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Assessing the Role of Islamic & Conventional Microfinance Effectiveness on Poverty Alleviation: The Mediating Role of Households' Socioeconomic Performance

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ABSTRACT

Purpose: *The main objective of the research is to evaluate the effectiveness of the Islamic and conventional microfinance in enhancing the household socioeconomic performance (HSP) in the context of economic performance, social empowerment, and entrepreneurship, which can alleviate poverty (PA). Also, it considers the impact of microfinance effectiveness (MFE) on household, company, and financial resilience. It further examines the nature of HSP as an intermediary in the association between MFE and PA to facilitate sustainable economic empowerment at the micro level.*

Method/Design/Approach: *This study used mediating role of HSP to investigate the MFE (Islamic and conventional) on PA by applying cross-sectional research design and quantitative research method. The type of research method is survey research to collect data on beneficiaries in the microfinance sector. The data is analyzed with the help of SPSS & Process Macro with the help of a series of statistical tests. These include tests that ensure validity and strength of the findings and they include regression, correlation, mediation, and dependability. Moreover, the reliability was tested by use of Cronbach Alpha. The data presented by the respondents was as well summarized using descriptive and demographic analysis. ANOVA, paired sample t-tests, regression, and correlation were all used to test the relationship between significant variables.*

Findings: *This study will be valuable addition to the current literature by providing the statistical evidence of the revolutionary impact of microfinance on poverty alleviation in Islamic and conventional environments and empirical confirmation of the mediating role of HSP.*

Research Limitations and Implications: *The study provides informative knowledge to policymakers and development practitioners who may want to maximize the effect of microfinance on poverty reduction. The results imply the need to have comprehensive policies that leverage on sustainable financial models to enhance the social economic performance of households.*

Keywords: *Microfinance Effectiveness, Poverty reduction, households' socioeconomic performance, Islamic and traditional microfinance, and a new approach of mediation.*

1. INTRODUCTION

Microfinance has received a great deal of attention in the last decade (Maeenuddin et al., 2023). Provision of low-income individuals and microenterprises with access to financial services such as credit, savings accounts, and insurance that are poorly served by mainstream financial institutions is referred to as microfinance. The same can be said about non-banking financial institutions and commercial banks (Shah et al., 2024). Microfinance banks (MB) are supposed to target the economically marginalized layers to supply financial services on a short-term basis without collaterals unlike the conventional financial institutions that normally targets clients with established collaterals and high credit worthiness (State Bank of Pakistan, 2006; Naz et al., 2019). This service model is particularly relevant to 700 million people in the world who live below the World Bank definition of extreme poverty, i. e. below $2.15 per day (World Bank, 2024). There are nearly 3.5 billion individuals who survive below 6.85 per day due to the great poverty (Elliott, 2024). Extending financial services is generally considered one of the strategies to reduce poverty and bridge the wealth disparity in the developing countries. (Inaba & Omar, 2020). (Singh.,2024) and (Bongomin et al.,2025) have explored that the emerging countries possess poor socioeconomic well-being since economic success of households is not as stable there as in developed countries. That is why microfinance plays a crucial role in the development of financial inclusion, particularly during the low-income and financially challenged regions (Olusegun, 2024). One of the Sustainable Development Goals of PA presupposes enhancing the living and financial conditions of the low-income families. As a result of increasing unemployment, financial stability and livelihood in developing countries are quite risky. In 2018, (Zainol et al., Gertler et al.,2009) explain that microfinance is meant to enhance their participation in financial services, build sustainable lifestyles, reduce the chances of facing financial hardships, and encourage moderate consumption patterns.

In Pakistan, two main institutional types exist which avail microfinance services. The former are Rural Support Programs (RSPs) and Non-Governmental Microfinance Institutions (NGO-MFIs), which offer microcredit without collateralization and are largely funded by grants and contributions. Important examples are the National Rural Support Programme (NRSP), Kashf Foundation, Wasl Foundation, Akhuwat, Sarhad Rural Support Programme (SRSP), and Aga Khan Rural Support Programme (AKRSP). Akhuwat has grown into one of the largest Islamic microfinance institutions in the world using a unique business model, interest free (Qard-e-Hasan), model, focusing on social justice, solidarity in the community, and dignified-based financing (Aslam et al., 2022; Pakistan and Gulf Economist, 2022). They have established extensive networks within the community by these organizations to offer basic financial services such as microcredit. The second group includes official Microfinance Banks (MFBs) including Apna Bank, Khushali Bank, HBL Microfinance Bank, Mobilink Microfinance Bank and others that are managed by State Bank of Pakistan and provide a variety of integrated financial services, including cash transfers, savings accounts and credit. It is included in the established prudential regulations (Kiani et al., 2020; SBP, 2022).

This paper describes the MiSE-PAM Model (Microfinance, Socioeconomic Performance and Poverty Alleviation Mechanism) within the framework of these concerns. The model will also be aimed at estimating the effects of microfinance services on socialeconomic outcomes and promoting PA. The MiSE-PAM Model is a comprehensive approach to understanding the socioeconomic impacts of microfinance projects and focuses on helping the disadvantaged groups to access financial services, live environmentally friendly lives, and slowly emerge as more influential members of society.

1.1 Research Questions

1) Does the HSP get better with the MFE (conventional and Islamic)?
2) Does the eradication of poverty result from increased HSP?
3) Does HSP act as a mediator in the connection between poverty eradication and MFE?
4) How can evidence-based lessons from microfinance be used to develop inclusive policies for reducing poverty?

