

Perceptions towards Microfinance in Pakistan

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ABSTRACT

The objective of this exploratory study is to ascertain the perception and realities of Microfinance in Pakistan. For this purpose the quantitative research technique was adopted and data for the research were collected through a survey of microfinance existing and potential customers in Pakistan. The results show that there is surprising clash do exist in urban and rural people's mind share: what they perceived is amazingly opposite to reality. Rural people have perception that they are taking loan more as compare to urban people but in reality it's erroneous. On the other hands urban people have perception that they are not taking loan as compare to rural people but in reality urban people are taking much more loan than rural people. There is also vast perception gap existing in urban and rural people about microfinance loan usage. Urban people get loan for pure intention to invest in business activities and personal use whereas rural people get loan for the purpose of using in agricultural activities and most importantly rural people never take microfinance loan for personal use. The thinking style of females is extremely contrary to males in terms of "in what ways microfinance helps them". And finally as people are going to be more educated their perception about microfinance will going to be negative.

Keywords: *Microfinance, Bank, Perceptions, Pakistan*

INTRODUCTION

Academics view microfinance as a paradigm shift and ray of hope for poor (Gilal, 2011). The concept of microfinance is not new, in one form or another it existed for centuries. The expression of microfinance has its roots in 1970s when number of organizations started lending to poor people but the best known story is that of Professor Muhammad Yunus and Bangladesh's Grameen Bank (Amendariz de Aghion, Morduch 2005). According to Hulme (2009) Grameen Bank holds an iconic position in the world of microfinance.

The history of Microfinance in Pakistan can be traced back to the early 1980s and two projects: the Orangi Pilot Project (OPP) and the Aga Khan Rural Support Program (AKRSP). In 1999, the AKRSP and the National Rural Support Program accounted for 84 percent of total microfinance services; Kashf Foundation was then the only specialized microfinance institution. At present twenty Microfinance institutions provide services in Pakistan under

the regulations of State Bank of Pakistan (SBP) and the Microfinance Information eXchange (MIX) Market (an online information service).

LITERATURE REVIEW

People normally perceive microfinance as an ideal solution to the economic problems for the developing countries (Nyassi, 2009) and it has been cited as a helpful instrument for poverty reduction (Long, 2009). In contrast microfinance institutions do not always respond well and are unable to achieve their both social and profit making goals. It is a perception of the people that microfinance necessarily chooses profit making rather than poverty alleviation, (Long, 2009). One of the most perceived drawback of microfinance institutions is that they are charging the high interest rates in order to offset the increased cost of managing numerous small loans (Daley-Harris, Sam, Pollin, Robert, and Montgomery, Felicia, 2007). It is believed by many people that microfinance could conceivably diminish the tendency of worldwide perceptions of gender inequality (Littlefield, Murdoch, & Hashemi, 2003). Some people perceive that there are very important potential forces of development do exist but it remains suspicious to some people, that it lacks the ability to aid in development of microfinance without one or more important setbacks. Several people state publicly that the relationship between microfinance and the economic and social development of its clients has not yet been vindicated (Zeller, Lapenu, and Greeley, 2003). The studies have, in general, revealed that microfinance services have had a positive impact on specific socioeconomic variables such as children's schooling, household nutrition status, and women's empowerment (Johnson, & Rogaly, 1997).

From the literature it is easier to identify disagreement in thoughts among the researchers, individuals and communities about the perception of microfinance. Some people held negative perception and said that microfinance institutions do not perform up to the mark it is simply unproductive and charging high interest rates and primarily focus on earning the profit. The other people have positive perception about microfinance and saying that microfinance institutions are charitable organizations and help to improve the living standard of people. They support their argument by saying that microfinance plays a vital role in reducing the poverty, creating employment, better food, better education and also microfinance is source of the development of individual, communities, and nation as a whole. Now my objectives of conducting this research is to know the perception of the people about Microfinance Institution in Pakistan and what factors that motivate and discourage them as well..

