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Research Article

TRIMMING DOWN POVERTY THROUGH MICROFINANCE IN PAKISTAN

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Abstract

Microfinance refers to the provision of financial services, such as loans, savings, insurance, and other basic banking services, to individuals and small businesses in low-income or developing communities who have limited access to traditional banking services. Microfinance aims to alleviate poverty, empower marginalized communities, and promote economic development by providing financial resources to those who would otherwise be excluded from the formal financial sector. Credit does not play a direct role in poverty reduction; instead, it increases the borrowers' income so that they can be socially uplifted. This study was conducted to find out the role of microfinance in eradicating poverty in Pakistan. Punjab Rural Support Program (PRSP) provides small loans in the rural areas of Pakistan. In this study, three variables, credit, education, and family size, are taken as independent variables, while the borrowers' income is taken as the dependent variable. Data was collected from the rural areas of Tehsil Gujrat to project the impact of small credit. The study also presents some policy measures like expanding the outreach, increasing the amount of credit, etc, given, so that maximum benefits can be dropped to the last end.

Keywords: *Microcredit, Poverty, Borrower, Pakistan*.
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1. INTRODUCTION

Pakistan is a populated country, and the majority of its people live in rural areas. These rural areas are less developed and deprived of major basic life facilities. People depend on agriculture and small businesses like stores, grocery shops, etc. Lack of credit is adding more to their difficulties. Many people are spending their lives on or below the poverty line.

1.1. Definition of Poverty

The definition of poverty varies from country to country or nation to nation, i.e., every nation has its poverty dimensions. For example, rich nations have more generous definitions of poverty than poor or underdeveloped nations.

"*One who lacks basic human needs to spend a prosperous or satisfied life/is considered poor.*"

Common causes of poverty, unemployment, illiteracy, and lack of financial resources to initiate any employment generation activity.

1.2. Definition of Microfinance

Microfinance institutions (MFIs) offer these services to borrowers, commonly called micro-entrepreneurs, enabling them to start or expand small businesses, invest in education, improve housing, and meet other essential needs. Microfinance loans are typically smaller than those offered by traditional banks and are often provided without requiring collateral. This approach makes it easier for people with low incomes and limited assets to access credit and improve their economic circumstances.

The concept of microfinance gained widespread attention in the 1970s and 1980s, and since then, it has become a significant tool in the fight against global poverty. Under this concept, small loans from different formal and non-formal institutions are being provided to the needy so that they can start their small business activities and bring themselves up financially and economically. As these loans are provided to eradicate poverty in Pakistan, it is necessary to determine their impact. The present study attempts to determine the effect of small loans on an individual's life. This study will help policymakers and authorities decide whether to continue or discontinue this program.

1.3. Research Questions

- What is the role of microfinance in poverty alleviation?
- What are the characteristics of the borrowers, and how are they utilizing the received amount of credit?

1.4. Objectives

The objectives of this study are to find out the role of microfinance in enhancing the recipients' income, reducing poverty. The role of education and family size on income is also measured. Another objective is to find out the characteristics of the borrowers to understand their commonalities and socioeconomic status.

2. REVIEW OF LITERATURE

Microfinancing is a financial tool that helps millions of people to start their own small businesses. The receivers of such loans are those who cannot afford to access formal institutions due to a lack of security and collateral. These small loans are a blessing for such people as they provide a kick-start to their small businesses (Bashir et al., 2022).MFIs target the poor population to whom formal banks do not give loans because of high cost and risk. In developing countries, MFIs not only improve the income of people with low incomes by generating self-employment but also enhance their skills through various skill development programs (Nudamatiya et al., 2021). Poor people do not have access to the loans provided by formal commercial banks because such banks treat people experiencing poverty as risky borrowers who may not be able to pay back even a single installment of the loan. In such situations, microfinance schemes come forward to provide loans to people experiencing poverty (Ben and Abel 2019). Poor people invest money in small-scale businesses and need to borrow small loans. Commercial banks are not helpful for them because the business models of commercial banks are unsuitable for small businesses. A loan offered by commercial banks is out of the reach of people with low incomes because of their high collateral and security conditions. Microfinance provides collateral-free loans to the poor and plays a vital role in reducing poverty and income inequality and achieving development goals (Noreen et al., 2019).

