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UNFOLDING THE COMPLEXITIES AMONGST ISSUES OF MICROFINANCE BANKS IN PAKISTAN

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Abstract
The aim of this study is to identify potential issues of Microfinance Banking in Pakistan, which are of great importance in affecting performance and growth of banking sector in Pakistan in order to curtail prevailing econ disparity in the country. After the identification of the issues involved, the inter-relationship of these issues is evolved after seeking the opinion experts having relevant knowledge competency and experience. It is purposive sampling by collecting actual data as well as by face-to-face interview through questionnaire from a panel of 15 individuals. Interpretive Structural Modeling (ISM) is applied to structure and model inter-relationships among different issues. Matriced' Impacts Croise's Multiplication Appliquée a UN Classement (Cross Impact Matrix Multiplication Applied to Classification) popularly known as MICMAC analysis is wed to categorize independent, dependent, autonomous, and linkage factors. This study helps stakeholders (i.e. different financial institutions, microfinance banking, academia, researchers, and regulators, international development agencies) to identify and structure critical issues and their relationship with each other crucial for transformation, restructuring and value addition in banking sector for economic growth and stability of Pakistan.

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1. Introduction

The microfinance bank serves as an institution that delivers financial services, including saving accounts with insurance features alongside minimal loans to individuals and tiny enterprises while catering especially to economically disadvantaged persons who lack standard banking procedures. Micro-financing is one of the important element used for poverty alleviation all over the world, especially in underdeveloped countries like Pakistan, Bangladesh, India, etc. Since 2001 different programs relating to microfinance were launched by the government of Punjab to reduce the poverty level of the people of Southern Punjab (Iqbal, et al, 2020). Microfinance banking in Pakistan serves as a pathway to assist marginalized members of society, especially those needing assistance for staff and small businesses. The area serves women and rural business women to bridge their financial gaps by providing small-scale loans along with saving funds together with nearby services, thus contributing to economic development (Samrat & Nabi 2025; Ali et al., 2025). The account facilities that microfinance institutions provide through small loans and deposits and additional financial services enable the support of those who face financial disabilities, economic and support national economic growth and poverty reduction efforts in Pakistan despite its thirty percent poverty rate. Managing microfinance institutions (MFIs) faces its primary difficulty from both high operational expenses and the technological discrepancies that come with them. The regulations enforced by the State Bank of Pakistan (SBP) present strict requirements that limit optimal operations for microfinance banks. The socio-cultural challenges that women face make their financial exclusion situation worse because they often are discouraged from working in public or business sectors. The Grameen Bank of Bangladesh inspired Pakistan's microfinance expansion, so, the Orangi Pilot's Project was started by Dr. Akhter Hameed Khan in the 1970s aimed at poverty alleviation.

The private MFIs under the Pakistan Poverty Alleviation Fund (PPAF) give credit to micro-entrepreneurs alongside women and rural households to help Pakistan achieve its national poverty reduction targets, although 65% of its population lives in rural regions with substantial poverty rates. Indian microfinance has two main operational opportunities with self-help groups (SHGs) and microfinance institutions (MFIs), as well as some cooperative organizations. In the early 1990s, NABARD launched the SHG model through its SHG-Bank Linkage Program. Modern microfinance clients receive their largest service from the SHG model, which operates by connecting women's informal groups to formal banking channels. (Saleem, 2011; Khan, 2018; Ashraf et al., 2025). The microfinance banking sector in Pakistan started to grow in the late 1990s after Khushhali Bank founded several key institutions, followed by the creation of the Microfinance Institutions Ordinance in 2001, which delivered a regulative structure. The operational efficiency of Pakistani microfinance institutions remains restricted by minimal capital access, expensive operations and transactions, poor credit recovery, and inadequate digital infrastructure. Moreover, PAR values exceeding 15% in specific regions demonstrate subpar risk management capabilities. Professor Muhammad Yonus (a Bangladeshi economist) introduced his microfinance concept by providing an initial few dollars as loans to an impoverished basket maker in 1974. Through small loan programs directed towards impoverished people, the poor gained business capacities that allowed them to break free from poverty. The Grammen Bank demonstrates successful implementation of providing loans to poor people as they work to rise above poverty. Professor Muhammad Yonus received the Nobel Prize in 2007 for his reforms. (Muhammad, 2010). Loan repayment and debt management suffer due to borrower financial illiteracy, which becomes more challenging because of restrictions in regulation and supervision despite the Pakistan Microfinance Investment Company (PMIC) launching in 2016 to boost sector liquidity. The Pakistan Microfinance Network (PMN) lists several MFIs, including banks like Advans, APNA, FINCA, and Khushhali, indicating that from (2019,20) licensed MFI microfinance institutions now serve around 7.1 million borrowers throughout 2025, as stated in official reports. The COVID-19 pandemic exposed additional weaknesses in the sector because borrowers experienced elevated defaults coupled with financial challenges throughout lockdowns, which affected the economy.

Multiple studies by (Hassan and Mughal (2020), Saeed and Fatima (2019) and Shahid et al., (2025) confirm these problems, but the simultaneous effects between credit risk and regulatory requirements, and client education need additional research. The urgent requirement for specific solutions to maximize microfinance support for Pakistan's economic advancement became essential on March 10, 2025, because it seeks to address both financial exclusion problems and durable solutions for the country's largely unbanked population. From the preliminary review of the literature it can be found that there is lot of work to be done on microfinance banking. Microfinance banking is complementary part of commercial banking the justification of microfinance banking can be derived from research work of microfinance banking in India and Bangladesh interiliac other Asian countries. It places vital role in economic development since it caters the requirement of banking at grass root level. It caters to the communities that are neither entertained by commercial banking, development financial institution nor by non-bank financial institutions. The dynamic of this sector completely differ from all other financial institutions. Microfinance banking sector differ from other financial innutritious on the accounts of regulatory framework, size of the banks, number of branches, types of customers, natures of loans, structuring of transactions, term and conditions of loan etc. This sector being different to her finance sectors there is a multitudes of issues peculiar to microfinance banking.

In general, world-wide it is not a mature banking sector. Particularly in Pakistan it is an infant sector consisting of few fragile institutions that are striving to survive. Time and again the questions are being raised about the sustainability of this sector. Microfinance banking could not attain priority of researchers. In view of this representation it can be realized that an immediate attention of contemporary research has become imperative. The research lacks a thorough investigation of regulatory divisions together with economic volatility and gender discrimination barriers, as well as their combined effect (Ali, 2015; Ismail & Saeed, 2019; Bros et al., 2023; Audi & Ali, 2023; Iqbal & Abbas, 2024). Very little scientific investigation explores the relationship between international resource limitations and political instabilities when examining MFIs' ability to handle liquidity needs and secure long-term financial stability. Recent studies about integrating cash waqf into Islamic microfinance to resolve Pakistan's economic issues have been analyzed by (2025), Khan et al. (2021), and Shad (2025). The literature acknowledges cash waqf's capability for lasting economic development and poverty reduction but lacks systemic investigations about its practical usage and expansion especially within diverse socio-economic areas of Pakistan. Scientists lack enough data from quantitative research to understand how financial inclusion impacts economic expansion throughout time. (Mubashir et al, 2025; Audi et al., 2022; Iqbal & Abbas, 2024). The research fails to uncover how microfinance initiatives interact with structural political instability alongside colonial history at a specific level. The current financial services sector of Pakistan stands transformed from the conditions during the previous decade and two preceding years (Dawn, 2025). Research combining diverse methods such as case studies, econometric analysis, and gender-focused studies needs to fill information gaps to create effective strategies for government officials and practitioners who want to optimize Islamic microfinance's capability for boosting inclusive economic development (Marc et al.. 2021; Wadud, 2022; Nizam & Rashidi 2025). Major research works currently analyze data qualitatively while researchers must explore quantitative and qualitative research methods for studying cash waqf integration challenges alongside facilitators of Islamic microfinance institutions to produce sustainable ethical financial solutions (Kabir & Rashid, 2019; Marc & Al Masri, 2024; Samrat & Nabi 2025). To enhance cash waqf efficiency toward inclusive economic development researchers should perform studies uniting econometrics with case examples as well as gender and climate-centered investigations. toward inclusive economic development researchers should perform studies uniting econometrics with case examples as well as gender and climate-centered investigations (Raza & Khan, 2023; Marc, 2024; Irum & Abbas 2025). Microfinance banking sector is facing multifaceted crisis. There is a multitude of reasons of the crisis that could not have been properly identified and addressed so for till date by the contemporary research (Hassan & Mughal, 2020; Omri, 2022; Akram et al., 2023; Marc & Yu, 2024). There is dearth of studies on this particular topic in Pakistan (Hassan & Mughal, 2020; Akram et al., 2023; Hassan & Sadat, 2023). The issue of crisis in microfinance banking is an applied side problem that surged as an imperative research topic to be explored rather comprehensively (Wali, 2018; Audi & Ali, 2018; Nizam & Rashidi 2025; Bozic & Bozic, 2025). The microfinance sector in Pakistan is facing extensive threats from rising losses and declining capital along with non-active regulatory measures that challenge very sustainability of the sector (Dawn, 2025).

2. Literature Review

Microfinance institutions in Pakistan experience rapid growth in their network expansion. Government banking serves as the main drive to expedite this sector for Pakistan. The Khushalli bank reports show that microfinance facilities adopted by clients started at 100,000 in 2001 and quickly reached

1,400,000 in 2007 (Khushhali Bank's Annual Report 2007). The Bangladesh Bank, together with 'Swanirvar Bangladesh' initiated the 'Dheki Rin Prokolpa' project while Professor M. Yunus led the 'Jobra' experiment during the latter part of the 1970s. Additionally, at that time, several other pilot projects started developing through the collaborative effort of the active NGOs. The initiative appeared inconceivable in producing a major microfinance movement that would gain global recognition for Bangladesh. Throughout the 1980s, Grameen Bank achieved its goals, yet development practitioners in Bangladesh focused on whether these programs exist instead of focusing on awareness efforts. Research in the fields without constraints brought an unremarkable closure to the discussion while the country witnessed significant growth of microfinance programs during the 1990s (Ahmed, 2009).

