

## AN ANALYSIS OF MICRO CREDIT IN POVERTY ALLEVIATION OF SINDH: A CASE OF DISTRICT THATTA, SINDH PROVINCE

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### ABSTRACT

*The purpose of this research article is to analyze the role of micro-credit in poverty alleviation and its impact on the rural economy of Pakistan. This research is carried out on primary and secondary data. The research was conducted in six villages on random sample of 180 respondents in District Thatta during the year 2003-2004 regarding micro credit experience of National Rural Support Program (NRSP). The average size of the family in surveyed villages was 07 respectively. The annual income of the growers after getting the loan increased from Rs. 25,500/- to Rs. 35,100/- livestock owner from Rs. 29,400/- to Rs. 45,000/- and the enterprises from Rs.25, 500/- to Rs. 39,900/-. Their average monthly income stood at Rs. 2925, Rs.3750 and Rs. 3325/- respectively. The increased income is measured on calorie-based approach in order to know the reduction rate of the poverty. According to this approach, a person requires an average of 2350 calorie per day and Rs.1500/ = are needed per month as described by the planning commission of Pakistan. This indicates that each household hardly meets calories requirements leaving the other basic needs. It is revealed that micro-credit is not enough to reduce the poverty in rural Sindh. So, it needs further concrete measures to alleviate the poverty.*

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### INTRODUCTION

The poverty was observed more during 1990s, in Pakistan (Amjad 2002). The majority of population is rural inhabitants in the country. It is estimated that 35 percent of people still live below the poverty line (Rashid 2002).

Raising growth of agriculture is major issue of the country for poverty fall. High price production of crop has significance to

reach the national food and also growing net income of the poor and non-poor rural group of people. Agriculture alone cannot end poverty. The economic history of nation tells that the development of industrial sector provides job opportunities to the people of the country, which also helps in poverty reduction. Besides, policymakers should formulate such strategies that bring development in both sectors i.e industrial and agriculture of the country.

In this regard, government took different measures for improving farm income and alleviating poverty, as policy measures such as many institutions were established like following:

- Pakistan Poverty Alleviation Fund,
- Micro-credit Bank (Khushali Bank),
- Pakistan Baitul Mal,
- Income Safely nets,
- Khushhal Pakistan Program
- Food Support Program.

Also NGOs, AKRSP and NRSP worked for poor. They serviced for social mobilization of community and recognition and implementation of projects by the community.

From the above explanation it is pointed out that the ASRSP and the NRSP are playing a vital role in providing micro-credit facilities through out the country. Keeping in view the importance of these institutions the research is conducted on primary data in the context of the National Rural Support Program.

### **NATIONAL RURAL SUPPORT PROGRAM**

The NRSP was established as a public limited company under the company's act of 1984 in November 1991 to undertake development activities in the rural area of Pakistan (Anees 2001). It is functioning in the Federal Capital Territory and 27 districts of all four provinces and the Azad Jammu & Kashmir (Anees 2001). NRSP has helped rural communities to establish 4988 Community Organization 1993 to 1,16,595 in 1998. It provides loan facilities for the activities shown in the Table 1.

The disbursed loan is recovered by the NRSP with mark up in one year from the loanies. The markup rate on agriculture input

and livestock is 20 percent and 11 percent is charged on enterprise development.

**TABLE - I**  
Loan Facilities for Different Activities by NRSP

S #	Item	Purpose	Duration of Time
1	Agriculture	Seed, Fertilizer, Agro Chemicals	Up to 12 Months
2	Live Stock Development	Faltering, Breeding, Sheep, Goats and Calves Mulching Animals.	Up to 12 Months
3	Enterprise Development	Working Capital	Up to 12 Months

Source: NRSP Office.

## DATA SOURCES

The data source for the research is in District Thatta. The Micro-credit program experience is studied in six villages. Secondary data on the socio economic profile of these villages is obtained from the Bureau of Statistics Sindh Karachi.

