Effectiveness Of Micro Financing For Poverty Alleviation: A Case Study Of Tameer Microfinance Bank

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Abstract
Poverty is a serious issue which is faced by masses around the world. This study aims to determine whether the microfinance institutions established for the purpose of reduction of poverty have been successful in achieving their objective or not. Primary data was collected for the proposed research study through structured questionnaires. In order to analyze the collected data multiple liner regression and paired t-test were applied. Results show that microfinance has a strong positive impact on children education and enterprise financial performance. However, there is mixed evidence found on food security, household expenditures and household assets. No impact has been observed on housing and income smoothening of enterprise. Among other independent variables, it was revealed that number of salaried persons was found to be very important variable contributing to the wellbeing of the microfinance clients. This research has made a significant contribution in unraveling some of the myths of microfinance hence advancing literature and research on this important issue. Keywords: Micro Credit, Poverty Alleviation, Micro Finance Institute, Pakistan

INTRODUCTION
Poverty is defined relatively to the standards of living in a society. People live in poverty when they are denied for their social needs, inadequate resources; sufficient income while these circumstances also starved of them to participate fully in accepted daily life as well. On the whole, the poverty line in a country is terminating annual income below which households are gone into poor. A loan given to poor community used to be an inappropriate concept. Millions of poor people are living on welfare and unbanked household want economic facilities. They find a multiple variety of services including savings, loans, insurance, and facility of receiving and sending money. Families use economic services to build incomes, decrease possibility, and keep against liability often increase by economic crises, sickness, and natural disaster. The purchase assets reduce the poverty help to increase the living standard support the health and education services increase. Mostly the Commercial banks do not help these households. But the conventional banks failed to help this market for many reasons like for microfinance business the business model unable to suit this structure characterized by high-volume, low-value transactions. Secondly, they hire traditional advancing technologies based on security requirements (to which the unbanked generally don’t have access). The conventional banks believe the unbanked are unable to repay save money or loans. Mostly the developing countries have a large number of peoples they do not approach to avail the credit that is the major cause of poverty. 

Globally, Poverty is an inadequate income or a shortage of resources with which to meet needs (Alkire and Foster, 2011). Poverty manifests itself as material deprivation and often leads to poor physical and mental health, restricted social and economic mobility, social isolation and powerlessness. All over the world, in different nations, poverty has always been under consideration. The causes containing a loss of individual responsibility, bad state policy, profiteering by people and businesses with power and influence, some compound of these and other aspect. In Britain, people in poverty are instead more likely to describe their everyday experiences as , limited, constrained, full of
struggle’ (Castell and Thompson, 2007). In Europe and North America where social success is increasingly judged in terms of financial gains and conspicuous consumption, poverty is often experienced as personal failure (Edin et al., 2000). The donor agencies have achieved the millennium goal to eliminate the poverty and hunger. The issue of universal poverty is complex and aggressive. People living in poverty have lower life probability, higher levels of child mortality, and poor nutrition. Moreover, these issues are occurred by inadequate education amongst the working young and lack of quality health protection services.

South Asia has the greatest quantity of poor people in the entire world. Poverty in the region is most pronounced in areas that have significant minority populations and are economically weak. South Asia is facing many challenges owing to multiple political conditions at regional level, still the region altogether shares many socio-economic problems in common and poverty is one of these. Poverty is a terrify challenge for countries in the domain in specific Bangladesh, India and Pakistan. The main cause of poverty in South Asia is uneven approach to public goods and services. As the poor are not well aware of assets and the returns they receive on these assets including labor they are not able to achieve private incomes that can lift them out and get rid of poverty. In south Asia the poverty ratio is very high especially in urban areas. Progress in rural non form employment and agriculture areas is necessary to poverty reduction. Agriculture pretenses considerable experiments because the source of growth experienced the green revolution appear to start their course. Furthermore green non-farm is the tool to support the small scaled public sector industries initiatives.

