



DOI 10.2478/sbe-2024-0056

SBE no. 19(3) 2024

ROLE OF MICROFINANCE IN ENTREPRENEURIAL DEVELOPMENT IN LOW-INCOME AREAS

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Abstract:

This study examines microfinance's role in developing entrepreneurship in low-income areas. Entrepreneurship is one of the better ways to eradicate the most critical problems, such as poverty, income inequality, and unemployment. The study uses a paired sample t-test on 200 small entrepreneurs from low-income areas to investigate the difference between before and after availing of a microfinance facility. Furthermore, the microfinance gap is calculated by taking feedback from entrepreneurs before and after getting the financing facility. The microfinance gap is employed to examine whether microfinance plays a role in developing entrepreneurial skills. The results show that the microfinance gap positively contributed to entrepreneurial development. The microfinance facility has proved to be a technique for entrepreneurial development for poor and young unemployed youth. MFIs are considered the best tool to reduce poverty and unemployment and increase entrepreneurial development.

Keywords: *Entrepreneurial Development, Microfinance, Poverty, Entrepreneurship*

1. Introduction

An entrepreneur is an individual who initiates a venture and takes a business-related risk. The entrepreneurship concept is not new and has developed over the years. The unemployed youth can be encouraged with entrepreneurship skills towards diverse opportunities besides wage-earning jobs. Entrepreneurial development is considered one of the leading factors for economic development and has become a notable phenomenon to explore. Poverty can be reduced through new venture creation and entrepreneurship (Si, Ahlstrom & Cullen, 2020). When battling unemployment, the youth turn towards starting their own business and generating employment for themselves and others, increasing their quality of life through better employment openings. According to Saad,

Mohammad, and Haneef (2020), entrepreneurship development is one of the essential determinants of the country as economic development and efforts should be made to expand the entrepreneurial skills of the youth, such as basic financial skills, networking skills, communication skills and maintaining a growth mindset amongst interested human resources. Microfinance is a legitimate tool for development in a country (Jones, 2019). Entrepreneurship development reduces the poverty level in the household (Afonso, Cox & Thorpe, 2020).

One of the most significant barriers to entrepreneurial development in low-income areas is the unavailability of resources and credit or financing facilities. Entrepreneurs have the business idea and willingness to take the risk but do not have sufficient resources to convert all this into a successful business. Entrepreneurs without resources but only ideas are those poor with credit constraints who abandon their innovative ideas and dreams (Jegatheesan, Ganesh, & Kumar, 2011). The uncertainty, high risk of default, and unavailability of proper collateral against these loans restrict large banks and other financial institutions from offering financing facilities to entrepreneurs. There is a need for a solution that helps poor entrepreneurs, particularly those who do not have assets for a mortgage and adequate security. These credit constraints can be solved through microfinance.

Microfinance" describes a means to offer numerous financial facilities to those individuals who cannot get appropriate banking services because of poverty. Microfinance aims to empower young people to earn high revenue and improve their living standards by establishing businesses. Microfinance functions broadly by offering micro-loans to needy people and providing other monetary facilities such as savings, money transfers, payments, and insurance. These financing facilities help improve the labor productivity of their business, uplifting their income. Two financing methods are used in microfinance: profit-based banks and NGO or nonprofit-based companies. Numerous charitable organizations provide loans without charging interest, but some may charge interest. Microfinance is not just considered an alternative to overseas aid but also addresses several issues, such as education, gender equity, inequality, and skill development, besides offering loans. Moya-Davila and Rajagopal (2020) found that female entrepreneurs have a good repayment history but only when microfinance institutions have a stronger customer relationship.

Currently, Pakistan is facing critical problems of poverty, unemployment, and income distribution inequality. About 128 million and around 50 million individuals earn between US\$ 2 and US\$ 1 daily, respectively, as described in (The Economic Survey 2018-2019). According to the Household Integrated Income and Consumption Survey (2015-2016), about 24% of the total population of Pakistan survives under the poverty line, comprising 13% in urban areas and 31% in rural areas. Furthermore, the multidimensional poverty index (MPI) based on the Pakistan Social and Living Standards Measurement (PSLM) survey (2014-2015) shows that 38.8% of the national population is poor, which includes 9.4% in urban areas and 54.6% in rural areas. As per the Pakistan Economic Survey (2018-19), 65.50 million were labor force, 61.71 million were employed, and 3.79 million were unemployed, which accounts for 5.80% of unemployment.

Nevertheless, for Pakistan, the poverty issue is not new and has already been included in the Millennium Development Goal of the United Nations. The critical aspect is that Pakistan has higher income inequality and a gap between the poor and the rich. In the present situation, Pakistan is encountering a high unemployment rate due to many factors, including a lack of entrepreneurial development. The average wages are also reduced due to the unavailability of work opportunities. Therefore, entrepreneurship or self-employment is one of the essential solutions to challenges like unemployment and a reduction in wages. These issues are critical to developing entrepreneurial skills in young individuals, and microfinance is considered the best tool in this regard. Entrepreneurship development requires financing to convert ideas into successful businesses.

