Time Series Analysis of Micro Credit and its impact on SMEs business Growth and Alleviating Poverty in Rural Sindh

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Abstract

This research investigates the impact of Micro Credit on SMEs Business growth and alleviate poverty in Sindh. Data will be collected from 200 respondents who used Micro credit by using the simple random sampling technique and data were analysis by using SPSS-16-5 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. It was revealed that over a time, economic growth would 'trickle down' and benefit all sections of society. Even though there are strong reasons to hold that this view is still valid, evidence suggests that this alone might not be sufficient and that directed intervention for poverty alleviation is a necessity. In due course it was felt that a targeted approach was a necessity for tackling this problem. Present study attempts to alleviate poverty can be categorized broadly into three styles. First, 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 Sindh. The case study indicates that 40% of the beneficiaries opened shops/small provision stores, followed by investment in poultry, embroidery and livestock.

Key Words: Micro Credit, Poverty, alleviation

Introduction

Micro means small, 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 words poorest and also the richest countries. Micro credit has been changing the lives of people and revitalizing communities' worldwide since the beginning of time. 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 (Micro credit summit). In Micro credit, more emphasis is on loans. Micro credit caters commercial needs of poor for enabling them to raise their income levels and improved standard of living. Micro credit means more emphasis on loans while micro finance also includes support service where you open up channels for thrift, market assistance capacity building, insurance, social and cultural programs. So where microfinance is credit plus, there 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 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 one vast and constantly increasing scale. Numerous schemes, in developing countries in particular, have now shown that micro credit can make a significant contribution to tackling poverty.

- Kakwani and Subbarao (1990) developed their own methodology to measure separately the impact of changes in average income and income inequality on poverty. The study examined past trends in the distribution and growth of consumption and assessed their relative impact on the poor and the ultra poor, over time and across fifteen major states of India. National Sample Survey data for 1972-73, 1973-74, 1977-78 and 1983 was used. The numerical estimates of the growth and inequality effects on headcount ratio and poverty gap ratio were obtained. The inequality effect was positive in almost all the states during the first period (1973-74 to 1977-78). The reduction in poverty, which took place in most states, was due to the high growth rates, which more than compensated for the adverse effects of increasing inequalities in this period. However, this situation changed in the second period (1977-78 to 1983). In almost all the states, the poor benefited proportionally more than the non-poor. On the basis of its results, the study attempted to analyze the government's strategy for reducing the incidence of poverty based on a combination of accelerated overall growth and targeted direct anti-poverty interventions. For the purpose, the study considered the potential indirect role of agriculture and manufacturing, as well as the contribution of direct anti-poverty programmes. The trends in social sector expenditures, and their outcomes for poverty reduction were also analyzed.

- Ravallion and Huppi (1991) extended the analysis of aggregate poverty in Indonesia as carried out by Ravallion and huppi (1989). This study employed certain aspects of the "poverty decomposition methodology" to throw light on the potential for future reductions in poverty in Indonesia. It used the 1987 results for Indonesia to estimate the elasticities of poverty to any future distributionally neutral growth in mean consumption. It was found that the 1987 growth elasticities were even higher than those of 1984. These higher growth elasticities of poverty coupled with the higher consumption growth rates implied increasing poverty alleviation through any distributional neutral growth after 1987. The study then estimated the poverty measures resulting from 5 and 10 percent increases in mean consumption after 1987, assuming first that the 1987 Lorenz curve held, and second, that inequality increased to its 1984 level. It was computed that the aggregate head-count index fell from 21.7 percent to 19.3 percent as a result of a distributional neutral 5 percent increase in real consumption per capita after 1987. If, however, the same increase in the mean were associated with a return to the less equitable 1984 Lorenz curve, the resulting headcount index was estimated at 21.1 percent, only slightly lower than its 1987 level.

Data Collection Methodology

Data will be collected from 200 respondents who used Micro credit by using the simple random sampling technique and data were analysis by using SPSS-16-5 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.

Poverty Trends by Province

Table 1

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)

Demographic Characteristics of Poverty, 1998-99-onwards

Table 2

Demographic group	Proportion of population	Incidence of poverty
Household size		
1-4	26.8	15.9
5-6	27.5	31.1
7-8	24.0	47.5
9+	21.6	57.4
Age of household head		
<40	28.6	36.1
40-49	24.5	43.9
50-59	23.9	33.7
60+	23.0	32.7
Gender of household head		
Male	91.8	36.9
Female	8.2	34.1
Migration		
Non-migrant	64.6	40.5
Migrant	35.4	29.6

(Source: Arif,et.al… 2001)

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

Table 3

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

Survey-2010-11

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 we will explore 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 agricultural already provides more than 70 per cent of employment in many 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 subsidised 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 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-incoming 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 participates 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.

If the Micro Finance Bank is to have desired impact on poverty reduction in Pakistan there is a need for expansion of micro credit services to the poor. In this regard, micro finance group which comprises 8 well known NGOs in Pakistan showed interest in starting a micro finance institute which would provide training to all practitioners that would assist in adopting *standard financial practices. Moreover micro finance Bank should focus on inculcating savings habits in the poor in order to maximize the impact on poverty reduction. Whereas Pakistan does not have an extensive culture of micro credit the resolve of the present government to establish a Micro credit Bank can go a long way in increasing the welfare of the poor. Borrowing from informal source does not have a sustainable welfare increasing effect on the poor household. The two stage estimate carried out by Shahid-ur-R-Khandker and Rashidur-R-Farquee show that both informal and formal credit it have a positive impact on household per capital annual consumption in case of Pakistan (see Table 6.5 in the Annexure).*

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 & order situation which effects both economic activity and quality of life and in this way government should held all these things in check while devising poverty reduction strategy through spreading network of micro-credit Finance institutions across the country.

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