2.1. Credit Risk (Risk of Loan Default)

Loan defaults among microfinance institutions constitute an urgent problem that prevents organizational expansion as they have identified 73% default rates (Dey, 2015). More generally, according to oxford dictionary microfinance defines as: "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers" (Muhammad, 2010). Loan default poses the main issues that hinders microfinance banking in Pakistan. Due to their target client base of clients with no collateral, MFIs face increased risks of non-payment that put a strain on their financial stability (Khan et al, 2021). Economic volatility, combined with high poverty rates, creates more problems because borrowers who need stable income sources cannot successfully meet their repayment arrangements. Research findings indicate that credit risk intensifies because MFIs often have subpar credit assessment methods and weak risk management that affects their operations (Marc, 2016; Hassan & Mughal, 2020).

2.2. Lack of Collaterals

The microfinance sector of Pakistan faces an important issue because most borrowers have no collateral to pledge, thus restricting their loan access and causing microfinance banks to face higher lending risks. Most small business owners, together with daily wage workers and female borrowers, lack valuable assets for loan collateral, thus preventing them from growing their businesses (Hussain, Ahmad & Fatima 2025). Group lending and social guarantees do not consistently succeed as risk management tools when implemented by some microfinance institutions. The solution demands an even regulatory system that promotes inclusive finance yet maintains enough operational choices. The combination of non-collateral lending approaches with FinTech integration and policy changes matching microfinance requirements will build a sustainable financial environment in Pakistan. Specially designed regulatory changes along with new credit solutions must exist to manage risks while opening financial access for Pakistan's population of 70% unbanked individuals (Malik, Qadeer & Imam 2024).

2.3. Regulatory Challenges

The State Bank of Pakistan (SBP) establishes strict regulatory frameworks for microfinance banks in Pakistan through their regulatory framework to protect consumers as well as ensure stability in the financial system, but they restrict operational freedom and growth potential. The administrative expenses of MFBs rise because they need to meet extensive documentation requirements and reporting standards and high capital reserve requirements, which limit loan growth. The FinTech adoption rate remains low because unclear policies issue of digital financial services usage at the same time that limited credit bureau access makes borrower assessment more challenging for the sector. Small MFIs suspend investments because ongoing governmental rule changes create a state of unpredictability (Hussain, 2018; Hun et al., 2024; Gan et al., 2025). Improvements in reporting procedures and credit bureau accessibility and a uniquely designed framework will help policymakers support sustainable growth and increased financial inclusion, which will allow MFBs to better serve marginalized Pakistanis to reduce poverty.

2.4. High Operational Costs

High operational expenses of microfinance banks and microfinance institutions in Pakistan jeopardize their funding stability and reduce their capacity to serve marginalized clients efficiently. Operational costs at microfinance banks and microfinance institutions develop primarily because they process large volumes of small loans and maintain widespread physical networks for serving remote rural locations where 65% of Pakistan's population resides in underdeveloped banking regions. Operating costs take a toll on 25-30% of loan portfolios for MFIs in Pakistan, which exceeds the global norm of 15% largely because of record-keeping and loan monitoring duties as well as regulatory standards that increase costs with administrative work. The low use of modern technology among MFIs that reaches 30% of institutions magnifies operational inefficiencies because of high employee turnover and technological training costs and transportation expenses. MFBs and MFIs usually raise interest rates between 20% and 30% due to cost burdens that result in higher borrowing costs for their clients, who may perceive exploitation. To solve this problem, MFBs should adopt cost-reduction processes like using digital tools for automating processes, reducing the need for manual branches etc (Shahbaz, 2018; Ali, 2024; Iqbal & Hayat, 2025).

2.5. Liquidity Problems

Liquidity problems represent an ongoing major issue for microfinance banks in Pakistan which prevents them from maintaining continuous lending practices and fulfilling their client requirements. MFBs encounter limited financial resources and lack both access to capital markets and interbank loans which expose them to cash flow problems. SBP discovered in their 2021 research that cash distribution limits can put the organization at risk for failing to serve disadvantaged communities. Some financial institutions reduce lending because of high default rates and delayed payments and the difference between short-term deposits and long-term loans which creates a liquidity problem that leads them to stop operations. MFBs need to establish emergency credit lines through digital financial service integration to solve their liquidity management problems (Khan & Sharif 2024; Singh et al., 2024).

2.6. Financial Loss

The sustainability of Pakistan's microfinance banks faces critical danger due to monetary losses from high default rates combined with operational shortcomings and economic risks which caused Tameer Microfinance to experience a 15% default rate as well as total losses totaling Rs. 2.3 billion in 2022 throughout flood-hit areas and amid 24% inflation rates (Younas & Kalimuthu 2021). External shocks including natural disasters and political unrest along with currency devaluation reduce borrowers' capacity to repay loans and produce non-performing loans for financial institutions. As a result, Tameer Microfinance reduced their rural branches by 12% leading to service reduction for 500,000 clients. Smaller microfinance institutions operating without diversified investment portfolios and capital reserves remain at high risk because this situation discourages investors from new commitments and hinders business development. Experts (Khan et al, 2021) suggest

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implementing data-driven risk evaluations along with improved control mechanisms.

2.7. Limited Access to Capital Markets

Capital markets remain challenging for microfinance banks throughout Pakistan making it hard for them to establish reliable funding sources while also keeping enough cash on hand to grow their services for unmet market segments. The 2023 draft of SBP supports specialists who suggest tax benefits combined with credit enhancement tools that lead to better market capital access while microfinance bond and asset-backed securities structures should be developed with improved transparency and international investment partnerships following research on India's Bandhan Bank IPOs (Ullah, Majeed & Arif 2021).

2.8. Financial Illiteracy

Barnes et al (2001) revealed that in Uganda, microfinance programs yielded enterprise-level advantages by improving assets and revenue, diminishing exposure to financial risks, and boosting economic worth combined with human capital development. The investigation revealed microfinance positively impacts poverty reduction because the research established an effective connection between the MF independent variable and BN, LS & self-employment dependent variables that reduce poverty levels (Iqbal, Iqbal, & Mushtaq 2015). According to a 2020 World Bank survey basic numeracy incompetence affects 62% of individuals involved in rural lending operations thus producing inadequate loan administration and borrowing beyond sustainable limits. According to available data incidents of repayment defaults among trained borrowers decrease by 30% while microfinance institutions dedicate just 5% of their budgets to education programs. Organizations such as Kashf Foundation have started conducting village-based workshops which increased savings behavior in their clients by 40% (Jafri 2023).

2.9. Client Over-Indebtedness

The microfinance sector in Pakistan faces an increasing over-indebtedness crisis because borrowers take easy access to numerous loans combined with financial illiteracy leads to unsustainable excessive debt which exposes both borrowers and microfinance banks to instability. Research conducted by the PMN revealed that borrowers work with three or more MFIs for loans while 70% of rural Sindh household debt-to-income ratios reach above 80% which contributes to mental health emergencies and cases of suicide. Both loan monitoring strictness and centralized credit bureaus combined with responsible lending practices as well as financial literacy education and mandatory debt counseling will help protect borrowers and MFB operations according to expert recommendations. This approach proves successful in Bangladesh through its reduction of default rates by 18% through debt limits (Kasoga & Tegambwage 2024).

2.10. Interest Rate Caps

The interest rates MFIs impose exceed acceptable levels for poor borrowers to sustain. It has been argued that MFIs are private entities and, hence, need to be financially sustainable. They do not receive any subsidized credit for their lending activities, so they need to recover their operational costs from borrowers. In the process, the basic reason for their existence- and their primary objective is lost. These NGOs must be willing to operate at narrow margins and bear a low effective interest rate to maintain a balance between their dual objectives of commercial viability and serving the poor (Nasir, 2013). Many experts view interest rate restrictions (15%–20%) on microloans introduced by the government as a distortion factor within the microfinance sector of Pakistan. This study 2022 documented that 40% of candidates who met loan requirements received rejection notices after the interest rates became limited. Microfinance borrowing often leads clients to transactional loans at 50% interest rates because of the imposed rate limits. These rates force borrowers into long-term financial slavery. Social impact bonds in Malaysia function as viable solutions by covering microfinance institution costs when managing underprivileged communities (Shankar & Bandyopadhyay 2024).

2.11. Technology Gaps

The microfinance sector in Pakistan faces major technological limitations that restrict both efficiency improvements and the expansion of financial services access. The poor adoption of digital tools, including mobile banking apps, digital wallets, and AI-based credit scoring, happens because rural areas do not have enough infrastructure, which leads to 35% internet penetration and 45% smartphone ownership. Low digital literacy levels among clients and staff members, along with security concerns about cyber-attacks, specifically the 2021 breach that exposed client records, have created additional challenges that impede technological advancement in Pakistan (Hussain & Rasheed 2023). MFIs need to provide financial support to Easy Paisa's mobile wallet service because it reduces transaction fees by 25% while building partnerships with telecom operators and state initiatives to improve user internet capability and literacy.

2.12. Geographical Limitations

Microfinance service expansion remains highly limited across Pakistan because of physical barriers in areas where most citizens live in remote rural territories. Security threats and the remote locations of rural community's limit outreach programs, which results in the financial exclusion of millions of people. Research shows that microfinance institutions manage only a few of their operations in difficult-to-reach areas such as Balochistan and Gilgit-Baltistan due to both logistical hurdles and minimal customer distribution (Bros, Fareed & Lochard 2023). To improve services, MFBs need to implement mobile banking technology along with agent networks and solar-powered mobile branch networks. The unattended geographic constraints prevent Pakistan from achieving its objective of closing its urban-rural financial gap. The challenge of sustaining organization growth through expansion stems from problems in client communication that occur due to geographic factors, according to 60% of MFIs. The main target group of MFIs consists of the population below the poverty line, but inadequate infrastructure prevents them from accessing services (Dey, 2015; Nasir, 2013).

2.13. Loan Dependency

The delivery of small loans to poor clients whom traditional banking institutions avoid has gained growing recognition from throughout the community of governments, bankers, practitioners, academics, and researchers (Abdul Rahman, & Dean, 2013). Various research in microfinance literature has examined how borrower characteristics affect both loan sizes and their payment outcomes. Research studies by Schreiner, 2004; Reinke 1998; Viganò 1998; Zeller 1998, and Sharma and Zeller, 1997 constitute well-known works regarding this subject matter. The performance analysis of credit groups conducted by Zeller (1998) and Sharma and Zeller (1997) has minimal connection to this research project. The article by Viganò (1998) examines individual client success rates but fails to provide information in her work about gender effects or other predictors of payment outcomes (Saravia-Matus & Saravia-Matus, 2012). Research from 2022 indicated consumption credits make up 60% of total microloan purposes, which keep recipients trapped in perpetual cycles of poverty. Microloan customers in Punjab demonstrated that 45% experienced no change in their family earnings during five years.

