

# Role of Microfinance in poverty alleviation in Khyber Pakhtoonkhwa (Kpk) Pakistan.

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**Abstract:** This proposal is about the Role of Microfinance in Poverty Alleviation in Khyber Pakhtoonkhwa (KPK) Pakistan. Its aim to recognize or probing the efficacy of microfinance, and its impact on poverty alleviation. The design of this research will be survey based, which will comprise of both quantitative and qualitative tools. A quantitative procedure contains the use of frequency distributions, percentages and cross tabulation. Qualitative analysis comprises the identification and comparison of the responses. The objectives of the research will be to find out the role of microfinance in poverty alleviation or reduction. For the selection of respondents, the researcher will use simple random sampling technique that has already availed the micro credit facility. The Sample for this survey is 50 % respondents and 50 staff members of the micro finance institutions. Dependent variable is poverty alleviation, independent variable is micro finance and perceived entrepreneurship ability/skills to manage business are mediating variable.

**Key Words:** Rôle of Micro finance, Poverty Réduction, Micro finance performance, Rôle of perceived interpreneurship ability/skill to manage business in Micro Finance Schème.

## 1. INTRODUCTION:

The term micro credit is literally a modern term which means small amount of loan. Its primary objective is to enable the poor to change their life style positively and make better than previous(Qureshi, M.I et al ,2012).

Microfinance was first recognized in Bangladesh by the phenomenal work of Dr. Muhammad Yunus who awarded by Nobel Peace Prize for his great efforts in the field of microfinance in 2006. After its inception in 1976, in Bangladesh Microfinance has attained significant importance in worldwide financial sector. To provide seed financing to the entrepreneurs for starting up their business who are not able to execute their business ideas just because of non-availability of financial resources, is getting serious attention among these people (Sherin Gamaleldin Taha,2012).

Poverty is the main issue for the backward areas of Pakistan, but here the researcher will focus on Khyber Pakhtoonkhwa(KPK) of Pakistan. So Lack of employment opportunities is one of the major causes of poverty. Poor people of the area require finance for self employment. In this aspect microfinance plays an important role in poverty alleviation. Microfinance enables poor people to increase their household income, build assets and reduce their weakness to the crises that are so much a part of their daily lives. It provides small short term loans to formers for the purchase of seeds and fertilizer they also give loans for handy crops, provide loans for livestock businesses, for asset purchase and provide loans for working capital to promote individuals and to reduce poverty. According to estimation there are about 20 to 30 Million clients requiring Micro Finance services in Pakistan (Pakistan microfinance network). Starting the program Pakistan poverty alleviation funded by the government of Pakistan is the vital step to the microfinance. Some other micro finance institutions are banks such as “Khushhali Bank” and “Bank of Khyber”, nonprofit organization such as Islamic relief micro project and Rural Support Programmers etc, are important microfinance provider institutions. (Ali and Alam, 2010). For this purpose microfinance plays an important role in poverty alleviation.

Here the mediating variable perceived entrepreneurship skills/ability to manage business has been ignored in previous study .Most researcher stated that this variable can enhance the reliability of micro finance and poverty reduction in more effective way(waqas,zafar and sania,2015, K.,Vivek ,.Tripathi,2013).

### 1.1 Broad Problem Area

One of the challenges that developing countries like Pakistan are facing is poverty. The greater part of population in Pakistan is living under poverty line. Thus, poverty is becoming cause of several problems like hopelessness, crimes, suicides etc in order to control these ills; first poverty is to be address. For this motive, many strategies at government level and international level made every day. It is the purpose of this study to

measure and evaluate any changes in the living situation of micro finance customers before and after availing the stated facility. Purpose of this study is essentially to see how micro credit customers believe that micro credit has changed their lives. In Pakistan, many micro credit institutions are providing micro credit facilities. Therefore; in this research study, the researcher will try to see how micro credit institutions are affecting consumer's income level, saving, household expenditures as well as their education.

### **1.2 Statement of the Problem**

Previous studies (Waithaka Titus, Marangu Wilfred N., N'gondu Caroline Nkatha,2013, Kithae Peter Paul,2013,A.Coudhry,2009, Karnani.A ,2007 and E.William,2006) have investigated the impact of the micro financing to SMEs on poverty alleviation. However, generally these studies have ignored the perceived entrepreneurial skills/ability to manage business ((K.,Vivek ,.Tripathi,2013). Hence a study is needed to examine the role of entrepreneurial skills/ability to manage business in mediating the microfinance and poverty alleviation relationship.

### **1.3 Research Questions**

- How effective is the micro finance approach in poverty reduction?
- Does Perceived entrepreneurship skills/ ability to manage Business mediate the microfinance-poverty alleviation relationship?
- How micro financing affects living standard of the people?
- Does micro financing affect the income of the respondents?