1.2 Study background

Microfinance has become one of the most significant tools of increasing the resilience of households in Pakistan and reducing poverty in the challenging economic context of the country that is characterised by high unemployment rates and rising inflation. The sector continues to expand and soon the low-income households will be increasingly turning to it to cope with fewer opportunities to earn income and unreliable economies (Dawn, 2024). This is further demonstrated by the recent 102 million dollar (World Bank, 2025) investment in the Resilient and Accessible Microfinance (RAM) Project, it goes without saying that microfinance is becoming nationally and broadly accepted as an enabler of financial inclusion.

Despite these developments, however, much of the research gap remains regarding the exact impact of MFE on HSP and its role in PA. Since the already conducted studies indicate that microfinance programs have benefited PA, as indicated by (Shikur and Akkas.,2024), (Ergo et al.,2023), and (Makara et al.,2024). Nonetheless, further more detailed household level studies are required to fully comprehend the role of MFE on poverty alleviation. This study attempted to fill that gap by analyzing how Islamic and traditional MFE promote household welfare, small company development and financial stability, which contribute to the long-term poverty alleviation.

1.3 Importance & Significance

The study brought a fresh perspective to the literature gap since it had a major vacuum. Specifically, it investigated the role of HSP in mediating the connection between MFE and PA (Nadeem et al., 2024). The research paper manages to close the identified gap in the literature. This paper provides a review of each of the two, though other works have preferred to focus on either Islamic or conventional microfinance on its own. Consequently, the two systems will be made more comprehensible to scholars (Shikur & Akkas., 2024).

2. LITERATURE REVIEW

2.1 Theoretical Framework

Microfinance is aimed at developing a strong and effective tool in ending the cycle of poverty. It begins with the pledge to assist millions of individuals to rise above poverty and enable women and families in society to empower the marginalized ones. Microfinance institutions (MFIs) like the one based on the Grameen model have been in existence to traditionally offer small loans to enable the poor individuals to start businesses and improve their living standards. However, every case is different, and not all of these programs lead to the reduction of the poverty (Armendáriz et al., 2010). A lot of individuals living in abject poverty do not have business sense and financial literacy to utilize microloans optimally.

2.2 Variables literature review

Islamic and conventional microfinance effectiveness (MFE)

The level to which microfinance services alleviate poverty is termed as MFE, which is established through such outcomes as the income growth, loan payback, and business sustainability (Subramaniam and Masron, 2025).

In a comparative analysis of both Islamic and conventional MFE, (Nadeem et al., 2024) found that the two had a positive impact on alleviating the poverty, but IMFE was more suitable in this application. The development of small businesses will depend on microfinance. As reported by the recent study by (Al-Maamari et al.,2025), microcredit is found to have a positive influence on the performance of Yemeni micro and small businesses (MSEs). Loan businesses were better in their operations, sales and creation of jobs. This illustrates how microfinance can be a useful tool towards the betterment of the company performance and the growth of the region economy. As it was revealed by the research conducted by (Chibbonta and Chishimba.,2023), marketers (small companies owners) who contact microfinance institutions (MFIs) note an increase in income levels and overall well-being in comparison to those who do not. The provision of effective loan repayment is associated with improved MFI financial performance since they will be in a position to serve more clients. This is an indication that the smaller loans that MFIs are giving to the poor actually make them be stable and strong financially (Singh & Sharma., 2024).

H1: In commercial microfinance banks, microfinance efficacy has a positive impact on poverty reduction.

H2: There is a positive impact of the efficacy of microfinance on poverty reduction in Islamic microfinance banks.

Conventional microfinance, domestic welfare and alleviation of poverty

Despite the fact that microfinance has traditionally adopted the model based on interest, i.e., Grameen, its effectiveness in poverty alleviation differs with circumstances. The analysis of the mentioned literature proves that microfinance does influence the reduction of inequality (Nayak et al., 2024; Ribeiro et al., 2022; Armendáriz et al., 2010; Roodman and Morduch, 2014). The owners of microbusinesses in Ghana experienced financial management challenges, and therefore they could not repay their loans and sustain their businesses (Ibrahim., 2025). Microfinance has also had a great influence on the socioeconomic development of the poor, particularly women (Al-Mamun et al., 2014; AlShami et al., 2014). It has been observed that microfinance creates an income generation options, which reduces the level of poverty. (Westover, 2008; Khandker, 2005). As (Khanam et al., 2018) claim, there is a positive impact of microfinance on the PA index that may increase living standards and income. PA will enhance the lives of the poor by giving them more access to money, healthcare, education, and job opportunities (World Bank, 2023). As (Hasan et al., 2025) suggests, microfinance significantly increases the level of living standards, social status, and income of the poor in the country. Consequently, poverty alleviation is a reasonable measure to estimate the efficacy of microfinance.

H3: Microfinance has a positive influence on the socioeconomic performance of households.

H4: The effectiveness of microfinance mediated by HSP with commercial banks has a positive effect on poverty reduction.

Islamic microfinance, poverty reduction and the socioeconomic welfare of households

The concept of Islamic microfinance which is established on the application of moral principles was established to address the financial needs of Muslims. It is focused on profit, loss sharing, and prohibits

interest (Riba) (Rahman, 2020; Haneef et al., 2015). Unlike CMF, IMFIs, including Akhuwat, encourage social justice, equity, and risk-sharing because they follow the principle of moral based on Islamic laws (Fan et al., 2019). The IMFIs are often preferred by the low-income Muslim communities because the financial institutions are interest-free and follow their religion. Moreover, they value the community welfare and access to financial services (Ahmad et al., 2020; Ahmed et al., 2021). IMFIs prove to be more sustainable in areas where conventional microfinance does not exist or is not culturally appropriate because they are supported by Islamic social finance tools such as Zakah,ص adaqah, Infaq, and Waqf (Ginanjar and Kassim, 2019).

