

The Role of Micro Credit in Poverty Alleviation

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Abstract

The main objective of this paper is to analyze the role of micro credit in poverty reduction for the period 2009 to 2011. This shows that due to utilization of micro credit literacy rate is increased and there is a decrease in poverty occurs. All the results are highly significant and due to micro credit the literacy rate of several families have increased and some were remained unchanged. On the basis of pair t-statistic we have rejected the null hypothesis (ho: lesser the role of micro credit, lesser would be the chances of poverty alleviation) and accepted the alternative hypothesis that (H1: higher the role of micro credit, greater would be the chances of poverty alleviation). This paper concluded that the micro credit plays a very vital role in poverty alleviation and government and regulatory authority should try to increase the volumes of micro credit and subsidized the micro credit institutions to facilitate and enlarge the volume of credit. Socially and economically viable projects should be financed.

Keywords: Micro credit, poverty alleviation, paired T-statistic, Observation, Interviews

1. Introduction

Poverty is one of the greatest problem and single most important economic and social issue on our planet today. It has been worldwide focus of the nation and communities. Poverty is affected the lives of communities extremely negatively. Poverty normally has the effect of contracting the prospects of opportunities. It saps energy not only for physical work but for opening the mentality to opportunities. Poverty is an indication of under-development and that is why, most of the underdeveloped countries are the worst hit by poverty and most horrible suffering. Poverty is not just a shortage of material goods. It is usually part of a syndrome, which includes lack of influence, low category in community, economic and political dependence and irregular and unbalanced sources of income. It also engaged with a limited range of economic and social opportunities. It is a concept not so difficult to grasp in the abstract but the same time so difficult to frame in a satisfactory prepared way. Although there is no single definition of poverty but in a general 'poverty' is a state of deprivation and the shortage of the basic necessities for the human being. The people have lack of resources and they are unable to fulfill their basic need of their families. They have lesser food lesser hope problem of genie, lack of knowledge, low standard shelter, lesser employment, lack of assets and capital and a result of these people have a reduced amount economic activities.

The problem of poverty is not restricted to developing world's only rather it is a global problem, more than 26,800 children dying every day from prolonged lack of food and 10.7 million kids dying under the age of 5 before the year of 2004. Almost every nation of the world has encountered it. (economic survey 2004).

In one survey 26,000 citizens were interviewed orally and through questioners and to say that what is the main problem in his or her country. People fill questioners and rated as following.

75 %---- the poverty, 61 %---- the effect nature, environment or pollution, 59%---- the spread of human diseases, 59%---- terrorism, 41%---- human rights (abuses), 58%---- the worldwide economy, 57%---- war or forced clashes. In this survey, it is concluded that poverty was most serious worldwide problem. According to this survey Pakistanis and Indians were affected by terrorism, and due to terrorist activities poverty increased day by day in Pakistan. (Globe Scan Poverty reduction survey).

It is a fact that at the start of 21st century almost one fifth (1/5th) of the population or 1.2 billion people are living in extreme poverty with daily income less than \$2, but estimate show that 1.3 billion people of the world (around 1/3 of the world population) living on income of less than \$1 a day. The poverty alleviation

activity carried out by the governmental associations; inter-governmental organization, non-governmental organization (NGO) and individual philanthropists. There is different tactics of encounter with poverty alleviation. This variation in tactics is due to multidimensional and diverse nature of poverty. In addition to the groups and bodies working for the cause of poverty alleviation has different priorities. So their strategies also vary among other strategies for poverty alleviation.

This research on the role of micro credit in poverty alleviation will address that micro credit loan is the most important product of micro finance. A small credit is enough to control poverty by starting a small business or expand a small business to fulfill the basic needs and minimum requirements of family. Small business is weaving baskets, sewing, raising chickens, open general shop, buying whole sale goods and sell it in market etc. income from these small business started on micro credit provide better food, better shelter, health facilities, better education for family, and the important one is to provide hope for a better future.

2. Literature Review

In 2002 range 20th wrote an article “women entrepreneurs for the Boston globe. In this article he explains clearly that how this micro credit loan possibly originated. According to his article the micro credit loan system is started in Bangladesh. In 1976 for the first time. When an economists loaned a group of women & men \$27 to start their own small business at your own area. Amazingly they see that how rapidly the loan and successfully sustain the business (INVESTOPEDIA)

How women control credit in Bangladesh. Most of the women borrower’s in Bangladesh have only partial control over credit, or give all control to the male member of his family. In Bangladesh about 20 to 60 % women hand over their loans to male members in their family. The women engaged in traditional home based activities have greater control over loans and repaid their loans very rapidly. (Goetz and Gupta, 1994)

Chowdhury (2001), According to the data collected in 1998, 98% of the bank’s members were poor women and 63% of them belonged to family units with less than 0,2 acre of land and 32% women were be in possession of 0,11-0,40 acre. Nearly half of the families owned no cultivating and no agriculture land at all and less education due to poverty, round about 87% had did not go to school at all.

