

Microfinance As a Tool for Poverty Alleviation in Pakistan

Syed Muhammad Younus Qadri

*Ph.D. scholar, Department of Economics,
University of Karachi, Karachi Pakistan
smyounus121@gmail.com*

Roohi Ahmed

*Professor, Department of Economics,
University of Karachi, Karachi Pakistan*

Abstract

This research looks into the impact of microfinance institutions on poverty alleviation in Pakistan. Rising poverty is one of Pakistan's major economic concerns. Microfinancing is a type of lending that offers funds to the poor or small businesses; hence, this problem can be overcome with the help of microfinance institutions. Microfinance is categorized into two kinds: non-deposit-taking and deposit-taking institutions, and it operates in either the formal or informal sectors. Non-deposit taking institutions (MFIs) rely on donations and finances from other sources and are therefore not self-sufficient; on the other hand, deposit-taking microfinance banks (MFBs) can create fund through deposits. MFBs can assist the poor in two ways: by allowing them to profit from their savings and by lending to them. This analysis is centered on microfinance banks (MFBs) as a source for poverty eradication in Pakistan because of its features. The goal of this research is to emphasize the importance of MFBs as a source of poverty eradication in Pakistan, which may be used by government agencies, Islamic organizations, and Islamic institutions in rural and underdeveloped areas where commercial activity and loans are unavailable. Determine the short- and long-term link between MFBs' total assets (TA) and the poverty headcount ratio (POV). Because the history of microfinance institutions began in Pakistan in 2001, I analyse time-series data from 2001 to 2019. These types of studies have been conducted in Pakistan and around the world, and they either used primary data or, if secondary data was used, they used the old and very simple OLS techniques, which are no longer applicable due to the presence of stationarity in the data for these variables at the first difference. The short-run association between the variables is solely estimated using the standard OLS approach. In this research, I analyse the long-run and short-run relationship between TA and POV using the ARDL model, which appropriately analyses the long-run and short-run relationship. This research conclusively resolves the question of whether increasing MFB assets will result in the supply of loans to the poor or microenterprises, hence reducing poverty in Pakistan.

Keywords: microfinance, banks, assets, poverty, GDP, microenterprise, Pakistan

Introduction

There are three types of microfinance institutions. Rural Support Programs (RSPs), Microfinance Banks (MFBs), and Microfinance Institutions (MFIs). (SECP, 2017) defines microfinance as "financial support provided to a poor person or microenterprise." The SBP's Microfinance Ordinance of 2001 clearly defines a poor person as someone who is able to repay a loan from his annual income and whose net income (total income minus expenses) is less than or equal to a minimal limit set by the authority from time to time. A microenterprise is a business that is either a sole proprietorship or a partnership that is engaged in commerce, manufacturing, or services, or that is involved in agriculture (Regulations, 2014). Institutions that provide microfinance services must register with the SECP as non-bank microfinance institutions (NBMFCs). In Pakistan, NBMFC operates as both a non-profit and a for-profit organisation. Despite being an NBMFC, a rural support program (RSP) is distinguishable from its MFI peer group by the specific rural focus of its lending activities. Microfinance Banks (MFBs) are a form of microfinance institution that can accept deposits and are regulated by the SBP. Schedule MFBs must maintain a certain amount of paid-up capital in order to become schedule MFBs. The MFBs must also maintain a Capital Adequacy Ratio (CAR) of at least 15% of their risk-weighted assets. MFIs, on the other hand, must maintain a Management Expense Ratio (MER) of PKR 50 million at all times in order to be approved to conduct microfinance business. (SBP Microfinance Institutions Ordinance, 2007). (Regulations, 2014), (SECP, 2017).

A report published by the State Bank of Pakistan (SBP) in December 2019 showed that Pakistan has 44 microfinance institutions, 11 of which are microfinance banks (MFBs), one of which is an Islamic bank, and 20 of which are non-bank microfinance organizations (Compendium, 2019). The scheduled microfinance institutions (MFIs) stated above are part of the official sector, whilst other microfinance institutions (MFIs) are not scheduled and are referred to as informal microfinance institutions (IFMFI). Because their activity is unforeseen, it can only be evaluated by a review of the literature and a survey of the participant.

MFIs in the formal sector rely heavily on donations from bilateral and multilateral government of Pakistan agencies. Millennium years are dynamic years for MFIs, as the government launched several poverty alleviations programs and funds this year. The "Pakistan Poverty Alleviation Fund (PPAF)" was founded in 1999 as a private organisation supported by international government sectors as well as corporate partners. It distributed these funds to the poor with the assistance of non-governmental organizations (NGOs) and other microfinance institutions (MFIs). In 2001, the "Asian Development Bank" launched a "Microfinance Sector

Development Program (MSDP)." This program also distributes funds to NGOs, other MFIs, and banks for distribution to the poor. The government of Pakistan established its microfinance bank, Khushhali Bank (KB), in 2001, with the assistance of 16 commercial banks (11 private, 2 foreign, and 3 public sectors). It disbursed the funds through its branches as well as through the services of non-governmental organizations (NGOs). Since that time, the journey of microfinance bank started, microfinance banks (MFBs) have been able to generate resources through demand and saving deposits. They no longer rely on outside funding and donations. (Yusuf et al., 2013) (State Bank of Pakistan Research Department, 2002). As previously stated, the goal of MFIs in particular and MFBs in general is to alleviate poverty in the region. I will be able to design the appropriate model and analyze it using econometric techniques and available data with the help of a review of literature. The nature of this paper is analytical, with the goal of determining whether or not MFBs play this role in Pakistan.