The IMF aims at improving the well-being of the household besides promoting financial access. It enhances access to healthcare and education, household strengthening, and entrepreneurship among the needy; improving the socioeconomic status in general (Wulandari and Kassim, 2016; Abu Seman and Ariffin, 2017). Recent researches support this strategy. As an example,(Tamani and Besar., 2019) also found out that IMFIs have increased the living standard and have ensured that they do not compromise religious beliefs by ensuring that they are on track in alleviating poverty. Like this, (Shaikh.,2024) did some research on IMFIs in Sindh, Pakistan, and found that through the loans they give to the marginalized groups at zero interest and financial inclusion, they were able to reduce poverty.

IMFIs focus on fair and mutual risk financial products and offer free-interest loans. This approach can also be well adjusted to the cultural and religious beliefs of the country in which most of the Muslims are (Hassan et al., 2021). Its effectiveness often relies on other aspects of a household level such as education, health, and diversification of income, but recent studies have shown that conventional and Islamic microfinance have the capacity to reduce poverty (Khan and ullah 2024; Bandiera et al., 2022). As an example, microfinance programs that are savings-led have been identified to improve household income and socioeconomic well-being (Makara et al., 2024). It is thus important to understand the influence of these factors on the success of microfinance programs so as to develop policies that lead to sustainable prosperity of the poor population. The hypothesis that will be formed as a result of the literature is the following:

H5: Microfinance effectiveness has a positive effect on poverty alleviation in Islamic microfinance institutions.

H6: Microfinance effectiveness in Islamic microfinance institutions positively impacts on poverty reduction using HSP.

2.3 Applying the MiSE-PAM Model to Reconsider HEP Dynamics

The usual outcome variable in the past research involving the use of HEP paradigm is Household Socioeconomic Performance (HSP) (Zainuddin et al., 2022). This paper transforms the Household Economic Portfolio (HEP) model by employing HSP as a representative of the mediating variable and incorporating the result portion of the model in a strategically selected manner to offer a new approach. This represents a more dynamic perspective of how microfinance supports reduction of poverty in the long run.

The role of socioeconomic performance (HSP) of the household

This is conceptualized by the MiSE-PAM model. Recent methodological recommendations are manifested in the third variable of HSP included as a mediating factor between MFE and PA. Besides, in order to generate solid and meaningful empirical findings, authorize well-constructed hypotheses and interpret indirect impacts carefully (Rasoolimanesh et al., 2021). Empirical evidence of Bangladesh and Pakistan supports the mentioned relationship, highlighting the role of microfinance in reducing poverty, the development of business, and increasing income (Nizami and Hizam, 2023; Solarin et al., 2022).

Theoretical support is also provided by the modern development theory. It underlines the spread of economic inequality that is persistent due to income disparity in the access to financial services (Stiglitz and Hoff, 2001; Todaro and Smith, 2020). When the unbanked residents take part in microfinance initiatives, low-income households have an opportunity to investigate business opportunities and achieve better socioeconomic outcomes (Mamun et al., 2018). The IMF is particularly crucial in the case of countries where the majority of the citizens are Muslims. It provides financial services which are compliant to the Islamic law without charging interest (riba) and promoting moral banking, which is socially responsible. This is evident in such organizations as the Akhuwat Foundation that assist PA and value-based development through financing healthcare, social support, and interest-free financing (Khan et al., 2024).

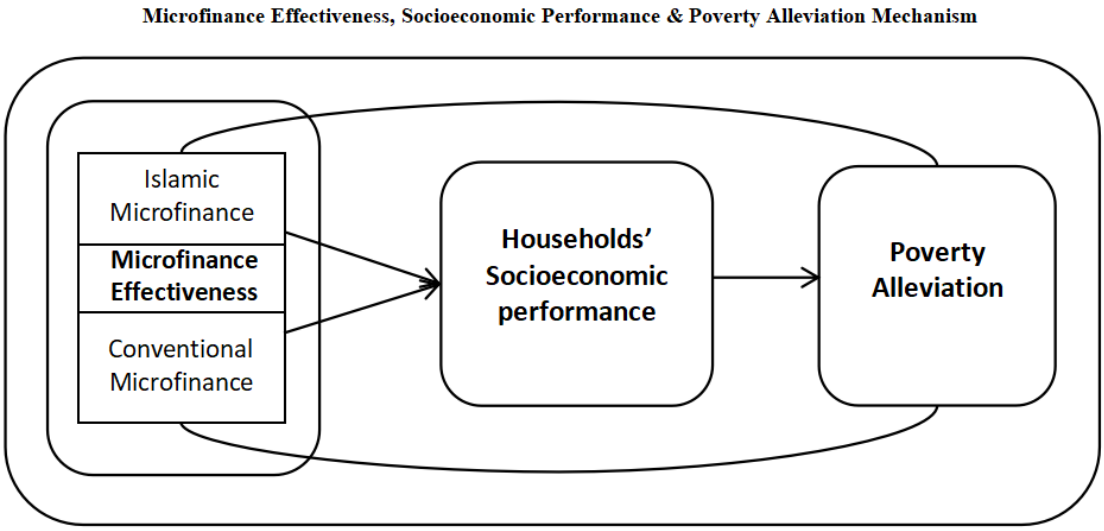
Microfinance is not, however, a financial instrument. It is an appeal to business and social integration. This enhances the HSP and provides economic shock resistance. Thus, it helps to alleviate the poverty. Studies by Ashraf et al. (2024) and Nizami and Hizam (2023) support MiSE-PAM model, which proves that incorporating the economically marginalized groups into the formal economic systems leads to the quantifiable increases in social and economic well-being.

