

POVERTY ALLEVIATION THROUGH MICRO-CREDIT

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Abstract: Micro-credit is known as an effective tool for poverty alleviation. In poor countries like Pakistan greater attention has been paid to poverty alleviation through micro-credit, especially in the last decade. The successful use of the micro-credit is considered as a victory for the disadvantaged segments. Considering the poverty alleviating impact of micro-credit, currently many micro-credit institutions are working throughout the developing world. Still there is a myth prevailing regarding the effectiveness of micro-credit for poverty alleviation. Therefore, this paper is an attempt to analyze the role of micro-credit in poverty alleviation. Before and after comparison was incorporated to evaluate the poverty alleviation through micro-credit by using some indicators i.e. monthly household income, monthly household savings and economic status before and after utilization of the credit. To achieve the desired objectives of the study 80 micro-credit beneficiaries were interviewed in four urban slums of Rawalpindi/Islamabad (Pakistan). There has been found a significant association between economic status of the micro-credit beneficiaries (after the utilization of the credit) and beneficiaries' age, total number of family members and monthly household income (after the credit utilization).

Key Words: Poverty alleviation, micro-credit, income, savings, economic status

INTRODUCTION

Millions of people worldwide are urgently looking for decent work as a doorway leading out of poverty. For most of them that is firmly locked, because permanent jobs in established enterprises, access to social protection services and decent working conditions, remain out of reach. For them the time will be miraculous when they will get rid from their economic deprivation.

The dynamics of social, economic, political, cultural and environmental forces contrive in a manner that it separates the rich from the poor, strong from the weak, haves from the have-nots and favour those in a better position. The chemistry of sociology and the social factors like class, gender, ethnicity, caste, religion, age, etc., play an important role in determining the access to and control over resources for various groups of people in a given society. It is these relationships among people, their social structures and institutional settings, and their access to, and commands over resource base (physical, human, intellectual and social) and the policy framework that promote (or hinder) development. These factors are all the more relevant in the case of women who carry the double burden – of gender and poverty (Subrahmanyam, 2000).

The phenomenon of poverty was felt and observed more during the decade of 1990s, as the overall growth slowed down. While the slowed economic growth contributed to poverty, the trickle “down effect” once thought to improve living conditions, did not reach the lowest level owing largely to lack of accessibility of institutions, unjust and non-poor policies (Waheed, 2001).

In Pakistan poverty has many dimensions. The poor in Pakistan have not only low income but they also lack access to basic needs such as education, health, clean drinking water and proper sanitation. The latter undermines and limits their capabilities, limits their opportunities to secure employment, results in their social exclusion and exposes them to exogenous shocks. Then the vicious cycle of poverty is accentuated when the government structures exclude the most vulnerable from the decision making process. Poverty in Pakistan was reported at 31.8%, which comprises of 22.39% urban and 38.65% rural population in the country, which is based on average caloric intake of 2350 per adult per day that was equal to Rs. 670 per month in 1998-99, and in 2000-01 moved up to Rs. 748 per month (Economic Survey 2002-03).

In an era where poverty and unemployment have been growing, both globally and in Pakistan, perhaps due to the policies and programmes, which collectively define globalization, public and non-governmental processes have set upon themselves the task of reducing poverty and enhancing employment and the quality of life of the poor (Zaidi, 2003).

It is recognized that people living in poverty are innately capable of working their way out of poverty with dignity, and can demonstrate creative potentials to improve their situation when an enabling environment and the right opportunity exists. It has been noted that in many countries of the world, micro-credit programmes, provide access to small capitals to people living in poverty (Ahmed, 2000).

Micro-credit is defined as a credit provided to 'poor' free of collateral (the only collateral is the "peer" collateral) through institutionalized mechanism. This credit is made available 'as and when' needed, at the doorstep of the client (Bajwa, 2001).

OBJECTIVES

1. To study basic characteristics of the micro-credit beneficiaries.
2. To analyze the degree of poverty alleviation through micro-credit in the beneficiaries.

