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DOES CLIENT-SPECIFIC FACTOR MATTER IN A MICROFINANCE CONTRACT?

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Abstract

Purpose – The purpose of this research is to enhance Microfinance Banks' (MFBs) loan payback performance in Pakistan by identifying and addressing the influence of client-specific factors (moral hazard, loan features, client-personal ability, and client characteristics). **Design/methodology/approach** – The data for the study came from 150 MFB entry-level employees who filled out a survey. Using the stratified sample method, we were able to select representatives from each of the four key subsets of our target population: agriculture credit officers, enterprise credit officers, gold loan credit officers, and advance salary loan lending officers. Cronbach's Alpha was utilized to evaluate construct validity. It is possible to ascertain the direction of the relationship between the dependent and independent variables by employing multiple correlation analysis techniques simultaneously. We also used the variance inflation factor (VIF) technique to address multicollinearity concerns. Also, multiple regression was used in SPSS version 24 to test the study's hypothesis.

Findings – The findings show that client-specific factors (moral hazard, loan characteristics, clients' personal capacity, and clients' characteristics) have a significant and negative impact on loan repayment performance in Pakistani Microfinance Banks (MFBs).

Originality/value – To date, the direct impact of client-specific factors (*moral hazard, loan characteristics, clients-personal capacity, and clients' characteristics*) on loan repayment performance in Microfinance Banks (MFBs) in Pakistan has been hardly investigated. This research provides useful information for Pakistani MFBs to consider while formulating credit rules and building a wide range of loaning programs, with the goal of reducing the negative impact of client-specific features

1. Introduction:

Microfinance is a critical tool for combating fast-rising poverty in various undeveloped and developing countries, particularly in South Asia and Africa. However, in terms of poverty reduction, the projected consequences and results are different in many countries. For example, while the poverty rate in Bangladesh has decreased to an acceptable level, we have failed to get the expected outcomes in Pakistan regarding poverty reduction through microfinance. Microfinancing is an essential tool for poverty reduction worldwide, particularly in developing nations like Pakistan, Bangladesh, and India. The government of Pakistan has been launching various microfinance schemes to help the people of Southern Punjab escape poverty since 2001. However, desired outcomes in terms of poverty reduction remain a pipe dream. For example, Bangladesh has reduced poverty to an acceptable level, but the same result in Pakistan will not be attained as planned. According to Mahmud et al. (2018), microfinance organizations fail to lower poverty levels because of high-interest rates and processing fees, making debt service unsuitable for small business owners. According to Iqbal et al., (2020), microfinance institutions failed to achieve the desired results in terms of poverty reduction due to the inefficiency and capacity of their personnel. On the other hand, clients of microfinance banks have also failed to meet their contractual duties due to moral hazard issues, the restricted ability of clients in terms of loan use, loan characteristics (limited lending products), and client characteristics (bad habits). As per the findings of Kumari (2021), limited product lines, inadequate services, branchless banking, excessive processing fees, inefficient administration, and weak government laws are among the primary problems and challenges faced by microfinance banks.

MFIs' primary goals are to engage impoverished people in small businesses, small enterprises, or income-generating activities by providing small loans, credit, savings, and insurance. Customers are posing issues for MFIs in terms of poverty alleviation if they take out a loan, and instead of using the money for income-generating activities, they utilize it to meet immediate requirements or make recreational purchases. It is true that microfinance programs launched by the Punjab government in Pakistan have failed to reduce poverty levels in Southern Punjab. However, it will take time to understand the variables that cause these microfinance initiatives to fail to alleviate poverty among those living in Punjab's undeveloped areas. As a result, if the Punjab government wants to reduce poverty through microfinance programs, we must first understand the problems and challenges that Pakistan's microfinance institutions confront.

Business education, business skills, and business experience, according to Mata & Ibrahim (2020), are essential elements for a successful business. However, most MFI customers lack all of these prerequisites, and MFIs have made no arrangements to provide specific business-related education or training. As a result of their lack of business acumen, most MFI customers have struggled to create successful businesses and are experiencing loan arrears and defaults. The study's fundamental goals are to uncover the causes that cause these microfinance initiatives to fail to eliminate poverty among the inhabitants of Pakistan's southern Punjab.