Literature Review

Poverty alleviation is linked to microfinance banking. Aiming to increase financial access for economically active impoverished individuals, microfinance. Christen et al., (2003) page 5 defined microfinance as 'the provision of banking services to lower-income people, especially the poor and the very poor. Kingsley, Onyekachi Onyele Charity, (2018) assessed the impact of MFBs on poverty reduction in Nigeria from 1992 to 2018. Akanji, (2001) paper emphasized that indeed micro- finance is a strategy of poverty reduction. The ARDL limits test found a two-lag relationship between poverty rate and MFB activity. Overall, MFB loans-to-deposit and liquidity ratios reduced poverty over time. Despite large coefficients, short-run estimates showed that MFBs could not eliminate poverty in a year. So MFBs can lessen poverty over time. Kingsley, Onyekachi Onyele Charity, (2018) and Knight & Hossain, (2008) claimed that microfinance directly improves lives and reduces poverty. So the client becomes self-employed and protected from external hazards. Getting a job lifts them out of poverty and reduces poverty. Micro finance is still in its infancy, and most people are unaware of its reality. Some individuals use the example of microfinance, which has a negative outcome. It is critical to promote the positive outcomes of microfinance so that more people can benefit from it and escape poverty. Funds provided through microenterprise will result in the reduction of poverty through self-employment is the finding of Ho & Odhiambo, (2011). Akhter et al., (2009) revealed that Islamic product rather than convention interest-based product in the Muslim countries is suitable for the eradication of poverty, because in harmony with ethical values of Muslims. To prove their point of view they took the reference of Akhuwat microfinance institute. They believe that with the collaboration of NGOs and non-profit organizations the

Islamic microfinance will work more efficiently for the alleviation of poverty. ((Basharat Hossain, 2020)) this study is also based on the conceptual modeling and suggested that for the slum areas of Bangladesh it is feasible to use the Waqf funds. Aslam , (2014) also suggested the importance of the use of Islamic products in the microfinance institute for the elevation of poverty in Pakistan.

Current studies were criticized the MFI that these institutions are unable to reduce the poverty, unemployment, and growth of the region, the reasons for this is the structure and management of the MFIs. The poverty and microfinance relationship was discussed in the World Bank report (World Bank, 2008). Mostly the studies are based on the primary data of the informal sector, which analyze the data of some region, which will not be true for other regions. As Kashif et al., (2011) study suggested that the microfinance is not only viable economically but also socially. For analyses purpose, they took the primary data of District Dera Ismail Khan the finding is that microfinance has a positive relationship with marital status, education, and a negative relationship with age. Donou-Adonsou & Sylwester, (2016) have revealed that when taking Poverty measured in headcount ratio as the independent variable and regress it with GDP per capita and Asset to GDP ratio of MFIs the impact on poverty reduction is not encouraging because microfinance is at infant level as compare to other financial institutions. The other banks have shown a positive impact on poverty reduction if poverty is measured in the headcount ratio. The other factors which showed a negative impact on poverty are GDP per capita and income inequality, this showed the impact of microfinance performance on GDP. Okafor, (2016) on the other hand, took the ratio of GDP to the population as a measure of the standard of living and Ratio of Total Deposit to Total Credit as a measure of microfinance bank activities and found that microfinance bank activities have a positive effect on GDP per capita growth. He also placed the controlled variables such as Ratio of Liquid Liabilities to GDP, Interest Rate, and Ratio of Government Capital Expenditure to GDP to Controlled or neutralized their influence on both the dependent and independent variables, which he considered essential for this analysis. The controlled variable such as interest rate (policy rate or interest rate charged by the central bank to commercial banks) being the cost to banks, its impact is negative on GDP. The impact of Real GDP on Total Deposits and Banks' Financing was analyzed by Bin Amin, Jalal Uddin, (2018) and (Farah, Sarah, Ramiz-ur-Rehman, Muhammad, & Rizwan, 2019). From 1992 to 2018, Kingsley, Onyekachi Onyele Charity, (2018) used the National Poverty Index as a dependent variable and the loans-to-deposit ratio, liquidity ratio, number of reporting banks, discount rate, and Nigerian income level as independent variables. They employed the ARDL model for the regression analysis, and the

findings of this research show that the loan to deposit ratio and liquidity ratio have a negative long-run association with Nigeria's poverty rate. Some research, such as (Sohn & Ume, 2019), employed cross-country analysis to illustrate the impact of microfinance on poverty in 96 countries. This study uses an analytical technique to show that entrepreneurship has an impact on poverty reduction in Cameroon, and they do so using an autoregressive approach from 1980 to 2013. The findings revealed that entrepreneurship has a negative relationship with poverty and that there is a bidirectional positive causal relationship between the two.

