



(105-113)

Volume 4 | No. 1 | 2018

SALU-Commerce &
Economics Review
www.cer.salu.edu.pk

Assessing the Role of Micro Finance for Poverty Alleviation in Sindh

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Abstract:-

Microfinance is playing a significant role in poverty alleviation. The current study focused on the impact of microfinance on poverty alleviation in Sindh. The purpose of this study is to analyze the impact of loan and income on the poverty alleviation among the respondents in Sindh. The target population for this study was the respondents who are the customers of Khushhali Bank Limited in the Sukkur region Sindh and the sample size was of 370. The survey has been conducted to collect the data through the close-ended questionnaire. The SPSS v.21 software was used to analyze the data. The relationship among the study variables measured by using the Pearson correlation and the regression technique was used to know the impact among the study variables (Dependent/Independent). In this research, the study variables are significantly correlated with each other and have a significant impact among the study variables. The current study reveals that the effective provision and easy access of microfinance can empower the poor to maintain their consumption level, develop micro enterprises and gradually increase their assets. It helps in generating income to improve their living standards and can enjoy the quality of life. With little effort, microfinance institutions can improve their performance and play a big role in alleviating the poverty of their customers in Sindh. The conclusion drawn from this study found a significant relationship among the study variables and the microfinance as a key factor for alleviating poverty among the respondents in Sindh.

Key words: Microfinance, Income, Poverty alleviation

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1.0 Introduction

The programs of microfinance are playing an important role in poverty alleviation campaigns in all over the world. The concept of microfinance bank is not a new one, where the different agencies were operating for credit and saving purposes since the centuries. Microfinance is the combination of two words micro and finance means small credit (loan). The increase access to credit reduces the poverty. (Morduch and Hashemi, 2002).

Various studies around the world witnessed that the a variety of programs of microfinance proved that there is significant impact of micro finance on poverty alleviation. A local Micro Finance Institution (MFI) increased the consumption rate of high nutrients in Zimbabwe when food expenditure decreased of their extreme poor customers of Zambuko Trust in the entire country (Bearn, 2001). Study commission by the Debit Credit and Savings Institutions (DECSI) and Norwegian People's Aid has compared with non-clients and observed that the clients DECSI experienced in their income increased, living standard improved and holding of their own assets.

The microfinance is helping the poor to maintain their living standard and assisting in the small businesses. Grameen Bank is also a source of inspiration for Muhammad Yunis by getting such experiment, received the response from the poor people beyond his expectation. Then the Grameen Bank spread out such activities to other rural areas of Bangladesh and finally it became a bank in 1983. The different initiatives have also been taken by the Global Development Institutions to alleviate the poverty and bring the prosperity among the poor people. In this connection the IBRD (World Bank), International Financial Institutions (IFIs) and the United Nations Development Program (UNDP) are playing a leading role in assisting the poor.

Khushhali Bank Limited (KBL) was formed in August 2000 with US \$150 million loan and technical assistance from the Asian Development Bank to alleviate the poverty and it came into being the establishment of Microfinance Sector Development Program (MSDP) in Pakistan. Khushhali Bank Limited is the first microfinance bank established in Pakistan. It has a largest and growing network in Pakistan.

1.1 Research Question

In this study the background of research work leads to the following research problem "Assessing the Role of Micro Finance for Poverty Alleviation in Sindh" a case study of Sukkur region. The evidence has been taken from customers of Khushhali Bank Limited a leading microfinance bank in Pakistan. There is no significant research has been conducted in this region. In this study, it has been observed that how the respondents are maintaining their living standard by getting microcredit services. The more regions can be included to conduct this type of research or comparative study can also be conducted by adding two or more micro finance banks.

