ROLE OF MICRO FINANCING INSTITUTIONS FOR THE IMPROVEMENT OF STANDARD OF LIVING

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ABSTRACT
Today, in the presence of highly competitive business environment, the current condition of Pakistan’s economy is not so good, as many people are unemployed and are also willing to use the facility of micro-financing for bringing changing in their life and change the ways of living standards. Micro-financing institutions has number of different independent variables which need to be properly monitored in order to reduce the poverty level of the people and once the poverty level is improved, the overall Standard of Living of people in Pakistan will also be improved as they are correlated with each other. In simple context, it can be analyzed; the poverty level is directly proportional to the standards of living of people in Pakistan. The economic growth can only be considered in the positive context if the challenges related to the poverty are properly addressed. However, micro-financing institutions and the loan facility provided by these banks are considered as the key parameters in bringing improvement in the transforming standard of living of people in Pakistan. In this research context, questionnaire technique has being utilized to evaluate and measure the standard of people living in Pakistan through availing the loan facilities and how they have been able to address the challenges related to the poverty level, thus resulting into overall improvement of the standard of living of Pakistan citizen. Questionnaire has developed on the basis of the variables. The research study has evaluated the impact of variables linked with Bank loans in transforming standard of living in Pakistan through measuring these variables relationship. The data collected by the respondents has being analysed through implication of tests that includes correlation and regression. The research findings have reflected that through availing the loan facilities provided by the micro-financing institutions, living standards of the people is being improved and will also improve in future.

Key words: Micro financing institutions, Standard of living, economic growth, poverty, economy

INTRODUCTION
Microfinance is a credit methodology, which employs effective collateral substitute for short-term and working capital loans to micro-entrepreneurs. The level of a country’s poverty has long been linked with measures of its economic development. Little consideration was given to the social reorganization of the natural resources (e.g. empowerment vs. alienation of people, sustainable use vs. depletion of the environment). The economies with positive growth rate of Gross National Product (GNP) were measured by their poverty mitigation. This gratitude emphasized on the achievement of wealth and technology as a path for development and assumed that improved lives for all would be the natural consequence (Ledgerwood, Joanna, & Victoria, 2010).

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Micro financing institutions plays a progressive role leading towards enhancing the ways of living standards of common people of any under developed countries (Hermes, Niels, Robert , & Aljar , 2011). The main aim of micro finance institutions are to help poor people or people who are living under the line of poverty by giving them small amount of loans for improving their current businesses or for starting up new businesses (Karlan, Dean , & Martin , 2011). Today, in the presence of highly competitive business environment, the current condition of Pakistan’s economy is not so good, as many people are unemployed and are also willing to use the facility of micro financing for bringing changing in their ways of living standards.

Micro financing business loaning volume has grown to a level which is equal to consumer credit. Major services of micro financing are offering loaning products or services, deals in different saving schemes and many other activities. Micro financing have continued to develop the strong positive business loan market (Ledgerwood, Joanna, & Victoria, 2010). The crystal clear disbursement of loans actually help poor people business work in positive direction than automatically various changes take place such as change in economic condition, control interest rate, inflation, improve human development, reduce crime rate, promoting saving mobilization through proper channel and work for more women empowerment sector as well (Anjugam & Ramasamy, Determinants of Women’s Participation in Self-Help Group (SHG)-Led Microfinance Programme in Tamil Nadu, 2007).

These instalments are set on interest rate and customer has return on their given repayment behaviour schedule. The results of microfinance institutions are trying to improve the economic and social life of low-income households with the fulfilment of their needs and wants. The management of micro financing institutions are continually make hard efforts to eradicate the poverty of low-income families because their foremost goal and objective is to eliminate the poverty among the poor’s (Fasoranti , 2013).

