Since the data of this study are either categorical or nominal, ordinal logistic regression is one kind of regression that will be used. Four assumptions of logistic regression must be met before running it. First, there should not be multicollinearity between independent variables. The second assumption is error term independence. The third assumption is concerned with the parallel regression assumption, which requires that the independent variable have the same influence on all dependent variables. As a result, a single common model is estimated. This assumption is violated when the parallel lines test is statistically significant (Field, 2005). Sections 5.2.1 and 6.2.1 show that all assumptions of logistic regression have been met, making it suitable for testing the study's model.

The simple linear equation of the ordinal regression model is

$$Y_i = \alpha_0 + \beta_1 X_{1i} + \varepsilon_i$$

where Y_i symbolises the i-th respondent's dependent variable, α_0 is the intercept that displays the outcome's baseline value, and β_1 is the regression coefficient used to quantify how the independent variable affects the dependent variable. X_{1i} is the i-th respondent's independent variable value, and ε_i represents additional unobserved factors influencing the dependent variable and is represented by the error term.

The logistic regression model is used to analyse the questionnaires. "Prediction of the probability of Y occurring given known values of X's" is what logistic regression is (Field, 2005). With Y as the probability of occurrence, e as the base of natural logarithms, and β_n the regression coefficient of the variable X_n, the logistic model equation is:

$$P(Y) = \frac{1}{1+e^{-(\alpha_0+\beta_1 X_{1i}+\beta_2 X_{2i}+\beta_3 X_{3i}+\cdots+\beta_n X_{ni})}}$$

First Model

Therefore, in that case, the first hypothesis equation will be:

P (microenterprise development)

$$= \frac{1}{1 + e^{-(\alpha_0+\beta_1 \text{loan size}_{1i}+\beta_2 \text{gender}_{2i}+\beta_3 \text{age}_{3i}+\beta_4 \text{education}_{4i}+\beta_5 \text{type of enterprise}_{5i})}}$$

Second Model

For the second hypothesis, the equation will be:

P(well-being)

$$= \frac{1}{1 + e^{-(\alpha_0+\beta_1 \text{membership years}_{1i}+\beta_2 \text{gender}_{2i}+\beta_3 \text{age}_{3i}+\beta_4 \text{education}_{4i}+\beta_5 \text{children}_{5i}+\beta_6 \text{loan size}_{6i} +\beta_7 \text{use of loan}_{7i}+\beta_8 \text{In in income}_{8i}+\beta_9 \text{In in items}_{9i}+\beta_{10} \text{In in assets}_{10i} +\beta_{11} \text{In in livestock}_{11i}+\beta_{12} \text{In in agri land}_{12i}+\beta_{13} \text{In in necessity}_{13i})}}$$

CHAPTER 4:
DESCRIPTIVE ANALYSIS

This chapter explains the key features of data gathered from a survey using descriptive and bivariate analysis. This chapter deals with the first phase of the explanatory research approach and addresses the quantitative nature of research questions. This chapter starts with a descriptive analysis of demographics and assets, income data and microfinance data of borrowers. The latter section of this chapter covers bivariate analysis.

4.1 Descriptive Analysis

4.1.1 Demographic Information of Respondents

The responses collected from two microfinance banks are presented here. The data was collected from the city "Hafizabad. Below, Table 4.1 shows the percentages of demographic information of 145 respondents, including the gender, age, marital status, number of children and qualification. The majority of respondents are male (86%), and females have little representation (15%). About 90% of respondents under study are married between the ages of 30-40 years, having three children. Moreover, 27% of them have matric-level education, while 20% have studied up to middle school. This demographic profile shows that the majority of borrowers of microfinance in rural Pakistan, are married men around thirty years old with basic education. It's worth remembering while interpreting enterprise growth that a lower education level can limit borrowers' ability to manage and expand a business.

Table 4.1: Descriptive Statistics of the Demographic

Variables	Categories	Percentage
Gender	Female	15%
	Male	86%
Age	18-30	8%
	30-40	44%
	40-50	27%
	50-60	20%
Marital status	Married	90%
	Unmarried	7%
	Divorced/separated	2%
	Widowed	1%
Number of Children	No child	11%
	One-two	25%
	Three-four	41%
	Five-six	15%
	More than six	3%
Qualification	No education	17%
	Primary	17%
	Middle	20%
	Matric	27%
	F.A/F.Sc/I.com/D.com	16%
	Bachelors-B.A/B.Sc./B.com/B. A(Hons)	3%
	Masters' degree-M.A/MSC/MBA	1%

4.1.2 Income, Assets and Spending Variables

This section displays the before and after image of borrowers' household income, assets/property and bank account after taking a microfinance loan (See Table 4.2, Table 4.3, and Table 4.4). 39% of respondents have already had bank accounts before taking a loan, which amounts to only a 20% increase after taking a microfinance loan. Table 4.2 shows that there is no significant increase in income and assets of respondents after availing a microcredit.

Table 4.2: Descriptive Statistics of Income and Assets Before and After Microcredit

Borrowers'	Before taking microfinance loan		Increased after taking microfinance loan
Bank account	39%		20%
Monthly Household Income	Rs. 10000-20000	10%	41%
	Rs. 30000-40000	42%	
	More than 50000	46%	
Ownership of house	Jointly owned by some/all members of the house	11%	20%
	Owned by me	73%	
	Owned by my husband (in case of a female)	3%	
	Rented	12%	
Ownership of agricultural land	Jointly owned by some/all members of the house	6%	8%
	Owned by me	38%	
	Owned by my husband (in case of a female)	3%	
	Rented	3%	
Ownership of other assets (like gold jewellery, non-agriculture land or a vehicle)	48%		5%

Table 4.2 shows that 42% of respondents reported Rs 30,000 – 40,000 monthly household incomes before microfinance, while the other 46% have more than Rs 50,000 monthly income. After taking microfinance, only 41% of respondents reported an increase in household income, which is not a very noticeable change. This small proportion of improved household income signifies that microfinance has a limited reach as an income-generating tool, meaning that more than every other borrower had no change to their monthly income after getting a loan. It can be seen in Table 4.3 that

out of 41% of respondents whose monthly household income increased after microfinance, 39% are those who used a loan in business (only 6% of women invested their loan in business, while 33% of male borrowers put their loan in their business).

Table 4.3: Descriptive Statistics of Income, Assets and Spending with respect to Use of Microcredit by Borrowers

Variables	Indicators	Items	Use of loans by the borrowers			Total
			Use of loan in business by women	Use of loan in business by men	Use of loan for consumption purposes	
Increase in income, asset, and spending	Increase in household income	Yes	8 (6%)	49 (33%)	2 (1%)	59 (41%)
		No	2 (1%)	24 (17%)	60 (41%)	86 (59%)
	Increase in assets-house construction	Yes	1 (1%)	24 (17%)	4 (3%)	29 (20%)
		No	9 (6%)	49 (34%)	58 (40%)	116 (80%)
	Increase in agricultural land	Yes	1 (1%)	10 (7%)	0 (0%)	11 (8%)
		No	9 (6%)	63 (43%)	62 (42%)	134 (92%)
	Increase in other assets-jewellery, vehicle	Yes	1 (1%)	6 (4%)	0 (0%)	7 (5%)
		No	9 (6%)	67 (46%)	62 (42%)	138 (95%)
	Increase in household items	Yes	4 (3%)	28 (19%)	3 (2%)	35 (24%)
		No	6 (4%)	45 (31%)	59 (41%)	110 (76%)
	Increase in poultry and livestock	Yes	3 (2%)	24 (17%)	1 (1%)	28 (19%)
		No	7 (5%)	49 (34%)	61 (42%)	117 (81%)
	Increase in spending on necessity goods	Yes	7 (5%)	52 (36%)	15 (10%)	74 (51%)
		No	3 (2%)	21 (15%)	47 (32%)	71 (49%)

Similarly, the only other variable which showed an increasing trend is "Spending on necessity goods" like clothes, food and health. 51% of respondents reported an increase in spending after availing a microfinance loan, out of which 41% are those who invested the loan money in productive activity (business) instead of

consumption. The majority (73%) of male respondents already owned immovable property, such as houses and agricultural land (38%), before taking microcredit. While women did not report direct ownership of house or land. After taking microfinance, only 20% of immovable property (houses) have increased, which is very little progress as compared to 80% of borrowers whose house ownership did not improve (See Table 4.3). Similarly, the ownership of agricultural land, poultry &livestock and household items (such as a computer and washing machine) did not show any significant growth after taking microfinance. However, it is evident that the household income, items and spending of those respondents who own enterprises shows a more increasing trend as compared to those respondents who spent the loan in consumption. Real-time property, such as agricultural land, houses, any other assets, and poultry and livestock, did not show a significant increase, 92%, 80%, 81% respectively, after taking microfinance. This stagnant progression of real asset ownership suggests that most borrowers are using their loans for everyday expenses rather than longer-term investments, which might build up their assets slowly over time.

Most of the respondents disagree with the increase in real property, valuable assets and livestock belong to borrowers who either spent money in personal use or the women respondents who invested money in their own or their husbands' business. By and large, after taking microfinance, respondents did not show a very promising increase in their income, assets, and spending; nevertheless, men who invest money in business or already run a business show little improvement in their income and spending as compared to women entrepreneurs and respondents who take microcredit for consumption purposes. This indicates that in the case of women entrepreneurs, small loan size might be the reason which is keeping them from generating more income and owning assets.

The findings of the above tables indicate that, on the whole, microfinance loans do contribute to increasing the income and expenditure of respondents minimally, notably, not in a very significant way. Furthermore, microfinance loan proves more effective for male respondents who invest them in business instead of spending it for personal consumption. Eventually, the findings regarding the increase in assets are not quite promising.

4.1.3 Microfinance

Table 4.4 shows the respondents' microfinance characteristics. Around 41% of respondents have been MFB's members for more than two to three years, while 34% have been members for more than one year. The majority (39%) of respondents hold microfinance amounts between 1 lakh to 3 lakhs, whereas 26% have loans ranging from 50 thousand to 1 lakh. Although a majority of borrowers remain in the 1-3 lakh loan range even after belonging to an MFB for more than a year, which suggests that loan size has not increased over time, it might be hindering the much-needed large investment for business growth.

Table 4.4: Descriptive Statistics of Characteristics of Microcredit

Variables	Categories	Percentage
Amount of loan	Up to 1 lakh	26%
	Above 1- 3 lakhs	39%
	Above 3 – 5 lakhs	17%
	Above 5 – 8 lakhs	8%
	Above 8 – 10 lakhs	2%
	Above 10 lakhs	8%
Use of a loan	To start my new business	19%
	To invest in my already established business	38%
	To pay back another loan	9%
	To fulfil my family's basic needs like food, shelter, and clothes	18%
	To pay my children's educational expenses	4%
	To pay the health expenses of children/family	7%
	Son/Daughter's Wedding	5%
Years of membership with MFB	Recently joined, less than 6 months	8%
	1 year	34%
	2 years to 3 years	41%
	4 years to 5 years	11%
	More than 5 years	6%

Microfinance is primarily provided to support investment in income-generating activities, whether it be starting a new business or funding an existing one. Interestingly, however, the utilisation of microfinance varies, with 38% of

respondents using it in their existing business and 19% taking the risk to start a new one. This indicates that 57% of the respondents invested the loan in their own enterprises. While 43% of the respondents use money for personal use, such as son/daughter wedding, family basic needs, family's health and children's educational expenses (see Table 4.4). It is also important to highlight here that nearly half of all loans go towards unproductive consumption and not income-generating enterprise activity at all, where it is more difficult for many borrowers to emerge from their current situation and also successfully repay a loan.

4.1.4 Entrepreneurship

Table 4.5 shows that 50% of the respondents are male entrepreneurs and have used loans in their businesses, while female entrepreneurs have a very low ratio (7%). 45% of entrepreneurs operate as sole proprietors, while 12% are in partnerships. The majority (36%) of them have no workers, and some (16%) have only one employee. A small ratio of women use microfinance in entrepreneurship, compared to men. This big difference shows that there are still many obstacles for women who want to start and grow their own businesses. Also, a lot of these businesses are really small and don't even have any employees, which means they're just trying to survive rather than expand and thrive. This suggests that microfinance is not being used as effectively as it could be to help people start and grow successful businesses, especially for women.

The majority of them (31%) have been running a business for more than 10 years, while 8% have relatively less experience (6-10 years) of running a business. 19% of respondents are engaged in the livestock and agriculture sector, such as animal breeding, milk sales, selling goats and buffaloes/cows and poultry farming. Some work in agriculture, including managing seasonal crop cycles and selling rice and wheat in the market. 31% of respondents are providing "services" by working as tailors, electricians, plumbers and milk sellers. Few are engaged in manufacturing and retail activities, including selling clothes, electrical items, grocery goods, and selling fruits and vegetables, etc.