Panel data was also used by different researchers for analysis such as Donou-Adonsou & Sylwester, (2016) used panel data from 2002 to 2011, they employed fixed-effects two-stage least squares on a panel of 71 developing countries. When measured by the headcount ratio and the poverty gap, using credit to GDP as the key financial development indicator, the data imply that banks help to relieve poverty. When the poverty gap is squared, banks have no influence. MFIs, on the other hand, appear to have no influence on poverty, regardless of how it is measured. These findings show that, while banks can assist people in becoming debt-free, microfinance institutions cannot, at least not in the aggregate. Their findings hold up when assets to GDP is used as an alternative gauge of financial progress. Using 596 MFIS cross-sectional data from 2011. The cross-sectional data is supplemented by 1132 microfinance institutions panel data from 57 developing countries (2005-2011). Taking into account the endogeneity of MFI loans. A country with a greater MFI gross loan portfolio per capita has a lower poverty head count ratio and a higher per capita income, demonstrating the macroeconomic impact of microfinance. 2015 (Miled & Rejeb)

While microfinance has had a substantial influence on poverty, (Weiss & Montgomery, 2005) revealed that it is unlikely to be a simple panacea for reaching the poorest of the poor. Reaching the poorest people is difficult, and they may be high-risk and so unsuitable microfinance customers for the same reasons. To be sure, providing microfinance services to the "better-off" poor or potential micro-entrepreneurs is still critical. The implication is that credit alone will not enough for the poor, but credit in conjunction with a variety of support services will. While non-governmental organizations (NGOs) provide critical microcredit to the poor and vulnerable, the government cannot abandon its responsibility in social service. The state must also build and operate an inclusive banking system to suit the needs of the "missing" middle in the informal and rural sectors. To have the greatest impact on poverty reduction, growth must be labor-intensive. These are the cryptic remarks made by (Chowdhury, 2009).

When looked at the macroeconomic variables, GDP and employment and their impact on poverty, we discovered the following impact. (Tahir et al., 2014) identified a negative

association between GDP growth rate and poverty. One-fifth of persons in poverty who lived in a home where the head was unemployed at some point would not have been poor if their household head had not been unemployed, according to (Corcoran & Hill, 1980). This research looked at the effects of unemployment on poverty in developing economies, with a focus on Nigeria, from 1986 to 2019. This study (Gamba et al., 2021) used time series data, the estimation was done using the Ordinary Least Square (OLS) regression technique, and the single equation modelling approach was adopted. The unemployment rate (UEM), inflation rate (INF), and income inequality (INQ) were all explanatory factors, with poverty (PVT) as the dependent variable. According to the findings, unemployment has a statistically significant positive effect on poverty. (Meo et al., 2018) examined the asymmetric impact of inflation and unemployment on Pakistani poverty from 1970 to 2016. They used asymmetric Autoregressive Distributed Lag (ARDL) cointegration. Long-term inequities in inflation, unemployment, and poverty were discovered. The exceptional susceptibility of poverty to unemployment and price shocks was confirmed by these data. There was also a negative and substantial association between health expenditure, population growth, and poverty, according to the findings. Similarly (Yousaf, 2014) discussed the impact of macroeconomic variables on poverty in Pakistan. In this article, five variables were used and two models were run. The problem was solved using the traditional least squares method. He looked at the impact of Pakistan's budget deficit, government spending, and unemployment on poverty in the first model. Budget deficits and government spending have a negative relationship with poverty in Pakistan, whereas unemployment has a positive relationship with poverty. More access to microfinance institutions, as measured by the number of borrowers, will reduce poverty, according to (Khan et al., 2020).

Literature Gap

Studies conducted by different scholars analyzed the impact of microfinance on the Poverty of different countries. They took the data of all the microfinance institutes, but my point of view is that the only self-sufficient institute is a microfinance bank because this institute is authorized to collect the deposit from the public. Therefore my study is based on Pakistan's MFBs, I found no concrete study was conducted to analyze the performance of Microfinance bank (MFBs) for the alleviation of poverty in Pakistan during the last 15 year. (Donou-Adonsou & Sylwester, 2016) studies revealed that the microfinance has shown a weak impact on poverty because microfinance is very new as compared to the other banks but finding of (Farah, Sarah, Ramiz-ur-Rehman, Muhammad, & Rizwan, 2019) for Pakistan's MFBs are not approving that point of view and showed that the performance of MFBs is better than other banks. (Awojobi

& Bein, 2011) although prove that poverty and microfinance are related but indirectly via through growth of GDP. There exists a gap in the literature to prove that MFBs are the institutions that can play a role in the eradication of poverty in Pakistan. Mostly the studies use simple OLS for the estimation, they did not check the stationarity of the data therefore their results are not BLUE.