**Problem Statement**
In this research study, the main problem is that the current situation of Pakistan is not very good as the economic position of Pakistan as compared to other developing countries is low due to the high inflation rate, changing the way of living standards, unemployment, energy crisis and many other related issues influences on growth factor. The focus of the research study is to analyse the role of micro financing institutions for the improvement of standard of living emphasis on the developing of the economy and improving the employment, inflation, expansion of the business and improving the living standards of the lower middle class and practical implication as well.

**Objective of the study**
This research is focused on accomplishing following objectives:

1. To examine and determine the impact of interest rate and insurance programs on the microfinance institutions,
2. To investigate the role of credit programs and saving mobilization on the microfinance institutions and how these aspects leads to bring improvement in living standards,
3. To analyse the effect of various different health, education and food security programs leading to availing loan facilities from micro finance institutions,
4. To examine and identify the role of women empowerment in availing the loan facility from micro finance institutions.

**Research Questions**
The research questions of this research are presented as followed:

1. How does interest rate and insurance programs impacts on the microfinance institutions?
2. How does credit programs and saving mobilization impacts on the microfinance institutions and how these aspects lead to bring improvement in living standards?
3. How does various different health, education and food security programs impacts micro finance institutions?
4. How does role of women empowerment in the availing of loan facility from micro finance institution?

**Significance of the study**
This research study bears significant importance. This research revolves around to analyse the role of micro financing institutions which directly as well as indirectly work for more economic growth. The
main goal of micro financing institutions is to work on reducing poverty from under development countries such as Pakistan, Bangladesh, Afghanistan and many other countries as well. Today, most of the well-known microfinance institutions are trying to improve the economic and social life of low-income households with the fulfilment of their needs and wants.

**Contribution**
This paper has a significant contribution and plays a very important for determining the role of micro financing institutions for the improvement of standard of living especially for poor people or people who are living under the line of poverty. Micro financing institutions are practically implemented standards practices which work all around the globe, each and every state of government directly supports the microfinance institutions including both the sectors such as governmental and non-governmental and along with it, and the state government makes the connection between the commercial banks, NGOs, and insurance groups of the country.

**REVIEW OF LITERATURE**

**Microfinance Institutions and Effectiveness**
The major goal of these institutions is to house the underprivileged people of Pakistan and make them financially stable by offering these services, as well as to assist the country's creative activities (Archera and Jones-Christensen, 2011; Mumi et al. 2018).

The function of corporate governance in evaluating the performance of microfinance organisations is critical. Lensink et al. (2018) investigated the impact of microfinance with a synchronised combination of financial and nonfinancial services, as well as corporate governance, on the success of microfinancing firms. Using a global data collection of microfinancing institutions from 77 states, they discovered that the endowment of nonfinancial services had no effect on the financial sustainability and efficacy of microfinancing institutions. However, the findings suggested that the supply of these social services be linked to a changed loan quality and a greater depth of outreach operations.

According to our findings, board size, CEO duality, and ownership structure all have a major impact on a company's performance and market value. These findings are reinforced by Lensink et al., 2018; Ault, 2016; and Tiruneh, 2015. According to the findings, microfinance institutions in Sialkot, Pakistan, roved in terms of top management, board size independence, and audit committee, among other things.

