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PRIMARY RESEARCH

Impact of Islamic and Conventional Microfinance on Poverty Alleviation: A Comparative Study

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Abstract

Purpose: This study investigates the impact of microfinance on poverty alleviation and compares the effects of both Islamic and conventional microfinance for poverty alleviation.

Design/Methodology/Approach: This cross-sectional research has adopted a quantitative research design, and a survey research strategy has been used for collecting data from microfinance clients. The data are analyzed through SPSS and AMOS software.

Findings: Both Islamic and conventional microfinance are found to be helpful in poverty alleviation, wherein Islamic microfinance is found to be more suitable for poverty alleviation than the conventional microfinance.

Originality/Significance: This study represents the initial attempt to comprehensively compare the efficacy of Islamic and conventional microfinance in alleviating poverty, based on the available knowledge. Additionally, it emphasizes the significant impact of Islamic microfinance on poverty alleviation.

Research Limitations/Implications: This study provides useful implications to policymakers and practitioners for improving microfinance strategies aiming to fulfill the objective of poverty alleviation. Further, it provides policy recommendations for microfinance institutions, donors in the microfinance sector, and the government.

KAUJIE Classification: H15, F52

JEL Classification: N6

INTRODUCTION

Microfinance has emerged as an effective poverty alleviation strategy in the last two decades and has spread to more than 60 countries (Banerjee & Jackson, 2017). Globally, microfinance provides financial services like credit, savings, deposits, insurance, and repayment to those individuals who do not have access to financial services provided by conventional financial institutions as they lack collateral (Karimu et al., 2021). Microfinance aims to allow the poor to participate in economic markets and show their

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entrepreneurial abilities by initiating new businesses, continuing their existing ventures, or introducing new ideas (Ranabahu & Tanima, 2022). It provides small loans to the poor to reduce their poverty level and enable them to fulfil their household needs independently (Oteng-Abayie et al., 2023).

Microfinancing was started in 1976 with the purpose of loan provision without collateral (Hossain et al., 2024). Effective measures like group member harmony, discipline in loan provision and repayment, and proper supervision of microfinance clients' activities have replaced collateral requirements, an important condition for getting loans from formal financial institutions (Chowdhury, 2000). The Consultant Grouping to Assist the Poor (CGAP) has defined microfinance as "providing micro loans to the poor, engaging them in productive economic activities and helping them in starting their small ventures" (CGAP, 1999). The poor do not access traditional financial services because of lack of security, i.e., collateral (Todaro & Smith, 2009). In developing nations, the microfinance institutions (MFIs) remained successful in supporting the poorest regarding access to financial services(Naser, 2018).

Numerous studies have concluded that microfinance significantly influences poverty alleviation and household well-being at distinct levels like asset acquisition, children's education, food security, and women empowerment (Armendáriz & Morduch, 2005; Roodman & Morduch, 2014). Moreover, microfinance significantly contributes in microenterprises for the poor to escape the poverty cycle (Al-Mamun et al., 2014; Imai et al., 2012). It has been seen that microfinance is mostly not properly regulated, resulting in informal lending (Ozdemir et al., 2023). Majority of underprivileged and poor people live in rural areas, and where the agriculture remains their main source of income, particularly farming. Therefore; access to credit is an important factor in poverty alleviation, as farmers often use microloans for income-generating investments such as purchasing productivity-enhancing inputs(Buchenrieder et al., 2019; Cao et al., 2016).

In Pakistan, the microfinance sector has shown a substantial growth of about 40% per annum, and it has quickly progressed over the past decade by enabling the regulatory environment through the microfinance ordinance 2001 and Non-Bank Microfinance Companies (NBMFCs) Regulations 2015. About 14 Islamic MFIs are working in Pakistan, including notable, *Akhuwat* and Islamic Relief Pakistan (IRP) (GIFR, 2012). In terms of sector, the livestock and poultry sector remained the top choice for attracting active borrowers, while the trading and agriculture sectors ranked second and third, respectively. Furthermore, the ratio of urban borrowers has increased compared to rural borrowers. It has been shown that the largest microfinance players, i.e., Khushhali Microfinance Bank Ltd (KBL), Mobilink Microfinance Bank Ltd (MMFB), and National Rural Support Program (NRSP), have focused their target on the rural segment (Sheikh, 2020). Figure 1 show active borrower growth statistics by microfinance type, gender, area, and sector in Pakistan.

FIGURE 1. Microfinance Provision in Pakistan
Source: Pakistan Microfinance Network, MicroWatch (2022)

Islamic microfinance has been considered a panacea to alleviate poverty and boost social development through increased economic growth (Khan & Akhter, 2017). Islamic microfinance principles depend on a significant element of interest that *Sharīʿah* prohibits (Suzuki & Miah, 2021). If efficiently utilized, Islamic microfinance can be an important tool in combating poverty and achieving SDGs (Redzuan et al., 2023). For instance, *Zakāh*, *Waqf* (endowment), and sadaqat (charity) can contribute towards social protection and reducing poverty (Shuaib & Sohail, 2022).