2.14. Poor Loan Management

This study demonstrates how microfinance and MFI principles, together with diverse service delivery models for poor communities, have assisted Bangladesh's development project, which battles poverty among many citizens (Ahmed, 2009). The data showed that 70 percent of active microfinance borrowers admitted inability to repay while the expected repayment rate from loan officers was 34 percent in April 2020. The analysis enables us to state that COVID-19 has created a major crisis for microfinance systems in low-income communities. The existing circumstance allows for assessing microfinance development direction and suggests policy improvements (Malik, et al, 2020). The 2021 audit results showed that 30% of loan defaults happened because lenders provided funding to borrowers without performing income verification checks. The manual record system produces errors that cause 15% of low-risk clients to get wrong classification labels. MFI organizations do not pursue late loan repayments until borrowing amounts become nonperforming.

2.15. Negative Public Perception

The poor reputation of microfinance banking constitutes an extensive issue for Pakistan. People typically see microfinance institutions as exploitative businesses because they believe their high interest rates are excessive, although these rates are needed to fund business operations. A 2020 Gallup survey showed that debt-trap microloans are viewed this way by 40% of the Pakistani population. The doubt people have about microfinance operations discourages business prospects while damaging vital community backing essential for organizational success. MFIs should focus on maintaining transparent operations and ethical funding practices while establishing awareness initiatives that display how their programs help women in Khyber Pakhtunkhwa and other areas rebuild trust while improving their reputation (Abdullahi, Othman & Kassim 2021).

2.16. Limited Product Offering

The microfinance banks operating in Pakistan achieve limited effectiveness because of restrictive product ranges. Financial resilience remains limited for low-income households because MFBs provide services predominantly through small loans exceeding 90% of their operations. Despite high muslim religious observance in Pakistan amounting to 97% of the population, MFIs focus on traditional lending services because non-loan offerings, including rural farmers' weather-sensitive crop coverage as well as islamic microfinance alternatives represent only 10% of operations despite growing borrower interest demonstrated by Bank Alfalah's 35% enhanced islamic lending demand. Restrictive regulations combined with limited funds and weak market analysis systems block MFBs' ability to innovate effectively. MFBs must join forces with FinTech companies and regulatory bodies to design customized products because it solves the existing issues (Khan, et al. 2021).

2.17. Socio-Cultural Barriers

Social and cultural elements determine how much microfinance banking grows in Pakistan while affecting access to financial services. The unbanked population consists mainly of women, who make up 55% of the total. The islamic principles that prohibit interest-based lending, along with religious aversion, result in limited uptake of conventional microfinance while resulting in only 12% of microfinance institutions offering inadequate sharia-compliant alternatives to growing customer demand. The ability of microfinance to empower marginalized groups and support goals like gender equality will remain restricted until socio-cultural barriers are resolved (Shah, Langrial & Mahmood 2024).

2.18. Insufficient Capital Base

Insufficient capital levels stand as a major issue for microfinance banks operating in Pakistan. MFBs operating in Pakistan face persistent liquidity challenges because they maintain average capital adequacy ratios at 12% below 15% and heavily rely on donor funding together with subsidies but limited deposit amounts. Akhuwat represents this situation because donations provide 60% of its operating capital. The 2023 capital requirements from the State Bank of Pakistan cause strain on smaller institutions. The solution proposed by experts for better capitalization relies on drawing funding from equity investments, social impact partnerships, and capital market access (Maeen-ud-din et al, 2024).

2.19. Economic Instability

An unstable economic situation prevails in Pakistan due to 2023 inflation hitting 24%. The deterioration of financial institutions' operational stability occurred because of declining currencies and job losses, which affected borrowers' debt repayment abilities. The disbursement of loans dropped by 10% due to both increases in living expenses and market uncertainty of small business and rural agricultural clients leading to default events and ultimately a 15% decline in the actual value of Rs. 100,000 financing within twelve months. Existing economic uncertainties threaten both service range maintenance and operation sustainability of the sector. The absence of government support for controlling inflation along with small business assistance stands as an obstacle to microfinance boosting stable, inclusive growth in Pakistan (ZEB et al, 2024).

2.20. Political Instability

The $1.2 billion loan portfolio of the sector faces uncertain future sustainability because political and economic instability threaten its operations, despite the need for robust liquidity management through contingency funds and stress-testing practices. The $1.2 billion loan portfolio of the sector faces uncertain future sustainability because political and economic instability threaten its operations, despite the need for robust liquidity management through contingency funds and stress-testing practices (Ahmed & Khan, 2018). Microfinance banking operations endure significant disturbances in Pakistan due to political instability, which creates business instability and operational disruptions. MFIs face unpredictable conditions because of regular government leadership changes. Shifting policies and regional conflicts have led to branch closures in Baluchistan that affected about 2 million customers. Changing governments leads to delayed regulatory approvals that damage subsidies and generate physical security hazards for both staff and. The economic instability further deteriorates through political interventions like forced subsidies and mandated loans, which destroy market trust. A 2021 World Bank publication demonstrates how disruptive events caused MFIs to suffer an 8–10% decline in profitability while foreign investors and donors started withdrawing support. To overcome these challenges, MFIs need to establish independent governance bodies together with developing funding partnerships with private entities (Maeen-ud-din et al, 2024).

2.21. Client Mistrust

Acha Ikechukwu has examined the microfinance bank prospects and problems within Nigeria through his 2012 research study. The researcher has recognized four primary problems affecting microfinance banks, which stem from insufficient power systems and poor banking habits among customers while interest rates remain unpopular and clients maintain low trust levels. This research study lacks empirical evidence to document the issues facing microfinance banking operations in Nigeria (Abubakar, Zainol & Abdullahi, 2015). Fifty percent of borrowers cited MFIs' unclear terms as the reason they lack confidence due to 2023 survey findings. One of Pakistan's major MFI organizations did not reveal that it would charge PKR 5,000 in "processing

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fees" when clients initially signed up. The Loan Check tool developed by Finja helps customers understand repayment periods by providing virtual simulations through digital channels (Lal, Kumar & Sand 2024).

2.22. Inconsistent Repayment

The problem of inconsistent repayment contributes obstacles to organizational development since MFIs experience 70% of late payments. The lack of client education leads to this payment issue because clients struggle to handle their debts. The clients remain uninformed that their delayed payments lead to higher overall debt amounts. Rural borrowers delay loan repayments per a 2023 Pakistan Microfinance Network (PMN) assessment due to agricultural cycles that distribute their income mainly after harvest activities. The informal labor force that makes up 72 percent of employees faces unpredictable cash flow issues that intensify their struggle with repayment. The flooding during the monsoon season in Punjab caused small-scale dairy farmers to default on their loans at a rate of 20%. (Maeen-ud-din et al, 2024).

2.23. Market Competition

The microfinance sector of Pakistan operates in a highly competitive market because it draws many competitors including 22 licensed MFIs and 400+ NGOs and traditional banks and FinTech like Jazz Cash alongside subsidized schemes like Benazir Income Support Program to compete for limited customers in low-income segments especially in saturated urban areas such as Karachi with interest rates falling to 18% which severely reduces profit margins. The numerous microfinance institutions operating in sindh territory engage in aggressive tactics because 40% of borrowers encountered simultaneous approaches from multiple MFIs, according to research findings in 2022. The rural market remains the main focus of Tara Microfinance, and other lenders deploy aggressive marketing tactics that strain customer trust (Shaikh, 2025).

2.24. Lack of Adequate Insurance Services

The financial stability of those who are poor remains at risk due to unexpected events. To assist poor people in overcoming poverty barriers, insurance should be included as part of the microfinance program. At present, the Indian microfinance program centers its attention exclusively on standard savings and micro-loan services. Insurance coverage in Pakistan's microfinance sector operates at an extremely low rate since only 5% of microfinance borrowers have insurance protection for health crises or crop failures. According to a 2021 World Bank survey, uninsured losses from rural clients reached 80% since they identified these losses as primary default factors. The agricultural loan loss amount from floods reached PKR 1.2 billion because MFIs had no weather-indexed insurance deals. The Pakistani microfinance sector needs better insurance protection because clients remain exposed to health risks, weather disasters, and farm production collapses. The provision of insurance services strengthens client resilience, which decreases the possibility of loan default among clients (Arslan, Baig & Khan 2024).

2.25. Unclear Loan Terms

The obtained results demonstrate at conventional statistical significance levels that female clients demonstrate better loan repayment compared to male clients (Saravia-Matus & Saravia-Matus, 2012). Opaque loan terms erode trust in Pakistan's microfinance sector. The current data from Gallup shows that sixty percent of borrowers have trouble comprehending interest figures in loans, while seventy percent lack awareness about payment penalty policies. Almost half of the Pakistani client base has limited english literacy but finds few Urdu-language contracts available to them. Charges described as "documentation fees" that amount to PKR 2,000 have been discovered by borrowers not to have been specified during their initial signing process, which has led to legal action. The Kashf Foundation, along with similar NGOs, resolves this issue through visual loan documents as well as local community education sessions. The SBP plans to implement pre-loan educational counseling and basic loan agreements through their 2024 draft policy framework (Akram, Iqbal & Afzal 2023)

2.26. Risk Weakness

Microfinance banks in Pakistan are at higher operational and financial risks because their weak risk management practices threaten their ongoing sustainability. Borrower screening methods received negative verification during the 2022 audit, which caused collateral defaults impacting one-quarter of all borrowers. Inadequate monitoring, weak fraud detection, and the absence of contingency plans—like those exposed during Sindh's post-flood crisis. MFBs should build their resilience through AI analytics like Khushhali Bank uses and should become part of national credit systems. The establishment of Basel III compliance rules through regulatory enforcement

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remains the recommendation of experts in order to fill existing gaps (Maeen-ud-din et al, 2024).

