



Global Advanced Research Journal of Management and Business Studies (ISSN: 2315-5086) Vol. 4(9) pp. 357-362, October, 2015
Available online <http://garj.org/garjmbs/index.htm>
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Full Length Research Paper

Microfinance: Effective in Generating Opportunities and Mitigating Poverty in Pakistan

Dr. Sarah Wali Qazi¹, Prof Aurangzeb², Saima Hussain³

¹Assistant Professor, Shaheed Zulfiqar Ali Bhutto Institute of Science and Technology, Karachi Email: Sarawali.qazi@szabist.edu.pk

Tel: 0092334-3141816

²Professor, Sindh Madressatul Islam University, Karachi Email: azeb@smiu.edu.pk

³Assistant Professor, Shaheed Zulfiqar Ali Bhutto Institute of Science and Technology, Karachi Email: Saima.hussain@szabist.edu.pk

Accepted 04 September 2015

Microfinance is the tools used to mitigate poverty, create opportunities and develop economies. Microfinance and microcredit are not only help poor residents of the country but also supports empowerment of women, encourages equality and give them an opportunity to live a better life. 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. In-depth interviews of the managers and field mangers having one year experience in the respective field of six of thirteen microfinance institutions in Karachi is conducted 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 of in-depth interviews we 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

Microfinance is used as a tool to alleviate poverty, help poor and provide empowerment to female members of the society. There are several microfinance institutions (MFI's), microfinance banks (MFB's), NGO's, and many other welfare trusts that are active for alleviation of

poverty. Other institutions such as State Bank of Pakistan (SBP), Pakistan Microfinance Network (PMN), and Pakistan Poverty Alleviation Fund (PPAF) are also active in this field and making their efforts for development of our economy.

In Pakistan about 33% to 35 % people are at below poverty line (who are earning less than \$1) i.e. one third of the population don't have financial resources to meet even their basic needs which depicts a very adverse situation of society. The motive of this research is to determine the impact of Microfinance in alleviating poverty, how efficient and effective strategy it is in enhancing the incomes and wellbeing of microcredit clients. Our research project will enhance the boundaries of existence literature review. It will focus on the microfinance as an effective strategy adopted for generating opportunities, alleviating of poverty, and enhancing living standards of recipients, and how it contribute towards the development of economy. The study will also investigate the long term influence of microfinance programs on the life of recipients, their accessibility to health services, and to education for their children, and the improvement in their families 'consumption levels, and increment in their income level. Moreover, our research project will provide knowledge on the effectiveness of microfinance in creating real economic growth by targeting the poor.

Problem Statement

Is microfinance an effective strategy in creating opportunities and alleviating poverty in Pakistan?

Are the Microfinance Banks in Pakistan following effective strategies to create enough opportunities for the poor Pakistani people? And are these strategies well organized to alleviate the overall poverty of the nation? Since Pakistan is under developing country with majority of illiterate lower middle class, and the general focus of the Microfinance Banks in Pakistan is to help them to achieve wellbeing and peace in their families, but do these banks effectively reaching those poor people and providing help to their doorsteps or just following the superficial strategies. Pakistan is a different market when compared to the international markets and so are the needs and demands of the people, and therefore, the Microfinance Banks need to work in a way to provide microcredit projects that actually reduces the poverty and enhance wellbeing for the long run.

Research Questions

This study is mainly design to seek the answers of the following research questions.

1. How microcredit projects impact the lives of poor?
2. What role microfinance institutions and banks play in providing support to the clients?
3. How government design policies and encourage microfinance in Pakistan?

4. What sort of opportunities poor people can avail by utilizing microcredit facility?
5. How microfinance contribute in the development of the economy?

Research Objectives

The identified research objectives are as follows;

1. To assess the impact of microfinance on the overall living standard of poor.
2. To analyze the role of Microfinance Banks and Institutions in encouraging and supporting clients.
3. To determine the role of government in designing policies for the microfinance in Pakistan
4. To determine how poor people can avail opportunities by adopting microfinance.
5. To recognize the contribution of microfinance in economic development?

