

## Role of Micro Finance in Poverty reduction: A case study of Khushhali Bank limited Larkana and Sukkur.

### Author's Details:

<sup>(1)</sup>**Prof Dr Ambreen Khaskhelly** –Chairperson Department of Economics University of Sindh Jamshoro <sup>(2)</sup>**Munawwar Kartio** – Ph D Scholar, Department of Economics University of Sindh Jamshoro <sup>(3)</sup>**Albeena Mirza** –Assistant Professor, Department of Economics, University of Sindh Jamshoro <sup>(4)</sup>**Aisaha Basheer Shah**- Assistant Professor Department of Business Administration University of Sindh Jamshoro <sup>(5)</sup>**Ms Tanveer Mustafa**, MBA University of Sindh Campus Larkana

### Abstract

*This Research study is aimed at to elaborate the role of micro finance on poverty alleviation in Pakistan, a case study of Khushhali Bank of Pakistan was conducted. The objective of this research study is to shed light on the means which may cause the reduction in poverty, to uplift the standard of living of the poor on sustainable grounds and to augment the economic growth and development. Micro credit is basically an alternative of formal credit hence its role was evaluated. A close ended questionnaire was used as measurement tool to collect data from primary sources. The questionnaire contains several aspects like improvement in standard of life, loan sanctioning Turnaround Time, the rate of interest charged and what customers feel in terms of asset building, profitability and improvement of standard of life.*

*It was concluded from this study that micro financing is relatively easy and quickly granted as compared to formal lending. Customers have easy approach and dealing environment is customer friendly. However rate of interest is quite high than that of commercial lending due to one reason that it comes in the purview of clean lending as no collateral is involved. Recommended that rate of interest should be reduced and amount of loan should be increased to cater the needs of poor and maturity should also be at least of one year from date of advance and in case of agri sector it should be not less than crop cycle. Moreover it is suggested that network of branches should be widened to cater the needs of masses living in rural areas.*

**Key Words:** Micro Finance, Poverty Alliviation, Khushhali Bank, Pakistan

### Introduction

The term “micro” literally means very small; therefore micro finance means small amount allowed as loan or finance. The prime objective of micro finance is to extend the lending facilities to poor class so that they may be able to establish their own business on small scale and change their standard of life positively. Pakistan is sixth most populous country of the world having estimated population of 191.71 million populations and is the 10th largest labor force in the world. As per Labor Force Survey 2013-14, the total labor force is around 60 million; out of which 3.6 million are unemployed.

It is surprising fact that saving rates in the country are very low hence 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.

In 1970s Micro Credit was provided to the poor people living in rural areas, but the flaws in system, politics and corruption has made it unsuccessful so during the decade of 90s it was disbursed both to the people of rural as well as urban areas (Zia A U, 1989). It gives birth to the concept of core program to be initiated by Khushhali bank for micro finance on poverty alleviation such as, savings mobilization, human development and solidarity etc.

To fight against poverty is a very significant and imperative goal. According to recent literature and practice it can be achieved by provision of financial services to the deficit unit of the economy which consists of masses and are ignored by the conventional credit providing institutions like banks and other financial institutions. An estimate states that about 68% of the world population is availing the facility of this credit and utilizing it for diverse uses of household, domestic, nation building and development.

In our country there is great potential of micro credit banks and markets where thirteen million adults can avail this facility. This number is likely to enhance with growing population. Khushhali bank Limited was Initialized in 2000 as a part of the Government of Islamic Republic of Pakistan's poverty Reduction strategy and its Microfinance Sector Development Programs. MSDP was developed with the assistance of Asian Development Bank. With its headquarters in Islamabad Khushhali Bank Limited operated under the supervision of the State Bank of Pakistan and various central (Commercial) banks are its shareholders. Its mandate is to retail Microfinance services and to act as a catalyst in stabilizing the country's newly formed microfinance sector.

Poverty is defined in several ways; basically it is a condition in which people are unable to meet their basic needs which are very essential for life. It includes multifold difficulties such as required quantum of calories, health facilities, literacy rate and much more required standard of living. These problems often become the cause of crime and in many cases motive for the depressed one for suicide. In short poverty is a situation where there are no enough sources or money to meet the basic requirements of human life.

In modern era it is big challenge and a is era, poverty is known to be the breeding ground for conflicts between nations and terrorism. Poverty is a wide spread world problem particularly for the developing countries like Pakistan, Bhutan, Bangla Desh and Sri Lanka etc. Different policies, strategies and programs have been formulated and adopted for at least reducing this problem such as special poverty alleviation programs and short-term measures targeted towards improving the earning capacity of the people and provision of social safety nets for the extreme poor in Pakistan.(Nasim et al, 2009).