2.27. Global Inaccessibility

Global inaccessibility severely restricts Pakistan's microfinance banks from tapping into international financial markets, curtailing their ability to secure funding, expertise, and innovation critical for growth. With only three MFIs—Khushhali, Tameer, and NRSP—holding PACRA ratings, most lack the credibility to access Eurobond markets or attract microfinance investment vehicles, compounded by a low national credit rating, a 24% currency devaluation in 2023, and restrictive SBP capital controls. Regulatory hurdles, poor compliance with global standards, and underdeveloped digital infrastructure further isolate MFBs from partnerships with international development agencies, unlike India's MFIs, which raised $500 million through green bonds in 2022. This disconnect stifles modernization, leaving rural institutions particularly disadvantaged (Saeed & Fatima, 2019). To overcome this, MFBs should align with international benchmarks, emulate models like Kenya's M-Kopa by leveraging diaspora funds via mobile platforms, and advocate for SBP reforms (Malik 2024).

2.28. High Employee Turnover

Microfinance banks in Pakistan experience a substantial operational challenge because their employees leave at a rate of 25% each year, which damages operational efficiency and weakens client trust. The employees in Baluchistan's fields earn only PKR 25,000 per month as their salary remains lower than the national standards. Staff turnover reached 40% according to a 2023 HR survey, the main reasons were identified as stress and restricted professional development, leading to disrupted client ties and operational disruptions. Rural working assignments compound job safety concerns, which act as a major force in driving away employees (Saeed & Fatima, 2019). MFBs need to adopt operational models identical to Easy Paisa's systems. Multiple experts recommend that the government should take action to implement minimum wage standards together with MFI security funding and work hour requirements (Hossain, Mia & Hooy 2023).

2.29. Lack of Client Awareness

The client base shows minimal awareness of their circumstances. The organization faces difficulties in its expansion because its target clients make up 70% of MFIs. The primary customer base of MFIs consists of uneducated rural residents. The percentage of people who show complete unawareness

Online ISSN: 3006-2047
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stands at 70%. Poor client understanding majorly affects the performance of microfinance banking in Pakistan. The 2022 study conducted by United Nations Development Program found that 55% of clients did not know about savings or insurance alternatives, as well as 15% of mobile wallet utilization rate in rural Khyber Pakhtunkhwa because of digital channel unfamiliarity has maintained clients as dependents on exploitative informal lending. The wrong belief among clients that microloans break Sharia principles leads to their incorrect conclusion that these loans are impermissible, and that affects their willingness to take up this form of financing, especially within underserved communities. The lack of awareness between clients and their available financial options results in wrong financial choices and payment problems and makes them more vulnerable to fraud, which damages inclusive finance achievements (Younas & Kalimuthu 2021).

2.30. Poor Oversight

The microfinance sector in Pakistan suffers from insufficient regulatory oversight, together with poor internal control systems that create operational flaws, management difficulties, and financial vulnerability. The State Bank of Pakistan conducts minimal audits of the microfinance credit guarantee facility as shown by only two audits in the year 2022 which enables major MFI malpractices such as the PKR 500 million embezzlement scandal from 2020 to survive and so do 30% of smaller institutions which fall short of capital adequacy requirements. As Bangladesh's Microfinance Regulatory Authority displays, the SBP needs to implement instant digital tracking methods to accompany regular independent financial examinations (Wasim, Bin & Farooq 2021). Total thirty (Table 1) issues are enlisted from study of past literature, which can be big problems of microfinance banking in Pakistan.

Table 1: ***Issues Excreted from Literature***

Code	Issues	Source
i	Credit Risk (Risk of Loan Default)	(Armendariz & Morduch, 2010; Dey, 2015; Nasir, 2013).
ii	Lack of Collaterals	(Ghosh & Ghosh, 2009)
iii	Regulatory Challenges	(Cull, Demirgüç-Kunt, & Morduch, 2011)
iv	High Operational	(Ledgerwood, 1999)

	Costs	
v	Liquidity Problems	(Christen, Rhyne, & Vogel, 1999)
vi	Financial loss	(Zeller, 1998)
vii	Limited Access to Capital Markets	(Morduch, 1999)
viii	Financial Illiteracy	(Lindley, 2009)
ix	Client Over-Indebtedness	(Isern & Sene, 2009)
x	Interest Rate Caps	(Roodman & Morduch, 2014; Morduch & Rutherford, 2003; Dey, 2015; Iqbal, et. al, 2020; Nasir, 2013)
xi	Technology Gaps	(Augsburg, 2014)
xii	Geographical Limitations	(Cull, 2007; Dey, 2015; Nasir, 2013)
xiii	Loan Dependency	(Morduch, 1998)
xiv	Poor Loan Management	(Miller, 2003)
xv	Negative Public Perception	(Rutherford, 2000)
xvi	Limited Product Offering	(Schreiner, 2002)
xvii	Socio-Cultural Barriers	(Pitt & Khandker, 1998)
xviii	Insufficient Capital Base	(Rhyne, 2001)
xix	Economic Instability	(Brau & Woller, 2004)
xx	Political Instability	(Johnson & Rogaly, 1997)
xxi	Client Mistrust	(Sanyal, 2009)
xxii	Inconsistent Repayment	(Aghion & Morduch, 2005)
xxiii	Market Competition	(Banerjee, 2009)
xxiv	Lack of Adequate Insurance Services	(Churchill, 2006; Nasir, 2013)
xxv	Unclear Loan	(Robinson, 2001)

Volume. 5 Issue No. 1 (2026)
Online ISSN: 3006-2047
Print ISSN: 3006-2039

	Terms	
xxvi	Risk Weakness	(Morduch, 1999)
xxvii	Global Inaccessibility	(Hulme, 2009)
xxviii	High Employee Turnover	(Krauss & Walter, 2009)
xxiv	Lack of Client Awareness	(Montgomery & Weiss, 2005)
xxx	Poor Oversight	(Gertler, 2011)

The list of these thirty issues was presented to the panel of expert. Table 2 show summary of experts' approval vote.

Table 2: ***Experts Approval Vote Sheet***

Sr. No.	Factor	Expert Opinion															Total Votes
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
I	Credit Risk (Risk of Loan Default)	✓	✓	✓	✓	×	✓	✓	×	✓	×	✓	✓	✓	×	✓	11
Ii	Lack of Collaterals	×	✓	✓	×	✓	×	✓	✓	×	✓	✓	✓	×	✓	✓	10
Iii	Regulatory Challenges	✓	✓	✓	✓	✓	✓	×	×	✓	✓	✓	×	×	✓	✓	11
Iv	High Operational Costs	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	×	✓	✓	✓	×	13
V	Liquidity Problems	✓	✓	✓	×	×	✓	✓	×	✓	×	✓	✓	×	✓	✓	10
Vi	Financial loss	✓	×	×	×	×	✓	×	✓	×	×	✓	×	×	×	×	4
Vii	Capital Constraints	✓	✓	✓	✓	✓	×	✓	×	✓	✓	×	✓	×	✓	✓	19
Viii	Financial Illiteracy	×	✓	✓	×	✓	✓	×	✓	×	×	✓	×	✓	✓	×	8
Ix	Client	✓	×	✓	✓	✓	×	✓	×	✓	✓	×	✓	×	✓	✓	10

Volume. 5 Issue No. 1 (2026)
Online ISSN: 3006-2047
Print ISSN: 3006-2039

	Over-Indebtedness																
X	Interest Rate Caps	✓	✓	×	✓	✓	✓	×	✓	×	×	✓	×	✓	×	×	8
Xi	Technology Gaps	✓	✓	✓	✓	×	✓	✓	✓	✓	✓	×	✓	×	✓	✓	12
Xii	Geographical Limitations	✓	✓	✓	✓	✓	✓	✓	✓	×	×	✓	✓	✓	×	✓	12
Xiii	Loan Dependency	×	×	✓	×	✓	×	×	×	✓	×	×	×	×	✓	×	4
Xiv	Poor Loan Management	✓	✓	✓	✓	✓	×	✓	✓	×	✓	×	✓	×	×	✓	10
Xv	Negative Public Perception	✓	✓	×	✓	×	✓	×	×	✓	×	✓	×	✓	✓	×	8
Xvi	Limited Product Offering	✓	×	✓	×	×	×	×	✓	×	×	×	✓	×	×	×	4
Xvii	Socio-Cultural Barriers	×	✓	×	✓	×	✓	×	×	×	×	×	×	×	✓	×	4
xviii	Insufficient Capital Base	×	×	×	×	✓	×	×	×	✓	×	×	×	✓	×	✓	4
Xix	Economic Instability	✓	✓	✓	×	✓	×	✓	✓	×	✓	✓	×	✓	✓	×	10
Xx	Political Instability	×	×	×	✓	×	✓	×	×	×	×	×	✓	×	×	×	3
Xxi	Client Mistrust	✓	×	✓	×	×	×	×	×	✓	×	×	×	×	×	×	3
Xxii	Inconsiste	×	✓	×	×	×	×	✓	×	×	×	✓	×	×	✓	×	4

Volume. 5 Issue No. 1 (2026)
Online ISSN: 3006-2047
Print ISSN: 3006-2039

	nt Repayment																
Xxiii	Market Competition	✓	✓	×	×	✓	×	✓	✓	×	✓	×	✓	×	×	✓	8
Xxiv	Insurance Deficiency	×	×	✓	×	×	×	×	✓	×	×	✓	×	×	✓	×	4
Xxv	Unclear Loan Terms	×	✓	×	×	×	✓	×	×	✓	×	×	×	✓	×	✓	5
Xxvi	Risk Weakness	✓	×	×	✓	×	×	×	✓	×	×	✓	×	×	✓	×	5
Xxvii	Global Inaccessibility	×	×	✓	×	×	×	✓	×	×	×	×	✓	×	×	×	3
Xxviii	High Employee Turnover	✓	×	×	✓	×	×	✓	×	✓	×	×	×	✓	×	✓	6
Xxix	Lack of Client Awareness	×	✓	×	×	×	✓	×	×	×	✓	×	×	×	✓	×	4
Xxx	Poor Oversight	×	×	✓	×	✓	×	×	✓	×	×	×	✓	×	×	×	4

Table 3: ***Definition of the selected 15 Issues***

Code	Issues	Description	Source
I	Credit Risk (Loan Default)	Loans that become unrecoverable constitute the main credit risk through default events.	(Armendariz & Morduch, 2010), Dey,(2015).
ii	Lack of Collaterals	Since most borrowers have no assets to serve as collateral their loans represent high-risk prospects to lenders.	(Ghosh & Ghosh, 2009)
iii	Regulatory	Organizations face high	(Cull, Demirgüç-Kunt,