Delimitations and Limitations

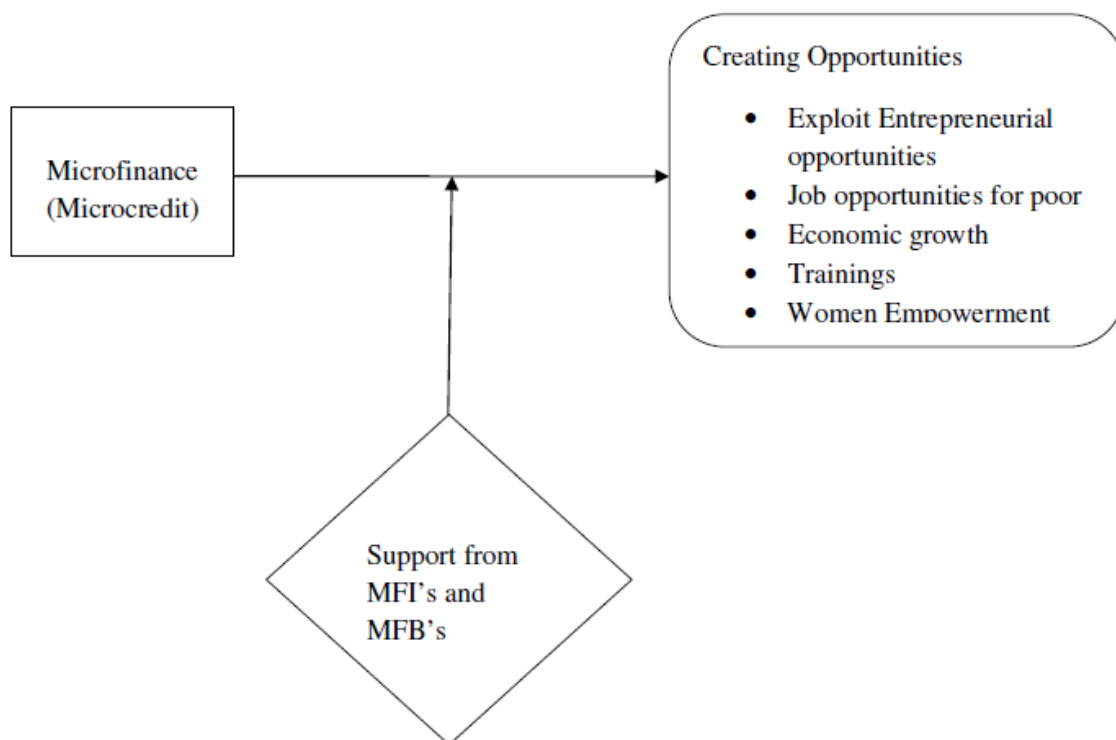
Delimitations (Scope)

Since Karachi is a metropolitan city with a diversified population of overall Pakistan, therefore this research is limited to the Karachi, Pakistan, so that we can say that this research is in context of Pakistan. The reason behind choosing this topic is that it is the emerging concept of Microfinance Banks in Pakistan. Microfinance is the tool, if best exploited could help us to reduce poverty and have economic growth. In the literature review on this topic we found number of variables which contributes towards the poverty alleviation, women empowerment, and reducing unemployment and so on but this study specifically focuses on four things mainly; poverty alleviation, opportunities, women empowerment and enhanced living standards.

Limitations

Few limitations to the research project are as follows;

- Moreover, because of time constraint we are bound to gather data from Karachi only.
- Information providers or managers of the institutions might be reluctant to disclose all the relevant information, so manipulation or lack of accurate information being provided by the Microfinance Banks is another constraint.



Justification

The motive of this research is to determine the impact of Microfinance in alleviating poverty, how efficient and effective strategy it is in enhancing the incomes and wellbeing of microcredit clients. It will focus on the microfinance as an effective strategy adopted for generating opportunities, alleviating of poverty, and enhancing living standards of recipients, and how it contribute towards the development of economy. Our research project will enhance the boundaries of existence literature review and policy makers will be benefited for designing the strategy, to correct any loop holes, to bring improvement in the products offering so that recipients' can gain more benefits from the Microfinance institutions which will ultimately affect our economy in positive way.

