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Non-Financial Services (NFS) in Microfinance: European Models and Adaptation Prospects for Pakistan

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To Ammi, Napa, and Mehar,
the gifts of my life.

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Last but never least, my utmost gratitude goes to my family and friends who are always there for me, no questions asked.

Il candidato dichiara che il presente lavoro è originale e non è già stato sottoposto, in tutto o in parte, per il conseguimento di un titolo accademico in altre Università italiane o straniere.

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Student's signature

ABSTRACT

Loan repayment rates are more often than not, the main criterion used to assess the success of microfinance models. While repayment rates are a direct indicator of credit risk and provide valuable insight into the financial capability of the borrower, it does not capture the full range of outcomes and impacts that microfinance interventions can trigger. By exploring the world of microfinance and examining how European microfinance models that supplement financial assistance with Non-Financial Services (NFS) help borrowers go beyond simple loan repayment and achieve sustainable entrepreneurial success, this research aims to challenge the status quo. With the guidance of Amartya Sen's Capability Approach framework, this research aims to shed light on how NFS can empower microentrepreneurs, not only in terms of loan repayment but also in ensuring their entrepreneurial success and long-term business prosperity. Additionally, the research explores the current landscape of Pakistani Microfinance Institutions (MFIs), where Islamic finance serves as the foundation of the MFI model, characterized by interest-free principles, to understand why NFS is not a key component within such models and if there are possibilities for adaption. Utilizing a mixed-methods approach, incorporating qualitative interviews from 47 borrowers across Karachi, Lahore, and Islamabad along with quantitative analysis, this research seeks to investigate the perspectives of microcredit borrowers in Pakistan. It seeks to ascertain their existing financial and non-financial needs, evaluate the efficacy of current MFI models in empowering microentrepreneurs, and identify gaps that borrowers themselves identity and advocate for a change in. Through understanding borrower needs and deficits, and juxtaposing these insights with successful MFI models that integrate NFS, this research seeks to inform the design and implementation of microfinance programs to go beyond mere financial assistance. These strategies acknowledge that true poverty alleviation achieved through microfinance extends beyond mere loan repayment, emphasizing the importance of ensuring that borrowers' businesses are self-sustaining and growth-capable.

EXTENDED SUMMARY

Questa ricerca esplora l'integrazione dei servizi non finanziari (NFS) nei modelli di microfinanza per migliorare il successo e la sostenibilità dei microimprenditori. Mentre i modelli tradizionali di microfinanza si concentrano principalmente sui tassi di rimborso dei prestiti come principale misura di successo, questo studio sostiene che è necessario un approccio più olistico.

Il primo capitolo introduce lo studio, fornendo informazioni di contesto sul potenziale mercato del credito in Pakistan e delineando gli obiettivi e le domande della ricerca.

Il secondo capitolo presenta il framework teorico e la literary review, concentrandosi sull'Approccio delle Capacità teorizzato da Amartya Sen. Mette a confronto diversi approcci al microcredito, descrivendo in dettaglio i benefici e i costi associati agli NFS ed esamina diversi modelli di NFS come ad esempio, gli approcci collegati, paralleli e unificati. Il capitolo confronta anche le pratiche di microfinanza in Europa e nelle regioni in via di sviluppo, evidenziando le differenze nell'entità del prestito, nei tassi di interesse, ecc.

Il terzo capitolo delinea la metodologia di ricerca, descrivendo in dettaglio la raccolta dei dati, la selezione del campione e le strategie di raccolta dei dati. Sottolinea l'importanza della diversità geografica, etnica e religiosa nel campione per garantire approfondimenti completi.

Il quarto capitolo affronta le delimitazioni, i limiti e i presupposti dello studio.

Il quinto capitolo presenta l'analisi e i risultati principali. Esplora i dati demografici, i profili, i processi di prestito e l'accesso agli istituti bancari formali dei mutuatari, identificando le sfide e le difficoltà percepite. Il capitolo approfondisce la percezione delle NFS, le loro prospettive di adattamento in Pakistan e la disponibilità dei mutuatari a pagare per tali servizi. Include i casi di studio provenienti da Karachi, Lahore e Islamabad, che illustrano diversi percorsi imprenditoriali e il ruolo del tutoraggio e della NFS nel loro successo.

Il sesto capitolo esamina le implicazioni dei risultati di carattere più ampio. Affronta la povertà e le disparità di reddito, evidenziando il potenziale della microfinanza come strumento per alleviare la povertà. Il capitolo esamina la correlazione tra livelli di istruzione e indebitamento, l'adeguatezza dei prestiti e le politiche creditizie. Sottolinea le sfide legate all'accesso al sistema bancario tradizionale e il potenziale di successo imprenditoriale attraverso gli NFS, esplorando la relazione tra i diversi tipi di NFS e la disponibilità a pagare dei mutuatari.

Il settimo capitolo conclude la ricerca, riassumendo le principali intuizioni e fornendo suggerimenti per futuri programmi di microfinanza.

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ACRONYMS

A2F	Access to Finance
EMN	European Microfinance Network
EUR	Euro
GDP	Gross Domestic Product
GNP	Gross National Product
GoP	Government of Pakistan
HIES	Household Integrated Economic Survey NPR National Poverty Report
IFC	International Finance Corporation
MFB	Microfinance Banks
MFI	Microfinance Institutions
MFP	Microfinance Providers
MIX	Microfinance Information Exchange
NFS	Non-Financial Services
NGO	Non-Governmental Organization
NPL	Non-Performing loans
PAR	Portfolio at Risk
PIHS	Pakistan Integrated Household Survey PMN Pakistan Microfinance Network
PKR	Pakistan Rupee
PSLM	Pakistan Standards of Living Measurement SBP State Bank of Pakistan
ROA	Return on Asset
ROI	Return on Investment
SEK	Swedish Krona
SME	Small and Medium Enterprises
WSMEs	Women Small and Medium Enterprises

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CHAPTER ONE: INTRODUCTION

1.1 Background to the study

Microfinance, based on the principle of smaller loans to a larger group of people, serves as a powerful tool to promote financial inclusion and fight poverty (World Bank, 2015). The microfinance sector in Pakistan has come a long way from when it first started operations in 1996; from a few philanthropic organizations to an evolved, mature industry that provides a wide range of credit services to millions of Pakistanis. The sector grew from just 40,000 borrowers and a handful of MFIs in 1996 to 6.9 million active borrowers, 35 million active savers, 8 million policy holders and 46 reporting Microfinance Providers (MFPs) in 2019, including microfinance banks, specialized microfinance institutions, rural support programs and other microfinance providers. (Jassim et al., 2019)

1.2 Potential Credit Market in Pakistan

In the 1970s, the Government of Pakistan started offering direct and subsidized loans to people in rural areas. However, there were no formal or non-governmental organizations offering microfinance to poor households until the 1980s during which new programs and NGOs were created to provide microloans, helping poor people get access to financial services. Commercial banks caught up in the 1990s and started offering microfinances services too, which expanded the reach and impact of the microfinance industry. (Jassim et al., 2019)

In 2015, it was estimated that there were 20.5 million people in the potential credit market. Out of these, the penetration rate of microcredit with respect to borrowers was just 34%. The number of borrowers increased from 2.8 million in 2013 to 6.9 million in 2018, growing by about 12% each year. Similarly, the number of people with savings accounts grew from 5 million in 2013 to 35 million in 2018, increasing by about 17% each year; whereas, insurance rose from 3 million in 2013 to 8.5 million in 2018, growing by about 13% each year. (ibid)

The two models the report by Jassim et al. (2019) employed to estimate the potential market for microcredit were:

- Existing Model using HIES: This model is based on an estimation done in 2015 by the Pakistan Microfinance Network (PMN), which uses data from the Household Integrated Economic Survey (HIES).
- Proposed Model using A2F: This new model uses different parameters from the Access to Finance Survey.

Models represented in Table 1 and Table 2 respectively present estimates given different potential market sizes for microcredit based on varying assumptions and population data sources.

Table 1: Potential Market for Microcredit, Model 1

Model 1	Estimate 1: Projections on adult population from 2017 (18+)	Estimate 2: Projections on total adult population from 2017	Estimate 3: Projections on total adult population from 1998
Loan size 1 (PKR 10,000-150,000	17.4 million	33.6 million	21.2 million

Source: (Jassim et al., 2019)

Table 2: Potential Market for Microcredit, Sensitivity Analysis

For sensitivity analysis	Estimate 1: Projections on adult population from 2017 (18+)	Estimate 2: Projections on total adult population from 2017	Estimate 3: Projections on total adult population from 1998
Loan Size 2 (PKR 20,000-150,000)	14.9 million	28.7 million	18.1 million
Loan Size 3 (PKR 20,000-200,000)	16.1 million	31 million	19.6 million

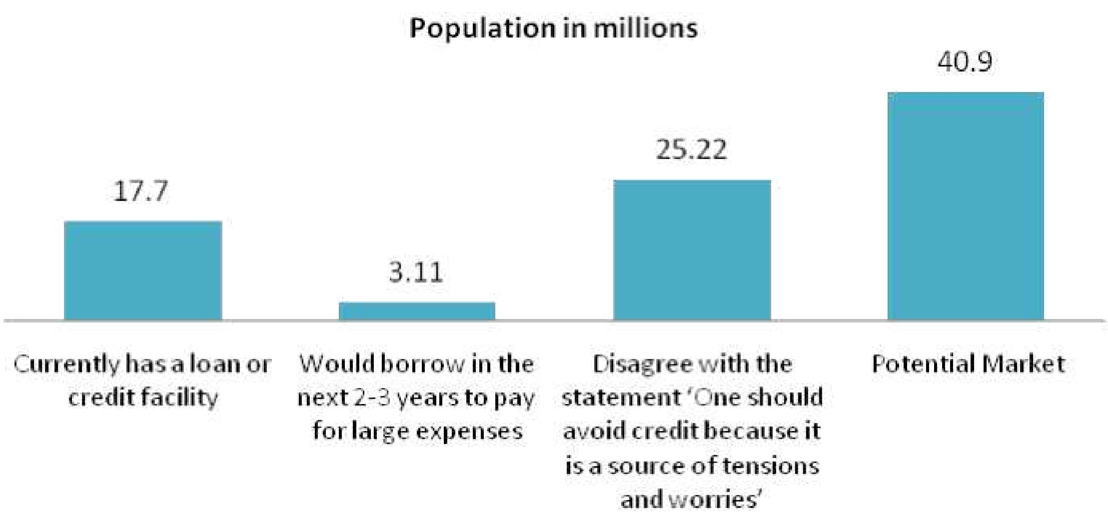
Source: (Jassim et al., 2019)

Model 1 uses adult population data from the 2017 Census and considers loan sizes between PKR 10,000 and PKR 150,000 while the 2015 Estimation Model included the entire population of Pakistan, not just adults.

If updated with the 2017 Census data (including people 18 years old or younger), the estimated potential market would be nearly double that of Estimate 1, resulting in an estimated market of 33.6 million for the same loan size range. Estimate 3 replicates Estimate 2 but uses population data from the 1998 Census instead of the 2017 Census, approximating the potential market to be standing at 21.2 million for the same loan size range.

Model 1 above estimates are limited to individuals who have taken loans in the past or have an outstanding loan in the last year, while ignoring the willingness to borrow in the future and attitude towards taking loans. However, Model 2 (represented in Figure 1) takes other parameters into account to assess the potential market for microcredit.

Figure 1: Alternate Estimation Model using A2Fs Data



Source: (Jassim et al., 2019)

As shown in Figure 1 above, approximately 17.7 million adults own a loan, 3.11 million are potentially looking into loans and 25.22 million believe one should not avoid credit because it is a source of tension and worry (hence these individuals automatically become part of the potential market for microcredit) estimated to be 40.9 million for people between 18-65 years old, cumulative total for all the three segments.

The study by Jassim et al. (2019) estimates and analyses the potential for microenterprises to use microfinance. The methodology employed is similar to one used by PMN in 2015 and uses the latest Household Integrated Economic Survey (HIES) data from 2015-16. The process identifies microenterprises with outstanding debt to understand their potential for converting to microloans.

In the report (Jassim et al., 2019), a 'microenterprise' is defined as an individual running their own business rather than working as salaried employees or manual laborers. The business must employ fewer than 10 individual and the household head must be a proprietor or a partner in the business and should have either an outstanding loan at the time of the survey, or have borrowed a loan in the past 12 months. This criterion is set to distinguish between those who are not micro-business owners and ensure that only small, self-run enterprises are included in the potential market for microfinance. The loan size was restricted between PKR 60,000-1,000,000 as PKR 1 million is the upper limit for microenterprise loans as mandated by State Bank of Pakistan (SBP). For sensitivity analysis, the study also looked at different loan sizes of PKR 150,000-1,000,000. Estimate 1 uses no loan filter, estimate 2 filters loans by amounts between PKR 60,000-1,000,000 and estimate 3 filters loans by amounts between PKR 150,000-1,000,000.

Table 3: Microenterprise Potential for Microfinance

	Estimate 1: Results by No loan filter	**Estimate 2: Results by Loan Size PKR 60,000 – 1,000,000**	**Estimate 3: Results by Loan Size PKR 150,000 – 1,000,000**
Microenterprise potential for microfinance	5.8 million microenterprises	539,570 microenterprises	273,864 enterprises

Source: (Jassim et al., 2019)

According to the estimate from Table 3, there are about 5.8 million micro-enterprises in Pakistan. In some sense, all these businesses constitute a potential market for the microfinance industry as all businesses have financial needs. Table 4 below also gives a significant insight into the data concerning borrowers in Pakistan and the potential markets. Specifically, the two data sets that concerns this research the most: Microcredit with an estimated potential market of 40.9 million and Microenterprise Credit with an estimated potential market of 5.8 million.

Table 4: Potential Market for Microfinance Segments

Microfinance Segment	Estimated Potential Market Size
Microdeposits	60.9 million
Microinsurance (Health)	96.8 million
Microinsurance (Life)	96.8 million
Micropayments	82.1 million
Microcredit	40.9 million
Microenterprise Credit	5.8 million

Source: (Jassim et al., 2019)

1.3 Research Objectives and Significance of the study

This research focuses on the evolution and current landscape of microcredit programs, particularly in Pakistan, across three different cities: Karachi, Lahore, and Islamabad. The aim is to contextualize the importance of Non-Financial Services (NFS) in microfinance, with a comparative analysis of the European MFIs and programs that are currently operating on similar infrastructure and reaping innumerable benefits.

The central objective of this research is to investigate the impact and efficacy of integrating Non-Financial Services (NFS) such as Financial Education, Technical Assistance, Business Training, Marketing Support, and Mentorship and Counselling within the microfinance framework, comparing existing working models of such services in Europe to investigate its feasibility in the Pakistani context. Beyond the traditional scope of microfinance, this research provides substantial evidence to push for Non-Financial Services (NFS) as an indispensable component of the financial structure, ensuring that the borrower's needs are met beyond just repaying the loan. By creating a microfinance model that has NFS embedded in its structure, the research aspires to foster a shift in focus from merely identifying loan repayment to actively contributing to the long-term success of the borrower's business. This approach aims to bring about incremental change by providing tailored guidance and support, ensuring a sustainable and thriving venture that goes beyond financial assistance.

1.4 Research Questions

1.4.1 Impact of Microcredit and Non-Financial Services (NFS)

i. In what ways has microcredit been useful to micro-entrepreneurs in managing or growing their business?
ii. What is the reported impact of NFS on micro-entrepreneurs' business successes in European models of microfinance?
iii. To what extent can European models of integrating NFS be adapted and implemented effectively in the Pakistani microfinance landscape?
iv. What are the perceived challenges and opportunities in adapting NFS models to the specific context of the Pakistani microfinance landscape?

1.4.2 Perception, Utilization and Barriers of NFS

i. How do micro-entrepreneurs in Pakistan perceive the value and impact of NFS on their overall business success, what are the perceived barriers hindering the expansion/growth/success of their business, and can the introduction of NFS potentially address these?
ii. How likely are micro-entrepreneurs to utilize NFS if offered by their respective MFI; and what is the Willingness to Pay (WTP) for such services?

1.4.3 Stakeholder Perspectives

iii. How do mentors/coaches working in NFS programs in European MFIs perceive the effectiveness of NFS in enhancing the entrepreneurial skills and success of micro-entrepreneurs?
iv. How do other key stakeholders (MFIs, governmental bodies etc.) perceive the potential benefits and challenges of integrating NFS models in Pakistan?

CHAPTER TWO: THEORETICAL FRAME & LITERATURE REVIEW

This research explores the integration of non-financial services (NFS) in microfinance, comparing European models with prospects for adaptation in Pakistan. To structure this research within a theoretical reference, the Capability Approach, formulated by Amartya Sen (1989), an Indian economist and philosopher in the 1980s, is selected. The Capability Approach serves as a comprehensive basis for assessing human development by focusing on what individuals are able to be and do. This Approach has been employed extensively in the context of human development, for example, by the United Nations Development Program, as a broader and deeper alternative to narrowly economic metrics such as growth in GDP per capita.

In the context of microfinance, ‘poverty’ is an important concept and Sen’s redefinition of it as deprivation in the capability to live a good life, and ‘development’ as capability expansion are key to base this study on. Furthermore, this framework is particularly relevant to the study of microentrepreneurs and the integration of non-financial services (NFS) within microfinance. By enhancing individual capabilities and freedoms, NFS can significantly empower microfinance clients, enabling them to achieve desired outcomes beyond mere financial support.

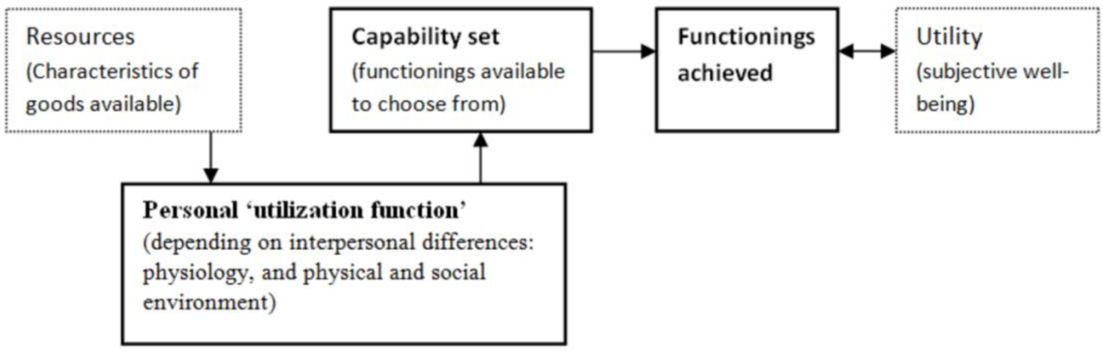
2.1 Introduction and Development of the Capability Approach

Amartya Sen, who was awarded the 1998 Nobel Prize in Economics for his work in social choice theory, had a strong foundation in development economics and philosophy prior to creating the Capability Approach in the 1980s. Understanding and evaluating Sen’s Capability Approach can benefit from considering his diverse background, as it complements Sen’s contributions in these diverse fields. Sen’s most influential and comprehensive account of his Capability Approach, Development as Freedom (Sen 1999), amalgamates many of these contributions. An important contribution is Human Development, grounded on the capability approach, which focuses on the enhancement of people’s real freedom to choose the kinds of lives they have reasons to value.

Sen first presented the idea of “capability” in his Tanner Lectures on ‘Equality of What?’ (Sen 1979). He then went on to expand on it in a number of writings during the 1980s and 1990s. Sen points out that his method shares deep conceptual similarities with Adam Smith, Karl Marx, and Aristotle’s theory of human flourishing, which served as the original basis for Nussbaum’s alternative Capability Theory. For example, Sen often cites Marx’s comments on capacities and functions for human well-being; and Smith’s analysis of relative poverty in The Wealth of Nation in terms of how a country’s wealth and different cultural norms affected which material goods were understood to be a ‘necessity’. (Centeno, 2020)

The Capability Approach, depicted in Figure 2, focuses directly on the quality of life that individuals are actually able to achieve, which is analysed in terms of core concepts of 'functioning' and 'capability'. Functioning are the states of 'being' and 'doing', essentially various things a person can be and do, such as being well-nourished or having a place to live. These are important to distinguish between the commodities that help individuals to achieve them. Capability refers to all the valuable functioning a person can actually achieve. It represents the real freedom an individual has to choose different ways of living that they value. For instance, having a certain capability means not just having the option to eat but also having access to nutritious food.

Figure 2: Capability Approach



Source: (Wells, n.d.)

Sen argues that resources are input but their value depends on the individual's ability to convert these resources into a valuable functioning, which in turn depends, for example, on one's personal physiology (such as health), social norms, and physical environment. These 'conversion factors' are thus directly reflective of the available set of resources. (Wells, n.d.)

2.1.1 The Capability Approach and Its Relevance to Non-Financial Services (NFS): Individuals can vary greatly in their abilities to convert the same resources into valuable functioning (Figure 2: 'beings' and 'doings'). For example, a person with physical disabilities may need specific goods to achieve mobility and will need additional services, such as a wheelchair and accessible infrastructure, which are not necessary for able-bodied person. This example is a simplistic illustration to state that a focus only on means, without considering what particular people can do with them, is insufficient. In the broader context of NFS embedded in microfinance models, this approach informs the design and methodology adopted by MFIs offering NFS to first evaluate the needs and capabilities of their clients, and then proceed to design the NFS around those specific requirements.

Another significant contribution of the capability approach is that it allows individuals the freedom and option to choose. Whether or not individuals take up the options they have or are offered, the fact that they do have valuable options is significant. For example, in the case of NFS offered by MFIs, some clients might be uninterested in these services, or find that it does not suit their particular needs and therefore choose to opt out. Nevertheless, it is still their choice, which guarantees client freedom and respects their autonomy. Therefore, evaluation must be sensitive to both actual achievements ('functioning') and effective freedom ('capability'). This dual focus ensures that the true impact of microfinance service is measured not only by what clients achieve but also by the real opportunities available to them.

2.2 Supporting Theories

To understand the integration and significance of NFS within microfinance, several supporting theories are also employed to give a holistic view to this research. For example: Financial Inclusion Theory (Morduch, 1999; Demirguc-Kunt & Klapper, 2012; CGAP, 2009) explores how access to financial services can drive economic development and reduce poverty. By integrating NFS, microfinance institutions can enhance financial inclusion by addressing barriers such as lack of financial literacy and business skills. Social Capital Theory (Coleman, 1988) highlights the importance of social networks, trust, and relationships in facilitating access to financial services. Group lending and peer pressure in microfinance can be analysed through this lens, demonstrating how social capital enhances repayment rates and financial stability. Human Capital Theory (Becker, 1964) suggests that investment in education, skills, and health can improve individual productivity and economic outcomes. NFS, such as training and healthcare services provided by microfinance institutions, directly contribute to the development of human capital.

2.3 Microcredit approaches: Minimalist versus Integrated debate

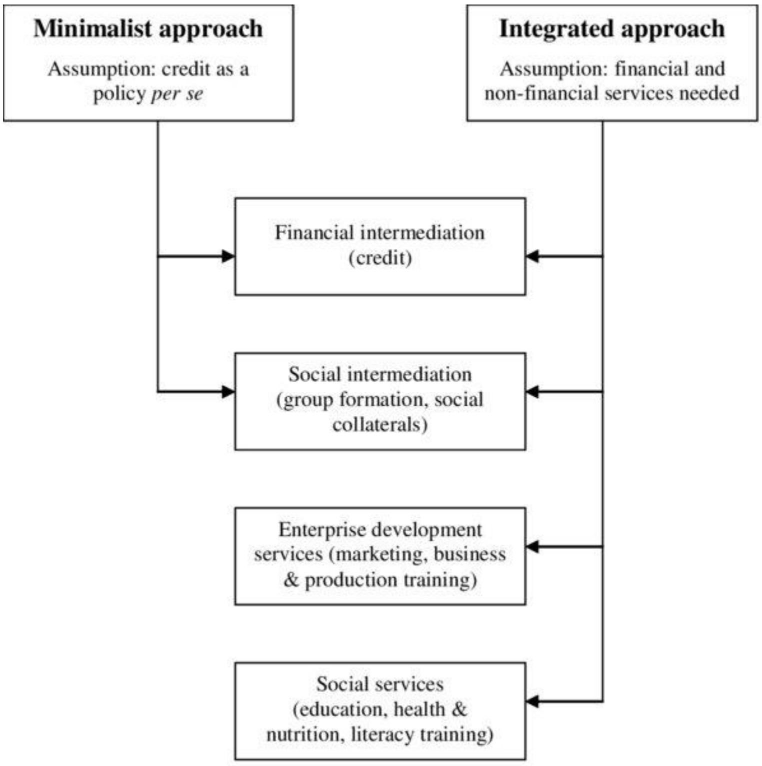
There is an interesting dichotomy between the two schools of thought when it comes to approaches that combine financial services with development-oriented initiatives: minimalist vs integrated microcredit programs. This dichotomy sheds light on whether access to credit alone is sufficient in improving the financial well-being of low-income individuals or if a more holistic approach is necessary.

The differences between the two schools of thought of Minimalist and Integrated approaches, depicted in Figure 3, allow microfinance are explored by authors like Ledgerwood (1999), Bhatt and Tang (2001), and Waller and Woodworth (2001), among others. The main argument centres around whether microcredit providers should focus on delivering financial services only, or whether they should also provide complementary, non-financial services to their borrowers.

The minimalist approach considers access to credit as the main obstacle for low-income individuals and argues for it as the best solution to poverty alleviation. Arguably, while credit is a considerable hindrance and access to finance still remains a problem, critics argue that the minimalist approach provides only short-term relief to poverty alleviation and even if borrowers are able to repay loans, which usually is seen as the main measure of success, the impact of the microcredit is short-lived, and borrowers find themselves unable to sustain businesses. (Jayo et al., 2009)

On the other hand, the integrated approach recognizes that access to credit might not be sufficient to improve the financial well-being of low-income individuals and emphasizes the importance of providing not only credit but a range of development-oriented services to the underprivileged in order to address the structural causes of poverty. Typically, these Non-Financial Services (NFS) should include educational programs, community-based development programs, business and capability-enhancing training, financial education and so on. In terms of economic sustainability, operating costs incurred in the minimalist approach are obviously much lower than those of integrated microcredit programs. Minimalist programs often adopt specific risk-managing and credit analysis methods that demand some degree of social intermediation through the use of loan officers, but avoid the costs of additional development-oriented services or policies. (ibid)

Figure 3: Minimalist and Integrated Approaches of Microcredit



Source: (Ledgerwood, 1999)

An exemplary model that applies the integrated approach of microfinance is the Banco Palmas project in Fortaleza, Brazil 1998. An innovative approach to microcredit that focuses on community development rather than just individual financial results, the project focused on combining three main strategies: using a local currency called social currency, providing professional training, and mapping local production and consumption. (Jayo et al., 2009; Toscano 2002; Lima 2003)

In this context, Banco Palmas offers two types of microcredit service: one supports producers and merchants, while the other assists local consumers. In both cases, borrowers are not obligated to present any documents or formal guarantees typically demanded by conventional credit institutions. Instead, the system relies solely on the borrower's local reputation, with neighbours providing assurance of the applicant's reliability and honesty, furthering fostering community trust and local ties. Furthermore, loans granted in the form of social currency do not accrue any interest. (ibid)

This approach aims to generate income, wealth, and social development for the whole community, unlike some microcredit methods that mainly focus on individual loans.

