Entrepreneurship, Financial Sustainability and Wellbeing: A Comparative Analysis of Islamic and Conventional Microfinance programme

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Registration No. 21/M.Phil.-EAF/PIDE2015

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2017

Dedicated

To

My Parents

Late Muhammad Riaz Janjua

&

Late Zubaida Bibi

For their Endless Support and Motivation

Acknowledgements

First and foremost, praises and thanks to the **Allah**, the Almighty, for His showers of blessings throughout my research work to complete the research successfully.

This work would not have been possible without the support of Akhuwat Foundation and Jinnah Welfare Society Pakistan. I am especially indebted to **Dr. Shujaat Farooq**, Director Monetary & Evaluation, BISP Islamabad, who have been supportive of my career goals and who worked actively to provide me with the protected academic time to pursue those goals.

Nobody has been more important to me in the pursuit of this project than the members of my family. I am extremely grateful to my parents for their love, prayers, caring and sacrifices for educating and preparing me for my future. They are the ultimate role models. Most importantly, I am very much thankful to my brother, my sisters and my family for their love, understanding, prayers and continuing support to complete this research work.

I would like to say thanks to my friends, research colleagues and my class fellows Ali Saeed, Dr. Shahbaz, Amir, Qasim, Habib, Asim, Zohaib, Asad and Haris for their constant encouragement and support. Finally, my thanks go to all the people who have supported me to complete the research work directly or indirectly.

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CERTIFICATE

This is to certify that this thesis entitled **"Entrepreneurship, Financial Sustainability and Wellbing: A Comparative Analysis of Islamic and Conventional Micro-Finance Programme"** submitted by **Mr. Hafiz Muhammad Waqas** is accepted in its present form by the Department of Economics and Finance, Pakistan Institute of Development Economics (PIDE) Islamabad as satisfying the requirements for partial fulfillment of the Degree of Master of Philosophy in Economics and Finance.

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List of Abbreviations

SME	Small and Medium Enterprises
GOP	Government of Pakistan
IMF	International Monetary Fund
FINCA	Foundation for International Community Assistance
CCE	Community Credit Enterprises
NBFC	Non-Banking Finance Company
GDP	Gross Domestic Product
UNICEF	United Nation International Children's Emergency Fund
SFDP	Small Farmer Development Program
BRAC	Bangladesh Rural Advancement Committee
AKRSP	Agha Khan Rural Support Program
ADBP	Agriculture Development Bank of Pakistan
NRSP	National Rural Support Programme
RSP	Rural Support Programme
SRSP	Sindh Rural Support Programme
SRSO	Sindh Rural Support Organization
MSDP	Microfinance Sector Development Program
MFB	Microfinance Banks
DEEP	Development & Economic Empowerment of People
OCT	Orangi Charitable Trust
CSC	Community Support Concern
GLP	Gross Loan Portfolio
CGAP	Consultative Group to Assist the Poor
MFPs	Micro Finance Providers
SAP-PK	South Asia Partnership
SECP	Securities & Exchange Commission of Pakistan
KIVA	Korean International Volunteer Association
SEFM	Entrepreneurship and Financial Sustainability of Microenterprises
PMN	Pakistan Microfinance Network
PSUs	Primary Sampling Units

Abstract

This study has focused on following three main objectives; a) to examine the structure of conventional and Islamic microfinance programmes b) to observe the impact of both sorts of microfinance programmes on employment, entrepreneurial development and household wellbeing and c) to estimate the impact of microfinance programmes on financial sustainability of micro enterprises over time period. The study has used both primary (Survey of Entrepreneurship and Financial sustainability of Microenterprises 2017) and secondary dataset for analysis of role of microfinance in entrepreneurial development and on financial sustainability of micro enterprises.

Our analysis shows that the half of the respondents are uneducated and 60 percent of respondents have age between 25 to 40 years. About 50 percent of respondents received microfinance loan range from Rs 50K to 100K. The Akhuwat Foundation offered maximum Rs 150K as loan, while the JWSP offered loan more than Rs 200K. The investment culture in Akhuwat recipient's micro-enterprises is higher as compared to JWSP recipient's micro-enterprises. It is also observed the only 11.62 percent household started their business after joining MFIs and left-over recipients used their loans in homes.

This study has found that microfinance has no relationship with development of micro enterprises. Personal saving and retained earnings have positive role while coefficient of other loan has negative impact in development of micro enterprises. Characterises of micro enterprise such as MFIs, gender, location, education and ownership, have no role in entrepreneurial development of micro enterprises. The location of enterprises plays a vital role in growth of net profit. The important thing is that the variables such as microenterprises size, employment, marketing, business plan and experience have no role in development of micro enterprises.

Our analysis related to the financial performance of micro enterprises shows net profit has a significant and positive relation with financial sustainability. The odd ratios of microfinance loan, retained earnings and other loan have negative impact on financial sustainability of enterprises. The insignificant odd ratios of marketing and business plan reflects the real scenario of micro enterprises in Pakistan that majority of entrepreneurs are uneducated and they have no idea of how to expand their business.

1. INTRODUCTION

1.1. Background and Introduction

Microfinance primarily refers to financial services such as microcredit, savings, deposits, loans, payment services, money transfers, and insurance which are provided to poor and low-income households and, their microenterprises. The most significant instrument of microfinance is microcredit, which is a small, unsecured loan given to the poor entrepreneurs who intend to start up a new business or expand their business. The basic aim of microfinance is to economically uplift underprivileged people by stimulating economic growth through entrepreneurial development.

Over the last two decades, microfinance provides a new way to eradicate poverty by using financial capital to stimulate economic growth at the macro level and improving household income at the micro level. The purpose of microcredit is providing the loans and financial services to increase the employment rate, earning capacity and productivity of poor people and small medium enterprises. Microfinance has an impact on the deprived people through empowering people, eliminating poverty and improving living standards, such as health, education, food and other social impacts.

In developing countries, where unemployment is a serious issue, small and medium scale enterprises can play a crucial role in country's economy. These SMEs are comparatively small, independent and heterogeneous group of businesses, operates in service, trade, agribusiness and manufacturing sector of the economy. Small and medium enterprises required capital, internally generated funds or external funds, to starts-up their operations or expand their operations. Economic growth cannot be achieved without making a proper program which focused to poverty alleviation through empowering the people and create an environment of easy access to factors of production, especially credit.

Commercial banks and financial institution, the proper financial intermediates, commonly were less beneficial for poor households, firstly business models of theses institution were commonly unsuitable for a microfinance business. Secondly, these institutions offered conventional lending against some collateral and have high screening and monitoring costs. Moreover, it is unfairly believed that the households are unwilling of paying of poverty, income allocation and achievement of goals back loans. Due to these reasons credit was unavailable to poor and people of developing countries remain poor. In this situation many microfinance institutions entered in financial services and starts their operations in developing countries to improve the living standards of poor through entrepreneurship. Government and Non-Government Organizations (NGOs) of developing countries have been engaging in a number of programs and policies to encourage entrepreneurship in the country. So, we can conclude that the untapped entrepreneurship capacity of poor would be significantly improved through providing of microfinance services, engaging in economic activities, independent, increase employment opportunities, enhance household income, and create wealth.

Microfinance is a proper system which is intended to improve the wellbeing of deprived people through better access to financial resources (Navajas et al., 2000). Microfinance includes the financial services such as microcredit, deposits, savings, loans, insurance and money transfers which are provided to the people of both rural and urban areas at local levels of developing countries. The people who get benefits from these financial services includes; (1) who operate microenterprises where goods are sold, produced or repaired; (2) who offered services such as labour, farmers, tailors and cobblers and get wages or commission; (3) who rent out of vehicles, land, vehicles, machinery and tools to other people (Robinson 2001). Microfinance used direct relationships with the people and her immediate community to generate economic growth through market determined business enterprises (Estrin and Khavul, 2016).

Few decades ago, large inter-governmental institution such as World Bank and many others were used to improve the wellbeing of poor people, these institutions formulated strategies to stimulate economic growth and improved living standard with the help of development economists, donor and recipient governments (Sachs, 2005). Over the last two decades, microfinance provides a new way to eradicate poverty by using financial capital to stimulate economic growth and improving household. The purpose of microfinance is providing the loans to poor people to improve the employment rate, earning capacity and productivity of SMEs. Microfinance has an influence on the deprived people through empowering people, eliminating poverty and improving living standards. It also improves the standard of health, education, food and other social impacts. Microfinance is a facility to very poor, poor and low-income entrepreneur people. Microfinance is basically entertaining those people, who are usually not served by the conventional financial institutions (Otero, 2000).

Dichter (1999) recognized that microfinance and microenterprise development have a strong relation. In late 1970s, when famous investors discussed the promotion of SMEs, the functioning term was 'business' or 'enterprise' and the main objective of the investors was on helping them grow and capture the market. They assumed that SMEs played a significant role in jobs generation and in economic growth through marketing linkages created by an effectively SME sector. Policies makers, during the 1970s and 1980s, had more focus on developmental which were dominated by the terms small scale enterprises and small and medium enterprise. Later, it was recognised that the term 'small' was broader and did not include the reservations of poorest sector of the society.

The role and contribution of entrepreneurs vary from economy to economy, depending upon resources, overall business conditions and responsiveness of the political system. The entrepreneurs tend to contribute more in favourable conditions while in unfavourable conditions their contribution might be minimal. Entrepreneurship and economic development are inseparable. Schumpeter (1883-1950) had a view that entrepreneurship catalyses economic growth regardless of the political apparatus of the country[1]. Entrepreneurship is a management approach which can be employed in start-up businesses and in existing businesses. The entrepreneurship approach has played a significant part in changing roles of small businesses. For developing economies small enterprises huge potential to be untapped.

An entrepreneur is the one who looks for innovative ideas for businesses and put them to practice to foster economic growth. Entrepreneur acts as catalyst to accelerate economic growth with his decisions. Along with the development of industrial sector of the economy, entrepreneurs are also playing their part in the development of traditional farm and service sector. The entrepreneur requires funds to accumulate different factors of production. Enough provision of funds is necessary for the smooth functioning of any enterprise or initiating new investments. Consequently, various forms of financial assistance such as investment, consultative services and the provision of basic infrastructure have been designed for the promotion of entrepreneurship, by

[1] http://www.investopedia.com/terms/j/joseph-schumpeter.asp

many microfinance institutions. Previously, financial institutions discriminated against the poor and micro-enterprises because of high risk associated to them. Because of these hurdles, financing to poor people to establish and sustain their businesses is the major problem throughout economic and entrepreneurship literature.

In Asian countries especially in Muslim majority countries such as Pakistan, Bangladesh, and Indonesia poverty and unemployment rate are quite high. In Muslim countries about 72 percent of people do not use conventional financial services, even when financial services are available (Honohan, 2008). In these countries, Islamic Microfinance has been progressively growing because it is based on Islamic principles. Islamic Microfinance do not charge interest (riba) and has an important role in socio-economic and in micro enterprises development (Rahman, 2007). Islam more focus on ethical, moral and on social factors and promote the society on the way to economic and social justice. Islam promote the culture profit and discourage interest charges because profit generate productive activity and include investor and borrower in risk and profit distribution (Dhumale and Sapcanin, 2008). The main ideology of this practise is that both investor and borrower contribute in business development and share the burden of profit and loss, which is more than profitability. Therefore, the final achievement of this approach is to promote social benefits rather than profit maximization. Interest free microfinance has different ways but some renowned methods are Musharaka, Mudaraba and Murabahah[2] (Segrado, 2005).

In the growth of developing countries especially Pakistan, where unemployment is a serious issue, SMEs can show a crucial role in country’s economy. These SMEs are comparatively small, independent and heterogeneous group of businesses, operates in service, trade, agriculture business and manufacturing sector of the economy. Today world largest multinational business and corporations such as the United African Company (UAC), General Motors, Microsoft, Volkswagen, etcetera started from small and medium enterprises. Microfinance invest in SMEs like Blacksmiths, small tool shops, goldsmiths, children education services, health facilities, purchased assets and improved their living style as compared large micro enterprises such as cosmetics factories, bakery, steel industry and construction micro enterprises (Arowomole and Oyedokun, 2006). Government and Non-Government Organizations (NGOs) of

[2] The detail information related to these methods are given in section 2.5.

developing countries have engaged in making policies which encourage entrepreneurship culture in the country (Asaolu, 2002).

Pakistan is a developing country, which has its own developmental challenges because of corruption, bad governance and lack of infrastructure, terrorism, lives' insecurity, political instability, unstable macroeconomics and government policies by consecutive administrations. Industrial development of Pakistan need both government and private sectors along with every segment of the society to come forward and participate in economic and development activities. For this, government not only encourage privatization policy but also find the new pathways to involve the private sector in the developmental of Pakistan.

1.2. History of Microfinance

Microfinance is not a new concept. Anarchist Lysander Spooner (1800s) wrote about the role of micro credit as an approach to poverty alleviation through entrepreneurial activities.[3] At that time, there was only concept of microcredit, focusing only on loans but with passes of time microcredit shift to microfinance and it became a wider phenomenon. Now, along with the loan, it also includes financial services such as insurance, savings and sometimes even marketing and money distribution.

Microfinance is becoming very popular during 1970s and first time emerged with organizations such as the Grameen Bank in Bangladesh and the work of advocates like Mohammad Yunus. M. Yunus find out that there was a huge untapped potential of entrepreneurship among the underprivileged people of his country. He noticed that they could have innovative ideas in businesses and had capability of running successful business but they faced lack of start-up capital. He tried to find ways to provide this start-up capital to people who deserved it. So, he finally established a bank that lend out few hundred dollars without any collateral to individuals at a time to start small businesses.

Now the microfinance market is divided in to three sections i.e. Americas, Asia Pacific and the Europe-Middle East-Africa, in which Asia Pacific is the largest revenue generating region and it will have 70 percent of the total market share by 2020. In 2017

3. http://www.lysanderspooner.org

microfinance market growth rate is 10-15 percent. A significant requirement for the development of microfinance markets is technological progress which many recommends for pushing the penetration of financial services and offering microfinance services at lower cost. Both local as well as international funding sources remain important for microfinance institutions as they provide greater diversification and sustainable funding basis for this growing industry.

1.3. Microfinance in Pakistan

In Pakistan, microfinance sector has witnessed an unprecedented growth in Pakistan. This growth is owed to the favourable policies and sound monitoring frameworks as well as supportive investments endowed to development of this sector by government of Pakistan. Presently there are various government and private organisations such as RSPs, CBs, MFBs, NGOs, non-profit organisations and conventional and Islamic microfinance institutions providing financial services to the deprived masses. However, a massive gap between the demand and supply of financial services to the poor remains there. Policy maker's belief that these strategies will enhance entrepreneurial spirit in the mind of people, and involve them in income creation through SMEs (Fasua, 2006). SMEs are very essential to the development of a country's economy like Pakistan. These SMEs are comparatively small, heterogeneous and independent groups of businesses and serves in trade, agribusiness and manufacturing sector of the economy.

Microfinance industry in Pakistan currently stands at 3.1 million active borrowers with a gross loan portfolio (GLP) of 61.1Rs billion. Outreach in terms of active borrowers increased progressively due to increasing number of microfinance providers (MFPs) working in the country and the development of existing MFPs institutions. Despite these positive developments, the potential size of the market for microfinance is 27 million customers and current penetration rate stands at about 11.5 percent. The outreach of MFIs is only 4 to 7 percent of the total market potential of 25 to 30 million borrowers. The government of Pakistan has set a target of accomplishment 10 million microfinance customers by the year 2015.16[4]. This large gap, despite all its achievements, shows that we are far-away from achieving potential goals and contribute meaningfully to financial inclusion agenda in Pakistan. Stakeholders of the

[4] http://www.responsability.com

financial sector initiated to analyses the capacity of the microfinance sector to make a significant contribution to the challenge and scale of financial exclusion in the country[5].

1.4. Problem Statement and Research Gap

Pakistan is one of the developing countries which has issues of high un-employment rate, high poverty levels and sustainable development. Pakistan has a long history of devised programmes to alleviate poverty and create employment which includes Rural Works Programme, People's Works Programmes, Youth Business Loan Scheme and Interest Free Loans programme to utilize the youth's potential and create the employment opportunities. Pakistan has a population of around 200 million with 1.86 percent annual growth rate. In 2015, about 29.5 percent population is living under poverty line (GoP, 2016). According to IMF 2016, economic variable like economic growth, employment, inflation and social indicators such as Social Sector Development and Human Development index improved over the time. Instead of all these progresses, poverty is a major issue in Pakistan. According to Economic Survey 2016-17, Pakistan is a country which has high population growth rate with increasing ratio of labour force. Presently, in Pakistan 3.1 million active labour is unemployed out of 61 million.

This reveals that Pakistan has huge untapped entrepreneurial potential that can be unleashed to encourage people to develop their own small enterprises and to create more job opportunities. To fight against the unemployment, it is necessary people start their own business along with the big companies for making society productive. Realizing the potential, government and many other private MFIs have started their operations and have used microfinance as a tool to promote entrepreneurship improve the living standard of people. Several studies including Robinson et al., (2001), Remenyi et al., (2000), Dean et al., (2009) and Hulme et al., (1996) etc. had explored the positive and negative impact of MFIs on employment and on wellbeing of poor people in developing countries. In Pakistan, a lot of studies has observed the effect of microfinance program on poor people lives (Mustafa et al., 2008, Ajmal, 2011, Chowdhury, 2009 and Chughtai et al., 2015) but according to my knowledge none of the study has managed to observe the impact of microfinance program on enterprises development in Pakistan. This study will not only explore the impact of Microfinance

[5] http://www.sbp.org.pk

program on the development of microenterprises, financial capability of microenterprises but also compare the effectiveness of Islamic and conventional microfinance programme on household wellbeing.

1.5. Objectives of study

The present study revolves around the following 3 objectives.

1. To examine the structure of conventional and Islamic microfinance programmes;
2. To observe the impact of both sorts of microfinance programmes on employment, entrepreneurial development and household wellbeing;
3. To estimate the impact of microfinance programmes on financial sustainability of micro enterprises over time period.

1.6. Organization of the Study

The organization of this study is as follow;

Chapter 2 presents a comprehensive review of microfinance programme, the definitions and the different models of microfinance programme and international prospects of microfinance. Further, the empirical related to microfinance, entrepreneurial development and wellbeing of poor people has also been presented in this chapter. Information about the history of microfinance, microfinance institutions and future of microfinance in Pakistan has been given in chapter 3. In Chapter 4, the methodological framework about entrepreneurial development and financial sustainability of micro enterprises, its determinants and microfinance programme consequences on employment and wellbeing have been described. It also highlights the methods used for data collection with sample design, questionnaire design and field survey.

A descriptive analysis of the sampled respondents from the primary dataset has been given in Chapter 4. In Chapter 5, through OLS approach, the results about the determinants of entrepreneurial development of micro enterprises have been given. Through Logistic approach, the estimated results about the determinants of financial sustainability of micro enterprises have also been reported in Chapter 5. Finally, Chapter 6 concludes the overall study with some policy implications and recommendations.

2. TYPES OF MICROFINANCE MODELS: DEFINITIONS AND PRACTICES

2.1. Introduction

This chapter comprises of theoretical considerations of microfinance programmes by explaining: how can we define microfinance program? What are the main differences in conventional microfinance models and Islamic microfinance models? What are the different models of conventional and Islamic microfinance? How microfinance are being experienced in different countries around the globe? How microfinance is being practiced in Pakistan? And what is the international scope of microfinance? Recent studies on microfinance have focused on its tendency to improve the wellbeing of poor people. However not much work has been done to explore that whether microfinance promotes entrepreneurial sustainability which in turn be used as a tool to alleviate poverty.

2.2. Definitions of Microfinance

Some definitions of microfinance have been given below;

"Microfinance bringing credit, money transfer and other vital financial services in range of poor people who are not facilitated by regular banks. These people are too poor and they are unable to offer sufficient collateral. In general banking system, banks are only for those people who have money, not for those people who have nothing" (Oiko credit, 2004).

"The reason of poor people become poorer is not lack of skill, but is due to lack of financial resources. Charity is not the solution of poverty. It enhances the dependency of poor on other and takes away the individual's initiative to break through the wall of poverty. Unleashing of energy and creativity in each human being is the answer to poverty" (Yunus, 2003).