Ahmed, S. (2002) says that in recent years, in its wider dimension micro-credit known as micro-finance, has become a much-favored intervention for poverty alleviation in the developing countries and least developed countries. There is scarcely a poor country, and development oriented donor agency, (multilateral, bilateral and private) not involved in promotion (in one form or other) of a micro-finance program. Many achievements are claimed about the impact of micro-finance programmes, and an outside observer cannot but wonder at the range of diversity of the benefits claimed. Various studies demonstrate that rapid and sustainable poverty reduction depends on interaction of a wide range of policy measures and interventions at macro and micro levels.

Murthy (2002) states if the objective is poverty alleviation rather than elimination of poverty, micro-credit might at best provide micro solutions. To quote Scully, "As long as micro enterprise development is offered as a substitute for meaningful social

development, for employment that offers real security, for viable small-farm and enterprise production, and for fundamental changes in the economic policies prescribed by institutions such as the World Bank and the IMF, it will only impede progress toward finding real answers to the very real problem of poverty in the developing world”.

Musharaf (2002) says that Pakistan is well aware of the challenges poverty poses to humankind. Inequalities between the richest and the poorest people are widening. Women are worst hit by poverty, and with them the family unit gets entangled in a vicious cycle of poverty, ignorance, diseases and even more poverty. Action is needed on a number of fronts, as only a multi-pronged approach can tackle the problem of poverty. Micro-credit is one instrument that holds the greatest promise for transforming the lives of the economically underprivileged. Our region that houses more than two thirds of the poor people in the developing world – nearly a billion people in about 180 million households are constrained to live in abject poverty. Of these, 670 million live in the rural areas. Clearly, it is this region that should be targeted to reach out to the poor through micro-credit.

Choudhri (2002) found that the main issues generally reflected are confronting almost all micro-finance programmes aim at poverty alleviation in varying degrees, are identification of poor, access to the poor, specially the women, nature and causes of poverty, identification of appropriate micro-enterprise or income generating activities, appropriate institutional support mechanism. Besides devising suitable methodology for

development and implementation of such programmes on sustainable basis. The experts and practitioners of micro-finance programmes in general seems to have unanimity of views on considering poverty as a complex, multi-dimensional phenomenon which goes beyond the notion of income and encompasses social, economic and political deprivations.

MATERIALS AND METHODS

This study was conducted in two cities of Pakistan i.e. Rawalpindi and Islamabad. In both cities the study targeted four slum areas i.e. Muslim Colony, Dhok Kala Khan, Tehmaspabad and Shakrial, the total of 80 micro-credit beneficiaries (40 men and 40 women) were interviewed through stratified sampling. Those were all beneficiaries of Urban Poverty Alleviation Project (UPAP)¹, Pakistan.

To find out the desired objectives of the research study a comprehensive interviewing schedule comprising 42 questions was developed.

In the light of pre-test, necessary modifications were made in interviewing schedule to obtain meaningful responses.

¹ National Rural Support Programme NRSP launched UPAP in 1996 at the request of the Ministry of Finance, to replicate the Grammen Bank Model in Pakistan. United Nations Development Programme UNDP provided \$ 177,000, which was destined for disbursement as UPAP loans.

The limitation of the study was that all of the respondents were those who had repaid their loan completely before July 1, 2003.

The responses were tabulated and expressed in terms of percentage/frequencies. Thus the collected data were analyzed statistically using Chi-square test and Gamma with the help of SPSS (Statistical Package for Social Scientists). For Chi-square test .05 was assumed level of significance.

RESULTS AND DISCUSSIONS

The study was intended to explore the true picture of poverty alleviation through micro-credit in the lives of the credit beneficiaries.

Due to the limitation of the size for this paper only the main findings and the results of the indicators used to assess poverty alleviation through micro-credit will be discussed in this section.

Basic Characteristics of the Respondents

It has been found (Table: 1) that micro-credit had not been granted to the economically deprived population below the age of 20 years.

