

The Role of Microfinance in uplifting Income Level: A study of District Okara - Pakistan

Muhammad Akram

Lecturer, Hailey College of Commerce,
University of the Punjab, Lahore - Pakistan

Imtiaz Hussain

Lecturer, Department of Management Sciences,
University of Education, Lahore - Pakistan

Abstract

Living standard in low income developing countries always remain crucial issue to be addressed. In many developing countries, like Bangladesh, microfinance has been used as a tool to gear up the living standard of poor people. The aim of this study is to assess the contribution of microfinance in raising the living standard of low income people of District Okara-Pakistan. For this purpose, data has been collected through questionnaires and descriptive research design has been applied. Borrowers of microfinance from major microfinance institutions operating in the district – Khushhali Bank Limited (KBL), Tameer Micro Finance Bank (TMB) and The First Micro Finance Bank (FMB) – have been selected as population. Positive impact of microfinance on income level is observed in this study. Moreover, customers' satisfaction level about the services of microfinance institutions is also evidenced.

Keywords: Microfinance, micro insurance, poverty alleviation, KBL, TMB, FMB.

1. Introduction

Improvement in living standard of the poor people of the developing countries is achieved by enhancing their income level or purchasing power. This phenomenon reduces poverty and causes to achieve poverty alleviation objective gradually. Thus poverty alleviation and income level enhancement are similar in nature. Considerable studies have been carried out on poverty alleviation. The impact of poverty in developing countries results in short and long run social and economic effects. Various international organizations highlight poverty as international phenomenon from time to time and must be addressed on priority basis.

In the last two decades, there are too many changes in the microfinance sector like introduction of micro insurance, diversification of products and flexible loan fit to the cash flow of the borrowers.

Microfinance, with the core objective of provisioning of financial services to the poor segments of the society, contributes its role in the form of financial development with primarily focus on poverty alleviation. Most of the people perceive microfinance in narrow sense that it is about micro-credit for poor people but it has broader dimensions including, micro-insurance, transactional services and most important are the savings.

Microfinance has demonstrated its potential to assist the poor to make significant strides towards reducing their exposure, improving their purchasing power, paying for basic health care and bearing their children's education expenses (Littlefield et al., 2003). Many microfinance institutions (MFIs) have evidenced to work purely on profitable basis without considering the basic objective of microfinance and some others provide microfinance facilities by having real sense of poverty alleviation. Together, these facts have attracted a great deal of donor of money and a wide variety of organizations into the microfinance sector.

The rest of the paper is organized that: second part presents review of research literature, third part contains research methodology, fourth section includes results and discussion and last fifth portion incorporates conclusions and recommendations.

2. Review of Research Literature

2.1. Microfinance and Income Level

Ahmad & Naveed (2004) observed the role of microfinance in reducing rural poverty. The study was conducted to evaluate the role of microfinance provided by Khushhali Bank Limited (KBL) for poverty reduction in District Rahim Yar Khan - Pakistan. Correlation analysis was carried out to determine the relationship of microfinance with income, crop production, asset formation, farm expenses and saving. It was found that the microfinance has positive relation with saving, farm expenses, crop productivity, and income and asset formation. Moreover, the microfinance is effectively serving the poor people and increasing their standard of living by giving them proper loan for cotton, livestock and working capital in the said district.

Waheed (2009) examined the role of microfinance in poverty reduction. Primary and secondary data was used and 68 households were interviewed. The multiple regression analysis was used. The results showed that micro-credit improves income.

2.2. Micro-credit and Income Level

Micro-credit initiatives resulted in better output as far as poor people and women in particular are concerned. The micro-credit provide a paradigm shift in microfinance and contributed in defeating the notion of "poor risk" and not "creditworthy" when it is concerned about poor community. Various studies reported that most borrowers focus on marginal gains, whereas, very small ratio results in reasonable and sustained rise in income. The poorest borrowers get less gain when compare them with middle and upper category of poor. Moreover, 10-15% of the population is not included in micro-credit schemes (MacIsaac, 1997)

Micro-credit to be used as a tool for poverty reduction is depended on many local dimensions. High population growth rate, low economic growth and most importantly, unequal distributions of resources are among the major about local characteristics of a

developing nation. Moreover, low productivity and unemployment also play their role in poverty growth, which are considered as main causes of poverty. When poverty is caused due to unemployment, then it can be rectified by creating more jobs and when it is caused due to low productivity then it can be measured investing in human capital. In various countries including Bangladesh, poverty is caused as lacking of investment in physical and human capital. In such a scenario, the best way to deal with the poverty is to increase jobs and investing in development of human capital (Khandker & Shahidur, 1998).