Round about “1.3 billion” people in the world are living less than 1 dollar per day. The upbringing of children is the responsibility of women. The social, economic and physical underdevelopment of their children is due to the poverty of the women. For the wellbeing of their family’s women invest their own income, that’s why women called a good credit risk. When women are able to provide income for the wellbeing of their family, at the same time they achieve the higher social status with in the family. (The micro credit summit campaigning)

Latifee (2000) mentioned that It is better to start self-small business to support family and fulfill their basic need. Credit loans provide opportunities to self-employment rather than waiting for employment to be created. It liberates both poor male and female from the ditch of poverty. It brings the poor families into the earning and income stream. Under the proper arrangement and appropriate institutional structure one can do whatever one does best and earn money for it. One can overcome poverty, one can become one destiny architect and the agent of change is for the society not for the change of one family.

Microfinance is a key to fight with Poverty, the well-designed, socially and economically viable projects and programs can improve the incomes of the poor families and can move them out of the ditch of poverty. “there is an evidence that the level of income is due to the impact of a loan on a borrower’s income” as those with higher incomes can invest more and have a greater range of opportunities to invest and this credit schemes are more beneficial for the “middle and upper poor” people. However, when MFIs i.e. Grameen Bank and BRAC provided credit to middle and upper poor families, those families were able to increase their incomes and their assets. (Hulme and Mosley 1996)

Enabling, empowering and bottoms-up tool to poverty alleviation is micro credit loan. In developing countries like Pakistan, India and Bangladesh etc micro credit provided economic and non-economic externalities to low income households on low cost by which poor families start their own small business to fulfill the minimum requirement of their families. But there has been a gradual apprehension that only micro credit loan is not enough. Micro credit loan is not a replacement for jobs. Less job opportunities are there, market that is in accessible, and on other hand education and skills which do not exist. An essential ingredient in the development process is micro credit loan, but not the only ingredient. (Faheem Jahangir Khan)

On this planet, many governments of developing states have should provide micro finance to the to the poor people of his country, by this small micro credit they start his own business and remove poverty from roots. Government should start new projects for poverty reduction, provide a credit loan to poor people has been a great tool which helps in the reduction of poverty in the poor countries. (Adeyemi ,2008)

Odoko (2008) Credit alone is not enough to improve the standard of life. Other balancing strategies must be adopted if we want to finish the ditch of poverty. Some of these factors are evaluate as the type of the project, find the credit history of the borrower, the existing economic and physical conditions of the borrower, the competition level in the industry and the 182 judicial methods in credit recovery. The researchers judged that

as much as other complementary strategies summarized are necessary, they are of secondary concern. It is when finance sources are established for the purpose of the poor families. After all the poor people know what to do but securing funds to actualize their visions turns to a nightmare dreams.

3. Material and Methods

This paper is to investigate the role of micro credit in poverty reduction for the period 2009 to 2011. Micro credit is a big source for economic development of a country and its help to generate employment and alleviate poverty. Every effort has been made to collect information and data however the following methods have been used to approach to the objective of this paper. Secondary information and selected data has been collected from different sources of Kaushali bank manuals, annual reports about micro credit, memorandums, service role of micro credit loan newspapers, journals and internet.

Observed all the practices and dealing with different people and officers in Khushali Bank, which helped me and show me the way that how to collect information from different clients. Conduct different clients (male and female) of khushali bank and asked questions about micro credit system of khushali bank which also helped me in questioner survey. To write on this topic we conducted the questioner survey in khushali bank.

3.1 Analytical technique

Different researchers have used different methods to conduct different research studies. we have used the paired T-statistic tool to reach to my research goal. For this purpose, we have selected Khushali Bank in Peshawar city and a 30 micro credit beneficiaries were interviewed through Questioners from Khushali bank.

The following hypothesis were tested

Ho: Lesser the role of micro credit, lesser would be the chances of poverty alleviation.

H1: Higher the role micro credit, greater would be the chances of poverty alleviation.

4. Results and Finding

Table 1: Paired Sample t-statistic before and after credit utilization

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 monthly income before credit utilization	6133.33	30	4207.820	768.239
monthly income after credit utilization	1.500000	30	3129.393	571.346
Pair 2 monthly saving before credit utilization	1350.00	30	1160.782	211.929
monthly saving after credit utilization	4000.00	30	1925.330	351.516

For the purpose to analyzed this research the pair sample statistic is applied on this data and clearly shows the result that in pair 1(mean) monthly income before credit utilization was Rs, 613333 and the monthly income after credit utilization was Rs, 1500000, which is indicate that the monthly saving was increased after credit utilization. Similarly, in pair 2 that the mean of monthly saving before credit utilization was Rs, 135000 and the mean of monthly saving after credit utilization was Rs, 400000 which show us that due to micro finance the saving of individuals has increased and analyze on this basis that micro credit performed an important role in poverty alleviation and it also a tool to eliminate the poverty and bring prosperity due to proper utilization.