Globally, poverty alleviation has been discussed widely and is considered a key goal for development worldwide. For this purpose, microfinance emerged as an effective tool for poverty alleviation (Sofi & Sumaira, 2016). The largest issue of the current era is poverty, as a big portion of the world's population, including Pakistan, lives below the poverty line (World Bank [WB], 2016). Shaffer (2008) defined poverty as the deprivation of material requirements for the minimum acceptable fulfilment of basic needs. According to the World Bank, poverty is "pronounced deprivation in well-being." Millions of individuals' are living on less than $1.90 a day, which means that this portion of the population, due to no availability of financial access, lives in extreme poverty (WB, 2016; Bruton et al., 2011; Hermes & Lensink, 2007).

Recently, literature has questioned the influence of microfinance and argued that microfinance's impact varies among positive, no influence, and negative influence (Van Rooyen et al., 2012). According to Gaillard et al. (2008), microfinance creates indebtedness and leads to poverty traps. In India, microfinance clients who cannot repay the loans have committed suicides (Press, 2012), and organ trafficking has also been seen in Bangladesh

(BBC, 2013). Recently, questions have been raised regarding the real contribution of microfinance towards poverty reduction. Therefore, there is an important research gap to compare Islamic and conventional microfinance toward poverty alleviation. According to best researcher's knowledge, a rigorous comparison of Islamic and conventional microfinance in poverty alleviation is lacking particularly from developing countries like Pakistan.

LITERATURE REVIEW

The modern development theory provides theoretical support for this thesis. It discusses the socioeconomic development gap between developed and developing nations (Martin, 1991; Kandpal et al., 2023). This theory favours steps taken for equal distribution of wealth globally, and microfinance has been considered a helping tool for reducing economic inequality and vulnerability (Al Mamun et al., 2018). Microfinance has emerged as an essential poverty alleviation tool. The literature supporting modern development theory has shown that providing financial services leads to poverty alleviation in households (Al-shami et al., 2018). Modern development theory focuses on the significance of tackling the inequalities in the world through the redistribution of wealth from developed nations to developing countries (Solarin et al., 2022; Hettne, 2020). The theoretical foundation relates to the microfinance contribution in filling the economic gaps, specifically by providing access to financial services to the ultra-poor. In this study, this theory supports the conceptual framework by showing how both Islamic and conventional microfinance can contribute to poverty reduction. MDT indicates that poverty should not be considered an economic issue but is the result of unequal access to resources (Kandpal et al., 2023). Thus, microfinance programs providing access to small loans are important for tackling income disparities. Modern Development theory strongly relates to this study as it brings a theoretical foundation for knowing how microfinance can contribute towards inequalities and foster socioeconomic development, specifically in developing countries (Solarin et al., 2022; Ullah & Khan, 2024; Kandpal et al., 2023).

The review of the literature shows a significant influence of microfinance on poverty reduction (Nayak et al., 2024; Ribeiro et al., 2022; Armendáriz & Morduch, 2010; Roodman & Morduch, 2014). Similarly, microfinance has also significantly influenced the poor's socioeconomic development, women in particular (Al-Mamun et al., 2014; Al-Shami et al., 2014). Furthermore, microfinancing is observed to create income-generating opportunities that help reduce poverty levels (Khandker, 2005; Westover, 2008). Khanam et al., (2018b) concluded that microfinance positively impacts the poverty alleviation index which potentially improve living standards and income. Likewise, a case study in Pakistan noted that the requirements of collateral are the primary hurdles in reducing poverty as it deprive access to financing. Binary Logistic Regression results have shown that microfinance significantly impacts poverty alleviation. Further, the focus should be on microfinance users' literacy and interest level reduction (Tasos et al., 2020).

Further, a research investigated the impact of microfinance on the financial and human poverty of women entrepreneurs in Pakistan (Hussain et al., 2019) and binary logistic regression results have shown that microfinance plays a positive role in overcoming financial poverty, but it has no contribution towards human poverty. Further, a research evaluated the microfinance contribution towards the non-monetary aspects of poverty which has shown that microfinance contributes to poverty alleviation and improves living standards (Qamar et al., 2017).

Banerjee and Jackson (2017) conducted ethnographic research and raised a concern that microfinance can lead to increased indebtedness among poor communities, further burdening the most deprived individuals. Similarly, a qualitative study has shown that microfinance has not succeeded in alleviating poverty due to improper loan use, high interest rates, complex repayment procedures, insufficient amounts of loans, and lack of proper supervision (Ali et al., 2017). Furthermore, conventional microfinance has been blamed for excluding the poorest individuals from microfinance programs (Daley-Harris & Zimmerman, 2009; Pronyk et al., 2007).

Onuka (2021) studied household access to credit during COVID-19 and the results of this research has shown that access to microfinance increases the probability of not being poor. Wang and Ran (2019) have shown that microfinance institutions should prioritize their social mission instead of profit maximization to deal with mission drift effectively. Agbola et al. (2017) have shown a mildly positive contribution of microfinance toward poverty reduction. The literature has resulted into the following hypothesis;

H_{1a}: There is a significant impact of conventional microfinance on poverty alleviation

Islamic Microfinance and Poverty Alleviation

Islamic microfinance came into existence to cater to the needs of Muslim communities by delivering financial products according to Islamic Law (*Sharīʿah*) (Rahman, 2020). It offers financial services without interest, which are based on profit and loss sharing, according to *Sharīʿah* (Haneef et al., 2015a). The *Sharīʿah* condemns unethical behaviors, and borrowers and lenders of Islamic microfinance are not allowed to violate *Sharīʿah*, but this is not the case with conventional microfinance (Fan et al., 2019). Because of interest-free loans, Islamic microfinance has substituted conventional microfinance to reduce poverty among poor Muslims (Ahmad et al., 2020; Ahmed et al., 2021). Likewise, it has expanded economic and livelihood opportunities for poor individuals (Abu Seman & Ariffin, 2017).

