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## Islamic Microfinance and Women Entrepreneurship Performance during COVID-19 Pandemic

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### ABSTRACT

**Purpose:** In the contemporary era, women are playing a vital role in changing the global economy as entrepreneurs, workers, and consumers, yet they encounter many problems and obstacles in the development of entrepreneurship. This study aim is to investigate the impact of Islamic microfinance on women entrepreneurship performance: mediating role of social capital and moderating role of opportunity for social interaction in South Punjab, Pakistan.

**Design/Methodology/Approach:** Data were collected from 183 women entrepreneurs, who were using Islamic microfinance, through the convenience sampling technique. Convenient sampling technique was used to collect the information. PLS-SEM was employed to statistically test the data.

**Findings:** This study results indicate that microfinance had a negative relationship with women's entrepreneurship performance. However, when Islamic microfinance led to the formation of social capital among women that eventually caused the women entrepreneurship performance. Moreover, the extent to which microfinance provisions affected the social capital of clients was dependent upon the microfinance providers facilitated social interaction among clients. .

**Implications/Originality/Value:** This paper will give benefit to academics in preparing a plan for future research. Moreover, findings will also assist policymakers and IMFIs to set out microfinance initiatives that will improve the betterment of clients and will maximize their enterprising results.



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## **Introduction**

Microfinance is an important tool for improving the economic growth of the poor and a strategy to reduce the level of poverty worldwide (Evelyn & Osifo, 2018; Newman et al. 2017). Ashok et al. (2014) pointed out in their study that the national income of the economy can be increased through women's entrepreneurship. The capital plays a fundamental role in such developments but the poor are suffering a paucity of funds. Therefore, access to funds is the primary need of the poor to established SMEs (Newman et al. 2017). Women face some socio-cultural attitudes, legal obstacles, lack of education and personal difficulties in getting finance. Albeit they need a small amount of money to start and develop their entrepreneurship.

The supply of microloans to poor people with the objective they should start entrepreneurial activity is known as microfinance (Khaval et al. 2013). the major purpose of such a small loan is to reduce the level of poverty by facilitating poor men and poor women to take part in economic activities and to gradually make them self-sufficient by producing financial gain (Siwale & Ritchie, 2012). The foregoing elements are studied to explore the ability of microfinance organizations to offer social interactions and to create confidence among the clients through periodic meetings, seminars and training facilities and expansion of support proffered by such organizations during the whole credit giving procedure (Agbeko et al. 2017 Karlan & Valdivia, 2011).

Yunus established Grameen Bank for the promotion of microfinance in the economy, later the bank became successful and popular. A large number of microfinance institutions emerged globally after the success of Grameen bank (Bruton et al. 2011), established on the axiom that interest-based loans are better than donations to combat against poverty because such loans create responsibility in borrowers and provide them with a chance to have a start of activity like agriculture, business, etc. that generate income which ultimately able them to repay the debt.

During the last three decades microfinance has been considered a necessary development technique throughout the world, particularly in developing countries. Governments taking initiating various credit schemes that help the poor. Most of these schemes intentionally focus on women as they have limited access to credit facilities, have negligible access to wage labor, have a very small part of power in decision making in their homes but have excellent loan repayment records better than those of men's. Therefore, women with little credit risk are targeted by microfinance institutions (Pitt et al. 2006).

Virtuously, Pakistan is a leading emerging economy with a population of 216.6 million of which 62% are living in rural settings (World Bank report, 2019), around 42% of Pakistani people are living below the poverty line. However, the poverty rate is highest in FATA and Baluchistan. During 2014-2019, the poverty level reduced from 49% to 35%, the poverty level in rural and urban areas is 52.6% and 9.6% respectively. To set up the microfinance institution, the government of Pakistan has established the Khushhali Bank (specialized in microcredit). Later, in 2001, the Microfinance Institutions (MFIs) Ordinance was published to regulate the activities of MFIs through the State Bank of Pakistan. Following MFIs such as Khushhali Bank, First Microfinance Bank Ltd, Tameer Microfinance Bank Ltd and Pak- Oman Microfinance Bank Ltd are working at a national level and Rozgar Microfinance Bank Ltd and Network Microfinance Bank Ltd are operating at the district level. Another development in empirical research has come forward to know the qualitative factors which impact the success of microfinance (Siwale & Ritchie, 2012). Social relationships, a sense of individuality, shared understanding, trust, shared norms and values, cooperation and reciprocity are some ingredients of social capital that are important for the effective functioning of social groups. However, World Bank has defined social capital as attitudes, institutions and values which develop interactions among the people and ultimately, they take part in social and economic progress.