(Hussain and Akram 2017) The objective of microfinance is to alleviate poverty by raising the purchasing power of people experiencing poverty. They point out that MFIs have a border concept, which includes providing financial support to the needy and facilitating them by providing basic facilities of life. They conclude that microfinancing programs are truly serving the poor by increasing their incomes, assets, and living standards.

People with financial resources are more likely to seek medical care when needed, leading to improved health outcomes and increased productivity. Microfinance institutions often provide additional support, such as financial literacy training, which equips borrowers with the knowledge to make informed financial decisions. This education can break the cycle of poverty by teaching people how to manage their finances effectively. Microfinance initiatives can contribute to the overall development of communities by fostering economic growth, creating employment opportunities, and improving infrastructure (Hassan and Lu 2012).

The above-cited literature shows that microfinance is beneficial in eradicating poverty in the country. These studies are conducted around the globe in different areas of the world. Most of the studies show positive results, but misuse of credit is also a common practice, which most authors do not address. Furthermore, it is unnecessary that any activity that has a positive impact in one area can have the same impact in another. The present study is conducted to test the effects of microfinancing in the study area, as no such research has ever been conducted in this area.

3. RESEARCH METHODOLOGY

This is an exploratory study based on primary data. Microcredit does not directly contribute to income or poverty eradication. It increases the income of borrowers by providing income-generating activities and adequate finance for their small businesses, livestock, agriculture, farming, etc. (Waheed, 2019). So, credit is taken as an independent variable because it affects income. In other words, the income of the borrowers depends on credit. Along with credit, many other variables affect the income of individuals, such as education, skills, family size, etc. Therefore, education and family size are also taken as independent variables as these are also among those upon which the income of the individuals depends.

3.1. Variables

Dependent Variable: Income of household after credit

Independent variables: Microfinance, Education, Family Size

3.2. Operationalization of Variables for MLRM

3.2.1. Income (y)

The income from farm and nonfarm sources was calculated in sum. Fathers, mothers, sons and daughters, married brothers and sisters, unmarried brothers and sisters, etc., who lived together in a house were calculated in sum for that particular house.

3.2.2. Credit (X1)

The data about the amount of credit was collected during the interview. Credit in rupees was used in the analysis.

3.2.3. Education (X2)

The exact number of years of schooling was used in the analysis.

3.2.4. Family Size or Size of Household (X3)

Total family members of the sample debtors were asked during the interview and the exact size of family members was used in the analysis

3.2.5. Sample Size

The list of the beneficiaries was obtained from the office of PRSP located in Jalalpur Jattan. The total population of beneficiaries is 1000. Out of these, 285 beneficiaries are randomly selected by using the following sample size formula.

n = N / 1+ Ne2

3.3. Data Collection Technique and Data Analysis Methods

A survey technique was used to collect the data. A detailed questionnaire was designed, and face-to-face interviews were In order to analyze the characteristics of the beneficiaries, descriptive statistics were used. For the econometric analysis of the proposed model, the Multiple Linear Regression Model (MLRM) is used through the Statistical Package for Social Sciences (SPSS) software 16 version.