Application within MiSE-PAM Framework

The MiSE-PAM model takes into account Household Socioeconomic Performance (HSP) as an intermediate to shape the connection involving the treatment of microfinance and poverty reduction. HSP is the social well-being, company success, and family economic situation improvement due to the microfinance programs. The access to the services of microfinance has a positive effect on the household outcomes, both economic and social, as research conducted by (Wu et al.,2024) and (Zainuddin et al.,2022) found. The term Economic well-being or EW is determined in terms of monetary gains, including an increase in income, savings, or stability (Nadeem et al., 2024). Social well-being encompasses the community participation and enhanced access to education and health. It follows the principle of maslahah (public welfare) in Islamic situations, where social balance and justice should be achieved (Dusuki and Abdullah, 2007; Abdellaker, 2003). The success of entrepreneurs is both a sign of personal satisfaction and business success through the operation of micro business. The absence of interest reduces stress and creates a successful business in the long run, as stated in (Wiklund et al., 2019). Recent research in Pakistan confirms this approach. Findings of the (Ashraf et al.,2024) indicated that users of microfinance had significant growth in their income and company operation and social empowerment. These findings confirm the hypothesis that sustainable PA can be more probable when HSP is enhanced. Thus, the broader goal of poverty reduction can be more readily attained when households experience changes in the following aspects.

H7: Poverty alleviation is influenced by household socioeconomic performance.

2.5 Conceptual Framework: (MiSE-PAM Model)



3. METHODS OF RESEARCH

3.1 Research Onion

Research Philosophy: Since pragmatism is a mixture of contextual and objective quantitative methods, it was decided to use it in this study. Thanks to this flexible and outcome-driven nature, it is feasible to integrate the clearly defined research with the relevant real-life expertise to examine the effectiveness of microfinance and its role in alleviating socialeconomic concerns (Kaushik & Walsh, 2019).

Research Method: It is deductive in approach and it starts with the recognized literature and theory. Then, testing hypotheses based on survey data (Faridi et al., 2022).

Methodological Decision: This investigation took the form of a quantitative monomethod design. This involves collection of numerical data through structured questionnaires and statistical analysis using statistical packages such as SPSS which has tests of mediation, regression, correlation, ANOVA and descriptive statistic. In this way, it became possible to project the findings on a greater population (Hair et al., 2007).

Research Strategy: This explanatory research employed the survey method, which involved the direct collection of primary data through a survey which was administered to the consumers of the microfinance. It is appropriate in collecting data that are in a large scale (Bougie and Sekaran, 2003; Ali et al., 2014).

Time Horizon: It utilized the cross-sectional approach. This implies that to explore the relationship between microfinance efficacy and household performance and poverty elimination, we collected all the information of numerous individuals simultaneously (Bougie and Sekaran, 2003).

Methods and Approaches for Gathering and Analyzing Data: Population and Sampling: Target Population: The beneficiaries of the Islamic and interest-based microfinance institutions. The participants of the survey were those microfinance consumers who had been using microfinance services at least three years (2022-2024). This criterion ensured that the participants were sufficiently exposed and experienced

so that they could measure the programs on microfinance and its impact on the socioeconomic performance of the household and poverty reduction.

Sampling Method: This study snowball sampled to locate microfinance participants by using referrals a sampling method that has been found to be effective in quantitative studies to access populations that are scattered or inaccessible. Snowball sampling enhances the response rates, reduces the costs and time of data collection and provides access to the population that is difficult to reach, using social networks. This is why, as (Ting et al., 2025) state, this method is effective and useful in business and management research.

Sample Size: A critical part of the research analysis is the appropriate choice of the sample size. It plays a critical role in ensuring that the results of the studies are precise and applicable. A sample of five to ten people per variable can be considered a good sample size to perform statistical analysis (Memon et al., 2020). A factor size of 200 or higher is normally sufficient in getting reliable factors solutions in mild conditions and in more robust, reliable and publishable outcomes, based on the stable factor structure (SFS) criterion of better outcomes (Memon et al., 2020). Thus a minimum of 240 respondents was required to the 24 items allocated to the three structures. Based on the proposed participant to item ratio of 10:1, 240 Islamic clients and 240 conventional respondents were used as sample size of the study. There were 480 collected questionnaires. The respondents were randomly selected, and questionnaires were immediately employed to get the responses. It is believed that this sample size is adequate in order to make the results relevant to the entire target population. The bigger the sample, the better the credibility of the findings and the sufficient power to perform mediation analysis (Hair et al., 2017).

Methods of Data Analysis: The quantitative data collected was analyzed with IBM SPSS Statistics to test all the assumptions and associations that were predicted by MiSE-PAM model. The descriptive and demographic analysis was used to present the profiles of the respondents. The associations between the main variables were then examined with the help of correlation, regression, ANOVA, and paired sample t-tests. The reliability was assessed using Cronbachs Alpha (Hair et al., 2007). Correlation analysis was used to determine the extent and direction of the relationships between Microfinance Effectiveness (MFE), Household Socioeconomic Performance (HSP) and Poverty Alleviation (PA). The mean differences between groups were tested with the help of independent sample t -tests, and regression analysis was also used to examine the topicality and strength of correlations between variables. ANOVA, inter-item correlation, paired sample tests, as well as mediation analysis were applied to investigate [Group differences, scale reliability, and significance of links among the major constructs]. Mediation analysis was done through the use of SPSS Process Macro (Model 4) by Andrew F. Hayes, which provided good estimates of indirect effects. This method was used to determine the mediating role of HSP between MFE and PA in conventional and Islamic microfinance environment.