Microfinance offers small funds to poor individuals with the business idea, and then they turn to contribute to the country's economic growth. Microfinance institutions also assist entrepreneurs in making their business plans by providing client guidelines and business plans, feasibility studies, and micro-credits for a startup or business. Recent years have shown the incredible growth of Pakistan's microfinance sector. Annually, 35% average growth has been registered by Pakistan's top three microfinance banks despite the general economic conditions—the potential clients of microfinance credit range from 25 million to 30 million borrowers. Lower-income groups fulfill their capital requirements through informal modes and channels like diverse moneylenders who impose a higher interest rate over loans.

Most of the literature suggests a positive role of microfinance in entrepreneurial development. However, Nair and Njolomole (2020) highlighted some failures of microfinance roles in entrepreneurial development due to poor institutional quality. They claimed that poor institutional quality might create problems and become destructive rather than productive entrepreneurship. There is a need to study the role of microfinance in entrepreneurial development in less-developed areas in Pakistan. In this paper, the broad research problem is to examine whether microfinance service plays a role in the development of entrepreneurs. Entrepreneurial development needs to be evaluated on the three overall levels: enterprise, household, and individual client levels. Many factors help in entrepreneurial development, including venture capital, hedge funds, seed funding, and microfinancing. However, microfinance is a beneficial method of financing for entrepreneurial development for the extremely poor class with less technology and normal ideas. There is a need to study the disparity between these three levels before and after getting microfinance services. This helps ascertain whether the microfinance service influences these three levels. The entrepreneurial activities in Pakistan shallowly are another research problem, examining whether microfinance services can improve entrepreneurs' doings.

This paper aims to study the role of microfinance in developing entrepreneurship skills in Pakistan. This paper has two main objectives; the first is to find microfinance influence by comparison of the entrepreneur's responses before and after getting microfinance service, and the second is to analyze the microfinance role in entrepreneurial development. Generally, microfinance is entrenched to oblige the requirement of commercial facilities to micro-businesses/entrepreneurs, which is a sort of admittance to proper banking systems because of the cost associated and numerous additional causes.

For individual clients, microfinance services have two essential models. The group-based model combines the efforts of more than two business persons to take the credit, maybe group lending or community-based loaning. The second type is individual lending or banking based on relationships between small businesses and entrepreneurs at the individual level.

The remaining paper is structured as follows: Section 2 reviews the recent literature on microfinance and entrepreneurial development and their relationship. Section 3 contains data collection, instruments, and a plan of analysis; Sections 4 and five consist of results, data analysis, and conclusion.

2. Literature Review

2.1 Entrepreneurial Development

Microfinance and its role in developing entrepreneurship is an emerging concept to study. Nevertheless, La Porta and Schliefer (2008) rarely claim and contradict these results. The micro-enterprise failure rate is high, as Storey (2016) emphasized, and the government should consider this risk. George (2005) claimed that less than 2% of micro-enterprises survived in Tamil Nadu, India. The researchers of the World Bank recognized in Herzegovina and Bosnia that within the first year, almost 50% of microenterprises become unsuccessful (Demirgüç-Kunt et al., 2007). The primary issue of people with low incomes is that they do not have collateral and the absence of a guarantee. Conventional banks are unwilling to offer loans to the deprived because of these and other reasons, such as inexperience and lack of education. These conditions bound the approach over credit and pushed deprived individuals to further deprivation. These disappointments may vanish all remaining assets (Davis, 2007). If the poor micro-enterprises fail, they lose all their remaining assets because of the social requirement to reimburse the microcredits attached to them.

In the 18th century, French economist Richard Cantillon was the first to introduce the concept of entrepreneurship. This area was studied by many other economists, such as Adam Smith, David Ricardo, and John Stuart Mill (Burnett, 2000). For the development of entrepreneurship, structural elements, religious and socioeconomic, are considered a good and vital combination with cultural and social capital. Socioeconomic conditions, structural factors, and culture hinder entrepreneurship in developing countries. In Pakistan, religion (Islam) motivates Muslims to do business. Islamic entrepreneurship is different from western entrepreneurship because the Islamic concept emphasizes entrepreneurial, ethical/socioeconomic, and religious-spiritual aspects with higher outcomes but with the fulfillment of religious goals.

