

# An Empirical Study on Determining the Association Between Micro Finance and Poor's Access: Evidence from Pakistan

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## Abstract

*The aim of this research paper is to investigate the relationship between the impacts of micro finance on poor people's access. This study consists of quantitative methodology. The aims of these methodologies are to find a feasible solution of the problem. This study also provides a guideline to the beginner research questions as following. What are the problems during access? What are the problems related to mechanism and procedure for obtaining micro finance? Stratified random sampling techniques were used to get a total of 96 respondents. Data were collected through semi structured close ended interviews, questionnaires, observations and documentary reviews. On the basis of these findings the government takes interest and supports the microfinance sector and their main initiatives are microfinance ordinance 2001 and also providing a guideline to the policymaker on the basis of finding they can remove the problem which are facing by poor peoples during micro finance procedure.*

**Keywords:** Gender, Micro Finance, Investment,

**JEL Classification:** G23, Z13

## 1.0. Introduction

Micro finance defines as the economic and monetary provision of financial service to the peoples. This service includes saving and credit; many of institution providing payment and insurance services to the poor peoples. Micro finance refers to a small loan which is commonly utilized for working capital. The micro finance easy consideration of borrowers and play a role for creation of investment opportunity and provision of surety substitutes such as personal group guarantee, obtaining the micro loan based on best repayment performance of debt capacity. Micro finance also activities also system for recognized the system loan disbursement and its monitoring. It is complicated process for the poor peoples to obtained small loan. But nowadays several microfinance institutions established to resolve the problems related to get



microfinance but micro finance is particularly for those peoples who engaged in small level of business. These institutions are the organizations the main objective of these institutions to provide micro credit and loan service to the poor peoples for self-employments and provide financial assistance to invest capital in small business and generate income activities. On the other side, Micro finance is not integral part of the commercial banking industry or government system. But they are also taking part into informal commercial banking such as Non-Government organization (NGOs). Furthermore micro finance, formal credit schemes do not typically take gender into account in practice; they tend to be biased towards men. It is the male dominant household which is usually approached and registered for the provision of institutional credit. Most of poor people's are protecting themselves from poverty, therefore they want to increase their source of income and also increase the right path out of hunger by shaking hand to micro finance.

The basic purpose of these to get ordinary life and take the benefit for education, to bridge a cash flow gap or to take the advantage of investment opportunity, micro finance may be the initial step in contravention of the poverty cycle. Micro loan is very beneficial and helpful for poor people because of it they are getting more money to acquire assets, goods and services for business at small level. Unlike the high society's member for the purpose of better health care, residential place, and sending their children to a well reputed schools, colleges, and universities. The availability of financial services is just like a shock absorber to meet uncoordinated accidental emergencies, financial, economic or business risks on business cycle, or the sudden disastrous events like earthquake, famine, flood etc. And also a sudden loss of any of the family members that can push a poor family into destitution.

Micro finance also provides help to enhance the outreach of the existing NGOs and social organizations. Not only is the government of Pakistan but World Bank also the major contributor to the PPAF project. At the start of PPAF, an agreement was signed with five Partner Organizations i.e. Agha Khan Rural Support Program, Taraqee Trust, National Rural Support organization, Family planning association of Pakistan and Kashif foundation to disburse Rs. Five billion over the next five years to reduce the poverty. According to survey by Pakistan micro finance network in 2009, there are 20 to 30 Million clients who want to take Micro Finance services in Pakistan. PPAF has been started by the government of Pakistan to give the short term loan for one year to the people to start small scale business. Khushali Bank, Bank of Khyber, Rural Support Program and non-trading concerns like Islamic relief micro project etc. are also important microfinance provider institution in Pakistan.



## 2. Literature Review:

Pakistan is common Muslim country of the world and for a Muslim country only micro finance cannot help at all. In opposite Islam fixed prescribe ratio of 2.5% as Zakat (Obligatory tax in Muslim law) which is must paid every year on different possession of assets or cash or others [1]. Provident and Zacharia Formation and accessing group as collateral is the most important reasons for the micro finance which is relatively and comparatively affordable to other loans because the customer may use it for the purchase of domestic plant assets such as plant, electricity equipment and furniture etc. Sometimes this kind of formation of group and load is cause of the problem for the poor with the respect to access to micro finance. Most of the time they can't back payment at the right time. It makes the problem in groups for one member [2]. It is for the reason that the bunch security system shows the positive preference to high earners. Moreover, instantaneous family unit requirements are met out of group loans but circulation of generative activities are used by many people [3]. General people can take access to micro finance in the figure of salaried loads. In context of South Asia especially Pakistan, poor people doing work on daily basis and they don't have permanent job. They have also limited resources and work category [4]. The main reason is education and they are failed to get loans because personal employer guarantee or collateral conditions, so it's difficult to take salaried loans [5].

