

Ensuring the Role and Impact: Reaching the Poorest While Alleviating the Poverty by Micro Finance in Dera Ismail Khan KPK Pakistan

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Abstract

Micro Finance is used as one of the tools for poverty alleviation. Micro Financial Institutions provide small loans to poor people, farmers and small enterprises. It is the best solution of removing poverty. This research study provides an overview on Micro finance and poverty alleviation at D.I.Khan district KPK Pakistan.This study is based on both quantitative and qualitative methodologies in order to find out the feasible solution of thisresearch question:what are improvements achieved in the reduction of poverty in the fields of income, employment, education, communication, health care, children's education and housing etc? Stratified random sampling techniques were used to get a total of 96 respondents. Data were collected through close ended questionnaires, semi structured interviews, observations and documentary reviews. Data analysis was based on descriptive statistics using various statistical tools like regression, correlation, t- test and ANNOVA with the help of tables. The Study findings show thatprovision of Micro-finance is very useful in poverty reduction. The result of the study also show that microfinance helps in poverty alleviation of different categories of poor people and has the positive significant impact on the dependent variable i.e. Poverty Reduction.

Key words: Micro finance, poverty, MFIs, income, employment and education.

1. Introduction:

Economical, Business& Financial services, through financial institutions to the poor with the involvement of above stated activities give birth to the concept of Micro finance. The saving, investment, credit and insurance services etc are provided by the different Micro financial institutions. Social services are also provided by Many MFIs as well such as health, culture, education and skills in order to achieve the developmental objectives.World Bank (1980) poverty has been defined as "A condition of life so characterized by malnutrition, illiteracy, and disease as to be beneath any reasonable definition of human decency"

Poverty is a condition in which a person is under privileged of the basic fundamental like education and basic requirements like residential place for a minimum living standard. Basic requirement and essentials may be human needs like food, safe drinking water and residence place etc, or they may be social resources like access to communication facilities, education facilities, health care facilities, political power or the people having the lack of such facilities as compared to the rest of the society may be constituted for poverty group.

Almost three billion people living on the income of less than $2 a day. Among them, one child in five does not live to see his or her 5th birthday (Bar Michael, 2005). The problem of poverty is intensified by its difficult nature with so many facts which are changing from time to time. The existence of poverty is linked to its interlocking multi dimensionality. Micro finance is a dynamic, difficult, gender and location specific phenomenon. The pattern and shape of poverty is changed by social and behavioral group, season, location and country.

Furthermore, there are so many indicators of poverty, consists of less income, less production, unemployment, ignorance, hunger, poor infrastructure, high maternal mortality rate, short life expectancy, homelessness, voiceless, powerlessness, vulnerability, and poor social services such as poor education, health, financial situation services and lack of clean and safe water. Many underdeveloped countries throughout the globe are thinking and utilizing their efforts to reduce poverty.

For this purpose MFIs are providing the micro finance and using it as antipoverty tools because it helps to decline unemployment, Empower the poor people for their self reliance. In order to reduce the poverty various government institutions and Non government institutions are also providing financial assistance to the poor people in shape of debt or equity borrowing. These efforts enable them to boost up their level of income and standard of living.Pakistan has more than 170 million Populations with abundant resources which are being utilized for poverty reduction. It is an amazing that saving rates in Pakistan are very low and the impact of investment is very apparently high from different research studies. The people who have taken the benefit from Microfinance are less than 5% of the whole population.(Shahzad et al, 2004) Micro finance activities refer to small loans which are commonly utilized for working capital, easy consideration of borrowers, creation of investment opportunities, and provision of collateral substitutes such as personal group guarantee, obtaining the micro credit based on the best repayment performance or debt capacity.

2. Statement of the Problem

Poverty is the main issue for the backward areas of Pakistan especially in Dera Ismail Khan District. Lack of employment opportunities is one of the major causes of poverty. Poor people of the area require finance for self employment and to reduce the poverty. So this study is designed to ensure the role and impact of Micro finance to reach the poorest while alleviating the poverty taking into the consideration the different determinants of life in Dera Ismail Khan a district of Khyber Pakhtunkhwa Pakistan.

