

Analysis the Impact of Microfinance on Poverty Reduction

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Abstract

Purpose: Living standard in low income developing countries always remain crucial issue to be addressed. In many developing countries, like Pakistan, microfinance has been used as a tool to gear up the living standard of poor people. The main aim of this study is to analyze the contribution of microfinance in raising the living standard of low income people and poverty reduction. This paper is about reducing the poverty level through micro financing.

Design/methodology/approach: The researcher developed a questionnaire to examine the impact of microfinance for the development of poor people in Pakistan. In this study Content analysis is used to investigate the impact of micro finance on poverty reduction.

Findings: The micro finance has the positive impact on poverty reduction and increase income level, education and develops the living standard of poor. The loan size will have the positive or negative effect on the people. There are many issues which are faces by the people for getting loan from financial institutions.

Research limitations/implications: This research focuses upon a relatively small sample of poor people in the Pakistan. Although the results could be relevant to poor people in other developing countries, caution should be exercised when attempting to generalize these finding to other contexts.

Originality/value: The analysis shows that the micro finance is important for poverty reduction. In Pakistan being a nation, approximate 70 percent of people live in rural areas and micro finance for rural being a powerful, and the only, tool for rural people in providing a means of livelihood, its importance and potential should be known to each individual.

Keywords: Pakistan, Education, Microfinance, Family health, Household income, Poverty reduction.

Introduction

Micro finance plays an important role in poverty reduction. Micro finance provides small loans to the poor people living below the poverty line. The self-employment projects that earn income for their existence, letting them to uphold themselves and their families. From the last two decades, microfinance is the most effective tools that utilized to control poverty. Poverty is the basic issue in the whole world.

With the changes being developed standards among the last 1/2 of the twentieth century made, the confirmation to bring welfare to all individual still not satisfied. According to current research , more than 110 million children of school going age have never went to school, approximately 30000 children died due to hunger and illness and most 1.2 billion people on the earth are fighting for their survival “a day under a dollar”. Poverty is the issue of all developing and under developing countries even they are expanding and developing their economy. There are many forms of poverty are observed. It can be experienced in both aspect of revenue and non-revenue. It may be a lack of incomes or property, lack of surviving ability, lack of fundamental human abilities, deficiencies in institutional defense or in extreme situation lack of all of these. In a broader sense, it may be a combination of economic, social and political insufficiencies.

According to poverty line, population can be divided into the two groups in each country that are poor and rich. Above the poverty line are rich and below the poverty line are poor. Now a day the micro finance is the best tool used for poverty reduction. The main aim of microfinance is to reduce the poverty as “little earnings means little investment which return low profit” by providing money to poor for their economic life from outside sources. “Money, declare the proverb, help to make money. For those who have received just a little, it is simple easy to have more and the huge problem is to find that little money” (Adam Smith, 1937).

By enhancing their earnings and revenue microfinance boost up the living standard of the poor people by providing them a small capital, Thereby take out poor people from the poverty line and improve their living standard (Ajani & Tijani, 2009). Financial institution provides small loans to poor people and against charge 20-30% of interest per month. Due to low earning and high interest charged by financial institution they found informal sources to make satisfaction for their basic needs of life. The microfinance was firstly started in 1971 that was actually the concept of Dr. Muhmmad Yunus. He wished to see the world without poverty in upcoming future. (Yunus 1976).

With the passage of time increase in the poverty worldwide and also in Pakistan the number of banks, organization along with the NGO's, private and government institutions are providing microfinance services to the poor people in Pakistan. The people who are living below from the poverty line, if microfinance provide them the opportunity, they can show their potential to enhance their living standard and can live with dignity. It is examined that many of countries in the world, microfinance plains provides small amount of loans to the poor

people. (Ahmed 2000)

In current total microfinance outreach borrowers in country Pakistan are there about 1.3 million. The NRSP is the largest microfinance fund provider in Pakistan have near about 0.47 million active borrowers, whereas KHUSHALI bank have 0.35 million approximately active borrowers and microfinance loan size is Rs. 10500. Near to 75% along with the full outrage associated with the Pakistan Microfinance Community (PMC). It is identifying that many of problem that confines the importance of Microfinance loan in poverty reduction for the poor households to have complete benefits from their loan amounts. Having high interest against the loans and lack of control over the loan policies is the major problem for limiting them to get the maximum benefits from loans.

According to the latest research in Pakistan the study is about 6 million populations is living below the poverty line. Poverty becoming the major causes of different problems that are commonly exist in the societies such as Suicides, crimes, unemployment and also different illness as depressive disorders, stress and anxiety, pressure and many of others. Control over the poverty means to control on these problems. Government have many polices to face these problems, the customer must realize that microfinance has changed their lives and reduces the poverty. This study is to examine the impact of Micro finance on Poverty reduction in Pakistan. The main objective of study is to understand the success rate, and the social and economic impact of micro finance among the poorest people in Pakistan. The critically analyze the importance of microfinance on poverty reduction, and improve the income level of the poor people, Education of their Children's, Health and their living standard.

