
**COMBATING POVERTY THROUGH MICRO FINANCE:
A SOCIOLOGICAL ANALYSIS OF SAWFCO
IN DISTRICT MATYARI**

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ABSTRACT

Pakistani society is confronted with so many social, economic and political problems. Most of which are associated with poverty. It will be right to say that poverty is mother of all social evils. There are so many socio-economic, psychological and even the natural causes of poverty in Pakistan. To combat poverty, among others, poverty alleviation through micro finance appears to be the most credible as well as effective method. The poor do not have access to conventional banks but commercial banks and NGOs provide them credit, savings, trainings, insurance and other financial services at door step. So, micro finance institutions (MFIs) and micro finance banks (MFBs) are important tools to fight with poverty.

This research is based on personal experience in the field attained at the Sindh Agricultural and Forestry Workers Coordinating Organization (SAFWCO) Credit and Enterprise Development sector (CED) sector from 15 April 2006 to 30 Oct 2006 in District Matyari. This article is an analysis and evaluation of strategy of micro finance vis-à-vis poverty alleviation.

INTRODUCTION

ILO, UNESCO, and World Bank define poverty as a condition and exist when there is insufficient income to maintain subsistence requirements for food, shelter, clothing and house hold goods, insufficient essential services such as safe drinking water, sanitation, public transport, health services, and education.

State Bank of Pakistan Report (2009), 62 million of Pakistanis are living below the poverty line. However, among all the recognized tools for poverty alleviation the world over, a technique of micro-financing has yielded positive results. This cooperative movement originated in Germany.

It was during the 19th century, when poverty, famine, exploitation and indebtedness were prevalent in Germany; the cooperative movement took its birth to rehabilitate poor farmers and laborers. The movement gradually spread to Europe and countries such as Great Britain, Denmark, Sweden, France and Italy. In the sub-continent in order to combat rural indebtedness, supplying rural credit at a cheaper rate of interest was first initiated by Fredrick Nilcholson, a Madras civilian during 1895. The Cooperative Societies Act was passed in 1904. Its main object is to combat indebtedness and provide credit to rural community at large. Similarly, Grameen Bank Bangladesh began a very small amount to support their business and utilize the skills to motivate the poor to do savings. But there would scarcely be a developing country which yet have not initiated micro finance program in the country. In Pakistan it has been started from 1993.

Since rural areas of Pakistan bear the major brunt of poverty, district Matyari is chosen for this study to analyze the performance of SAWFCO in the micro financing sector. In Matyari there are various micro finance providers, such as, NRSP, Tameer Bank but this paper focuses on the Sindh Agriculture and Forestry Workers Coordinating Organization (SAFWCO), Credit and Enterprise Development Sector of SAFWCO which provides loans and financing facilities in Matyari with effect from 2006.

LITERATURE REVIEW

According to Shahzad (2009), population of rural areas is suffering much more than in urban areas of Pakistan, and this is because rural population depends on agriculture and they have low or no capital to invest on lands. They are not in a position to utilize new technology, fertilizers, pesticides and quality seeds.

Khatoon (2009) has discussed the outreach of micro finance facility to large number of people. After the State Bank of Pakistan's decision for mobile banking and Easy-paisa scheme of Tameer Microfinance Bank in collaboration with Telenor has increased the outreach of micro finance to remote areas.

According to Parveen (2009), borrower seldom gets rid of indebtedness and generates income from micro credit because interest rate on loans offered by NGOs is exorbitant. That is because MFI and MFB depend on foreign funding as IDA,

USAID, and OXFAM and to certain extent from government. For sustainable development MFI and MFB should provide low cost credits.

Annual Report SAFWCO 2008, while analyzing the annual progress of credit and enterprise development sector, describes microfinance as an effective tool to fight with poverty. Small loans, capacity-building trainings and saving motivation help borrowers to be self employed and increase their income from businesses. Further in the report, example of Bangladesh bank is quoted, which got noble prize for its role in poverty alleviation through micro finance.

Khatoon (2007) has examined the outreach of micro finance in Pakistan and found that six micro finance banks and about twenty NGOs have been working and 0.3% population is served. This number is sufficient to assist majority of population and achieve Millennium Development Goal to overcome situation of poverty in Pakistan.

RESEARCH METHODOLOGY

Research is conducted through Focused Group Discussions, Data Description and Participant Observation Method (researcher worked as a credit officer in SAFWCO, Matyari for 6 months – April 2006 to October 2006). Various researches on poverty and microfinance are reviewed. Focused group discussions are conducted from Microfinance Officers and served community to analyze the impact of program.

POLICY OF LOAN LENDING

Some main points of policy of loan lending at SAFWCO:

- Loan is given only for income generating businesses.
- Loan is given in a group of 4-7 members.
- Group members select their group leader, who is responsible and took guarantee of all other members.
- First loan is from Rs3000 to Rs8000. in case of Buffalo it is Rs10, 000.
- Group is motivated for Savings.
- Service charges on loan are 18% on a flat rate per annum.

- Registration fees are Rs 100 on amount of Rs5000 to Rs 10,000. It increases ten rupees on per five thousand rupees loan.
- Insurance fees are Rs 25 on less than an amount of Rs 5000. It increases Rs 25 on each five thousand loan.
- In villages VDO's form a credit committee (cc) of about 10 to 12 members. And through C.C credit is given.

