

Effects of Microcredit on Household Income

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Abstract

The study was conducted to find out the effects of Khushhali Bank loans on economic conditions of families in rural Lahore. Data was collected from the four rural Union Councils of Lahore. Stratified random sampling technique was adopted and 202 respondents of three types of loan (agriculture, livestock & enterprise) including both female and male (50 % each) in the age group of 18-58 years were selected. Quantitative data was collected through interviewing schedule. Descriptive as well as statistical analysis (averages and correlation) was applied. The results indicated improvement in the monthly income of the borrowers. As in rank coefficient of correlation positive relationship was found in income (0.35) before and after loan. Repayment rate is high (93 %) in the area. The results show that the loan was a source of support for the families.

Key words: Micro-credit, Income, Savings, Rural Lahore.

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Introduction

The history of microcredit starts with Americans for Community Cooperation in other Nations (ACCION International, 1961) but the current methodologies were developed in 1980s with the establishment of Grameen Bank. (Helms, 2006) Microcredit programmes offer loan distribution, its collection, and the financial and administrative activities associated with it. (Qudrat and Rahman, 2006) Microcredit is a tool for reducing poverty. Rural people use it mostly for agriculture purposes but in urban areas it is used mostly for running small businesses. (Setboonsarng and Parpiev, 2008) Micro credit in rural areas is basically given to improve the well-being of the poor by investing in productive activities. Investment in businesses increases the income of the poor and as a result consumption also increases. (Waheed, 2009) The benefits of microcredits are not as large as other direct poverty reduction strategies like food stamp, safety nets etc., but it provides self-respect to the people and make them enable to utilize their skills to decrease poverty. (Waheed and Hamid, 2001)

Majority of the population in Pakistan lives in rural areas, where their economic condition is very poor, so the microcredit is more needed in rural areas. Government of Pakistan created Microfinance Ordinance in 2001 and many microfinance banks, microfinance institutions and Rural Support

Programmes are providing microcredit to poor people.(Ali and Alam, 2010)Khushhali Bank Limited is the first microfinance bank and was established in 2000, as a part of Poverty Reduction Strategy and State Bank of Pakistan supervises its operations. (Khushhali Bank, 2014)

This study was conducted in 2014 and the loan size which Khushhali Bank offers to its clients was 15,000/- and they had to pay back in one year. They get approximately 5,000/- increase in the loan amount on applying for every further loan. Interest on loan is 29%. Furthermore, no research had been done on the Khushhali Bank rural borrowers of Lahore. So it was necessary to find out the effects of loan on the families of this specific area. Further studies can be conducted on the basis of these results.

Literature Review

Microcredit is considered as important tool for the well-being of poor people. Over the years, many researchers have studied the different aspects of microcredit schemes throughout the world. This section seeks to provide a wide range of literature about researches which were done on the microcredit programs.

As Barboza and Trejos (2009) reported that micro-credit programs have positive effect on poverty reduction and achieved what the governments could not do. They analyzed the performance of Alternativa Solidaria (ALSOL), a micro credit program in Chiapas, Mexico and found high (95 %) loan recovery butmanagement

costs also persist high. Another study conducted by Fred (2009) who used a sample of three institutions about accessing microcredit, borrower's characteristics and household income in rural area of Kasese. The research suggested that microcredit funds should be increased which will bring more improvement in the income of the poor.

Mugabi (2010) researched the impact of microcredit on household income; a comparative study of rural and urban areas in Iganga district, Uganda. Findings revealed that majority of the borrowers in both areas receive small loans from MFIs as compared to commercial banks. Social groups are the basic collateral and loans improved the welfare of the poor households. Nelson and Nelson (2010) investigated the impact of micro-credit scheme on rural poverty, in AkwaIbom State, Rural Nigeria as a case study. The study findings reported that in rural areas micro-credit schemes have much capacities for increasing income; improving household conditions and decreasing desperate poverty.

Islam (2007) quoted the words of Khandker (1998) from the World Bank, that microcredit schemes of Grameen Bank, Rural Development Project 12 and Bangladesh Rural Advancement Committee (BRAC), have been successful in reaching the targeted poor, especially women, and they have reduced poverty but the effect on economy as a whole has been small because of the nature of the activities these microcredit schemes support. Rahman, et al. (2011) investigated the

impact of microcredit on economic indicators of borrowers in Bangladesh. Primary data collected of two major micro credit institutions such as Grameen Bank and the BRAC. The results showed that the microcredit programs are effective in increasing income and household assets for borrowers in general.

Another study where Shaukat, et al. (2007) analyzed the micro credit programme of Sarhad Rural Support Programme. The study showed not very inspiring results regarding increase in monthly income of the sample borrowers after the interventions of SRSP. However the slight increase in monthly income resulted in an increase in spending. Problems of inadequate amount of credit and lack of marketing facilities were reported.