Literature Review

In this portion we present different theories and concepts relevant to previous research in Micro finance and for poverty reduction. We explain the basic definition of Microfinance, what is Micro finance, its Mechanism, for participation of poverty reduction.

Micro Finance

Micro finance is described as a short term loan provided too those people who are living below the poverty line, through the financial institutional system. These short term loans available to those customers at door step at the time when they need (Bajwa, 2001). Through micro finance helps to improve the welfare of the poor people through better approach of saving and loans (Schreiner, 2000).

"Micro finance means giving small credits to poor individuals to build or reshape their businesses and to guide them employ about fruitful activities for improving their livelihood."Micro finance having many varieties of services which are as advances, insurances and savings for very poor people who do not have availability to utilize the formal standard bank products. (Rehman, 2007)

The major attributes of Micro finance are helping to poor people by providing them short term loans. As the Murray, U and Boros, R (2002) was specifying that Microfinance has many characteristics some of them and they are as: -

The amount of loan is very short and the period of these loans are six month to one year. They have very simple techniques for fewer certifications and application procedures are very easy to attempt. There is no issue of security for getting small loans as compare to the commercial Banks. They also provide the saving and insurance facilities for those people.

Micro finance Institution (MFI) may include various activities just like training and skill development, consumer skills and the importance of children's education, improving health and physically situation (Garmeen, 2008). Micro finance helps the individual's getting out from the weakness of the income earner, Stealing, Suicide, mental disability. Micro finance doing their best effort in a way that can help the poor people to getting out these types of unpleasant events.

According to the study of Sengupta, Aubuchon in 2008 "There are now almost seventy million poor natives who are getting benefits from 2500 Microfinance associations in more than 100 countries. This reality demonstrates that how Microfinance is essential and helpful, and how a large number of individuals are assisted by the Microfinance organization". There for Microfinance getting value as efficient tool of social mobilization and poverty reduction.

According to Ahmad in 2000 stated "it is acknowledged that inhabitants living in poverty are naturally competent of working and find their way to out themselves from poverty with self-esteem, and exhibit inventive potential to develop their condition when an facilitating surroundings and the exact opportunity be present." It has been well known that the Microfinance provides the small opportunities to the poor people in many countries of the world. After the 1990's the poverty increase with the passage of time but the Microfinance is one of the best tool to control over it. Christen, R.P., Rosenberg, R., and Jayadeva, V., 2004 said that lack of securities and grantee, they are not eligible to get a loan from commercial banks. There are many reasons to not provide the loan to poor people due to less education, none of experience in business and high transaction cost and low profit

ratio for the banks. There for the poor people move into the more poverty. No one can disagree with the importance of microfinance in poverty reduction because it improve the income as well as consumption of poor people (Khandker, 2005; Copestake, Dawson, Fanning, McKay, & Wright-Revollo, 2005).

Microfinance sector is growing in Pakistan. The Government of Pakistan help to grow microfinance sector in Pakistan as the establishment of Microfinance Bank, NRSP Bank, Khushhali bank, Tameer bank, apex organization, the Pakistan poverty alleviation fund (PPAF), Aga Khan rural support program (AKRSP), Kashf Foundation, Taraqee, Daman and Microfinance bank (MFB). Pakistan Poverty Alleviation Fund Program after 7 years of its beginning is achieving the needed purposes (World Bank, 2008). The standard volume of a credit is \$150 million and 9 million people in 111 districts across the country get advantage from it (Saleem, 2008).

Poverty

Poverty reduction is basic goal of development policy but according to the definition of poverty, there is little conformity and for poverty reduction strategy, definition of poverty matter a lot (Laderchi, Saith & Stewart, 2003). The resources are includes as 1) human i.e. education accessible, 2) natural i.e. land access, 3) physical i.e. approach to infrastructure, 4) social i.e. approach to system of responsibilities or 5) financial i.e. approaches to credit. The state of poverty has been investigated conservatively as one of hindrance in access by unfortunate family circle to these above mentioned assets essential for a higher standard of earnings or wellbeing (World Bank 2000). Poverty can "be present in a specified society when one or more people do not achieve a level of material well-being which is considered as to comprise a logical lowest level by the principles of the humanity" (Ravallion, 1992).

Muhammad Yunus a great economist developed the different theories and model which are known as the GRAMEEN MODEL in 1976. According to Dr. Yunus, small amount of loans are most help full for the poor people to pull themselves out of poverty (Roy, Mark, A, 2003).

