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Article

Impact of Islamic and conventional microfinance on poverty alleviation: A qualitative analysis

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Abstract: This study attempts to analyze the influence of Islamic and conventional microfinance on poverty alleviation in Pakistan. This study adopts a qualitative approach of investigation. It conducts 16 in-depth interviews with Islamic and conventional microfinance clients to evaluate the influence of microfinance on poverty alleviation. The study results reveal that Islamic microfinance significantly contribute towards poverty alleviation as compared to conventional microfinance. Further, it has identified some important factors like entrepreneurship, social capital, awareness, education, religiosity, and empowerment that may help to enhance the influence of microfinance towards poverty alleviation. This research may help microfinance researchers, governments, practitioners, and rating agencies to focus on suggested factors that may affect the connection between microfinance and poverty alleviation. This study may help to understand the poor living conditions and financial difficulties of microfinance clients and may help the social organizations to devise strategies to serve them in a better way to overcome their financial challenges as well as to cope with their family issues. To the best of our knowledge, this will be the first study showing a qualitative analysis related to the impact of both Islamic and conventional microfinance on poverty alleviation.

Keywords: Islamic Microfinance; Conventional Microfinance; Poverty Alleviation; Qualitative Analysis

1. Introduction

One of the most critical issues of world is poverty as since a big portion of the world's population is still living in poverty (World Bank, 2016). Globally, poverty reduction has been discussed widely and it is a significant component of the SDG. Poverty Alleviation remained among the top priorities of international development since the 1990s (Develtere & Huybrechts, 2005) as one-fifth of the world's population is living in extreme poverty (Hermes & Lensink, 2007). For example, almost 2.5 billion population of the world is living with less than $ 2 a day (Bruton, Khavul & Chavez, 2011).

To address the global issue of poverty, microfinance has emerged as an effective poverty alleviation strategy during the last forty years and it has been spread in more than 60 countries during this period (Bateman, 2010). It was initiated in 1976 by Dr. Yunus, who started a microfinance program for women in Bangladesh. Globally, microfinance provides financial services like credit, savings, deposit, insurance, and repayment to those individuals who do not have access to financial services provided by conventional financial institutions as they lack collateral (Littlefield, Morduch & Hashemi, 2003).

In spite of its significant developments across the world, several researchers have questioned the influence of microfinance on poverty alleviation and no conclusive evidence was found. In fact, the impact of microfinance was varied among positive, no influence, and negative influence (Angelucci & Dean, 2013; Ganle, Afriyie, & Segbefia, 2015; Van Rooyen, Stewart, & De Wet, 2012). It has been shown that microfinance's role varies among contexts and depends on financial literacy, population density, attitudes to debt etc. (Armendáriz et al., 2005; Samer et al., 2015).

Conventional microfinance has been widely criticized by several researchers due to its ineffective use. For example, Ali et al., (2017) criticize conventional microfinance for its improper use of loans, high interest rates, inefficient repayment procedures, insufficient amount of loans and improper supervision etc. Banerjee and Jackson (2017) argue that it has led to indebtedness among already impoverished communities and has increased the economic, social and environmental vulnerabilities. Hence conventional microfinance has become a poverty trap for the poor rather than poverty alleviator (Gehlich - Shillabeer, 2008). Microfinance Institutions are curse for poverty alleviation. These institutions' shareholders get benefit instead of poor (Akanga, 2017).

In this context, serious consequences can happen as microfinance clients, unable to repay the loans committed, suicide in India (Press, 2012). Furthermore, microfinance mishaps have been shown in different countries including Nicaragua, Pakistan, Mexico and Morocco, and India (Bateman & Chang, 2012). These facts have raised several questions: (1) does microfinance really serve to minimize poverty in specific contexts (Bateman, 2010; Karim, 2008)? (2) How do microfinance clients cope with rising debts? (3) Is there any alternative that is more suitable in eradicating poverty than conventional microfinance?

