Research Article
Volume 12:2, 2021

Business and Economics Journal

ISSN: 2151-6219

Open Access

A Poverty Reduction Strategies: Evidence from U-Microfinance Bank

Iram Rani[1*], Minhoon Khan Laghari[1], Hira Rani Shaikh[2] and Muhammad Asif Channa[2]

[1]*Department of Business Administration, Shah Abdul Latif University, Sindh, Pakistan*
[2]*Department of Business Administration, IBA Sukkur University, Sukkur, India*

Abstract

This Study intends the assessment of micro loan by U microfinance from females of upper Sindh. The core objective was to assess the impact of U-Microfinance on poverty level of female for improving their living standards by providing them micro loans to be used for their small-scale business which could enable them to be empowered politically, socially, economically, and assessing its impacts on the health and education of their families. Therefore, this Study was conducted on assessment of microloan interventions of U Micro finance in the rural areas of upper Sindh. Quantitative approach used to measure the impact of micro loan on the poverty status of the female along with a qualitative study to further confirm the findings. In this study quasi experimental design was used in which two groups of data from the same respondents assuming the data 'Before-loan and After-Loan Situation' from the female borrowers of Khairpur, Sukkur, Shikarpur, Larkana and Dadu Districts of Upper Sindh. Poverty Score Card was used as a survey instrument originally developed by World Bank for each region separately. The indicators used in questionnaire were education of self and children, number of family members, rooms in the house, basic household facilities to advanced i.e. washing machine, cooking stove heater, Air Conditioner and television along with indicators of other assets like live Stock, engine driven vehicles and agricultural land.

Keywords: Poverty scorecard microfinance • Quantitative design • Poverty and World Bank

Introduction

In the Entire world it's pretty clear that each Nation has been facing poverty and it continues to face it. Poverty is a state where people earning less so they can't continue to meet the basic necessities of life. Throughout the world ½ of the people which is nearly three billion who earn less than $2.5 a day, while 1.3 billion of the world population survive in wretched poor quality earning less than $1.25 in a single day. South Asia comprises of 22 percent of the world population, its contribution to the global GDP is only 2 percent and 1.3 percent of world trade. The region hosts 44 percent of world poor. The South Asia region includes countries like Pakistan, Nepal, India, Bangladesh, Bhutan, Maldives & Sri Lanka. In this region overall level of poverty is high due to agrarian economies, overpopulation, lack of education and political instability.

Condition of Pakistan is also not too fine. According to first ever multidimensional report /index (MDI) 2016, 39% of population lived with multidimensional poverty with almost the same effects as the people being affected in the world, especially developing countries. This poverty has many causes in Pakistan likely Water/Rainfall, Education, Unemployment, Drought, Cyclone or Earthquake, Men Made Catastrophes, Early Marriages and No of Children/Divorce. To conquer above all problems people need money from various sources, if they have access to money from private sources as a loan that charge with interest rate, a tough practice of that class but again needs some mortgage then second option is government Banks.

Since independence many Banks are working in Pakistan to provide loan with other facilities but these banks operate in large level and only financially stable people will benefits from banks because of few circumstances like to open an account you need minimum balance, transactions etc. At global levels initiative of microfinance was introduced to control poverty up to some extent.

***Address for Correspondence:** Iram Rani, Department of Business Administration, Shah Abdul Latif University, Sindh, Pakistan; E-mail: iram.shaikh@salu.edu.pk*

Received 12 February 2021; **Accepted** 26 February 2021; **Published** 05 March 2021

McDowell stated that success of a range of microcredit schemes around the world that has validated that poverty is caused by lack of opportunities and in developing countries people are there who are in want of a monetary support such as microfinance. These opportunities have given the right to poor to take part in socio economic activities start something of their own and alleviate their poverty [1].

Microfinance refers to a program that foresees a world where poor or low income holders will easily access many financial services such as savings accounts, insurance funds and credit lending etc. It has a completely different framework from the commercial lending as the way of joint liability and group lending is concerned with good will to payback. Unlike other developing countries the institutions which provide microfinance are also popular in Pakistan. Currently not less than 18 MF institutions are working to alleviate poverty in Pakistan. Usually microfinance is provided through Banks while other rural support organizations also take part but their procedure is collateral based by creating community organizations which create pressure among them to work with that fund.

