

The effect of Microfinance on Poverty Reduction in Sindh: Study of District Khairpur Mir's

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Abstract

This research determines the role of microfinance to alleviate the poverty in District Khairpur. In this study effects of loan, income and education on poverty reduction were analyzed. A well structured and appropriate questionnaire was developed by me to collect primary data from 311 borrowers of microfinance banks. The data was analyzed by SPSS software. Correlation and regression techniques were applied to find out the results. The results showed the positive impact of loan, income and education upon poverty reduction. The research was limited only to Khairpur district and time period was short. The results of the study may vary keeping in the different areas owing to time constraints and utilization of loan.

Key words: *Microfinance loan, poverty, education and income*

I. Introduction

Importance of microfinance to reduce poverty cannot be denied. We can define microfinance as an instrument to fight against poverty and assist those who live below poverty line by providing small loans. With the help of the small loans, people start small businesses to increase their income and making their lives above poverty line. Consequently, they along with their families uphold their lives. Since last 20 years, microfinance is considered as assistance to demolish poverty. Now, whole world considers poverty as basic and core issue in the world.

Now a day, experts are setting standards for those people who are unsatisfied to make their lives satisfied. Current study tells us that millions of children have not attended school even at the age of schooling. Half a million of children died due to hunger and sickness and billions of people are fighting for survival on earth for "one dollar a day". Although most of the countries are expanding and developing their economy but poverty is still their main issue. Scholars have observed many types of poverty, which are monetary and nonmonetary form or revenue and nonrevenue. This can be termed as lack of money and assets, lack of living ability, less basic human needs, lack of food, clean water, sanitation facilities, lack of education and poor health. In broader sense, it may be a mix of economic, political and social insufficiencies.

Peoples are divided into two groups by poverty line as being rich and poor. Poor are below poverty line and rich are above poverty line. In modern world microfinance is best weapon to fight against poverty. First and main purpose of microfinance is to alleviate the poverty "little earning means little investment which returns low profit" by giving cash to needy people from outsource for economic requirements. "Money, declares the proverb, help to make money, for those who have received just a little, it is simple and easy to have more and huge problem is to find that little money" (Adim smith, 1937). Microfinance is to provide small loans and credit to poor people who uplift their lives by increasing their revenue and income. They get rid of poverty line and their living standard is improved (Ajani and Tijani 2009). Before the emergence of microfinance scheme poor people use to borrow loan from traditional money lenders on 20-30% interest rate. Because of which they were unable to meet their