Although Muhammad (2010) mentioned that Poor outreach and excessive markup are the major difficulties encountered by microfinance institutions in Pakistan in terms of microfinance and poverty alleviation. Inekwe (2019) discovered a significant distinction between non-poor and core poverty people. He went on to remark that core individuals spent their loan money on consumables, whilst non-poor people invested their money in the firm to make money. According to Iqbal et al. (2020), among the significant challenges and problems faced by microfinance institutions are misuse of government funds, limited financial products, and services, fluctuation in government policies, high processing fees, a lack of technical skills, a poor estimate of the loan amount, and a high markup. According to Huang (2018), one of the biggest challenges poor individuals face is excessive interest rates and poor estimation of the loan amount. As a result, microfinance organizations' products and services are useless to the most impoverished individuals who neither have any business education nor have business experience. According to Abagissa (2021), one of the critical issues facing microfinance organizations is consumers' capacity to use microfinance products and services established and put out by microfinance institutions. Moreover, some drug users and gamblers were able to secure loans due to the simple process and lack of collateral requirements. Customers' and microfinance institutions' interests are not aligned; according to Debnath & Roy (2018), each stakeholder has their own preferences, which is why microfinance initiatives have failed worldwide, particularly in developing nations. As a result, the critical requirement for time to identify such issues is what creates roadblocks in this regard. Following the identification of these variables, a policy can be developed to eliminate them through microfinance institutes' and customers' counseling.

As a result, this study answers the following four essential questions: (1) Does moral hazard significantly affect the loan repayment performance of microfinance banks? (2) Does the loan repayment performance of microfinance banks considerably affect the clients-personal capacity?

(3) Does loan characteristics have a substantial effect on loan repayment performance of microfinance banks? (4) Does the loan repayment performance of microfinance banks significantly affect the clients-characteristics?

Here's how the rest of the paper is structured: Part 2 provides a summary of the relevant literature, a working hypothesis, and the various theoretical frameworks that serve as the basis for this investigation. The methodology used for this investigation is outlined in Section 3. Findings in the context of relevant literature and theory will be presented in Section 4, while Section 5 will contain a (discussion, conclusion, limitation and implication, the future direction of the research, and recommendation).

2. Literature Review & Hypothesis:

2.1. Theoretical Background:

The moral-hazard theory is the initial framework under investigation. The history of moral hazard suggests that the unobservable actions of insured individuals and those involved in contingent contracts is an interesting and crucial topic in economics. A borrower will default without any consequences for future credit applications, according to the moral hazard dilemma. According to this idea, however, most borrowers fell into delinquency or default because they spent their loan money on non-business expenses rather than on expanding their operations. This is because, unlike at the time of application, it is more difficult for lenders to predict how much wealth borrowers would have accumulated by the time the debt is due. If creditors can't accurately gauge a borrower's financial standing, the borrower is more likely to default on their loan payments. Lenders' rate hikes to prevent this will cause the market to crash (Gachora, 2015). Banks have accumulated a substantial amount of nonperforming loans due to adverse selection and moral hazards (Bofondi and Gobbi, 2003). The liquidity theory is the second theory applied in this research. According to liquidity theory, a risk emerges when a project is unable to generate adequate resources to cover its liabilities or when an entity is unable to make timely payments due to the limited capacity of the clients in terms of lacking business education, business experience, and other bad habits of the clients. Merna and Njiru (2002) found it difficult for borrowers to repay the loan if the business did not generate enough profit due to the poor management of the clients and wasting business resources on recreational activities. They were borrowing at a low profit-generating rate or selling assets below-market values while risking contractual penalties. Selecting a project that creates enough profit to allow borrowers to repay their debts is preferable. This theory led this research because it enables microfinance bank customers to choose a project that makes sufficient profit while avoiding risk or to understand how to diversify risks to maximize profit.

2.2.Impact of Moral Hazard (*MZ*) on Loan Repayment Performance (*LRP*): -

In addition, several factors obstruct the recovery of loans or the repayment of loans by customers to microfinance banks. The borrower's behavior or attitude toward loan repayment is the most essential element. Some people use microcredit to meet their immediate requirements, and as a result, such borrowers have difficulty repaying their debts. Other aspects that form a barrier in this respect include bank staff inefficiency, client and bank staff corruption, and bank infrastructure, as well as a lack of cutting-edge technology (Ssekiziyivu et al., 2018). Although, microfinance has a good impact on non-poor people rather than the impoverished. Because of a lack of technological abilities, the poor use credit to buy consumable things to meet their necessities rather than investing in productive businesses and ultimately face the issue of loan delinquency as well as loan default. Microfinance is also a source of smooth consumption for the impoverished (Arhin et al., 2019). Similarly, microfinance institutions were established so underprivileged individuals could break free from poverty by beginning small businesses. However, rather than beginning a small business, most microfinance clients used the loan money to meet immediate necessities such as house construction, family marriages, and health and education for their children (Kassim & Rahman, 2018).

