Sustainability of Micro Credit System in Pakistan and its Impact on Poverty Alleviation

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Abstract

This research investigates the sustainability of Micro Credit system in Pakistan and impact of poverty alleviation. Data were collected from 400 respondents who used Micro credit by using the simple random sampling technique and data were analysis by using SPSS-18 version. Interviews of farmers/ growers, officers of micro credit, office public and private supporting services, Institutions and other professionals were conducted by using structured interview. Present study attempts to viability of Micro credit system in Pakistan and how its impact on, macro economic policies designed to accelerate growth were combined with appropriate fiscal polices for income redistribution for reducing inequalities. The second style aims at public investment in creating an infrastructure for providing health, education, etc. with a view to promoting quality of life. Results showed that Micro credit has positive impact on alleviate poverty in Pakistan. The case study indicates that 40% of the beneficiaries opened shops/small provision stores, followed by investment in poultry, embroidery and livestock.

Keywords: Sustainability, Micro Credit System, Pakistan

1. Introduction

The concept of sustainability has to be viewed from a broader perspective and multiple dimensions. These include economic, social, political, enterprise, institutional and biological aspects and their interface with various sub-systems for balanced development. Eradication of poverty is the ultimate goal of sustainable development. Poverty stems from a number of factors, which are region specific and linked to socio economic conditions and have contextual dimensions. Strategy towards poverty eradication incorporates multiple initiatives that require a comprehensive framework encompassing physical, structural, economic, social and political aspects. There is growing evidence across the globe regarding the role of rural financial services for alleviation of food insecurity and poverty.

The traditional face of banking is undergoing change since 1999 through 2008, providing institutional micro credit to the rural sector in particular and to underdeveloped regions in general. Micro means small, whereas credit means the opportunity to borrow money. Micro credit is a small amount of money loaned to a client by a bank or other institution. Microfinance refers to loans, savings, insurance, transfer services, micro credit loans and other financial products targeted at low-income clients. Micro credit is a system where people in poor countries can borrow small amounts of money at low rates of interest even if they have little or no collateral. It works through small banks, which lend money to local people so that they can start businesses and earn their living. Micro credit and micro finance have changed the lives of people and revitalized communities in the world's poorest as well as the richest countries. Micro credit has been changing the lives of people and revitalizing communities worldwide for centuries. Micro credit programs extend small loans to very poor people

for self-employment projects that generate income allowing them to care for themselves and their families (Microcredit Summit E-news; March 11, 2003). In micro credit, more emphasis is on loans. Micro credit caters commercial needs of poor for enabling them to raise their income levels and improve standards of living. Microcredit means more emphasis on loans while micro finance also includes support services where you open up channels for thrift, market assistance, capacity building, insurance, social and cultural programs. So microfinance is "credit plus", while micro credit is "only credit". In this way, micro credit refers to making small loans available to the poor through schemes especially designed to meet the Poor's particular needs and circumstances. It has proven an effective and popular measure in the on going struggle against poverty, enabling those without access to lending institutions to borrow at lower bank rates, and start small business. The concept of micro credit was pioneered by Dr.Mhuhammad Yunus, and first implemented in the Grameen Bank, Bangladesh. Subsequently, Grameen Bank replications have proliferated, and have proven effective in repeating the micro credit miracle on vast and consistently increasing scale. Numerous schemes, in developing countries in particular, have now shown that micro credit can make a significant contribution for tackling poverty.

2. Poverty-Credit Interface

The linkage between economic growth and poverty reduction is rather weak. This calls for the need for sustainable mechanism to provide safety nets for sustainable development of the poor. However, there is a growing evidence now that the promotion of micro credit systems and development alleviation. Through micro finance is not a panacea for the poverty alleviation there is consensus now that the poor through self help approach can be moved out of poverty syndrome. It can be powerful instrument for self powerment by enable the poor especially women to become economically self-reliant. Promoting income generating activities among the poor therefore, seem to be one of the push factors for poverty eradication in Pakistan.

3. Micro Credit Access to Rural People

In spite of large banking network, a vast majority of the rural poor have no access to bank credit for various reasons. Despite the massive subsidy-credit linked self employment program under SGSY, poverty levels in Pakistan continued to be very high (22%) and , many poor people still do not have access to formal credit institutions. In tables 1, 2 and 3, the details of poverty in different provinces of Pakistan are given. It is this inability of credit institutions to cover a sizeable segment of rural poor due to the high cost of administering a large number of small loans and their perceived lending risks, which has prompted a number of non-government organizations (NGOs) to enter the rural credit scene by organizing the poor into informal groups for the mutual help and benefits. Many of these groups have provided credit support through their credit institutions. Micro credit is being increasingly recognized as an important tool for sustainable social and economic progress. The micro credit in practice is a savings and credit program. But the emphasis has been on the credit side to channel financial resources to the poor for self employment and consequently for generation of income. Self help groups of the poor are the chariots on which micro credit movement has been built over the years.