"Microfinance primarily refers to financial services such as microfinance, savings, deposits, loans, payment services, money transfers, and insurance which are provided to people; who operate small or micro enterprises where goods are produced, recycled, repaired or sold who provide services such as labour, farmers, tailors and cobblers and get wages or commission; who rent out small portion of land, vehicles, machinery, livestock and tools; and to other groups of people, both urban and rural areas, at the local levels of developing countries" (Robinson and Marguerite, 2001).

2.3. Current Models of Microfinance

MFIs provide financial services to the underprivileged people. These models include a range of financial services that differ in their structure and in methodology but the mutual characteristics in all the models are providing financial services to poorest segment of society. It can be defined as credit union, financial cooperatives and economised commercial bank. These general models of microfinance are given below.

2.3.1. Conventional Models of MFIs

a. Grameen Bank Model

Grameen bank model is based on the group lending which are small, voluntary formed and consist of five people. These groups are to provide social collateral required by conventional banks. Women has equal rights under this scheme, so that take part in the microenterprise's development. This model is based on group-based lending in which small amounts of money is given to a large number of people. The group self-selects its members and size of the group may be different, but most of the time groups have four to eight members. In this model some share of loan is serve as collateral in advance. Member of the group are jointly responsible and accountable for the repayment of each other's loans. To ensure repayment, peer pressure and joint liability works very well. The entire group will not be eligible for further loans, even if one member of the group becomes a defaulter (Fotabong, 2011).

b. Means Competences of Community Model

MC2 is a rural development micro banks. These banks are made and operated by society in the light of local customs. Dr. Paul K. Fokam is the principle advocate of MC2 model. This micro rural bank is more developed and improved the deficiencies of micro finance. In this model savings behave as an engine of progress, awareness provide fuel to keep the engine rolling and loans serve as a lubricant to combat the problem of poverty. The core principles of MC2 model remain same from one community to the other but its operating system is different[6].

c. FINCA Microfinance Model

Foundation for International Community Assistance is a banking institution, which used banking model in different village to generate financially sustainable solidarity groups. FINCA trains small community groups to form Community Credit Enterprises (CCE). John Hatch was first developed this model in Bolivia during the 1980s. In this model, 40 to 60 members, which are all usually women made a group and work with FINCA. When the village bank is inaugurated, it receives its first loan from the implementing agency for lending to the individual members of the village bank. The funding agency organizing the election of a management committee, developed the rules and regulations and give training to its members to govern the village bank. The first individual loan which is usually US$ 50 is repaid on a weekly basis. These instalments are consisting of equal amount of principal and interest payment and divided over a four-month period. The village bank collects these payments at regular basis and at the end of loan period it pays back the entire loan principal plus interest to the implementing agency. If the village bank repays in full loan’s amount then it is eligible for a second loan. If the village bank is unable to pay the amount due, the implementing agency stops further credit until reimbursement is made (Fotabong, 2011).

2.3.2. Islamic Microfinance Models

Obaidullah (2008) explained the Islamic microfinance instruments in such way:

a. Charity based microfinance instruments
b. Profit based microfinance instruments

a. Charity Based MF Instruments

This instrument mainly focusses on extremely poor who can-not fulfil their basic necessities and need help in fulfil the basic necessities of life such as food, health and cloth. However, it is very important to uplift the social and economic conditions of these segment by providing them some entrepreneurial or technical training. The instruments for this group are given below;

[6] Fotabong (2011) MC2 Model versus other Microfinance Models

Waqaf

It is an Islamic MF instrument in which funds collected under zakah and sadqa can be utilised as charity funds for the poor people. According to Usmani (2001) “waqaf is a legal and religious institution where a person dedicates some of his properties for a religious or a charitable purpose”. waqaf is not an obligation but when it is implemented then it is stable and sustainable. It also used to provide technical skills to the poorest segment of society.

Qard Hasna

Qard hasna is an interest free loan and it is considered the purest form of Islamic financing. The pure ideology behind this method is that the borrower pays back only principal amount to lender. In MFIs, this instrument is used for both financing and saving purposes. In Qard hasna the interest rate is zero, so it uses as instrument in microfinance to provide the loan to needy people for the investment. In this instrument, an important thing is that the lending institution only charge the operational cost from the borrower.

b. Profit Based Microfinance Instruments

Murabaha

It is the famous Islamic financial product. According to this model Islamic MFIs buy assets for its client and then sells the asset to the client at a fixed profit margin. The clients pay the whole payment at once or in instalments form. Due to asymmetric information, it is important for both parties (MFIs and Clients) to know the price and cost of this transaction to minimising the probability of exploiting.

Mudaraba and Musharaka

These are partnership based Islamic models. Mudaraba model implies the partnership between two parties in a way that one party (MFIs) provide the funds (rab-ul-mal) while other party (client) provide the managerial skill in implementation of a project. Under this model profits are divided according to the predetermined rate set at the time of contract, while in case of loss the financier party (MFIs) bears the loss of capital.

In musharaka, both parties (MFIs and client) invest in both capital and in management, and profit share is based on pre-agreed ratios set at the time of contract. In this model the Loss sharing is strictly depend on the proportion of capital invested. In Islamic MFIs this product is very productive because the MFIs will not only provide capital but will also help in management problems. This product can serve dual objectives for the poor entrepreneurs, who not only face the problem of financing but also faced lack of entrepreneurship skills in micro-enterprises.

Ijara

Ijara is an Islamic renal model in which income generating assets are given to the clients at predetermined rete and intervals. Under this contract the ownership of the asset remains with MFIs but the clients use the asset against rent. Ijara is a temporary contract and institution may sell or gift the asset to same client at the end of this contract. In this contract the institutions bear all risks and liabilities which make this contract from the conventional contract.

Wadia, Gard, Mudaraba

All of these models are the saving models in which people are encouraged to save in small amounts and they have right to withdraw at any time. The structure of mudarba model is similar to above model. The only difference is that the in saving mudarba model the MFIs behave like mudarib and the client acts as rab-ul-mal. In this model the cent bear all, the financial loss and share profit with MFIs on predetermined rate.

Takaful

It is an Islamic insurance and it is most important and useful for clients of MFI institutions. The clients of MFIs are unable to save for uncertain events in the future, so takaful give an opportunity to secure your future. Takaful is a non-profit model and under this model all members provide joint guarantees. In takaful model, the fund money is used to help the participant of the joint fund in problematic times; sickness, death or business loss.

2.4. International Perspective of Microfinance

Microenterprises has a vital role in the development of economy. These micro enterprises monitor the economic performance of the country and carve out opportunities for growth of their micro enterprises. Micro-insurance companies are also indulging in the growing microfinance markets by focusing on improving their risk management practices. According to Microfinance Outlook (2016) automated monitoring systems are being developed by these companies in order to keep an eye on the client's cash flows. Microfinance banks are growing in the emerging markets and these are likely to steer the growth of global microfinance market. The internationalization of microenterprises has encouraged the cross-border activities like trade, partnerships, international investments, strategic alliances and networking arrangements with working capital management. This process of internationalization has led to the improved approaches regarding the performance of microenterprises like the credit rating which measures the credit worthiness of microenterprises sector.

The microenterprise sector experiences many constraints such as availability credit, collateral requirements, high cost of credit access to equity capital. These hurdles have led these enterprises to turn to banks and financial institutions to meet their requirements of working capital for the expansion of their businesses. Classifying this segment as high-risk segment has led to the provision of timely and low-cost finance a crucial challenge for the sector. However, the microfinance market is expected to see a number of new entrants because of its massive ability to reduce unemployment and boost the GDP growth.

The global microfinance market is divided in three sections i.e. Americas, Asia Pacific and the Europe-Middle East-Africa (Global Microfinance Market, 2016-2020). Asia Pacific is the largest revenue generating region for microfinance market and it will have 70 percent of the total market share by 2020 (Hailey et al., 2016). Much of this growth is contributed by economies like China, Hong Kong, South Korea, Macau, Mongolia, Japan, and Taiwan. Moreover, the emergence of Islamic banks and high growth of Islamic finance will also boost the growth of this particular section of market. The leading MFIs in the world include AL baraka, ASA, Amhara Credit and Savings Institution, Compart Amos Banco, Al Amana Microfinance, ICICI Bank, Standard Chartered, and Wells Fargo[7].

The growth expectation of global microfinance market is 10-15 percent in 2017 (Hailey et al., 2016). This growth will be led by India and Cambodia because of the presence of an efficient and favourable regulatory environment and also the strong demand for microfinance services. A significant requirement for the development of microfinance markets is technological progress which many recommends for pushing the penetration

[7] http://www.technavio.com/report/global-miscellaneous-microfinance-market

of financial services and offering microfinance services at lower cost. Both local as well as international funding sources remain important for microfinance institutions as they provide greater diversification and sustainable funding basis for this growing industry.[8]

2.5. Microfinance and Entrepreneurship Development

A major part of literature on entrepreneurship development considers how this phenomenon be placed in the framework of present views of microfinance. However, there is no consciences among researcher about relationship between microfinance and entrepreneurial development. This section provides a different aspect of Microfinance and Entrepreneurship Development;

In favour of the concept that microfinance positively affect entrepreneurial development, Rodenbeck (1998) explored the importance of microfinance in small- and micro-sized enterprises sector. He found that across countries the informal SMEs were less dependable, but the "informal sector of SMEs" in Jordan was believed to provide 35 percent employment opportunities and 45 percentage in Yemen. In Morocco and Lebanon these rations also hold but in Algeria, Syria, and Tunisia these ratios had slightly lower levels. Another study, Johnson (1997) measured the effect of availability of microfinance and microenterprises. The study revealed that the accessibility to credit for microenterprises can have significant impact on increase in income through microenterprise, but there were methodological problems percent in assessing increases in incomes was a result of the provision of credit or not. The results revealed that credit facility has ability to increase income of people.

A study in Thailand, which used the data of 68 village bank members to explore the income generating strategies. The study used the control group of 60 randomly selected non-participants and described that borrowers who got loans from microfinance institutions for at least one year were earn more profit and more diversified as compared to randomly selected non-borrowers. In last year, the borrowers, earned 61 percent profit from livestock and 31 percent from microenterprises while non-borrowers earned 22 percent and 5 percent respectively. The study also explored that Women contributing in the programme who invested $65 in agriculture as compared to only $16 for non-participants women (MkNelly and Watetip, 1993). Similarly, according to that Mahajan

[8] http://www.technavio.com/report/global-miscellaneous-microfinance-market

et al (1996) microfinance was a resource for poor to grow small businesses. The importance of consumption loans to poorer people which could not finance their enterprises has been seriously undervalued. A study in India resulted that ‘consumption credit’ covered two thirds of the credit needs of people below the poverty line.

UNICEF (1995) conducted a research on “The Small Farmer Development Program (SFDP)” executed by the Government of Nepal. Through this programme credits up to NRs 30000 were given to small groups of farmers on group-collateral based for several agricultures-based incomes raising enterprises. At the time of this study, the program covered 123,000 families whose annual per capita income was below NRs 2500. In china, Li et al. (2011) concluded that microfinance was an effective finance method for the construction of new enterprises regions in rural arears and microfinance support farmers and agriculture in development of these micro enterprises. A study conducted by Gobbi et al. (2005) in Pakistan on microfinance, women’s economic empowerment and microenterprise. He stated that that the microfinance loan to microenterprises helped out the borrowers to improve the profitability of microenterprises run by women entrepreneurs. According to Jasra et al. (2011), small enterprises has a crucial role in country’s development and its success depends on number of factors. This study concludes different results (1) an important association between business success and its determinants, (2) financial assets are the most significant factor in the success of SMEs and (3) success of SMEs can contribute meaningfully in the country’s development.

The opponents of the above mentions study some researcher claim that microfinance is not only tool to help in establish and in development of microenterprises, employments generation and in empower the society etc. Karnani (2007) summarizes his finding that skills, creativity, vision and persistence to be entrepreneurial was more important than the access to microfinance. The population of developed countries is highly educated and where access to financial services are easily available, but about to 90 percent of the population is employees, not entrepreneurs because of lack of entrepreneurial skill and creativity. According to Mahajan (2005), Microfinance was an essential but not a necessary condition for small enterprise development. Other factors, such as identification of employment opportunities, business management and motivation, market linkages for products, technical skills, government policies, infrastructure and sometimes regulatory supports were also important. In the absence of these skills, microfinance itself only helpful in a limited context.

Similarly, Pollin (2007) explained his thoughts in such way, poor people cannot successfully run the micro enterprises because they do not have easy access to borrow money. Access to roads infrastructure and affordable transportation for arriving their goods to markets also played crucial role in the successful of small enterprises. They also showed that marketing linkages are important to reach customers. Pollin (2007) also pointed out that along with microfinance, SMEs also need a vibrant and well-functioning local market which stimulate sufficient people with sufficient money to buy enterprises products. A finest way of sustaining a vibrant local market is increasing supply of jobs in their local economies. Roodman et al. (2006) wrote on the World Bank finding which held in Bangladesh, the income of poor people, who borrowed \$250 for one year, increased by \$12.50 per year, or about \$0.03 per day. For poor people who lived on \$2 per day, this increase was 1.5 percent. This does not uplift the microfinance hype.

2.6. Microfinance and Household's Wellbeing

The role of microfinance in wellbeing has recently gained a prominent position on the microfinance agenda. Donors, practitioners, and academics are realizing that microfinance institutions (MFIs) must concern themselves with more than their ability to reach institutional self-sufficiency. The ability to reach and to demonstrate a positive impact on the poorest is now becoming a core principal in poverty-focused financial institutions. In favour of the concept that microfinance improve the living standard of low income people in a better way, Zaman (2000) discussed that microfinance reduce vulnerability of members of microfinance programme by several ways including smoothing consumption, promoting enterprises, building assets, providing emergency support and contributing to female empowerment. According to the, Dunn (1999) who conducted a study in Lima, Peru and showed the fact about poverty reduction and improving wellbeing. The study estimated that 28 percent of microfinance customers lived under the poverty line as compared to 41percent of non-borrowers of microfinance. The normal income of microfinance borrowers were 50 percent higher as compared to non-borrowers and borrower of microfinance spend 20 percent more on education than non-borrowers.

Barnes et al. (1998) showed that due to the development of micro enterprises an average the wellbeing of recipients improved and expenditure of household microfinance borrowers was 35 percent more than non-client households and education expenditure of microfinance clients were 38 percent more than non-client households. Mustafa et al. (2008) argued that microfinance provides an opportunity to the poor entrepreneurs who are more prone to harsh living conditions and have greater incentive for working hard. They concluded that a combination of microfinance and entrepreneurship is a very effective tool for improving living standard and it can bring more profit and improve productivity. Barnes et al. (1999) pointed out that in Zimbabwe, there were major differences in income distribution of borrowers and non-borrowers of microfinance. The average monthly income of new customer and non-borrowers was less than Z$2,000 as compared to one fifth of the repeat client household whose assessed monthly income more than of Z$4,000. The average number of income sources was 2.5 for client's households compared with 2.1 for non-client's household.

Khandker (1998) estimated that consumption of BRAC members' household increased by 18 takas for every 100-taka landed to a woman. The moderate poverty for people (BRAC members for up to three years) 15 percent decreased and 25 percent falls in ultra-poverty. Drioadisuryo et al. (1999) conducted a study on the island of Lombok (Indonesia) and concluded that women who were under the poverty line got the credit from BRI. The average income of BRI member's women had been increased by 112 percent and 90 percent of families' income increased enough to move above from the poverty line. The study also pointed out that micro credit helped women in income substantially, families' nutrition, children's education and faithfully repaid their loans. Abbas et al. (2005) has founded that micro credit play a significant role in growth of income, in making smooth consumption. He also showed that the relevent use of micro credit (tool to alleviate poverty) largely depends on local environments.

Many studies have been conducted in Bangladesh to find the influence of microfinance on household wellbeing. These studies are, Hossain (1988) the average income of Grameen Bank members had 43 percent greater than the control group and about 28 percent greater than the non-participants. Hashemi et al. (1997) conducted a study, with cooperation of World Bank and Bangladesh Institute of Development Studies, presented that the Grameen Bank helped the poor people in improved in wellbeing and improved the capacity poor people to sustain their gains over time. Kamal (1996) noted that per capita income among micro credit programmes' customers were higher than to non-borrowers. Chowdhury et al. (1991) declared that BRAC members including both women and men had more income, assets and gainfully-employment opportunities as compared to non-members. Mustafa et al. (1996) agreed with chowdhury et al finding and noted that members of BRAC had better managing capabilities in lean seasons and these capabilities improved with long relations with MFIs and loan amount received from MFIs. He also showed that resources of BRAC members (minimum at least members for 48 months) increased by 112 percent and household expenditure increased by 28 percent.

In contrast, the above finding the most-cited source of evidence is set of studies collected by Hulme and Mosley (1996). These studies challenged the finding and revealed; microfinance did not have impact on poor households, it only improved the life of non-poor borrowers who can use microfinance in better way and enjoy substantial positive effects. More worrying is the outcome that a enormous majority of those people whose incomes are below the poverty line actually ended up with less incremental income after getting micro credit as compared to a control group who did not get such loans. The results of these studies also suggest that microfinance loan is not only one factor for improving the wellbeing of poor people. Other complementary factors such as creativity, entrepreneurial skills, management skill and persistency are vital for improving the productivity of credit. Among all of them, the most significant factor is entrepreneurial skills of borrowers. Banerjee et al. (2007) also pointed out this factor in MIT study. Most poor people who's had the facilities of micro credit but they were uneducated and had no experience to understand information and management experience of even micro level business activities.

The existing evidence related to effect of microfinance on wellbeing of poor in Bangladesh is not clear-cut. Khandker (1998) recommended that access to loans has the potential to alleviate poverty significantly. On the other hand, Morduch (1998) argued that microfinance has nominal effect on poverty alleviation. khandker (1998) also estimated that consumption of BRAC members' household increased by 18 takas for every 100-taka landed to a woman. The moderate poverty for people (BRAC members for up to three years) 15 percent decreased and 25 percent falls in ultra-poverty. In contrast, Morduch (1998) pointed out a problem with Khandker analysis that the assumption of perfect selectivity of targeted poor people was imperfect in which 30 percent of households were above the eligibility threshold. For correction of selectivity problem Morduch used the same data with alternate approach and find no evidence of increases in consumption or poor people.

As a matter of fact, the supporters of microfinance disagree with the arguments that only microfinance has no impact. For example, Director of the Microfinance Summit Campaign, Sam (2007) argued that microfinance is not the only solution to global poverty, education, health and economic growth. Global poverty cannot be alleviated by promoting only microfinance. It must contain broader activities such as women empowering interventions and microfinance are one powerful tools. According to Yunus (2003), "Microfinance is not a miracle cure that can eradicate poverty in one fell swoop. But it can alleviate poverty for many and reduce its severity for others. Combined with other innovative programmes that improve people's potential, microfinance is a crucial tool in our search for a poverty free world".

3. MICROFINANCE IN PAKISTAN

3.1. Background

There is always a priority of state institutions to provide social and financial assistance to the poor and marginalized sections of the society. Pakistan has been an agrarian economy since its inception with a major chunk of labour force employed by the agriculture sector. Poverty levels were therefore associated with the performance of the agriculture sector. To fulfil the needs to uplift the agriculture sector, the Government established Agricultural Development Bank in February 1961 with the merger of two institutions Agricultural Development Finance Corporation and Agricultural Bank of Pakistan. The bank was established to improve the rural and agriculture sector by rising farm productivity, restructuring institutional credit and increasing income generating capability of the farming community. The bank was aimed to provide subsidized financial services and short-term credit to poor farmers and agriculturists. Village Aid Programme was one of the initial efforts made to address the issue of poverty and to improve the living standards of poor people living in rural areas. The programme aimed to provide technical and material assistance to the cottage and small-scale industries. This program was also aimed to provide more educational and health facilities to the underdeveloped and neglected rural areas of Pakistan. The programme was abandoned in 1962 by entrusting its responsibilities to the provincial agriculture departments and basic democracies institutions.