In August 14, 1947 Pakistan came into existence after a long political struggle. The total area of Pakistan is 796,095 sq. km. Pakistan state has four provinces, Sindh, Punjab, Balochistan and KPK, with tribal area Azad Jammu and Kashmir and Federal region Islamabad. The Pakistan country has total 184.35 million residents. 62% (114.4 million) of the total population are living rural areas while 38% (69.87 million) in urban areas (Highlights of the Pakistan Economic Survey 2012-13). There are several types of poverty in Pakistan. In Pakistan, poor people low earnings and they also face the problems of having basic needs such as education, health, land holding, pure drinking water, housing facilities and proper sanitation. In Pakistan, poor people are living below the poverty line are 24% in 2007 which was 34% in 2000-01. Percentage of poverty is about twice in rural areas as compared to urban areas. For example, the percentage of poverty was 14.96% in 2006, whereas in rural areas it was 28% (SBP-a, 2007). Extremely poor people in the country were 1.1 % in 2001 and 1 % in 2005. Ultra poor people was 10.8 % in 2001 and 6.5 % in 2005 and poor people were 22.5 % in 2001 and 16.4 in 2005.

Wealth

Wealth is most important for the economic & material welfare. Wealth provides the opportunity to the poor people to show their potential. Although, the present research focuses on characteristic of wealth, either it is the form of the reserve or flow (Johnson and Rogaly, 1997). Wealth has different dimensions like savings, consumption, household assets and land holding. Savings and investments have the impact on poverty reduction (Khandker, 2000). Through Microfinance scheme, the poor peoples may have enhanced their earnings, investment & savings and some additional assets.

Education

The main objective of the poor peoples is to invest their income into their children's schooling. Earlier research shows that children of poor peoples who get the microfinance are more punctual to go to school for better education as compare to the other children. The poor family wants to educate their children. The education is the most important skill to improve the human being livelihood. It allows the persons to share their potential in public, financial and political area of their lives. (Littlefield, Murdoch and Hashemi, 2003). Education has favorable & positive pressure on poverty reduction, since the better education provide the opportunity to increase income, health and food (Psacharopoulos & Woodhall, 1985).

Health

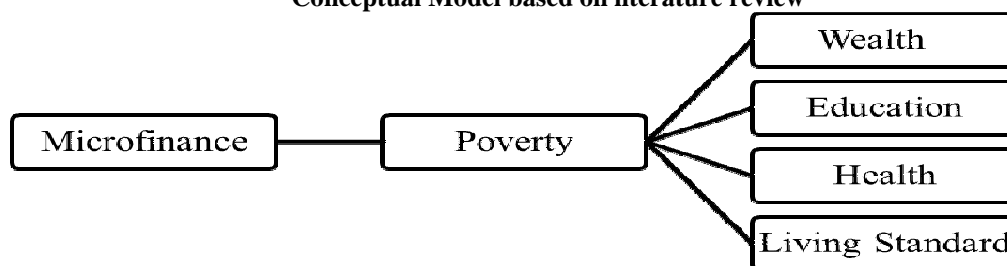
Similar to education, health plays an important role in verifying the welfare of the poor people. Health and education are two major aspects of non-economic influence of Microfinance at a family level. Wright (2000) said that Microfinance has the impact on wellbeing and schooling, dietetic items consider to progress. Little field, Murdoch and Hashemi (2003) also identify the spare precise proof of the influences of Microfinance on health however learning have been ending up with the result as, "family of Microfinance customers show to

encompass improved food, health condition than as compared to non-client family unit". To measure the level of poverty, first check the health status of the people and their family.

Living Standard

Most of Pakistani people are considered as a cluster living on weaknesses. Assessing the financial situation of the earlier years, the value rises the rate of Pakistan is raising rapidly. Increasingly rate of inflation create the trouble for the poor people in Pakistan culture. The rich are getting to be richer as well as the poor are getting to be poorer. The basic necessities of the people in Pakistan, these are "food, clothing and shelter" or many other are "job, education and utilities". The proportion of their three key desires with their three superficial requirements is essential for the poverty reduction as well as for enhancing living standard and budgetary perpetual quality (Johnson and Rogaly, 1997). Microfinance becomes the source to improve the living standard of the poor people in Pakistan.

Conceptual Model based on literature review



Research Methodology

In this section I am going to analyze the impact of microfinance on poverty reduction, and we will discuss the following approaches use for this research in term of research design and area of design, area of study, analysis of the data.

Research Approach

In order to examine the impact of Microfinance on poverty reduction in Pakistan and to response the problem of case study is utilized. It is specially focus when the research is addressing to the society problem many of them like poverty. (Johnson, 2006). However, research method is used to find out the scope and the impact of micro finance on a poverty reduction.

Sample

This sample include the borrowers they had taken short term loans from the Micro finance bank, the person who get their short terms they have to repay the amount of these short term loans. Both male and female were included in this sample, educated and uneducated for the comprehensive result of the study.

Procedure

The data was collected from the cooperation of Branch Manager of different banks such NRSP, ZTB, Khushhali Bank. Having suitable sampling individuals were chosen for the collection of data.