Reportedly, Banco Palmas has made significant impacts on the community. Through training around 1,600 people, they created about 700 direct and 2,500 indirect job opportunities. Local businesses have also seen a boost in sales, indicating that the program has been successful in increasing the circulation of wealth within the community. (Jayo, 2009)

2.4 Non-Financial Services (NFS)

Often called business-support services, enterprise development or value-added services, NFS complement the financial offerings of a finance provider. There is mixed opinions and research on the importance, relevance and impact of NFS on microfinance models and programs. With many scholars highlighting the advantages of NFS not only for clients but also for microfinance institutions, there are some scholars that bring the massive operational expenses that come with those services to light and argue that NFS does not reap as many benefits as it is expected to.

This research focuses on the types of Non-Financial Services (NFS) described below:

- **Financial Education** such as budgeting, saving, and managing cash flow.
- **Technical Assistance** such as practical support and expertise in areas such as product development, technology adoption, or process optimization.
- **Business Training** to develop essential skills and knowledge for running a successful business, such as marketing strategies, sales techniques, customer service, and management skills.
- **Marketing Support** such as assistance with branding, market research, advertising campaigns, and digital marketing strategies.
- **Mentorship and Counselling** such as direct interaction with knowledgeable sources, in-person or digitally, such as business coaches, accountants, and legal experts. These coaches or mentor, usually volunteers, share their knowledge, expertise, and insights to help entrepreneurs navigate challenges since they themselves have been through similar hardships.

Small, vulnerable businesses need more than just finance. Training, mentoring, and other NFS can give microentrepreneurs that edge or leg-up. This is especially true for women-owned businesses who can be profoundly supported by NFS to overcome systemic barriers that limit their access to finance and markets. The study by International Financial Cooperation (IFC), authored by Tobin et al. (2020) examined the benefits to banks of integrating NFS by analysing 5 Small and Medium-sized Enterprises (SME) banking models and surveying 34 banks worldwide that serve SMEs. This survey built on findings from a previous IFC study from 2012 that found well-integrated NFS offers for WSMEs to yield positive return on investment (ROI) within one to two years[1]. This is established through four key metrics: increased interest income; share of wallet, deposit volume and fee income, including fees charged for NFS participation; loyalty; and reduced risk.

Leatherman and others (2012) argue for an integration of NFS supporting its positive impact on MFIs financial performance. Since NFS contributes to enhancing people's knowledge in health, finance and cognitive behaviour, it consequently leads to higher profits for MFIs. In so, client's growth would mean better profitability for the MFI. Other scholars such as Karlan and Valdivia (2011) supported the argument in their studies findings concluding that delivering NFS is crucial as low-income people requesting loans do not only seek financial but also social care. In this context, the more services provided by MFI, the higher the clients for MFI or the attraction rate to their services to people. Clients' repayment ratio also increases, which again in turn benefits the MFI, increasing its total assets and consequently increases their Return on Assets (ROA) (Khandker, 2005). A positive relationship between financial sustainably and outreach was also found (Meyer, 2002; Christen et al.,1995; Rhyne et al., 1994). When the client base grows, MFIs benefit from lower costs as they gain economies of scale, which leads to financial sustainability.

McKernan (2002) aimed to study the impact of NFS program using cross-sectional data of over 1000 households that received microcredit in Bangladesh. She aimed to understand if the differentiated effects (positive or negative) are caused by the loan or other services offered during group lending and meetings. The study found positive non-credit effects in self-employment profits of borrowers. Meyer (2002) found the main factors of lack of financial sustainability and an overall high financial performance by MFIs is the low reimbursement rate or the low quality of the loans. He also declared that the disadvantaged in a society need long-term support rather than a one-time financial assistance, arguing that short-term credits do more harm than good. When clients have access to NFS, it increases their repayment rate and makes them more profitable clients for MFIs, since the clients not only have access to liquidity but also get the needed help to develop their businesses and manage their funds more efficiently.

Consequently, as per De Mel et al. (2008), the lack of financial knowledge in clients negatively affects their repayment behaviour and leads to lengthier reimbursement periods thereby

[1] Based on analysis of the SME models of five banks: ACBA Bank, BTPN Bank in Indonesia, Banco Santander in Argentina, KCB Bank in Kenya and VPBank in Vietnam, plus Women's World Banking, Global Best Practices in Banking Women-led SMEs, 2014.

decreasing their loan portfolio quality and eventually this harms the MFIs financial performance. In this context, providing NFS leads to more financially performant clients who are able to repay loans sooner leading to a lesser credit default at and in turn also benefitting the MFI (ibid; Khandker, 2005).

2.4.1 Barriers to Business That Non-Financial Services (NFS) Can Address

Microenterprises, and especially WSMEs, face several barriers that come in the way of their growth. Some of the barriers faced include reluctance to seek external financing due to social, cultural economic constraints, lack of access to mentors and role models that are not family-based, lack of confidence or developed entrepreneurial skills, constrained networks, and social and cultural norms that result in lower financial and digital literacy. Additionally, there is often a societal pressure for WSMEs to balance household responsibilities with their business activities, further limiting their opportunities. (Rose, 2109; Elam et al., 2019; Kauzlarich, 2020, Calderon, 2020)

A visual representation of the arguments above can be found in Figure 4 (Tobin et al., 2020) showcasing the barriers to WSMEs growth and how it can be addressed via NFS.

Figure 4: How NFS Can Address Entrepreneurial Constraints

Source: (Tobin et al., 2020)

Non-Financial Services (NFS) can effectively address the challenges discussed above. These services can provide education about profitable sectors and financing preparation, as well as develop essential soft skills like leadership and negotiation. Mentorship programs and networking opportunities can help WSMEs expand their networks and gain valuable guidance from like-minded or more experienced women in business. NFS, in way of offering targeted education, can help improve financial and digital literacy through programs, practical tools and/or in-person support.

By addressing these barriers through well-designed NFS, WSMEs can gain the knowledge, confidence, and connections needed to thrive and grow their businesses.

Similarly, the study by Ul-Hameed and others (2018) found that training/skill development and social capital had significant relationship with women empowerment with positive beta values of 0.390 and 0.503 respectively showcasing a positive and direct relationship. The results of this study align with numerous studies advocating for skill development for women-owned or women-led microenterprises to facilitate access to finance and enable their entrance and participation into competitive economic markets (see, for instance, Al-Shami et al., 2016; Arif et al., 2017; Bernard et al., 201 6; Mayoux, 2001).

2.4.2 Benefits for Microfinance Institutions (MFIs) When Integrating Non-Financial Services (NFS)

MFIs in the Arab countries have recently started offering NFS along with credit, and have reported better revenues and higher financial performance due to a rise in donor contributions RIZK et.al, (2022). Another study published by Hiproweb (2018), reported a similar stance where MFIs become more appealing to donors when their programs aim to improve people's welfare and lower their poverty by supplementing NFS with finance.

The results from the study by RIZK et.al, (2022) show financial sustainability and loan quality to be the most positively significant on MFIs' financial performance with a p-value below 0.05. Additionally, based on the study's regression analysis, financial sustainability and loan quality seemed to have the most positive impact on financial performance of MFIs. It is evident that by offering NFS, such as training, advisory and networking opportunities, MFIs attract more clients. These services help clients improve their financial literacy and business skills, which leads to better business performance and a higher income. As a result, clients have higher repayment rates which means fewer debts and losses for MFIs, enhancing their total assets and ROA (Khandker, 2005). Moreover, the increase in number of clients and repayment ratio also leads to a better loan quality and hence to higher operating revenues. In fact, the major objective behind integrating NFS for MFIs is to improve the well-being of clients and enhance their financial knowledge to generate bigger profits. (Lensink et al., 2018; RIZK et.al, 2022)

In Western Nigeria, Ogunrinola and Alege (2007) examined the impact of NFS such as pre-loan training, group membership, and cross guarantees, along with microcredit, in microenterprise in rural Lagos State. Their study concluded that NFS really benefitted these businesses when complemented with credit and that the metrics mentioned above had positive impact on microenterprise development in Lagos state. Among the enterprises that received microcredit, 42 reported business success as a result of the loans. The micro-entrepreneurs in the study area achieved a very high loan repayment rate of 96% and a reduction in the rate of business failure and also restricted rural-urban migration.

With MFIs aiming to maximize their ROA and operating revenues to be more financially profitable, the results of the study further corroborate the ones found by Goubert (2018) such that NFS help consumers become more financially successful and more capable of reimbursing their loans, which increases MFIs quality of loans, operating revenues, and ROA, eventually making MFIs more financially profitable.

Fasoranti et al. (2006) examined the impact of microcredit and training on the efficiency of microentrepreneurs in Ondo State. The study identified that technical efficiency among entrepreneurs is influenced by human capital variables (level of education, business experience, and age) and socio-economic/institutional variables (loan interest, loan size, lender contact, training programs and experience). Using a stochastic production function frontier, also known as the composed error model of Aigner and ordinary least squares, the study aimed to determine the link between access to credit, training and technical efficiency in microenterprises. Key findings from the study concluded that age, business experience, education level, training experience, credit access, working capital, and initial capital outlay were significant determinants of technical efficiency across all sectors examined (baking, furniture making, and burnt brick making). Further adding that well-structured training programs positively impacts an entrepreneur's efficiency. The positive relationship between training and improved business performance aligns with previous studies (Simeyo et al., 2011; Babajide, 2011; Webster and Fidler, 1996).

In collaboration with IFC and FMO, the report, "Non-Financial Services: The Key to Unlocking the Growth Potential of Women-led Small and Medium Enterprises for Banks" by Tobin and others was published in 2020. Some key benefits highlighted in the study of integrating NFS into credit are as follows:

Enhanced Customer Engagement and Increased 'Share of Wallet': Non-Financial Services (NFS) in a way are client engagement tools which can potentially increase a bank's 'share of wallet' per customer. Share of Wallet refers to the proportion of a customer's total spending on financial services captured by the financial institution or MFI. Client engagement is crucial but challenging for banks as customers typically contact the bank only when they need specific services. While some banks have protocols for relationship managers to maintain engagement, these often only reach a small segment of customers. To maximize the engagement potential of NFS, banks must ensure their product suite, communication, and delivery are tailored to target segments, especially SMEs and women-owned SMEs (WSMEs). This approach allows customers to access the full range of financial and non-financial benefits offered.

Cross-Selling Opportunities: NFS participants tend to utilize more financial products compared to the general SME segment. Business clients engaged in NFS typically use more than one additional product per customer on average. For WSME NFS participants, this can be up to two additional products on average. This cross-selling is not only driven by existing clients but also attracts new clients, boosting brand awareness and differentiation.

Increased Fee Income: As the share of wallet increases, so does fee income, as customers take more products and transact more frequently. For example, TBC Bank in Georgia improved its fee income-based profitability by 74% after shifting to a subscription model that bundled business banking accounts with additional services like business education and networking events. Banks charging for NFS can realize additional revenue from this source.

Enhanced Customer Loyalty: NFS participants, especially WSMEs, tend to be more loyal. Many banks have reported increased Net Promoter Scores (NPS) attributed to their NFS efforts targeted at WSMEs. For instance, KCB saw their NPS rise from -2 to +43 within three years, attributing this improvement to their integrated financial and NFS offerings for WSMEs. NPS is an indicator of customer advocacy that helps gauge brand perception and loyalty, leading to increased customer lifetime value and reduced client churn. NFS clients are more likely to remain active, with a higher likelihood among WSMEs.

Reduced Portfolio Risk: Participation in NFS is correlated with lower non-performing loans (NPLs), likely due to deeper engagement with the bank and the benefits of capacity building. WSMEs participating in NFS have been shown to drive improved NPL rates. For example, KCB's WSME-focused credit methodology resulted in 0 percent NPLs compared to 12 percent for the overall SME portfolio. In 2018, WSMEs in IFC client banks with targeted Banking on

Women programs had NPLs of 1.9 percent, versus 3.8 percent for the total SME portfolio. Investments in NFS, such as NatWest's Women in Business initiative, can take six months to two years to pay off, as portfolio growth and new account openings align with WSME business needs and market awareness of new programs increases.

The integration of NFS into microfinance institutions offers multiple benefits, including enhanced customer engagement, increased product usage, higher fee income, improved customer loyalty, and reduced portfolio risk. These benefits are particularly pronounced for WSMEs, making NFS a valuable strategy for MFIs aiming to expand their market share and improve financial performance.

2.4.3 Costs Associated with Non-Financial Services (NFS)

Despite the positive attributes credited to NFS and highlighted in the section above, some scholars claim that there is a negative relationship between financial sustainability and outreach; a higher client base expansion leads to bigger transaction costs in turn reducing MFIs financial sustainability (Hulme & Mosley, 1998).

Costs can be of two types: capital expenditures or operating expenditures. NFS programs generally require a mix of the two and the split depends on the nature of the program offered. IFC (Tobin et al., 2020) defines them as:

Capital Expenditures: Usually, long-term investments such as proprietary digital tools developed either in-house or with a partner, development and execution of staff trainings and integration of NFS into the sales model.

Operational Expenses: These are recurring, day-to-day costs such as networking events, on-going training sessions or automated financial management solutions.

Partnerships with third parties such as government, NGOs dedicated to entrepreneurship and/or poverty alleviation, academia, and professional services or coaching firms can help reduce the costs if they have similar aligned interest while also reducing the costs for the MFI. (ibid)

According to Lensink et al. (2018), the provision of NFS by MFIs increases the operational costs, approximately amplifying 5-10% of the MFIs operational expenses, which leads to higher financial burdens on the MFIs and thus a lower financial performance. Various other studies have argued that MFIs clients considered NFS to be of low quality and irrelevant (Berger, 1989). Other scholars, such as Berger and Goldmark (2006) argued that skills trainings not only increase MFIs operational costs but also has no effect on the clients' reimbursement behaviour.

The report by Flores & Serres (2009) analysed five MFIs that integrate NFS into their models (depicted in Figure 5). These MFIs have diverse operating expense ratios (ability to manage operating expenses in relation to assets and revenues, Hayes & James, 2010) ranging from 21% to 58%, which are higher than average for Latin America (19.5%). The larger NFS MFIs like CRECER, Pro Mujer Bolivia, Pro Mujer Peru reported an operating expense ratio quite similar to that of MFIs using the village banking methodology (25.4%). However, the smaller MFIs like FINCA Peru and Pro Mujer Nicaragua have a much higher operating expense ratio than MFIs using the village banking methodology (48.3% and 38.0% respectively). Despite having similar portfolio sizes to those using the village banking methodology, these smaller MFIs incur highest costs, maybe indicating that MFIs providing NFS face a higher cost structure.

Figure 5: Benchmarking on Latin American MFIs providing NFS

Institutions	*CRECER Bolivia 2008**	*Pro Mujer Bolivia 2008**	*Pro Mujer Nicaragua 2008**	*Pro Mujer Peru 2008**	*FINCA Peru 2008**	*Latin America 2007***	*Village Banking 2007****	*All MFIs 2007****
Financial products	Village Banking	Village Banking	Village Banking	Village Banking	Village Banking, group lending	NA	NA	NA
Non-financial products	Training on business, health and personal development	Health assistance, training on business development and sanitation	Health assistance, training on business development and sanitation	Health assistance, training on business development and sanitation	Training on business development	NA	NA	NA
Outstanding portfolio (USD)	37,143,879	27,812,930	5,109,398	12,964,008	2,745,594	6,638,122	3,861,404	6,897,451
Number of borrowers	100,387	87,626	26,365	49,308	12,276	11,682	17,694	11,041
Average loan outstanding per borrower (USD)	370	317	194	263	224	743	186	520
Yield on portfolio	38.6%	37.2%	47.5%	51.0%	66.5%	31.7%	32.9%	29.9%
Operating expense ratio (Operating expenses/ outstanding portfolio)	21.5%	22.5%	38.0%	25.8%	48.3%	19.5%	25.4%	19.2%
Loan officers productivity (active borrowers/loan officer)	480	440	463	394	261	230	277	209
Portfolio at risk > 30 days	0.6%	0.8%	5.8%	0.0%	0.6%	3.2%	2.2%	2.7%
ROA	9.0%	7.4%	6.2%	16.4%	9.3%	1.7%	0.8%	0.6%

Source: Microfinance Information Exchange (MIX, 2008)

In parallel, other scholars, such as Hulme and Mosley (1996) and Gutiérrez-Nieto et al. (2009) stated that MFIs financial performance depends strongly on its social accomplishment, explaining that although NFS may upsurge operational expenses, they also enhance MFIs attractiveness to clients and thus become more competitive compared to other MFIs. This eventually maximizes the MFIs efficiency and promotes its financial performance. The analysis from IFC found that income from increased loan revenue can “more than cover the cost of associated NFS for both an overall SME portfolio and WSME segment specifically” (Tobin et al., 2020, p. 18). WSMEs that have participated in NFS have been found to drive loan portfolio growth in multiple analysed banks. Studies like Freedom from Hunger has made significant contributions to proving that models like Credit with Education (Vor der Bruegge et al., 1999) have an additional cost of less than 10% of the total costs of the MFI, with demonstrated trends of decreased costs as the program matures.

In terms of operational performance, MFIs offering NFS show a much better portfolio quality than their peers. The study by Flores & Serres (2009) found all but one (Pro Mujer Nicaragua affected by the 2008 microfinance crisis in Nicaragua) maintain excellent portfolio quality, with portfolios at risk (PAR) at 30 days (PAR 30) lower than 1%. In comparison, their peers all have a PAR 30 higher than 2.0%. The study (Flores & Serres, 2009) also highlights the case of FINCA Peru that serves around 12,000 clients (as of 2008) with a loan portfolio of $2.7 million, with its main focus on the lease developed regions of Peru. It strengthens its model on the village banking methodology and offers NFS including personal development, leadership training, social and financial literacy etc. These services are reported to enhance client loyalty with a 72.6% retention rate and a PAR 30 that has been consistently below 1% as of December 2008. It offers NFS by leveraging external expertise and partnering to avoid in-house costs and in turn enables the institution to develop stronger community bonds and expand its network.

Some more convincing statistical finings contribute to the positives of NFS. The study by IFC (Tobin et al., 2020) found that on average, loan size for WSME having received NFS is up to 18% larger than for male SME in the same portfolio. BLC Bank Lebanon saw an 82% increase in WSME borrowers compared to about a 46% increase in total SME borrowers in the three years following the launch of its women-focused WE Initiative that offered personalized and tailored NFS to borrowers. From 2014-2016, Banco BHD Leon in the Dominican Republic’s WSME loan portfolio grew by 26% while the overall loan portfolio grew by 19% after the launch of its Mujer Mujer program, which integrates tailored NFS and credit services into one. (Mccartney et al., 2016; CASE, 2017; ACBA Bank Analysis, IFC, 2020)

RIZK et al. (2022) findings concluded that NFS had a positive impact on the financial performance of Lebanese microfinance institutions, with financial sustainability and loan quality demonstrating the most positive impact. Here, financial sustainability’s measures are total financial costs, total financial revenues, return on assets, and return on equity (Mersland & Strom, 2014). Through offering NFS to clients, their repayment ratio rises, which increases MFIs' total assets and consequently increases their return on assets (ROA).

2.3.4 Delivery Models of Non-Financial Services (NFS): Linked, Parallel, and Unified

Three distinct models exist when integrating NFS into microfinance: linked, parallel, and unified. (NFS 101, 2011; Freedom from Hunger, Grameen Bank, 2016)

Linked Model: Here financial services are provided by an MFI while non-financial services (NFS) are delivered by separate, independent organisations. The model is best suited for specialised services like health or agricultural assistance where MFIs do not directly provide these services but have an external partner that does it for them. However, this limits the quality control MFI can have and the low delivery of services might affect its clients.

Parallel Model: Here financial services and non-financial services are both offered by the same organisation but managed separately by specialised staff. This is best suited for tailored services but poses a significant financial and administrative burden due to managing varied programs under the same organization. For example, FUNDAP in Guatemala, or Interactuar in Colombia, have strong training and microcredit programs, provided by different departments to clients who are not necessarily beneficiaries of both services.

Unified Model: This model integrates financial and NFS into hybrid product delivered by the same staff within the MFI. Usually in such a model, NFS are compulsory for customers to attend like financial education or training sessions. These activities are usually part of the disbursement process or group meetings. A well-known example for such a model is the Credit with Education model developed by Freedom from Hunger (2016). It is based on the village banking methodology, whereby groups of 15 to 25 women meet every week to receive financial services from a loan officer, who then gives a 10 to 20 minutes education session on issues such as health, nutrition, business and financial literacy. This model is usually low-cost since the trainings etc. are often offered by the same staff. However, this can be less tailored and might have a low impact on the overall group in terms of education retention.

2.4.5 Challenges and Criticisms of Non-Financial Services (NFS)

NFS when integrated with microfinance offers numerous benefits. However, critics argue that MFIs often lack the necessary infrastructure in skills or mandate to provide NFS, which might send mixed signals to the clients (especially if the services are free of charge) and divert the attention away from the main financial services they offer. Additionally, NFS can hinder MFI's ability to achieve financial self-sufficiency if the service provision incurs high costs, broadening the already expensive microfinance operations.

Smith (2002) analysed health training's impact on Project HOPE borrowers in Ecuador and Honduras, showing mixed results. Other scholars like Karlan and Valdivia (2011) found no significant positive impact of a Peruvian business development program of FINCA borrowers' key outcomes such as business revenues and profits, but observed positive benefits in business practices.

Using a balanced scorecard approach integrating five financial and non-financial metrics, Kipesha (2013) evaluated Tanzanian MFIs and found better performance in financial aspects compared to non-financial ones. Similarly, another study by Masakure et al. (2008), studied Ghanian microenterprises and found some shortcomings in using apprenticeships to explain performance measures. The study highlighted that while it is generally believed apprenticeship improves business performance by allowing for knowledge transfer, the findings do not support this view. Most microenterprise entrepreneurs in Ghana reported to have not undergone apprenticeship, and those who did, reported not working in that sector when they entered the job market, or simply finding the program to not be as effective. This discrepancy suggests that the mere completion of an apprenticeship is a poor indicator of an entrepreneur's knowledge and management skills for their current business. It is crucial to assess not just the level of education and training entrepreneurs have received, but also how relevant these skills are to their current business operations for NFS to be effective.

Babajide (2011) conducted a study using cross-sectional survey to examine the effects of NFS of MFIs on the performance of microenterprises. The study utilized multiple regression techniques and considered various NFS proxies, including advisory services, pre-loan training, group membership, cross guarantees, networking meetings, business training, and supervision. Although the results were not definitive, they indicated a tendency towards a positive relationship between NFS and microenterprise performance.

A study by Biosca et al. (2011) interviewed 384 women traders selected from 17 Microfinance Banks (MFBs) in Nigeria. The NFS evaluated included training, advisory services, group membership, network meetings, and supervision, while MFBs performance was measured by increased income, assets, and savings. The study used ordered logit multiple regression (ordinal regression model) to analyse the relationship between these NFS and performance of MFBs. The results showed that training had a positive significant impact on performance overall (z-Statistic > 2, $p < 0.05$), though its contribution was not very high. Nonetheless, training had the highest impact compared to other NFS. Network meetings also showed a significant positive relationship with savings (z-Statistic > 2, $p < 0.05$), but no significant relationship with other performance indicators. Other NFS such as advisory services, group membership, and supervision did not show significant relationships with performance (z-Statistic < 2, $p > 0.05$). Interestingly, group membership and supervision had a negative non-significant relationship with all performance indicators, while advisory services showed a non-significant relationship. Training, despite its overall positive impact, did not significantly influence empowerment ($p > 0.05$, coefficient 10%). The relationship between network meetings and performance varied, showing a positive non-significant relationship with additional income and assets, a significant positive relationship with savings, and a significant negative relationship with empowerment.

Group membership and supervision showed impact performance, suggesting that the supervision methods employed by MFBs may be ineffective (Biosca et al., 2011). Additionally, advisory services do not significantly enhance performance, indicating a need for banks to improve their advisory practices, especially in promoting savings. While network meetings positively impact savings, they do not empower women, highlighting a complex relationship between network engagement and empowerment. The study by Biosca et al. (2011) echoed the findings of Simeyo et al. (2011), suggesting that micro-entrepreneurs might perform better with individual loans rather than group loans.

2.5 Background of Microfinance in Europe

In Europe, microcredit is characterized by the following (European Commission, 2004):

Aim: To create or expand income-generating and job-creating activities or micro-enterprises, primarily by financing initial investments or working capital needs.

Target Group: Micro-entrepreneurs, self-employed individuals, and socially excluded people who lack access to traditional sources of capital.

Loan Size: Individual loans do not exceed EUR 25,000; average micro-loan provided by Micro-finance Institutions (MFIs) in Europe is approximately EUR 7,700.

Microfinance first began in Eastern Europe in the late 1980s driven by the collapse of the Berlin Wall in 1989 and the dissolution of the Soviet Union in 1991 which led to increased unemployment (Jayo et al., 2010). Driven by entry of foreign banks, the development of the entrepreneurial sector and the privatization of the financial sector microfinance in Central and Eastern Europe grew (Kraemer-Eis & Conforti, 2009).

Germany's Cooperatives Raiffeisen in the 19^{th} century, Italy's 'Casse Rurali' cooperative model, and the UK's Cooperative Credit Society Act of 1904 (Mader, 2016) are some of the historical initiatives within Europe that can be traced to the initiation of servicing credit to vulnerable populations. In Western Europe, microfinance further spread by the Lisbon Agenda of March 2000, which aimed to support economic growth and social inclusion (Enam, 2016). Despite an already extensive banking network, many microenterprises still lacked access to financial services (Kraemer-Eis & Conforti, 2009). However, modern microfinance models draw its inspiration from models that emerged in developing countries in the 1970s (Kraemer-Eis & Conforti, 2009).

Microfinance was developed as a solution to combat exclusion from traditional banking services by promoting self-employment and income-generating activities, ultimately improving the financial aspect of poverty and subsequently influencing education and health outcomes (Armendáriz, 2009; Botti et al., 2016). In 2008, European authorities acknowledged microcredit as a vital instrument in meeting the Europe 2020 Strategy's objective of decreasing the number of individuals vulnerable to poverty and social exclusion by 20 million by 2020. Due to this acknowledgment, support programs were implemented for microfinance institutions, leading to a 13% increase in the number of active micro-borrowers in Europe (Diriker & Benaglio, 2018; Vandeputte & De Toffol, 2017).