The government commissioned conventional rural support programs namely Agha Khan Rural Support Program and Orangi Pilot Project during 1980's to alleviate poverty. The model underlying AKRSP was implemented during 1990's with the establishment of National Rural Support Program and Sarhad Rural Support Program. These programs channelized subsidized loans and financial services to the poor people living in rural areas. Realizing the importance of microfinance as an effective tool for poverty alleviation, the government launched Microfinance Sector Development Program in 2000. The program was mandated to provide financial services to the poor people on sustainable basis. Under this program the Government of Pakistan commissioned Khushali Bank, the first microfinance bank in Pakistan on 12th August 2000. Khushali bank was mandated to provide conventional subsidized loan with or without collateral to the deprived class of people. In 2001, the Microfinance Institution Ordinance was passed in order to provide a separate regulatory framework for the microfinance sector.

Microfinance sector has witnessed an unprecedented growth in Pakistan. This growth is owed to the conducive policy and sound regulatory frameworks as well as supportive investments endowed to the development of this sector by government of Pakistan. Presently there are various government and private organisations such as commercial banks, rural support programs, microfinance banks, NGOs, non-profit organisations and conventional and Islamic microfinance institutions providing financial services to the deprived masses. However, a huge gap between the demand and provision of financial services to the poor remains there.

3.2. Microfinance Providers in Pakistan

Microfinance is not a new concept in Pakistan. In 60s government made Agriculture Development Bank of Pakistan (ADBP) for development of agriculture in Pakistan. In 80s to reduce the intensity of poverty Agha Khan Rural Support Program (AKRSP) was established and it started their operation in northern areas of Pakistan. Now, in Pakistan microfinance providers have divide in three categories and these categories have been given below.

3.2.1. Rural Support Programs

In 90s AKRSP was implemented in whole country with the establishment of National Rural Support Programs (NRSPs). It is the largest support programme in terms of staff, outreach and development activities. This programme registered under Section 42 of Companies Ordinance 1984 because it is a non-profit programme and had an aim to alleviate poverty by harnessing people's potential and undertake development activities in Pakistan. The Punjab Rural Support Program (PRSP) started to work, in November 1997, under section 42 of the Companies Ordinance, 1984. It is currently operating in 28 districts through partnership with government and donors in Punjab. Sarhad Rural Support Program (SRSP) initiated operations in 1989 under Company's Law, working in Khyber Pakhtunkhwa and FATA. SRSP has played a pivotal role in times of disaster that have hit Khyber Pakhtunkhwa. Sindh Rural Support Organization (SRSO) established in 2003 under Section 42 of the Companies Ordinance 1984. SRSO has their operation in 9 districts of Sindh which include some of the remote and underprivileged areas.[9]

3.2.2. Microfinance Banks

In Musharaf's rule, government focused on microfinance and empowerment of poor and established First Microfinance Bank and Khushhali Bank through ordinance 2001 (Rehman, 2007). It was a part of the Government's Poverty Reduction Strategy and its Microfinance Sector Development Program (MSDP). MFB is a private commercial Microfinance bank, under the Microfinance Ordnance 2001, was established in 2005 and licensed by the State Bank of Pakistan. It is the first nation-wide, private-sector, micro-finance institutions in Pakistan. The First Micro Finance Bank was established by Aga Khan Rural Support Program and the Aga Khan Fund for Economic Development in March 2002. Microfinance are an important means to stimulate development as per FMFB. Punjab Provincial Cooperative Bank Ltd. started to work in 1924 as an Apex bank to meet financing requirements of cooperative societies. It is involved in all types of banking and credit business with companies and individuals. PPCBL gained status as scheduled in 1955[10].

MFBs such as Tameer Microfinance Bank Ltd., Rozgar Microfinance Bank Ltd., Network Micro Finance Bank Ltd, FINCA Microfinance Bank and Pak- Oman Microfinance Bank Ltd are also starting their operation in Pakistan. These banks work as a retail microfinance services institution and behaves like a catalyst in stabilizing the country's microfinance sector and provide access to capital that was never possible due to economic, cultural, or historical reasons.

3.2.3. Microfinance Institutions

MFIs are specialized in microfinance services. The primary objectives of these institutions are providing financing for micro enterprises and they did not normally invest in consumer finance. MFIs intends to increase the standards of living of poor people by entrepreneurship and empowering them and this is a logical and sustainable manner.

Kashf Foundation is the first MFI in Pakistan and started to work in 1996. It is a result of research program focusing on understanding and determining key factors having an

[9] http://www.pmn.org.pk/
[10] http://www.pmn.org.pk/

impact on the demand for microfinance services by poor women. The primary focus Kashf Foundation is to alleviate poverty by providing quality and cost effective micro-loans to low income households, especially women. Naziran Yousaf Memorial Trust was established in 2004 and registered in 2005. It is a non-profit, non-political and non-government organization and start working for the social and economic uplift of underprivileged, ignored and oppressed communities in the urban and semi urban areas of Pakistan above the caste, creed, religion and other group boundaries. DEEP Foundation is a Microfinance Organization based in the province of Punjab, Pakistan. It is a specialized asset based Islamic organization and intends to ensure that the unbanked, SME members are given the best support in the achievement and attainment of their business goals.

Orangi Charitable Trust (OCT) started operations in 1987 and registered under the District Registrar of Karachi, Sindh. The primary objective of OCTs is to make credit accessible to existing microenterprise units in Orangi and outside Orangi. Community Support Concern (CSC), a non-governmental organization, was established in 1989 and registered under Societies Registration Act 1860, Government of Pakistan. CSC started to work for the social and economic uplift of under-privileged communities, rural and semi urban by adopting participatory approaches, through involving communities at every level. Along these institutions other MFIs such as Damen Support Programme, Akhuwat, Asasah, Damen Support Programme, Jinnah Welfare Society (JWS), Mehran Education Society have started their operation in Pakistan as a result of positive signs in growth of microfinance sector in Pakistan due to supporting policies for environment and infrastructure of Microfinance, encouraging government policies, institutional development of existing MFIs and evolving of new MFIs and most important is enhancement in outreach of MFIs[11].

3.3. Progress of Microfinance in Pakistan

A comprehensive information about the growth of microfinance in Pakistan has been given in this section. Table 1 shows that microfinance significantly grows in every field over the time. The active borrowers of microfinance institutions increased by 1.9 million in 4 years which express that people use microfinance loans for improving their

[11] http://www.pmn.org.pk/

lives. The basic purpose of microfinance is to empower women by giving them financial support. So, it is very appreciable thing that women participation in microfinance programme increased over time.

Table 1: Progress of Microfinance Programme in Pakistan

Year	**2011**	**2012**	**2013**	**2014**	**2015**	**Percentage Change**
Active borrowers (millions)	1.7	2.0	2.4	2.8	3.6	111.8
Gross Loan Portfolio (millions)	24.8	33.1	46.6	61.1	90.2	263.7
Active women borrowers (millions)	0.9	1.3	1.4	1.6	2.0	122.2
Branches	1550	1460	1606	1747	2754	77.7
Total staff	14202	14648	17456	19881	25560	80.0
Total assets (billions)	48.6	61.9	81.5	100.7	145.1	198.6
Deposits (billions)	13.9	20.8	32.9	42.7	60.0	331.7
Total Debt (billions)	38.3	24.9	26.9	31.1	31.1	-18.8
Total revenue (billions)	10.1	12.5	17.3	24.3	32.8	224.8
OSS (percentage)	108.4	109.5	118.1	120.6	124.1	14.5
FSS (percentage)	100.5	107.5	116.5	119.6	121.0	20.4

Source: Pakistan Microfinance Network 2015

Microfinance industry in Pakistan currently stands at 3.1 million active borrowers with a gross loan portfolio (GLP) of 61.1Rs billion. Outreach in terms of active borrowers increased progressively due to increasing number of microfinance providers (MFPs) working in the country and the development of existing MFPs institutions. Along this the rapid developments in the field of financial inclusion and digital banking led Pakistan towards "laboratory of innovation" by CGAP. Despite these positive developments, the potential size of the market for microfinance is 27 million customers and current penetration rate stands at about 11.5 percent. The outreach of microfinance institutions is only 4 to 7 percent of the total potential market of 25 to 30 million borrowers. The government of Pakistan has set a target of reaching 10 million microfinance customers by the year 2015.16[12]. This large gap shows that we are far-away from achieving potential goals and contribute significantly to financial inclusion agenda in Pakistan. Policymakers and stakeholders in the financial sector initiated to analyze and question the capacity of the microfinance sector to make a significant contribution to the challenge and scale of financial exclusion in the country[13].

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[12] http://www.pmn.org.pk/
[13] http://www.sbp.org.pk

4. METHODOLOGICAL FRAMEWORK AND DATA DESCRIPTION

4.1. Introduction

As discussed in chapter 1 that the objectives of this present study is to observed the impact of two microfinance programmes of Pakistan, named as Islamic microfinance and conventional microfinance programme, on where objectives can be viewed through three main research questions; a) to examine the structure of conventional and Islamic microfinance programmes b) to observe the impact of both sorts of microfinance programmes on employment, entrepreneurial development and household wellbeing and c) to estimate the impact of microfinance on financial sustainability of micro enterprises. It is worth mentioning that wellbeing has been defined at household level with various indicators including business information, income level and expenditure on education and on personal accessories.

This chapter explained the methodological framework used for the analyses of microfinance programme. It also explains the datasets used to achieve the above-mentioned objectives of the study. Section 4.2 explain the Islamic and conventional microfinance institutions on which this study has focused. Section 4.3 highlight the data collection method required to achieve above mentioned research questions by explaining population universe, sample size, questionnaire design and data collection method. Section 4.4 explain the detailed methodology framework used to analyse the microfinance programmes and their impact on microenterprises.

4.2. Microfinance Institutions

This study compared the two-microfinance programme, one is Islamic microfinance programme and second is conventional microfinance programme. For Islamic microfinance, this study chooses the Akhuwat Foundation and for conventional microfinance this study chooses Jinnah Welfare Society Pakistan (JWSP). This section provides the information about both Akhuwat and JWSP microfinance institutions.

4.2.1. Jinnah Welfare Society Pakistan

Jinnah Welfare Society (JWS) is one of the oldest micro finance institution in Pakistan. Jinnah Welfare Society Pakistan (JWSP) started their operations as a welfare organization under the name of Jinnah Welfare Society Gujranwala in 1990 and registered on 28th March 1992. JWS started working with SAP-PK in 1997 with active support of Catholic Relief and The Asia foundation and registered with the Directorate of Social Welfare, Government of the Punjab, under Voluntary Social Welfare Agencies (Registration and Control Ordinance) XLVI-1961. In 2001, JWS joined hands with PPAF which helped the JWS in institutional development, infrastructure and services development and expand in six (6) districts with 29 active offices. In 2015, JWS extended their credit lines and joined hands with KIVA, a non-government organization from USA.in 2016, JWS get the licence of Microfinance Company under the section 42 of SECP and become a proper microfinance company with new name of Jinnah Welfare Society Pakistan.

JWSP is a non-profit, non-political and non-government social development organization serving urban and rural areas of central Punjab. JWSP intends to alleviate poverty from underprivileged and poor communities of Punjab through uplift the literacy rate, standard of living, improve the physical infrastructure and capacity development of the poor communities. JWSP started Branchless Banking with UBL Omni in September, 2011 for its borrowers. This initiative facilitated in reducing transaction costs of borrowers by providing them alternate channel of delivery services at their door step. At the end of 2016, it has 36,668 active clients, total disbursement Rs 6043.19 million, outstanding loan portfolio Rs 756.29 million and 212,240 Loans Served (Hussain 2016).

4.2.2. Akhuwat Foundation

Akhuwat was created in 2001, when Mr. Saqib, who then worked with the Punjab Rural Support Programme and gave loans to small business in the rural villages of Punjab a widow, met a widow, who had to nurture her four children without any support. Saqib was deeply moved by the woman’s plight. Later on, Saqib met with a group of friends over lunch and expressed his wish for what would later become Akhuwat. During the discussion, it quickly became clear that poor faced the problem of limited access to affordable finance. The solution was clear: easy access to interest-free loans.

After some days, Saqib again met with the widow and gave her a loan (interest-free) of Rs 10K Rupees, so that she could start a small business of her own. By successfully using and repaying the loan within a period of six months, she strengthened his belief that interest-free loans were a way to help poor people become self-employed and come out of poverty. Due to the success of the first interest free loan, Saqib collected donations from family and friends and started interest-free microfinance to take informal shape. When Akhuwat was born all these friends forming the first Board of Directors and Saqib serving as the first Executive Director. Ms. Tabassum and Ms. Rehana were the first employees of Akuwat who were trained by Saqib and all of these started working in some poor areas of Lahore[14]. In the beginning, Akhuwat was a philanthropic exercise to see how interest-free microfinance would fare. However, over the time, in 2003 donations increased beyond the expectations and Saqib decided to formalize the organization and registered Akhuwat under the Societies Registration Act of 1860.

4.3. Data Description

The process of designing and application of a research analysis is as important to its efficient completion as the information itself. Successful statistical practices mainly focused on problem identification and analysis of the problem. As above-mentioned objectives, the following types of information are necessary to accomplish the objectives of this study;

1. Information related to both Akhuwat and JWSP microfinance programme along with socio-demographic and economic profile of recipients of microfinance programme.
2. Assets, Sales, profits, and other business information and well-being information are required to observe the impact of both microfinance programme on micro enterprises development and on entrepreneur's living standard.

This study (thesis) has used both the secondary and primary datasets and has targeted the recipients of both Akhuwat and JWSP institutions. Regarding to secondary dataset, this study has used the data including borrower's information, previous studies on microfinance programme, financial reports of MFIs, financing system, models of microfinance, Pakistan economics survey, reports of Pakistan Microfinance Network (PMN), and reports on future of microfinance in Pakistan. For primary dataset, this study has been conducted a survey entitled "Survey of Entrepreneurship and Financial

[14] Harvard Keneedy School (2016), Akhuwat: Fighting Poverty with Interest-Free Microfinance

Sustainability of Microenterprises (SEFM)" in 2017. The detail information related to this survey is given below.

4.3.1. Sampling and Selection of Respondents

Keeping in view the data limitations in secondary dataset, the primary survey entitled "Survey of Entrepreneurship and Financial Sustainability of Microenterprises (SEFM)" has been conducted in 2017 to study the microfinance programmes and its effects in depth. The SEFM has targeted the recipients of both Akhuwat and JWSP microfinance programme who are in third loan cycle (they have already taken two times loan) in four districts of central Punjab, Gujranwala, Sialkot, Gujrat, and in Hafizabad. It would be more desirable if such study has been conducted at national level; however, the time constraints and especially the financial constraints were the most difficult impediment.

Estimates would be bias if the sampling frame does not include all the relevant units of targeted population. The desirable sample design and sample size also depends on the expected variation in the data. More varied the data; the larger sample size would be required for an adequate level of accuracy in generalizing the results. The target population in this study is not homogenous as the type of work activities. To avoid the sampling bias and errors, this study has adopted the two-stage stratified sample technique. Since JWS and Akhuwat intervention are carried out in 6 districts and in 15 districts respectively in Pakistan. The following strategy will be adopted to draw a representative sample from these districts:

i) The universe of this survey consists of all the urban and rural 39229 active borrowers residing in 6 districts where JWS operations are carried out and 1673740 active borrowers residing in 15 districts where Akhuwat operations are carried out. In addition to ensure the sample is relevant to the requirement, this study established a mandatory condition of including only those respondents who are the residents of Gujranwala Division and have completed at least two loan cycles with the organization i.e. (two years). This helped to minimize the impact of the externalities in the reported impact.
ii) For optimal results, Gujranwala division has been divided into 4 groups with 8719 borrowers of JWS and 2590 borrowers of Akhuwat. A generally representative of 325 JWS and 300 Akhuwat recipients has been selected at 95 percent confidence level. The details of cluster and sample are given in below in table 2.

iii) While getting UC wise-list of JWS and Akhuwat intervention clients, a two-stage stratified sample design will be followed in which Union Councils in rural and urban areas have taken as Primary Sampling Units (PSUs), thus 4-5 UCs will be selected from each district. Around 16-18 PSUs will be selected from strata/sub-strata with Probability Proportional to Size (PPS) method of sampling technique. From each PSU 18-22 households will be randomly selected.

Table 2: Tehsils wise Distribution of Recipients of Both MFIs in Gujranwala Division

Group	Tehsils	Total Population		Sample size		Selected Tehsil
		JWS	Akhuwat	JWS	Akhuwat	
Group1	Gujranwala, Kamoki, Wazirabad. Noshehra Virkan	3487	974	147	128	Gujranwala
Group2	Daska, Sialkot, Sambriyal, Pasroor	2179	470	70	60	Daska, Sialkot
Group3	Gujrat, Kharian	1746	675	64	64	Gujrat
Group4	Hafizabad, Pindi Bhattian	1307	471	44	48	Hafizabad
Total		8719	2590	325	300	

Source: JWSP and Akhuwat Foundation

4.3.2. Questionnaire Design

A good questionnaire should address the research questions in order to analyse the objectives of the study. The length of the questionnaire is important about the accuracy of the relevant information. The prior knowledge related your objects is essential to build a high-quality questionnaire. In this study, initially literature review provided a lot of information about the microfinance programme. Beside this, the existing studies related to microfinance programme, micro-enterprises and various pilot surveys helped a lot to improve the flow and formation of the questionnaire. The questionnaire was structured in English; however, the language of comments was both Urdu and English. Overall, the questionnaire covers a wide range of topics which includes personal characteristics, family, loan and business related (types of enterprises, sales, profit, employment and financial constraint) information, MFIs behaviour and wellbeing of household.

For easy identification, the questionnaire was divided into 9 sections and has been put up in appendix A. Section A of questioner contains the beneficiary's information which includes district, tehsil, village, name, sex, age, marital status, household head, education, household size and technical/vocational training. Section B provides the loan information which enfolds business types, existence of business, owner of business, uses of loan amount, loan amount and duration of loan, repayment and interest charges on loan. Section C incorporates the enterprises information like types of enterprises, location, category, operation place, input and output market, method of sales and work experience. Section D is about the borrower's experience with MFIs which includes information related year of joining MFIs, training provide by MFIs, collateral against loan, conflict with and behaviour of MFIs.

Section E comprises of the information about the employment which includes employment status, part time and fulltime male and female workers, salaries and how to train their workers. Section F comprises the questions which measure the value of sales, profits, inventories, tools and equipment, utilities expenditures and investment (microfinance, personal saving, retail earning and other resource loan) information. Section G is on modern practices used in enterprises which includes the question on machinery, taxation, financial recording, availability of road and transportation and access to input and output market. Section H has the information related household wellbeing which contain the questions related economic wellbeing, income level, expenditure on education and on family. At the end of this section question related to durable goods are given. Section I asked the question related to business constraint like financial constraint, electricity, output and input market, technical labour and seasonal effect.

4.3.3. Procedure of Interview and Data Entry

In this study, all questionnaires have been filled by conducted face-to-face interviews. In this study, I myself interviewed all the respondents and it took about four months in the field to collect data. Most of the interviewers were women, so it was very difficult to conducted interviews with women because in Pakistan's culture the women do not talk with stranger. In this matter, both Akhuwat and JWSP helped me a lot and arranged interviews with their recipients in different locations. The recipients of both MFIs were not well educated, so they were given a detailed brief on purposes of interviews, research objectives and coding of questions.

During the field work, it was my pleasant experience that almost every respondent pleasingly cooperated when they were briefed about the objectives of this study. Almost every respondent showed his/her opinions about the microfinance programme, their loan procedure and relationship with MFIs. After the data collection, I, myself did the data entry where the Excel software was used by predefining the range of each questionnaire so that the possible typing errors could be minimized. Following data entry, it was converted in STATA software, where further statistical analysis was performed.

4.4. The Methodological Framework

The below sub-sections explain briefed details over the measurement of indicators and detailed methodology in the line of objectives of the study.

4.4.1. Analysis of Conventional and Islamic Microfinance Programme

As explain in section 1.4 the first objective of the study is to analyse the structure of Islamic microfinance programme and conventional microfinance programme. Islamic microfinance is based on Islamic principles. On the other side, in conventional microfinance, microfinance lender must charge interest on loans. For Islamic microfinance programme this study has choose Akhuwat Foundation, which is the leading microfinance institution in Pakistan and Jinnah Welfare Society Pakistan (JWSP) for conventional microfinance programme.

