INTERNATIONAL JOURNAL OF SOCIAL SCIENCES BULLETIN
ISSN: (E) 3007-1917 (P) 3007-1909
Volume 4, Issue 3, 2026

IMPACTS OF MICROFINANCE LOANS ON THE LIFE OF ACTIVE BORROWERS: A CASE STUDY OF LARKANA DISTRICT

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DOI: https://doi.org/10.5281/zenodo.19732516

Received	Accepted	Published
26 January 2026	14 March 2026	29 March 2026

ABSTRACT

The aim of this paper is to examine the impact of microfinance on the life of active borrowers in Larkana district. A sample of two hundred and eighteen participants was selected from Khushali Bank, Microfinance Bank and Sindh Rural Support Organization. Likert scale questionnaire was used to collect data from respondents. Results showed a positive impact of microfinance activities on the life of active borrowers. The respondents agreed that they had increased their income, savings and improved living standards. The regression model of the study was significant with 0.000 level and t adjusted r2 remained 0.48 which showed variation in the model.

Keywords: *Income, life of active borrowers, living standard, Microfinance*

INTRODUCTION

Microfinance, as a field of study, was started by Muhammad Younis in 1976 in Bangladesh at a village named Jobras (Khan et al., 2007). Microfinance service can alleviate poverty (Ajit Kb & Anu, 2012). Many countries started focussing on this service after the United Nations announced the year of international microcredit in 2005 (Khan et al., 2007).

The poor people when provided access to microfinance services can take advantage of such services. Access to micro-financial activities such as credit, savings account and insurance can reduce poverty in society (Morduch, 1999). Soulama's (2005) study demonstrated that micro credit facility can alleviate poverty and empower the poor. Morduch (2000) also argues that microfinance services help create opportunities for the poor to increase personal income and investment in the education, food and health sectors.

There are two types of theories related to microfinance for the poor. The first set of theories addresses the issue of lack of collateral damage faced by poor people, while the second set discusses the impact of microfinance on individuals and small scale businesses (Kumari, 2019).

Objectives of the Study:

The purpose of this study is to investigate how microfinance helps active borrowers in district Larkana to improve their income, standard of life, health, food, and education.

Limitations of the Study

This study was delimited to microfinance institutions in district Larkana. A sample of two hundred and eighteen respondents from Khushali Bank, Microfinance Bank and SRSO were selected. Due to illiteracy, it was a difficult task to collect data through questionnaire.

Microfinance and Living Standard

Alam (2014) suggested that the primary factor in raising one's standard of living and covering one's everyday expenses is income. According to Alam (2014), 83% of the borrowers have seen an improvement in their level of living as microcredit is a key tool for launching new businesses and increasing income, both of which are important factors in changing the way of life for the impoverished; 82% of respondents reported that food quality had improved; 75% reported health had improved, and 68% reported that their children's education had improved. Moreover, it has been noted that the PRSP microcredit plan has a positive impact on socioeconomic development (Alam, 2014). The income has been found to be positively correlated to savings growth ratio (Arif & Anees, 2007). Arif and Anees (2007) concluded that borrowers who obtained loans from MFIs were able to raise their income and save more money. The impact on the living standard was up at 42% level.

Akram (2011) used two variables microfinance (IV) and income (DV) and discovered that microfinance could uplift the income and living standards very strongly. Results of his study reported that 86 percent respondents had increased their income and improved their living standards after making use of microfinance facilities.

Microfinance and Income

Research on the evaluation of the input of microfinance and its role in the reduction of poverty has been conducted (Waheed, 2009). Using primary and secondary data culled from 68 households and employing multiple regressions analysis, Waheed's (2009) findings confirmed that microcredit raises income. Even if the microcredit amount is quite small, it can significantly encourage the poor to start new businesses (Vatta & Singh, 2001). The poor can get more money from these economic activities; there is a favorable correlation between income and saving (Vatta & Singh, 2001).