**Poverty in Pakistan**

Poverty is rising day by day. In Pakistan, Poverty is not a new concept as every third Pakistani is engaged in the ‘poor’ bracket, i.e. some 58.7 million out of a total population of 180 million subsist below the poverty line. This involves more than half the population in the forever remote Baluchistan, 35 percent in Sindh, 33 percent in Khyber Pakhtunkhwa (KP) and 18 percent in Punjab. Poverty is more severe in rural areas, rural poverty levels are higher in Pakistan rather than urban areas because social sector of rural economy of Pakistan is very poor and rural households have very little access to these facilities. Inflation, unemployment and growth have the significant effect to reduce poverty in Pakistan (SDPI Report, 2013). The most affected people like women and farmer with limited resources have lack of access to resources, assets and services of their own. In Pakistan a major problem of poverty in rural areas is the irregular distribution of assets. Ultimately face the problem like lack of education, limited resources, family size, and degradation in environment.

**Poverty Trends in Last Decade:**

Increase in poverty has been observed since 2000. Starting from 9/11, followed by disastrous earthquake of 2005 and the worst floods in 2010 and 2011 are the principle factors in contributing this manifold increase in poverty. After 9/11, Pakistan was a major ally of the United State (US) government in war against terror in Iraq and Afghanistan and since then incurred significant losses both directly in the form of precious lives, land and other valuables and indirectly via reduced income and direct foreign investment. The three massive natural calamities i-e 2005 earthquake, 2010 and 2011 floods had caused momentous damage to the already obliterating Pakistan’s economy. The 2010-2011 report of World Bank revealed that the Pakistan’s poverty had hit 70% scale after the horrendous floods. Due to shut down of factories in Pakistan leads to unemployment which ultimately increase the poverty in the country another important factor is the unavailability of quality education for all the people in the country. Due to sky-high fees in private institutions, the ordinary citizen of Pakistan is unable to send his/her children to these private institutions and is left with no choice but to send them in government schools where quality of education is quite low. These individuals when graduate from these schools cannot find a job with a decent salary and thereby resulting in the alleviation of country.

**Microfinance and Poverty Alleviation:**

Microfinance can help to build income, better nutrition for people, greater high school
attendance, women empowerment, and reduction of poverty. There is abundant support to demonstrate that microfinance can benefit families out of poverty and is also helpful for completion of many development goals (Swope, 2010). The majority of the poor people have lack of knowledge about microcredit and it can say lack of access about the basic financial services which are necessary for their lives. Microfinance is the vital tool for poverty alleviation it reduce the low income, low savings, and low investment. The transfer of resources in terms of credit doers not only gives the poor tactics to resources but it is also economic empowerment. It is needed to extend the instrument which and the wide range of financial services required at local, global, and national level to expand poor people’s facilities. Microfinance is an instrument which is fulfills the broad range of population needs, and increases the living standard of poor people. Microfinance is the tool to reduce the poverty, increase the health, savings, and education level, build business it is also helpful for self-empowerment by enabling the poor people specially women empowerment. It helps to reduce the poverty alleviation.

RESEARCH OBJECTIVES
The objectives of the research are following:
1- To know the impact of micro financing on poverty alleviation.
2- To find the effects of micro financing on the income of beneficiaries.
3- To give suitable suggestions for the development of microfinance banks.

RESEARCH HYPOTHESIS
The proposed hypotheses are as follows:
H₁: Micro financing has significant impact on poverty alleviation.
H₂: Micro financing has positive effects to uplift the income.

REVIEW OF LITERATURE
Shofiet al (2013) concluded that micro credit program help to improve socio economic status of the rural woman in Bangladesh. The economic condition of the females in Bangladesh was very critical. Microfinance is the best tool to minimize the poverty ratio and increase the income level. The involvement in credit program had a positive impact on different dimensions of the participant’s standard of living. Kumari and Sarda (2013) worked on the impact of micro finance institutions in the eradication of poverty in the village areas of Bihar. She investigated that board spectrum of microfinance products & services in behar is much behind the Indian picture as financial socio economical parameters like poverty ratio, literacy rate etc are very low. Clients operating in behar are negligible in rural areas as compare to urban areas and credit demand supply gap is very high. Idown et al (2012) examined that there is a significant impact of microfinance activities on empowerment of living the study showed that 73% of microfinance bank clients were woman which positively correlated with findings. Due to this increased ratio of women in microfinance bank the result was very significant and positive for future reducing of poverty. Microfinance gives opportunity to females to establish the family and establish the business or work.