Loan Heads

- Agriculture development.
- Live stock development.
- Retailers/ small enterprises.
- Handicrafts development and other income generating businesses.

CREDIT DETAILS AND LOAN POLICY AT SAFWCO

Loan Heads	Max. Loans	Min. Loans	Loan Period (Monthly)	Description of loan
Agriculture loan	8,000	30,000	6	In six months bullet payment
Regular loan	2,000	30,000	3-18	Repayment on monthly basis
Half installment loan	5,000	20,000	6-18	For goat rearing purpose (female). In two installment payment, one on 6 th month and other 12 th month.
Live Stock purchasing loan	10,000	30,000	12-18	1st loan 10,000/- If they have one buffalos than 12,000 and if have two buffalos than 15,000
Festival loan	8,000	30,000	12	Loan offered for mala. Repayment immediately after festival.
Small loan business	30,000	100,000	18	On monthly installment it is offered individually,

Sources: SAFWCO Annual report 2008.

PROCESS OF LOAN LENDING

First Entry into Community: It is when MFI's or NGO's initiated their work in a new community and introduce their organization, products, and policies.

Introductory Meeting: Introductory meetings are conducted with business-oriented persons, in which terms, conditions, requirements, are made clear to those persons who are interested and come under the micro credit policy of organization.

Group Formation: Then group is formed of about 4-7 members. That group is led by a group leader who is responsible and takes guarantee of all members. All other members are also responsible to each other.

Appraisal: It is process of correct information collection and analysis that a lender uses to evaluate potential loans on the basis of credit appraisal. A credit office takes 3 decisions Recommendation, Terms (loan approval, service charges, repayment period), and Conditions.

Re-appraisal: It is done by managing bodies of organization to fill up the gaps left in first appraisal by credit officer. After re-appraisal, loan is approved.

Disbursement: Approved loan is disbursed among credit group. At the time of disbursement, stamp paper is signed between credit group and organization.

Recovery: A fixed portion of loan amount is recovered from borrower in a specified period. If it is not recovered then it becomes over-due and eats up roots of organization threatening its sustainability.

LOAN LENDING METHODOLOGY

- Individual Lending Methodology
- Solidarity Group Model
- Village Banking

The methodologies which are commonly followed at SAFWCO Matyari are Solidarity Group Model and Village Banking. While individual lending being a risky is avoided. In this NGO urban and semi urban areas are served through Solidarity Groups and in villages through Village Deployment Organizations (VDOs).

MICRO FINANCE AND CREDIT SERVED

Disbursed Amount in Matyari	Current Barrowers	Total Served Barrowers
80755000	2170	6958

Sources: SAFWCO, Loan Record Register (Matyari Branch).

RESULTS, DISCUSSIONS, SUGGESTIONS

Main objective of microfinance is to create income among poor households thereby alleviate poverty. Though strategy of alleviating poverty through micro finance is effective, but it encounters the following bottlenecks:

- Untrained staff does not know the goal of program - poverty alleviation. They put stress on increasing number of borrowers.
- Loan is not fully utilized on businesses due to unsatisfied basic needs.
- Loan amount is not sufficient to uplift poor from poverty.
- In many cases loan is utilized by influential persons.
- Some religious minded poor people do not get benefit from this program due to interest on loan.
- Attitude of staff is also counted in the progress of program. Quick transfers or staff mobility make bad impression of program on community.
- Credit is not always the answer but the poor also need infrastructure, employment and training programs, and other non-financial services. This service is only for those who have some financial support. So non-credit worthy poor do not get any benefit.

Due to these problems delinquency rate is high. Not only MFI's portfolio is at risk, but program has also not good impact on poverty alleviation.

SUGGESTIONS

- Micro finance outreach must be increased to reach significant number of population.
- Staff should not be over-burdened with targets. They must put stress on quality not on quantity.
- Before giving credit their basic needs should be satisfied. Small need based loan should be started e.g. emergency loan.

- MFI also have sound organizational structure, trained staff and freedom from political interference.
- Government should support the national apex bodies. Like PPAF in Pakistan, PKSf in Bangladesh, PCFC in Philippines, and RMDC in Nepal, etc.
- Strengthen capacity of national apex bodies to support saving mobilization (no credit without saving).
- To link micro enterprise with market and provide technological resources to entrepreneurs.
- To stop the staff's quick mobility, they must be given good salaries as well as facilities that they should not leave organization within short time.
- Multinational financial institutions take initiatives to launch social development loan products to promote education, timely basic health care facilities and cost effective insurance facilities to secure assets, crops and live stocks of their client.

CONCLUSION

It is concluded that government with the help of NGOs can alleviate poverty via micro-financing. MFIs alone cannot reach to every corner of the country due to high transaction cost. But they have provided good strategy or experiment to fight the poverty. Poor have skills but they do not have personal capital to utilize. In microfinance poor are given loan as well as capacity building trainings to generate income. Also other services include insurance, transfer of amounts and savings.

Despite rigorous campaigning and publicity of micro-financing, only 0.3% population has been approached. So, there is need to increase outreach to design such a products through which poorest could also be benefited. MFI does also need to overcome on field and staff issues to increase the impact of program. Problems are manmade, therefore, man can solve it if they are given tools to fight with and micro finance is an important tool to fight poverty.

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