

## Analysis of the effects of Microfinance on Poverty Alleviation in Rural Areas of Upper Sindh

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### Abstract:

*The study was conducted to analyze the effects of microfinance on the poverty alleviation and reduction in rural areas of the upper Sindh. The data was collected from 30 respondents through an interview guide. The respondents were the clients of microfinance institutions through a different period of time. The results were processed through using Nvivo 10. We reached the conclusion that microfinance facilities do have positive impact of the increase in income level of the people who have taken these facilities. And there is difference in their lives before and after taking finance from the microfinance institutions. People who have taken microfinance have been observed having better income than those who have not taken such facilities.*

### Introduction:

Nowadays economies depend a lot on banking sector. Problem with under developed countries is that majority of their population don't use banks for their financial needs due to variety of reasons. To overcome this problem governments have taken several initiatives around the globe. One of such initiative worldwide is the "Microfinance".

Consultative Group to Assist the Poor define microfinance as "financial services for poor and low-income clients offered by different types of service providers". Kiva.Org describes microfinance as "financial services to low-income individuals or to those who do not have access to typical banking services". DevelopAfrica.Org explains microfinance as "term for the practice of providing financial services, such as micro-credit, micro-saving or micro-insurance to poor or disadvantaged individuals. The ultimate goal of microfinance is to give low income people an opportunity to become self-sufficient by providing a means of saving money, borrowing money and insurance (Investopedia.Com).

In Pakistan's scenario it has been noticed that most of the banks don't have extensive branch network in rural areas. Higher branch establishment & maintenance cost, low volume of deposits and unavailability of products that suit rural customers are the major hurdles for the banks to ensure their outreach in rural areas. Government and State Bank took initiative to provide the microfinance banking services to the un-banked population in the country through the introduction of specialized microfinance institutions. Because of that initiative now we have many microfinance banks in the country, with extensive branch network, strong customer base, and operating on sustainable basis. Most of these banks are privately owned, few of them even have foreign capital, which shows the investors trust in the microfinance sector of the country. It is estimated that potential microfinance market in the country is around 27.4 million.

Major portion of that potential is in rural areas. Microfinance institutions across the country are operating through 2,157 branches/offices at the moment with only 10% of the market potential has been tapped.

In this study we have attempted to closely look into the impact of these microfinance programs on poverty alleviation in upper areas of rural Sindh, which includes Ghotki, Jacobabad, Kandh Kot-Kashmore, Khairpur, Larkana, Qanbar-Shahdadkot, Shikarpur and Sukkur districts.

### Literature Review:

Through exploratory research and secondary data collection concluded that in overall scenario microfinance is working very well in India in eradication of the poverty. But availability of microfinance facilities to the rural population of Bihar is very limited. Bihar is considered to be one of the poorest states in India therefore there has been huge potential for microfinance institutions Sharda Kumari (2013).

There is link between the microfinance with “Gross National Happiness”. He explains that GNH cannot be achieved without improving the living standard of the poor and microfinance is doing very well in improvement of poor’s living standard Purna Prasad Sharma (2013).

Microfinance has emerged as a powerful tool to tackle poverty but there are syndromes which tell us that situation is moving without any direction. There is lack of product diversification, higher interest rates, inefficient credit delivery channels, duplication of customers and less thrust on enterprise loans Sibghatullah Nasir (2013).

Impact of microfinance varies across household types and economic environment. It has positive impact on female empowerment and it can increase money income. He also argued that higher interest rates charged by microfinance institutions and the credit-limit affect microenterprises income adversely. At the same time lack of technology and weak domestic demand of their products are the constraints for microenterprises to come out of poverty M.G. Quibria (2012).

Muhammad Akram & Imtiaz Hussain (2011) conducted the study with the aim to measure the contribution of microfinance in uplifting of low income households and their living standard. A questionnaire was developed for data collection and descriptive research design was applied. Microfinance was taken as an independent variable and income level was taken as a dependent variable. 85% of the respondents said that their income level and living standard has improved after taking the microfinance facility. The study concluded that microfinance is serving the poor efficiently and it has positive impact on income level of the people. The customer satisfaction also witnessed with the microfinance services.

Microfinance have potential to reduce poverty, increase economic capacity, bring sustainable development, improve income and reduce vulnerability. After their research they concluded that there has been significant economic difference witnessed between the people who have taken microfinance facility and those who have not. The microfinance can be used as potent strategy and as a viable tool to reduce poverty Charles Jegede, James Kehinde & Babatunde Hamed (2011).

Loans provided by microfinance institutions have significant poverty alleviating effects especially on income and consumption Katsushi Imai & Shafiul Azam (2011).