Islamic microfinance institutions get funds through Islamic social funds, i.e., *Zakāh, Infāq, Ṣadaqah,* and *Waqf (Ginanjar & Kassim, 2019)*. Islamic microfinance provides *Ribā* (Interest) free loans (Wulandari & Kassim, 2016), which is the reason behind its emergence as a widely applied poverty alleviation tool (Hassan & Mollah, 2018). "Dusuki (2006) has used Ibn Khaldun's concept of Asabiyah (Social Solidarity) to demonstrate the concept of Islamic microfinance initiatives as social solidarity focuses on group efforts and loyalty rather than people's self-interest. It was concluded that Islamic microfinance could benefit the poor through group lending, which is unavailable in mainstream banking services. Thus, it can improve the economic conditions of poor Muslims by implying Islamic principles (Hassan, 2015).

Tamanni and Besar (2019) have shown that Islamic MFIs have not diverted from their poverty reduction mission despite increased financial measures. Further, literature has shown that Islamic microfinance has the potential to be considered a sustainable solution for poverty alleviation, and it has economic benefits for livelihoods (Begum et al., 2019). It can target a large segment of individuals who cannot benefit from conventional microfinance due to their religious beliefs regarding interest. Further, Islamic microfinance facilitates the repayment procedure and recommends creditors provide charity in case of excess funds.

Mahmood et al., (2017) found a positive connection between Islamic microfinance and poverty reduction. This research has recommended that the Government of Pakistan should develop a policy for Islamic microfinance with the help of SBP. Sofi and Sumaira (2016) have shown the drawbacks of two dominating systems, i.e., capitalism and communism, and suggested Islamic economic systems as an alternative to these having debatable aspects of prohibition of *Ribā*. Economic and social justice has been neglected in capitalism, and communism has emerged as a source of power. Therefore, the Islamic economic system can be an effective economic development system due to interest avoidance. This literature has lead towards the following hypothesis;

H_{1b}: Islamic microfinance leads towards poverty alleviation

Comparison of Islamic and Conventional Microfinance

There are certain differences between conventional and Islamic microfinance, like sources of funds of conventional microfinance institutions consisting of external and client savings. Still, Islamic microfinance institutions use *Zakāh* and *Awqaf* in addition to external funds and client savings. The financing in conventional MFIs is interest-based, but in Islamic MFIs, it is according to Islamic modes of financing. In financing the poorest, the conventional MFIs exclude the ultra-poorest, but in Islamic MFIs, the 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 *Ribā* (Interest) free loans(Wulandari & Kassim, 2016).

Similarly, conventional MFIs prefer women as a target group, but Islamic MFIs include any family member; in this way, conventional MFIs empower women, but Islamic MFIs empower the whole family (Dhaoui, 2015a). The basis of Islamic microfinance principles is the interest that is not allowed by *Sharīʿah*. Islamic finance and microfinance can be demanding and profitable ventures and their effective implementation can bring astounding outcomes (Siddiqi, 2008). Islamic microfinance has greater importance for Pakistan due to having a Muslim population (Kazim & Haider, 2012). Being a Muslim country, there is a strong demand for an Islamic economic system in Pakistan. The literature has resulted the following hypothesis;

H_2: Islamic microfinance is more suitable for poverty alleviation than conventional microfinance

The conceptual framework has been developed based on the hypotheses of the thesis. Figure 2 shows the conceptual framework.

FIGURE 1. Conceptual Framework

RESEARCH METHODOLOGY

This cross-sectional research has adopted a positivist research philosophy and a quantitative research design as a methodological choice. This methodology adopts a survey method and performs statistical analysis of collected data (Remenyi et al., 1998). The quantitative data are collected to evaluate the impact of microfinance effectiveness on poverty alleviation by following a deductive approach. Quantitative research design assists in hypotheses testing through inferential statistics, and the results can be generalized (Hair et al., 2007). Further, quantitative design helps in determining the representable sample size of microfinance clients and choose the appropriate sampling technique(Macha, 2018). This research is explanatory, and a survey research strategy has been adopted through a questionnaire. The survey method has been considered appropriate as it facilitates quick responses and allows data collection from many clients (Ali et al., 2014; Sekaran, 2003).

The data are collected for two constructs or latent variables, namely Microfinance Effectiveness (ME) (Islamic and Conventional), Poverty Alleviation (PA) and these constructs are measured through items. The instruments or scales of these constructs have been adopted from previous studies. The instrument of Microfinance Effectiveness (ME) consists of 4 items (Kumari, 2021; Win, 2019) and the instrument of Poverty Alleviation (PA) consists of 6 items, both measured on 5-point Likert scale marked from "Strongly Disagree" to "Strongly Agree" (Kumari, 2021; Nkwocha, 2019).