Morduch (2002) studied the impact of microfinance on poverty reduction using micro-credit, assets, family size, education as independent variables and income of household as dependent variable. The study used Consultative Group to Assist the Poorest (CGAP) poverty assessment tool. Housing Index, SEF's Participatory wealth rankings, US Aid's AIMS tools for assessment purpose. Evidence showed the positive impact of microfinance on poverty reduction.

Chavan (2002) examined the role of micro-credit on poverty reduction by using comparative analysis approach was used. There was a treatment group (beneficiaries) and a control group, comparison showed the change and increase in the incomes of both groups from 1988 to 1992. The results showed that micro-credit programs and institutions have generated a positive change in the income of borrowers but this change has only been marginal, it means due to their small scale of operations have made minimalist impact on earnings and employment generation for the rural poor. Javed et al. (2006) reported that Micro-credit scheme of NRSP was served as a better tool for empowering female. It also helps in uplifting living standard of female community

2.3. Micro Insurance & Income Level

Poor people can improve their standard of living through micro-credit and micro insurance (Islam et al., 2005:2006). Overall micro finance is a very vital tool for poverty alleviation. Poor people have to face a lost of risk such as death, crop failure, fire, drought, theft which make them more vulnerable and their income and living standard can not be enhanced. To resolve these issues, micro-credit has introduced the micro insurance facility that is not provided by the traditional money lenders. So the micro-credit addresses the vulnerabilities and reduces the risk of poor people.

The term micro insurance is becoming famous in microfinance sector. Micro insurance is divided into two parts: first, micro portion defines the small part which is acceptable by low income people and second, insurance, which means taking the responsibility of a certain risk in case of that specific event. The protection of low income people against specific perils in exchange of premium against the happening of certain risk has been defined as micro insurance by CGAP - Consultative Group to Assist Poorest. (MRF, 2006).

After going through various dimensions of literature, it is justified to explore the role of microfinance in uplifting living standard of District Okara-Pakistan, about which yet no study has been traced.

3. Research Methodology

3.1 Variables

3.1.1. Microfinance: (Independent Variable)

Microfinance is the supply of loans, insurance, savings, and other basic financial services to the poor. Micro-credit provides opportunity to poor to avail loan despite low credit worthiness with social collaterals.

3.1.2 Income Level: (Dependent Variable)

Income is the earning of a person that can be used for poverty alleviation or education of their children. The change in income of households after getting microfinance was assessed during the interviews by asking them simple question. Whether their income decreased, increased or remained same after using microfinance services.

3.2 The Model

----- Figure 1 here-----

The model defines the microfinance as the combination of two further concepts i.e. micro-credit and micro-insurance. Microfinance is independent variable and the income level is dependent variable.

The information collected from the field survey was then grouped and sub grouped to meet the objective of the study. In order to derive results from the primary data of the variables presented above, the descriptive statistics were used. The data was analyzed by taking percentile of the responses collected by the respondents.

3.3. Hypothesis

H_0 : There is no relationship between microfinance and income level

H_1 : There is relationship between microfinance and income level

3.4. Population

Population consists on all microfinance borrowers of major microfinance institutions - Khushhali Bank Limited (KBL), The First Micro Finance Bank (FMB) and The Tameer Micro Finance Bank (TMB)- operating in Okara District.

3.5 Sample

The sample is consists on borrowers who availed loans from above mentioned three banks and currently active borrowers and have to return the loan. Sample was randomly selected both from male and female, literate and illiterate, married and unmarried. Sample is consisted on 48 borrowers, 16 from each bank and filled a questionnaire.

4. Results & Discussion

The role of microfinance in uplifting income level was examined by using data collected through personally administered questionnaire. Presentation of data is made in table form along with percentages in a descriptive way by using simple statistic tools.

4.1 Tameer Bank Limited

This is the brief data analysis of Tameer Bank Limited from the sample of 16 borrowers including 75% males and 25% females.