When there is stable macroeconomic environment financial penetration programs such as microfinance has a significant and robust effect on decreasing the poverty Takeshi Inoue & Shigeyuki Hamori (2011).

One main indicator of “Gross National Happiness” is living standard. And microfinance has strong link with capability building through process of social transformation by improvement of living standard for arriving at “Gross National Happiness” Saugata Bandyopadhyay (2011).

Microfinance as wondrous tool that alleviates poverty and empowers women. But he found no evidence on the review of the impact of micro credit on the socio-economic well-being of the household Maren Duvendack (2010).

Microfinance has helped in creating self-employment and income opportunities among poor. But government needs to restrict its involvement in the MFIs Shalik Ram Sharma (2010).

David Roodman & Jonathan Morduch (2009) revisited the impact studies of microfinance in Bangladesh and they endorsed that microfinance has been effective in reducing poverty. It has been beneficial for extremely poor and it has increased the economic & social status of women. Microfinance help smooth the household expenditure and lessening the pinch of hunger.

Anis Chodhry (2009) critically appraised the effectiveness of microfinance programs as universal poverty reduction tool. He argued that microfinance does play important role in providing safety-net, consumption smoothening and borrowers do benefit from learning-by-doing and self-esteem but its impact on poverty alleviation remains in doubt.

Microfinance has two types of impacts. One is narrow and immediate financial impact on the clients and other is broader socio-economic position of the poor. Therefore both impacts must be considered while making any assessment about the effectiveness microfinance programs Nazrul Islam (2009).

There are four pillars which can strengthen the financial inclusion the millennium development goal. The microfinance is one of those pillars, others are; financial literacy, private sector development and public sector development Michael Chibba (2009).

Poverty has decreased since microfinance was introduced. It has share in poverty reduction and it is observed that in areas where microfinance is most prominent poverty has declined Jasper Mutsaerts (2009).

Microfinance as effective tool to fight poverty. But microfinance institutions face numerous challenges such as long term sustainability, to minimize transaction cost concentrate only on urban markets, higher interest rates and targeting only economically active poor not the poorest of the poor Okurut Francis Nathan, Banga Margaret & Mukungu Ashie (2004).

There is ample evidence available which support the argument that microfinance has positive impact on poverty alleviation, income smoothing and income increase. At the same time they comment that it is possible that without jeopardizing the financial sustainability of MFIs poorest can benefit from microfinance. But for positive results these programs must be properly targeted to the poorest Jonathan Morduch & Barbara Haley (2002).

Due to lack of support from political elite and bureaucracy NGOs have assumed the role of microfinance institutions in the country. They have worked well on empowerment of the poor by providing them access to the credit and their skill enhancement Khalid Mustafa, Zulfiqar Ahmad and Toseef Azid (2000).

Microfinance is an innovation which reduces the costs and risks of lending to the poor. The people who borrow money from microfinance institutions have higher consumption level and mostly their children are in school Jonathan Morduch (1998).

### **Research Methodology:**

An interview guide has been used to collect the data from the work of Mr. Ghulam Rasool Dahiri of University of Karachi in the year 2007 on topic of “Analytical study of NGOs performance in poverty alleviation at Hyderabad division”. The data has been processed in Nvivo 10 using qualitative research methods of data interpretation”.