## **Review of Literature**

Bakhtiari (2006) explored that micro finance have been recognized a better source for economic empowerment and poverty alleviation in rural areas in particular where population have relatively less sources of income mostly depending on agriculture income. Therefore to extend small low loans to inhabitant on reasonable rates of interest without any collateral may provide them opportunities for establishing business of their own at small level small may improve their standard of life.

Mawa (2008) concluded in his research study that microfinance is a new idea towards poverty alleviation. According to him micro finance helps out masses to get finance relatively on easy terms and may use the money for earning more money by using entrepreneur skills to develop its own business on small scale by managing the unexpected risks associated with new venture with reasonable care. Furthermore micro finance facilities helps the poor class in asset building ,smooth consumption, better medical and educational facilities to family which ultimately results into better standard of living.

Shastri (2009) in research study concluded that there is no any better solution of poverty alleviation than that of micro finance. It helps out in self-employment which is a best way to address the issue of unemployment on one hand and to reduce poverty on other. In his work he reported that more than one fourth of the population of India is passing life below poverty line and micro finance was found an effective tool for uplifting their standard of life.

Shirazi and Khan (2009) conducted research study and categorized poor into two classes such as poor and extreme poor. They explored that in case of poor micro credit has reduced poverty by 3 per cent whereas in extremely poor class it has been increased marginally by 0.6 per cent for the very reason that the extremely poor class has not used the finance for self-employment but was used for protective purposes therefore negative effect was noticed whereas poor class used it for self-employment resultantly they improved their status in terms of poverty and shifted into higher income and in case of ultra-poor the reduction was found by 1.45 %.

Hassan (2010) explored the reasons of success of micro finance, he shaded light on the factors that no collateral is required but rate of interest is high in conventional micro finance due to clean type of lending. According to

him Muslims prefer Islamic micro finance in which no interest is charged but asset based lending is allowed which is permissible in Islam.

Knight and Farhad (2008) concluded that micro finance is directly related with poverty reduction which therefore is a key factor to improve standard of living. Micro finance provides self-employment opportunities which generate income and ultimately causes reduction in poverty.

Seibel (2003) concluded in his research work that micro finance is that anti septic which kills the germs of poverty. He further proved that it is an equally beneficial for poor as well as for rich if properly supervised and regulated.

Brownstein, Fleck, Shetty, Sorensen, and Vadgama (2007) mentioned that micro finance is a good tool for poverty alleviation but it is not a magic to solve the problem of poverty in a night.

Gopalan (2007) explored that micro finance enhance the level of confidence of poor class to start their own business to meet basic needs of living and make them able to generate more and more revenue by saving and reinvesting. Therefore support in poverty reduction and facilitate for better health care facilities.

Ahmad (2008) explored that micro finance is a fighting weapon against poverty but few elements like small loan amount, misuse of loan, lack of awareness and least interest of government has influenced the role of micro finance negatively.

Ali & Alam (2010) argued that Micro finance play an important role in providing self-employment, improve productivity and increase revenue generation capacity.

Abiola & Salami (2011) concluded that lot of literature favors that micro finance is helpful for poverty alleviation but not in all cases it was found beneficial ,the reason they stated was time period of lending was not sufficient to generate required revenue to cover the interest and expenses to run the business. It was mentioned that in case the expiry of loan is not matched with business cycle and the client is pressurized to repay when he is in mid of business period then will be resulted into collapse of business. Hence no any reduction in poverty will be outcome.

## Methodology

**Population/sample:** This research study was conducted to examine the effect of micro finance on poverty alleviation in particular and socio –economic uplift in general. Two districts of sindh namely Sukkur and Larkana were taken as sample. Four hundred bank customers (Borrowers of Micro Finance) were surveyed and a close ended questionnaire was distributed among them to collect the data. Out of 400 questionnaires, the researchers received back 387 responses. Five options were given to the respondents for ticking the appropriate column such as strongly agree, agree, neutral, disagree and strongly disagree.

**Instruments used:** Besides demographic information a number of other questions were requested about micro finance, its benefits towards poverty reduction and possible issues.

**Procedure:** The data was collected by visiting two branches of Khushali Bank Limited in District Larkana and sukkur. The respondents were requested for filling in the questionnaires.

## Presentation and Analysis of Data

Table I shows the gender distribution, male and female. Mostly loan was availed by male member of the society however it was positively noticed that the female also availed the loan to earn their livelihood and mostly they used loan in embroidery, sewing and preparing cultural bed sheet and Cap.

Table 1: Gender

Gender	Frequency	percentage
Male	218	56
Female	169	44

It has been observed from Table 2 that micro finance was mostly granted to age group of more than twenty five years which is economically privileged group of population.

Table 2: Age

Age group (Years)	Frequency	Percentage
18-30	259	67
30 & above	128	33

It has been found in Table: 3 that majority belonged to married class and very few from other group who availed loan facilities.