Most low-income people also didn't put the loan money they did get into small businesses, instead using it to pay for things like food, shelter, clothing, education, and healthcare. Those who were not poor used the funds to buy necessities for their homes or to start small businesses from which they might earn money to pay for living costs. There were exceptions where the loan payback performance of core-poor consumers exceeded that of non-poor clients (Kassim & Rahman, 2018). Nonetheless, they benefit more than the impoverished who are below the poverty line since they use microfinance financing to invest in business-generating activities rather than fulfilling immediate needs (Ramanujam & Vidya, 2017). Most low-income individuals who took out loans didn't use those funds to start businesses, opting instead to meet immediate, essential requirements like food, shelter, clothing, education, and healthcare. Yet, many who were not poor used the funds to buy necessities for their homes or to start modest businesses from which they might earn enough to live on (Worokinasih & Potipiroon, 2019). Whereas it has been observed that most MFIs in developing countries fail to collect loan amounts because most customers do not take loans to start new businesses or expand existing businesses, but instead use the money for basic needs like building a house, marrying a family member, buying recreational goods, paying for medical care, and educating their children (Kustina, 2017).

Microfinancing and efforts to alleviate poverty have a huge wealth gap between the middle class and the truly destitute. Continuing, he explained that core poor people had a more difficult time repaying their loans than non-poor people did since core people spent their loan money on consumable things while non-poor people invested it in the firm to earn money (Ssekiziyivu et al., 2018). Infect non-poor individuals utilized the loan more efficiently than core people, according to microfinance institutes' policies. Non-poor people invest in long-term assets, whereas it was also observed in some cases core-poor people borrow loan money to meet immediate requirements and cover day-to-day expenses, but they also pay their debts regularly as per contractual agreement by generating cash from other inherited sources (Adusei, 2021). Whereas the primary reason for microfinance institution failure in terms of poverty alleviation is that the majority of customers misappropriated loan funds for basic needs such as house construction, marriages, education, and health, as well as recreational products such as cell phones, bikes, and electric appliances and at the time of maturity failed to fulfill their contractual obligations (Ssekiziyivu et al., 2018).

H_1: *Moral hazard has a direct impact on loan repayment performance in the context of MFBs in Pakistan.*

2.3. Impact of Client-Personal Capacity (*CPC*) on Loan Repayment Performance (*LRP*).

Although it has been noticed that business education and expertise are important in making a business effective, in the case of a small-scale firm, a client can pay their outstanding debts regularly thanks to a successful business venture (Salifu et al., 2018). Furthermore, most microfinance schemes fail because the clients of microfinance institutions lack the necessary skills and business expertise. Aside from that, no training program has been established, and microfinance institutions have offered no operational help due to this lacking, most of MFIs' clients failed to managed their business and ultimately faced the issue of loan delinquency and loan default (Kassim & Rahman, 2018). Meanwhile, the importance of MFIs in poverty reduction is focused not just on their consumers, but also on their employees. He discovered a considerable difference in performance between clients who have had business education and experience and those who did not. Based on the client's appraisal produced by MFI workers, how positively a customer used loan amount up to a certain extent. Customers were thoroughly assessed, and loans were offered to individuals who wished to establish a new business or expand an existing one according to them (Huang, 2018). Although he stated that some essential elements such as a customer's education, business skills, business experience, character, and criminal record should be taken into account when assessing a customer before sanctioning a loan, poor assessment is a major cause of nonperforming loans and causes problems for MFIs and customers alike, especially when it comes to poverty alleviation (Kassim & Rahman, 2018). On the others hand, as the clients of MFIs running small scale businesses that required no education and business experience as no technological issues involved in their business. It was also found that some clients running their business successfully even they neither have any business education and nor have business experience (Inekwe, 2019). Furthermore, they suggested that when sanctioning a loan, the borrower's past track record and history should be taken into account, as it indicates the borrower's future behavior, as well as factors such as the borrower's character, capital requirements, business education, business experience, collateral requirements, business proposal, and connections with other vendors (Mia et al., 2019).

H_2: *Clients-personal capacity has a direct impact on loan repayment performance in the context of MFBs in Pakistan.*