### **Research Questions:**

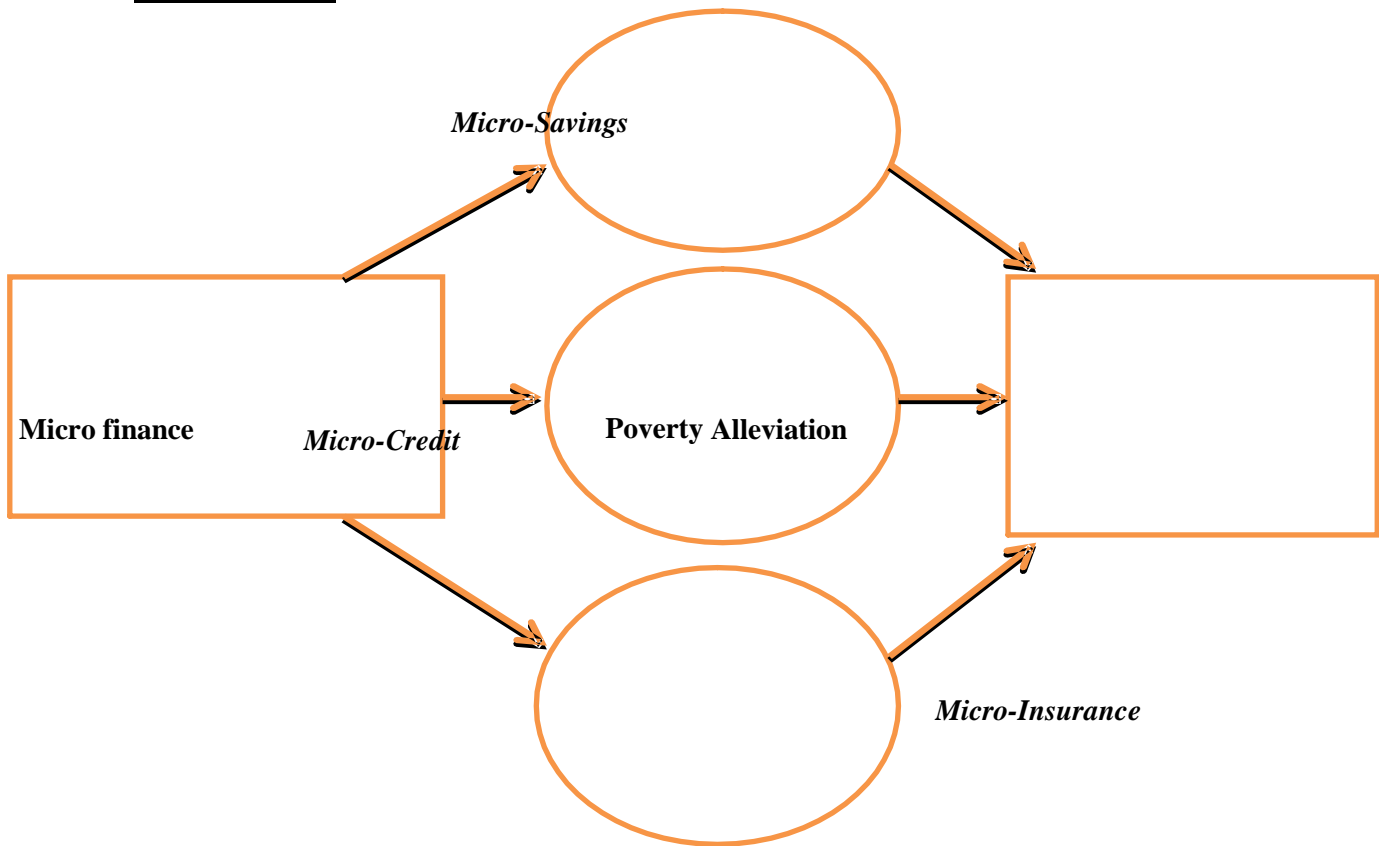
- 1) Do poor have access to microfinance facilities for the development of their businesses in rural areas of upper Sindh as expected?
- 2) Do poor have good experience of dealing with the microfinance institutions?
- 3) What are the prospects of microfinance in the reduction of poverty in rural areas of upper Sindh?
- 4) Does microfinance contribute to poverty reduction and improved standard of living of people in rural areas of upper Sindh?
- 5) Does poverty reduction have any implication on sustainable development in rural areas of upper Sindh?

### **Hypothesis:**

- 1) There are significant options available for the poor to seek microfinance services.
- 2) The poor feels comfortable with the experience of dealing with microfinance services.

- 3) There is relationship between microfinance and poverty alleviation.
- 4) There is no significant effect of microfinance in poverty alleviation.
- 5) There is no significant effect of microfinance activities on sustainable development.