Despite this growth, a substantial population around Europe still lacks access to finance, with many at risk of poverty (Pedrini & Ferri, 2016). While poverty in industrialized nations is often overlooked (Armendáriz, 2009), microfinance institutions have begun offering financial services in these regions as well (Jayo & Conzett, 2010). The aim of European microfinance is to promote self-employment and support micro-enterprises, which are vital for job creation. Supporting new businesses and developing existing ones are seen as essential tools for escaping poverty or unemployment (Kraemer-Eis & Gvetadze, 2015).

2.6 Microfinance Differences Between Developing and Developed Regions

Since this study evaluates European models of microfinance, especially in the context of non-financial services (NFS) offered, it is vital to highlight some of the operational differences between Microfinance Institutions (MFIs) operating in Europe and those in developing countries like Pakistan, which is the focus of this research.

2.6.1 Loan Size, Interest Rates and Wealth Differences

The difference in the level of poverty amongst developing and developed nations is significant. The wealth gap is vast, showing a huge difference in GNI per capita between the wealthiest and poorest nations, like the gap between USD 720 in the Democratic Republic of Congo (DRC) and USD 72,080 in Luxembourg. Industrialized countries have significantly fewer people living below the poverty line compared to developing countries (Armendáriz, 2009). Social safety nets in welfare states reduce the number of people at risk of poverty and greatly impact the lives of socioeconomically vulnerable people (Cozarenco & Szafarz, 2014).

The difference in loan size is also significant. While the average loan size in developing countries was below USD 1,000 (Becker, 2011), the average microloan size in Europe is approximately EUR 6,000, specifically EUR 8,000 for business loans and EUR 2,000 for personal microloans (Botti & Torre, 2016). Additionally, subsidies in developed countries allow MFIs to offer pricing below the level required to cover all the operating costs implied by microcredit activity (Bruhn-Leon et al., 2012).

In Europe, a microcredit loan is defined as a loan not exceeding EUR 25,000. In comparison, in Pakistan, a microcredit loan usually caps at PKR 150,000 (approximately EUR 770). This stark difference in loan sizes reflects the varying economic environments and needs of the borrowers in these regions. Another important difference lies in the average effective interest rate charged to micro-borrowers, which is directly linked to the cost structure (i.e., operational costs, cost of capital, and loan losses) and the revenue model (i.e., margins) of the MFI. In developed countries, MFIs usually charge customers lower interest rates. This can be partially explained by the lower servicing costs due to better infrastructure and by the bigger average loan size, which allows economies of scale (Bruhn-Leon et al., 2012).

In Pakistan, MFIs often operate on interest-free loan models due to religious reasons, adhering to Islamic finance principles that prohibit charging interest (riba). Instead, these MFIs employ alternative methods like profit-sharing (mudarabah) or cost-plus financing (murabaha). This approach aligns with the cultural and religious context, ensuring greater acceptance and participation among borrowers. This disparity reflects the differing economic conditions and borrowing capacities in each region. However, the smaller loan sizes are a big issue and because of the no-interest policy, MFIs might be pushed for a smaller loan size to reduce and spread risk and also, diversify their clientele. (Iqbal et al., 2015)

2.6.2 Proportion of The Informal Sector

Another stark difference is the size of the informal sector. In industrialized countries, the number of self-employed individuals working in the informal sector is estimated at about 16% of the labour force, whereas in developing countries it is around 50%, with some countries in South Asia and Sub-Saharan Africa exceeding 90% (Loayza, 2016). This indicates a smaller number of poor individuals and a much smaller degree of informal sector laborers who are excluded from formal employment in developed countries (Armendáriz, 2009).

2.6.3 Bank and Account Penetration

The figures relative to the degree of the informal sector underline another difference that touches financial inclusion and microfinance: the level of bank penetration. Industrialized countries are characterized by a high density of bank branches and a substantial level of bank account penetration. For example, Luxembourg has 77 branches per 100,000 people, while the Dominican Republic of Congo has only 1 branch (The World Bank and the International Monetary Fund, 2015).

World Bank (2017) estimates report that in developed countries, the percentage of people who own a bank account is much higher than those in less developing or developing countries. For instance, 94% of adults in the US and 99% in The Netherlands own a bank account. In comparison, this figure is much lower in developing countries like Bangladesh and Bolivia with 31% and 42% adults who own a bank account respectively. In Pakistan a similar scenario is found with just 21% of adults owning a bank account, while in India, this figure is around 80%. These significant differences highlight the ongoing challenges in achieving financial inclusion in developing regions.

2.6.4 Loan Type: Individual vs Group Loans

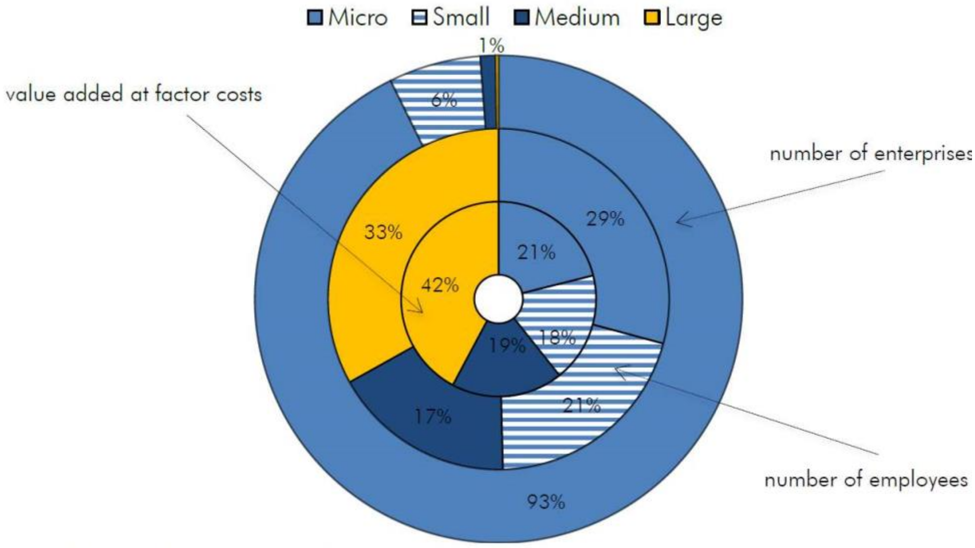
The type of microcredit offered in developed countries is individual, in contrast to the collective, group-based loans in developing regions. This difference is associated with different socio-economic contexts and reciprocity dynamics (Pedrini et al., 2016). Cultural dimensions, such as the 'individualism versus collectivism dimension' (IDV) of Hofstede's (2011) cultural model, play a significant role in the strength of social sanctions mechanisms, which are weaker in developed countries. In cultures that are more individualistic, people are expected to look after themselves and their immediate family. The sense of community and helping and trusting others is not very evident. Conversely, in collectivist cultures, people are integrated into strong, cohesive in-groups, who have an understanding of protecting and looking out for each other.

This cultural difference influences the type of microcredit offered. In developed countries, where individualism is more prevalent, microfinance institutions (MFIs) tend to offer individual loans. The low propensity to cooperate and share risks in these societies does not facilitate better repayment rates, leading to a preference for individual rather than joint liability loans. This contrasts with the original microfinance approach of Muhammad Yunus in Bangladesh, which was based on group loans and joint liability (Calidoni & Fedele, 2009).

In interviews conducted for this study, MFIs in Pakistan expressed a preference for giving group loans. They indicated that group loans guarantee repayment more effectively and are much more efficient than individual loans. This preference is rooted in the collective nature of Pakistani society like the one described above, where group loan system leverages mutual accountability and support among borrowers, making it a more sustainable model in the context of Pakistan's socio-economic environment.

According to the European Commission (2003), a microenterprise is "a company that has less than 10 employees and either a turnover or a balance sheet under EUR 2 million." Microenterprises represent more than 90% of European businesses (see Figure 6: SMEs, Employment, and Value Added In The EU). Hence, supporting them is crucial for further economic growth in Europe. In perfect market conditions, there would be no market gap regarding lending activities (Kraemer-Eis & Conforti, 2009). However, there is an unmet demand for professional and microenterprises loans, which keeps these actors on the outskirts of the traditional financial system (Convergences, 2106). Yet, professional and microenterprise loans remain unfulfilled, keeping these players outside the mainstream of the financial system. In order to address the market gap, the European Commission resolved in 2007 to take action on the factors that contribute to it, most notably the dearth of lending institutions, capital, and supportive conditions.

Figure 6: SMEs, Employment, and Value Added In The EU



Source: (Kraemer-Eis et al., 2017)

2.7 European Microfinance Sector Analysis

The European Microfinance Network (EMN) and the Microfinance Centre (MFC) collaborated on a report that surveyed 149 institutions from 22 European countries. The report's results, although not exhaustive, offer valuable insights into microfinance sector behaviour for the period 2014-2015.

2.7.1 Institutional Models

The surveyed institutions operate under various institutional models, reflecting the diverse national regulatory contexts. These models were categorized into five groups:

- Non-bank financial institutions (60%)
- Non-governmental organizations (31%)
- Commercial banks (3%)
- Cooperatives or credit unions (3%)
- Government bodies (1%)

For most of the institutions mentioned above, microcredit accounts for over 75% of their overall turnover, with 29% of these institutions offering both financial and non-financial products and services.

2.7.2 Funding Sources

These organisations reported of receiving funding mainly through grants, loan financing, equity, and external guarantees. In 2015, the most common source of funding was debt financing, standing at a 30.3%. However, grants, which make up 38.7% of the funding for Western European institutions, are crucial, especially for those in France, Ireland, and Italy. In contrast, nations like Bulgaria, Bosnia-Herzegovina, and Albania are more likely to use loan funding. Higher microloan pricing results from the difference between the non-subsidized, cost-covering models of some Eastern MFIs and the preponderance of socially-oriented, somewhat grant-dependent MFIs in the West (Bruhn-Leon et al., 2012).

2.7.3 Financial and Non-financial Products (NFS)

Eastern European MFIs primarily offer financial products, while 59% of Western European MFIs also provide non-financial services (NFS) such as business development, financial education, and mentoring. These services are delivered in person (56%), online (4%), or both (40%). Additionally, 87% of Western MFIs utilize external actors like volunteers for these non-financial services (NFS), reaching nearly three-quarters of the clients receiving such products. West (Bruhn-Leon et al., 2012)

Institutions provide both personal and business loans among their financial goods. 51% of loans disbursed are business loans; 33% of institutions offer both types, and 16% only offer personal loans. In contrast to personal loans, which have a duration of 30 months and an average annual interest rate (AIR) of 19%, business loans normally have a tenure of 41 months and an AIR of roughly 10%. It is interesting to note that Eastern European nations have interest rates that are about 5% higher. Although the growth rate of company microloans is 8%, while that of personal microloans is 15%, business microloans still account for 71% of the EUR 2.5 billion total outstanding portfolio. (ibid)

2.7.4 Clients and Outreach

Financially excluded but economically active individuals and enterprises make up the target market for microlending in Europe; these individuals and businesses frequently lack formal credit history, collateral, or business acumen. This group includes, among others, women, elderly people, immigrants, low-skilled workers, jobless people, and micro-entrepreneurs (European Commission, 2009).

There were 747,265 active borrowers in 2015, a 13% rise from the previous year, according to the EMN-MFC Survey of 2014/2015. Business microloans had an 8% growth in active borrowers to 402, 365, while personal microloans saw an 18% increase to 344, 900.

Western MFIs place a greater emphasis on Non-Financial Services (NFS) like mentoring, financial education, and business development services. These services are essential because they encourage the expansion of businesses, help borrowers increase their capacity, and enhance financial literacy. Remarkably, almost three-quarters of the clients these services reach are from Western institutions, and 59% of MFIs providing NFS are based in Western Europe. This emphasis on NFS, which depends on outside funding sources and volunteers, represents a more socially conscious strategy.

Eastern European institutions, on the other hand, focus mostly on financial goods and have lower funding costs but higher interest rates, which results in superior operational self-sufficiency. In comparison to the West (21.4%), the East has a lower operating expense ratio (13.7%) and operational self-sufficiency.

CHAPTER THREE: METHODOLOGY/RESEARCH DESIGN

3.1 Data Gathering

The sampling methodology employed in this study aimed to capture a diverse but representative cross-section of microfinance borrowers across three major cities of Pakistan: Karachi, Lahore, and Islamabad. The selection of these studies ensures variability in geographical location, religion and ethnicity, providing a holistic and comprehensive overview of the demographic characteristics of Pakistan, ensuring the study’s results are viable and applicable to the general population of Pakistan.

3.2 Sample Selection

This research covers a sample of 47 borrowers across Pakistan. The distribution of the sample is represented in Table 5 below:

Table 5: Sample Distribution of Karachi, Lahore, and Islamabad

City	Number of Interviews	Akhuwat's Branch Name	Province	District	Address
Karachi	12	Saddar Town	Sindh	Karachi South	NJV School Building Opposite Radio Pakistan, Jinnah Road, Karachi
Lahore	15	Delhi Gate	Punjab	Lahore	Street Solijan Singh Near Hweli Alf Shah, Akhuwat Delhi Gate Branch, Lahore
Islamabad	10	Islamabad – 1 (Abpara)	Federally Administered Capital Area	Islamabad	Office no M-2, Arshad Arcade Plaza, Abpara, Islamabad
Islamabad	10	Islamabad - 2 (Golra)	Federally Administered Capital Area	Islamabad	G-11 service road Jaffer chowk, Rab nawab market G-12, Islamabad

Source: (Author, 2024)

Borrowers were selected from the client base of Akhuwat, the largest interest-free MFI in the world. The primary criterion for selection of borrowers was that the loan taken had to be solely for business purposes. There was no specific pre-condition for the type of borrower or the nature of the business. This ensured that the focus of the research remained on the entrepreneurial use of microfinance. Gender was also not a primary determining factor for selection. However, it is noteworthy that the sample still turned out to be very gender-balanced, comprising 24 women and 23 men.

The selection process was completely randomised to ensure an unbiased sample with only filter as mentioned before, being the type of loan, which was for business only. This was done to maintain the integrity and focus of the research on microentrepreneurs. This randomized approach helped in eliminating selection bias and provided a representative sample of Akhuwat's client base, enhancing the reliability of the research findings.

All 47 borrowers were involved in various types of businesses, ranging from grocery store shops, sewing, salon work, shoe making, and other such entrepreneurial activities. This diversity provided a broad perspective on the impact of microfinance across different types of business ventures.

3.3 Sampling Strategy

A purposive sampling, also known as selective sampling was adopted in this research. Purposeful sampling involves identifying and selecting individuals or groups that are especially knowledgeable about or experienced with a phenomenon of interest (Cresswell & Plano Clark, 2011). In this research, the phenomena of interest is the impact of NFS in microfinance models on entrepreneurs business and overall growth. In addition to knowledge and experience, Bernard (2002) and Spradley (1979) notes the importance of availability, willingness to participate, and ability to communicate experiences and opinions in an articulate, expressive, and reflective manner.

For this research, it was imperative that all these conditions were met. Targeted selection or specific inclusion criteria of borrowers who owned their own business/family business and/or took a loan to start their own business was crucial to ensure the relevance of the research. Assessing NFS on such clients was the main aim of the research, and if borrowers belonged to any other category of loans for example loans for cars, to fund education etc., the research would not have been effective.

3.4 Data Collection

This research used a researcher-administered survey approach as the primary data collection tool. This method was chosen primarily because a significant number of respondents were unable to read or write, necessitating the researcher to fill in the responses. The research employed predominantly open-ended questions with minimal close-ended questions that only required concrete information regarding demographics or loan details. Using unstructured, open-ended questions enabled the respondents to freely articulate their perspectives instead of being constrained to providing predetermined answers. The interviews were conducted in-person at the borrower's location, either at home or workspace, whichever location was most convenient and chosen by the borrower. Each interview lasted between 45 minutes to an hour. The borrowers were clients of Akhuwat as referenced in the previous section with pseudo names used to ensure anonymity of the borrowers.

The survey questionnaire was divided and organized into three main sections. The first section gathered the basic demographic information (age, gender, income, educational background) about the borrower. The second section focused on the borrower's relationship with the MFI (in this case, Akhuwat) inquiring further into types of loan taken, challenges faced, and suggestions for improvements. The third and final section focused on the borrower's perspective of NFs and its perceived need. The diversity of the sample ensured fair and broad representation of characteristics typical to Pakistan.

Apart from the surveys from primary borrower respondents who are clients of Akhuwat, this research also derives evidence and data from interviews and further in-depth analysis from MFIs around Europe, especially those focusing on NFS in their microfinance models. These MFIs include Microfinanza (Italy), Qredits (The Netherlands), and organizations like Youth Business International (YBI) and NyföretagarCentrum (Sweden).

3.5 Geographical Diversity

The selection of Karachi, Lahore, and Islamabad for the collection of primary data was intentional, since these three cities represent significant urban centres in different regions of Pakistan, providing a varied range of households, belonging not only to different cities from different provinces (Sindh, Punjab and Islamabad respectively), but also varied in their locality of urban and peri-urban areas. The sample size, therefore, is a decent reflection, if not exactly accurate, of the general population of Pakistan.

Karachi, the largest city in Pakistan, and a major metropolitan area in the province of Sindh, is a melting pot of various ethnicities and religions since it became the city most people migrated to from different parts of Pakistan and India when the Partition of 1947 happened. It is because of this very reason that Karachi also hosts a substantial community of *Mahajirs* (migrants) who are Urdu-speaking. The sample from Saddar Town, Karachi is very representative of the mix of ethnicities found in the city as it is the centre and the bustling heart of the city. The area has a significant presence of Muslims, Christians and Hindus with mostly Sindhis and Urdu-speaking *Mahajirs*. The diversity found in the sample from Karachi further adds a rich complexity to the study, providing insight into a city that is a chaotic representation of almost 25 million people trying to survive in the economic hub of Pakistan.

Lahore is a key city in the province of Punjab and one of Pakistan's most significant cultural, historical, and economics hubs. For Lahore, the Delhi Gate branch was chosen because of its key demographics and strategic location. The area is densely populated, with multi-generational families living in a single household, and there is a high percentage of loan disbursement in the area due to high levels of poverty.

Islamabad is the federal capital and the only planned city of Pakistan, with a large part of the population involved in government or professional jobs. Two branches, namely Abpara Branch and Golra Branch were chosen, offering a unique perspective of urban and suburban demographics. The areas in Islamabad are far less densely populated than Delhi Gate, and have a more urban feel. To ensure a diverse ethnic and religious representation in the data collected, the Golra branch was chosen, since the area predominantly hosts Christians.

By selecting these three cities, the study captures a broad spectrum of Pakistan's populace, accounting for variations in geography, religion, ethnicity, social structures, economic activity and cultural diversity.

3.6 Ethnic and Religious Representation

The sample selection from the three different cities represents a diverse range of ethnicities and religions as discussed above. In Karachi, the population consists of mostly Sindhis and Urdu-speaking Mahajirs who are predominantly Muslims but a significant population of Christians and Hindus also exists. In Lahore, the population is predominantly Punjabi and Muslim, with a small percentage of other ethnicities and religions; a good reflection of the historical diversity of Lahore. Islamabad is also predominantly Punjabi and Pashtun with mostly Muslims. However, in the Golra Branch, there is a higher concentration of Christians and therefore, 10 interviewers from this branch were all Christians.

CHAPTER FOUR: DELIMITATIONS, LIMITATIONS, ASSUMPTIONS

There are several limitations to this research, given the short timeframe for data collection and several other factors that hindered reaching stronger statistical inferences for findings to be generalizable to the populace. It is crucial to mention here that the main aim of this research was not to gather statistical data, instead to accrue rich, in-depth accounts of the subjects. A sample size of 47 borrower respondents is arguably not sufficient to be generalisable to the larger population. Nonetheless, the detailed insights provided by the respondents are valuable for understanding the nuances of their financial needs and challenges, the loan's effect on each individual microentrepreneur and their perceived benefits and importance of NFS even if the sample size is limited.

For such research, a longitudinal approach where subjects undergo a control group environment over a long period of time would be more effective to test the hypothesis if NFS have a direct positive effect on the client's businesses. This would help determine if NFS contributes to the growth of the businesses, ensuring sustainable entrepreneurial success. Even so, concretely and quantitively measuring the value-added by NFS is difficult to achieve since the co-relation of NFS and success of business is not easily quantifiable.

However, despite these limitations, this study proves the need for a larger NFS integration in microfinance model, not just due to the identified perceived benefits of clients, but also with the substantial literature review supporting a similar stance. This study will pave way for more research in the future into the topic, and hopefully drive MFIs around the world to shift focus from only-credit, and move to a model that fully supports the client's needs.

CHAPTER FIVE: ANALYSIS AND KEY FINDINGS

5.1 Demographics of Respondents (Borrowers)

To effectively analyse the borrowers' responses and situate them within a relevant context, it is crucial to gain a deeper insight into the demographics of the sample population. This section aims to delve deeper into the demographic data such as population distribution, socio-economic backgrounds, education levels and occupational profiles of the general population in the sample branches. The detailed demographic analysis will help contextualize the research's findings and help guide the analysis further.

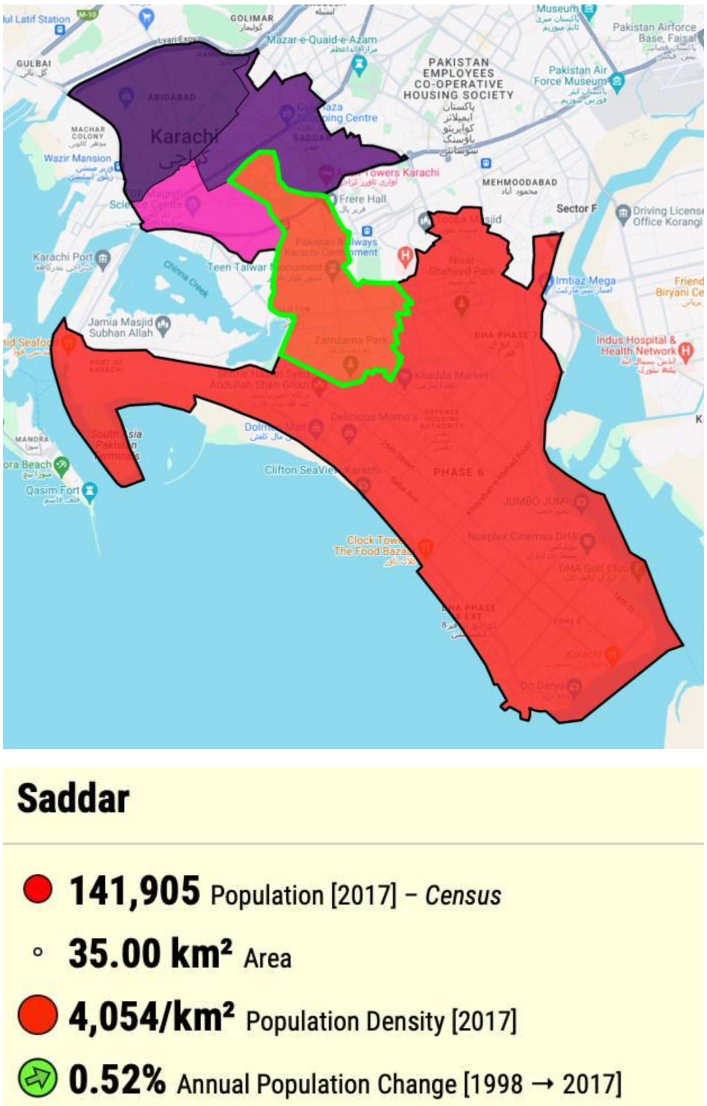
5.1.1 Saddar Town Branch, Karachi South District, Karachi

Population Estimate: The population of Saddar Town in South Karachi is densely populated as it is part of a metropolitan city. It hosts a population of 141, 905 residents with a population density of 4, 054 per square km (Figure 7). However, the population density of South Karachi district where Saddar Town is situated hosts a population of 2,329,764 and a population density of about 19,096 per square (Pakistan Bureau of Statistics, 2017) km which might be a more accurate and recent representation of the extremely dense area of Saddar Town.
Type of Population: Karachi South hosts a diverse population with a mix of ethnicities such as Sindhi, Muhajir, Baloch, and Pashtun. It is predominantly Muslim, but with substantial minority communities including Hindus, Christians, and others.
Occupation: Main activities include commerce, trade, services, and government employment, as well as in manufacturing and transportation.
Age Distribution (Figure 8):

- **Children (0-14 years):** Approximately 30% of the population, reflecting family-oriented residential patterns and high birth rates.
- **Youth (15-24 years):** Approximately 20-25% including students and young professionals.
- **Adults (25-64 years):** Approximately 35%, forming the majority of the workforce, engaged in diverse occupations and industries.
- **Elderly (65+ years):** Approximately 5-10% of the elderly population, with retirees and seniors.

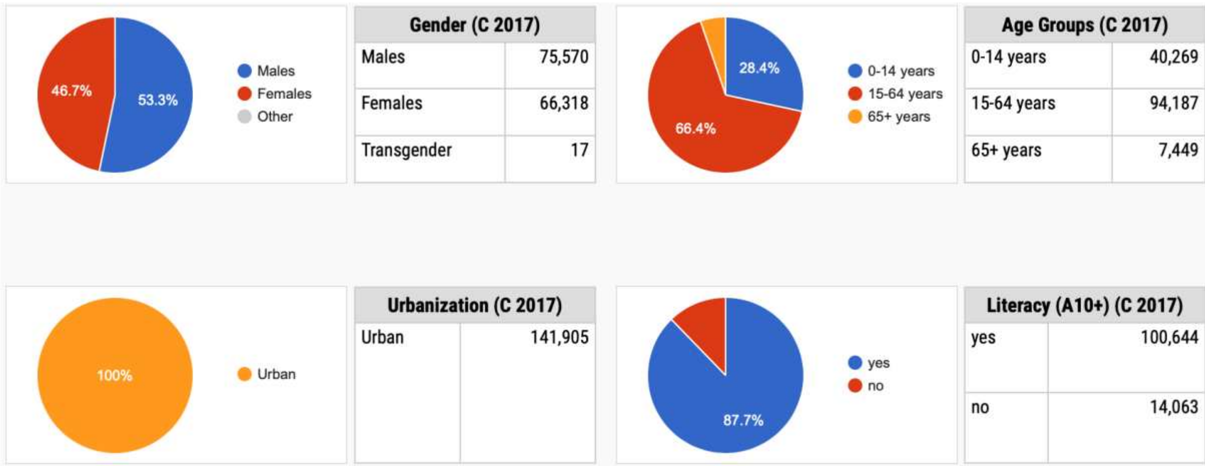
- **Literacy and Education:** Approximately 87% literacy rate, however, disparities exist between different socioeconomic groups.