Literature Review

From its early beginnings as a social movement, the microfinance industry has developed into a diverse financial services sector catering to the impoverished (Le, 2017). Le's study (2017) examined the poverty reduction strategy in order to contribute to the body of existing material, the banking systems' attitude to micro lending and its effects on impoverished rural Vietnamese households. It accomplished this by examining three key areas: (i) a thorough evaluation of microfinance in Vietnam; (ii) examining the benefits and drawbacks of the financial system and poverty reduction strategies; and (iii) assessing how loan availability affects the decline of household poverty in rural Vietnam. It has been shown that in order to lift the poorest people out of poverty, a greater range of supporting services, including upgrades to the physical infrastructure, healthcare, education, and skill development, are required. In Vietnam, market-based loan provision through independent NGOs is replacing the subsidized microcredit provided by state development banks and major organizations. Le's (2017) study further postulates poor rural Vietnamese households may face more financial difficulties as a result of the market systems approach. "Responsible finance" is fighting back against the commercialization of microfinance. The 2008 global financial crisis brought to light how crucial openness, security, and accountability are in the financial services industry. Cutting-edge technologies could lessen the possibility of raising customer financial obligations while maximizing social impact.

In India's context, Raffee's (2015) study provides an examination of a few commercial banks and demonstrates how microfinance can be an effective instrument that the Indian government has chosen it to combat poverty. Although microfinance involves a very tiny sum, it can aid

the needy borrowers in improving their living standards and raising their earnings. The study demonstrates the value of self-help groups and identifies the emergence of such groups as a program targeted at improving poor people's lives. The main way for women to increase their savings is through Self Help Groups Raffee (2015) employed survey techniques and questionnaires for data collection and showed a good correlation between income and microfinance, with women borrowers in particular having larger savings, which is ideal for empowering and uplifting women in society.

A case study focusing on Pakistan's Akhuwat Foundation, an interest-free microfinance organization, was conducted by Rehman et al. (2015). In the modern world, gender inequality poses numerous challenges for women. Therefore, in order to empower women, stakeholders such as social workers, financial institutions, and NGOs are trying to improve their status. The purpose of Rehman et al.'s (2015) study was to evaluate the job that Microfinance Institutions do on women. Employing qualitative case study method, the researchers analyzed Akhuwat's activities and showed that microfinance is the primary factor improving the lives of women. Microfinance has changed the social status of households and families. This study looked at four characteristics and how they affected women's capacity to make decisions in their day-to-day lives. The variables like age, family structure, marital status, and education have a greater influence on women's empowerment. The study discussed how women spent a larger percentage of their money on their families and were more closely tied to the families than their male counterparts. The importance of enhancing gender equality has come under more scrutiny as a result of this study. Women now have more power to choose what household items they buy.

Alam (2014) conducted a case study of Punjab Rural Support Programme (PRSP) in the Gujranwala District. It was suggested that the primary factor in raising one's standard of living and covering one's everyday expenses is income. Findings showed that 83% of borrowers reported an improvement in their level of living after obtaining microcredit. This is because microcredit is a key tool for launching new businesses and increasing income, both of which are important for changing the way of life for the poor. Food quality increased by 82%, health improved by 75%, and 68% respondents said their children's education had improved in terms of both quality and prestige. The over-all impact of the PRSP microcredit scheme on socioeconomic development has been noted positive.

Akram's (2011) case study in Pakistan's Okara district examined examined microfinance (independent) and income (dependent). The results demonstrated that income and living standards were significantly improved by availing microfinance. Of all those surveyed, 86% said that after getting a microloan, they were able to improve their income and standard of living.

Research Methodology

Research design:

The study used a mixed method research design involving qualitative interviews, surveys and descriptive statistical analysis

Data Collection

For data collection, the researcher conducted in-person interviews and Lickert scale questionnaire surveys at the Khushali Bank, First Microfinance Bank and SRSO in the Larkana district.

The regression method (Ordinary Least Square), descriptive statistical technique, and qualitative research method were applied in this study. Convenience sampling technique was used to administer surveys and conduct interviews with familiar persons in Larkana district. Moreover, consent of the respondents was sought to use their data and they were ensured that their responses would be used only for research purposes.

