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Role of Microcredit in Women's Empowerment

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“IF EVER THE WORLD SEES A TIME
WHEN THE WOMEN OF THE WORLD
SHALL COME TOGETHER PURELY AND SIMPLY
FOR THE GOOD OF MANKIND,
IT WILL BE A POWER
SUCH AS THE WORLD HAS NEVER KNOWN”

(Matthew Arnold 1822-1888)

Abstract:

The aim of this study is to investigate the role of micro-credit in women empowerment. Microcredit is a small-scale credit which becomes effectual for the growth of micro enterprises and thus works in poverty alleviation in Pakistan. The major part of this research is to examine the impact of Khushhali Bank Limited (KBL), the largest microfinance bank with a huge network of branches all across the country, on the socio-economic characteristics of beneficiary women and to study the improvement in their economy and social status. The type of economic activities women have started and extent of poverty alleviation have also been studied. The empirical study is conducted in Pakistan. Based on qualitative research, the data is collected through in-depth interviews from borrowers and National Distribution Manager of Khushhali Bank Limited. The findings suggest that micro-credit has positive impact on women socio-economic status and empowerment. It increases to some extent self-confidence and feelings of identity for women in the society. Through interviews we came to know that microcredit has dual effect on the lives of borrowers. It not only helped women to increase their businesses, but also helped them to provide better education to their children. They feel much independence and decision making power in routine life. It has also increased their prestige and status in their family and society. Micro-credit is much helpful for the women who have their own businesses or have some ideas and expertise about the business before getting credit. The women who don't have pre-requisite knowledge or expertise of business, they could not make any positive change in their status. Microcredit rather put an extra burden of repayment with an extensive amount of interest. They used the loan amount on personal expenses and it made difficult for them to return the loan amount. The study also entailed lack of centralized system between the microfinance institutions that increased the risk of dual loaning. This trend adversely affects the repayment capacity of borrowers and limits the positive impact of micro-credit.

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1. Introduction

In this chapter, we introduced and discussed the background of microcredit, and then gradually focused on problem of the chosen topic. We underlined the objective of our thesis by stating research questions at the end of the chapter.

1.1 Background

Microcredit is the provision of small loans to business people with good and profitable ideas. The concept of microcredit was introduced by Grameen Bank in 1983. Relying on their traditional skills and entrepreneurial instincts, usually women use small loans. Offering a small injection of finance at the early stages of their business, it helps them get started in business. Microcredit is far from a 'micro' concern--it's a multi-million dollar, grassroots-intensive industry spurring business innovation and creativity among some of the world's least likely and neglected loan candidates. It provides the people an opportunity to improve their status by investing money in self employment projects. The recipients of this scheme are usually people with microenterprises and marginal income in the urban and rural areas of developing countries.

There are different types of Micro finance Institutions (MFIs) with different services. Some of them provide financial services whilst others provide microcredit as well as social services. The social services generally include group formation, training, skills development and capacity enhancement.

Entrepreneurship is an activity that includes creativity and innovation, the readiness to take risks, the motivation to identify an opportunity and to pursue it as well as the capacity to realize it (Green Paper, 2003). Entrepreneurship produces new values, provides a positive contribution to economic growth. It can contribute to fostering social and economic cohesion. (OECD, 2001; EU Green Paper, 2003). "A micro entrepreneur is a person that runs micro-enterprise and holds a creative ways of doing business. He brings changes in the existing system by identifying new opportunities for his product" (Mondal, 2002). According to Psaila (2007) a microenterprise is a business having fewer than 10 employees with an annual turnover not more than EUR 2 million with a balance sheet total amounting to not more than EUR 2 million.

In recent times, lot of thrust has been given to the micro enterprise sector after the realization of its considerable contribution to economic growth and vitality. Over 500 million poor people around the world are running profitable micro-enterprises (Vincent, 2002). By promoting and developing micro-enterprises the entrepreneurial quality of people can also be developed. It has been understood that without developing an enterprise at micro level, true development will only be a dream

Today's changing social and economic conditions throughout the world require an appraisal for the role, which MFIs can play in their environment to boost the opportunities for entrepreneurship, because entrepreneurship may play a vital role in the revival of economic activities in the current situation of economic downturn. Therefore strategies need to be adopted globally to promote the individuals equipped with necessary skills to turn the world into a sustained economic zone.

1.2 Problem Discussion:

It has been evident that top-down development policies have not been much successful for the wellbeing of people in developing countries. A number of development strategies have been emerged as a result of this failure. Microcredit is the most prominent among all these strategies. It has gained much popularity in terms of its scope and impact for the last two decades. It extends small loans to the people running business with marginal income in different developing countries.

Most of the growth in the microfinance industry over the last ten years has taken place in the absence of specific financial sector policies for microfinance. It has been estimated that about 40 million low-income entrepreneurs, mainly in the developing countries, have access to microfinance (Development Gateway, 2004)

The lack of control over credit does not negate all benefits for women's role and status in the community. Credit, an "entry point" to empowerment, could play an important role as part of a broader effort to raise awareness and mobilize women. (Hashemi, 1997)

Microcredit has become a very important tool used internationally to combat poverty and enhance the social and economic wellbeing of its recipients particularly women. They lack the necessary resources to adapt economic activity because they tend to invest largely in their families and benefit their children of the microcredit outcomes (Yasmine, 2008).

Women normally have bulk of responsibilities for managing and budgeting for household consumption especially for basic needs in good and bad times. Especially, women of poor families are interested in improving their life structure and living standards, and ready to learn skills (UNO Report, 1996).

Poor women engaged in micro-enterprises cover a wide range of activities including processing of food and beverage, selling handicraft goods stitching, sewing clothes, keeping poultry birds etc. Such activities are performed in many countries using traditional input and production techniques. But the main constraints on women involved in micro-enterprises include interference by men, women's raiding of cash to meet domestic expenditures, fragmentation of profits, lack of infrastructure, appropriate inputs and technical services along the entire production and marketing chain, lack of appropriate managerial skills, competition with formal enterprises and the most important lack of access to credit and financial services (Journal of Rural Development, 1998).

In developing countries like Pakistan social and cultural norms are generally considered to hinder the participation of women in activities outside the home. But the changing social and economic conditions throughout the world require an appraisal for the role, which women can play in their environment. So there is dire need to break tradition, customs and also to overcome the hurdles in the participation of females in non-traditional income generation activities to the economy of the country (Sultana and Nazli, 1994).

Women labor force participation rate is the highest in all the developed countries. Women in those countries are taking part in all the walks of life and there is significant contribution of women towards national output. Women are participating fully whether it is environment improvement, population/health programs or economic development of their country.

Economic development in Pakistan will be greatly supported if women become an equal part in almost all of the national activities. Strategies are being proposed by the government of Pakistan to promote integration of women into the development process. It has been realized by the experts to explore the nature and kind of various economic activities in which both village and city women can take part for the greater incentives of national development. Pakistan is basically an agrarian country and is trying her best to stand in the row of the developed nations. The total civilian labor force of the country is about 33.82 percent and the female participation is only 7 percent with respect of total female population (Economic Survey, 2007)

Micro finance sector in Pakistan is relatively young and dynamic. This trend has been on the rise in recent years. It has resulted in a sector characterized by a diversity of micro finance players. The sector is ranging from large and small conventional development organizations to commercial financial institutions involved either partially or exclusively in targeting the people who don't have access to finance. (Pakistan Micro finance network 2006).

The specific objectives of the study are:

1. To study socio-economic characteristics of women and their families.
2. To study the type of economic activity that women have started.
3. To assess social-economic status of women and their empowerment in family after getting micro-credit.
4. To assess the extent of poverty alleviation and need satisfaction of respondents due to adopted economic activity
5. To assess the performance of the micro credit itself. Is it profitable? Also, are their differences in the different financing alternatives?

1.3 Purpose:

The purpose of this study is to assess the impact of Khushhali Bank Limited (KBL), the largest microfinance bank with network of branches all across in Pakistan, on the socio-economic characteristic of beneficiary women and to study the extent of improvement in their status and their empowerment in family and the reduction of poverty after adopting economic activity

2. Method and Theory

This section gives view to readers about methods adopted in this research and helps to find the motive for selecting interview as tool for data collection. Issues regarding structured, unstructured interview and secondary data are discussed. In the last the basic concept we used in our research are explained.

According to Fisher's analysis (2004), management and business research is quite different from other research fields. The reason is that, there is significant importance of relationship between theories, practices, knowledge and actions in management and business research. So, we can easily analyze the background, and methodology that we incorporated in our thesis work.

2.1 Methods for data collection

There are different methods that are used in research for data collection and analysis. The selection of method for research purposes is very important for accurate result. These methods help in collecting necessary information. Researchers used the information and empirical data from the already known facts to develop hypothesis which could be tested.

Millward (2001) mentioned that there are different methods for data collection. Whilst selecting any method for data collection, researcher always considers the advantages and disadvantages of that method. He decides which method is most effective for gathering effective data and information for analysis. Empirical data is the main part on which whole research is based. This makes it obvious that correct data collection method has significant importance. There are two methods that are commonly used in research work. These are qualitative and quantitative.

According to Strauss & Corbin (2008) in qualitative research method there is no use of statistical procedures. It also does not require any other method of getting quantities. This method is used incase researcher needed a detailed amount of information in text form. Through qualitative methods, a large quantity of data is collected from reliable resources. It is then extracted in most effective and optimal form with an appropriate selection criterion.

According to Morse (1994), there are advantages and disadvantages associated with qualitative method of data collection. It provides ease to the researcher and respondent for preparing and answering the questions. But at the same time by using this method researcher gets a large amount of irrelevant data. It makes difficult for researcher to get only the useful data. One of the important aspects of qualitative method is that it covers the behavior and values of the respondent.