The research studies on the impact of microfinance upon alleviating poverty and adequate recovery of loans are lacking. However, how microfinance loan schemes influence the creation of new businesses and the growth of existing ones are new avenues for future research (Karlan & Zinman, 2011). Swapna (2017) pointed out that the impact of microfinance on women entrepreneurship performance be explored and the mediating role of social capital on the above relation needed investigation (Haider et al. 2017). Furthermore, Newman et al. (2014) suggested examining the extent to which the opportunities for social interaction among clients, which were facilitated by microfinance providers, affected social capital.

The objective of paper is to examine the relationship between access to Islamic microfinance and performance of women entrepreneurship and also mediating role of social capital and moderating role of opportunity for social interaction. Therefore, following objectives are established:

1. To identify the role played by Islamic Microfinance (IMF) on women entrepreneurship performance during Covid-19.
2. To explore the mediating role of social capital in empowering women through IMFs.
3. To find out the moderating role of the opportunity of social interaction on social capital.

Our study focuses on the effect of Islamic Microfinance on women entrepreneurship performance in South Punjab, Pakistan. It is about the access of Islamic microfinance to invigorate the income-generating activities of women and the role played by social capital and opportunity for social interaction in the above relation. So the ensuing questions have emerged:

1. What is the impact of Islamic microfinance for promoting women entrepreneurs' performance?
2. What is the mediating impact of social capital in the empowerment of women through IMF?
3. What is the moderating role of the opportunity of social interaction on social capital?

This paper is comprised of six sections. The first section introduces the matters to be studied. It states the objectives of the study and research questions. The second section presents the reference of extant and current research on the related subject. The third section is about the research methodology. In the fourth section, the results of the study are shown and in the fifth section, the results are discussed. The fifth section also states the limitations of the study and the future avenues of research. The sixth section is about references.

## Literature Review

Microfinance is a small amount of credit provided for supporting the poor to become entrepreneurs (Nawai, 2010). Generally, small loan customers are small farmers, artisans, traders, vendors, service providers, blacksmiths and seamstresses. Microfinance is an effective method of reducing poverty, increasing financial development and increasing employment in society. According to Asian Development Bank (ADB), microfinance is the provision of monetary (i.e. microcredit), saving, money payment, insurance and remittance facilities to low-income individuals, poor and small businesses of poor (ADB, 2000).

The study by Titus et al. (2014) explored that the institutions dealing in microfinance had an impact on the growth of medium and micro-enterprises. They selected a random sample of 296 respondents through stratified random sampling. The results of the research revealed that microfinance institutions had an impact on the growth of medium and small enterprises. Entrepreneurship development, financial and management counselling, seminars, workshops, etc. have affected such growth. A similar study by Hipango & Dana (2012) investigate the opportunity and ability in relation to firm longevity, the results revealed that gender is a very important informative variable and face broad discrimination in terms of firm survival. A study by Karlan & Ratan (2014) demonstrates that microcredit accessibility increased the rate of saving and living standards of the poor. Even so, in spite of loans provided by MFIs globally, the impact of microloans on the poor has not been forever positive (Bruton et al. 2015).