The study focuses microfinance clients from rural areas of the Punjab province of Pakistan. The sample is selected from District Bhakkar, which is among the rural districts of Punjab province, Pakistan. Further, the poverty rate in this district is also high and it has become the focal point of microfinance programs employed by key conventional and Islamic microfinance banks and NGOs. It is impossible to study all microfinance clients due to constraints like time and financial resources. The determination of sample size is considered very important in getting meaningful results. A minimum sample size of 200 is considered suitable for any statistical analysis (Hoe, 2008; Kock & Hadaya, 2018). Some researchers take the sample size according to the proportion of the number of parameters or items present in the study. Further, ten respondents have been suggested for a single parameter (Schreiber et al., 2006). Moreover, a rule of thumb has also been suggested in which at least five observations are necessary for a single parameter (Hair et al., 2006). The sample size comprised on 500 microfinance clients selected through snowball sampling, and the sampling method adopted was proposed by (Kline, 2011). Snowball sampling is particularly recommended in program evaluations in which the program participants can identify the other participants participating (Sudman, 1976).

This study utilized a snowball sampling technique to select the respondents. Snowball sampling, or chain referral sampling, is used to locate hard-to-find populations. Snowball sampling has certain advantages, making it a suitable technique in a particular situation. For instance, it involves low cost and is an efficient technique for finding hard-to-find respondents like in this thesis. Further, it helps collect data more quickly in some cases as it facilitates exploring phenomena and populations for which few participants are available initially (Frank, 1979; Johnson, 2014; Goodman, 1961; Biernacki & Waldorf, 1981). This sampling technique is particularly recommended in program evaluations, in which the program participants can identify the other participants (Sudman, 1976). Table 1 shows the questionnaire items for all the constructs of this study.

TABLE 1: Constructs with measuring Items

Constructs	Items	Measurement Items
Microfinance	ME1	Provides sufficient loan amount to run the business
Effectiveness	ME2	Provide operational assistance which is helpful to run the business
	ME3	Loan is sufficient for the improvement of household appliances
	ME4	Loan repayment schedule is convenient
	PA1	Income has increased.
	PA2	Better access to education
Poverty Alleviation	PA3	Better access to healthcare
	PA4	Better financial situation of the family
	PA5	Employment opportunities have increased
	PA6	Improvement in the living standard of the family

Pilot testing proved useful for the author as it helped improve questionnaire statements' wording and tenses (Sekaran, 2003). The reliability of the scales is measured through Cronbach's Alpha, AVE, and CR (Hair et al., 1998). Further, the validity of the scales is ensured through convergent and discriminant validity (Chin et al., 1997). The data analysis is performed by using the software SPSS which is commonly used for data analysis in social sciences (Zikmund et al., 2013). Linear regression analysis is used to analyze influence of microfinance effectiveness on poverty alleviation. Similarly, an independent samples t-test is conducted to analyze the difference between Islamic and conventional microfinance regarding poverty alleviation.

DATA ANALYSIS

The demographic statistics show that majority of the microfinance clients participated in this study are male. Similarly, the microfinance clients having an age limit of 30-35 are greater in percentage showing that the younger microfinance clients are greater in this study. Further, the monthly income statistics show that the majority of the clients are poor individuals. Moreover, the majorities of microfinance clients has rural backgrounds, are married individuals and have below matric educational levels. Further, the number of Islamic microfinance clients is 250, and the number of conventional microfinance clients is also 250, which shows that the number of Islamic and conventional microfinance clients is equal in this study (Table 2).

The demographic statistics show that the frequency of Islamic microfinance clients from *Akhuwat* (Islamic microfinance institution) is 250, 50% of the sample. All other MFIs other than *Akhuwat* are conventional microfinance institutions. These statistics show that majority of conventional microfinance clients are from Mobilink Microfinance Bank. This study's total number of Islamic and conventional microfinance is equal. Figure 3 shows the microfinance institutions with client frequencies.

For normality, the values of Skewness and kurtosis are less than 3.0 and 10.0 (Table 3), respectively, showing data are normally distributed (Kline, 2011; Hair et al., 2019). Similarly, the multicollinearity assessment has shown that for all the constructs, the values

TABLE 2: Demographics

Sr.	Variables	Categories	Frequency	Percentage
1.	Gender	Male	303	60.6 %
		Female	197	39.4 %
		Total	500	100 %
2.	Age	18-23	10	2.0 %
		24-29	79	15.8 %
		30-35	165	33.0 %
		36-41	142	28.4 %
		42 & Above	104	20.8 %
		Total	500	100 %
3.	Monthly Income	Below 10000	10	2.0 %
		10000-15000	87	17.4 %
		15000-20000	149	29.8 %
		20000-25000	124	24.8 %
		Above 25000	130	26.0 %
		Total	500	100 %
4.	Residential Area	Rural	348	69.6 %
		Urban	152	30.4 %
		Total	500	100 %
5.	Education	Illiterate	147	29.4 %
		Below Matric	205	41.0 %
		Matric	67	13.4 %
		Intermediate	10	2.0 %
		Bachelor	11	2.2 %
		Master & Above	60	12.0 %
		Total	500	100 %
6.	Marital Position	Married	421	84.2 %
		Unmarried	52	10.4 %
		Divorced	27	5.4 %
		Total	500	100 %
7.	Microfinance Type	Islamic Microfinance	250	50.0 %
		Conventional Microfinance	250	50.0 %
		Total	500	100 %

of TV are greater than 0.1, and the values of VIF are less than 10 (Hair et al., 2019), which shows no evidence of multicollinearity. This study uses CFA to assess the constructs' reliability, validity, and uni-dimensionality(Awang, 2015).