We used qualitative method in our research. As our research objectives, we are conducting research on microcredit to observe its impact on the empowerment of women. We found subjectively how microcredit contributed in empowering women. For this purpose we interviewed borrowers and the bank personnel to extract relative information which was helpful in our whole discussion.

Survey is the optimal technique to extract the information among a particular community related to the woman empowerment but our approach is quite convincing because layman has not kept enough idea about entrepreneurship related to woman empowerment in banking sector. So we have to counsel or negotiate with National Distributor Manager of Particular Bank.

Why we are thinking such like that because Manger is the key personnel to deliver best information about Bank policies are concerned and the needs of borrowers and also get some help to know the different loan category or policies deploy on these loans category. So ultimately we thought during methodology analysis that interview is the best choice for extracting maximum information about subject's domain (Micro Credit).

2.1.1 Interviews

The well reputed tool for research purpose is interview. It helps the researcher in the collection of primary data used to investigate the problem. This method is very convenient because it gives the opportunity to collect information according to your own choice and feasibility. Researcher may conduct interview according to a predefined schedule. It also provides an opportunity for the researcher to probe the understudied problem and get as much information as required.

However, interview has advantage and disadvantages. According to Morse (1994) “the advantages of these interviews are that we may incorporate different type of questionnaire by using interview”. A major disadvantage of this method of data collection is that one may get lot of useless information along with useful. So the authenticity of the data largely depends on the ability of researcher how he could manage to filter the useful information from the useless one. Different methods for the analysis of data are being used for this purpose.

Millward (2001) has defined that “there are two types of interview. These are structured and un-structured” .The researcher may use one of the techniques. However, there is also an opportunity to combine both these types. The choice of each type depends on different factors e.g. respondent education, experience, and understanding of the issue. Structured interview comprised on questions carefully designed before the interview by the researcher.

In order to get more accurate information researcher may incorporate questionnaire with the interview. This method does not provide any opportunity to ask question frequently. Everything is predefined. The benefit of using this method is that one may get the most relevant information. However there is probability of missing some important questions that could arise during the interview in the mind of researcher. In open interview there is flexibility for the researcher to ask different questions and respondent may answer freely. There is another method which could be used as a best practice. The research may design a predefined questions but he could ask the additional question during the interview. This method is called Semi-structured.

We have used qualitative method for our research thesis. We interviewed the National Distribution Manager (NDM) of Khushhali Bank Ltd and some experts by using open-ended questions method. However we interviewed the Bank's clients by using structured method. The primary focus was to get in-depth information about our research problem, microfinance in Pakistan, its way of working, client s profile and banks policy and procedure. The purpose was to investigate the impact of micro credit and other services of the bank on women recipients.

2.1.2 Structured Interview

We interviewed the borrowers of Bank by using structured method. The primary reason for conducting structured interview was that borrowers may feel difficulty in un-structured

interview. They may feel uncomfortable and there was a chance of wrong understanding of the questions. This was very important to make sure that borrower understand the importance of the questions and provide exact information according to her best knowledge and experience. Another reason was that borrowers could be un-educated. So this technique was suitable for all the borrowers educated as well as un-educated. Furthermore all the interviews from the borrowers were conducted in local dialect. However we took much care while translating the question so that the exact meanings might not loose.

Our interviews were comprised on both types of questions i.e. open as well as close ended questions. The reason behind this was to provide full flexibility to the respondent while answering. Furthermore we also had a chance to ask question during the interview which seemed more important. We prepared the interview questions in order to probe the issues under studied in detail. We took full care to cover all the aspects of our research in preparing interview questions. Interview consisted on complete profile of the borrowers starting with basic information and then gradually proceeding to the other relevant issues. We gave much attention in gathering all the information from the clients on all aspect of microfinance.

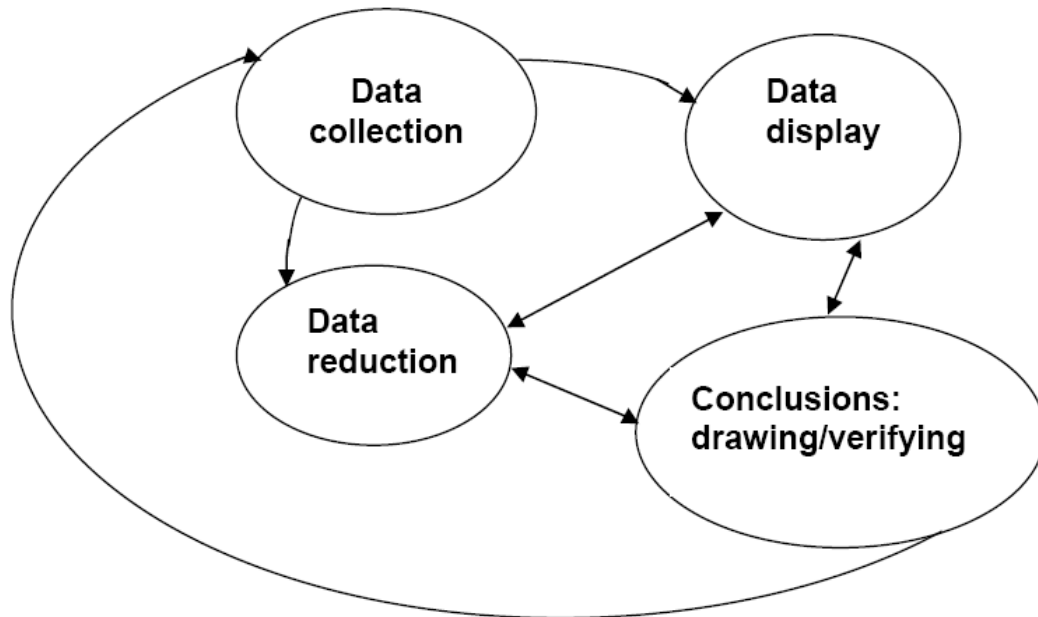
In order to analyze qualitative data, there are number of alternatives .These methods are data display and analysis, template analysis, analytical induction, among others. While considering that we decided to use data display analysis

This approach has been developed by Mile and Hubermen (1994) and it consists of three main processes:

First is data reduction. This step summarizes and selects the data collected. Prime objective is to transform and reduce the data. For this we read all the information gathered which helped us to explain a summary of collected data.

Second, data display this component consist in organizing and assembling the selected data. Mile and Huberman (1994) suggested two types of matrix display. Matrix is usually in tabular form with defined column and rows and a network is a collection of nodes and that are joined by lines. (Zikmund, 2002)

The third part is drawing and verifying conclusions. This approach enables to explain to the reader the result of the analysis. It also helps the establish conclusion, suggestion and contribution about the conductive investigation (Saunders et al., 2007)



Source: Miles and Huberman (1994)

2.1.3 Un-structured Interview

We interviewed the National Distribution Manager (NDM) and expert personnel of Khushhali Bank Ltd (KBL). The layout of the interview was unstructured. The basic motive was to get in-depth information. Furthermore there was an opportunity to ask questions that may arise in our mind during the interview. We obtained a lot of useful information about microfinance, its problems, and its way of working and other relevant issue from this interview.

In our interview we asked questions regarding microfinance, the way it works, its profitability, and outreach strategy of the bank and the future perspective of MFIs in Pakistan. We also tried to probe the problems of MFIs, the working conditions, employees training and qualification issues. We got information about the cultural aspects of different parts of the country in terms of women participation in working outside their home. We asked question about KBL history, motive and financial position. We also asked question about increasing interest rate, the impact of microcredit on clients and the services of the bank including insurance, depository and money transfer along with growing competition in this particular field. The questions regarding women education and technical skills, success rate, installment plan and monthly meetings were also incorporated in this interview.

2.2 Secondary Data Collection

In order to be familiar with the research work already been done in the relevant field we consulted secondary data. It helped us making our research problems and questions more relevant. It also provided us the frame work for our research thesis. For this purposes we consulted Jönköping University Library, different research articles, intensive literature research, web page of Khushhali Bank Ltd and the internet. We have also taken help from different publications of Khushhali Bank Ltd, Central bank of Pakistan and its web pages. We also used the martial from the publications of Pakistan Microfinance network.

2.3 Entrepreneurship

Entrepreneurship is about the business creation while taking risk. According to Gartner (1988) “entrepreneurship is about the creation of an organization”. He further concluded that “The difference between the entrepreneur and non-entrepreneur is that entrepreneurs create organization, while non-entrepreneurs do not”. There are two main approaches used to define the entrepreneurs. One is the behavior approach and the other is trait approach. According to trait approach entrepreneurship is a set of personality traits and characteristics. (Carland, 1988).

We used the term “entrepreneur” in our research to mention the economic activity that women adopted after getting credit from the bank.

2.4 Empowerment:

The control over money in household gives power of decision-making and future planning. Women’s control over their economic activity gives them power to spend their money according to their own desires. Hold on money also increases their influence on household decision-making, spending on family well being and a number of collective actions for social change initiated by women. Microcredit is now considered as an effective tool for poverty alleviation especially for poor women. Poverty not only influences the individuals but also shape the society. It is a main reason for less empowerment among people particularly for women. Empowerment is a broader term and difficult to define within one perspective. There are many factors that involve and play their role in women empowerment including political, social cultural and geographical issues. In developing countries, especially in south Asia, social and cultural norms are considered to hinder the participation of women in activities outside the home. These barriers forced the women to live in miserable conditions and prevent them from taking actions to improve their wellbeing.