Figure 7: Map of Karachi South with highlighted area of Saddar Town



Source: (Pakistan Bureau of Statistics, U.S. Bureau of Census: Demo base Pakistan, 2023)

Figure 8: Karachi Population by Gender, Age Group, Urbanization and Literacy



Gender (C 2017)	
Males	75,570
Females	66,318
Transgender	17

Age Groups (C 2017)	
0-14 years	40,269
15-64 years	94,187
65+ years	7,449

Urbanization (C 2017)	
Urban	141,905

Literacy (A10+) (C 2017)	
yes	100,644
no	14,063

Source: (Pakistan Bureau of Statistics, U.S. Bureau of Census: Demo base Pakistan, 2017)

5.1.2 Delhi Gate Branch, Lahore City, Lahore

Population Estimate: Delhi Gate forms part of the larger Walled City of Lahore, covering an approximate area of 2.6 square kilometres (about 1 square mile), and is home to approximately 3, 653,616 residents (Figure 9). Given the dense nature of the area, Delhi Gate itself likely hosts a significant portion of this population, potentially ranging from 20,000 to 40,000 residents, an estimated 7,692 to 11,538 residents per square km.

Type of Population: The population is predominantly Punjabi and Muslim, with a small percentage of other ethnicities and religions reflecting the historical diversity of Lahore.

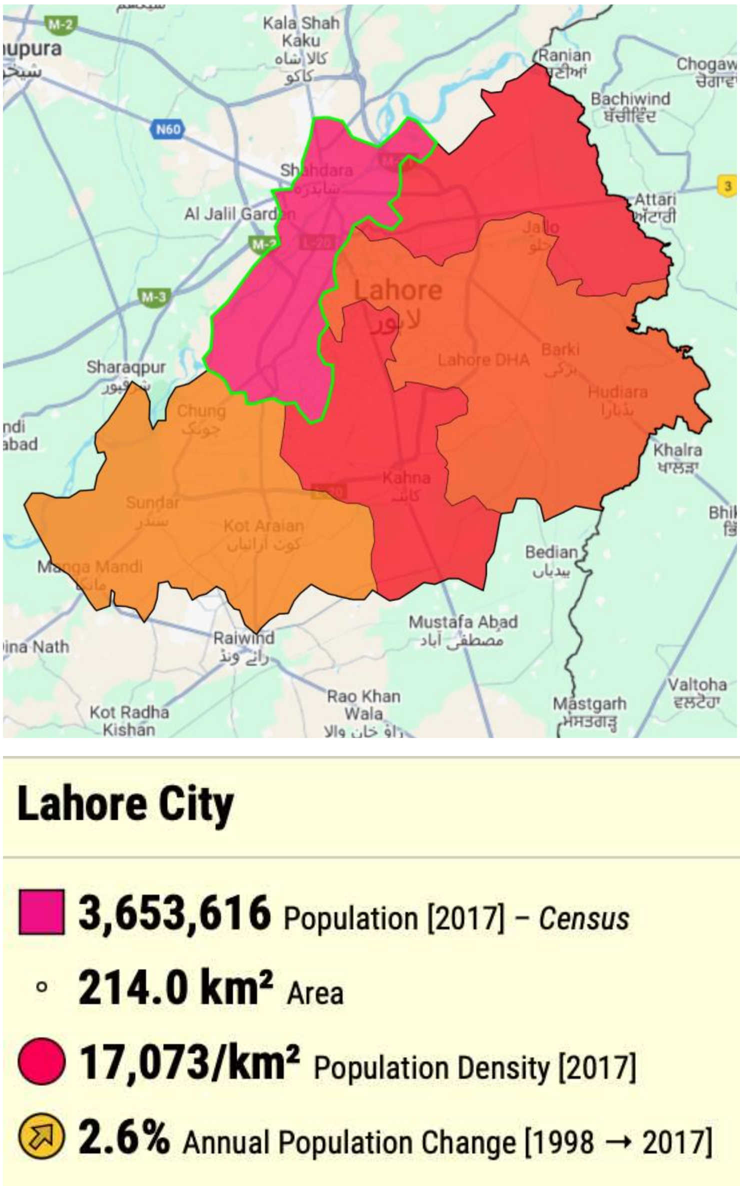
Occupation: Most involved in small-scale businesses, retail, trade, and artisanal work. The area is also home to many workers in the informal sector.

Age Distribution (Figure 10)

- **Children (0-14 years)**: Approximately 34% reflecting broader demographic trends in Pakistan of high birth rates.
- **Youth (15-24 years)**: About 20-25% with many young people either working in family businesses or pursuing education and vocational training.
- **Adults (25-64 years)**: Around 35-40%vforming the backbone of the local economy.
- **Elderly (65+ years)**: Approximately 5-10%
- **Literacy Rate**: Approximately 70% literacy rate which is lower than the national average. However, disparities exist between different socioeconomic groups.

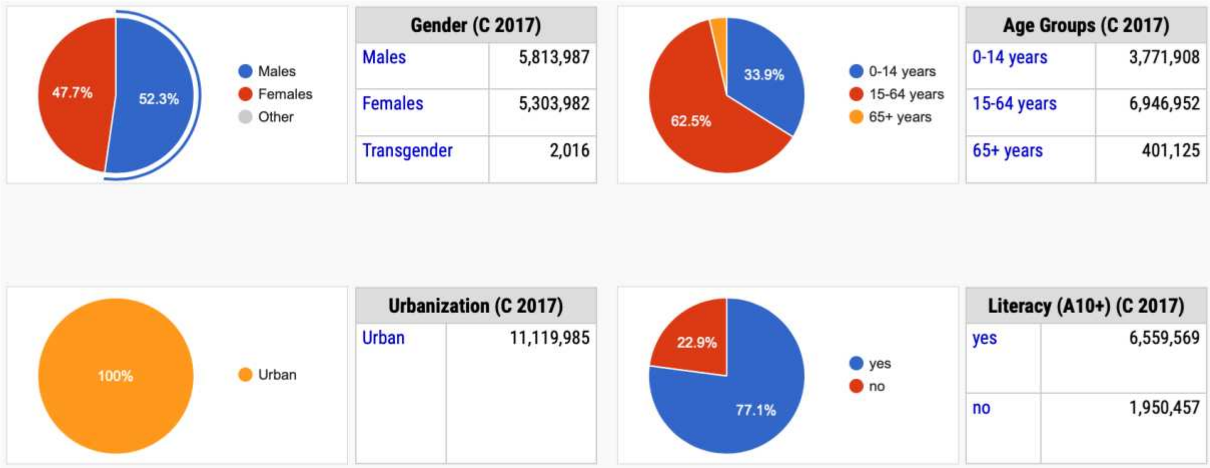
- **Housing**: Old and densely packed, with multi-generational families living together. During field visits in the family homes, maintenance was a big issue due to the age of the buildings.

Figure 9: Map of Lahore with highlighted area of Lahore City (Delhi Gate)



Source: (Pakistan Bureau of Statistics, U.S. Bureau of Census: Demobase Pakistan, 2017)

Figure 10: Lahore Population by Gender, Age, Urbanization and Literacy



Source: (Pakistan Bureau of Statistics, U.S. Bureau of Census: Demobase Pakistan, 2017)

5.1.3 Abpara Branch and Golra Branch, Islamabad

Population Estimate: The population of the Golra area near G-11 service road and Gaffer Chowk is less densely populated compared to urban centres like Lahore's Walled City and Karachi's Saddar Town (Figure 11). The city hosts 2,363,863 residents with a population density of 2,609 km per square, the lowest in all three cities discussed.

Type of Population: Predominantly Punjabi and Pashtun reside in Islamabad. The area is mostly Muslim, with a few people from other religious communities.

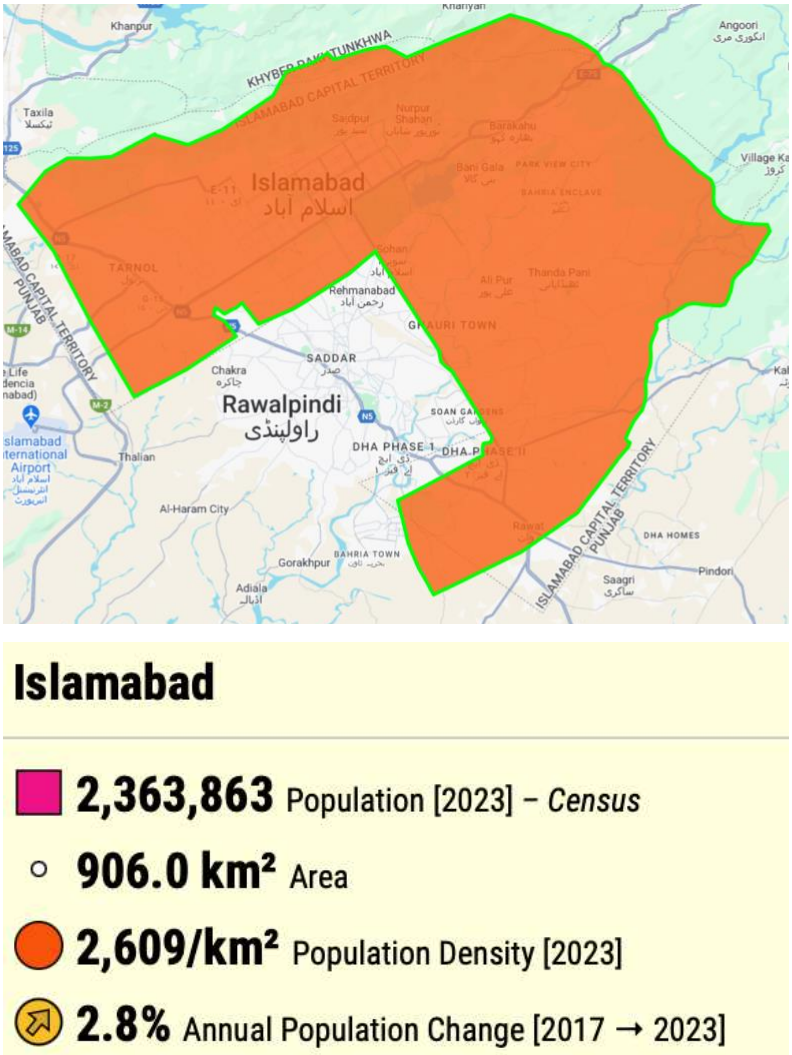
Occupation: Since Islamabad is the federal capital of Pakistan, the population is a mix of professionals, government employees, and small business owners.

Age Distribution (Figure 12):

- **Children (0-14 years)**: Approximately 34% reflecting broader demographic trends in Pakistan of high birth rates.
- **Youth (15-24 years)**: About 15-20% including students and young professionals.
- **Adults (25-64 years)**: Around 40-45% forming the majority of the workforce, with many employed in various professional sectors in Islamabad.
- **Elderly (65+ years)**: Approximately 10%
- **Literacy Rate**: The literacy rate in Islamabad is relatively high (around 85%), reflecting the overall educational profile of Islamabad.

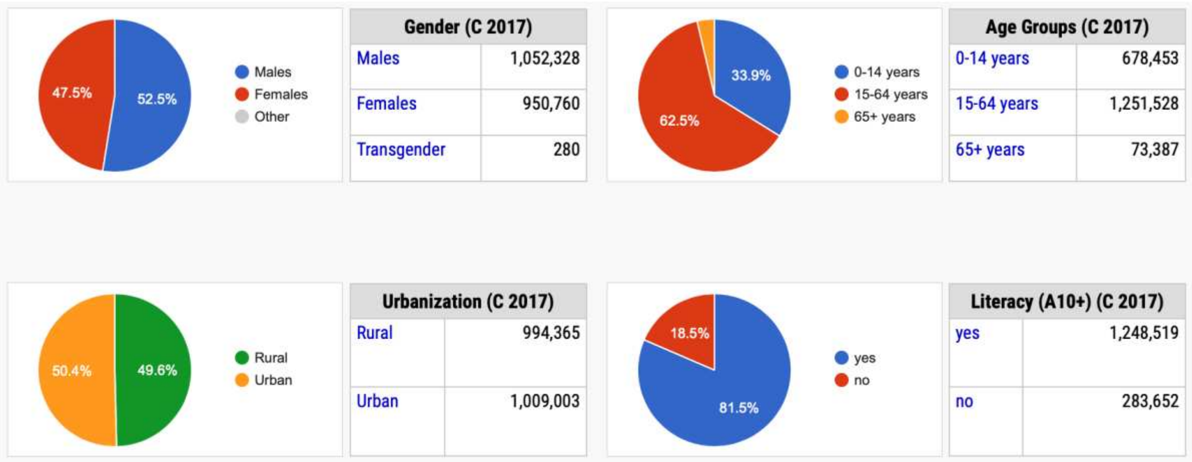
- **Housing**: Housing varies from modern apartments and houses to more traditional dwellings. The area is a mix of planned residential sectors and some older constructions.

Figure 11: Map Of Islamabad Highlighted and its Respective Population



Source: (Pakistan Bureau of Statistics, U.S. Bureau of Census: Demobase Pakistan, 2017)

Figure 12: Islamabad Population by Gender, Age, Urbanization, and Literacy



Source: (Pakistan Bureau of Statistics, U.S. Bureau of Census: Demobase Pakistan, 2017)

5.2 Borrowers' Profiles

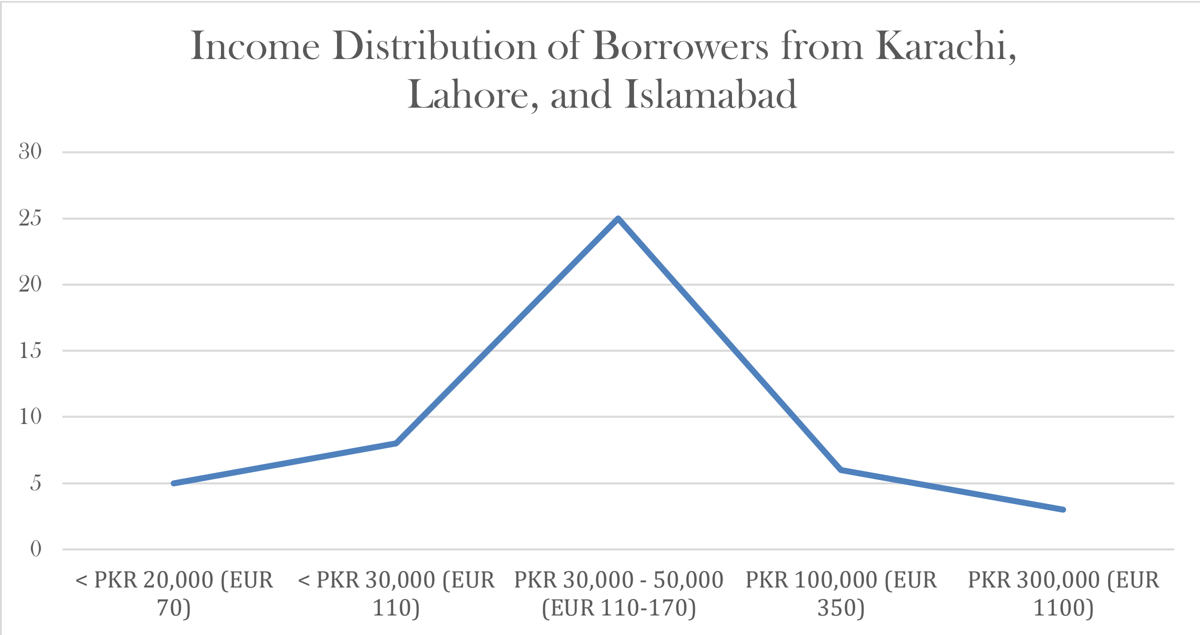
5.2.1 Income Differentials Amongst Borrowers

Income Distribution (Figure 13) depicts the way income is spread out amongst the sample population (borrower respondents). To paint a holistic picture, the combined figures from Karachi, Lahore and Islamabad are shown, providing valuable insights into the financial capabilities of the sample population and into the economic landscape of these urban centres.

The lower end of the income bracket is 'Less than PKR 20, 000 (EUR 70)' with a total of 5 borrowers falling in this category. With minimum wage in Pakistan being PKR 32, 000 (Table 9: Minimum Wage Comparison), the 5 borrowers who fall under the minimum wage, are at severe risk, coming very close to the poverty line of RS 17, 500, as discussed above. These 5 borrower respondents also reported having no access to education and expressed concerns over meeting basic needs and living day-to-day.

With a slightly higher income range, the 'Less than PKR 30,000 (EUR 110)' bracket indicates a larger number of borrower respondents, with 8 borrower respondents compared to 5 borrower respondents in the previous bracket. However, it still falls short of the minimum wage of PKR 32,000 per month (106 EUR per month). This presents a pressing concern, as 13 borrower respondents (approximate 28%) face significant challenges in achieving a decent standard of living and achieving financial security.

Figure 13: Income Distribution Of Borrowers with PKR And EUR Conversions



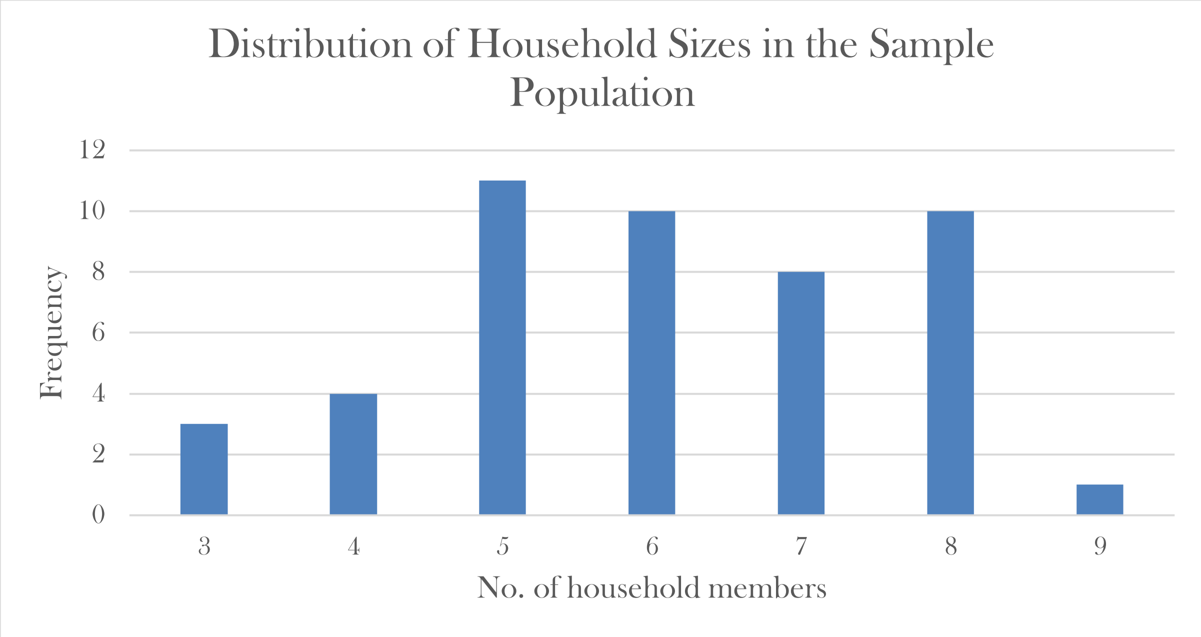
Source: (Author, 2024)

The highest number of borrower respondents (25, approximately 53%) fell into the income bracket of PKR 30,000-50,000 (EUR 110-170). Although this income bracket is slightly better than the previous two brackets, families earning less than PKR 50,000 are still under severe financial stress and inflationary pressures. Representing relatively higher incomes are the last two brackets at the upper end of the-spectrum: 'PKR 100,000 (EUR 350)' and 'PKR 300,000 (EUR 1,100)', with 6 and 3 borrower respondents respectively. This group, comprising only 12% and 6% of the sample population, demonstrated greater financial stability and security. The borrower respondents in this income bracket also rated higher levels of education, with no borrower reporting not having gone to school. All 9 borrower respondents in this category recorded an education level of at least high school with the highest education level being a Bachelor's degree.

5.2.2 Distribution of Household Sizes and Education Levels

Examining the educational levels of the borrower respondents helps delve deeper into analysing the profiles of the sample population and give an overview of the overall demographics of Pakistan. Figure 14 below provides a visual of the household distribution in Karachi, Lahore and Islamabad.

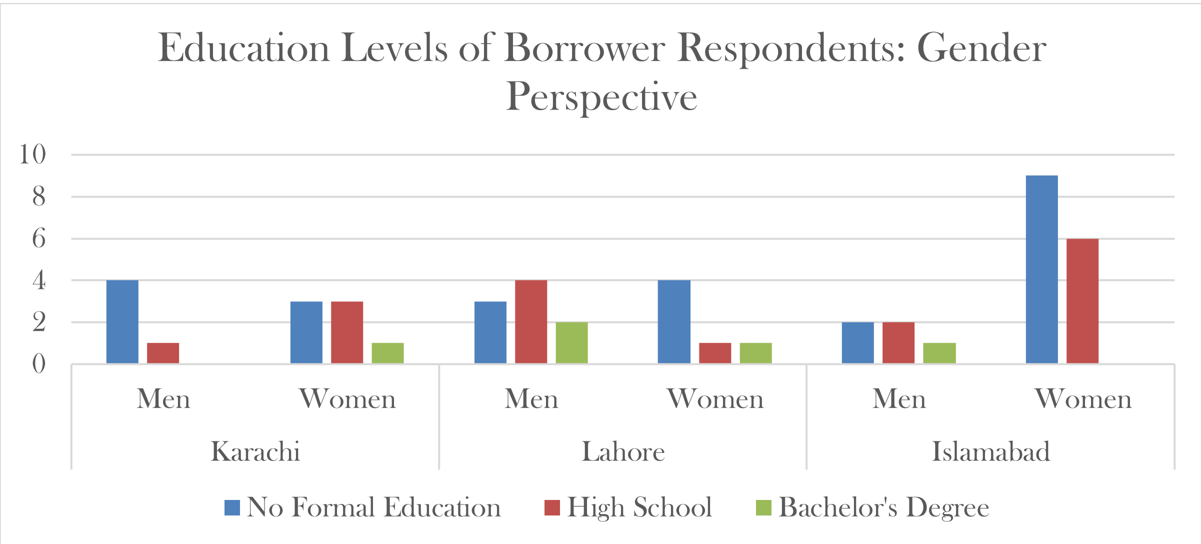
Figure 14: Distribution of Household Sizes in Borrower Respondents



Source: (Author, 2024)

The data above (Figure 14) shows that the average household size amongst borrowers is around 6.06 members. At the upper end of number of members in one household are around 19 borrowers reporting more than 7 members in the house, approximately 40% of the sample size.

Figure 15: Education Levels in Karachi, Lahore and Islamabad



Source: (Author, 2024)

The data in Figure 15 suggests varying levels of educational attainment across the three cities between men and women. About 53% of the sample population reported having no formation education followed by approximately 36% reporting only having completed high school.

Key Findings:

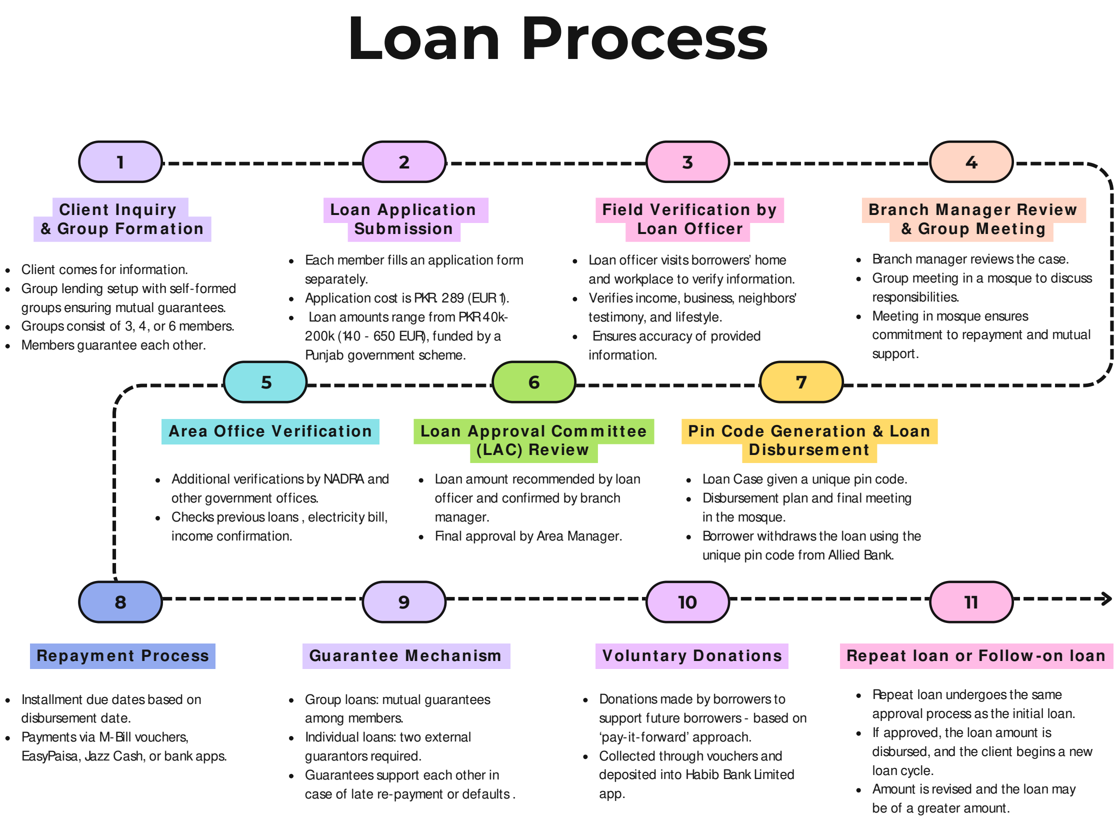
- In Karachi and Lahore, the number of women with no formal education is slightly higher than men. In Islamabad, there is a significant gender disparity, with 9 women compared to 2 men lacking any formal education.
- In Karachi and Islamabad, more women completed high school compared to men. In Lahore, the opposite seems to be true, where more men have completed high school than women.
- Only 5 out of 47 (approximately 10%) borrower respondents had completed a Bachelor's degree. Generally, there are fewer women who have completed a Bachelor's degree than men across all three cities.

5.3 Loan Procedures in Pakistani Microfinance Institutions (MFIs)

Figure 16 below provides a comprehensive overview of the loan process followed by Akhuwat. The process is elaborately designed and follows a thorough structure to ensure that loans are disbursed responsibly, with thorough verification and community involvement to promote accountability and support. Each step in the process is crucial in maintaining the integrity and effectiveness of the loan disbursement system and to ensure that repayments are managed effectively. By involving the community as a way of guarantors in each other's loans and utilizing digital payment methods, Akhuwat fosters the very name it is built on: the spirit of brotherhood.