Nieto, et al., (2007) discussed a study on the microfinance institutions and their efficiency, these are the financial institutions, and these institutions has two kinds of the nature, including the social nature and the profit nature. The social nature involves the making better relations with the customers and the society members by delivering superior services and whereas the profit nature include the maximum optimization of the revenues from customers by providing loans and financial services. Generally, the majority of the microfinance institutions measure the financial performance with the help of the financial ratios such as the liquidity ratios, cash ratios, turnover ratio, and other ratios. Because these ratios provides the good results about the financial performance of the institutions and along with it, after collecting the data about the financial ratios over financial performance, the institutions make the decisions whether the institutions are making profit or not and where they are lacking. In this research, the researcher used the two tools for the measuring the financial performance and efficiency of the microfinance institutions, such as data envelopment analysis (DEA) and the financial ratios. According the (Carlo, Akhter, & del, 2002) the data envelopment analysis provides the appropriate and adequate results and while using this model, it requires special care of the institutions and this model ranks the efficiencies separate, like as the input and output of specific activities, then it provides the results. Kipesha, (2013) conducted a research on the production and intermediation efficiency of Microfinance institutions. This study was conducted in the Tanzania; the theme of this research was to get to know about the technical efficiency with respect to two aspects, such as a loan creators towards the lower income households and intermediary institutions, which also provide the loans to the women and working employees. The researcher found that there is a huge difference between the loan creators and intermediary institutions because according to statistical results, the first findings were showed that the technical efficiency is greater in the loan creators and they are also more efficient in contrast to intermediary institutions, whereas the technical efficiency is lower in the intermediary institutions because of the other reasons such as operating cost, lower revenues, etc.
Hartungi (2007) Laid emphasized on the understanding of the success factors of the microfinance institutions in the developing countries, this study took place in the Indonesian Banks and other units. The researcher collected the responses from the banking higher authorities, unit areas and as well as from the borrowers, to check the reliability and validity of the results. After that, the researcher focused that the adapting environmental changing factor is very important for today’s businesses, because it leads the success of the institutions. External environment changing factor is dynamic and complex in nature, but if the institutions and businesses do not adapt the environmental changing factor, then it might be difficult for them to survive in the complex environment. The researcher found that the Indonesian Banks and microfinance institutions were leading on the market because they were constantly adapting and accepting the environmental changes. On the other hand, the other findings were shown that the microfinance institutions involved themselves into multiple task and programs to get the sustainability. The researcher observed that there were other several success factors which lead the achievement of microfinance institutions in the developing countries such as their entire system is transparent, well qualified and expertise, staff available, providing additional bonuses to the staff and their potential and loyal customers, they have sufficient checks and balance on the financial activities, risk adverse management and also they have strong internal and external supervision of the audit. The researcher concluded their study with the suggesting that, with the help of these factors, the microfinance institutions might achieve their desired goals and objectives, but if they would put careful consideration of these factors.

**Improved Living Standard**

Mohammed, (2008) deliberated a case study on the impact of microfinance institution on the living standard of the humble people. A case study was conducted in the Bangladesh district named Chittagong. The purpose was this case study was to know about the major influencing impact of the financial institution on the average people lives and how they maintain their lives with the help of the microfinance institutions. The researcher collected the data from those people, which we are using the services of the microfinance institutions because they had enough experience of the services. In this research, the researcher made a challengeable objective to find out the appropriate usage of microfinance institutions and the improvement the living standards of the poor people. The verdicts were found that there is an optimistic impact between the microfinance institution and the improved living standard of the peoples. Because it was supposed that the microfinance institution, not only provides the financial services to lower income households, but along with it, they also try to improve the living standards of the people. The other statistical results were collected that the microfinance institutions also improves the life styles of the people and they provide the empowerment to the individuals. According to the respondents, the last findings were revealed that it was all about people’s misleading error that the microfinance institutions charge higher interest rate on the financial services but in actual terms, the microfinance institutions provide loans at low interest rate. The microfinance institution of the Bangladesh’s offers distinctive programs to the people because they get motivation and empowerment.

**The Grameen Model**

Lewis, (1999) included the two Grameen Models in this study and his entire study was based upon these two models. Largely, the thought and an idea concerning the Grameen Model was established on the particular focus of poor households who lives in the villages. The Professor Mohammad Yunus in the Bangladesh to support the poor individuals in rural areas and woman by providing the microcredit loans initiated this model. The researchers argued that population growth is a big problem for the country because they utilize enough recourses because of the poverty. According to the David, (1996) increment in land, trees, property, and other resources are not a problem for the country, then why people worry about the increment of population.
The theoretical framework model of this study is based on two main variables. First variable is about the independent variables and the other one is dependent variables. According to the framework model independent variables are interest rate, insurance program, credit program, saving mobilization, human development, health program, education program, food security program and women empowerment. Dependent variable is microfinance institution. The theoretical framework model is as followed:

Figure 1: The Grameen Model
**Figure: 0 Framework**

**Hypotheses**
Some of the suggested hypotheses derived from theoretical framework model is presented as follow.
- **Hypothesis 1**: Interest rate is positively correlated with microfinance institutions.
- **Hypothesis 2**: Insurance program is positively correlated with microfinance institutions.
- **Hypothesis 3**: Credit program is positively correlated with microfinance institutions.
- **Hypothesis 4**: Saving mobilization is positively correlated with microfinance institutions.
- **Hypothesis 5**: Human development is positively correlated with microfinance institutions.
- **Hypothesis 6**: Health program is positively correlated with microfinance institutions.
- **Hypothesis 7**: Education program is positively correlated with microfinance institutions.
- **Hypothesis 8**: Food security program is positively correlated with microfinance institutions.
- **Hypothesis 9**: Women empowerment is positively correlated with microfinance institutions.

**RESEARCH METHODOLOGY**
Research methodology plays a dynamic role leading towards the completion of the study. The research methodology of this study is design and develop according to determine the role of micro financing institution for improving the way of living standards (Afsheen, 2015). The main focus of researcher is on the recent exploration of the MFIs practices, the practices of the microfinance institutions are working appropriately and adequate in the Pakistan. It is true well reputed microfinance institutions are very loyal towards their goals, they are accomplishing their vision by supporting the poor peoples, and they improved the living standard of the Pakistan peoples. The researcher noticed that the microfinance institutions made steady growth, expansion and development in the Pakistani society because the main logic behind was that the Pakistan people had an extreme need for the financial support. The researcher mainly focuses is on the systematic approach of the theoretical framework model of the study. The figure of research methodology is presented as follow:

![Research Methodology Diagram](image)

**Figure: 0 Research Methodology (Rauf, 2015)**

**Data Collection Technique and Sources**
The researcher use primary source of information which include the survey questionnaires. The survey questionnaires is based on the theoretical frame work model and transformed into software name as SPSS data entry sheet. Once the survey information is carefully entered in the data sheet, then the researcher is able to apply various research tools for required outcomes. All of these data analyses have helped to observe different relationship and impact on different variables as well. During data collection, researcher faced problems due to the increased communication barriers; especially lot of respondents had problems in understanding the questionnaire as well as filling it. Thus, researcher interpreted most of questions to the respondents in order to obtain appropriate outcomes.

**Sample Size**
In this study, the researcher has delivered a latest information, knowledge, ability, idea and information about the role of micro financing institutions for the improvement of standard of living. Simple random sampling method is use for data collection. This simple random sampling method is work under the non-probability sampling technique. The process of non-probability sampling technique is used to
accomplish the research data analysis for overall the improvement of the microfinance institutions working in Pakistan. The research data gathered from various customers who availed the facility of Microfinance and Microcredit from Microfinance institutions working in Pakistan such as “Tamer Microfinance Bank, The First Microfinance Bank, Finca Microfinance Bank, Khushhali Microfinance Bank and Waseela Microfinance bank. The limit of sample size is not more than one hundred and fifty (150).

**Research Design**
The research design of this study is revolving around the important aspect of microfinancing institutions working in Pakistan. These aspects are interest rate, insurance program, credit program, saving mobilization, human development, health program, education program, and food security program and woman empowerment. All of these aspects of micro financing are interconnected with each other. The research has focused on the following of the research design of (Afshen, 2015) (Rauf, 2015).

**Reliability Statistics**
The reliability statistics plays a very important role in the study for further applies tests. The process of reliability statistics is revolving around the inner consistency of defined variables. number of items is 38 and having the value of cronbach alpha i-e .868 supports this study for further proceeding. This reliability analysis table is given below:

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<tr>
<th>Reliability Statistics</th>
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<tr>
<td>Cronbach’s Alpha</td>
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<td>N of Items</td>
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**Data Analysis and presentation**
The primary and very basic microfinance institutions strategy and tool is that to overcome the poverty and bring the lots of happiness among the groups and into their lives.