Table 4.5: Descriptive Statistics of Characteristics of Respondents' Entrepreneurship

Variables	Categories	Percentage
Gender of the entrepreneur	Male entrepreneur	50%
	Female entrepreneur	7%
Type of business ownership	Sole trader	45%
	Partnership	12%
Years of Business operation	Less than 1 year	4%
	1 – 2 years	8%
	3 – 5 years	5%
	6 – 10 years	8%
	More than 10 years	31%
Nature of business	Manufacturing	6%
	Services	31%
	Trading	1%
	Livestock and Agriculture	19%
Number of employees	Only myself	39%
	Myself and family member	1%
	Only one person	16%
	More than two persons	1%
Use of loan in business	Employment of labour	1%
	Business startup cost	2%
	Investment in equipment or business assets	43%
	Buy raw material	12%

Table 4.5 shows that the majority (57%) of respondents run their business on their own, which includes services 41%, livestock & agriculture 19%, and manufacturing 6%. While 16% of respondents have at least one employee other than an unpaid worker. This shows that these businesses are mostly just trying to get by, rather than growing or trying new things. It seems that people are using microcredit to help them keep their current livelihood, rather than to make big changes or improvements. This is likely because the microfinance-supported businesses in this area are mostly service-based and very small, which makes it hard for them to expand or diversify.

Table 4.6: Crosstabulation of Entrepreneurship Vs. Business Nature

Variables	Indicators	Nature of business				Total
		Manufacturing	Services	Trading	Livestock & Agriculture	
Gender of entrepreneur	Male entrepreneur	(8%)	(47%)	(2%)	(30%)	(88%)
	Female entrepreneur	(1%)	(7%)	(0%)	(3%)	(12%)
Type of business ownership	Sole trader	(6%)	(48%)	(2%)	(22%)	(78%)
	Partnership	(3%)	(6%)	(0%)	(12%)	(80%)
Years of business operation	Less than 1 year	(0%)	(7%)	(0%)	(0%)	(7%)
	1 – 2 years	(3%)	(6%)	(1%)	(3%)	(15%)
	3 - 5 years	(1%)	(6%)	(0%)	(2%)	(10%)
	6 – 10 years	(1%)	(6%)	(1%)	(6%)	(15%)
	More than 10 years	(3%)	(29%)	(0%)	(22%)	(54%)
Number of employees	Only myself	(6%)	(41%)	(2%)	(19%)	(69%)
	Myself and family member	(0%)	(1%)	(0%)	(0%)	(1%)
	Only one person	(4%)	(10%)	(0%)	(15%)	(28%)
	More than two persons	(0%)	(2%)	(0%)	(0%)	(2%)
Use of loan in business	Employment of labour	(0%)	(1%)	(0%)	(0%)	(1%)
	business startup cost	(0%)	(0%)	(0%)	(4%)	(4%)
	Investment in equipment or business assets	(6 %)	(47%)	(2%)	(19%)	(74%)
	Buy raw materials	(4%)	(6%)	(0%)	(11%)	(21%)

It is evident that 45% of respondents are sole traders and run microenterprises with no employees (Table 4.5). It means these entrepreneurs running small enterprises cannot provide job opportunities for other people. The majority of entrepreneurs use loans to buy business equipment and assets (43%) and raw materials (12%). Those

respondents who belong to the services sector mostly buy equipment and assets (47%) on loan, while respondents who are farmers and retailers use loans in purchasing raw material (15%).

Table 4.6 shows the growth of enterprises after taking microfinance. Overall, respondents showed a very moderate agreement on the influence of microfinance on enterprise development. The highest rate of agreement recorded on an increase in profit and sales is 41% and 36%, respectively, after taking microcredit. A few respondents (28%) reported the growth of business assets after microfinance, while very few agreed to an increase in labour post-microfinance. The fact that microfinance borrowers don't seem to be experiencing much business growth suggests that there are some underlying factors at play. For most borrowers, the loan amounts are just too small and the repayment periods are too short, which makes it really tough for them to make any significant investments in their businesses. This means that, despite their best efforts, they're not able to expand their businesses in a meaningful way. As a result, microfinance may not have the impact that we would hope for in terms of promoting enterprise development.

4.1.5 Well-being of the Borrowers and their Family

Table 4.7 shows that nearly half of the respondents showed agreement that after microfinance, their children’s formal education improved (37%), their own (48%), and their family’s health and nutritional well-being was enhanced (47%). These statistics highlight that microfinance seems to be having a bigger impact on the social side of things, like people's health and their children's education, rather than on the financial side, like building up their assets. This probably has to do with the fact that when families get a little extra money, they tend to use it to take care of their immediate everyday expenses first.

Table 4.7: Descriptive Statistics of Enterprise Development

Variables and indicators: After taking microfinance loan	Strongly disagree	Disagree	Neither disagree nor agree	Agree	Strongly agree
Increase in profits	3%	12%	3%	41%	2%
Increase in sales	3%	12%	6%	36%	2%
Increase in business assets	3%	21%	6%	28%	2%
Increase in labour	4%	39%	7%	8%	1%

The respondents who agreed that their family's well-being increased after microfinance are those who used the loan in their enterprises, as compared to those who spent the loan on consumption (See Table 4.8). 91% of respondents reported microfinance brought no improvement in their formal education, which means respondents did not spend money on their education. Other factors like an increase in children's education (37%) and an increase in physical and nutritional health of respondents (49%) and the families' (48%) showed improvement after microcredit, which indicates that overall respondents and family wellbeing improved when the loan was used in business activities rather than in consumption (Table 4.8). Yet, the bivariate analysis provides further insights beyond these initial observations.

Table 4.8: Descriptive Statistics of Well-being of Borrowers

Variables and Indicators: After taking microfinance loan	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
Increase in your formal education	27%	63%	3%	6%	1%
Increase in formal education of your children	18%	42%	3%	37%	0%
Increase in your health and nutrition	12%	32%	8%	48%	1%
Increase in health and nutrition of your children	10%	34%	9%	47%	1%

4.2 Bivariate Analysis

This section discusses the Mann-Whitney and Chi-square tests for enterprise development and the well-being of borrowers and their families. The section begins with the Chi-square test, which determines the relationship of variables with microfinance; then comes the Mann-Whitney U Test, which figures out the difference between groups: Microenterprise development of borrowers having new and existing businesses; Wellbeing of borrowers running business with microfinance or used in consumption.

4.2.1 Chi-Square Test

To meet the 4th assumption of the Chi-square test[1], the categories of all variables are reduced to three: seven categories of *years of membership with MFB* are reduced to three, six categories of *amount of loan* are reduced to three. Correspondingly, *microenterprise development* and *well-being of borrowers* initially had five categories, which were reduced to three for better interpretation of results.

4.2.1.1 Enterprise Development

Cronbach's alpha was applied in gauging the reliability of all indicators of microenterprise development. The result indicates that the scale is reliable with a 0.988 Cronbach's alpha. It means that all four items of the scale show strong correlation, with no adverse effect.

To examine the association between microfinance and microenterprise development, a Chi-square test of independence was conducted between the *amount of the loan* and indicators of *microenterprise development.*

Table 4.9 displays that the findings show that no statistically significant relationship is found between the amount of microfinance and any indicators of microenterprise development. Means that the *amount of loan* does not have a direct relationship with an increase in profit (0.48) or sales (0.46), business assets (0.13) and labour expansion (0.08). These results imply loan amount does not translate into microenterprise development for borrowers in Hafizabad. This is in line with earlier research that

[1] For a 2x2 contingency table, at least 80% of the cells should have expected counts of 5 or above, and no cell should have an expected count less than 1 (Field, 2009).

shows that loan size alone is insufficient to propel business expansion, especially in rural areas where limited business opportunities, low financial literacy, and market constraints may make it difficult to use credit effectively (Banerjee et al., 2015).

Table 4.9: Chi-Square Test on Enterprise Development and Loan Size

Enterprise Development Indicator	χ^2 (df, n)	p-value
Increase in profits	χ^2 (6, n = 143) = 5.466[a]	0.486
Increase in sales	χ^2 (6, n = 143) = 5.653[a]	0.463
Increase in business assets	χ^2 (6, n = 143) = 9.775[a]	0.134
Increase in labour	χ^2 (6, n = 142) = 11.249[a]	0.081

** p<.05, **p<.01*

4.2.1.2 Wellbeing of Borrowers

Cronbach's alpha was used to assess each well-being indicator's reliability. A Cronbach's alpha of 0.621 indicated marginal reliability for all four items of the scale. Close examination reveals that the item *increase in your education* significantly reduced the reliability of the scale and had a negative corrected item-total correlation (-0.073). In spite of this, the item was kept in scale because it is conceptually significant for capturing the respondent's own educational well-being. In contrast to the other well-being indicators, the majority of respondents reported no progress in their formal education through microfinance, which is probably why the association was negative. By keeping this item, the scale is guaranteed to measure both the household and personal aspects of well-being.

Table 4.10: Chi-Square Test on Wellbeing and Loan Size

Well-being	χ^2 (df, n)	p-value
Increase in your formal education	χ^2 (6, n = 143) = 11.605[a]	0.071
Increase in your children's formal education	χ^2 (4, n = 143) = 9.645[a]	0.047*
Increase in your nutrition and health	χ^2 (4, n = 143) = 12.873[a]	0.012*
Increase in nutrition and health of your children	χ^2 (4, n = 143) = 10.053[a]	0.040*

** p<.05, **p<.01*

How microfinance affects borrowers' well-being is the study's main research question, which is examined by the Chi-square test to figure out the relationship between microfinance and borrower well-being. Table 4.10 shows that the *amount of loan* has a significant positive influence on the children's education and both borrowers' and children's health and nutrition, except for borrowers' own formal education. This is consistent with earlier research showing that microfinance improves household wellbeing rather than having a direct impact on adult educational attainment (Pitt et al., 2006; Banerjee et al., 2015). Larger loans may give families the financial freedom to devote funds to essential household necessities like children's education and nutrition, which are frequently given precedence over the adult borrowers' further education. Furthermore, the findings highlight the wider significance of microfinance in improving intergenerational well-being because improvement in children's health and education can bring long-term developmental advantages (Hulme & Mosley, 1996; Pitt et al., 2006).

4.2.2 Mann-Whitney Test

4.2.2.1 Entrepreneurship of Male Borrower vs Female Borrower

In Table 4.11, the Mann-Whitney U test was conducted to evaluate enterprise development results between male and female borrowers with regard to the amount of microfinance loan.

Table 4.11: Mann-Whitney U Test on Gender Difference in Enterprise Development

Indicator of Enterprise development	Male		Female		Mann-Whitney U	Z-Score	p (2-tailed)	Effect size
	Md[2]	n	Md	n	U	z	p	r
Increase in Profit	2	76	2	10	362.0	-0.306	0.7	0.03
Increase in Sales	2	76	0.00	10	174.5	-3.23	.001**	0.35
Increase in Business Assets	1.0	76	1.5	10	339.0	-.614	0.53	0.07
Increase in Labour	1.0	76	1.0	10	319.0	-1.05	0.29	0.11

** p<.05, **p<.01*

[2] Md = Medium

Only the indicator *increases in sales* reached statistical significance (p = 0.001**), with a medium effect size (r = 0.35). This suggests that men benefited more from microfinance in terms of enterprise growth, as male borrowers reported greater improvements in sales than female borrowers. All other variables, on the other hand, showed small effect sizes (r <0.20) and non-significant p-values (p >0.05), indicating negligible gender differences in labour growth, business assets, and profit. These findings align with Kabeer (2001) results, which show that although microfinance gives women access to credit, social and institutional constraints sometimes prevent them from converting loans into economic empowerment, especially in activities that call for market participation.

4.2.2.2 Entrepreneurship of Borrowers having New or Existing Enterprises

In Table 4.12, the Mann-Whitney U test was conducted to evaluate microenterprise development results between borrowers running new and already existing enterprises, with the amount of microfinance loan. Two groups of borrowers are compared in the Mann-Whitney U test.

Table 4.12: Mann-Whitney U Test on Enterprise Development of Borrowers having New or Existing Enterprises

Enterprise Development	New Enterprise		Existing Enterprise		Mann–Whitney U test	Z score	Significance	Effect Size
	Md[3]	n	Md	n	U	z	p	R[4]
Increase in profits	2	26	2.00	56	668.0	-0.79	0.432	0.09
Increase in sales	2	26	2.00	56	720.5	-0.09	0.929	0.01
Increase in business assets	2	26	2.00	56	727.0	-0.01	0.991	0.00
Increase in labour	1	26	1.00	56	549.5	-2.26*	0.024*	0.25

** p<.05, **p<.01*

Finding indicates that there is no significant difference between new and existing enterprises: since the increase in business assets (p = 0.9), sales (p = 0.9), and profits (p = 0.4) do not significantly differ between the two groups (Table 4.13). It suggests

[3] *Md* = Medium

[4] r = .1 (small effect), r = .3 (medium effect), r = .5 (large effect)

that both new and existing enterprises reported the same levels of business growth after participating in microfinance, as indicated by the median values for both groups being the same across these indicators (Md = 2). On the other hand, an *increase in labour* showed a significant difference ($p = 0.02$, $r = 0.2$). Although the impact size suggests that this difference is minimal, borrowers with established businesses reported somewhat greater improvements in hired labour than those launching new ventures. This implies that established companies may be better able to grow their workforces through microfinance than freshly started ones. This finding aligns with earlier studies that indicate already existing enterprises are more likely to grow their workforces since they already have a stable client and operational network (Hulme & Mosley, 2006). While new enterprises usually stay small and cautious in their early stages, this restricts their capacity to acquire more employees (Khandker, 2005). Therefore, even while microfinance generally encourages microenterprise activity, it seems to be more effective in fostering the growth of employment for established companies than for those that are just starting.

4.2.2.3 Well-being of Borrowers Running Business with Microfinance or Used in Consumption

The Mann-Whitney U Test was executed to test the difference in the well-being of the borrowers between two independent groups of borrowers who have established business with the microfinance loans and the borrowers who have used the microfinance loans to undertake consumption.