The location of disbursement of loans in mosques is also unique to Akhuwat's methodology: it brings a spiritual element to the process and further strengthens the spirit of the borrowers in ensuring that repayments are made with commitment and on time.

Figure 16: Akhuwat's Loan Process



Source: (Author, 2024)

5.4 Loan Ranges and Frequency

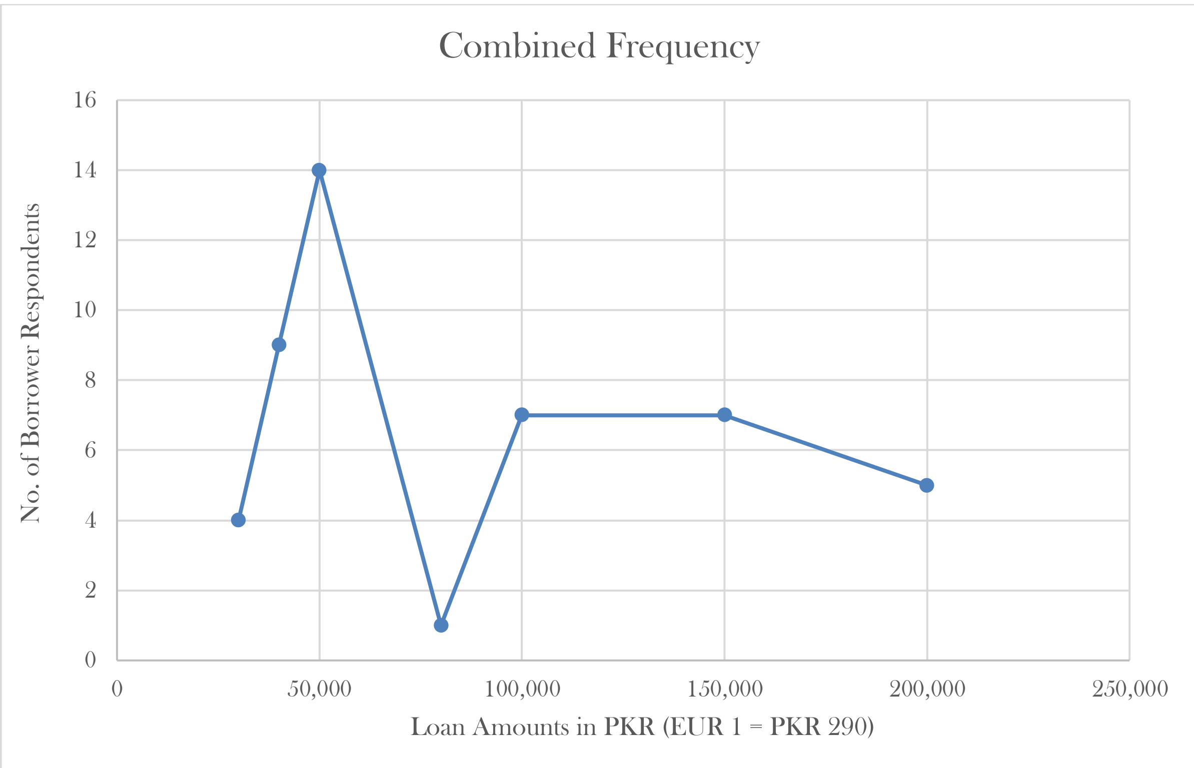
Figure 17 presents a visual analysis of the combined loan amounts with frequencies in terms of number of borrowers across the three cities: Karachi, Lahore, and Islamabad. Separate graphs for each city's loan amounts and frequencies can be found in the Annexes: Figure 24, Figure 25, and Figure 26 respectively.

Most borrowers were multiple-time borrowers, 33 out of 47, approximately 70% of the sample, who reported taking repeat loans or follow-on loans. On average, each borrower took out three loans. The remaining 14 out of 47 were first-time borrowers, with loan amounts ranging mainly between PKR 40,000 to PKR 50,000. A smaller loan distribution to first time borrowers is due to Akhuwat's hesitancy to grant larger loans to first-time borrowers, even after a business appraisal. Although some first-time borrowers did receive larger loans, up to PKR 150,000, these instances were very rare. Such larger loans were only granted under the condition of a particularly strong business appraisal. This cautious lending strategy highlights Akhuwat's commitment to minimizing risk while supporting new entrepreneurs.

The combined data shows that the most common loan give out was PKR 50,000 (EUR 168) with 14 out of 47 borrowers receiving this amount, approximately 30%. This was followed by a loan amount of PKR 40,000 (EUR 134), which was taken by 9 borrowers, approximately 19% of the sample. Combined, this indicates that the most common loans distributed ranged from PKR 40,000-50,000 with almost 50% borrowers acquiring loans within this range.

The data acquired from the interviews showed an average loan size of Karachi of PKR 72, 500 (EUR 241), Lahore of PKR 94, 667 (EUR 315), and Islamabad of PKR 86, 000 (EUR 286). If we just analyse the mean of the data found, we are misled in our analysis and might deduce that the average loan sizes are quite decent sized and would extend substantial help to the borrower.

Figure 17: Combined Data for Loan Amounts in Karachi, Lahore, and Islamabad



Source: (Author, 2024)

However, a deeper statistical analysis reveals significant differences and important contributions to the analysis. Table 6 and Table 7 show this statistical analysis revealing high variability in loan sizes provided and a significant spread around the mean loan amount.

Table 6: Statistical Calculation of Loan Amounts

Karachi				
Loan Amount (PKR)	**Frequency**	**Loan Amount - Mean**	**(Loan Amount−Mean)^2 (Loan Amount−Mean)^2**	**Frequency × (Loan Amount−Mean)^2 (Loan Amount−Mean)^2**
30,000	4	-42,500	1,806,250,000	7,225,000,000
50,000	3	-22,500	506,250,000	1,518,750,000
100,000	3	27,500	756,250,000	2,268,750,000
150,000	2	77,500	6,006,250,000	12,012,500,000
Total	12			23,025,000,000
Lahore				
40,000	3	-54,666.67	2,987,135,802.47	8,961,407,407.41
50,000	6	-44,666.67	1,995,802,469.14	11,974,814,814.82
100,000	2	5,333.33	28,444,444.45	56,888,888.89
200,000	4	105,333.33	11,091,111,111.14	44,364,444,444.54
Total	15			65,357,555,555.66
Islamabad				
40,000	6	-46,000	2,116,000,000	12,696,000,000
50,000	5	-36,000	1,296,000,000	6,480,000,000
80,000	1	-6000	36,000,000	36,000,000
100,000	2	14,000	196,000,000	392,000,000
150,000	5	64,000	4,096,000,000	20,480,000,000
200,000	1	114,000	12,996,000,000	12,996,000,000
Total	20			53,080,000,000

Source: (Authors, 2024)

This research also reveals the sizeable differences in loan, with the average loan size in Pakistan from the gathered data as: Karachi of PKR 72, 500 (EUR 241), Lahore of PKR 94, 667 (EUR 315), and Islamabad of PKR 86, 000 (EUR 286). Although interestingly, the most common loans distributed ranged from PKR 40,000-50,000 (EUR 134-170) with almost 50% borrowers acquiring loans within this range. Only around 12 out of 47 borrowers, approximately 25% borrowers in the data set had loans around the cap set by Pakistan at PKR 150,000 (approximately EUR 770).

Table 7: Mean Variance and Standard Deviation of Loan Amounts

Karachi		**Lahore**		**Islamabad**	
Statistic	**Value (PKR)**	**Statistic**	**Value (PKR)**	**Statistic**	**Value (PKR)**
Mean	72,500	Mean	94,666.67	Mean	86,000
Variance	1,918,750,000^2	Variance	4,357,170,370.38^2	Variance	2,654,000,000^2
Standard Deviation	43,807 PKR	Standard Deviation	66,013.42	Standard Deviation	51,526

Source: (Author, 2024)

Even though the mean loan amount disbursed in Karachi is PKR 72, 500 (EUR 241), 7 out of 12 borrowers, approximately 58%, received a loan well below the mean average of less than or equal to PKR 50,000 (EUR 166), while only 4 borrowers received a loan that was at the upper end ranging from PKR 100,000 to PKR 200,000 (EUR 330-670), falling above the mean average. This can be further analysed with the standard deviation of PKR 43,807 which indicates a significant spread around the mean loan amount, further reinforcing substantial differences in loan amounts.

In Lahore, a similar pattern emerges with 9 out of 15 borrowers, approximately 60%, received a loan well below the mean average (PKR 94,667) of less than or equal to PKR 50,000 (EUR 166), while 6 borrowers received a loan that was at the upper end ranging from PKR 100,000 to PKR 200,000 (EUR 330-670), falling above the mean average. Although in Lahore, a greater number of borrowers received the loan on the upper end than Karachi, the percentages remain very comparable in both cities. A standard deviation of PKR 66,013 again indicates a significant spread around the mean loan amount, further reinforcing substantial differences in loan amounts.

Islamabad has comparable statistics to the other two cities as well. With a mean of PKR 86,000, a larger loan size is shown. However, with a standard deviation of PKR 51,526, a significant spread around the mean loan amount is revealed, reinforcing substantial differences in loan amounts. This is further proved when analysed through raw data from the city: 11 out of 20 borrowers, approximately 55%, received a loan well below the mean average of less than or equal to PKR 50,000 (EUR 166), while 8 borrowers received a loan that was at the upper end ranging from PKR 100,000 to PKR 200,000 (EUR 330-670), falling above the mean average.

Even though Lahore has the highest average loan amount at 94,667 PKR, followed by Islamabad at 86,000 PKR, and Karachi at 72,500 PKR, Lahore also exhibits the highest variance, indicating the greatest spread or variability in loan amounts among the three cities. This could also indicate that due to Karachi shows the lowest variance at $1,918,750,000^2$.

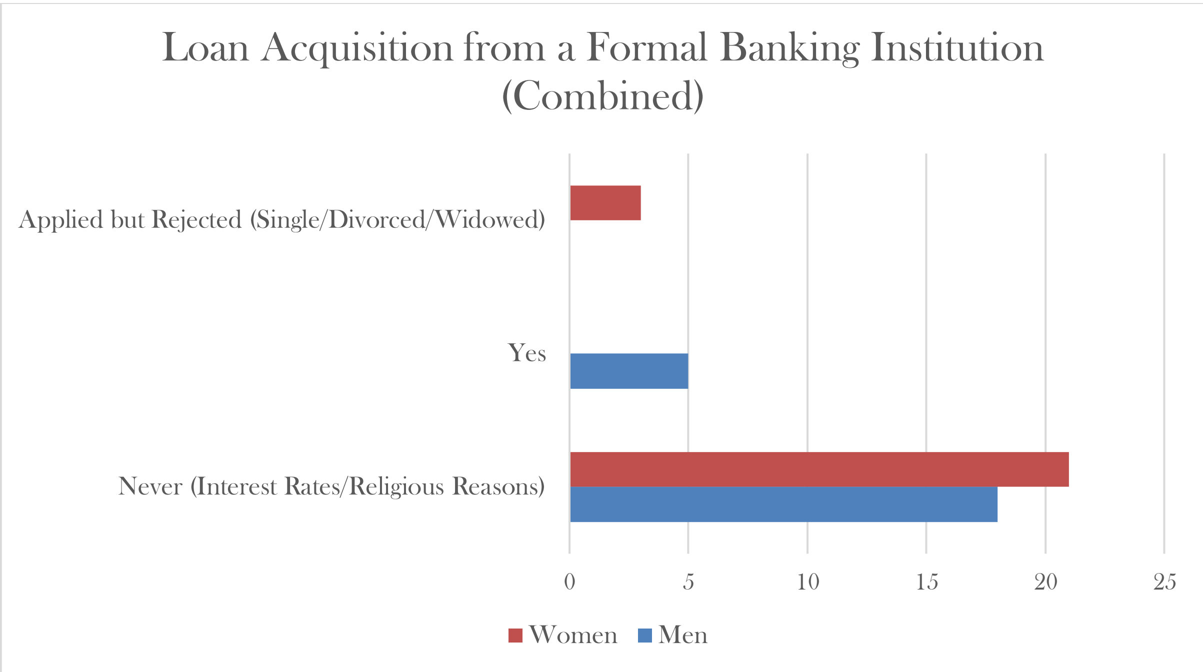
Consistent with variance, Lahore also has the highest standard deviation PKR 66,013.42, indicating the highest dispersion in loan amount, with Islamabad as the second highest at PKR 51,526 followed Karachi with the lowest standard deviation of PKR 43,807. Interestingly, Karachi also has the lowest mean average of loan sizes out of the three cities. This might indicate higher levels of poverty, and inability for borrowers to acquire a bigger loan size due to factors such as creditworthiness, repayment capacities or weaker business models.

Also, worth taking into consideration is data from qualitative questions that indicated how most borrower respondents falling in the category of receiving loans that were less than PKR 40,000-PKR 50,000 (EUR 133-167) expressed major financial struggles and expressed the desire for a bigger loan size that would help them build their business. Respondents argued that a small loan size of PKR 40,000-PKR 50,000 (EUR 133-167) received consistently by more than half of the sample size was not enough to even meet the basic needs of investing in the business. They maintained that a smaller loan size limits their business growth, and more money would mean better investment, and larger economic gains for their businesses over all. MFIs like Akhuwat can address these potential gaps by offering larger loans products to meet the investment needs of micro-entrepreneurs.

5.5 Access to Formal Banking Institutions and Perceived Challenges/Difficulties

Figure 18 shows the number of borrowers who acquired a loan from a formal banking institution. The graph presents an overwhelming majority of respondents who have never taken a loan from a formal banking institution. The 5 out of the 47 borrower respondents that did take the loan were all men. 3 women reported that they attempted to apply for a loan in a bank but were refused due to their marital status, being either single, divorced, or widowed.

Figure 18: Loan Acquisition from a Formal Banking Institution



Source: (Author, 2024)

39 out of 47 borrowers, approximately 83%, reported never taking a bank loan. The main reasons cited were the extensive red tape and paperwork involved in obtaining a loan from a bank, coupled with religious concerns, specifically the prohibition of interest rates in Islam. The bureaucratic hurdles and administrative complexities associated with formal banking institutions deter many potential borrowers. It is important to note that when asked, the borrowers expressed that they never even tried to take a loan because of the perceived challenges and difficulties surrounding this bureaucracy and preferred to apply for an MFI that is interest-free and hassle-free.

5.6 Non-financial Services (NFS): Perceptions and Adaption Prospects in Pakistan

This section will attempt to contextualise the findings of this research. The third section of the survey questionnaire attempted to question the perceived significance of non-financial services (NFS) amongst the residents of the sample population in Karachi, Lahore, and Islamabad. The questions dealt with various aspects of NFS, aiming to understand the current practices, needs, and perceptions related to these services among microentrepreneurs and the perceived financial improvement after the loan and its relation with the overall satisfaction with the MFI. The key areas explored can be sectioned further for analysis:

5.6.1 Perceived Financial Improvement and Satisfaction with the MFI

Out of the 47 borrower respondents, the data on the improvement in their financial situation before and after receiving a loan from an MFI (in this case, Akhuwat) is as follows:

- **About the same:** 19 borrowers, approximately 40% of the sample.
- **Better:** 19 borrowers, approximately 40% of the sample.
- **Significantly Better**: 9 borrowers, approximately 20% of the sample.
- **Worse or Significantly Worse:** 0 borrowers, 0% of the sample.

This data coupled with all 47 of the borrower respondents choosing ‘Very Satisfied’ on a Likert scale ranging from ‘Very Satisfied’ to ‘Very Dissatisfied’ with the credit services offered by Akhuwat; an interesting analysis emerges. The high satisfaction rate reflects the borrower respondents value the support provided by Akhuwat, regardless of the degree of financial improvement they experienced. This could indicate several key points:

- **Perceived Value of Support:** Borrowers appreciated the loan provided Akhuwat in times of need. Almost all respondent borrowers correlated their satisfaction levels the ease of the loan process (Figure 16), its accessibility, and the diligent staff always ready to extend support. Their only repeated complaints were the small loan size, and they mentioned how they would be able to invest much more in the business if they were able to acquire a bigger loan.
- **Baseline Financial Stability:** Even though 40% of the borrower respondents reported that their financial situation before and after the loan remained about the same, their

high satisfaction with the credit service could imply that they were able to maintain financial stability and were not worse off in challenging financial times. This is significant because the loan, even though did not drastically help improve their living standard or income levels, it at least helped them remain financially afloat and able to brace inflationary pressures.

- **Relative Improvement:** For the 60% who reported an improvement in their finances, the loans provided a clear benefit, reinforcing the effective model of microfinance in aiding economic upliftment and lifting people out of poverty. This further proves to be significant since most of the borrowers (33 out of 47, approximately 70%) were multiple time borrowers, implying they saw some clear benefit from acquiring a loan and therefore were willing to take more loans for the growth of their businesses i.e., repeat loans, or follow-on loans.

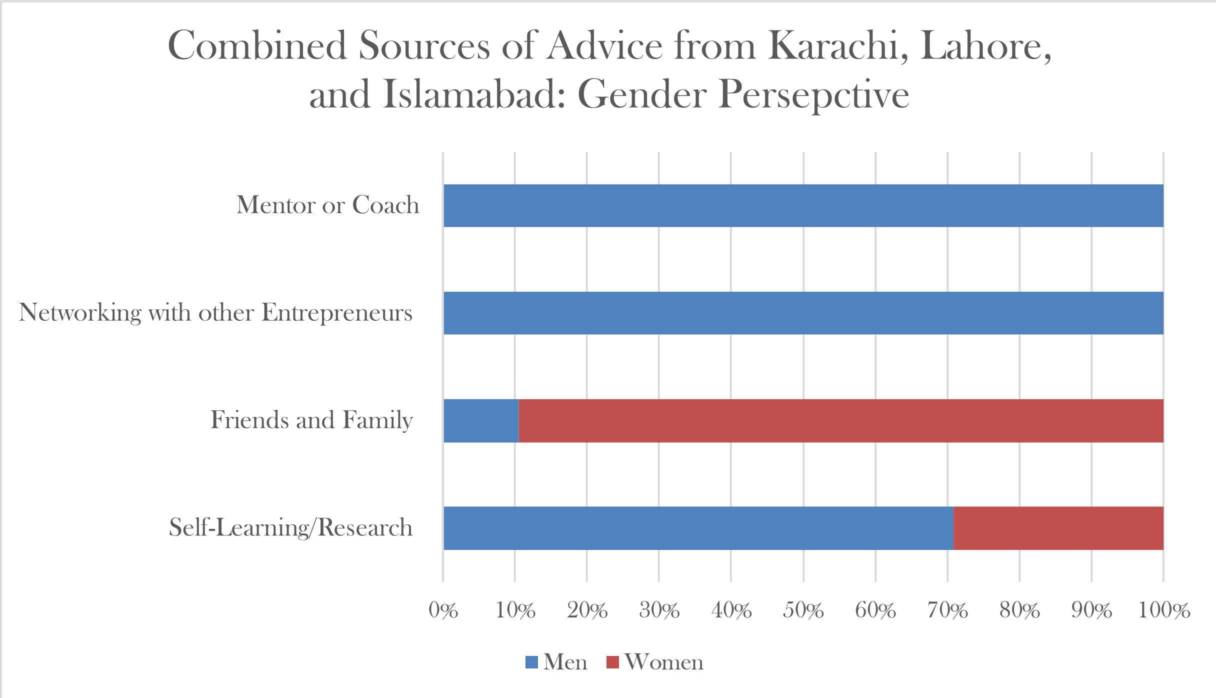
5.6.2 Sources of Business Advice

The survey explored how respondents currently seek advice or guidance for managing their business operations, with options including self-research, advice from family or friends, networking with other entrepreneurs, and professional advice from consultants or experts. This was important to understand since the borrowers did not currently have access to any Non-Financial Services (NFS) or non-credit support. The data thus provides valuable insight into where the borrowers currently turn when facing business issues and how they resolve them.

For city-specific data, refer to Annex: Figure 27, Figure 28, Figure 29.

The combined data from the sample population across the three cities is represented in Figure 19 below.

Figure 19: Sources of Advice from Karachi, Lahore, and Islamabad



Source: (Author, 2024)

1. **Self-Learning/Research**:
   - This method is the most popular among men across all cities, with a total of 17 men relying on it compared to 7 women.
   - Both Islamabad and Lahore show a significant number of men (7 each) and women (3 each) using this method, while Karachi has fewer participants (3 men and 1 woman).
2. **Friends and Family**:
   - This method is predominantly used by women, with 17 women across all cities seeking advice from friends and family compared to only 2 men. All the women interviewed said amongst their family and friends, their main source of advice was their husbands or significant others.
   - Islamabad has the highest number of women (7) using this method, while Karachi also shows a significant number of women (6). Men in Karachi (2) are the only ones relying on this method.
3. **Networking with Other Entrepreneurs**:
   - This method is minimally used, with only 2 men across all cities relying on it and no women reported using this method.
   - Both men using this method are from Lahore and Islamabad.
4. **Mentor or Coach**:

- The least utilized method, with only 2 men (from Islamabad) seeking advice from mentors or coaches, and no women reported using this method.

The analysis reveals a clear gender difference in how business advice is sought amongst the sample population:

- Men predominantly prefer self-learning and research.
- Women primarily rely on advice from friends and family, specifically their husbands.
- Networking and mentorship are significantly underutilized by both genders across all cities. In the rare case that it is utilized, it is solely by men.

5.6.3 Perceived Need and Importance of Non-Financial Services (NFS)

This section aims to contextualize the findings of this research regarding the perceived need for additional training or advice and the importance of Non-Financial Services (NFS) among the sample population in Karachi, Lahore, and Islamabad.

By examining the data, we can better understand the demand for NFS by the borrowers and its correlation with income patterns.

The sample population in Karachi, Lahore, and Islamabad significantly felt they needed more guidance or training, according to the survey data analysis. Specifically, 23 out of 47 respondents (11 men and 12 women) expressed a clear need for such services. This is a clear indication that nearly 50% of the borrowers recognize gaps in their current knowledge and capabilities that could be addressed through additional support.

Data for Need for Additional Training or Advice

The data indicates the distribution of responses regarding the need for additional training or advice:

- **Yes**: 23 out of 47 people (11 men, 12 women)
- **Neutral**: 7 people (5 men, 2 women)
- **No**: 17 people (7 men, 10 women)

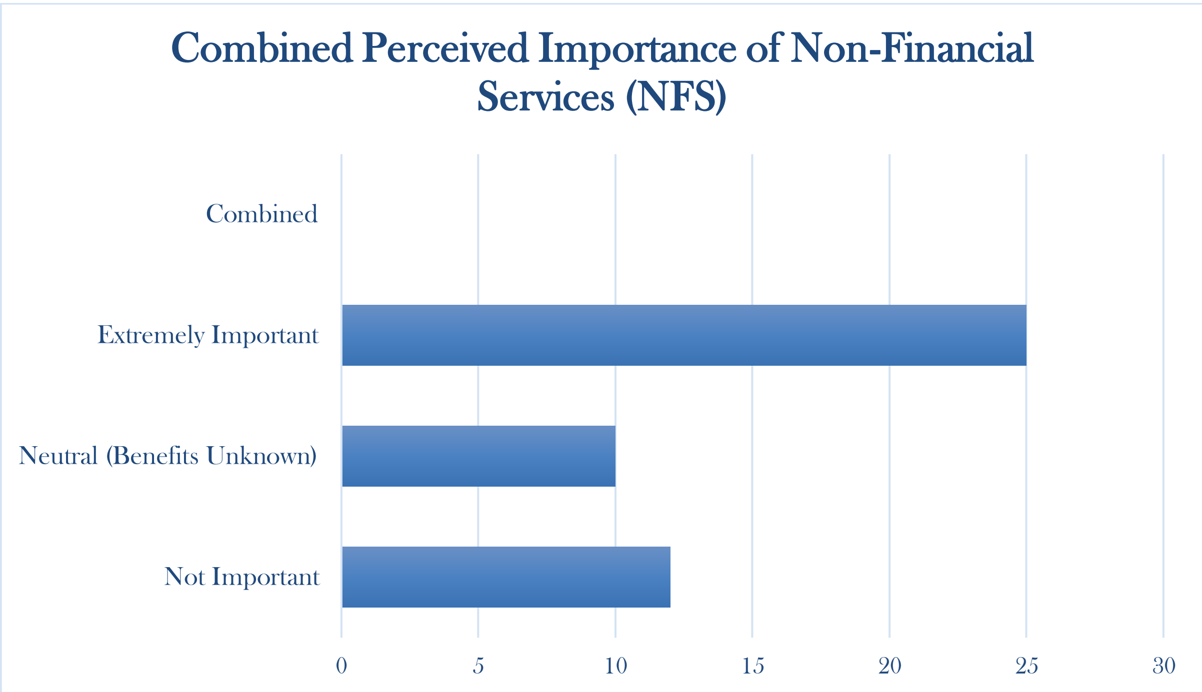
Key takeaways:

- A significant portion (23 out of 47) of respondents feel the need for additional training or advice, with slightly more women (12) than men (11) expressing this need.
- A smaller group (7) are neutral, with men (5) being more unsure than women (2).
- 17 respondents do not feel the need for additional training or advice, with more women (10) than men (7) in this category.

Data for Importance of NFS Combined

Furthermore, the research shows that a sizable majority of respondents believe that non-financial services (NFS) are essential to the success of their businesses and could add a lot of value to not just the business but also their overall well-being. The data represented in Figure 20 showed that 25 out of the 47 borrowers rated NFS as extremely important, approximately 53%, while only 12 thought it was not important. 10 of the borrowers held a neutral position, possibly due to a lack of awareness about the benefits these services could offer.