Data and Research Methodology

Data for the microfinance bank is drawn from various SBP reports. Because microfinance banks first appeared in 2001, our analysis is based on data from 2001 to 2019. GDP, poverty, and CPI data were obtained from various World Bank reports. To estimate poverty, the poverty headcount ratio at national poverty lines (percentage of the population) is used as a variable. We used this as a measure of poverty because a study published in (Donou-Adonsou & Sylwester, 2016) discovered that bank loans reduced poverty when measured by the headcount ratio. The growth of total assets is used to evaluate the performance of microfinance banks. The assets represent all of the major components.

Table: Proportion of advances, deposits and equity in total assets

Year	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
Deposit/Assts	0%	2%	9%	8%	9%	14%	24%
Advances/Assets	6%	16%	17%	27%	29%	33%	37%
Investments/Assets	80%	64%	44%	23%	20%	14%	16%
Borrowing / Assets	4%	13%	32%	46%	55%	49%	43%
Equity/Assets	94%	83%	57%	45%	35%	36%	18%
Year	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14
Deposit/Assts	28%	40%	48%	46%	53%	58%	61%
Advances/Assets	43%	47%	45%	47%	45%	48%	52%
Investments/Assets	13%	20%	22%	16%	24%	22%	21%
Borrowing / Assets	35%	27%	21%	27%	18%	14%	12%
Equity/Assets	34%	30%	27%	22%	23%	22%	21%
Year	Dec-15	Dec-16	Dec-17	Dec-18			
Deposit/Assts	65%	71%	75%	73%			
Advances/Assets	56%	52%	54%	57%			
Investments/Assets	14%	20%	20%	17%			
Borrowing / Assets	11%	8%	5%	7%			
Equity/Assets	19%	14%	13%	15%			
Source: Quarterly Compendium: Banking Statistics SBP different years							

From 2001 to 2006, the share of equity in assets was greater than the share of advances and deposits in total assets. As the bank progressed, both the share of advances and deposits in total assets increased. As shown in the table 2 that in 2018, the share of deposits in total assets reached 73 percent, while the equity share decreased to 15 percent. Borrowing as a percentage

of total asset is also decreasing, from 55% in 2005 to 7% in 2018. These ratios support my contention that MFBs are self-sufficient institutions and that assets are a good predictor of microfinance performance.

Table 1.1 Unit Root test to check the stability of variables
Augmented Dickey-Fuller test statistics

Ho: unit root or non-stationary				
Variable	Variable at	t-Statistics	Prob.	Result
TA	Level	-3.028805	0.0534	Accept Ho: unit root at level
TA	1 st Difference	-3.926908	0.0106	Reject Ho: stationary at 1 st difference
GDP	Level	-3.092115	0.0490	Reject Ho: stationary at Level
POV	Level	-1.892914	0.3273	Accept Ho: unit root at level
POV	1 st Difference	-5.837816	0.0002	Reject Ho: stationary at 1 st difference
CPI	Level	-2.127568	0.2370	Accept Ho: unit root at the level
CPI	1 st Difference	-4.802005	0.0017	Reject Ho: stationary at 1 st difference

We use asset growth in this analysis because poverty is also measured in percentages. After all, poverty, GDP growth, and the Consumer Price Index are all expressed in percentages. Poverty (POV) is used as a dependent variable in the regression analysis, while total asset growth (TA), consumer price index (CPI), and GDP growth (GDP) are used as independent variables. Because the goal of this study is to examine the impact of microfinance performance on poverty in Pakistan, I used GDP and CPI as control variables.

A unit root test, which checks the stationarity of variables at the level and first difference, should be performed to select the specific model for analysis. The unit root test result, as shown in table 1-1, indicates that GDP growth is stationary at the level and the rest of the variables are stationary at the first difference, implying that if we apply OLS to spurious regression, our result will not be BLUE. The ARDL model, as proposed by many econometricians, is the best model under this spurious condition (Ghouse et al., 2018). The Akaike info criterion (AIE) is used in this model's lag selection. Table 1.2 and table 1.3 shows the ARDL test results, which show that the model is well specified because the R-squared value is 90%, the probability of F-stat is less than 5%, and the DW value is close to 2, indicating that there is no serial Correlation in the model. The ARDL results show that the p-value of C and @TREND in this model is less than 5%, indicating that both can be used in the model. TA has a P-value of 0.0064, indicating that the variable is significant. While the p-values of CPI and GDP are

greater than 0.05, this confirms that these variables are not significant, and the previous value of poverty is also non-significant.