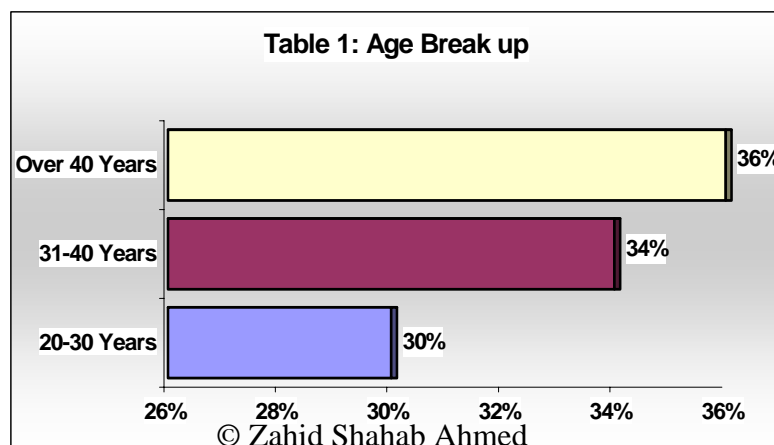
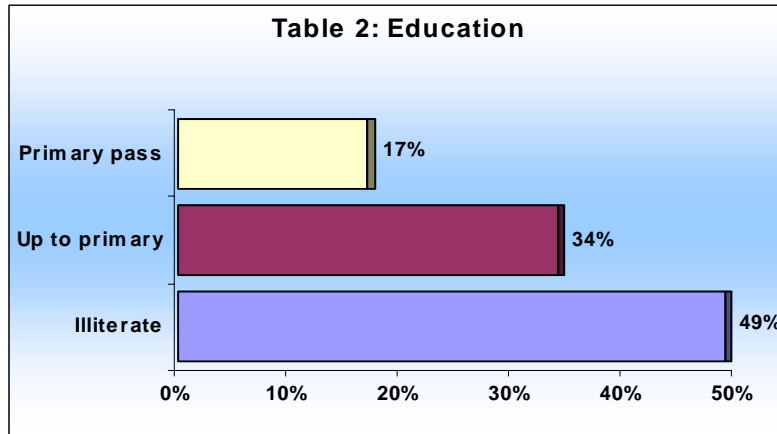
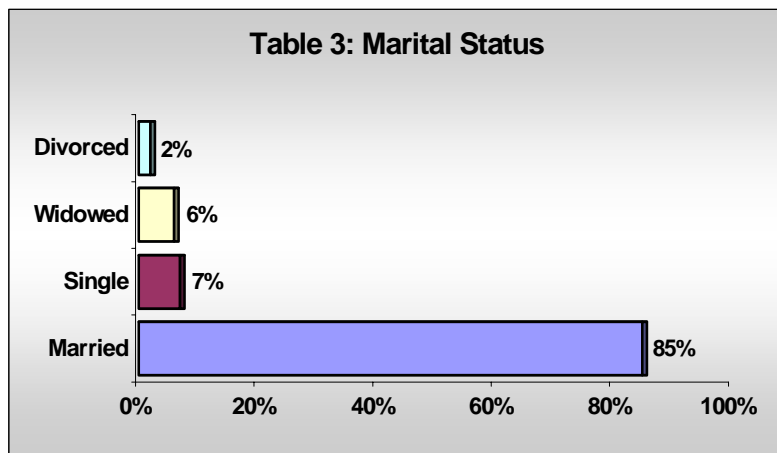


Table: 2 shows that mostly the illiterate people get credit because the illiterate people are the majority who struggles to fulfill their basic needs due to their economic deprivation. All of the respondents had not done matric, which clearly manifests the link of education with economic welfare.