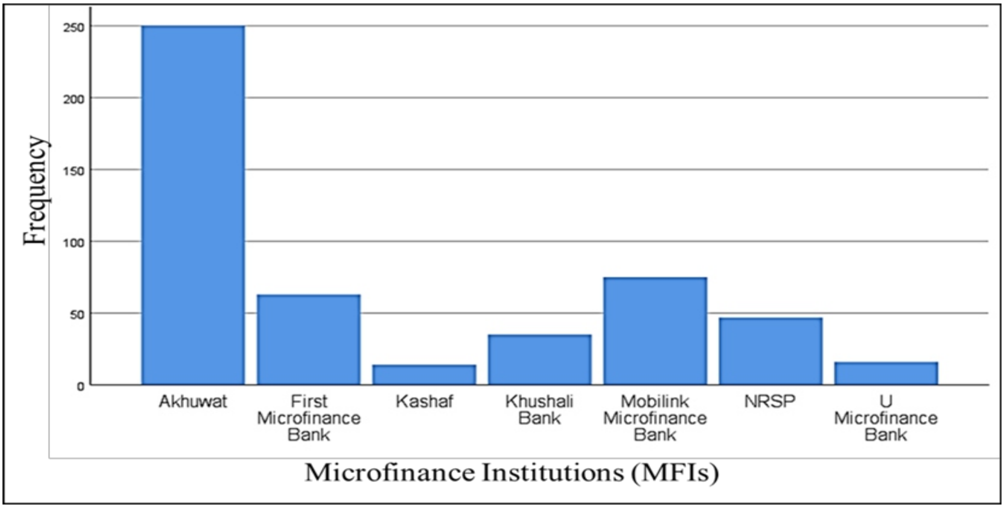


FIGURE 3. Microfinance Institutions with Clients Frequencies

TABLE 3: Descriptive Statistics

Items	Description	Min	Max	Skewness	Kurtosis
ME1	Provides sufficient loan amount to run the business	2	5	-.468	-1.050
ME2	Provide operational assistance which is helpful to run the business	2	5	-.324	-.251
ME3	Loan is sufficient for the improvement of household appliances	2	5	-.487	-.578
ME4	Loan repayment schedule is convenient	1	5	-.563	-.539
PA1	Income has increased	2	5	-.015	-.910
PA2	Better access to education	2	5	-.078	-.955
PA3	Better access to healthcare	2	5	.158	-1.010
PA4	Better financial situation of the family	2	5	-.383	-.808
PA5	Employment opportunities have increased	2	5	-.105	-.950
PA6	Improvement in the living standard of the family	1	5	-.640	-.049

Note: ME = Microfinance Effectiveness, PA = Poverty Alleviation, N = 500

Convergent validity is assured through AVE and CR (Hair et al., 2019). The software SPSS and AMOS 26 are used for measuring the AVE and CR. The AVE value of 0.5 (Table 4) shows that 50% of the item has accounted for the understudy latent variable. The diagonal values were higher than the off-diagonal values which assured discriminant validity (Cheung et al., 2024). Further, the correlations among the constructs were less than 0.85. Therefore, the discriminant validity of the constructs is validated (Table 5).

TABLE 4: Reliability of the Constructs

Sr.	Variable Name	Items	Cronbach's Alpha	AVE	CR
1.	Microfinance Effectiveness	4	0.79	0.55	0.83
2.	Poverty Alleviation	6	0.91	0.64	0.91

Discriminant validity is the extent to which a particular construct's measurement items differ from the measures of the other constructs (Cheung et al., 2024). Table shows the discriminant validity analysis.

TABLE 5: Discriminant Validity

	Correlations/ Discriminant Validity	
	ME	PA
ME	**0.74**	
PA	.463**	**0.80**

** Correlation is significant at the 0.01 level (2-tailed), N = 500, Source: Author Calculations

4.1 Difference between Islamic and Conventional Microfinance

The results of linear regression analysis (Table 6) show that the Islamic microfinance model has brought a 25.1% variance in poverty alleviation (PA) (coefficient of determination (R^2) = 25.1%). Microfinance effectiveness (ME) ($\beta = 0.402$, $\rho = 0.000$) has shown a significant positive impact on poverty alleviation (PA), and hence, hypothesis H_{1b} is supported (Table 6). This result shows that Islamic microfinance alleviates poverty among poor microfinance clients.

