

Role of Microfinance in poverty alleviation in Khyber Pakhtunkhwa, Pakistan (Case Study of District Karak)

Wahid Raza

*Assistant Professor, Govt College of Management Sciences Karak
wrkhattak287@yahoo.com*

Anjum Ihsan

*Assistant Professor, Department of Management Sciences, Islamia College Peshawar
Anjumihsan@icp.edu.pk*

Shahid Jan Kakakhel

*Associate Professor, Department of Management Sciences, Islamia College Peshawar
shahidjan@icp.edu.pk*

Abstract

This study investigates whether microfinance alleviates poverty in District Karak of KPK. The population of the study is all southern districts of Khyber Pakhtunkhwa, and the sample of the study is district Karak of KPK. The study selected 150 respondents from District Karak who had already availed of micro-credit facility and 5 staff members from the microfinance institutions. Both primary and secondary data have been used for this study, primary data was gathered through direct personal interviews and questionnaires while secondary data was collected through newsletters and published magazines. Ms. Excell and SPSS software has been used while analyzing the data. After analysis, it was found that Microfinance plays an important role to alleviate poverty by increasing household expenditure, and the income of the beneficiaries. Despite the significance of Microfinance, people are also facing some challenges like high-interest rates and collateral from microfinance Institutions. Similarly, Micro finance institutions also face some challenges like loan recovery and most of the clients become the default. This research study concluded that microfinance has great importance to reduce poverty but needs to redesign the financial policies of the institution so that creditors don't feel fear to pay the huge penalty in case of delay in payment.

Keywords: *poverty, microfinance, Khyber Pakhtunkhwa*

Introduction

The true definition of microfinance is the small amount of loan given to poor people the society to which they can enhance their household expenditure, self-employment, and a better lifestyle

than previous. Microfinance is analogously used as microcredit in literature which means financial services for the poor segment of society (Hudon & Reichert, 2020).

According to some studies, microfinance is an effective development tool for reducing poverty since it allows low-income and impoverished households to take advantage of economic opportunities to raise their standard of life through self-employment. They added that as the poor do not have a lot of money, low-income households require financial assistance. Recent years have seen an increase in the perceived relevance of microfinance, particularly in the countries, which has prompted policymakers in many nations to implement national microfinance policies and programs (Khan et al, 2021).

Noreen (2011) investigated how microfinance initiatives might help fight poverty. She chose 384 clients from various financial institutions for this reason. Data were gathered for the study using a multi-stage cluster sampling technique. It was determined that microfinance programs could have a significant impact on children's household expenses, housing, food, and education. a study carried out by Chomen in 2021 to determine how microfinance contributes to the eradication of poverty. He conducted 68 household interviews and used primary and secondary data for the study. Utilizing multiple regression analysis, the data were examined. According to their research, microcredit can raise household income, decrease poverty, and raise living standards in general.

Similar to what Rehman et al. (2020) mentioned, microfinance has improved household consumption levels, education levels, and income levels of recipients. However, microfinance intervention effects on women's empowerment have been inconsistent. It did not always demonstrate a noticeable effect on women's empowerment

Objectives of the study

The following are the study objectives

- How microcredit reduces/eradicates poverty.
- To analyze the significant impact of microfinance on household hold expenditure and income level of district Kara of KPK.

Research Hypothesis

The hypotheses of this study are

- H0 =There is no effect of Micro Finance on the household expenditure of the poor people
- H1 = Micro Finance has a significant impact on the household expenditure of poor people
- H0 = There is no effect of Micro Finance on the income level of poor people
- H1 = Micro Finance has a significant impact on the saving income level of poor people

Literature Review

The extraordinary work of Dr. Muhammad Yunus, who in 2006 received the Nobel Peace Prize for his outstanding contributions to the field of microfinance, led to the first recognition of

microfinance in Bangladesh. Since its inception in Bangladesh in 1976, microfinance has grown significantly in the global financial industry. People are paying significant attention to the idea of offering seed funding to entrepreneurs so they can launch their businesses since they are unable to carry out their business ideas due to a lack of financial resources (Murshid,2020; Asimwe 2018). Sherin Gamaleldin Taha,2012). Noreen (2011) investigated how microfinance initiatives might help fight poverty. She chose 384 clients from various financial institutions for this reason. Data were gathered for the study using a multi-stage cluster sampling technique. It was determined that microfinance programs could have a significant impact on children's household expenses, housing, food, and education(Mahmood & Rosli 2013).