2.4. Impact of Loan Characteristics (*LC*) on Loan Repayment Performance (*LRP*): -

The success of a microfinance program is determined by how well the consumer uses it. However, because of the simple lending process and the lack of collateral securities, most clients abuse microfinance facility. As a result, drug addicts and gamblers become involved in this plan, which leads to nonperforming loans (Oke et al., 2021). Furthermore, the most common causes of microfinance failure are the misappropriation of government funds, a lack of financial products and services, frequent changes in government policies, high transaction costs, nonperforming loans, branchless banking, low employee and customer capacity, a lack of technical skill, overstated or understated loan amounts, and a high interest rate (Lassoued, 2017). Meanwhile, the most common reasons for the failure of a microfinance institution include the following: the inappropriate use of public funds; an absence of adequate financial products and services; frequent shifts in government policy; excessively high transaction costs; nonperforming loans; banking without physical locations; insufficient employee and customer capacity; an absence of technical skill; loan amounts that are either exaggerated or underestimated; and excessive interest rates (Amoako, 2016). Meanwhile, microfinance institutions have failed to deliver the desired results in terms of poverty reduction due to the inefficiency and capacity of their personnel. He went on to say that microfinance institutions confront several issues and obstacles, including a limited product range, insufficient services, branchless banking, expensive processing fees, inefficient administration, and weak government laws (Oke et al., 2021MFIs, on the other hand, are important in poverty reduction not only because of their customers but also because of their employees. He noticed a significant difference in performance between clients with and without business education and experience. However, consumer satisfaction with the MFI's service and the extent to which they were able to help them achieve their financial goals thanks to the money they borrowed. Clients were thoroughly screened for qualifications before receiving loans for new ventures or expansions (Ranjani & Kumar, 2018). Another reason MFIs failed to eradicate poverty was because of how they evaluated their employees (Amoako, 2016). They also argue that the characteristics or structure of credit products provided by MFIs is a crucial factor. Loan terms and conditions such as duration, interest rate, and installment amount must be evaluated and designed borrower to borrower in addition to the general terms and conditions that apply to all borrowers (Oke et al., 2021).

H_3: *Loan characteristics have a direct impact on loan repayment performance in the context of MFBs in Pakistan.*

2.5.Impact of Client-Characteristics (*CC*) on Loan Repayment Performance (*LRP*): -

The success of a microfinance program is determined by how well the consumer uses it. However, because of the simple lending process and the lack of collateral securities, most clients abuse microfinance facilities. As a result, drug addicts and gamblers become involved in this plan, which leads to nonperforming loans (Kassim & Rahman, 2018). The consumer's ability to use a microfinance program determines its success. The majority of clients, however, abuse the microfinance facility because of the simple lending process and the lack of collateral securities. As a result, drug addicts and gamblers are drawn into the scheme, resulting in nonperforming loans (Iqbal et al., 2020). It was also found that due to lenient procedure, some thieves took loan amounts from MFIs and spent them on their legal cases, ultimately failing to pay their outstanding loans at the time of maturity (Mia et al., 2019). Because MFIs do not demand collateral or securities to approve a loan, most drug addicts, gamblers, mentally disabled persons, and non-serious people were able to receive a loan, lose their money, and then encounter problems when the loan matured. The consumer then borrows money from traditional money lenders to repay the debt, and as a result, they lose their personal property since they cannot repay the conventional money lenders (Inekwe, 2019). Furthermore, he claims that one of the primary issues microfinance institutions confront is consumers' capacity to use microfinance products and services that the microfinance institutions have planned and put out. Some drug users and gamblers were able to secure loans due to the simple process and lack of collateral requirements and used loan amounts on their bad habits and ultimately faced the issue of loan delinquency at the time of maturity (Kassim & Rahman, 2018). Similarly, some clients took loans from informal institutions and informal sources (traditional money lenders). Later on, they used loan amounts to pay the existing loans taken by conventional money lenders and ultimately faced the problems of loan default at the time of maturity (Mia et al., 2019). Because MFIs do not demand collateral or securities to approve a loan, most drug addicts, gamblers, mentally disabled persons, and non-serious people were able to receive a loan, lose their money, and then encounter problems when the loan matured. The consumer then borrows money from traditional money lenders to repay the debt, and as a result, they lose their personal property since they are unable to repay the traditional money lenders (Huang, 2018)

H_4: *Client characteristics have a direct impact on loan repayment performance in the context of MFBs in Pakistan.*

