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## ***Full Length Research Paper***

# **Microfinance: Poverty Mitigation and New Spark of Opportunities in Pakistan**

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**The study determines the impact of Microfinance in alleviating poverty, how efficient and effective strategy it is in enhancing the incomes and wellbeing of microcredit clients. It also investigates the protracted influence of microfinance programs on recipients, their accessibility to health services, and education for their children, and the improvement in their families' consumption levels, and increment in their income level. Microfinance, basically is the tools used to mitigate poverty, create opportunities and develop economies. Microfinance and microcredit are not only design to support poor of the country but also supports empowerment of women, encourages equality and give them an opportunity to live a better life. For accomplishing this study In-depth interviews of the managers and field mangers having one year experience in the respective field from six microfinance institutions in Karachi had been conducted by using hybrid questionnaire; semi structured questions consist of both open and close ended questions. Secondary data is collected from past literature, articles, newspapers and websites of Microfinance banks and institutions. After content analysis, the qualitative analysis type, of in-depth interviews study reached on the conclusion that microfinance has created opportunities in terms of employment generation, improvement in income, generation of more economic activities and women empowerment whereas we have not find any empirical results about alleviation of poverty.**

**Keyterms: microcredit, economic development, poverty alleviation, enhanced living patterns.**

## **INTRODUCTION**

### **Preamble**

Microfinance is used as a tool to alleviate poverty, to help the poor and provide for an empowerment of women members of the society. There are several

microfinance institutions (MFIS), banks of microfinance (MFB), NGOs and many other welfare trusts which are active for the alleviation of poverty around the globe. Worldwide microfinance is considered as the key weapon against poverty and it also provide the

financial sustainability and empowerment to the poor (Leikem, 2012).

It is not the new concept, from 1700 century it is workable in different countries with different approaches but in 1976 in Chittagong University of Bangladesh, Professor Yunus has initiated the experiment and provide small amount of money to the villagers in form of groups and after the overall of success of their business, in 1983 he initiated the Grameen Bank (Hastarska & Holtmann, 2006).

In Pakistan, the concept was emerged during the 1990s, when public rural programs and other private institutions were developed. Other than these institute regulatory institutions such as the State Bank of Pakistan (SBP), Pakistan Microfinance Network (PMN), and the Pakistan Poverty Alleviation Fund (PPAF) are also active in this field and to make their efforts for the development of economy (Ahmad, 2008).

In Pakistan about 33 per cent to 35 per cent of the people are below the poverty line (earning less than \$ 1) that is to say a third of the population do not have financial resources to meet their basic needs which paints a very unfavourable situation of the company.

The reason for this research is to determine the influence of microfinance in the fight against poverty, strategy how efficient and effective it is by increasing the income and welfare of the clients of microcredit programs. This research study would strengthen the limits of existence review of the literature. It focuses on microfinance as an effective strategy adopted for the production of opportunities, alleviate poverty and improve the standard of living of the beneficiaries, and how can it contribute to the development of the economy. The study had also examined the long-term influence of microfinance programs on the lives of the beneficiaries, their accessibility to health services, and education for their children, and the improvement of their families" of consumption levels and the increment of their level of income. In addition, this research study provide knowledge on the effectiveness of microfinance in the creation of a real economic growth by targeting the poor.

### **Problem Statement**

Is Microfinance an effective strategy in the creation of opportunities and to alleviate poverty in Pakistan?

Are the banks of microfinance in Pakistan as a result of effective strategies to create enough opportunities for the poor Pakistani people? And these strategies are they well organized to mitigate the overall poverty of the nation? Given that Pakistan is in developing countries, with the majority of the illiterate lower middle class, and the general orientation of the banks of microfinance in Pakistan is to help them to achieve the well-being and peace in their families, but these banks effectively reach

these poor people and to offer assistance to their doors or just after the superficial strategies. Pakistan is a different market when compared to international markets and are therefore the needs and demands of the population, and consequently, the banks of microfinance must work so as to provide microcredit projects that actually reduces poverty and improve the long-term well-being.

The main problem is in line with the effective structure of microfinance with the demand of the poverty alleviation and how efficiently microfinance institutions are achieving their goals.

### **Research Questions**

This study is designed primarily to seek the answers for the research questions:

1. How microcredit projects have an impact on the lives of the poor?
2. Have Microfinance institutions creating opportunities for the poor?
3. How microfinance contribute to the development of the economy, can we generalize the impact for all the poor?