According to World Bank (2002) “Empowerment refers broadly to the expansion of freedom of choice and action. For poor people, that freedom is severely curtailed by their voicelessness and powerlessness in relation particularly to the state and markets”. It brings independence of actions and Freedom of choice in women. World Economic Forum (2005) has defined empowerment as “a mean which provides power of decision and self reliance to women. It gives them the power to protect their property and ideology”. They exercised their control over their assets according to their own will and choice.

In spite of the fact that women participation is very low in formal sector, only a limited number of countries realized the importance of female in all walks of life. There is still a tendency to see it as a real problem in these countries. Yet, the reality is that no country in the world, no matter how advanced, has achieved true gender equality, as measured by comparable decision-making power, equal opportunity for education and advancement, and equal participation and status in all walks of human endeavor (World Economic Forum, 2005).

No society can progress unless women become an equal part in almost all of the national activities. As families grow in size their finance needs increase. Hence burden of family’s survival falls on women. Major activities that women adopted till now are related with agriculture and small enterprises development.

Nevertheless, efforts are being made to increasing awareness of the need to empower women through measures to increase social, economic and political equity, and broader access to fundamental human rights, improvements in nutrition, basic health and education (World

Economic Forum, 2005) moreover, United Nations Development Program (UNDP) in 1984 has emphasized to ensure women's involvement in the main stream activities.

2.5 Poverty:

Low standards of living that is last longer enough to undermine the health, morale and self-respect of an individual or group of individuals. The term is relative to the general standards of living in society, the distribution of wealth, the status system, and social expectations. Families who live in poverty face a collection of insidious problems that go beyond lack of money. They live in poor health, are malnourished, suffer from ignorance and low self-esteem. Poverty is a cycle of misery that is too often passed from one generation the next but micro-credit has shown improvement in household level wages.

2.6 Socio-Economic Factors:

Socio comes from social, and refers to any number of demographic and social conditions, such as the age structure, racial composition, sex ratio, marriage& divorce rates, and so on. Economic refers to the economic conditions, such as income, unemployment rates; savings rates, and so on (World Economic Forum, (2005). Social scientists use socioeconomic as an umbrella term to cover a wide variety of interrelated social and economic factors that might tend to explain an observed phenomenon, event or set of events (such as war, revolution, political realignment, etc.).

Socio-Economic characteristics are that information by which individuals can be classified such as sex, marital status, education and income. Such classification, in turn may aid in explaining differences in behavior and attitudes. Some of the social factors which will be discussed are as under:

2.6.1 Age:

Age composition of population determines the socio-economic roles of the people and profoundly affects the social, institutions in a society. It refers "the no of completed years since the birth of the respondents". It is not only an attribute of status authority but also an important domain of person's status in society.

2.6.2 Years of Education:

Education facilitates the socialization process or transmission of social and cultural heritage. It is "a method of influencing human behavior, so that it fits into the prevailing patterns of social interaction and organization" (Gould and Kolb, 1965). Education also stimulates people to move for their betterment

2.6.3 Marital Status:

This imposes responsibilities on the females, where married women have greater responsibilities of their houses, children and social permissibility to move around in the society.

2.6.4 Closed Income Groups:

Edwin and Selgman (1954) stated that “Income is the total money value of service received by an individual from all sources including his own activities”. Income is one of the major variables, which influences way of living and attitude formation of an individual. In this case income refers to a sum total of monthly earning of the respondent from all resources, such as agriculture, non-agriculture, property, business etc

2.7 Delimitation

The purpose of this study was to investigate the role of microcredit on women empowerment. The findings are based on interviews from the borrowers and expert of Khushhali Bank Limited Pakistan. Furthermore face to face interaction is very important when conducting interviews whilst we have conducted telephonic interviews due to distance problems between Pakistan and Sweden.

3. Frame of Reference

In this chapter, we will explain different theories in order to provide readers an idea of the work done previously on the research topic. We shall discuss microfinance, its different models and how microfinance contributes in poverty alleviation and empowers women. In the end, on the basis of literature review, we build conceptual framework that will use while analyzing empirical data.

3.1 What is Microcredit and MFIs?

Micro-credit is the provision of small loans to people to start or expand their own business. It may improve the earning capacity and therefore the living standards, empower women by enabling them to take economic decisions and alleviate poverty. There are four factors which make the poor difficult to obtain loan from commercial banks. One is that poor people often lack guarantees and collateral, and another are they have low repayment ability. The third reason is that poor don't have enough education, experience and knowledge which make the loan more risky. Furthermore, small loans have relatively high administration and operational cost and low rate of profit. Under such circumstances poor have been neglected for long period of time since the idea of microcredit emerged. Microcredit is thus an idea to finance the people through MFIs without collateral and it does not require any property for guarantee purposes. MFIs are institutions that provide financial services to people for small and micro enterprises that do not have access to loans of commercial bank. Micro-finance programs have, in the recent past, become one of the more promising ways to use scarce development funds to achieve the objectives of poverty alleviation and wellbeing of the poor. Furthermore, certain micro-finance programs have gained prominence in the development field and beyond.

The basic idea of micro-finance is simple: if poor people are provided access to credit, they may very well be able to start or expand a micro-enterprise that will allow them to break out of poverty. MFIs can either be a credit union, savings and credit co-operatives, nongovernmental organizations (NGOs), self help organization or specialized banks. These small loans are an effective way for the poor to eradicate poverty. It works for the wellbeing of its recipients and gives them social assistance.

Agion & Morduch (2005) mentioned that “microcredit has created many opportunities for the people including improvement in their status, expansion of existing markets and nutrition of social changes”. Nevertheless there has been a general perplexity that microcredit institutions only provide small loans to people and they do not address any other issue. In fact micro credit is more than just small scale loans. Today Microcredit institutions have full fledged banking service system too.

According to Banerjee and Newman (1993) and Paulson and Townsend (2004) “microcredit loans are largely used as a means of boosting income of the people”. This means that small loans are provided to the people for the purpose of starting or expanding their own business. Today microcredit institutions provide a wide range of products and services. These products and services are small scale loans, depository services, payment and transfers of money etc. These institutions also introduced insurance for the microenterprises of their recipients.

In our research work, we will use the term microcredit as a mean which helps the people to get started their own business, increasing the income and thus helping them to get out of poverty.

3.2 Financial Intermediation

The most important and primary objective of MFIs is the provision of loan because without money no business idea can be realized. As we have discussed above that poor don't have access to financial institutions and traditional banks because they don't qualify their tough criteria and these banks are also not willing to finance the poor because of a high uncertainty, operational cost and low rate of profit. As a result, MFIs fill this gap by providing the client's small amount of loan and allow them to eradicate poverty and bring prosperity. MFIs have a wide range of products and services. All these services are not necessary part of every MFI's but most of the institutions are providing any one or all the services to its clients. Moreover MFIs also vary with terms and conditions of its products and services with each other depending on the market condition and capacity of the insinuation itself.

3.3 Social intermediations

Most of the MFIs require a group formation as prerequisite for getting loans. According to Mondal (2002) "There was group based lending in original microcredit model. The group comprised on five members. Only one member was able to get a loan at a time with the guarantee of remaining members. The other members were able to get a loan on successful loan return from first member. Nevertheless, there have been changes in this model of financing with the passage of time due to growing competition among different MFIs. "Social intermediations include leadership training and cooperative learning" (Agion & Morduch 2005)). This could result a long-lasting impact on the status of poor in the community. Group based lending is very useful. It provides an opportunity of social interaction. It also helps in risk sharing and gives a learning platform from each other experience. Members of a group enjoy a strong bond of relationship with each other and with the MFIs through social capital. According to Agion & Morduch (2005) this strong bond gives them a sense of trust, reliability and cooperation.

Social capital is developed through group activities which includes mandatory monthly meetings. Members of a particular group select their group coordinator. The group coordinator is responsible to schedule the meetings of the group with the MFIs on regular basis. Most of the clients belong to the same area so it is an easy way to develop institutional capacity and human resource with help from the MFIs. According to Karlan and Valdivia (2006) "a growing number of microfinance organizations are attempting to build the human capital of micro-entrepreneurs in order to improve the livelihood of their clients and help further their mission of poverty alleviation".

3.4 Microenterprise Assistance

MFIs that provide support in term of training for its clients either individually or on group base play an important role for the success of new business. These services include marketing, business and accounting training etc. According to Karlan and Valdivia (2006) "Training led to better business practices and increased revenues and profits. Clients report engaging in some of the exact activities being taught in the program: separating money between business and household, reinvesting profits in the business, maintaining records of sales and expenses, and thinking proactively about new markets and opportunities for profits. The implementation of these strategies seemed to help clients in increasing business income, mainly by smoothing fluctuations between good and bad periods"

3.5 Social Services

Financial assistance is an important tool to combat poverty and bring prosperity; however this tool could only work effectively if it is associated with other social services like food, health, family planning, education, and social support network for the borrowers. This is a fact that the loan amount provided by MFIs is not enough to meet all necessities of life for the poor and therefore other sectors need to play their role in social area to ensure best use of microcredit.

3.6 Different Models of Microfinance

There are different microcredit models working in the world. Sengupta and Aubuchon (2008) mentioned that “there are almost 70 million recipients getting microfinance services from 2500 institutions in more than 100 countries”. These MFIs vary in their services and basic structure. This is due to the fact that different regions have their own priorities and market conditions. Weiss and Montgomery (2004) concluded that “the conditions of different regions depend on their specific political and social culture”. We shall discuss here briefly different models of microfinance around the world.