**Correlations Analysis**
Correlation analysis is normally use for determining and measuring the extracted relationship between two variables or items. In accordance to the past research studies, various results reflected positive impacts of variables that is environments such as interest rate positively interlinked with the micro finance institution, whereas some of the research studies showed negative impact amongst the variables identifying different research. The result of correlation analysis is presented as followed:

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Interest Rate</th>
<th>Insurance Program</th>
<th>Credit Program</th>
<th>Saving Mobilization</th>
<th>Human Development</th>
<th>Health Program</th>
<th>Education Program</th>
<th>Food Security Program</th>
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<td>Pears on Correlation</td>
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<td>.369**</td>
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Regression Analysis

Regression analysis is a statistical tool for the investigation of relationships between variables. Usually, the investigator seeks to ascertain the causal effect of one variable upon another—the effect of interest rate, insurance program, credit program, saving mobilization, human development, health program, education program, food security program and women empowerment on microfinance institution loan facility. The result of model summary is based on the value of regression evaluated and calculated with the support of all the variables mentioned in theoretical framework model. The value of regression R^{2}=.966, R square i.e .933, adjusted R square i.e .926 and standard error of estimation i.e .54348 show good results for further testing. The result of ANOVA is presented as followed:

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<th>Saving Mobilization</th>
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**Correlation is significant at the 0.01 level (2-tailed).**
Role of Micro Financing Institutions for the Improvement of Standard of Living

\[
\begin{array}{lrrrr}
\text{Model} & \text{Sum of Squares} & \text{df} & \text{Mean Square} & \text{F} & \text{Sig.} \\
1 & \text{Regression} & 578.189 & 9 & 64.243 & 21.7503 & .000^a \\
 & \text{Residual} & 41.351 & 141 & .295 & \\
 & \text{Total} & 619.540 & 150 & & \\
\end{array}
\]

a. Predictors: (Constant), Women Empowerment, Human Development, Insurance Program, Health Program, Credit Program, Interest Rate, Saving Mobilization, Food Security Program, Education Program
b. Dependent Variable: Role of Microfinance Institutions

The main functionality of ANOVA result is to determine the framework variances with the help of frequency. This frequency is denoted by F i-e 21.7% shows variances in the model at the level of significant i-e 0.000. The other result of ANOVA is the value of regression and residual connected with sum of squares i-e (578.189 and 41.351), degree of freedom i-e (9 and 141) and mean square i-e (64.243 and .295). These values are considered as good for further testing of results.

Another important result of coefficient is derived with the support of multiple regression analysis models. This researcher uses this test for bringing the change in current working system. The importance of this result is very high. This coefficient result is divided into two coefficient components. First one is unstandardized coefficient and other one is standardized coefficient. In accordance to Jonathan, (1999) pioneered a research on the between the state and markets: Can informal insurance patch the safety net The majority of the peoples were using the services of the informal insurance programs rather than using the formal and market acceptable insurance programs. Due to informal insurance programs, the low income households face the troubles in the economic conditions of the state. The researcher taken values from standardized coefficient based on beta. First best predicator is having the beta value i-e insurance program such as (.024), level of significant i-e 0.000.