3.2 Variable Operationalization

All variables will be operationalized by using the tools that have been used in previous studies. Each of the variables is measured by the numerous items on the surveys. The items are rated using a 5-point Likert scale. The scale, whose range is between Strongly Disagree and Strongly Agree, will be handy in either quantifying intangible concepts into quantifiable numbers. They can thus be analyzed using statistics. The four questions of the Microfinance Effectiveness (MFE) and six questions of the Poverty Alleviation (PA) measures are measured in a 5-point Likert scale that includes the option of Strongly Disagree to Strongly Agree (Kumari, 2021; Nkwocha, 2019). These 14 items that constitute the Households Socioeconomic Performance (HSP) instruments are rated on a 5-point Likert scale between Strongly Disagree and Strongly Agree (Abdullah et al., 2022).

3.3 Developing and implementing questionnaires

Source Recognition and Adoption Plan: To adapt to the operational and cultural context of the project, the research of (Zainuddin et al.,2022) and (Nadeem et al., 2024) provided items that were taken and adapted. The original meaning and purpose of the items were maintained, and some minor adjustment in the use of phrasing was carried out to achieve clarity and contextual correctness.

Construct Measurement:

A. An amendment of Microfinance Effectiveness (MFE) of (Nadeem et al.,2024)

• **MFE1:** Provides the company with a significant loan amount to run the business.

• **MFE2:** Provide operational assistance that is necessary in the smooth business running of the company.

• **MFE3:** Domestic appliances are properly sufficient to be upgraded using the loan.

• **MFE4:** The loan pay back plan is effective.

B. Based on Poverty Alleviation (PA) (Nadeem et al., 2024).

• **PA1:** Revenue has gone up.

Suggested enhancements: PA2: better access to education.

• **PA3:** Better access to healthcare.

• **PA4:** The enhanced economic situation within the family.

• **PA5:** More job opportunities are now available.

• **PA6:** Increasing living standards of the family.

C. Socioeconomic Performance of Households (HSP) (Mediator) taken from (Zainuddin et al.,2022)

(i) The state of the economy (EW)
• **EW1:** My earnings continue to rise
• **EW2:** My household expenses continue to rise.
• **EW3:** My assets continue to grow
• **EW4:** My savings continue to grow

(ii) Success as an Entrepreneur (ES)
• **ES1:** My project's earnings continue to rise

• **ES2:** My project's sales continue to rise.
• **ES3:** My project's workforce is beginning to grow in size.
• **ES4:** The overall number of products produced by my project continues to rise.
• **ES5:** My project continues to attract more buyers.

(iii) Social well-being (SW)
• **SW1:** I am content with my family's financial situation.
• **SW2:** I am content with the amount of money my family has saved.
• **SW3:** I am content with the kind of life my family enjoys.
• **SW4:** I am content with my family's employment status.
• **SW5:** I am content with the state of my family's health.

4. DATA INTERPRETATION & FINDINGS

Table 4.1: Demographics

SR	Variables	Categories	Frequency	Percent	Cumulative Percent
1	Gender	Male	317	66.1%	66.1%
		Female	163	33.9%	100%
		Total	480	100%	
2	Age	18-23	66	13.8%	13.8%
		24-29	141	29.3%	43.1%
		30-35	172	35.8%	78.9%
		36-41	75	15.6%	94.5%
		42 & above	26	5.5%	100%
		Total	480	100%	
3	Marital Status	Married	273	56.9%	56.9%
		Unmarried	172	35.8%	92.7%
		Divorced	35	7.3%	100%
		Total	480	100%	
4	Education Level	Illetrate	40	8.3%	8.3%
		Below Matric	75	15.6%	23.9%
		Matric	48	10.1%	34.0%
		intermediate	88	18.3%	52.3%
		Bachelor	132	27.5%	79.8%
		Master & above	97	20.2%	100%
		Total	480	100%	
5	Occupation	Job	137	29.0%	29.0%
		Bussiness	286	60.0%	89.0%
		Other	57	11.0%	100%
		Total	480	100%	
6	Monthly income	15000 or below	75	15.6%	15.6%
		15001-3000	84	17.5%	33.1%
		30001-40000	136	28.4%	61.5%
		40001-50000	110	22.9%	84.4%
		Above 50000	75	15.6%	100%
		Total	480	100%	
7	Type of Microfinance	Islamic microfinance	240	50.0%	50.0%
		Conventional microfinance	240	50.0%	100%
		Total	480	100%	
8	Duartion of loan usage	3 years - 5 years	339	70.6%	70.6%
		6 years to above	141	29.4%	100%
		Total	480	100%	
9	Residential Area	Urban, city	322	67.0%	67.0%
		Rural, village	158	33.0%	100%
		Total	480	100%	

Table 1 shows that the respondents were both conventional and Islamic loan borrowers from the microfinance industry. Both models were equally represented among the 480 loan applicants that took

part. 240 samples, including PMIFL, NRSP Islamic window, and Akhuwat, are thus from Islamic microfinance. Additionally, Apna Bank, Khushali Bank, HBL Microfinance Bank, and Mobilink Microfinance Bank provided 240 samples. 70.6% (n = 339) of the respondents in this study stated that their typical loan tenure was between three and five years. This means that borrowers who took out loans in 2022 are the ones chosen for investigation. As a result, the study's scope successfully includes a three-year loan cycle. more-term financial commitments may also be present in the sample, since 21.1% of respondents (n = 141) indicated loan tenures of six years or more.

Plot P-P

Figure 4.1 to 4.3 shows that P-P plot represents the normality of data of Microfinance Effectiveness (MFE), Poverty Alleviation (PA), and Household Socioeconomic Performance (HSP). The described points are closely spaced by the diagonal line implying that the data are slightly evenly spread out. The data points of the MFE plot indicate consistency and reliability of response in the replies by the close similarity to the approximated cumulative probability. Also, the plot of the PA shows a almost linear pattern, which means that there is no significant difference between the outcomes of poverty reduction and this is statistically acceptable. Small divergence in the HSP plot is the centre. This implies that the respondents had a slight variation in performance of their homes.