4. RESULTS AND DISCUSSION

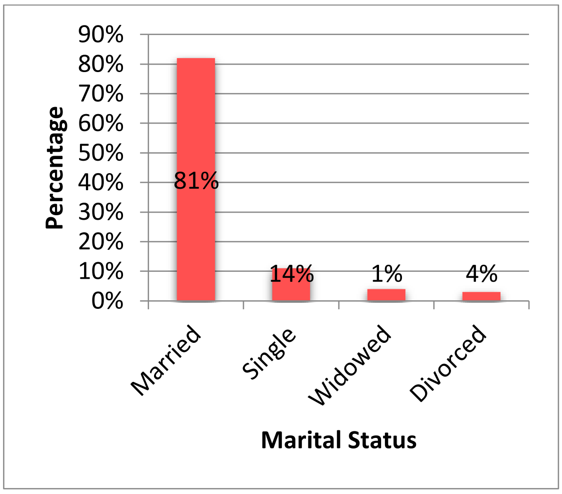


Figure. 1. Marital Status of the Sample Borrowers

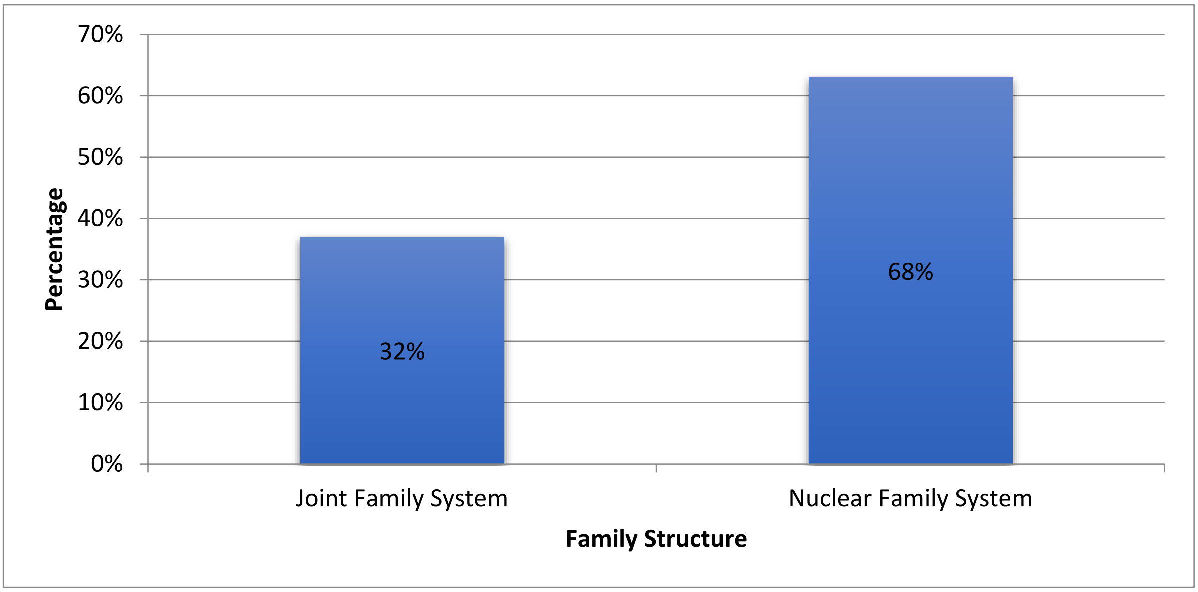


Figure. 2. Family Structure of the Sample Borrowers