TABLE 6: Comparison between Islamic and Conventional Microfinance

Sr.	Independent Variables	Islamic Microfinance		Conventional Microfinance	
		Unstandardized Coefficients Beta	T	Unstandardized Coefficients Beta	T
1.	(Constant)	1.439	4.834***	1.715	6.709***
2.	ME	.402	6.008***	.359	6.062***
Islamic Microfinance:		R = 50.1 %	R^2 = 25.1 %	F Change = 16.331	
Conventional Microfinance:		R = 52.8 %	R^2 = 27.8 %	F Change = 18.818	

Note: Level of significance: ***p<0.001, *p<0.05, Predictors: (Constant), Microfinance Effectiveness (ME), Dependent Variable: Poverty Alleviation (PA)

The regression analysis showed that the conventional microfinance model has brought a 27.8% variance in poverty alleviation (PA) (coefficient of determination (R^2) = 27.8%). Microfinance effectiveness (ME) ($\beta = 0.359$, $\rho = 0.000$) has shown a significant positive impact on poverty alleviation (PA), and hence, hypothesis H_{1a} is supported. This result shows that conventional microfinance also alleviates poverty among microfinance clients.

Independent samples t-test is used to compare the means of the variable in two independent samples. The independent samples t-test results show a significant difference between Islamic and conventional microfinance regarding microfinance effectiveness. The mean of Islamic microfinance (mean = 3.9750) in microfinance effectiveness is greater than that of conventional microfinance (mean = 3.7130). It is statistically significant and shows that Islamic microfinance offers micro-loans to poor clients more effectively than conventional microfinance.

Further, the results have shown a significant difference between Islamic and conventional microfinance regarding poverty alleviation. The mean of Islamic microfinance (mean = 3.8367) in poverty alleviation is greater than that of conventional microfinance (mean = 3.5787) (Table 7). It is statistically significant, showing that Islamic microfinance is more suitable for poverty alleviation than conventional microfinance.

TABLE 7: Difference between Islamic and Conventional Microfinance

Sr.	Variables	Islamic MF		Conventional MF		T	Mean Diff
		Mean	Std. Deviation	Mean	Std. Deviation		
1.	Microfinance Effectiveness	3.975	.73709	3.7130	.76664	-3.895	-.26200***
2.	Poverty Alleviation	3.8367	.80278	3.5787	.76049	-3.689	-.25800***

Further, Table 7 compares Islamic and conventional microfinance, indicating that Islamic and conventional microfinance have significant differences regarding microfinance effectiveness (ME) and poverty alleviation (PA).

4.2 Comparison based on Microfinance Effectiveness (ME)

The comparison between Islamic and conventional microfinance (Table 8) is also carried out by drawing bar charts of the responses of microfinance clients on the items of respective constructs. The results have shown that Islamic microfinance is more effective in providing micro-loans than conventional microfinance (Figure 4).

4.3 Comparison based on Poverty Alleviation (PA)

Comparing Islamic and conventional microfinance regarding poverty alleviation has shown that Islamic microfinance is more suitable for poverty alleviation than conventional microfinance (Figure 5).

DISCUSSIONS

The results of this study have shown that microfinance effectiveness has a significant positive impact on the poverty alleviation of microfinance clients. This result supports previous studies' findings on the significant contribution of microfinance towards poverty alleviation (Armendáriz & Morduch, 2010; Chikwira et al., 2022; Hasan et al., 2022;

TABLE 8: Detailed Comparison between Islamic and Conventional Microfinance

Sr.	Variables	Islamic Microfinance		Conventional Microfinance		T	Mean Difference
		Mean	Std. D	Mean	Std. Dev		
1.	Provides sufficient loan amount to run the business	4.12	.997	3.81	1.023	3.408	.308**
2.	Provide operational assistance which is helpful to run the business	3.92	.758	3.70	.809	3.137	.220**
3.	Loan is sufficient for the improvement of household appliances	4.12	.835	3.85	.914	3.422	.268**
4.	Loan repayment schedule is convenient	3.75	1.166	3.50	1.135	2.449	.252*
5.	Income has increased	3.64	.998	3.38	.881	2.994	.252**
6.	Better access to education	3.88	.932	3.62	.881	3.255	.264**
7.	Better access to healthcare	3.86	.885	3.61	.815	3.208	.244**
8.	Better financial situation of the family	3.96	.945	3.65	.958	3.571	.304***
9.	Employment opportunities have increased	3.71	.964	3.46	.953	2.987	.256**
10.	Improvement in the living standard of the family	3.98	1.012	3.75	1.050	2.472	.228*

Note: Level of significance: ***$p<0.001$, **$p<0.01$, *$p<0.05$

Hermes & Lensink, 2011; Kumari, 2022; Onuka, 2021; Quayes, 2012; Roodman & Morduch, 2014; Tasos et al., 2020; Wu et al., 2022).

Further, Islamic microfinance has also shown a significant positive impact on poverty alleviation, which supports the results of previous studies (Adnan & Ajija, 2015; Ahmad et al., 2020; Ahmed et al., 2021; Begum et al., 2019; Hassan & Mollah, 2018; Hassan & Saleem, 2017b; Mahmood et al., 2017). As a result, the comparison between Islamic and conventional microfinance regarding poverty alleviation found that Islamic microfinance is more suitable for than conventional microfinance because it does not charge interest. This result supports previous studies' findings on the efficient role of Islamic microfinance towards poverty alleviation as compared to conventional microfinance (Abul et al., 2011; Ahmad et al., 2020; Ahmed et al., 2021; Begum et al., 2018; Dhaoui, 2015a; Khaleequzzaman & Shirazib, 2012; Sofi & Sumaira, 2016; Tamanni & Besar, 2019).