Universe

Universe of this study is all active borrowers of Larkana district who availed microcredit from Khushali Bank, First Microfinance Bank and

SRSO (See Graph 1). Total population was 200000

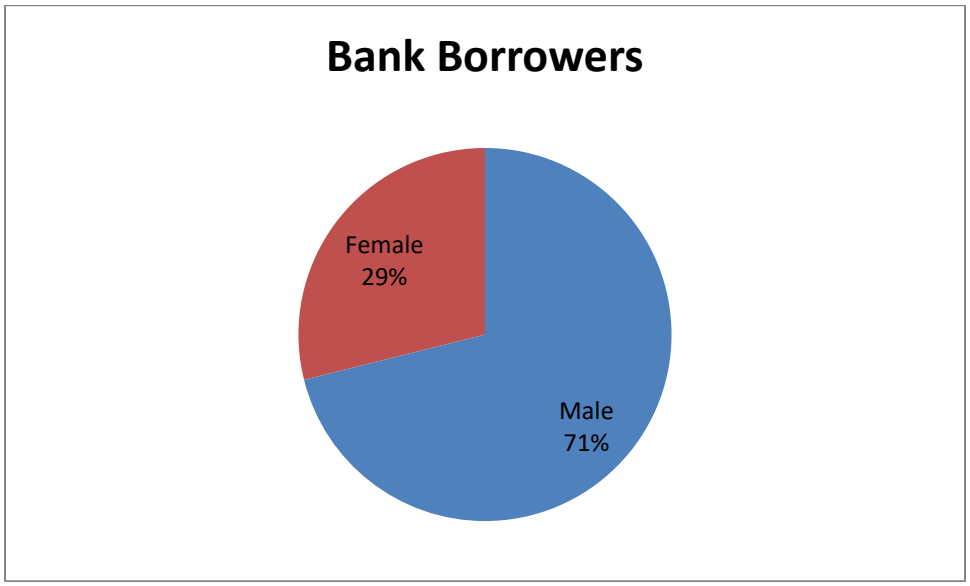
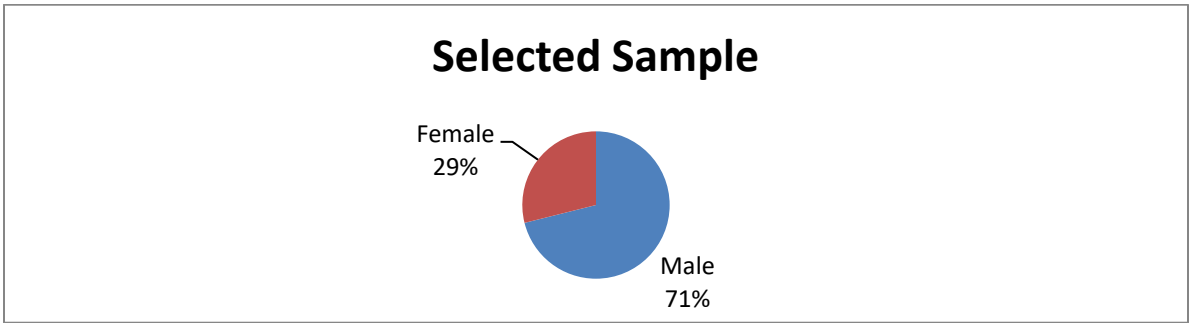


Table 1: Bank Wise Active Borrowers

In addition to convenience sampling, the strata sample technique was used. This technique ensures equitable participation from all members of the population. Sample size for the investigation was eight thousand two hundred and eighteen active borrowers from the Khushali Bank, SRSO, First Microfinance Bank, and SRSO in the Larkana district. The right sample size was calculated using a well-known formula (Yamane Taro, 1973). Formula: n = (1+N*e^2)
In this case, n = sample size
N is the size of the population.
e = Accuracy level divided by acceptable sampling error
n = 2000000/1+2000000(.08) = 156 for e = 7%
n = 2000000/1+2000000(.07) = 204 for e = 8%
Thus, the 218 sample size was set for this study.
For the study, four banks are chosen. If n= is 218 in accordance with formula n (N/p), the proportion will be as follows to select a proportional sample from each portion :- N is the total sample population, p is the proportion, and n is the sample size. N1 equals 4000, N2 is 2500, and N3 is 1500 (See Graph 2 for the proportionally selected sample)