Poverty

Poverty in Pakistan takes on many forms. The lack of wealth is not the only issue facing the poor in our nation; they also lack access to other essential resources like clean water to drink, good health care, quality education, and adequate sanitation. The latter limit and deflate their capacity and chance to provide safe and sound services, expose them to an exogenous shock, and have the effect of leaving them out of society. Then, as the most vulnerable are eliminated by the administrative machinery, the merciless rotation of shortage is accentuated. Since the judgment-creation process revealed that 31.8% of our country's population lives in poverty, with 38.65% of those living in rural areas and 22.39 percent in urban areas, based on calories, Accordingly, it was equivalent to Rs. 670 per month in 1998–1999, then to the amount in 1998–1999, and finally, in 2000–2001, this ratio exceeded Rs. 748 per month (Economic Survey 2002 to 2003).

Poverty and Microfinance

Poverty has many faces, varies from position to position, and has been described in a variety of settings and ways. Most poverty situations are set up in a way that makes people want to flee from them. Therefore, the concept of poverty appears to be a call to action, urging people to change the world and do something to help the poor, to ensure that the majority of the poor have access to food, shelter, safety, education, and protection from harm. Poverty is regarded as one of life's greatest challenges, and it has long been evident that successful advancement requires proper absorption (Alaro & Alalubosa, 2018). According to WB (MCS, 1997), Bangladesh's Micro Credit Program is the most effective method for reducing poverty. Poor and jobless people can get loans through microcredit programs. All of the fundamental needs of the poor are unmet, i.e., only those with the bare minimum qualifications will be able to find work and receive official credit.

A study by Pakkanna et al. (2020) was carried out in Pakistan to evaluate the role that microfinance plays in reducing rural poverty. A correlation study of asset creation, crop production, saving, and farm spending data was performed to determine the relationship between microfinance and revenue. Their research found a beneficial relationship between microfinance and the previously mentioned characteristics. Additionally, their findings indicated that microfinance efficiently assists the poor and raises household spending and living standards in rural areas (Mushtaq & Bruneau, 2019).

Methodology

The population of the study:

The researcher selected all southern districts of KPK as Population represented by N and District is taken as a sample where 150 respondents selected who have already availed of the microcredit facility. The selection of sample size has done through random sample techniques while using Sakaran's (2006) formula.

Sources of Data:

Two types of data were used in this study, primary and secondary, primary data was collected through a survey base and constructed questionnaires, while secondary data was collected from magazines, journals, and financial reports of Microfinance institutions.

Tool for data analysis:

The study gathered data through questionnaires which were summarized and interpreted accordingly. Different analysis tools have been used while conducting this study, SPSS, Range, mean, Standard Deviation MS Excel, and Word.

Model: Micro Finance and Poverty Alleviation:

$$Y = a + bX_1 + bX_2 + bX_3 + bX_4 + bX_5 + bX_6 + bX_7 + bX_8 + e_i \quad \text{Where}$$

Y= Poverty alleviation

a=Constant, X1 =Age, X2 =Education, X3 =Experience, X4 =Family size, X5=Marital status, X6 =household expenditure, X7=income X8=Gender, X9 =Credit, e_i=Error term

Data Analysis and Interpretation

This portion of the study represents the respondent's feedback which will be represented and interpreted in graphical design. This section also comprises a sub-heading which is the basis of the research objectives of the study.

Descriptive Statistics

Figure: 1

	Frequency #	Percentage %
Gender		
Male	96	64
Female	54	36
Age		
21 or below 18 year	12	8
22-30 years	41	27
32-40 years	48	32
42-50 years	42	28

50 and above years	07	4
Education		
MA	10	6
BA	29	19
FA/FSC	33	22
Matric	50	33
Under matric	20	13
Illiterate	13	08
Marital status		
Married	109	72
Unmarried	41	27
Occupation		
Driver	20	13
Former	18	12
Labor	50	33
Peon	10	6
School teacher	35	23
Other	22	14
What was your starting working capital before the Micro Credit facility?		
a. Less than PKR5000	116	77
b. pkr 5000 – PKR10000	16	10
c. pkr 10,001- PKR15001	13	08
D. pkr 15001- PKR20,001	03	02
More than PKR21,000	02	1
What is your working capital after taking the facility of Microcredit?		
a. Less than PKR5000	67	44
b. 5001 PKR – 100001 PKR	48	32
c. 10,001 PKR- 150001 PKR	30	20
d.150001PKR- 20,001 PKR	03	2
e. More than 20,001 PKR	02	1
Do you feel any changes in Household expenditures s after availing Microcredit facility?		
a) Increased	110	73
b) Decreased	15	10
c)Unchanged	25	16
Any issues or difficulties you faced while availing Microcredit facility?		
1. interest rate	92	61
2. collateral	36	24

