

## **Role of Micro Credit Institution of Pakistan for Poverty Alleviation: A case study of Khushhali Bank of Pakistan**

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### **Abstract**

This Research study is conducted to elaborate the role of Khushhali Bank of Pakistan for poverty alleviation. The core objective of this study is to highlight the ways which may cause to reduce poverty, to improve the living standards of the poor people on sustainable basis and to enhance the economic prosperity and growth. As micro credit is a substitute for formal loan, so this study is conducted to make people self sufficient and self employed and expose the basic features of micro credit financing. Primary data through Questionnaire is used for data collection, filled by a sample of 150 customers of this institution. The questionnaire is developed on the basis of personal observations and the information which are provided by bank officials. The questionnaires were filled by the customers of the Khushhali Bank. Conclusion of this study reveals that this sector is effectively disbursing Micro credit according to the needs of people who have no or less access to formal loan from different financial institutions. Moreover this study also highlighted a few recommendations including expansion of this system and making possible its access to the people of rural and urban areas along with introducing effective working system.

**Key words:** Micro Credit, Living Standard, Loan, Poverty Reduction, Khushhali Bank.

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## Introduction

The term micro credit is literally a modern term which means small amount of loan. Its primary objective is to enable the poor to change their life style positively and make better than previous. In literature Micro finance is analogously used for micro credit, which ensures to provide the wider range of financial services to the poor segment of the society. Pakistan has more than 180 million Populations with abundant resources which are utilized for poverty reduction. It is an amazing that saving rates in Pakistan are very low and the impact of investment is very apparently high from different research studies. The people who have taken the benefit from Microfinance are less than 5% of the whole population (Qureshi, M.I et al 2012).

In 1970s Micro Credit was provided to the poor people living in rural areas, but the flaws in system, politics and corruption has made it unsuccessful so during the decade of 90s it was disbursed both to the people of rural as well as urban areas (Zia A U, 1989). It gives birth to the concept of core program to be initiated by Khushhali bank for micro finance on poverty alleviation such as, savings mobilization, human development and solidarity etc.

To fight against poverty is a very significant and imperative goal. According to recent literature and practice it can be achieved by provision of financial services to the deficit unit of the economy which consists of masses and are ignored by the conventional credit providing institutions like banks and other financial institutions. An estimate states that about 68% of the world population is availing the facility of this credit and utilizing it for diverse uses of household, domestic, nation building and development.

In our country there is great potential of micro credit banks and markets where thirteen million adults can avail this facility. This number is likely to enhance with growing population. Khushhali bank Limited was Initialized in 2000 as a part of the Government of Islamic Republic of Pakistan's poverty Reduction strategy and its Microfinance Sector Development Programs. MSDP was developed with the assistance of Asian Development Bank. With its headquarters in Islamabad Khushhali Bank Limited operated under the supervision of the State Bank of Pakistan and various central (Commercial) banks are its shareholders. Its mandate is to retail Microfinance services and to act as a catalyst in stabilizing the country's newly formed microfinance sector.

## Literature Review

In modern era, poverty is known to be the breeding ground for conflicts between nations and terrorism. Poverty is a wide spread world problem particularly for the developing countries like Pakistan, Bhutan, Bangla Desh and Sri Lanka etc. Different policies, strategies and programs have been formulated and adopted for at least reducing this problem such as special poverty alleviation programs and short-term measures targeted towards improving the earning capacity of the people and provision of social safety nets for the extreme poor in Pakistan.(Nasim et al, 2009)

Adam Smith says that Money creates money. When you have got a little, it is often easy to get more. The great difficulty is to get that little so to meet the major task of poverty reduction a number of measures have been taken at national as well as international level. Major roles played by Khushhali bank include:-

- i. Making sure the self sustenance and helping poor fight against poverty.
- ii. Helping women to participate in economic development, Micro Credit also fosters gender equality and economic well being.
- iii. Credit availability to people to start small businesses, ensuring access to education facilities, health facilities and employment generation.
- iv. Ensuring the availability of funds to poor who do not have access to formal credit institutions.