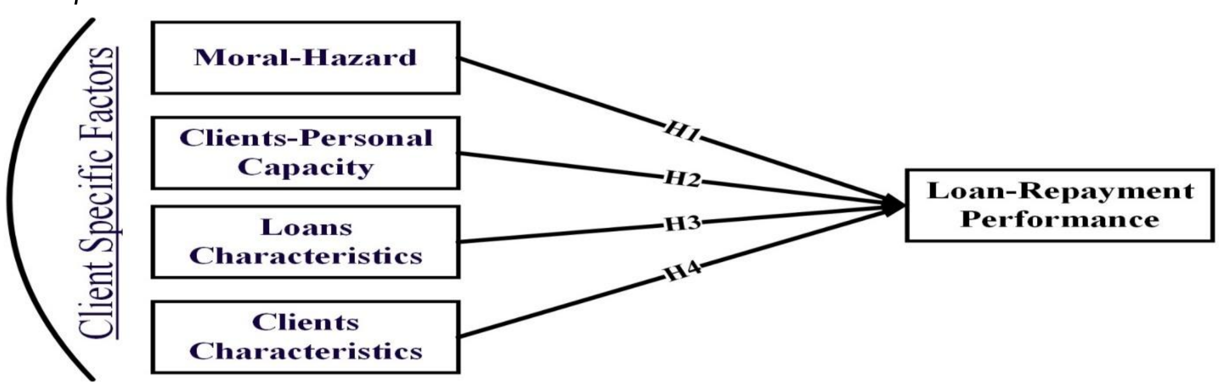

Figure 1: -*Hypothesized Conceptual Framework: -*

3. METHODOLOGY:

Moral hazard, client personal capability, loan features, client characteristics, and loan repayment performance form the basis of the study's research model. In the setting of microfinance institutions in Pakistan, this research seeks to empirically assess the impact of independent variables including moral hazard, client personal capacity, loan characteristics, and client characteristics on the dependent variable of loan repayment performance. A structured questionnaire was used to compile the data, with respondents marking their level of agreement or disagreement on a Likert scale from 1 (Strongly Disagree) to 5 (Strongly Agree). This research separated the frontline workers at MFIs into four categories based on the nature of their interactions with MFI customers: (1) farm credit officers, (2) enterprise credit officers, (3) credit officer gold loans, and (4) lending officer advance salary loans. More specifically, the study uses a sample size based on 150 people drawn at random from each group using stratified random sampling (Ahmadini, Varshney, & Ali, 2021). According to the rules of sampling, a total of 28 farm credit officers, 70 enterprise credit officers, 34 credit officer gold loans, and 18 lending officer salary loans were selected to make up the final sample. However, demographic information was gathered, such as respondents' gender, age, marital status, level of education, job title, and years of banking experience, to better understand the demographics of the target audience.

We also employed descriptive statistics like mean, median, and standard deviation to check for data normality in this investigation. The ability of the data collection technology to provide consistent results over time (internal consistency or dependability) is also crucial in primary data. In this research, we employed Cronbach's Alpha to measure the internal consistency of the questionnaire. Coefficient of determination (R^2) analysis was conducted to evaluate the model's predictive power and the amount of variation in the dependent variable (loan repayment performance) that could be attributed to the independent factors (moral hazard, client-personal capacity, loan characteristics, clients-characteristics). In addition, correlation analysis was employed to assess the link between the dependent (repayment performance on loans) and the independent variables (moral hazard, client-personal capacity, loan characteristics, and clients-characteristics). Multicollinearity, on the other hand, is a problem that develops during data processing. In addition to raising methodological concerns, multicollinearity also makes it more difficult to make sense of the data. When two independent constructs (variables) are found to be considerably associated with each other, the problem of multicollinearity occurs (Joseph F. Hair et al., 2019).

Furthermore, if multicollinearity is discovered, a multicollinearity test is recommended before proceeding with additional analysis to determine whether the proposed hypothesis should be rejected or accepted (Templeton et al., 2021). However, if multicollinearity exists, the study results will not be acceptable or precise. As a result, to eliminate the problem of multicollinearity, several scholars have proposed and suggested the use of a test of variance inflation factor (VIF), which was also used in this work. Finally, to evaluate the study's hypothesis, linear regression models were used. To do this, we calculated the mean across all items in each dimension and used this mean in linear regressions to test the study's hypothesis using SPSS (Statistical Program for the Social Sciences) version 24.

4. DATA ANALYSIS AND RESULTS:

4.1.Reliability Analysis: -

Cronbach's alpha was used to determine the level of consistency between measurements of the observable constructs in this study, and different researchers recommended varying cutoff values to guarantee the validity of the survey used to collect the data (questionnaire). For example, if you want to make sure your instrument is reliable, you should aim for a Cronbach's Alpha of at least 0.6. (Oke et al., 2022; Hair Jr et al., 2021). However, minimum value of Cronbach’s Alpha >0.70 also recommended by the (Hair Jr. et al., 2013). As Table-I indicated the Cronbach’s Alpha value of all underpinning constructs (*moral-hazard, client-personal capacity, loan characteristics, clients-characteristics and loan repayment performance*) which are higher than the minimum threshold of 0.6 and 0.70. It means that data collection instrument used in this study is reliable and can be used for data collection.