1.2 Objectives of the study

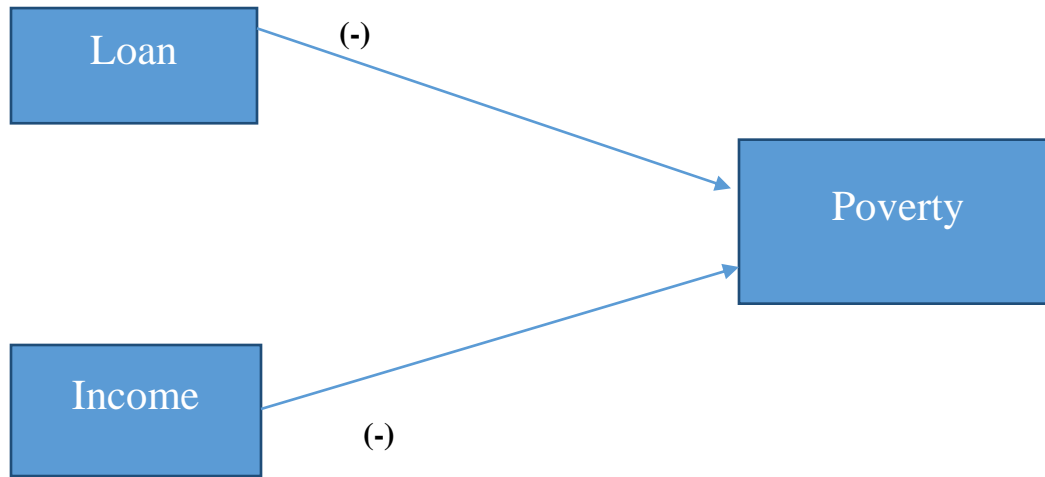
1. To analyze the impact of loan on the poverty alleviation in Sukkur region.
2. To analyze the impact of income on the poverty alleviation in the Sukkur region.

2.0 Literature Review

Microfinance is being used as a tool to increase the living standard of low income people and it has a positive impact on the economy. There is positive impact of micro finance on income level. A large number of people living below the poverty line in Bangladesh. Thus, the microfinance credit lowers poverty (Okpara, 2010). Microfinance is a powerful tool to reduce the poverty ratio Gurses (2009). He writes about the people about Turkey where the people at risk due to the poverty. Yet it is not a poor country but the people need financial support. The microfinance is the founding stone for poverty reduction Rena, Ravinder *et al.* (2006). There is connection between microfinance and poverty reduction. Kumar, Bihra and Johari (2008) stated that in India the microfinance is the only way to overcome poverty. Akhtar and Jaffery (2009) the types of micro finance in the Islamic world is Islamic microfinance. Islamic microfinance is more effective to fight with poverty and conventional microfinance due to certain Islamic social principles could not be effective. Mawa (2008) it is a research based knowledge which states microfinance is an innovative step towards alleviating poverty. Shastri (2009) there is no better way than microfinance in fighting war against poverty. Hassan (2010) mentioned the negative points of the conventional microfinance where high interest rate which is not acceptable by poor people. Knight and Farhad (2008) worked that microfinance improves quality of poor people and promotes the system of poverty reduction. It empowers the poor people through small loan schemes. Matovu (2006) mentioned that without any hesitation microfinance has a certain importance in eradication of poverty. It improves the life style of people poor. Gopalan (2007) microfinance increases the self-confidence of the poor people by achieving their urgent needs by small scale of savings. Ahmed (2008) microfinance is fighting instrument against poverty especially in Pakistan. It increases health facilities, education, social and moral effect on life style of the poor people. Ahmed and Naveed (2004) state the role of microfinance in reducing the rural poverty. It focused Khushhali Bank Limited (KBL) for reducing the poverty in District Rahimyar Khan- Pakistan. Waheed (2009) concluded that micro finance improves income level of the poor people. Khandker and Shahidur (1998) how poverty grows, its causes are mentioned, low productivity and unemployment play important role to increase poverty. Morduch (2002) stated that the effect of microfinance on poverty reduction by using microcredit, assets, family size, education as independent variables and household income as dependent variable. The microcredit is to enhance the standard of the poor with small loans (Navajas *et al.*, 2000). The microfinance tends to stabilize rather than increase income, Burger (1998). Haroon and Jamal (2008) studies that most people have idea for microfinance as microcredit lending small amount of money to the poor; but in broader perspective microfinance includes insurances, transactional services and savings. Fernando (2004) the microfinance has been transformed to NGOs, government owned development banks for development of poor community.