Islamic Microfinance has emerged as an alternative tool for poverty alleviation because of its Qard-al-Hasan (interest-free loans) feature (Hassan, 2015; Muneer & Khan, 2022). It is more ethical than conventional microfinance as it facilitates repayment process and suggests to provide charity if creditor has the funds (Begum et al., 2018). Islamic MFIs can reduce indebtedness and unequal distribution of wealth in society and can play a positive role towards reduction of multidimensional poverty (Kaleem & Ahmed, 2010). It can further lead towards economic empowerment (Zitouni & Jedidia, 2022).

There are certain differences between conventional and Islamic microfinance like sources of funds of conventional microfinance institutions are consisted of external and client's savings but Islamic microfinance institutions use Zakat, awqaf in addition to external funds and client's savings. The financing in conventional MFIs is interest based but in Islamic MFIs is according to Islamic finance principles. In financing the poorest, the conventional MFIs exclude ultra-poorest but in Islamic MFIs ultra poorest are included. Further, in transferring funds the focus of conventional MFIs is on "In Cash" but Islamic MFIs focus on "In Kind". Islamic microfinance does not charge interest on loans and provides Riba (Interest) free loans (Wulandari & Kassim, 2016; Wulandari, 2019). Similarly, conventional MFIs prefer women are a target group but Islamic MFIs include any member of the family and in this way conventional MFIs empower women but Islamic MFIs empower the whole family. Currently, Islamic microfinance has been considered as a panacea to alleviate poverty and boost social development through increased economic growth (Khan & Akhter, 2017). Moreover, it can play an important role in stimulating economic activities and entrepreneurship for ensuring equal distribution of income, poverty reduction and human development which are the part of SDGs (Khartoum, 2016).

This study aims to evaluate the impact of Islamic and conventional microfinance on poverty alleviation. For this purpose we adopted qualitative approach and conducted 16 interviews from microfinance clients. Our main results show that the impact of conventional microfinance is divergent between positive, no impact and negative. Further, conventional microfinance leads towards poverty trap and increased indebtedness of already poor communities. Compared with conventional microfinance, Islamic microfinance provides interest-free loans in easy installments, trainings to start profitable small businesses and reaches extreme poor individuals. These are the reasons for its effective contribution towards poverty alleviation.

The article is structured as follows. Section 2 presents the literature review. Section 3 focuses on the methodology framework. Section 4 analyzes the results while Section 5 presents their discussions and implications. Section 6 concludes the paper.

2. Literature review

Literature review is divided into sub-sections. First section discusses impact of conventional microfinance on poverty alleviation while the second section elucidates the impact of Islamic microfinance on poverty alleviation.

2.1 Conventional microfinance and poverty alleviation:

Several studies have shown positive impact of conventional microfinance on poverty alleviation. Following studies will support this argument.

Khandker (2005) investigated the impact of microfinance on poverty alleviation at individual and aggregate levels by using panel data from Bangladesh. A survey was conducted in villages and Thanas of Bangladesh. Almost 1,638 households were selected through the proportionate random sampling method. The findings showed that microfinance plays an important role in poverty alleviation of females at the village level.

Razzaque (2010) used a longitudinal panel database collected by Palli Karma Sahayak Foundation (PKF) in Bangladesh. The sample is composed of 3,026 households, of which 2,735 belong to 80 program villages and other 291 belong to 11 control villages. The findings showed the positive role of microfinance in poverty reduction. In addition, the author showed that supporting small NGOs helps facilitate the poverty alleviation process.

Van Rooyen et al. (2012) made systematic review in sub-Saharan Africa to evaluate the contribution of microfinance and micro-savings to reduce poverty (Van Rooyen et al., 2012). To conduct this systematic review, a protocol was developed and applied. The findings showed a modest, but not uniform, positive impact of microfinance in sub-Saharan Africa. Similarly, a research was conducted on the relationship between microfinance and household poverty reduction by Ghalib et al. (2015). This research concluded that participation in microfinance helps reduce the level of poverty of households.

Qamar et al. (2017) conducted a research to evaluate the impact of microfinance on non-monetary aspects of poverty. For this purpose, the role of microfinance was analyzed on children’s education and housing conditions. The data was collected through the interview approach and the results showed that microfinance has an important contribution towards poverty alleviation and improving living standards.

