

*Impact of Micro Credit on Poverty Alleviation: A Case Study of District Ghotki...*

## Impact of Micro Credit on Poverty Alleviation: A Case Study of District Ghotki, Sindh, Pakistan

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### Abstract

Low-income individuals can improve their socioeconomic situation and raise their income by using microcredit as a financial tool. The main objective of microfinance institutions is to reduce poverty. In order to better understand how microcredit institutions might reduce poverty and improve socioeconomic conditions, this study focused on the Ghotki district in Sindh. 384 active borrowers with credit histories with the microfinance institution were chosen at random using a random sampling technique in order to determine the study question's conclusion. Evaluating the effect of micro lending on the eradication of poverty and improvement in the socioeconomic situation of the borrowers, three different statistical methods were used: the chi-square test, the paired t test, and the independent t test. The p-value for the variable's improvement in standard of living, income, and employment opportunities is predicted to be 0.03 (0.05 level of significance), 0.000 (0.05 level of significance), and 0.000, respectively. The results demonstrate that microcredit improves socioeconomic factors like income, education, health care, consumption, and the growth of jobs, as well as the wellbeing of the borrower. The study recommended that microfinance organizations increase their visibility in rural and semi-urban areas of Sindh. Microfinance organizations ought to create more adaptable financial solutions for the nation's kids and other low-income populations. The MFIs and government organizations should set up training sessions and workshops to help borrowers make good use of their loans. The government should lower lending rates for the poor in order to accomplish social and economic development in the nation, and it should particularly support the household-based industry.

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**Keywords:** Micro Credit, Poverty, Case Study, District Ghotki, Socioeconomic situation

### **INTRODUCTION**

#### **Overview of Poverty:**

If a person's income is less than what is required to meet their basic necessities for food, shelter, and clothing, they are considered to be poor. This fundamental level, often known as the destitution level, is shown as requiring less than \$1.90 per day. **(World Bank, 2019)**

Poverty is a complex phenomena that is challenging to sum up in a single sentence. Some don't contain any unambiguous definitions. It has several characteristics that vary from nation to nation based on the standards and ideals of the respective communities. In Pakistan, poverty is defined as not having access to basic necessities including food, clean water to drink, a working sanitation system, and proper health care. **(Asghar, et.al, 2012)**

#### **Multidimensional Poverty in Pakistan**

**Table No. 1. Multidimensional Poverty Incidence in Pakistan (%)**

<b>Overall</b>	<b>38.8</b>
Rural	54.6
Urban	9.4

Source: OPHI, University of Oxford 2016

#### **The Microfinance Perspective**

Due to regular banks' strict lending standards and significant collateral requirements, microfinance banks provide financial services to the underprivileged. They don't want to lend to the impoverished because they think they won't be able to pay it back, traditional banks practically everywhere in the globe refuse to assist the poor. Additionally, formal banks imposed steep markup rates and other regular bank fees that were out of reach for the poor. Poor people are therefore hesitant to borrow from these organizations. **(Asghar & Chugtai, 2012).**

The poorest individuals are given small loans through microfinance programs to start self-employed businesses that will generate income for them and their families. Micro lending, commonly referred to as microfinance, is the practice of giving modest working capital loans to independent contractors. Poor individuals can create money, provide for their families' essential requirements, such as wholesome food and clothing, send their children to schools, and erect a shelter, with the help of a small amount of cash. **(Karim, et al 2012)**

#### **Poverty and Microfinance**

Microfinance served as the main strategy for reducing poverty in Bangladesh, a developing nation. Due to their inability to achieve their fundamental needs, the majority of disadvantaged people are seriously endangered by poverty. A key tool for increasing capital investment and income for the underprivileged is access to the

