

## **THE IMPACT OF MICROFINANCE TO REDUCE POVERTY OF RURAL HOUSEHOLD: THE STUDY DISTRICT SIALKOT, PUNJAB, PAKISTAN**

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### **Abstract**

*This study examines the impact of microfinance on poverty alleviation keeping in view the factors that affect the poverty which include to execution of income and expenditure, health and food security, housing infrastructure, education and agriculture. This is a survey based research & primary data is collected for this study through a structured questionnaire that comprising various aspects of microfinance & poverty alleviation. Multistage technique is used for data collection from clients of Akhuwat Trust and Kashf Foundation that is related in district Sialkot. Total numbers of respondents are 213. Wilcoxon Model is used to check the relationship among microfinance, income and expenditure, health and food security, housing infrastructure, education and agriculture to check the effect of microfinance on poverty. The study found a positive effect on poverty alleviation and significant impact on poor household and also observed that it leads to decrease in poverty. The result shows good and significant impact of microfinance programs on Income, health and food security, housing infrastructure, education and agriculture.*

**Keywords:** Microfinance, poverty alleviation, poor household

### **I. Introduction**

Poor people in rural and urban regions in several developing countries especially who are living in rural areas in Pakistan have not easy approach to microfinance and has followed to the development of different method

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of finance called microfinance, while microfinance is given from usual ways like local creditors and other facilitators through NGOs or other microfinance foundations (Asad, Malki, & Katsushi, 2011)

The purpose of microfinance is to provide loans, investments and others essential financial services to poor household. Microfinance is a good indicator and good tool through different financial products like microcredit, savings programs and savings that help the poor household (Noreen, Imran, Zaheer, & saif, Impact of Microfinaance on Poverty:case Study of Pakistan, 2011).

Visconti (2012) stated that it is difficult to describe the poverty directions and it is usually supposed that the poverty is a dynamic phenomenon and have number of dimensions according to region and time and poverty is occurred due to unfair wealth distribution, very limited access of wealth, very strong role of mediators and due to the deficiency of democracy.

Ahmad (2010) narrated that Poverty have different aspects that are happening because of the difference between expenditure and income. These aspects have lack of foods, non-availabilities of health facilities, have no access to clean water, electricity problems, less income and more expenses and lack of children education facilities.

Akram (2011) explained that financial services play very important role to increase the standard of living of the poor people living in poor countries like Pakistan and Bangladesh and the impact on poverty level according to the satisfaction and microfinance services and demands have been increased for last number of years due to good services focus on micro level and consumer oriented policies.

Ayuub (2013) explained that microfinance is not available in rural area because of this the farmers cannot get loan timely and if they get that is very high interest rate while good protentional of micro financing in the rural area of many under developed countries like India, Bangladesh, and Sri Lanka but these countries are utilizing microfinance to boost the standard of living of their poor household, but in Pakistan main purpose of Microfinance Institution was only to offer credit.

Anayo & Nkannebe (2011) argued that a variety of reason that generate difficulty in recuperate of loans or refund of microfinance by the client to the microfinance banks that includes non-availability of preferred

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quantity of microfinance and high interest rate and the main thing is the cooperation of borrower at the time of repayment.

Shirazi (2009) explained that financial services have encouraging effect on poverty alleviation and explain that the poor household who is getting microfinance have good impact on their lives, have good standard of living as compared to the poor house hold which are not getting microfinance for last some years in Pakistan.

### **1.1 Problem Statement**

Poverty has become one of the core issues in the developing countries like Pakistan. The Poor household is affected by lack of access to financial services that creates problems for income generation and social protections. They are in search to find out different sources but no strong support exists that how they can get these resources but due to awareness and knowledge about the microfinance we can alleviate the poverty.

### **1.2 Objective**

The purpose of this study is to examine whether microfinance decreases poverty of rural household in Sialkot Pakistan.

### **1.3 Hypothesis**

The hypothesis is as follows:

H1: Microfinance programs enhance the socio-economic position of rural poor households in Sialkot Pakistan.