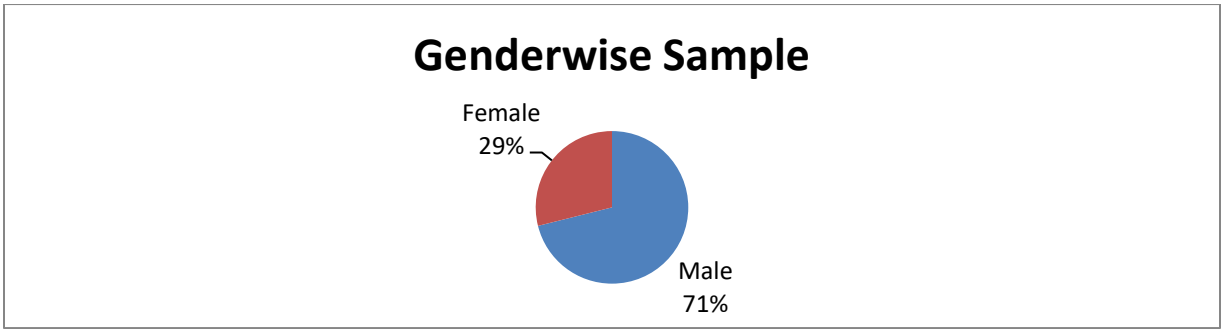


Graph 2: Proportionally Selected Sample

Results

Results in this section are provided in graphs and tables**.** Results are presented based on key headings which include: Reliability Statistics; The Business of Borrowers; The Experience of Borrowers; Income; Saving; Living Standards; Regression Results.

Graph 3 shows twenty nine percent females, while seventy one percent males participated in this study.



Graph 3: Gender-wise Sample

Reliability Statistics

Reliability statistics shows the overall consistency of a measure. See Table 1 for details.

Table 1: Reliability Statistics

Items	Cronbach's Alpha
15	0.865

In the questionnaire, fifteen items were included. The reliability ratio in this test was recorded 0.865 which was higher than 0.6. Hence it paved the way for further analysis.

Educational details of the participants are provided in Table 2. See Table 2 for further details.

Table 2: Education of the Participants

Variable	Group	Frequency	Percentage
Education Level	Illiterate	40	19
	Primary to Middle	79	36.
	Matriculation To Intermediate	72	33.
	Graduation To Masters	27	12.
	Total	218	100%

Education of the participants shows that only 12 percent were graduate and master degree holders, while 33 percent were Matriculation to Intermediate pass; primary ratio of participants was 36 percent; and 19 percent were illiterate. After education, the business of borrowers is discussed.

The Business of Borrowers

In this sub-section, the business activities of the borrowers are presented and explained. In this study business activities have been conceptualized as micro-financial initiatives taken by the people who borrowed loans from micro-financial banks. See Table 3 for details.

Table 3: Micro-financial Activities of Borrowers

Variable	Group	Frequency	Percentage
Business	Trade	26	12
	Stitching	15	7
	Animal Feeding	22	10
	Farming	44	20
	Shop	98	45
	Others	13	6
	Total	218	100%

Table 3 shows information about the business initiatives of borrowers. 45 percent participants were running shops, 20 percent were involved in farming. Trade business was started by 12 percent, whereas 7 percent undertook stitching. These results demonstrate that participants sought to improve their livelihood by investing micro-credit in a range of business activities.

The Experience of Borrowers

The experience of borrowers was quantitatively evaluated by dividing participants into Yes/No groups. The participants were asked if they had prior experience in doing business. Frequency and percentage of the participants' responses are provided in Table 4.