Table 4.13: Mann-Whitney Test on Wellbeing of Borrowers Based on Use of Microcredit

Well-being	Business Use		Personal Use		Mann–Whitney U test	Z Score	Significance	Effect Size
	Md[5]	n	Md	n	U	z	P	R[6]
Increase in your education	1	83	1	62	2544.0	-0.23	0.8	0.01
Increase in your children's education	1	83	1	62	1833.0	-3.45	0.001**	0.28
Increase in your health	2	83	1	62	1360.5	-5.41	0.001**	0.44
Increase in your children's health	2	83	1	62	1571.0	-4.45	0.001**	0.36

** p<.05, **p<.01*

The findings shown in Table 4.13 demonstrate statistically significant differences between borrowers who used microcredit for business versus personal use, with the exception of the borrowers' own education, which has p-values less than 0.05. Among all significant indicators, the value of r (effect size) ranges from small to moderate, showing a small to moderate difference between the well-being of the two borrower groups. A similar trend has been found in previous research that utilisation of microcredit in business gives higher returns, which leads to higher household income and allows families to devote more funds to children's education, healthcare, and nutrition (Khandker, 2005; Banerjee et al., 2015).

4.2.2.4 Well-being of Male vs. Female Entrepreneurs based on Use of Microcredit

First, the Kruskal–Wallis H test was used to assess whether the well-being of borrowers in four groups varies. Four groups are defined by gender (male and female) and purpose of loan (business and consumption). Results of a Kruskal-Wallis H test showed a statistically significant difference in well-being among the groups, *H* (3) =

[5] *Md* = Medium

[6] r = .1 (small effect), r = .3 (medium effect), r = .5 (large effect)

25.85, $p < 0.001$. It gives the overall test statistic of all four groups, indicating that a significant variation exists, but does not point out the direction.

Table 4.14: Pairwise Mann-Whitney Test Comparing Wellbeing Across Gender and Loan Purpose Groups

Comparison between groups based on gender and loan purpose	**Mann-Whitney U Statistic**	**Z-Score**	**p-value (2-tailed)**	**Effect Size**	**Bonferroni Adj. p (x6)**
	U	**Z**	**p-value**	**r**[7]	**Sig (α = .05)**[8]
Male with Business loan vs Male with consumption loan	995.5	-4.572	0.000*	0.41	0.000 *
Male with Business loan vs Female with Business loan	232.5	-1.931	0.053	0.21	0.318
Male with consumption loan vs Female with consumption loan	250.5	-0.618	0.536	0.08	1.00
Female with Business loan vs Female with consumption loan	41.0	-1.052	0.293	0.23	1.00

** p<.05, **p<.01*

Therefore, follow-up pairwise comparisons using Mann-Whitney U tests with Bonferroni-adjusted significance level (α = 0.0083) correction were performed to determine the precise group differences. Results of this comparison reveal that male borrowers who invested loans in business showed significantly higher well-being than those who spent loans in personal consumption ($p < 0.001$, $r = 0.41$), reflecting a medium-to-large effect size. Correspondingly, in comparison to female borrowers who used loans for consumption purposes, male borrowers who used microcredit for business activities reported greater levels of well-being (p = 0.003, r = 0.33), indicating a medium effect size. This finding indicates that the *loan purpose* has a

[7] r = .1 (small effect), r = .3 (medium effect), r = .5 (large effect)

[8] The Bonferroni-adjusted $p < .0083$ is considered statistically significant.

significant impact on well-being, as having access to credit for productive activities can improve both the economic and subjective well-being (Banerjee et al., 2015).

Comparison between male recipients of business loans versus female recipients of business loans showed no significant difference in well-being ($p = 0.318$, $r = 0.21$), suggesting that the well-being of those women who have access to microcredit does not really differ from men. Similarly, no significant differences were found between the last two comparison groups, male versus female consumption loan and female with business loan versus female with consumption loan, indicating that personal loans may bring little improvement in the well-being of borrowers. Overall, these findings show that loan purpose has a greater influence on well-being than gender, highlighting the need to allocate credit to business activities in order to optimise entrepreneurship and well-being advantages.

CHAPTER 5:
ENTREPRENEURSHIP

This chapter aims to test the first hypothesis based on the first research question using ordinal logistic regression. The chapter begins by introducing the hypothesis and variables, along with indicators of dependent and independent variables. The latter section of the chapter explains the ordinal logistic model's results and interpretation.

5.1 First Hypothesis and Variables

Ordinal logistic regression (see section 3.7.1 for details) was used to determine the association between microfinance and entrepreneurship.

5.1.1 Research Question and Hypothesis

Microfinance aims to assist low-income individuals in obtaining the entrepreneurship they need to improve their overall well-being. Therefore, in order to determine how microfinance affects a borrowers' well-being, we must concentrate on how microfinance affects the development of enterprises, and more especially, how a loan given to people affects the development of entrepreneurship. Thus, the first research question is given below:

a) To what extent does microfinance influence the growth and sustainability of microenterprises, and what factors affect this growth?

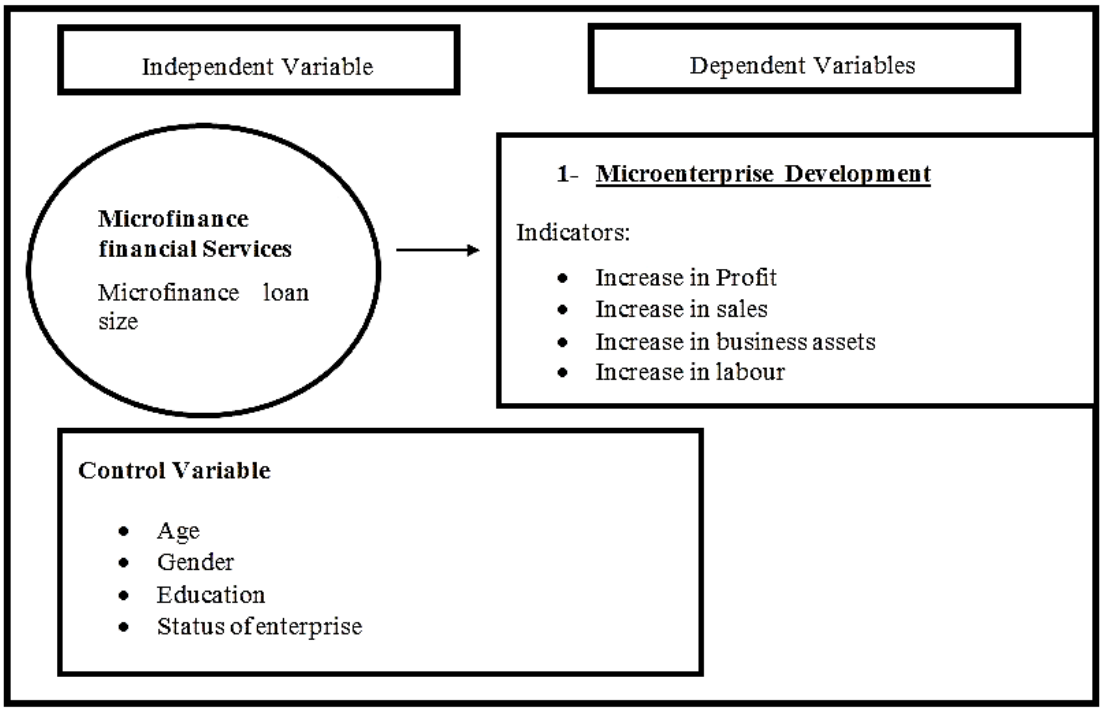
Based on the research question and literature review, one hypothesis has been created to determine the answer to this research question:

H_1 = Microfinance's financial services help to grow borrowers' enterprises.

The influence of microfinance's financial services on borrowers' entrepreneurial development is the study's focus to indirectly measure well-being. Financial services include loan amounts, savings, and insurance for microfinance bank customers. Increases in profit, sales, business assets, and labour are the indicators of borrowers' enterprise development utilised in this study. Thus, the primary independent factor is loan amount. The four control variables in the model (Figure 5.1) are the age, gender, education and the type of microenterprise.

Figure 5.1 showcases the one dependent variable (enterprise development) and one independent variable (Microfinance) and their indicators. These variables are based on hypothesis H_1.

Figure 5.1: Dependent and Independent Variables and Indicators



5.1.2 Correlation and Multicollinearity Tests of Dependent and Independent Variables

Almost all the independent and dependent variables in the study are categorical, and categories of several variables were reduced by combining categories to have a better interpretation of the findings. *The loan size* variable initially had six categories, then merged into three, such as up to 1 lakh, 1–8 lakhs, and 8 lakhs and more. *Age* also has three categories: 18–30 years, 30–40 years and 40–60 years. *Education* was also merged into three categories: no education, lower education, and higher education. *The status of microenterprise* variable already consists of two categories: new enterprise and existing enterprise.

To check the correlation between the independent variable (Loan size) and control variables (age, gender, education, and type of enterprise), a multicollinearity test was run before regression. The tolerance values were not less than 0.1, and the Variance

Inflation Factor (VIF) was not larger than 10, indicating that multicollinearity is not an issue among variables.

To run the ordinal logistic regression, one composite measure for entrepreneurship was required. To make a composite measure of enterprise development, the mean or average method was chosen as it preserves the original information of each indicator of the variable. Four indicators of 'enterprise development' variable was averaged to reduce to one variable, which was then categorised into agree, neutral and disagree. After applying Spearman's rho correlation test, all four indicators show correlation with each other at 1% significance level, as shown in Table 3B in Appendix B.

5.2 Ordinal Logistic Regression Analysis

.2.1 Enterprise Development (H_1)

Table 5.1 depicts that the ordinal regression model assesses how the loan size, education, status of enterprise, and demographics affect the growth of microenterprises. Despite not being statistically significant at conventional levels ($p > 0.05$), the model exhibits an overall good fit. However, the sample limitations of this research must be considered in conjunction with its non-significance. After excluding non-entrepreneurs, we were left with a sub-sample of 80 people, which is a relatively small group, especially since we're trying to understand the relationships between eight different predictors. This small sample size means we might not have enough power to detect some relationships that are actually there. Additionally, the way people responded to our questions was fairly evenly split, with 38% agreeing, 32% being neutral, and 30% disagreeing. This makes it harder for our model to find patterns. Even if there is a real relationship in the data, it might not be significant just because of the way the data is distributed; Instead of demonstrating that there is no association, this indicates a Type II error risk. The predictors together account for around 16% of the variation in enterprise development outcomes, according to the model's Nagelkerke R^2 of.156, which is not insignificant for a sample this size. This implies that it is impossible to reject the null hypothesis, which states that microfinance's financial services do not help to grow borrowers' enterprises.

Additionally, the model is also consistent with the data, as the goodness-of-fit values indicate high significance values. The predictors of the model meet the proportional odds criterion because the parallel line assumption is satisfied

Table 5.1: Ordinal Logistic Regression of Microfinance and Wellbeing

Variables	Categories	Coef. B	Exp(B)	Std. Err.	Sig. p	95% Confidence Interval	
						Lower Bound	Upper Bound
Threshold Microenterprise Development	Agree	-2.012	-	1.176	0.087	-4.317	0.293
	Neutral	-0.480	-	1.153	0.677	-2.740	1.779
	Disagree	-	-	-	-	-	-
Location Loan size	Above 8 lakhs	-0.788	0.455	0.673	0.242	-2.107	.0532
	1–8 lakhs	-0.585	0.557	0.551	0.289	-1.666	0.496
	Up to 1 lakh	-	-	-	-	-	-
Gender	Male	-0.826	0.438	0.692	0.233	-2.183	0.531
	Female	-		-	-	-	-
Age	40–60 years	1.061	2.889	0.912	0.245	-0.726	2.848
	30–40 years	0.201	1.223	0.849	0.813	-1.463	1.865
	18–30 years	-	-	-	-	-	-
Education	Higher education	-1.651	0.192	1.162	0.155	-3.927	0.626
	Lower education	-0.530	0.589	0.570	0.353	-1.647	0.588
	No education	-	-	-	-	-	-
Status of enterprise	Existing business	-0.316	0.729	0.529	0.550	-1.353	0.721
	New business	-	-	-	-	-	-

*Note: '- 'indicates the reference category; number of obs. = 80; R^2 = .138, .156; Model $\chi^2(8)$ = 11.898, p = .156; Parallel line assumption is met (p > .05); *p < .05, **p < .01,* **p < .001.

The loan size categories (microfinance) do not demonstrate statistical significance, suggesting that loan size does not have a significant effect on borrowers' agreement, neutrality, or disagreement regarding improvement in enterprise development. Loan size appears statistically insignificant, and the negative coefficient shows that there are lower odds of borrowers with larger loans reporting higher enterprise development

compared to those with smaller loans. For example, Exp(B) = 0.455 indicates that borrowers who receive loans larger than 8 lakhs to 10 lakhs are less likely than those who receive the smallest loan size to report higher levels of microenterprise development. This apparent negative association is likely due to the very small number of borrowers in the highest loan category (10%) and the even fewer who reported improvement (see Table 2C in Appendix B) rather than indicating that larger loans reduce enterprise development. Since the results are statistically insignificant, no meaningful conclusion can be drawn about the effect of larger loan sizes on enterprise development.