### **Scope and Limitations**

#### **Scope**

Since Karachi is a metropolitan city with a diverse population of the whole of Pakistan, therefore this search is limited to the Karachi, Pakistan, so that we can say that this research is in context of Pakistan. The reason behind the choice of this theme is that it is the emergence of the concept of microfinance banks in Pakistan. Microfinance is the tool, if the best exploited could help us to reduce poverty and stimulate economic growth. In the review of the literature on the subject we found number of variables which contributed to the reduction of poverty, the empowerment of women, and to reduce the unemployment and so on, but this study focuses more particularly on four things mainly; the reduction of poverty, the possibilities, the empowerment of women and to improve the standard of living.

#### **Limitations**

Few limits for the research project are the following;

- In addition, due to the time constraints we are required to collect data from Karachi only.
- The information providers or managers of institutions may be reluctant to disclose all relevant information, so that the handling or the absence of specific information provided by the banks of microfinance is another constraint.

## Justification

The reason for this research is to determine the impact of microfinance in the fight against poverty, strategy how efficient and effective it is by increasing the income and welfare of the clients of microcredit programs. It will focus on microfinance as an effective strategy adopted for the production of opportunities, alleviate poverty and improve the standard of living of the beneficiaries, and how can it contribute to the development of the economy. Our research project will strengthen the limits of existence Review of the literature and policy makers will be benefited for the design of the strategy, to correct any loop holes, to make improvements in the supply of products, so that the recipients' can take advantage of the Microfinance institutions that influence, in the end, our economy in the positive direction.

## Assumptions

We have assumed that the information that will be received after in-depth interviews of managers and managers in the field of microfinance banks is true.

## REVIEW OF THE LITERATURE

Microfinance has first been recognized in Bangladesh by the extraordinary work of Mr. Muhammad Yunus who awarded by the Nobel Peace Prize for his great efforts in the field of microfinance in 2006. After its creation in 1976, the Bangladesh Microfinance has attained a great importance in the global financial sector. To provide funding of support for entrepreneurs in the start-up of their business are not able to run their business ideas just because of the non-availability of financial resources, is serious attention among these people (Morduch & Haley, 2001).

After reviewing the existing literature on microfinance and its impact in the fight against poverty we have identified that there are different results of different research conducted in the past. Few of them have concluded that the micro finance has a positive impact on the mitigation of poverty while others have concluded that it has a negative impact of microfinance on the poor. There is research that says that it has a favorable impact on the poor of the society, but it does not include the poorest of the poor (Hastarska & Holtmann, 2006; Leikem, 2012).

The first group of researchers has argued that the programs of microcredit and microfinance have created a significant influence on the level of consumption, of pay, health and education on their social well-being in general. These programs have also created opportunities to encourage the empowerment of women. These positive effects on the lives of the beneficiaries are documented in

the previous reviews of the literature. For example, a study conducted in the Grameen Bank in Bangladesh revealed that microfinance programs positively affected in Bangladesh to reduce poverty. These programs resulted in employment, more the generation of income and the accumulation of capital. More in another research conducted by Khandker (1998) concluded that microfinance institutions of Bangladesh reduce the poverty of 5 per cent of the loan recipients". In the studies that have been discussed above, microfinance institutions operated in these villages where studies have been carried out, improve the overall income and wage level of the villagers. These programs also positively affected to the female members as well as the male members (Pitt & Khandker, 1998). The micro-financing programs increased the well-being in terms of revenue, the level of consumption, wealth, per capita expenditures and income, education, health etc. (Mustafa, 1996).

The micro finance improve the income level of the recipient , it has improve the levels of consumption of households , aborted educations level that the results have shown more enrolment in schools were found increment of their levels of income, while micro finance have shown mixed results for intervention in the empowerment of women. In some cases, he did not demonstrate a significant impact of the empowerment of women (Haroon Jamal, 2008).

The standard of living in low-income developing countries have always been a crucial issue to be addressed. Microfinance in Pakistan is effectively serve the poor people by increasing their level of income. It was quantified that 85.40 per cent of the respondents said that their level of income has increased after the obtaining of the micro-financing and it has improved their standard of living (Akram & Hussain, March 2011).

Micro finance and micro-credit programs have a positive impact on the development of any economy in the form of job creation, the empowerment of women, the investment in the company to improve its general well-being. There is a positive relationship between the profits of a small business and the beneficiaries of the loans but it is less likely that these profits will be reinvested businesses and provide employment opportunities for others (Hussain, 2009; Morduch & Haley, 2001).