Some places have some good relation with employer. For the reason they are getting low class job like peon, security guards, driver and others low cadre jobs who can't provide guarantee to the employee for the micro finance loans or salary loans [6]. Any how they manage the guarantee but for the less mount of salary they can't easily assessing this credit [7]. Because less amounts of salary and load rules of the financial institute is loan should be four times of the net salary draw by the employees. As a poor employee, they are getting low amount which is not fillup their business or farming requirement to the anticipated scope [8]. Credit accessibility by the poor is an important factor in determining the effectiveness of micro finance banks in poverty reduction [9]. Our study location is Bank, Customer, credit terms and condition and distinguishing of customers. Lots of bank changed there banking systems for the micro finance with collaboration NGO such ABN Amro, Deutche and some internation bank contributing credit for the micro finance activities like CITI BANK Montgomery and Weiss, (2005) [10]. Lots of statistics shows for the friendly loan system, rich people are taking loan as compared to the poor people Coleman (2010)[5]. Access to Micro finance and age had a negative but significant relationship (Khalid, 2003), Zeller (2000), Parker and Nagarajan (2001),

Shaw, J. (2004) Khandkr (2001), Provident J. Dimosol and Zacharia S. Masanyiwa (2002), Shahzad Ahmad, Muhammad Sajid Naveed and Abdul Ghafoor (2004), Pitt and Khandker (2002) [9,11,12,13,14,15,16,17]. Friendly access to MFIs helped the poor people to produce self-employment chances, Managerial skills, productivity, and positive cash influxes and reduce the consumption cost etc. which in turn enabled them to increase their income level and other socio economic assistances like education and health care [18]. Some study shows MI has positive relationship or impact with borrower higher monthly income after accessing to credit. Shaw (2004) and Saunders M; Lewis, p.; Tronhill, A. (2007) studied two microfinance institutions in Sri Lanka and showed that the less poor clients' micro business that accessed loans from micro finance programs could earn more income than those of the poor does [13,19].

### **2.1. Objectives of The Study:**

- To investigate the relationship between microfinance and poor access.
- To identify the cause and effect between microfinance and poor access.

### **3.0. Statement of The Problem:**

The problem under study was to investigate the role and impact of micro finance on poor's access. Micro finance is one of the main source of funding for poor's because it helps the poor's to start their business and will become an entrepreneur. It is really important to analyse the role of micro finance in backward areas like D. I. Khan because the people of such area can get a lot of benefits from micro financing and they can move towards prosperity. There are number of studies done on the concept in different geographical areas throughout the world but no such study is conducted in Pakistani context, especially in D. I. Khan. So current study is helpful to solve the problem that either micro finance can lead the D. I. Khan poor society towards better living standard.

### **3.1. Research Hypothesis:**

This research study is based on the following hypothesis:

H0 = Micro finance has no impact on poor's access to Micro finance in the study area.

H1 = Micro finance has impact on poor's access to Micro finance in the study area.

H0 = MF = 0

H1 = MF = 0



## 4. METHODOLOGICAL FRAME WORK:

### i. Data Collection

For this study we included the farmer and businessman in Dera Ismail Khan's district, Pakistan. For the huge amount of population it very difficult to contact to each and every member of population. We are select limited area for this study purpose but density area. we are considered 96 sample respondents and analysis the cost and benefit. To give maximum chance of selection to each and every member of the population, stratified sampling method was used by the researcher.

### ii. Method of the Data Source

We are collected data though questionnaire mode for the study. Our questionnaire as used as a research tool. We are selected density area, as a populated area we always try to avoid meager response, we are done questionnaire by self from the different town and regions and all is filled by responders. Sometimes we ask the question and write down on the sample answer because of most of the farmer isn't literate. Primary data collected during the course of this research study was subjected to statistical analysis by using SPSS version 11.

### iii. Modeling

In the Business Administration, Social sciences and management discipline, most of the time using the Linear Model and using ordinary least square is much popular analytical tool (Cleary & Angel 1984). Linear model most of the time science base statistic.