The enterprise development does not show a significant association with non-financial variables such as age, gender, education, and enterprise status. Nonetheless, some descriptive information is provided by the direction of the coefficients. For example, compared to the youngest age group (18–30 years), people in the 40–60 age range have increased odds (Exp.B = 2.889) of reporting enhanced enterprise development; however, this result is not statistically significant. Similarly, when all other factors are held constant, the Exp. B of 0.438 for men indicates a lower probability of reporting higher enterprise development than for women, while this is still negligible. When all other variables are held constant, the negative correlations for both higher education groups indicate a marginally lower likelihood of reporting improvements in enterprise development than borrowers with no formal education. It is worth noting here that only 4% of respondents reported having a higher education, which suggests that the number of respondents is not enough to generate true results (see Table 4.1). In a similar vein, borrowers who run already-existing enterprises have a minor negative coefficient, which suggests that they are slightly less likely to claim higher enterprise development than those who have just launched a new company, albeit this effect is insignificant. The excitement of a newly developed business might explain the optimistic (agreement) behaviour of new enterprise respondents. Otherwise, overall, no positive association has been found between microfinance and enterprise development.

Overall, the findings of the ordinal logistic regression show that none of the financial or demographic variables significantly predict microenterprise development in this sample, despite the presence of descriptive patterns. This implies that there may not be a strong correlation between microenterprise development and the included

variables, or that the model may be impacted by unobserved (hidden) factors. The results point to the need for more research, either using a bigger sample size or adding more factors pertaining to the entrepreneurial climate, skill development, or institutional support networks.

CHAPTER 6:
BORROWERS' WELLBEING

This chapter is designed to test the second hypothesis based on the second research question using ordinal logistic regression. The second research question of this study was answered with the help of this hypothesis. Chapter six is composed of two sections. The study's research question and hypothesis are covered in the first section, along with indicators of variables. The second section uses an ordinal logistic model to provide the empirical findings of the hypothesis.

6.1 Second Hypothesis and Variables

Ordinal logistic regression (see section 3.7.1 for details) was employed to investigate and analyse the data to determine the likelihood of a relationship between microfinance and wellbeing.

6.1.1 Research Question and Hypothesis

There is extensive research on how microfinance can improve family well-being and empower people. Researchers are focusing on borrowers' household wellbeing and empowerment through microfinance access due to the success of microfinance for people in underdeveloped nations. We cannot overlook the importance of borrowers' family welfare in the study of microfinance and borrowers' well-being. Microenterprise development is taken into account in this study since it is linked to socioeconomic well-being. Furthermore, it is impossible for people in developing countries to be separated from their families. As a result, when giving loans to people, researchers constantly consider the advantages of the home. Thus, the following is the first research question:

b) Does a microfinance loan have an impact on well-being of borrowers and their families?

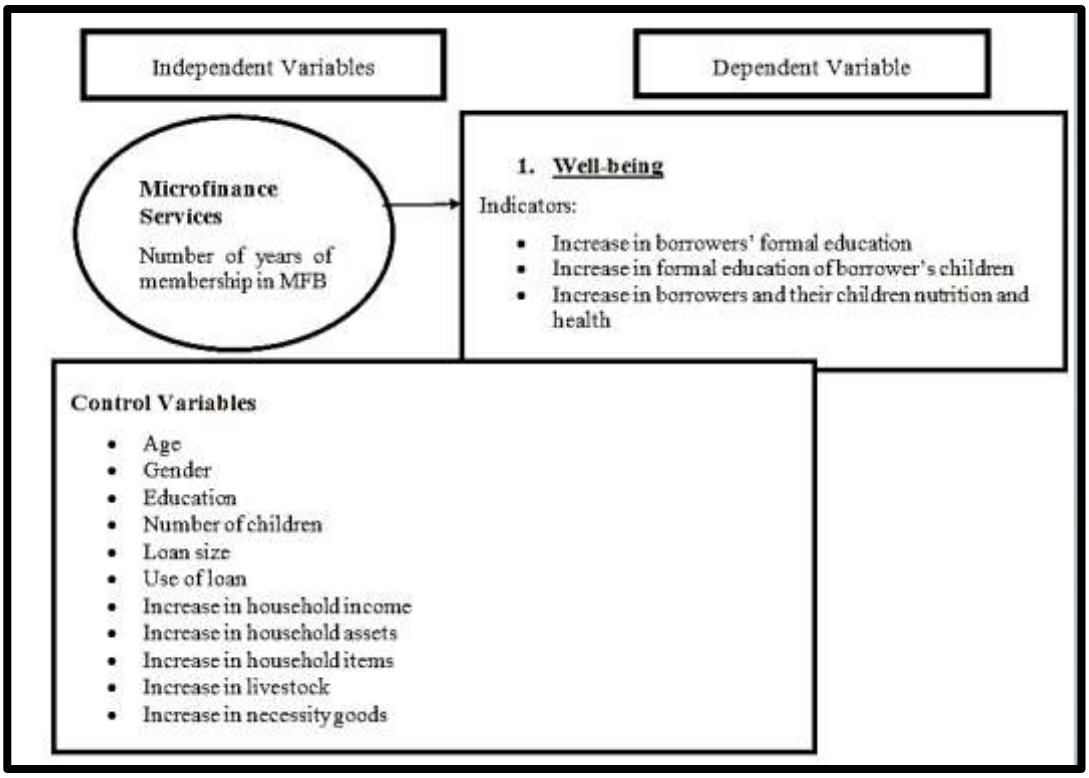
The following hypothesis is formulated to address this research question:

H_2 = Microfinance services enhance the well-being of borrowers and their families.

Borrowers' well-being encompasses improved health and education, and indicators of family well-being include a rise in children's education, improved family health and nutrition. The non-economic indicators of wellbeing, such as education, health and nutrition, are added similarly to HDI.

Figure 6.1 showcases the one dependent variable (wellbeing) and one independent variable (Microfinance) and their indicators. These variables are based on hypothesis H_2.

Figure 6.1: Independent and Dependent Variables and Indicators



The study's second research question of how microfinance affects borrowers' well-being is examined here. Microfinance includes all kinds of financial services, such as loans, insurance and savings, offered to customers. Borrowers' well-being is not only impacted by credits but the all range of financial services provided by MFB. In addition to loans, the two microfinance banks offer their clients a range of services, including savings accounts, health insurance. As a result, the variable of interest in this case is two microfinance schemes.

The independent variable is the *number of years of membership with MFB*. The microfinance control variables that are thought to have an impact on the relationship are 'loan size' and 'use of loan'. The model for well-being uses four demographic control variables: gender, age, education, and number of children (see model in section 3.7.1). Other control variables utilised in the model include the increase in monthly household income, assets, items, livestock and necessity goods after taking

microfinance. Other variables include an increase in household income from livestock, necessities, household goods like computers and water pumps, sewing or washing machines, an increase in real estate, such as houses and vacant or agricultural land; and other assets, such as jewellery, cars, and non-agricultural land, after taking microfinance.

6.1.2 Correlation and Multicollinearity Test of Independent and Dependent Variables

Almost all the independent and dependent variables in the study are categorical; categories of several variables were reduced by combining categories to have a better interpretation of findings. For instance, the variable *years of membership* was reduced to three categories: 6 months–1 year, 1–3 years, 3–5 years. *The loan size* variable was collapsed into three ranges: up to 1 lakh, 1–8 lakhs, and 8 lakhs and more. *Age* was divided into three groups: 18–30 years, 30–40 years and 40–60 years. *The education* variable was also converged into three categories: no education, lower education, and higher education. *The number of children* was classified into three groups: no children, 1–4 children, and 5 or more. The *use of loan* variables already has two categories, distinguishing between loans used for business or for consumption purposes. Variables of economic measures, such as an increase in household income, assets, items, and spending, were binary and coded as 'yes' or 'no'.

Before running logistic regression, the model underwent the Multicollinearity test to check the correlation between the independent and control variables. There was no issue of collinearity between the predictor variables because the tolerance values were not less than 0.1 and the Variance Inflation Factor (VIF) was not larger than 10.

To run the ordinal logistic regression, one composite variable for well-being was required. To make a composite measure of well-being, the mean or average method was chosen as it preserves the original information of each indicator of the variable. Four indicators (increase in borrowers' health and education) of the wellbeing variable were averaged to reduce to one variable, which was then categorised into agree, neutral and disagree. After applying Spearman's rho correlation test, health-related indicators showed strong significance at 1% level, while other well-being indicators are significant at 5% level as reported in Table 3A in Appendix B.

6.2 Ordinal Logistic Regression Analysis

6.2.1 Borrowers' Wellbeing (H_2)

The ordinal logistic regression evaluates the association between microfinance and the well-being of borrowers (see Table 6.1). Results show that the model is statistically significant at level 1%, which translates into the null hypothesis being rejected. It means that predictors together improve the fit in comparison to the intercept-only model. In goodness-of-fit assessment, the deviance test appears nonsignificant, which indicates that the model fits the data well. The parallel line assumption is violated, as it is significant. According to the parallel lines assumption, each predictor must have a constant impact on the result, no matter where the threshold is set. This means that the odds ratios should remain constant across all categories. However, in this model, two predictors, *increase in spending* and *increase in agricultural land*, have extreme patterns in the data, which makes it impossible for this consistency to hold. For example, all 11 respondents who reported an increase in agricultural land are in the highest wellbeing category, with none in the neutral or disagree category. This is a case where the data is completely separated at one threshold. Increase in spending shows a similar pattern, with most respondents who reported a spending increase falling in the agree category. These patterns are real features of the dataset, showing strong associations, and not signs of a poorly designed model. The predictors that are key to the study's findings, gender, age, and number of children, do not have this separation issue, and their estimates remain stable across thresholds. The model as a whole is also very strong, with a chi-square of 162.417 (which is highly significant) and a Nagelkerke R^2 of .78. This means the predictors together account for 78% of the variation in wellbeing outcomes. So, the issue with parallel lines is seen here as a limitation that is specific to two predictors, and not a reason to dismiss the model's overall findings. It's a data-driven issue, rather than a problem with the model itself. The model still provides valuable insights, especially for the key predictors. By and large, the model highlights a strong association between microfinance and borrowers' well-being.

In Table 6.1 gender appears as a significant factor. It indicates that male borrowers have lower probability of reporting wellbeing improvement, indicated by a negative coefficient, which show statistical significance at 5% level. It means that male borrowers reported a lower well-being score in comparison to female borrowers after

microfinance. Women are more likely to believe that their family's well-being increased after microfinance as compared to men. After keeping the other variables in the model constant, men borrowers are statistically just 0.14 times more likely than female borrowers to report improved well-being following microfinance.

Table 6.1: Ordinal Logistic Regression of Microfinance and Wellbeing

Variable	Categories	Coef. B	Exp B	Std err	Sig. p	95% Confidence Interval	
						Lower Bound	Upper Bound
Threshold	Agree	-9.766**	-	1.852	0.001	-13.396	-6.136
Well-being of borrowers	Neutral	-6.479**	-	1.658	0.001	-9.730	-3.229
	Disagree	-	-	-	-	-	-
Location	3-5 years	-0.182	0.83	0.746	0.807	-1.644	1.280
Years of membership with MFB	1-3 years	-0.594	0.55	0.654	0.364	-1.875	0.688
	6 months – 1 year	-	-	-	-	-	-
Gender	Male	-1.983*	0.137	0.884	0.025	-3.715	-0.250
	Female	-					
Age	40–60 years	-2.898**	0.05	1.108	0.009	-5.069	-0.727
	30–40 years	-0.487	0.62	1.034	0.638	-2.514	1.540
	18-30 years	-	-	-	-	-	-
Education	Higher education	1.254	3.50	1.285	0.329	-1.265	3.774
	Lower education	0.101	1.10	0.614	0.870	-1.103	1.305
	No education	-	-	-	-	-	-
Number of children	5 or more children	2.556*	12.8	1.248	0.040	0.111	5.002
	1–4 children	0.743	2.10	0.897	0.408	-1.015	2.500
	No children	-	-	-	-	-	-
Loan size	8 lakh and more	-1.06	0.34	0.927	0.251	-2.88	0.753
	1–8 lakhs	-0.75	0.47	0.686	0.272	-2.09	0.591
	Up to 1	-	-	-	-	-	-

	lakh						
Use of loan	Business use	0.100	1.10	0.826	0.903	-1.518	1.718
	Personal use	-	-	-	-	-	-
Increase in household income	Yes	-0.812	0.44	0.837	0.332	-2.453	0.828
	No	-	-	-	-	-	-
Increase in household assets	Yes	-1.147	0.32	0.810	0.157	-2.735	0.441
	No	-	-	-	-	-	-
Increase in agriculture land	Yes	-23.785	0.00	.000	-	-23.785	-23.785
	No	-	-	-	-	-	-
Increase in livestock	Yes	0.562	1.75	0.675	0.405	-0.761	1.884
	No	-	-	-	-	-	-
Increase in household items	Yes	0.657	1.92	0.798	0.410	-0.906	2.220
	No	-	-	-	-	-	-
Increase in other assets	Yes	1.020	2.77	1.443	0.480	-1.808	3.849
	No	-	-	-	-	-	-
Increase in spending	Yes	-6.032**	0.00	0.962	0.001	-7.917	-4.147
	No	-	-	-	-	-	-

Notes: *"-" indicates the reference category; number of obs. = 140; R^2 = .45, .69, .78; Parallel Line Assumption is violated; Model χ^2 (19) = 162.417,* $p < .000$; $p < .05$*, **p** < .01***.