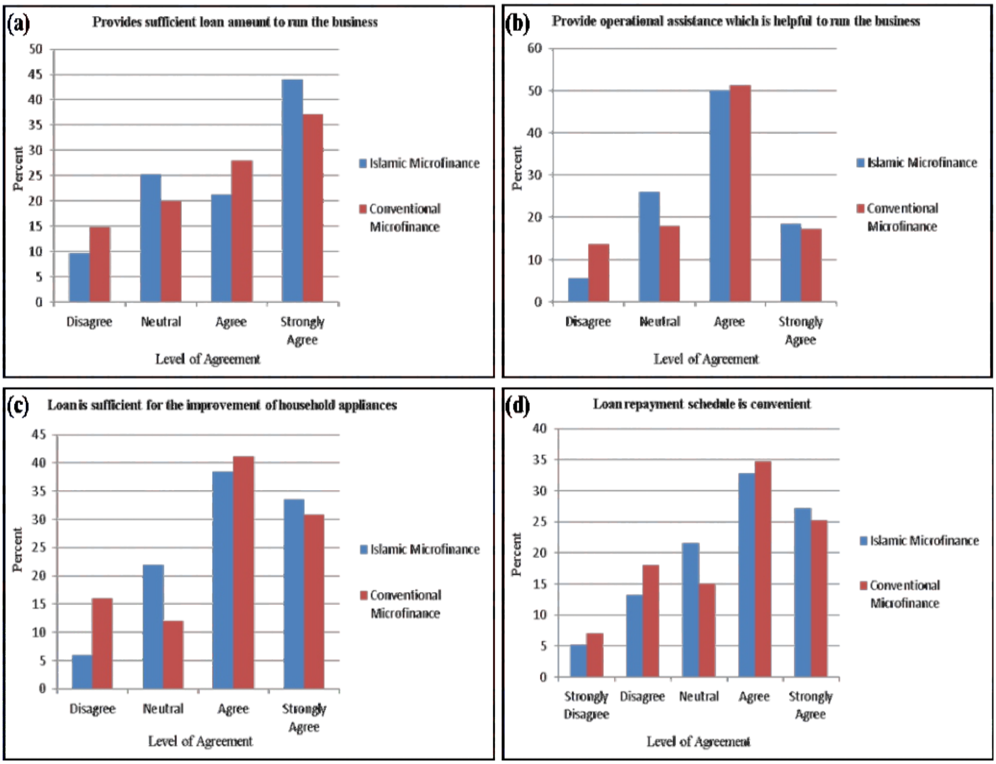
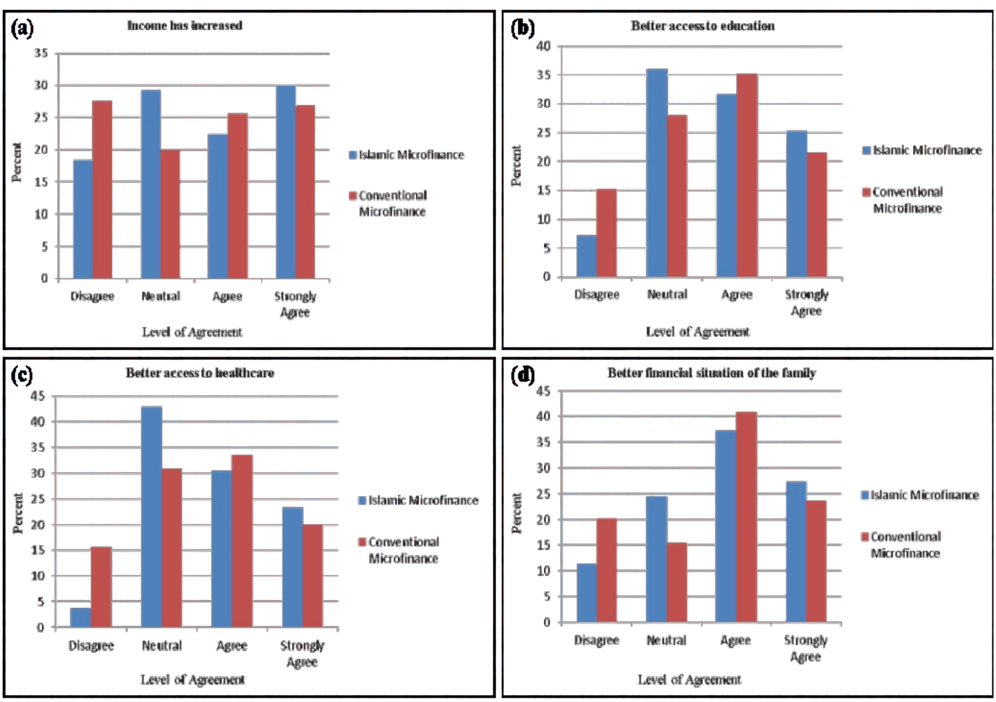


FIGURE 4. Comparison between Islamic and conventional microfinance on microfinance effectiveness.