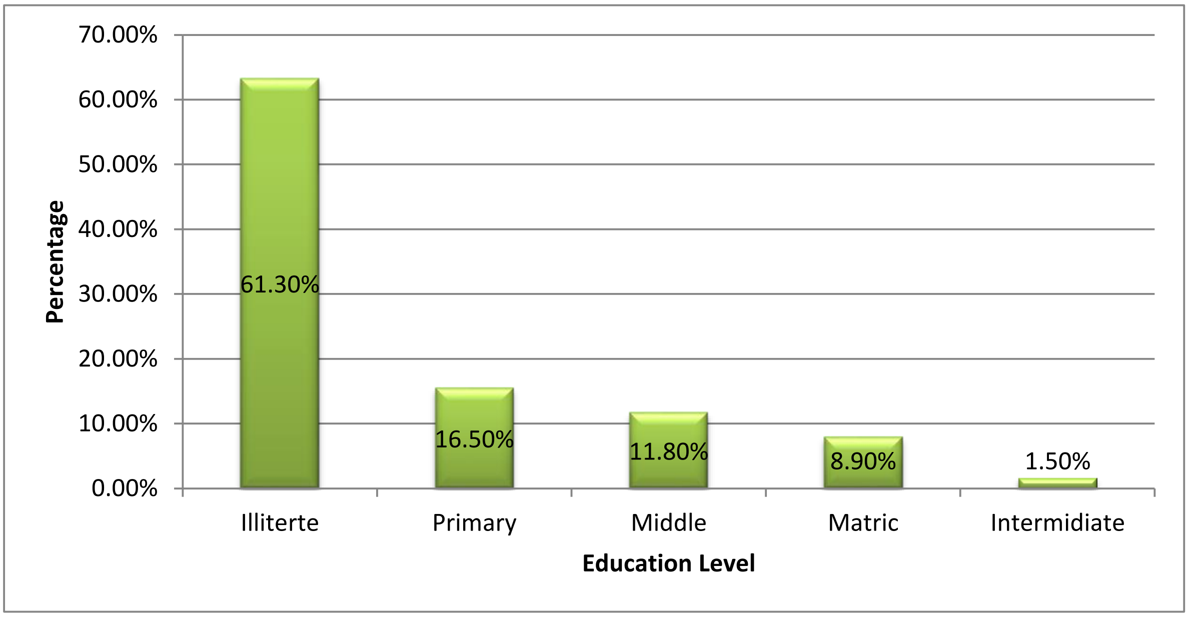


Figure. 3. Education Level of the Sample Borrowers

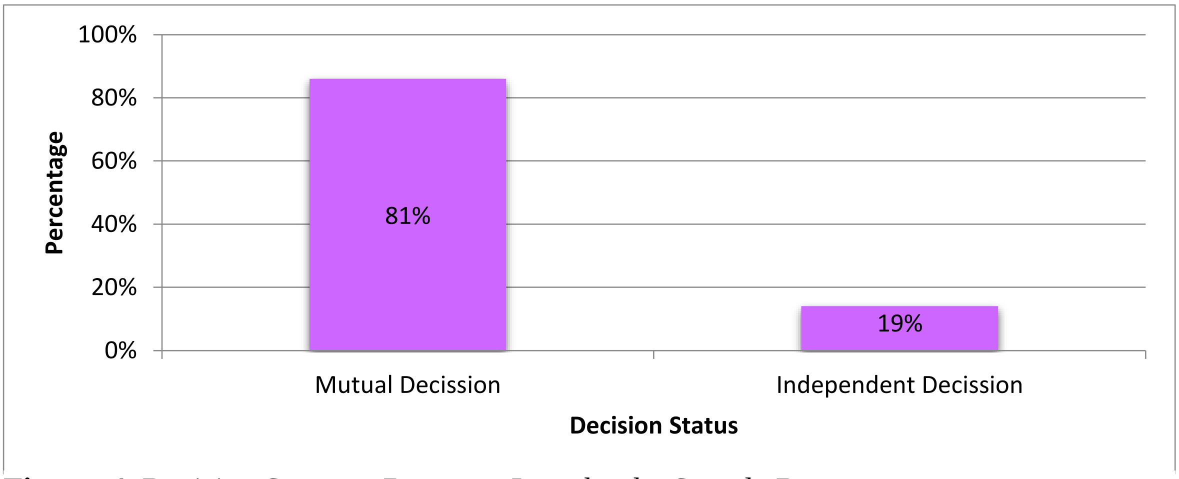
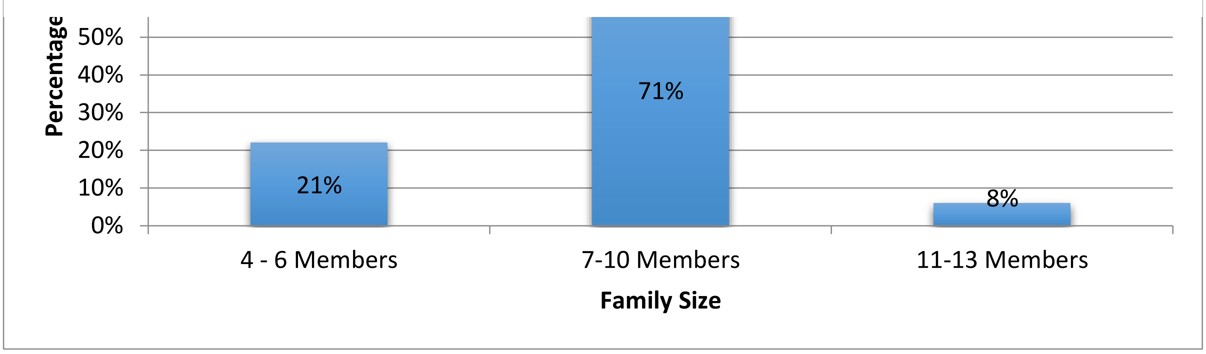