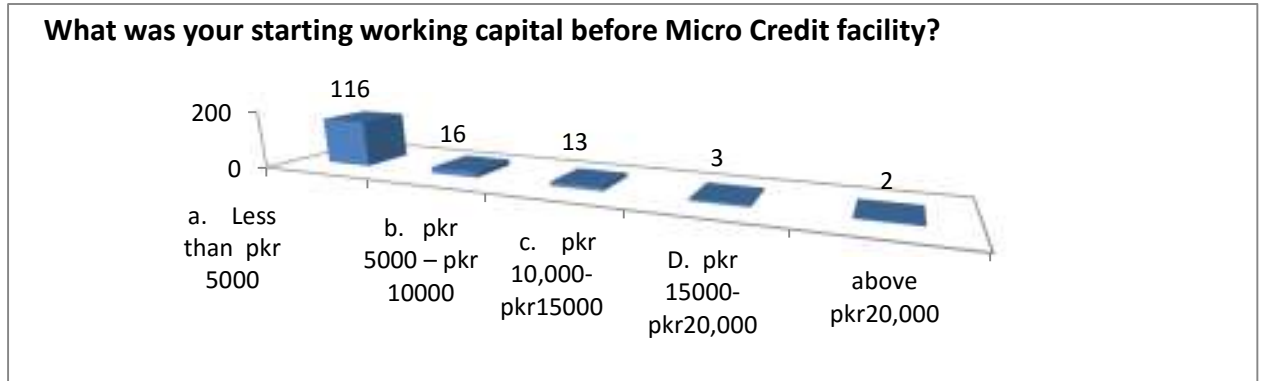
3. loan repayment	13	08
4. accessing loan	09	06
Challenges faced by Micro Finance Institute in repayment of loans?		
1. Pay loan in due time	03	25
2. Take time to repay the loan	07	58
3. Default to pay the loan	02	08
What is the status of Monthly income after availing MC?		
A) Increased	116	77
B) Decreased	18	12
c) Unchanged	16	10
What was our monthly income before MC?		
A)2000	90	60
B)3000	30	20
C)4000	20	13
D)5000 and above	10	06
How many changes came in monthly income after MC?		
A)2000	75	50
B)3000	40	26
C)4000	25	16
D)5000 and above	10	06

Interpretation

In the table above, the answers to numerous questionnaire questions about the role of microcredit in reducing poverty are listed. The results indicate that most credit seekers [(N=96) (644%)] are men, and the majority of borrowers [(N=48) (32%)] are in the 31–40 age range. The vast majority [(N=50) (33%)] are graduates. Most people in the population (N=109; 72%) are married. The majority of persons [(N=50) (33%)] are workers. The table represents that the respondent's monthly income has been enhanced after taking the microcredit facility. Similarly, [(N=110) 73%] people were able to improve their household expenditure. In the above graph [(N=92)(61%)] people said that we are facing challenges from microfinance institutions because of higher interest rates. Similarly, [(N=04)(80%)] of the staff members of microfinance institutions said that we are facing the problem of loan repayment from microcredit beneficiaries.