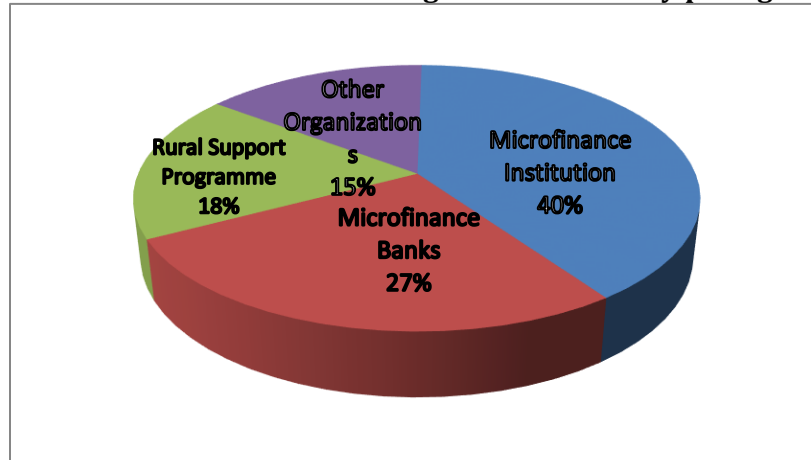
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microcredit facility. Microfinance helps to improve economic growth, raise income levels, encourage saving and give women more authority. (Al Mamun et al. 2013)

#### **Organizations that offer Microfinance in Pakistan**

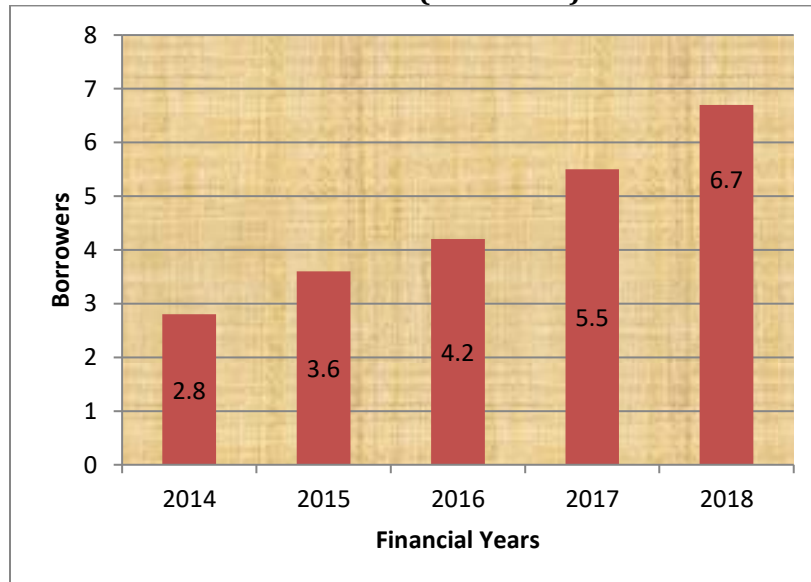
Microfinance Banks (MFBs), Microfinance Institutions (MFIs), and Rural Support Programs (RSP) are three important categories of microfinance actors that may be compared and benchmarked.

**Distribution of lenders offering microfinance by peer group**



Source: Pakistan Microfinance Network 2019

**Performance of microfinance Institutions in Pakistan**  
**Active Borrowers (in million)**



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### **Problem Statement**

Microfinance programs have been recognized as a type of anti-poverty development program since the 1980s and have earned support and acceptance on a global scale for providing financial services to the disadvantaged. In order to help low-income earners access financial services, the government of Pakistan has launched a variety of social safety net initiatives. Numerous researches have been done in various parts of Pakistan to determine how microcredit affects the reduction of poverty. In order to determine how microcredit affects rising income levels, opening up employment prospects, and raising the life standard in the area of study—Dharki taluka and Ghotki taluka of Ghotki district—where the microfinance organizations are active—this study will look at these three variables.

### **Study Objectives**

- To investigate the role that microfinance institutions play in reducing both urban and rural poverty in Ghotki, Sindh, Pakistan.
- To know how microfinance operations impact on respondents' level of income and chances for self-employment.