Table 3: Marital Status

Marital Status	Frequency	Percentage
Un married	43	11
Married	344	89

Table 4 shows that majority who availed loan belongs to low education group who started own business.

Table 4: Education

Education	Frequency	Percentage
Illiterate	39	10
Upto Matricualtion	255	66
Matriculation & above	93	24

Table -5 depicts that majority belonged to the group who established own business by availing finance, mostly they used the funds in home based income generating activities like embroidery, knitting, sewing clothes etc and cultural bed sheets and the others used in establishing small level retail outlets of grocery ,fruit shops.

Table 5: Occupation

Occupation	Frequency	Percentage
Retail Shops	41	11
Home enterprises	135	35
Sewing and embroidery	142	37
Others	69	17

The family has been categorized as Small, medium and large sized. The data in the Table-6 shows that majority of borrowers belonged to family having less than ten members (small and medium sized).

Table 6: Family Size

Family size	Frequency	Percentage
Large (above ten members)	85	22
Medium (below Ten Members)	263	68
Small (below Five members)	39	10

Table -7 shows the amount of loan taken mostly comes in the range of 20-30 thousand as this group passes very poor standard of living. They preferred to avail the amount of loan which can easily be repaid.

Table 7: Micro Credit Amount

Micro Credit Amount (Rs)	Frequency	Percentage
10,000	28	7
20,000	149	39
30,000	210	54

Table -8 depicts that currently conventional banks charge two types of interest rates based on duration and security. In case of micro finance rate is charged on high side due to clean nature of loan. In our analysis majority is charged above 20 % interest per annum which is quite high in the industry.

Table 8: Interest rate Charged

Interest Charged	Frequency	Percentage
Upto 20 %	45	12
Above 20%	342	88

Table-9 the standard period of loan is one year but in some cases it was sanctioned for six to nine months based on requirement of the segment financed.

Table 9: Maturity of Loan

Time to return loan	Frequency	Percentage
6 Months	57	15
9 months	14	4
12 Months	316	81

The bank is attending each and every loan application minutely to ascertain the genuine need of the prospective borrower. Bank takes maximum 02 weeks to dispose of the application by declining or approving the loan.

Table 10: Loan Sanctioning Period

Loan Processing (Days)	Frequency	Percentage
One Week	27	7
Two week	343	89
One Month	17	4
above One Month		0

The bank allows the loan on the basis of personal guarantees and do not ask for any type of security. Hence response is negative from all respondents.

Table 11: Collateral

Collateral for repayment of credit	Frequency	Percentage
Yes		
No	387	100

### Results

I) from this research study it was explored that majority responded positively that their basic needs were fulfilled.

**Table 12:** Fulfillment of Basis needs

Basic needs catered	Frequency	Percentage
Yes	372	96
No	15	4

II) Majority admitted that they became able to get better education for their children after availing the loan.

**Table 13:** Improvement of Children education

Quality of children Education	Frequency	Percentage
Yes	359	93
No	28	7

Table 14 the majority responded that their living standard have been positively affected after availing loan which was used in small level business of their own.

**Table 14:** Quality of Standard of living

Quality of Living Standard	Frequency	Percentage
Yes	375	97
No	12	3

Table-15 depicts that majority has become to improve their income and saving after proper investing the loan in a self-started business.

**Table 15:** Improvement in income and saving

Improvement in income and Saving	Frequency	Percentage
Yes	369	95
No	18	5

### Conclusion and Recommendations

#### Conclusion:

In this research study it was explored that majority of people belonged to poor class, majority was below graduation level with small sized family. The loan so availed was used in establishing own business on micro level ,it was invested in embroidery ,sewing and preparing cultural dresses ,caps (Topi) and best sheets (Rilhi) by female whereas male used it in establishing General stores ,cabins and retail shops ,a few loans were availed by farmers to purchase input for agri land for the period of around six month based on the agri crop of wheat and rice. Most of the population borrowed a loan amount of 25000 which ranging in class of 2000-30000. The population seemed satisfied on the processing time of loan sanction and interest charged.

The survey revealed that after getting loan most of the to earn sustainable income so that loan with mark up may be repaid in time .It was concluded that micro finance has improved standard of life substantially, their basic needs were satisfied.

#### Recommendations

It is strongly recommended that loan amount may be increased so that the borrowers may able to establish new business easily as every new venture require some additional costs at the time of establishment, More over we suggest that additional portion of amount so required may be extended up to 3-5 years maturity which will help



out the borrowers to repay the costs of new business more easily. It is also recommended that interest on micro finance may be reduced as much as possible which will further add in improvement of standard of life ,better health and education facilities and capital formation. As the majority of population lives in rural areas it is recommended that branches of micro finance units may be expanded in rural areas to support and provide the facilities at the doorsteps of the masses.

More over more advertisement of micro finance should be made in media in local language so that majority belonging to low literacy rate may get awareness of the schemes and may able to get benefits of the schemes.

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