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basic needs. People were in search of better financial source. Dr Mohammad Yunus was the man who introduced the concept of microfinance during 1971, he dreamt to see world without poverty (Yunus 1976). Many writers and scholars in the world have studied impact of microfinance on poverty reducing. Their results are in favor of microfinance. They reported microfinance as shield to fight against poverty and considered microfinance as weapon to demolish poverty (Hossain 1998, Barns 2001, Dunn 2002, Mahjabeen 2008, Goldberg 2005, Rabbani 2006) Day by day poverty is increasing in the world, as well as in Pakistan. There are number of banks, NGOS, government and nongovernment institutions, which are providing microfinance loan in Pakistan. People who get chance of microfinance loan tries their best to survive by operating small businesses and get rid out from poverty line and their living standard is improved. It is observed that for several nations in the world, microfinance plays important role for poverty alleviation (Ahmed 2000). The total numbers of active borrowers of microfinance in Pakistan are about 7.1 million by first quarter of 2019 (PMN, 2019). Latest survey suggests that there are 60 million people who live below poverty line in Pakistan. Different problems and crimes are the causes of poverty in the society, which are suicide, unemployment and above are sickness and depressive disorder, stress and anxiety, pressure and many others. We can control these problems by controlling and reducing poverty. Microfinance was started in Pakistan during 1960 by establishing Comila pilot project. After that second project which started in Pakistan was Orangi Pilot project, Orangi charitable trust(OCT). After this” Agha Khan Rural Support program”. After that Kashaf foundation,the Urban Poverty Alleviation Program (UPAP) by the National Rural Support Program (NRSP) and the launch of the then State owned microfinance bank (MFB) Khushhali Bank Ltd. (KBL), with assistance of the Asian Development Bank (ADB). Microfinance received a further boost with the establishment of the Pakistan Poverty Alleviation Fund (PPAF) in 1999 as an apex funding body for the sector. With the passing ordinance for the Bank of Microfinance 2001further strengthening the micro finance ecosystem by providing a framework for creating privately owned specialized Microfinance Banks (MFBs) under the supervision of the State Bank of Pakistan (SBP).This ordinance 2001 is the root map by which provides the framework within which MFBs have been established in the country under the regulatory supervision of SBP. Strategic directions for microfinance banks are established by central Bank. And policies are also made by state bank of Pakistan, in consultation with sector players, to provide an enabling environment for MF over the years. Because of extreme poverty in country, our government has given much importance to microfinance as major tool for the fighting against poverty. There are number of institutions that are providing short term loan facilities to villages and cities to give people opportunities of making self development specially woman. . Besides the monetary support microfinance institution are providing infrastructural support to the organizations. Microcredit and microfinance are two types of institutions working in Pakistan. There are number of microfinance institutes working in Pakistan such as, First Microfinance Bank, Tameer Microfinance Bank Limited, U Microfinance Bank, Bank Apna Microfinance, NRSP Microfinance, Khushhali Bank Limited, Finca Microfinance, Pakistan Oman Microfinance Ltd (POMFB) This research work is to examine the impact of microfinance to reduce poverty in District Khairpur, Mir’s. I have examined impact of loan on the income of the borrowers along with the impact of rise of income on the education of children of loan holders. It has been tried critically to examine the effects of the income on the health of the borrowers. The main objects of the study were. First object was to look the effects of microfinance on the poverty of creditors. Second object was to check the impact of loan upon the income of the borrowers. Third object was to check impact of microfinance upon the education of children’s.

II. Theoretical framework and Hypothesis

This section covers the concepts and theories of various studies and research conducted earlier on impact of microfinance to alleviate poverty.

III. Microfinance

Microfinance is considered as an instrument to alleviate poverty by providing short loans to poor fellows living below poverty line, through a system of banks and institutions. These institutions provide this loan easily without collateral securities near their door steps, when needed by poor borrowers (Bajwa, 2001). With the help of microfinance loan poor people not only earn their meal but also make their status and living standard better (Schreiner, 2000). “Microfinance means giving small credit to poor to build or reshape their businesses and to guide them employ about fruitful activities for improving their livelihood”. Microfinance mainly focuses on giving loans, insurance and provides saving facilities to poor people who are unable to meet the formalities of traditional banking system (Rehman, 2007). Murry, u and Boros, R (2002) has pointed out main characteristics of microcredit which are listed as: - “The amount of loan is very short and the period of these loans are six months to year. They have very simple techniques for fewer certification and application procedures are very easy to

attempt. There is no issue of security for getting small loans as compared to the commercial Banks. They also provide saving and insurance facilities for the people". Microfinance institutions are engaged in various activities for betterment of poor people's such as ; training and development of their expertise, children education is topmost priority, their health is improved(Garmeen, 2008). By the help of microfinance loan people can get rid from many bad habits such as theft, suicide, mental disability and bad habits. Many researchers argued about the positive relation of income and microfinance. Their view is in favor of microfinance is that due to increase in income poor people get come out from poverty (Khandar, 2005; Copestack, Dawson, Fanning, 2005)