Methodology

It is an applied research. The sample of questionnaire includes customers from NRSP, MFB in Bahawalpur and interview from different banks and financial in situations which are Khushali bank, ZTBL

Tool of Data Collection

There are three basic tools of data collection, that were used to collect the data for the study, which is include Interview, questionnaire and observation of working different institutes. The questionnaire consists of 20 items and the questions were close ended.

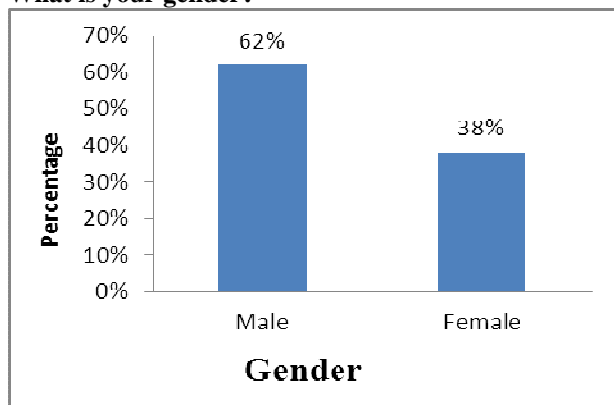
Data Analysis

In order to get the fair and helpful conclusion, examiner has collected the qualitative and quantitative data. Qualitative data was gathered from the interviews and explanation of the interviews is based on the expressed words. The raw data is changed into useful information through the procedure of analysis. As well as there are many different types of analysis for the procedures of qualitative data, like summarizing, classification and content analysis. Quantitative analysis involves data quantification for observing patterns. The content analysis in this study is used to examine the impact of micro finance on poverty reduction.

Result and Discussion

Research Question 1:

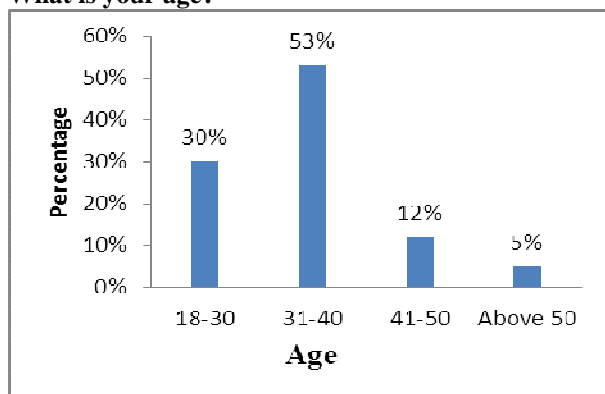
What is your gender?



It is the content analysis of the sample of 100 individual from the Micro finance bank, which includes the 62% men and 38% women. It is analyzed that after studying men are more confident and having interest to get smart loans to start up their career, but women are also awarded about the loan and can use their skills to improve their life style.

Research Question 2:

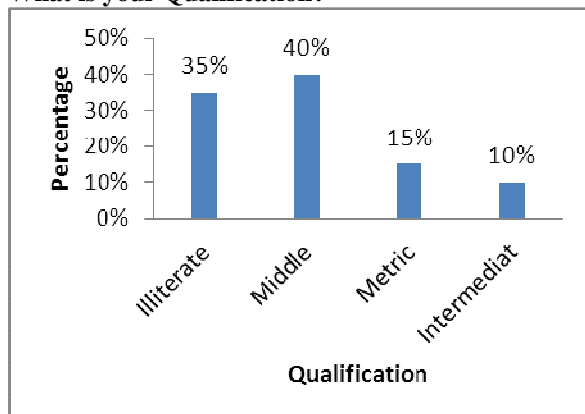
What is your age?



The sample in the study has the age of 18 to 30 contain the 30% respondent. The age of 31 to 40 were 53% respondent and age of 41 to 50 were 12% respondent, above age of 50 were 5% respondent. The above graph shows that the 31 to 40 age group are more getting smart loans, as compare to the other age group.

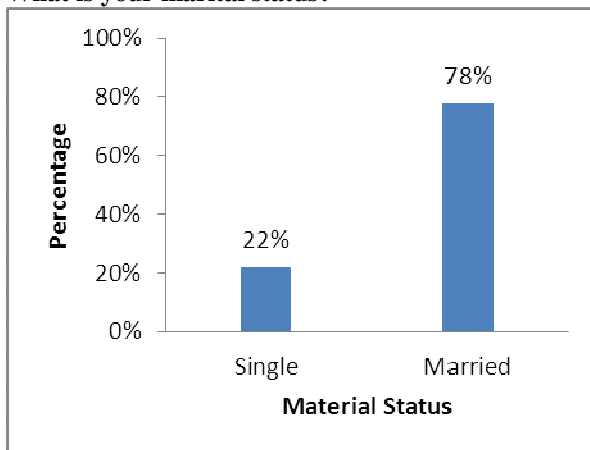
Research Question 3

What is your Qualification?