Table-I: - Data Collection Instrument and Its Reliability: -		
Item-Codes & Items Details: -	**Cronbach's Alpha**	**References**
Moral Hazard (MZ): -		
MZ1: MFBs clients used the loan for construction purposes	0.827	"(Swain, 2004; Shirazi& Khan, 2009; Papias & Ganesan, 2009; Iqbal et al., 2015)".
MZ2: MFBs clients used loans amount for the marriages of their family members		
MZ3: MFBs clients used loans amount on health & medication facility		
MZ4: MFBs clients used loans amount to pay the educational expenses		
Loans Characteristics (LC): -		
LC1: Loan amount received by clients higher than their requirements.	0.871	(Worokinasih & Potipiroon, 2019; Abafita, 2003; Abraham, 2013; Retta, 2000;)
LC2: The loan amount received by the client is insufficient.		
LC3: The interest rate charged by MFBs are not affordable for the clients.		
LC4: MFBs charge higher processing fees.		
Clients-Personal Capacity (CPC): -		
CPC1: Most of MFBs clients lacking in business education.	0.860	(Derban, Binner, & Mullineux, 2005; Roslan & Karim, 2009; Worokinasih & Potipiroon, 2019)
CPC2: Most of MFBs clients lack business skills.		
CPC3: Most of MFBs clients lack business experience		
CPC4: non-provision of operational assistance leads to loan delinquency		
Clients-Characteristics (CC): -		
CC1: MFBs clients engaged in drug addiction.	0.805	(Kassim & Rahman, 2018; (Iqbal et al., 2015)
CC2: MFBs clients engaged in gambling.		
CC3: MFBs clients engaged in robbery and theft.		
CC4: MFBs clients engaged in debt circling.		
Pandemic Factor: -		
LRP1: MFBs client's repayment is getting better	0.820	"(Worokinasih & Potipiroon, 2019; Amoako, 2016; Warue, 2012; Goplan, 2007)".
LRP3: MFB borrowers generate sufficient income to repay the loan.		
LRP4: MFBs borrowers achieving their loan purposes.		
LRP5: MFB borrowers did not sell their assets to repay the loan.		

4.2. Measuring the Level of Co-efficient of Determination (R^2): -

The coefficient of determination (R^2) calculates the amount of variation in the dependent variable (loan repayment performance) caused by changes in the independent variables (*moral hazard, client-personal capacity, loan characteristics, client characteristics*). Furthermore, the coefficient of determination (R^2) revealed the prediction abilities of constructs or understudied variables. According to Table II, the value of (R2) is 0.9919, indicating that the independent factors (*moral hazard, client-personal capacity, loan characteristics, and clients-characteristics*) are responsible for 99.19 percent of the variation in the dependent variable (*loan repayment performance*).

Table-II: - Coefficient of Determination (R^2): -		
	R Square	**R Square Adjusted**
Loan Repayment Performance	0.9919	0.9917

4.3.Multicollinearity Test: -

The Variance Inflation Factor (VIF) test was used to examine the degree of association between the categorical variables in this investigation (moral hazard, client-personal capacity, loan characteristics, and clients-characteristics). However, different researchers recommended different thresholds regarding the VIF value. For instance, if the value of VIF is greater than 10, treatment of Multicollinearity (MC) will be compulsory. Multicollinearity (MC) will be mild and ignorable if the value of VIF lies between 5 to 10, and there will be no Multicollinearity (MC) if the value of VIF is less than 5. Results of Table V indicates that the VIF of MMLA lies between 5-10, which shows mild Multicollinearity (MC) that is ignorable as per the criteria mentioned above. In contrast, the VIF value of all remaining variable less than 5 means there is no issue of Multicollinearity (MC). (Akinwande, Dikko, & Samson, 2015). Table III indicates the results of the Variance Inflation Factor (VIF). General rules of VIF are that Multicollinearity (MS) will be sewer mean value of all explanatory variable VIF is less than 5 that also indicate that overall, there is no issue of Multicollinearity (MC).

Table-III: - Variance Inflation Factor (VIF): -		
Variable	**Variance inflation Factor (VIF)**	**1/VIF**
Moral-Hazard (*MZ*)	6.33	0.157978

Loan Characteristics (*LC*)	4.11	0.243309
Clients-Personal Capacity (*CPC*)	3.81	0.262467
Client-Characteristics (*CC*)	2.79	0.358423
Mean VIF	**4.26**	

4.4.Correlation Analysis: -

The correlation matrix of all underpinning variables is given in Table VI. The correlation matrix indicated a negative relationship between the all-independent variables (moral hazard, client-personal capacity, loan characteristics, and clients-characteristics) and the dependent variable (loan repayment performance) in this study. It means that any positive change incurred in independent variables (*moral hazard, client-personal capacity, loan characteristics, and client characteristics*) leads to a decline in the dependent variable (*loan repayment performance*).