## **2. Literature Review**

Alam & Aziz (2012) stated that poor people need to fine to spend their good life but the interest rate is very much high but poor people are not capable to payback interest on microfinance, face many difficulties to repay it and interest rate charged by microfinance institutions is very high. Muzamil (2014) explained in his article that Akhuwat is only microfinance institution that provides the poor household as Qarz-e-Hasna that is without charging the interest rate on microfinance which is given against food, children education, clothes, housing infrastructure and health facilities and because of this people significant and good impact on their lives.

Iqbal (2015) stated in his article that loan have good positive effect on poor house hold and play a vital role to reduce the poverty by improving fundamental needs, like foods, housing infrastructure, education, clothes and health facilities, standard of living (water and sanitation, transportation, livestock) and also improve their business through increasing capital and expanding their businesses.

A third world country is that country where the people are not provided the basic necessities of life not enough to complete the basic necessities including provision of foods or nourishment, lack of health facilities, education facilities are not up to the mark, no sanitation system and the condition of the poor people (Adewole, 2010).

Access the proper education regarding health ,education, food, clean water ,medical facilities, clothes for both winter and summer season, awareness about the latest technology, proper sewerage system, good assets of household and living condition are the primary ingredients of standard of living that are directly linked with the interest rate if the interest rate high then the access to all these aspects would be low but if the interest rate low then the good access to these elements (Muhammad, 2010).

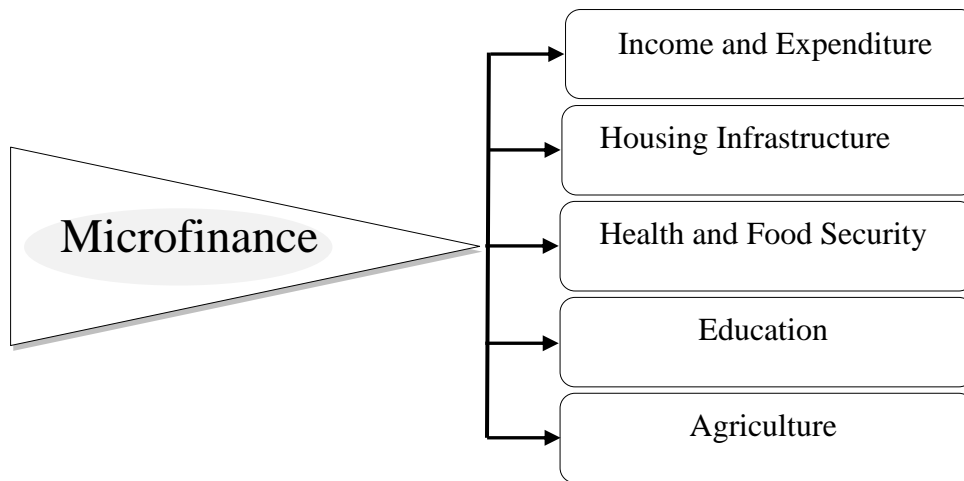
In Bangladesh MFIs that are providing credit facilities to the poor household they are improving their life style, free of interest loan can be useful to decrease the poverty and microfinance is the best strategy to decrease the poverty and it is the best tool, significant and pays very important role in reduction of poverty and increase the income. (Asemota, 2011).

Noreen, Imran, Zaheer, and Iqbal (2011) explained that the effect of microfinance on poverty of housing infrastructure, food, child education, and health and the result was a very considerable and has good correlation between education and micro financing also microfinance had a good effect on poverty reduction particularly children health and education.

Zahra, Shah, and Khan (2014) stated on effect of microfinance in Pakistan and observed that there was no effect of microfinance program on house hold expenses, have good effect on health expenses but no such strong effect on education indicator but good association was found between health indicator and should be emphasized on house hold expenses and particularly on education and microfinance have good effect on health ,the loan which is given regarding health issues but there is some attention required for poor household to educate them.

Due to lack of competition between microfinance institutions they are not achieved the targeted markets and not focused the poor household because of this the poor people have not much more approach to them but in Pakistan it is more like social not focused to financial and due to this is not good for prevailing the sector of microfinance (Qureshi, 2011).