Programme structure provide the clarity about programme and highlights the quality and importance of programme in the areas it covers. To understand the structure of microfinance programme an interview has been conducted with the management of both Islamic and conventional microfinance institutions. In this interview, information related to microfinance programme, beneficiary's background and their economic conditions, borrower's selection criteria, objectives of MFIs and their donors and its growth rate has been collected.

4.4.2. Role of Microfinance in Entrepreneurial Development and Wellbeing

As mentioned above in section 1.4 the second objective of the study is to analyse the impact of microfinance on entrepreneurial development. Entrepreneurship play an important role in the economic development of a country. It is one of the core components of economic development. Many researchers defined the entrepreneurial development in different way which has been given below;

A. Knight (1921), stated that the entrepreneur is a person who put his career and financial security on the line and take risks in the name of an idea, spending much time as well as capital on an uncertain venture and that the entrepreneur earns profit as a reward for taking such risks.

B. Kirtzner (1973) defined profit as a measure of entrepreneurship. He identified that the entrepreneur subconsciously discovers an opportunity to earn money by purchasing resources or producing a good and selling it and this he calls 'the pure entrepreneurial profit'.

To test the debate many researchers such as Samson et al (2013), Wang 2013 and Ferdousi (2015) have used profit as a proxy of entrepreneurship. So, this study also used profit as the proxy of 'entrepreneurial development'. This study has adopted the following statistical equation

$$\mathbf{ENT_i = \beta_0 + \beta_1 EC_i + \beta_2 FI_i + \beta_3 MT_i + \varepsilon_i}$$

In above equation $\boldsymbol{\beta_0}$ is the intercept term, $\boldsymbol{\beta_1}$, $\boldsymbol{\beta_2}$ and $\boldsymbol{\beta_3}$ are the parameters. $\boldsymbol{ENT_i}$ Represent the entrepreneurial development, $\boldsymbol{EC_i}$ show the micro enterprises characteristics, $\boldsymbol{FI_i}$ is the financial information of enterprise, $\boldsymbol{MT_i}$ represent modern techniques which help enterprises and $\boldsymbol{\varepsilon_i}$ is the error term. The multiple linear regression model and parameters are estimated by Ordinary Least Square (OLS) method.

Dependent Variables

ENT, the dependent variable which represents the entrepreneurial development. In this study log of net profit is used as a proxy of ENT, where net profit is taken by subtracting the operating expenses (cost of good, utilities expenses, salary expenses and microfinance loans) through total revenue. It is based on literature and theories of entrepreneurship which are highlighted above.

Independent variables

All independent variables included in the analysis mainly covered characteristics, performance and financial information of enterprises.

(i) Enterprises' characteristics

Micro enterprises size (measured by number of employees), gender, education level, age of enterprise (proxy for number of years the since the business has been started), Ownership of enterprises, experience of entrepreneur and Types of Enterprises, locations of enterprises and category of enterprises.

(ii) Financial information

It is measured by the percentage of microfinancing (weight of microfinance as percentage of capital and amount of microfinance), retained earnings, personal funds, and other sources as part of capital for a current year.

(iii) Modern technology

Modern technology (1) Marketing, (2) business Plan The value of each of these variables is equal to unity if enterprises adopted one of these variables or zero otherwise.

4.4.3. Employment Provision by Micro Enterprises

Microfinance is an effective tool for microenterprises and it also helps in creating employment opportunities. To analyse whether microenterprises creates the employment opportunities or not, this study has obtained data regarding employment from the owner of microenterprises. This data has included the employment rate at two different intervals i.e. at the time of joining microfinance programme and at the current time. By using this data this study compares and analyse that whether employment rate is improved over the time or not.

4.4.4. Household Wellbeing of Entrepreneurs

Main purpose of microfinance is to bring improvement in the life of poor people, which is measured by changes in the welfare of consumers. The Stanford Encyclopaedia[15] of Philosophy defines well-being as a condition of how well a person's life is going for that person. According to, Griffin (1986) resources of 'prudential values' are associated

[15] https://plato.stanford.edu/

with good life. This study has used the indicators of welfare and examine that either these indicators improved over the time or not through enterprise development. These indicators are given below.

(i) Economic condition

It includes the information about business future, economic wellbeing, income level, saving methods, status of accommodation (own house, rented or sharing), and expenditure on education and on personal accessories.

(ii) Durable assets

Durable good means products that do not need to be purchased frequently because they are made to last for a long time. It includes products such as T.V, CD, Computer, Electric Fan, washing machine motor cycle, car, refrigerator, generator/ UPS. It also gets the information about new purchased property.

4.4.5. Microfinance and Financial Sustainability of Micro Enterprises

The third objective of this study as mentioned above in section 1.3 is to examine the financial sustainability of enterprises and relation of microfinance with the financial performance of micro enterprises. If an enterprise is financial sustainable, it means that the enterprise has ability to manage its finances so it can meet its expenses, both now and in the future. Financially sustainability refers to ability of enterprises to maintain its financial capital and infrastructure capital over the long-term. There is a significant difference between current financial condition of enterprises and forming a view on sustainability. Sustainability is a strategy, which is a reflection of the future impacts of current policies. To measure the financial sustainability of enterprises the relevant measure has been given below;

Operating Surplus Ratio

It is used to measure the level to which revenues are raised to cover operational expenses only or are available for capital funding purposes.

$$\text{Operating Surplus Ratio} = \frac{\text{Operating } R\text{avenue} - \text{Operating Expense}}{\text{T}ot\text{al Operating Ravenue}}$$

The target of equation is greater than 50 percent per annum.

If the value is > 50 percent that means enterprises generate substantial revenues which are help in offsetting past or future operating deficits.

If the value is < 50 percent, they are not able to generate sufficient revenues that can meet operating expenses and offset past or future operating deficits.

First of all is to calculate ratio for both Islamic and conventional beneficiary's enterprises. After that categorize the enterprises according to the target of equation describe above and find how many enterprises meet the target of financial sustainability. The second step is to categorise the enterprises with respect to Pakistan Standard Industrial Classification 2007 (PSIC)[16] and after that used above ratio to examine that which microfinance business is more financially stable with respect to other. This comparison gives an idea about sustainable business information and Microfinance provider used this information set their loans targets (See codes in Appendix B).

The third step is to find the impact of microfinance and other variables on financial sustainability of enterprises. For this purpose, this study has used the logistic model to explore the relationship among financial sustainability and other factors including microfinance. The logistic model is stated as;

$$\mathbf{FS_i = \beta_0 + \beta_1 FI_i + \beta_2 EC_i + \beta_3 MT_i + \varepsilon_i}$$

In above model $\boldsymbol{\beta_0}$ is the intercept term, $\boldsymbol{\beta_1}$, $\boldsymbol{\beta_2}$ and $\boldsymbol{\beta_3}$ are the parameters. $\mathbf{FS}_i$ Represent the financial sustainability, $\boldsymbol{EC_i}$ show the micro enterprises characteristics, $\boldsymbol{FI_I}$ is the financial information of enterprise, $\boldsymbol{MT_n}$ represent modern techniques which help enterprises and $\boldsymbol{\varepsilon_i}$ is the error term.

Dependent Variable

The dependent variable in the above equation is dummy variable with (1, 0) values. Dummy variable is generated on the basis of financial sustainability of enterprises by using above equation, if micro enterprises is financially stable then Y is equal to unity and otherwise zero. To check the sustainability of enterprise this study use "Operating Surplus Ratio". The target of this ratio is 50 percent, so Y is equal to unity for enterprises whose operating surplus ratio is equal and greater than 50 percent and other wise is equal to zero.

[16] A complete list of categorise the enterprises with respect to Pakistan Standard Industrial Classification 2007 (PSIC) has been given in appendix B

Independent variables

The variables which directly or indirectly effect the sustainability of business or enterprises are given below;

(i) Financial information

The first variable is net profit of enterprises, which improves the financial performance of enterprises. It also includes the capital information, which is measured by the percentage of microfinancing, retained earnings, personal funds, and other sources as part of capital for a current year. Access to financial resources, less or difficulty in accessing to funding sources impact the productivity of business, also include in this study.

(ii) Enterprises characteristic

It includes the valuables such as micro enterprises size (measured by number of employees), gender, education level in yeas, age of enterprise (proxy for number of years the since the business has been started), Ownership of enterprises, experience of entrepreneur in years, types of Enterprises[17], locations of enterprises, category of enterprises and access to infrastructure which means availability of roads, transportation, and goods market.

(iii) Modern technology

Business Plan is used as an independent variable. It is believed that well-planned business activities will yield a better business performance and insufficient awareness about business plan was identified as one problem at the start-up phase among SME's. Marketing Strategy is also used in this study because most of the enterprises have less marketing and technical resources. The microenterprises do less market research, possess fewer incentive and reward programmes, lack presence in large readily accessible markets and have less well-recognized brands (Hayami, 2009). Both variables are dummy variables which have value 1 if the entrepreneur has a long-term business and marketing plan or otherwise have 0 value.

[17] A complete list of categorise the enterprises with respect to Pakistan Standard Industrial Classification 2007 (PSIC) has been given in appendix B.

4.5. Summery

This chapter defines the methodological framework and designing of data collection. The study has targeted the recipients of both types of MFIs and has used both primary and secondary datasets. MFIs have limited information about their recipients, the SEFM has been conducted from Gujranwala Division with a sample of 625 recipients. The two-stage stratified random sampling has been adopted and the STATA software has been used for data analysis. The entrepreneurial development and financial sustainability of enterprises has been estimated by OLS and logistic model. A comparative analysis has used to see the impact of microfinance on employment status and on wellbeing of recipients and showed either the wellbeing of the recipients improved over time or not through enterprise’s development. The determinants of the entrepreneurial development have been estimated by multi-variate analysis. For multi-variate analysis, the OLS Regression has been applied. To shows the financial sustainability of micro enterprises operating surplus ratio is used and logistic model has been used to observe the impact of microfinance on financial sustainability of enterprises.

5. PROFILE OF RECIPIENTS: A COMPARISON OF JWSP AND AKHUWAT FOUNDATION

5.1. Introduction

The present chapter has made a comparison of JWS and Akhuwat recipients over their socio-demographic and economic profile by taking household head, demographic, wellbeing and productive assets characteristics that how much both the groups are similar and differ to each other on these characteristics. Both the groups were also compared on the basis of loans amount, no of times loan availed, business constraints and on business distribution.

The Chapter has been divided into 6 sections. Section 5.2 gives complete information about Akhuwat and JWSP microfinance programme. Section 5.3 details the demographic characteristics of recipients of MFIs. Section 5.4 provides information related to MFIs loan features, followed by detailed comparison on enterprises characteristics of both the JWSP and Akhuwat recipients in Section 5.5. At the end of this chapter, in section 5.6 information about the microenterprises has been given.

5.2. Analysis of Conventional and Islamic Microfinance Programmes

As discussed in section 4.4.1, the study analyses the structure of Islamic and conventional microfinance programme. This study chooses Akhuwat Foundation which is an Islamic microfinance organization and it is the largest microfinance organization in Pakistan. For conventional model this study chooses JWSP which follows the Garameen model of microfinancing. In this section, a brief detail of both microfinance organization is discussed below. In this section a detail analyses about the microfinance programme has been given below.

5.2.1. Procedure and Methodology of JWSP

JWSP operates in six districts of central Punjab with 29 branches. Each branch is headed by a branch manager who along with his subordinates, accomplish day to day operations. There are 5 to 6 credit officers in each branch and each credit officer has 420 to 430 clients. The sales executives (credit officer) of all these branches regularly visit unprivileged small enterprise owners, farmers and poor households and introduce them to their products which can be helpful in enhancing the productivity of their businesses, profit earning capacities and improve their standard of living. Once the client finds the product compatible to the business and is also eligible for that product, the documentation is completed and forwarded to the branch manager. Branch manager cross checks all the facts and forwards the application to the operation manager stationed at the head office. Operation manager after completing all the formal documentation issues the loan. The loan range is from Rs 15 K to 60 K. First time clients received 15 K and next loan amount depends on the repayment of previous loan.

Basically, JWSP follow the Garameen Bank microfinance model and as per this model, loan is issued to a group of 10-15 individuals based on social collateral. The organization charges 20 percent of the principal amount as interest fee and 3 percent in terms of insurance fees. The length of the loan is different for different products however the loan is repaid every month in fixed instalments. For most of the products, the length of loan is 1 year. All the payments are issued and received via Allied Bank Limited. The instalments are collected at maximum 10th of every month. After that group meeting starts in every branch of JWPS, which is held in the house of group leader. These meetings continue for 10 to 12 days and in these meetings the credit officer meet with the group members and try to solve their problems. At the end of the loan period re-imbursement meeting starts in which branch manager goes to the group leader house and issued new loans to the clients. The repayment of the previous loan is a pre-condition to be eligible for new loan.

5.2.2. Structure and Procedure of Akhuwat Foundation

Akhuwat brought group loans into action in 2001 and set a large portfolio of group lending which ensure maximum recovery rate. Almost all process of group loans takes place in Mosques and churches and it grew 390 percent in 2005 and 135 percent in 2006. The group range is 3 to 5 people and loan amount start from 12 K to 70 K. When the clients repay the previous loan, they become eligible for the new loan. Mosques and Churches are the most religious and reliable places for people where everybody believes each other and trust is very strong there. According to Amjad (2015), the decision was deliberate as he states, 'for far too long, the use of mosques was limited to just prayers. By using mosques as offices, participation of people increased and it also saved tremendously on operational costs. It also attaches a religious sanctity of returning the loan on time, also the concept of accountability is intensified as it is a place of worship and gives the whole process a feel of 'barkat' (means blessing). "In a

Muslim society, mosque has always been a centre of community interaction. We also wanted to utilize this institution for the betterment of people living around it. We also worked in churches as one of our branches was established in a famous church of Lahore" (Amjad 2015).[18]

People, whose income is less than 10 K, and have business plans, bring it to mosques and Unit manager carefully evaluates it there. He also evaluates the family situation and after checking the financial stature of family, a paper will be signed by the family members as a responsibility for loan in mosque, the reason to include family members is to encourage all family members to work hard to return the loan and maximize the benefits to for the whole family. After that Unit manager passes application to The Branch manager who undertakes his own assessment of the applicant. After finalizing, application be discussed at credit committee which consists the Unit managers of the Branch, Branch manager and the Area manager and the committee make final decision after 30 days. If committee approves application, the loan is given to the applicant in mosque.

Several people like Imam, community members and Akhuwat staff from the branch and head office participate in disbursement of loan process. At the time of receiving loan, applicant should pay 5 percent of loan as Akhuwat membership fee and 1 percent of total amount for loan insurance. In case of death, applicant's family members will receive Rs 5 K to cover funeral expenses, and Rs. 1 K per month for three months if he was the only earning member of family. If client become handicapped, then the loan will be cancelled and client is provided with wheelchair. Unit managers must monitor them and applicants have responsibility to repay loan on time, by the 7^{th} of every month. After receiving the loan credit committee discusses matters about how the loan was useful and what aspects to be improved or if the client had any difficulties in repayment of loan and after that they decide whether to give loan again or not.[19]

5.2.3. Akhuwat Microfinance Model

The Akhuwat microfinance model is very different model. The ideology of this model is based on Muslim brotherhood. The model works on the concept of community harmony where services are offered through the most visited places by members of the

[18] Harvard kennedy School (2015), Akhuwat: Fighting Poverty with Interest-Free Microfinance
[19]http://www.akhuwat.org.pk/lending_methodology.asp

society like mosques and churches. Akhuwat provides group or individual loans without any collateral. The Islamic ideology behind the Akhuwat is Qarz e Hasna. In this model the loans are given to the people through Social collateral. In social collateral, the society's members act as guarantors and increase in loan amount depends on their guarantee under this model. However, to cover the management cost, Akhuwat secures funds from civil society along with borrowers contributing to the fund. Borrowers' contribution to the fund is purely voluntary. The community brotherhood philosophy encourages borrowers to contribute, indirectly inducing them to save. This contribution fund along with some donation is used to cover the administration cost. The table 3 gives a comparison of Akhuwat foundation and JWSP microfinance programme.

Table 3: Cross Sectional Analyses of Akhuwat and JWSP Microfinance Programme

	Akhuwat Foundation	JWSP
Summary	It is an Islamic microfinance foundation and managed by the socio Cultural, traditions, and religious habits of the Community. It functions on the principle of Islam	It is a microfinance company based on conventional methods. It is a centrally managed, dedicated microfinance institution and highly disciplined organizational structure. The primarily focus is lending
Objective	To alleviate poverty by empowering socially and economically marginalized families through interest free microfinance and by harnessing entrepreneurial potential, capacity building and social guidance	Financial strengthening and social uplift of marginalized segments of society, through an integrated approach thereby providing financial services, capacity building and developing market linkages for them to sustain their businesses and to improve their living standards
Programme Type	Microfinance Institution	Microfinance Company
Staff Size	4 – 5	5 - 6
Target Clients	Under privilege and the poor community	Poor rural women in the community
Financial Services	Group Loan, Liberation loan, Education loan, Health Loan, Emergency Loan, Home Loan, Marriage Loan	Micro Credit Agriculture Development Loan
Non-Financial Services	Akhuwat University, Internship Programme, Cloth Bank, Volunteer Services	Ambulance serves, Food distribution, Health camps Livestock vaccination
Eligibility Criteria	Must be member of a group, Earning less than 10 K	Must be member of a group, must have undergo group meeting
Funding Types	Equity shares by members, Savings from community Savings from clients, Grants from capacity building, local NGO and from International donors' agencies	External funds from donor agencies. Savings and internally generated funds
Average Loan Size	25 K	35 K
Interest Rate	0	23 percent
Loan Terms	Negotiable, depends on members' business. Some situations it runs up to 15 months. Local and cultural securities	Compulsory monthly reimbursement, Maximum periods 1year. 3 percent of any amount granted is set aside as insurance
Loan Repayments Schedule	Monthly	Monthly
Loan Guarantee	Peer pressure and social collaterals. Credits often given to groups.	Peer pressure and social collaterals. Credits often given to groups.

Source: A detail discussion with the management of both MFIs

5.3. Demographic Characteristic of Recipients

In this sampled survey, during the interviews most of the recipients were female. Table 4 shows the basic characteristics of the recipients of both MFIs. The information in the table shows the policy of the microfinance institutions in Pakistan that their main purpose is women empowerment. Akhuwat provides loan both male and female clients but the percentage of female clients is high, while JWSP clients are only female. The sample survey also showed that 93 percent of the respondents who got loans from both MFIs are married.

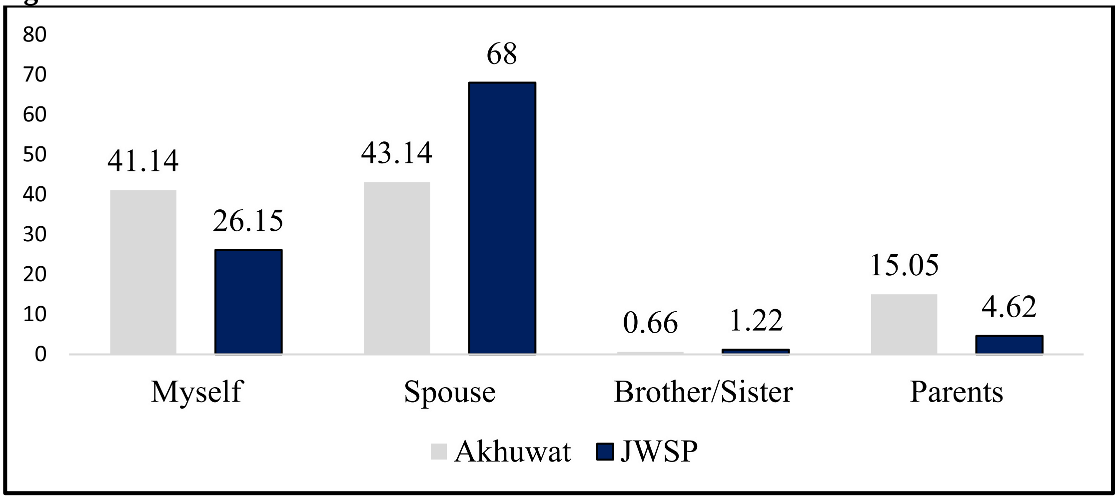
Table 4: Basic Characteristics of Recipients in SEFM Survey (in %)

	Akhuwat	JWSP
Basic Characteristics		
Male	22.0	0.0
Female	78.0	100
Married	90.5	96.0
Unmarried	9.5	4.0

Source: Estimated from SEFS 2017 micro dataset

Figure 1 provides the information related to the head of the household. It shows that 33 percent of the total respondents are head of their houses, while 56 percent of the clients live in house headed by their spouse and remaining 11 percent of respondents live in household headed by their parents, brothers, sisters and sons.