Table-VI: - Correlation Matrix: -					
Variable	**(1) MZ**	**(2) LC**	**(3) CPC**	**(4) CC**	**(5) LRP**
(1) Moral-Hazard (MZ)	**1.000**				
(2) Loan Characteristics (LC)	0.813	**1.000**			
(3) Clients-Personal Capacity (CPC)	0.618	0.795	**1.000**		
(4) Client-Characteristics (CC)	0.678	0.581	0.188	**1.000**	
(5) Loans Repayment Performance (LRP).	-0.974	-0.836	-0.532	-0.784	**1.000**

4.5.Hypothesis Testing: -

Researchers can analyze the significance level of path coefficient (β) using T-Statistics (t-values) and p-values. The significant level of path coefficient (β) threshold for t-values was set to 1.96, and the threshold for p-values was set to (p0.01) at a significance level of (α)= 10% in this study using the standardized technique. Henschel, Ringle, and Sarstedt (2015). However, the regression analysis equation derived from the collected data has been given as under.

$$\textbf{Loan Repayment Performance} = \beta 0 + \beta_1(MZ) + \beta_2(LC) + \beta_3(CPC) + \beta_4(CC) + e$$

$$\textbf{Loan Repayment Performance =} \ 3.11 + \beta_1(-0.60) + \beta_2(-0.20) + \beta_3(-0.58) + \beta_4(0.09) + e$$

Table V presents the hypotheses testing results based on the implication of the path coefficients (β-values), t-value, and P-values. The first hypothesis (**H_1**), which states that " Moral hazard has a direct impact on loan repayment performance in the context of MFBs in Pakistan.," is accepted (β

= -0.0600; t = 53.290; p<0.000). It means moral hazard (using loans for construction purposes, marriages of family members, health & medication facilities, and paying the educational expenses of family members instead of making the capital investment) has a significant impact on the loan repayment performance (better repayment of clients, generating sufficient income to repay the loan, achieving loan purposes and did not selling personal assets to repay the loan) in the context of MFBs in Pakistan. This hypothesis (**H_1**) is consistent with several past studies (Ssekiziyivu et al., 2018; Arhin et al., 2019; Kassim & Rahman, 2018; Iqbal et al., 2020; Ramanujam & Vidya, 2017; Worokinasih & Potipiroon, 2019; Kustina, 2017; Adusei, 2021).

Meanwhile, the second hypothesis (**H_2**), which suggests that " Loan characteristics have a direct impact on loan repayment performance in the context of MFBs in Pakistan.," was accepted (β = -0.208; t = 16.080; p<0.000). It indicates that loan characteristics (receiving a higher amount of loan than the requirement, receiving insufficient loan amount, high-interest rate, and high loan processing fee) significantly decrease the loan repayment performance (better repayment of clients, generating sufficient income to repay the loan, achieving loan purposes and did not selling personal assets to repay the loan) of MFBs in Pakistan. The finding related to (**H_2**) is further justified by various empirical studies that reported similar results (**(**Oke et al., 2021; Lassoued, 2017; Amoako, 2016; Ranjani & Kumar, 2018)

Similarly, the third hypothesis (**H_3**), which recommended that " Clients-personal capacity has a direct impact on loan repayment performance in the context of MFBs in Pakistan," was accepted (β = -0.581; t = 13.910; p<0.000). It specifies that clients-personal capacity (lack of business education, lack of business skills, lack of business experience, and non-provision of operational assistance) significantly decreases the loan repayment performance (better repayment of clients, generating sufficient income to repay the loan, achieving loan purposes and did not selling personal assets to repay the loan) of MFBs in Pakistan. The finding related to (**H_3**) is further justified by various empirical studies that reported similar results (Salifu et al., 2018; Kassim & Rahman, 2018; Huang, 2018; Iqbal et al., 2020; Inekwe, 2019; Iqbal et al., 2020; Mia et al., 2019).

Correspondingly, the fourth hypothesis **(**H_4), which specifies that the " Client characteristics have a direct impact on loan repayment performance in the context of MFBs in Pakistan. ," is also accepted (β = -0.092; t = 9.840; p<0.000). The declaration indicates that clients-characteristics (drugs addiction of clients, clients engaged in gambling, robbery & theft engagement of clients, and debt circling of clients) have a negative and significant impact on loan repayment performance (better repayment of clients, generating sufficient income to repay the loan, achieving loan purposes and did not selling personal assets to repay the loan) of MFBs in Pakistan. The finding related to (**H_4**) is in line with many past studies that reported similar results (Kassim & Rahman, 2018; Iqbal et al., 200; Mia et al., 2019; Inekwe, 2019; Huang, 2018).