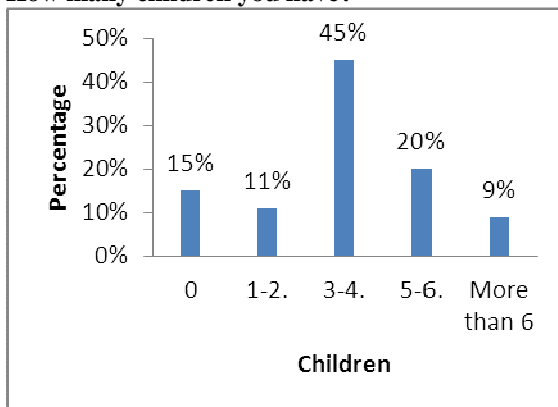
The sample in the study has illiterate, middle, Matriculation and intermediate qualification groups. In which 35% illiterate, 40% middle, 15% matriculation and 10% intermediate. The above graph shows that 40% middle and 35% illiterate are maximum then others.

**Research Question 4:
What is your marital status?**



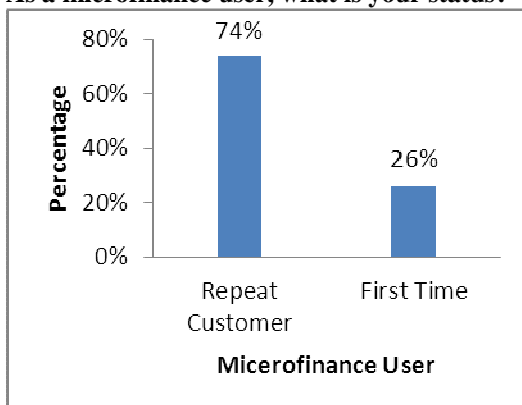
The sample in the study has 78% people are married and remaining 22% are unmarried. Married people want to survive for their best life style there for they want to get loan.

**Research Question 5:
How many children you have?**



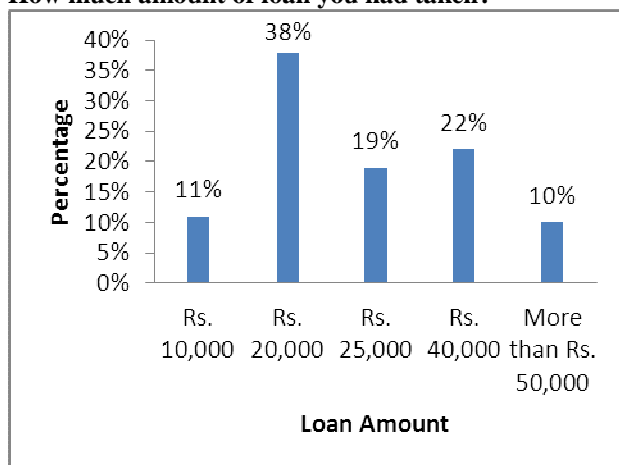
The above graph show that from the sample of 100 people, the 15% respondents have no children, 11% people have 1-2 children, 45% respondents have 3-4 children, 20% respondents have 5-6 children and 9% respondents have more than 6 children. 45% people have 3-4 children and they have need small tern loan to survive their family.

**Research Question 6:
As a microfinance user, what is your status?**



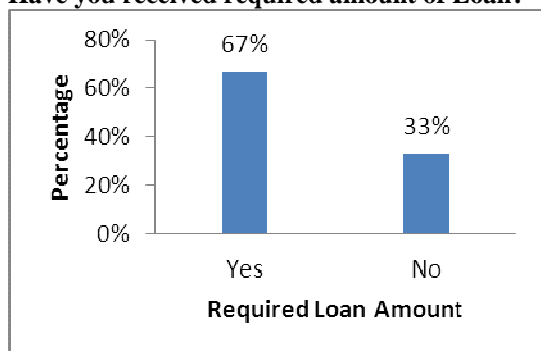
The above graph shows that the majority of the respondents from the sample of 100 people were repeated client. 74% respondents are those they get small loan again and again due to small amount of installments, and less security are not burden for them, therefor they get loan again. 26% respondents get loan first time from microfinance banks.

**Research question 7:
How much amount of loan you had taken?**



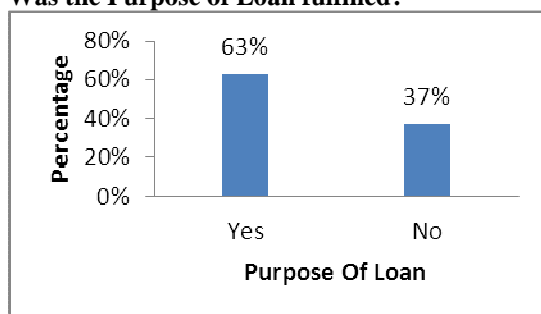
From the above graph it is conclude that the amount of loans provided to the creditors was mostly Rs.20000 loan which was 38% respondents of the sample of 100 people.11% respondents get Rs. 10000 loan, 19% respondents get Rs.25000 loan, 22% respondents get Rs.40000 loan and 10% respondents get more than Rs.50000 loan.