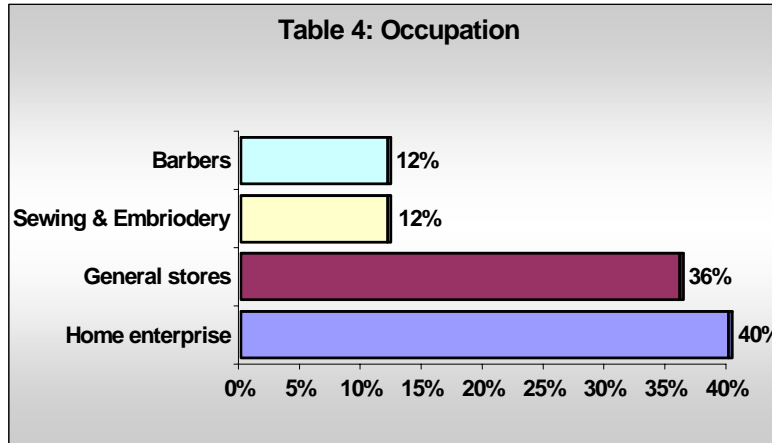


It has been found (Table: 3) that most of the married people had taken the loan, as there were only few borrowers (15%) who were unmarried, divorced and widowed.

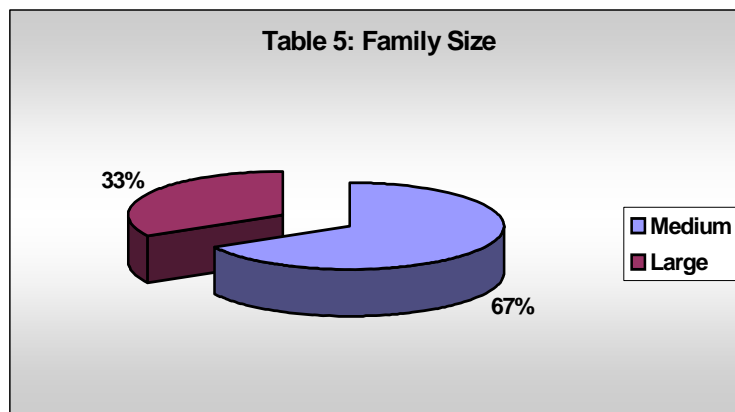


Micro-credit has shown its power because it has enabled the borrowers to establish their own micro-enterprises. As the data shows in the Table: 4 that most of the borrowers were

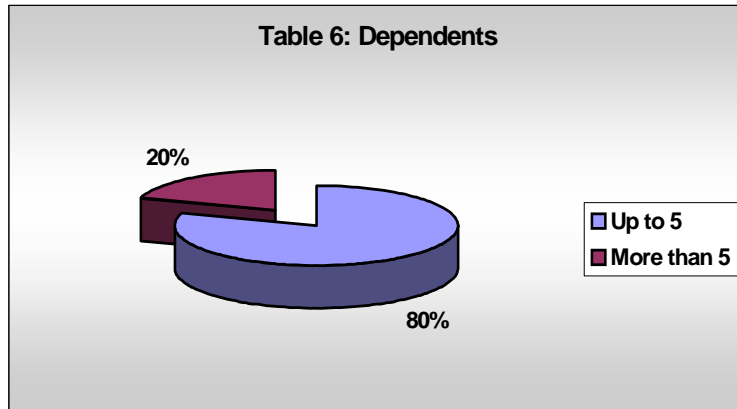
running home based income generating activities, such as; dairy, sewing, knitting, embroidery and beauticians. Others were running shops of vegetables, fruits, sanitary and general stores after taking the loan.



The data in the Table: 5 shows that most of the borrowers (67%) were having medium family sizes with family members less than five, almost two folds higher than the figure of borrowers having larger family sizes with more than 5 family members.

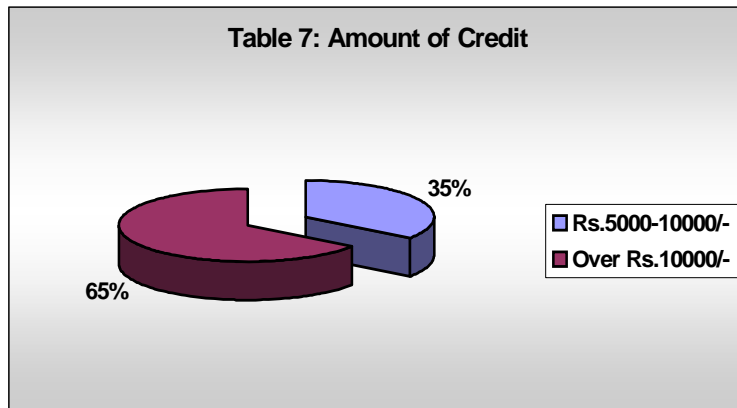


Majority 80 per cent of the borrowers were having less than five dependents in the household, while 20 per cent of the respondents were having more than 5 dependents (Table: 6).