METHODOLOGY

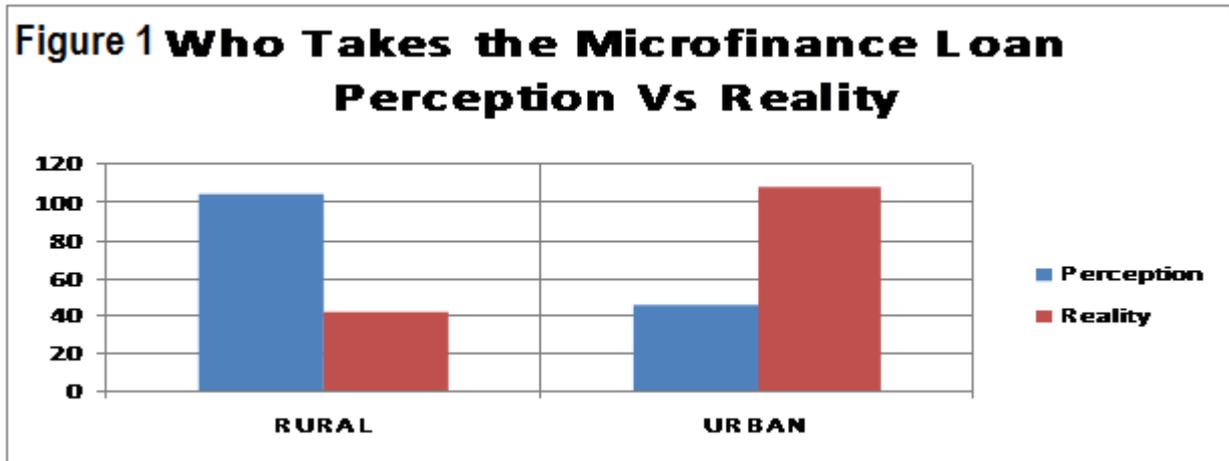
The target population of this research that was sample is the microfinance existing customers as well as potential customers, who are living in rural and urban areas of Pakistan. The target unite of this research was also included 80% male and 20% of female respondent as well.

For this research purpose non- probabilistic sampling approach was adopted particularly quota and judgmental sampling techniques were implemented. This research sample size included total two hundred respondents from whole population, and 200 respondents were selected from different microfinance banks operating in Pakistan.

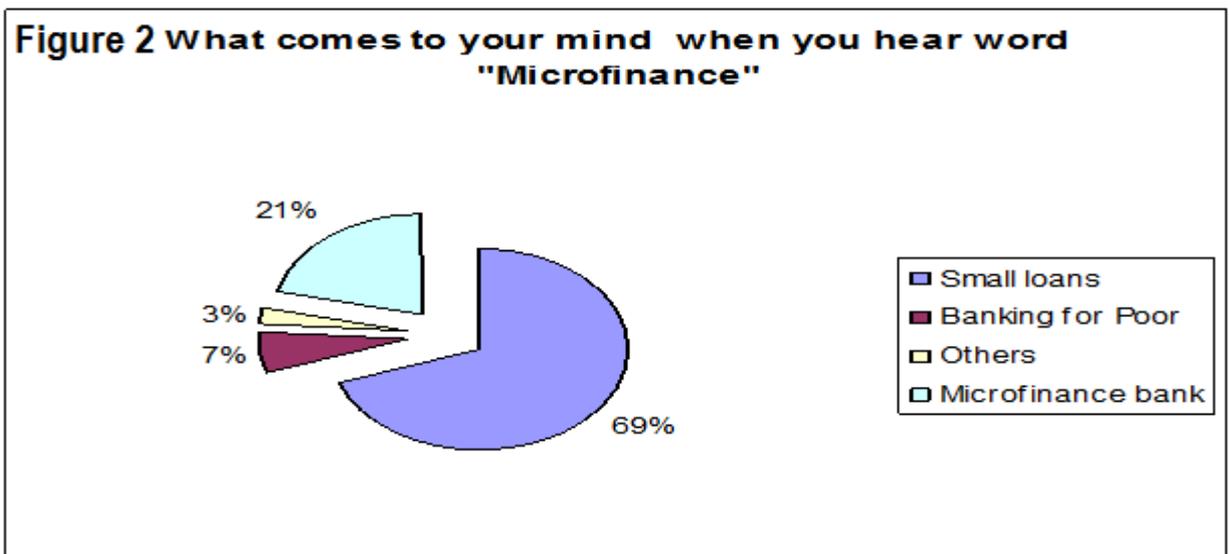
The research questionnaire was prepared to measure the people's perceptions and realities about microfinance institutions in Pakistan. The questionnaire was prepared as a result of focus group moderated by experienced researchers. Also the biographical variables, data includes sex, age, educational level, marital status, profession and monthly household income. The data was collected through questionnaire from microfinance banks' existing and potential customers. Total 200 questionnaires were distributed and 27 respondents were unable to respond and 13 questionnaires were canceled due to incompleteness and other reasons.