3. Research Hypothesis

This research study is based on the following hypothesis

3.1 H0 = Micro finance has no impact on alleviating the poverty in the study area.

3.2 H1 = Micro finance has impact on alleviating the poverty in the study area.

3.3 $H0 = MF = 0$

3.4 $Hi = MF > 0$

4. Literature Review

Chavan, (2002) Micro credit programs and MFIs had created a positive change in the income of borrowers. It is considered as one of the major factors of microfinance. It supports the small businesses for small loans that are not eligible for established commercial bank loans. Rutherford, (1996) mostly in developing countries it has been found that micro credit serves poor individual hold self-employment that enhances the level of income and status of living.Snow, (1999)The literature on microfinance suggests that MFIs will be treated as successful if targeted poor are met with their basic needs for which they are designed and formulated, if they achieve their primary objective of eradicating poverty. Thus, to ensure its long-run survival, a microfinance institution not only has to comply with the local rules and regulations applicable to its operations and meet society's expectations but also ensure the accomplishment of its primary objectives in terms of reaching highest possible number of poor households and diminishing poverty in its area of operations. By doing so, it demonstrates its legitimate existence to the society and also proves itself to be a legitimate recipient of financial and non-financial resources allocated to the sector.Waheed (2009) identified and analyzed the role of microfinance in the reduction of poverty. He used Primary and secondary data for that study and interviewed 68 households. The data was analyzed by using regression and correlation analysis. Their findings suggested the positive change in poverty reduction and income and the general living standard because of micro finance.The effect of income on poverty alleviation has been analyzed at the individual, household and enterprise levels.Hulme and Mosley (1996) conducted various studies on different microfinance programs in numerous countries, and found strong evidence of the positive relationship between access to micro finance and borrower's level of income.Mosley (2001) also pointed the positive impact of microfinance on asset levels. He further stated that there is strong and high correlation between asset accumulation and income status which led to extreme correlation between income and asset poverty. He found that the net impact of microfinance from all institutions, at the average level, was positive in relation to borrowers' income, even though that net impact for poorer borrowers might be less than the net impact on richer borrowers, the study showed that impact on income distribution at the household and enterprise level. Another study by Holvoet (2004) investigated the effects of microfinance on childhood education by examining two microfinance programs in South India, one with direct bank-borrower credit and another one with group mediated credit. The author showed that loans to women, through women's groups, had a significant positive impact on schooling and literacy for girls, whereas it remained mainly unchangeable in the case of boys. However, in case of direct individual bank-borrower lending, there was no improvement in educational inputs and outputs for children.Pitt and Khandker (1996)found that a credit to the participants provided by a microfinance institution like the Grameen Bank could grow school enrolment for children. Micro finance has a huge impact on the lives of millions of poor people living in rural as well as urban areas of the country.Kirkpatrick et al., (2002) Various scholars and NGOs have been working to take micro finance within the reach of poor people, who are still not benefitted by the conventional financial system.According to Ahmad (2000), it is recognized that people living in poverty are innately capable of working their way out of poverty with dignity, and can demonstrate creative potentials to improve their situation when an enabling environment and the right opportunity exists. It has been noted that in many countries of the world, micro-credit programmes, provide access to small capitals to people living in poverty.Quansah P et al.,(2012) the research study showed that MASLOC microfinance scheme has been very active in transforming poor lives in society. The beneficiaries of MASLOC loan schemes have explicitlyput the benefits derived from the scheme. However, the people who remained fail in repayment of the loans threatens the sustainability of the scheme thus the need for management of MASLOC to devise suitabledealings to get back all loans from beneficiaries. The scheme is also bedeviled with flaws like dishonesty and embezzlement thus the supervisory bodies should be up and doing and make sure that such dishonest officials whose activities threatens the formatmust be in black and white.

5. Methodology

Primary data from 96 respondents in the study area consisting of businessmen and farmers was collected. Stratified sampling technique with the help of structured and closed ended questions and interview was used as it is used by many researchers such as (Nunung et al., 2005). Regression Analysis was applied to know the cause and impact of Micro finance and Poverty Alleviation as worked by (Olagunju, 2007).