Table 2: Paired Sample t-statistic

	Paired Differences				t	df	Sig. (2-tailed)	
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower				Upper
Pair 1 monthly income before credit utilization - monthly income after credit utilization	-8.867000	2528.913	461.714	-9810.978	-7922.355	-19.204	29	.000

Table 2: Paired Sample t-statistic

	Paired Differences						t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference					
				Lower	Upper				
Pair 1 monthly income before credit utilization monthly income after credit utilization	-8.867000	2528.913	461.714	-9810.978	-7922.355	-19.204	29	.000	
Pair 2 monthly saving before credit utilization monthly saving after credit utilization	2.650000	1908.014	348.354	-3362.464	-1937.536	-7.607	29	.000	

This research analyzed from pair sample test that the figure of t statistic of pair 1(monthly income before credit utilization and monthly income after credit utilization was -19.204) which is greater than -3 and +3 which indicates that t statistic of pair 1 was highly significant. Similarly, the pair sample test of pair 2 (monthly saving before credit utilization and monthly saving credit utilization) was -7.607 which also indicate that that the saving of every individual were increased after credit utilization and it show highly significant result.

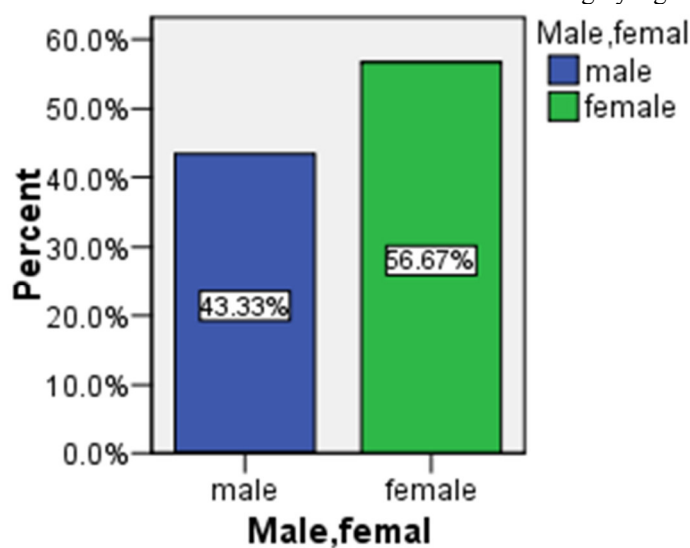


Figure 1. Gender

The Given figure 1, survey shows that female are more interested in micro credit to start her own small business by which they support her family and also help her husbands to support him financially. We have analyzed that 43% male clients and 57% of female clients in total sample size of 30 get credit from khushali bank.

4.4 Qualification

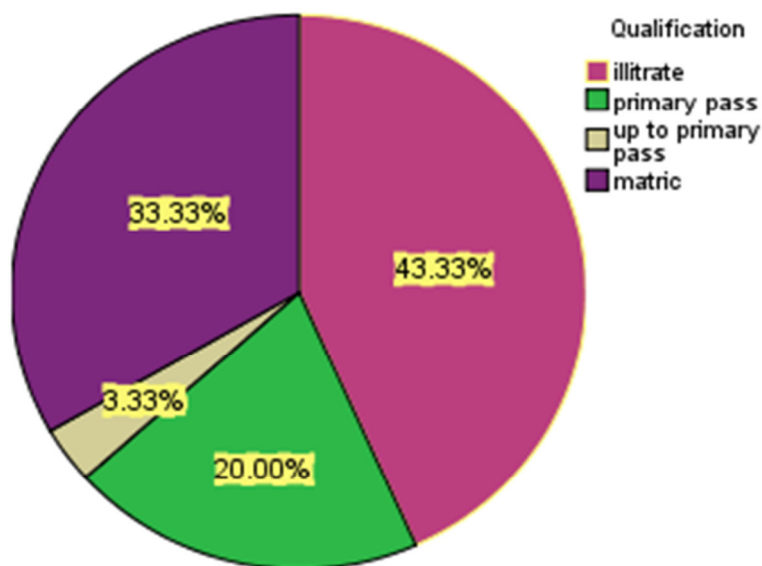


Figure 2. Qualification

The survey shows that maximum poor people who get micro credit are illiterate. They have skills but less job opportunities in Pakistan attract them to get micro credit from micro financed institutions and start their own small business to fulfill his family requirements. The pie chart shows that the illiterate client who get micro credit loan are 43%, matric pass are 33%, primary pass are 20% and up to primary are just 3%.

