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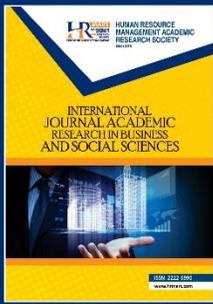
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The Moderating Role of Group Lending on the Relationship between Microfinance and Poverty in Pakistan

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Abstract

This paper aims to investigate the moderating effect of group lending on the relationship between poverty and non-governmental (NGO) microfinance in Northern Pakistan, Khyber Pukhtun Khawa. Quantitative primary data is collected from 297 borrowers of NGOs microfinance. The partial least squares-structural equation modelling moderating role of group lending between the microfinance and poverty is estimated through structural equation model and for the purpose of calculation Smart PLS is used. The results show that the group lending has significant impact on relationship between poverty and microfinance and played a major role in mitigating moral hazard among the respondents. The finding suggests that the group lending approach should be adopted in the loan distribution especially in rural areas.

Keywords: Microfinance, Poverty, Moderator, Group Lending, Pakistan

Introduction

Poverty has been a great challenging problem for the whole world, an estimated 766 million people, or 10.7 percent of the world's population, lived in extreme poverty in 2013 (World Bank, 2017). Among the of poverty causes, one cause is the lack of credit or capital due to which poor remain in vicious circle of poverty especially in the developing countries (Coleman, 1999). In 1970s microfinance emerged as an effective tool in developing countries in reducing poverty through granting loans to the poor masses that were ignored by commercial banks and were bound to borrow from local money lenders at high interest rates (Rajbanshi et al., 2015). Since then microfinance has helped thousands of people to cross the poverty line (Yousry et al., 2015) and have people to break the vicious cycle of poverty (Boachie, 2016) specially in developing countries it has been demonstrated great success in poverty relief to the poor masses (Hettihewa & Wright, 2010). Although microfinance has existed since eighteenth century (Armendáriz & Morduch, 2010) but it became more popular as Mohammad Yunus, a lecturer of economics at Chittagong University initiated the Grameen Bank and later on received Nobel Peace Prize in 2006