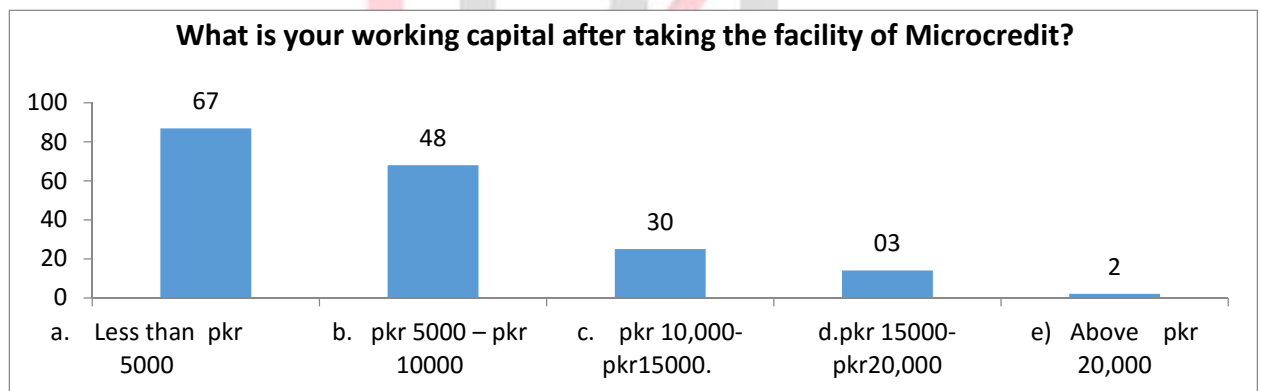
Working Capital and Micro Credit

Figure 2:



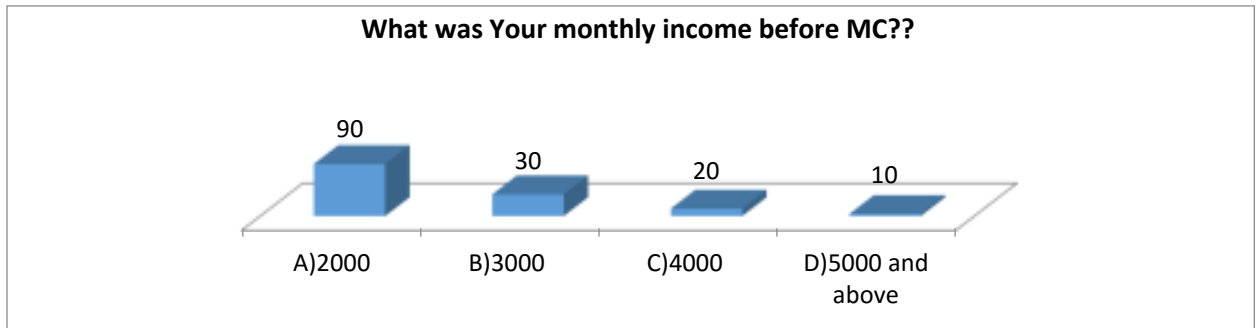
The above chart shows that 116 respondents (77%) have less than 5000PKR in initial working capital, 16 respondents (08%) have a capacity of 5000–10,000 PKR in initial working capital, 13 respondents (10%) have a capacity of 10,000–15,000 PKR in initial working capital, 3 respondents (02%) have a capacity of 15000–20,000 PKR in initial working capital, and only 2 respondents (01%) have a capacity of more than 20,000 PKR in initial working capital before

Figure 3:



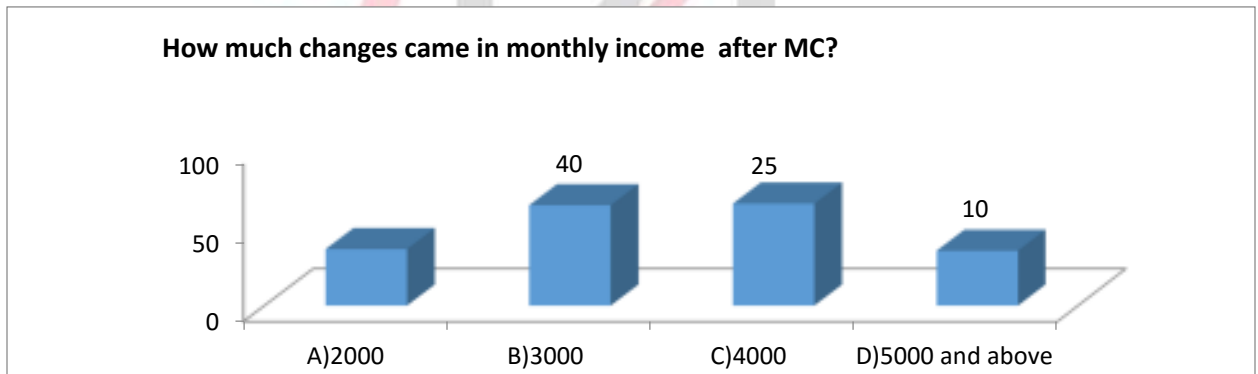
It is well clear from the graph that after taking the loan facility the initial working capital ratio has been changed. Currently, 67 (44%) respondents have less than 5000 PKR, 48 (32%) respondents have initial working capital in the range of 5000–10,000 PKR, 30 (20%) respondents have initial working capital in the range of 15,000–20,000 PKR after taking out a credit, 3 (5%) respondents can have 20,000 PKR of their initial working capital, and