----- Table 01 here -----

Table 1 shows that 75% of respondents were male and 25% were females. The survey shows that 17% of respondents were farmer in profession, 25% of males respondents were illiterate, 25% of females respondents were illiterate. Table 1 shows 87.5% of the sample have the food sufficiency (having enough food to feed their families).

The 14 respondents of sample out of 16 have the food sufficiency which includes 11 males and 3 females.

----- Table 02 here -----

Table 2 shows that 87.5% of total sample told that an increase in their income has been reported after taking credit from TBL while remaining 12.5% of total sample respondents were neutral in this matter. Whereas 83% of male respondents while 100% of the female respondents told that their Income had increased after taking credit.

When we talk about the level of satisfaction with credit, we found that 4 respondents were not satisfied with the results and they all were male borrowers. The 2 of the males sample had no change in their income level by using the credit.

----- Table 03 here -----

The amount of credit can be invested into many ways but in micro finance it is mostly used in starting new business, agriculture, animal breeding, working capital and others.

Table 3 shows that 87.50% of sample started their own new business whereas 12.5% of sample respondent invested in agriculture business. The respondents who have invested into new business consist of 83.33% male respondents and 100% female respondents. None of the sample has invested in animal breeding and in the working capital.

----- Table 04 here -----

When we talked about the size of the loan, 75% of total respondents were satisfied with the amount of loan where 25% of total respondents were not satisfied with amount of loan. 75% male and the 100% females were satisfied with the loan size.

As the internal satisfaction matters 93.75% of total sample is fully satisfied with the loan policy of the TBL, which includes 83.33% male respondents and 100% female respondents.

4.2 *The First Micro Finance Bank*

Here is the brief data analysis of The First Micro Finance Bank Limited from the total sample of 16 borrowers including 75% of males and 25% of females of total sample.

----- Table 05 here -----

In this sample of The First Micro Finance Bank, 50% of male respondents are illiterate, 75% of female respondents are illiterate. 87.5% of the total sample had the food sufficiency. When we talk about the level of satisfaction we found that 4 respondents are not satisfied with the results 3 males and 1 female they are all males. The 2 of the males had no change in their income. The 14 respondents have the food sufficiency including 11 males and 3 females.

----- Table 06 here -----

Table 6 shows the economic impact on the borrowers after joining TMB. 87.5% respondents told that their income increased after taking credit from TMB. 91.7% of male respondents while 75% of the female respondents told that their Income increased after taking credit.

----- Table 07 here -----

Table 7 shows the areas of investment of the respondents of TMB. 56% of the respondents started their own business in which 50% were male and 75% were females whereas 44% of the sample invested in agriculture in which 50% were males and the 25% were female. No one invested in working capital and Animal breeding.

----- Table 08 here -----

Table 8 shows the level of satisfaction of the borrowers with TMB's policy of credit. When we talk about the size of the loan 87.5% of total respondents are satisfied in which 83.33% of males and 100% females are satisfied. As the internal satisfaction matters 75% of total sample is fully satisfied with loan size, in which 75% are males and 75% of females.

4.3 *The Khushhali Bank Limited*

This is the brief data analysis of the sample 16 borrowers taken from The Khushhali Bank Limited (KBL) including 75% of males and 25% of females.

----- Table 09 here -----

In the sample of the Khushhali Bank Limited, 50% of male respondents were illiterate, 50% of female respondents are illiterate. 94% of the sample had the food sufficiency.

----- Table 10 here -----

Table 10 shows economic impacts felt by the borrower after joining KBL. 81.25% of total respondents told that their income increased after taking credit from KBL, while 75% of male respondents and 100% of the female respondents told that their Income increased after taking credit.

When we talk about the food sufficiency 94% of the sample has good food sufficiency. The 15 respondents, who have the food sufficiency, include 12 males and 3 females.

----- Table 11 here -----

Table 11 shows the areas of investment told by the borrowers of KBL. 25% of the respondents started their own business in which 25% were female and 75% are males, 6.25% of the sample invested in agriculture that was male. 25% of the sample invested their loan amount in animal breeding. Out of which there was 1 female and 3 male. 44% of the sample invested in the working capital, out of which 5 were males and 2 were female. .

----- Table 12 here -----

Table 12 shows the level of satisfaction with KBL policies by the borrowers. When we talk about the level of satisfaction we found that 81.25% respondents are satisfied with the results in which 92% are males and 50% females. As the internal satisfaction matters 62.5% of the sample is fully satisfied. Out of which 58.33% are males and 75% of females.