Age of respondents is also a significant factor. 40-60 years age borrowers show significance at 1 % level with a negative coefficient, indicating that the probability for the dependent score (wellbeing) is low. It means older borrowers are more likely to disagree that their family's well-being increases after taking microfinance. Therefore, it can be concluded that compared to borrowers between the age of 18 to 30; those between the age of 40 and 60 tend to be far less inclined to disagree or remain neutral with regards to the gains in well-being post-microfinance, keeping all the other variables constant.

The number of children shows 5% significance level with a positive effect; it indicates that it increases the probability of wellbeing. It implies that borrowers with five or more children, as compared to no children, are more likely to agree that the family's well-being increases, keeping all other variables constant. Therefore, it is concluded that households with five or more children are 12.90 times more likely than households without children to be agreed to report improvement in the family's wellbeing after microfinance.

The variable *Increase in spending* and *increase in agricultural land* both have a negative coefficient, indicating the low well-being score. Increase in spending is significant at 1% level. In both the spending and agriculture land cases, those households who report an increase in spending or agriculture land as compared to those who reported no increase in spending/agriculture land are more likely to disagree that taking microcredit increases their wellbeing. In the case of agricultural land, coefficient and Exp(B) values are extremely low, which shows that the households having more agricultural land are not by any means more likely than households with no agricultural land to agree that their well-being has improved because of microfinance. Simply put, an expansion of agricultural land has almost no positive impact on wellbeing of borrowers.

The Table 6.1 depicts that gender, age, number of children, increase in spending, and agricultural land are significant variables of the model, while other variables like education, loan size and loan purpose, monthly household income, assets items, livestock and other assets show no significance. According to the findings, households with more children are more likely to claim better family well-being following microfinance, while male borrowers, older borrowers, and households with more expenditure or agricultural land are less likely to do so. Thus, the idea that microfinance enhances borrowers' and their families' quality of life is validated; nevertheless, some findings require more investigation through qualitative interviews in order to fully comprehend the total impact.

CHAPTER 7:
INTERVIEWS

The explanatory sequential research approach allows the combination of both qualitative and quantitative research methodologies to get deeper and more holistic results. This qualitative analysis chapter further dwells on quantitative results through interviews, thereby getting an in-depth understanding of the addressed problem that helps in elaborating the quantitative results. This phase enables the researcher to investigate subtle and context-specific facets of the ideas that might not be well represented by statistical methods alone. This chapter comprises interviews with microfinance clients and branch managers of MFB (microfinance bank). The chapter has two parts: the first part consists of information about the MFBs collected from bank managers' interviews. The interviews with two bank managers consist of 25-30 minutes. The second section comprises 15-20 minutes of unstructured interviews with 10 borrowers of two microfinance banks.

7.1 Microfinance Banks

This study's primary goal is to investigate how microfinance affects the well-being of borrowers in a rural-urban area, Hafizabad. However, to comprehend the effect of microfinance on borrowers, the bank's structure and function must be taken into consideration. This chapter's first section is divided into four parts. The operations of two microfinance banks and their effects on borrowers are discussed in this section. Primary data was collected from the managers of two MFBs, and secondary data was collected from the MFBs' official websites. The first part consists of the aim and mission of MFBs, which includes details on funding, MFBs' hierarchy and structure. The second part is composed of details on microcredit, savings accounts, and insurance facilities, which are related to the goal, type, and size of microcredit products. It also covers the individual or group loan procedures and the microfinance providers' capacity-building strategy. The third part deals with the screening and monitoring process by MFBs, which involves information on loans to prospective customers, client selection criteria, client guarantees, appropriate loan utilisation, and the MFBs' default management policy. The fourth part focuses more on the objectives of the study. The final part discusses the analysis of microfinance effects on entrepreneurship, borrowers' and family well-being through the borrowers' lens.

7.1.1 Mission, Structure and Workforce of MFBs

7.1.1.1 Khushhali Bank Limited

Khushhali Bank was founded in Pakistan in 2000 and operates on the Grameen Bank microfinance model. It operates under the jurisdiction of the State Bank of Pakistan in an effort to alleviate poverty and achieve the government of Pakistan's development ambitions. As Pakistan's microfinance industry grows, KB's goal is not just limited to providing financial services to the country's impoverished and disadvantaged citizens, but to switch to a commercial bank. KB is present in 72 out of 113 districts of Pakistan. Moreover, KB is the largest microfinance institution in the country, accounting for 19.1 % of total active borrowers (Zulfiqar, 2013). KB have added housing loans and gold-backed loans in response to the SBP's amendment of the Microfinance Bank Prudential Regulations. At the end of 2010, Khushhali Bank Limited held the third-largest microcredit market share, accounting for 15.2% of all active borrowers (Mahmood, 2013). By the conclusion of the first quarter of 2011, Khushhali Bank accounted for 60% of all active microfinance bank customers in the Punjab province (Mahmood, 2013). Khushhali Microfinance Bank Limited is a flagship organisation that offers uncollateralized microloans of PKR. Rs. 50,000 to Rs. 300,000 (Lal et al., 2023). The microloan's terms range from three to 365 days, and it must be repaid in equal monthly instalments or as soon as a year, with interest calculated at up to 20%.

KB branches are extensively spread all over the country, with more than 100 branches around the country, including one in each district's capital. KB operates throughout Pakistan's rural and urban areas, concentrating on places where the locals have little to no access to financial institutions. KB is jointly owned by Pakistan's several commercial banks, and now mostly funded by the market rather than the Asian Development Bank and the government's Poverty Reduction Fund (Mahmood, 2013). KB only offers commercial banking and microcredit. Since the microcredit falls under the purview of the microfinance department, it serves as a link between commercial and microfinance banking. Additionally, commercial banking services offer large-scale loans for savings and remittances.

KB’s staff consist of both male and female members with minimal qualifications. Graduates with agriculture degrees are favoured as loan officers in rural areas. The

quality of their human resources is guaranteed by a rigorous merit-based hiring process that includes testing and interviews. KB's manager shared:

"In order to lower the default rate, we make significant investments in human resources, appropriate hiring based on merit, training, and additional facilities for employees."

KB employees are initially appointed as trainee officers to collaborate with seasoned Business Development Officers (BDOs). The Relationship Manager (RM) oversees the BDO team. The Branch Manager (BM) receives reports from the RM. BM is in charge of a branch's commercial banking services as well as microfinance. The Area Manager (AM) is in charge of the various union council branches (Mahmood, 2013).

7.1.1.2 FINCA Microfinance Bank Limited

The Foundation for International Community Assistance (FINCA) bank began as Kashf Microfinance Bank in 2008, marking the beginning of its history. The Bank was founded on the notion that those without access to financial services also had a fundamental right to them and that it would offer hard-working business owners microloans with low collateral requirements. The Bank began operations with a network of 13 locations at that time, all of which offered their clients basic deposit and microfinance services. In 2013, the bank joined the FINCA Impact Finance (FIF) network. Serving 2.8 million individuals, FIF is a global network of 16 microfinance banks that exchange resources, best practices, and information about financial inclusion (FINCA, 2022). In the same year, 2013, the bank was purchased by FINCA and re-named as FINCA Microfinance Bank Limited. FINCA is expanded to rural and urban areas with more than 101 branches in only the Punjab province (FINCA, 2022). FINCA Pakistan currently offers millions of customers responsible financial services like savings accounts and modest loans. With steady portfolio growth over the years, FINCA has emerged as one of Pakistan's top microfinance banks.

FINCA employees are typically hired as trainee Loan Officers and first assigned to senior field staff in order to understand customer appraisal, loan disbursement procedures, and recovery mechanisms. The Branch Manager (BM), who oversees all branch activities, is in charge of these personnel. An Area Manager (AM) is in charge of a group of branches in various areas, and Regional Managers (RM) oversee regions made up of many areas. FINCA's organisational structure is similar to that of other

microfinance organisations, starting with Loan Officers and Customer Service Officers who work directly with consumers under the direction of the Branch Manager. Both the Branch Manager and the Credit Team at FINCA are in charge of meeting loan disbursement goals, collecting instalments on time, and growing the clientele. Through the Area Manager, the branch accountant assistant reports consolidated data to the Head Office about loan disbursement, instalment collections, and repayment tracking.

7.1.2 Financial and Non-financial Services

The Khushhali Microfinance Bank Limited offers loans for multiple purposes, such as personal, business, housing, livestock, and agricultural goods. Business loans for operating a firm or buying any asset are included in the enterprise loan. The KB used to disburse loans on an individual basis, but it has now added group lending in order to fully capitalise on peer pressure and the relationships of trust among group members, which serve to increase the bank's recovery rate. Since it is the only promise needed in KB. KB's branch manager (BM) discussed this development in an interview:

"The majority of our loans were individual-based a few years ago. However, over time, we discovered that group lending allows us to reach more customers, particularly women who feel more comfortable applying in groups. Participants don't feel burdened and feel safe in the group. Although we are not yet fully group-based, the bank is gradually implementing different strategies based on the region."

FINCA Bank has a number of microcredit products to meet the needs of different demographic groups, with a focus on the impoverished and microentrepreneurs. FINCA's microcredit products include home loans, women's loans, and customised loans such as tractor loans, Maweshi Karza (livestock loan), and Kashtkar Karza (farmer loan) (FINCA, 2022; Riaz, 2024). FINCA offers only an Individual loan in which borrowers are in charge of their own instalment payments and do not share group obligation. In contrast to the conventional group-lending approach, FINCA borrowers typically provide references and personal guarantees, although there is less social pressure involved. FINCA's loan size increases gradually with payback history; depending on business need, repeat borrowers with a solid credit history may be

eligible for a greater loan limit. During an interview, a branch manager expressed his viewpoint:

"FINCA continues to believe that individual loans provide greater control and accountability, in contrast to other MFBs moving to groups. Our clients typically desire individual loans for their firms because they dislike being dependent on people in a group. Although it requires extra oversight on our end, it strengthens our bond with each borrower. An individual loan is currently appropriate for our clientele."

KB offers direct loans to individuals for their personal purposes only. This lowers the likelihood of loan misuse and ensures that entrepreneurs use loans appropriately. Enterprise loans in KB are primarily used by male clients in the districts of Hafizabad. FINCA provides loans primarily for running small and medium enterprises, focusing on individual loans to clients who are already engaged in income-generating activities. Both KB and FINCA offer two repayment methods: a monthly instalment or a bullet repayment. Based on current business activity or projected revenue generation, the bank assesses repayment capacity. Gold, agriculture or livestock loan clients usually go for a bullet repayment plan, which allows them to pay the amount of loan amount with interest at the end of the loan term.

Both KB and FINCA extend loans to inexperienced people for starting a new business. Both banks preferred the existing business loan because the recovery rate is good in this case. FINCA prioritises its loan portfolio over structured capacity-building activities. The bank does not currently provide its borrowers with entrepreneurial skills or financial literacy training. In contrast, KB has partnered with vocational organisations like the National Vocational and Technical Training Commission (NAVTTC) to improve borrowers' entrepreneurship skills, but such programs are not currently functional in Hafizabad city due to borrowers' low interest and attendance in programs.

FINCA maintains borrower engagement primarily through informal monitoring by the loan officer during field visits and instalment reminders. It does not conduct any capacity-building or skill enhancement programs; rather, it places more emphasis on regular follow-up. FINCA BM stated: *"We do not organise regular follow-up meetings of customers in the bank. Our loan officers casually check on clients while visiting the field. It keeps us informed about how their businesses are doing without*

putting too much strain on them. Reminders are sent via phone or in person before the due dates of instalments."

The KB's commercial banking branch offers savings and remittance services. Customers of KB are entitled to free insurance, which exempts the client's family from having to repay the loan in the event of the client's death or permanent disability.

7.1.3 Screening of Clients

In KB, a group loan is available to clients who have a national identity card, a household annual income below the taxable threshold, and two years of local residency. Members of the same group are not permitted to be related by blood. The officers of KB think that their strict client selection and screening processes are a result of the lower default rate. The Business Development Officer (BDO) visits the client's home and place of business to verify their information when they apply for a loan. A Relationship Manager (RM) visits the borrowers to conduct additional screening. In KB, loans are always given out in groups of five people, and the group members elect a leader. The group members' compliance with the rules determines how long it takes for the loan to be disbursed. A guarantee document is signed by each member of the group. By signing, the group members assume financial and moral responsibility for one another. It implies that all other members must make the payment on behalf of a member who is unable to do so.

When the client applies to take out a loan, the Business Development Officer BDOs confirm his/her information by visiting his/her house and business premises. In KB, the loan is also given to current customers at a 20% Interest rate on the loan amount. However, in the case of recurring customers, additional verification and tracking of business progress are required. When a client needs a large loan, 5–6% of KB's microfinance clients who have reached their maximum loan amount are transferred into commercial banking loans.

At FINCA Bank, the Credit Risk Department (CRD) assesses the credibility of potential clients for individual business loans by evaluating the intent of using the loan and the stability of the business. They require the permanent address, phone number and CNIC of the borrower and the same information of another member who provides a guarantee for the borrower. CRD verify the house ownership and other documents and visits their homes and business places. After the complete assessment,

the loan application forms are filled out, and then the Operations Department disburses the loan into the borrower's account. A loan officer frequently visits the borrowers during their field visit to monitor their business progress. Before the monthly instalment, the loan officer sends borrowers a reminder for payment. If the borrower does not show up to make the monthly instalment, the loan officer visits them. If the borrower does not appear at his/her place. For the post-disbursement evaluation, the audit team (compliance department office team) from the head office visits only those customers who do not pay off the loan. If all this does not bear any fruit, that customer goes on the default list, and his/her information is sent to all branches of FINCA.