3.6.1 Grameen Model

Grameen model is originated in Bangladesh. The model is based on group based lending and social collateral rather than financial collateral. Formation of group up to five members is mandatory to get finance. In first cycle only two members are granted loan. The others members would be able to get the loan on successful return of the first two members and so on. If all the members repay their loans successfully then these members would become eligible to apply for greater amount of loan. In case any of the group members fails to repay her loan amount, other members will have to pay for her or face non eligibility for loan in future.

For coordination and communication within the group and with other groups, members select their coordinator and secretary. These groups then had meeting with bank loan officers in a suitable place after every two weeks. Members are given loan amount of \$ 100 for the first time and they will have to repay on weekly basis at an interest rate of 10 % per annum. The loan officer also emphasize on members for personal savings, along with the repayment of loan.

Grameen Model is unique in its functions. Group based lending has many advantages. Usually the group is formed with the members' neighbor to each others. It made the access easy for each of them. This also helps understanding problems and supports each others at bad times. For instance one member is unable to attend meeting her representative can pay the installment. Another important aspect of group based lending is that members of the society have strong interaction with each other which creates a peer pressure for the member if she fails to repay the loan amount. This type of society reduces the risk of nonperforming loans.

3.6.2 Banco Sol Model

Microfinance has different approaches across the globe due to different political, ideological, regional and social norms as discussed. This model was introduced by Banco Sol in Bolivia to overcome high rate of unemployment due to some political reasons in the mid-to-late 1980s (Hernandez and Mugica 2003). Progressive lending was started in urban areas, the essence of

this model is that an individual can also get loan along with the group, so we can say that it is also an extension of Grameen model. This model is useful where the group formation is difficult. It is also applicable where the social bindings and interactions in the society are not strong enough as in case of Grameen model. According to Weiss Montgomery (2004) Microfinance in Latin America has developed under different circumstances. In Bolivia fall of regime results in unemployment on a large scale and Banco Sol, a leading financial institution developed this model to tackle the issues of poverty and unemployment. Now days this model is also being used by different MFIs in Pakistan quite successfully. This model is relatively more sustainable in its operations compared to Grameen model (Zuo, 2001).

3.6.3 Islamic Microfinance Model:

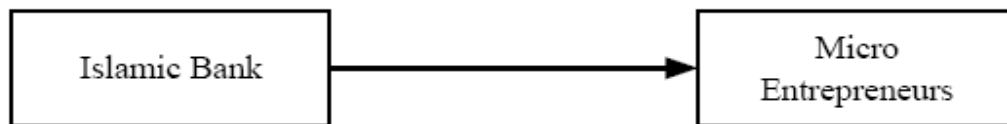
MFIs have high rate of interest as compared to traditional commercial banks in all over the world. The rate of interest ranges from 20% to 30%. The reason for this high rate of interest is very obvious. Microfinance institutions have to deal with large number of clients at their door steps in remote areas on weekly and monthly basis while the amount of disbursed amount is very small. All such activities result in high institutional and operational cost, also the risk factor for the given amount is more. This high rate of interest usually puts lot of pressure on the clients specially incase her business is not successful.

In Islam the interest is forbidden, according to the teaching of Islam money cannot be used as an asset to earn profit so this religious binding has emerged new approaches in the field of microfinance. However the fee can be charged over the given amount to cover administrative cost. According to Rahman (2007) “Islamic mode of financing plays a vital role for the wellbeing of people by promoting socio-economic development. It helps them establish their own small business by providing interest free credit”. This approach gives a sense of collective wisdom of growth of business instead of only profit, so this approach not only promotes the profit and loss sharing for both the parties but also provide opportunities of social benefits for clients, lenders and for the society as a whole through successful economic activities(Siddiqui 2001]). Islamic microfinance institutions are effectively operating in Pakistan and are growing in numbers. There are different ways of financing, but here we shall discuss three of them used mostly.

3.6.4 Mudarabah:

The term Mudaraba is used for participation financing. In this mode of financing there is no pre-decided or agreed amount of interest between the borrowers and the financial institution but both parties will share the amount of profit from the activity adopted by the borrower (Rahman, 2007). However, both parties must agree on ratio of the profit before starting business. In case the business is not successful, the MFIs will not get any return on their capital and borrower is not eligible to receive any payment for her efforts. According to Rahman (2007) “Mudaraba is an agreement between an investor and an agent for a project. It is entirely based on trust of both the parties. All terms and conditions regarding distribution of profit are pre decided. Both the parties are bound to obey the agreement .There are two structures of Mudaraba based on simple or bilateral arrangement. One party is supposed to provide capital and the other act as an agent to start a business”.

“Simple Structure”



Source: (Rahman 2007)

“Two Tier Structure”



Source: (Rahman2007)

3.6.5 Musharaka:

Musharaka is a joint venture between two parties. Both of the parties provides capital and involves in decision making and management. Profit and loss is distributed on the basis of capital of each party. Segrado mentioned in (2005) that “In Musharaka all parties invest on a joint project and they may be responsible for administrative issues of the project. Profit and losses are distributed according to pre decided terms and conditions”. However all these issues depend on the role and share of each party in the project.

3.7 Conceptual Framework:

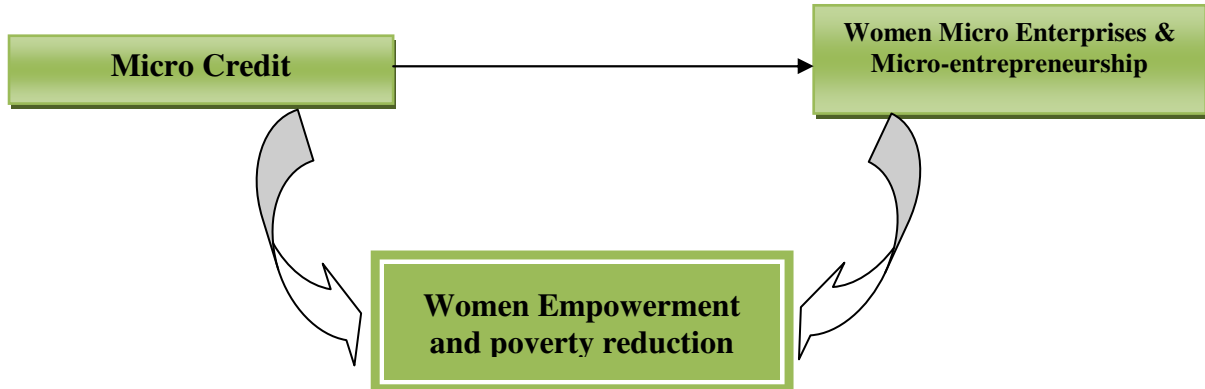
Here we will explain how we are going to integrate the research theories for our research work according to our research question. A lot of research work has been done to know the impact of microcredit on poor, while we are focusing on Microfinance and women empowerment by studying the social-economic characteristic of beneficiary women and to study the extent of improvement in their status and their empowerment in family and the reduction of poverty after developing economic activity

Grameen is most widely used model of financing in Pakistan. Banco sol and Islamic microfinance models are also being used but on small scale. We have discussed different models in order to understand microfinance myth, methodology, characteristics and its uses, but mainly we focused grameen model to study the empowerment of women and the type of economic activity they started after getting credit.

We evaluated theories discussed above with empirical data and how micro credit plays its role in the empowerment of women in Pakistan. The major issue in our research work is micro credit and microfinance institutions. Micro-credit is the provision of small loan for the people with marginal income. The aim of these loans is to improve their status in the society by providing them opportunities to invest in micro business. It improves the earning capacity and therefore the living standards and empowers women by enabling them to take economic decisions and alleviate poverty. There are different models of microfinance working in the world. These models not only provide the financial services but also social services to improve the capacity of its recipients. These social services include group formation, training, technical skills improvement, special project focusing on women etc.

Therefore microfinance is not only reducing poverty but also putting impact on poor's life by increasing their life standards by providing social services. In our study, we shall examine that Micro finance can be an effective tool in poverty reduction and empowering women.

A basic conceptual framework for doing our research work is illustrated in fig:

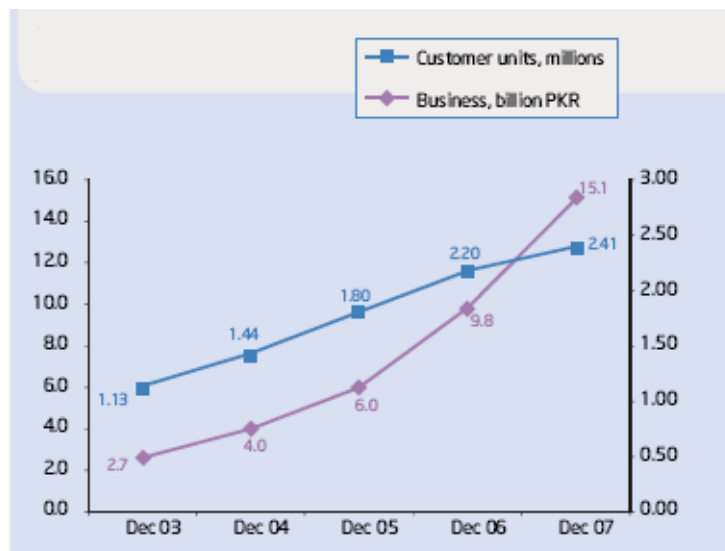


4. Empirical Findings

In this chapter, we will present empirical data collected through conducting interviews from female borrower and others experts. We will also include facts and figures about Khushhali Bank Ltd. Furthermore, we will also mention successful stories of different female entrepreneurs of KBL.

