Role of Microcredit for Poverty alleviation in Pakistan: A Case Study of Punjab Rural Support Programme

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Abstract

Poverty is a global phenomenon which is adversely affecting the economy of the country. In rural areas of the country situation is more adverse as people don’t have much financial resources to spend a prosperous life. Most of the population of the country is spending their lives under the poverty line. Micro credit is considered a vital tool to alleviate poverty. This study depicts that microcredit helps the poor in reducing poverty by increasing their incomes. For the purpose, borrowers and non-borrowers are interviewed through a detailed questionnaire. Multiple Linear Regression Model (MLRM) is used for the empirical analysis of the primary data. The results show that loan participation has positive and significant impact on the incomes of the beneficries. Moreover Paper includes the borrowers’ opinions regarding services of Punjab Rural Support Programme (PRSP) and also presents some suggestions/ Policy implications for the improvement of microfinance sector in Pakistan.

Key Words: Microcredit, Poverty Alleviation, Income, PRSP-Pakistan

Introduction

Poverty is a complex phenomenon which cannot be defined in a single term. It may not contain any absolute definition. It has multiple dimensions which vary from country to country according to the norms and values of the particular societies. In Pakistan, poverty is defined as unavailability of basic human needs i.e. foods, clean drinking water, proper sanitation system, sufficient health, education facilities, cloths and shelter etc, where even life is at risk.

The main causes of the poverty in Pakistan are based on poor policies of government, corruption, political instability, economic devastation, lack of education and health facilities, obliterated agricultural system, raising inflation, unemployment and burden of overpopulation etc. In rural areas of Pakistan, lack of education, landlessness, unemployment and overpopulation have become the most prominent causes of poverty. In these areas, people have skills but they don’t have adequate finance to utilize and enhance such skills for income generating activities. Most of the people are unbanked and they don’t have access to the formal or commercial banks to borrow loans because of their tight security conditions and high collateral.

Some people borrow money from private money lenders at high interest rate. Sometimes, the amount of interest rate reaches to high which is more than the actual amount. Borrowers have to borrow money at high interest rate from any other informal source just to pay back to the first lender. In this way, once again they have to borrow the money to pay back the second one. Consequently, a debt cycle starts and the poor revolve around it and they may not come out from the vicious circle of poverty. In 1976, Dr Muhammad Younas introduced the concept of microfinancing through “Grameen Bank” to empower the poors. Now the concept has gained greater importance in all over the world and also has been initiated in Pakistan.
Definition of Micro finance

“Micro finance is a financial services for those who are unbanked and don’t have collateral to borrow from commercial banks. In broader meanings micro finance not only provides the facility of borrowing to the poors but also other services like account opening, saving accounts, security lockers and cash deposits etc”.

Microfinance provides financial service to the poor who are unable to become a part of formal banks because of their tight conditions with heavy collateral. Almost in all over the world traditional banks do not facilitate the poor population because they consider that poor are less credit worthy and they are not able to repay the loan. Moreover formal banks generally charge high interest rate. Therefore poor avoid borrowing a loan from such banks.

Although the poverty has multiple dimensions but when it is discussed through microfinance that describes income poverty. In rural areas, the numbers of people are dependent on credit for daily spending due to less assets and small unit of agricultural land etc, that’s why credit has become their dire need. Formal banks don’t target to the poor population because they have not any collateral in response of borrowing. More over formal banks can not ensure the positive utilization of loans. Micro credit institutions address all these problems and take part to alleviate poverty especially from rural areas. Microfinance Institutions (MFI’s) force the borrower to use the loan within a week in the particular activity which he/she has mentioned at the time of borrowing. Hence, micro finance programs are bringing positive change in the income level of the poor.

Like other developing counties MFIs’ are now functional in almost all over the Pakistan. The targeted population of MFIs’ is poor people who are mostly unbanked. These people borrow a loan and then utilize in income stimulating activities. Most of the poor people use the loan in enhancing their small scale businesses so that they can not only generate income for their families but also spend a financially sustainable life. Microfinance financially stables the poor people for contingency planning in order to manage hazards like sudden infirmity, death of any family member or marriages of children etc. It is also observed that MFIs’ help the poor to improve their socio economic status. After working three or four years with MFIs’ poor people shift from poor class to well to do. Most of the borrowers of MFIs in developing countries are women. In some countries few institutions are only targeting the women community. The aim of these MFIs is not only to eradicate poverty but also empower the women in income generating and decision making activities.

Microfinance generates self employment opportunities for the poor, allows them to enhance their efficiency to handle risky situations, increase their incomes and profits. Microfinance also supports to the poor borrowers by providing a good, respectable socio economic status in order to financially secure and sustainable economic activities.