7.2 Borrowers' Interviews

The second section of this chapter presents the qualitative analysis derived from quantitative results. This qualitative section specifically focuses on the explanation of the quantitative findings through in-depth interviews with borrowers, both male and female. Quantitative analysis revealed several patterns that demand further explanation. Results of both regression models (see section 5.2.1 and section 6.2.1) show that only a few variables were statistically significant, suggesting that substantial influences on well-being might not have been adequately captured by the survey variables. This qualitative stage is crucial for revealing contextual dynamics, individual experiences, and unmeasured restrictions that cannot be found using statistical methods alone.

7.2.1 Entrepreneurship

Quantitative analysis of the Chi-square test (see section 4.2.1.1), the Mann-Whitney test (see section 4.2.2.1 and 4.2.2.2), and the First regression model (see section 5.2.1) showed a weak and insignificant relationship between borrowers' entrepreneurship and microfinance. Now, the qualitative phase, through interviews and thematic analysis, will explain the underlying reasons for the weak quantitative relationship. The themes that emerge are as follows:

7.2.1.1 Limited Enterprise Growth

Although theory predicts that microfinance enhances enterprise growth (Khandker, 2005), many of the borrowers' enterprises did not show significant growth or long-term progress. A frequent response during the interviews was that borrowers working

in retail (such as grocery shops, dairy shops or small clothing shops) and services (sewing, plumbing, and construction) struggled to sustain their businesses in the wake of rising inflation. Quite a few respondents stressed that raw materials prices are kept pushing up to such a height, due to persistent inflation, that meagre loan amounts provided by MFBs are not enough to sustain, let alone grow, their businesses. One respondent confirms this:

"I took a loan for a poultry farm, but the loan amount was not enough to cover all the needs of the business. That hardly helped me stabilise my business, let alone expand it."

Therefore, microfinance does not help in the expansion of microenterprise, thus confirming the findings of H_1 and the Chi-square test. Banerjee et al. (2015) also agree with the findings by stating that microfinance does stabilise the business but rarely transforms, particularly in rural areas.

7.2.1.2 Inflation and Loan Size Constraints

Several home-based business owners, mostly women, reported that although starting these businesses was simple, the financial strains brought on by inflation and loan payback cycles made it difficult for them to make investments in better equipment, grow their businesses, or successfully market their services. These results are consistent with previous research (Roomi, 2005), which shows that businesses with small capital requirements are simpler to launch but more susceptible to economic shocks. In the current study, many borrowers found it impossible to maintain even basic continuity due to the instability caused by inflation. A similar complaint was reflected in a response of an interviewee:

"They (bank) only approved a one lakh loan amount for me. What one could get in that meagre amount. I have an auto parts shop, and items (supplies) keep getting expensive. I could only buy a few items, and then came the instalment time."

Chi-square test results indicate that loan size (large, medium, low) did not show any significant difference in microenterprise development, and qualitative analysis assists in explaining why. Borrowers in Hafizabad often stated that the majority of the loan's value is absorbed by growing inflation, leaving little room for business improvement. A Chai-Wala (tea seller) tells a story related to this:

"I run a small tea stall, and they told me that I could only secure a loan of sixty thousand. Milk prices keep fluctuating; tea and sugar are expensive. How could a small business grow with this amount?"

Studies reveal that microfinance in inflationary economies rarely brings economic growth, as buying power erodes swiftly (Bateman, 2010). This phenomenon helps explain the insignificant results of the first regression model (H_1).

7.2.1.3 Gendered Variation in Enterprise Development

First of all, female representation in business loans was very low. On top of that, very few women invested loans in their own business; others invested in their husbands' enterprises. A couple of women reported that they and their husbands together oversee the business, but she only acts as a helper rather than a business partner. Therefore, the Mann-Whitney test showed no significant difference between male and female borrowers' enterprise growth. However, through interviews, some gender-based nuances appear that might have been subdued in statistical analysis. Female respondents emphasised the mobility constraints, freedom to take business decisions and dependency on males. One woman said:

"My husband and I run a dairy shop together. I mostly work for him, like managing milk, making yoghurt, etc. I don't usually take part in decision-making or going out stuff."

This confirms Kabeer (2001), who argues that enterprise growth involves not just access to financial resources but access to social and cultural negotiating power. These constraints limit the perceptible effects of microfinance on women's entrepreneurship.

7.2.1.4 Challenges for New Entrepreneurs

The interviews also revealed that new entrepreneurs struggle more after microfinance compared to existing entrepreneurs. They needed time, effort, and continuous reinvestment throughout the first several months, all of which became hard to keep up with, given the immediate strain of paying back high-interest loans. Some respondents specifically said that since their businesses are new, paying instalments become harder for them because the instead of encouraging business growth, the loan cycle pushed them into a pattern where their major priority became "paying instalments" rather than "growing the enterprise." One respondent confirms:

"I have just started a food stall. Since my business is new, I do not have many sales. I am not generating enough profit to cover both the instalment and household expenses. Loan interest and inflation are eating up my whole."

Quantitative analysis was lacking in including inflation and loan interest. These are the hidden factors which explain the reason behind the weak association between entrepreneurial development. Some respondents explain, their first loans were often used to lay the foundation of their business rather than making profitable expansion. A woman respondent replied to that:

"I knit sweaters at home, and I wanted to grow my business. And this is my first loan from MFB, but that barely covered the start-up requirement for business"

Same findings were mirrored by Montgomery et al. (1996), who stated that microcredit brings economic growth to already established businesses as compared to new ones.

7.2.1.5 Interest Rate as a Constraint Factor

The qualitative information helped to clarify the negative results of the Chi-square test and explains the no association between enterprise development and loan size (see section 4.2.1.1). Many respondents complained about the high interest rate that imposed an ongoing financial strain, making it hard to reinvest revenues back into the business. One male electrician who took a loan for the third time, worth 100,000 each time, said:

"I take loans time after time, thinking this time business will expand, but after household expenses and instalments, nothing is left. Then I have to take a loan again. But I am getting tired of this; hoping to get by without a loan in future."

These experiences are consistent with Armendariz and Morduch's (2010) assertion that small entrepreneurs are frequently unable to preserve the revenues necessary for business expansion due to strict instalment schedules and high interest rates. A similar result was reported in a story of a male grocery store borrower, who stated:

"I opened a grocery store with microcredit, but the stock was low. I tried hard; revenue was so little that even instalment payments became a problem for me more than buying items for the shop. I had to close the shop because I needed money for father's treatment and could not afford another loan."

This narration also resonates with the results of the first regression model (H_1), where microfinance did not show a significant relationship with enterprise development. Respondents with even larger loans reported comparable outcomes due to earnings turnover being overshadowed by instalment payments rather than reinvestment.

Overall, the interviews suggest that inflation, limited loan size, and high interest rates are critical factors affecting borrowers' enterprise growth. Additionally, new enterprises need more time and revenues than microfinance frameworks currently allow. Because of this, many borrowers are stuck in a loop where maintaining payments takes precedence over growth or long-term business growth.

7.2.2 Wellbeing

As per quantitative analysis, microfinance might not have shown improvement in enterprise development, but it has definitely enhanced the well-being of borrowers and their families. The majority of microfinance clients, whether they used loans for business or consumption, benefited from the benefit of well-being of themselves and their families. Therefore, qualitative analysis will uncover the pathways and mechanisms of wellbeing impact and contextual variation in wellbeing experiences. The following themes emerged from interviews:

7.2.2.1 Loan brings Household Welfare rather than Business growth

Nearly all respondents indicated that after microfinance, their household expenditure on basic needs, including food, children's health and educational expenses, improved significantly. This conclusion corroborates the quantitative finding of H_2 (see section 6.2.1) that spending was a major predictor of well-being, indicating that households with higher spending on necessities reported more well-being. Borrowers consistently remarked that even when the business did not grow much, microfinance provided a cushion against financial instability. The female lace shop owner said:

"Now I am able to provide proper food to my children. Even though business is still very small but I am earning, even a little; our living has got better than before."

This is in line with Morduch (1999), who stated that most of the time microfinance helps borrowers to deal with immediate risk or soothes the consumption rather than expanding business.

7.2.2.2 Seasonal Borrowing Cycle

Interviews reveal that the greatest consistent well-being advantages were noticed among borrowers doing business in livestock, agriculture and dairy, often borrowing yearly over numerous years. These entrepreneurs take microcredit cyclically, borrowing to purchase assets and repaying after selling. An interviewee, the owner of a dairy farm, has been taking microcredit for eight years in a row, said:

"I take out a loan every year, purchase one or two goats, and sell milk to make money. Come Eid, I sell animals for profit and pay back the loan. Our kitchen runs smoothly thanks to this routine. Without this loan, it would be difficult to handle children's school fees or medicine."

Such long-term incorporation of microfinance into entrepreneurship demonstrates productive microfinance cycling, in line with Montgomery's (2006) observation that microfinance benefits rural households, especially when connected to continuing agricultural activities.

Another interviewee, who was a farmer, also confirms the seasonal pattern of borrowing:

"Before sowing wheat/rice, we take microcredit for raw material like seeds. After harvest, we return the loan. Mostly, this system works pretty smoothly and helps us sustain our business."

7.2.2.3 Already Established Enterprises get Expansion

Interviews indicate that microcredit is often used by old entrepreneurs as a supplementary resource to expand their already running businesses. Although the number of such cases was limited, borrowers do take loans to ensure the growth and expansion of their business through a larger income influx. One male brick-maker reported:

"Our brick kiln has been established for more than ten years. For the past two to three years, we have taken a large amount of loans to expand our business. Our workforce increases with the increasing demand for orders. I constructed my own house thanks to larger revenues."

Similarly, a clothing store owner narrated:

"I took over this business from my father, but in the recent past, I took a microfinance loan to expand my business. With the loan, I was able to increase my stock and the variety of fabrics. This generated me enough profit that I installed a solar system in my house."

These qualitative insights indicate that microfinance does increase well-being through enterprise development, but the pathway should be the larger loans and older enterprises. In this study, the number of these cases was so small that they got lost in the quantitative analysis.

CHAPTER 8:
DISCUSSION

Borrowers' enterprise development and improving the living standards of borrowers are the main areas of concern in this study. The present study investigates the question of how microfinance affects the borrowers' entrepreneurship, which leads to the well-being of borrowers and their families. However, we cannot assert that microfinance has significantly improved wellbeing of Hafizabad. This chapter presents the discussion of key findings by comparing the results of qualitative and quantitative analysis and then relating them to existing literature.

8.1 Microfinance and Entrepreneurship

The primary objective of this study is to conduct empirical research on the well-being of borrowers and their entrepreneurship by participating in microfinance programmes. Borrowers' entrepreneurship has been used as an indirect measure of well-being. The first hypothesis concerns the development of borrowers' enterprises through the microfinance loan from MFBs of Hafizabad, and the second hypothesis is related to the well-being of borrowers due to microcredit (see sections 5.2.1 and 6.2.1). The ordinal logistic regression model's findings indicate that microfinance does not enhance the borrowers' enterprise growth. There is a hidden reality revealed in the qualitative phase. Most of the borrowers have small businesses or are just starting, and the money they borrow mostly just helps them keep their businesses going rather than growing them. This is because the loan amounts are often consumed by everyday costs and inflation before they can be reinvested. On the other hand, there's a smaller group of borrowers who already have established businesses and can get larger loans; these people are actually able to grow and expand their businesses. The problem is that when you look at all the borrowers together, the people who are just sustaining their businesses outnumber the ones who are growing, so it looks like the program isn't having a significant impact. Therefore, the quantitative analysis indicates that overall enterprise growth does not show any significant improvement under microfinance, except for the slightest variation between men's and women's entrepreneurship. Men show a greater increase in sales compared to women, which suggests that male enterprises benefited more from microfinance than female enterprises.

When quantitative analysis did not find a significant relationship between microfinance and enterprise development, qualitative findings indicate that microfinance can become efficient under certain conditions. Borrowers reported time and again that the loan size is not enough to cover what their businesses really need. The gap between what they get and what they actually need has gotten a lot bigger because of inflation. Borrowers say that the loan money gets used up mostly by the rising costs of things like raw materials, stock, and supplies, leaving little to no money for putting back into the business or making it grow. New business owners especially say they get stuck in a cycle where they have to pay back the loan every month, which means they can't invest in their business, so the loan just helps them survive financially instead of expanding their business. In particular, the growth of enterprises appears more likely when borrowers already operate a functioning business and receive sufficiently large loan amounts. This implies that the impact of microfinance on enterprise development may be contingent upon the interaction between enterprise maturity and loan size. Interviews revealed that borrowers with already existing enterprises and larger loans reported enterprise expansion. While smaller loans for new start-ups help only in sustaining the business. This implies that the ability of microfinance to support entrepreneurial development is significantly influenced by the conditional relationship between enterprise maturity and loan size. Although loan size and enterprise maturity were included as indicators in the enterprise development scale (see Table 2C in Appendix B), they did not show a statistically significant relationship with microfinance. Meager (2019) also confirms these findings by demonstrating that households with already running businesses and larger loans usually enjoy higher increases in profit, but families with new start-ups seldom see notable growth. Furthermore, loan size seems to influence results. According to recent research, loan size has a non-linear (U-shaped) effect on socioeconomic well-being, suggesting that while sufficiently large credit may improve efficiency, both insufficient and excessively small loans may fail to generate enough resources for growth (Blanco-Oliver et al., 2023). This suggests that the relationship between enterprise maturity and loan size is crucial to microfinance's ability to support entrepreneurial growth. Microfinance banks are hesitant to provide large loans to entrepreneurs with smaller businesses due to higher default rates and lower recovery rates (Agier and Szafarz, 2013). Due to the scarcity of empirical research on

microfinance and wellbeing in city Hafizabad, this finding has made a significant contribution despite the study's limitations (section 9.5).