Data Collection Methodology

Data were collected from 200 respondents who availed micro credit facility by using the simple random sampling technique and data were analyzed by using SPSS-16-5 version. Structured interview technique was used for farmers /growers, officers of micro credit office, public and private supporting services, institutions and other professionals

Table 1. Poverty Trends by Province

Province	FY 99	FY2000	FY 2001	FY 2002—07
Urban areas	20.7	16.3	16.1	22.4
Punjab	22.0	18.1	16.9	25.5
Sindh	17.3	11.8	12.0	16.1
NWFP	25.3	26.9	27.2	29.2
Baluchistan	31.8	16.8	23.0	24.3
Rural areas	28.9	34.7	30.7	36.3
Punjab	26.5	33.9	28.3	36.0
Sindh	29.5	31.8	19.6	34.7
NWFP	37.0	40.0	43.4	44.9
Baluchistan	28.1	37.9	42.5	22.5
Over all	26.6	29.3	26.3	32.2
Punjab	25.2	29.5	25.0	33.0
Sindh	24.1	22.6	15.7	26.6
NWFP	35.5	38.1	41.2	42.6
Baluchistan	28.6	35.5	38.4	22.8

(Source # Asian Development Bank July 2002-06 pages #12)

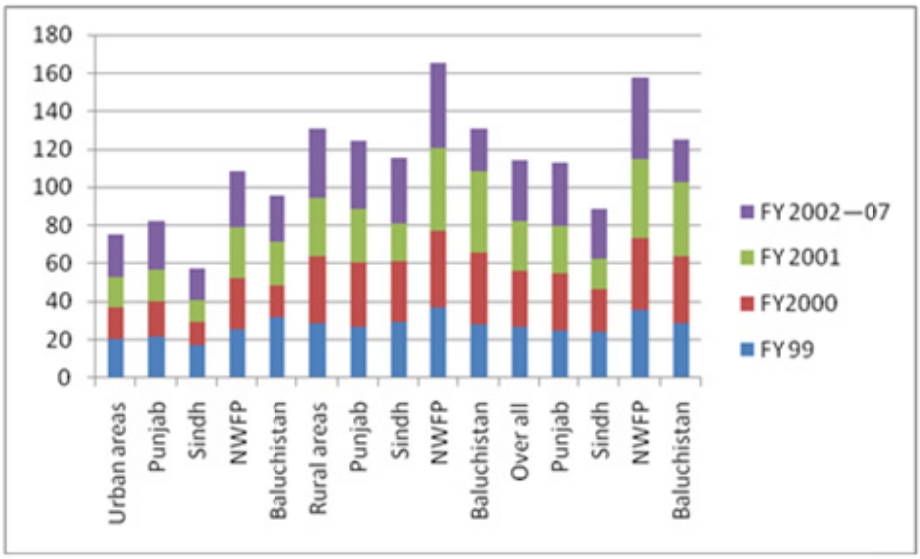
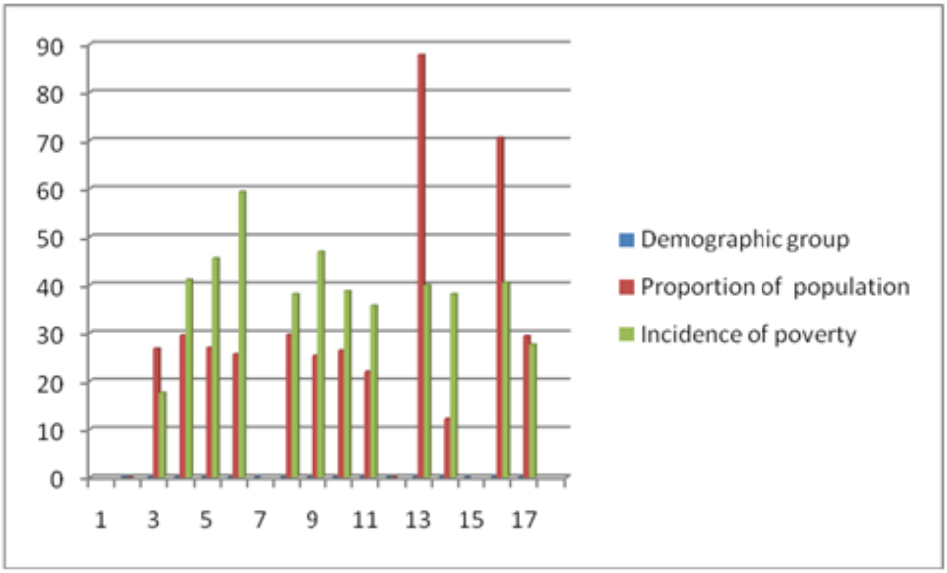