Agbola et al. (2017) evaluated the impact of microfinance on poverty reduction and wellbeing. This research used a survey method and aquasi-experimental design. The findings showed a small positive contribution of microfinance towards poverty reduction. Simlarly, Khanam et al. (2018) evaluated the contribution of microfinance services towards poverty alleviation in Bangladesh concluded that microfinance helps reduce poverty while improving living standards and income.

Buchenrieder et al. (2019) analyzed the role of micro-credit on per capita income of farm households. The findings showed that microfinance contribution towards income is positive in the short run but it is not the case in the long run. Similarly, Hussain et al. (2019) investigated the impact of microfinance on financial and human poverty of women entrepreneurs in Pakistan. With a sample of 116 microfinance clients, the findings showed that microfinance plays positive role in overcoming financial poverty but it has no contribution towards human poverty.

Wang and Ran (2019) conducted a case study on a microfinance institution, the RSL in China, with the objective to evaluate the role of microfinance as a sustainable path towards poverty alleviation. To do so, the authors investigated sustainable solutions for tackling with mission drift. The results show that to effectively deal with the mission drift issue, microfinance institutions should prioritize their social mission instead of profit maximization.

Tasos et al. (2020) conducted a case study to evaluate the impact of microfinance on poverty alleviation in Pakistan. This study showed that microfinance has a significant impact on poverty alleviation. The authors recommended that microfinance and social programs should combine their efforts and focus should be made on the literacy of microfinance users and on the reduction the interest rate. Similalry, Garcia et al. (2020) investigated the role of microcredit on aspirational hope and economic welfare. Indeed, changes in the external constraints (e.g., microfinance access) will not produce fruitful results until the individuals' internal constraints (e.g., aspirational hope) are catered. This study showed a positive relationship between micro-credit with aspirational hope and economic welfare.

Amakom and Amagwu (2020) studied the impact of informal sources of microfinance on the profitability of Micro and Small Enterprises (MSEs). The sample is composed of 540 enterprises which were selected through multistage sampling from South-East Nigeria. The findings show a significant relationship between informal sources of finance and MSEs profitability. Further, this research highlighted the importance of social capital and group lending.

On the other hand, some of the studies have critically analyzed conventional microfinance and have shown that it does not contribute towards poverty alleviation. Rather, it increases the vulnerability and indebtedness of the poor due to high interest rate, insufficient amount of loans, and inefficient supervision.

One such study was conducted by Nawaz (2010) to evaluate the competing claims regarding the role of microfinance towards poverty alleviation in Sadakpur village of Comilla district of Bangladesh. The interviews were conducted from 126 microfinance clients while 50 non-clients were also considered as a control group. The results show that microfinance did not allow including poorest individuals and their proportion.

A critical assessment on the relationship between microfinance and poverty alleviation was conducted in Bangladesh in the research of (Ali et al., 2017). This study used a qualitative approach while conducting 80 in-depth interviews and 8 focus group discussions in Bogra, a division of Rajshahi in Bangladesh. The findings showed that microfinance failed to alleviate poverty because of inefficient use of loans, high interest rate, repayment procedures, insufficient amount of loans, and inefficient supervision.

Another critical analysis of the literature was made to know the influence of market-based approaches to evaluate poverty alleviation (Banerjee & Jackson, 2017). The objective of this market-based approach is to measure the real value and impact of microfinance on poverty alleviation. This ethnographic research recorded the subjective experiences of poverty in Matlab District of Bangladesh. By conducting 56 in-depth interviews and 6 focus group discussions, Banerjee and Jackson (2017) showed that microfinance leads to a higher level of indebtedness of poor people. As a consequence, it increases economic, social, and environmental vulnerabilities.

2.2 Islamic microfinance and poverty alleviation:

Islamic microfinance has emerged as widely applied poverty alleviation tool (Hassan & Mollah, 2018). It has substituted conventional microfinance in alleviating the poverty level among poor Muslims (Ahmad, Lensink, & Mueller, 2020; Ahmed, Islam, & Al-Asheq, 2021). Islamic microfinance institutions get funds through Islamic social funds i.e. Zakat, Infaq, Sadaqah, and Waqf, and reduce the poverty level through delivering financial services to the poor (Ginanjar & Kassim, 2019). Islamic microfinance operates on the basis of Islamic finance principles and does not charge interest on loans and provides Riba (Interest) free loans (Wulandari & Kassim, 2016). Literature has demonstrated that Islamic microfinance can improve the economic conditions of poor Muslims by implying Islamic principles (Hassan, 2015).