Figure 20: Combined Perceived Importance of Non-Financial Services (NFS)



Source: (Author, 2024)

Importance of NFS:

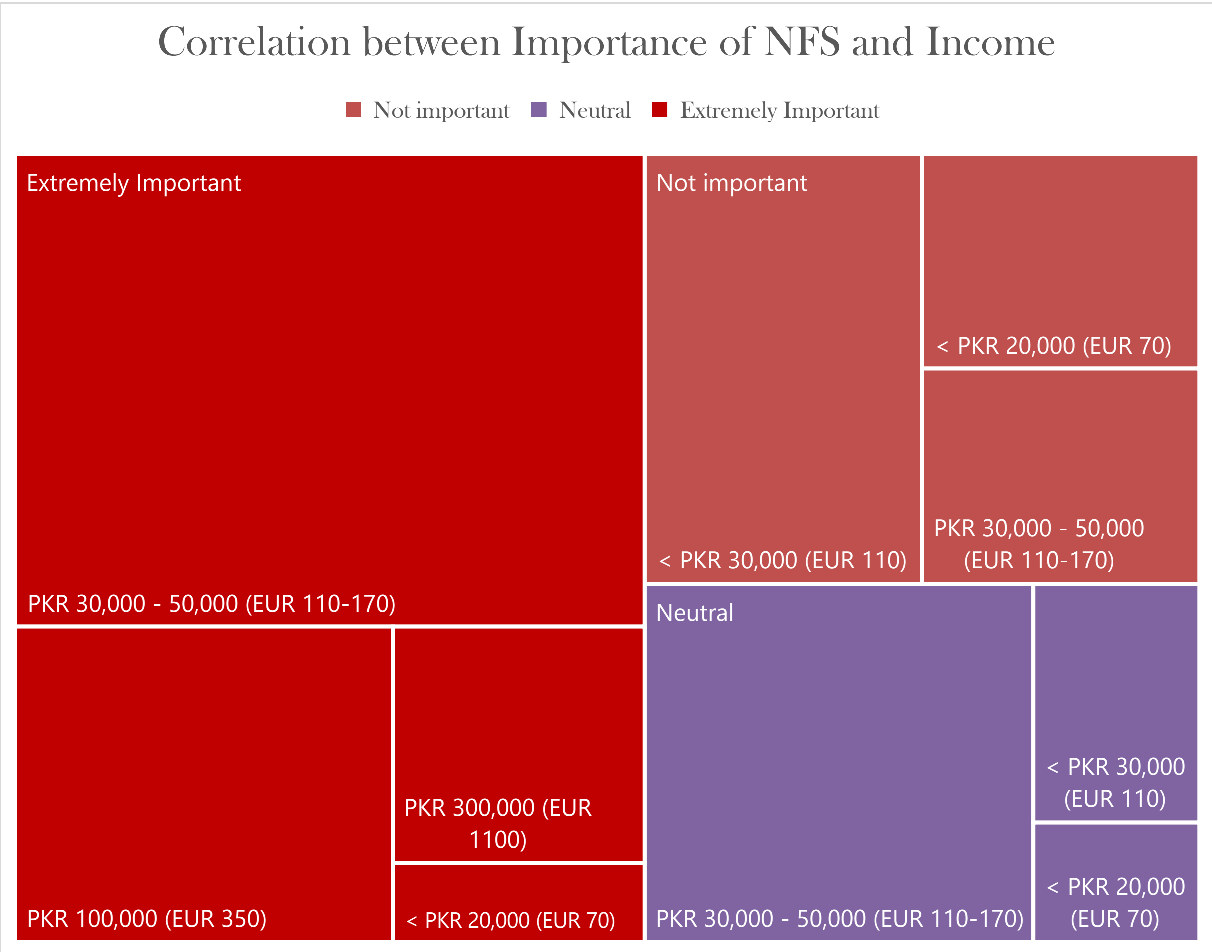
Figure 20 represents the perceived importance of non-financial services (NFS) by respondents from Karachi, Lahore, and Islamabad.

- The majority (25) consider NFS to be extremely important, highlighting a strong perceived value in these services.
- 10 respondents are neutral, indicating some uncertainty or lack of awareness about the benefits of NFS.
- 12 respondents view NFS as not important.

Analysis of Importance of NFS in Terms of Income Levels

The perceived importance of NFS was also analysed according to different income brackets represented in Figure 21 below:

Figure 21: Importance of Non-Financial Services (NFS) with Income differences



Source: (Author, 2024)

Key insights from the data collected in this study showed:

1) NFS Rated as Not Important: Predominantly found in lower income brackets
   - Less than PKR 20,000 (EUR 70): 3 occurrences
   - Less than PKR 30,000 (EUR 110): 6 occurrences
   - PKR 30,000-50,000 (EUR 110-170): 3 occurrences

2) Rated as Neutral: More evenly spread across income brackets
   - Less than PKR 20,000 (EUR 70): 1 occurrence
   - Less than PKR 30,000 (EUR 110): 2 occurrences
   - PKR 30,000 - 50,000 (EUR 110-170): 7 occurrences

3) Extremely Important: Concentrated in both lower-middle and high-income brackets
   - Less than PKR 20,000 (EUR 70): 1 occurrence
   - PKR 30,000 - 50,000 (EUR 110-170): 15 occurrences
   - PKR 100,000 (EUR 350): 6 occurrences
   - PKR 300,000 (EUR 1100): 3 occurrences

These findings suggest that the perceived importance of the factor varies significantly across different income brackets, with middle and higher income groups tending to regard it as more crucial compared to lower income groups.

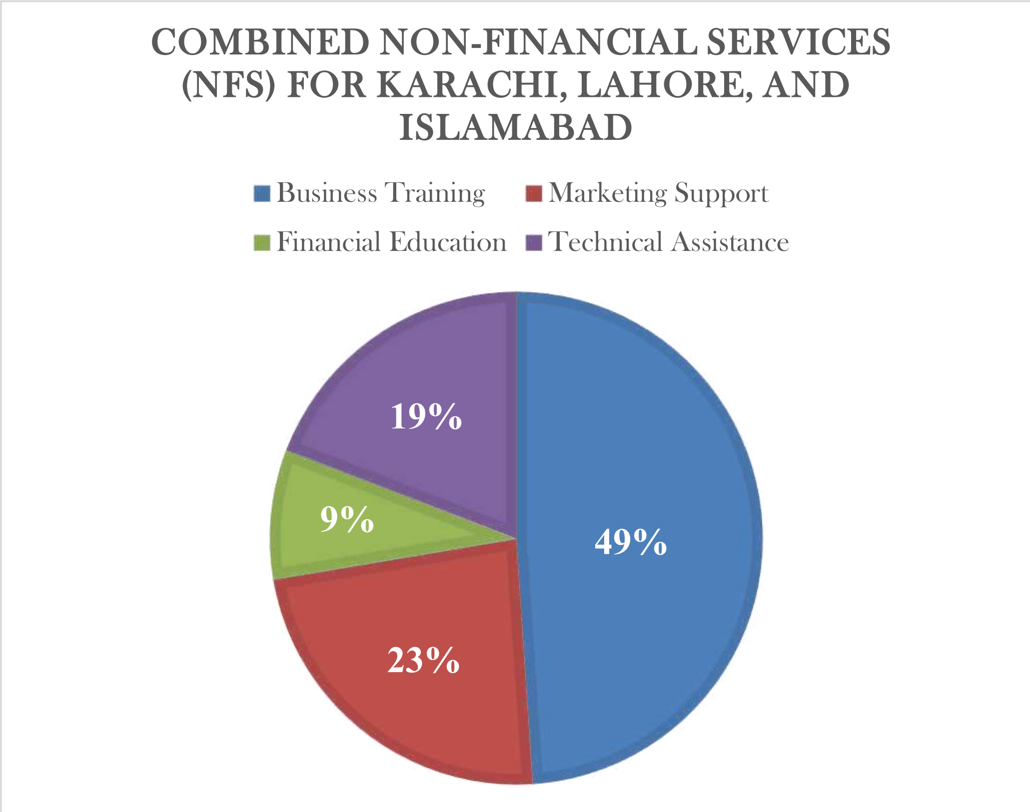
5.6.4 Types of Non-Financial Services (NFS) and Willingness to Pay (WTP)

This section explores the types of non-financial services (NFS) perceived to be most beneficial by the sample population in Karachi, Islamabad, and Lahore, and their willingness to pay (WTP) for these services. Understanding these preferences is crucial for gauging the perceived importance of NFS and determining the feasibility of implementing these services.

Data for Types of Beneficial Non-Financial Services (NFS)

The data on the perceived benefits of NFS reveals the following preferences depicted in Figure 22 below:

Figure 22: Preferred Non-Financial Services in Karachi, Lahore, and Islamabad



Source: (Author, 2024)

Preference for Types of NFS:

- **Business Training** is the most preferred type of NFS, with 23 respondents highlighting its importance. This strong preference demonstrates a strong demand for training programs that are aimed at developing essential entrepreneurial skills that microentrepreneurs currently don't have access to.
- **Marketing Support** is the next most desired service, with 11 respondents indicating a need for assistance with branding, market research, advertising campaigns, and digital marketing strategies.
- **Technical Assistance** is also valued, with 9 respondents seeking practical support and expertise in areas such as product development, technology adoption, or process optimization. This points to the need for technical know-how to enhance business operations.
- **Financial Education** is the least preferred, with only 4 respondents indicating its importance. While it is less prioritized, there remains a segment of entrepreneurs who see value in financial literacy, such as budgeting, saving, and managing cash flow. The

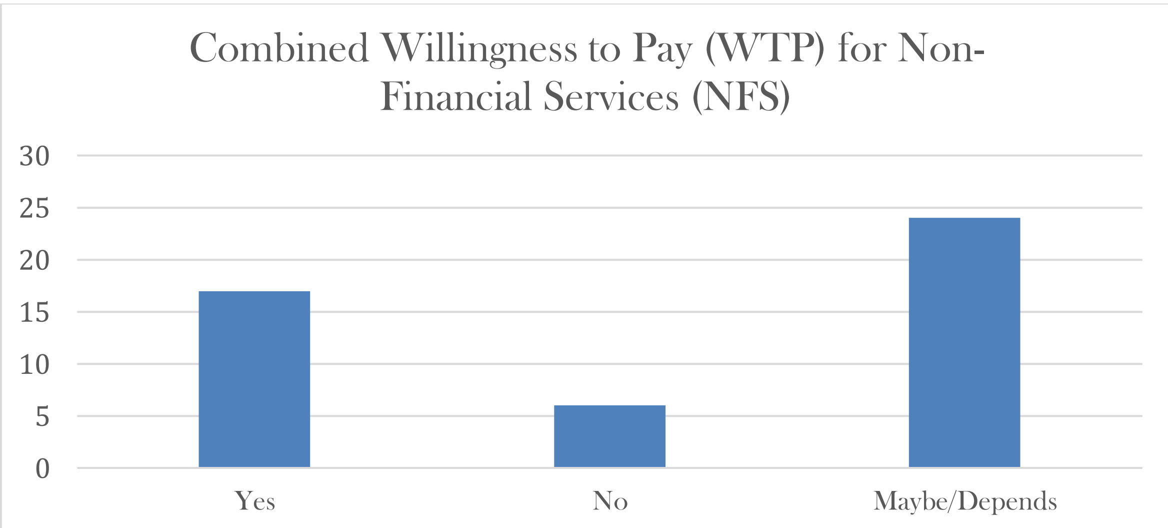
women especially expressed how they had to turn to their husbands for support and advice when managing finances, as they were not able to budget and handle money. Introducing Financial Education as part of the microfinance model can help reduce this gap and encourage young entrepreneurs to be financial self-reliant and self-sufficient.

The data above provides substantial evidence that there is a clear demand for Non-Financial Services (NFS). However, it is crucial to analyse this data with the Willingness to Pay for NFS by borrowers, depicted in Figure 23:

Key findings:

- **Yes**: 17 respondents are willing to pay for NFS, indicating a recognition of the value these services bring to their businesses.
- **No**: 6 respondents are not willing to pay, suggesting a need for free or subsidized services for this group.
- **Maybe/Depends**: 24 respondents are uncertain or conditional about paying for NFS. This large group signifies potential clients who might be persuaded to pay under certain circumstances, such as demonstrated value, affordability, or flexible payment options.

Figure 23: Willingness to Pay (WTP) for NFS



Source: (Author, 2024)

5.7 Case Studies from Karachi, Lahore, and Islamabad

Presented below are 3 of the 47 stories explored in this research. The three individuals belonging to Karachi, Lahore, and Islamabad respectively, represent a small but telling sample of the larger population in their cities and across the country. Despite their diverse backgrounds, they share a common aspiration: the desire to become more. Constrained by limited finances and opportunities, these three stories offer a poignant snapshot into the lives of many in Pakistan which are plagued by a sense of hopelessness and despair among the youth. More than ever, it is important to hear these voices and implement mechanisms that help them succeed and flourish, not just in their businesses but also in their overall well-being.

5.7.1 Craftsmanship and Hurdles

In the Saddar Town area of Karachi, traditional craft of shoemaking is a skill passed down through generations. This case study focuses on one such family, whose story exemplifies the challenges and aspirations common to many in the area.

Living in a small, low-ceiling house shared by 10 members, the household is comprised of the parents, their children, and extended family members. The cramped living conditions are a testament to their economic struggles. The head of the family, Mr. Kamran, along with other members, work tirelessly in their small home-based workshop to produce shoes. They craft shoes and sell them to a local middleman, who then supplies them in bulk to large companies.

Despite their hard work, the income from shoemaking is insufficient to meet their needs. Inflation has further strained their finances, making it difficult to purchase the necessary supplies and tools. To brace the ever-increasing inflation, Mr. Kamran took a loan of PKR 70,000 (EUR 230) which he primarily used to buy materials for their family business. Due to such difficult financial circumstances, the family's 10-year-old son, in addition to attending school, works part-time in a small grocery store below their house to help supplement the family's income. Traditionally, the shoemaking craft is passed down to the next generation. However, the family is now prioritizing education for their children, hoping to provide them with better career opportunities.

While the family is skilled in their craft, they lack the necessary guidance and support to expand their market reach. Mainly they aspire to get rid of the middleman in the business, and be able to sell to large companies themselves to make better income. It is due to this that marketing support was identified as a critical Non-Financial Service (NFS) that could help them access larger markets and increase profit margins, improving their business outcomes. The family believes that with proper training and support in marketing, they could significantly enhance their sales and financial stability.

This family's experience is another such story highlighting the need for comprehensive support systems that go beyond financial loans. Their determination to secure better futures for their children through education, coupled with their desire for enhanced marketing skills, illustrates the multifaceted challenges faced by traditional artisans. Addressing these needs through targeted NFS could significantly impact their economic stability and business growth, providing them with the tools necessary to navigate an evolving marketplace. This case underscores the importance of not just financial aid, but also education, training, and marketing support in empowering such families to achieve sustainable economic progress.

5.7.2 A Mentor in Disguise

Mrs. Saira Bibi is a 46-year-old resident of Delhi Gate, Lahore, who personifies strength and determination in the face of life's challenges.

Saira, who started her salon business around 6 years ago, is a self-employed entrepreneur. She started her business with a small loan of PKR 50, 000 (EUR 170). Since then, she has taken multiple loans from Akhuwat to expand her business. The loans have been mainly to purchase salon equipment like chairs, and cover operational expenses. Her current loan stands at PKR 300,000 (EUR 1,000) which she is utilizing to rent a new shop and purchase supplies for her son's newly opened grocery shop nearby that she has helped build from scratch.

Saira expressed how her husband, since the beginning of their marriage, battled with addiction and how he has been largely absent from her and her children's lives since, making her the sole bread winner for a family of six. Along with fully supporting the families' expenses, she also chips in for her husband's rehabilitation expenses and ensures his basic needs are met. Saira initially had low trust in traditional banks due to religious reasons against interest-based transactions. This led her to prefer MFIs, which offer interest-free loans aligned with her religious beliefs.

Apart from being a successful self-made entrepreneur, Saira plays a central role in her community. Many people come to her for advice and support, looking up to her story and seeking inspiration from it. Despite her initial reluctance to engage with external advice due to past betrayals, she recognizes the potential benefits of a structured support system and regular guidance, which she herself provides informally to others in her community.

Saira deeply believed in the significance of integrating non-financial services (NFS) with credit. Drawing from her own life experiences, Saira recognized a critical gap that alone financial help cannot fulfil. She recognized the lack of direction and guidance in her life as she struggled to scale her business, and wished for more support but was not able to find any. Despite her remarkable self-reliance, she felt the absence of structured support that could have helped her navigate hurdles more effectively.

Her journey exemplifies the struggle of many entrepreneurs who, like her, find themselves striving to succeed without the holistic support needed to thrive. Saira's desire for additional assistance underscored a broader need within the entrepreneurial community for comprehensive services that go beyond financial aid. This realization fuelled her commitment to advocating for NFS alongside credit, emphasizing the importance of equipping entrepreneurs with the tools and knowledge needed for sustained success. Her dual perspective of resilience and the unmet need for supportive services highlights the transformative potential of NFS in empowering entrepreneurs to overcome challenges and achieve their full potential.

5.7.3 A Woman Who Dreams of More

Zainab, a 40-year-old woman residing near Abpara, Islamabad is a homemaker with big dreams. Having received education only up to the 4th grade, she was married young and therefore had to prioritize family duties over pursuing a career outside the home. Married to a husband who holds conservative beliefs, Zainab adheres strictly to religious principles, including avoiding financial transactions involving interest rates.

Recently, Zainab took her first loan of PKR 30,000 (EUR 100) to purchase supplies for her son's business, who is 16 years old and due to being underage, does not have access to a loan himself. Zainab also has a 14-year-old daughter who is currently not attending school or engaged in any economically productive activities. Zainab acknowledged the economic potential of her daughter if she had been given educational opportunities or vocational training. However, due to her husband's objections, she faces barriers in advancing her daughter's education or preparing her for future employment. Due to this, Zainab's daughter is currently at home and "doing nothing".

Zainab's situation reflects broader societal challenges regarding women's empowerment and economic participation. Her reluctance to engage with NFS underscores the need for tailored approaches that respect cultural sensitivities while promoting financial literacy and empowerment among women in conservative communities. Zainab expressed how if the services were offered online, her and her daughter might be able to persuade the father to allow them to advance and maybe get a loan to start a business of their own – a desire Zainab clearly felt, but was hesitant to dream it into a reality.

5.8 European Models of Best Practices within Non-Financial Services (NFS)

5.8.1 Microfinanza, Italy

Microfinanza, with over twenty-three years of experience, has established itself as a significant contributor in the field of microfinance, with its main aim being access to finance for all. The company has developed specialized methodologies and tools to provide comprehensive services and technical assistance that supports aspiring entrepreneurs and SMEs around the world.

Microfinanza provides comprehensive advisory and technical assistance to microfinance institutions (MFIs), banks, and other financial intermediaries globally. This support comprises strategic planning, governance enhancement, risk management, product development, and implementation of monitoring and evaluation (M&E) systems. An advocator for financial inclusion, Microfinanza collaborates with over a hundred organizations worldwide to enhance economic, social, and environmental performance. This includes promoting access to finance for vulnerable populations and fostering innovations that benefit communities. Recognizing the challenges in rural finance, Microfinanza focuses on agricultural lending, an essential but underserved area in microfinance. They develop tailored services and products to address the financial needs of rural populations, often excluded from traditional financial services.

Non-Financial Services (NFS):

Capacity Development: Beyond financial services, Microfinanza emphasizes capacity development through training and education. They offer programs in financial education and social business coaching, designed to empower individuals and communities with essential skills like budgeting, savings management, and entrepreneurship.

Innovative Approaches: They have pioneered the REEP Demo methodology, aimed at promoting access to clean energy technologies among low-income households. This involves designing sustainable financing and distribution models in collaboration with financial institutions and energy companies.

Entrepreneurship Support: Microfinanza integrates business support into their broader NFS framework, assisting clients in designing and implementing business models and plans. Their approach starts with imparting financial knowledge, progresses to skill enhancement, and culminates in fostering sustainable financial behaviours.

On-Going Projects Related to Entrepreneurship:

1. **YES! Young Entrepreneurs Succeed**

The project targets unemployed youth (NEETs) in Greece, Italy, Spain, and Poland, aiming to facilitate their entry into the labour market or entrepreneurship. It employs a Trust-based Partnership Model, integrating financial and non-financial services such as training, coaching, mentoring, and access to finance. This initiative addresses systemic barriers young entrepreneurs face and seeks scalable models for effective guidance and holistic support.

By providing comprehensive support beyond financial assistance, including mentoring and training, YES! enhances the capacity of young entrepreneurs to start and sustain businesses, thereby contributing to economic growth and job creation.

2. **Erasmus for Young Entrepreneurs**

This program facilitates exchanges between aspiring and experienced entrepreneurs across Europe to foster innovation and SME development. Microfinanza helps coordinate the programs, supporting on-the-job training, mentoring, and networking opportunities for new entrepreneurs. This initiative promotes cross-border cooperation and knowledge exchange within the European business community. Besides financial benefits, the program emphasizes knowledge transfer and market access, crucial for the sustainability and growth of new ventures.

3. **Support to Job Creation in Tunisian Rural and Agricultural Sectors (T.R.A.C.E.)**

Funded by the Government of the Netherlands through the World Bank, this program aims to create employment opportunities in Tunisia’s rural, agricultural, and agri-food sectors. It enhances productivity and resilience among small producers and SMEs, offering technical assistance and financial support. In this program, Microfinanza serves as a fund manager and technical assistance provider, supporting the preparation, selection, and realization of investment projects. They ensure projects are sustainable and contribute to local economic development.

Besides financial aid, Microfinanza's role includes capacity building and professionalization of local entrepreneurs and organizations, enhancing their long-term viability and impact, key elements of Non-Financial Services (NFS).

In conclusion, Micrорfinanza's initiatives reflect a strategic blend of financial and non-financial interventions aimed at fostering entrepreneurship, supporting SMEs, and creating sustainable employment, thereby contributing significantly to economic development in targeted regions.

5.8.2 Youth Business International (YBI)

YBI's (2024) report, 'Financial health for Young Entrepreneurs: Our learnings', emphasised that financial access alone is insufficient for young entrepreneurs to succeed; they need support beyond just securing grants or loans. A holistic approach that links personal and business skills with the right resources is essential. YBI and its global network of Enterprise Support Organisations (ESOs) have developed a Financial Health approach, defining the skills, support, connections, and resources young people need to finance their businesses, with a focus on inclusion and equal opportunity. (ibid)

The greatest challenge for entrepreneurs looking to finance was business skills. particularly lack of financial management and record keeping (90%) and knowledge and confidence around financing options (50%). To address these challenges, members commonly provided mentoring (80%), financial management training (70%), and support in business strategy development (50%). (ibid)

Mentoring or counselling is a crucial non-financial service (NFS) often overlooked in the broader discussions on microfinance. Its significance lies in providing personalised, one-to-one support that fosters trust and empowers young individuals who are motivated but lack direction.

Over the last decade, Youth Business International has helped over 40 member organizations around the world start, build or strengthen mentoring programs for young entrepreneurs. Their network consists of over 14,000 mentors who support underserved, young individuals who are eager to start their own business.

YBI defines its voluntary business mentoring as "personalised support that helps young entrepreneurs develop their abilities and insights as they start and grow their own business" (YBI, 2018, p. 08).

The YBI report (2018), a two-year longitudinal study, undertaken in partnership with Middlesex University, ventured to research the real benefits and impacts of volunteer business mentoring. The research explored young entrepreneurs' business ideas, how they started and their development, placing significance on researching their personal development and entrepreneurial journeys.

The research team conducted a survey of 1,068 mentoring program participants from 42 countries within the YBI network, initially between February and March 2016 (Phase 1) and then as a follow-up between July and October 2017 (Phase 2). Following a period of 18 months, the team checked back with the same participants to gauge the advancements and enhancements in the mentoring model and mentor-mentee relationships.

The number of mentees reporting an increase in business turnover nearly doubled from Phase 1 to Phase 2, with most entrepreneurs crediting this growth to their mentoring programs. YBI programs success is further evident in the numbers: in India, more than 80% of mentees reported successfully diversifying into new markets due to the program. Nearly two-thirds attributed the success of their business "completely" or "to a large extent" to their mentors. During Phase 1, mentees praised the programme for boosting their self-esteem (79%), improving their confidence in running a business (76%), and enhancing their financial management skills (70%). These figures increased significantly in Phase 2, with over 90% of mentees stating their mentor helped them "significantly" or "completely." Additionally, more than four-fifths of respondents in Phase 2 reported an increase in business turnover, a 10% rise from Phase 1.

This highlights the significant positive impact that voluntary business mentoring has on community economies.

The report further highlighted the importance of having an efficient mentoring program manager, a carefully planned mentor-mentee matching process, consistent support for both mentees and mentors, as well as program managers. It also emphasized the significance of regular reviews to improve the program continuously, and the sharing of opportunities and ideas to help programs thrive.

Youth Business International Case Examples from YBI Report 2018

A mentee from Bharatiya Yuva Shakti Trust, India, received a loan of $15,000 in 2013 and with the continued support of his mentor, he transformed this initial investment into a construction business with an annual turnover of $4.2 million within just three years. Similarly, Enterprise Uganda facilitated a mentor-mentee relationship that evolved an informal motorcycle repair operation into a well-established vehicle restoration business over the course of the program.

A mentor from Youth Business Poland highlighted the importance of building a trusting partnership, noting that her mentee was ready to open her own business after working on confidence building together. In Youth Business Spain, a mentee appreciated her mentor's role in making her feel more secure and confident in decision-making. She valued her mentor's opinions as an advisor and relied on them as a consultant and listener for problem-solving.

In Russia, a mentee rated their experience as "10 out of 10" after tripling their revenue during the program. A mentor from Youth Business Russia also found the experience valuable, noting its positive impact on their own work. Chile's Acción Emprendedora saw a mentor help a small business owner acquire essential business and leadership skills, enabling her to expand her company to a new premises.

A mentee from Argentina's Fundación Impulsar had such a beneficial experience that she now actively promotes the program to others and is considering becoming a mentor herself. In Uganda, accountant and mentor Bategeta from Enterprise Uganda shared that mentoring provided him with a fresh perspective on the world.

These real-life stories along with the statistics underscore the tangible impact of voluntary business mentoring on young entrepreneurs, showcasing its potential to foster personal development, business growth, and economic benefits within communities.

5.8.3 Qredits, The Netherlands

Qredits is a lean organisation in The Netherlands that uses minimalist and simplified approach in its operations. Started with the support and the advice of the Dutch council of microfinance and thanks to subsidies provided by the Ministry of Economic Affairs, Qredits is now regarded as one of Europes best practices. The funding sources come from large commercial banks (i.e. ABM AMRO, ING, Rabobank, etc.), a syndicate of insurance companies and the EIF (Qredits, 2017). It embraces a sustainable approach to micro finance lending traditional personal banking with highly sophisticated IT support system. Starting in 2009, Qredits now has around 150 employs, 40 trainers and more than 600 volunteer mentors and coaches. Qredits ensures a personalised loan assessment process where loan officers are assigned to specific geographical areas and personally visit and screen loan applicants at their homes or place of business. This tailored and personalised approach is crucial for a target group that cannot be effectively assessed to standardised methods and criteria.

During the interview with Elwin Groenevelt, Founder and CEO at Qredits, he stated what sets Qredits apart from other MFIs is its early realisation of a highly sophisticated IT support system to ensure a sustainability. The risks linked to customer profiles, the high face-to-face interaction and the BDS requires a high- tech environment which is cost effective, independent from the location and tailored to both the clients and the MFI. Therefore, Elwin added, that “Qredits developed an online application process early on” and is constantly improving its credit risk assessment tools and is always on the hunt for innovative technologies for new and improved product and service development.