**Figure 1: Model of the study**



### **3. Research Methodology**

#### **3.1 Data**

This study is done to evaluate the nature and direction on the social and economic effect of microfinance programs on borrowers. Primary research was conducted. Primary household surveys conducted in Sialkot district related to rural household. The total number of sample size is 203 respondents. This study has multidimensional as a nature and have all the dimensions and indicators that all the poor household suffered. The questions that have all following five dimensions: Income and Expenditure, health and food, housing infrastructure, education and agriculture. The questionnaire was designed in such a way that have such specification and information that reflect the relative poverty levels of before and after between groups of poor households.

There should be more work that is required in microfinance aspects to check the good and result for assessing it as different studies are done on the impact on microfinance and used different methods and

techniques for the assessment of microfinance. In this research Wilcoxon signed Rank Test techniques applied to examine the impact of microfinance on poverty of poor household. All the data and the detail of customers of Akhuwat Trust and Kashaf Foundation is taken from the officials and the respondents that was selected through random sampling technique. The total numbers of borrowers were 5780 both in urban and rural areas in which 980 belong to rural areas and loan was limited only PKRS 20000 that was taken by the borrowers that make the population shrinks to 203 borrowers. The data gathered from 203 respondents.

#### 4. Results and Discussion

**Table 1: Ranks of Education**

		Before		After	
		Frequency	Percent	Frequency	Percent
Valid	Yes	63	31.1	132	65.1
	No	140	68.9	71	34.9
	Total	203	100.0	203	100.0

**Table 2: Test Statistics<sup>a</sup>**

		Do you send your children to school - Do you send your children to school	Where do you send your children for school Education	Do you send your girls (female children) to school (female children) school	Do you satisfied with your children education - Do you satisfied with your children education
Z		.000 <sup>b</sup>	-6.070 <sup>c</sup>	-12.373 <sup>c</sup>	-14.248 <sup>c</sup>
Asymp. Sig. (2-tailed)		1.000	.000	.000	.000

As Table 1 and 2 shows after and before measurement on education sample population. The results show an increase in education of girls and p value is 0.00 which shows the significance so is a positive change in education after taking microfinance.

**Table 3: Ranks of Income**

		<b>Before</b>		<b>After</b>	
		Frequency	Percent	Frequency	Percent
Valid	Yes	55	27.1	157	77.3
	No	148	72.9	46	22.66
	Total	203	100.0	203	100.0

**Table 4: Test Statistics<sup>a</sup>**

	What is the total income of your family -	What is the total income of your family -	What is the total number of earners your family -	Do you save money in every month -	How much do you spend on your monthly household expenditure
Z	-12.404 <sup>b</sup>	-12.404 <sup>b</sup>	.000 <sup>c</sup>	-13.964 <sup>b</sup>	-13.820 <sup>b</sup>
Asymp.	.000	.000	1.000	.000	.000

As Table 3 and 4 indicates before and after measurement on income level of sample population. The results indicates an increase in income of head of the family and total income of the family and their significance values because of P value 000 and positive change in savings per month after taking microfinance.

**Table 5: Ranks of Health and Food**

		<b>Before</b>		<b>After</b>	
		Frequency	Percent	Frequency	Percent
Valid	Yes	72	35.5	128	63.1
	No	131	64.5	75	36.9
	Total	203	100.0	203	100.0

**Table 6: Use of Meat Test Statistics<sup>a</sup>**

	How many times in a week you eat meat	Do you eat fruits - Do you eat fruits	Do you have servants - Do you have servants	Do you use clean water at home (boiled,filtered,any other form) - Do you use clean water at home (boiled,filtered,any other form)	How often you fall sick - How often you fall sick	Do you get proper medical treatment and medicines - Do you get proper medical treatment and medicines	From where do you get medical treatment and medicines - From where do you get medical treatment and medicines
Z	-12.610 <sup>b</sup>	-14.248 <sup>b</sup>	-2.449 <sup>b</sup>	-13.892 <sup>b</sup>	-13.711 <sup>c</sup>	-13.928 <sup>b</sup>	-5.385 <sup>c</sup>
Asymp. Sig.	.000	.000	.014	.000	.000	.000	.000

Before and after measurement for health standards measured through Table 5 and 6 which indicates only change in mean ranks of medicines and good food with its significant p value of 0.000 and positive impact of microfinance.