Relationship between Income and Microcredit
Figure 4:



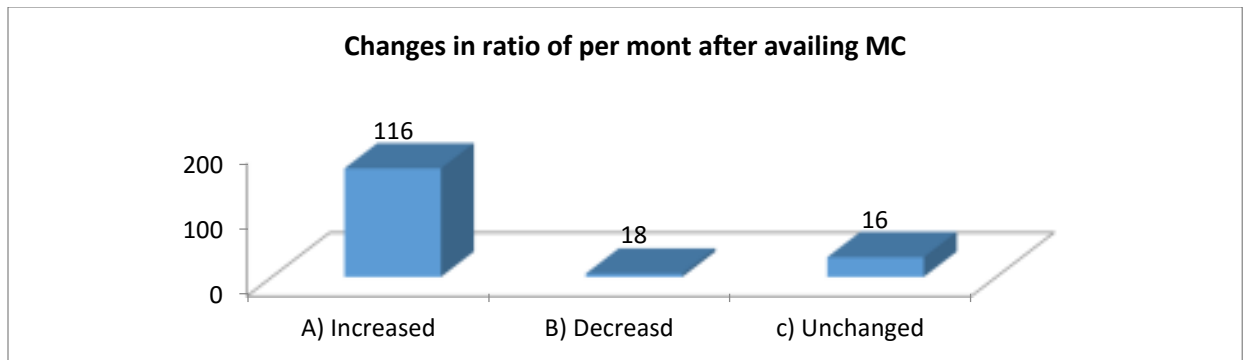
Before MC, 90 respondents (60%) Income was 2000 PKR,30 respondents(20%) had 3000pkr,20 respondents (13%) showed an income of up to 4000 PKR, and only 10 respondents (06%) whose monthly income was 5000 PKRbefore MC facility.

Figure 5:



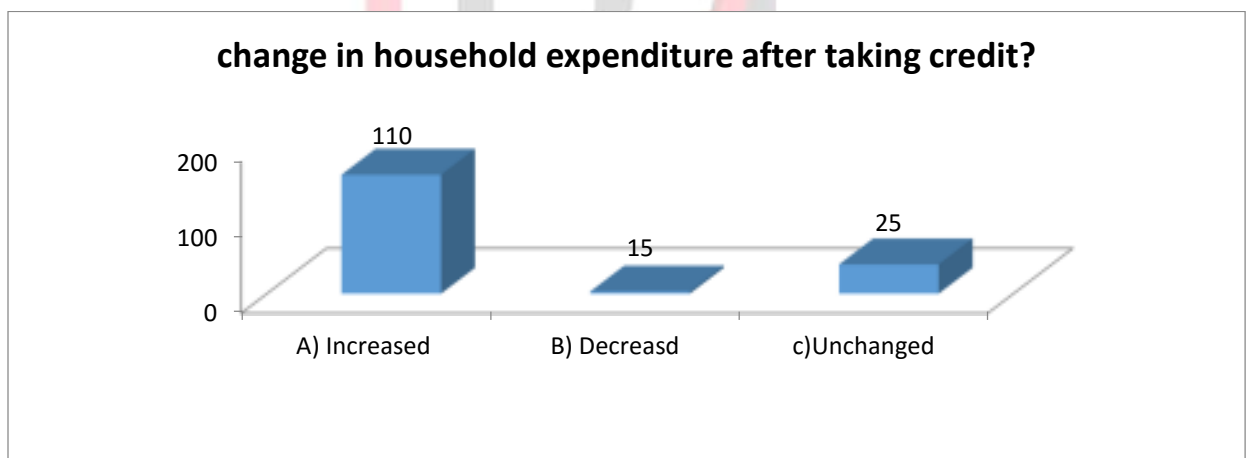
The range of monthly income drastically changes after using a microcredit facility. After using a microcredit facility, 75 respondents (50%) have the capacity for a monthly income of 2000 PKR, 40 respondents (26%) have a monthly income of 3000 PKR, 25 respondents (16%) have a monthly income of 4000 PKR, and 10 respondents (06%) have the capability for a monthly income above 5000 PKR.