Services Offered

Qredits aims to fulfil its mission by providing a comprehensive suite of services:

- **Financing**
  - Microcredit loans up to EUR 50,000
  - SME loans from EUR 50,000 to EUR 250,000
  - Flexible credit (revolving loan facility) up to EUR 5,000
- **Mentoring** before or after start-up, with or without a loan
- **E-learning courses** and other business development tools

Discussions with Qredits were central to this research’s findings that successful microfinance initiatives require a blend of financial and non-financial services (NFS). Qredits’ model demonstrates how personalized support and comprehensive financial products can drive entrepreneurship and yield significant social impact. By emphasizing inclusion and providing robust support mechanisms through mentoring, counseling and e-learning courses, Qredits helps entrepreneurs not only secure financing but also develop the skills and confidence needed to sustain and grow their businesses. This holistic approach underscores the importance of combining financial access with mentoring and training to achieve long-term economic development and social stability.

Key Achievements

- EUR 728 million distributed to entrepreneurs in the Netherlands and the Caribbean
- EUR 76.5 million in government savings; for every EUR 1,000 loaned, there are EUR 943 in societal savings (reduced welfare benefits, increased tax income)
- 35,000 microcredit loans issued to entrepreneurs
- 42,500 jobs created
- 11,000 mentoring relationships started since 2011
- 32,000 e-learning courses taken since September 2012, with 107 daily downloads of the free business plan template
- 200 new businesses started from welfare in 2022

Qredits' impact on businesses and their customer demographics is further highlighted in Table 8 below:

Table 8: Qredits in Numbers: Impact and Customer Demographics

Businesses still active after 3 years	87%
Businesses still active after 5 years	75%
Female customers	39%
Starting entrepreneurs (52% couldn't start without Qredits loan)	59%
Customers born outside the Netherlands	13%
Customers under 25 years old	10%
Customers over 50 years old	19%

Source: (Qredits, 2017)

Non-Financial Services (NFS) Offered by Qredits

Qredits offers a number of tools to support its clients. One of them is the online platform called 'MyQredits Customer Portal' that provides access for clients to select their own coaches or mentors based on business needs and preferences. On this personal portal, customers of Qredits can select their own personal coach in terms of expertise from a list, request a new coach if their preference changes, and book sessions with the coach whenever they prefer.

Qredits also has an Online Small Business Academy which consists of 10 online training sessions aimed at creating a personalized business plan. The target is to conduct 8 classes per year with approximately 15 attendees each, where participants pay a small fee to enrol.

Also, in services offered are Training Courses with around 130 training courses, averaging about 14 courses per month (limited in July, August, and December). A special focus is placed in ensuring classes are well-attended (approximately 16 attendees per session) with minimal cancellations.

In the list of courses offered free for Qredits include Accounting Basic and Advanced, Taxes, Personnel & Leadership, Presenting and Pitching, Marketing & Sales, Online Marketing, Social Media Basic, Social Media Advanced, and Focus & Customer Growth.

Qredits highlights the challenges entrepreneurs face in recognizing the value of training amidst their operational demands. The organization emphasizes that entrepreneurs often struggle to allocate time for strategic business development alongside the day-to-day operations required to sustain their businesses. To address this, Qredits enforces attendance through clear communication of expectations and penalties for no-shows. Over time, this approach has proven effective in improving participant compliance and ensuring that the training programs are utilized optimally by those who enrol.

5.8.4 NyföretagarCentrum, Sweden

NyföretagarCentrum is the largest organization in Sweden with the goal of fostering sustainable businesses that helps individuals start new businesses by offering free counsel to aspiring entrepreneurs. NyföretagarCentrum is largely funded and supported by the Swedish government, local municipalities, private industry, and the Swedish community who are committed to the growth and development of Sweden. In 2023, around 16,000 aspiring entrepreneurs came to NyföretagarCentrum for advice out of which over 8,000 started their own business. Impressively, less than 1% of businesses started with their help have gone bankrupt after three years, and 83% still remain active, with an average of two employees per business. (NyföretagarCentrum & ITA Utveckling AB, 2019)

Between 2015-2017, approximately 20,000 people received business advice from NyföretagarCentrum which resulted in the creation of over 7000 to 10,000 new companies in Sweden each year. During this period, the companies that started created a social value of SEK 13 .9 billion, with individuals born abroad contributing about SEK 2 .8 billion and new arrivals in Sweden adding SEK of 0.25 million in social value. These new businesses created about 60,000 direct jobs, with a total societal value of SEK 14 billion, including paid taxes, employer contributions, VAT, and indirect taxes on consumption. (NyföretagarCentrum & ITA Utveckling AB, 2019)

NyföretagarCentrum through counseling services finds that 50% of the registered advice leads to entrepreneurship. The figures for the relationship in advice and starting a business for the years 2015-2017 is largely constant and corroborates with the corresponding values in calculations carried out in 2010- 2012. In an interview with Therese Kaeck, Program Manager at NyföretagarCentrum, the significance of counseling was repeatedly highlighted. She stated how the numbers speak for themselves, and it is very apparent that counseling works. She stated, "NyföretagarCentrum gives aspiring entrepreneurs an option to grow. Whatever it is, they know that help is offered and extended."

Also, worth mentioning are microStart, founded in 2010 following a decentralized strategy like Adie – one of its founders. MicroStart inherited know-how and software solutions from Adie and had to adapt these assets to its own environment and customers. Despite its numerous ideas and projects related to digital solutions, microStart is still working on building a powerful backend system that will allow the acceleration of the development of its digital activities. As a much smaller player, its young age and limited budget are factors that microStart must take into consideration, even if greatly innovative. (Vandeputte & De Toffol, 2017).

(Table 10: MFI-specific data: microStart, Adie and Qredits comparison) found in Annex gives a comparison overview of the three MFIs (Microstart, ADIE and Qredits)

CHAPTER 6: DISCUSSION

6.1 Poverty and Income Disparities

Conceptualizing poverty is complex due to its multidimensional nature, as it encompasses both income and consumption-based aspects (D'Attoma & Matteucci, 2023). Before forming links between poverty, income and microfinance, it is imperative to define the term 'poverty'. At the UN's World Summit on Social Development, the 'Copenhagen Declaration' described poverty as "a condition characterised by severe deprivation of basic human needs including food, safe drinking water, sanitation facilities, health, shelter, education and information."

People live in poverty when they are denied an income sufficient for their material needs and when these circumstances exclude them from daily activities in a society. The World Bank measures poverty based on income. A person is considered poor if their income falls below the 'poverty line' which is set as USD 2.15 (approximately PKR 661, EUR 2.3) per person per day or USD 63 (approximately PKR 17,500, EUR 58) per person per month. With microfinance's first and foremost objective being poverty alleviation and with microfinance programs receiving acceptance as poverty alleviation strategies in many countries (Barnes et al., 2001; Ahmed, 2009; Zhan & Wong, 2014), it is crucial we analyse the link between poverty alleviation with income differentials.

However, while income is undoubtedly integral to survival, Sen's capability approach offers a broader perspective. Poverty restricts access to resources and opportunities, thereby limiting a person's 'capability set': the range of choices they can make for a good life. Over time, individuals trapped in poverty might internalize these limitations. This can lead to the phenomenon of adaptive preferences, where they adjust and lower their desires to match their perceived reality. Hence, poverty should be understood as not just as deprivation of income but also capabilities; the opportunities and freedom one is deprived of to achieve well-being.

Table 9 below gives a brief overview of the minimum wage around Europe with a comparison to Pakistan. All European countries' minimum wage is significantly higher to that of Pakistan. While acknowledging that direct comparisons may not be entirely fair due to the different economic statuses and cost of living between developed European countries and Pakistan, this comparison is instrumental to highlight the vast gap that exists in income levels. The substantial difference in minimum wage sheds light on the boarder socio-economic disparities and challenges faced by the working population in Pakistan.

Table 9: Minimum Wage Comparison

Country	Last Minimum Wage (Unit)	Previous Minimum Wage (Unit)	Reference
Pakistan	32000 PKR/Month (106 EUR)	25000 PKR/Month (82 EUR)	Jul/2023
Belarus	626 BYN/Month (176 EUR)	554 BYN/Month (156 EUR)	Jan/24
Belgium	1994 EUR/Month	1955 EUR/Month	Mar/24
Albania	40000 ALL/Month (400 EUR)	40000 ALL/Month (400 EUR)	Dec/23
France	1767 EUR/Month	1747 EUR/Month	Mar/24
Italy	No statuary minimum wage, but rough estimates are 1, 000 EUR/month	[Missing Data]	[Missing Data]

Source: (Author, 2024)

Ministry of Overseas Pakistanis and Human Resource Development

The data in this research reveals significant income disparities among the borrower respondents, highlighting the socio-economic challenges faced by these individuals. The findings suggest that a substantial portion of the sample population struggles to meet basic needs, with incomes falling below the national minimum wage of PKR 32,000 (EUR 106). This section explores the broader implications of these findings in the context of microfinance and poverty alleviation.

The phenomenon of adaptive preferences, as defined by Sen (1999), underscores the need to evaluate poverty through objective measures rather than solely relying on subjective self-assessments, as individuals may not recognize the extent of their deprivation. The data in this research presents a concerning picture when income of the borrowers is evaluated. 13 borrower respondents (approximate 28%) face significant challenges in meeting basic needs and reported having just enough money to live day-to-day. Considering the mean number of members per household is approximately 6.06 members (calculated from data in
Table 6), and given there is usually one earning member in the family, the concern further deepens. In households falling below the minimum wage bracket, each person is averaging only PKR 5000 per month (EUR 17 per month) for consumption and expenses.

6.1.1 Economic Vulnerability and Poverty Risk

Borrowers' economic vulnerability is evident in this research's data sample since 13 out of 47 borrowers earning less than PKR 30,000 (EUR 110) fall below the minimum wage of PKR 32,000. These individuals are at a high risk of poverty, as their incomes are insufficient to cover basic living expenses. A key aspect of multidimensional nature of poverty includes deprivation of education, healthcare, and other essential services and does not allow individuals to desire for more, ties in with Sen's (1999) capability approach where poverty ridden individuals are often stuck in a vicious cycle of meeting day-to-day needs that their circumstances do not allow them to look beyond.

6.1.2 Impact on Household Well-being

The average household size in this data reveals an average of 6 members per household across all three cities. With one earning member supporting a house of six, the financial strain is further exacerbated. The low income per capita further limits the household's ability to invest in education, health, and other critical areas, perpetuating the cycle of poverty.

6.1.3 Microfinance as a Tool for Poverty Alleviation

Microfinance aims to provide financial services to those excluded from the traditional banking sector, with the goal of alleviating poverty. However, the effectiveness of microfinance in achieving this goal can be questioned when a significant proportion of borrowers remain below the minimum wage. The findings suggest that while microfinance provides essential financial support, with borrowers rating a high satisfaction rate with services currently offered by the MFI despite income levels, it may not be sufficient to lift borrowers out of poverty without complementary Non-Financial Services (NFS).

6.2 Education Levels Amongst Borrowers and Its Implications

Marin and Psacharopoulos (1976) analysed the relationship between schooling and income inequality and found that distribution in education and income inequality are directly proportional to each other. They concluded that increase in average year of schooling reduces income inequality. Similarly, O'Neil (1995) noted that developed countries saw a decrease in income inequality die to higher education levels. Thomas et al. (2001) investigated educational inequality across 85 countries from 1960-1990 and found a negative relationship between education inequality and average years of schooling. Gregorio and Lee (2002) highlighted that equal distribution and higher education levels contribute significantly to reducing income inequality. Lin (2007) found increasing average years of schooling decreased both educational and income inequality. Sauer and Zagler (2004) found that higher average years of schooling positively impact economic growth, while educational inequality has a negative impact – this relationship between educational level, educational inequality and economic growth was assessed across 134 countries. This snapshot of an elaborate literature review presents significant insights into how educational inequality contributes to income inequality by affecting the opportunities and capabilities of individuals across difference income classes.

Educational inequality, particularly in terms of access, has profound implications for poverty, unemployment and sinical mobility. This research, through open-ended questions, explored the reasons why borrower respondents, especially women, who reported having ‘no formal education’ were not able to access schooling. A significant number of women respondents (60% of the borrower respondents) highlighted that they were unable to pursue studies due to early marriage. Consequently, they highlighted that growing up, their parents did not prioritise education and preferred to save money for their weddings. In contrast, most male respondents in the same category of ‘no formal education’ attributed their lack of access to education purely to their parents’ financial inability to afford schooling.

Studies by Dollar and Gatti (1999) and Klasen (2002) emphasise the significance of female education in increasing economic growth when examining gender inequality in education and its effect on income per capita and economic growth. Both studies highlight barriers like early marriage for women.

Although the specifics of how marriage systems affect the lives of young girls is not the primary focus of this research, it is important to note that when it comes to studying societies in which families play an important and often dominant role in the marriage process, it significantly impacts the child’s future. This is particularly relevant when parents are faced with the choice of sending a girl to school or saving for her wedding, with the latter more often than not chosen (Desai & Andrist, 2010). Steve Derne, in his qualitative work in Banaras (Varanasi) in north India, noted that “in every interaction in which a husband gives his wife permission to go outside the home, he reconstitutes the normal state of affairs in which restrictions on women are necessary” (Derné, 1994, p.210).

Men who reported not having gone to school and attributed their lack of access to education to financial inability expressed how, in times of financial difficulty, their parents chose to put the male children to work at a young age to be able to provide for the family. Aligning with the findings of this research, Marin and Psacharopoulos (1976) discuss how financial constraints affect educational access, which is why men are often required to enter the workforce prematurely to support their families, sacrificing their education in the process. During the field visit in Lahore, a borrower (male) who was being interviewed proudly mentioned how his 8-year-old son sits at the small grocery shop they opened and brings in around PKR 200 (EUR 1) per day. As shocking as this might seem, this is a regular practice amongst financially vulnerable families struggling to make ends meet. This example underscores the difficult choices these families face, where any financial contribution is prioritized over educational opportunities.

The Gini Index, which measures income inequality within a country, is influenced by GNP per capita and inflation rate; both of these variables are statistically significant at the 1% level, indicating a strong relationship with income inequality. The results of the research by Gujga & Rejeb (2012) find that "an increase by 1 percentage point of inflation is equivalent to an increase the level of inequality of 0.03 percentage points." This means that for every 1% rise in inflation, the Gini Index increases by 0.03 parentage points, highlighting the exacerbated effect on income inequality due to inflation. Since the poor spend a large part of their income on basic necessities, they are the most affected by any increase in inflation while the rich, who have investments in stocks or real estate, are able to easily hedge against inflation. (ibid)

6.3 Understanding Microcredit's Application in Pakistan

Ledgerwood et al. (2013) state that a microcredit has various core characteristics including: (1) loan amount; (2) lending methodology; (3) collateral aspect; (4) payback or repayment terms; and (5) pricing conditions.

1. Different parts of the world have different average loan sizes. Asia received about $200, Africa and the Middle East received $300, Latin America received $800, and Central Europe received over $2000 in 2009 (Becker, 2010). Depending on the client's needs, financial capacity, and credit history, the loan amount may gradually increase.
2. If each borrower accepts some degree of responsibility, a microcredit provider may extend a loan to an individual or to a group of, each of whom is responsible for the loans made by the other members of the group. Because group members handle the screening and reimbursement pressure, group lending requires less provider involvement.

Individual lending necessitates more thorough upfront analysis using instruments like credit-scoring and agency credit ratings, as well as more collateral.

3. There are alternate options for collateral that lower the risk to the loan provider because impoverished people have fewer assets to support a loan. Peer pressure, reputation, required funds, personal guarantees, accountable co-signers, etc. are a few examples.
4. A loan can remain outstanding for a predetermined time, with the risk increasing as the time period extends. As a result, the loan's maturity is typically quite short. Principal and interest are typically included in the repayment terms; these terms can be weekly, bi-weekly, or monthly in nature. The type of activity, the generation of cash flow, the transaction costs, the needs, and the customer profile are typically taken into account when determining the maturity and payback terms.
5. Reasonable prices are crucial. The interest rate and service fees generate money. The costs incurred by the loan provider should ideally be covered by them; the main ones are the cost of capital the loan loss provisions, and the operating costs.

In Pakistan, some key definitions stated by State Bank of Pakistan (2014) are:

1. 'MFBs' shall mean companies incorporated in Pakistan and licensed by the State Bank as Microfinance Banks to mobilize deposits from the public for the purpose of providing Microfinance services;
2. "Poor person" means person who has meagre means of subsistence and whose total income during a year is less than Rs. 150,000

The maximum loan amount and the basic terms and conditions of financial products are disclosed. (State Bank of Pakistan, 2014)

Maximum Loan Amount:

- **Housing Loans:**

  Maximum Loan Size: Up to Rs. 500,000 per borrower.

  Eligibility: Borrowers with an annual income (net of business expenses) up to PKR 600,000.

  Portfolio Requirement: At least 60% of the housing loan portfolio must consist of loans PKR 250,000 or below.

- **General Loans (Other than Housing Loans):**

  Maximum Loan Size: Up to PKR 150,000 per borrower.

  Eligibility: Poor individuals with an annual income (net of business expenses) up to PKR 500,000, approximately EUR 1700.

- **Loans to Microenterprises:**
  Maximum Loan Size: Up to PKR 500,000 per microenterprise, approximately EUR 1700.
  Traceability: Loans must be extended in the name of the micro entrepreneur to ensure traceability and reduce multiple borrowing incidents.

The portfolio limitation stipulates that the aggregate exposure to enterprise loans exceeding PKR 150,000 should not surpass 40% of the MFB's total loan portfolio. Additionally, the loan portfolio requirement mandates that at least 80% of the total loan portfolio of the MFB must consist of loans that are PKR 100,000 or less. This requirement ensures that the distributed loans remain smaller, aligning with the conventional model of microfinance, which focuses on providing smaller loans to a large number of borrowers. (State Bank of Pakistan, 2014)

6.3.1 Loan Appropriateness

The loan must only be provided by the MFB if its suitable to the borrower's abilities. Before the loan, an in-depth business appraisal is carried out to assess the borrower's income, expenses, and the nature of their business. The MFBs must get a credit report from the State Bank of Pakistan's Credit Information Bureau (CIB) or any other suitable loan Information Bureau of which they are a member prior to authorizing any loan facility. However, MFBs will have to request a credit report from the State Bank of Pakistan's Credit Information Bureau if the lending facility exceeds PKR 30,000, approximately EUR 100. Credit applications, however, may not be turned down solely on the basis of overdue amount reported in the CIB report.

6.3.2 Credit Policy

The MFB is required to develop a clear credit policy that includes:

- **Maximum Lending Limits**: Clearly defined upper limits for loans.
- **Basis for Loan Pricing**: The criteria or methodology for determining the interest rates or fees on loans.
- **Repayment Term Length**: The duration over which the loan needs to be repaid.
- **Collateral Requirements**: The type and amount of collateral needed to secure a loan.

6.4 Difficulty in Accessing Formal Banking Institutions

Loans from bank often require substantial documentation, collateral, and have stringent eligibility criteria (like in the case of the three women who did not pass the criteria because of their marital status), making it difficult for small-scale and especially vulnerable and at-risk microentrepreneurs to access these financial services. Study by Beck (2018) reported that for consumer loans it takes about 1 day in Australia, Brazil, Czech Republic, Denmark, Greece and Spain to more than 20 days in Pakistan. The number of days to process a loan application is a de facto eligibility barrier, since some borrowers might be discouraged from applying for bank loans and seek financing elsewhere to avoid long waiting periods. The study explores various barriers that individuals in developing countries face in accessing formal financial services, including bureaucratic hurdles and lack of documentation. One highlighted reason was also the cost of applying for a loan which proves to be another major hinderance.

"It takes more than $700 to open a bank account in Cameroon, more than the country's GDP per capita. Fees to maintain a checking account exceed 25 percent of GDP per capita in Sierra Leone. More than four types of documents are required to open a deposit account in Bangladesh. It takes more than 20 days to process a consumer loan application in Pakistan." (Beck et al., 2008)

Women entrepreneurs in various countries such a United States (US), contributed approximately 50% to yearly gross domestic product (GDP) and contributed approximately 54.1% to generate employment opportunities. Moreover, women contribute 75% of total employment opportunities in Indonesia with 55% in gross domestic product (GDP). In case of Malaysia, women contribution in gross domestic product (GDP) is 44% with 56% contribution to generate employment opportunities. (Evbuomwan et al., 2012; Norizaton et al., 2011; SMEDAN 2013). However, the contribution of Pakistani women is quite low as compared to the various developed as well as developing countries. Pakistani women contributing only 25-30% in gross domestic product (GDP) and only 24% in employment opportunities which is more threatening towards nation's economy, development of communities and economic well-being of poor families. (Derera et al., 2014).

6.5 Entrepreneurial Success Through Non-Financial Services (NFS)

The capability approach, in principle, allows a very wide range of dimensions of advantage to be positively evaluated ('what capabilities does this person have?'). This approach allows an open diagnostic perspective on what is going well or badly in people's lives that can reveal unexpected shortfalls or successes in different dimensions without aggregating them all together into one number. In determining entrepreneurial success, such evaluation is crucial to reveal value and client constraints. If the MFI's approach is limited to considering just 'basic capabilities', the it's a narrow assessment or deprivation and abilities and a failing attempt to resolve the issue at hand.

A tailored Non-Financial Services (NFS) program for microenterprises, integrated into a robust relationship banking model, has the potential to increase the overall value of targeted customers to the MFIs and formal banking institutions. In recent years, there has been a coming together of financial and non-financial sectors, as the traditionally distinct boundaries which have separated them before become increasingly blurred. This is largely due to the realization that an embedded structure of finance is needed that by definition, integrates a financial service with a traditionally non-financial service, product, or technology. This approach helps business create new value propositions and as discussed earlier, proves to be fruitful for the MFIs and/or banks involved, creating a win-win situation for all. (Uibo, n.d.). In 2010, the International Finance Corporation (IFC) surveyed 21 banks in 18 countries and found that banks' main reason for offering Non-Financial Services (NFS) was to differentiate themselves in the market, giving them a higher appeal and setting them apart from other competitors. Such strategic partnerships allow banks to deliver services at lower costs, reach more people, and access more knowledge and expertise.

The panel for "Non-Financial Services: Models to maximize effectiveness" (Financial Alliance for Women, 2016) had three Greater Bay Area (GBA) banks walk through their operations and how they prioritize NFS to achieve success. In the UK, where start-ups have increased by 50% in the last four years but still face high failure rates, Royal Bank of Scotland (RBS) partnered with Entrepreneurial Spark to support these start-ups. They opened 'hatcheries' in 13 RBS buildings, providing space for entrepreneurs to work, build skills and offered them robust programs, trainings, finance, and support. With the gender split maintained at a 50/50, RBS uplifted 700 start-ups, creating 2,000 new jobs in the last year, with an 88% survival rate for companies involved for more than a year.

Similarly, Banca BAC in Costa Rica has trained over 40,000 MSMEs through Non-Financial Services such as business practice education, annual seminars, webinars, and mentoring. For delivering one-on-one training, they often partner with FMO and Vital Voices. BAC emphasizes innovation, momentum, and listening to customers to serve their needs effectively; an integral component of understanding what the capabilities of these microentrepreneurs are and how best to facilitate and amplify those.

Another great example is the Bank of Palestine's Felestineya Program. Before the Felestineya program offered training components in addition to financial services, only 20% of accounts were held by women. In 2016, the program reached over 1,000 women, with 30% opening an account or applying for a service immediately after the training sessions. Bank of Palestine then partnered with local organizations and international bodies like the IFC to develop comprehensive training programs. As a result, many women are now included in the formal banking system and have registered formal businesses.

6.6 Correlation Between Need for Non-Financial Services (NFS) and Income

To centre our argument of why Non-Financial Services are important, the capability approach serves as a useful multi-dimensional approach to evaluation. It may seem often that people are generally well-off, yet a closer analysis reveals that this 'all-things-considered' judgement conceals surprising shortfalls in particular capabilities. From a justice perspective, the capability approach's relevance here is to argue that if individuals are falling short on a particular capability that has been collectively agreed to be a significant one, then justice would require addressing the shortfall itself, if at all possible, rather than offering compensation in some other form, such as increased income. (Sen, 1989)

Key insights from the data collected in this study showed:

- Borrowers who see a need for additional training or advice likely correlate with the high number of respondents rating NFS as extremely important.
- Neutral responses about the need for training may align with the neutral ratings on the importance of NFS.
- Borrowers who do not see a need for additional training are likely among the respondents who rate NFS as not important.
- Lower-income brackets (< PKR 20,000 and < PKR 30,000) have a mixed perception of NFS, with some finding it not important and others finding it extremely important.
- The PKR 30,000-50,000 income bracket shows a higher frequency of respondents considering NFS extremely important (15), suggesting that as income rises within this range, the perceived importance of NFS increases.

- Higher-income brackets (PKR 100,000 and PKR 300,000) have all shown a strong recognition of the importance of NFS, albeit with fewer respondents in these categories.

This distribution indicates a trend where higher income brackets tend to place greater value on NFS. For example, most respondents (15 out of 25) in the PKR 30,000-50,000 range think NFS is very important. In a similar vein, individuals in higher income brackets, such as those making between PKR 100,000 and PKR 300,000, also demonstrated a deep understanding of the significance of NFS. The analysis reveals a strong perceived need for additional training or advice among the sample population, with a majority also recognizing the importance of NFS for business success. The correlation between income levels and the perceived importance of NFS suggests that higher income brackets tend to value NFS more, indicating that as businesses grow and generate more income, the need for professional support services becomes more pronounced. This insight is crucial for microfinance institutions aiming to design and offer relevant non-financial services to their clients.

Sen (1999) also points out that individuals differ in their ability to convert resources such as income into welfare. For example, a disabled person may need expensive medical and transport equipment to achieve the same level of welfare. A society that tried to maximize the total amount of welfare would distribute resources so that the marginal increase in welfare from giving an extra dollar to any person would be the same. Resources would therefore be distributed away from the vulnerable and less advantaged to people who are more efficient convertors of resources into utility.

6.7 Correlation Between Types of NFS and Willingness to Pay (WTP)

1. **Business Training**:
    - Given that business training is highly valued, it is likely that a significant portion of the 17 respondents willing to pay for NFS are interested in these training programs. This indicates an opportunity for MFIs to develop and offer comprehensive training modules that justify the cost.
    - The high number of respondents in the ‘Maybe/Depends’ category suggests that the perceived value and effectiveness of business training programs could influence their decision to pay.
2. **Marketing Support**:

- Marketing support being the second most preferred NFS indicates that entrepreneurs understand the importance of effective marketing strategies for business growth. Those willing to pay may see this as an investment in their business's visibility and customer acquisition.
- The uncertainty among the 'Maybe/Depends' group could be addressed by offering trial periods, success stories, or results-driven marketing support packages that showcase tangible benefits.