Figure. 4. Decision Status to Borrow a Loan by the Sample Borrowers

Figure. 5. Family Size of the Sample Borrowers



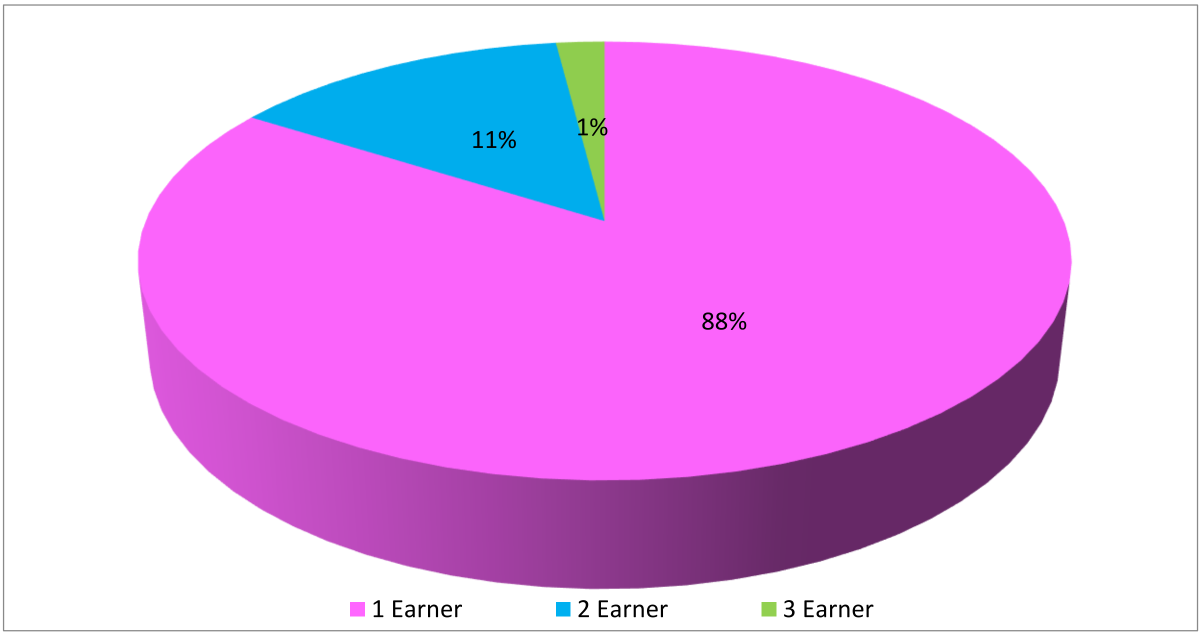


Figure. 6. Number of Earners in Families of the Sample Borrowers

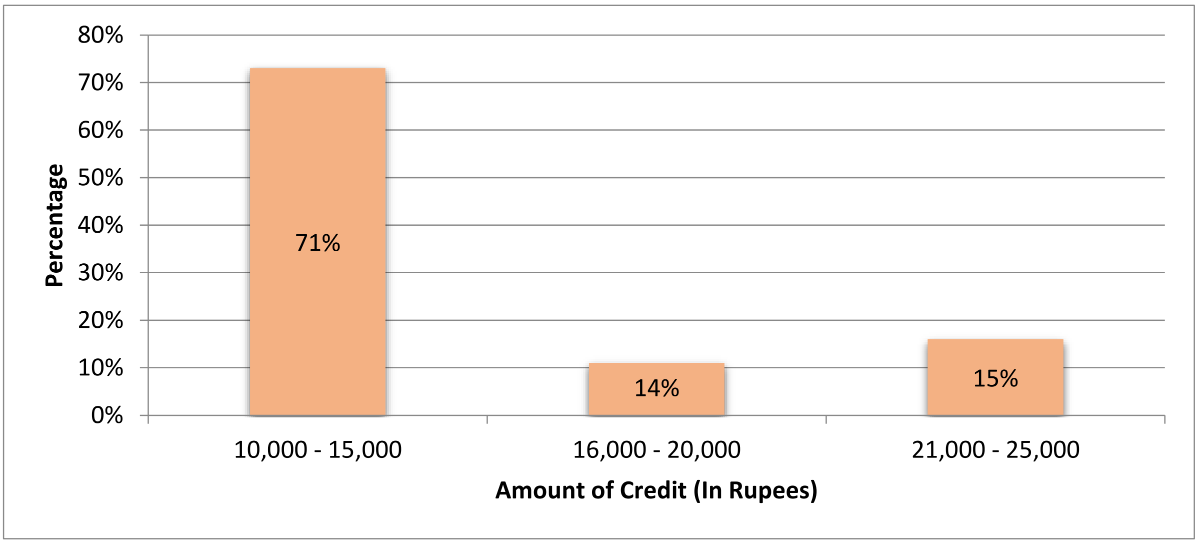


Figure. 7. Amount of Credit Borrowed by the Sample Borrowers

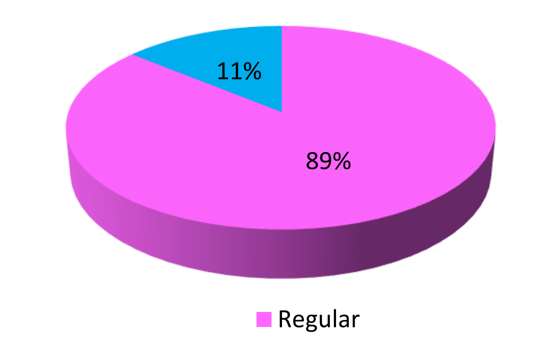


Figure. 8. Loan Repayments Pattern of the Sample Borrowers

The above figures are about the characteristics of the borrowers. Characteristics are helpful in identifying the group pattern of the borrower community. It also helps in finding the social and economic status of the borrowers. Data reveals that majority of the borrowers are married, illiterate, have large family sizes, and are living in a nuclear family system. Most of the borrowers obtained loans with the mutual decision of the family, and their families depend upon one earner. PRSP disburses loans for periods of six months, twelve months, and a maximum of eighteen months. Every borrower has to repay the loan amount in monthly installments. The last figure shows that 86% of borrowers paid their monthly installments regularly, while 14% of sample borrowers were found irregular in repaying two or three installments due to illness or any emergency.

The results of the econometric model are given in the table below.

Table. 1. Results of Multiple Linear Regression Model

Model (Variables)	Beta Coefficients	t-value	Sig (p-value)
Constant	**1.168**	**2.228**	**0.000**
Credit	**0.760**	**26.467**	**0.000**
Education	**0.240**	**6.754**	**0.000**
Family Size	**-0.052**	**-0.768**	**0.418**
Dependent Variable: Income		F-value = 511.262	R^2 = 0.865

The Table 1 shows that the coefficient value of credit is found 0.760 with positive sign, coefficient of education also shows the positive impact while coefficient of family size is negative which shows that increase of family size has negative impact on poverty reduction.

$$\mathbf{y = 1.168 + 0.760\, X_1 + 0.240\, X_2 - 0.052 X_3}$$

The results are in line with the results of Bashir et al (2022), Abiola and Salami (2015), Hassan and Lu (2012), Yusuf et al (2012).

5. Key Findings & Discussion

The present study is conducted to find out the impact of microfinancing. Following are the key findings.

- Most of the borrowers are illiterate, have large family sizes, and have low incomes as most of the families depend upon one earner.
- Most of the borrowers are living in a nuclear family system but mutually decide to obtain a loan.
- Most of the borrowers are regular in re-payment as the history of re-payment helps them to obtain loans in the future.