4.1 Pakistan & Microfinance

Microfinance Banks are the most prominent mode of financing in Pakistan. Many NGOs and MFIs (microfinance institutions) are following Grameen model of microfinance. There are also institutions that extend loans on an individual basis with monthly repayment schedule. All these models have grown rapidly within the last few years. The overall number of borrowers during 2004 to 2007 has increased at 51.4 % per annum from 240,000 to 1.27 million. This growth rate has been fluctuated during this period from 83% in 2004 to 37-38 % in the coming two years with 51.6% in 2007(Pakistan Microfinance Review, 2007). However the growth in terms of portfolio has grew more steadily with an average of 53.1% per annum ranging from 2.3 billion PKRS in the start of 2004 to 12.7 billion PKRS(1 PKR = 0.0123 USD) in 2007.The growth of microfinance in Pakistan is shown in fig:



Source: (Pakistan Microfinance Review, 2007-08)

4.2 Performance of Different Microfinance models:

There has been a rapid growth in microfinance industry of Pakistan during the last five years; however the performance of these institutions has been different in terms of both productivity and cost efficiency. Microfinance institutions and NGOs are more efficient in term of cost efficiency and productivity. While in case of Microfinance Banks, the number of clients per loan officer is more than any other NGOs MFIs working in Pakistan. But the staff productivity and cost efficiency of the Microfinance Banks is lower than NGO's. Productivity and cost efficiency of different Microfinance Models working in Pakistan is shown in fig.

Type of MFI	Borrowers	Voluntary Depositors	Loan officers	Staff	Loan Offr Customer Load	Staff Productivity	Cost Per Customer
Microfinance banks	435,407	146,266	1,866	3,899	273	130	39.56
NGO MFIs	418,234		1,361	2,374	307	176	23.22
Rural Support Programmes	404,179		2,479	3,214	163	126	28.23
Other	8,900		25	37	356	241	21.31
Total	1,266,720	146,266	5,731	9,524	234	141	32.43

Source: (Pakistan Microfinance Review, 2007-08)

4.3 Expense and Sustainability:

Since the sustainability is very important for MFIs for smooth delivery of services and expanding their outreach. The main financial expenditures of MFIs (Microfinance Institutions) in Pakistan are the payments of interest to the depositors and lenders. There has been increase in the financial expenditure of MFIs in Pakistan from 3.7% to 8.2 % of the total portfolio during years 2004-2007. The other issue includes the administrative expenses, travel expenses which occur mainly in loan officers reaching clients in remote rural areas. The other type of expenditure is the depreciation of fixed assets and provisioning by the State Bank of Pakistan (SBP) in case of loan loss. Due to these facts Microfinance Banks are least sustainable in Pakistan as compared to others MFIs (Microfinance Institutions) and NGOs.

The distribution of sustainability in Different MFIs (Microfinance Institutions) is shown in fig.

Profit in %	MFB	NGO	RSP	Overall
<-5%	5	2	3	10
-5% to 0	1	1		2
0-3%		2	1	3
>3%		2		3
	6	7	4	18

Source: (Pakistan Microfinance Review, 2007-08)

4.4 History and Profile of Khushhali Bank Ltd. with facts and figures.

Khushhali Bank came into being with the promulgation of the Khushhali Bank Ordinance on 4 August 2000, as a corporate body with limited liability. It started its operations with the execution of license by the State Bank of Pakistan with its headquarters based in Islamabad. The objective of the Bank was to mobilize funds for microfinance services. Its mandate was to focus on poor mainly women for combating poverty and promoting social welfare and economic viability with an ultimate purpose of poverty alleviation through community building and social mobilization (KBL Annual report, 2007). This was in accordance with the Government of Islamic Republic of Pakistan's Poverty Reduction Strategy and its Microfinance Sector Development Program (MSDP). MSDP was developed by the Government of Pakistan with the cooperation of Asian Development Bank (ADB). State Bank of Pakistan (SBP) formulated special guidelines for microfinance institutions in the country. KBL has a mandate to retail microfinance services across the country and to act as a catalyst in stabilizing the country's newly formed microfinance sector.

In 2001 Government of Pakistan signed an agreement named “Improving Access to Financial Program” (IAFSP) with Asian Development Bank (ADB) and due to the requirement of “IAFSP” all microfinance institutions including KB need to operate under the microfinance institutions ordinance, 2001. As a result of this agreement, the State Bank of Pakistan (SBP) made a conversion plan for KB, with the consent of Ministry of Finance Government of Pakistan and executed a letter on 15 November 2007 with the advise to proceed with the conversion process, which primarily required the Bank’s incorporation with Securities and Exchange Commission of Pakistan (SECP) under microfinance Institutions ordinance 2001. (KBL Annual report, 2007)

The whole procedure was approved by the share holders of the Bank in second extra-ordinary meeting held on 17 December 2007 and finally application was submitted to Securities and Exchange Commission of Pakistan (SECP) on 15 February 2008. Taking a decision on the application Securities and Exchange Commission of Pakistan issued certificate of incorporation under section 32 of the Companies Ordinance 1984 on 28 February 2008. (KBL Annual report, 2007).

In the beginning KBL was operating with 31 branches covering 33 districts and US\$12 million in disbursements. A rapid growth was observed when the Government of Pakistan obtained a loan amount of US\$150 million from Asian Development Bank (ADB) to promote the microfinance sector in Pakistan in 2002. KBL was granted with US\$70 million component of this loan amount for microcredit to the poor particularly women in both rural and urban areas of Pakistan. Another part of this loan amount US\$10 was allocated for the development of the institution (KBL) itself. The remaining amount of the loan was focused on reforms in microfinance sector of Pakistan.

There were 50 branches with 1,576 employees by the end of 2003 in Khushhali Bank Ltd. It expanded its network vertically and horizontally, now KBL is operating in all four provinces of Pakistan including Azad Jammu Kashmir & FATA (Federally administered tribal areas) through a network of 113 branches in six regions with 350628 active clients with 72486 female borrowers. The numbers of loans serviced are 1,691609 so far with 331,779 female borrowers (28 Feb, 2009). According to Bank officials 30 % of the total female borrowers are illiterate and 60% are married. Almost 60 % of the female borrowers have nuclear family. The average family size of the female borrowers is between 4-6 members. 90 % of the female borrowers have their own houses according to bank Reports. About 68 % of the female borrowers obtained loan from for the purpose of expanding their already existing business while 32% of the borrowers have started new business after getting credit from the bank.

A network of KBL branches and outreach across the country in the last five years is shown below:

Line	FY07	FY06	FY05	FY04	FY03
Network					
*Micro Credit Branches	113	110	100	89	50
Service Centers	23	37	42	34	34
Clients-in-force (000)	284	237	227	168	92
Disbursement (million)	3,786	3,003	2,743	1,835	1,023
Receivable (million)	2,653	2,148	1,923	1,398	707

*Including District Service Centre. (Source: KBL Annual report 2007)

As far as the performance of the Bank is concerned it can be explained by two factors. First is its outreach. Outreach means the total numbers of clients receiving loans. The other factor is sustainability of the bank itself. It means that the operational efficiency is also very important for the smooth delivery of products and services. Sustainable Microfinance Institutions (MFIs) could better serve the poor client and could promote and grow the Micro finance services. During the early stages KBL's main focus was to make the loans, which were highly subsidized, but they were unable to cover Operating cost and loan losses out of interest income. The operational efficiency was also ignored when the primary objective was simply maximizing the number of poor client served. But as the time passed the Single objective of measuring Micro finance performance seemed inadequate and now the financial sustainability is also considered as important as the number of clients. With this perspective KBL has started full banking services to obtain profitability and to mobilize the deposits. However, it is a fact that profitability of micro finance banks has been a question so far. Instead other microfinance institutions including NGOs and foundations have better financial stability.

KBL operates under the Microfinance Sector Development Program (MSDP) which was initiated by the Government of Pakistan through a Microfinance Development Policy. MSDP has an important objective – to provide affordable financial and social services to the poor, for a significant impact on poverty reduction through:

- Increased income of the poor households
- Enhanced outreach particularly to women.
- Build social Capital
- Reduced risks faced by the poor

The MSDP provides an integrated package of policy reforms and most optimum means for institutional development, with the objective of outreaching expansion to facilitate growth of the microfinance sector (www.khushhalibank.com.pk).

4.5 Corporate structure:

A private-sector independent board governs KBL. It consists on professional bankers and specialized social developers. The objective of the board is hiring and firing of CEO, policy making and provide guide lines for its operations. There are 7 members in board of governors. The top management of the bank is hired from leading banks of Pakistan. KBL operates under the regulations of the State Bank of Pakistan.

The name of the four directors representing the share holders are as under:

Mr.Syed Ali Raza	President, National Bank of Pakistan
Mr.Zakir Mahmood	President, Habib Bank Ltd.
Mr.M R Mehkari	President, Askari Bank Ltd.
Mr.Atif Aslam Bajwa	President of MCB Bank Ltd.

The name of the non-shareholder Directors Includes:

Mrs.Samina Rizwan	Regional Director, Oracle Corporation.
Mr.Zia Niazi	Development Sector Specialist.
Mr.Ghalib Nishtar	President Khushhali Bank Ltd.

4.6 Products of KBL:

Khushhli Bank Ltd is operating on group based lending. The group size varies in rural and urban areas. In urban areas the minimum group size is 3 while in rural areas it is up to 5 members. The maximum size of the group is 20 both in urban and rural areas of the country. After group formation, the loan is disbursed to the clients along with the repayment schedule. It is mandatory for the members to attend the monthly meetings with other group members and with the bank's loan officer. The schedule for monthly meetings is prepared with the consent of the members. The bank officer will provide suitable solution in case of any problem and constantly monitors the proper utilization of loan which results reducing the risk of default. KBL offers the following products in urban and rural areas of Pakistan.