ANALYSES

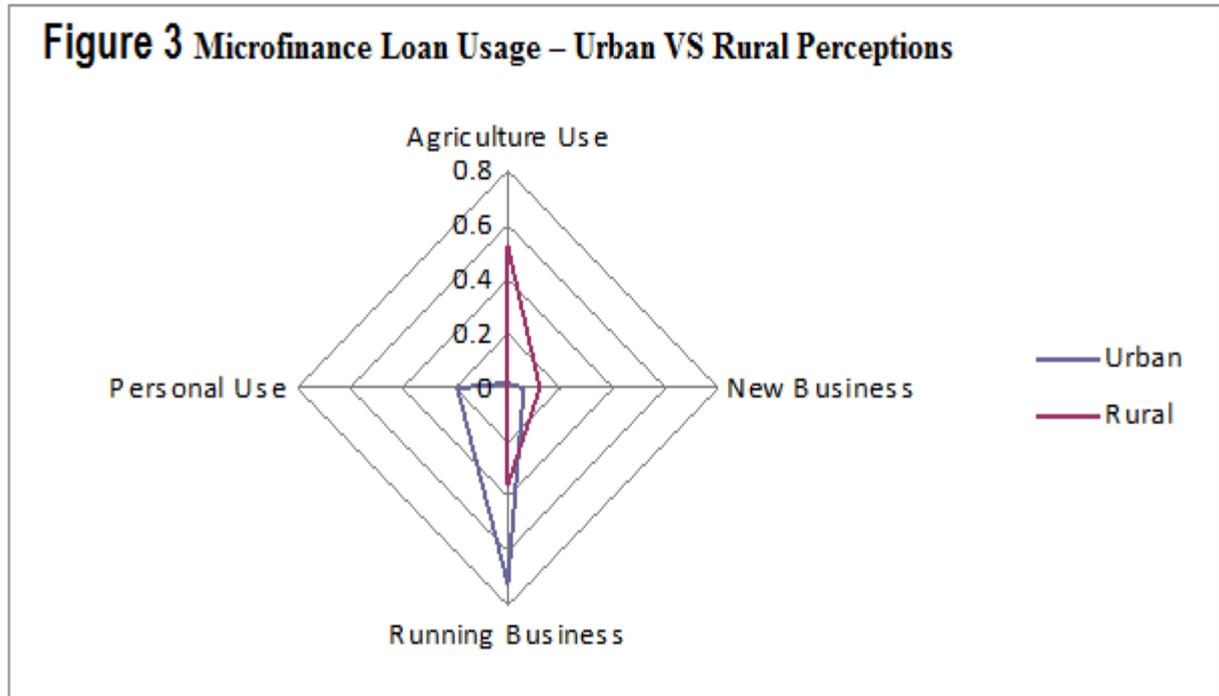
Respondents through unaided recall were asked about the major beneficiaries of microfinance loans and advances. There is surprising clash do exist in urban and rural people’s perceptions: what they perceived is amazingly opposite to reality. Rural people have perception that they take advances from microfinance institutions more than urban people but in reality rural people take less loans as compared to their urban counterparts. Similar situation exists with urban people as well (Figure 1).



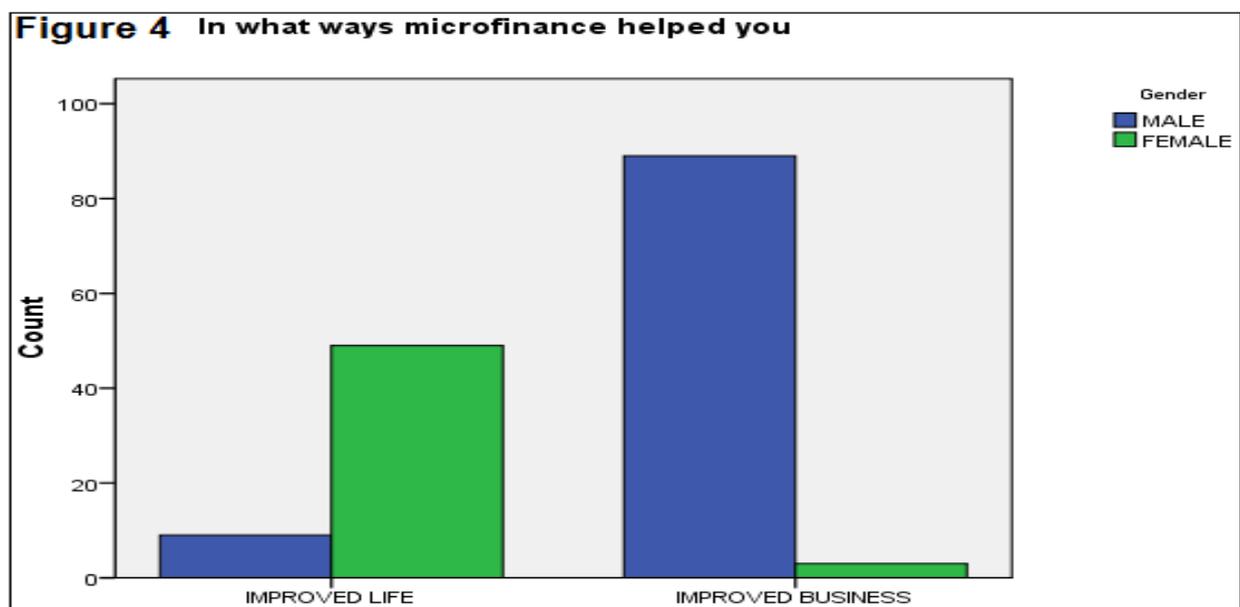
Respondents through unaided recall were asked about their association with the word microfinance. “Small loans” emerged as major perception about microfinance with about 69% respondents while 21 % respondents perceived it as “Microfinance bank” and 7% said it is “banking for poor” (Figure 2).