----- Table 13 here -----

4.4 Overall Scenario

Table 13 shows the comparison of all three banks in the agriculture sector/area of investment which clearly depicts that only 10 out of 48 borrowers have invested in the agriculture area. When we look at this table it shows that 50% of the farmer borrowers of TBL stated that their income is increased while the remaining reported with no change. Whereas 71.4% of borrowers of TMB has increased their income and 28.6% with no change. The income of all the borrowers of KBL who had utilized the loan in agriculture sector is increased.

----- Table 14 here -----

Table 14 shows the change in Income of the borrowers who started their new Business. 81.8% of Tameer bank customers have reported that they had increased their income by using the credit and rest 18.80% with no change. The customers of The First Micro Finance Bank have also increase at the same percentage as the TBL. Whereas the situation was different in case of KBL where 50% of borrowers reported increase, 25% with no change and 25% had decreased their income.

----- Table 15 here -----

Table 15 shows that 87.50% of Tameer Bank respondents told that their income has been increased with the use of Micro finance while 12.50% told no change in their income level. 87.50% of The First Micro Finance Bank respondents told an increase in income after utilization of microfinance while 12.50% had no change in their income level. When researcher interviewed respondents of KBL 87.25% of the respondents told an increase in income while 12.50% told no change and 06.25% told a decrease in income after use of micro-credit.

The overall results are further explained with the help of bar chart in Figure 2.

----- Figure 2 here -----

5. Conclusion and Recommendations

From the above mentioned discussions it is concluded that microfinance is efficiently serving the poor by increasing their income level. From the above results it is stated that 85.40% of the respondents told that their income level has increased after getting microfinance facilities and improving their living standard. Further more following recommendations are also made on the basis of this study for future microfinance schemes.

- Loan size should be increased enough to meet the requirements of borrowers.
- The people should be given more opportunities for loan attainment
- Knowledge should be provided by MFIs to interested borrowers for the better utilization of credit.
- Interest rate should be decreased so that more and more applicants can avail microfinance facilities.

While discussing limitations of this study, the sample size is too short to generalize the result and it is recommended for future studies to enhance sample size and also consider the role of commercial banks in reduction of poverty along with microfinance institutions.

References

- Ahmad, S., Navee, S.M., & Ghafoor, A. (2004). Role of Microfinance in Alleviating Rural poverty: a case study of Khushhali Bank Program in Rahim Yar Khan Pakistan. *International Journal of Agriculture and Biology*, 7: 426–428
- Chavan, P., & Kumar, R.R. (2002). Micro-credit and Rural Poverty : An Analysis of empirical evidence. *Economic and Political weekly*, 37(10), 955-965.
- Islam, N., & Mamun, M.Z. (2006). Prospects of health Insurance Initiatives in Bangladesh: An Empirical Study, *Proceedings of the Tenth Annual Conference of Asia-Pacific Risk and Insurance Association (APRIA)*, July 30- August 2, 2006, Meiji University, Tokyo, Japan.
- Islam, N., & Mamun, M. Z. (2005). Factors for Not Buying Life Insurance Policies in a Developing Country: A Case of Bangladesh. *Journal of Business Administration*, Institute of Business Administration, University of Dhaka, Bangladesh,. 31(1&2), 1-22.
- Javed, A., Luqman, M., Khan, S.A., & Farah, A.A. (2006). Impact of Micro-credit Scheme of NRSP on the Socio-economic Conditions of Female Community in District Rawalakot, Azad Jamu and Kashmir, Pakistan. *Int. J. Agri. Social Sci.* 142–144.
- Khandker, Shahidur R. 1998. Fighting Poverty with Micro-credit: Experience in Bangladesh. World Bank
- MacIaac, N. (1997). The Role of Micro-credit In Poverty Reduction And Promoting Gender Equity - A Discussion Paper. *South Asia Partnership Canada. For Strategic Policy And Planning Division, Asia Branch. CIDA - June 12, 1997*
- Morduch, J. (2002). Analysis of The Effects of Micro Finance on Poverty Reduction. *NYU Wagner Working paper, No 1014*
- MRF (2006). Munich Re Foundation. Into Action. Micro-insurance making insurance work for the poor, Munich Re Foundation January 2006.
- Waheed, S. (2009). Does Rural Microfinance Credit Improve Well-Being Of Borrowers in the Punjab (Pakistan). *Pakistan Economic and Social Review*, 47(1), 31-47.