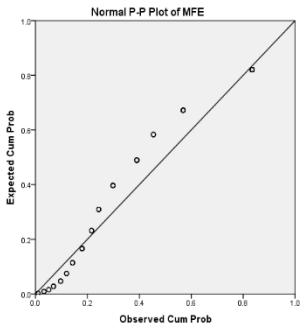


Figure 4.1

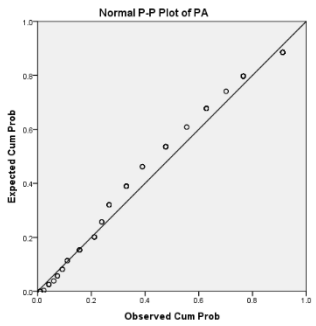


Figure 4.2

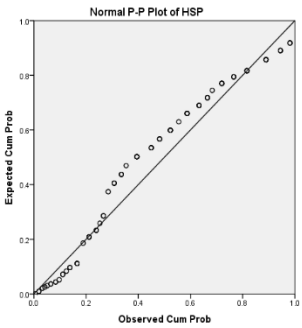


Figure 4.3

4.1 Analysis of Reliability

As the reliability analysis showed, there were 480 cases total in the data set. The 480 cases were considered as genuine and therefore, complete information on all the aspects was present with a total percentage of 100. None of the cases was eliminated; hence, the exclusion was 0 percent, so that, there were not any instances of missing data in the variables under study. The deletion method that was used was list-wise deletion which would have eliminated any event where one or more variables had missing data in the analysis. Nonetheless, none of the variables were specified as dropped, hence the process was successful.

Table 4.2: Correlation

Variables	MFE	PA
MFE	1.000	0.696
PA	0.696	1.000

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.807	0.82	2

A strong association between these constructs and the tendency for poverty alleviation to rise with microfinance effectiveness is indicated by the Inter-Item association Matrix for MFE and PA, which shows a significant positive correlation of 0.696 between the two variables. Microfinance effectiveness (MFE) and poverty alleviation (PA) are two factors whose internal consistency is evaluated in the Reliability Statistics table. It reports a Cronbach's Alpha of 0.807, or 0.820 for standardized items, which shows that the scale's two items work well together and are reliable and accurate in measuring these factors. Thus, H1 has positive support in this case.

Table 4.3: Summary

	Mean	Minimum	Maximum	Range	Maximum / Minimum	Variance	N of Items
Item Means	19.812	16.11	23.514	7.404	1.460	27.407	2
Item Variances	23.539	17.96	29.117	11.157	1.621	62.241	2

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	13.426	1.135		11.826	0
	MFE	0.618	0.072	0.624	8.527	0

a. Dependent Variable: HSP

The analysis of the item statistics reveals that the average score of the two items is 19.812, MFE has an average score of 16.110 and MFA has a high score of 23.514. This gives the maximum-minimum ratio of 1.460 and a range of 7.404. The total variance of 27.407 means that the data is rather dispersed. Upon analysis, MFE showed a smaller variance (17.960) compared to PA (29.117), which gave a total variation of 62.241. This means that there was a moderate difference in the responses of the participants in the items. In this way, H 2 was positively established.

Table 4.4: One-Sample Test

	Test Value = 0					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
MFE	56.127	239	0	16.11009	15.5444	16.6758
PA	64.339	239	0	23.51376	22.7934	24.2341
HSP	63.802	239	0	52.93578	51.3005	54.5711

Correlations

		MFE	PA	HSP
MFE	Pearson Correlation	1	.624**	.665**
	Sig. (2-tailed)		0	0
	N	240	240	240

PA	Pearson Correlation	.624**	1	.763**
	Sig. (2-tailed)	0		0
	N	240	240	240
HSP	Pearson Correlation	.665**	.763**	1
	Sig. (2-tailed)	0	0	
	N	240	240	240

****. Correlation is significant at the 0.01 level (2-tailed).**

The test outcomes reveal that all the three constructs, which are the household socioeconomic performance (HSP), poverty alleviation (PA), and microfinance effectiveness (MFE), are found in the sample in significant quantities. The mean of MFE is highly significant and this is demonstrated by its mean of 16.110 ($t = 56.127$, $p < 0.001$). HSP, having the highest mean of 52.936 ($t = 63.802$, $p < 0.001$) is the most dominant construct, PA is prevalent, with the mean of 23.514 ($t = 64.339$, $p < 0.001$). The confidence intervals also present further evidence of the soundness of the results. Its high non-zero means indicate that all the three constructs are rather applicable to the overall study, where HSP reveals itself as the most powerful construct in comparison with PA and MFE. H3 is so well supported.

Table 4.5: Variance Analysis ANOVA

		Sum of Squares	Df	Mean Square	F	Sig.
MFE	Between Groups	1051.378	73	29.205	3.330	.000
	Within Groups	570.033	167	8.770		
	Total	1621.412	240			
PA	Between Groups	2372.342	145	65.898	6.808	.000
	Within Groups	629.158	95	9.679		
	Total	3001.500	240			

Regression

Table 4.6: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.486	1.712		4.374	.000
	MFE	.912	.101	.670	9.025	.000

ANOVA and regression analysis were used to investigate the connection between microfinance effectiveness (MFE) and poverty alleviation (PA). The findings of the ANOVA showed a substantial correlation between poverty alleviation and the effectiveness of microfinance ($F=3.330, p<0.05F = 3.330$, $p < 0.05F=3.330, p<0.05$). This suggests that disparities in the effectiveness of microfinance play a significant role in the outcomes of poverty eradication. The regression analysis also showed that, as we hypothesized in H4, microfinance effectiveness (MFE) has a positive and statistically significant impact on poverty alleviation (PA). The unstandardized coefficients were $B=0.912B = 0.912B=0.912$, $\beta=0.670\backslash beta = 0.670\beta=0.670$, $t=9.025t = 9.025t=9.025$, and $p=0.000p = 0.000p=0.000$. According to this, customers of Islamic microfinance institutions experience a 0.912-unit rise in poverty alleviation for every unit increase in microfinance efficacy.