### **1.4 Objectives of the study**

The objectives of the study are:

- To examine the mediating effect of Perceived entrepreneurship skills/ability to manage Business on poverty alleviation.
- To assess the impact of microfinance in overall living standard, improving education, saving, health and household expenditure of the respondents of poor's in KPK.
- To evaluate the impact of micro-finance on income of the respondents in KPK.
- To suggest policy measures for improving the micro credit program.

### **1.5 Research Hypothesis**

This research study will base on the following hypothesis.

H1= Micro-finance has positive impact on living standard of the respondents

H0<sub>1</sub>= Micro-finance has no impact on living standard of the respondents

H2= Micro-finance has significantly positive impact on income of the respondents

H0<sub>2</sub>= Micro-finance has no impact on income of the respondents

H3= Micro-finance has positive impact on education in the study area

H0<sub>3</sub>= Micro-finance has no impact on education in the study area

H4= Micro-finance has positive impact on savings of the respondents

H0<sub>4</sub>= Micro-finance has no impact on savings of the respondents

H<sub>5</sub>= Micro-finance has significantly positive impact on household expenditures of the respondents

H0<sub>5</sub>= Micro-finance has no impact on household expenditures of the respondents.

## **2. METHOD:**

This chapter will provides outlook on the research design to investigate the research problem. In addition, continues with the specific reference to the survey design, Type/Nature of research, Source of data, population and Sample, Data collection techniques, and finally tools for analysis of data.

### **2.1 Survey Design**

The research study will be conducted to emphasize the issues of reducing poverty through microfinance in KPK of Pakistan. A qualitative and quantitative research methodology will use to determine the activities of micro credit in poverty reduction.

So, analyzing the income, saving, education, household expenditure and living standard of the poor living in KPK before and after utilization of the credit in order to investigate the impact of micro finance in poverty alleviation. The sampling size for this survey will be 50 % beneficiaries of Microfinance credit scheme. The study will be based on questionnaires, which will be distributed after translating it into Urdu so that respondents can easily understand it and fill it accordingly. The dependent variable is Poverty reduction, independent variable is micro credit and MFI, and MFB, mediating variable is perceived entrepreneurship ability/skill to manage business.

## 2.2 *Type/Nature of research*

The nature of this research is Descriptive research. The main goal of this type of research is to describe the data and characteristics about what is being studied. The idea behind this type of research is to study descriptive frequencies, averages, and Paired T-test with statistical calculations.

## 2.3 *Source of Data:*

This research study will be based on two sources of data, primary and secondary source of data while conducting the research study.

### a. **Primary Data**

Primary data for the research study will be obtained through direct personal interviews and collecting of questionnaires from the respondents of KPK Pakistan. Qualitative data obtained throughout fieldwork survey, by involving direct personal interviews and dialogue with relevant stakeholders. For quantitative data, using questionnaire in order to gain, exclusively, access, uses socio-demographic characteristics and perspectives on the microcredit. The other aspects of the questionnaire will be to determine the effect of microcredit on the lives of the poor people. Some of the variables to evaluate the outcome of the microcredit interventions are basic needs, business opportunities, children's education, household expenditure, investment, savings and income. Both qualitative and quantitative methods will ensure complementary information.

### b. **Secondary Sources**

Secondary data will also be used for conducting this research from relevant sources. The secondary sources for collecting data for the research mainly consist of microfinance journals, published textbooks on poverty reduction, and other microfinance newsletters. Data will also be collected from papers, academic journals and that featured annual reports of financial institutions dealing with microfinance tactics, papers on poverty diminution as microfinance and its impact on rural progress and a number of research works that have been published on the subject in the electronic media to which authors have accordingly been recognized.

## 3.4 *Population and Sample*

The population of this research is Khyber Pakhtunkhwa Pakistan, which is represented by N, and the sample of the population of this study is 50 % of beneficiaries of the microfinance credit scheme of KPK. The fundamental basis will be that respondents, who would be in a good position to delineate the brunt of poverty reduction policies of the Microfinance institution in the study area.

## 3.5 *Data collection Techniques*

For data collection, the researcher will conduct surveys, interviews and questionnaires among the 50% beneficiaries of the microfinance credit scheme of Khyber Pakhtunkhwa. The questionnaire will contain a series of structured questions which will be related to the research work and directed to respondents with the aim of gaining first-hand information. The questionnaire will consist of both open-ended and close-ended questions. Thus, in some cases, respondents will choose the option that best reflected their opinions. The questionnaire will be made simple and unambiguous language and as such, did not pose any problem as regards interpretation.

## 3.6 *Tool for data analysis*

Data collected from questionnaires will be analyzed, summarized, and interpreted accordingly with the aid of descriptive statistical techniques such as total score and simple percentage.