### **Research Questions**

Concerns about reducing poverty, boosting the economy, and small-scale lending have evolved into the primary strategic discourse on a global scale. For this, the research work has led to the following questions:

- 1- What degree of perception of how microcredit affects poverty reduction in terms of standard of life exists among the respondents?
- 2- What degree of impact does microcredit have on income and employment chances, according to the respondents?

### **Research Hypotheses**

The following theories are covered in this study to examine the effects of poverty:

#### **Hypothesis- 1**

- H0. There is no significant link between the use of microcredit and decreasing poverty.  
H1. The eradication of poverty and microcredit are closely related.

#### **Hypothesis - 2**

- H0. There is no meaningful connection between work opportunities, income, or microcredit.  
H1: There is a considerable connection between work opportunities, income, and microcredit.

#### **Hypothesis – 3**

- H0. Microcredit and opportunities for employment do not significantly correlate.  
H1. There is a considerable connection between employment opportunities and microcredit.

### **Significance of the Study**

This study's importance cannot be underscored. Pakistan's economy still has a high

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level of poverty, and efforts to reduce it have not had the desired impact. Because of this, it's crucial to assess how well microcredit programs can transform the economic and social circumstances of the underprivileged people. Understanding the operating principles of microfinance programs can help the state's economy grow, increase its capacity for production, and improve the welfare of the most vulnerable members of society. Numerous groups, including the researcher, the management of Microfinance providers, the policymakers, and the general public, can benefit from research on the effects of micro lending on reducing destitution in Pakistan's Ghotki District. In the case of the research students, for instance, this study will present the most recent data on poverty reduction, the network of microfinance institutions' methods for lending to the unprivileged, and its effects, particularly on rural residents' social and economic circumstances. The research will be beneficial for the micro lenders as they analyze their offerings and contributions to the nation's economic growth and decide whether to broaden their network. The study's conclusions will help policymakers better develop a plan to assist the poor in increasing their capital and income.

#### **LITERATURE REVIEW**

**Pomi (2019)** The primary data of 50 non-borrowers of Chittagong district of Bangladesh, and 100 microcredit borrowers from Association for Social Advancement (ASA) and Bangladesh Rural Advancement Committee (BRAC), two of Bangladesh's largest microcredit providers, were analyzed using the chi-square test and ANOVA (Analysis of Variance). According to a study report, microcredit offered by BRAC and ASA has greatly aided the attempt to lower the number of people living in poverty by creating money and improving the living conditions of borrowers who are low-income women.

**Cheema & Parkash (2018)** The primary data of 312 users of the Punjab Rural Support Program (PRSP) in remote areas of Sargodha district of Pakistan were examined using the ordinary least square (OLS) regression method. The OLS model's findings indicate that poverty has a negative relationship with the number of earners and level of education. Moreover it was concluded that microfinance has a significant impact on mitigating poverty.

**Parathap et al. (2018)** The primary data of 100 borrowers of a self-help group (SHG) who have been involved in microcredit for at least two years and live in the Kuniga and Pavagada regions of Karnataka state of India was studied using descriptive statistics. The study discovered that poverty alleviation, empowerment, and living conditions for the poor were significantly and favorably impacted by microfinance activities, particularly in rural areas.

**Khan et al. (2017)** The paired t-statistics approach was employed in the empirical study to examine data from 30 Khushhali Bank beneficiaries who resided in Peshawar between 2009 and 2011. According to the study, borrowers' monthly income and savings have grown.

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**Ahmed & Lema (2017)** The empirical study used the f-test and t-test methods to determine how much microfinance contributed to eradicating poverty in Africa. It examined the primary information of 100 borrowers from organizations that fund women's microfinance initiatives and found that there is substantial proof for the value of microlending in socioeconomic circumstances and that it is crucial for eradicating poverty.