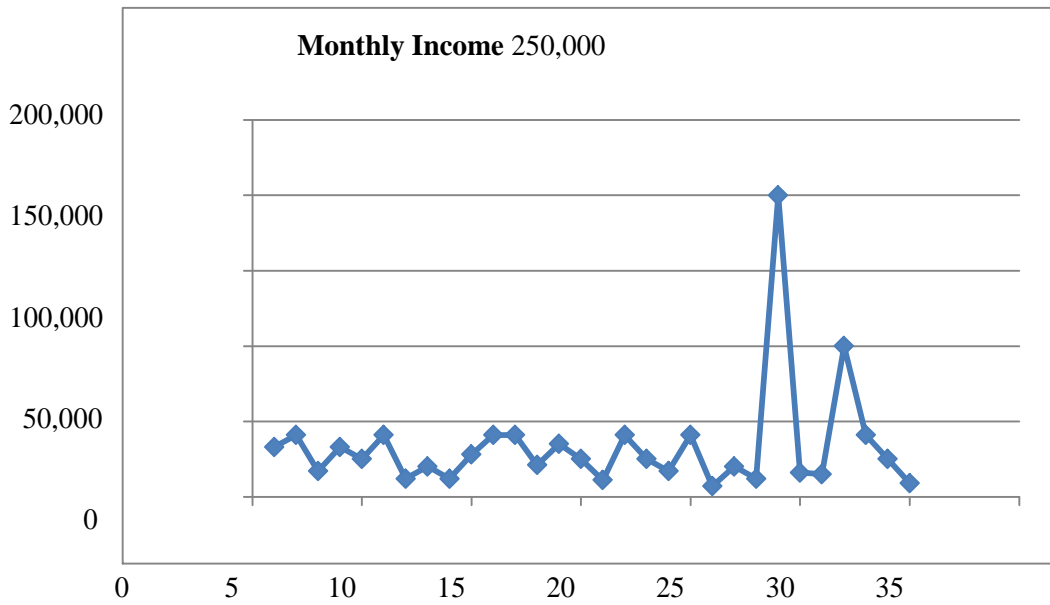
**Research Model**



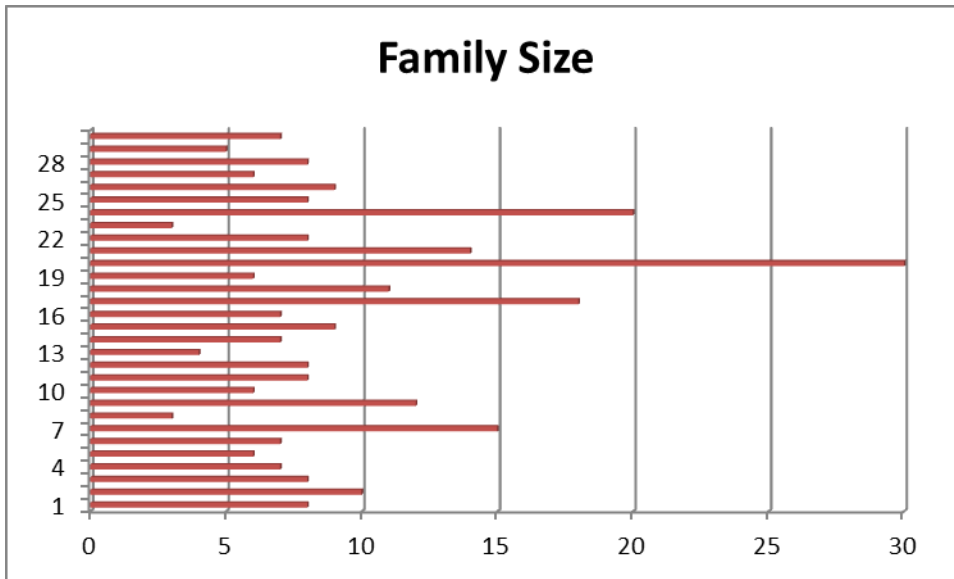
**Respondents Personal Profile:**

S #	Name of the Respondent	Age (Years)	Education	Marital Status	Number of Children	Family Size	Family Type	Occupation	Monthly Income
1	Abdul Rehman	35	Primary	Married	6	8	Separate	Farming	33,000
2	Dhani Bux	38	Matric	Married	8	10	Separate	Farming	41,000
3	Jumo	55	Illiterate	Married	6	8	Separate	Farming	17,000
4	Abdul Ghafar	51	Illiterate	Married	5	7	Joint	Farming	33,000
5	Abdul Rasheed	62	Illiterate	Married	4	6	Joint	Farming	25,000
6	Imam Ali	35	Matric	Married	3	7	Joint	Farming	41,000
7	Imtiaz Ali	30	Illiterate	Married	8	15	Joint	Non-Farming	12,000
8	Nadim Ali	28	Matric	Married	0	3	Joint	Non-Farming	20,000
9	Qalandar Bux	28	Primary	Married	5	12	Joint	Non-Farming	12,000
10	Abid Hussain	32	Intermediate	Married	0	6	Joint	Farming	28,000
11	Ali Gul	40	Illiterate	Married	8	8	Joint	Farming	41,000
12	Allah Dino	50	Primary	Married	4	8	Joint	Farming	41,000
13	Attaullah	28	Matric	Married	1	4	Joint	Farming	21,000
14	Major Muhammad	24	Primary	Married	3	7	Joint	Farming	35,000
15	Ali	25	Primary	Married	3	9	Joint	Non-Farming	25,000
16	Qanbar Ali	46	Illiterate	Married	5	7	Separate	Farming	11,000
17	Shahzada Khan	32	Matric	Married	3	18	Joint	Farming	41,000
18	Sohrab Bueti	42	Primary	Married	6	11	Joint	Farming	25,000
19	Sohrab	50	Illiterate	Married	4	6	Joint	Farming	17,000
20	Tahir Khan	30	Bachelors	Married	3	30	Joint	Farming	41,000
21	Abdul Hameed	33	Matric	Married	3	14	Joint	Farming	7,000
22	Asif Ali	21	Intermediate	Single	0	8	Joint	Non-Farming	20,000
23	Dhani Bux	23	Matric	Single	0	3	Joint	Farming	12,000
24	Ghulam Mustafa	62	Matric	Married	5	20	Joint	Farming	200,000
25	Hidayat Ali	35	Matric	Married	6	8	Separate	Farming	16,000
26	Mukhtiar Ahmed	42	Illiterate	Married	7	9	Joint	Farming	15,000
27	Nazo	50	Primary	Married	4	6	Separate	Farming	100,000
28	Piyaro	35	Illiterate	Married	10	8	Joint	Farming	41,000
29	Sajad Ali	25	Primary	Married	0	5	Joint	Farming	25,000
30	Zahoor Shah	22	Primary	Married	3	7	Joint	Non-Farming	9,000