We will use the General Linear Model, which is frequently estimated using ordinary least squares, one of the most widely used analytic techniques in social sciences (Cleary and Angel, 1984) as well as we will use regression analysis, Paired sample T-test, Standard deviation and Analysis of variance (ANOVA) with the help of statistical package for social science (SPSS). This model will be used to show a function that relates the dependent variable (Y) to one or more independent variables ( $x_1, x_2, x_3, x_4, \dots, x_n$ ). This function can be represented as follows

$Y = a + bX_i + e_i$  Where  
 Y = Dependent variable  
 a = Constant  
 b = Slope of line  
 $X_i$  = Independents variables  
 $e_i$  = Error term

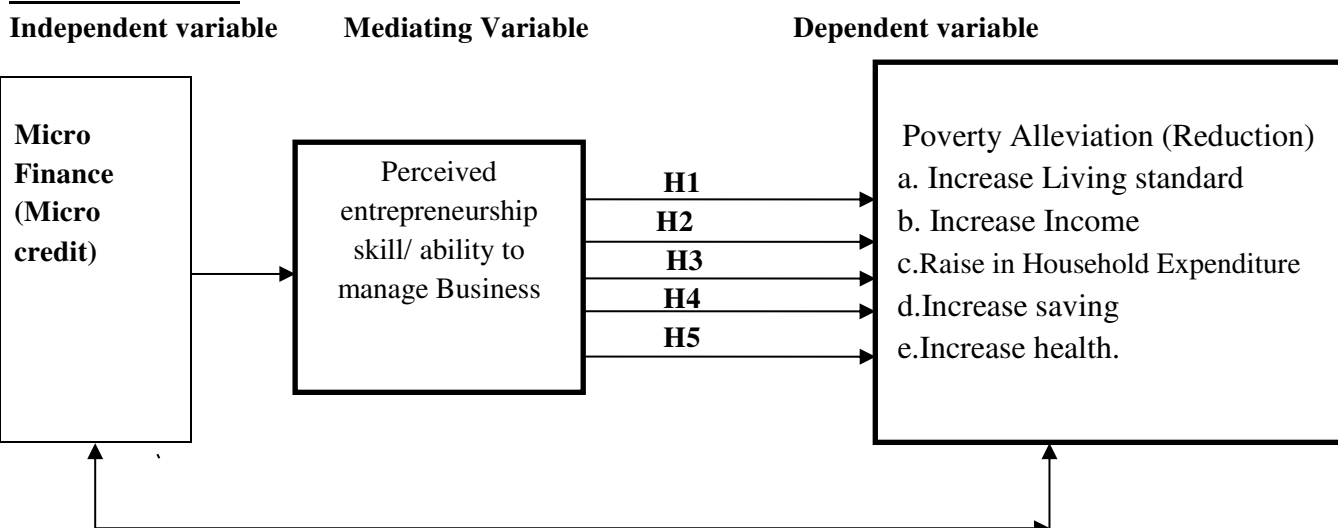
**3.7 Model: Micro Finance and Poverty Alleviation:**

$Y = a + bX_1 + bX_2 + bX_3 + bX_4 + bX_5 + bX_6 + bX_7 + bX_8 + e_i$  Where  
 Y= Poverty alleviation  
 a=Constant,  $X_1$  =Age,  $X_2$  =Education,  $X_3$  =Experience,  $X_4$  =Family size,  $X_5$ =Marital status,  $X_6$  =Investment,  
 $X_7$ =Gender,  $X_8$  =Credit,  $e_i$ =Error term

**3.8 Theoretical frame work**

The theoretical frameworks for this study are economic and psychological theories. The economic theory argued that the success in any business venture, including microfinance, is determined by the entrepreneurs’ ability to deliver appropriate services and profitability (Remenyi, 2006). The psychological theory on the other hand, argued that a species of profit-making private venture that cares about the welfare of its customers can be conceived. In other words, it is possible to develop capitalist enterprises that maximize private profits subject to the fair interests of their customers (Mohammed, 1998).

**Theoretical Model**



**4. CONCLUSION:**

The expected conclusion of microfinance an alleviating poverty and developments of Khyber pakhtoonkhwa (KPK) Pakistan is very massive and their incessant expansions is significance to the country as a whole. From literature review, its cleared that Microcredit scheme is playing an efficient role by giving employment to un employed people,i.e shop keepers and taxi driver; etc., and also to fulfill the current need of poor people, like return debt taken from someone else operation, paying fee and treatments of diseases etc. Regardless of these wonderful contributions of microfinance, it is confronted with lot of challenges; these include poor alliance between microfinance institutions, scarce capital/ disbursement of facilities and loan recovery.

The role of mediating variable, perceived entrepreneurship ability/skills to manage business will play a significance role in alleviating poverty alleviation, because a true entrepreneurship ability/ skill person can invest the amount in suitable place and can get a fruitful return, moreover most of the financial institutions and previous studies has ignored this indicator.

Conclusively, microfinance will enormous benefits in poverty alleviation and will achieve their targeted goal when perceived entrepreneurship ability/skill is considered in first priority by the MFIs and MFBs.

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