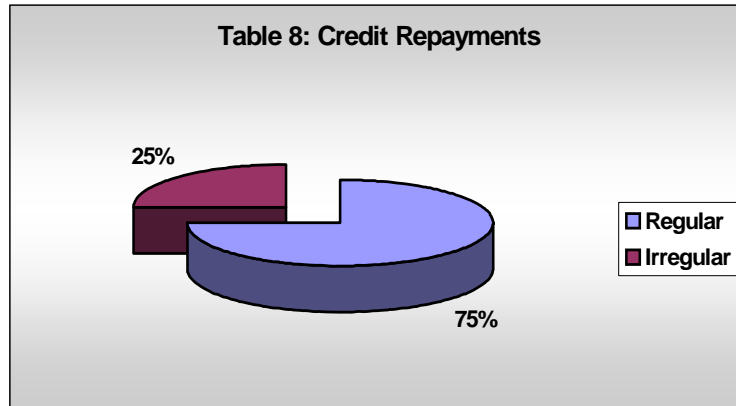


Credit Information

Table: 7 shows that most of the borrowers got loan for over Rs.10,000/- (US\$169, 1US\$1=Rs.59), which is considered to be enough to initiate a small enterprise. In case of the loans ranging from Rs. 5000-10,000/- most of the borrowers invested the amount in an already initiated business, whereas most of the women bought sewing machines, or equipment for beauty parlors.



As data shows in Table: 8 that the majority of the borrowers (75%) were regular in repaying their installments. The rest were unable to pay one or more installments on time due to illness of a family member, fees of children, etc.



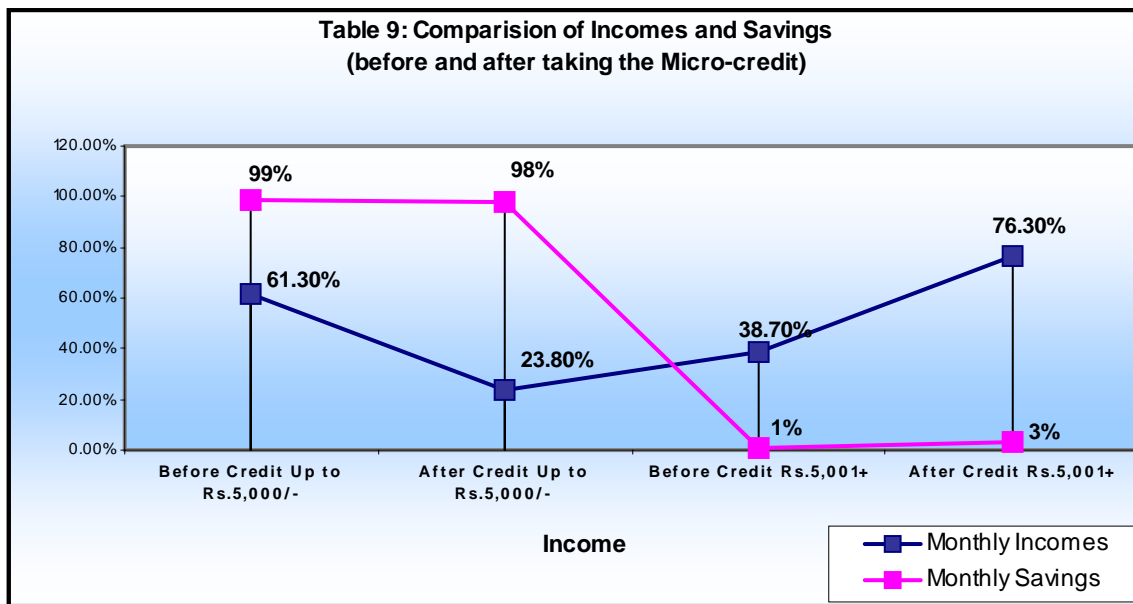
Comparison of Income and Savings

The data shows (Table: 9) that the credit caused increased their monthly household income after the credit utilization. As it has been found that before utilizing the credit 61.30 per cent of the borrowers were having monthly household income up to 5000 rupees (US\$ 85, 1\$ = 59 rupees).