Qureshi, M.I. et al (2012) Creation of self employment opportunity is one of the major ways of alleviating poverty. Micro finance has been found a very dominant tool for uplifting the poor people from the poverty line by making them credit worthy. The findings suggest that in the Dera Ismail Khan district KPK, some people are not taking the advantage of microfinance to the desired extent because of having no awareness about the bank policies, credit system, high interest rate and insufficient amount.

Fehmeen (2010) writes about the role of micro credit institution for economic growth and states that Micro credit is a very important tool for the economic growth through. This institution helps the poor to arrange self employment through small businesses for them. As the poor people do not want to be poor so they fulfill their credit needs through this channel.

Kazim (2010) argued that micro credit helps low income people to choose savings, insurance and Micro franchising. It enables the people to arrange employment for them along with small scale business. The services provided by

micro credit can contribute to the stream of economic growth and in this way full potential can be gained automatically in short run as well as long run. Contrary to this view point Mahajan (2005) stated that micro credit does not necessarily promote economic growth instead very few people have access to this source. He is of the view that it is not a perfect solution for the poverty alleviation as it is a small loan facility which is available for a very short duration of time. Sabana (2005) highlighted the economy of Kenya with about 47% of rural and 29% of urban population is suffering and living below the poverty line with absolute poverty. Here the financial sector reforms and growth strategies made a place for the promotion of micro finance institutions.

Karatas and Helvacioğlu (2008) regarded micro credit as an important tool for employment generation and economic growth in Turkey as it provides support to small and medium enterprises. Specifically this study analyzed the facilities given to European Union and to Turkey and checked the efficiencies for the implementation of credit allocation in Turkey and found that micro credit programme has not been very much effective in providing facilities. Micro credit programs and MFIs had created a positive change in the income of borrowers. It is considered as one of the major factors of microfinance (Chavan, 2002). It supports the small businesses for small loans that are not eligible for established commercial bank loans. Mostly in developing countries it has been found that micro credit serves poor individual hold self-employment that enhances the level of income and status of living (Rutherford, 1996).

The literature on microfinance suggests that MFIs must be treated as successful if targeted poor are met with their basic needs for which they are designed and formulated, if they achieve their primary objective of eradicating poverty (Snow, 1999). Thus, to ensure its long-run survival, a microfinance institution not only has to comply with the local rules and regulations applicable to its operations and meet society's expectations but also ensure the accomplishment of its primary objectives in terms of reaching highest possible number of poor households and diminishing poverty in its area of operations. Waheed (2009) identified and analyzed the role of microfinance in the reduction of poverty. He used Primary and secondary data for that study and interviewed 68 households. The data was analyzed by using regression and correlation analysis. The findings suggested the positive change in poverty reduction and income and the general living standard because of micro finance.

## **2.1 Objectives of study**

Following are the objectives of this study:

- i. To study the microfinance as a substitute for informal credit.
- ii. To highlight the ways to help reducing poverty, improve the living standard of the poor people on sustainable basis and enhance the growth.
- iii. To analyze the role of microfinance bank in making people self sufficient and self employed.

### **Significance of the study**

The results of the study are likely to provide useful information in the field of micro credit financing and will help researcher and readers in finding the significance of micro credit financing i.e. proper mobilization and poverty alleviation. The study will consider the most deprived segments of population in our country and suggesting the ways to improve the living standards in long term. The study will be helpful to see the improvement in economic status of the people after utilizing micro credit facility.

### **Microfinance Institutions in Pakistan**

A number of micro Finance institutions in Pakistan are working and these are engaged in providing services to poor for at least to reduce poverty. These institutions are either sponsored or run by government, private organizations or the NGOs. There are some commercial banks and their branches which are engaged in micro credit disbursement. In case of Pakistan a very segment of the society have access to formal credit institutions, so to meet the requirements they go to informal credit sector as they lack collateral. The major providers of loans to people who live with low credit are relatives and friends (PIDE survey, 2001) so to meet their needs of credit there is a need for the growth of micro credit institutions. Pakistan Poverty Alleviation Fund has also been established in 2000 to provide funds to different partner organization for the disbursement to poor and deficit units of economy. Major Programmes launched in Pakistan for micro credit include Aga Khan Rural Support Programme launched during 1980 and it receives funds from Aga Khan Foundation, Sarhad Rural Support Programme which was established during 1989 and it received aid from the Khyber Pakhtunkhwa government, National Rural Support Programme was founded in 1992 and it also gives technical supports to four provinces and Azad Jammu Kashmir Government as well and Punjab Rural Support Programme founded in 1997 and covers about thirty districts of Punjab. Bank of Khyber and the First Women Bank Limited