Figure 6:



The results of the investigation show that 116 respondents (77%) said their monthly income had increased after taking credit, 18 respondents (12%) said their monthly income had not changed, and only 16 respondents (10%) said their monthly income had decreased after accepting microcredit. Changes in Household Expenditure

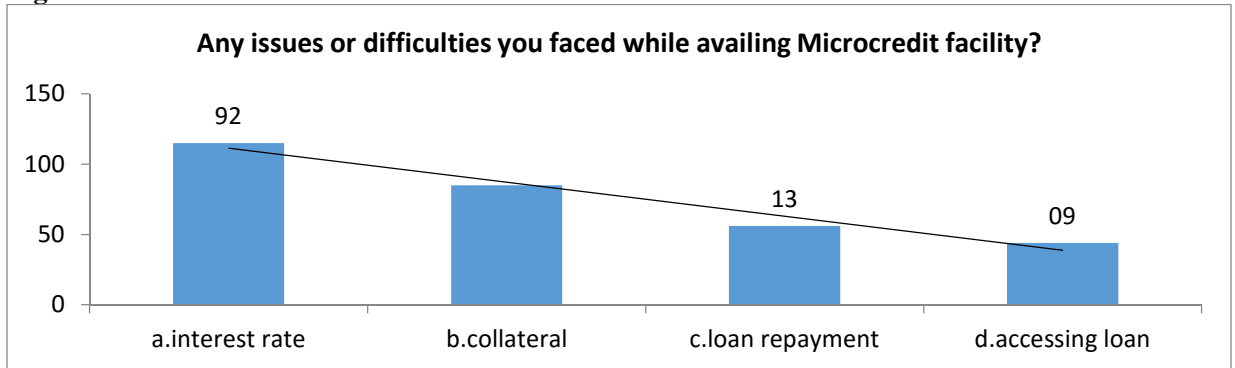
Figure 7:



According to the above graph, 110 respondents (or 77% of respondents) reported that their household expenditure had increased after using a microcredit facility, 25 respondents (or 16%) reported that their household expenditure had not changed, and only 15 respondents (10%) reported that their household expenditure had decreased after using a microcredit facility.

Issues or Difficulties faced by Respondents in respect of MC

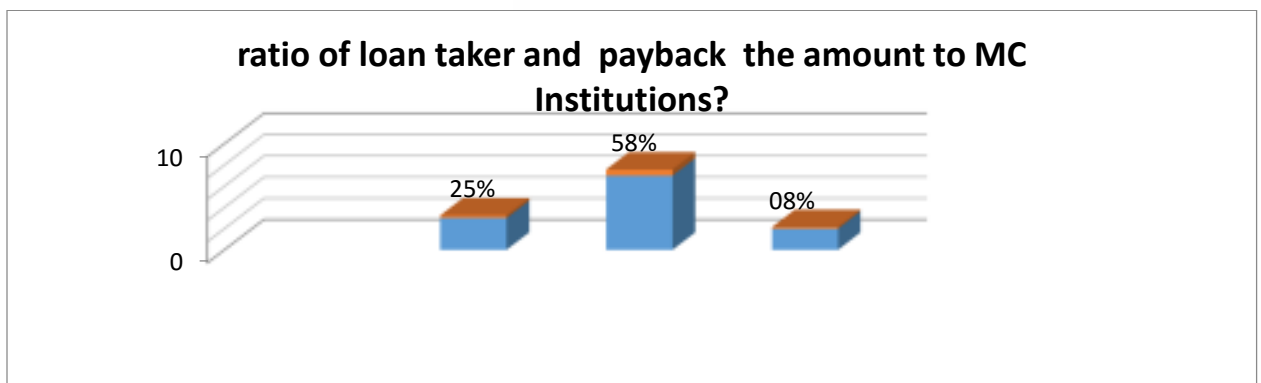
Figure:8



The chart above clearly demonstrates that the largest difficulty for responders is a loan and interest rates. 92 respondents (61%) agreed, citing the fact that microfinance institution and their interest rates are excessively expensive in comparison to their income and ability to market their items. Following Collateral were 36 respondents (24%) In agreement with that, the collateral was highly attached to loan facilities of most applicants are frequently instructed to provide collateral for the loans or other facilities to be granted to them, which they frequently do not have, except some of them. The respondent's other challenge was Accessing loans and it's looking difficult to access them easily. The next issue, in the opinion of the respondents, was loan repayment, which can occasionally be slow and requires extra work on the part of the institutions to recover their money. The respondents attributed this to the interest rates.