Annexure

Table: 01 Respondents Demographics (Tameer Bank Limited)

Determinants	Percentage
Male	75% of sample
Illiterate (Males)	25% of male respondents
Illiterate (Females)	25% of sample
Food Sufficiency	87.5% of sample

Table: 02 Impact on income level after joining Tameer Bank Limited

Parameters	Percentage
Increase in Income	87.5 of sample
Increase in Income (Males)	83 of male sample
Increase in Income (Females)	100 of female sample

Table: 03 Areas of investment respondents of TBL

Parameters	Percentage
Started New Business	87.5
Agriculture	12.5
Animal breeding	0
Working Capital	0
Others	0
Total	100

Table: 04 Level of satisfaction with TBL policy

Parameters	Satisfied %		
	Total	Male	Female
Loan Size	75%	75%	100%
Internal Satisfaction	93.75%	83.33%	100%

Table: 05 Respondents Demographics (The First Micro Finance Bank)

Determinants	Percentage
Illiterate (Males)	50% of male respondents
Illiterate (Females)	75% of sample
Food Sufficiency	87.5% of sample

Table: 06 Impact on income level after joining TFMF Bank

Parameters	%age
Increase in Income	87.5
Increase in Income (Males)	91.7
Increase in Income (Females)	75.0

Table: 07 Areas of Investment respondents of TMB

Parameters	Percentage
Started New Business	56
Agriculture	44
Animal Breeding	0
Working Capital	0
Others	0
Total	100

Table: 08 Level of satisfaction with TMB policy

Parameters	Satisfied %		
	Total	Male	Female
Loan Size	87.5	83.33	100
Internal Satisfaction	75	75	75

Table: 9 Respondents Demographics (Khushhali Bank Limited - KBL)

Determinants	Percentage
Illiterate (Males)	50% of male respondents
Illiterate (Females)	50% of female sample
Food Sufficiency	94% of sample

Table: 10 Impact on income level after joining KBL

Parameters	%age
Increase in Income	81.25
Increase in Income (Males)	75
Increase in Income (Females)	100

Table: 11 Areas of investment respondents of KBL

Parameters	Percentage
Started Business	25
Agriculture	6
Animal Breeding	25
Working Capital	44
Others	0
Total	100

Table: 12 Level of satisfaction with KBL policy

Parameters	Satisfied %		
	Total	Male	Female
Loan Size	81.25%	92%	50%
Internal Satisfaction	62.5%	58.33%	75%

Table: 13 Change in income of the farmers after Joining MFIs

Bank	Increased	No Change
TBL	50%	50 %
TMB	71.4 %	28.6%
KBL	100%	-----

Table: 14 Change in Income of the business person after Joining MFIs

Bank	Increased	No Change
TBL	81.80%	18.2 %
TMB	81.80%	18.2 %
KBL	50.00%	25.0 %

Table: 15 Change in Income after Joining MFIs

Bank	Increased	No Change	Decreased	Total
TBL	87.50%	12.50%	00	100%
TMB	87.50 %	12.50%	00	100%
KBL	81.25%	12.50%	6.25%	100%

Figure 01

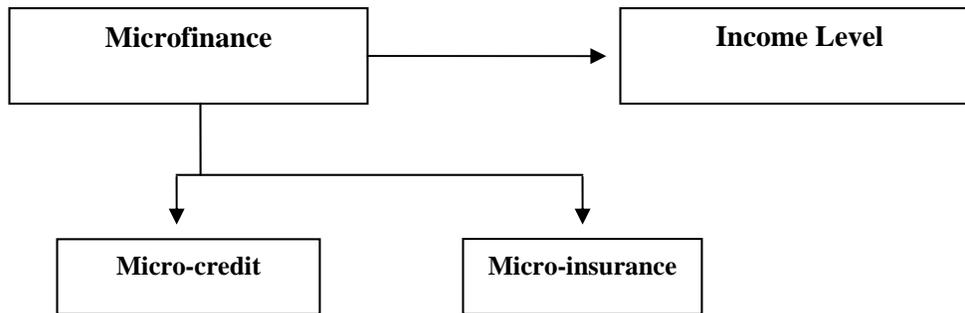


Figure 02