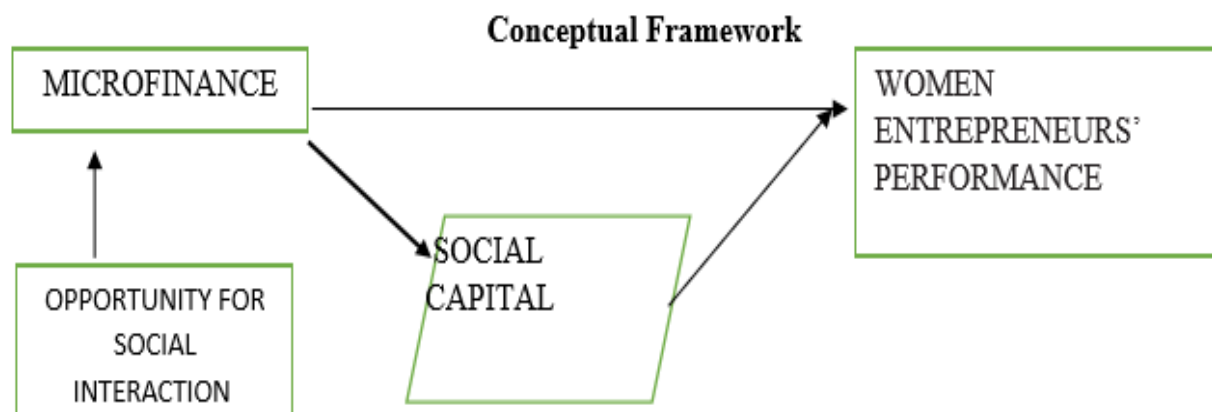
Waithaka et al. (2014) conducted a study to assess the role of institutions dealing in microcredit for making micro and small enterprises flourish. The primary data was collected from 296 respondents through a questionnaire using the stratified random sampling method. To find out the significance of independent variables upon the development and expansion of micro and small enterprises, a simple regression model was applied. The results envisaged that the development of entrepreneurship requires factors such as counselling about matters like finance, management workshops, entrepreneurial skills and seminars that had a positive impact on micro and small enterprises.

Mahmood (2011) conducted research and explored the effect of microfinance services on women's empowerment and the development of their entrepreneurship in Pakistan. He found out that microfinance institutions cater loans to females for establishing their businesses. But all the women did not use the loan facility for starting their business. The study revealed that 62% of the female borrowers developed their businesses from microfinance facilities while the other 38% did not employ the small loan for this objective. This is because no training is provided by microfinance institutions to women.

Research by Umara et al. (2011) examine that microcredit can reduce the level, and they found that microcredit significantly improves the education of children and spending by households. In the same, Daud & Yusoff (2010) urged that social capital has outstanding contribution in enterprises by increasing knowledge capture, knowledge transfer, knowledge alteration that can guide to innovation. In their empirical research in Malaysia, King Valley, on 833 small and medium-sized businesses proved social capital exceptionally affects firm performance.

### Conceptual Framework

The conceptual framework shows the direct relationship between microfinance and women entrepreneurship performance. The independent variable is assumed to have a direct relationship with entrepreneurship performance, while social capital plays a mediating role in microfinance-women entrepreneurship performance. This means social capital affects women entrepreneurs' performance through microfinance. At the same time, microfinance and other variables have a relationship with both social capital and women entrepreneurs' performance. Moreover, the degree to which microfinance provisions impact the social capital of clients is dependent upon the level to which microfinance providers facilitate social interaction among clients.



**Figure 1: Conceptual Framework**

At present Yunus's model of microfinance is accepted all over the world and is supposed to affect all economies. Still some institutions are reluctant to offer loans without collateral. Thus international research is needed to survey the quantum of microloans provided by MFIs, their impact on women's entrepreneurship development, the effect of collaterals on repayment of such loans and further need for such loans to women.