Assumptions

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

Literature Review

Microfinance was first recognized in Bangladesh by the phenomenal work of Dr. Muhammad Yunus who awarded by Nobel Peace Prize for his great efforts in the field of

microfinance in 2006. After its inception in 1976, in Bangladesh Microfinance has attained significant importance in worldwide financial sector. To provide seed financing to the entrepreneurs for starting up their business who are not able to execute their business ideas just because of non-availability of financial resources, is getting serious attention among these people. (Sherin Gamaleldin Ahmed Taha, 2012).

The influence of microcredit programs on poverty alleviation and development of economy

After reviewing the existing literature on microfinance and its impact of poverty alleviation we identified that there are different results of different researches conducted in past. Few of them concluded that micro finance has positive impact on alleviation of poverty while others concluded that it has negative impact of microfinance on poor. There are researches which said that it has a favorable impact on the poor of the society but it does not include the poorer of poor.

The first group of researchers argued that microfinance and microcredit programs created a significant influence on the consumption level, earnings, health, and education and on their overall social wellbeing. These programs have also created opportunities to encourage women empowerment. These positive impacts on recipient's lives are documented in previous literature reviews. For instance a study conducted in Grameen

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 Bahhood-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.

bank Bangladesh revealed that microfinance programs affected positively in Bangladesh for alleviating poverty. These programs resulted in employment, more income generation and capital accumulation. Further in another research conducted by Khandker (1998) concluded that microfinance institutions in Bangladesh reduce poverty of 5% of the loan recipients'. In the above discussed studies, micro finance institutions operated in those villages where studies were conducted, improve the overall income and wage level of villagers. These programs also affected positively to the female members as well as male members (Pitt &Khandker, 1998). Micro finance programs increased the wellbeing in terms of revenues, consumption level, wealth, per capita expenditure and income, education, health etc. (Mustafa, 1996).

Micro finance enhance the income level of recipient , it has improve consumption level of households , educations level as results showed more enrollment in schools were found increment of their income levels,

While micro finance intervention showed mixed results in women empowerment. In some cases it did not show a significant impact of women empowerment. (Haroon Jamal, 2008)

The living standards in the low income developing countries have always been a crucial issue to be addressed. Microfinance in Pakistan is efficiently serving the poor people by increasing their income level. It has been quantified that 85.40% of the respondents told that their income level has increased after getting the Microfinance facilities and it has improved their living standards. (Akram & Hussain, march 2011)

Micro finance and micro credit programs have positive impact on the development of any economy in form of generation of employment, women empowerment, investment in society to improve its overall wellbeing. There is positive relationship between profits of a small enterprise and loan recipient but there is least probability that these profits will be reinvested the business and give employment opportunities to others. (SherinGamaleldin

Ahmed Taha, 2012)

Theoretical Framework

There are three Variables that we have identified to assess the impact of microfinance on poverty alleviation and creation of opportunities on poor. Our independent variable is Microfinance which influences the lives of recipients in form of creations of opportunities such as entrepreneurial opportunities, Job opportunities for men & women, trainings and economic growth and poverty alleviation. All these opportunities and poverty reduction is dependent on microfinance as microfinance services are provided by MFB's and MFI's therefore these institutions acts as moderating variables. 3. Research Methodology

Research design

This research is a qualitative research which is based on mono method. Qualitative study is used to analyze a social phenomenon in a particular context (Hatch, 2002) and it is used to describe, explore and explain views and perception of the participants (Marshall&Rossman, 2006). Quantitative research doesn't have the capacity to articulate the categorical data or variables that's why qualitative approach is adopted

Data Collection Strategies

In-depth interviews of the managers and field managers (having one year experience in the respective field) of six of thirteen microfinance institutions in Karachi will be conducted using hybrid questionnaire; semi structured questions consist of both open ended and close ended questions. Existing literature: previous research papers on the subject of micro finance, articles, newspapers, websites of the MFI's, website of state bank of Pakistan and Annual reports will be used for collection of secondary data.