	Challenges	costs and restricted operations due to their need to adapt to complex and ever-changing regulations.	& Morduch, 2011)
iv	Liquidity Problems	A shortage of available cash will stop lenders from delivering loans and damage their financial position.	(Christen, Rhyne, & Vogel, 1999)
v	Capital Constraints	Critical challenges emerge when businesses attempt to raise money from financial investors as well as institutions.	(Morduch, 1999)
vi	Financial Illiteracy	Loan recipients generally have insufficient knowledge to efficiently handle their financing responsibilities.	(Lindley, 2009)
vii	Interest Rate Caps	Limits on interest rates by government authorities create problems for profit maximization.	(Roodman & Morduch, 2014; Morduch & Rutherford, 2003; Dey, 2015; Iqbal, et. al, 2020; Nasir, 2013)
viii	Technology Gaps	Restrictions on digital technology usage produce difficulties which impede operational effectiveness together with service quality.	(Augsburg, 2014)
ix	Loan Dependency	The lack of financial expansion from repeated loans results in dependency on continuous borrowing.	(Morduch, 1998)
x	Poor Loan Management	Loan tracking and recovery process weaknesses create	(Miller, 2003)

		additional risks for the organization.	
xi	Negative Public Perception	Public scrutiny exists about both high interest rates together with aggressive loan collection practices.	(Rutherford, 2000)
xii	Economic Instability	The ability to make loan payments becomes affected when inflation combines with economic recession.	(Brau & Woller, 2004)
xiii	Market Competition	provides simple yet dangerous funding alternatives to loan applicants.	(Banerjee, 2009)
xiv	Global Inaccessibility	The difficulty of attracting foreign capital through international markets constitutes a bonding factor that limits businesses.	(Hulme, 2009)
xv	Poor Oversight	The analysis of loan performance through ineffective monitoring and evaluation tools hampers organization decision-making.	(Gertler, 2011)

3. Methodology

Generally, a research process can be divided into problem identification, development of research question, exploratory study to refine question, formulation of research proposal elaborating research type, design, purpose, scope and time frame for researchers, development of data collection instrument, data collection and analysis and conclude the research results (Khalid, Abdullah and Kumar, 2012). The process of research starts with identification of problem backed by proper and detailed literature review. Usually limiting factor on type of research to be conducted is nature and domain of research problem. In addition, research problem also guides towards type of study that should be carried out in order to find solution for

Online ISSN: 3006-2047
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that problem. Similarly, literature review guides towards research method to be adopted during study. At the end, type of data available greatly affects the type of study to be conducted. But the type of data should not the factor sufficient in selecting the appropriate research method. Moreover, access to data important for study serves a focal point in success of study to be carried forward (Ellis and Levy, 2009). The conceptual framework in research process can be divided into following three phases: i.e. identification, prioritization & development of framework (Mishra and Sharma, 2016). This research will investigate the issues of microfinance banking in Pakistan in order to understand the view point of all stakeholders involved and affected from operations of this sector by using in-depth interview. So, it would be a deductive approach based research using qualitative data. ISM is the process to convert ambiguous and badly formulated mental model of system in clear and specific models beneficial for many purposes (Sushil, 2012). It helps for hierarchal distribution of different variables or issues under consideration during any project. This is flexible type of modeling than many other quantitative research approaches it acts as a beneficial tool in logical reasoning and thinking by resolving the complicate issues and enables to communicate results to others (Panackal Singh, 2015). A logical, systematic and methodological way should be adopted to understand and simplify complicate relations among different elements. In order to understand complex link among different issues, Warfield developed a qualitative tool called ISM (Samey 2008). Issues of microfinance banking in Pakistan derived from literature review will be enlisted and finalized after obtaining opinion from a panel of experts. The first and foremost step in ISM is to develop relation among target elements derived from consensus de expert's opinion. There can be found less discussion on number of experts and ideal size of experts group to take opinions and consensus in ISM (Li and Yang, 2014). For development of contextual relationship in different issues, expert's opinions are used in relation with objectives of this study (Panackal and Singh, 2015). MICMAC (Matrixed' Impacts Croises - Multiplication Applique) is a technique used to calculate the driving and dependence power of variables.

3.1. Panel of Experts

Experts are individuals who keep specific knowledge in their domain. Experts provide genuine opinion on the interest's domain and are also responsible for providing useful recommendations (Briñol, et al, 2018). Experts always try to improve their knowledge so their knowledge is not limited. Due to this reason they can easily understand and develop the relationship among any issues or inhibitors falling under their expert domain (Amidu & Boyd. 2018). A person is considered an expert if he has an experience of ten years in specific field. Experts always have an alternate for solving any issue in their field and they also have enormous interest of focus on the basis of their experience and knowledge in the relevant field (Shavandi, et al, 2017). Due to area of interest experts recognize the loophole in any situation and provide ultimate solutions. Criteria for being expert in this study is an individual who has at least 10 years of work experience in relevant field and who can convert a complex system into subsystems working as middle-senior level manager at different macro and micro banking sector. After identifying the issues from literature review, experts from industry and financial institutions were approached to brief about context and purpose of this study, then their opinion was obtained to enlist the issues which can be big problems of microfinance banking in Pakistan. Size of panel of experts can be divided into two categories i.e. homogeneous and heterogeneous groups. The size of expert's panel can vary. fifteen to thirty persons in panel can yield sound results in homogeneous group (Montes, et al, 2017). Another study presented that homogeneous panel of experts comprises of 10 to 15 people that enhances the productivity of results (Strasser & Vaux 2018). 5 to 10 persons are suggested for heterogeneous group which is a group of people from diverse professions and social groups. (Sharma, Shadloo & Hadjadj. 2018), Many studies have investigated the size of panel experts but still there is a gap and no specific criteria available. Improvement in reliability is low if the number of experts in panel is more than 20 to 25 persons. So it must be considered for more productive (Montes, et al, 2017). For the study under review, number of expert's panel is 15. This panel is selected from different relevant professions, groups and stake holders i.e. experts from small and medium enterprises, financial institutions, researchers etc.

3.2. Interpretive Structural Modelling (ISM)

ISM methodology consists of the following steps:

Step-1: Identification of elements/factors/challenges

Step-2: Construction of structural Self Interaction matrix through pair-wise comparison

Step-3: Initial reachability matrix development

Step-4: Final reachability matrix development through testing transitivity

Step-5: Level partitioning from reachability matrix

Journal of Management Science Research Review

https://jmsrr.com/index.php/Journal/about

Volume. 5 Issue No. 1 (2026)

Online ISSN: 3006-2047
Print ISSN: 3006-2039

Step-6: Digraph construction without transitivity
Step-7: Interpretive model development

4. Analysis, Results and Discussion

In this section, the issues of microfinance banking in Pakistan will be examined to construct a structural model and a MICMAC diagram using MICMAC analysis. The steps that were devised to develop ISM model were invented by Warfield (1973). Data and scores that are captured by experts are compiled and SSIM is formulated as indicated in Table 4.

Table 4: ***Structural Self Interaction Matrix (SSIM)***

Sr.	Issues	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	Credit Risk (Risk of Loan Default)		A	V	V	V	A	A	A	A	A	A	V	A	A	A
2	Lack of Collaterals			V	V	V	A	A	A	A	A	A	X	A	A	A
3	Regulatory Challenges				A	V	A	A	A	A	A	A	A	A	A	A
4	High Operational Costs					X	A	A	A	A	A	A	A	A	A	A
5	Liquidity Problems						A	A	A	O	A	A	A	A	A	A
6	Client Over-Indebtedness							V	A	A	A	A	A	A	A	A
7	Capital Constraints								A	A	A	V	V	A	A	A
8	Financial Illiteracy									A	A	V	V	V	V	V
9	Interest Rate Caps										A	X	A	A	A	A
10	Technology Gaps											V	V	V	V	V
11	Geographical Limitations												A	V	V	V
12	Poor Loan													V	V	V

Journal of Management Science
Research Review
https://jmsrr.com/index.php/Journal/about
Volume. 5 Issue No. 1 (2026)
Online ISSN: 3006-2047
Print ISSN: 3006-2039

	Management															
13	Economic Instability														A	A
14	Market Competition															A
15	Negative Public Perception															

As indicated in Table 4, VAXO is converted into a binary form i.e. 0 and 1 and this becomes the initial reachability matrix (SSIM).

Journal of Management Science
Research Review
https://jmsrr.com/index.php/Journal/about
Volume. 5 Issue No. 1 (2026)
Online ISSN: 3006-2047
Print ISSN: 3006-2039

Table 5: ***Initial Reachability Matrix***

Code	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Driving Power
1	1	0	1	1	1	0	0	0	0	0	0	1	0	0	0	5
2	1	1	1	1	1	0	0	0	0	0	0	1	0	0	0	6
3	0	0	1	0	1	0	0	0	0	0	0	0	0	0	0	2
4	0	0	1	1	1	0	0	0	0	0	0	0	0	0	0	3
5	0	0	0	1	1	0	0	0	0	0	0	0	0	0	0	2
6	1	1	1	1	1	1	1	0	0	0	0	0	0	0	0	7
7	1	1	1	1	1	0	1	0	0	0	1	1	0	0	0	8
8	1	1	1	1	1	1	1	1	0	0	1	1	1	1	1	13
9	1	1	1	1	0	1	1	1	1	0	1	0	0	0	0	9
10	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	15
11	1	1	1	1	1	1	0	0	1	0	1	0	1	1	1	11
12	0	1	1	1	1	1	0	0	1	0	1	1	1	1	1	11
13	1	1	1	1	1	1	1	0	1	0	0	0	1	0	0	9
14	1	1	1	1	1	1	1	0	1	0	0	0	1	1	0	10
15	1	1	1	1	1	1	1	0	1	0	0	0	1	1	1	11
Dependence Power	11	11	14	14	14	9	8	3	7	1	6	6	7	6	5	

The table (table 5) above is the tabular representation of initial reachability matrix derived from SSIM by converting impacts into binary values.