Punjab Rural Support Program (PRSP)

The Punjab Rural Support Program (PRSP) was established in November 1997. It is operating in 20 districts of Punjab Province and its regional offices are located in six cities of Punjab namely Faisalabad, Lahore, Gujranwala, Sialkot, Sahiwal, and Multan. These offices are operating core programs of PRSP through micro lending to the poor community of rural Punjab.

PRSP disburses group loan and every group is called Community Organization (CO). A loan is disbursed through the manager and president of the group and also collects monthly installments through the same channel. PRSP gives one day training to managers and presidents of COs to manage the groups. Moreover, proper utilization of the credit by the borrowers is also ensured by the manager and president of particular CO. PRSP disburses loan in different circles only for
ongoing business or an economic activity and charge 20% interest rate per annum at decreasing balance approach.

The study in hand is conducted to assess the impact of microfinance by PRSP on poverty alleviation in the rural areas of district Sialkot.

Objectives of the Study

- To find out the impact of microcredit on poverty alleviation.
- To give suggestions/policy implications for improvement of PRSP and the microfinance sector in Pakistan.

Literature Review

**Hassan and Lu (2011)** conclude that microcredit programmes are mostly targeting to those families who are living in extreme poverty. Microcredit has positive impact on food consumption, nutrition and income of the beneficiaries. Evidences show that the quality of life of the families who were involved with microcredit schemes has been improved. Moreover, micro credit not only increased the income of the borrowers but also improved the health care, education, house conditions as well as the socio economic status of the beneficiaries.

**Khan et al (2011)** discusses that women are always remain financially neglected. In developing countries, women are not allowed to take part in decision making. Therefore, microfinance programmes are mostly targeting to the poor women. The main objective of this function is to empower the women. Moreover, women are found more trust worthy in proper utilization of credit and repaying the loan installments. They analyze that after borrowing women borrowers have become confident, active and empower in decision making. It helps them to become not only socially strong but also raise a voice for their social rights.

**Khilji (2011)** concludes that poverty has been increased in Pakistan due to certain reasons but financial constraints and desert of Human Resource Development (HRD) are the most prominent causes. Micro financing is a supportive tool which works with HRD in order to alleviate the poverty from the country.

**Yusuf et al (2011)** describe that in rural areas most of the people belong to farming or have some small scale business. In the past, due to unavailability of credit poor people could not purchase necessary inputs for forming which resulting in less output or low productivity level. Moreover they were not able to enhance their small scale business which could bring sufficient income for their families. But now micro financing fulfills their needs of credit and helps them to escape from poverty.

Hypothesis

H$_0$: Loan participation has no impact on income of the beneficiaries.
H$_1$: Loan participation has positive impact on income of the beneficiaries.

Material and Methods

District Sialkot consists three tehsils, namely Sialkoat, Pasroor and Daska. From each tehsil; two villages are randomly selected and then from each village 20 respondent (10 borrowers and 10 non borrowers) are randomly selected. (The clients who have completed at least one year with PRSP were treated as borrowers while the clients who recently entered in the organization were treated as non borrowers). Hence total sample of 120 (60 borrowers and 60 non borrowers) is completed. Face
The Model

\[
Y = \text{Income of the respondents (In Rupees)}
\]

(Income (farm and non-farm) of the borrowers and non borrowers was asked during the interview, and used in the analysis as dependent variable.)

**Independent Variables**

- \(X_1\) = Loan participation (0 for non-borrowers and 1 for borrowers)
- \(X_2\) = Education Level (Number of Year of Schooling)
- \(X_3\) = Size of Household (Total number of Family Members)

\[
b_0 = Y - \text{Intercept}
\]

\[
y = b_0 + b_1x_1 + b_2x_2 + b_3x_3 + \mu
\]

\((b_1, b_2, b_3 \text{ are the coefficients of parameters while } \mu \text{ is the error term.})\)

**Results and Discussion**

**Table: No: 1 Results of Regression**

<table>
<thead>
<tr>
<th>Model (Variables)</th>
<th>Coefficients</th>
<th>t-value</th>
<th>Sig (p-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>1544.24</td>
<td>14.377</td>
<td>.000</td>
</tr>
<tr>
<td>(X_1) (Loan Participation)</td>
<td>621.22</td>
<td>4.281</td>
<td>.001</td>
</tr>
<tr>
<td>(X_2) (Education)</td>
<td>544.47</td>
<td>4.073</td>
<td>.000</td>
</tr>
<tr>
<td>(X_3) (Size of Household)</td>
<td>-102.20</td>
<td>-.759</td>
<td>.641</td>
</tr>
</tbody>
</table>

F- Value = 316.58  \(R^2 = .849\)
(Source: Researchers’ own calculations)

The results of empirical analysis (MLRM) are presented in above table. The constant of the model is found 1544.24, which represents the income of the respondents, keeping all other independent variables zero. The coefficient of \(X_1\) (Loan Participation) is found 621.22 which shows that if the amount of credit will increase 1 rupee, it will increase the income of the borrowers by Rs.622.22/-. The coefficient of \(X_2\) (Education) is found 544.47 which depicts that increase in 1 year/level of education, will increase in income by Rs.544.47/-. The variable \(X_3\) (Size of Household) is found insignificant. So, \(H_1\) is accepted against \(H_0\) and conclude that loan participation has positive and significant impact on income level of the beneficiaries. These results are also aligned the previous studies. (Abbas et al. (2005), Asghar (2012), Bashir et al. (2010)).