The program of poverty alleviation must be very clear what definition and practically are applied to a particular program. While collecting data from the study area, questions were asked from the community organization members to poor and very, poor. Following Table, shows the assets (Para meters), of household as "Poverty indicator", means size of land, income source and other variables. The (CO) Community Organization place category to weather they possess physical assets or not.

The table 2 is about the "poor" and "very poor". It is based on the awareness of people about their well-being

**TABLE - II**  
**Living Standards of People in Rural Areas**

Details	Poor	Very poor
Land Holding size	Less than & areas of Land or land less, small farmers tenants.	Land workers, labors
Sources of income	Only source of income in farming	On Daily wages, no regular income
Transport, Farm Machinery	Bicycle/cart	None
House Condition Access to	Clay Built	Not built physical condition not good
Agri inputs	Accessible, only buy on credit	Not
Live stock	2-4 animals	1-2 animals
Access to Education	Only primary Education	No access to proper education, can not afford to send children school
Access to Health Facilities	Access to initial treatment	Can not avail
Facilities	Basic health facilities	Rare health facility

**Source:** Survey Data.

Indicators for Poverty profile are shown in table 2. During the survey in these villages, the loaners were interviewed to determine, if the loans have gone to the really poor. It was found that the loans were distributed to really poor by the NRSP.

#### **ANALYSIS OF MICRO-CREDIT DISBURSEMENT**

The micro-credit disbursement is analyzed in the table 3. The total amount of Rs. 17,38,000 was distributed among the real loonies in six villages of District Thatta, Sindh, during 2001-02 to 2003-04.

In each village, the NRSP first organizes a community organization and the loan is given to the members of CO through the head of CO with the condition that each loanee should return the loan in 12 installments along with the mark up. In this way, the loanies return mostly the loans in a year.

The NRSP provides this facility to farmers, live-stockers and small business/enterprises. The Table 3 describes the total amount of credit disbursed by NRSP in 6 villages from 2001 / 02 to 2003 / 04.

The data of the six villages of District Thatta, Sindh are given in table 3.



**TABLE - III**

Data of Borrowers of 6 Villages from Taluka Jati during 2001-02/2003-04

S. #	Name of Village	No. of Borrowers	In Rs. Agriculture	%age of Total Amt	Live stock In Rs.	%age of Total Amt	Enterprise In Rs.	%age of Total Amt	Total Amt in Rs.
1	Mohammad Siddique Temro	30	90000	34%	58000	22%	117000	44%	265000
2	Haji Abdul Sattar Kaheer	35	37000	10%	263000	75%	52000	15%	352000
3	Mohammad Khan Pathan	30	49000	17%	206000	72%	30000	11%	285000
4	Haji Misri Baran	31	40000	13%	92000	31%	166000	56%	298000
5	Haji Ghulam Nabi Thaim	29	47000	17%	210000	76%	20000	97%	27700
6	Haji Abdul Rahim Jat	25	70000	27%	191000	73%	-	-	261000
<b>Total</b>	<b>6 Villages</b>	<b>180</b>	<b>333000</b>	<b>19%</b>	<b>1020000</b>	<b>59%</b>	<b>385000</b>	<b>22%</b>	<b>1738000</b>
	Av.Amt Per Village	<b>30</b>	<b>55500</b>	<b>19%</b>	<b>170000</b>	<b>59%</b>	<b>64167</b>	<b>22%</b>	<b>289662</b>

Source: Survey Data and Office of the NR

It is observed from the table 3 that Rs. 17,38,000 were distributed among 180 loonies viz farmers, livestock purchase enterprises. It further explains that 19% of the total amount to Rs. 3,333,000 was distributed among the farmers, 59% of the total amount to Rs. 10,20,000 the live stockers and 22% of the total amount to Rs. 3,85,000 among the enterprises as shown in table 3. This further indicates that the majority of loonies are interested to buy livestock. This further indicates that the majority of loonies are interested to buy livestock. Then, the point is that why majority of the loonies buy livestock. When a question was asked during interview, the loonies responded that infact they have not spent that money to feed the livestock because around their villages, the natural fodder is available all the time.