- Microcredit and education have a positive impact on the income of the borrowers. While family size is found insignificant.

The above findings show that the initiative of microfinancing in Pakistan is beneficial and helpful in poverty eradication. It is providing the financial services to those who are unable to access the formal banks for loans. It is the bank of non-bankers. Pakistan has to achieve the goal of zero poverty by 2030, and such type of programs are a step forward to achieving this goal. Moreover, when income increases, expenditures also increase. Therefore, if the income of the borrowers increases, it will increase the money circulation in the country. Moreover, production will also increase due to an increase in demand, which will further increase the Gross Domestic Product (GDP) of the country.

6. Conclusion

The study concludes that microfinancing is playing a vital role in uplifting the living standard of poor families. Microfinance helps in bringing marginalized populations into the formal financial system. Access to savings accounts and other financial services helps them save, manage their money, and build financial assets. This can provide a safety net during financial emergencies, reducing the vulnerability of impoverished individuals and families. Summarizing all the above, it is concluded that PRSP is serving the poor in rural areas and helping them to come out of the vicious circle of poverty. Moreover, microfinance is a powerful instrument to alleviate poverty.

7. Suggestions/Policy Implications

"It would be nice if the poor were to get even half of the money that is spent on studying them."

By keeping in view the significant impact of microcredit following suggestions are being suggested.

- Microfinance institutions are disbursing small amounts of credit, which cannot fully fulfill the financial requirements of the borrowers. Therefore, the amount of credit may be increased as per the needs of the borrowers and keeping in view national inflation.
- Microfinance institutions are disbursing credit only for an existing and running business. This facility must be provided to all those skillful people who want to initiate any small skilled-based business.
- The government may introduce some interest-free credit schemes for disabled/destitute persons.
- Vocational training centers may be established for women's development. So that women can enhance their skills and become empowered by participating in the income of the household.

In sum, it is concluded that the initiative of microfinance could be more beneficial if the government made some comprehensive policies to enhance its outreach by understanding the needs and issues of the borrowers.

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