Furthermore, the qualitative study shows that depending on borrowers' enterprise maturity and the size of the loan, microfinance had different effects on enterprise development. Most of the respondents utilised loans to make up for the shortage of supplies and raw materials and keep their business running. A few respondents reported buying significant business assets to expand their businesses. However, in line with earlier research (Idrees et al., 2022), which implies fewer respondents are involved in established businesses which have more access to larger loans. The quantitative study, which revealed non-significant effects for enterprise development, is supported by the qualitative findings, which indicate that although microfinance helped sustain enterprises, it did not significantly improve entrepreneurial assets or contribute to measurable enterprise growth for new and small enterprises.

8.2 Microfinance and Wellbeing

This study is based on hypotheses which claim that microfinance enhances the enterprise growth of borrowers, which leads to improvement in the well-being of their families and themselves. borrowers and their families in City Hafizabad. The impact of microfinance on borrowers' well-being is analysed in the second hypothesis (see section 6.2.1).

Since the effect of microfinance on borrowers' well-being is the main theme of this study, quantitative analysis found a partial but meaningful relationship between borrowers' participation in MFB's financial services and their well-being. Results of ordinal logistic regression models indicate that even though enterprise growth did not show a statistically significant relationship with microfinance, the overall well-being model showed 1% level of significance. It demonstrates that borrowers' household welfare improved even in the absence of quantifiable economic growth of businesses. This implies that business economic growth can be used as a wellbeing indicator, but it cannot solely capture the wellbeing, as microfinance may improve life quality through other channels, like income smoothing, and household consumption. Empirical results indicate that improvements in well-being may manifest independently of business growth, suggesting that microfinance typically serves more as a tool for sustainability and livelihood security than for entrepreneurial growth.

This discrepancy between well-being and entrepreneurial growth outcomes implies that, especially for new or small enterprises, microfinance may have a greater impact on livelihood security than enterprise growth. The same notion is supported by qualitative analysis as well.

The qualitative interviews not only validate the direction of the quantitative results but also identify the precise mechanisms by which microfinance contributed to improvements in the sample's well-being. Borrowers frequently reported allocating loan-supported money to family necessities, regular medical treatment, and children's education, exactly the categories that the survey's wellbeing indicators were intended to measure. This provides a concrete human component to the improvements in wellbeing that result from stable consumption and investing in social needs rather than from economic growth, which is what the key OLR predictors are actually assessing. Even the people whose businesses didn't make a profit said they felt more secure financially, able to cover unforeseen medical costs or seasonal income gaps without the severe difficulty they experienced prior to obtaining loans. In a similar vein, agricultural borrowers, who reported higher well-being, described a fruitful seasonal cycle of borrowing, investing, and repaying that had actually stabilised their households over time. What the quantitative results suggest but are unable to explain on their own is made clear by the interviews. The interviews disclose that small business owner have experienced sustainability in their livelihood after microfinance, even though business economic growth was not that evident. This suggests that the majority of respondents gained wellbeing after microfinance (see section 7.2.2.1). Empirical evidence from earlier studies also discovered that while many microcredit beneficiaries did not see significant business growth, their households did see improvements in income consumption, asset ownership, children's schooling, and health spending (Banerjee et al., 2015; Duvendack et al., 2011; Idrees et al., 2022; Khandker, 2005; Salia, 2014).

According to the study's findings, age and gender have a significant impact on household well-being after receiving microfinance. Results reported that there is less probability of an increase in the well-being of female borrowers compared to male borrowers. Compared to younger borrowers, older borrowers aged 40–60 years are less likely to claim enhanced well-being, suggesting that younger clients seem to gain more. Additionally, there is a positive correlation between the number of children and

family well-being; households with five or more children are more likely than those without children to see benefits. The findings, however, show a negative correlation between well-being and a rise in household expenditure, indicating that families with higher costs are less likely to concur that microfinance enhanced their well-being. Increase in agricultural land follows a similar pattern, with households reporting such gains being less likely to report improvements in well-being following microfinance.

Although the quantitative models did not see loan size as a significant predictor in either the chi-square tests or the OLR wellbeing model (Table 6.1), qualitative data consistently indicated that loan size was a significant determinant in wellbeing outcomes (see section 7.2.2.3). The same pattern appears in interviews; borrowers with already existing businesses reported expansion of their business after microfinance because they can secure larger loans from MFBs, which ultimately leads to an increase in household wellbeing. Furthermore, respondents reported that they had increased the assets and items of their houses, like the installation of solar panels, purchasing a washing machine, and adding a cement floor in the house. Microcredit invested in enterprises has been proven more beneficial for a family's wellbeing than for consumption use; quantitative data also support that there is a significant difference in the wellbeing of the families of borrowers who used microcredit in business than those who used it in consumption (see section 4.2.2.3). These findings are similar to the results of literature such as Montgomery (2006) and Copestake et al. (2001). Male and female enterprises did not show a significant difference in terms of economic growth after microfinance, which leads to a small to medium impact on wellbeing (see section 4.2.2.4). This phenomenon was explained in interviews, that the majority of male and female respondents had new or small enterprises; therefore, after microfinance, their businesses just sustain themselves rather than showing economic growth. Thus, microfinance improved their living standards a little, which resulted in a slight improvement in their well-being.

This research can be concluded as microfinance helps to improve the household wellbeing by sustaining the small and medium enterprises, which can be improved with access to larger loans. This research highlights the smaller loans, inflation and interest rates as the obstacles faced by entrepreneurs in growing their business and improving their well-being. Findings emphasise that larger loan sizes with flexible

instalment schedules and lower interest rates can serve the purpose of enhancing wellbeing by growing entrepreneurship.

CHAPTER 9:
CONCLUSION, AND RECOMMENDATIONS

This chapter provides a summary of the conclusions drawn from the findings of this research. Findings and recommendations of this research may prove beneficial to the Microfinance bank sector of Hafizabad. This chapter also provides a contribution to the literature, suggests areas for future research, and lastly acknowledges the study's limitations.

9.1 Conclusion

This was an explanatory sequential research design, mixed method research, which collected first quantitative and then qualitative data from the clients of two microfinance banks, FINCA and Khushhali Bank, in Hafizabad. Survey questionnaires were filled out by 145 respondents of both MFBs collectively, and 10 interviews were conducted. The main objectives of the research were to assess the association between microfinance and borrowers' enterprise development and well-being. Quantitative findings of the first regression model conclude that microfinance does not enhance enterprise growth, but qualitative findings explain it further. It explains that the majority of borrowers who have small or new businesses, where the loan money gets used up by everyday costs, inflation, and paying back the loan, rather than being used to make the business bigger. It suggests that microfinance can have different effects on different businesses. On a similar line, no variation has been found in the growth of both men and women after microfinance.

On the other hand, the results of the second model suggest that, in spite of showing no measurable economic growth in business, borrowers still show improvement in their household well-being after microfinance. The mechanism behind this is not enterprise growth but rather meeting people's urgent consumption needs. In this case, microfinance helps families by giving them access to money that they can use to meet their basic needs, like school fees, medical bills, and basic necessities. Increase in spending is a major predictor of regression model, which is why quantitative findings show an improvement in wellbeing despite no growth in businesses. For families that couldn't afford these things before without borrowing money at high interest rates, microfinance has made a real, albeit small, difference in their quality of life, even if their business didn't grow. Another mechanism is income balancing. Microfinance

helps by stabilising people's income, especially for cattle dealers and farmers, who borrow money for buying animal and plant crops, repay after harvesting and selling, and then borrow again the next season. For these dealers and farmers, microfinance doesn't necessarily make their businesses grow, but it helps them manage their income during the ups and downs of the seasonal cycle and reduces their vulnerability to unexpected expenses.

One distinction found in the well-being of borrowers is that borrowers who used microcredit in already running enterprises reported a greater increase in household well-being compared to those borrowers who spent the loan on consumption. These results are consistent with earlier findings in the literature that indicate microfinance supports the household welfare and growth of microenterprises (Karlan & Zinman, 2011). It is obvious from qualitative findings that microfinance has a different effect on small businesses versus bigger ones. Microfinance keeps new and small enterprises afloat. It helps them stay in operation, but it doesn't really lead to growth. The problem is that the loan amounts are often too small compared to what the business really needs, and with inflation and high interest rates, any extra money that could be reinvested gets eaten up. So, the loan basically just helps the business survive, rather than expand. But for businesses that are already up and running, the story is quite different. In this case, microfinance can actually lead to real growth, including more stock, hiring more staff, and even expanding the physical space of the business. This is especially true when businesses have access to larger loans. However, because the number of growing businesses is relatively small compared to the ones that are just sustaining themselves, this difference doesn't show up in the overall results. When it comes to well-being, the benefits of microfinance are more widespread; all types of borrowers see some improvement, although those with established businesses tend to see a stronger effect.

9.2 Contribution to Literature

a) Firstly, this study has added to the empirical findings of MFBs that are typically scarce in rural areas. The findings show that microfinance positively impacts the borrowers' well-being. Even though quantitative results do not show that microfinance improves enterprise growth. Qualitative analysis revealed that it can actually make a difference for businesses that are already up and running, especially when the owners have access to loans that are the

right size for their needs. Additionally, studies on wellbeing, entrepreneurship and microfinance are a valuable complement to development studies.

b) The results clearly show that taking part in microfinance programs has a big impact on how well borrowers do in life. Even though the numbers didn't quite add up to show that microfinance helps businesses grow, this suggests that microfinance can be a useful tool for helping businesses expand, but only under certain conditions. For example, it seems to work best for borrowers who already have an established business and can get a loan that's big enough to make a real difference.

c) Secondly, by combining the quantitative and qualitative approaches, this study has contributed methodologically. This study uses ordinal logistic regression to determine the association between microfinance and entrepreneurship growth and family well-being. In-person interviews with clients further explain the reasons behind the quantitative data's empirical conclusions. An important methodological contribution is the integration of quantitative and qualitative research.

d) Thirdly, research on microfinance and its effect on the borrowers' well-being is lacking in rural areas. Entrepreneurship and welfare dynamics are fairly different in rural areas. This study adds to the body of knowledge on microfinance, wellbeing and entrepreneurship in rural areas since microfinance studies frequently concentrate on topics like poverty and empowerment, especially in urban areas.

9.3 Recommendations

The research has led to the following recommendations for the government, microfinance banks and policymakers.

I. As market prices grow, microfinance institutions ought to raise loan amounts as well. Borrowers can keep their purchasing power and afford equipment and raw materials even when prices rise if loans are adjusted for inflation. This would enable people, particularly those with new or small enterprises, to grow rather than just sustain their businesses.

II. The study demonstrates that without sufficient business understanding, credit by itself does not promote enterprise growth. Entrepreneurial skills can be strengthened, and the likelihood of business expansion can be increased with

training in record keeping, cost management, and product diversification. First-time borrower failure rates may also be lowered by mentoring and follow-up assistance.

III. Limited representation of women entrepreneurs in the sample showed that there is a need to enhance women's participation in entrepreneurship in rural areas. MFBs should implement follow-up monitoring systems to ensure that loans made in women's names are being used for their own business ventures rather than being managed by husbands or other family members. Female enterprise development can be strengthened by routine verification, business inspections, and usage tracking.

IV. Results show that a large number of borrowers use business loans for home consumption, health care costs, or educational requirements. Complementary products like emergency loans, health and education loans, and easily accessible savings plans would ease the strain on business loans and enhance overall financial stability.

9.4 Implication for Future Research

Since the entrepreneurship aspect of research did not yield satisfactory results, it can be studied further. Some potential future research areas that could broaden this work are listed below.

1. Future research should explicitly include inflation and high interest rates, which were the most frequently mentioned obstacles to enterprise growth in this study. These quantitative factors seem to be more significant determinants of microfinance effectiveness than loan size or borrower characteristics alone.
2. Since agricultural borrowers reported the greatest improvements in well-being and that business-use loans had better results than consumption-use loans, these particular patterns should be examined in greater detail across other rural regions in future. A more dynamic picture of how microfinance's effects on well-being change over time would also be provided by longitudinal research that follows borrowers throughout several loan cycles.
3. A comparative analysis study on MFBs' performance on entrepreneurship could be useful since these banks are rapidly growing even in rural areas. And similar research in other rural areas of Pakistan will shed more light on this issue.

4. Much larger research can be conducted on microfinance and entrepreneurship to compare the progress of both genders in the field of business.
5. This study was focused on well-being, but a whole can be dedicated to entrepreneurship with emphasis on the expansion of small to medium enterprises.
6. Another study can be carried out, especially to track the female entrepreneurship growth from microfinance in rural areas of Pakistan.