### **IMPACT OF MICRO-CREDIT ON INCOME**

According to Sen (1999), "The capability of individual to find employment, sell non-labor assets, what can be produced from own labor, cost of purchasing resources and value of product, and the benefits", one is entitled to get (social security) will determine whether one would be able to stay out of poverty, deficiency and hunger or not.

In these programs the extremely poor are not included due to non-availability of assets. This enlarges helplessness of poor to remains poor. Therefore, this is suggested that capability of poor and very poor be improved by literacy programs, to reduce the risk of people falling in the severe poverty

Table 3 shows that the loans are provided for a business, to individuals have ability and experience. The loans are mainly got for livestock. Around 59 percent of loans were given for this purpose. The small farmers or rural poor, invest in livestock because of the knowledge and experience of keeping livestock. They informed that every rural poor can get loan up to Rs.10,000 from the NRSP for livestock. At the time of sale of same livestock after 9 to 10 months, they get Rs. 20,000 or Rs. 22,000 or more. In this way, after returning the loan along with markup, they can earn at least ten or twelve thousand rupees.

The small farmers, who possess 3 to 5 acres of land, they purchase agriculture inputs like seed, fertilizer and pesticide for the cultivation of land. They were informing that there was a great risk

because this type of business activity depends upon the nature. If nature favors, they can get good fruit of cultivation, on the other hand their investment is lost.

When investment is lost due to failure of crop, but they have to return their loan to the NRSP at any cost. In this situation, they again get the loan from the informal institutions to make the payment of their loan to NRSP. Thus the burden of credit increases and they always remain under miserable condition.

NRSP also add this amount in their previous capital as an extra investment. NRSP informed that they could earn net profit amount to Rs.12, 000 to Rs.15, 000 after returning the loan to NRSP.

### MEASURING IMPACT OF MICRO-CREDIT

The micro-credit analyses the impact assessment in terms of money and over all welfare of villages owing to NRSP program, determines the impact on income before and after the credit in six villages by the survey. The findings are given in Table 4.

**TABLE - IV**  
Yearly Income Before and After Loan and Percentage  
Change in the Income of Each Type of Business

Sr. #	Type of Business	Percentage of loan Provided by NRSP of Business	Yearly Income before Credit in Rs.	Yearly Income after Credit in Rs.	% change in Income (one time change)
1	Agriculture	19	25,500	35,100	38
2	Livestock	59	29,400	45,000	53
3	Micro-enterprises	22	28,500	39,900	40

Source: Survey Data



The result of survey shows that 19 percent of the loans are taken for agriculture input. The income of small farmers increased 38%, after the credit. Livestock had a significant improvement of 53 percent. These changes of income are single time, and the long run can be understood by over all economic growth of the economy.

The Table 5 indicates that the income of small farmer increased per month from Rs. 2125/- to Rs.2925/-. The income of livestock owner rose from Rs. 2450/- to 3750/- and the income of enterprises from Rs. 2375 to Rs. 3325/-.

From the table 5, it is analyzed whether the increased income is sufficient to reduce the poverty in the rural area. This is worked out based on an exercise conducted by the Nutrition Cell of the Planning Commission Government of Pakistan (Consumer wise 2003). It has used (a) caloric based approach and (b) basic needs approach.