**Chughtai et al. (2015)** the empirical investigation using a linear regression model and paired t-test was used to know positive impact of microfinance. It was concluded that microcredit has a significant favorable impact on kids education and financial performance of business by analyzing primary data from Tameer Microfinance Bank clients. On the other hand, there were conflicting opinions regarding household spending, household assets, and food security.

**Ramath & Preethi (2014)** microcredit and microfinance are among the finest methods for reducing poverty and enabling the poor to improve their standard of living. Microfinance is considered one of the useful strategies to mitigate poverty, specifically in poor areas where the majority of people live.. The problem of a lack of employment prospects in rural locations is typically linked to the development of remote areas and the reduction of poverty.

**Al Mamun et al. (2013)** The empirical analysis employed an ANOVA table and assessed the primary data of 286 microfinance borrowers in order to analyze the relationship between microfinance and poverty reduction in Bangladesh. It was concluded that, microfinance has shown to be a crucial strategy for alleviating poverty in emerging nations like Bangladesh.

## **RESEARCH METHODOLOGY**

### **Research design:**

The goal of this research is to find out the connection between micrlending and the decrease in poverty. To test hypotheses, chi-square, and T-tests have been used. The study relied on variables that were calculated numerically and statistically, hence the quantitative methodology was applied.

### **Population of the Study**

According to the Khushhali Bank's annual report, as of December 31, 2019, there were 9600 active borrowers overall in the research region, including both men and women.

### **Sample Size**

To determine the sample size for this study's investigation of the research problem, Slovin's formula was applied. The equation is represented symbolically as follows:

$$n = \frac{N}{1 + N(e)^2}$$

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**Data collection techniques:**

Through a field survey and questionnaire, the essential data was acquired. The necessary criteria were met by a well-designed questionnaire that was developed.

**Data analysis techniques**

Statistical Package for the Social Sciences (SPSS) was used to enter and analyze the data. To determine the model's significance, the t-independent sample test, paired t-test, and chi-square tests were used to explore the effect of the independent variable on the dependent variable.

**RESULTS AND DISCUSSIONS**

**Hypothesis – 1**

Ho-Microcredit has no beneficial impact on reducing poverty among MFI borrowers.

H1-Microcredit has a beneficial impact on reducing poverty among MFIs' borrower population.

**Table 2 Independent samples test**

	Mean	N	St .deviation	St. error of mean
Before Loan	110.8000	5	41.60769	18.60753
After Loan	214.4000	5	38.09593	17.03702

**Table 3 Independent samples test**

	Levine's Equality of Variance s Test							The difference has a 95% confidence interval.	
	F	Sig.	t	df	Sig(2-tailed)	Mean difference	Std. Error difference	lower	Lower
Equal variances assumed	.000	.970	4.106	8	.003	103.60000	25.22895	- 161.77807	- 45.42193
Equal variances not assumed			- 4.106	7.939	.003	- 103.60000	25.22895	- 161.85649	- 45.34351



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A model with equal variance was chosen because Levene's test for equality of variances yielded a likelihood value of 0.970. Since the calculated t value is 4.106 falls in the critical region and the p value is 0.03 is less than a specified level of significance 0.05, the average level of respondents' poverty alleviation is improved after joining MFI (Mean = 214.4000 with SE = 17.03702) compared to respondents' poverty alleviation prior to joining MFI (Mean = 110.8000 with SE = 18.60753). The findings above show that MFI has a substantial influence on reducing poverty. Therefore, we accept the alternative hypothesis that there is a considerable influence of the loan amount to alleviate poverty among active borrowers of MFIs rather than accepting the null hypothesis that there is no beneficial effect of microcredit to alleviate poverty among active borrowers of MFIs.

#### **Hypotheses-2**

Ho. Microcredit has no beneficial effect on borrowers from MFIs in terms of raising their income levels.

H1. Microcredit has a beneficial influence on borrowers from MFIs by raising their earnings levels.