6. Modeling

The General Linear Model is frequently estimated using ordinary least square one of the most widely used analytic techniques in social sciences (Cleary and Angel, 1984). Most of the statistics used in social sciences are based on linear model. This model is used to show a function that relates dependent variable (Y) to one or more independent variables ($x_1, x_2, x_3, x_4 \ldots\ldots x_n$). This function can be represented as follows

$Y = a + bX_i + e_i$ Where

Y = Dependent variable

a = Constant

b = Slope of line

X_i = Independents variables

e_i = Error term

7. Model: Micro Finance and Poverty Alleviation:

$Y = a + bX_1 + bX_2 + bX_3 + bX_4 + bX_5 + bX_6 + bX_7 + bX_8 + ei$ Where

Y= Poverty alleviation

a=Constant, X_1=Age, X_2=Education, X_3=Experience, X_4=Family size, X_5=Marital status, X_6=Investment, X_7=Gender, X_8=Credit, ei=Error term

8. Data Analysis and Interpretation:

Collective impact F=2.982 (Table 1) of all independent variables used in the model had significant impact p=.005 (Table 1) on Poverty alleviation. Four variables age, experience, family size and gender out of eight independent variables were found significant. Remaining ones were found to be insignificant. R2=0.215 (Table 1) shows that a very small change in all independent variables brought 22% change on poverty alleviation (Dependent Variable).

Table 1Impact of different variables on poverty alleviation (Regression)

Model	R	R^2	Adjusted R^2	F	Sig.
1	.464	.215	.143	2.982	.005
Independent variables	**Un standardized Coefficient**		**Standardized coefficient**	**t**	**Sig.**
	B	Std. error	Beta		
(Constant)	27.450	6.012		4.566	.000
Age	-.167	.096	-.226	-1.745	.085
Education	.163	.168	.113	.971	.334
Experience	.564	.142	.521	3.975	.000
Family size	.484	.289	.186	1.673	.098
Marital status	1.926	1.998	.115	.964	.338
Investment	-3.742E-5	.000	-.189	-.769	.444
Gender	4.348	1.638	.280	2.655	.009
Credit amount	-6.897E-6	.000	-.028	-.120	.905

Table2Impact of different variables on Poverty Alleviation using t-test

Variables	F	Sig.	t-values	Df	Sig.(2-tailed)
Gender	1.961	.165	-.959	94	.340
Occupation	1.961	.165	1.824	94	.071
Marital status	2.791	.098	-.352	94	.725

Table3 Correlation of Independent variables on Poverty Alleviation:

Variables	Pearson Correlation	Effect	Sig.(2-tailed)
Gender	0.098	+ve	.340
Age	-0.070	-ve	.495
Education	0.062	+ve	.548
Occupation	-0.185	-ve	.071
Experience	0.230	+ve	.024
Family size	0.145	+ve	.160
Marital Status	0.036	+ve	.725
Credit	-0.094	-ve	.362
Investment	-0.058	-ve	.573

Gender: Gender had insignificant impact p=0.340 (Table 2)on poverty alleviation and Correlation of gender with poverty alleviation was very weak at r = 0.098, (Table 3)because in the study area gender had no role to play in creating positive social, economic and political conditions to improve resources etc that promote healthy business environment

Occupation: Occupation had significant impact p=0.071(Table 2)on poverty alleviation in study area and Correlation of occupation with poverty alleviation was very weak at r = - 0.185(Table 3). Farmers and businessmen had a major role to play in creating constant economic and labor opportunities and elimination of intolerance of the respondent's residence against in rural areas out of their available resources after use of micro finance.

Marital status: Marital status had insignificant impact p=0.725(Table 2), Marital status of the respondents in the study area was weakly correlated with poverty alleviation at r = 0.036(Table 3). It had increased the risk of loss and did not reduce the poverty which created impressive situation for the respondents to take an evasive action to provide employment opportunities. The respondents in the study area had no contribution to reduce poverty because they were already availing the facilities of house renovation, keeping of livestock and better health facilities at private hospitals etc.

Table 4Impact of different variables on Poverty alleviation (ANNOVA)

Variables	Levels	Sum of square	Df	Mean square	F	Sig.
Age	Between Groups	122.330	2	61.165	1.097	.338
	Within Groups	5183.910	93	55.741		
	Total	5306.240	95			
Experience	Between Groups	586.628	3	195.543	3.812	.013
	Within Groups	4719.611	92	51.300		
	Total	5306.240	95			
Family size	Between Groups	386.489	3	128.830	2.409	.072
	Within Groups	4919.750	92	53.476		
	Total	5306.240	95			
Credit	Between Groups	6.148	2	3.074	.054	.948
	Within Groups	5300.092	93	56.990		
	Total	5306.240	95			
Investment	Between Groups	20.861	2	10.431	.184	.833
	Within Groups	5285.378	93	56.832		
	Total	5306.240	95			
Education	Between Groups	125.404	4	31.351	.551	.699
	Within Groups	5180.836	91	56.932		
	Total	5306.240	95			

Age: Age had insignificant impact p=0.338(Table 4)on the reduction of poverty. Correlation of the age of the respondents under study area with poverty was weak at r = -.070(Table 3). Poverty reduction depends upon the intellectual power of the people. They can serve the society by utilizing their intellectual capabilities in a better way. The result showed that the respondents with taking the advantage of older, younger or teen age, they could play their role in reducing the poverty.