In contrast, in the Western concept, success is only measured in terms of profit (Muhammad, McElwee, & Dana, 2017). Dana, Gurau, Light, and Muhammad (2019) studied the specific social structure and Memons' community functioning in Karachi, Pakistan. They found social, family, community, and ethnic capital significant in entrepreneurship development. They indicate the multifaceted community structures and mechanisms that reproduce the entrepreneurially oriented ethnic enclave model traditionally validated and based on ethnic group, trust, reciprocity, solidarity, and social

responsibilities. Furthermore, this model has created and preserved the prosperity of Memon's family capital over many generations and transformed it into a significant player in the community and regional development. The specific set of spatial, organizational, institutional, technological, temporal, and socio-cultural conditions resulting in 'cultural entrepreneurship' begins to appear globally. As per the Schumpeterian perspective, innovation in a new or existing business is a key to entrepreneurship (Burger & Volkmann, 2020).

The SMEs (small and medium-scale enterprises) contribute widely to job creation, poverty reduction, empowerment, and economic development in both developing and developed economies (Abdullah, Ahmad, Zainudin & Rus, 2016; Adom, 2016). SMEs led worldwide business formations. Across the world, 60% of private sector employment and more than 95% of business enterprises (Ayyagari, Kunt, Maksimovic, 2011; Baidoo & Sakyi, 2020). In Pakistan, the SME sector contributes 77% of the total industrial level of employment, 40% of the national GDP, and 25% of earnings based on cross-border exports. Almost 3.2 million SMEs are in Pakistan. SMEs contribute to Pakistan's economy and are ignored by institutions, regulatory bodies, and researchers (Sherazi, Iqbal, & Asif, 2013; Bagh, Arif, Liaqat, & Razzaq, 2017). SMEs have enormous potential and are also considered the strength of Pakistan's economy. Some constraints exist to limit entrepreneurial activity, such as lack of Government policy reported by Chemin (2010), Socio-cultural constraints reported by Muhammad, McElwee, and Dana (2017), and mainly financial obstacles (credit denial or lack of access to credit described in the report of (SMEDA, 2018). Zaheer and Kazmi (2018) found that market, knowledge, cultural, social, and family-related barriers are higher than Pakistan's institutional, regulatory, and financial barriers.

Mmerek, Hovorka, and Gwebu (2020) found that micro-enterprises (male and female) face hurdles in starting a new business due to insufficient startup capital and financial resources. Besides, experiencing difficulties while raising capital through personal savings, loans from family members and friends, and even crowd-funding or novel social network gestures exist. In addition, they stated that micro-enterprises are considered to be a positive method of job generation, empowerment, and economic development. So, micro-enterprises were problematic in developing countries, as evident from this and other studies.

2.2 Microfinance

According to the Asian Development Bank (ADB), microfinance has a broader range of provisions of financial facilities like loans, money transfers, deposits, insurance, and payment services to lower-income families, people experiencing poverty, and their micro-enterprises. The above definition of microfinance is specially designed for the financial facilities for poor people to live sustainably. Microfinance, defined by Ledgerwood (2000), evolved as an economic growth approach, anticipated the advantage to lower-income men and women. That microfinance term provides financial facilities together to lower-income customers and entrepreneurs. Therefore, today, the Microfinance Institute serves as a proper banking system, not just only as an NGO. According to the definition of Ledgerwood and White (2006), the microfinance term can be divided into two types. These parts can be

Micro and Finance, where finance describes the word finance relevant to the attributes allied with the finance discipline. However, the term micro shows the investment's extent involved as it mainly contains small loans. Otero and Rhyne (1994) stated that microfinance is the monetary facility provided to improve those with low income compared to the national average income and self-employed people. Similarly, Schreiner and Colombet (2001) described the facilitation of lower-income groups through small loans and deposits to those who cannot fulfill conventional banks' requirements of high financing costs at a significant scale.

Robinson (2001) claimed that the rapid growth observed in microfinance institutions number in the era of the 1990s. Dr. Muhammad Yunus started the microfinance initiative in Bangladesh in the 1970s, and that undertaking stretched worldwide (Bateman, 2011). Nevertheless, these organizations, i.e., Grameen Bank and others, largely depend on governments and overseas benefactors. The conventional microfinance theory of change is understandable where a deprived individual gets a loan to start up or develop a micro-enterprise by approaching a microfinance organization, which capitulates adequate revenue to repay the credit with interest amount and still have sufficient return to increase the living standards of people. As an opportunity, Microfinance offers several financial facilities to lower-income customers and gives priority to women.

In Pakistan, back in 1982, the emergence of microfinance facility with the two founding non-governmental organizations named the Aga Khan Rural Support Programme (AKRSP) and the Town Experimental Venture in Karachi. The process of mainstreaming microfinance into the proper financial system was initiated in 2000 by Pakistan's State Bank. In 2000, a pioneer microfinance bank named Khushali bank was established. Moreover, in 2001, the microfinance law was promulgated separately. So, the notion of microfinance and small loaning is developed. Microfinance and branchless banking are growing, and with exertion, just 2.3 million of 30 million borrowers are taking small loans, which is less than 10% of a selected area. In the country, these challenging situations also offer opportunities to microfinance institutions, particularly in cost reduction from infrastructure and new strategies, i.e., branchless banking and savings mobilization, which should be emphasized by developing countries. Also, lending operations must be extended into different economies and segments at the geographic level.