Khaleequzzaman and Shirazib (2012) showed that Islamic microfinance may act as a sustainable alternative regarding poverty alleviation. Among 3,000 households, 1,500 were PPAF clients and the other 1,500 households were non-clients with similar socio-economic status. The findings showed that microfinance only benefited poor but not the poorest households. The authors urged the Islamic banks support to expand the scale of microfinance.

The economic and social justice has been neglected in capitalism while communism has emerged as a source of power. This study showed the drawbacks of the two dominating systems, i.e., capitalism and communism. Sofi and Sumaira (2016) developed a theoretical framework regarding Islamic and conventional microfinance. Therefore, thanks to the interest avoidance, the Islamic economic system can be an effective system for economic development. With this statement, Sofi and Sumaira (2016) compared the different microfinance models, i.e., Bangladesh GB, MC2, Village banking of FINCA, NBFC, and SHG–Bank Linkage (SBL). By presenting a critique on the interest-based microfinance, Islamic microfinance is more relevant towards wealth creation and its equal distribution. Finally, that the authors recommend that Islamic microfinance should include innovation in its financial instruments.

Hassan and Saleem (2017) investigated the connection between Islamic microfinance and socioeconomic welfare. Microfinance clients were selected through a random sampling method and on the final sample is composed of 700 microfinance clients. The findings showed that Islamic microfinance contributes positively to socioeconomic welfare. It was recommended to review Islamic microfinance programs like the one initiated by Bank Islami Bangladesh.

Similarly, Mahmood et al. (2017) investigated the role of Islamic microfinance towards the socio-economic status and poverty level of households. The findings showed a positive role of Islamic microfinance towards poverty alleviation. The authors recommended that the Government of Pakistan should develop a policy for Islamic microfinance with the help of SBP.

Begum et al. (2018) showed that Islamic microfinance is more ethical than conventional microfinance. Furthermore, Islamic microfinance facilitates repayment procedure, recommends creditor to provide charity in case of having excess funds, is more efficient in poverty alleviation and has the potential to promote sustainable long-run development. Moreover, Islamic microfinance can provide credit and zakat to help poorest people meet their basic needs. Tamanni and Besar (2019) investigated whether Islamic MFIs diverted from the objective of poverty reduction (i.e., mission drift) because of increased financial measures. The results showed that Islamic MFIs did not divert from their mission of poverty reduction despite the increase of financial measures.

Ahmad et al. (2020) conducted a global survey using a panel of 543 conventional and 101 Islamic MFIs, operating in Muslim and non-Muslim countries. They raised some ethical concerns on Conventional microfinance institutions (MFIs) regarding the social consequences of commercialization and high interest rates and found that Islamic microfinance is likely to continue growing in every region of the world. Recently, Ahmed et al. (2021) investigate the behavioral intentions of potential customers towards

Islamic microfinance in Bangladesh and found that male customers have higher behavioral intentions towards Islamic microfinance as compared to female customers.

3. Materials and Methods

The Materials and Methods should be described with sufficient details to allow others to replicate and build on the published results. Please note that the publication of your manuscript implicates that you must make all materials, data, computer code, and protocols associated with the publication available to readers. Please disclose at the submission stage any restrictions on the availability of materials or information. New methods and protocols should be described in detail while well-established methods can be briefly described and appropriately cited.

Research manuscripts reporting large datasets that are deposited in a publicly available database should specify where the data have been deposited and provide the relevant accession numbers. If the accession numbers have not yet been obtained at the time of submission, please state that they will be provided during review. They must be provided prior to publication.