Basri et al (2011) stated that poverty is reducing overall development in Bangladesh. This trend is increasing day by day in rural and urban areas in Bangladesh. A very high ratio of poverty in Bangladesh developed and it is increase day by day there is no proper management for reducing of poverty. In Bangladesh microfinance institutions are given the credit to needy people and enhancing better livelihood status. Interest free loan can be used as a powerful tool to minimize poverty. Microfinance is the tool or strategy to reduce the poverty and that strategy was a significant. Abel et al (2011) explored that microfinance plays a vital role in poverty reduction and social capital formation in Nigeria and as such if properly positioned. Microfinance institutes are useful tools for poverty reduction. Furthermore, where group loans were granted, they were utilized effectively by the as evidenced from the improved living conditions of these groups. Different micro finance institutes and NGO’s provide loans to poor people and also provide the best use had helpful make contact with on socio economic condition of people.

Rukhsana et al (2011) argued the government and NGO are both working to reduce the poverty collaboration. NGOs strategy very effective for poverty alleviation but need to uplift the condition of
poor people if government and NGOs make coordination and sector divided of rural areas the work can be better performed. Imtiaz et al (2011) concluded that the poor people face the problem in social life and their income level, slandered of living cannot be enhanced. Micro credit scheme is helpful in uplifting living standard of the community and empowering woman as well, because microfinance had a positive impact on empower of women’s Thus, micro finance is efficiently serving the poor by raising their income level.

Rabia et al (2011) elaborated the impact of microfinance on poverty like, housing food, education, and security. The result was a significant and positive relationship between children education and microfinance participation. The study uses a newly developed scale so the consistency coefficient lie between 0.54 (food & security) to 0.97 (children education). Microfinance had a positive impact on poverty alleviation especially children education and their food. Salman et al (2011) stated that the government is providing due importance to microfinance sector and the staff of micro finance institute need training section need to provide more knowledge, staff of micro finance should be awarded about the importance of poverty alleviation, when staff is fully trained and aware then they could perform or elevate the right people who they need to avail microfinance which can effect positively. Akhter et al (2010) concluded in their research on microcredit and poverty alleviation in Pakistan that microcredit serves as an effective means of reducing poverty. Microcredit gives chance to earn better livelihood and also helps people to live with self esteem. In 1980s Government encourage the establishment of different microfinance institutes and NGO’s to provide loans to poor people. These microcredit programs were trying to serve best the purpose and most of times such programs had positive impact Microcredit’s enhance the living condition of poor people’s and it is also reducing the poverty alleviation in Pakistan.

Zahara et al (2010) worked on impact of micro credit in Pakistan. They fund that there was no impact of micro credit programs on house hold expenditures but have positive impact on health expenditure and there was no impact on education indicators but a positive relationship was observed between program participation and some health indicators. The largest impact of program participation on assets use of inputs and sales was seen in agriculture by micro enterprises and life stock. Need to focus on house hold expenditure and especially on education. Microcredit had a great impact on health providing financing on health so is helpful to reduce the health but need to increase the attention on poor people education. Okpara et al (2010) concluded that poverty is caused by low profits in business of less privileged people, high cost of communities in the face of low income earning and lack of finance. Ten years after the implementation of microfinance bank in Nigeria, poverty was still growing through at a decreasing rate with the increase of microfinance credit whatever, decrease in microfinance credit leads to reduction of poverty in Nigeria. Due to poverty the poor people unable to start work and income level low cause poverty due to high cost expenditure the peoples survive tough life and low standard of living condition.