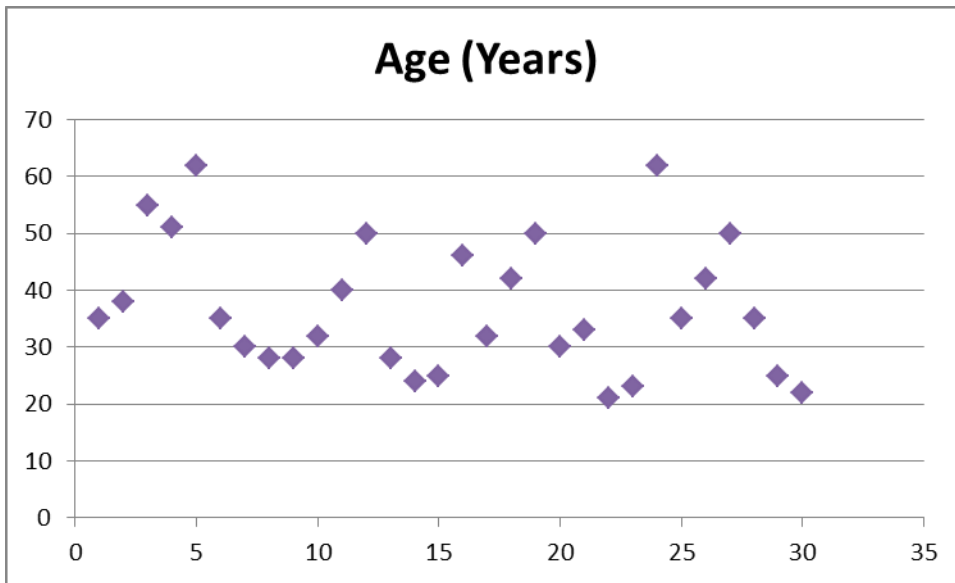
**Respondents Poverty Assessment (Income Level):**



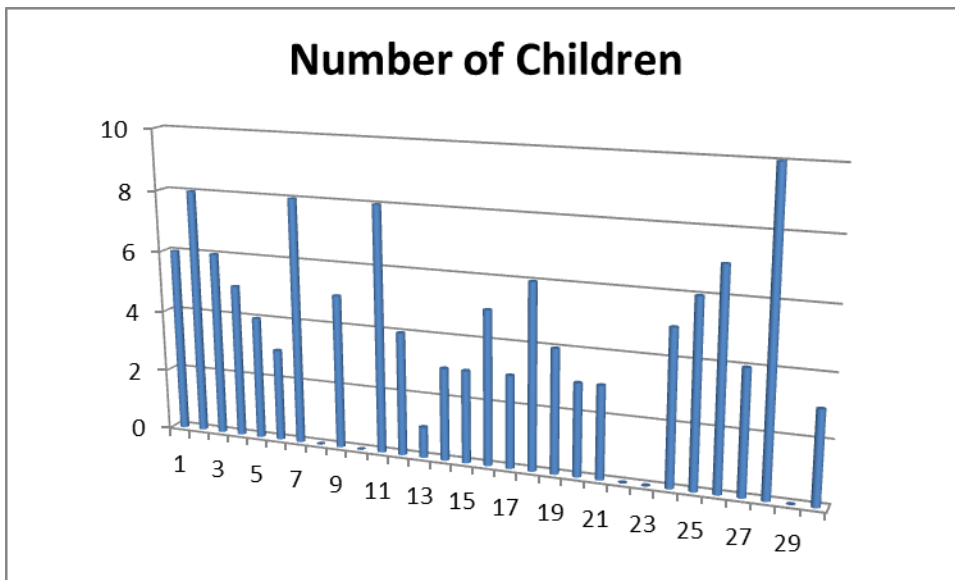
**Respondents Family Size (A Reason for Poverty):**