## Conceptual Model

There are three variables that we have identified in order to assess the influence of microfinance on poverty alleviation and creation of opportunities for the poor. The conceptual model considered the major construct of microfinance which influence the lives of the beneficiaries in the form of several possibilities such as the opportunities of entrepreneurship, employment opportunities for men and women, economic growth and

the reduction of poverty. All of these opportunities and the reduction of poverty depends on the microfinance.

## RESEARCH METHODOLOGY

### Research Design

This research is a qualitative research which is based on the method mono. Qualitative Study is used to analyze a social phenomenon in a particular context (Hatch, 2002) and it is used to describe, examine and explain views and perception of the managers (Marshall and Rossman, 2006). There is also the limitation that managers may be biased towards highlighting the positive image of the microfinance but certain studies had been analyzed through the meta synthesis also field workers and beneficiaries were also interviewed for balancing the findings.

### Data collection Strategies

In-depth interviews of managers and managers of field (having one year of experience in the respective field) of six of the thirteen microfinance institutions in Karachi had been performed using hybrid questionnaire; questions semi-structured consisting of both open and closed questions. Other data had also been conducted from the clients of microfinance institutes. The existing literature: documents of previous research on the subject of micro finance, articles, newspapers, web sites of the MFI, site of State Bank of Pakistan and the annual reports that also been used for the collection of secondary data.

### Participants of the Study

Director of the Department of State of Microfinance Bank of Pakistan (SBP), and the managers and managers in the field of banks and microfinance institutions in Pakistan, who have at least 1 year of experience in the seat in particular are the population of this study. The thirteen MFI and MFB's are working under the SBP. The clients have also been interviewed for verifying the words of managers as well as to see the influence of microfinance.

Non-probability sampling techniques, is used for sampling which is also called discretionary sampling in which the size of the sample is selected on the basis of the capacity of the respondent to provide information on a specific area of these techniques, it is recommended to have a sample of small size and it can be vary according to the resources, the time etc.(Sekaran, 2011)

Director of SBP had been interviewed in order to know the status of microfinance in Pakistan, as he was biased he provided the true picture by sharing the latest

researches on the performance of microfinance and his interview was meaningful for knowing the role of the government. The managers, directors, managers of field or of the authorities concerned, of six to seven MFIS and MFB with at least one year of work experience in the same organization dealing with the microfinance sector and the clients of microfinance had been interviewed.

### Selection of instrument/measure

The hybrid questionnaire had been adopted from the relevant study and modified according to the settings of Pakistan. The hybrid questionnaire had been used during the in-depth discussion and interviews. Hybrid questionnaires contain both open and closed questions (Sekaran & Candle, 2010).

### Strategies for data analysis

As the research is qualitative in nature, the content analysis had been used to analyze the data collected by in-depth interviews. The qualitative analysis of the content can be defined as follows:

- "The qualitative analysis of the content is an identification of bosses or themes by a systematic coding of text data". (Hsieh & Shannon, 2005, p. 1278).
- "It is a systematic process and empirical analysis of text controlled by the rules of content analysis". (Mayring, 2000)

The objective of the analysis of content is to provide a rich description of a particular phenomenon through the preparation of data, the coding and interpretation. It may result in the development of new theories, the validation of models and existing theories.

## DISCUSSION AND CONTENT ANALYSIS

To satisfy the requirement of the above-mentioned objectives, semi structured interviews were conducted through questionnaires from managers of six MFIS and MFB in Karachi and microfinance clients. Then these interviews were considered for exploitation.

There is well-written stories of success about the recipient are available on the secondary resources regarding the increase of income or consumption, etc. During the our visit to Mehmodabad, we interviewed one client, Ms. Erum having made use of financial services of Kashf Foundation and now it is running on its own school at its own three-storey house. She does not only has improved its standard of living and has become the master of this school but she is also creating opportunities for others as she hired two teachers as well which shows the creation of jobs in her locality.