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Table 4: Borrowers' Experience of Business Activities

Variable	Group	Frequency	Percentage%
Experience	Yes	51	23
	No	167	77
	Total	218	100%

The experience of borrowers shows that 77 percent participants had no experience in doing business, while 23 percent participants were experienced in doing business. Income of the participants who took micro-financial initiatives is now discussed.

Income of the Borrowers

Questionnaire that was shared with participants contained a quantitative scale, and the scale helped provide different responses about the income of the borrowers.

Table 5: Borrowers' Income

Scale	**Frequency**	**Percentage**	**Cumulative %**
Strongly Agree	51	23	23
Agree	115	53	76
Neutral	22	10	86
Disagree	23	11	97
Strongly Disagree	7	3	100%

Table 5 indicates that 76 percent respondents showed agreement that their income increased after availing micro credit. 10 percent participants were neutral, and 11 percent disagreed, while 3 percent strongly disagreed that such micro credit improved their income. Hence, it shows better confidence of the active borrowers. After income, saving of the participants is discussed.

Saving of the Borrowers

Saving refers to the amount of money/credit that a person manages to save after spending a certain amount of money/credit. See Table 6 for details.

Table 6: Borrowers' Saving

Scale	Frequency	Percentage	Cumulative %
Strongly Agree	43	20	20
Agree	80	37	57
Neutral	52	24	81
Disagree	36	16	97
Strongly disagree	7	3	100%

37 percent participants agreed that their saving increased after making use of micro credit. 24 percent participants chose to remain neutral. 16 percent participants disagreed, while 3 percent participants strongly disagreed. These findings demonstrate that majority of the participants agreed that their saving increased after investing/utilizing micro credit. How micro credit influenced living standard of active borrowers is now discussed.

Living Standard

Standard of living implies the level of wealth, comfort, material goods, and necessities available to a person or a group of persons. Details in Table 7 show how micro credit influenced living standard of active borrowers.

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Table 7: Borrowers' Living Standard

Scale	Frequency	Percentage	Cumulative %
Strongly Agree	57	26	26
Agree	77	35	61
Neutral	43	20	81
Disagree	29	13	94
Strongly disagree	12	6	100%

Living standard of the borrowers can be an indication about the participants whether they are above/ under the line of poverty. The study showed that 61 percent borrowers improved their living standard. In contrast, 13 percent participants disagreed that their living standard improved. Thus, findings demonstrate how the majority of the participants' lives improved in terms of their living standard.

Regression Results

Regression results and their model summary are provided in Table 8.

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.702[a]	.493	.485	.83722

In Table 8, the model summary shows that R square of the model is (0.493) and adjusted r2 is (0.485) which explained the variation in the model due to selected variables. For further details see **ANOVA**[b] in Table 9.

Table 9: ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	145.632	3	48.544	69.255	.000[a]
	Residual	150.001	214	.701		
	Total	295.633	217			

a. Predictors: (Constant), Improvement in family finance, Access to health, Access to education
b. Dependent Variable: Improvement in living standard.

The result of ANOVA helps us to identify with the statistical significance of the overall regression model. The F. ratio extent shows that more variation in the dependent variable is due to independent variable. In this ANOVA table, the F. ratio is (69.255) which indicates that the model is highly significant at the 0.000 level. Coefficients of education, health and finance variables are given in Table 9.

Table 9: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.939	.216		4.342	.000
	Access to education	.218	.073	.221	2.995	.003
	2. Access to health	.453	.064	.480	7.058	.000
	3. Improvement in family finance	.096	.061	.091	1.582	.115

All the variables in this table are significant and there is no negative sign which shows that there is a positive impact of the independent variable on dependent variables.

Discussion

This study discusses how micro-financial activities can help reduce poverty in district Larkana in Pakistan's Sindh province. Employing mixed methods approach, reliability statistics and regression, this study sought to explore how active borrowers from Khushali Bank, Microfinance Bank and Sindh Rural Support Organization used their loans to improve their income, saving and living standard. Moreover, quantitative statistics were qualitatively explained to demonstrate experience of the participants.