**Table 7: Ranks of Agriculture**

		Before		After	
		Frequency	Percent	Frequency	Percent
Valid	Yes	71	34.9	112	55.1
	No	132	65.1	91	44.9
	Total	203	100.0	203	100.0

**Table 8: Agriculture Test Statistics<sup>a</sup>**

	Do you and your family member have agriculture land - Do you and your family member have agriculture land	Is the land irrigated - Is the land irrigated	Do you cultivate this land - Do you cultivate this land	Do you depend on the income from the agriculture land for last five years - Do you depend on the income from the agriculture land for last five years	What happened to the agriculture land for last five years - What happened to the agriculture land for last five years
Z	.000 <sup>b</sup>	-14.248 <sup>c</sup>	-14.248 <sup>d</sup>	.000 <sup>b</sup>	-14.248 <sup>c</sup>
Asymp. Sig.	1.000	.000	.000	1.000	.000



As Table 7 and 8 indicates the assessment of agriculture before and after taking microfinance It shows not so much positive result the p value is 1.00 which is not good and not positive in dependency of income on agriculture.

**Table 9: Ranks of Housing Infrastructure**

		Before		After	
		Frequency	Percent	Frequency	Percent
Valid	Yes	71	34.9	137	67.4
	No	132	65.1	66	32.6
	Total	203	100.0	203	100.0

**Table 10: Own House Test Statistics<sup>a</sup>**

	Do you have your own house - Do you have your own house	What is the physical condition of your house - What is the physical condition of your house	Sanition condition (Toilets) - Sanition condition (Toilets)	Which source of water do you have at your home - Which source of water do you have at your home	Do you have electricity at your home - Do you have electricity at your home	Do you have Gas connection at your home - Do you have Gas connection at your home	Do you have telephone line at your home - Do you have telephone line at your home	What is the frequency of your personal purchases (clothes) - What is the frequency of your personal purchases (Clothes)
Z	.000 <sup>b</sup>	-14.248 <sup>c</sup>	-14.248 <sup>c</sup>	-	-3.317 <sup>c</sup>	.000 <sup>b</sup>	-13.820 <sup>c</sup>	-14.248 <sup>d</sup>
Asymp. Sig.	1.000	.000	.000	.000	.001	1.000	.000	.000

Before and after assessment on housing infrastructure is shown by Table 9 and 10 shows over all positive impact significance. It is observed that there is good change housing condition and positive impact on sanitation physical condition of house and significance values of all other items related to housing infrastructures.

## **5. Conclusion**

Impact assessment is the best methodology to assess an institution performance. So, for impact assessment primary data is used of microfinance institution Akhuwat Trust and Kashf Foundation. Akhuwat and Kashf microfinance institutions are trying to reduce poverty through providing loans to poor house hold in Sialkot Pakistan. So, on the basis of above cited result it is observed that Microfinance playing a vital role to fulfillment of basic needs, improving living standard and decreasing poverty and hypothesis generated that microfinance programs increase the socio-economic conditions of rural households. We observed that there is a clear difference in education especially girl's education, the borrowers send their girls to school after taking loan. There is weak relationship between Microfinance and agriculture. Poor people are getting health facilities, the food condition improve and they are eating meat and fruit on monthly basis, their housing infrastructure has also become better. There is a good relationship between Income and expenditure, good impact on education, health, food and housing infrastructure. So, the poor people can fulfill their basic needs, improve their living standard by using the financial services of MFIs and can reduce their poverty level. On the basis of study, we can say that Microfinance and poverty has a significant relationship it means poverty can be reduced by using Microfinance in the rural area of Sialkot, Pakistan.

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