*Table 1.2 Model selection method: "Akaike info criterion (AIC)
 Overall Model Specification*

RESULTS	VALUES	EXPLANATION
R-squared	0.983311	a model explains 98% of the variation in the response variable around its mean. Model is fitted good
Adjusted R-squared	0.976358	
S.E. of regression	1.806474	
Sum squared resid	39.16020	
Log-likelihood	-32.53650	
F-statistic	141.4100	
Prob(F-statistic)	0.000000	Overall model is significant
Mean dependent var	37.95278	
S.D. dependent var	11.74862	
Akaike info criterion	4.281833	
Schwarz criterion	4.578623	
Hannan-Quinn riter.	4.322756	
Durbin-Watson stat	2.136892	No serial correlation

Because CPI and GDP are control variables, their significance for poverty has no bearing on the outcome of my analysis. The negative12 unit of the TA's coefficient proposed that a 1% increase in the total assets of MFBs results in a 12% decrease in poverty in Pakistan, which is a good result. The "ARDL Long Run Form and Bounds Test" as shown in table 1.4 revealed that F-bound test statistics at 10% are above the upper and lower limits, indicating that there is cointegration between dependent and independent variables and a long-run relationship between all variables.

Table 1.3 ARDL Test Variables Specification And Signification

Ho: variable in insignificant					
Variable	Coefficient	Std. Error	t-Statistic	Prob.	EXPLANATION
POV(-1)	-0.15	0.298927	-0.508129	0.6206	Not significant
TA	-12.0	3.622955	-3.298893	0.0064	Significant
GDP	-0.30	0.370062	-0.830552	0.4224	Not Significant
CPI	-0.30	0.183018	-1.632549	0.1285	Not Significant
C	76.11	21.79114	3.492755	0.0044	Significant
@TREND	-2.58	0.734888	-3.509862	0.0043	Significant

This means that the non-stationary problem has been solved, and the variables are now close to equilibrium in the log-run, which means they are close to equilibrium.

Table 1.3.1 Co-integration equation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CointEq(-1)	-1.148021	0.223514	-5.136234	0.0002

Table 1.6 F-Bounds Test

Ho: Null Hypothesis: No levels relationship					
Test Statistic	Value	Signify.	I(0)	I(1)	EXPLANATION
F-statistic	5.27	10%	3.47	4.45	Reject Ho : there is long run relationship

The negative value of coefficient (-1.148) in the following cointegration equation, suggesting that the speed of adjustment towards long-run equilibrium is 114%. In table 1-3-1 the p-value is less than 5% implies that the coefficients are significant in the long-run. TA has a negative and significant impact on the POV in the long-run.

$CointEq(-1) = POV - (-10.37*TA - 0.26*GDP - 0.26*CPI)$ as shown in table 1.5

Table 1.5 Levels Equation
Unrestricted Constant and Unrestricted Trend

Ho: variable is insignificant at 5%					
Variable	Coefficient	Std. Error	t-Statistic	Prob.	Explanation
TA	-10.37574	2.634528	-3.938367	0.0020	Reject Ho
GDP	-0.266827	0.286947	-0.929881	0.3708	Accept Ho
CPI	-0.259387	0.121733	-2.130792	0.0545	Accept Ho

$EC = POV - (-10.37*TA - 0.26*GDP - 0.26*CPI)$

Graph 1 Cusum at 5% test shows that the line is between the boundaries prove the stability of the model. The “Jarque Bera” test suggested that the residual is normal since the p-value is > 0.05 as in table 1.6.

The other tests result in Table 1.7, the “Breusch-Godfrey Serial Correlation LM” Test suggested that the model is free from serial correlation, the “Breusch-Pagan-Godfrey Heteroscedasticity” test revealed no heteroscedasticity in the model.

Table 1.8: Wald Test

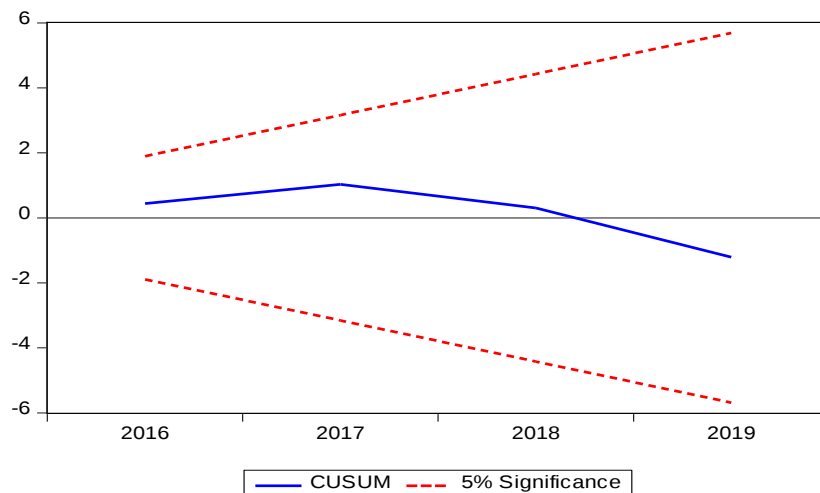
Null Hypothesis: C(4)=TA=0						C4 is TA the wald test suggested that TA significantly influencing the Poverty
Test	result	df	Prob.	Value	Std. Err.	
T stat	-3.3	12	0.0064			
F stat	10.87	(1, 12)	0.0064			
Chi-square	10.87	1	0.0010	-11.91	3.61	