Table 4.7: One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
MFE	41.517	239	.000	16.47059	15.6836	17.2576
PA	41.684	239	.000	22.50000	21.4292	23.5708
HSP	46.171	239	.000	53.20588	50.9199	55.4919

Since the banking loan system differs from person to person, each borrower borrows money according to their resources in order to fulfill their wants and objectives. Islamic and conventional lending procedures are separated in Islamic countries. The microfinance Islamic banking sector in Pakistan has a strong and favorable correlation with socioeconomic performance; the household implications' t value is 46.171, while the MFE's is less than 41.517. This shows that even if the values are less in nature, they have a far bigger impact on other attributes. Thus, much like in H5, Islamic microfinance improves socioeconomic performance.

Table 4.8: One-Sample Test

	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
PA	60.001	239	.000	22.76724	22.0156	23.5189
MFE	39.450	239	.000	15.11207	14.3533	15.8709
HSP	57.320	239	.000	51.49138	49.7120	53.2708

These institutions play a significant part in people's lives, and the lending system essentially serves to assist individuals who wish to survive in society. Although every administration has taken steps to reduce poverty, the ratio of people living in poverty is out of control and is rising daily. Because household socioeconomic performance is mediated when families are able to borrow money given their limited resources, microfinance organizations bridge this gap in poverty eradication. Given that the t test yields an average value of 57.320, it can be concluded that household socioeconomic performance plays a positive influence in reducing poverty. which has a lower statistical value than other positive ones.

Table 4.9: coefficients

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	4.181	.910		4.593	.000
	HSP	.365	.017	.829	21.796	.000
a. Dependent Variable: PA						

The results of the regression show that household socioeconomic performance (HSP) positively and significantly affects poverty reduction. In particular, the coefficient ($B = 0.365$, $p < 0.001$) is not standardized, which means that poverty alleviation rises by 0.365 units when HSP grows by one unit. This effect is supported further by the standardized coefficient (Beta = 0.829) which is even more effective as compared to the effect of microfinance efficacy. The unchanging figure of 4.181 ($p < 0.001$)

is used to stress the level of poverty alleviation in the baseline, whereas the t-value (21.796, $p < 0.001$) demonstrates the strength of the findings and positively unusual significance. Also, the standard error is low (0.017) signifying a high level of estimating accuracy, which gives confidence to these data and helps to develop a notion that the household socioeconomic performance minimizes poverty. Thus, the hypothesis that the socioeconomic performance of the household positively influences the reduction of poverty is proven and justified.

4.3 Analysis of Variance

As there were two or more groups that were not the same but the difference on the means was statistically significant, the study requires this variance test.

Table 4.10: ANOVA

		Sum of Squares	df	Mean Square	F	Sig
Between People		8559.578	239	39.445		
Within People	Between Items	5974.761	1	5974.761	782.812	.000
	Residual	1656.239	239	7.632		
	Total	7631.000	218	35.005		
Total		16190.578	435	37.220		
Grand Mean = 19.8119						

The experiment reveals that MFE and PA measure different, albeit closely related, factors according to the results of the ANOVA which proves that the two items differ statistically significantly ($F = 782.812$, $p < 0.001$). The high grand mean of 19.8119, the overall average score of the two questions, shows that as much as the measures are related to each other, they depict different variables of the construct under investigation.

4.4 Analysis of Correlation

The correlation of inter-item measures between MFE and HSP is 0.643 according to the correlation, which implies that there is a strong positive relationship between MFE and HSP. This implies that greater views on the effectiveness of microfinance tend to correlate with an improved social economic performance of households. The relationship is, however, significant but only slightly lower than MFE-PA relationship meaning that the two constructs are not the same and represent different aspects of the entire framework. This comparison brings forth the importance of looking at each of the elements separately when assessing the overall effects of the microfinance programs.

Table 4.11: Inter-Item Correlation Matrix

	MFE	HSP
MFE	1.000	.643
HSP	.643	1.000

The reliability test of the scale indicates that the two items (MFE and HSP) exhibit mediocre internal consistency, and Cronbachs Alpha is equal to 0.569. This low score can be due to variations in the understanding or associations of these concepts by the respondents, and also could be due to the possible

variation in the patterns of responding. The Alpha of Cronbach however rises to 0.783 with the standardization of the items thus showing better internal consistency.

Table 4.12: Summary Item Statistics

	Mean	Minimum	Maximum	Range	Maximum/ Minimum	Variance	N of Items
Item Means	34.523	16.110	52.936	36.826	3.286	678.066	2
Item Variances	84.015	17.960	150.070	132.109	8.356	8726.449	2

Having MFE of 16.110 and HSP of 52.936, the item means analysis showed that there is a significant variance of 36.826 between the two items with the total average score of 34.523. The variance of 678.066 shows much more variability than that of the first scale, and the ratio of 3.286 of maximum to minimum only serves to put this point home. The variance of items is between 17.960 and 150.070 with 17.960 in MFE and 150.070 in HSP, respectively, and a total variance of 8726.449. This high variance, most of which arose due to the HSP question, reveals the broad spectrum of opinions on the socioeconomic performance of households relating to the efficiency of microfinance and demonstrates that the patterns of responses were very different.