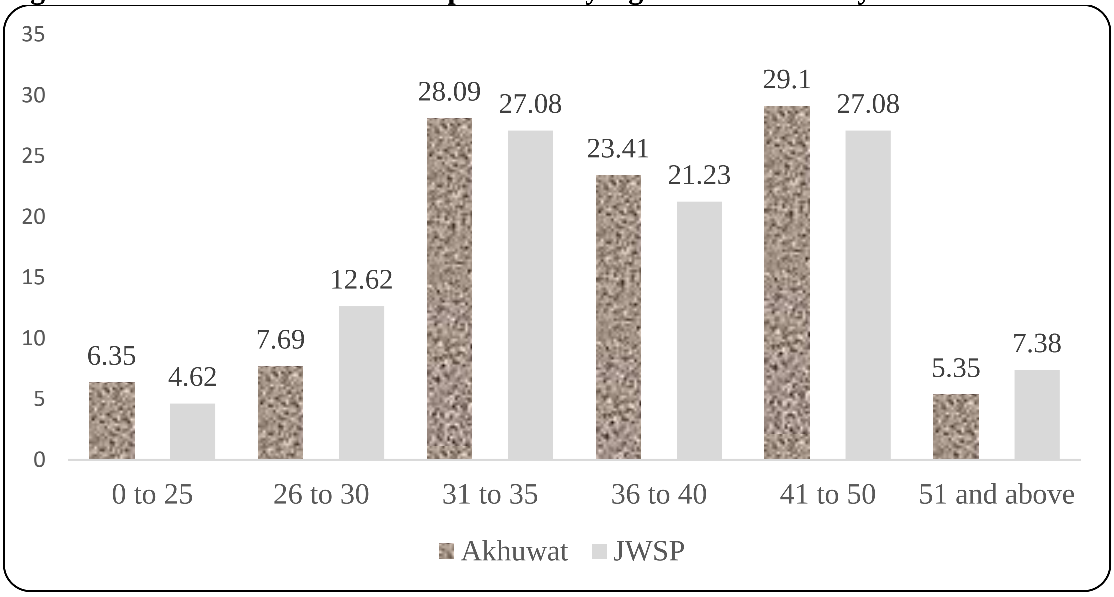
Figure 1: % Distributions of the Head of Household of both MFIs



Source: Estimated from SEFS 2017 micro dataset

Figure 2 displays the MFIs wise distribution of age in various age brackets. Only 5 percent of the respondents have age less than 25 years in SEFM survey. The respondents, who age lies between 25 to 40 years have 60 percent in this survey (59% Akhuwat and 60% JWSP). The proportion of relatively older respondents (40 and above) is 34 percent in SEFM survey. This figure shows that majority of the clients are married and get loans from MFIs for their husbands and sons.

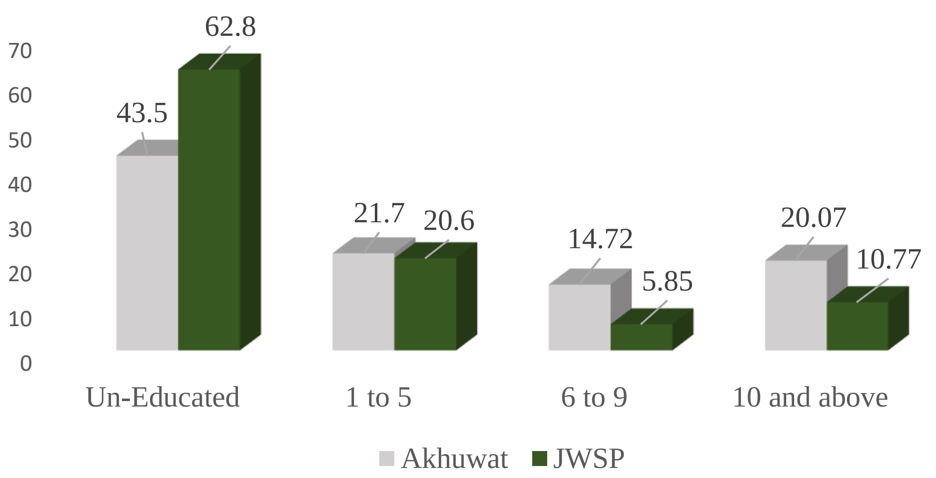
Figure 2: % Distribution of the Respondents by Age in SEFM Survey



Source: Estimated from SEFS 2017 micro dataset

Figure 3 presents the education level of respondents of both MFIs. Out of 100 percent 53 percent of the respondents are uneducated (43% Akhuwat and 63% JWSP), while 21 percent are studied up-to 9th standard (36% Akhuwat and 26% JWSP) and Only 15 percent (20% Akhuwat and 11% JWSP) did metric. It indicates that half of the recipients of both the institutions are uneducated.

Figure 3: % Distribution of the Respondents by Education Level in SEFM Survey



Source: Estimated from SEFS 2017 micro dataset

5.4. The MFIs Loan Features

In this section this study provides an over view of loan amounts received by the recipients of both MFIs in recent years. Table 5 explains that the majority of people (43%) received microfinance loan range from Rs 50 K to 1 lakh. The overall percentage of respondents showed that respondent's percentage who received loan amount between Rs 1.5 lakh to 2 lakhs and more than Rs 2 lakh is 9 and 3 respectively. As a comparison, it is cleared that the recipients of Akhuwat have taken less loan amount as compared to JWSP because the JWSP respondent's percentage, who used loan more than Rs 1.5 lakh rupees is 24, while Akhuwat respondent's percentage is zero. The Akhuwat offered maximum Rs 1.5 lakh as loan, while the JWSP offered loan more than Rs 2 lakh. It is also indicating that percentage of both microfinance institutions respondents, who received loan amount range from Rs 50 K to 1 lakh is high.

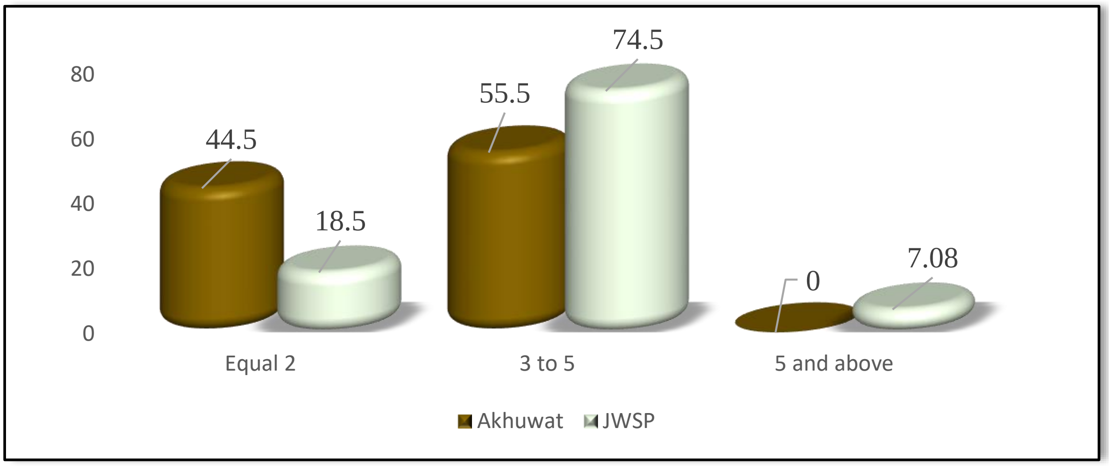
Table 5: % Distribution of Total Loans Amount Received by the Respondents MFIs

	Akhuwat	**JWSP**	**Overall**
Categories of Loan Amount (Rs 000)			
Less the 50	42.5	6.0	23.4
50 – 100	49.8	37.5	43.4
100.1 -150	7.7	32.6	20.7
150.1 -200	0.0	17.5	9.1
200.1 and above	0.0	6.5	3.4
Total	100	100	100

Source: Estimated from SEFS 2017 micro dataset

The following figure 4 gives the comparison of No of Time Loan Availed by recipients of both MFIs. The overall percentage of recipients from both MFIs, who received loan 3 to 5 times is 65 percent and who received loan equal to 2 times is 31 percent. It also explained that 55 percent of Akhuwat and 74 percent of JWSP respondents used loan more than 3 times. The imported point is that Akhuwat offered maximum 5 times loan to poor people, while the JWSP provided more than 5 times loan to poor people.

Figure 4: % Distribution of No of Times Loan Availed by Respondents of Both MFIs



Source: Estimated from SEFS 2017 micro dataset

It is observed from table 6 that overall 46 percent recipients have invested their loan amounts in business in which 51 percent is from Akhuwat and 42 percent is from JWSP, while 53 percent clients did not invest their loans in business. In both MFIs, the major reason of not invested loans in business was used loans in homes and for family purposes. The 90 percent recipients of JWSP, who did not use their loans in business, either used their loan in home or in family purposes, while the 85 percent of Akhuwat respondents also used their loan in same purposes. This provide an important information about the recipient's uses of loans. Majority of recipients used loans in personal purposes rather than invest in business. One of the male respondent who did not use loan in business explained their experience with MFIs in such a way,

> "Four year ago, I was diagnosed with hepatitis C. I lost my job and within 1 year all my savings were consumed. I have 2 boys, who studied at that time. They could not continue their education and started job in a surgical factory. At that time, I took loan from MFIs for business but I used that loan for my treatment. I received the loan three times which was used in my treatment. My children not only beard the house expense but also paid back loan instalments."

There are number of people who have similar experiences. These people faced many problems in daily life and needed money to get rid of them. They do not have enough resources to fulfil their needs, so they used microfinance loan to accomplish their problems.

Table 6: % Distribution of Respondents Profile of Microfinance Loans

	Akhuwat	JWSP	Overall
Loan Invested in Business (%)			
Yes	51.5	42.5	46.8
Uses of Loan Amount Instead of Business			
Home	57.7	71.3	65.0
Family	27.8	18.3	22.6
Marriage	11.3	5.2	8.0
Construction	0.0	5.2	2.8
Loan Payback	2.1	0.0	0.9
Medical Purposes	1.0	0.0	0.5
Total	100	100	100

Source: Estimated from SEFS 2017 micro dataset

A female respondent shared her experience as follows,

> "Few years back, there was a concept of committee. In committee one credible person from the neighbourhood collected the monthly instalments from participants and at the end of month, the participant who faced serious financial problems got the committee and used it to solve his problem. She also told that now committee culture is finished in neighbourhood and she does not have other sources to get such a large amount of money. So, she got loan from MFIs, which was used for different purposes and then easily paid back loan in mothy instalments. She treats microfinance loan as a modern time committee."

Majority of the people, who apply for microfinance loan, have permanent government or private jobs. They use loan to improve their living standards. A female beneficiary whose husband work in Saudi Arabia, got 6-time loan from MFI. They applied loan for tailoring business and received 1.6 lac in 6 years, but they have only one sewing machine in their house which cost Rs 8 K. She gave us no explanation of this question "where did you use the loan amount". Every respondent has his own story related to microfinance loan. Most of the respondents are uneducated, have no skills and have no interest in business. If someone owned a microenterprise and got microfinance loan for this business, he/she used only a small portion of that loan in business and the remaining amount was used for personal necessities. During the interviews, a person told that he is running a small restaurant in village. He needed money for the maintenance of his restaurant. He received Rs 60 K as a loan from MFI, but only 10 K were used for hotel maintenance while the remaining amount was used at home.

In table 7 an information related to business is given. It explains that 74 percent from Akhuwat and 64 percent from JWSP respondents have their business before taking loans from MFIs. During the survey, it is observed that half of the recipients were those who received loans for business expansion, 23 percent for new machine and remaining 28 percent for improvement in business. Akhuwat is an Islamic Microfinance institution, which follows the concept of Qurze Hasna and do not charge interest, while the JWSP is a conventional Microfinance institution who charge interest on their loan products. So, 57 percent of JWSP recipients told that the interest charged by JWSP is reasonable and they easily paid the interest amount, however the 43 percent of clients faced the problem in interest payments.

Table 7: % Distribution of Respondents Business Profile

	Akhuwat	**JWSP**	**Overall**
Business Exit before Joining MFIs (%)			
Yes	74.0	64.0	69.3
Purposes of Loans			
Expansion	49.1	51.7	50.3
Buy New Machine	19.3	27.0	22.7
Upgrading Machine	11.4	7.9	9.9
Repairing	20.2	13.5	17.2
Interest is Reasonable			
Yes	N/A	57.0	57.0
No	N/A	43.0	43.0

Source: Estimated from SEFS 2017 micro dataset

5.5. Enterprises Characteristics

The table 8 explains that out of 624 recipients only 467 percent of Clients have invested their loans in business, in which 51percent is from Akhuwat and 42 percent is from JWSP, while 53 percent of clients did not invest their loans in business. It shows that rate of investment in Akhuwat recipients micro-enterprises is higher as compared to JWSP recipients' micro-enterprises. Most of the beneficiary's enterprises of both MFIs have settled in urban areas. The 69 percent of enterprises are in urban area, while only 31 percent of enterprises are in rural areas. It also explains the percentage of business distribution of micro enterprises. The major portions of loan amount are invested in manufacture of textile (29%), in retail traders (29%) and in land transportation (23%). After that the remaining loans amount are invested in manufacture of machinery and equipment (3%), manufacture of furniture (3%), live-stock (3%) and in construction materials shops (2%).

Table 8: % Distribution of loan invested in Businesses

	Akhuwat	JWSP	Overall
Invest in Business (%)	51.5	42.5	46.8
Location of Enterprises			
Urban	74.0	63.0	69
Rural	26.0	37.0	31.1
Major Business Categories			
Live Stock	0.4	5.1	3.0
Manufacture of Textile	29.9	28.7	29.2
Manufacture of other products	10.4	10.7	10.5
Construction Material	2.4	2.5	2.5
Retail Traders	34.7	25.2	29.4
Hotels	1.2	1.6	1.4
Land Transport	19.5	25.2	22.7

Source: Estimated from SEFS 2017 micro dataset

5.6. Micro Enterprise's Information

Table 9 showed that 56 percent (49% Akhuwat and 61% JWSP) of respondents have started their business before joining MFIs. The percentage of respondents who have business at present is 68 percent (64% Akhuwat and 71% JWSP). It means that 12 percent household started their business after joining MFIs, in which 14 percent household were from Akhuwat and 9 percent household were from JWSP. It also explains the reasons of why business is not exit at present. The first major reason of business is not exit at resent is that they did not start the business and second one is that they sold the assets of business. During the interviews, it is observed that majority of the respondents did not get loans for their own business, however they got loans for the business of their family members. The respondents expressed their MFIs did not help them in any business activities. The results show that the share of enterprises who operated from home is greater than other enterprises. The reason of this is that people have small investment and they cannot buy a place or take a place on rent for business purposes. Out of hundred percent, 34 percent enterprises are operating from home, 31 percent are located in local market and 29 percent recipients invest their money in mobile enterprises. The table represent that 59 percent hold their business place (53% Akhuwat and 67% JWSP), while 41 percent of household rented business place.

Table 9: % Distribution of Micro Enterprises Information of Both MFIs

	Akhuwat	JWSP	Overall
Business Exit Before Taking Loan (%)			
Yes	49.4	61.5	56.2
Business Exist at Present (%)			
Yes	63.7	71	67.8
Reasons of Business Not Exist at Present			
Not Started	59.3	34.8	47
Assets Sold	17.6	33.7	25.7
Medical Problem	15.4	6.5	11
Incurred Loses	1.1	6.5	3.8
Got Married	6.6	18.5	12.0
Total	100	100	100
Business Operated by Recipients			
Yes	63.7	25.2	41.8
Business Selection			
Recipients	37.7	41.0	39.3
Already Started	62.3	59	60.7
Total	100	100	100
Business Types			
Individual	95.0	93.5	94.2
Partnership	5.0	6.5	5.8
Total	100	100	100
Business Places			
Inside Home	33	35.5	34.1
Outside Home	2	7.2	4.5
Local Market	36.8	24.6	31.0
Mobile	27.6	28.3	27.9
Total	100	100	100
Location of Outputs Market			
Village/Town	5.3	26.1	15.1
Surrounding Areas	76.3	50.0	63.8
Cities also	18.4	23.9	21.0
Total	100	100	100

Source: Estimated from SEFS 2017 micro dataset

The mean value of revenues (sales) is Rs 55 K for JWSP enterprises as compared to Rs 48 K for Akhuwat enterprises (Table 10). The mean value of tools and equipment of JWSP enterprises is also very high (Rs 83 K). It is very interested to observe that the JWSP enterprises have higher mean values of inventory, raw material, revenues and profits as compared to mean value of Akhuwat enterprises. The reason of these values is that, the average investment and age of JWSP enterprises is greater than Akhuwat enterprises.

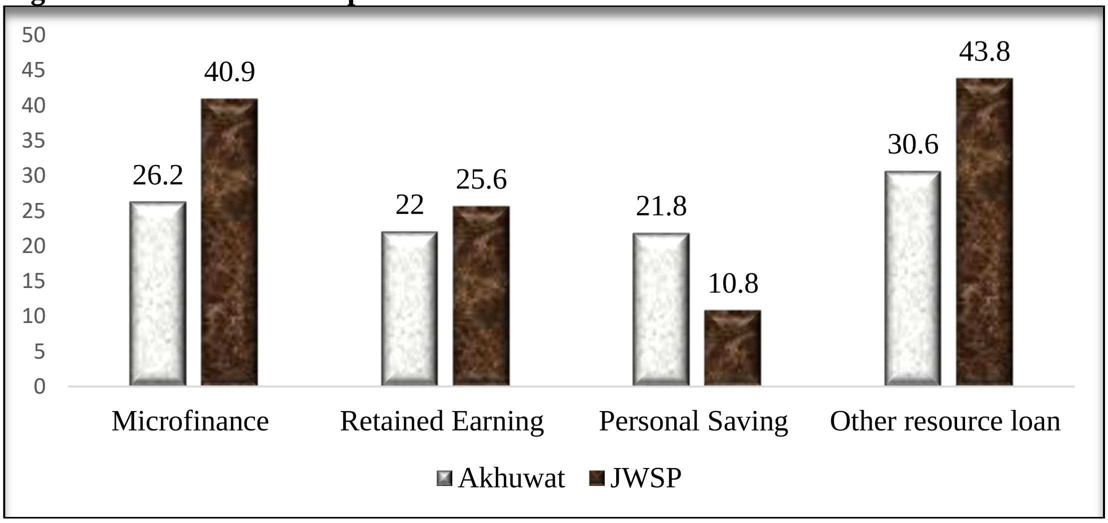
Table 10: Mean Values Information of Enterprise Sales and Assets

Mean Value of Assets	Akhuwat	JWSP
	Rupees. (000)	Rupees. (000)
Tools, Equipment	39.8	83.2
Furniture, storage facilities	0.0	55.0
Inventory	86.9	170.4
Raw material	18.7	70.8
Revenue	48.1	55.6
Profit	20.3	22.6

Source: Estimated from SEFS 2017 micro dataset

It also gives an idea about the investment of entrepreneurs in 2016. As a comparison, JWSP enterprises have more dependent on microfinance loans then the Akhuwat enterprises.

Figure 5: Mean value of Capital used in 2016



Source: Estimated from SEFS 2017 micro dataset

In this section the study explains the different business constraint faced by the owner of micro enterprises. Table 11 gives a detail information about these constraints. The entrepreneurs of Akhuwat foundation faced major business constraints are access to finance, competition with large enterprises, inflation and seasonal effect, while access to finance, inflation and seasonal effect are the major constraint faced by entrepreneurs of JWSP. It also indicates that 58 percent of Akhuwat respondents and 62 percent of JWSP respondents have no electricity problem.