Table 6: ***Final Reachability Matrix***

Code	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Driving
1	1	1*	1	1	1	1*	0	0	1*	0	1*	1	1*	1*	1*	12
2	1	1	1	1	1	1*	0	0	1*	0	1*	1	1*	1*	1*	12
3	0	0	1	1*	1	0	0	0	0	0	0	0	0	0	0	3
4	0	0	1	1	1	0	0	0	0	0	0	0	0	0	0	3
5	0	0	1*	1	1	0	0	0	0	0	0	0	0	0	0	3
6	1	1	1	1	1	1	1	0	0	0	1*	1*	0	0	0	9

Volume. 5 Issue No. 1 (2026)
Online ISSN: 3006-2047
Print ISSN: 3006-2039

7	1	1	1	1	1	1*	1	0	1*	0	1	1	1*	1*	1*	13
8	1	1	1	1	1	1	1	1	1*	0	1	1	1	1	1	14
9	1	1	1	1	1*	1	1	1	1	0	1	1*	1*	1*	1*	14
10	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	15
11	1	1	1	1	1	1	1*	1*	1	0	1	1*	1	1	1	14
12	1*	1	1	1	1	1	1*	1*	1	0	1	1	1	1	1	14
13	1	1	1	1	1	1	1	1*	1	0	1*	1*	1	0	0	12
14	1	1	1	1	1	1	1	1*	1	0	1*	1*	1	1	0	13
15	1	1	1	1	1	1	1	1*	1	0	1*	1*	1	1	1	14
Dependence	12	12	15	15	15	12	10	8	11	1	12	12	11	10	9	

Transitive relations in the initial reachability matrix are checked scientifically using MS Excel Software. 0's is replaced by 1* where transitive ties exist. Table 6 therefore constructs the final reachability matrix. The conical matrix is composed through the permutation procedure. The seriousness of grey cells in the ISM model is deduced in diagonals in the conical matrix. In short, there is a concise explanation of ISM presented in Table 7. The assessment (Table 7) process requires multiple tests to identify and establish the different scales of these challenges.

Table 7: ***Level Partitioning- Iteration 1***

Code	Reachability Set	Antecedent Set	Set Product	*Level*
1	1,2,3,4,5,6,9,11,12,13,14,15	1,2,6,7,8,9,10,11,12,13,14,15	1,2,6,9,11,12,13,14,15	
2	1,2,3,4,6,9,11,12,13,14,15	1,2,6,7,8,9,10,11,12,14	1,2,6,9,11,12,14	
3	3,4,5	1,2,3,4,5,6,7,8,9,10,11,12,13,14,15	3,4,5	*1*
4	3,4,5	1,2,3,4,5,6,7,8,9,10,11,12,13,14,15	3,4,5	*1*
5	3,4,5	1,2,3,4,5,6,7,8,9,10,11,12,13,14,15	3,4,5	*1*
6	1,2,3,4,5,6,7,11,12	1,2,6,7,8,9,11,12,14,15	1,2,6,7,11,12	
7	1,2,3,4,5,6,7,9,11,12,13,14,15	6,7,8,9,10,11,12,13,14,15	6,7,9,11,12,13,14,15	

8	1,2,3,4,5,6,7,8,9,11,12,13,14,15	8,9,10,11,12,13,14,15	8,9,11,12,13,14,15
9	1,2,3,4,5,6,7,8,9,11,12,13,14,15	1,2,7,8,9,10,11,12,13,14,15	1,2,7,8,9,11,12,13,14,15
10	1,2,3,4,5,6,7,8,9,10,11,12,13,14,15	10	10
11	1,2,3,4,5,6,7,8,9,11,12,13,14,15	1,2,6,7,8,9,10,11,12,13,14,15	1,2,6,7,8,9,11,12,13,14,15
12	1,2,3,4,5,6,7,8,9,11,12,13,14,15	1,2,6,7,8,9,10,11,12,13,14,15	1,2,6,7,8,9,11,12,13,14,15
13	1,2,3,4,5,6,7,8,9,11,12,13	1,2,7,8,9,10,11,12,13,14,15	1,2,7,8,9,11,12,13
14	1,2,3,4,5,6,7,8,9,11,12,13,14	1,2,7,8,9,10,11,12,14,15	1,2,7,8,9,11,12,14
15	1,2,3,4,5,6,7,8,9,11,12,13,14,15	1,2,7,8,9,11,12,15	1,2,7,8,9,11,12,15

In the (Table 8) second *level* of iteration, intersection set and reachability set of credit risk (risk of loan default) (1), capital constraints (6), geographical limitations (11) and poor loan management (12) are the same. These issues are placed at second *level* of ISM model and are removed from data for further iterations.

Table 8: ***Level Partitioning- Iteration 2***

Code	Reachability Set	Antecedent Set	Set Product	*Level*
1	1,2,6,9,11,12,13,14,15	1,2,6,7,8,9,10,11,12,13,14,15	1,2,6,9,11,12,13,14,15	*2*
2	1,2,6,9,11,12,13,14,15	1,2,6,7,8,9,10,11,12,14	1,2,6,9,11,12,14	
6	1,2,6,7,11,12	1,2,6,7,8,9,11,12,14,15	1,2,6,7,11,12	*2*
7	1,2,6,7,9,11,12,13,14,15	6,7,8,9,10,11,12,13,14,15	6,7,9,11,12,13,14,15	
8	1,2,6,7,8,9,11,12,13,14,15	8,9,10,11,12,13,14,15	8,9,11,12,13,14,15	
9	1,2,6,7,8,9,11,12,13,14,15	1,2,7,8,9,10,11,12,13,14,15	1,2,7,8,9,11,12,13,14,15	
10	1,2,6,7,8,9,10,11,12,13,14,15	10	10	
11	1,2,6,7,8,9,11,12,13,14,15	1,2,6,7,8,9,10,11,12,13,14,15	1,2,6,7,8,9,11,12,13,14,15	*2*
12	1,2,6,7,8,9,11,12,13,14,15	1,2,6,7,8,9,10,11,12,13,14,15	1,2,6,7,8,9,11,12,13,14,15	*2*
13	1,2,6,7,8,9,11,12,13	1,2,7,8,9,10,11,12,13,14,15	1,2,7,8,9,11,12,13	
14	1,2,6,7,8,9,11,12,13,14	1,2,7,8,9,10,11,12,14,15	1,2,7,8,9,11,12,14	
15	1,2,6,7,8,9,11,12,13,14,15	1,2,7,8,9,11,12,15	1,2,7,8,9,11,12,15	

At the (Table 9) third *level*, intersection set and reachability set of interest rate caps (9) and economic instability (13) have same *level*. These issues will acquire third *level* in ISM model and are removed from data for further iterations.

Table 9: ***Level Partitioning- Iteration 3***

Code	Reachability Set	Antecedent Set	Set Product	*Level*
2	2,9,13,14,15	2,7,8,9,10,14	2,9,14	
7	2,7,9,13,14,15	7,8,9,10,13,14,15	7,9,13,14,15	
8	2,7,8,9,13,14,15	8,9,10,13,14,15	8,9,13,14,15	

9	2,7,8,9,13,14,15	2,7,8,9,10,13,14,15	2,7,8,9,13,14,15	*3*
10	2,7,8,9,10,13,14,15	10	10	
13	2,7,8,9,13	2,7,8,9,10,13,14,15	2,7,8,9,13	*3*
14	2,7,8,9,13,14	2,7,8,9,10,14,15	2,7,8,9,14	
15	2,7,8,9,13,14,15	2,7,8,9,15	2,7,8,9,15	

In the (Table 10) fourth *level*, intersection set and reachability set of market competition (14) is same. It will be placed at *level* four of ISM and is removed from data for further iterations.

Table 10: ***Level Partitioning- Iteration 4***

Code	Reachability Set	Antecedent Set	Set Product	*Level*
2	2,14,15	2,7,8,10,14	2,14	
7	2,7,14,15	7,8,10,14,15	7,14,15	
8	2,7,8,14,15	8,10,14,15	8,14,15	
10	2,7,8,10,14,15	10	10	
14	2,7,8,14	2,7,8,10,14,15	2,7,8,14	*4*
15	2,7,8,14,15	2,7,8,15	2,7,8,15	

In the (Table 11) fifth *level* iteration, intersection set and reachability set of negative public perception (15) is same. This issues will acquire fifth *level* in ISM and should have to be removed from data table for further iterations.

Table 11: ***Level Partitioning- Iteration 5***

Code	Reachability Set	Antecedent Set	Set Product	*Level*
2	2,15	2,7,8,10	2	
7	2,7,15	7,8,10,15	7,15	
8	2,7,8,15	8,10,15	8,15	
10	2,7,8,10,15	10	10	
15	2,7,8,15	2,7,8,15	2,7,8,15	*5*

In the (Table 12) sixth *level*, intersection set and reachability set of lack of collaterals (2) is same. This factor will fall at sixth *level* of ISM hierarchy and it should be removed from data for further iterations.

Table 12: ***Level Partitioning- Iteration 6***

Code	Reachability Set	Antecedent Set	Set Product	*Level*
2	2	2,7,8,10	2	*6*
7	2,7	7,8,10	7	
8	2,7,8	8,10	8	
10	2,7,8,10	10	10	

Volume. 5 Issue No. 1 (2026)
Online ISSN: 3006-2047
Print ISSN: 3006-2039

At (Table 13) seventh *level*, reachability and intersections set of availability of financial illiteracy (7) is same. Issues will be placed at *level* seven of ISM hierarchy and it should be removed from data for further iterations.

Table 13: ***Level Partitioning- Iteration 7***

Code	Reachability Set	Antecedent Set	Set Product	*Level*
7	7	7,8,10	7	7
8	7,8	8,10	8	
10	7,8,10	10	10	

At the (Table 14) eighth *level*, intersection set and reachability set of Adoption of Client Over-Indebtedness (8) is same. It will be placed at eighth *level* of ISM model and it is to be removed from data for next iteration.

Table 14: ***Level Partitioning- Iteration 8***

Code	Reachability Set	Antecedent Set	Set Product	*Level*
8	8	8,10	8	*8*
10	8,10	10	10	

At the (Table 15) *level* nine of iteration, intersection set and reachability set of technology gap (10) is same. This issues will be placed at ninth *level* of ISM hierarchy.

Table 15: ***Level Partitioning- Iteration 9***

Code	Reachability Set	Antecedent Set	Set Product	*Level*
10	10	10	10	*9*

Above (Table 4.18) nine iteration show the different issues come at different *level*. Interpretive model development can be defined as a research methodology that incorporates the use of a conceptual model to expound a complicated phenomenon. It is a contextual, subjective, and emergent process that tends to give in-depth insight into the matter of research.