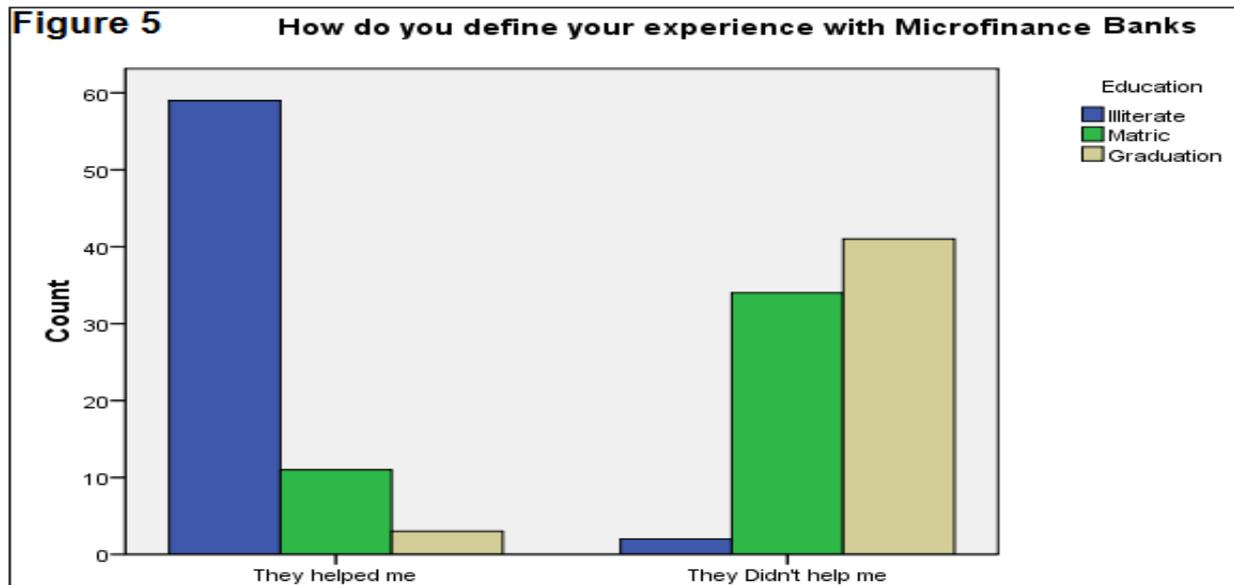
There is vast perception gap existing in urban and rural people about microfinance loan usage. Usage of microfinance loan by the rural and urban people is extremely opposite from each other. Urban people get loan for the prime intention to invest in business activities and personal usage, while rural people get microfinance loan for agricultural activities; they have little interest to use micro credit in business activities. Most importantly rural people never take microfinance loan for personal usage as well.



Gender differences were also seen in their perceptions regarding Microfinance. Their style of thinking is surprisingly opposite to each other. Males hold perception that microfinance institutions help them in improving their businesses while females have opposite perception and they are of the opinion that microfinance help them in improving their life. Now the finding suggested the inevitable reality that females give preferences to improve their life while males have priority to improve their businesses.



The level of education also plays a pivotal role in shaping consumer’s perceptions towards Microfinance. The illiterate people have perception that microfinance institutions help them a lot; whereas slightly educated and highly educated have negative perception about microfinance institutions. From above evidence it is concluded that as the people are going to be more literate, their perception about microfinance banks will also be going converse.



CONCLUSIONS

The study produces the several core findings about the perceptions and realities of microfinance institutions in Pakistan. One that is extremely surprising that educated group of people in Pakistan dislikes microfinance institutions and held negative perception due to charging the highest interest rates and small size of loan. Young educated people are in this perception that microfinance only provides small size of loan for a short span of time and it's really make them difficult to get the fruitful results of utilizing the microfinance loan in such a circumstance. Therefore microfinance institutions should brings some reforms to correct the perception of young educated class of people in Pakistan and keep them on board. This research also concluded that the urban people consciously or unconsciously getting huge loan than rural people although urban people are in this perception that they are getting fewer loans but the reality is vice versa. Therefore the microfinance institutions should utilize this body of knowledge to rethink and reconsider the segmentation and targeting towards more on urban areas of Pakistan.

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