CONCLUSION

It is concluded that interest rates plays a very important role especially on loaning and saving products or services offered by micro financing institutions of Pakistan. This interest rate is set in accordance to determine the current condition of the economy. The ratio of interest rate is fixed on loaning products or services but it’s varying on saving products or services dependent upon the time maturity selected by the customers. It is concluded that saving mobilization plays a very important role leading towards the promotion of saving micro financing products and services offered to customers. Savings are always referring to specialize in consumer deposits but as permitted by expanded depositor offer services to business as well. Another important aspects related to saving products are to create the image of progressive and friendly saving institutions paying a high rate of return with safety. This safety has spent more on promotion and advertising than any other type of financial institutions. The process of saving mobilization is highly dependent upon the perseverance of this study. So, the determination of this study based on collecting the research data extracted from the rural and urban areas people about the influence of the savings mobilization is necessary and also work towards the changing their ways of living standards. This change is considered as the good sign for improving standards of lower middle class people of Pakistan. The researcher also included few demographics information related to saving mobilization promoting concepts such as age, occupation, education, gender in the study and according to these demographics, the researcher made the results of the study. The verdicts were shown that the rural people were less educated and the majority of the peoples were self-employed. According to the statistical results, the rural peoples acquired the 56% loan for the improving the personal business or introducing the new business venture. The savings mobilization has the optimistic and positive relationship with the clients’ investment, acquisition of the assets, and need to human development in term of improving their skills, knowledge and attitude about saving products or services offered to local market. And on the other side saving mobilization change the mind set of clients’ in terms of income savings. The researcher observed that the savings mobilization has a significant role in the economic development and society especially in the rural areas. Because with the help of savings mobilization,
the rural peoples are trying to invest in human development and children’s education which influence the positive effect on the economic development. It is concluded that micro financing credit products or services also provide the insurance program for securing their disbursement amount and also saves the customers end in the market. This insurance program plays a very important role by covering important aspects from customers end and micro finance disbursement loan products or services which are utilized for business, improve its current conditions and also for start of business as well. Micro financing loaning products and services are secured through credit life insurance. This credit life insurance plays a very important role which positively connected with micro credit loaning products and services and customer safety. Credit life insurance is used to repay the debt amount in the event that borrower dies. Credit life insurance product and services is considered as the form of decreasing the term of insurance. At this process of loan is rapidly used for insurance decreases with having the balance owed especially covering the important aspect of micro financing such as credit program, improving human development and health programs as well. Another important conclusion is human development through micro financing products and services offered to customer. These are those funds which invested on human for developing their career path in different business area. It is analysed that human development is considered as one of the most important aspect which can easily be improve with the help of micro financing products. It is true that changes are not made in small business investment circle but on the other side individual can learn and experience about earning by using his or her expert in positive right direction. The human development skills are used for minimize the risk factor and adaptation new changes in the current system extracted with the support of loaning micro financing products.

It is concluded that women empowerment variables are very important in this study. The research data shows that actually micro financing institutions are performing their operations for improving the women empowerment in any society or region. Non profitable organizations are also exercising the main operations just similar to micro financing institutions working in Pakistan. NGOs and micro financing institutions both circulates their disbursement loans funds through aid from developed foreign countries. In this research study, the researcher use women empowerment as a variable for determining the strength of micro finance institutions. In accordance to the result, women empowerment is composed of three dimensions. These dimensions are economic, social and psychological. These three dimensions are positively interconnected with each other and play a very progressive role for improving the current economic conditions. These dimensions are used for increasing the efficiency of micro financing institutions.

**RECOMMENDATION**

Role of governmental policies in minimizing the interest rate and its impact on the loan facility is highly important. It is considered that there is a high need of the government to improve their current policies and strategies with a focus of imposing comparative low interest rates, especially new approaches should be constructed for the remote areas people such as Farmers. Thus, it is recommended that focus should laid by the government and state bank on imposing consistent interest rates. Importance of women empowerment in the today’s society cannot be neglected at any instance. Since recent years, lot of improvement in society regarding the women role and participation is dynamically increasing. It is recommended that microfinance institutions should be introducing new programs of loans for enhancing the women empowerment, especially those women who are willing to start their own businesses at comparative low interest rates. Different educational and health programs in the society should be built up in order to bring improvement and enhance the educational and health care standards of the common people.

**REFERENCES**


Role of Micro Financing Institutions for the Improvement of Standard of Living