The World Bank Report about Pakistan showed that the Aga Khan Rural Support Programme initiated and involved some of the largest donors in microfinance, as a rural support program has approx. 70% share of NGO outreach as well as in the 1990s. KASHF Foundation and some other NGOs started offering micro-finance services. However, in the year 2000, in Pakistan, with the synchronization of the World Bank, a critical step for poverty alleviation was launched, named Pakistan Poverty Alleviation Fund (PPAF). Significant customer development and increase from 100,000 in 2001 to 2007, 1.4 million from the microfinance institutes, noted by Khushahali Bank Annual Report (2007, pg. 4).

2.3 Role of Microfinance in Entrepreneurial Development

Microfinance increased entrepreneurial activity and enabled resource-lacking groups to start small businesses (Robinson, 2001). Microfinance institutions and their models are widely accepted models in the world now. They help create entrepreneurial opportunities

for lower-income groups by providing small financial loans and other services. The decades of the 2000s are considered the microfinance decade (Dichter, 1999). As a result of accelerated growth in microfinance institutions, lower-income households' demand for other facilities increased. That is why their focus lifted from credit facility providers to several other facilities such as reserves and pensions. Microfinance helps by providing microcredit to people in need in their business and other financial facilities.

In developing countries, poverty alleviation programs help lower poverty by elevating lifestyles. There are many solutions to reduce poverty, but a critical objective is making deprived individuals increase their salaries. Hussain (1994) stated that micro-financing is crucial in income generation and poverty reduction. These lower-income groups have insufficient access to other organized financial pieces. Commercial services associated with microfinance are relatively more minor than modern monetary services presented by conventional financial organizations. Such services comprise insurance, remittances, savings, and loans. For the development of micro-enterprises, microcredit is majorly extended. A broader range of diversified teams caters to the financial needs of micro-enterprises, households, and individuals. If they utilize microcredit skillfully and professionally, their impact is significant with time. According to information exchange, microfinance organizations often employ different methodologies not used by the conventional financial sector and focus on lower-income persons.

Microfinance organizations, including a broad-based policy of a wide-ranging nature with significant investments in staffing and infrastructural development implement the growth plans of the microfinance sector. The growth plan controlled the sustainability matters and strictly affected the microfinance sector's operational and monetary functioning. The microfinance sector's weak performance and slow growth suffer from high sustainability risks and require further investment in this sector (Rauf & Mahmood, 2009). Ejaz and Ramzan (2012) conducted a case study on this issue and explored how social entrepreneurship, microfinance, and small entrepreneurship cooperatively alleviated poverty. The microfinance mechanism empowers people by contributing to Pakistan's sustainable development goals. They studied the organizations that provided interest-free microfinance facilities and found that it was useful to create sustainable business openings for low-revenue groups and combat poverty. Zaigham and Asghar (2011) indicated that the viability of Microfinance Banks in Pakistan had become ambiguous due to a natural disaster in 2009-2010.

The microfinance theory describes that the essential purpose is to reveal the smooth progress of required capital acquisition to start the entrepreneurial activity (Navajas, Schreiner, Meyer, Gonzalez-vega, & Rodriguez-meza, 2000). The free-market concept can disrupt the cycle and may encourage economic resources for the deprived individuals, as documented by Grameen Bank acceptance (Hassan, 2002). Khanal (2010) conducted a case study on microfinance's role in developing micro-entrepreneurship. He examines microfinance's impact on changing the micro-entrepreneur's socioeconomic position and micro-entrepreneurial activities in Pakistan's ceramic industry. The study found that conventional pottery-making was transformed into a ceramic factory by microfinance facilities and taking individual businesspersons into a single project. Skilled base training and relevant management positively influenced micro-entrepreneurs' living standards.

Nevertheless, repayment of loans remains a serious issue because of low product demand, which requires a noteworthy enhancement using skill training practices.

The noteworthy gap is found in the amount of microfinance needed and availability in Khyber Pakhtunkhwa's rural areas. The ongoing microfinance facilities are not creating the anticipated economic output (Nouman, Khan, & Khattak, 2009). The main reason for poverty in the developing world is the inaccessibility of disadvantaged groups to credit services. The reason behind inaccessibility is that those groups cannot meet the requirements of conventional banks, such as high interest rates and collateral. So, according to Littlefield, Morduch, & Hashemi (2003), in developing countries, most of the poor population is inaccessible to prescribed financial organizations. Morduch and Haley (2002) found a positive relationship between microfinance and poverty alleviation. Furthermore, they argued that the service of microfinance is contemplated as the most active and appropriate alternative for poverty reduction, especially for financially weak and restrained populations.