Table 16: ***Summary Representation of Interpretive Structural Modeling Reachability Sets***

Antecedent Sets

Level	Code	3	4	5	1	6	11	12	9	13	14	15	2	7	8	10	Driving
I	3	1	1*	1	0	0	0	0	0	0	0	0	0	0	0	0	3
	4	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0	3
	5	1*	1	1	0	0	0	0	0	0	0	0	0	0	0	0	3
II	1	1	1	1	1	1*	1*	1	1*	1*	1*	1*	1*	0	0	0	12
	6	1	1	1	1	1	1*	1*	0	0	0	0	1	1	0	0	9
	11	1	1	1	1	1	1	1*	1	1	1	1	1	1*	1*	0	14

Driving Power

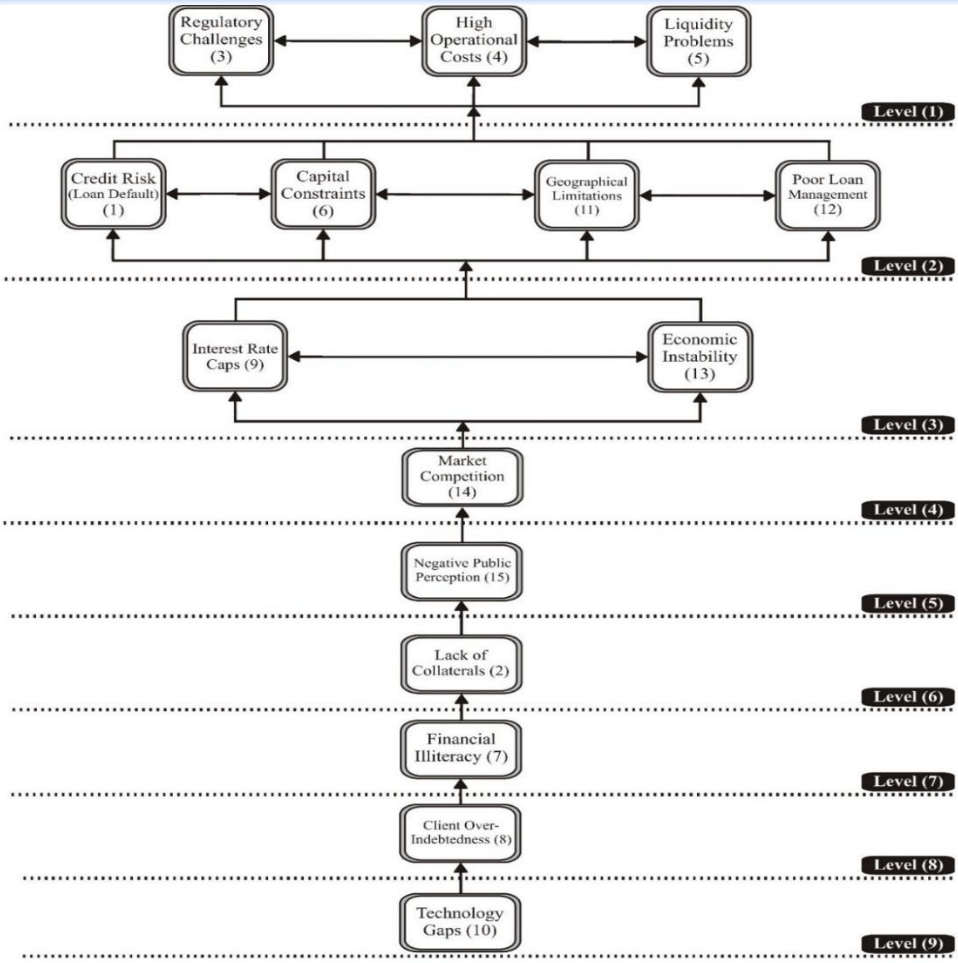
Journal of Management Science Research Review
https://jmsrr.com/index.php/Journal/about
Volume. 5 Issue No. 1 (2026)
Online ISSN: 3006-2047
Print ISSN: 3006-2039

	12	1	1	1	1*	1	1	1	1	1	1	1	1	1*	1*	0	14
III	9	1	1	1*	1	1	1	1*	1	1*	1*	1*	1	1	1	0	14
	13	1	1	1	1	1	1*	1*	1	1	0	0	1	1	1*	0	12
IV	14	1	1	1	1	1	1*	1*	1	1	1	0	1	1	1*	0	13
V	15	1	1	1	1	1	1*	1*	1	1	1	1	1	1	1*	0	14
VI	2	1	1	1	1	1*	1*	1	1*	1*	1*	1*	1	0	0	0	12
VII	7	1	1	1	1	1*	1	1	1*	1*	1*	1*	1	1	0	0	13
VIII	8	1	1	1	1	1	1	1	1*	1	1	1	1	1	1	0	14
VIX	10	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	15
	Dependence	15	15	15	12	12	12	12	11	11	10	9	12	10	8	1	

Above mention matrix (Table 6 show the all *level* of the ISM. Issue (3), (4) and (5) are fall in *Level I*. Issue (1), (6), (11) and (12) fall in *Level II*. Issue (9) and (13) fall in *Level III*. Issue (14) fall in *Level IV*. Issue (15) fall in *Level V*. Issue (2) fall in *Level VI*. Issue (7) fall in *Level VII*. Issue (8) fall in *Level VIII* and Issue (10) fall in *Level IX*.

4.1. MICMAC Analysis

Purpose of MICMAC is to point out key issues. This method is commonly used to support the results of ISM by categorizing issues into four quadrants i.e. dependent, independent, linkage and autonomous. No factor is falling in the Autonomous Quarter. Regulatory challenges (3), high operational costs (4), and liquidity problems (5) fall in the Dependent Quarter. Financial illiteracy (7), lack of collaterals (2), Integration of negative public perception (15), market competition (14), interest rate caps (9), economic instability enterprise (13), credit risk (risk of loan default) (1), capital constraints (6), geographical limitations (11) and poor loan management (12) fall in Linkages Quarter. Client over-indebtedness (8) and technology gaps (10) fall in Independent Quarter. So, this research not only analyzes the factors but also measures their strengths, importance, and effectiveness.



ISM Model

Figure 1: ISM Model

Journal of Management Science
Research Review
https://jmsrr.com/index.php/Journal/about
Volume. 5 Issue No. 1 (2026)
Online ISSN: 3006-2047
Print ISSN: 3006-2039

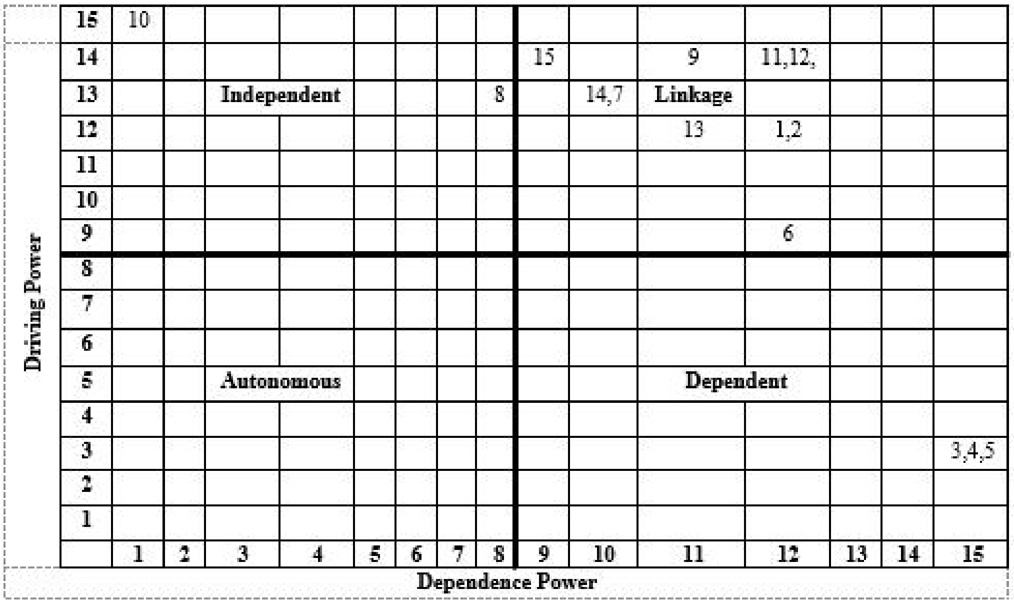


Figure 2: MICMAC Diagraph

4.2. Result

After discussing the results of the study, summary of results based on driving and dependence power of the issues of microfinance bank in Pakistan is being discussed. All cluster is discussing above in detail. result of literature review, MICMAS and ISM describe in the following table. (Table 17).

Table 17: ***Result of Literature Review, MICMAC and ISM***

Result of Literature Review		**Results of MICMAC Analysis**				**Results of ISM**	**Comments**
Code	**Issue**	**Driving**	**Dependence**	**Effectiveness**	**Cluster**	***Level***	
1	Credit Risk (Risk of Loan Default)	12	12	0	Linkage	*Level* 2	
2	Lack of Collaterals	12	12	0	Linkage	*Level* 6	*Vital Issue*
3	Regulatory Challenges	3	15	-12	Dependent	*Level* 1	
4	High Operational	3	15	-12	Dependent	*Level* 1	

	Costs						
5	Liquidity Problems	3	15	-12	Dependent	*Level* 1	
6	Capital Constraints	9	12	-3	Linkage	*Level* 2	
7	Financial Illiteracy	13	10	3	Linkage	*Level* 7	*Vital Issue*
8	Client Over-Indebtedness	14	8	6	Independent	*Level* 8	*Key Issue*
9	Interest Rate Caps	14	11	3	Linkage	*Level* 3	
10	Technology Gaps	15	1	14	Independent	*Level* 9	*Key Issue*
11	Geographical Limitations	14	12	2	Linkage	*Level* 2	
12	Poor Loan Management	14	12	2	Linkage	*Level* 2	
13	Economic Instability	12	11	1	Linkage	*Level* 3	
14	Market Competition	13	10	3	Linkage	*Level* 4	
15	Negative Public Perception	14	9	5	Linkage	*Level* 5	

4.3. Discussion

The main aim of the research is to analyze the various challenges experienced by microfinance banks in Pakistan in a detailed way. The study takes a hierarchical approach and is specifically designed to offer relevant research to policy makers, researchers, financial organizations, academicians and players in the industry. Available literature displays great numbers of works which deal with separate dimensions of microfinance problems. Nonetheless, a major gap still exists in terms of the nature of the interaction between the problems and the different intensity of their occurrence in various studies. To cover this gap, the article utilizes the Interpretive Structural Modeling (ISM) and Matrice d'Impacts Crois des Multiplication Applique a un Classement (MICMAC). The techniques play a crucial role in researching and finding solutions between different problems facing microfinance banks in an organized manner. The issues identified also fall into a broad range, such as credit risk (risk of loan default), lack of collateral, regulatory barriers, excessive operating costs, liquidity, capital shortages, deficiency of financial literacy, client over-indebtedness, interest rate capping, technological gaps, geographical barriers, poor loan management approaches, economic insecurity, market competition as well as negative market perception. Moreover, the paper integrates theories and viewpoints of different studies and the opinions of experts to narrow the gap and definitions of such issues and how to demystify their meanings. Through an exploration of such complexities, the present research attempts to bring a comprehensive picture that, besides amicably clarifying the dynamics of microfinance issues in Pakistan, also provides effective guidance to improve policy-making, strategic decision-making, and the sustainability of development in the microfinance industry.