Researcher Used ordinary least square to predict a function that relates dependent variable (Y) to independent variables ( $x_1, x_2, x_3 \dots x_n$ )

This linear function that can be shown as:

$$Y = a + bX_i + e_i$$

Where-

Y = Dependent variable,

a = Constant, b = Slope of line,

$X_i$  = Independents variables,

$e_i$  = Error term

Model Access to Micro finance:

$$Y = a + bX_1 + bX_2 + bX_3 + bX_4 + bX_5 + bX_6 + bX_7 + bX_8 + bX_9 + e_i$$

Where,

Y=Access, a=Constant, X1=Gender, X2=Age, X3=Occupation, X4=Experience, X5=Family Size, X6=Marital Status, X7=Credit, X8=Investment, X9=Education  $e_i$ =Error term.

#### iv. Data Analysis and Interpretation:

**Table.1** shows on five out nine independent variable i.e Age, Gender, occupation, family size and experience where had insignificant impact  $R^2=.318$  on the access to MF shows slight change in all of the independent variable and its takes approximately 32% change in the access to MF where marital status, investment, education, credit amount this four independent variable had significant impact on access to MF. **Table.1** significant impact  $p=.000$  of dependent variable and for the independent variable collectively at  $F=4.465$  overall.

**Table.1:** Different variables on Access to Micro finance impact (Regression)

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	F	Sig.
1	.564	.318	.247	4.465	.000
Independent variables	Un standardized Coefficient		Standardized coefficient	T	Sig.
	B	Std. error	Beta		
(Constant)	37.409	7.908		4.730	.000
Gender	.675	1.797	.037	.376	.708
Age	-.054	.107	-.062	-.501	.618
Occupation	2.071	2.447	.089	.846	.400
Experience	-.033	.167	-.026	-.200	.842
Family size	.128	.318	.042	.404	.687
Marital status	4.160	2.204	.213	1.888	.062
Credit amount	.000	.000	-1.080	-4.973	.000
Investment	.000	.000	.954	4.120	.000
Education	-.554	.184	-.329	-3.010	.003

#### v. Gender

**Table.2** shows in gender insignificant impact  $p=.715$ , t-test using on access of MF. Table 4 shows Access of MF with correlation of gender as found about 16%.



**Table.2:** Different variables on Access to Micro finance using t-test impact

Variables	F	Sig.	t- values	Df	Sig.(2- tailed)
Gender	.754	.388	-.366	94	.715
Occupation	.149	.701	-1.499	94	.137
Marital status	3.241	.075	-2.307	94	.023

This table is showing that the gender had equal access to micro finance because both know information regarding to obtain credit loan and they well know how to get micro finance loan.in this research area males can go easily to any financial institution and get information how to get and other matter related to micro finance rather than female.

#### vi. Occupation

**Table.2** shows access of MF on occupation and its insignificant impact  $p=.137$ . Table 4 figure out access of MF and 13% correlation between with occupation and MF. Our study area was on farming and small business and occupation was respondents on that. Those are (farmer and businessman) accessing MF required information to get credit, bases of credit, interest rate, procedure to get credit and others qualities had no change to any one occupation in the research location.

#### vii. Marital Status:

**Table.2** shows marital status significant impact  $p=0.023$  in the basis of study area. Between the Marital status correlation access 14% Table-4. Researcher found from the respondents data, married person mainly taking higher responsibility to support the family. They have lack of finance but most of the person wanted to improve the business but need more investments. Most of the poor respondents has to depend upon MF. So they had need to know information about interest rate, credit provision and others to take interest in their business. About loan, leading institution might be ready to provide those information effectively.

**Table.3:** Different variables on access to Micro finance using ANOVA impact

<b>Variables</b>	<b>Levels</b>	<b>Sum of square</b>	<b>Df</b>	<b>Mean square</b>	<b>F</b>	<b>Sig.</b>
Age	Between Groups	74.645	2	37.323	.484	.618
	Within Groups	7174.261	93	77.143		
	Total	7248.906	95			
Experience	Between Groups	636.829	3	212.276	2.954	.037
	Within Groups	6612.077	92	71.870		
	Total	7248.906	95			
Family size	Between Groups	786.054	3	262.018	3.730	.014
	Within Groups	6462.852	92	70.248		
	Total	7248.906	95			
Credit	Between Groups	1479.113	2	739.557	11.920	.000
	Within Groups	5769.793	93	62.041		
	Total	7248.906	95			
Investment	Between Groups	290.157	2	145.078	1.939	.150
	Within Groups	6958.750	93	74.825		
	Total	7248.906	95			
Education	Between Groups	453.173	4	113.293	1.517	.204
	Within Groups	6795.733	91	74.678		
	Total	7248.906	95			



### viii. Age

**Table.4** showing that there is insignificant impact  $p=.618$  (Table 3) on access to micro finance using ANOVA. Correlation of age with access to micro finance was found approximately -16% (Table 4). Because the age group of the study area either lower, upper or middle had equal access to MF. The figure point of this reason was they had all information and honor to get MF. They knows how to take this, they have ability to pay interest and procedures to get financial loan.