**Research Question 8:
Have you received required amount of Loan?**



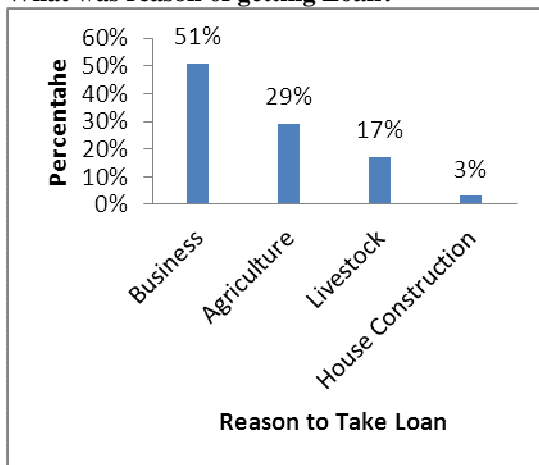
According to above graph the 67% respondents from the selected sample were satisfied from the size of the loan but 33% respondents were not fully satisfied from the amount of loan.

**Research Question 9:
Was the Purpose of Loan fulfilled?**



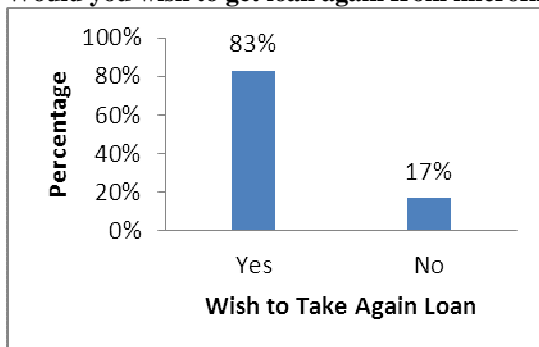
The above Graph shows that 63% respondents from the sample said that amount of loan fulfill need/purpose getting of loan and 37% respondents said that the amount of loan not fulfilled the need/purpose of getting loan.

**Research Question 10:
What was reason of getting Loan?**



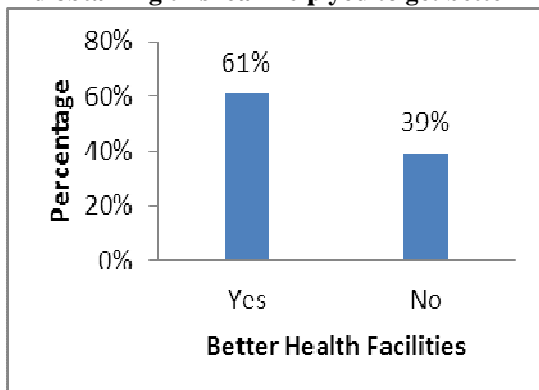
The above graph shows that the amount of loan can be invested in different ways but short term of loans is mostly used in the small business, agriculture, livestock and house construction. 51% respondents from the sample invest loan amount in their business, 29% of respondent invest the amount of loan in agriculture, 17% of respondents invest amount of loan in Livestock and 3% respondents invest it for house construction.

**Research Question 11:
Would you wish to get loan again from microfinance bank?**



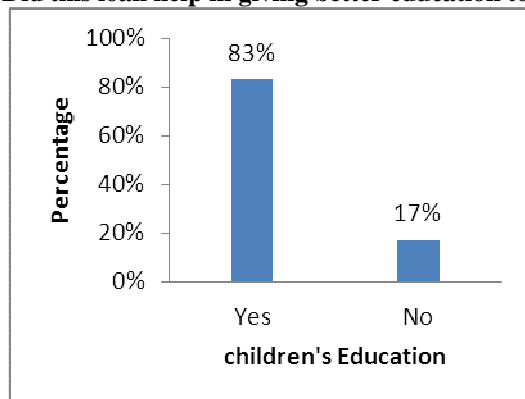
The above graph shows that the 83% respondents from the sample wish to take loan again from the microfinance bank because the small amount of loans helps them to uplift their business and increase their satisfaction level. 17% respondents were not satisfied to take loan again they think that loan had not improved their incomes.