### **Methodology**

The population of the study consists of all the Khushhali banks in Pakistan which include 106 branches. In our sample we included four branches of Khushhali bank situated in D.I.Khan, Bhakkar, Kohat and Peshawar. In our present study, the structured questionnaire technique is used to analyze the efficiency and working of the Khushhali Bank in poverty reduction.

#### 4.1 Presentation and Analysis of Data

Table 1 shows that as the female very important segment of the society, they had got benefits from Micro finance. Khushhali Bank limited prefers the women to provide funds through micro finance as they are more trust worthy and utilize the loans more properly and in a good way.

**Table 1:** Gender

<b>Gender</b>	<b>Frequency percentage</b>
Male	30
Female	70

It has been found in Table 2 that micro credit had been granted to the economically privileged Population of more than twenty five years age and a very short amount had been granted to the age of less than twenty five years.

**Table 2:** Age

<b>Age group (Years)</b>	<b>Frequency Percentage</b>
15-25	18
26-35	62
36 and above	20

It has been found in Table: 3 that most of the married people have taken the loan, as there were only few borrowers who were unmarried, divorced or widower.

**Table 3:** Marital Status

<b>Marital Status</b>	<b>Frequency %age</b>
Un married	16%
Married	41
Widower	20
Divorced	23

Table 4 shows that mostly illiterate people had taken micro credit because they are in the majority who resist accomplishing their fundamental requirements due to their economic dispossession. All of the respondents had not done matric, which clearly manifests the link of education with economic welfare.

**Table 4:** Education

<b>Education</b>	<b>%age</b>
Illiterate	90%
Up to Primary	6
Primary pass	4

Table 5 shows that micro credit has great influence to enable the borrowers for establishing their own micro enterprises. Most of the borrowers were running home based income generating activities, such as: sewing, knitting and embroidery. Others were running shops of vegetable, fruits, sanitary and general stores after taking the benefit from micro credit.

**Table 5:** Occupation

<b>Occupation</b>	<b>%age</b>
Farmers	12%
Retailers	18
Home enterprises	32
Sewing and embroidery	38

The data in the Table: 6 show that 52% borrowers were having the medium family size with family members less than five and 48% were having the family members more than five members.

**Table 6:** Family Size

<b>Family size</b>	<b>%age</b>
Large	48%
Medium	52

The amount of loan taken by most of the customers lies between 20, 000 to 30,000. As they are the people who suffer from low income constraint, furthermore they prefer to borrow low amount of loans, according to their ease to pay back

**Table 7:** Micro Credit Amount

<b>Micro Credit Amount (Rs)</b>	<b>%age</b>
10,000	12%
20,000	54
30,000	22
40,000	12

Table 8 shows that currently traditional banks charge two types of interest rates depending upon the time limitations. Here in our analysis 86% borrowers are paying 22%, while 14% are paying 20%.

**Table 8:** Interest Charged

<b>Interest charged</b>	<b>%age</b>
20% interest rate	14 %
22% Interest rate	86

The standardize time period of the loan to return is one year to all customers and all of them repay their loan within a year.

**Table 9:** Time to return loan

<b>Time to return loan</b>	<b>%age</b>
6 Months	0%
12 Months	100

The bank 100% analyze the nature of the business and also see whether the applicant is really deserving or not and then give the loan. The Khushhali bank takes maximum 20 days to process the loan when all the bank requirements are fulfilled by the applicants.