Shirazi et al (2009) investigated the impact of Pakistan poverty alleviation funds micro credit on poverty alleviation of the borrowers. They worked on poverty line for year (2004-06) and they founded that the Pakistan poverty alleviation fund micro credit has eradicate the overall poverty level by 4.09% point and the borrowers has turned to the higher income group while their reported period. Shil et al (2009) According to this study on microfinance for poverty alleviation he proved that the relationship of poverty alleviation has a positive impact on poverty. Waheed et al (2009) argued in its literature on Islamic micro finance that it is an important factor in poverty alleviation all strategies to microfinance products have been success in all Muslims countries.

Chowdhury et al (2009) concluded in his study that poor people do not received the minimum amount to start any income generating activity from financial sector sources. The poverty of borrowing household decrease with the increase in micro credit program duration any micro credit loan size thereof, participation in micro credit program can reduce the poverty of borrowing house. As compare the past now a current circumstances the poverty of borrowing family circle reduced and raised in microcredit interval. Provide to poor people maximum amount then they able to start the business or work and spend better live condition. Imran et al (2009) Examined that the rural poverty can be minimized by lowering the family size, educating education, more female labor force
participation, higher household participation rate, increasing assets and household’s approach to market especially in village areas. Person per room and dependency ratio increase in rural areas and poverty ratio alleviated due to microfinance, microfinance is the best strategy to alleviation the poverty and improved the living condition of the people.

Saboor et al (2009) Examined that the credit system should be improved so that full benefits could be a veiled and miss utilization of credit could be minimized. The credit should be given according to the need of the low income customers if they need the credit then give loan according to the requirement. the credit system should be proper make according to the areas according to the need of the customers. The procedure for acquisition and recovery of credit should be made fool prove and easy to attract maximum customer and easy for poor people for taking loan. James et al (2009) they suggested that government and other policy maker should produce innovative way to minimize poverty and human suffering around the world. The government and NGOs should make the coordination with each other and set the area where they perform well accordingly.

RESEARCH METHODOLOGY
The aim of this research paper is to know the impact of micro financing on poverty reduction and income of the sample borrowers. A secondary data has been gathered from Tameer Microfinance bank Rawalpindi Branch taking as case study. A sample random sampling technique has been adopted to collect the data from sample respondent through structure questionnaire. Microfinance has been taken as independent variables while poverty has taken as dependent variables which have been measures through family size, income and education of the sample respondents from Bank. A paired t-test has been applied to compare the income of the borrowers before and after borrowing the credit from the bank while multiple linear regression technique have been applied to know the impact of micro finance on poverty reduction. The models are as following:

**Paired t-test Model for the Study**

\[
t = \frac{\bar{X}_1 + \bar{X}_2}{\sqrt{\frac{S_1^2}{n_1} + \frac{S_2^2}{n_2}}}
\]

Whereas,
\[
\bar{X}_1 = \text{Mean of the Sample 1(Before borrowing)}
\]
\[
\bar{X}_2 = \text{Mean of the Sample 2(After borrowing)}
\]
\[
S_1^2 = \text{Variance of the Sample 1(Before borrowing)} = \frac{\sum(x_1 - \bar{X}_1)^2}{n_1}
\]
\[
S_2^2 = \text{Variance of the Sample 2(After borrowing)} = \frac{\sum(x_2 - \bar{X}_2)^2}{n_2}
\]
\[
n_1 = \text{Number of the observation from Sample 1(Before borrowing)}
\]
\[
n_2 = \text{Number of the observation from Sample 2(After borrowing)}
\]

**Multiple Regression Model for the Study**

\[
Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e
\]

\[
\alpha = \text{Constant}
\]
\[
Y = \text{Income per season (Rupees) (both borrowers and non borrowers)}
\]
\[
X = \text{Education level (Number of schooling year)}
\]
\[
X = \text{Size of household (Number of family members)}
\]
\[
X = \text{Loan participation (0 for non-borrowers,1 for borrowers)}
\]
\[
\beta, \beta, \beta \text{ are the co-efficient of the independent variables.}
\]
\[
e = \text{Error term}
\]