In the income group of monthly household income more than 5000 rupees it has been found that 76 per cent of the borrowers were earning more than 5000 rupees/monthly after utilizing credit.

It has been found through the analysis of monthly household savings of respondents before and after using the credit that no significant change had occurred in the savings of micro-credit borrowers. This was explained in the following factors:

- Expenditures on the education and marriages of the children.
- To improve home conditions.
- Increase in expenses on self, such as; dressing and food to attain higher social status or respect.



Economic Status Analysis

Indicators for economic status according to the living standard of people:

a) Rich

- Members of household in service or business.
- More than one earner.

- Having car/motorcycle as a transport and other forms of machinery.
- Big and cemented houses with electricity and proper sanitation.

b) Well to do

- Doing low paid jobs.
- Small businesses.
- Have additional sources of income.
- Having motorcycle as a transport.

c) Poor

- One earner with many dependents.
- Having a bicycle/cart as a transport.

d) Very poor

- Laborers: mostly on daily wages.
- No regular source of income.
- Nothing for transportation.

e) Destitute

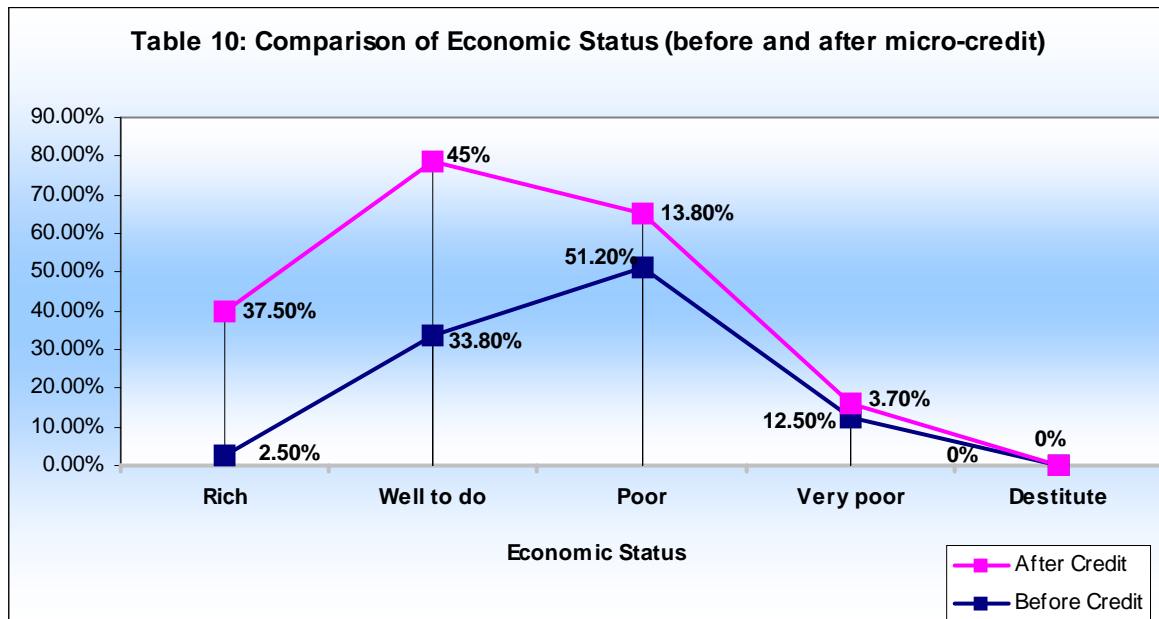
- No source of income.
- Surviving on Zakat², charity and occasional labor.
- Nothing for transportation.