Table 11: % Distribution of Business Constraints Faced by the Entrepreneurs

Business Constraints	Akhuwat			JWSP		
	Yes	No	Don't know	Yes	No	Don't Know
Access to Finance	92.2	7.8	0.0	70.0	30.0	0.0
Access to raw materials	0.0	95.0	5.0	5.7	94.2	0.0
Access of electricity	41.6	58.4	0.0	38.1	61.9	0.0
Access to road	19.5	68.9	11.6	19.6	62.3	18.1
Access to output market	18.8	69.5	11.7	13.7	66.7	19.6
Access to transport	14.3	85.7	0.0	14.5	85.5	0.0
Law and order situation	9.1	90.9	0.0	4.4	95.6	0.0
Competition with large enterprises	84.4	7.8	7.1	42.0	47.8	10.1
Access to technical labour	1.0	96.0	3.0	0.7	97.1	2.1
Inflation	98.1	1.9	0.0	94.2	5.8	0.0
Market linkages	29.0	52.6	21.4	22.5	60.9	16.7
Demand of products	11.7	66.2	22.1	26.8	73.2	0.0
Seasonal effect	91.5	8.4	0.0	99.3	0.7	0.0

Source: Estimated from SEFS 2017 micro dataset

5.7. Summary of Chapter

This chapter provide the comprehensive descriptive analysis of the characteristics of the JWSP and Akhuwat recipients from both secondary and primary (SEFM). More than seventy percent of the sampled respondents are female in the survey. The SEFN shows that the half of the respondents are uneducated and sixty percent of respondents have age between 25 to 40 years. About fifty percent of respondents received microfinance loan range from Rs 50 K to 100 K. The Akhuwat offered maximum Rs 150 K rupees as loan, while the JWSP offered loan more than Rs 200 K. The imported point is that Akhuwat offered maximum 5 times loan to poor people, while the JWSP provided more than 5 times loan to poor people.

The investment culture in Akhuwat recipient's micro-enterprises is higher as compared to JWSP recipient's micro-enterprises and most of the loans have invested in manufacture of textile, retail traders and in land transportation. The JWSP enterprises have higher mean values of inventory, raw material, revenues and profits as compared to mean value of Akhuwat enterprises. The reason of these values is that, the average investment and age of JWSP enterprises is greater than Akhuwat enterprises. It is observed the only 12 percent household started their business after joining MFIs and left-over recipients used their loans in homes.

6. DETERMINANTS OF ENTREPRENEURSHIP AND FINANCIAL SUSTAINABILITY OF MICRO ENTERPRISES

6.1. Entrepreneurial Development and Entrepreneur's Wellbeing

Micro enterprises play a significant role in developing countries where unemployment, education and poverty are the major issues. Micro enterprises not only provide opportunity to poor people to improve their living standards, but also provide a platform through which the poor people take part in the development of country. In this context, microfinance play vital role in the development of micro enterprises. The basic ideology of microfinance is to alleviate poverty and improve the well-being of poor people. Microfinance institutions can improve the living standard of poor people by giving them technical skill, education and help them in business development. If microfinance institutions only provide loan to people, then it produces more beggars rather than entrepreneurs.

The second objective of this study is to examine the role of microfinance in entrepreneurial development. The section 6.1.1 finds the determinants of entrepreneurial development and analyse the role of microfinance, skill, education and technology in micro enterprises' development. Section 6.1.2 explain the role of MFIs in creating employment opportunity. After that in section 6.1.3 a comprehensive information is given related to the well-being of respondents.

6.1.1. The Determinants of Entrepreneurial Development

As detailed in section 4.4, the following equation have been estimated to find out the determinants of entrepreneurial development by OLS method. This study uses the ln of net Profit as the proxy of 'entrepreneurial development'. This study has adopted the following statistical equation;

$$\mathbf{ENT_i = \beta_0 + \beta_1 EC_i + \beta_2 FI_i + \beta_3 MT_i + \varepsilon_i}$$

In above equation $\boldsymbol{\beta_0}$ is the intercept term, $\boldsymbol{\beta_1}$, $\boldsymbol{\beta_2}$ and $\boldsymbol{\beta_3}$ are the parameters. $\boldsymbol{ENT_i}$ Represent the entrepreneurial development, $\boldsymbol{EC_i}$ show the micro enterprises characteristics, $\boldsymbol{FI_i}$ is the financial information of enterprise, $\boldsymbol{MT_i}$ represent modern techniques which help enterprises and $\boldsymbol{\varepsilon_i}$ is the error term. The multiple linear regression model and parameters are estimated by Ordinary Least Square (OLS) method.

In this study four models are estimated to find the determinants of enterprises development. In all models the dependent variable is ln of net profit which is a proxy of entrepreneurial development. In first model, only capital amount used in 2016 is taken as an independent variable which include microfinance amount, personal saving, retained earnings and other loan amount. In second model, characteristics of micro enterprise along with the capital amount used as explanatory variables. The third model is comprehensive as compared to first two model. Two more variable marketing and business plan along with the capital amount and characteristics of micro enterprises are also used as independent variables. At the end, model four is estimated to explore the determinants of entrepreneurship. It is very comprehensive model which include variables from different perspectives.

The results of these models have been given in table 12. The first column of the table shows the results of model 1. In this model, only capital used in 2016 is used as an independent variable. This model shows that personal savings and retained earnings have positive significant impact on net profit. The coefficient of other loans is significant but negatively related with net profit. The coefficient of microfinance is insignificant, which means that microfinance has no role in growth of net profit. Personal savings and retained earnings have positive impact on net profit and show that if the people have their own investment in business then over the time their profits increases.

In model 2, along with the capital amount of 2016, characteristics of enterprise are also used as explanatory variables. The coefficient of microfinance in model 2 is also insignificant. This value shows that in entrepreneurial development microfinance has no role. The other variables of investment are significant and similar in direction as of model 1. The coefficients of MFIs, gender, location and education of owner are insignificant which show that they do not have a role in the growth of net profit and hence entrepreneurial development. The important thing is that people who own their business place earn 19 percent less profit as compared to those who did not own the business place. The reason is that owner of business places are those people who operate their enterprises from the houses and have limited business opportunities, while those people who do not own their business places usually operate their enterprises from rented shops in local markets, industrial areas and in special bazaars where the demand of goods is much higher and entrepreneurs have more opportunity for growth.

The 5th column of the table 12 represents the results of model 4 which is very comprehensive model and observe the impact on net profit from different perspectives. In this model the first variable is microfinance amount used in 2016. The coefficient of microfinance showed negative but insignificant relation with net profit, which means that during the study microfinance loan has no role in the development of micro enterprises in Gujranwala division. This result is similar to Karnani (2007), who summarizes his finding that skills, creativity, vision and persistence to be entrepreneurial was more important than the access to microfinance. He explained that population of developed countries is highly educated and have an easy access to financial services, but about 90 percent of the population is employees not entrepreneurs, because of the lack of entrepreneurial skill and creativity. Most of the people who receive microfinance loans lack basic skills and have no idea of business management and operations at small level. They get loan from different MFIs but they cannot properly use their loan in businesses.

Similarly, Mahajan (2005) also explained same results that microfinance loan was an essential but not a necessary condition for micro-enterprise development. Other inputs, such as identification of employment opportunities, business management and motivation of the micro-entrepreneurs, technical training, market linkages for inputs and outputs, government policies, infrastructure and sometimes regulatory approvals were also important. In the absence of these inputs, microfinance is only useful for a limited set of businesses such as small farming, livestock rearing and petty trading where the prospects of enterprise development is low. Pollin (2007) also pointed out that along with microcredit, micro-enterprises also need a vibrant and well-functioning domestic market which stimulate enough people with enough money to buy enterprises products. A single best way of sustaining a vibrant domestic market is expanding the supply of decent wage-paying jobs in their local economies.

This study identified two primary reasons as to why microfinance failed to promote microenterprise development. Firstly, most of recipients of MFIs under this study who availed the loans, have lacked basic business skills. Secondly, most of the recipients who availed loans, did not invest their loans amount in business. As discussed above in table 6, only 47 percent out of 100 percent respondents invested their loan in business.

Table 12: Determinants of Entrepreneurial Development

Regressors	Model 1	Model 2	Model 3	Model 4
	Coeff.	**Coeff.**	**Coeff.**	**Coeff.**
Capital Amount Used in Business in 2016 (Rupees)				
Microfinance	0.130 (0.70)	0.337 (0.90)	0.243 (0.67)	0.282 (0.73)
Personal Saving	0.042* (2.50)	0.048* (3.75)	0.043* (3.08)	0.056* (3.51)
Retain Earning	0.531* (4.58)	0.470* (4.07)	0.422* (3.32)	0.400* (3.03)
Other loan Amount	-0.046* (-2.31)	-0.052* (-2.41)	-0.060* (-2.82)	-0.060* (-2.14)
Characteristics of Micro Enterprises				
MFIs (JWSP = 1)	-	-5.729 (-0.66)	-7.318 (-0.84)	-9.304 (-1.00)
Gender (Male =1)	-	1.216 (0.27)	-1.441 (-0.30)	-2.814 (-0.55)
Education (Years)	-	-0.398 (-0.70)	-0.313 (-0.57)	-0.188 (-0.34)
Location (Urban =1)	-	-2.789 (-0.55)	-1.436 (-0.27)	0.556 (0.10))
Owner of Business Place (Yes = 1)	-	-19.067* (-4.33)	-21.723* (-4.67)	-12.792 (-1.50)
Business category (Individual =1)	-	-	1.687 (0.30)	5.209 (0.91)
Age of Enterprises (Years)	-	-	0.839 (1.27)	1.053** (1.67)
Micro enterprises Size (No of Workers Employed)	-	-	3.739 (0.71)	5.074 (0.92)
Experience of Business (Years)	-	-	0.917 (1.46)	0.799 (1.26)
Marketing (Yes =1)	-	-	0.866 (0.04)	-1.794 (-0.07)
Business Plan (Yes =1)	-	-	8.835** (1.70)	7.654 (1.39)
Place of Micro Enterprises (Inside Home use as Reference)				
Out-side Home	-	-	-	1.449 (0.13)
Industrial Area	-	-	-	33.114* (2.15)
Local Market	-	-	-	8.257 (0.90)
Mobile	-	-	-	4.317 (0.34)
Roadside	-	-	-	-5.341 (-0.65)
Another Fixed Place	-	-	-	68.741* (2.60)
Business Types (Agriculture use as Reference)				
Manufacture	-	-	-	22.018 (1.08)
Retail Trading	-	-	-	25.747

				(1.28)
Transportation	-	-	-	28.704 (1.31)
Constant	12.148* (175.5)	12.227* (110.2)	12.103* (109.3)	11.695* (42.19)
Observation	290	290	285	284
Root MRS	0.4615	0.4491	0.4465	0.4443
R-Squared	0.1009	0.1635	0.1986	0.2359

Note: t-values are given in parenthesis
* denoted significant at 5%, ** denoted significant at 10%
Source: Estimated from SEFS 2017 micro dataset

In this 47 percent, 61 percent of enterprises operated their business before joining MFIs and only 39 percent people started their business after joining MFIs. During the survey, recipients of both MFIs communicated that they got microfinance loans for different purposes other than for business.

The study experienced that majority of the people, who apply for microfinance loan, have permanent government or private jobs and used loans amounts for personal purposes rather than invest in business. As detailed discussed in section 5.4, why recipients did not invest their loans in their business. During the interviews, a female beneficiary whose husband works in Saudi Arabia, got 6-time loans from MFI. They applied loan for tailoring business and received 1.6 lac in 6 years, but they have only one sewing machine in their house which cost Rs 8 K. She gave us no explanation of this question “where did you use the loan amount”. Every respondent has his own story related to microfinance loan. Most of the respondents are uneducated, have no skills and have no interest in business. If someone owned a microenterprise and got microfinance loan for this business, he/she used only a small portion of that loan in business and the remaining amount was used for personal necessities. During the interviews, a person told that he is running a small restaurant in village. He needed money for the maintenance of his restaurant. He received Rs 60 K as a loan from MFI, but only Rs 10 K were used for hotel maintenance while the remaining amount was used at home.

This study also observed that MFIs have failed to promote enterprise development. One of the main reasons as to why MFIs failed to contribute to enterprise development is the absence of a strong monitoring framework. MFIs are only concerned with earing more and more profits by expanding their clientele. Their only focus is on achieving 100 percent recovery of loans while ignoring either the people used loan for business or for their domestic needs. They do not investigate properly about client’s eligibility, purposes of loan, business information and their family back ground. They do not provide any technical, managerial and business-related training to their clients. They only give them loans and earn profit on loan. It shows that microfinance generates baggers instead of entrepreneurs. Due to all these reasons, microfinance has no significant impact on entrepreneurial development during period of this study.

The coefficient of personal saving shows that if the entrepreneur used Rs 1 K of personal saving in business then its profit will increase by 0.056 percent in one year. Retained earnings also has vital role in development of micro enterprises. On other side, the coefficient of other loan shows that net profit significantly decreases over time. This decrease is explained by the fact that loan obtained from other MFIs at high interest rate is not used for investment in business and when time has arrived of loan repayments, the owner used profit of micro enterprises for repayments of loan amount which negatively affect the business progress and causes decrease in growth of business over the time.

The results show that characterises of micro enterprise such as MFIs, Gender, Location, Education and ownership, have no part in growth of micro enterprises. The locations of enterprises play a vital role in growth of net profit. The results show that enterprises located in industrial area earn 33 percent more as compared to enterprises who operated from home. Similarly, the enterprises located on other places earn 68 percent more profit as compared to other micro enterprises. The important thing is that the variables such as micro enterprises size, employment, marketing, business plan and experience have no role in development of micro enterprises. The study also sees the effects of business categories which has been divided the micro enterprises in to four categories i.e. Agriculture, Manufacture, Retail Trading and Transportation. The model explained that enterprises related to retail trade made 27 percent more profit as compared to agriculture-based enterprises. The model 4 used 284 observations out of 292 observations and has R- Squared value of 23.59.

6.1.2. Employment Creates by Micro Enterprises

Employment is an important macroeconomics policy variable. Microfinance is an effective tool for microenterprises development and it also helps in creating employment opportunities. To analyse whether microenterprises creates the employment opportunities or not, this study collected information about employees of micro enterprises. Table 13 provides an overview of employment status in micro enterprises. Out of 292 enterprises only 32 percent enterprises hired at least 1 employee. It also expressed that most of the enterprises are very small and have not enough growth and resources for hiring employees. It showed that beneficiary enterprises of Akhuwat and JWSP MFIs have employed an average of 2.05 and 2.13 workers respectively. Beneficiary enterprises of JWSP employed a total of 113 employees out of which 63 were paid and 50 were unpaid. On other side, beneficiary enterprises of Akhuwat hired 82 employees out of which 34 were paid and 48 were unpaid. This showed that enterprises of JWSP created more paid job opportunities as compared to enterprises of Akhuwat.

Table 13: Distribution of Employees in Micro Enterprises

	Akhuwat	**JWSP**	**Over all**
Employers Hired by Enterprises (%)			
Yes (In %)	26.3	37.4	31.6
Categories of Employers (Number)			
Average No of Workers	2.1	2.1	2.1
Paid Full-time worker	29	61	90
Paid Part-time worker	5	2	7
Unpaid Full-time worker	26	26	52
Unpaid Part-time worker	22	24	46
Total	82	113	195
Size Distribution of Enterprises (%)			
2 of fewer workers	77.5	73.1	75.3
3-5 workers	22.5	27.0	24.7
More than 5 workers	0.0	1.9	0.9

Source: Estimated from SEFS 2017 micro dataset

6.1.3. Microfinance Program and Entrepreneurs' Well Being.

Main purpose of microfinance is to bring improvement in the life of poor people, which is measured by changes in the welfare of consumers. The Stanford Encyclopaedia[20] of Philosophy defines well-being as a condition of how well a person's life is going for that person. According to, Griffin (1986) resources of 'prudential values' are associated with good life. This study has used the indicators of welfare and examined that either these indicators improved over the time or not. This study collected the information about economic wellbeing and durable goods from recipients of both MFIs. As detailed in section 4.4.2 the study analyses that either microfinance programme

[20] https://plato.stanford.edu/

improved the entrepreneur's life through entrepreneurial development. Table 14 provides the idea of change in respondents' business future, economic wellbeing, income level and personal expenditure over the time. In this survey, 56 percent of respondents expressed that their business has bright prospects and 42 percent said that it will remain same in future. Per 47 percent of the respondents who invested the loans in business, their economic wellbeing improved over time. The important thing is that 83 percent people stated that their income level increased but they did not save money. They mostly preferred to smooth their consumption pattern.

Table 14: % Distribution of Perception of Recipients' Economic Wellbeing

	Akhuwat	**JWSP**	
Business's Future			
Very good	0.0	0.0	0.0
Bright	53.2	58.7	55.8
Same	44.8	39.8	42.5
Dark	1.9	1.4	1.7
Very bad	0.0	0.0	0.0
Total	100	100	100
Economic Wellbeing Over the Time			
Improved	78.6	83.3	46.6
Same	18.2	14.5	16.4
Worse	3.2	2.2	2.7
Total	100	100	100
Income level Over the Time			
Improved	81.1	84.0	82.9
Same	16.9	13.8	15.4
Worse	1.3	2.2	1.7
Total	100	100	100
Saving Over the Time			
Improved	10.4	21.0	15.4
Same	88.3	76.8	82.9
Worse	1.3	2.2	1.7
Total	100	100	100
Expenditure on Children Education Over the Time			
Improved	20.8	65.2	41.8
Same	78	32.6	56.5
Worse	1.2	2.2	1.7
Total	100	100	100
Expense on Personal Accessories Over the Time			
Improved	13.6	41.3	26.7
Same	84.4	54.3	70.2
Worse	1.9	2.2	2.1
Total	100	100	100

Source: Estimated from SEFS 2017 micro dataset

Durable good means products that do not need to be purchased frequently because they are made to last for a long time. Table 15 shows the percentage of durable goods of recipients before and after joining microfinance institutions. The percentage of goods i.e. TV, Refrigerators, Computer, Motor Cycle and Washing Machine owned by the respondents of both MFIs significantly increased over time. It is important to know that the percentage of respondents who have agriculture land, residential plot, commercial plot and ownership of house before and after joining MFI, is same over the time. These results show that household wellbeing improved over the time but the important things is that the reason of these improvement is used loans in personal necessities rather than development of business. There are two main reasons for percentage increases in durable goods. Firstly, it is because the recipients' household used these loans to purchase durables household goods rather than invest the microfinance loans in establishment of business. One of the interviewee said that they availed loan 6 time from MFIs. Instead of investing loan in business activities, she used it to purchase different household goods. First time she used it in the construction of house, second time she used it to purchase refrigerator, followed by the purchase of dowry items for daughter marriage. The second reason for change in percentage of goods is that the income from different sources rose over time which led to the addition in household durable goods.