**Table 10:** Processing of loan

<b>Loan Processing (Days)</b>	<b>Percentage</b>
8	25%
20	69
30	6
90	0

The bank does not insist upon security to be offered for the repayment of loan because 100% response was negative in terms of insisting upon security for repayment of credit.

**Table 11:** Security

<b>Bank Security for repayment of credit</b>	<b>Percentage</b>
Yes	0%
No	100



90% people`s basic needs are fulfilled by the amount of loan the rest ones were not fulfilling their basic domestic needs.

**Table 12:** Fulfillment of Basis needs

<b>Fulfilling the basic needs</b>	<b>Percentage</b>
Yes	90%
No	10

81% response of the people revealed that they had improved the quality of children education after taking the benefit from micro credit.

**Table 13:** Quality of Children education

<b>Quality of children Education</b>	<b>Percentage</b>
Yes	81%
No	19

In table 14, 79% people have improved their living standard after taking the benefit from micro credit so they have changed their life style.

**Table 14:** Quality of living standard

<b>Quality of Living Standard</b>	<b>Percentage</b>
Yes	79%
No	21

Table 15 showed that 84% people improved their income and saving after utilizing the Credit.

**Table 15:** Improvement in income and saving

<b>Improvement in income and Saving</b>	<b>Percentage</b>
Yes	84%
No	16

In table 16, 31% customers were feeling burden on their shoulder in repaying the debt while 69% customers has repaid their debt with in the given time period.

**Table 16:** Debt Burden

<b>Debt Burden</b>	<b>Percentage</b>
Yes	31%
No	69

77% of the total customers of Khushhali bank limited showed their access to purchase different other assets like jewelery, motor bike and refrigerator after taking the benefit from micro credit.

**Table 17:** Other House holds items

<b>Other house hold items</b>	<b>Percentage</b>
Yes	77%
No	23

### **Conclusion**

The People mostly come to know about the loan facility through personal sources so it shows the popularity, effective working and customer satisfaction in regard to micro credit mechanism. As other commercial banks do not offer such a small range of credit general people are highly attracted towards the micro credit bank. Most of the customers have taken the loan of Rs 20,000 which is easily repayable and this shows that most of the people belong to low income group. Some Compensation In interest should be given to those who are old customer of the bank. Almost all the customers are satisfied with the dealing and operation of the micro credit bank. It depicts that the bank wants to facilitate its customers and its staff is very much cooperative, by nature, coordinating in attitude and is highly informative. They listen to the problems of the customers and try their best to solve their problems and help them out by all means. The Time period of the loan to return is one year. It is a very moderate and manageable time period since almost all type of business usually get the returns in one year time and people can pay the loan from their earnings quite easily. The bank does not insist upon any special requirements or conditions for extending credit. It just tries to focus on the nature of the business. It means that the loan is granted for the business which is considered helpful to generate profit. Normally 15 days to 20 days are taken to process the loan application which is a proof of efficiency, coordination and hard work of management. Loan by the Khushhali bank is given to the deserving customers (in groups) without asking them to pledge any tangible guarantees. All the members of group give guarantee for one another, which is convenient for all of them. Thus a lot of time for giving a tangible guarantee is saved. Independent investment rate is high which shows the efficiency of micro credit.

### **Future Recommendations**

Although Microcredit scheme has brought positive changes in reducing the poverty, yet this scheme has certain flaws and deficiencies in operation which might be streamlined so as to improve the living standard of the poor people. In this paper an attempt was made to explain the bank's role and solve the hitch.

- i. A very poor segment of the society is completely neglected because they have no access to micro credit, they must be given an opportunity because they are also the part of society and contributing a lot towards economic growth.
- ii. Micro credit must be given to the Young, Energetic and the people in the age group of 20 - 30 because they can utilize it more productively.
- iii. The bank should try to reduce the interest rate up to 6 to 7 percent instead of 20% just like Prime Minister Youth business loan scheme offered by the Nawaz Sharif government.
- iv. The bank should start the programs or to arrange seminars to update the borrowers about the productive utilization of credit
- v. A rapid and expedite loan processing period must be exercised by bank officials so that the people may not suffer.

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