Interventionary studies involving animals or humans, and other studies that require ethical approval, must list the authority that provided approval and the corresponding ethical approval code. The present research aims to evaluate the impact of Islamic and conventional microfinance on poverty alleviation based on the available literature on this topic. For this purpose, it conducts 16 in-depth interviews with Islamic and conventional microfinance clients to evaluate the impact of microfinance on poverty alleviation. This study investigates the factors that might affect the microfinance-poverty alleviation relationship. The quantitative research might not be able to develop the theory due to the failure of identifying explanatory variables (Kelle, 2006).

In this regard, qualitative methods produce an important description of the connection between microfinance institutions and service users by overcoming the abstraction inherent in quantitative data (Nkwocha, 2019; Yin, 2004). This study has conducted interviews in district Bhakkar of Punjab province, Pakistan. The purpose of conducting interviews was to better understand the impact of Islamic and conventional microfinance on poverty alleviation and to verify the results from the literature by comparing the impact of Islamic and conventional microfinance on poverty alleviation. For this purpose, only microfinance clients below poverty line were selected. We approached microfinance clients while clearly informing them about the objectives of this research to obtain reality-based responses. The interviews were recorded through an Android mobile phone and the sampled microfinance clients answered questions related to Islamic and conventional microfinance, personal finance, repayment of the loans, poverty alleviation, impact of social capital, impact of financial knowledge, benefits and drawbacks of microfinance, satisfaction with microfinance, etc. The interviews were conducted in the local language of the microfinance clients so that they could answer the questions easily.

4. Results

The basic objective of analyzing data was to know the impact of microfinance on poverty alleviation and to analyze the themes emerging from the interviews. Based on interviews, narratives were also developed. This helps explain microfinance clients' experiences throughout the procedure from loans' procurement to loans' repayment, to the use of microfinance loans and effects of non-repayment. In giving meaning to the data collected through interviews, the theoretical perspectives from poverty literature were verified by qualitative indicators such as vulnerability and social capital, etc. Thanks to the interviews with microfinance clients, their level of poverty can be assessed while analyzing the contribution of Islamic and conventional microfinance towards poverty alleviation.

4.1 Conventional microfinance and increased indebtedness

Qualitative results reveal that conventional microfinance has increased the indebtedness of individuals availing interest based microfinance services. For example one of the clients gives the following views about conventional microfinance:

"Despite of knowing about prohibition of interest in my religion (Islam), I borrowed from interest-based microfinance bank due to serious reasons and I was charged too high interest rate. My microfinance bank first validated my income source to secure their repayment amount. After use of microfinance loan my income decreased as I must pay the installments" (Client 1).

Another client shares his microfinance experience in the following way:

"According to our experience of microfinance loans, the poverty is increasing instead of decreasing. When being in troubles, we take loan from another microfinance bank to pay our previous loan and its interest payments, which again brings troubles. Even if someone's health is not good in our family, we can't spend our income on health of family member because of heavy loan installments." (Client 4).

Another client highlights the issues with conventional microfinance in the following way:

"In my first microfinance loan, I bought goats, but the goats were died were soon. The behavior of microfinance bank's staff was not good as they have threatened me on regular basis about getting home assets in place of loan. For paying the previous loan, I borrowed from another microfinance bank. The interest rate was very high, but it was my necessity. I repaid the installments very hardly" (Client 7).

These answers reject the literature findings on positive impact of microfinance on poverty alleviation and indicate that conventional microfinance has increased the indebtedness of the already poor communities due to its stringent payment procedure and high interest payments. It has been supported by the past studies (Ali et al., 2017; Banerjee & Jackson, 2017).

4.2 Lack of awareness about microfinance services

Qualitative results reveal that customers also face problems in availing microfinance services because they have lack of awareness about its services and related procedures. For example, one of the clients expresses his opinion in the following way:

"The microfinance banks should decrease their rate of interest and improve their repayment period process. Moreover, if we have financial knowledge, we can spend loan amount wisely and our poverty level can be decreased" (Client 9).

Another client shares his lack of information about microfinance in the following way:

"My poverty status forced me to borrow from interest-based microfinance bank. It was winter season, and my house condition was not good. I was charged very high interest rate. No doubt, I invested loan amount in buying cows which proved profitable but now, I am not satisfied from this interest-based microfinance loan because initially I was not having sufficient information regarding prohibition of interest" (Client 5).