- Agriculture loans
- Asset Purchase Loans
- Working Capital Loans
- Lives Stock Loans
- New Business Loans

In addition to credit, KBL also provide other services including insurance, deposit etc.

4.7 Mandatory Requirement:

Requirements for loan varies with different products, however in order to obtain loan the clients must fulfill the following conditions:

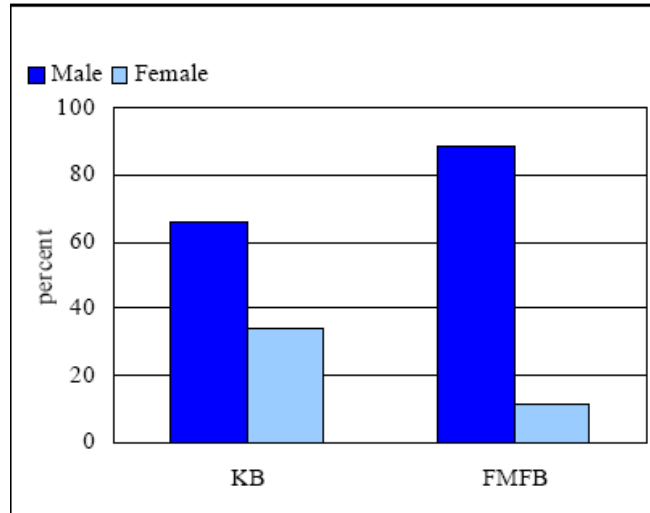
Product Name	All Products(including New business)
Product Type/Category (Group Based, Individual etc.)	Group Based for both rural and urban
Product Description	Extended for establishment of new business

Loan Eligibility Criteria	Age: 18 – 58 years, Maximum for repeat clients: 65 years Income: Maximum 150,000 PKR Resident for 2 years NADRA NIC Holder
Loan Amount	
(i) Minimum initial amount	PKR 3,000 / 5,000*
(ii) Maximum initial amount	PKR 10,000 / 15,000
(iii) Maximum total amount	PKR 30,000 / 40,000
Tenure/Repayment Options	3-6 Months Equal Monthly Installment (EMI). 3-12 Months Bullet/Quarterly/Semiannual
Guarantors	Cross Guarantees
Collateral	None
Insurance	Mandatory
Rates & Fees Structure	29% (on declining balance)
Documentation Required	ILA, PG Form, Loan Contract terms and Conditions, Schedule of Charges, Loan Repayment Schedule
Disbursement Tools (Draft/Cheque/Cash etc.)	Cheque / Draft / Direct Account Credit
Repeat Loans	Yes
Top Ups	Not allowed

* 1 PKR= 0.0125063 USD

4.8 KBL's Projects:

KBL is running different projects successfully targeting women. The purpose of these projects is to impart technical skills to women to expand and improve their income generating capacity. About 3500 women have been provided training and credit in “Jafakash Aurat Project” in Baluchistan. (www.khushhalibank.com.pk). This project provides necessary technical skills along with micro credit for start up of their own business or expanding the existing one This as a result could change their status in the society and bring prosperity for them. Similarly, KBL is running the Small Infrastructure Project (SIP) in collaboration with community for the development of infrastructure in the country. KBL is targeting women more than any other microfinance bank in Pakistan. An institutional breakup between KBL and First Microfinance Bank Ltd, a pioneer microfinance bank of the country (FMFB) in terms of female clients is shown here:



Source:(Sate Bank of Pakistan www.sbp.org.pk retrieved on 07-04-2009 at 15:20)

The institutional breakup of male-females clients depicts that KBL is ahead of FMFB catering to the needs of poor females; KBL female clients were 34 percent of the total compared to 11 percent female clients of FMFB. It is a fact however that 34 percent share of female clients is still significantly lower than the average of 79 percent for MFIs worldwide(www.sbp.org.pk)

The status of Small infrastructure projects (SIP's) by the end of year 2007 is shown below:

Types/Description	completed	In progress	Total
Roads & Bridges	122	0	122
Farm Irrigation	685	4	689
Domestic Water Supply	163	1	164
Drainage & Sewerage	26	1	27
School Building	49	0	49
Rural: Electrification, Computer Centre, PCO & Community Halls & others	513	5	518
Total	1558	11	1569

Source :(KBL annual Report, 2007)

4.9 Working with NGO's and SP's:

In order to increase the outreach, KBL has different strategies. It is not only expanding its own net work of branches, but also working closely with the NGOs and service providers(SPs) in both rural and urban areas of Pakistan. KBL recognizes the significance of NGOs and service providers in the delivery of social services and successfully utilize their core competencies in social mobilization for rapid increase in outreach and delivery of defined social services. The bank's front line sales force is highly professional and equipped with all sorts of logistics

supports which help them to go in remote rural areas of the country for the delivery of services at the door step of poor.

5. Borrowers of KBL:

In this part we wrote stories of the borrowers to whom we interviewed in order to know the effect of microcredit on their lives and status in society after getting credit.

In order to study the role of KBL in empowering women and reducing poverty we conducted interviews from female borrowers of the Bank. These females obtained loans from the bank either for the development of already existing enterprise or for starting a new business. We tried to probe socio-economic status of the respondents before and after getting credit and the nature of business they are currently engaged with. The questions were in English but asked in local dialect (Punjabi) for convenience of the respondents. However, we took full care while translating the questions so that actual meaning might not get lost. Here we will discuss the respondent's stories;

5.1 Ghazala Yasmin:

Ghazala Yasmin is 37 years old female with 4 kids living in Faisalabad, Pakistan. Her qualification is F.A. Although the life is good for her today, but it was not same few years back when she was divorced. As a result she had to come to the forefront to become the bread winner for her kids. She used to stitch cloths before her marriage, so she started it again but unfortunately she was unable to generate sufficient money to even afford basic necessities of life. Ghazala knew that she had a lot of potential to do much better, but the only constraint was the lack of investment. She wanted to get a machine and laces which would help her to start her own embroidery shop and a training center where she could impart art of embroidery to other women for a small fee. All was made possible for her as she obtained initial funding worth of amount PKRS 10,000 from KBL. Today her dream has turned into reality and she is running a center where she imparts skills to almost 25 other women how to stitch and do embroidery. It has boosted her earning capacity and she feels much confidence. Her children are now school going. And she is managing for their quality education in a good school.

Ghazala has completed her three loan cycles successfully. Her loan limit was extended up to 20% after each cycle because of her excellent business growth and increased repaying capacity. Now she is in 4th cycles and paying her monthly installments on time with ease. According to Ghazala, she is planning to expand her business by opening a new store of embroidery clothes. Ghazala is grateful to KBL for providing her loan which result a positive change in her life.

5.2 Shamim Akhter:

Shamim Akhter is 32 years old with 2 children and husband. She has no formal education. She is involved in the business of selling vermicelli. She sells vermicelli in the market but after getting credit from KBL things are quite different for her than before. In the beginning, without the financial assistance from the bank she was facing multiple problems in her business. It was almost difficult for her to afford basic raw material necessary for vermicelli along with the payment of tuition fee for her children's education. During these days Shamim experienced some personal problems in her life. Her relative and neighbors did not like to keep terms with her because of weak financial condition.

Through KBL's door to door campaign Shamim was able to get a loan amount of PKRS10,000. With proper utilization of loan and with her business skills, she is not only running her business but also managing the education of her children quite easily. She improved her living status and expanded her business due to her good habit of saving and earned the respect of her

relative and neighbors. According to her she is now more confident than before. Her husband takes her into confidence for every decision, and it gives her a sense of self respect.

Shamim is happy today with KBL because of its hassle free and easily accessible loan facility. She has completed first loan cycle successfully and now in the second loan cycle. While her business is growing successfully, she is praising Khushhali Bank limited and introducing its friendly policies in her community.

5.3 Ishrat Rani:

Ishrat Rani is 30 years old but still single living with her parents. She is graduated from Punjab University Lahore Pakistan. She wanted to help the poor community through education instead of doing job. For this, she opened an education academy for girls at primary level in remote area almost 10 Kilo Meters away from her residence. With every passing day, the number of students began to increase which resulted an increase in demand for extra furniture and computers for the academy. Now, financials were main constraints for Rani and to overcome this, she contacted traditional commercial banks in the city but could not meet the tough criteria for loan eligibility.

Rani contacted Khushhali Bank Ltd. Initially she was granted a loan amount of PKRS10, 000. This was the beginning of Rani's success. Now, she is running a big school successfully and has hired more teachers for school. She is in the 5th loan cycle. She has expanded her project of education and imparting embroidery and stitching techniques to the girls.

Ishrat Rani not only realized her own dream but also helped the community at large by successfully utilizing micro credit of KBL. As recognition of her great efforts towards helping community, City Group has awarded her with a cash prize worth of PKRS150000.

Rani is happy with the bank and its mission to eradicate poverty and has helped many of the women to take advantage of microcredit.

5.4 Shamshad Begum:

Shamshad Begum is 45 years old with primary education and 6 children. She was passing a miserable life because her husband was unemployed. These circumstances made her think to start her own business. She had a new idea of making shoes but she was unable to buy raw material to pursue idea. As she got to know about KBL micro loan facility, she applied for loan and finally obtained PKRS 10000 to start her business. Her shoes with embroidered head were vastly accepted in the market. After completing her first loan cycle successfully she has received a loan amount of PKRS 12000 due to good track record. Now her husband has joined in business and responsible for marketing shoes in different markets.

Shams had Begum future plan is to expand her business further by hiring labor and purchasing more raw material to fulfill increased market demand. She is also planning to supply her shoes to bigger markets in different cities where they can be sold at a higher price, thus increasing profit margins for her.