### Experience

On the access of MF in the study areas experience significant impact  $p=0.037$  Table 3. Table 4 shows that -15% aprrx was correlation of experience access. Researcher found from the respondents data, married person mainly taking higher responsibility to support the family. They have high interest to improve the business and extent their resources in better way.

**Table.4:** Correlation of different independent variables and access to micro finance.

Variables	Pearson Correlation	Effect	Sig.(2-tailed)
Access & Gender	0.161	+ve	.116
Access & Age	0.155	+ve	.132
Access & Education	-0.107	-ve	.298
Access & Occupation	0.129	+ve	.211
Access & Experience	-0.154	-ve	.135
Access & Family size	0.038	+ve	.716
Access & Marital Status	0.140	+ve	.175
Access & Credit	-0.321	-ve	.001
Access & Investment	-0.209	-ve	.041

### ix. Family size:

The above table showing that there is significant impact  $p=0.014$  (Table 3) on access to micro finance. Correlation of family size with access to micro finance was almost 4% (Table 4). All the family members had access to micro finance.

### x. Credit

The above table showing that there's significant impact  $p=.000$  (Table 3) on access which means that respondents had received the amount of loan whatsoever they had applied for. They utilized that amount of credit for their genuine purposes in order to get maximum output.

The correlation of credit with access to micro finance was -32 % approximately (Table 4). In this research all the respondents had responsibilities to support their family therefore they wanted to enhance their business therefore they needed most of poor people's dependent on micro finances the leading institutions provide all require information to the borrower about interest rate provision and source etc.

#### **xi. Investment**

The above table showing that there is insignificant impact  $p = .150$  (Table 3) on access to micro finance and correlation of investment with access to micro finance was about -21% (Table-4) which showing that investment had not used properly.

#### **xii. Education**

**Table.3** shows education had insignificant impact  $p=.204$  on access to MF using by ANOVA. Table 4 shows -11% approx correlation of education with access to MF. Because the age group of the study area either lower, upper or middle had equal access to MF. The figure point of this reason was they had all information and honor to get MF. They knows how to take this, they have ability to pay interest and procedures to get financial loan.

### **5.0. Results, Discussions and Findings**

Using Linear Regression Model had positive significant impact at all and MF has found strongly correlated with access of MF at  $R=0.564$  &  $R^2= 0.318$ . For access of micro finance (MF) they have positive significant with marital status and investment. Most of the time married person are giving full of attention of the access of MF. It's proved that if any one invest more amount then they are get more output, so that to create good will in the MFIs book. There is also shows that negative significant impact with credit amount and education. Irrespective of prerequisite of respondents, each and every respondent had equal access to micro finance. Have positive insignificant impact of access of Gender, Occupation and family Size, so it's proved that those are playing greater role of accessing of Micro Credit but not importance given to above factors. Negatively insignificant impact on access to micro credit (MC) is Age and experienced respondents. Young and children taking disadvantage of micro finance and they have less experience on that, so they have no access of micro finance. But at all MF has positive relation and impact on poor's access who are the living on poverty line, MF help to cope up from the hazardous moments.



## 6.0. Conclusion

The micro finance easy consideration of borrowers and play a role for creation of investment opportunity and provision of surety substitutes such as personal group guarantee, obtaining the micro loan based on best repayment performance of debt capacity. Micro finance also activities also system for recognized the system loan disbursement and its monitoring. It is complicated process for the poor peoples to obtained small loan. But nowadays several microfinance institutions established to resolve the problems related to get microfinance but micro finance is particularly for those peoples who engaged in small level of business. Our research location area MF is granted and community of the people have positive respect for the MF because its most of the time reduce the poverty, improving the financial condition, improving the standard of living with extended current business condition. Most of the people paying the principal and interest though installment. At all MF has positive relation and impact on poor's access who are the living on poverty line, MF help to cope up from the hazardrial moments. Lots of the respondents are argue that the micro finance interest rate is so high but study shows that main problem to get loan or accessing the micro finance (MF) is collateral or personal guarantee.

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