These finding have supported the results from literature that clients are not satisfied with microfinance services due to lack of awareness about its relevant procedures (Abbas & Shirazi, 2015).

4.3 Islamic microfinance and poverty alleviation:

Islamic microfinance has been found to be effective in alleviating poverty due to its interest-free loans as shown by the client views in the following:

> *"Through Islamic microfinance loan we get financial support without interest. I have utilized the loan amount in purchasing cow and goats. In this way, I have paid the loan installments very easily and at the end I was the owner of cow and goats" (Client 2).*

Another client shares his experience with Akhuwat, a pioneer Islamic microfinance institution in Pakistan. It shows how financial knowledge of the client affects his/her wellbeing.

> *"Being financially knowledgeable I always handled financial matters of my family and relatives. I have information about banks interest rates and I I also know about interest which is prohibited in Islam. I have taken loan from Akhuwat (Islamic microfinance institution) and purchased a bike which was in a normal condition. I started delivering milk from villages to city for selling it on a reasonable profit. Its third year now, I have repaid the loan of Akhuwat easily which I borrowed three times from it. I have a two bikes now and I and my son are doing this business of milk through which we are earning a good profit" (Client 6).*

Another client shares his experience with Akhuwat, Islamic microfinance. It shows how innovative ideas of client can be fulfilled through Islamic microfinance.

> *"Being educated lady, I had information about all microfinance banks working in our city. One day, I visited microfinance banks in order to know about their loan range and interest rates. The only interest-free microfinance institution which I found was Akhuwat. I borrowed from Akhuwat in a group of four females. I have an idea to start my beauty parlor. I rented a shop having a good location and I started my beauty parlor with the loan amount. Now, it's been two years I have four assistants, repaid my entire loan and I am earning a good profit. It's all due to the fact that I was financially knowledge" (Client 10).*

These results have been supported by the literature that Islamic microfinance may contribute significantly towards poverty alleviation (Adnan & Ajija, 2015; Begum et al., 2018; Hassan & Saleem, 2017; Tamanni & Besar, 2019; Mahmood et al., 2017).

4.4 Role of social capital and poverty alleviation

Qualitative results reveal that social capital and group lending can also contribute towards poverty alleviation. It has been found that clients with more social skills or social capital were more successful in alleviating their poverty as compared to those with less social skills.

A client shares his views in the following way:

> *"The group lending method in Islamic microfinance is very helpful to us. The group members cooperate whenever some members have any difficulty in repaying the installment. Through this loan, my income level, children's education status and living standard have improved" (Client 11).*

Another client shares his experience how a good suggestion from a good friend has helped him to come out of poverty.

"My friend told me about Akhuwat (Islamic microfinance institution) and I borrowed loan from Akhuwat in a group of four people. I took suggestion of other friends about how and where to invest this loan so that I could get profit and return it easily. One of my friends gave me suggestion to start a hotel on a small scale initially. For this purpose I rent a shop for hotel and started that business. After one year I was earning a handsome amount from the hotel and I repaid the loan easily. After two years I shift my hotel into student cafeteria by offering fast-food items also. Now, I am earning profit from my cafeteria and my income has increased. I am thankful to my both friend who told me about the loan and the other who gave me a good suggestion" (Client 8).

Another client shares his experience how a good suggestion from a relative has guided him to run a successful business.

"My family has good social relations and our relatives frequently visit our home. One day when I was talking with my relative at home, he told me about microfinance loans and guided me about the repayment procedure. Then I borrowed from a microfinance bank and after taking suggestion from relatives and friends I rented a shop and started business of shoes. Within a year I easily repaid the loan amount. Then I visited my relative who told me about microfinance loans. He gave me suggestion to again take the loan and expand this business. By borrowing again from microfinance bank I took a big shop on rent and shifted my shoes into that shop. Now my shoe shop is famous in my city and I am earning profit form this business. I will say that being social helps a lot" (Client 12).

These findings have supported the results from literature that social capital can be helpful in alleviating poverty of individuals (Adnan & Ajija, 2015; Begum et al., 2018; Hassan & Saleem, 2017; Tamanni & Besar, 2019; Mahmood et al., 2017).