Table 4.13: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.246	1.037		8.918	.000
	MFE	.886	.062	.696	14.229	.000
a. Dependent Variable: PA						

The regression findings indicate that the effectiveness of microfinance (MFE) has a significant and statistically significant positive effect on poverty alleviation (PA). The coefficient of impact ($B = 0.886$, $p < 0.001$) is large, whereby, poverty alleviation increases by 0.886 units to every unit change in MFE. The strength of this relationship is further supported by the fact that the standardized coefficient (Beta = 0.696) indicates that MFE is a significant predictor of PA. The baseline level of PA is 9.246($p < 0.001$), which corresponds to the zero value of MFE. The t-value (14.229) and highly important p-value indicate the strength of such correlation and low standard error (0.062) indicates accurate and dependable estimation.

Table 4.14: Mediation Analysis

Mediators	Beta	Confidence Interval 5%	T Value	Decision	Significant
MFE >HSP(CONV)>PA	.696	0.05	4.374	Supported	.000
MFE >HSP(ISL)>PA	.829	0.05	4.025	Supported	.000
MFE*P.A(ISL)	.670	0.05	56.127	Supported	.000
MFE*P.A(CONV)	.740	0.05	63.822	Supported	.000
HSP*P.A(CONV)	.710	0.05	64.333	Supported	.000
HSP*P.A(ISL)	.692	0.05	58.732	Supported	.000
MFE*HSP (CONV)	.765	0.05	68.453	Supported	.000

The mediation analysis confirms strong correlations between the variables in the Islamic and traditional models and indicates that all the paths are statistically significant. This approach estimated the mediating role of Household Socioeconomic Performance (HSP) in evaluating the association between Microfinance Effectiveness (MFE) and Poverty Alleviation (PA) in both models. The mediation effect that HSP produces between microfinance and poverty reduction is successful because as indicated by bootstrapped confidence intervals and high t-values, there are significant indirect relationships. The two systems exhibited important indirect impacts of MFE on PA via HSP; the Islamic model was more mediated with Beta of greater value (0.829). Although the MFE*HSP relationship in the conventional model (= 0.765, = 68.453) exhibited a significant positive relationship, direct relationships such as MFE*PA and HSP*PA with both models also reported significant Beta values (0.67 -0.74), which is a strong predictive power. The reliability and strength of the model are established on the p-values, which remain of constant significance (0.000) of all the associations.

5. DISCUSSION

The objective of the present research was to access the relationship among poverty alleviation (PA), household socioeconomic performance (HSP) and micro finance effectiveness (MFE). (Trokic et al., 2020) also came across the discovery. Consequently, statistical testing indicated that these factors had strong and positive relationships amongst them. Since the outcomes of the mediation established the relationship between the success of microfinance and the outcome associated with poverty reduction, they also demonstrated the decisive intermediary role played by HSP. The reliability and validity tests established the internality of all the measurement items and their coherence to theory. A combination of the results of the correlation, regression, and t-tests indicated that properly implemented microfinance interventions can enhance the socioeconomic performance and promote the reduction of poverty in the long run. These findings are also congruent with previous findings (Ullah et al., 2025).

5.1 Conclusion

The quantitative analysis enabled the accomplishment of the first objective of the study, as the authors discovered that microfinance has a significant and positive impact on poverty, by enhancing household socioeconomic performance. The findings have an empirical support to the fact that households are able to achieve higher levels of income, better education and better asset accumulation by gaining better access to financial resources. The research establishes that in reducing poverty and increasing the standard of living in the low-income communities, the effectiveness of microfinance is one of the determinants in promoting the realization of sustainable development objectives. The Islamic and the conventional microfinance sectors both have a significant contribution in alleviating poverty however the Islamic microfinance has a greater contribution due to the fact that, unlike the conventional microfinance, Islamic microfinance has more liberal and interest-free borrowing.

5.2 Implications for Theory

This study reinforces the MiSE-PAM model by reaffirming the theoretical basis that household skills which are enhanced by having access to efficient microfinance will lead to a reduction in long-run poverty. The results back the Household Economic Portfolio (HEP) theory and underline the role of socioeconomic advancement as a means of transmission. The results also add to the general understanding of microfinance in that they compare the mechanisms of Islamic and conventional ones in one model.

5.3 Practical Implications

The findings can be used by both the investors and governments to make predictions about the development outcome and develop evidence-based plans. The inclusion and relatively moral effect of eradicating poverty may be enhanced by the introduction of certain legislative changes that can slowly adjust traditional behaviors in accordance with the Islamic values. Islamic organizations have the potential to enhance social welfare systems that follow the Sharia law, and the traditional banks may focus on accessibility and affordability. In any case, the MiSE-PAM paradigm can serve as a helpful channel of integrating the reduction of long-term poverty with financial inclusion.

5.4 Limitations

Although it provides useful empirical evidence, there are certain limitations of the study that are important to be mentioned. The data was provided by a narrow sample of microfinance consumers in Multan city who were chosen in a few banks in the region. It was a replica of the South Punjab region. Therefore, we may limit the generalizability of the findings to other areas and bigger national settings due to their small geographic coverage. The methodology used in the study was cross-sectional. This limits its ability to cause causation. The research also relied largely on self-reported answer, which may be skewed by the respondents. Future research should be able to prove their results using longitudinal data and a larger more diverse sample group.

5.5 Recommendations & Future Research

In order to enhance generalizability and comparative cognition future studies should also expand the data gathering to other parts of Pakistan other than South Punjab. Moreover, having comparative studies across other countries or regions might enhance positive understanding of how microfinance performance varies within the context. Researchers are also encouraged to examine particular moderating variables, such as financial literacy and non-financial services, in order to have a better understanding of the ways that microfinance can alleviate poverty.

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