Previous studies found mixed results; microfinance has no achievable influence to reduce the level of poverty. The success of microfinance providers is that millions of small amounts of loans disbursed during the last three decades indicated the fulfilment of a host of needs of borrowers as has been revealed by literature review. However, the objective of creating entrepreneurship and poverty reduction objectives has been accomplished by MFIs and the loans they awarded lacked clarity (Bruton et al. 2011); this requires investigation. Hence the following hypothesis is developed:

*H1: Microfinance has a significant relationship with Women's entrepreneurship performance.*

Intangible resources, such as human capital, relational capital, structural capital is critically significant for the nourishment of organizations (Zhou & Fink, 2003) and social capital as well (Roxas & Chandee, 2011). Putnam (2000) found out that monitoring expenses can be reduced by social capital. Social capital is comprised of loyalty, norms, networks, and reciprocity between-group fellows (Marin et al., 2012) and a set of social relationships with people, business units, institutions, and communities.

Microfinancing in the form of groups is the best way of selecting borrowers, credit disbursement, recovery and a good substitute of collaterals (Mayous, 2001). Examples of group-based lending are the Grameen Model developed by Yunus in Bangladesh for the creation of self-employment based on credit cooperatives and saving and the model of self-help groups. Mayous (1998), Women get significant benefits from group-based microfinance by having access to loans, savings and social capital created by their economic and social network.

Light & Dana (2013) study on the topic of social capital boundaries in entrepreneurship, However, people of Alutiiq have ample social capital, used for economic purposes, however, did not apply for commercial entrepreneurship. Their results are comprehended that social capital support entrepreneurship only when supportive cultural capital is in place.

VanBastelaer (2002) explores that the microfinance institutions and NGOs provide the needy a social collateral that logically replaces the need for collaterals whether physical or financial. Generally, microfinance institutions work on the idea of providing loans to groups where the female borrowers participate in oscillatory meetings, share problems, money transaction issues, look for attainable opportunities and suggestions on incumbent affairs. The officers of microfinance conduct meetings; the very purpose is to recover due to the instalment of the loan. If there is a default from any group member, the other group members pay on behalf of defaulting member. This is the idea of social collateral instead of physical or financial collateral and this is the social capital that is created and used by institutions providing microfinance. Thus, we developed the following hypothesis:

*H2: Social capital mediate the impact of microfinance on women entrepreneurship performance*

Social capital is the total resources i.e., actual resources as well as possible resources present in networks that are necessary for the working of people (Nahapiet & Ghoshal, 1998). The entrepreneur's network possesses social capital along with other economic actors which are necessary for gathering timely information thus paving the way for identification and exploitation of opportunities (Tang, 2010). To get access to the credit facilities, group members are linked with each other in a transactional way instead of generating social ties in a true sense.

Lending groups are a source of negative pressure for repayment of loans because the group members want to avoid the responsibility of defaulting members (Montgomery, 1996). However, based on up-to-date findings, the impact of group lending seems to be positive rather than to be negative. Individual lending which gets credit via business training and support programs; their procedure should be studied. Consequently, it is clear from the foregoing discussion that the extent to which microfinance institutes provide opportunities to clients for interaction with social capital. Thus, require empirical research in a local context. Thus, the hypothesis:

*H3: The degree to which microfinance provision affects the social capital of clients depends upon the opportunity of social interaction the microfinance providers facilitate.*

### **Data And Methodology**

In this paper, we have collected data from women entrepreneurs to recognize the relationship between entrepreneurship performance and microfinance. Women enterprises in South Punjab are the population of the study. To involve maximum respondents and be cost-effective, a convenience sampling technique was employed to select women enterprises as respondents. The primary data was collected through well-structured questionnaires as a survey method, which were filled by women respondents.

The Akhuwat (IMFI) has been selected as a case study to examine the effect of Islamic microfinance on women entrepreneurs' performance and the influence of social capital on this relationship as well as the impact of opportunity for social interaction on social capital were the main aims of the analysis. As stated above, a questionnaire was prepared to collect the data. For the preparation of the questionnaire, the researcher conducted detailed interviews with the managers of Akhuwat and UPAP. Thus, well-focused questions were adopted for all four constructs. All the questions were translated into Urdu (the local language) for the convenience of respondents. For sample selection, the convenience sampling method was employed due to the reason that it was an appropriate method for collecting samples from a big population with limited resources and minimum time span. This method of sampling is a non-probability sampling technique that involves selecting respondents haphazardly because they are easily available access to the researcher. The process of data collection took about a period of one month to collect 183 questionnaires filled by respondents.