Microfinance provides a broader range of commercial facilities like credits, deposits, insurance, payment deals, and finance allocated to low-income communities and micro-entrepreneurs (Khawari, 2004; Zahoor, Alam, & Asmat, 2009). To examine microfinance's role in improving the standard of living of low-revenue communities in Pakistan, Akram and Imtiaz (2011) analyzed data using the descriptive model. Moreover, findings show a positive relationship between microfinance services and income level, and approximately 85% of respondents supposed that their living standards improved by microfinance.

Likewise, another study also observed microfinance's role in poverty reduction in rural areas of Pakistan. Ahmad et al. (2004) used the correlation analysis technique to investigate the relationship between microfinance and saving, farm expenses, asset formation, income, and crop production. The study outcomes exposed a positive relationship between microfinance. Several variables and outcomes summarized that people experiencing poverty were positively affected by microfinance facilities, and their living standards improved in rural areas. The contribution of microcredit to poverty alleviation was assessed by Chavan and Kumar (2002) by revealing that microfinance programs and organizations positively impacted people's income levels.

In Indonesia, microfinance and improvement in income levels of poor people have a direct relationship (Panjaitan-Drioadisuryo et al. 1999). Their results indicate that the borrower's income rises by 112%, and 90% of debtors turn outside the poverty line. In India, a study on microfinance economic and economic growth was conducted by Simanowitz (2003), and their results show that three-fourths of the debtors of microfinance organizations produced economic development. Although half turned outside the poverty line, the theoretical framework can be constructed based on the above review of relevant and essential studies, which can be summarized as microfinance's essential role in entrepreneurial development.

2.4 Research Hypotheses

Hypothesis H₁: Entrepreneurs who use Microfinance Institutions are different from those who do not use Microfinance Institutions.

Hypothesis H₂: Microfinance facilities have a positive and significant impact on entrepreneurial development in Pakistan.

3. Research Methodology

This paper aims to study microfinance's role in developing entrepreneurial skills. The methodology refers to the approach used to achieve the research goals. There are mainly two research methodologies, i.e., exploratory (qualitative) and explanatory (quantitative) research. Such approaches for analysis are used to address the different questions. Saunders et al. (2009) argued that qualitative research deals with non-numeric data, while quantitative research deals with empirical problems. Quantitative research uses statistical procedures to find the relationship between variables (Creswell, 2003). The survey approach deals with people's existence, emotions, beliefs, and expectations (Shanghnessy & Zecheister, 1997). A cross-sectional survey approach was used to bear the limited data collection time. This helps collect information at one point (Fraenkel & Wallen 2003). Typically, the quantitative approach is based on well-structured questions. Generally, qualitative analysis is focused on inductive methodology and open-ended questions or complex data such as policy documents or in-depth interviews.

This study uses a questionnaire-based survey research design. This study gathers the first data from diverse entrepreneurs who use microfinance services. Entrepreneurial development is the dependent variable, and microfinance is the independent variable. The questionnaire is based on the above variables and distributed using a convenience sampling. A total sample of 300 questionnaires was distributed. The consent of the survey participants was taken before proceeding for data collection, and participation in the survey was voluntary. However, 209 questionnaires were filled only, from which 200 sample sizes were chosen based on the questionnaire's completeness. All the questionnaires are shared by hand and filled out by the entrepreneurs. The response rate is 67 percent, which is good Pakistani background. Filling only took 12 to 15 minutes. This sample size is adequate due to limited entrepreneurial activities, as entrepreneurship is in the developing stage in Pakistan. Karachi is one of the most important cities and hubs of Pakistan's business. Thirty filled questionnaires completed the pilot test and were omitted from the final sample.

This paper described a micro-entrepreneur as an individual who started his mini-business rather than working for others. The formal banking sector considers small entrepreneurs relatively more exposed to default risk than other schemes. According to Bagh, Arif, Liaqat, and Razzaq (2017), borrowing money from financial institutions and banks is not easy for micro-entrepreneurs as large enterprises create obstacles to SME growth and development in Sialkot, Pakistan. Generally, the microfinance institution recognized as MFI promotes clients at the enterprise, household, and individual levels. So, based on these three levels, our questionnaire is mainly constructed. The Thirteen (13) questions are related to the individual level, the Eleven (11) questions are at the Household level, and the Nine (09) questions are added at the micro-enterprise level. The thirty-three (33) questions are added to this survey separately, along with demographic questions to measure the microfinance activity.