5. Conclusion

The aim of this study is to identify potential issues of microfinance banking in Pakistan, which are of great importance in affecting performance and growth of banking sector in Pakistan in order to curtail prevailing econ disparity in the country. After the identification of the issues involved, the inter-relationship of these issues is evolved after seeking the opinion experts having relevant knowledge competency and experience. It is purposive sampling by collecting actual data as well as by face-to-face interview through questionnaire from a panel of 15 individuals. ISM (interpretive structural model) is applied to structure and model inter-relationships among different issues. MICMAC analysis is wed to categorize independent, dependent, autonomous, and linkage factors. This study will help all stakeholders (i.e. different financial institutions, microfinance banking, academia, researchers, and concerned government bodies, international development agencies) to identify and structure critical issues and their relationship with each other crucial for transformation, restructuring and value addition in banking sector for economic growth and stability of Pakistan. Total thirty issues are enlisted from study of literature, which can be big problems of microfinance banking in Pakistan. Issues are credit risk (risk of loan default), lack of collaterals, regulatory challenges, high operational costs, liquidity problems, financial loss, capital constraints, financial illiteracy, client over-indebtedness, interest rate caps, technology gaps, geographical limitations, loan dependency, poor loan management, negative public perception, limited product offering, socio-cultural barriers, insufficient capital base, economic instability, political instability, client mistrust, inconsistent repayment, market competition, insurance deficiency, unclear loan terms, risk weakness, global inaccessibility, high employee turnover, lack of client awareness and poor oversight. So, total 15 issues are finalized depending on opinion of experts of relevant field, these issues are considered to have most important issues of microfinance banking in Pakistan. Credit risk (risk of loan default), lack of collaterals, regulatory challenges, high operational costs, liquidity problems, capital constraints, financial illiteracy, client over-indebtedness, interest rate caps, technology gaps, geographical limitations, poor loan management, economic instability, market competition, negative public perception. The research lacks a thorough investigation of regulatory divisions together with economic volatility and gender discrimination barriers, as well as their combined effect. Very little scientific investigation explores the relationship between international resource limitations and political instabilities when examining MFIs' ability to handle liquidity needs and secure long-term financial stability. The ism model is showing the hierarchy of issues and their links with each other. According to the model of ism, technology gaps (10) is at the *lowest level* in the hierarchy, whereas client over-indebtedness (8) is occupying *8 level* in this model. Similarly, availability of infrastructure facilities (7) is acquiring *7h level* while lacks of collaterals (2) is having *level 6* in above hierarchy. Negative public perception (15) is placed at level 5 in above ism level and market competition (14) at *level 4*. Interest rate caps (9) & economic instability (13) are placed at *level 3*. Credit risk (risk of loan default) (1), capital constraints (6), geographical limitations (11) and poor loan management (12) are occupying *2nd level* in hierarchy. Regulatory challenges (3), high operational costs (4) and liquidity problems (5) have occupied *top position* in ism model. This study emphasizes the development of a model for the issues of microfinance banks in Pakistan using ism and MICMAC. The results of the study will be useful in the understanding of on which ground academia and banks will collaborate with each other and they will solve the microfinance bank's issues in the better way. The responses gathered by experts were taken into consideration, and it shows that solutions to mentioned issues can be the end result that will contribute to the economy of the country. As per MICMAC analysis, cluster 1 is based on autonomous factors. The factors lie in this quadrant are low driving and dependence power.

Journal of Management Science

Research Review

https://jmsrr.com/index.php/Journal/about

Volume. 5 Issue No. 1 (2026)

Online ISSN: 3006-2047

Print ISSN: 3006-2039

In this study no variable is placed in this quadrant which means every issues identified in this study impacts the results of this study. The factors that fall in cluster 2 are regulatory challenges, regulatory challenges and high operational costs all these 3 factors lie at same level in ism model i.e. Level-1. These factors are low driving power and high dependence powers. Usually, the factors lie in this quadrant is dependent on those factors that are present in the cluster 3. These factors are high driving and high dependence power they have impact on other factors in the model. Due to this reason, tenth factors of the study lie in the group 3. Financial illiteracy, lack of collaterals. Integration of negative public perception, market competition, interest rate caps, economic instability enterprise, credit risk (risk of loan default), capital constraints, geographical limitations and poor loan management fall in this cluster. These factors help to each other to control other factors of the study. On the other hand, in cluster 4 those factors are presented that have high driving power but low dependence power which means they lead the other factors lie in the model. *Client over-indebtedness and technology gaps* falls in this group. The key factor in this group is *client over-indebtedness and technology gaps*. So, if all stakeholders' emphasis on this factor, it will ultimately lead to other factors in the model.

Most of the rules that guide microfinance banks (MFBs) in Pakistan come from the Microfinance Institutions Ordinance, 2001 and under this system, the State Bank of Pakistan (SBP) is responsible for licensing, regulating and supervising them. Court handling of microfinance banking cases in Pakistan is decided by the nature of the disagreement. Banking Courts hear loan recovery and financial disputes that fall under the Banking Companies Ordinance, 1962. The Pakistan Penal Code places cases of fraud or forgery within the jurisdiction of Criminal Courts (Sessions or Magistrate courts). Under provincial laws, you can take consumer court complaints about bad customer service or unfair charges. If a microfinance bank does not follow SBP regulations, SBP provides legal action and people can file circumstances against those actions in the High Court. By the help of this study, Academia, the Banking industry, and other stakeholders can categorize the different issues for the growth of Microfinance Banking in the Pakistan sector according to the degree of their impact. The prime focus should be on *"Technology Gaps"* and *"Client Over-Indebtedness"* that will boost other issues too alternatively. Interpretive relationship and hierarchical structures of Issues define a better understanding of their connection with each other in

Journal of Management Science Research Review

https://jmsrr.com/index.php/Journal/about

Volume. 5 Issue No. 1 (2026)

Online ISSN: 3006-2047
Print ISSN: 3006-2039

the form of vertical analysis. So, the Issues can be arranged on the basis of their order in the hierarchy, and the most important issue can be prioritized accordingly. Contributions to the literature and subject matter can be listed as follows:

- Identification and listing of issues of microfinance banking in Pakistan
- Determination of contextual relationship amongst the issues
- Development of ISM Model
- Development of MICMAC Analysis

5.1. Limitations and Future Recommendation for Research

In this study, 15 issues of Microfinance Bank in Pakistan are identified and studied but there may be the other important issues too that greatly affect the Banking sector but are not covered in the study. So, this is the issues major limitation of this study. Issues in this study are derived from literature and experts' opinion which can be expanded with the help of further literature review and by adding more experts on the panel. Similarly, expert's opinion can be used to reduce the element of prejudice. In study under review, only one aspect of banking sector i.e. Growth is discussed, however in future, many other issues of Microfinance Bank in Pakistan may be covered with the help of multidimensional issues. This study covers issues which support the Banking sector but in future factor which act as barriers or hurdles and negatively affect the sector under discussion can be explored and studied further. This study is purely based on qualitative data approach with statistical tools i.e. ISM and MICMAC analysis. Similar study can be conducted by future researchers by using other techniques i.e. TISM, Fuzzy MICMAC, total interpretive structural modeling (TOPSIS) and Analytic Hierarchy Process (AHP) etc. to compare the results of different statistical tools. This research is carried out in developing country but these study implications can also be applied to developed countries or other developing countries.

5.2. Recommendation for Regulators to Solve the Issues

The study aimed that addressing the multifaceted crises of microfinance banking in Pakistan. More specifically it can be recalled that the microfinance sector in Pakistan is facing extensive threats from rising losses and declining capital along with non-active regulatory measures that challenge very sustainability of the sector. To approach the problem, a critical review of literature is done,

The issues contributions towards crises are the same have been verified the data have been collected on inter relationship of the issues in field setting and ISM and MICMAC procedures are applied on the data collected. On the bases of approaching of in this way following set of recommendations for the stakeholders to combat the issues or prepared:

- It is recommended that stakeholders should understand the contextual issues from the literature inter alia as identified by this study.
- The stakeholders focus on the verified issues.
- The stakeholders should immediately address the issues namely 'Client Over-Indebtedness (8)' and 'Technology Gaps (10) since these are the drivers and in depended issues. The have got the potential to exacerbate the problem.
- The stakeholders should also pay high attention to the issues namely 'Lack of Collaterals (2)' and 'Financial Illiteracy (7)' because these are vital issues having optional almost equal to the issues mention above at 3.
- The stakeholders must take cognizance of the fact that there is no autonomous issue that necessary means that all issues study are relevant and important part of the system.
- The stakeholders should also beware of the fact that issues namely 'Regulatory Challenges (3), 'High Operational Costs (4)' and 'Liquidity Problems (5)' are driven by the other issues there for need not to be fretted separately.
- The stakeholders should also be recognizant of the fact that total seven issues are categorized that linkage issues that necessarily means these issues high degree attention of regulators because these are agile, unstable and unstudied part of microfinance banking system. These issues have potential to affect all other issues and in turn themselves as well. These must be dealt with caution and care.
- It is also recommended that this theory building model should statically have tested to quantify the relationship and must also be evaluated to determine the pole of the relationships.
- Microfinance banks should provide maximum awareness to the people, undertake marketing efforts, establish help desks, compare themselves with commercial banks, and upgrade their market value.
- It is also recommended to replicate the study with large/optimum sample size with changed context.

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