5.5 Robina Kousar:

Robina Kousar is 50 years old with 4 children and husband. She is middle school pass. Two of her children are school going. She is in the first loan cycle and default client of KBL. She obtained a loan amount of 10,000 PKRS and was engaged in stitching cloths. Her husband was working in a factory. She faced unexpected circumstances when one day her husband on his way back to home got leg fractured as a result of accident. Robina had to admit her husband in hospital and all savings she spent on the recovery of her husband health. She could not continue the business and same for her husband. It badly affected her loan repayment capacity. She was unable to pay the monthly installments of the loan obtained. This also affected her children education and health badly. But she is quite confident and believes that her husband would start going on job after recovery and along with her own business she would be able to repay the loan amount

5.6 Balqees Bibi.

Balqees Bibi is 41 years old with 4 children and a husband. She has no formal education and experience. She is in first loan cycle of Khushhali Bank Ltd. Her husband is working in a factory. She is not happy with the microcredit Program. She told that microcredit could not bring any positive change in her life. In addition she has to pay extensive amount of interest every month with actual loan amount.

She got the loan amount of 10,000 PKRS. She wanted to start cloth business before getting credit .She could not spend her money in this purpose. Instead she gave this amount to her husband for his personal use. It made her life rather difficult. She told that it was hard for her to repay the loan amount with extensive interest. Her husband's income is low. Her children are now school going and she have to afford their tuition fees from the sole source of income. Balqees's growing expenses are making her life tougher with every passing days but she hopes for the best in near future after successful repayment of loan.

5.7 Razia Bibi.

Razia Bibi is 28 years old with 2 children and a husband. She has no formal education and experience before getting credit. She is also one of the critics of microcredit program and believes that small amount of money cannot bring any revolutionary change in one's life. She said "One just can buy few things for the family but she has to suffer whole year until the final settlement of loan".

She got the loan amount of 10,000 PKRS from the bank. She spent the money in buying house hold items instead of utilizing in the business. She planned to repay the loan amount from the income of her husband. It only added an additional burden on her family. She is paying back the loan amount to the bank hardly.

5.8 Kishawer Sultana.

Kishawer sultana is 36 years old with three children. She is in second loan cycle and default client of KBL. She started a business of making Bakery items in her house and selling it in near market. During the year 2008 she was satisfied with her business. Her husband had knowledge of market and it helped her to bring raw material from market on cheaper rate. They decided to expand their business and again applied for loan. This time they got 12000PKRS but it

seemed insufficient for them. They wanted greater amount and for this purpose they decided to apply in other MFIs for loan as well. They got loan from three different institutions. Half of the loan was utilized for buying raw material. The remaining amount was spent on the marriage of daughter.

It was the start of bad days for her. It badly disturbed her loan repayment capacity. She was unable to manage installments of different institutions. The small scale business had no capacity to generate greater revenues which could help her to repay the loans. Now a days Kishawer's business is in trouble. She has sold some of her household items to repay some of the loan amount. She lost the concentration on her business and thus number of clients dropped. She has not enough money for raw martial and to meet the expenditure of her family simultaneously. She wished to get another loan from the bank to support her losing business.

5.9 Uzama Aslam.

Uzma lives with a husband and six children. She is 40 years old. Her husband is a milk man. He was not able to fulfill the needs of her family with meager income. Therefore she decided to help her husband in the nourishment of her family. Being skilled in making different kind of handicrafts she managed to put her talent to best use for the welfare of her family. She was earning 4000-5000 PKRS monthly from this activity but it was not sufficient for the growing needs of family. She applied for loan to Khushhali bank and it proved to be a turning point in her business. She bought raw material in bulk from loan amount of 10,000PKRS. She engaged her daughter in her business and started making handicrafts at a large scale. It increased her income substantially. Now she managed to earn 8000-10000PKRS from her business activity. Uzama has high ambitions for a bright and better future for her children. She has paid her first loan and has availed another loan from the Bank.

Her business has not only increased the income but also has improved living standard. Now she has more money to live a happier life. She enjoys a sense of fulfillment as she made use of her talent contributed for the wellbeing of her family.

5.10 Rehana Bibi.

Rehana is 33 years old with a husband and three children. She has an education up to secondary level. In 2004 things turned very tight for her when her husband was fired from the job. It was very difficult for her family to have a single decent meal even. Her family was on the brink of starvation. She remembered those days as the worst day in her life. Then she decided to learn skills of hand knitted cloths. She started to knit cloths on a very small scale and sold it at a good price.

Rehana's work required much attention and care while the income was low. She earned a small amount of money in the beginning. It was insufficient to meet the needs of her family. With the passage of time she got the necessary skills of knitting with machine. She decided to apply her skills to earn greater turnover, increased efficiency and more revenue. At that time it was difficult to manage money to buy a machine for this purpose. She got a loan amount of 10,000 PKRS from the bank to buy a machine. This helped her to knit the cloths in bulk and increased her income.

Today, she has a command on her business. She has good customer base. She has a contract with a primary school to prepare children uniform. Her work is appreciated everywhere. She

feels more respect for her than before in society. She is contented and happy with her progress. She believes that the time of worries is over now. According to Rehana “I can afford education of her children easily”.

5.11 Summary:

The above mentioned stories of KBL borrowers highlighted good and bad aspect of microcredit program in Pakistan. We observed that the women with pre request knowledge and experience of business made best use of these micro credit programs. They became role model for many of the women in their society. They played an inspirational role by their commitment and decision to obtain loan. They started their own business and their courageous initiatives and determination transformed their life and status in the society. We noted that the children of these women enrolled in good school for quality education which is very important impact of microcredit. Their unfaltering faith gave them the courage to defeat the harsh realities of life and the incredible destitution that came with it.

However, on the other side women without sufficient knowledge and experience could not make any change in their status. Microcredit rather put an extra burden of repayment with an extensive amount of interest. These women got credit without proper planning and education. They misused their loan in buying basic household items or in other non productive areas instead of economic activity. As a result hardships and problems came them in big packages. Misuse of loan made these women more in trouble .We concluded from the interviews that there may be an opportunity to get loan from different institutions simultaneously. It could affect badly repayment capacity of the borrowers. This trend could result making it difficult to repay the loan of different institutions at the same time. The microcredit has not a positive impact in such circumstances. It could not generate any revenue stream and led the recipients to the brink of starvation more than before.

6. Analysis

In this chapter we analyzed empirical data in line with our conceptual frame work. We discussed the issues regarding microcredit and women empowerment.

6.1 Women and Microfinance in Pakistan:

Pakistan is a country with 160 million people and women are the 48% of total population. It is estimated that of 6.5 million people who need microfinance services only 5% are being served by different MFI's working in Pakistan.

Through comparative study of different Microfinance Banks (MFBs) working in Pakistan we found that the women participation in lending programs is much lower as compared to male borrowers. However KBL has greater share of female clients among all Microfinance Banks (MFBs) working in Pakistan. There were 435,407 total active borrowers of six Microfinance Banks (MFBs) in Pakistan and the number of active female borrowers was 89,546 which are 20.6% of the total active borrowers during 2007-2008. KBL had total active clients 283,965 out of which 43,817 were female borrower which is 15.4% of the total active borrowers during 2007-2008.

The distribution of loans by gender by six microfinance Banks (MFB's) during 2007-2008 is shown in fig.

Figures in (PKR 000)

Outreach	MFBs						
	KB	TMFBL	POMFBL	FMFBL	RMFB	NMFB	SUB
Number of Active Borrowers	283,965	31,011	14,397	101,394	2,337	2,303	435,407
Number of Active Women Borrowers	43,817	978	1,181	42,819	356	395	89,546
Gross Loan Portfolio	2,652,916	408,807	93,493	1,221,559	33,630	45,854	4,456,259
Per Capita Income	57	57	57	57	57	57	57
Number of Loans Outstanding	283,965	31,011	14,397	101,394	2,337	2,303	435,407
Number of Savers	-	44,507	12,249	79,827	4,224	5,451	146,258
Number of Saving Accounts	-	44,525	12,249	79,827	4,224	5,451	146,276
Number of Women Savers	-	100	1,195	17,392	502	601	19,790
Saving Outstanding	-	648,373	23,189	2,035,584	32,360	83,338	2,822,845

Source :(Pakistan Microfinance Review 2007-2008)

(1 PKR = 0.0123 USD)

We observed that the participation in lending programs in case of women borrowers is much lower as compared to male borrowers. The reason is limited number of MFIs with scarce services and resources with a primary focus on women. Most of the MFIs have their branches in urban areas while majority of the population living in rural areas. Women in these areas do not have knowledge and access to these MFIs. Furthermore in some areas of Pakistan particularly in northern areas religious, social and cultural norms hinder the participation of women in activities outside the home. It is generally believed that men are responsible for each and everything and women need to stay at home to look after the children. All these factors contribute high share of poverty burden, low social status, limited access to economic opportunities and restricted mobility for women.

There is a dire need to address these core issues of how can we empower and make the women self-sufficient in order to reduce their vulnerability in Pakistan.

Microfinance may be a good tool to achieve this objective. There is a serious need to increase the outreach and number of MFIs equipped with resources to cover all the remote areas of the country with a focus on female borrowers. According to National Distribution Manager (NDM) of Khushhali Bank Limited (KBL) Pakistan is a potential market for microfinance services. People specially women need microfinance services in both rural and urban areas. He further said that people encouraged KBL microcredit programs all across the country. It has a positive impact on the life of many families. He highlighted the need to increase the number of branches and service outlets in remote rural areas to make the access easy for women and to increase the participations in these programs.