In a society dominated by males it is very difficult for woman to take part in social activities, and thus woman faces discrimination in all careers. To cope with this situation many attempts have been made by public and private associations to empower females so that she can enhance the livelihood of household. Studies have confirmed that empowering woman give drastic change to the household's poverty situation, which is because females usually utilize this money for better food and education along with Health. According to UNDP (2018) a country where 29.5 percent people who lived in below poverty line and 40 percent are woman's out of whom thirty percent are poor empowering woman could give us great difference. Microcredit is broadly used as an instrument and sustainability in economic market which helps hundreds of poor who are unable to take any economic help and conventional credit loan. Through productive loan, females will earn extra income and control their household capital [2].

Research objectives

The principle goals/objectives of this assessment was to survey, in view of the experience U Microfinance-bolstered ventures, the degree to which access to microfinance has lessened the neediness of rustic poor families and enhanced the financial status of poor females

The particular goals are to:

- To determine how viable the microfinance (U BANK) ventures were in decreasing rustic destitution and in enhancing the status of poor females
- To determine the degree to which microfinance ventures change the status of females.
- To draw lessons that can be utilized to enhance the plan of future microfinance ventures and the future bearing of U microfinance operations.

Literature Review

Overview of poverty

Poverty has been considered as core issue as well as challenge to the Pakistani government towards the development of country. Meanwhile it is placed among the progressive goals of era. According to Saeed-ur-Rahman, it is yet self motivated gender, complex and location specific multi-dimensional approach. However, its tenacity varies with respect to region and social group. As poverty is of qualitative nature so one cannot easily describe or quantify it. Poverty could not achieve minimum living standard (World Bank, 1990).

Poverty is the absenteeism of access to get various commodities (World Bank, 2000). "The definition of World Banks indicates the broader concept of poverty which includes not only food and nonfood items but also some essentials of human development such as key assets and social determinants. According to World Development Indicators, 60.2 percent population is living below $ 2 a day and 21 percent population is living below $1.25 a day at international poverty line in local currency in Pakistan. Saeed-ur-Rahman, Imran and Fatima stated that "Poverty rates have never been found stable in Pakistan". Statistics provided indicates that 'the poorest 40% of the world population account for only 5% of the global income, while 20% of the richest people are getting 75% of the world income'. The sense of poverty is hunger, illiteracy, inferior health facility, being deficient in food, inadequate education facilities and unemployment. The poverty rate in Pakistan declined from 35% in 2002 to 13% in 2011 (World Bank). The rural poverty rate fell from 40% to 16% from 2002 to 2011. However Pakistan is now the second lowest headcount poverty rate in south Asian region."

Poverty does not include the characteristic for lack of pay rather it is a multi-dimensional view that includes political, financial and social needs which are sine qua non for an important presence. Poor groups of Pakistan need money related assets as well as experiencing their fundamental needs of clean drinking water, legitimate sanitation, wellbeing and education. Their constrained methodology towards sustenance, wellbeing and training undermines the cap districts of poor people groups of Pakistan. Moreover, it constrains their capacity to anchor beneficial work, and consequently results in pay destitution and social avoidance; while additionally making them helpless against exogenous shocks [3].

Old method of subsiding poverty

History provides evidence that 'direct credit approach' has long been recognized as a key driver to remove poverty that has been viewed as a result of not earning enough money to acquire acceptable amount of food and other needs towards creating standard way of life. Some focused easing strategies for poverty were developing skills and creating job. It also involved Islamic mode of life like sadqat, zakat and fitrana as a way out to redistribute money from rich peoples to poor peoples of society. Considering such lines, finance role was limited up to provision of loan with the belief that this will increase their productivity. It brings two fold results like poor people will be able to increase their consumption level and on the other hand; society will be benefitted from increased production developed by loan. There were some other modes of help like borrowing from family and friends and having committee setting by some females of society to increase their savings and thereby improving their domestic way of life. These methods are still in practice and even more emphasis has been laid on them in the recent budget. However, still the latest and more professional approach to poverty alleviation is microfinance.

Microfinance (A Possible way out of alleviating poverty)

Microfinance means small scale financial services like savings and credit to be given to people in the shape of loan to those who have low level of savings and income. This microfinance has been viewed as a ray of hope for the poor peoples of society. It includes provision financial services to low income people in the shape of credit, deposits and savings. Microfinance has always been considered as synonym of micro-credit only the difference is that micro-credit exclusively put emphasis on provision of credit. Now microfinance has been recognized as a tool by funds channels and government with the aim of reducing poverty from country. Microfinance institutions (MFIs) have sprung up in all areas of the globe, to substitute for usurious interest rates charged by informal moneylenders. "By exploiting new institutional forms and contractual structures, these institutions have reduced the risk and costs associated with granting uncollateralized loans. The promise of microfinance prompted world leaders in 1997 to pledge that 100 million of the world's poorest families would be provided credit for self-employment or other financial services by 2005. It was estimated that over US$ 21.6 billion would be needed over a decade to fulfill this goal, $8 billion slated to come from loans at market rates from private markets. Regrettably, the private sector has been less than keen to invest a significant amount into supporting the proliferation of MFIs. The Micro Credit Summit Campaign announced that 30.6 million poor households around the world now have access to micro credit, and that the number covered increased by 40% over the past few years. It means that there is now an opportunity to bring about a substantial reduction of poverty around the world."