**Research Question 12:
Did obtaining this loan help you to get better health facilities?**



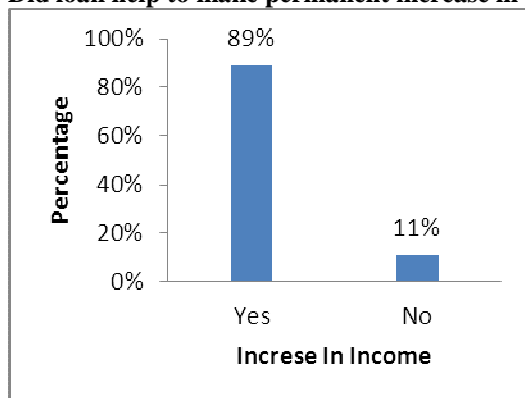
The graph shows that the health improved after increasing the income of the poor people. 61% of the respondents of the sample give the positive response but the remaining 39% respondents are not giving the positive response. The cost of the medicines increased as compared to the income of the people.

Research Question 13:
Did this loan help in giving better education to your children?



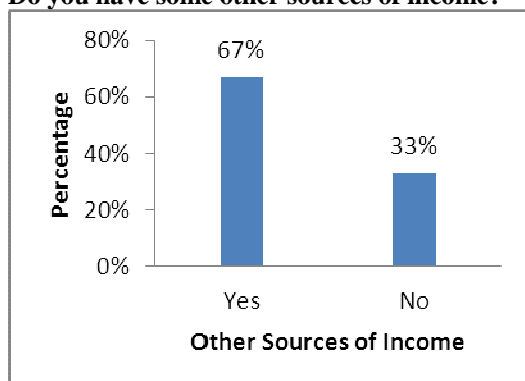
The above graph shows that the 83% respondents from the sample said that after getting loan they were able to give better education to their children. 17% respondents claim that they had not much income to give the better education to their children, after getting loan their children were become illiterate. So it's proved that the micro finance helps in better education in Pakistan.

Research Question 14:
Did loan help to make permanent increase in your income?



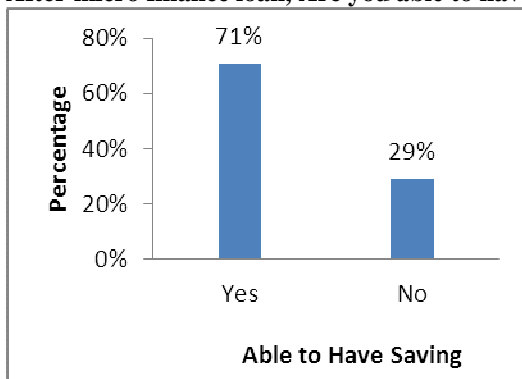
The Above Graph shows that 89% respondents of sample said that their income was increased after getting short term loans. 11% respondents had adverse opinion about increase income after getting loan. Micro finance helps the poor people to utilize their ability to increase their income.

Research Question 15:
Do you have some other sources of income?



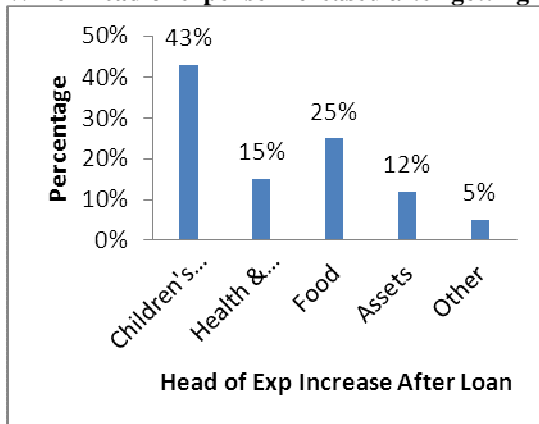
The above graph shows that the 67% respondents from the sample have only one sources of income. 33% respondents said that they have more than one sources of income; they invest their money in different activities.

Research Question 16:
After micro finance loan, Are you able to have saving?



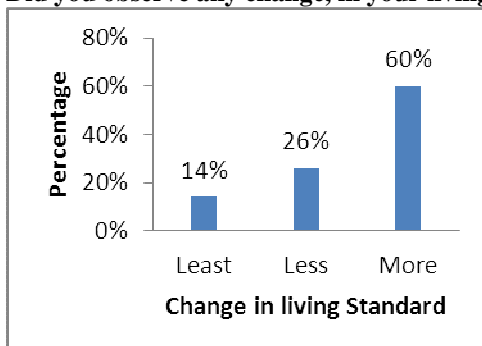
The above graph represent that poor people are able to save their income after getting loan. 71% respondents are able to save their income after investing loan amount in different business. 29% respondents are not able to save their income. They are still facing difficulties to fulfill their requirements.

Research Question 17:
Which head of expense increased after getting the loan?