Population

Director of Microfinance department of State Bank of Pakistan (SBP) and the managers and field managers of microfinance banks and institutions of Pakistan, who have at least 1 year of experience in the particular seat are the population of this study. The thirteen MFI's and MFB's are registered under the SBP.

SAMPLE AND SAMPLING METHOD

Non-probability purposive sampling techniques is used for sampling which is also called judgmental sampling in which sample size is selected on the bases of respondent's ability to provide the information on a specific area in this techniques it is recommended to have a small sample size and it may be vary depending upon the resources, time etc.(Sekaran, 2011)

Director of SBP will be interviewed to know the status of microfinance in Pakistan and to know the role of government. Managers, directors, field managers or concerned authorities of six to seven MFI's and MFB's who have at least one year of experience working in that organization dealing with the microfinance and microfinance clients will be interviewed.

Measurement / Instrument Selection

The hybrid questionnaire will be adopted from the relevant study and modified according the settings of Pakistan. The hybrid questionnaire will be used during the in-depth discussion and interviews. Hybrid questionnaires contain both open ended and close ended questions. (Sekaran&Bougie, 2010)

Data analysis Strategies

As the research is qualitative in nature, content analysis will be used to analyze the data gathered through in-depth interviews. Qualitative content analysis can be defined as:

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

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

DISCUSSION AND CONTENT ANALYSIS

To fulfill the requirement of above mentioned objectives we have designed semi structured and open ended interview questionnaires for managers and field managers of the six of MFIs and MFB's operating in Karachi. Our interview questionnaire for managers

consist of open ended questions so that we can get in-depth information about how these institutions are contributing towards poverty alleviation, creating opportunities and achieving economic developmental goals.

There are well written success stories about recipient's increase in income or consumption level etc. For example, in our survey to Mehmodabad, we assessed the story of Miss Erum who availed financial services of Kashf Foundation and now she is running her own school at her own house of three stories. Not only she enhanced her living standard and became the teacher of that school but she hired two teachers as well which shows job creation in her locality.

Another success story is of Miss Shabana who availed services of Orangi Pilot Project. Before that, she was not even able to have three time meal but after contacting OPP, she has been working at home and making decoration pieces and now she is earning enough to have three time meal at home.

CONCLUSION

From in-depth interviews and analysis of past literature we can conclude that these banks and institutions do have a strong role in creation of opportunities, economic development and poverty reduction. Microfinance is a tool used for self-empowerment through which the poor people of society can avail financial services, start up their businesses, enhance their living standard in terms of increase in income, consumption level, children education and generate job opportunities for others as well which ultimately somehow reduce the unemployment rate.

Evidence are available for favorable impacts of MFI's and MFB's But the question remains that whether the Microfinance in Pakistan is effectively working in alleviating poverty? From opinions of different Microfinance experts, we have concluded that there is no model defined to measure the reduction of poverty through Microfinance, therefore, these institutions are working as a mean to reduce the poverty but again it's not empirical. However, it does have positive impact on micro level.

RECOMMENDATIONS

- In our microfinance industry we identified that very MFI and MFB have used different microfinance

model. There is no uniform model whereas if we look at other developing countries uniform models are adopted such as in Bangladesh Grameen model is adopted by various banks. Therefore there should be a uniform model that should be followed by all the MFB's and MFI's.

- From in-depth interviews we find that most of MFI's and MFB's do not provide any kind of trainings to the clients. Training programs should be designed for the clients as well as for employees.
- Women are not used as real clients or beneficiaries as the loans are passed on to the male members and MFI's target them because they are emotional, trust worthy and stay at home. Therefore women should be considered as real beneficiary.
- Product innovation and diversification is required to full fill the needs of various clients.
- High interest rates needs to be reduced.

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