We are not saying that microfinance is the treatment towards the disease of poverty neither peoples have exact use of such tool but research findings of different researchers demonstrates that significant quantities of poor ladies furnished with access to microfinance administrations are utilizing the chance to diminish their destitution and that of their families. The micro-credit programs have become very popular as a tool to reduce poverty in many countries of the world following the success s of Grameen Bank of Bangladesh. Giving the poor access to budgetary administrations is one of the principle approaches to help increment their earnings and efficiency. In numerous nations in any case, customary budgetary organizations have neglected to give this administration. Miniaturized scale credit programs have been intended to fill this hole. Their motivation is to enable the poor to end up independently employed. A considerable lot of these projects give credit utilizing social system, for example, bunch based loaning. With expanding help from the World Bank and different benefactors, small scale fund is rising as a gadget for diminishing neediness and enhancing the Poor's entrance to monetary administrations in low salary nations [4].

Research Methodology

Present study was carrying out for Assessment of Micro Loan by U Finance from the Females of Upper Sindh, households of Khairpur, Sukkur, Shikarpur, Larkana & Dadu. For this purpose, a Poverty Score Card was used as an instrument and surveyed as a quantitative approach to analyze the impact of before and after loan situation. A quantitative study helps to depict the analysis in tables rather than pictures of the phenomenon. A questionnaire was used in survey to collect data for assessment of U-micro loan. The survey was collected from the same audience 2 times. 1st they asked to answer the survey when they were not borrowers and afterwards they asked to answer the same survey with their current situation means loan borrowed. This research aimed to measure the impact of female U-microfinance beneficiaries in the selected districts by using poverty scorecard.

The data was collected from the females who availed loan from U-microfinance and the survey method was used. The survey was administered in the following districts Khairpur, Sukkur, Shikarpur, Larkana and Dadu. Survey enumerators were hired who were sent to different districts and they had address of every household in their district which was obtained with the friendly collaboration of U-microfinance. All the enumerators were initially trained in a classroom setting and they were informed about the nature of project. Further U-microfinance also helped in such a way that they provided all details of female borrowers with their contact number, so before visit their consent for survey was ensured.

To ensure equal participation according to proportion of number of loan borrowers in each branch /city of female loan beneficiaries, a quota sampling technique was applied. Argued that "Quota sampling can be considered as a form of proportionate stratified sampling, in which a predetermined proportion of people are sampled from different groups, but on a convenience basis." It allows researchers to sample a subgroup that is of great interest of the study for example to study any trait, characteristic. This sampling method is also appropriate in situations when time, budget is limited, when we Introduce some stratification of population and when list of population is not available [5].

Poverty Scorecard Analysis (PSC)

Poverty scorecard has been analyzed on the basis of cut-off band score by considering the category of poor as given in Table 1. Poverty line of respondents has been measured using these band mentioned in cut-off band score that was adopted from assessment of measuring the impact of PPAF (Pakistan poverty alleviation fund) interventions using Pakistan poverty scorecard (PPAF 2012). Categories mentioned in card were on six bands that are extremely poor, chronically poor, transitory poor, transitory vulnerable, transitory non-poor and non-poor. In category 1 extremely poor referred to population that lies less than or below to 50% of poverty line. In category 2 chronically poor refer to population that are supposed to remain poor due to their basic characteristics, suffer from structural poverty and are at 50%-75% on the poverty line, transitory poor refer to such population whose poverty level changes because of income and expenditure shocks and they lies on 50%%-75% of the poverty line, transitory vulnerable refers to population whose level of poverty is susceptible due to income or expenditure shocks and are at 100%-125% on the poverty line, transitory non-poor are the poor who are at 125%-200% on the poverty line and non-poor are the people who has low chance of being poor thus enjoy high level of consumption and are at above 200% on the poverty line. Poverty categories ranging from extremely poor to non-poor were previously identified by PRSP-II (FD, 2008)" when they were working with the purpose of further analyzing the severity of poverty. Recent researchers have also referred same poverty categories for interpretation and classification of poverty. Although initially these categories were developed on the basis of expenditure per adult, PPAF (2012) has modified and developed these categories on the basis of poverty score with the help of the World Bank's guidelines" (Table 1).