Data were analyzed in three stages. Firstly Confirmatory Factor Analysis (CFA) was used to test the measurement theory. The indicators/fit indices of chi-square/degree of freedom, and Confirmatory Fit Index (CFI) and Root Mean Square Error of Approximation (RMSEA) and P Close were used. All fit indices met the criteria levied by Hair et al. (2017, 2010). Secondly, reliability and validity measures were calculated using composite reliability, Alpha (Cronbach) reliability and convergent and discriminate validity. The data possessed required reliability and validity measures. Lastly, a structural model was tested through Structural Equation Modeling and hypotheses were also tested. The hierarchical regression method was used to test the moderation.

### **Results And Discussions**

The purpose of the paper is to examine the role of MFIs played in the success of women's entrepreneurial performance and to determine the mediating impact of social capital in empowering women through Islamic microfinance institutions. Further, we examine whether social interaction on social capital moderates the relationship between Islamic microfinance and women's business performance. The results provide an interesting outcome and will provide helpful insights into the research area of entrepreneurship, Islamic microfinance and social capital. Descriptive statistics show the frequency and cumulative percentage of certain characteristics of women entrepreneurs. Those characteristics are age, family size, education, business type and source of finance.

**Table 1: Descriptive Statistics**

<b>AGE</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
25-34	33	18.0	18.0
35-44	105	57.4	75.4
45-54	45	24.6	100.0
<b>Family size</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
0-2	6	3.3	3.3
3-4	72	39.3	42.6
5-<	105	57.4	100.0

Education	Frequency	Percent	Cumulative Percent
No Formal Education	29	15.8	15.8
Primary Education	56	30.6	46.4
Secondary Education	77	42.1	88.5
Graduation And Above	21	11.5	100.0
Business Type	Frequency	Percent	Cumulative Percent
Beauty Parlor	29	15.8	15.8
Boutique	62	33.9	49.7
Shop	81	44.3	94.0
School/Academy	4	2.2	96.2
Others	7	3.8	100.0

**Table 2: Descriptive statistics and correlations**

	MF	WEP	OP	SC
Mean	4.0191	4.4350	3.3151	3.3038
Std. Deviation	0.37889	0.33658	0.63919	0.59958
WEP	0.175 0.024	1		
OP	0.018 0.098	0.431** 0.034	1	
SC	0.211** 0.004	0.289** 0.015	0.896*** 0.000	1

Note: \*\*. Correlation is significant at the 0.01 level (2-tailed). \*. Correlation is significant at the 0.05 level (2-tailed).

The characteristics of the subjects are shown in table 1. Table 2 presents mean values, standard deviations and correlations for the important variables used in this study. The correlation values range from 0.211  $p < 0.05$  between social capital and microfinance to 0.896 at  $p < 0.01$  between opportunities for social interaction and social capital.

### Reliability and Validity Test

We apply the confirmatory factor analysis (CFA) test to check the reliability and validity of variables (Islamic Microfinance, Women Entrepreneurship Performance, Social Capital, and Opportunity of Social Interaction) used in this study. Initially, the measurement model of the current study added four variables with forty-one observed variables. We employed a few acceptable standards to document the findings, included CMIN, CMIN/DF, CFI, SRMR, RMSEA, and P Close as shown in table 3. Initial results are not according to criteria set by Hair et al. (2010). Consequently, went through modification indices and squared correlations process, where a few items were removed. Finally, the indices sufficiently met the criteria established by Hair et al. (2010). The CFA is also illustrated in Figure 2.