In addition, fifteen (15) questions were used to measure entrepreneurial development. Before distributing the questionnaires, the reliability was checked through Cronbach's Alpha. Correlation analyses were done of paired samples to test the relationship and analyze the constructs between independent and dependent variables. A paired sample t-test was used to test the first hypothesis, i.e., entrepreneurs who used microfinance institutions differ from those who do not. A powerful tool is a paired sample t-test, but it only applies to matched samples as we have matched samples. That tool is the best and most effective for examining the differences between before and after microfinance services. The gap analysis was calculated, an essential contribution of this paper. The Microfinance Gap Analysis' was conducted based on the difference between before and after microfinance facilities. The impact of microfinance (independent variable) on entrepreneurial development (dependent variable) was considered. This was similar to the marketing SERVQUAL scale, in which consumers' expectations and perceptions are compared before and after using services. Similarly, the microfinance gap was measured by comparing before and after the service of microfinance, and the gap was recognized as microfinance's impact.

In this paper, the questionnaire was divided into two parts. The first part consisted of an entrepreneur's opinion before taking a microfinance service on 7 7-point Likert scale, and the second part answered the same queries after availing the microfinance service. The difference of opinion indicated both the negative and positive microfinance's role in individual entrepreneurs at three levels: micro-enterprise, household, and individual client. The gap is measured before and after using the microfinance service's response. If that gap is positive, microfinance plays a positive role in developing entrepreneurial skills at three levels: enterprise, household, and individual client.

Moreover, that gap will be used to examine whether microfinance plays a role in the development of entrepreneurs or not. To achieve objectives, a simple regression analysis, a paired sample t-test, and ANOVA are used to develop a prototype for the data entry in SPSS 17.0. This gap considers the development of entrepreneurs as the dependent variable and the role of microfinance as an independent variable. That analysis helped examine microfinance's role in Pakistan's entrepreneurial development.

The first methodology adopted for the analysis is paired sample t-statistics. A paired sample t-test is used to check if there is a substantial difference between the mean of microfinance before and after the availing facility. Both measurements must be conducted simultaneously in the same sample at the same time, and the test is based on the paired differences between the two values. The standard null hypothesis is that the mean value variance is zero. This paper has two phases: after using microfinance and before the microfinance facility. The null hypothesis, i.e., entrepreneurs who used Microfinance Institutions are no different from those who do not, is checked against one of the alternative hypotheses, i.e., entrepreneurs who used Microfinance Institutions differ from those who do not use Microfinance Institutions. These tests, i.e., paired sample t-tests, are stronger and more efficient tools but can only be used in matched samples. Because we have matched samples, therefore it is an effective and better method for evaluating disparity in microfinance facilities after and before.

The tools used in this paper are reliable, showed by Cronbach's Alpha value. Moreover, table 1 shows that the survey questionnaires have an overall 0.850 Cronbach's Alpha value, which is very good. The value of Cronbach's Alpha up to (0.7) is considered suitable and reasonable. The outcomes demonstrate that in this study, the statistical measurement scales are employed, as shown in Table 1, and outcomes meet the appropriate standard of reliability validity analysis;

Table 1: Reliability Statistics

Variable	Cronbach's Alpha	N of Items
After Availing- Microfinance	.750	33
Before Availing - Microfinance	.796	33
Entrepreneurial Development	.799	15
Overall Questionnaire	.850	81

4. Result and Discussion

First, the respondent's demographic information is discussed to enable us to understand a better sample, and the results can also be quickly interpreted in the context of this information. Then, to check whether microfinance has made any changes at the enterprise level, household level, and individual-client level, they are analyzed by paired sample t-test. After that, the microfinance gap is calculated, and the microfinance's role (independent variable) in entrepreneurial development (dependent variable) is tested by simple regression. It is essential to mention that the initial role of microfinance on entrepreneurial development is tested, and later dimension-wise analysis is also discussed for an in-depth understanding of the issue.

Table 2 demonstrates the demographic data to better understand the sample under study. It shows that male respondents were 154 (77 %), while female respondents 46 (23%). Usually, females are disposed to work in Pakistani society, but every effort is made to comprise female entrepreneurs in this study. Nevertheless, this involvement is encouraging and excellent because there are few women entrepreneurs. Women are an essential portion of the economy, and microfinance institutions are targeting women, which is a good step and contribution to eliminating gender discrimination, family well-being, and prosperity. It is essential to note that because of gender prejudice and several other aspects, women faced difficulties while getting credit. Women's contribution to the family's well-being is more than men's. Representing women in the sample is a valuable contribution to the study.

Regarding marital status, 69% of respondents were single, and only 31% were married. It is also essential that single and young people are more devotees to entrepreneurial doings than married and older people. Unemployment in youth can be eradicated with the help of entrepreneurial development in society. The respondents are classified on their education, and most of the respondents have a bachelor's degree or lower because they have some technical expertise and need jobs after quitting education. So, they decided to set up their own business, and due to unemployment, many also

chose to set up their own business. Table 2 indicates that only 1% have a higher degree, 11% are master's degree holders, 31% graduated, 44% have intermediate, and 14% have Secondary School certificates. The questionnaire is distributed to well-educated respondents so they can easily understand it.