Moreover, intrusions such as social mobilization and micro loan have also referred poverty scorecard for assessing beneficiaries therefore, thousands of reports including SRSO or BISP on poverty or impact of such intrusions have used this scorecard in their analysis. Thus present study adopted using scorecard to achieve the objective of assessing poverty through microfinance/ microloan. Bands and categories mentioned in Table 1 were found as best and authentic tool that was adopted from PPAF 2012 for measurement and assessment of poverty score and its severity. Table 2: shows the poverty status before and after loan and the change that was identified during survey (Table 2).

According to the findings analyzed, 0 respondents were in the category of extremely poor before and after loan so no change was found in this category, 1 respondent were in the category of chronically poor before provision of loan but after loan it was 0% means 1% change was found in that, 15 respondents were in the category of transitory poor before loan but after providing loan there percentage was reduced up to 4 means, 11females (73%) was found in this category, 163 respondents were found in category four that is transitory vulnerable before provision of loan but after provision of loan number was also reduced up to 123 means ,40 (16%) change was also found in that, 191 respondents were found in transitory non-poor category before loan but after providing loan only 26 (13)% percentage change was found after loan and in the last category that is of non-poor, 76 respondents(17.5%) were found in that band that is non-poor means that are good in consumption and expenditure with other resources given in a poverty score card and over all sum up it become 154(34%) change was found in next band of improvement, unfortunate were 217(48%) respondents [6].

Table 1. Poverty Scorecard Band Matrix and Cut Off.

Band	Cut Off Band Score	Category
1	0-11	Extremely poor
2	Dec-18	Chronically poor
3	19-23	Transitory poor
4	24-34	Transitory vulnerable
5	35-50	Transitory non-poor
6	51-100	Non poor

Table 2. Before and after change of poverty status in bands.

	Before	After	Change
Extremely/Ultra poor	0	0	0
Chronically poor	1	0	1
Transitory poor	15	4	11
Transitory Vulnerable	163	123	40
Transitory Non Poor	191	165	26
Non Poor	76	154	-78

Along with the poverty scorecard, logistic regression was also used specifically for dichotomous dependent variable to strengthen the findings. The logistic regression models summarized in given below reports the results of 11 dichotomous dependent variables: political empowerment. The independent variables are along the vertical axis of the logit model tables. "The B values presented in the second column of logit model tables are coefficients for the constant that used to identify the direction of the relationship between independent variable and dependent variable. The test that was used here is known as the Wald test. This tests the null hypothesis that the constant equals 0. Wald test is labeled in column third of logit model tables. The p-value used to predict whether or not an independent variable would be significant in the model. P-values are shown in the fourth column of logit model tables. This hypothesis was rejected if the p-value was smaller than the critical p-value. The "eB" values are represented in the fifth column of logit model tables are the exponentiation of the B coefficient and denotes odds ratios for each independent variable [7].

In a logistic regression model, having estimated the latter by means of the maximum likelihood method, the global fit was labeled with statistics derived from the likelihood of the model. There are different statistics that describe the global fit of the model to the data. One of them is the –2log likelihood. If the fit of the model were perfect, then 2log likelihood= 0. In other words, this value can be regarded as a descriptor of the goodness of fit of this model. The Cox & Snell R Square and the Nagelkerke R Square values offer a suggestion of the amount of variation in the dependent variable explained by the model and it ranges between 0 and 1. The Cox & Snell R square is based on the log likelihood for the model compared to the log likelihood for a baseline model, whereas Nagelkerke R Square is an adjusted version of the Cox & Snell R-square [8].

Results

Conclusions drawn on the basis of poverty score card analysis

Microfinance loans have been used on numerous cases to reduce poverty, in rural areas which are believed to harbor the poorest people in the world. it is proved in this study that microcredit has also played a vital role in the reduction of poverty that 34% collectively female were progressed collective in the next band by improving the scores on poverty score card. Because micro loan has a positive impact on income and consumption, along with income micro loan increases the savings and living standards of the beneficiaries, enhanced livelihood in rural areas and increased assets i.e. fan, bicycles and sewing machine, washing machine. It might also be witnessed and this can be qualified to natural growth rate, other poverty alleviation tools like BISP, and other microcredit programs and so on, families striving for the income and food, education of their children, more income earners and more opportunities for earning.