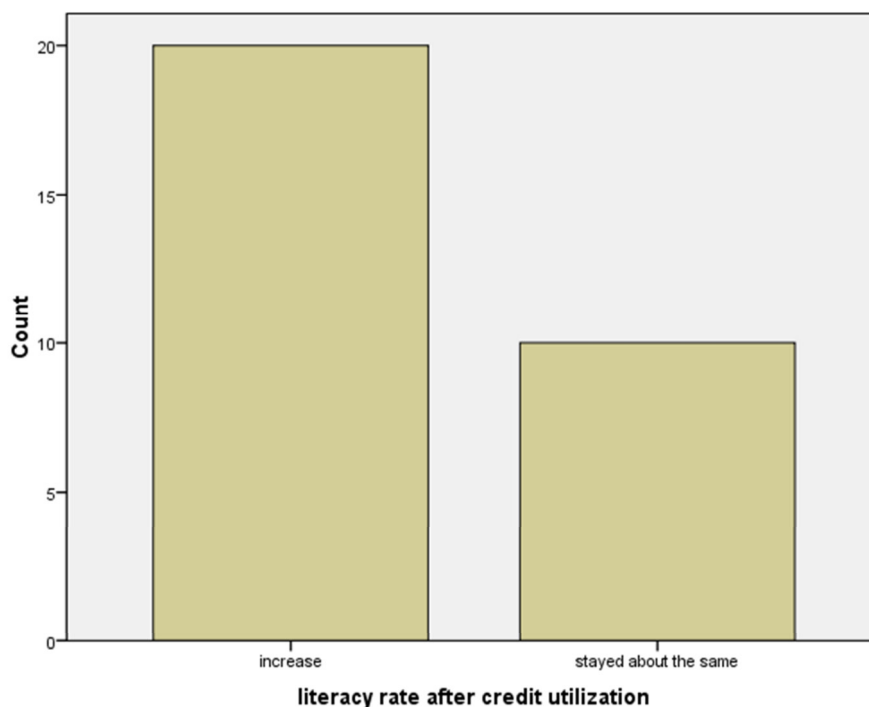


Figure 3. Literacy rate After Credit Utilization

The Given survey 3, survey concludes that due to poverty and less job opportunities, poor people can't afford education of their children. But due to micro credit utilization they start their own small business by which they support his or her family as well as affords education of their children. The survey shows that in the sample size of 30 the view of 20 clients is that after credit utilization the literacy rate is increased and 10 clients said that it is stayed about the same. So micro credit is a tool and also plays an important role to increase literacy rate in poor countries.

Micro credit plays an important role in poverty alleviation. It shows that how to get employment opportunities in jobless country. Micro credit improves standard of living on sustainable basis and reduce

accelerate growth and poverty, to start socially and economically viable projects by government. This study shows that as compared to informal loans, Government provide small and inexpensive loan to the poor people of the country at relatively lower cost so the poor people should get advantage from this scheme.

4. Conclusion

The main objective of this paper has to analyze the role of micro credit in poverty reduction for the period 2009 to 2011. On this study many researches had been done on micro finance and they were analyzed before credit and after credit performance. In this research it is concluded that the monthly income and the monthly saving of individuals before credit utilization and after credit utilization have increased or not and for this purpose paired t. statistic techniques is used to find out the role of micro finance in poverty reduction and improvement of general standard life of every individual. In this research it is concluded on the bases of the following figure of paired t-statistic that the average monthly income before credit utilization was Rs, 613333 and the average monthly after credit utilization was increased to Rs, 1500000.

Similar the totals average of monthly saving before credit utilization was Rs, 135000 and totals average of monthly saving after credit utilization was increased and reached to Rs, 400000. This study also concluded that all the results are highly significant and due to micro credit the literacy rate of several families have increased and some was remained unchanged. On the basis of pair t-statistic the null hypothesis is rejected (H_0 : lesser the role of micro credit, lesser would be the chances of poverty alleviation) and accepted the alternative hypothesis that (H_1 : higher the role of micro credit, greater would be the chances of poverty alleviation). This study shows that micro credit plays very vital roles in poverty alleviation and government and regulatory authority should try to increase the volumes of micro credit and subsidized the micro credit institutions to facilitate and enlarge the volume of credit. The government should stop misuse of the poor people caused by expensive informal credit. As compared to informal loans, Government should provide small and inexpensive loan to the poor people of the country at relatively lower cost. Socially and economically viable projects should be financed. To create greater employment opportunities. To improve standard of living on sustainable basis and reduce accelerate growth and poverty, which is the most important objective of this report.

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