Table-V: - Hypothesis Testing Results: -						
Hypothesis.	**Hypothesized Relationships**	**β Coefficient**	**Std. Error**	**T stats**	**P-Value**	**Decision on Hypothesis**
H1:	Moral-Hazard → Loans Repayment Performance	-0.600	0.011	53.290	0.000***	Accepted
H2:	Loans Characteristics → Loans Repayment Performance	-0.208	0.013	16.080	0.000***	Accepted
H3:	Clients-Personal Capacity → Loans Repayment Performance	-0.581	0.418	13.910	0.000***	Accepted
H4:	Clients-Characteristics → Loans Repayment Performance	-0.092	0.009	9.8400	0.000***	Accepted

Note: ***, **, * indicates level of significance at 1%, 5%, 10% respectively.

5. CONCLUSION, POLICY IMPLICATION, LIMITATIONS, AND FUTURE DIRECTIONS OF RESEARCH

The concepts of moral hazard and liquidity are used to guide the analysis in this paper. The primary goals of this research are to examine how moral hazard, loan characteristics, client-personal capacity, and client attributes affect loan repayment performance for MFBs in Pakistan. This research confirmed that moral hazard has a detrimental effect on borrowers' ability to repay loans. Clients will have significant issues when it comes time to repay their loans if they borrow money for short-term necessities rather than investing in long-term assets (Adusei, 2021; Ssekiziyivu et al., 2018). The effect of loan characteristics on repayment performance was also assessed, and it was discovered that loan characteristics of MFBs had a negative effect on repayment performance. This indicates that clients are unable to meet their responsibilities under the lending agreement because the loan amount is insufficient, the interest rate is too high, or the processing charge is too high (Oke et al., 2021; Ranjani & Kumar, 2018). In addition, this study considered the influence of clients' personal capacities and discovered that MFBs' clients had trouble repaying loans due to a lack of business education, business skills, company experience, and the absence of operational assistance provided by MFBs (Mia et al., 2019; Inekwe, 2019). Client attributes were also found to have a detrimental effect on loan repayment performance. This signifies that customers have failed to pay their bills by the due date because of bad behaviour (such as drug abuse, gambling, committing theft, or circular debt) (Huang, 2018; Kassim & Rahman, 2018).

This research has important management and practical ramifications for everyone engaged. The moral-hazard theory and the liquidity theory are employed in this research. Nevertheless, no empirical research has been conducted in Pakistan to assess the influence of client-specific factors (moral hazard, loan characteristics, clients' personal capacity, and characteristics) on loan repayment performance in the context of MFBs in Pakistan. Based on the research conducted, it was recommended that MFBs operating in Pakistan provide a system to mitigate the negative effects of client-specific factors (moral hazard, loan features, clients' personal ability, and clients' characteristics) on loan repayment performance. It is also hoped that the findings of this study will spur further research in this vital area and will be disseminated and shared with interested parties such as Microfinance Institutions (MFBs), Microenterprises, Chambers of Commerce, Credit Rating Agencies, State Bank of Pakistan, Non-Profit Organizations (NGOs), Ministry of Finance

Pakistan, Ministry of Commerce Pakistan, and the Punjab Government's Planning & Development Department. In addition, the study's findings will be disseminated to microenterprises and MFBs lending officers who are interested in learning how to mitigate the negative impact of client-specific factors on loan repayment.

Nonetheless, this study has several drawbacks. The first is that the self-administered questionnaire used in the study could result in common method bias. The data for this study was collected through a self-administered questionnaire, and no follow-up interviews with respondents were undertaken to learn why respondents have specific perspectives concerning under-investigation. Second, the study's target audience mainly consisted of people who were unaware of the research's value and unwilling to share sensitive information with the researcher. Finally, we ignored many vital parameters already discovered in the literature. The number of dependents, loan repayment frequency, rental income, farm revenue, inherited assets, and the number of dependents is all crucial factors to consider. This study was unable to investigate econometrics research due to secondary data restrictions. Finally, we did not assess financial information about the borrower's children, their education, food spending, or their health and pharmaceutical spend before or after the loan.

Although this research contributes significant input in the context of client-specific factors (*moral hazard, loan characteristics, clients-personal capacity, and client's characteristics*) and loan repayment performance in MFBs in Pakistan, however, someone may also be extended this work to probe further information in this regard. First, the scope of this study may be extended to the informal sector, including MFIs, Non-Profit Organizations, and credit associations. Secondly, the content of this study may be broadened, and some other factors, including bank-related factors, country-specific factors, uncontrollable factors, and macroeconomic factors, may be considered in future studies. According to this study, more research should be done on borrowers' fixed assets, children's schooling, and family food expenditures before and after taking a loan from several lenders. Finally, future studies should include longitudinal research. After receiving a microcredit loan from multiple lenders, the longitudinal analysis can assess changes in the borrower's business, household, and personal life. Lastly, longitudinal research should be included in future studies. The longitudinal research can examine changes in the borrower's business, household, and personal life after getting a microcredit loan from more than one lender.

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