3. **Technical Assistance**:
   - Technical assistance is also in demand, and those willing to pay likely recognize its role in enhancing operational efficiency and innovation. MFIs can leverage this by offering specialized technical support services tailored to different industries.
   - For those in the 'Maybe/Depends' category, demonstrating the ROI of technical assistance through case studies or pilot projects could encourage them to invest in these services.
4. **Financial Education**:
   - Although financial education is the least prioritized, there is still a niche market for these services. The willingness to pay among some respondents suggests that targeted financial literacy programs could be bundled with other services to increase uptake.
   - The 'Maybe/Depends' respondents might be swayed by highlighting the long-term benefits of financial education, such as improved financial management leading to business stability and growth.

The analysis reveals a strong preference for business training, marketing support, and technical assistance among the sample population, with varying degrees of willingness to pay for these services. The correlation between the types of NFS valued and the willingness to pay indicates that there is a market for paid NFS, especially if these services are perceived to deliver substantial value.

In debates of what guides entrepreneurial success and informs the design for programs aimed at building skills and value, evaluating the capabilities of an individual is particularly crucial to understand not just what a person has achieved but also the quality and freedom of their choices. For instance, the ability to choose between various business opportunities is more impactful than trivial choices, like selecting between different brands of a product.

Amartya Sen's Capability Approach (1989) argues that enhancing people's capabilities, as in the case of this study, improves their well-being by increasing their effective freedom, even if it doesn't add to the number of available options in a traditional sense. This framework emphasizes that true empowerment in entrepreneurship comes from expanding meaningful capabilities, enabling individuals to make choices that significantly enhance their quality of life. The key here to give the freedom to choose to the individual, and having that option to choose in place. As discussed before in the previous sections, individuals who are facing radical poverty adapt their preferences and in turn, subconsciously, limit their freedom and availability of choices. The key insight that came out of all the in-depth interviews from the borrower respondents was that most borrowers, especially those on the lower end of the income bracket, felt helpless at the hands of the current economic crises. Since they could only make enough to make their basic needs, they were not able to imagine the chance at using NFS. Many borrowers inquired if such services were even a possibility, and displayed amazement when made to realize it was.

For example, Saba, a 34-year-old woman from Karachi, displayed eagerness and willingness to learn more and expressed that her "lack of skills" makes her feel like she is "being left behind" and "unable to cope with growing technology". Saba expressed a strong desire for utilizing NFS, stating it would help her learn how to manage her own expenses without needing to ask her husband for help, as she has never been to school and does not how to count. She dreams of being financially educated and dislikes her current dependency on her husband. She also expressed suspicions of being exploited by her husband, as he sometimes takes her money when handling her business finances. Despite these challenges, the loan Saba took of PKR 30,000 (EUR 100), helped her home salon by enabling her to buy a new chair for customers.

Mehta, a 60-year-old man from Lahore, has spent his entire life repairing motorcycles on the street. Due to not having his own space, he is forced to occupy a small corner on the street, spending his entire day looking for customers. An expert in mechanics and repairing, a skill he learned from his father at an early age, he dreams of expanding his business, renting a shed of his own and seeking alternative options instead of working on the side of the road. He expressed how he has many ideas for his business but no direction and "does not know where to look for help".

Neha, a 28-year-old woman from Islamabad, runs a small tailoring business from her home. Neha also expressed struggling to handle her finance and seeking external help. She dreams of learning advanced sewing skills to expand her product offerings. Neha expressed that Non-

Financial Services such as business training and advanced tailoring workshops would significantly enhance her capabilities.

As Sen (1999) posits, understanding the underlying determinants of the relationship between individuals and their resources, such as the ability to effectively utilize financial and non-financial services, is crucial for assessing and enhancing entrepreneurial capabilities. In such, the capability approach can be used to examine how various support services like training, education, and market access improve the real opportunities available to entrepreneurs. By focusing on the value of these services in enhancing entrepreneurial capabilities, microfinance institutions can better support their clients' ability to live valuable and productive lives, thereby fostering sustainable business growth and long-term success.

CHAPTER 7: CONCLUSION

This research highlights the critical role of Non-Financial Services (NFS) in enhancing the efficacy of Microfinance Institutions (MFIs) and promoting sustainable entrepreneurial growth. Through the analysis of various European microfinance models, particularly those integrating NFS such as business training, and social business coaching/counselling, we see clear operational benefits that could inform and transform practices in developing countries like Pakistan. Sen's (1985) focus on 'choice' and expanding individual freedom when discussing entrepreneurship and skill-building serves as a crucial lens for this research. While the primary goal of microfinance is to alleviate poverty, this research reveals that poverty reduction is a multi-faceted issue requiring a holistic approach in its implementation. The data from this study sheds light on the borrowers lives who are trapped in this poverty cycle and thus have internalized limitations that restrict their entrepreneurial success. Thus, it is essential to understand poverty as not only the deprivation of income but also capabilities to inform the analysis of this study.

The key takeaway from this research is that offering non-financial services (NFS) to the borrowers within the microfinance model ensures that the borrowers are supported on all fronts. Amartya Sen (1985) in her Capability Approach underscores that individual freedom and the option to choose is fundamental to well-being. This perspective emphasizes that the availability of resources and valuable options is significant, regardless of whether the individual decideds to utilize them. In the context of NFS offered by microfinance institutions (MFIs), some clients might find these services of no use, or that it does not suit their particular needs and therefore choose to opt out. Nevertheless, the mere availability of such services respects their autonomy and guarantees client freedom. The data found in the study underscores the lack of options available to borrowers, who, already stricken with poverty and therefore limited in their opportunities, found the prospect of such complementary services to be both fascinating and highly valuable. Almost all borrowers expressed that they were unaware of such services before. This revelation alone highlights the significant potential for integrating non-financial services (NFS) within microfinance model to enhance the overall impact on borrowers' businesses and lives.

7.1 Enhancing Microfinance Impact Through NFS

High-Value Business Training Programs: In Pakistan, the development of comprehensive and practical business training modules tailored to the specific needs of different segments can significantly enhance the value proposition of MFIs. With the data depicted in this research, it is clear that there is demand from the borrower for Non-Financial Services (NFS), specifically in Business Training and Marketing. These programs can attract clients who are willing to pay for additional training and skill-building that directly impact their business success. MFIs can partner with external organizations to reduce costs and offer these services as part of their credit program, as seen in the case of Qredits, YBI, and other organizations discussed above that offer these services for free.

Results-Driven Marketing Support: It can be of value to demonstrate the tangible benefits of marketing and counselling on the success of microenterprises to convert hesitant clients into committed ones. Effective marketing strategies from MFIs can showcase success stories and measurable outcomes, thus driving higher engagement.

Promoting Financial Education: A key concern amongst borrowers, especially women, was that they were unable to handle their own finances due to lack of education. While financial education may be less prioritized in terms of the NFS chosen by borrowers in this study, bundling it with other services and highlighting its long-term benefits can increase its appeal, especially when there is a recognized demand for financial literacy. Educating clients on financial management can lead to better business decisions and sustainability. This is especially true for women clients, who will benefit from these services by gaining autonomy and independence from their husbands who tend to take over their financial affairs to compensate for their lack of financial education.

7.2 Mitigating Measurement and Tracking Challenges

While most large-scale business banking teams can track Key Performance Indicator (KPI) such as customer acquisition, retention, revenue, and portfolio risk, linking these KPIs to NFS performance can present as a challenge. Financial providers, whether traditional banks, MFIs or MFBs, must be able to identify NFS clients and differentiate them from the overall portfolios of other clients. The study by IFC 2020 reported that while most banks were able to track NFS KPIs around the benefits of branding and awareness and increased revenue, fewer banks were able to track non-performing loans (NPLs) and client retention/loyalty linked to NFS participation. Some banks reported to have fragmented data sitting in multiple systems, with credit databases, savings and other products making it difficult to separate NSF clients. There is technology available that makes this tracking easier like the Customer Relationship Management (CRM) system, but this can require substantial investment which usually MFIs lack. (ibid)

7.3 Best Practices to Adopt

7.3.1 Tailor and Customize the Proposition to Various Segments

MFIs needs differ by segment, locality, and income differentials which can be met through tailored services. Although cost-heavy in the beginning, once the infrastructure is set in place, adapting to meet the clients' needs is easy and quick. Programs designed without considering women's limitations also run the risk of reduced effectiveness. For example, data found in this research found that women preferred online sessions so they can attend from the comfort of their homes. Thus, it is important to understand the capability and needs of the client and tailor the services accordingly.

7.3.2 Provide an Integrated Financial and Non-Financial Experience

Giving customers a single point of contact for both financial and non-financial services eliminate the need for them to look for business tools and training from several places. This also helps with client accessibility and ease of access to credit and non-credit facilities, which increases customer loyalty and engagement. When dealing with low-income borrowers, offering a single point of contact further helps reduce client costs to look for services elsewhere, making them more prone to utilizing NFS and implementing them in their businesses.

7.3.3 Create Institutional Alignment to Drive Results

Consolidating the development of Non-Financial Services (NFS) programs within the MFI team ensures a focused and cohesive approach. By embedding NFS offerings firmly within the MFIs operations, the services become an integral part of the MFIs value proposition. This integration ensures that NFS are not seen as ancillary but as essential components of the MFIs service portfolio, thus enhancing the overall client experience and contributing to the MFIs competitive advantage. This centralization helps streamline the creation, implementation, and monitoring of NFS offerings, ensuring they align with the MFIs overall strategy and objectives. Front-line staff such as the field officers or loan officers are crucial in delivering NFS to clients. By mobilizing these employees to actively promote NFS, the MFI can ensure that the services are effectively communicated and utilized. Training and incentivizing front-line staff to understand and advocate for NFS can lead to higher client engagement and satisfaction.

For example, Tobin et al. (2020) reports Banco BHD Leon in the Dominican Republic revised its sales strategy to better suit the interests of women when it launched the Mujer Mujer NFS project, which is specifically aimed at women. Instead of focusing on pushing products, the new strategy pushed front-line employees to listen to consumers and recommend certain solutions that would best meet their needs. This strategy necessitated front-line staff training in addition to targeted internal communications. The bank implemented cross-sell incentives, which motivated salespeople to recommend segment-specific products that best suit the needs of female business banking clients, and tracked their uptake in order to make sure staff members accepted the new strategy.

7.3.4 Integrate Measurement into Program Design and Delivery

Programs that show a positive impact on Key Performance Indicators (KPIs) are more likely to gain support from senior management and donors. Implementing IT systems that facilitate automated reporting is crucial for the continuous tracking and performance analysis of NFS programs. These systems allow for real-time data collection and analysis, reducing manual effort and increasing accuracy. Automated reporting tools can generate insights into how well the NFS programs are performing, highlighting areas for improvement and optimization.

However, these can be costly to integrate at first and the importance of such technology might be overruled when deciding allocation for an already limited budget within MFIs.

To maximize efficiency while being able to track data, it is recommended to identify two to three KPIs that will best demonstrate if the NFS program is accomplishing its objectives. Even if the tracking has to be manual, monitoring these are essential to have real-life data which supports the implementation and importance of NFS within MFIs. For example, BLC Bank in Lebanon sets goals related to NFS execution (number of events) and engagement (number of award applications, number of website views, ratings from event evaluations). The bank also has commercial objectives that include the amount of loans given to women, the quantity of new female customers, and the balances of women's deposits. The bank monitors both sets of KPIs and feels at ease comparing performance to its strong NFS initiatives. (Tobin et al., 2020)

7.3.5 Charge Fees for NFS (Where Appropriate)

In some markets, charging fees for NFS can enhance participant engagement. When clients pay for services, however nominal, they are often more committed and attentive, valuing the service more due to the investment they have made. This fee structure can also act as a section tool to filter people who are genuinely interested to utilize NFS to those who are not. However, the decision to charge fees must be carefully weighed against the program objectives and the clientele. While charging fees can enhance engagement, it might also deter some clients, particularly those from low-income backgrounds who may be the primary target for microfinance services. Institutions need to ensure that the fees are nominal and affordable to avoid excluding those who need the services the most.

Conclusively, this research hopes to shed light on the importance of Non-Financial Services (NFS) embedded in the microfinance model. With evidence of the innumerable benefits achieved from such an approach, it is hoped that this research informs the design and implementation of microfinance models in the hopes that they move away from offering mere financial services, and reinvent their structures to accommodate their clientele on all fronts.

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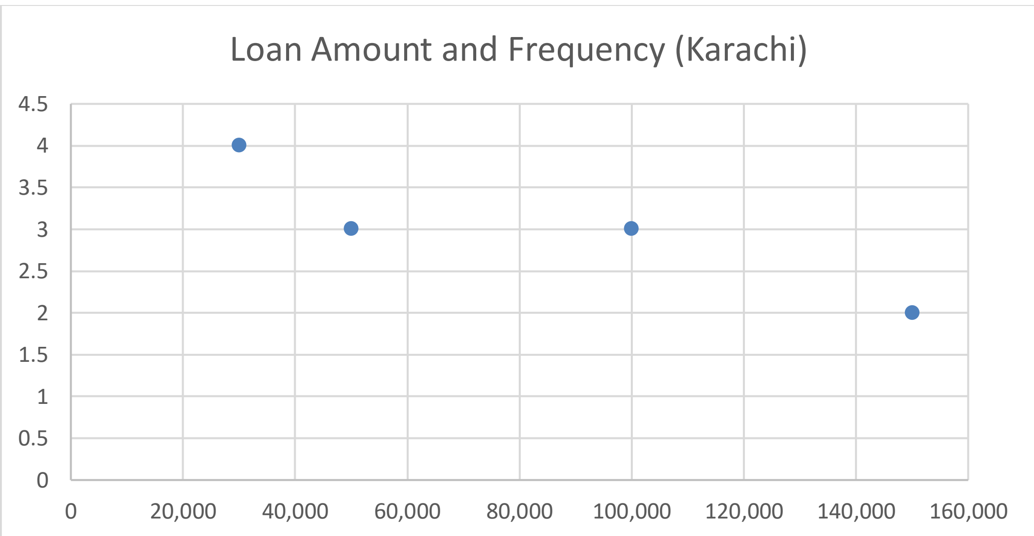
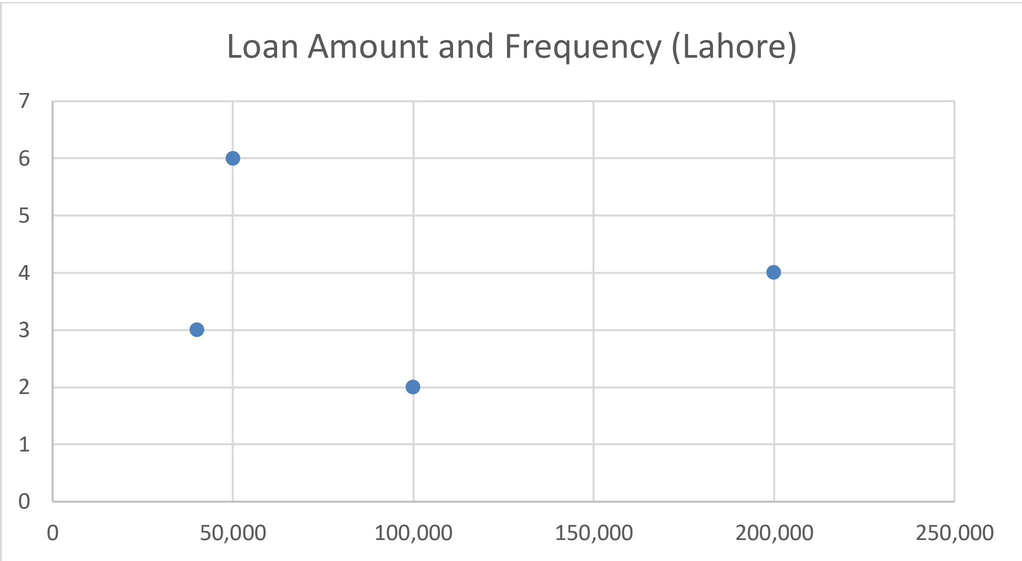
ANNEXES

Figure 24: Loan amount and Frequency (Karachi)



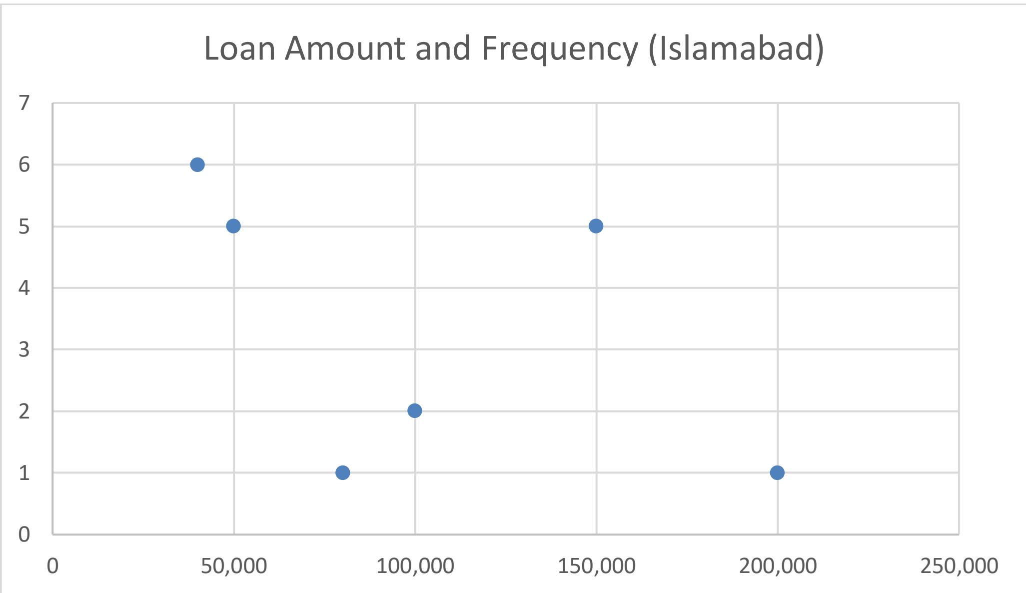
Source: (Author, 2024)

Figure 25 : Loan amount and Frequency (Lahore)



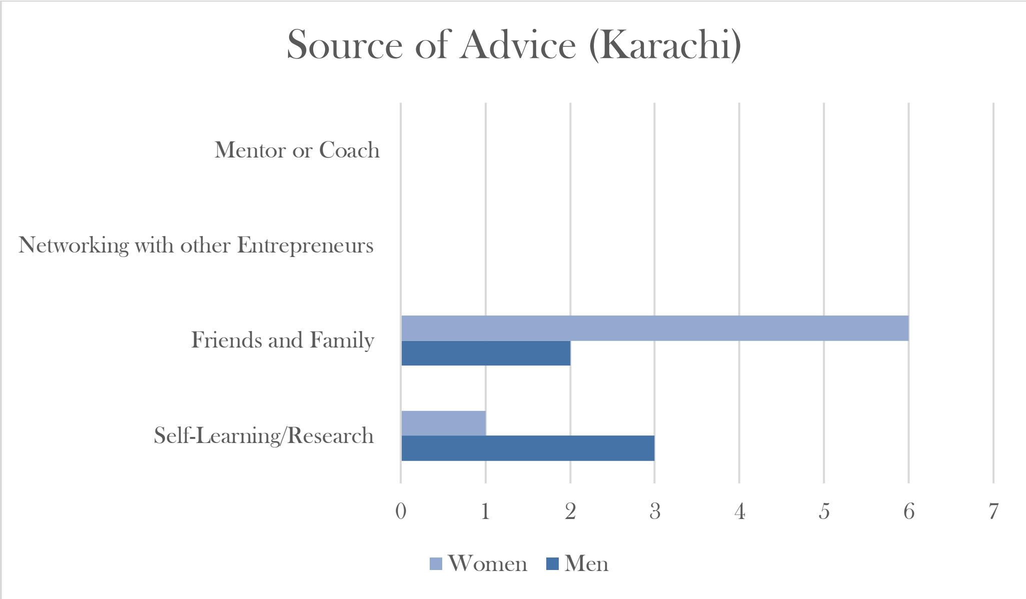
Source: (Author, 2024)

Figure 26: Loan amount and Frequency (Islamabad)



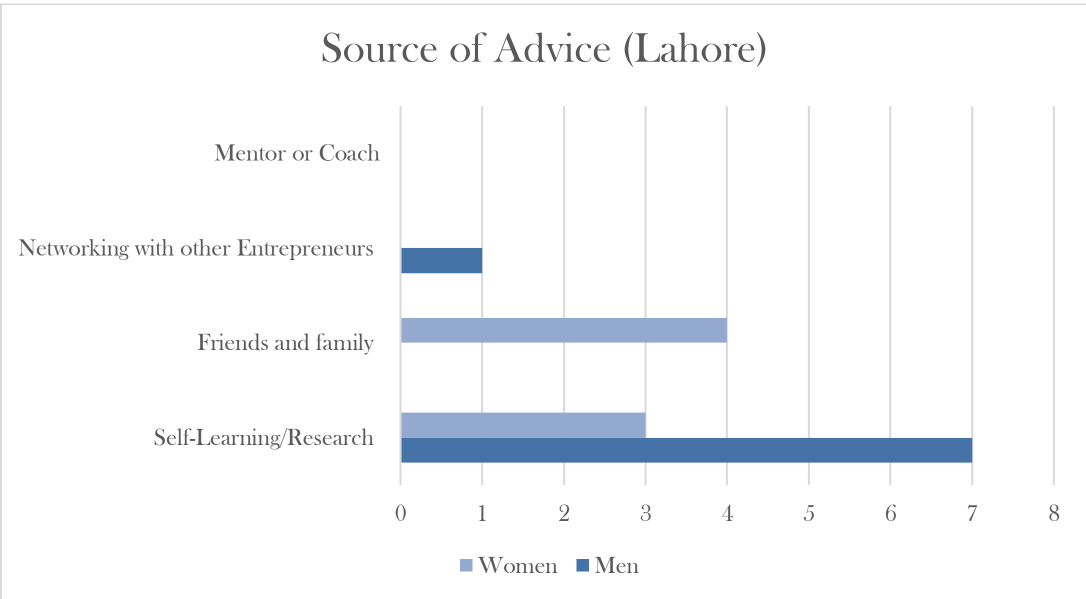
Source: (Author, 2024)

Figure 27: Source of Advice (Karachi)



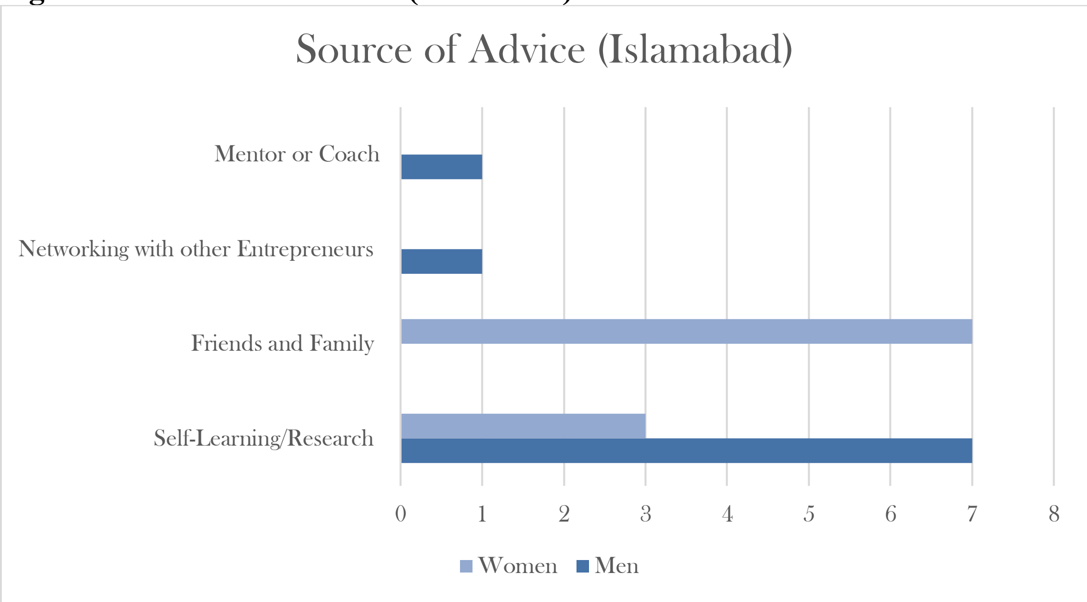
Source: (Author, 2024)

Figure 28: Source of Advice (Lahore)



Source: (Author, 2024)

Figure 29: : Source of Advice (Islamabad)



Source: (Author, 2024)

Table 10: MFI-specific data: microStart, Adie and Qredits comparison

		Microstart – Belgium	ADIE – France	Qredits - Netherlands
MFI	Launching date	2010	1989	2009
	Legal form	Scrl-fs & asbl[1] (NBFI & non-profit)	Association Loi 1901, public utility since 2005 (non-profit)	ANBI (foundation) (non-profit)
	Intervention area	Countrywide (5 branches)	Countrywide (128 branches)	Countrywide (1 branch)
	Type of products	Microcredits Micro-leasing BDS	Microcredits Non-interest-bearing loans Micro-insurances BDS	Microcredits SME loans Flexible credits BDS
	Maximum loan size	[€500 – €15,000]	Max €10,000	Microcredits: max €50,000 SME loans: [€50,000 – €250,000] Flexible credits: max €25,000
	Average microloan size (2016)	€7,000	€4,000	€19,000
	Average loan period	[3 – 48 months]	Max 48 months	[12 – 120 months]
	Interest rate (2016)	From 8.95% + 5% admin fees	From 6.69% + 5% admin fees	From 6.75%
	Default rate (2016)	*3%*	6.2%	4.8%
	Outstanding (2016)	€10.2M in 2016 (for a total of €23M lent)	€120M in 2016	N/A (for a total of €207M lent)
	Amount issued in 2016	€6M	€74M	€42M (from which €32M are for microcredits and flexible loans)
	Number of active clients in 2016	1664 (compared to 1365 in 2015)	47,573	N/A
	Number of loan disbursed (2016)	767 3000 in six years	19,431 135,687 since 1989	1750 (among which 1645 are microcredits) 10,104 in 8 years (among which 9650 are microcredits)
Sources of data	Primary data	Contact with CEO, Immersion day, interview with credit manager & with IT manager	Skype Interview with micro-insurance and international manager	Interview with the IT and innovation manager
	Secondary data	Website, annual report, internal slides	Website, annual report	Website, annual report, internal slides

Source: Vandeputte & De Toffol, 2017; ADIE, 2016; ADIE, 2017; Eurostat, 2017a; microStart, 2016; microStart, 2017; Qredits, 2017; WBG, 2014b