Table 2. Demographic Characteristics of Poverty, 1999-2009-10-onwards

Demographic group	Proportion of population	Incidence of poverty
Household size		
1-4	26.8	17.6
5-6	29.5	41.1
7-8	27.0	45.5
9+	25.6	59.4
Age of household head		
<40	29.65	38.1
40-49	25.3	46.9
50-59	26.4	38.7
60+	22	35.7
Gender of household head		
Male	87.8	39.9
Female	12.2	38.1
Migration		
Non-migrant	70.6	40.5
Migrant	29.4	27.6

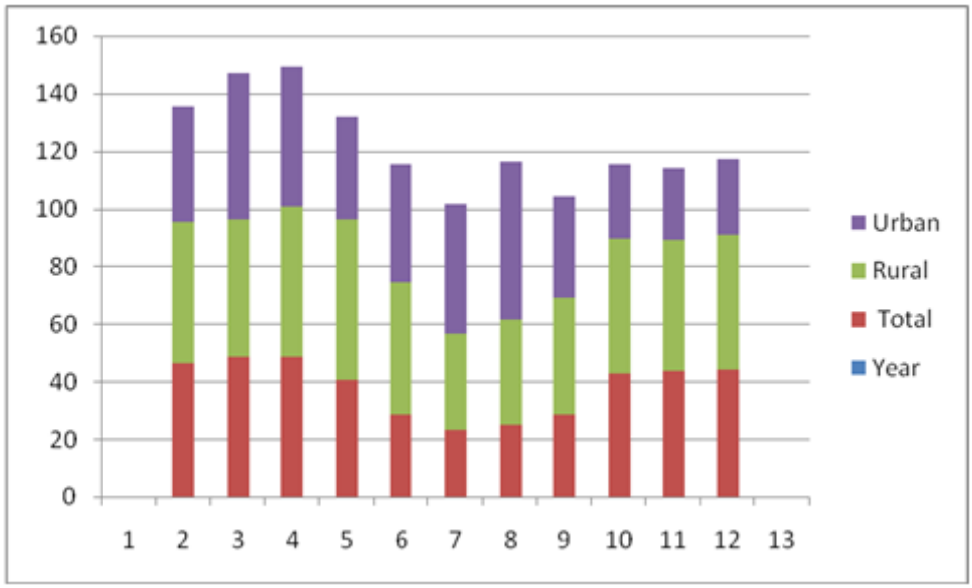
(Source: Survey-2009-10)



Time Series on Poverty: Head Count (Poor Households as Percentage of Population)

Year	Total	Rural	Urban
1999-2000	46.24	48.94	40.53
200-2001	48.50	47.62	50.96
2001-2002	48.53	52.11	48.76
2002-03	40.68	55.51	35.94
2003-04	28.47	45.87	41.17
2004-05	23.32	33.32	44.99
2005-06	25.11	36.59	54.64
2006-07	28.40	40.55	35.50
2007-08	42.60	46.80	25.90
2008-09	43.70	45.60	24.70
2009-10 (June)	44	47	26

Survey-2009-10



Issues in Micro-Finance Institutions:

Breaking the psychology of poverty is the first issue to be addressed in building trust. Poverty has its origin in asset lessening of the poor. The vicious cycle of poverty stems from low income, inadequate savings, and low capital formation leading to low investments. Promotion of micro-enterprises is the next logical step for sustainable development of the poor. It is the enterprise that enables income generation and provides sustainable livelihood systems for the poor. Income generation is closely linked to investment pattern.

Financial viability of micro-finance institutions is a major issue that needs attention. This is one of the important aspects being neglected by various agencies involved in the micro-credit movement in Pakistan. As a matter of fact, many micro finance institutions do not achieve financial viability. This is partly because most of the micro-enterprises of the poor are tiny in nature and do not provide adequate scope for income generation so as to improve their socioeconomic status.