² Charity in Islam for economically deprived people.

It has been found that micro-credit mostly targeted the poor or the people having enough resources to fulfill their own and families' requirements (well to do). The micro-credit didn't target those living in extreme poverty, such as; very poor and destitute (Table: 10).

Also it has been found in a study by PPAF (2002), which says that the poorest generally remain outside the net of conventional micro-credit programs for two reasons. Firstly, successful micro-credit operations are careful to screen out potentially risky clients. Secondly, the poorest people often self-selected themselves out. They may not consider themselves to be 'credit worthy' or may not feel they have enough resources to generate sufficient income to pay back the loan.

Table: 10 shows that the credit beneficiaries had uplift in their economic status after utilizing credit. As data shows, before utilizing credit only 2.5 per cent of the respondents were rich, but the percentage in this category increased to 37.5 per cent after utilizing credit. Further, before utilizing credit only 33.80 percent were well to do and the percentage had a rise to 45 percent after credit utilization.



Before utilizing credit there were 51 per cent poor and 12.5 per cent very poor respondents, but after utilizing credit the borrowers had significant decline in their economic deprivation. As the data manifests that after utilizing the credit there were only 13.8 per cent poor and 3.7 per cent very poor people who had taken the micro-credit.

Main Findings

The main findings of the research are as follows:

- Most of the respondents (75%) were regular in repaying the installments on time.
- 42.5 percent independent decision to take the credit.
- All of the respondents utilized the whole amount of loan in the business/enterprise.
- Most of the respondents (62.5%) had taken a loan prior to the current loan.
- Most of the respondents (90%) percent owned their businesses.

- Most of the respondents (90%) were having fulltime business. In part-time businesses (10%) some were taxi drivers, working in a factory (night shifts) and photography.
- Most of the respondents (80%) were gaining profits earned through businesses.

Bivariate Analysis

Value of significance shows (Table: 11) that there is a significant association between respondents' age and their economic status after utilizing the micro-credit. Also it has been found that micro-credit beneficiaries from all the age groups had improvement to their economic status after utilizing the micro-credit.

There is also a significant association between respondents' total number of family members and their economic status after utilizing the micro-credit. It has been found that the beneficiaries with smaller family size had significant increase to their economic status after utilizing credit as compared to those having greater family size. This could be due to less economic pressure on the smaller families.

There is also a significant association between respondents' monthly household income and their economic status after utilizing the micro-credit. Further, it has been found that respondents' with greater monthly household income had better economic status after utilizing the credit, as compared to those with lesser monthly household income.

Table 11: Associations

Associations	Economic status after micro-credit utilization			
	Chi-square	d.f.	Significance	Gamma
Age	12.470	6	.050	-.449
Family size	8.157	3	.043	.102
Total income after credit utilization	11.990	3	.007	.620

CONCLUSION AND SUGGESTIONS

Micro-credit schemes enact some pro-poor changes in the household income by raising the income of their beneficiaries. But this improvement is not reflected in the National Statistics of poverty. This paper was an attempt to explain this puzzle. The research concluded that micro-credit helped only the poor beneficiaries to move out of their poverty trap. Micro-credit has failed to work for the economic deprivation of very poor and destitute, because it has neglected them while distributing the credit. It has been found in a study that two less targeted groups are rich and destitute, of course the micro-credit provision is not for rich but 2.5 per cent had got it. On the other hand none of the destitute had been targeted by micro-credit.

“In recent years, in its wider dimension micro-credit known as micro-finance, has become a much-favored intervention for poverty alleviation in the developing countries and least developed countries. There is scarcely a poor country and development oriented donor

agency (multilateral, bilateral and private) not involved in promotion (in one form or other) of a micro-finance program” (Ahmed, S., 2002).

From the study, the following suggestions are devised to make micro-credit more effective as a tool for poverty alleviation:

- Micro-credit schemes should have broader target group, including the ones in extreme poverty.
- Families with children under 18 years should be given preference.
- Micro-credit shouldn't be only an economic support. It should also have capacity building and training programs for economically deprived communities.

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