Table 15: Status of Durable Goods at Various Times of Microfinance Programme (%)

Durable Goods	**Akhuwat**		**JWSP**	
	Joining	**Present**	**Joining**	**Present**
TV	76.6	83.8	80.4	90.6
CD, VCD	3.2	26.0	2.9	56.5
Refrigerator	63.6	72.7	45.7	60.1
Computer	3.2	22.0	7.8	14.5
Motor Cycle	9.7	14.9	20.3	48.6
Generator	0.0	3.9	1.5	6.5
Washing Machine	87.7	94.1	87.0	95.6
Agriculture Land	1.9	1.9	7.8	5.8
Residential Plot	0.0	0.0	3.6	3.6
Commercial Plot	0.6	0.6	1.5	1.5
Ownership of House	94.2	94.2	97.1	97.1
Large Animals	0.0	9.8	3.6	8.0
Small Animals	0.0	2.6	0.7	5.0

Source: Estimated from SEFS 2017 micro dataset

6.2. Role of Microfinance in Financial Sustainability of Enterprises

In section 4.4.2, a detailed information related to last objective of the study has been given which explain that this study examines the financial sustainability of enterprises and its relationship with microfinance programme. Financial sustainability refers to ability of enterprises to maintain its financial capital and infrastructure capital over the long-term. To measure the financial sustainability of enterprises, a relevant measure has been given below;

6.2.1. Operating Surplus Ratio

It is used to measure the level to which revenues are raised to cover operational expenses only or are available for capital funding purposes.

$$\textbf{Operating surplus ratio} \quad = \quad \frac{\textbf{operating ravenue} - \textbf{operating expense}}{\textbf{Total operating ravenue}}$$

The target of equation is greater than 50 percent per annum. If the value is > 50 percent, it means enterprises are financially stable and if the value is < 50 percent then the enterprises are not able to generate sufficient revenues that can meet operating expenses and offset past or future operating deficits. In above equation, operating revenue is equal to the total revenue (sales) of the enterprises and operating expense include raw material, utilities bills, salaries and microfinance loan amount. In table 16 the enterprises are divided in financially stable and non-stable categories by using operating surplus ratio. It provides information related to financial sustainability of micro businesses who got investment from MFIs. Out of 100 percent, 44 percent of enterprises are financially stable and 56 percent enterprises are financially not stable. Retail traders, textile and transportation are three major business who got loans from microfinance institutions. It shows that percentage of retail trade is 39. Out of the total financially stable enterprises 30 percent are from retail trade business while from total financially unstable enterprises 45 is from retail business. Enterprises related to the transportation business are highly financially stable as compare to other micro enterprises. MFIs can help their clients in investing in new micro business by using this information.

Table 16: % Distribution of Enterprises Using Operating Surplus Ratio

Categories of Enterprises	Operating Surplus Ratio		Over All
	Financial Stable	Financial Un-stable	
Total Enterprises	44.2	55.8	100
Agriculture	0.0	3.0	1.7
Manufactures			
Food Products	0.0	0.16	0.3
Textile	25.6	14.1	19.2
Leather Products	2.3	1.8	2.1
Plastics Products	0.0	0.6	0.3
Metal Products	0.3	1.2	1.0
Machinery and Equipment	0.0	1.8	1.0
Medial Products	0.0	8.6	4.8
Furniture	0.0	3.1	1.7
Construction	0.0	4.3	2.4
Retail Trade	30.2	45.4	38.7
Hotels	1.5	1.8	1.7
Transport	38.7	13.5	24.6
Health	0.8	0.0	0.3
Total	100	100	100

Source: Estimated from SEFS 2017 micro dataset

6.3. Determinants of Financial Sustainability of Micro Enterprises

Now to find the impact of microfinance and other variables on financial sustainability of enterprises, this study has used the logit model to explore the relationship among financial sustainability and other factors including microfinance. The logit model is stated as;

$$\mathbf{FS_i = \beta_0 + \beta_1 FI_i + \beta_2 EC_i + \beta_3 MT_i + \varepsilon_i}$$

In above model $\boldsymbol{\beta_0}$ is the intercept term,$\boldsymbol{\beta_1}$, $\boldsymbol{\beta_2}$ and $\boldsymbol{\beta_3}$ are the parameters. $\boldsymbol{FS_i}$ Represent the financial sustainability of micro enterprises, $\boldsymbol{EC_i}$ show the microenterprises characteristics, $\boldsymbol{FI_I}$ is the financial information of enterprise, $\boldsymbol{MT_n}$ represent modern techniques which help enterprises and $\boldsymbol{\varepsilon_i}$ is the error term.

The results of logistic regression model have been presented in table 17. The depended variable in this model is a dummy variable which is the proxy of financial sustainability. The high value odd ratios show that micro enterprises are moving toward financial sustainability. The odd ratio of net profit has a significant and positive relation with financial sustainability. It explains that those micro enterprises which earn more profit can easily solve their financial problems over the time. The odd ratios of microfinance loan, retained earnings and other loan have negative impact on financial sustainability of enterprises. The coefficient of microfinance has value 0.957, which shows that by using Rs 1000 of microfinance the probability of financially unstable increase by 95 percent. Similarly, the coefficient of retain earning and other loan amount describe that by using Rs 1000 the possibility of financially unstable increase by 97 percent and 91 percent respectively. The reason is similar as explained in section 5.4, that only 47 percent out of 100 percent respondents invested their loans in business. In this 47 percent, 61 percent of enterprises operated before joining MFIs and only 39 percent people started their business after joining MFIs.

During the survey, recipients of both of MFIs communicated that they used microfinance loan amount in homes. They explained that they did not use loans in business but they used profit to repay loan amount. Due to this reason, the growth of micro enterprises affected and their profits decreased over the time. It also showed that enterprises of JWSP are less financially stable as compared to enterprises of Akhuwat. Enterprises of JWSP beard more financial liability because JWSP charged 23 percent interest on micro loans and Akhuwat does not charge any interest on loans. The insignificant odd ratios of marketing and business plan reflects the real scenario of micro enterprises in Pakistan that majority of entrepreneurs are uneducated and they have no idea of how to expand their business. The entrepreneurs who got microfinance loans but did not use in business are facing more financial issues. The results showed that the entrepreneurs' experience and age of the enterprises bring no significantly improvement in business over the time because they did not channel the experience and investment properly for business expansion. As a result, their business did not improve over the time.

Table 17: Determents of Financial Sustainability of Micro Enterprises- Logit Model

Regressors	Odd Ratios	Std. Error
Capital Amount Used in Business (Rupees) in 2016		
Net Profit	1.007*	0.003
Microfinance	0.957**	0.025
Personal Saving	0.997	0.009
Retain Earning	0.972**	0.015
Other loan Amount	0.918*	0.014
Characteristics of Micro Enterprises		
MFIs (JWSP = 1)	0.186*	0.109
Gender (Male =1)	0.298*	0.144
Location (Urban =1)	0.638	0.253
Owner of Business Place (Yes = 1)	1.753	1.275
Business category (Individual =1)	2.653	1.831
Age of Enterprises (Years)	0.945	0.055
Microenterprises Size (No of Workers Employed)	0.627	0.287
Experience of Business (Years)	0.974	0.052
Marketing (Yes =1)	1.051	1.816
Business Plan (Yes =1)	0.801	0.353
Place of Micro Enterprises (Inside Home use as Reference)		
Out-side Home	0.213	0.291
Industrial Area	2.370	5.475
Local Market	0.460	0.340
Mobile	0.687	0.789
Roadside	1.000	0.000
Other Fixed Place	28.207**	48.261
Business Types (Agriculture use as Reference)		
Manufacture	0.094*	0.093
Retail Trading	0.124*	0.110
Transportation	1.000	0.000
LR Chi2 (22)	164.9	
Log Likelihood	109.1	
Pseudo R2	0.430	
N	279	

Note: * denoted significant at 5%, ** denoted significant at 10%
Source: Estimated from SEFS 2017 micro dataset

6.4. Summery

This Chapter has found that microfinance has no relationship with growth of micro enterprises. Personal saving and retained earnings have positive role while coefficient of other loan has negative impact in development of micro enterprises. Characterises of micro enterprise such as MFIs, Gender, Location, Education and ownership, have no role in growth of micro enterprises. The location of enterprise plays a vital role in growth of net profit. The important thing is that the variables such as microenterprises size, employment, marketing, business plan and experience have no role in development of micro enterprises.

Our analysis related to the financial performance of micro enterprises shows net profit has a significant and positive relation with financial sustainability. The odd ratios of microfinance loan, retained earnings and other loan have negative impact on financial sustainability of enterprises. The insignificant odd ratios of marketing and business plan reflects the real scenario of micro enterprises in Pakistan that majority of entrepreneurs are uneducated and they have no idea of how to expand their business. It also shows that the entrepreneurs' experience and age of the enterprises bring no significantly improvement in business over the time because they did not channel the experience and investment properly for business expansion. As a result, their business did not improve over the time.

7. CONCLUSION AND POLICY RECOMMENDATIONS

7.1. Conclusion

Microfinance is one of the financial instrument which improved the living standard of poor people. The main purpose of the microfinance is to provide the financial assistance to the poor and underprivileged community to elevate their livelihoods and to support them for coping up their intricacy. The assistance provided by MFIs is basically two types, i.e. Islamic microfinance (without interest) and conventional microfinance (with interest), whereas the method of microfinancing can vary in many ways such as in cash form or in the form of material goods.

This study comprises of 3 objectives; (a) To examine the structure of conventional and Islamic microfinance programmes, (b) To observe the impact of both sorts of microfinance programmes on employment, entrepreneurial development and household wellbeing and (c) To estimate the impact of microfinance programmes on financial sustainability of micro enterprises over time period. The major purpose of this study is to observe the impact of two MF programmes currently functional in Pakistan; Islamic and conventional microfinance programmes. The research questions to be answered through this study are; a) what is the lending structure of both Islamic and conventional microfinance institution in Pakistan? b) Which type of microfinance programme is more effective in improving the living standard of poor people and creating the employment opportunity for them? c) Either microfinance programme help in the development of microenterprises or not? and d) what is the impact of microfinance in financial performance of microenterprises?

7.2. Data sources and Summary of the Findings

The study has targeted the recipients of both Islamic and conventional MFIs by using both the secondary and the primary, the Survey of entrepreneurship and financial sustainability of microenterprises (SEFM) 2017 datasets. The SEFM dataset has been used to accomplish all the objectives of the study. The sample of SEFM 2017 consists of 624 recipients in which 300 are from Islamic microfinance institution (Akhuwat

Foundation) and 324 recipients are from conventional microfinance institution (JWS) in Gujranwala division.

Regarding the first objective of the study is to explain the procedure and model of both Islamic and conventional microfinance organization. This study chooses Akhuwat Foundation which is an Islamic microfinance organization and it is the largest microfinance organization in Pakistan. For conventional model this study chooses JWSP which follows the Garameen model of microfinancing.

The JWSP follows the conventional microfinance model. It operates in six districts of central Punjab with 29 branches. Each branch is headed by a branch manager and has 5 to 6 credit officers in each branch and each credit officer has 420 to 430 clients. Basically, JWSP follows the Garameen Bank microfinance model and as per this model, loan is issued to a group of 10-15 individuals based on social collateral. The organization charges 20 percent of the principal amount as interest fee and 3 percent in terms of insurance fees. The insurance fees is received from the clients at the time of loan distribution. The loan range is from Rs 15 K to 60 K. First time clients received Rs 15 K and next loan amount depends on the performance of repayment of previous loan. The length of the loan is different for different products however the loan is repaid every month in fixed instalments. For most of the products, the length of loan is 1 year. All the payments are issued and received via Allied Bank Limited. The instalments are collected at maximum 10th of every month. At the end of the loan period re-imbursement meeting starts in which branch manager goes to the group leader house and issued new loans to the clients. The repayment of the previous loan is a pre-condition to be eligible for new loan.

The Akhuwat microfinance model is very different model. The ideology of this model is based on Muslim brotherhood. The model works on the concept of community harmony where services are offered through the most visited places by members of the society like mosques and churches. Akhuwat provides group or individual loans without any collateral. The group range is 3 to 5 people and loan amount starts from Rs 12 K to Rs 70 K. When the clients repay the previous loan, they become eligible for the new loan. At the time of receiving loan, applicant should pay 5 percent of loan as Akhuwat membership fee and 1 percent of total amount for loan insurance. People, whose income is less than Rs 10 K, and have business plans, bring it to mosques and Unit manager carefully evaluates it there. He also evaluates the family situation and after checking the financial stature of family, a paper will be signed by the family members as a responsibility for loan in mosque, the reason to include family members is to encourage all family members to work hard to return the loan and maximize the benefits to for the whole family. The Islamic ideology behind the Akhuwat is Qarz e Hasna. In this model the loans are given to the people through Social collateral. In social collateral, the society's members act as guarantors and increase in loan amount depends on their guarantee under this model. However, to cover the management cost, Akhuwat secures funds from civil society along with borrowers contributing to the fund. Borrowers' contribution to the fund is purely voluntary. The community brotherhood philosophy encourages borrowers to contribute, indirectly inducing them to save. This contribution fund along with some donation is used to cover the administration cost.

In Pakistan the demands for microenterprise loan products are increasing but empirical research on the impact of such products is still lacking. Therefore, this study measures the impact of microfinance loan on entrepreneurship development. The results showed that microfinance in Pakistan are contributing toward increased in income but are yet to do many things for entrepreneurship development. It was generally thought that MFIs are not only providing financial capital but also social capital in the form of participations, linkages, and social mobility among clients, and such social capital increase the scope of income and microenterprises development. But empirically, it is view that the microfinance only support in case of income but not for entrepreneurship.

Regarding to the 2nd objective of this study, the present analysis shows that microfinance has insignificant relation with net profit, which means that in this study microfinance loan has no role in the development of micro enterprises in Gujranwala division. It explained that microfinance loan was an essential but not a necessary condition for micro-enterprise development. Other inputs, such as identification of employment opportunities, business management and motivation of the micro-entrepreneurs, technical training, market linkages for inputs and outputs, government policies, infrastructure and sometimes regulatory approvals are also important. It also pointed out that along with microcredit, micro-enterprises also need a vibrant and well-functioning domestic market which stimulate enough people with enough money to buy enterprises products.

This study recognises that there are two primary reasons as to why microfinance failed to promote entrepreneurial development. First one is that most of the clients of the MFIs have lacked basic business skills and second one is that most of the people who availed loans did not invest their loans in business. As discussed above in table 6, only 47 percent out of 100 percent respondents invested their loan in business. In this 47 percent, 61 percent of enterprises operated before joining MFIs and only 39 percent people started their business after joining MFIs. During the survey, recipients of both MFIs communicated that they used the loans for different purposes. The results show that MFIs also failed to promote enterprise development. One of the main reasons is the absence of a strong monitoring framework and MFIs are only concerned with earing more and more profits by expanding their clientele. Their only focus is on achieving 100 percent recovery of loans while ignoring either the people used loan for business or for their domestic needs. They do not provide any technical, managerial and business-related training to their clients. They only give them loans and earn profit on loan. Due to all these reasons, microfinance has no significant impact on entrepreneurial development during period of this study.

The other variables such as saving shows that if the entrepreneur used Rs 1 K of personal saving in business it will increase net profit by 0.056 percent in one year. Retained earnings also has positive role in development of enterprises. On other side, the coefficient of other loan shows that net profit significantly decreases over time. This decrease is explained by the fact loan obtained from other MFIs at high interest rate is not used for investment in business and at the time of repayment, the owner used profit for repayments of loan, which negatively affect the business progress and causes decrease in growth of business over the time. Characterises of micro enterprise such as MFIs, Gender, Location, Education and ownership, have no role in growth of micro enterprises. The location of enterprise plays a vital role in growth of net profit. The results show that enterprises located in industrial area earn 33 percent more as compared to enterprises who operate from home. Similarly, the enterprises located on other places earn 68 percent more profit as compared to other micro enterprises. The important thing is that the variables such as microenterprises size, employment, marketing, business plan and experience have no role in development of micro enterprises.

Regarding to the 3rd objective, the present analysis related to the financial sustainability shows that out of 100 percent 44 percent of enterprises are financially stable and 56 percent enterprises are financially not stable. Retail traders, textile and transportation are three major business who got loans from microfinance institutions. Out of the total financially stable enterprises 30 percent are from retail trade business while from total financially unstable enterprises 45 is from retail business. The determinants of financial sustainability that net profit has a significant and positive relation with financial sustainability which means that those micro enterprises which earn more profit can easily solve their financial problems over the time. The odd ratios of microfinance loan, retained earnings and other loan have negative impact on financial sustainability of enterprises. The reason is similar as explained in section 5.2, that only 47 percent out of 100 percent respondents invested their loans in business. In this 47 percent, 61 percent of enterprises operated before joining MFIs and only 39 percent people started their business after joining MFIs. During the survey, recipients of both of MFIs communicated that they used microfinance loan amount in homes. They explained that they did not use loans in business but they used profit to repay loan amount. Due to this reason, the growth of micro enterprises affected and their profits decreased over the time.

It also showed that enterprises of JWSP are less financially stable as compared to enterprises of Akhuwat. Enterprises of JWSP beard more financial liability because JWSP charged 23 percent interest on micro loans and Akhuwat does not charge any interest on loans. The insignificant odd ratios of marketing and business plan reflects the real scenario of micro enterprises in Pakistan that majority of entrepreneurs are uneducated and they have no idea of how to expand their business. The entrepreneurs who got microfinance loans but did not use in business are facing more financial issues. The results showed that the entrepreneurs' experience and age of the enterprises bring no significantly improvement in business over the time because they did not channel the experience and investment properly for business expansion. As a result, their business did not improve over the time. Further analysis showed that micro entrepreneurs not only have the financial problems but also, they lack many business skills and knowledge regarding market, technologies, and other information required for the sustainable development of their micro enterprises. Therefore, MFIs have to develop their capacities to either provide some business support services to micro entrepreneurs or provide them necessary business skills, training, and market information. All these services are necessarily due to the fact that only financial capital may not help the micro entrepreneurs to fight against various obstacles and challenges.

7.3. Policy Recommendation

The present analysis has revealed that poor people represents an inefficient use of microfinance. The result of microfinance does not mean that microfinance cannot play any role in the development of micro enterprises. Based on the conclusions, major policy implications could be recommended for microfinance and entrepreneurial development in Pakistan.

- The amount of loan given to the beneficiary for the first time is very minimal. It usually ranges from Rs 15 K to 20 K which is not enough to initiate a business. The amount of loan given to the beneficiary for the first time should be increased so as to make the loan more useful for microenterprise' development.
- The number of times loan availed by a single beneficiary should be limited. This limit can be used to compel the beneficiary to use its loan more efficiently. Also, it can help to expand the loan assistance to other eligible people.
- Microfinance institutions should provide entrepreneurial training including basic business skills, opportunity identification, product differentiation in the market and also basic training about financial record keeping in order to promote the development of enterprises.
- Microfinance institutions should provide their beneficiary enterprises a forum where they can interact and get information about input and output markets. This interaction will enhance their market exposure which can be helpful in the business' development.
- There should be a monitoring and evaluation department in each micro finance institution in order to ensure the use of loan for its respective purpose. The microfinance institution should ensure that credit officers must give loans only for business purposes and also ensure its use in respective businesses.

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Appendix A–The Questionnaire of SEFM Dataset

Survey of Entrepreneurship and Financial Sustainability of Microenterprises

Dear Sir,

I am working on my MPhil thesis entitled **"Entrepreneurship, Financial Sustainability and Wellbeing; A Comparative Analysis of Islamic and Conventional Microfinancing"** at Pakistan Institute of Development Economics (PIDE), Islamabad. Beside academic basis, PIDE is devoted to theoretical and empirical research over the past 50 years.

Sir, there is no obligation if you are not prepared to reply, however, your nice cooperation will help me to fulfill my academic requirement. This study aims to explore the impact of microfinance on entrepreneurship development and on financial sustainability of enterprises. Participation in this survey will provide you a prospect to register your valuable thoughts about the microfinance program and its efficiency in the development of micro enterprises in Pakistan.

I assure you that **<u>your identity will not be disclosed</u>** and your valuable comments will be used only for academic purpose. The data collected with the help of this survey would be analyzed and only the aggregate results would be discussed for research purpose.

I am very sincerely **<u>thankful to you</u>** for your kind cooperation endeavor.

Hafiz M. Waqas
MPhil Student
Pakistan Institute of Development Economics (PIDE), Islamabad.
Email: waqasjanjua21@gmail.com
Cell no. 0332-8190997

Note: ***This form should be filled by the Owner of the Enterprise***

A. Personal Information

Form No: ------------------

A01. District: -------------- **A02.** Tehsil: -------------- **A03.** Village: ----------

A04. Your name: ---------------------------- **A05.** Gender: [1] Male [2] Female

A06. Age (*in years*): --------------

A07. Current marital Status: [1] Married [2] Unmarried

A08. Who is the head of your household?