3.1 Study Model

Figure: 01



After reviewing the various studies and from the available literature, the research model has been developed. This model defines the relationship of income, loan and poverty and it shows the impact of two variables income and loan on the poverty. Income and loan is independent variables and the poverty is a dependent variable. The above study model proposes that the income and loan has negative impact on the poverty alleviation.

3.2 Research Hypotheses

- H: 1: Loan has a significant negative impact on the poverty alleviation in Sukkur region.
H: 2: Income has a significant negative impact on the poverty alleviation in the Sukkur region.

4.0 Research Methodology

This research is purely quantitative. The main objective of this research is used to develop the study model and their relationship and to test the hypotheses among the study variables. In order to collect data, a questionnaire was used to get the response from respondents who are the customers of Khushhali Bank Limited (KBL) in Sukkur region. The estimate population of the customers of Khushhali Bank Limited, which were 11800. Convenient sampling technique has been used to select the sample from the population by. To determine the sample size a sampling determination table of Saunders et al., 2009 have been used to measure the sample size. The close-ended questionnaire was used to collect the data from the respondents. The questionnaire was adopted from the relevant study of (Suniya Ayyub, 2013).

5.0 Analysis and Results

In this study the data has been analyzed by using SPSS software.

Table 01 Descriptive Analysis of Respondents

Variables	Mean	Std. Deviation
Occupation	1.73	1.044
Residential Area	3.00	1.416
Age	1.90	.306
Gender	1.04	.191
Education	1.47	.500
Income	2.83	1.172
Loan	2.58	.738
Poverty	2.82	1.106

The mean result (1.73) shows that the most of the respondents in Sukkur region were the Shopkeepers. However the mean result (3.0) of residential area shows that large number of respondents were residing in Pano Akil. The mean result (1.90) of age of the respondents describes that most of the respondents in Sukkur region were the age of 25 years or above. Mean result (1.04) explain that most of the respondents in Sukkur region were male and their education was above the metric level.

The respondents were said to give their opinion on divergent dimensions of study variable e.g. income, loan and poverty. The (M= 1.73) for occupation suggest that the respondents in Sukkur region is occupational regarding the income. (M= 3.0) and (M= 1.90) shows that respondents are belong to their residential area and age in their activities. (M= 1.04) and (M= 1.47) shows their age and education. The response regarding the income (M= 2.83) for effective income, (M= 2.58) for the loan shows in increasing the income level of the customers and (M= 2.82) for the poverty. It shows that the loan playing a key role through which the income of the respondents increases and the poverty in decreasing.

Table: 02 Correlation Analysis

Variable	R.A	Age	Gen	Edu	Inc	Lo	Pov
Ocp	.12**	.22**	.37**	.10*	.11**	.04**	.13**
R.A	1.0	.12**	.03	.19**	.24**	.13	.25**
Age		1.0	.03	.16**	.09**	.01**	.07
Gen			1.0	.01	.05**	.09	.11
Edu				1.0	.05*	.00**	.03**
Inc					1.0	.54**	-.73**
Lo						1.0	-.81**
Pov							1.0

Ocp= Occupation, **R.A**= Residential Area, **Gen**= Gender, **Edu.**= Education,

Inc= Income,

Lo =Loan, **Pov** = Poverty.