**Table 4 Paired sample statistics**

	Mean	N	Std. deviation	Std. Error of mean
Before income	16669.2708	384	6902.71778	352.25284
After income	23414.0625	384	25242.79822	1288.16615

**Table 5 Paired sample tests**

				The difference has a 95% confidence interval				
	Mean	Std, deviation	Std.Error mean	Lower	Upper	t	df	Sig-(2 tailed)
Before	-	22575.72	1152.06	-	-4479.63282	-	38	.000
After	6744.7916	055	241	9009.95051		5.855	3	

The average income of respondents increased after they joined MFI (Mean = 23414.0625, SE = 1288.16615) compared to their prior income (Mean = 16669.2708, SE = 352.25284). This is because the calculated t value of -5.855 falls in the critical region and the p-value of.000 is less than the required level of significance of 0.05. According to the aforementioned findings, the income level before and after joining the MFI has increased. We therefore reject the null hypothesis that "loan amount has no significant impact on income level" and accept the alternative hypothesis that "loan amount has a considerable impact on borrowers' income level."

#### **Hypotheses- 3**

Ho. Microcredit does not help active MFI borrowers find jobs or otherwise improve employment possibilities.



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H1. Microcredit has a favorable impact on generating employment prospects for MFI borrowers.

**Table 6 Employment Classification\* before and after cross-tabulation**

Employment Classification		Before joining	After joining	Total
Unemployed	Observed frequency	96	13	109
	Expected frequency	54.5	54.5	109.0
Partially employed	Observed frequency	210	49	259
	Expected frequency	129.5	129.5	259.0
Employed	Observed frequency	78	322	400
	Expected frequency	200.0	200.0	400.0
Total	Observed frequency	384	384	768
	Expected frequency	384.0	384.0	768.0

**Table 7 Chi-squares tests**

	Value	df	(2-sided) Asymptotic Significance
'Pearson Chi-Square'	312.123 <sup>a</sup>	2	.000
'Likelihood Ratio'	339.037	2	.000
'Linear-by-Linear Association'	267.819	1	.000

The p-values are below the required level of significance. 312.123, 339.037, and 267.819 are chi-square values that are higher than table values at the degree of freedom (2, 2, 1). As a result, the null hypothesis regarding a connection between employment opportunities and MFI membership is rejected. Given that joining MFIs has increased respondents' chances of finding employment, our alternative hypothesis is accepted.

## CONCLUSION

Based on the findings, the researcher was able to accomplish the goals stated and came to the conclusion that microcredit has contributed to reducing poverty in the Ghotki district. The researcher was able to confirm the two study assumptions with the help of the research results. By assisting its borrowers to better their access to healthcare, education, and investment options, as well as their monthly income, asset ownership,

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and housing and shelter conditions, as well as their ability to enroll their children in school and develop job chances. Microcredit, according to the study, helps its borrowers alleviate poverty. For this reason, the government and microfinance groups should work more on this initiative.

#### **RECOMMENDATIONS**

Based on the empirical analysis of the primary data, field study and the questionnaire-based survey, certain recommendations are made to improve the program's effectiveness in eradicating poverty.

- The study found that borrowers were not satisfied with the interest rate charged by microfinance organizations, so for this many people avoid borrowing from them. It is advised that the interest rate be reduced so that the greatest possible number of people can utilize this service.
- In order to lower the cost of credit for customers, the government must subsidize interest rates for the underprivileged.
- Microfinance programs should be modified to accommodate societal needs, including those related to loan size, loan repayment grace periods and asset-based financing.
- The government should help microfinance institutions expand their operations into rural areas, especially in those regions that are far from urban centers and don't have easy access to these institutions for borrowing money and making quick payments.
- Borrowers should be given the necessary training by microfinance organizations and the government in order to help low-income people use borrowed money wisely and increase their income and savings.
- The bulk of people living in rural areas work in agriculture, forestry, and livestock, hence microfinance institutions should concentrate on this industry.
- To achieve gender equality, microfinance institutions must make sure to use services, procedures, and policies that will boost the participation of both sexes in their various initiative.

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