According to him the outreach is limited not only because women do not have access or knowledge but also due to operational reasons. Lack of trained and qualified staff, lack of proper communication channel, and lack of marketing ideas restricted the outreach of micro finance for women in Pakistan as well. He however, mentioned that KBL has signed an agreement with Shore Bank International to provide the technical and operational training to its employees which will bring a positive impact and increase the performance of the employees. He also mentioned that KBL has done a great job since its inception for the empowerment of women either by providing equal opportunities of jobs in KBL or by providing financial and technical assistance to increase their status in the society. For this purpose special projects to provide technical assistance along with financial support are in process with the help of Ministry of Women Government of Pakistan (GOP). Jafakash Aurat project has given technical skills to 3500 women of Gawader (Baluchistan). This project provides necessary training to women along with microcredit to enable them to set their own business which finally result in their empowerment. This project is in accordance with Martin (2006) findings that training along with credit lead to better business practices and increased revenues and profits.

In order to know the impact of microcredit on women empowerment, we interviewed the beneficiary women with a wide range of questions like why they got loan from the Bank, Who motivated them to get credit, in what purpose they utilize their money, do they have experience of working before getting credit, how many children they have, what was the situation before the loan and what activity they have adopted after getting loan, how much money they earn from the adopted economic activity. They were also asked about the education of their children, how their financial stability helped them to go to school. They were asked about their own status, do they feel their influence in decision making more than before. Do their male family members consult them in family affairs and how it has made them more stable and harmonious in society and relatives? Was their work appreciated by family, relatives and friends? They were also asked about their control over money, do they need help of other family members to market their products and developing their enterprise, and do they feel their income has increased after enterprise development. The questions were also asked about the problems in getting credit, are they satisfied with the interest rate, does repayment schedule match with their cash flows and finally they were asked to make any comments they wanted to share regarding any other issues related to microcredit and the bank.

According to our findings from interviews of borrowers, expert of bank and literature research we observed that majority of the women were educated and were also having skills and experience. They were running successfully these businesses which are thought prestigious for women in our society like schools, boutiques, clinics and stitching centers. While most of uneducated women were running small shops and some of them failed to run the enterprise. The basic reasons behind the business failure are lack of technical skills, knowledge and misuse of credit in other non-productive activities.

However most of the borrowers replied that micro credit has increased their income. It is very important effect and lead to the empowerment of women. For example if the women do not have money they have to borrow the raw material which is very expensive with low quality. During the interviews one borrower Shamim Akhter told that it was almost unaffordable for her to borrow the raw material from the shop which was substandard. Her income was very low due to expensive raw material but she had no option. Now after getting credit she has a facility to choose what she wants. She is able to pay for her raw material on the spot on cheaper rate with good quality. This has increased her income and she could spend the money on education and health of her children.

Women also experienced a positive influence on their status in society after adopting an economic activity as one borrower revealed that she underwent the humiliation and deterioration of her social status after being divorced. In societies like Pakistan, divorced women are not respected generally. She had a potential and experience to start her business but the constraint was the lack of investment. Ghalaza Yasmeen remembered that her self esteem and confidence improved when she got loan and started her own business. Due to this, her income increased and she felt more independent economically. In addition the increase in her income has allowed her to answer basic needs and expenditures of life including her children education which was not possible before.

In the interview, when we asked the beneficiary women about the economic activity they have adopted after getting credit we found that most of them were engaged in stitching and retail selling of household articles in which they already had experience. We also noticed that the majority of the successful women got credit for the purpose of expanding their already existing enterprises instead of starting new business. This highlights that in most of the cases micro credit is effective with proper experience and technical knowledge. On the other hand khushhali Bank's Jafakash Aurat Project is contributing much more for women wellbeing by imparting training along with microcredit to women instead of only giving them loans. Women without proper skills and knowledge will only face a simple vicious circle of loan and refunding. Our findings are in accordance with the pervious literature which shows that training and knowledge improve the efficiency and success rate of women in microcredit programs

In addition, we asked the questions regarding other source of income in order to know the motive behind starting their own businesses. We found that most of the women do not have any other source of income. This shows a shift in the economic role where husbands are not actively participating for the well being of their families. Furthermore, this also shows that the repayment capacity of the borrower may disturb in case of uncertain circumstances and they don't have any other source of income to repay their installments.

Most of the women in the interview declared that microcredit has helped them in education of their children which is very important. The improvement in the children education is a long term impact of microcredit i.e. investment on one generation goes to the next generations. We found from all the women, we interviewed, are strong willing to invest on the education of their children. They believed that only proper education can ensure better future of their children. A borrower who is in the second loan cycle has two children. She said during the interview that it was difficult to manage the education of her children and running the business with low income at the same time. She got the credit for the wellbeing of her children. Now she is paying the tuition fee of her children quite easily with increased income.

Most of the women mentioned that they have full support of their other family members in adopting economic activity. Shamshad Begum who got the loan from the Bank told that her

husband helped in the business. He managed to bring raw material and now engaged in marketing her product in the big cities. She told that economic activity has increased her role more importantly in the family. She feels a greater control over material resources than before. It has also raised her prestige and status in the eyes of husband and family members and thereby promote intersperse consultation. She reported that she could spend her money independently. These results supported the previous findings that women who generated increased income had gained greater respect within the household, often with noticeable attitudinal change. This also highlights that there is no such resistance as mentioned in previous research from the male members of the family especially from husband due to enhanced economic activity of female. Instead such activities are considered as contribution to household wellbeing.

Answering to question some of the female borrowers mentioned that they had to pay a substantial amount of interest and it should be reduced in order to give more advantages to women with increased loan amount on sound track record after completing each cycle. They said they needed greater amount of money to invest as their business has increased and only 20 % increment does not fulfill all the requirements.

We observed that growing competition and lack of coordination system between different microfinance institutions working in Pakistan made it possible for women to get loan from multiple institutions. This trend adversely affects the repayment capacity of the borrowers and limits the positive impact of microcredit. It leads the women to default. So there is a need of centralized system between the institutions to work more efficiently. According to National Distribution Manager (NDM) currently there is no such system in practice in microfinance industry in Pakistan, however, this has been proposed by many MFIs and work is in progress to stream line all the activities under the supervision of State bank of Pakistan.

7. Conclusion:

Microcredit is recognized as a tool to combat poverty and bring prosperity, wellbeing for its recipients. It changes their economic and social conditions. Women are the special focus of this program worldwide because of their vulnerability before economic changes. They often tend to invest on their children and families but they lack resources and knowledge necessary to initiate such activities.

The purpose of our research thesis was to identify the impact of microcredit on women empowerment by studying the socio economic conditions of female borrowers in Pakistan and also to propose the way microcredit performance can be improved. Our research objective was to investigate how does microcredit serve to meet the end goal in the women empowerment by reducing poverty?

We observed from the female borrowers that their income increased after getting credit. It is very important impact since it develops women's independence and self confidence. It enhanced their control over assets and role in decision making (in business and family matters) and thus broke the vicious cycle of poverty. However, we also noticed in interviews with borrowers and experts that microcredit works effectively when the recipient has sufficient knowledge and technical skills. It highlights the importance of education and skills along with microcredit. The dream of women's wellbeing can only be realized when they have knowledge and skills necessary to help them engage in well profitable activities. The microcredit programs also need to offer educational and technical services besides the credit. We concluded that Jafakash Aurat Project of Khushhali bank needs extension all over the country. This would help women to make real and considerable investment in their business and not only on personal needs.

We found a very important effect of microcredit on female borrowers in case of schooling their children. All the women strongly wished education for their children. Most of the female borrowers revealed that participation in microcredit program has increased their income and thus make their children possible to go for school.

We also observed that due to increase in number of MFIs there should a centralized system with borrower's information. This will avoid dual loaning from multiple institutions which not only affect badly the repayment capacity of the recipients but also increase the loan losses ratio. We concluded that microfinance is only one way of women empowerment, and smooth running of business depends largely on favorable circumstances as well. A diminutive disturbance in the circumstances could affect badly the repayment capacity of the borrowers. In other words, efforts need to be broaden by mobilizing all the institutions to act as a catalyst for the success and smooth running of their business. It would eventually result in the wellbeing of women.

We noticed that there is no restriction from male members of the family for women activities outside their home. Instead women reported that the family members helped them starting their business which is very encouraging. We also found that loan amount need to be increased with sound track record. A small amount of money is useful in the beginning but this is not enough for scaling up the business into the next level.

In order to increase the outreach we found it necessary to establish outlets of microfinance in remote rural areas as well. Majority of the population in Pakistan lives in rural area but most of

the branches are in Urban areas at district level which make the access difficult for women with increases in the cost

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Appendix

INTERVIEW QUESTIONS

1. Name of respondents: _____

2. Marital Status of Respondent along with age and education:

a. i. Married _____ ii. Unmarried _____ iii. Divorced _____

iv. Separated _____ v. Widow _____

3. Information about family relations

Sr. No.	F. Member	Sex	Age	Edu. (Yr)	Occu.	Income
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____

4. Nature of enterprise you have developed: _____

5. Enterprise was: i. New _____ ii. Already existing _____

6. Professional Experience before enterprise development:

_____ (Years)

7. Income increased after enterprise development:

i. Yes _____ ii. No _____

8. How many time you have got loan:

Ans:

9. Are you defaulter according to bank rules?

i. Yes _____ ii. No _____ iii. To some extent _____

10. Who motivated you to get credit?

i. Self _____

ii. Family members _____

iii. Relatives/friends _____

iv. Bank, Social mobilize _____

v. Others _____

11. Who helps in marketing of products?

i. Self _____

ii. Male head _____

iii. Middle man _____

iv. Others _____

12. Did you availed non-tangible benefit like:

i. Social barriers removed _____

ii. Exposure gained _____