The respondent's business involvement before MFIs is considered the most critical demographic variable. The experience of an entrepreneur plays an essential role in the business's disappointment or success. Table 2 indicates that 34% of respondents had less than three years of experience before the tacking microfinance facility, and the other 34% had less than five years of experience. Another 20% of respondents have no business experience before joining microfinance institutions. So, most respondents have no involvement or less than five years of business experience before joining the MFI. It means that essential role-playing by MFI is needed to help individuals grow old companies further or start their small-scale businesses. Table 2 indicates the results in detail.

Table 2: Demographic information of the respondents

Gender	%age	Average monthly income	%age	Educational Level (in years)	%age	Business Experience Before Joining MFI	%age
Male	77%	below Rs.100,000	13%	Matriculation	14%	Less than one year	20%
Female	23%	Rs.100,000- 200,000	64%	Intermediate	44%	1-3 years	34%
Total	100%	Rs.20,001- 400,000	14%	Graduate	31%	3-5 years	34%
Married	31%	Rs.400,001- 500,000	7%	Master	11%	5-10 Years	12%
Single	69%	Above 500,000	Rs. 4%	Higher	1%	Above ten years	1%

Primarily, this paper compares the difference between the respondent's responses before and after microfinance service, which is achieved by the Paired sample T-test and Correlations of Paired Samples. The Paired sample T-test and Correlations of Paired sample results are reported separately in Tables 3 and 4. The findings indicate that the mean after microfinance service is more significant compared to the before microfinance service. Moreover, in all component-wise analyses, compared to before the microfinance service, all three levels have a more significant meaning after the microfinance service. Table 3 indicates the results in detail.

Table 3: Paired Sample Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Overall Paired Samples Statistics					
Pair 1	After -MF	4.7259	200	.62965	.04452
	Before MF	- 4.3614	200	.64779	.04581
Component-wise Paired Samples Statistics					
Pair 1	ALL	4.8619	200	.93382	.06603
	BIL	4.4796	200	.71685	.05069
Pair 2	AHL	4.4232	200	.71840	.05080
	BHL	3.7564	200	.71115	.05029
Pair 3	ALL	4.8994	200	1.18213	.08359
	BEL	4.3911	200	.90404	.06393

Correlation analysis is being done using paired samples, and their results indicate that the questions after microfinance are 30.8% correlated with responses before the service of microfinance. Moreover, component-wise analysis demonstrates that the Paired sample correlation of an individual client level is 59.2%, the household level is 16.2%, and the micro-enterprise level is 3%. Table 4 shows the outcomes in detail.

Table 4: Paired Samples Correlations

			N	Correlation	Sig.
Overall Sample Analysis					
Pair 1	Total	AMF & BMF	200	.308	.000
Component wise Analysis					
Pair 1	Individual Level	AIL & BIL	200	.592	.000
Pair 2	House Hold Level	AHL & BHL	200	.162	.022
Pair 3	Micro Enterprise Level	AEL & BEL	200	-.033	.645

The Paired Sample T-test results are demonstrated in Table 5, which is evaluated by making before and after service of microfinance responses a pair and then analyzed. The outcomes are significantly positive. The p-value is less than a 1% significance level, with a t-value of 6.860. The component-wise analysis also shows that all three levels, such as individual client, household, and micro-enterprise levels, have a positive and significant Paired sample T-test. In favor of the alternative hypothesis, we reject the null hypothesis.

Table 5 reports the results in detail.

Table 5: Paired sample T-test results

			Paired Differences			t	Sig. (2-tailed)
			Mean	Std. Deviation	Std. Error Mean		
Overall	Pair 1	AMF – BMF	.36455	.75153	.05314	6.860	.000
Component wise	Pair 1	ALL – BIL	.38231	.77012	.05446	7.021	.000
	Pair 2	AHL – BHL	.66682	.92563	.06545	10.188	.000
	Pair 3	AEL – BEL	.50833	1.51152	.10688	4.756	.000

Microfinance's impact on entrepreneurial development is reported in Table 6. Microfinance is the independent variable, and entrepreneurial development is the dependent variable measured by gap analysis. Moreover, the determinant's scale refers to the R-squared, which shows a correlation between observed and predicted values of the dependent variable. Analysis of results shows that the value of R-squared means is 63.8%. The model has described portions, and the Adjusted R squared is close to the value of R squared, which is 0.637. The Durbin-Watson test indicates no serial correlation, and the value is around 2, which suggests that the models and data are accurate to utilize. Moreover, the analysis results demonstrate that with a value of 349.538, the F-value is significant at (0.000), which is less than 1% and demonstrates the microfinance gap (independent variable) described by the difference in the development of entrepreneurs (dependent variable) very-well. Table 6 demonstrates the complete outcomes.