RESULTS & DISCUSSION
Followings are the results from collected data through primary source.
Table No. 1: Results of Regression Analysis

<table>
<thead>
<tr>
<th>Model (Variables)</th>
<th>Beta Coefficients</th>
<th>t-value</th>
<th>Sig (P-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>1.720</td>
<td>3.326</td>
<td>.000</td>
</tr>
<tr>
<td>Credit</td>
<td>.690</td>
<td>24.639</td>
<td>.000</td>
</tr>
<tr>
<td>Education level</td>
<td>.259</td>
<td>6.618</td>
<td>.000</td>
</tr>
<tr>
<td>Size of House Hold</td>
<td>-.051</td>
<td>-.762</td>
<td>.289</td>
</tr>
</tbody>
</table>

Dependent Variable: Income
F-value = 414.315
R2 = .732

Source: Authors’ Calculations

The above Table No. 1 shows that the constant’s coefficient of the model is 1720. It shows the income of the beneficiaries while keeping all other independent variables zero. It is significant at 5 percent level of significance. Credit plays an important role to increase in income of the beneficiaries. The table shows that credit is found highly significant at % percent level of significance having t-value 24.639. Beta coefficient of credit is .690 which indicates that 1 percent increase in credit will bring 69 percent increase in the income of the borrowers. It shows that credit plays an important role to increase the income of beneficiaries. So, H1 is accepted against H0. Education level is also an important variable for income. The table shows that education is found significant at % percent level of significance having t-value 6.618. Beta coefficient of education is .259 which shows that increase in 1 year/ (1 level) of education will increase income by 25.9 percent of the borrowers. It shows that education is also playing a significant role to increase the income of beneficiaries. So, H2 is also accepted against H0.

Size of household is found insignificant. The table shows that the t-value of family size is .762 with P-value .289 which is greater than 5 percent level of significance. Beta coefficient of family size is found .051 which indicates that by adding 1 more members in family size income will decrease by 5.1 percent. As the characteristics of the borrowers shows that in rural areas people have large family sizes depending on one earner, so increase in one more dependent member in family will decrease the income. So, H3 is rejected against H0 and found that family size does not have positive impact on income of the beneficiaries.

F-value shows the overall significance of the model. In this model, F-value is found 414.315. It is significant at 5 percent level of significance which indicates that the overall model is significant. The value of R2 is found .732 which indicates that 73.2% change in dependent variable (income) is due to these above mentioned independent variables while 16.8 percent is error term (other independent variables) which are not captured in the model.

Results of Paired Sample t-test

A paired sample t-test is used to determine whether there is a significant difference between the average values of the same measurement made fewer than two different conditions. Both measurements are made on each unit in a sample, and the test is based on the paired differences between these two values. Paired sample t-test is also used to find out the impact of credit on income before and after borrowing. Following results are found.

Table No. 2: Paired Sample t-test Statistics

<table>
<thead>
<tr>
<th>Paired Differences</th>
<th>Mean</th>
<th>95% Confidence Interval of the Difference</th>
<th>T</th>
<th>d.f</th>
<th>Sig(2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Lower</td>
<td>upper</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pair</td>
<td>Pre-Credit Income &amp; Post-Credit Income</td>
<td>-3.378</td>
<td>-3.653</td>
<td>-3.296</td>
<td>-40.394</td>
</tr>
</tbody>
</table>

Source: Authors’ Calculations
Table No. 3: Paired Sample Mean Statistics

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Credit Income</td>
<td>9.03</td>
<td>195</td>
</tr>
<tr>
<td>Post-Credit Income</td>
<td>12.51</td>
<td>195</td>
</tr>
</tbody>
</table>

Source: Authors’ Calculations

Table No. 4: Paired Sample Correlation

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Correlation</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Credit Income &amp; Post-Credit Income</td>
<td>195</td>
<td>0.641</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Source: Authors’ Calculations