[1] Myself [2] Spouse [3] Son/Daughter

[4] Parents [5] My Brother/sister [6] Others

A09. Number of persons living in your household:

Age	Up to 14 years	15-60 years	61 and above	**Total**
Male				
Female				

A10. Your highest level of education (in years)**:** -----------------------------------

A11. Field of study in highest degree (if education more than 10 years): ----------------

A12. Did you ever get any technical/vocational training? [1] Yes [2] No

A13. If got: provide details: ---

A14. Education of your father/guardian (in years):----------------------------

A15. Education of your mother (in years):--

B. Loan information

B01. Microfinance organization: [1] Akhuwat [2] JWSP

B02. What is the purpose of taking the loan?

Loan	**For what business did you take loan?**	**Did business exist before taking the loan?**	**If yes, then who ran the business? Codes 1.**	**Is business exist at present?**	**If no, what is the reasons? Codes 2.**
1		[1] Yes [2] No		[1] Yes [2] No	
2		[1] Yes [2] No		[1] Yes [2] No	
3		[1] Yes [2] No		[1] Yes [2] No	
4		[1] Yes [2] No		[1] Yes [2] No	

5		[1] Yes [2] No		[1] Yes [2] No	
6		[1] Yes [2] No		[1] Yes [2] No	
7		[1] Yes [2] No		[1] Yes [2] No	

Codes for business owner, Myself = 1, Husband = 2, Son/Daughter = 3, Father = 4, Brother/Sister = 5.
Codes for Reason, Not Started = 1, Assets Soled = 2, Medical Problem = 3, Incurred Loses = 4, Got Married = 5.

B03. Please provide the detail, where you used the loan?

Loan	Is business run by same person who got loan?	If no, How much the right person who got loan know about the profit.	Did you used the loan for business?	If no, then where did you use the loan? Codes	Who paid back the loan instalments? codes
1	[1] Yes [2]No		[1] Yes [2] No		
2	[1] Yes [2]No		[1] Yes [2] No		
3	[1] Yes [2]No		[1] Yes [2] No		
4	[1] Yes [2]No		[1] Yes [2] No		
5	[1] Yes [2]No		[1] Yes [2] No		
6	[1] Yes [2]No		[1] Yes [2] No		
7	[1] Yes [2]No		[1] Yes [2] No		

Codes for instalment, Myself = 1, Husband = 2, Son/Daughter = 3, Father = 4, Brother/Sister = 5.
Codes for Profit: Not at all = 1, A Little = 2, Fairly = 3, A Lot = 4.
Codes for use of loan, For Home = 1, For Family = 2, For Marriage = 3, For Construction = 4, For Loan Payback = 5, For Medical Purposes = 6, Others = 7.

B04. Years of obtained loan cycle

Loan Cycle	Loan amount received (in Rs)	Year	Repayment (in Rs)	Interest if applicable (in Rs)	Installment return (codes)
1					
2					
3					
4					

5					
6					
7					

Codes of installment return, 1 = very Easy, 2 = Easy, 3 = Normal, 4= Tough, 5 = Very Tough

C. Enterprise Information

C01. Name of your Enterprise: -------------------------------------

C02. Type of Enterprise: ---------------------------- ***(see Industrial codes)***

C03. Location of Enterprise: [1] Urban [2] Rural

C04. In which year the enterprise was established: --------------------------

C05. Who helped you in selection of business?

[1] Myself only [2] MFI only [3] Both me and MFI [4] Already started

[5] Friends & Family

C06. Category of Enterprise:

[1] Individual [2] Partnership

[3] Non-Profit organization [4] others (please specify) -----------

C07. From where the business is operated now?

[1] Home, inside the resident [2] Home, outside the resident [3] Industrial Area

[4] Local Market [5] Commercial Area [6] Special Bazar

[7] Mobile [8] Roadside [9] Other Fixed place

C08. Do you own your business place? [1] Yes ***(go to C10)*** [2] No

C09. If no, then how much rent you pay monthly (Rs): -------------

C10. Are inputs of this business easily available in nearby market? [1] Yes [2] No

C11. How do you sell your product to the consumer?

[1] Self ***(go to C13)*** [2] Middle man [3] Both

C12. If through **Middle man,** then what is the level of satisfaction?

[1] Very dissatisfied [2] Dis-satisfied [3] Neither satisfied nor dissatisfied

[4] Satisfied [5] Very Satisfied

C13. What are the main markets for the products of this business?

[1] Only in village/town [2] In surrounding areas also [3] In cities also

[4] In other provinces also [5] Export also [6] others (please specify) ---

C14. In routine, do you sell your product at spot cash or delayed Payment?

[1] Cash *(go to C17)* [2] Delayed Payment [3] Both

C15. If delayed Payment, then what is the per-month amount of delayed payment? ----

C16. If delayed Payment, then usually how many customers pay you as per promised?

[1] Less than 20% [2] 21-40% [3] 41-60%

[4] 61-80% [5] more than 80%

C17. Did you possess prior experience related to your business?

[1] Yes [2] No *(go to C19)*

C18. If yes, prior working experience (in years): ----------------

C19. Is your business operated before joining MFIs? [1] Yes [2] No *(go to section D)*

C20. If Yes, then why you got loan from MFIs?

[1] Expansion [2] Buy New Machine [3] Upgradation Machine

[4] Repairing [5] Starting New Business

D. BORROWER'S EXPERIENCE WTH MFIs

D01. In which year the enterprise joined microfinance: ---------------------------

D02. Did MFIs provide you the Entrepreneurial Training? [1] Yes [2] No

D03. How much you agree to the following statements over your experience with MFIs.

	Experience with MFIs	**Insert appropriate code**
A	Both me and MFI collectively decided to initiate this business	
B	MFI properly guided me on business expansion including sale of products	
C	MFI provided training to me or staff on managing business	
D	MFI provided me loan as per my need of business	
E	MFI provided me loan at the right time to run business smoothly	
F	MFI helped me to maintain financial accounting and record of business (profit/loss statement, cash flow, developing budget etc)	
G	MFI helped me in advertising and marketing in Traditional Media (such as brochures, business cards, billboards, banners, newspapers, magazines, television, radio and telephone directories)	
H	MFI helped me in advertising and marketing in digital and social media (such as Twitter, Facebook, Orkut, LinkedIn, Computer technology)	
I	MFI introduced me to business community	
J	MFI provided better access to the input market	
K	MFI provided better access to the output market	

L	MFI helped me in creative new ways to get things done with limited resources	
M	MFI helped me in time Management by setting goals	
N	MFI helped me in risk and cost management in projects	

Codes, 1= Strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree 5 = Strong Agree

D04. Is there any collateral against the loan from MFIs? [1] Yes [2] No

D05. Have you any conflict with MFIs during loan period [1] Yes [2] No

D06. Do you think the interest charged by MFIs is reasonable? [1] Yes [2] No

D07. Did you recommended the microfinance organization to any of your friend/relatives?

[1] Yes [2] No ***(go to D09)***

D08. If yes why (please explain): ………………………………..

D09. If no why (please explain): …………………………………

E. Employment Status of Enterprises

E01. Did you hire any employee (full time or part time) at least for one hour in last one month? [1] Yes [2] No ***(If no, go to section F)***

E02. Workers Information (in Numbers)

Type of Employment	**At Start of business**	**At joining microfinance**	**At present**	
			Male	**Female**
Paid Full-time worker				
Paid Part-time worker				
Unpaid Full-time worker				
Unpaid Part-time worker				
Total				

E03. Total monthly salary of all paid (full-time or part-time) workers (in Rs): ----------

E04. Education Status of currently hired workers

Education	**Male**	**Female**
Uneducated		
Below Primary (1-4)		
Primary (5-7)		
Middle (8-9)		
Matric (10 and above)		

Total		

E05. Do you have a human resource department in your enterprise? [1] Yes [2] No

E06. How do you usually provide training to your employee?

[1] Not provided [2] Learning by doing [3] MFIs

[4] External trainer [5] others (specify)

F. Sales, Revenue and Expenditure Information

F01. Beside microfinance? Do you take loan from any of the following?

Resources	**Status at joining of microfinance**	**Status at Present**	**In 2016 (in Rs)**
Bank	[1] Yes [2] No	[1] Yes [2] No	
Family	[1] Yes [2] No	[1] Yes [2] No	
Friends	[1] Yes [2] No	[1] Yes [2] No	
Informal loan at interest rate	[1] Yes [2] No	[1] Yes [2] No	

F02. Total value of assets of your enterprise at present (in rupees): ------------------

Asset Type	**At joining microfinance (in Rs)**	**2 year ago**	**At present (in Rs)**	**Source of finance (insert code(s)**	
Land and Building					
Tools, equipment, machinery					
Mechanized and non-Mechanized vehicles					
Furniture & Storage Facilities					
Unsold Goods (inventory)					
Raw material					
Revenue (sale)					
Profit					

Codes of sources of finance: 1= relative, 2 = formal bank, 3 = personal saving, 4 = Sell Assets, 5 = informal loan, 6 = from MFIs, 7 = others.

F03. What is the last year electricity bills expenditure? (in Rs): …………………….

F04. What is the last year gas bills expenditure? (in Rs): …………………….

F05. What is the last year telephone/internet bills expenditure? (in Rs): …………….

F06. Please provide the information of investment in enterprise in 2016.

	Amount (in Rs)	**Percentage (%)**
Microfinance in 2016		
Retail Earning in 2016		
Personal Saving in 2016		
Other resource loan in 2016		
Total		

G. Modern Practices use in Micro-Enterprises

G01. Please provide the information of modern technology used in your business.

Modern Practices	**At joining microfinance**	**At present**
Registration to Govt.	[1] Yes [2] No	[1] Yes [2] No
ISO Certified	[1] Yes [2] No	[1] Yes [2] No
Bank account	[1] Yes [2] No	[1] Yes [2] No
Tax paid status	[1] Yes [2] No	[1] Yes [2] No
New machines	[1] Yes [2] No	[1] Yes [2] No
Improved existing machinery	[1] Yes [2] No	[1] Yes [2] No
Computer technology	[1] Yes [2] No	[1] Yes [2] No
Marketing of goods	[1] Yes [2] No	[1] Yes [2] No
Business Insurance	[1] Yes [2] No	[1] Yes [2] No
Workers insurance	[1] Yes [2] No	[1] Yes [2] No
Profit and Loss Statements	[1] Yes [2] No	[1] Yes [2] No
Balance Sheets	[1] Yes [2] No	[1] Yes [2] No
A budget plan	[1] Yes [2] No	[1] Yes [2] No
Audited accounts	[1] Yes [2] No	[1] Yes [2] No
Order Book	[1] Yes [2] No	[1] Yes [2] No
Cash Book	[1] Yes [2] No	[1] Yes [2] No
Sales Book	[1] Yes [2] No	[1] Yes [2] No
Debtor’s Book	[1] Yes [2] No	[1] Yes [2] No
Creditor’s Book	[1] Yes [2] No	[1] Yes [2] No

G02. Do you have a future business plan?

	One year	Two year	Three year
Business Plan	[1] Yes [2] No	[1] Yes [2] No	[1]Yes [2] No

G03. What is the quality of roads adjoining your enterprise?

[1] Good [2] Average [3] Bad

G04. Is transport easily available to go to main market? [1] Yes [2] No

G05. Do you have an easy access to product market? [1] Yes [2] No

H. Household Wellbeing

H01. Over the last two year, how would you assess the growth of your business?

Growth	**Status (codes)**
Revenue	
Profit	
Demand of products	
Market linkages	

Codes of Growth, 1 = very low, 2 = low, 3 = same, 4 = high, 5 = very high

H02. What do you think about the future of your business?

[1] Very Good [2] Bright [3] Same [4] Dark [5] Very Bad

H03. Over the last two years, how would you assess the economic wellbeing of your household?

[1] Improved [2] Same [3] Worse

H04. Over the last two years, how would you assess the income level of your household?

[1] Improved [2] Same [3] Worse

H05. Over the last two years, how would you assess the saving of your household?

[1] Improved [2] Same [3] Worse

H06. Over the last two years, how would you assess the expenditure on children education?

[1] Improved [2] Same [3] Worse

H07. Over the last two years, how would you assess the expense on personal accessories?

[1] Improved [2] Same [3] Worse

H08. Please provide the information of following assets.

Durable Goods	At the time of joining microfinance program		Current status	
TV	[1] Yes	[2] No	[1] Yes	[2] No
Electric Fan	[1] Yes	[2] No	[1] Yes	[2] No
CD, VCD	[1] Yes	[2] No	[1] Yes	[2] No
Refrigerator	[1] Yes	[2] No	[1] Yes	[2] No
Computer	[1] Yes	[2] No	[1] Yes	[2] No
Car	[1] Yes	[2] No	[1] Yes	[2] No
Motor Cycle	[1] Yes	[2] No	[1] Yes	[2] No
Generator/ UPS	[1] Yes	[2] No	[1] Yes	[2] No
Ac, washing machine,	[1] Yes	[2] No	[1] Yes	[2] No
Agriculture Land	[1] Yes	[2] No	[1] Yes	[2] No
Residential Plot	[1] Yes	[2] No	[1] Yes	[2] No
Commercial Plot	[1] Yes	[2] No	[1] Yes	[2] No
Ownership of house	[1] Yes	[2] No	[1] Yes	[2] No
Large animals (buffalo, cow	[1] Yes	[2] No	[1] Yes	[2] No
Small animal (sheep, goats)	[1] Yes	[2] No	[1] Yes	[2] No

I. Business Constraints

I01. Do you think that loan procedure is suitable for your enterprise? [1] Yes [2] No

I02. According to you what are major hurdles in taking loan from MFIs?

	1	2	3	4
a. Loan procedure is complicated	☐	☐	☐	☐
b. Interest rate is very high	☐	☐	☐	☐
c. Insufficient collateral	☐	☐	☐	☐
d. Religious factor	☐	☐	☐	☐
e. Others (please specify)-----------------	☐	☐	☐	☐

Codes for I02: **1 =Not at all, 2 = A Little, 3 = Fairly,**

I03. Please identify the constraints faced by your enterprise at present.

Constraints	Status
Access to finance	[1] Yes [2] No [3] Don’t Know
Access to raw materials	[1] Yes [2] No [3] Don’t Know
Access and quality of electricity	[1] Yes [2] No [3] Don’t Know
Access quality of roads	[1] Yes [2] No [3] Don’t Know
Access to output market	[1] Yes [2] No [3] Don’t Know
Availability of transport	[1] Yes [2] No [3] Don’t Know
Law and order situation	[1] Yes [2] No [3] Don’t Know
Competition with larger enterprises	[1] Yes [2] No [3] Don’t Know
Access to technical labor	[1] Yes [2] No [3] Don’t Know
Inflation	[1] Yes [2] No [3] Don’t Know
Market linkages	[1] Yes [2] No [3] Don’t Know
Demand of Product	[1] Yes [2] No [3] Don’t Know

Seasonal Effect	[1] Yes [2] No [3] Don't Know

What are the three major strength of MFIs?

1.
2.
3.

What are the three major challenges your business is facing?

1.
2.
3.

What are the three major challenges you faced with MFIs.

1.
2.
3.

Thank you very much for sharing your expertise. If you want to give any comment, then please give

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

………………………………………………

Appendix B–Industrial Classification

PSIC 1970		PSIC 2007	
Division	**Description**	**Division**	**Description**
MAJOR DIVISION1: AGRICULTURE,FORESTRY HUNTING AND FISHING			
11	Agriculture, livestock and hunting	01	Agriculture, hunting and forestry
12	Forestry and logging	02	Forestry, logging and related service activities
13	Fishing	05	Fishing, aquaculture and service activities incidental to fishing
MAJOR DIVISION 2: MINING AND QUARRYING			
21	Coal mining	10	Mining of coal and lignite; extraction of peat
22	Crude petroleum and natural gas production	11	Extraction of crude petroleum and natural gas; service activities incidental to oil and gas extraction, excluding surveying
23	Metal ore mining	13	Mining of metal ores
29	Other mining	12	Mining of uranium and thorium ores
		14	Other mining and quarrying
MAJOR DIVISION 3: MANUFACTURING			
31	Manufacture of food, beverages and tobacco	15	Manufacture of food products and beverages
		16	Manufacture of tobacco products
32	Textile, wearing apparel and leather industries	17	Manufacture of textiles
		18	Manufacture of wearing apparel; dressing and dyeing of fur
		19	Tanning and dressing of leather; manufacture of luggage, handbags, saddlery, harness and footwear
33	Manufacture of wood and wood products including furniture	20	Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials
34	Manufacture of paper and paper products, printing and publishing	21	Manufacture of paper and paper products
		22	Publishing, printing and reproduction of recorded media
35	Manufacture of chemicals, petroleum, coal, rubber and plastic products	23	Manufacture of coke, refined petroleum products and nuclear fuel

		24	Manufacture of chemicals and chemical products
		25	Manufacture of rubber and plastics products
36	Manufacture of non-metallic mineral products except petroleum and coal	26	Manufacture of other non-metallic mineral products
37	Basic metal industries	27	Manufacture of basic metals
38		28	Manufacture of fabricated metal products, except machinery and equipment
		Division	**Description**
		29	Manufacture of machinery and equipment n.e.c.
		30	Manufacture of office, accounting and computing machinery
		31	Manufacture of electrical machinery and apparatus n.e.c.
		32	Manufacture of radio, television and communication equipment and apparatus
		33	Manufacture of medical, precision and optical instruments, watches and clocks
		34	Manufacture of motor vehicles, trailers and semi-trailers
		35	Manufacture of other transport equipment
39	Other manufacturing industries and handicrafts	36	Manufacture of furniture; manufacturing n.e.c.
		37	Recycling
MAJOR DIVISION 4: ELECTRICITY,GAS AND WATER			
41	Electricity, gas and steam	40	Electricity, gas, steam and hot water supply
42	Water works and supplies	41	Collection, purification and distribution of water
MAJOR DIVISION 5: CONSTRUCTION			
51	Building construction	45	Construction
52	Construction, repair, maintenance of streets, roads, highways and bridges		
53	Construction, repair, maintenance of irrigation, flood control, drainage and reclamation and hydro-electric projects		

54	Construction, repair and maintenance of docks and communication projects		
55	Construction, repair and maintenance of sports projects		
56	Construction, repair and maintenance of sewers, water mains and storm water drains		
57	Construction, repair and maintenance of pipe lines for transportation		
59	Construction projects n.e.c.		
MAJOR DIVISION 6: WHOLESALE TRADE AND RETAIL TRADE AND RESTURANTS AND HOTELS			
61	Wholesale trade	51	Wholesale trade and commission trade, except of motor vehicles and motorcycles
62	Retail trade	50	Sale, maintenance and repair of motor vehicles and motorcycles; retail sale of automotive fuel
		Division	**Description**
		52	Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods
63	Restaurants and hotels	55	Hotels and restaurants
MAJOR DIVISION 7: TRANSPORT, STORAGE AND COMMUNICATION			
71	Transport and storage	60	Land transport; transport via pipelines
		61	Water transport
		62	Air transport
		63	Supporting and auxiliary transport activities; activities of travel agencies
72	Communication	64	Post and telecommunications
MAJOR DIVISION 8: FINANCING,INSURANCE,REAL ESTATE AND BUSINESS SERVICES			
81	Financial institutions	65	Financial intermediation, except insurance and pension funding
		67	Activities auxiliary to financial intermediation
82		66	Insurance and pension funding, except compulsory social security
83	Real estate and business services	70	Real estate activities

		71	Renting of machinery and equipment without operator and of personal and household goods
		72	Computer and related activities
		73	Research and development
		74	Other business activities
MAJOR DIVISION 9: COMMUNITY,SOCIAL AND PERSONAL SERVICES			
91	Public administration and defence service	75	Public administration and defence; compulsory social security
92	Sanitary and similar services	90	Sewage and refuse disposal, sanitation and similar activities
93	Social and related community services	80	Education
		85	Health and social work
		91	Activities of membership organizations n.e.c.
94	Recreation and cultural services	92	Recreational, cultural and sporting activities
95	Personal and household services	93	Other service activities
		95	Activities of private households as employers of domestic staff
		96	Undifferentiated goods-producing activities of private households for own use
		Division	**Description**
		97	Undifferentiated service-producing activities of private households for own use
96	International and other extra territorial bodies	99	Extraterritorial organizations and bodies
MAJOR DIVISION 10: ACTIVITIES NOT ADEQUATELY DEFINED			
00	Activities not adeqately defined	00	Activities not adequately defined