Table 1.7 Other diagnostic tests for the correctness of the model

<u>Name of test</u>	F-statistic	Prob. F(2,10)	R ²	Chi-Square	Explanation
Breusch-Godfrey Serial Correlation LM Test	0.09	0.4401	2.72	0.2561	Model is free from serial correlation
Residual Diagnostic Test	Jarque Bera	Prob.	=	=	residual of the test in normal since the p-value is > 0.05
	0.66	0.70			
<u>Name of test</u>	F-stat./ Prob. F(12,4)	Obs.R ² / Prob. Chi- Square (12)		Scaled explained SS/ Prob. Chi- Square (12)	Explanation
Heteroskedasticity: Breusch-Pagan- Godfrey	0.632188	11.13098		0.325041	No Heteroskedasticity
	0.7580	0.5177		1.0000	

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Reject Ho
CointEq(-1)	-1.148021	0.223514	5.136234	0.0002	

Graph1 Cusum Test



The long-run model is also well specified and the “Cusum” test revealed the stability of parameters as shown in graph1. The “wald test” is shown in table 1.8 that C4 which is TA is significantly influencing Poverty in the long-run. All the result of cointegration, correlation, heteroscedasticity, and stability show suitable result prove that the model is well specified and variables have correctly estimated the model.

$$POV = C(1)*POV(-1) + C(2)*GDP + C(3)*CPI + C(4)*TA + C(5) + C(6)*@TREND$$

$$POV = -0.14*POV(-1) - 0.30*GDP - 0.30*CPI - 12.0*TA + 76.0 - 2.57*@TREND$$

$$D(POV) = 75.76 - 2.57*@TREND - 1.14*POV(-1) - 0.30*GDP - 0.30*(POV - (-0.25*GDP(-1) - 0.26*CPI(-1) - 10.37*TA(-1)) - 12.0*TA)$$

POV= “Poverty headcount ratio at national poverty lines (% of the population)”

GDP= “GDP growth (annual %)”

CPI= “Inflation, consumer prices (annual %)”

TA= “Total assets growth rate (annual %)”

Conclusion

The impact of microfinance performance on poverty in Pakistan is the subject of this research article. However, despite the fact that the MFBs have only 18 years of maturity, the results of my analysis are rather optimistic in nature. MFBs are the only microfinance institutions that are self-sufficient and capable of generating their own resources within a few years of starting up. As shown in table 2, microfinance banks have the ability to convert their liabilities to assets in such a way that the funds are converted into advances rather than investment. As a result, additional loans will be made available to the impoverished for the purpose of generating income. It is also possible to generate self-employment and other forms of work, which will contribute to a further reduction in poverty in the region. The results of the long-and short-term analyses revealed that the total assets of MFBs are highly significant in causing a reduction in the level of poverty. As previously said, the performance of MFBs is extremely positive, yet the growth of MFBs is extremely slow due to the stringent restrictions imposed by the SBP.

Policy for The Islamic Organizations:

Only one Islamic microfinance bank is working in Pakistan, but the number of MFIs, as suggested in the review of literature, is increasing. The successful model of Akhuwat, which employs the waqf fund for loans to the poor segment of society, Also, the use of Sharakat (profit sharing) in the microenterprises and qarz-e-hasana, a waqf fund for the poor people to meet their expenses. Islamic organizations like Wafaq, Salani, and others, and Islamic

institutions like madaris and masjids can use the platform of microfinance to eradicate poverty in Pakistan.

Policy Recommendation to Government of Pakistan

In order to provide additional incentives to MFBs, the Pakistani government should enable the informal sector to operate more freely and without the introduction of excessive laws, as previously stated. One of the factors contributing to the slow growth of MFIs is the requirement for MFBs to work solely for profit, as not-for-profit organisations are unable to operate in this field and must rely on outside funding to remain operational, never becoming self-sufficient on their own. This profit maximizing model of MFB is based on the model of a commercial bank. The nature and purposes of MFBs as defined in the MFB ordinance are diametrically opposed to the way MFBs are now operating. Profit-maximizing money-lending institutions (MFBs) charge higher interest rates to microenterprises and poor individuals in order to maximise profits, while paying them very little from the money they save. The findings of the study will enable the government to lay a higher emphasis on MFBs as an institution for poverty eradication in Pakistan, as a result of which the government will be better prepared. These studies of (Tahir et al., 2014), (Corcoran & Hill, 1980), (Gamba et al., 2021), (Meo et al., 2018), (Yousaf, 2014), (Khan et al., 2020), (Kingsley, Onyekachi Onyele Charity, 2018), (Donou-Adonsou & Sylwester, 2016) found that the poverty is negatively related to GDP growth and positively to unemployment. By diverting the microfinance towards the employment generation schemes will also curb poverty of that region.