Loan recovery percentage

Figure: 9



The researcher used a survey to gather data from the personnel of 12 microfinance organizations to ascertain how much money was recovered from the loan taker in the aforementioned figure. The findings showed that only three of the 12 respondents—or 25%—claimed to have successfully recouped the debt from the creditor within a reasonable amount of time, while 58%

said that their customers had returned the loan after a protracted period of delay. Only 8% of the employees claimed that this was the case.

Conclusion

The analysis shows that microfinance plays an important role to alleviate poverty by giving employment opportunities to poor people. It has also been concluded from the analysis result that beneficiaries of microcredit have raised their household expenditure, income, saving, and living standard of their lives. Despite these wonderful achievements of the microfinance scheme, people are still facing some challenges like collateral and high-interest rate. Similarly, microfinance institutions also face some challenges like loan repayment. So microfinance institutions should be flexible in their condition so that clients can take the loan freely and it's also become the responsibility of the clients that they should try their level best to pay back the loan as per laid down rules and regulations of the financial institutions.

Conclusively, the significance of microfinance in poverty reduction has enormous benefits in District Karak of Khyber Pakhtunkhwa as a whole. Therefore, the government should focus to motivate and encourage such Microfinance institutions, moreover, Government should expand Micro Finance institutions to all districts of Pakistan, where they can provide small loans to poor people society. The government should advise the microfinance institutions to reduce the collateral, and interest rates and also minimize the formalities for availing micro credit.

References:

- Alaro, A. A. M., & Alalubosa, A. H. (2018). Potential of Shari'ah compliant microfinance in alleviating poverty in Nigeria: A lesson from Bangladesh. *International Journal of Islamic and Middle Eastern Finance and Management*.
- Asiimwe, E. (2018). Micro financing and performance of small businesses:
- Banto, J. M., & Monsia, A. F. (2021). Microfinance institutions, banking, growth and transmission channel: A GMM panel data analysis from developing countries. *The Quarterly Review of Economics and Finance*, 79, 126-150.
- Chomen, D. A. (2021). The role of microfinance institutions on poverty reduction in Ethiopia: the case of Oromia Credit and Saving Share Company at Welmera district. *Future Business Journal*, 7(1), 1-10.
- Hudon, M., Labie, M., & Reichert, P. (2020). What is a fair level of profit for social enterprise? Insights from microfinance. *Journal of Business Ethics*, 162(3), 627-644.
- Khan, A. A., Khan, S. U., Fahad, S., Ali, M. A., Khan, A., & Luo, J. (2021). Microfinance and poverty reduction: New evidence from Pakistan. *International Journal of Finance & Economics*, 26(3), 4723-4733.
- Khandker, S. (2005), "Micro-finance and Poverty: Evidence Using Panel Data from Bangladesh "World Bank Economic Review
- Murshid, N. S. (2020). Examining microfinance participants' use of neoliberal language in Bangladesh. *Journal of the Society for Social Work and Research*, 11(2), 285-312.
- Mahmood, R., & Rosli, M. M. (2013). Microcredit position in micro and small enterprise performance: the Malaysian case. *Management research review*.

- Mushtaq, R., & Bruneau, C. (2019). Microfinance, financial inclusion and ICT: Implications for poverty and inequality. *Technology in Society*, 59, 101154.
- Noreen, U., Imran, R., Zaheer, A., & Saif, M. I. (2011). Impact of microfinance on Poverty: A case of Pakistan. *World Applied Sciences Journal*, 12(6), 877-883
- Pakkanna, M., Rasulong, I., & Akhmad, S. I. W. (2020). Microfinance Institutions and Women Empowerment: Evidence In The Rural Areas Of Tangerang, Indonesia. *International Journal of Scientific and Technology Research*, 9(2), 3994-3999.
- Rehman, H., Moazzam, D. A., & Ansari, N. (2020). Role of microfinance institutions in women empowerment: A case study of Akhuwat, Pakistan. *South Asian Studies*, 30(1).
- Shereen &Taha (2012). The effectiveness of Microcredit Programs of Alleviation Poverty and Empowering Women in Cairo, Egypt