**TABLE - V**  
Average Monthly Income Before and After Loan and  
Increase in Income for Each Type of Business

Sr.	Type of Business	Average Monthly income Before Credit in Rs.	Average Monthly Income After Credit in Rs.	Monthly Increased Income in Rs.
1	Agriculture	2125	2925	800
2	Livestock	2450	3750	1300
3	Micro Enterprises	2375	3325	9500

Source: Survey Data

#### a) Caloric Based Approach

According to caloric based approach, a person requires an average 2350 calories per day and Rs.1500/ = are needed per month as pointed out by the Planning Commission. The average size of household is analyzed 07 in the study area. This indicates that each household hardly meets the requirements from the

increased income. The Planning commission has adopted 2350-calorie intake daily per person and worked out as poverty line. But the other needs such as clothing, education, housing and health etc are neglected.

### **b) Basic Needs Approach**

Caloric intake does not fully adopt the magnitude of poverty. Clothing, housing, education and health facilities etc are also essential elements of basic needs.

From the discussion, it is pointed out that the micro-credit is not enough to alleviate poverty because the amount of loan is very small which cannot increase the income of household in the rural area according to caloric based approach.

Further more, according to the 2003 World Population data sheet of the population reference Bureau Washington D.C, the rate of natural increase of the Population in Pakistan is 2.7 percent. At this rate, Pakistan's projected population for 2025 and 2050 will be 247 million and 348.6 million (Daily Dawn July 18-2007,P.6). These are frightening figures in future. Keeping in view, the future figure of population, one can easily calculate that the poverty will increase rather than decrease.

## **CONCLUSION**

Poverty is a severe problem in the less developed countries and its reduction is necessary for economic and social aspects of those countries. The economy of rural Sindh depends upon agriculture sector. About 65% people reside in villages and their main occupation is agriculture. Therefore, an analysis of the trends in poverty is important to analyze changes in the economic well being of the people, as well as for policies. Its important to see the relation among the trends in poverty, rate of growth and output, or employment. The increasing trends of poverty started in Pakistan during 1990s that shattered the economy of the country.

Government of Pakistan took steps to reduce the poverty by introducing various institutions like following:

- Pakistan Poverty Alleviation Fund,
- Micro-credit Bank (Khushali Bank),
- Pakistan Baitul Mal,

- Income Safely nets,
- Khushhal Pakistan Program
- Food Support Program.

Also NGOs, AKRSP and NRSP worked for poor. They serviced for social mobilization of community and recognition and implementation of projects by the community.

All above-mentioned programs helped poor and hungry people by providing them micro-credit and food etc for the intention of poverty alleviation. Also some NGOs were allowed to provide micro-credit facilities to the rural poor. This research is related to National Rural Support Program of Pakistan. It was established in 1992, working at the grass roots level to alleviate poverty through a network of grass roots institution NRSP is consistently working at the national level in 29 districts of Pakistan to establish 4988 community organization (COs), of which 3250 are made 1292 female and 446 mixed COs. The NRSP provides loans for agricultural inputs, livestock purchase and enterprise development. It charges mark up 20 percent on agricultural input, livestock purchase and 11 percent markup on enterprise development. This study is conducted by the primary data. While conducting interviews from 180 respondents of six villages in District Hyderabad, it was found that total credit amounting to Rs. 17,38,000/- was distributed among 180 respondents during the period 2001/02 to 2003/04. It is pointed out that 19% of total loan was given to agriculture input, 59 percent to livestock purchase and 22 percent to return loan in a year with markup. There is always risk in agricultural sector, because it always depends upon natural conditions.

The average size of family of surveyed six villages is 07. The monthly income of small farmers after getting loan increased from Rs.2125 to Rs.2925/- livestock owner from Rs.2450/- The increased income is calculated in caloric based approach, in order to know the reduction of poverty. According to this approach, a person requires an average 2350 calories per day and Rs.1500/= are needed per month as described by the Planning Commission of Pakistan. This indicates that each household hardly meets calories requirements leaving the other basic needs such as clothing, housing, education and health facilities etc. It is concluded that the

micro-credit is not enough to reduce the poverty in rural area. So, it needs further appropriate policies to alleviate the poverty.

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