**Respondents Age Group:**



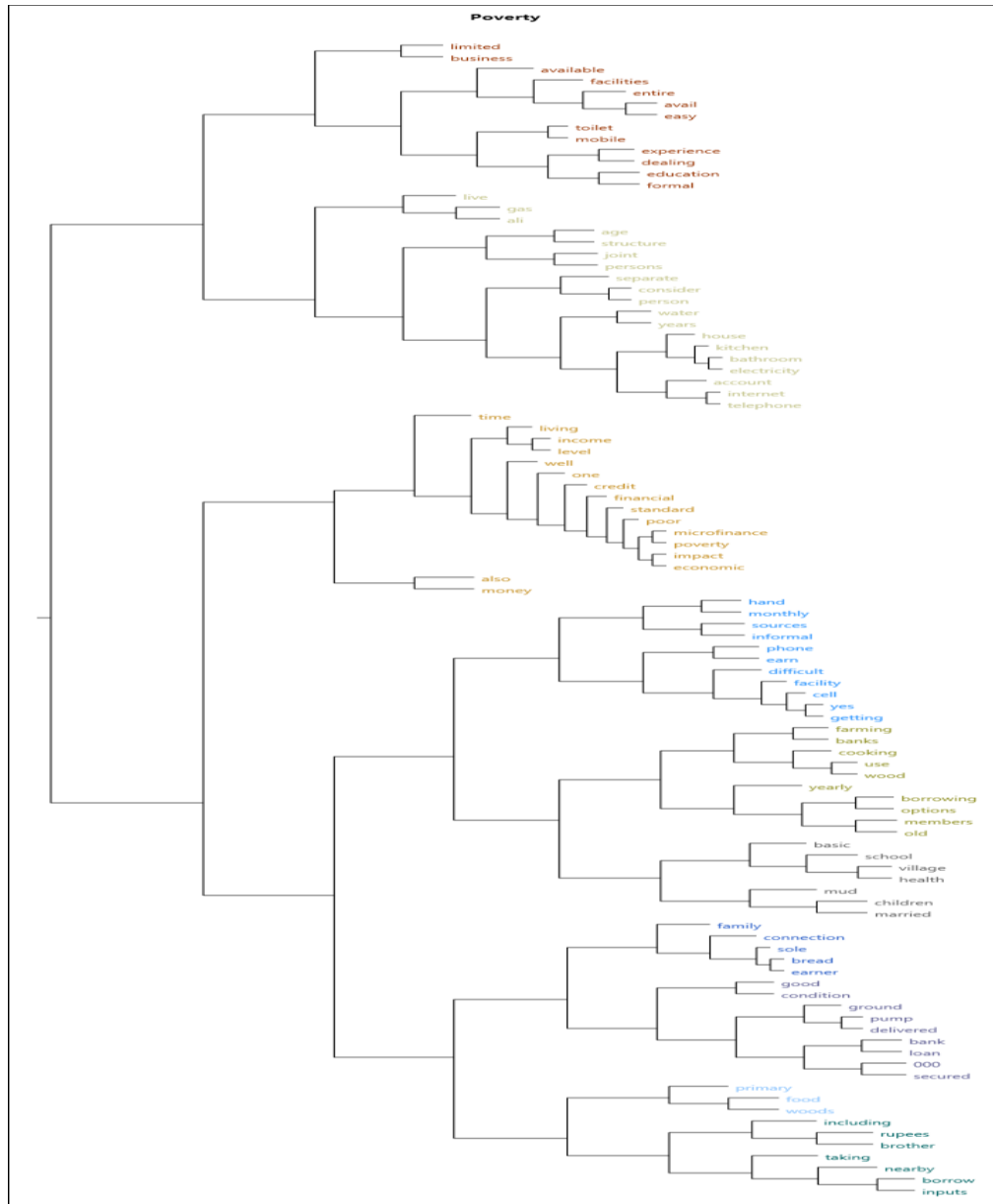
**Respondents Number of Children (A Reason for Poverty):**