IV. Poverty

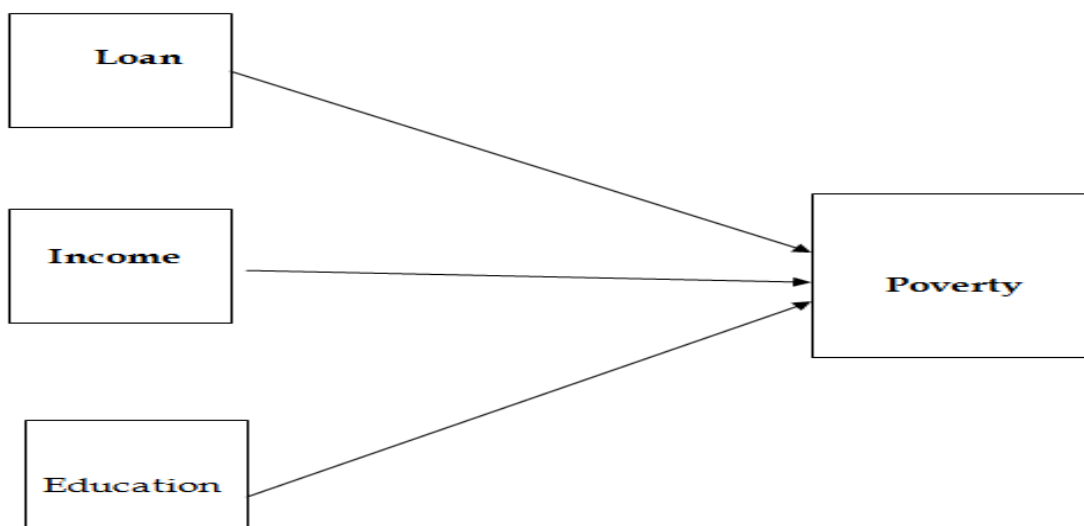
Poverty means the state of being deprived from the basic needs. Poor are the people who are living on the hunger and those who have not sufficient to complete those needs. So the definition of poverty suggests us to formulate strategies to eradicate poverty. Microfinance have taken first step in this regard but still there is more to do (Ladrichi, Saith and Stewart,2013). Basic resources which are necessary for life are, education, land access, approach to infrastructure, system of responsibilities, and availability of money. Poverty is considered as hurdle to achieve above mentioned facilities for living good standard life (World Bank, 2000). Poverty can "be present in a specific society when one or two people cannot achieve a level of material-wellbeing which is considered also comprise a logical low level by the principles of humanity".(Ravellian ,1992). The person who has introduced concept of microfinance named Mohammad Yunus was of the opinion that people can drive out from poverty by utilization of small loans(Roy,Mark ,A,2003). There are many dimensions of poverty, so it need multi-forces to be demolished (Morduch, 2005). According to Ocpara (2010) there are some reasons which cause poverty to enhance for example, small earnings, inflation, lack of resources to settle business, difficult financial crisis and business. He pointed out two phases of microfinance on poverty. 1. Poverty is decreasing gradually. 2. People completely get out of poverty. Therefore he believes that microfinance loan eradicate the poverty.

V. Education

Now a day's poor persons are investing major part of their earnings upon the education of their children. Research has proved that Poor children are more punctual in school as compared to Childs without microfinance loan. Poor persons who are operating small businesses with the help of microfinance loan are interested in schooling of their Childs. Education is best source to make better lives of their children. It permits the persons to allocate their likely in, public, financial and political area of their lives (Little field, Mordoch and Hashmi , 2003) . Education has power to reduce poverty, since better educated person can earn more income and enjoy better health (Pscharopolus & Wood hall, 2009)

VI. Income

Hussain (2012), Proved in his research that by proper utilization of small loans income of borrowers has increased. By using this income they cross extreme boundary line at first phase of microfinance loan. Slowly and gradually customers will become self sufficient. " It is sure that, MF in its various adopted models can assist the world to reduce and alleviate poverty and make more economic development, mainly in developing countries" (Hennessey 2006). Imtiaz et al (2011) argue that the poor society face the disaster in the world life and their income intensity, average of livelihood cannot be enhanced. Micro credit scheme is supportive in sustain living standard of the community up and authorize female as well, in view of the fact that microfinance had a practical contact on give power to of women's hence, micro finance is adeptly serving the deplorable by productive expansion in their earnings. Living standard is very vital concern in every evolving country. In a lot of rising countries like Bangladesh, Pakistan and India, microfinance is at the moment using as a tool to amplify the living standard of poor community. There is constructive impact of micro financing on income level and recovered services of microfinance institutes increase happiness level of customer (Akram & Hussain, 2011).