** . Correlation is significant at the 0.01 level.

*. Correlation is significant at the 0.05 level

The above table shows that there is significant relationship among study variables

Table: 02 Regression Analysis

Variables	R	B	R ²	Sig
(Constant)	.810 ^a	-.243	.657	.024
Occupation		-.055		.039
Residential Area		.087		.002
Education		.000		.995
Income		-.390		.000
Loan		-.504		.000

** . Regression is significant at the 0.01 level.

*. Regression is significant at the 0.05 level

a. Dependent Variable: Poverty

The above regression result shows that there is a strong relationship between poverty and loan and income. The (R²= .65) depicts that income and loan account for 65% variation in the level of poverty. The adjusted R² is not considerably changed and remained at .65. Two dimensions of microfinance e.g. income ($\beta = -.39$, $p < .01$) accounts for 39%

negative variation in the level of poverty and loan ($\beta = -.50, p < .01$) shows 50% negative variation in the poverty. Both dimensions are negatively and significantly related with poverty. As the results show a negative relationship between loan and poverty and income and poverty, the both hypotheses of the study is fully supported. It can be concluded that the income and loan may help to reduce the poverty of the customers of Khushhali Bank Limited in Sukkur region around 90% collectively.

5.1 Discussion

H: 1: Loan has a significant negative impact on the poverty alleviation in Sukkur region.

The study showed that the loan initiates better results in alleviating poverty. The Loan provides a paradigm shift in microfinance and contributed in defeating the poverty. It is concluded that majority of borrowers are focusing on marginal gains, whereas, small number of borrowers results in increasing the income. Waheed (2009) examined the impact of loan on poverty reduction. The results showed that loan helps in alleviating the poverty. It is to be used as a tool for alleviating poverty.

Khandker & Shahidur, 1998, found that in increasing the job opportunities and investing in the development of human capital is the best way to overcome the poverty. In the developing countries including Bangladesh lack of investment especially in human capital is the major cause of poverty.

In this study, it was observed the impact of loan on poverty alleviation by using the different analysis approaches. The results showed that the programs of micro finance institutions have generated a positive change in the income of borrowers. Javed et al. (2006) reported that micro credit schemes were served as a better tool for empowering the poor people in Sukkur region. As results showed by applying the regression techniques, it is analyzed that the loan has a significant negative impact on the poverty alleviation. The study variable loan significantly accounts for 50% negatively impact on dependent variable (poverty) in the Sukkur region. Hence, the first hypothesis is tested and proved. It is accepted.

H: 2: Income has a significant negative impact on the poverty alleviation in Sukkur region.

In this study, the impact of income in reducing the poverty has been observed. The study has conducted to evaluate the impact of income on poverty alleviation in the Sukkur region.

Moreover, the income is effectively serving the poor people in alleviating the poverty and it helps in maintaining the living standard such as health and education of the customers in the said region. The regression analysis has been used to observe the impact of income on the poverty alleviation. The results show that the income has a significant negative impact on the poverty alleviation. The study variable income significantly accounts for 39% negatively affect poverty alleviation in Sukkur region. Hence the second hypothesis is proved and accepted.

6.0 Conclusion

From the above discussions, the results of the study show that the maximum number of respondents is getting benefit from the microfinance activities throughout the country especially in the Sukkur region. According to the calculated results, it is observed that the microfinance is used as an important tool to alleviate the poverty. It is effectively helping the poor people by increasing their income. It is not only support to generate the income but also helpful in improving the living standard of the poor. From the above results, it is concluded that the respondents expressed their opinion that microfinance is an effective tool in getting prosperity; after getting loan facilities the income level has increased and also improved their living standard. Further, it was learnt that the loan is significant component in between the income and poverty and it leads to the improvement of small scale businesses. In this study, the results showed that the income and loan may help to reduce the poverty in the Sukkur region. The study the results showed that the microfinance is helpful in poverty alleviation; which is consistent in previous studies (Bakhtiari, 2006, Mawa, 2008, Gurses, 2009 and M. Kashif, et al, 2011).

7.0 Recommendations

1. The amount of loan should be increased to meet the requirements of the customers.
2. The more and more opportunities should be given to the people for advancing the loan.
3. For the better utilization of loan, the bank officials should be given the proper knowledge to their customers.
4. To reduce the interest rates so that more customers can avail more facilities of loan.
5. Training programs must be arranged for customer orientation to reach them how to deal properly with the customers.
6. Credit facilities should be provided at the door steps.

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