Much like Le's (2017) study conducted in the context of Vietnam that demonstrated how micro-financial activities reduced poverty, this study shows how poverty can be reduced using loans borrowed from micro-financial banks in Larkana district. Forty five percent participants invested in shops, and twenty percent participants invested in farming in Larkana. These results indicate that micro-financial activities, up to much extent, improved the lives of the active borrowers.

Another variable that is discussed in this section is income. Rafee's (2015) study in India's context showed how micro-financial activities helped the vulnerable, such as women in reducing poverty and improving their income. However, this study manifests the role of micro-financial borrowing in reducing poverty and increasing income of both

male and female active borrowers in district Larkana. Results showed that seventy six percent participants agreed that their income increased after investing their loans borrowed from micro-financial banks.

Apart from income, saving of the participants is also discussed. Rehman et. al. (2015) discussed how micro-financial investment played a role in increasing saving of women in Pakistan. In contrast to their study, this study discusses how micro-financial investment resulted in the growth of saving for women as well as men in Larkana. Thirty seven percent participants showed agreement that their saving grew after the investment of micro credit. In short, these results refer to the fact that majority's saving increased after investing/utilizing micro credit.

The variable of living standard is also discussed in this study. Waheed's (2009) study linked living standard with well-being and described how micro-credit investment paved the way for investors' improvement and living standard. Similarly, this study conceptualized the improvement in living standard as the betterment of the active borrowers' saving and income and growth in these variables (saving and income) can result in the borrowers' wellbeing. In this regard, this study indicated that sixty one percent participants improved their living standard, while thirteen percent participants disagreed and indicated that their living standard did not improve. In this way, findings explain how the majority of the participants' lives improved in terms of their living standard.

Implications

This study reports financial, theoretical, and social implications. It highlights the need for financial policy makers and loan managers in micro-finance firms and banks to consider borrowers' experience and needs when providing loan. Policy makers and loan managers can encourage and train their loan officers to share experience and knowledge with inexperienced borrowers because, as demonstrated in this research, (see Table 6) it can result in the positive effect of micro-financial activities.

This study adds to the theoretical base of Microfinance by discussing how micro-financial investment can improve income, saving and living standard of active borrowers in district Larkana. According to Kumari et al. (2019), micro-credit services play a vital role in reducing poverty. Similarly, this study seeks to explore how microfinance can upgrade living standard of borrowers in Larkana. By proposing to consider borrowing needs and experience of borrowers, this study seeks to improve the life of poor borrowers in Larkana district.

This study also contributes to the understanding of the social phenomenon of living standard. In the words of Alam et al. (2014), micro-financial activities can improve the living standard of farmers in rural areas and their study conceptualizes higher living standard as improved agricultural output. If intelligent use of microfinance investment is made with experienced guidance, it can help reduce poverty and upgrade living standard of the borrowers. This study also argues that micro-financial investment can improve income and saving of active borrowers who invest in their business or farming in district Larkana.

Although this research was limited to two hundred and eighteen microfinance banks (Khushali Bank, Microfinance Bank and Sindh Rural Support Organization) in district Larkana, investigating more borrowers from other microfinance banks in other districts of Sindh and in other provinces in Pakistan may provide similar or dissimilar results. It is hoped that this research will pave the way for researchers to expand microfinance research in a wide range of contexts, where micro-financial activities play a significant role in transforming borrowers' lives. Moreover, this study guides future researchers about how microfinance investment can be intelligently made to improve poor borrowers' lives in different contexts.

Conclusion

This study suggests how loans borrowed from micro-financial banks (Khushali Bank, Microfinance Bank and Sindh Rural Support Organization) can help reduce poverty in district

Larkana in Pakistan's Sindh province. Drawing on quantitative methods (reliability statistics and regression) and qualitative analysis method, this study investigated how active borrowers' successfully utilized loans borrowed from micro-financial banks to improve their income, saving and living standard. In other words, quantitative statistics were qualitatively explained to demonstrate experience of the participants. This study utilized a small sample of two hundred and eighteen participants from district Larkana. However, a much bigger sample can be taken to study the effects of micro-finance in other districts of Sindh to report similar/dissimilar results.

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