

Short Communication

Role of Micro Finance in Alleviating Rural Poverty: A Case Study of Khushhali Bank Program in Rahim Yar Khan–Pakistan

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ABSTRACT

The concept of micro financing is now in place to play a vital role in alleviating poverty both in urban as well as in rural areas of the country. This study was carried out to assess the role of micro finance program introduced by Khushhali Bank in poverty alleviation in Tehsil Rahim Yar Khan, Pakistan. It was concluded from the above findings that Khushhali Bank Rahim Yar Khan is efficiently serving the poor, helping them to get rid of poverty and improve their living standard. Some amendments have, however, been suggested.

Key Words: Micro finance; Khushhali Bank; Regression Analysis; Credit

INTRODUCTION

The rural community despite of significant contribution in economic set up of country is more vulnerable to poverty. Micro finance has evolved as an economic development approach intended to benefit low-income groups. The term refers to the provision of financial services to low-income clients, including the self-employed. Financial services generally include savings and credit, and some micro finance organizations also provide insurance and payment services. Micro finance activities usually involve, i) Small loans, typically for working capital, ii) Informal appraisal of borrowers and investment, iii) Collateral substitutes, such as group guarantees or compulsory savings, iv) Access to repeat and larger loans based on debt capacity and repayment performance, v) Streamlined loan disbursement and monitoring, and vi) Secure saving products.

In August 2000, Khushhali Bank was established under the Khushhali Bank Ordinance XXXII, as a part of the Government of Islamic Republic of Pakistan's Poverty Reduction Strategy and its Micro finance Sector Development Program (MSDP) that was developed with the assistance of Asian Development Bank. The main objective of the bank according to the ordinance is "to mobilize funds and provide sustainable micro finance services to poor persons, particularly women, in order to mitigate poverty and promote social welfare and economic justice through community building and social mobilization". To provide sustainable financial services with significant outreach in terms of clients served and services offered Khushhali Bank has started its micro finance program in 35 districts of the

country. This study was carried out to assess the role of micro finance program introduced by Khushhali Bank in poverty alleviation in Tehsil Rahim Yar Khan, Pakistan.

MATREIALS AND METHODS

Selection of the universe. The study was confined to Rahim Yar Khan Tehsil. According to information provided by KB staff, poor borrowers especially marginal and small farmers were taking micro-credit from this branch for cotton, wheat, sugarcane and purchase of livestock.

Selection of sample and data collection. The present study was conducted in 10 union councils of Rahim Yar Khan Tehsil where borrowers had completed at least two loan cycles for the sake of better impact assessment. A sample size of 100 borrowers from 20 COs (two COs from each union council) was selected for the present study. Out of 20 COs selected for study, there were 15 male, 3 female and 2 mix COs. In order to collect relevant information, an interview schedule was developed keeping in view the objectives of study. Each respondent was interviewed individually and separately to avoid any bias and influence.

Analysis of data. Impact of micro finance program on the poverty stricken community was measured and the data collected from sample respondents was compiled, tabulated, analyzed and interpreted by using average analysis, percentage, regression analysis and correlation analysis.

RESULTS AND DISCUSSION

Keeping in view the objectives of study, analysis of primary data was carried out to have an assessment of the income generation, problems in acquiring, utilizing and repaying the loan. The main results are depicted as follow.

- 1) 80% of the respondents were male while 20% were female.
- 2) 65% of respondents were farmers.
- 3) Majority of the respondents were aged between 25-50 years, married and with family size of 6-10 members.
- 4) 51.25% males and 65% female respondents were illiterate.
- 5) Program introduction by Khushhali Bank (KB) staff was the main source of information for the respondents regarding bank operations.
- 6) 62.5% of the male respondents were already taking loan from other sources before Khushhali Bank. But 80% of the female respondents took their ever first loan from Khushhali Bank.
- 7) 95% female and 53.75% male took credit because KB provided it to them at their doorsteps.
- 8) 71.25% of male and 85% of female respondents found KB lending procedure as customer friendly.
- 9) The average loan size for respondents was Rs. 15485/-. Majority of respondents told that loan size was not sufficient enough to fulfill their genuine capital needs.
- 10) Although KB charges a higher interest rate than commercial banks but it was surprising that 65% male and 60% female respondents think it reasonable. They also told that they had not paid any side cost to acquire loan.
- 11) 50% of the female and 47.5% of the male respondents told that recovery procedure was satisfactory.
- 12) 75% female and 66.25% male respondents faced no problem while repaying loan. Lump sum was the preferred mode of repayment.
- 13) Almost all the respondents replied that routine meetings were quite useful for them and they attend meetings regularly. 14) 80% of the male and 90% of the female respondent told that they deposit savings regularly. The average saving of sample respondents was Rs. 3850/-.
- 15) 61% respondents said that their income has increased by more than 20% after taking credit. Poverty ranking was also improved after utilizing credit for 21% respondents.
- 16) 69.2% respondents were of the view that they yield better productivity after utilizing credit. Most of the respondents also got intangible benefits like awareness, confidence, mobility, improved social status etc.
- 17) 81.25% male and 90% female respondents were satisfied with behavior of KB staff.
- 18) 95% of the female and 91.25% of the male respondents were willing to continue business with Khushhali Bank.
- 19) 82.5% male and 90% female respondents found KB as a better institution than others.
- 20) Female respondents were found more satisfied customers than the male respondents.