4. Results and Discussions

The appropriateness of micro credit as a tool for reducing poverty depends on local circumstance. Poverty is often the result of low economic growth, high population growth and unequal distribution of resources. The proximate determinants of poverty are unemployment; reducing poverty requires creating jobs. When poverty results from low productivity and low income, reducing poverty requires investment in human and physical capital to increase worker's productivity. Whether micro credit increases employment and productivity or not is an empirical question which will be explored in this section. Consequently, the best way to reduce poverty is to deal with both problems: increasing productivity by creating employment and developing human capital.

One way to increase the productivity of the poor is through broad-based economic growth. Such growth ensures more inclusive participation in development by providing widespread employment opportunities. Agricultural development provides opportunities for broad-based economic growth. But substantial job expansion within agriculture may not be feasible, since agriculture already provides more than 70 per cent of employment in Pakistan and in many other low-income countries.

Lack of savings and capital make it difficult for many poor people who want jobs in the farm and non farm sectors to become self-employed and to undertake productive employment-generating activities. Providing credit seems to be a way to generate self-employment opportunities for the poor. But because the poor lack physical collateral, they have almost no access to institutional credit. Informal lenders play an important role in many low-income countries (Adams and Fitchett 1992; Ghate 1992), but they often charge high interest rates, inhibiting poor rural households from investing in productive income-increasing activities. Moreover, although informal groups, such as rotating savings and credit associations, can meet the occasional financial needs of rural households in many societies, they are not reliable sources of finance for income-generating activities (Webster and Fidler 1995). Micro-credit programs are able to reach the poor at affordable cost and can thus help the poor become self-employed.

There are two views regarding the role of micro credit program in poverty alleviation. Detractors view such program as social liability consuming scarce resources without significantly affecting long-term outcomes. Critics argue that the small enterprises supported by micro-credit programs have limited growth potential and do not have any sustained impact on poverty. They contend that these programs make the poor economically dependent on the availability of subsidized credit and such micro credit programs are abandoned.(Adams and Von Pischke 1992).

Proponents of micro credit consider increasing the poor's access to institutional credit as an important means of ending poverty (Yunus 1983). They argue that by virtue of their design such programs can reach the poor and overcome problems of credit market imperfections. In their view improved access to credit smoothes consumption and eases constraints on production raising the income and production of the poor. It is an empirical question whether micro credit reduces poverty or not.

Many countries have established micro credit program with the explicit objectives of reducing poverty by providing small amounts of credit to the poor to generate self-employment in income generation activities. Bangladesh is a leader among the low-income countries offering micro credit. Therefore empirical evidence from Bangladesh regarding the impact of micro credit on poverty alleviation will provide insight regarding effectiveness of micro credit in reducing poverty.

The effects of micro credit programs on participants can be measured in terms of consumption, nutrition, employment, net worth, schooling, contraception used and fertility. A survey was carried out and regression technique was used to analyze the impact of micro credit on participants in Bangladesh.

5. Conclusion

Pakistan is faced with twin challenges of reviving growth and reducing poverty. Poverty alleviation thus has to be effected not only through microeconomic policy, but also by bringing about significant improvement in the structure and functioning of system of governance & organized mechanism of micro-credit to reach over million targeted people by the end of 2007. The case study indicates that 40% of the beneficiaries opened shops/small provision stores, followed by investment in poultry, embroidery and livestock. The paper also provides some technical information on profitability/cost benefit analysis of income generating activities/trades in rural Pakistan. During research it was observed that Poor governance is the key underlying cause of poverty as it not only enhances vulnerability but is the cause of low business confidence which translates into lower investment levels; reduced efficiency and provision of services which has serious implications for human development; and deterioration in law and order situation which effects both economic activity and quality of life and in this way government should hold all these things in check, while devising poverty reduction strategy through spreading network of micro-credit finance institutions across the country. In the light of successful experience of Bangladesh regarding the role of micro credit institutions in poverty reduction, Pakistan has also established a micro credit Bank. The potential of micro-finance market is immense in Pakistan. According to household income and expenditure survey, 6.5million households are earning less than Rs 3000 per month. Other estimates suggest that there are 45 million individual men and women who are potential micro finance clients compared to the potential market outreach of microfinance services, which remains small. The Chief Executive of Pakistan Poverty Alleviation Fund estimates that there are 0.8 million clients currently receiving micro finance services. More than 98 per cent of potential clients, approximately 44 million men and women, do not have access to micro finance.

6. Policy Suggestions:

Micro credit movement has to be viewed from a long term perspective. Its mission goes beyond development through credit for poverty reduction. In the context of economic liberalization there are indications that the

markets are turning out to be unfriendly to the poor. Hence there is an urgent need to provide insurance for the products of microenterprises sector through sustainable institutional mechanism.

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