Experience: Experience had significant impact p=0.013 (Table 4) on poverty alleviation in the study area and experience with poverty alleviation was weakly correlated at r = 0.230(Table 3). They had invested more in farming or other business to get maximum return and to save the maximum social sector budget. They had also served the people by providing them the goods and services according to their tastes, fashion and need etc.

Experiences of the respondents had positively relation with the poverty status because experience grew the respondents' expertise in their specialized fields which enabled them to earn a lot and reduce the poverty.

Family size: Family size had significant impact p=0.072(Table 4) and the correlation of family size with poverty alleviation is weak at r = 0.145(Table 3), because application & repayment procedure and processing period was very convenient for all family size members in the study area. They were proficient of working their way out of poverty with self-esteem and created potentials for poverty reduction to great extent

Credit: Credit had insignificant impact p=0.948(Table 4) on poverty reduction and Correlation of the amount of credit with poverty alleviation was very weak at r = - 0.94(Table 3). The amount of micro finance received from lending institutions was inappropriately utilized by the respondents. After taking the benefit from micro finance, the respondents neither visited around for tour nor availed the facility of highly qualified doctors, so credit had less contribution in this regard to alleviate the poverty.

Investment: Investment had insignificant impact p=0.833(Table 4)on poverty alleviation. The correlation of investment with poverty alleviation was very weak at r= -0.58(Table 3). The micro finance received had been invested for inappropriate purposes. The cost and benefit analysis was not appropriate. This consists of all those investments in the study area that provided outputs deemed by the society to be basic needs. In such cases, the advantages of investment were self evident and did not need to be measured in financial terms. The only relevant consideration in such a case was choosing the least cost method of meeting a given need.

Education: Education had insignificant impact p=0.699 (Table 4) on poverty reduction and the correlation of education with poverty reduction was weak at r=.062(Table 3). As the education is very important factor for poverty alleviation, it enhanced the earning potentials of the respondents and therefore, education was negatively associated with the poverty status. Performance on academics was much more disappointing than on schooling of the children.

9. Results and Conclusions:

Creation of self employment opportunity is one of the major ways of alleviating poverty. Micro finance has been found a very dominant tool for uplifting the poor people from the poverty line by making them credit worthy. The findings suggest that in the District Dera Ismail Khan some people are not taking microfinance to the desired extent because of having the unawareness about the bank policies, credit system, high interest rate and insufficient amount; and also financial institutions feel hesitation to grant micro credit to the people because of no repayment by the borrowers at due time. Micro finance was found strongly correlated with poverty reduction at $R = .464$ & $R^2 = .215$ and it had positive significant impact using Linear Regression model. Experience, family size and gender had positive significant impact on poverty alleviation. Because male experienced people having the greater family size got the desired amount of finance and created self employment opportunities for themselves as well as for other people and played very positive role in poverty reduction. Education and Marital status of the respondents had positive insignificant impact on poverty reduction. Highly qualified married persons used the credit for their genuine needs but they must take in to consideration the other factors in this regard as well. Age of the respondents had negative significant impact on poverty reduction, it means that younger peoples had no experience for using the micro finance to reduce poverty so that were unable to do so. Investment and credit amount had negative insignificant impact on poverty alleviation. The respondents neither visited around for tour nor availed the facility of highly qualified doctors, so credit had less contribution in this regard.The MFIs haven't stretched their operations in all the towns and villages of D.I.Khan district. The present study was based on small sample size comprised only few villages and town of D.I.Khan district. Therefore, the results cannot be generalized to other districts of KPK. Therefore, this study strongly recommends that the government and non-government MFIs should initiate comprehensive microfinance programs to expand their operations and impact span across all over rural as well as urban areas of Khyber PakhtunKhwa to develop the area economically. This will help to reduce the absolute poverty level and will improve standard of life of the citizens of the province.

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