Regression analysis. The regression analysis was practiced for effect of credit (explanatory variable) on income generation, crop production, farm expenses and saving of respondents.

Effect of credit on income generation. Regression equation for effect of credit on income generation:

$$I = 31250 + 0.2887 C$$

Regression analysis

| Independent variable | Coefficient | Standard error | T cal | Significance level |
|----------------------|-------------|----------------|-------|--------------------|
| Credit | 0.2887 | 0.0442 | 6.53 | Highly Significant |

$$R^2 = 38.4\%$$

$$R^2 \text{ adjusted} = 39\%$$

Effect of credit on crop production. Regression equation:

$$Y = 24800 + 0.3431C$$

Regression analysis

| Independent variable | Coefficient | Standard error | T cal | Significance level |
|----------------------|-------------|----------------|-------|--------------------|
| Credit | 0.3431 | 0.0393 | 8.73 | Highly significant |

$$R^2 = 58.4\%$$

$$R^2 \text{ adjusted} = 57.5\%$$

Effect of credit on farm expenditure. Regression equation for farm expenditures (per acre) was:

$$E = 5600 + 0.542C$$

Regression analysis

| Independent variable | Coefficient | Standard error | T cal | Significance level |
|----------------------|-------------|----------------|-------|--------------------|
| Credit | 0.542 | 0.0667 | 8.12 | Highly significant |

$$R^2 = 61.3\%$$

$$R^2 \text{ adjusted} = 61.1\%$$

Effect of credit on saving. Regression equation calculated for effect of credit on saving:

$$S = 1375 + 0.108 C$$

Regression analysis

| Independent variable | Coefficient | Standard error | T cal | Significance level |
|----------------------|-------------|----------------|-------|--------------------|
| Credit | 0.108 | 0.022 | 4.91 | Highly Significant |

$$R^2 = 30.4\%$$

$$R^2 \text{ adjusted} = 29.7\%$$

The regression analysis shows significant impact of credit on dependent variables.

Correlation analysis. Correlation analysis was carried out to determine the relationship of credit with income, crop production, assets formation, farm expenses and saving. The results obtained from correlation analysis were:

| Correlation | Value | Effect |
|---------------------------|-------|--------|
| Credit & Income | 0.234 | +ve |
| Credit & Crop Production | 0.714 | +ve |
| Credit & Assets Formation | 0.147 | +ve |
| Credit & Farm Expenses | 0.698 | +ve |
| Credit & saving | 0.395 | +ve |

Results from the correlation analysis show positive relation between credit and saving, credit and farm

expenses, credit and crop productivity, credit and income, and credit and assets formation.

CONCLUSION

It is concluded from the above findings that Khushhali Bank Rahim Yar Khan is efficiently serving the poor, helping them to get rid of poverty and improve their living standard. Anyhow certain amendments should be practiced by bank.

- 1) Loan size should be sufficient enough to meet the genuine requirements of borrowers.
- 2) The president and manager of community organization should be given financial incentives.
- 3) The bank must manage for saving collection itself rather than involving commercial banks.
- 4) The bank must manage profit on accumulated savings of borrowers.
- 5) Timely disbursement of credit must be ensured for farmers especially.

6) The bank should revise repayment schedule if credit user suffers natural disaster and write off the loan in extreme case.

7) The bank staff should be strictly regular in conducting routine meeting and abide the timetable.

8) Technical assistance and training must be provided to all interested borrowers.

9) Interest rate should be lowered from 20%.

10) The community organizations with better performance should be provided extra benefits.

11) If a member defaults, the suffering of rest borrowers should be minimized.

12) The bank must provide the quarterly or semi annual installment facility to village entrepreneur where monthly installment becomes quite difficult because his customers purchase on credit and pay cash at sale of crop.

13) The bank must avoid frequent policy changes.

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