This research model shows impact of independent variables on the dependent variables. This type of study has been used by various scholars earlier. This model shows relationship among loan, income, education and poverty. This shows that poverty is negatively related with loan, income and education. Mava, B (2008) shows the effect of microfinance loan upon the income of the borrowers enabling them to uphold their living standard by minimizing poverty.

VII. Hypothesis

H1. Poverty can be reduced with the increasing amount of loan.

H2. Poverty can be reduced with the increasing amount of income.

H3. Microfinance scheme have positive impact on the level of children education

VIII. Research design

This research study survey based quantitative research. For the purpose of study first of all I have selected Khushhali microfinance bank and U microfinance bank in Khairpur district. All the clients of microfinance were selected as population of study. From whom 400 customers were selected as a sample. Data has collected through using close ended questionnaire. Before collection of data permission has taken from the managers of said banks, who also proved list of customers along with their addresses. I have used random sampling technique for data collection. I have distributed 400 questionnaires among the clients of banks. I have received 350 filled questionnaires. I have checked reliability of questionnaire through Using Statistical Package for Social Sciences (SPSS), the cronba'ch alpha reliability test provided satisfactory score. Among those 311 were completely filled 39 were incomplete filled. Data is analyzed through SPSS software by using regression and correlation techniques.

IX. Data analysis and interpretation of results

This section describes data analysis and the interpretation of results. Demographic statistics and statistical analysis of the collected information has been described here which is collected from the respondents .Reliability of questionnaire is checked by using cronbachs Alpha coefficient. This is followed by the interpretation and discussion about our findings. The data analysis contains, descriptive analysis, correlation and Regression analysis is used to analyze the results. These techniques are applied to see relationship between the dependent variable which is poverty and independent variables which are Loan, income and education. We use regression analysis to test the hypothesis of the study.

X. Demographic information of respondents

Age					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-30	97	31.2	31.2	31.2
	31-40	129	41.5	41.5	72.7
	41-50	85	27.3	27.3	100.0
	Total	311	100	100.0	

Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	199	64.0	64.0	64.0
	Female	112	36.0	36.0	100.0
	Total	311	100.0	100.0	

Qualification					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Matric	97	25.8	31.2	31.2
	Intermediate	129	34.3	41.5	72.7
	Graduate	85	22.6	27.3	100.0
	Total	311	82.7	100.0	

Descriptive Statistics			
	Mean	Std. Deviation	N
Poverty	1.69	1.035	311
Loan	4.46	.911	311
Income	4.27	.837	311
Education	4.25	.820	311

Reliability analysis

Reliability analysis is statistical technique which checks the reliability of instrument through which we collected the data and going to present the Theory

Table Reliability Statistics

Cronbachs Alpha	No of Items
.790	20

Above table shows us the reliability of questionnaire which has checked by using SPSS technique of cron bach's alpha coefficient. The value is .79 which is satisfactory according to survival manual of SPSS. "According to survival manual SPSS the value of cronbachs Alpha coefficient should be .7 or above (Pallant, 2005). The value of four study instrument is .790 for reliability analysis with number of 20 items. Hence this study is reliable to go ahead for further process of data".

XI. Hypothesis testing

I have applied regression and correlation regression analysis techniques to find out relationship among independent and dependent variables. Hypotheses were tested by using well known regression analysis technique. Following results are discussed briefly.