References

- Akanji, O. O. (2001). Micro-finance as a strategy for poverty reduction by CBN. *Economic and Financial Review*, 39(4), 111-134
- Akhter, W., Nadeem, A., & Syed, Khurram Ali, J. (2009). Islamic Micro-Finance and Poverty Alleviation: A Case of Pakistan. In 2nd CBRC working paper Lahore, Pakistan.
- Aslam, M. N. (2014). Role of Islamic Microfinance in Poverty Alleviation in Pakistan: An Empirical Approach. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 4(4), 143–152. <https://doi.org/10.6007/ijarafms/v4-i4/1288>
- Awojobi, O., & Bein, M. A. (2011). Microfinancing for poverty reduction and economic Development; a Case for Nigeria. *International Research Journal of Finance and Economics*, 72(33530), 159–168.
- Ayyagari, M., Beck, T., & Hoseini, M. (2013). Finance and poverty: evidence from India. Retrieved from https://assets.publishing.service.gov.uk/media/57a08a54e5274a27b200053f/61070_Finance_Poverty_India.pdf.

- Basharat Hossain. (2020). Islamic Microfinance and Rehabilitation Model for the Slum and Floating Population by Waqf Funds, the Case of Bangladesh: *A Proposal for Muslim Countries*. *JKAU: Islamic Econ*, 32(1), 139–160. <https://doi.org/10.4197/Islec>
- Bashir, M. K., & Azeem, M. M. (2008). Life and Social Sciences Agricultural Credit in Pakistan: Constraints and Options. *Pakistan Journal of Life and Social Science*, 6(1), 47–49.
- Bin Amin, M. F., & Jalal Uddin, S. (2018). Microfinance-Economic Growth Nexus: a Case Study on Grameen Bank in Bangladesh. *Indonesian Journal of Nursing Practices*, 1(1). <https://doi.org/10.18196/ijief.112>
- CBN (2013). Microfinance Certification Program Study Manual: *microfinance Certification Unit, Nigeria*. Retrieved from <https://www.cbn.gov.ng/out/2011/pressrelease/gvd/revised%20microfinance%20policy%20july%2012%202011.pdf>.
- Christen, R. P., Timothy R. Lyman, & Rosenberg, R. (2003). Microfinance Consensus Guidelines : Guiding Principles on Regulation and Supervision of Microfinance. *CGAP Focus Note*, July, 1–43.
- Christensson, L. (2017). Microfinance institutions and poverty reduction: evidence from Nigeria. Retrieved from [http://www.diva-portal.org/smash/get/diva2:1103573 / FULLTEXT01. pdf](http://www.diva-portal.org/smash/get/diva2:1103573/FULLTEXT01.pdf).
- Churchill, S. A. (2020). Moving from the Millennium to the Sustainable Development Goals. In *Moving from the Millennium to the Sustainable Development Goals*. <https://doi.org/10.1007/978-981-15-1556-9>
- Compendium, Q. (2019). Quarterly Compendium: *State Bank of Pakistan (Issue December)*.
- Corcoran, M., & Hill, M. S. (1980). Unemployment and poverty. *British Journal of Nursing*, 407–413, 89. <https://doi.org/10.12968/bjon.2021.30.2.89>
- Donou-Adonsou, F., & Sylwester, K. (2016). Financial development and poverty reduction in developing countries: New evidence from banks and microfinance institutions. *Review of Development Finance*, 6(1), 82–90. <https://doi.org/10.1016/j.rdf.2016.06.002>
- Durrani, M. K. K., Usman, A., Malik, M. I., & Shafiq, A. (2011). Role of microfinance in reducing poverty: A look at social and economic factors. *International Journal of Business and Social Science*, 2(21).
- Gamba, S. L., Maijamaa, D., Goyilla, A. E., Tata, A., Polytechnic, A., Mustapha, I., & Polytechnic, A. (2021). Unemployment and Poverty in Developing Economies: *The case of Nigeria*. 4(1), 72–88.
- Ghouse, G., Khan, S. A., & Ur Rehman, A. (2018). ARDL Method as a Remedy for Spurious Regression: Problem, Performance, and Prospectus. *Munich Personal RePEc Archive (MPRA) Paper*, 83973(January).
- Ho, S.Y., & Odhiambo, N.M. (2011). Finance and poverty reduction in China: an empirical investigation, *International Business & Economics Research Journal*, 10(8), 103-114.