F-value is found 316.58 which indicates the overall significance of the model. The value of \(R^2\) is found .849 which shows that 84.9% variation in dependent variable (income) is explained by these above mentioned independent variables.

**Borrowers’ opinions about the Amount of Loan, Loan Procedure, Recovery Procedure, Interest Rate and PRSP Staff’s Behavior**

Borrowers were asked about the amount of loan, borrowing and recovery procedures, interest rate and staff’s behavior. All these questions are much significant for future policy making. Results are as follows.
Table No.1.2: Borrowers’ opinions about the PRSP and its Services

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Neutral</th>
<th>To Some Extent</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfied From Loan Amount (%)</td>
<td>26%</td>
<td>68%</td>
<td>2%</td>
<td>4%</td>
<td>100%</td>
</tr>
<tr>
<td>Satisfied From Procedure of Loan (%)</td>
<td>78%</td>
<td>3%</td>
<td>5%</td>
<td>14%</td>
<td>100%</td>
</tr>
<tr>
<td>Satisfied From Recovery Procedure (%)</td>
<td>69%</td>
<td>19%</td>
<td>9%</td>
<td>3%</td>
<td>100%</td>
</tr>
<tr>
<td>Satisfied From Interest Rate (%)</td>
<td>14%</td>
<td>72%</td>
<td>3%</td>
<td>11%</td>
<td>100%</td>
</tr>
<tr>
<td>Satisfied From PRSP staff’s Behavior (%)</td>
<td>82%</td>
<td>3%</td>
<td>7%</td>
<td>8%</td>
<td>100%</td>
</tr>
</tbody>
</table>

(Source: Researchers’ own calculations on the bases of field survey)

The above table shows that most of the borrowers are not satisfied from the loan amount. They said that due to high inflation the inputs of any economic activity are getting expensive day by day. The disbursed amount of credit is not sufficient especially for livestock, dairy and poultry farming etc.

PRSP disburses group loans through the manager of the concerned CO. Second row in the table shows that most of the borrowers are satisfied from procedure of borrowing loan. They said that it is much easier for them to borrow a loan through manager of CO instead of visiting PRSP’s office.

In the third row of the table borrowers’ response about the recovery procedure is given. It is found that most of the borrowers are satisfied from the recovery procedure. They said that it is easy for them to deposit their monthly installment to the manager of CO instead of visiting every month to the PRSP’s office.

PRSP is charging 20% interest per annum on decreasing balance. Borrowers were asked about their satisfaction of interest rate. Fourth row shows that most of the borrowers are unsatisfied from interest rate. They said that it is reducing the purchasing power of the borrowers because they can’t afford the high amount of interest rate with the principal amount.

PRSP’s staff often visits the COs in their respective areas. An official must have to attend the monthly meetings of COs. Fifth row shows that most of the borrowers are satisfied from the staff’s behavior which represents a good quality of any organization.

Conclusion

The study was conducted to find out the impact of microcredit by PRSP in rural areas of District Sialkot. The empirical results reject the null hypothesis and conclude that loan participation has positive impact on the income of the beneficiaries. As the income of the beneficiaries increases, poverty automatically decreases. Microcredit helps the poors to expand their small business and earn greater profit to spend a prosperous life. It is observed that after loan participating by three or four years, most of the beneficiaries shifted upward from the poor class to lower middle class. Education also has positive impact on income while size of household is found insignificant. Some suggestions are given below for the betterment of PRSP and microfinance sector in Pakistan.

Suggestions/Policy Implications

- PRSP is charging 20% interest rate per annum. Borrowers have to pay not only the principal amount but also the amount of interest. Interest rate put on extra burden to the borrowers and decreases their profit as well as purchasing power. So, interest rate may be significantly decreased.
- PRSP and most of the other microfinance institutions are disbursing credit only for running business. Some persons have technical skills but don’t have adequate finance to initiate their
business. If a person has skills along with certified diplomas, PRSP may also give loan to him/her to start the related business.

- Education is the fundamental right of every person. PRSP may introduce some Student Loan Schemes at low markup and duration of repayments should be started after the completion of their studies on easy installments.
- PRSP launched skill development and short training programmes in some villages. These programmes may be started at macro level so that every interested borrower or villager can obtain benefits.
- State Bank should have effective and favorable policy for microfinance institutions/banks to promote the microfinance sector in Pakistan.

References