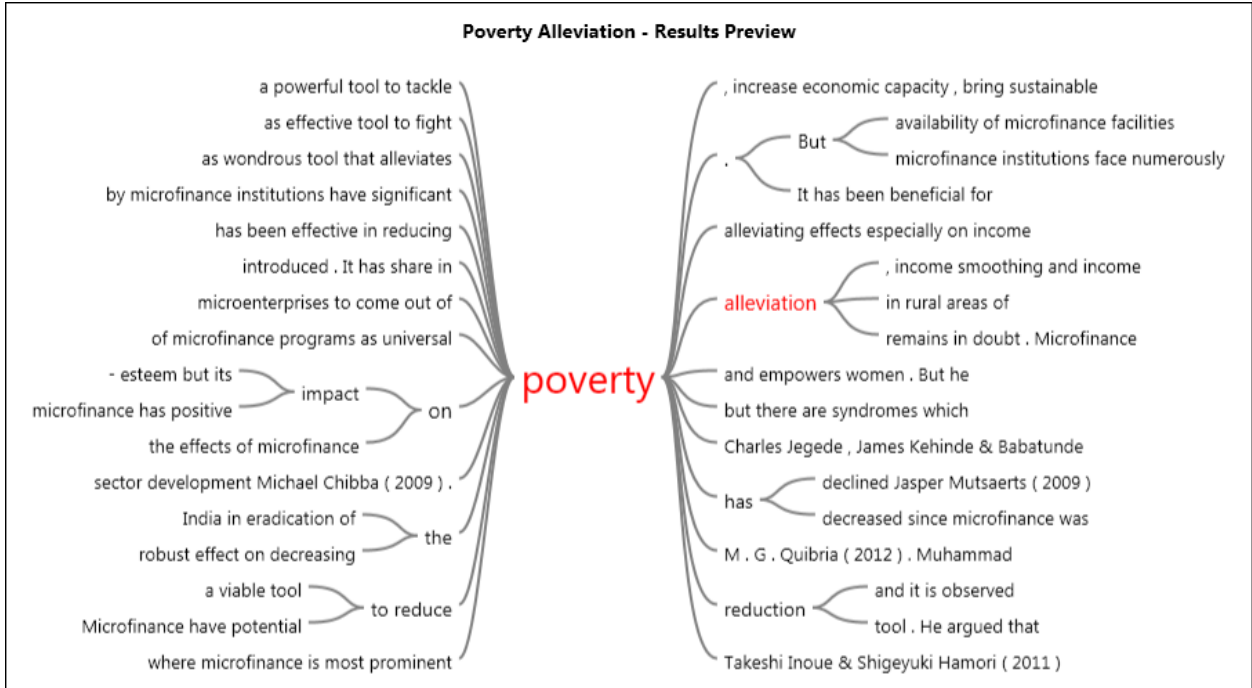




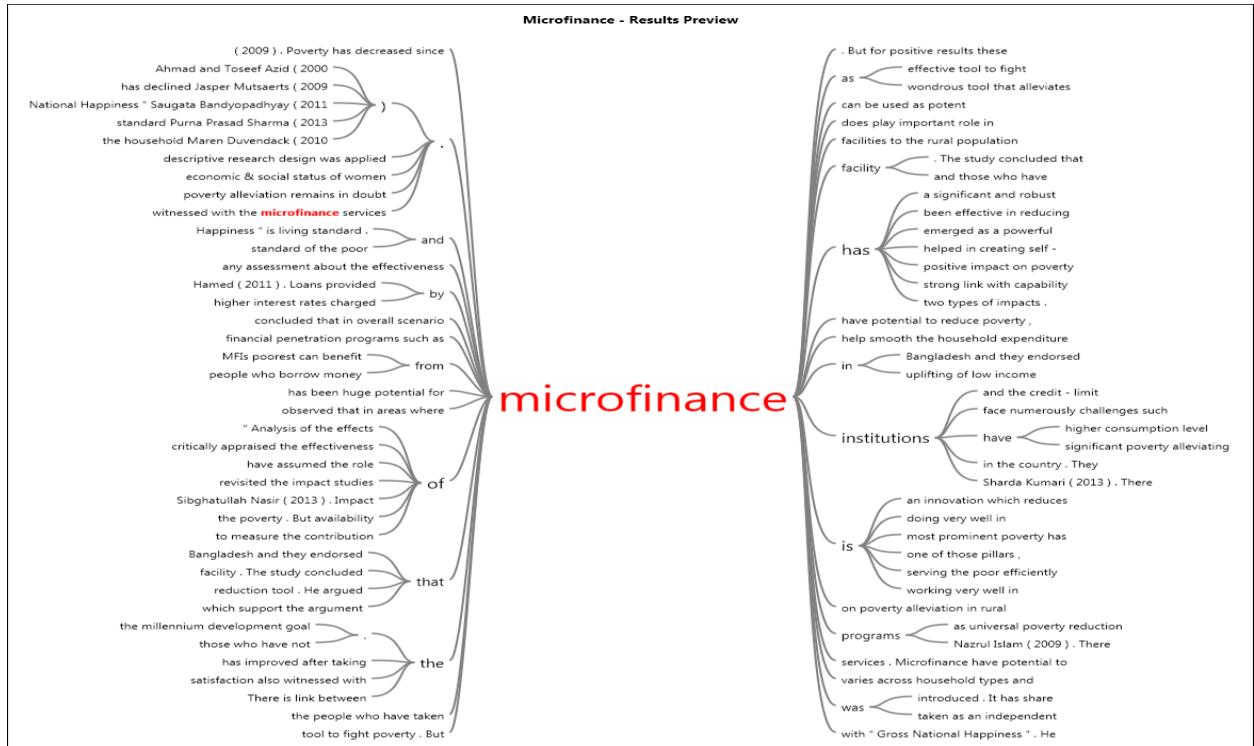
**Text Search and Theme Building Query:**