**Table 3: Model Fit Measures**

Measure	Estimate	Threshold	Interpretation
CMIN	164.839	-	-
DF	111	-	-
CMIN/DF	1.530	Between 1 and 3	Excellent
CFI	0.978	>0.95	Excellent
SRMR	0.060	<0.08	Excellent
RMSEA	0.054	<0.06	Excellent
P Close	0.331	>0.05	Excellent

**Table 4: Cronbach Alpha reliability**

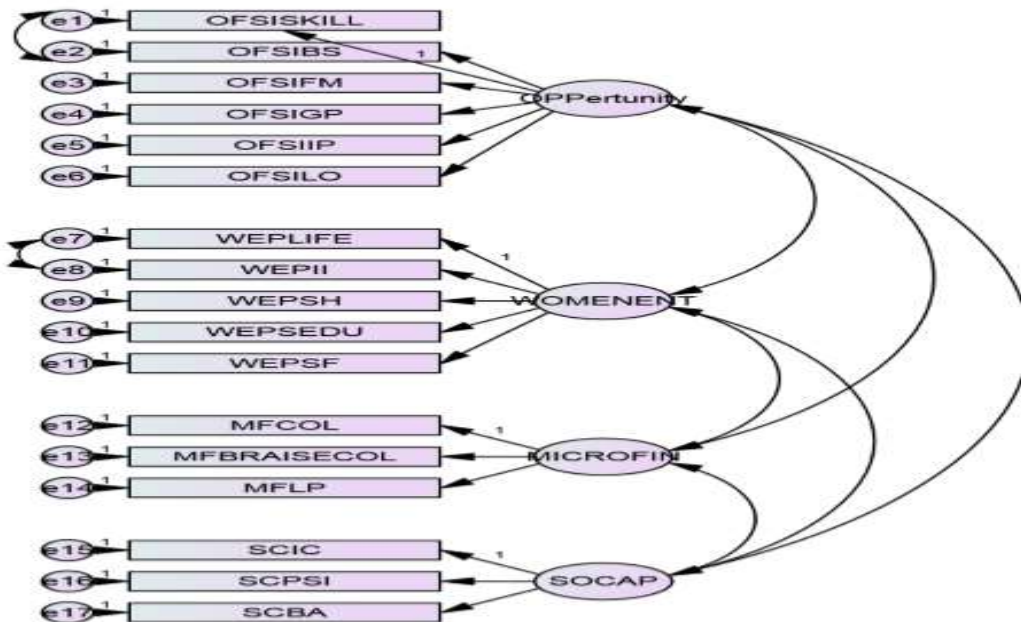
Factors	Cronbach Alpha reliability
Women entrepreneurship (WEP)	0.742
Opportunities for social interaction (OSI)	0.896
Social capital	0.713
Islamic Microfinance	0.705

Overall Cronbach alpha	0.766
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**Table 5: Validity Measurement Model**

	CR	AVE	MSV	MaxR(H)	OSI	WEP	IMF	SC
OSI	0.950	0.767	0.003	0.982	0.876			
WEP	0.894	0.643	0.010	1.007	0.020	0.802		
IMF	0.758	0.550	0.104	1.128	-0.045	-0.099	0.742	
SC	0.71	0.51	0.104	0.798	0.051	0.027	0.323**	0.588

All factors sufficiently surpass the Cronbach alpha reliability criteria of 0.70 while the overall Cronbach alpha value for the data is 0.766

**Figure 2: Confirmatory Factor Analysis**

Subsequently, CFA fulfils the measurement theory criteria, thus we examine the psychometric properties. The CR should be higher than 0.70 (Bagozzi & Yi, 1988), CR should also greater than Average Variance Extracted (AVE), while AVE should be greater than 0.50 (Hair et al., 2010). Finally, AVE of each construct should be greater than squared correlations with other constructs (Fornell & Larcker, 1981). our construct fulfils this criterion, therefore possess convergent validity and discriminant validity as well.

### Testing of Hypothesis

Hypothesis 1 is rejected as Islamic microfinance has a negative relationship with women entrepreneurs. The coefficient value indicates that a lower perception of Islamic microcredit worthiness leads to a higher women entrepreneurship performance. Findings are contradictory to our initial assumptions that better perceptions of microcredit worthiness amend the efficiency of women entrepreneurs.