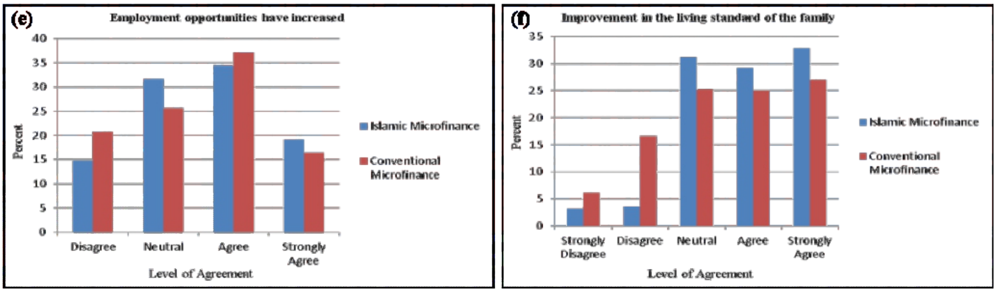


FIGURE 5. Comparison between Islamic and conventional microfinance on poverty alleviation.

CONCLUSION

This study investigates the impact of microfinance effectiveness on poverty alleviation and compares Islamic and conventional microfinance regarding poverty alleviation. The results show that microfinance effectiveness significantly contributes towards poverty alleviation of the microfinance clients, which fulfilled the study's first objective. Further, results show that Islamic and conventional microfinance contributes towards poverty alleviation, but there is a significant difference between Islamic and conventional microfinance. It is found that Islamic microfinance is more suitable as it does not charge interest from microfinance clients. The results of this study indicate that microfinance whether it is Islamic microfinance or conventional microfinance alleviates the poverty level of the microfinance clients. Islamic microfinance is more suitable for poverty alleviation as it does not charge interest from microfinance clients.

THEORETICAL IMPLICATIONS

Previous studies have provided mixed findings on the role of microfinance towards poverty alleviation and have shown that the impact of microfinance is divergent between positive, no impact, and negative impact (Ganle et al., 2015; Van Rooyen et al., 2012). The author of the current study noted that the problem behind mixed findings on the role of microfinance towards poverty alleviation might be due to the reasons like methodology adopted for data analysis, data collection approach used, microfinance type (Islamic or conventional) utilized, or the lack of focusing on the factors that affect the relationship between microfinance and poverty alleviation. This study has compared the impact of Islamic and conventional microfinance on poverty alleviation to know whichever is more suitable for poverty alleviation, which will surely add to the literature on microfinance and poverty alleviation. This research has addressed a vital research gap by comprehensively comparing Islamic and conventional microfinance regarding poverty alleviation, bringing nuanced learning instead of just descriptive analysis of microfinance results. The comparison has been supported by empirical results showing that the interest-free model is more beneficial with unique advantages regarding poverty alleviation. For the distinction between Islamic and conventional microfinance, this research has contributed to institutional theory, showing contribution of structural variations like an interest-free model related to cultural and ethical frameworks to attain favorable poverty reduction results. Such insights improve previous theoretical frameworks and bring a robust basis for future research by exploring the contextual dynamics of microfinance programs.

PRACTICAL IMPLICATIONS

The results of this study confirm that the variables Islamic and conventional microfinance have a significant positive impact on poverty alleviation. These findings can provide useful indications to policymakers and practitioners for improving their microfinance strategies to fulfill the poverty alleviation objective. To improve the impact of microfinance on poverty alleviation, the government and policymakers should revise their policies by shifting their focus from conventional microfinance to Islamic microfinance, which is more suitable for poverty alleviation as conventional microfinance charges high-interest rates from poor microfinance clients. Further, there is a need to reduce the red tape involved in loan application processing, which can be possible by adopting an information communication technology (ICT) system and educating the microfinance clients to use it. Adopting the ICT system can improve the microfinance loan applications and repayment process. The government and policymakers should make significant efforts to reduce the rate of interest charged by the microfinance institutions and should take concrete steps through proper legislation to implement *Sharīʿah* (Islamic law) principles in the microfinance sector. Adopting Islamic microfinance will reduce unethical practices undertaken by conventional microfinance, like harsh behaviour of loan officers with the clients and confiscation of any microfinance client's assets due to other clients' inability to repay the loans.

LIMITATIONS AND FUTURE RESEARCH

During data collection, the researcher faced many obstacles. First of all, the timing of data collection was a challenge for the author as most of the microfinance clients made excuses for not answering the questionnaire on the spot due to their routine work. They agreed to answer the questionnaire after completing their routine activities. Due to this reason, some of the questionnaires received were not filled. The researcher facilitated the microfinance clients and cleared their questions regarding the questionnaire. Most of the questionnaires were filled by the researcher and facilitators by asking the questions in the questionnaire as most microfinance were not literate enough to fill it independently. The educated microfinance clients themselves filled out the questionnaire.

Further, the data has been collected from microfinance clients in District Bhakkar, Punjab province, Pakistan. Therefore, the results may not be generalized in other countries because microfinance clients practice different cultures in other countries. Further, countries use distinct regulatory frameworks and policies to protect financial service users. For example, there are chances of having different perceptions about loan interest rates by clients living in a secular state than those living in a religious state. Future research may involve factors having regional and institutional influence, which could bring better learning to microfinance contribution and ensure that external economic factors do not confound results. Further, future research should also adopt different methodologies for evaluating the microfinance contribution towards poverty alleviation and should explore different mechanisms through which it could show support in microfinance programs.

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