However, there are 27% (123) respondents who have either not graduated or even their status is worsened. The possible reason is that poor people borrow for fulfilling their consumption. They may be not using loan properly & knotted with the inaccurate mechanism. But from overall results, it can be suggested that female borrowers and her family's poverty is reducing and trying to improve life quality. It's a general look up that progression from one band to next band is not confirming the wellbeing of respondents physically and they are still living under the poverty line and same is reported by, that poverty score of respondents ranges 25 to 34 has 47.1% to 39.5% likelihood of being below the poverty line on the national poverty line of Pakistan. Whereas, respondents having poverty score ranges 35 to 49 have 29.8% to 16.9% likelihood and poverty score range 50 to 100 have 10.7% to 0% likelihood of being below the poverty line on the national poverty line(Our findings confirm the study additionally, study results suggest that female send their children to schools and purchase prolific and income-generating assets (sewing machines, washing machines and others) at household from some income generated by availing loan and it's also a positive indicator of family roasters in poverty score card.

Conclusions drawn on the basis of empowerment tool analysis by descriptive statistics & logistic regression model

Moreover, results of the logistic regression analysis demonstrate that micro loan program does empower females of targeted cities, but the empowerment process does not necessarily occur simultaneously across all dimensions. Whereas microfinance do effect individually on each dimension of empowerment. With respect to microfinance ventures, the results suggest that occupation types have a positive impact on the women empowerment. for example as the number of female working as labor increases, the probability of political empowerment and political awareness increases. Whereas female working as SME owners & farming increases the probability of economic empowerment with more control over minor resources and more political participation, show a negative relationship with the say in decision making by farming profession. Loan cycles have a positive impact on women say in decision making, economic empowerment, ownership of household assets and income and control over minor resources. Education also plays very significant role in the political empowerment of women as various evidence shows that access to education can bring about change in the cognitive ability of human generally.

Young women have more ease of getting awareness from other people but on the other hand old age women have more freedom to participate in political campaign as compare to young age women. While the results will have to be interpreted with caution because the funds are fungible, In the final analysis, it is postulated and recommended that efficiency of microfinance to achieve the objective of poverty reduction is possible by MFIs to create public enlightenment programmes that would spread their role as a change agents from poverty to prosperity. Government establishes regulatory laws to monitor for its proper mechanism of loan disbursement with interest and insurance rates. Micro loan are induced to increase not only income but it must increase a measure on non-monetary poverty to capture female wellbeing. Borrowers use loans for a purpose different from the one initially specified by the lenders. This distinction is important in evaluating microfinance programmes. Concerted efforts should be made towards the provision of supportive services like education and training on entrepreneurship, increase in health facilities and provision of other social services for unemployed, poor and those who are vulnerable to poverty. It is also important.

Results of this study are significant to all stake holders (NGOS, donor agencies, MFIs for future programmes.

References

1. Ghura, Dhaneshwar and Richard E. "Just, Education, Infrastructure and Instability in African Agriculture: Implications for Structural Adjustment Programmes." *Econ Dev* 1(1992): 85-105.
2. Shahbaz, Muhmmad. "Linkages Between Inflation, Economic Growth and Terrorism in Pakistan." *Econ Model* 32(2013): 496-506.
3. Merton, Robert C. "Analytic Derivation of the Cost of Deposit Insurance and Loan Guarantees: An Application of Modern Option Pricing theory." *J Bank Financ* 1(1977):3-11.
4. Ascarya. "The Real Determinants of Financial Crisis and How to Resolve it InIslamic Economics Perspective." *Int J Econ Res* 14(2017):501-531.
5. Neanidis, Kyriakos C. "Volatile Capital Flows and Economic Growth: The Role of Banking Supervision." *J Fin Stab* 40(2018):77–93.
6. Bakhshi, Hasan and Eric McVittie. "Creative supply–Chain Linkages and Innovation: Do the Creative Industries Stimulate Business Innovation in the Wider Economy." *J Mgmt Pol Pract* 11 (2009): 169–189.
7. Desrochers, Pierre and Samuli Leppl. "Creative cities and regions: The case for local economic diversity." *Innov Manag* 20 (2011): 59-69.
8. Howkins, John. The Creative Economy: How People Make Money From Ideas. England-UK: Penguin Books, (2013).

How to cite this article: Rani, Iram, Minhoon Khan Laghari, Hira Rani Shaikh and Muhammad Asif Channa. "A Poverty Reduction Strategies: Evidence from U-Microfinance Bank." *Bus Econ J* 12 (2021) 351