**H2: The relationship between microfinance and women entrepreneurship performance is mediated by social capital.**



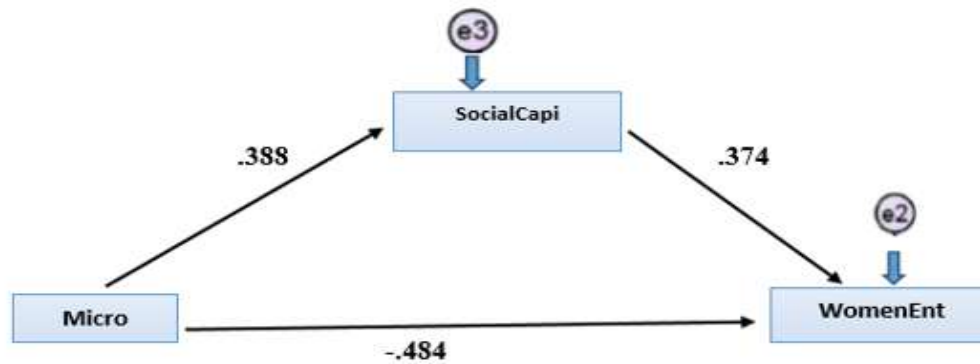


Figure 3: Path analysis of mediation model

Table 06: Path analysis of the mediation model

Paths	Estimate	S.E.	C.R.	P
Social capital<---Micro finance	0.388	0.133	2.915	0.004
Women entrepreneurship <---Micro finance	-0.484	0.142	-3.398	***
Women entrepreneurship<--Social capital	0.374	0.078	4.828	***

The above results show that social capital mediating the relationship of microfinance with women entrepreneurship performance ( $\beta=.374, p<0.001$ ). Hence Islamic Microfinance leads to create social capital among females that sooner or later leads to a higher women business performance. Table 6 and figure 3 exhibits the same.

Table 7: Moderation Analysis

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	Micro finance	0.388	0.133	2.907	0.004
2	Micro finance	0.391	0.133	2.934	0.004
	Opportunity for social interaction	-0.028	0.022	-1.268	0.206
3	Micro finance	0.467	0.126	3.700	0.000
	Opportunity for social interaction	-0.239	0.048	-5.027	0.000
	Interaction	0.093	0.019	4.939	0.000

a. Dependent Variable: Social capital

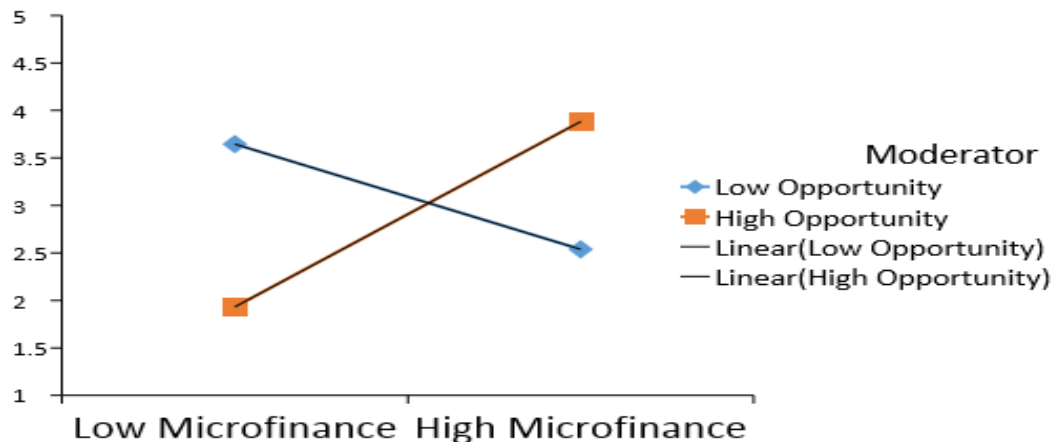


Figure4: Moderation analysis, Opportunity strengthens the positive relationship between microfinance access and social capital.