9.5 Limitations of the study

The first limitation of this study would be the insufficient data for mixed-method research. Clients were dispersed throughout the Hafizabad city. It was hard to reach every client, so a survey was conducted through phone calls, which made the response rate lower than expected, ultimately restricting the sample size and limiting the statistical power of regression models. Secondly, since data is cross-sectional, it only captures the specific aspects of reality at a specific point in time, which may taint the respondents' experiences. Furthermore, during interviews and surveys, researchers had difficulty convincing people, which gave them the impression that some respondents might have given false information during the interviews or understated or overstated their answers in the survey. Thirdly, the effect of microfinance on household welfare was more evident; therefore, it was challenging to separate the impact of microfinance on borrowers' wellbeing from their households' wellbeing. Last but not least, the results of this study are limited to the two MFBs of rural-urban city Hafizabad; therefore, caution must be taken while comparing these findings with other microfinance studies carried out on urban regions.

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APPENDICES

Appendix A- Questionnaire

Appendix B- Descriptive Analysis

Appendix A: Questionnaire

Questionnaire

I am an MPhil student at Pakistan Institute of Development Economics (PIDE), Islamabad. This questionnaire is a part of my MPhil degree. The data obtained and your responses to this questionnaire will only be used for academic research.

My questionnaire broadly covers the area of the impact of microfinance on the well-being of borrowers. I want to explore whether microfinance is helping the borrowers enhance their well-being, establish their businesses, develop entrepreneurial abilities and microenterprise growth or not.

There are five sections of this questionnaire: A: Demographic profile, B: Personal finance income and asset, C: Microenterprise Growth, D: Well-being of borrowers and their families.

I would appreciate it if you complete all parts of this questionnaire.

I am very grateful for your time and cooperation in this regard.

Fareeha Tabassum Awan

Masters' Student

PIDE, Islamabad

Date: _____

Name of the borrower (optional) _____

A-Demographic Profile:

Kindly tick (√) the appropriate answer to questions.

A1- Gender?

○ Male

○ Female

A1- Which of the following age brackets do you fall in?

○ 18-29

○ 30-39

○ 40-49

A2- Which of these options best describes your current marital position?

○ Married

○ Single

○ Divorced/Separated

○ Widowed

A3-How many children do you have?

○ No Children

○ 1-2

○ 3-4

○ 5-6

○ More than 6

○ Not Applicable

A4- What is your family system?

○ Nuclear Family

○ Joint Family

A5- What educational qualification do you have

○ No qualification

○ Primary

○ Middle

○ Matriculation

○ F.A/FSc./I.Com/D.Com

○ Bachelor's Degree – B.A/BSc/B.Com/B.A (Hons.)

○ Master's Degree – M.A/MSc/MBA/Others

○ Vocational qualification- (B.Ed, M.Ed, Diploma from Poly technique institution)

○ Other qualifications- Certificate/Diplomas
Please mention if you have practical training in business and financial management before taking a microfinance loan.

B-Personal Finance, Assets and Income:

Kindly tick (√) the appropriate answer to questions.

B1- Do you have a current or savings account in a bank in your name?

○ Yes

○ No

B2- Did you have a bank account before you applied for a microfinance loan?

○ Yes

○ No

B3- How much was the monthly income coming into your household before you apply for a microfinance loan?

○ Rs. 10000 – Rs. 20000

○ Rs. 30000 – Rs. 40,000

○ 50,000 – 100000

○ More than 1 lakh

B4- Which of the following descriptions best describes your house ownership before you apply for a microfinance loan?

○ Owned by me

○ Owed by my husband/family head (if you are a female)

○ Owned by other members of the household

○ Jointly owned by some/all the members of the household

○ Rented

○ Living with a relative

B5- Who owned the agricultural land before you applied for a microfinance loan?

○ Owned by me

○ Owed by my husband/family head (if you are a female)

○ Owned by other members of the household

○ Jointly owned by some/all the members of the household

○ No agricultural land

B6- Did you own other assets like non-agricultural land, buildings, vehicles, and gold jewellery before applying for a microfinance loan?

○ Yes

○ No

C- Access to Microfinance Loan:

Kindly tick (√) the appropriate answers.

C1- From which microfinance provider you obtained a microfinance loan?

○ Khushhali Microfinance Bank

○ FINCA Microfinance Bank

C2- What is the purpose of the loan?

○ Business use

○ Personal (Consumption) use

○ Both

C3- How many years/months of membership do you have with a microfinance institution?

○ Recently joined, less than 6 months

○ More than 6 months to 1 year

○ 2 years to 3 years

○ 3 years to 4 years

○ 4 years to 5 years

○ More than 5 years

C4-What was the amount of the first microfinance loan?

○ Up to Rs. 45000

○ Rs. 50000 – Rs. 10,0000

○ Rs. 20,0000 – Rs. 300000

○ Rs. 400000 – Rs. 500000

○ Rs. 600000 – Rs. 700000

○ More than 10 lakhs

C5-What use did you make of the microfinance loan?

○ To start my new business

○ To invest in my already established business

○ To invest in my husband's/family head's business

○ To invest in children's or relative or friend's business

○ To fulfil my family's basic needs like food, shelter, clothes

○ To pay my / children's educational expenses

○ To pay health expenses of children/family

○ To pay back another loan

○ Any other use (please give detail) _____.

Entrepreneurship

Kindly tick (√) the appropriate answer. If you are not running a business financed through a microfinance loan kindly tick "not applicable" to all the questions of part D.

D1- What is the ownership structure of the business?

○ Sole Trader

○ Partnership

○ Not applicable

D2- How long have you been trading in this business?

○ Less than 1 year

○ 1-2 years

○ 3-5 years

○ 6-10 years

○ More than 10 years

○ Not applicable

D3- Which form of business does you have also given details of the business type like poultry, rice husking, boutiques, beauty parlours etc.

○ Manufacturing_____

○ Services_____

○ Trading_____

○ Other_____

○ Not applicable

D4- How many people do you employ?

○ Only myself

○ One

○ 2-3

○ 4-5

○ 6-10

○ More than 10 and less than 50

○ Not applicable

D5- In what areas do you spend most of the microfinance loan in business?
(You can tick more than one option)

○ Purchase of equipment or assets for business

○ Purchase of raw material

○ Initial operating cost-cash flows

○ Hiring of labour

○ To clear business debts

○ Others

○ Not applicable

D10- Do you agree that you and your business obtained following benefits after participation in microfinance programs?

Kindly tick (√) the appropriate answer.

		Strongly disagree	**Disagree**	**Neither disagree nor agree**	**Agree**	**Strongly agree**
i.	Increase in profits					
ii.	Increase in sales					
iii.	Increase in business assets					
iv.	Increase in labour					

E- Well-being

E1- Do you agree that microfinance helps your well-being and the welfare of your family?

		Strongly disagree	**Disagree**	**Neither disagree nor agree**	**Agree**	**Strongly agree**

i.	Increase in your formal education (school/college level degree)					
ii.	Increase in formal education of your children's family					
iii.	Increase in your nutrition and health					
iv.	Increase in nutrition and health of your children/ family					

E2- Do you receive the following benefits of the increase in income and assets after taking services from a microfinance bank?

		NO	YES
i.	Increase in income or source of income		
ii.	Increase in household assets (purchase or construct house or improvement and renovation of house)		
iii.	Increase in assets – Agricultural land		
iv.	Increase in other assets – non-agriculture land, gold jewellery, building or vehicle.		
v.	Increase in household items (computer, sewing machine, water motor etc)		
vi.	Increase in poultry and livestock		
vii.	Increase in spending on necessity goods (food, fruits)		
viii.	Increase in savings		

Appendix B: Descriptive Statistics

1- Income, Assets and Spending

Table 1A: Descriptive Statistics of Indicators of Income, Assets and Spending.

Variables and indicators: **After taking microfinance**	**Yes**	**No**
Income: Increase in income or source of income	41%	59%
Asset: Increase in assets –House (purchase or construct house or improvement and renovation of house)	20%	80%
Asset: Increase in assets –non-agricultural land, gold jewellery, building or vehicle	8%	92%
Asset: Increase in household items (computer, sewing machine etc.)	24%	76%
Asset: Increase in poultry and livestock	19%	81%
Spending: Increase in spending on necessity goods (like Food)	51%	49%

2- Crosstabulation

Table 2A: Crosstabulation of wellbeing of borrowers of borrowers after microfinance vs. use of loan

Variables	**Indicators**	**Items**	**Use of loan by borrowers**			**Total**
			Use of loan in business by women	**Use of loan in business by men**	**Use of loan for consumption purposes**	
Well-being of borrowers and their family	Increase in your formal education	Agree	2 (1%)	5 (4%)	2 (1%)	9 (6%)
		Neutral	1 (1%)	3 (2%)	0 (0%)	4 (3%)
		Disagree	7 (5%)	65 (45%)	59 (41%)	131 (91%)
	Increase in formal education of your children	Agree	4 (3%)	37 (26%)	12 (8%)	53 (37%)
		Neutral	0 (0%)	3 (2%)	2 (1%)	5 (4%)
		Disagree	6 (4%)	33 (23%)	47 (33%)	86 (60%)
	Increase in your	Agree	6 (4%)	52 (365)	12 (8%)	70 (49%)

	health and nutrition	Neutral	2 (1%)	4 (3%)	5 (4%)	11 (8%)
		Disagree	2 (1%)	17 (12%)	44 (31%)	63 (44%)
	Increase in health and nutrition of your children	Agree	4 (3%)	51 (35%)	14 (10%)	69 (48%)
		Neutral	4 (3%)	4 (3%)	5 (4%)	13 (9%)
		Disagree	2 (1%)	18 (13%)	42 (30%)	62 43%)

Table 2B: Cross tabulation of wellbeing of borrowers after microfinance vs. loan size

Variables	Indicators	Items	Amount of loan			Total
			Up to 1 lakh	1 – 8 lakhs	Above 8 – 10 lakhs	
Well-being of borrowers and their family	Increase in your formal education	Agree	1 (1%)	6 (4%)	2 (1%)	9 (6%)
		Neutral	0 (0%)	1 (1%)	3 (2%)	4 (3%)
		Disagree	36 (25%)	73 (51%)	20 (14%)	129 (91%)
	Increase in formal education of your children	Agree	7 (5%)	32 (21%)	12 (9%)	51 (36%)
		Neutral	0 (0%)	4 (3%)	1 (1%)	5 (4%)
		Disagree	30 (21%)	44 (31%)	12 (9%)	86 (61%)
	Increase in your health and nutrition	Agree	11 (8%)	43 (30%)	15 (11%)	69 (49%)
		Neutral	1 (1%)	9 (6%)	1 (1%)	11 (8%)
		Disagree	25 (18%)	28 (20%)	9 (6%)	62 (44%)
	Increase in health and nutrition of your children	Agree	13 (9%)	41 (29%)	14 (10%)	68 (48%)
		Neutral	1 (1%)	11 (8%)	1 (1%)	13 (9%)
		Disagree	23 (16%)	28 (20%)	10 (7%)	61 (43%)

Table 2C: Crosstabulation of enterprise development after microfinance vs. loan size

Variables	Indicators	Items	Amount of loan			Total
			Up to 1 lakh	1 – 8 lakhs	Above 8 – 10 lakhs	
Enterprise development	Increase in profit	Agree	14 (17%)	35 (42%)	11 (13%)	60 (71%)
	Increase in sales	Agree	13 (16%)	30 (36%)	10 (12%)	53 (63%)
	Increase in business assets	Agree	12 (14%)	24 (28%)	5 (6%)	41 (49%)
	Increase in labour	Agree	6 (7%)	4 (5%)	3 (4%)	13 (15%)

3- Nonparametric Correlation tests

Table 3A:Spearman's rho correlation - Indicators of borrowers' wellbeing

Indicators of well-being of borrowers		Increase in your education	Increase in your children education	Increase in your health	Increase in your children's health
Increase in your education	Correlation Coefficient	1.000	0.196*	-0.029	-0.197*
	Sig. (2-tailed)	.	0.019	0.728	0.018
	N	144	144	144	144
Increase in your children education	Correlation Coefficient	0.196*	1.000	0.443**	0.378**
	Sig. (2-tailed)	0.019	.	0.000	0.000
	N	144	144	144	144
Increase in your health	Correlation Coefficient	-0.029	0.443**	1.000	0.914**
	Sig. (2-tailed)	0.728	0.000	.	0.000
	N	144	144	144	144
Increase in	Correlation Coefficient	-0.197*	0.378**	0.914**	1.000

your children's health	Sig. (2-tailed)	0.018	0.000	0.000	0.
	N	144	144	144	144

**Correlation is significant at the 0.05 level (2-tailed) and **Correlation is significant at the 0.01 level (2-tailed).*

Table 3B: Spearman's rho correlation - Indicators of enterprise development

Indicators of microenterprise development		Increase in Profit	Increase in Sales	Increase in business assets	Increase in labour
Increase in Profit	Correlation Coefficient	1.000	0.961**	0.912**	0.851**
	Sig. (2-tailed)	.	0.000	0.000	0.000
	N	144	144	144	143
Increase in Sales	Correlation Coefficient	0.961**	1.000	0.929**	0.832**
	Sig. (2-tailed)	0.000	.	0.000	0.000
	N	144	144	144	143
Increase in business assets	Correlation Coefficient	0.912**	0.929**	1.000	0.859**
	Sig. (2-tailed)	0.000	0.000	.	0.000
	N	144	144	144	143
Increase in labour	Correlation Coefficient	0.851**	0.832**	0.859**	1.000
	Sig. (2-tailed)	0.000	0.000	0.000	.
	N	143	143	143	143

***. Correlation is significant at the 0.01 level (2-tailed).*