The Table No. 2 shows that the value of t-test statistics is found 40.394 having p-value .000 which is significance at 5 percent level of significance. So, H0 is rejected against H1 and found that mean of the income of the beneficiaries before utilization of a credit is not equal to the mean of the income of the beneficiaries after utilizing a credit. The value of mean difference is found 3.378 which also support to the alternate hypothesis. In the Table No. 3 mean value of before and after utilizing a credit is presented. The mean value of income of the beneficiaries after utilizing a credit is greater than the mean value of income of the beneficiaries before utilizing a credit. It indicates that income of the beneficiaries has been increased after utilizing a credit. While the Table No. 4 presents the correlation value of the paired samples (Income of the beneficiaries before utilizing a credit and income of the beneficiaries after utilizing a credit). Table s shows that the correlation value is found .641 having p-value .000 which is also significant at 5 percent level of significant.

By summarizing the above mentioned results of paired t-test, it is found that microcredit has great impact on the incomes of the beneficiaries. Incomes of the beneficiaries are significantly increased after utilizing a credit. It implies that micro financing by Tameer Bank is playing a considerable role in eradicating the poverty by increasing the incomes of the beneficiaries. These results also provide evidence in favor of multiple regression i.e. credit has significant impact on income.

CONCLUSION

Poverty has been widely recognized a matter of deprivation in multiple dimensions. The non-income indicators and multidimensionality of poverty have got much attention with the advancement of knowledge. More specifically, the operational ingredients of poverty are now considered in terms of deprivations of food, shelter, education, health or other basic needs. A poor person is referred as one without job, who cannot help himself or provide better resources for his family, who has no means of gaining money, farm or business. A poor person is defined as one without self-confidence, looks dirty and lives in dirty environment, one who cannot help for his family, trained his children in the school and unable to pay medical bills. Indicators were taken at household and enterprise levels, the improvement of which could alleviate poverty. Additionally, some other independent variables were taken into the analysis. Data was collected from Tameer Microfinance bank Limited. Overall it comes out with mixed evidence on household and enterprise levels. Results show that microfinance has a strong positive impact on education and financial performance impact has been observed on housing and income generating. Among other independent variables, it was revealed that number of salaried persons was found to be very important variable contributing to the wellbeing of the microfinance clients.

SUGGESTIONS

Selection of businesses

Mostly clients are involved in small businesses like stitching, spare parts of automobiles, beauty parlors, bakery, video shop, clothing, frozen foods, fruit and vegetable shop etc. There is a need to assist the clients in selecting appropriate business, guiding them about the availability of raw
material/services needed to startup and how to go about it.

Training and development

Microfinance banks do not have separate department which can guide the clients for establishment of possible businesses at small scale. Given the fact that clients are given a very small amount of loan it is recommended that they should be given proper direction how to use this money. Exclusive business development centre can be set up in microfinance institutions to help the clients for this purpose.

Monitoring and follow up of loans

Although M FIs have proper system to ensure repayments but they are lacking in monitoring the loan usage activities. Since the loan usage was not actually transferred to investment, it is imperative that there should be periodic monitoring of loans usage. For example if loan is provided for one year at least quarterly monitoring should be done to see what are the problems being faced by the clients while progressing with their new businesses. Most of the clients have used the loan in consumables. Majority of the clients are illiterate and need to be guided throughout their loan cycle about the enhancing sales and decisions pertaining to reinvestment.

Web of services

Focus of microfinance banks should be on provision of web of support services in addition to microcredit. For example, provisions of microcredit along with the direction of choice of appropriate business coupled with training and periodic monitoring of usage of loan can produce positive results. This is the only way to eradicate poverty.

Introduction of new programs

Since the present study has found a positive relationship between program participation and children education. New program like education insurance can be introduced. This program will call for adding a small amount of premium in their installments (established clients) hence facilitating them in getting higher levels of education.

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