Correlation analysis

Correlation analysis is used to describe strength and direction of the linear relationship between the two variables.

Table 4

Correlations					
		Loan	Education	Poverty	Income
Loan	Pearson Correlation	1	.713**	-.694**	.725**
	Sig. (2-tailed)		.000	.000	.000
	N	311	311	311	311
Education	Pearson Correlation	.713**	1	-.766**	.908**
	Sig. (2-tailed)	.000		.000	.000
	N	311	311	311	311
Poverty	Pearson Correlation	-.694**	-.766**	1	-.753**
	Sig. (2-tailed)	.000	.000		.000
	N	311	311	311	311
Income	Pearson Correlation	.725**	.908**	-.753**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	311	311	311	311

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

When we analyzed our collected data through SPSS for correlation we found positive and significant relationship among the study variables i.e income, loan, education and poverty. Pearson correlation test has been applied for this purpose. When we increase amount of loan it make 71.3% positive change in education and 72% positive change in income where as there is negative change of about 69.4% in poverty .When we increase amount of income it make 90% positive change in education and where as there is negative relationship of about 75.3% in poverty. It means that when we increase amount of loan poverty will be decreased and income and education will increase .When we increase income, education increase and poverty will decrease. We can conclude that our four variables are related with each other. Loan, income and education are directly proportion with each other whereas poverty is inversely proportional with these variables. This table shows that our all the three Hypothesis are proved.

Results show us the information about the Model summary. In this table we have to look at the value of R square which shows the goodness of model. This table also tells about how much variance occur in dependent variable due to variation of independent variables. In this case value of R-square for the model is 0.638. This means that 63.8 percent variation in the poverty (dependent variable) can be explained from the three independent variables i.e Loan, income and education. If we increase value of independent variables in multiple regression model R square also increases. . To avoid overestimating the impact of adding an independent variable to the model, some analysts prefer to use the adjusted R-square value (it recalculates the R-square value based on the number of predictor variables in the model). This makes it easy to compare the explanatory power of regression models with numbers of independent variables. The adjusted R-square for the model is 0.635, which indicates only a slight overestimate with the model.

Table

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	211.844	3	70.615	180.450	.000 ^a
	Residual	120.137	308	.391		
	Total	331.981	311			

a. Predictors: (Constant), Education, Loan, Income

b. Dependent Variable: Poverty

ANOVA table shows the overall and final results of regression analysis, as shown in above table .Our overall results and above model is statistically significant. The ANOVA table gives us F RATIO=180.45 and probability level P=.000. This shows that our independent variables or predictors significantly predict poverty.

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.099	.193		31.639	.000
	Loan	-.285	.054	-.267	-5.260	.000
	Income	-.264	.105	-.214	-2.520	.000
	Education	-.475	.104	-.381	-4.573	.000

a. Dependent Variable: Poverty

In the above table we have to interpret three columns simultaneously namely, beta coefficient, t value and significance level. In the above table, we have to check what contribution each independent variable has on dependent variable. Our beta value for loan is ($\beta = -.287$) and is significant at 0.00 probability level. Which shows that loan is negatively related with the poverty. It shows that when we change amount of loan it creates 28% negative change in poverty. It means that when we increase loan poverty will decrease. And in case of income ($\beta = -.26$) and is significant at 0.00. Which shows 26% negative variation in the poverty? And in case of education ($\beta = -.475$) and is significant at 0.00. Which shows 47.5% negative variation in the poverty? These results show that our all three hypothesis are proved and verified.

XII. Conclusion

The results showed that the three determinants loan, income and education have positive and significant impact on the poverty alleviation. The Microfinance has positive role in the uplifting of poor families through the very low interest rates. The microfinance institutions in Khairpur specially the FMFB, Khushali Bank, Finca Micro finance have various facilities for the low income people to start their own businesses. The very popular loan facility is the loan for the purchasing of cattle which enables poor families to make their survival easy in the society.

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