4.5 Staff behavior issues in Microfinance services

Qualitative results have identified that behavior of microfinance staff also affect the motivation and satisfaction of clients. This can be noted from the following response:

"My poverty status forced me to borrow from interest-based microfinance bank. It was winter season, and my house condition was not good. I was charged very high interest rate and when I was not repaying properly, and then the behavior of microfinance bank's staff was not good. No doubt, I invested loan amount in buying cows which proved profitable but now, I am not satisfied from this interest-based microfinance" (Client 13).

Another client shares his Islamic microfinance experience in the following way:

"I have told my friends and relatives to get Islamic microfinance loan only because it does not charge any interest and loan installments are very easy. Further, the behavior of the microfinance institution's staff is very nice, and they have provided us training on how to use the loan in a good manner" (Client 3).

These findings indicate that staff negative behavior may affect clients' motivation and empowerment. Previous studies have also identified important role of clients' empowerment on poverty alleviation (Van Rooyen et al., 2012; Cooke & Amuakwa-Mensah, 2022; Zitouni & Jedidia, 2022).

4.6 Role of Entrepreneurship in poverty alleviation

Qualitative results reveal that entrepreneurial skills of the individuals may help them to come out of vicious circle of poverty. It has been expressed by the microfinance clients in the following manner:

"I got microfinance loan from an interest based microfinance institution. Then I took a shop on rent for starting my business. I started cloth business on a small scale. After some time I was able enough finally that I could meet my home expenses. Now, it's been two years I am earning a good profit from my cloth business. I have repaid all the installments of my loan. The initial financial support from microfinance institution enabled me to start my own business" (Client 16).

Another client shares his experience with Akhuwat (Islamic microfinance) as follow:

"I borrowed from an Islamic microfinance institution (Akhuwat) and got some land on rent for the purpose of cultivating vegetables in the land. It was the time of two months before start of COVID-19 pandemic. Through cultivating vegetables I earned a lot of profit. At that time, inflation was very high. After getting profit from vegetables, I returned the loan easily and started cultivating vegetables by acquiring some more land. Now I am earning a lot of profit from my vegetables business" (Client 15).

Another client who also borrowed from Akhuwat (Islamic microfinance) shares his experience in the following manner:

"I borrowed from Akhuwat (Islamic microfinance institution) purchased 5 sheep from loan amount. After one year I got a significant profit from the sheep. Then I bought10 sheep and again after one year the amount of profit doubled. Now I have a business of sheep which I serve the whole year and at the end of year I sell them by earning profit. It's been 4 years I am doing this business and I repaid my loan and earning a lot of profit from this business" (Client 14).

These views recommend that entrepreneurship has strong potential in alleviating poverty. It is in line with the previous studies that have shown the important contribution of entrepreneurship towards poverty alleviation (Rahman, 2010; Mahmood et al., 2014; Banerjee & Jackson, 2017; Hassan & Saleem, 2017; Khanam et al., 2018; Hussain et al., 2019).

5. Conclusion

The basic purpose of this study was to know the impact of Islamic and conventional microfinance on poverty alleviation. For this purpose, we conducted 16 interviews from microfinance clients in Pakistan to know whether the results from literature are applied on our sample. Qualitative results have shown that conventional microfinance leads towards increased indebtedness of already poor communities as the rate of interest in conventional microfinance is high. Some clients have even concluded that conventional microfinance leads to poverty trap. Additionally, the criticism on conventional microfinance is that it targets moderately poor individuals rather than those who are living in extreme poverty. On the other hand, Islamic microfinance reaches extreme poor individuals and it has shown effective contribution towards poverty alleviation as compared to conventional microfinance. Islamic microfinance provides interest-free loans and this is a big advantage to poor microfinance clients. Furthermore, these loans are provided with easy installments. In addition, Islamic microfinance clients are provided with training to start their profitable small businesses so that they could help them in the repayment of loans and in getting out of the vicious circle of poverty. Moreover, the group lending method of Islamic microfinance also helps clients by providing them support in case of difficulties regarding loan repayment. Our findings will contribute to the literature on the prominent role of Islamic microfinance towards poverty alleviation.

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