- Hossen, A., Miah, R., & Ruhi, R. (2019). Contribution of microfinance on poverty alleviation in Bangladesh. *Preprints*. DOI:10.20944/preprints201911.0045.v1. *Institutions*, in Bruno, M, and Pleskovic, B (ed) *Annual World Bank Conference*.
- Kashif, M., Durrani, K., Malik, M. I., Scholar, P. D., & Ahmad, S. (2011). Role of Micro Finance in Reducing Poverty : A Look at Social and Economic Factors. *International Journal of Business and Social Science*, 2(21), 138–144.
- Khan, A. A., Khan, S. U., Fahad, S., Ali, M. A. S., Khan, A., & Luo, J. (2020). Microfinance and poverty reduction: New evidence from Pakistan. *International Journal of Finance and Economics*, December 2018, 1–11. <https://doi.org/10.1002/ijfe.2038>
- Kingsley Onyekachi ONYELE, C. O.-O. (2018). The Effect of Microfinance on Poverty Reduction in Developing Economies. *Socio-Economic Development*, 8, 575–591. <https://doi.org/10.4018/978-1-5225-7311-1.ch030>
- Knight, T., & Hossain, F. (2008). Helping the Needy: Factors Influencing the Development of Microfinance in Barbados. In *BWPI working paper 29 (Issue 29)*.
- Meo, M. S., Khan, V. J., Ibrahim, T. O., Khan, S., Ali, S., & Noor, K. (2018). Asymmetric impact of inflation and unemployment on poverty in Pakistan: new evidence from asymmetric ARDL Cointegration. *Asia Pacific Journal of Social Work and Development*, 28(4), 295–310. <https://doi.org/10.1080/02185385.2018.1523745>
- Naz, F., Salim, S., ur Rehman, R., Ishfaq Ahmad, M., & Ali, R. (2019). Determinants of financial sustainability of microfinance institutions in Pakistan. *Upravlenets*, 10(4), 51–64. <https://doi.org/10.29141/2218-5003-2019-10-4-5>
- Obayagbona, J. (2018). Microfinance bank and poverty alleviation in Nigeria: an impact assessment. *Amity Journal of Finance*, 3(2), 1-12.
- Okafor, I. G. (2016). Microfinance banks activities and standard of living in Nigeria. *Journal of Economics and Finance*, 7(1), 1–11. <https://doi.org/10.9790/5933-07110111on> *Development Economics 1996. The World Bank, Washington D.C.*
- Rasheed, R., Xia, L. C., Ishaq, M. N., Mukhtar, M., & Waseem, M. (2016). Determinants Influencing the Demand of Microfinance in Agriculture Production and Estimation of Constraint Factors: a Case From South Region of Punjab Province, Pakistan. *International Journal of Agricultural Extension and Rural Development Studies*, 3(4), 45–58.
- Regulations, S. of P. M. (2014). *Prudential regulations for microfinance banks*. <http://www.sbp.org.pk/acd/2014/C3-Annex.pdf>
- SBP. (2007). Microfinance Institutions Ordinance 2001 (LV of 2001). In *State bank of Pakistan (Issue July)*. <http://www.sbp.org.pk>
- SBP.(2014).Prudentialregulationsfor microfinance banks. <http://www.sbp.org.pk/acd/2014/C3-Annex.pdf>
- SECP. (2017). Non-Bank Microfinance Guide (Vol. 128, Issue I).

- Sohn, W., & Ume, L. (2019). Impact of microfinance on poverty alleviation: a global analysis. *Journal of Economics and Development Studies*, 7(2), 82-102. DOI: 10.15640/jeds.v7n2a6.
- Syed. Mohsin; Malik, Fahim, Bashir; Yasir, bin, T. (2014). Outreach and Performance Analysis of Microfinance Banks in Pakistan. *Economic Research-Ekonomska Istrazivanja*, 27(1), 107–119. <https://doi.org/10.1080/1331677X.2014.947108>
- Tafamel, E.A. (2019). Analysis of the effect of microfinance institutions on poverty reduction in Nigeria. *Academic Journal of Economic Studies*, 5(2), 114–119.
- Tahir, S. H., Perveen, N., Ismail, A., & Sabir, H. M. (2014). Impact of GDP Growth Rate on Poverty of Pakistan: A quantitative Approach. *Euro-Asian Journal of Economics and Finance*, 0184(April), 119–126.
- World Bank (2008). Finance for all? Policies and pitfalls in expanding access. *Washington, DC: World Bank*.
- Wujung, V. A., & Mbella, M. E. (2014). Entrepreneurship and poverty reduction in Cameroon: a vector autoregressive approach. *Archives of Business Research*, 2(5), 1-11.
- Yousaf, H. (2014). Determinants of Poverty in Pakistan. *International Journal of Economics and Empirical Research (IJEER)*, May, 191–202.
- Yusuf, M. B. O., Shirazi, N. S., & Ghani, G. M. (2013). The impact of Pakistan poverty alleviation fund on poverty in Pakistan: An empirical analysis. *Middle East Journal of Scientific Research*, 13(10), 1335–1344. <https://doi.org/10.5829/idosi.mejsr.2013.13.10.1210>