## Major Themes (OPP) KF TMB AA APWA NMB

Major Themes	Orangi Pilot Project (OPP)	Kashf Foundation	Tameer Microfinance Bank	ASA	APWA	Network Microfinance Bank Ltd
Job opportunities for poor	The programs offered by OPP creates job opportunities for the poor who don't own their agricultural land	Clients generate opportunities for others through their own business activities	Since, new businesses are opened it ultimately leads to job opportunities for others so it does contribute for creating job opportunities	Micro credits provide to entrepreneur and business persons do create jobs for others.	Does not create job opportunities.	Created job opportunities as loan recipients created multiple effects.
Economic growth	Through the enormous number of success stories, it shows that it is contributing towards the economic growth	Yes microfinance support the economic growth	As new businesses are introduced it leads to job opportunities and hence it results to economic growth	Do contribute in economic growth in terms of reduction of unemployment in the economy.	No participation in economic growth because of failure of credit program.	Unemployment reduced.
Women Empowerment -Wellbeing -Economic -Social	OPP offers two programs exclusively running for women and these programs won the best award in 2010	The main focus of Kashf Foundation was to cater women to empower them	Tameer Microfinance Bank does not directly targets to men or women its main theme is to boost entrepreneurial activities which does give rise to women empowerment	Encourage women to empower as they are more trust worthy, stay at home and high repayment. ASA's women client is around 99.45%.	APWA encouraged women to participate in business activities. They started their program with motive of reduction of poverty and improvement in household environment.	Network microfinance encourages women empowerment, women participation in the economic activity therefore they have two products particularly for women that are Tahriq-e-Niswan and Bahbood-e-Niswan.
Poverty Alleviation	Since, the OPP targets to rural areas which shows that it is solely working to alleviate poverty because they are targeting to people who are lower income group of the society	Yes, it contributes towards alleviating poverty	Since, the Tameer works to increase the business activities in the society which alleviates poverty	It cannot be conclusive how much poverty is being reduced.	Motive was there but because of mismanagement and other issues not able to achieve.	At Network Microfinance Bank products are offered or made to ensure that empowerment occur; reduce poverty and proper utilization of loan take place.
Social Wellbeing	Yes, it supports the social wellbeing by targeting to those income groups who have been neglected by the society	Since, the Foundation focuses on women empowerment which ultimately leads to social wellbeing	Poor people who were unable to earn and starts earning which means it does contribute to social wellbeing of the people	Success stories of clients' shows improved social wellbeing as after availing loans they become more confident, responsible and satisfied.	Not able to achieve.	Social wellbeing of clients has improved.

Another client Ms Shabana having made use of the services of Orangi Pilot Project, was interviewed. According to her, before availing the microfinance, she has not even been able to have three meals but after contacting the OPP, she works at home and made decoration pieces and now she is able to earn enough to have three meals at home. The below analysis is not only based on the interviews of the managers but the interviews of the clients had also been conducted and then analyzed in the context of different microfinance institutions.

## CONCLUSION AND RECOMMENDATION

From the analysis of in-depth interviews of beneficiaries, managers and the meta-synthesis of the previous literature, it had been concluded that microfinance banks and institutions do play a role in the creation of opportunities, economic development and the reduction of poverty, which had also been proved through the interviews of clients. Microfinance is a tool used for the self-empowerment through which the poor people of the society can avail financial services, to start their business, increase their standard of living in terms of increased income, the level of consumption, education of children and to create jobs for others as well who in the end in some way reduce the unemployment rate.

Of the evidence available for the favorable influence of MFIS and MFB's, but the question remains that if the microfinance in Pakistan operates effectively in the alleviation of poverty? In the opinion of different Microfinance experts, we have concluded that there is no defined template to measure the reduction of poverty through microfinance as there are particular indices to measure the exact impact, therefore, these institutions work as a means to reduce poverty but once again, it is not empirical. Although from the interviews of clients and general reports and discussions, microfinance is successful with the particular conditions and has a positive influence on the micro level which can be changed into macro level impact.

## RECOMMENDATIONS

- In our microfinance industry we have identified that very MFI and MFB have used different models of microfinance. There is no uniform model whereas if we look at other countries in development of uniform models are adopted as in Bangladesh Grameen model is adopted by the various banks. Therefore, there should be a uniform model that should be followed by all the MFB and MFIS.

- From in-depth interviews, we find that the majority of MFIS and MFB do not provide any type of training for customers. The training programs should be designed for the customers as well as for the employees.
- The women are not used as the clients or the real beneficiaries as the loans are transmitted to the male members and IFM the targets because they are emotional, the trust worthy and stay at home. Therefore, women must be considered as real beneficiaries.
- Product innovation and diversification is necessary to fully fill the needs of various clients.
- The high interest rates must be reduced.

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