A hierarchical regression analysis was employed to examine the moderating relationship. Firstly, regression analysis between social capital and Islamic micro-finance has been carryout. In the next step, moderation analysis has been done between social capital and microfinance and moderator variable opportunity for social interaction. Thirdly, an interaction term is obtained by multiplying the independent variable with the moderator variable. Further, to decrease the risk of multicollinearity resulting from the correlation, these variables have had their data mean centred (Aiken & West, 1991;

Cronbach, 1987). The increase in R<sup>2</sup> from 0.211 to 0.765 shows that there is a significant direct moderation result of opportunity for social interaction ( $F=8.952$ ,  $p<0.001$ ). Thus, the opportunity for social interaction strengthens the positive relationship between Islamic microfinance access and social capital as illustrated in figure 4.

## Conclusions

Our first hypothesis is rejected. As stipulated in our research, microfinance accessibility does not relate to the positive performance of women entrepreneurship. Our study findings are contrary to previous studies results demonstrate that microfinance positively affects individuals and SME (Osunde & Mayowa, 2012). Major explanations of our contrary results are some obstructions such as deficiency of collaterals, a higher rate of interest on loans, documentation of business and lack of knowledge and skill that prevent entrepreneurial growth (Salum, 2014). In the same, Mahmood (2011) documented that a similar process is ensured to set up small businesses in Pakistan, though MFIs provide small loans to female entrepreneurs to start/enhance their small businesses which was a major contingency for the female entrepreneurs.

The H<sub>2</sub> is accepted that the relationship between microfinance and women entrepreneurship performance is mediated by social capital. Our results are consistent with the findings of Kickul et al. (2007), which documented that social capital intensifies business growth and market expansion. Similarly, Jiang et al. (2012) evidence that social capital positively contributes to the success of small businesses. Likewise, VanBastelaer (2002) supports this signification that MFIs help individual borrowers in the shape of social capital that is substitute of financial and physical collaterals.

The H<sub>3</sub> also acknowledged the moderating role of opportunity for social interaction which reinforced the positive link of Islamic microfinance access with social capital. Our results are consistent with previous studies (Bruton et al. 2011); microfinance programs lead to greater structural and relational social capital between clients. Furthermore, there is extra group pressure to prevent obligation in terms of failing payments possibly opportunities of social interaction among peer members that significantly add to the social capital (Barnett, 2011).

It is recommended to the government enhance the microfinance facility to boost up small and medium enterprises in the country. The government should develop training institutes to promote entrepreneurial education which will help micro-enterprises to reap new opportunities. Moreover, suitable technologies should be introduced to exploit their potential in getting reasonable profit from loan proceeds. The microfinance institutes should provide opportunities for social interaction through regular meetings, seminars, training, etc. The government should come forward to open new microfinance institutes and the staff of such institutes must have knowledge and skill to provide quality service to poor borrowers. They should provide insight into business opportunities and discuss business plans with prospective women entrepreneurs. If poor women were equipped with activities of microfinance, business opportunities and working plans, it will pave the way going towards poverty alleviation and sustained growth in the country. Overall results indicate that social capital significantly mediates the microfinance and women entrepreneurship performance relationship, the effect of social capital is strengthened when moderated by the opportunity of social interaction.

This paper has highlighted certain aspects that require further studies in this area. This study was limited to South Punjab only. In the future, the researcher should add more samples from all provinces of Pakistan so that results will generalize nationally. Further to add more factors that affect women's entrepreneurial activities and their perception of the creditworthiness of MFIs. As data has been taken from Akhuwat and UPAP, therefore, the results are less generalized. Moreover, future researchers may include the impact of important factors such as training, savings and empowerment of women.

As at present the focus of the majority of MFIs is on loans and their recovery. Even the very important variable namely savings is not well established in Pakistan.

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