The regression analysis portrays that the t-value is significant and positive at less than 1% as the p-value is less than (0.05). Therefore, the outcomes are statistically significant. Moreover, the paired sample t-test demonstrates the relative significance of microfinance gap-independent variables such as entrepreneurial development. Therefore, our H2 hypothesis is accepted. That paper investigated microfinance's role in entrepreneurial development, measured by gap analysis. Moreover, for more clarification, microfinance's role in entrepreneurial development in Pakistan is positively significant.

Table 6: Results of Micro Finance impact on Entrepreneurial Development

Description	Model
(Constant)	4.398 (98.881)***
Microfinance Gap	.523(18.696)***
F – Value	349.538***
R Square	.638
Adjusted R Square	.637
Durbin-Watson	2.087

The study presents important insights for entrepreneurial development using microfinance facilities. The results align with (Jones, 2019), who found that Microfinance is a legitimate tool for development in a country. Similarly, the paper confirms the finding of (Afonso, Cox, and Thorpe, 2020) that Entrepreneurship development reduces the poverty level in the household. The paper agreed with (Jegatheesan, Ganesh, and Kumar, 2011) that Entrepreneurs without resources but only ideas are those poor with credit constraints who abandon their innovative ideas and dreams. Table 6 also confirms the results of Robinson, 2001, who claimed that Microfinance increased entrepreneurial activity and enabled resource-lacking groups to start small businesses. The study also confirms the findings of Khanal (2010). The study contradicts the results of Nouman, Khan, and Khattak, 2009 who claimed that the ongoing microfinance facilities are not creating the anticipated economic output. However, our study confirms that microfinance helps in entrepreneurial development in lower-income areas of Pakistan.

5. Conclusion and Recommendations

This paper aims to study microfinance's role in developing entrepreneurial skills. The study uses a questionnaire-based survey research design. The small credits offered to lower-income individuals, microfinance programs, and financial facilities in the form of micro credits to lower-salary customers who cause the reduction in poverty, unemployment, and income distribution inequality. However, in recent times, Pakistan has faced these critical problems. Therefore, the role of microfinance in Pakistan is significant because Pakistan is considered one of the most imbalanced revenue circulation regions in the world, with a higher joblessness rate, lower wages, increasing poverty, and many more factors. All these problems are considered to be solved by entrepreneurship or self-employment. This study's primary data is gathered from diverse entrepreneurs who take microfinance services.

The study used a purposive sampling technique, and the questionnaires were distributed to a sample of 200 small entrepreneurs after ensuring they had availed of the microfinance facility. The analysis is based on overall as well as three levels: individual, household, and enterprise levels. In methodology, the paired sample t-test was selected as the first data analysis technique to test whether there is a noteworthy variance between before and after taking a microfinance service. The gap analysis is an essential contribution to this paper. Based on the difference between before and after microfinance facilities, the microfinance gap analysis is conducted, and microfinance's impact on entrepreneurs will be considered. Moreover, this gap is recognized as microfinance's impact on entrepreneurial development. This gap considers the development of entrepreneurs as the dependent variable and the role of microfinance as an independent variable. The analysis allowed us to examine microfinance's role in the entrepreneur's development in Pakistan.

The respondent's business involvement before MFIs is considered the most critical demographic variable. Most respondents have no involvement or less than five years of business experience before joining the MFI. It means that essential role-playing by MFI is needed to help individuals grow old companies further or start their small-scale

businesses. The findings indicate that the mean after microfinance service is more significant compared to the before microfinance service. Moreover, in all component-wise analyses, compared to before the microfinance service, all three levels have a more significant meaning after the microfinance service. The results are evaluated by making a pair of before-and-after service of microfinance responses and then analyzing them. The outcomes show the positive impact of microfinance on entrepreneurial development. The component-wise analysis also shows that all three levels, such as Individual client, household, and micro-enterprise levels, have a positive and significant impact of microfinance on entrepreneurial development in Pakistan.

In the development of entrepreneurship, credit constraints are one of the significant hurdles, and the solution to this problem is microfinance, which provides micro-credits. Traditional banking systems have neglected this segment of society, and the bottom-up approach of microfinance developed an entrepreneurial spirit and new business ideas in unemployed and poorly educated youth. Microfinance has furnished a balanced, sustainable development toward the quality of life of young, educated, and jobless people. Therefore, MFIs are considered the best tool to reduce poverty and unemployment and increase entrepreneurial development.

The paper contributed to the literature by analyzing the entrepreneurial development before and after availing the microfinance facility. There are many studies on the direct impact of microfinance on entrepreneurial development. However, this study analyzed the experimental setting of entrepreneurial development. On the other side, the policymakers and especially microfinance institutions, can use these findings to develop a plan for entrepreneurs to provide credit facilities and help youth in turning their dreams into reality. The study has some limitations in that a lower-income area was selected, and the respondents selected were less experienced in business. Therefore, more sophisticated and educated entrepreneurs may be selected for better insights.

6. References

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