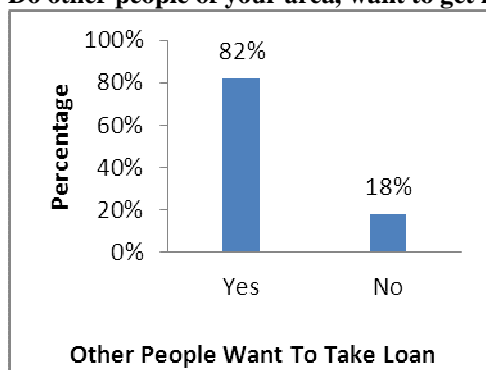
The above Graph shows that when income of poor people increase after taking loan then 43% respondents from the sample said that increase expense of children education, 15% respondents said that increase Health and Medical expenditure, 25% respondents said that the expenditure increase for getting better food and 12% respondents said that expenditure increase for Asset Accumulation, and 5% respondents said that some other expenditure are increase.

Research Question 18:
Did you observe any change, in your living standard after microfinance loan?



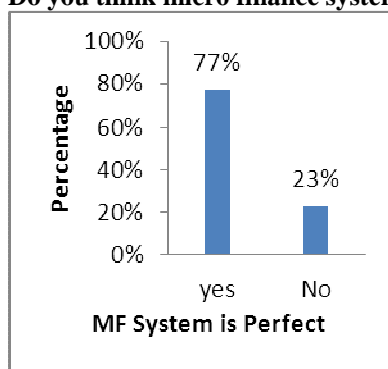
The above graph shows that the living standard of respondents was changed after using loan because 60% respondents said that there was an increase in their living standard as better food, clothing etc. And 26% of the respondents said no describable increase in living standard and 14% respondents said minimum change in their life standard after the loan.

**Research question 19:
Do other people of your area, want to get loan?**



The graph shows that the 82% respondents said that the other people in their area want to get loan for increase their income. 18% respondent's response negatively.

**Research Question 20:
Do you think micro finance system is perfect or it should be improved?**



The Graph shows that 23% respondents suggested that micro financing system is not perfect for poverty reduction as it should be improved. 77% respondents said that the microfinance system is perfect for poverty reduction.

Conclusion

Through the above debate it's concluded that inside an acquiring region such as Pakistan, there is high need of well managed Micro finance Scheme for poor people, for financial growth and empowerment associated with the small earning peoples. Major findings are usually which even though the just about all Micro finance Corporations adopt the growth strategies through of these they improve their performance level and their outreach, but the services of the Micro finance are not full filling the requirement of the customer as well as their staff member. There is a positive impact of MFI's on the rural poor people society in Pakistan. The major problem found from this debate is that maximum loan amount disbursement within the limit of Rs. 20000 to Rs. 25,000 and the limitation of loan are not fulfilling the desire of the poor people. Due to the high interest rate applicants are not submitting their applications to get their benefit from these facilities.

Purpose regarding lower income alleviation can certainly just be performed by giving modest and short term installment loans to the low earnings household. According to the information from MFI's the small businesses and the agriculture are the biggest sector in which mostly loan invested. With the regular meeting of customers there is very low chance of default their loan amount. According to the result 83% people from the sample having need for the future loan, and the 17% said that they do not need for these loans either they cannot afford of these. Customer does not have knowledge about interest rate or about the policies of the financial intermediaries. There could be a deficiency that has felt in their business support and training. Many of customers feel difficult to come in bank for paying installments; they come from village areas so they feel unsecure because of theft, loss of money also for high transportation costs. Client claimed they don't know about any development activities carried out by simply MFIs, within their region. Final results validated in which 89% with the respondent had raise within their earnings level soon after receiving microfinance services and increase their own life style.

Recommendation

The outcomes of study recommend the positive impact of Microfinance on poverty reduction. Furthermore the study also recognizes the issues that limit the role of microfinance in poverty reduction. Some of recommendation suggested below as it is observed during the survey:

- Loan size should be increased enough to meet the requirements of borrowers.
- The people should be given more opportunities for loan attainment.
- Knowledge should be provided by MFIs to interested borrowers for the better utilization of credit.
- Microfinance institutions don't have any official department which can provide the consultancy to poor people towards opportunities of potential businesses at small level.
- MFIs should conduct the workshops for the poor people about the small business entrepreneurship.
- With the increase of the education attention MFIs should provide the education insurance plan for poor children.
- The microfinance institution should increase their staff & train them to deal with client more professionally.
- The poor people should build up the potential/ability in them to fight against poverty.
- Microfinance Institutes are working in limited geographical area so they must expand their business
- Client retention will increase.

From above discussion it is suggested that there is huge need to encourage, generate, expand microfinance culture in Pakistan and emphasize its importance as a major component for measuring the progress in economy of the country and in self-dependence of low income group. The State Bank of Pakistan should support and control Microfinance Banks/Institutions for the purpose of giving power to people at the working class level and ensure that the poor and needy obtain microcredit on the terms and conditions that are realistic.

Limitation of Study

- The main limitation of the study is time and area.
- Due to limited time research may not cover all aspect of the study.
- The survey is limited in Bahawalpur region.
- Limited resources about obtaining the result form respondents.
- Small rage of sample.

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