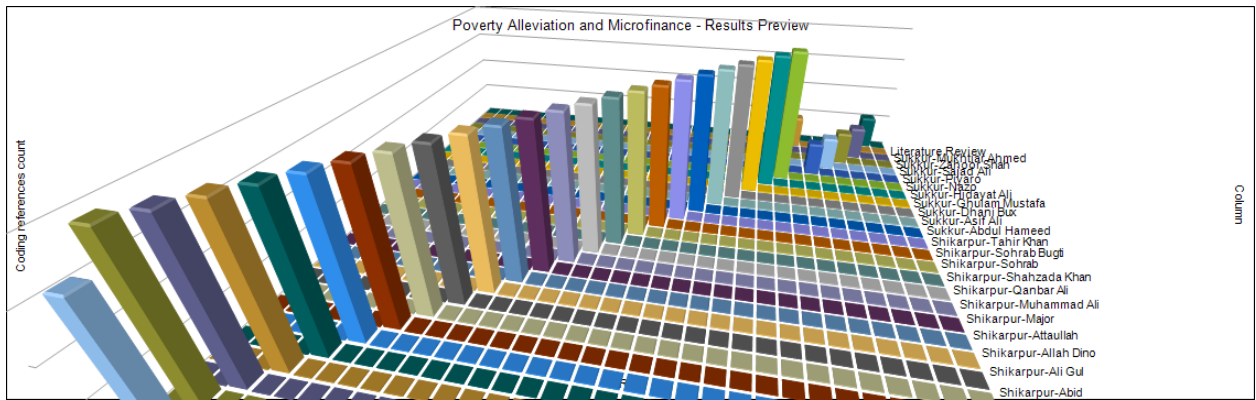
Poverty Alleviation - Results Preview



Microfinance - Results Preview



**Coding and Matrix Query:**



**Hypothesis Test after Data Process:**

- 1) There are significant options available for the poor to seek microfinance services.

**This hypothesis has been tested and people have been found dissatisfied with the microfinance facilities available to them. They said we don't have enough options available to access the funds whenever we need.**

- 2) The poor feels comfortable with the experience of dealing with microfinance services.

**Test of this hypothesis suggest that people are very satisfied with the experience of dealing with the microfinance institutions.**

- 3) There is relationship between microfinance and poverty alleviation.

**This hypothesis has been tested positive. Results of the study suggest that access to microfinance alleviate the poverty.**

- 4) There is no significant effect of microfinance in poverty alleviation.

**Test of this hypothesis suggest that microfinance have significant effect on poverty alleviation.**

- 5) There is no significant effect of microfinance activities on sustainable development.

**Test of this hypothesis suggest that microfinance is a sustainable development strategy, which help alleviate the poverty.**

**Conclusion:**

In our study it is concluded after the data collection, processing and interpretation that people have been found dissatisfied with the microfinance facilities available to them in these areas. They feel that they don't have sufficient financing options available to them to satisfy their needs or to increase their income level. They said we don't have enough options available to access the funds whenever we need. People were found very satisfied with the experience of dealing with the microfinance institutions, with their policies, products, pricing and service. Results of the study suggest that access to microfinance helps alleviate poverty, which is consistent with previous research works. Microfinance has significant effect on poverty alleviation which can help in building a sustainable development strategy.

**Limitations:**

This research is conducted only in upper Sindh institutions districts and microfinance vary when working in these areas. Results may performed in others areas. such work in

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