Mushtaq (2008) conducted a study in four urban slum areas of Rawalpindi and Islamabad. It was a comparative study of the living conditions of people before and after use of micro-credit. Data analysis concluded that the micro credit program is beneficial in providing employment to unemployed people and to meet small needs like paying back debt, payment of fee, medical treatment etc. Another study where Shirazi and Khan (2009) attempted to find out the impact of Pakistan Poverty Alleviation Fund (PPAF) programme of micro credit on poverty alleviation. Data was taken from Gallup survey (2005) and results concluded that poverty was decreased (3.05 %) due to micro credit and the borrowers have moved to upper

income group. The overall impact of micro credit on the borrower households was positive.

Objective of the study

To make a comparison of the monthly income and savings of the borrowers before and after utilizing loan

Material and Methods

The research was conducted in the rural areas of Lahore district. Both male and female borrowers (50% each) were the respondents of the study. Three types of borrower were studied which were agriculture borrowers, livestock borrowers and enterprise borrowers. Currently Khushhali bank is working in the four rural union councils of Lahore, which all were taken as the geographical universe of the study. Since the universe comprises three categories of borrowers, stratified random sampling technique was used by randomly drawing 50% of borrowers (every second client) from each stratum. List of borrowers were provided from the bank.

Sample Size

Types of Borrowers	Total Population	50% of the total (sample size)
Agriculture	44	22
Livestock	73	36
Enterprise	285	144

Total	402	202
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Interviewing Tool and Data Analysis

Interview schedule was designed to collect quantitative data. Data was tabulated for analysis. The percentages and averages were calculated and tables were analyzed descriptively. Further, Spearman's coefficient of rank correlation was applied for statistical test.

Results

Table 1. Age Distribution of Respondents

Age in years	Frequency	Percentage (%)
18-27	53	26
28-37	66	33
38-47	52	26
48-57	29	14
58-67	2	1
Total	202	100

Age criteria for Khushhali Bank loan is from 18 to 58 years of age. According to the personal profile of the 202 respondents, who borrowed from the Khushhali Bank, 33% of the respondents belonged to the age group of 28-37 years, 26% belonged to the 18-27 years, 26% belonged to the 38-47 years, 14% were 48-57 years old and 1% belonged to 58-67 years. The average age of the respondents was 36 years.(Table.1)

Table 2. Education Levels of the Respondents

Education Level	Frequency	Percentage (%)
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Illiterate	105	52
Primary	38	19
Middle	22	11
Matric	27	13
Intermediate	04	2
Graduate	05	3
Post Graduate	01	0.4
Total	202	100

The data is depicting that majority (52 %) of the respondents were illiterate, 19% respondents were educated upto primary level and 13% were educated upto matric level. While 11% were middle, 2% were intermediate and 2% were educated upto graduate level. Only one respondent held the post graduate degree (Table 2).

Table 3. Number of Loans Taken by Respondents

No. of loans	Frequency	Percentage (%)
One	106	52
Two	65	32
Three	24	12
Four	04	2
Five	02	1
Six	01	1
Total	202	100

Out of 202 respondents, 52% respondents were utilizing their first loan, 32% second loan, 12% third loan, 2% fourth loan, 1% fifth and 1% was using their sixth loan.(Table 3).

Table 4. Importance of Business for the Family where Loan was Invested

Type of earning source	Total	
	Frequency	Percentage (%)

Main earning source of the family	123	61
Supplementing the family income	79	39
Total	202	100

The above table shows that 61% of the respondents invested loan money in those businesses which are the main earning source for the family, while 39% utilized the loan for supplementing the family income. (Table 4).

Table 5. Utilization of Loans in Old or New Business

Utilization of Loans	Frequency	Percentage (%)
Investment in old business	158	78
Started new business	44	22
Total	202	100

The figure depicts that 78% of the respondents invested the loan money in their old businesses (already running businesses) while 22% started new businesses with the loan (Table 5).

Table 6. Intensity of Fulfillment of Purpose by Taking Loan

Intensity of the purpose fulfilled	Total	
	Frequency	Percentage (%)
Great Extent	138	68
Some Extent	64	32
Total	202	100

Response of the borrowers about their purpose fulfilled by loan is as follows: 68% respondents were agreed that loan fulfilled their purpose to great extent while 32% respondents said that their purpose of taking loan was fulfilled to some extent.

Table 7. Comparison of monthly income before and after*Loan

Monthly Income	Before		After	
	Frequency	Percentage (%)	Frequency	Percentage (%)
Nil	22	11	0	0
1000 or less	03	1	0	0
1001-5000	32	16	11	5
5001-10000	31	15	39	19
10001-15000	58	29	28	14
15001-20000	43	21	42	21
20001-25000	07	3	50	25
25001-30000	03	2	20	10
30001 or above	03	2	12	6
Total	202	100	202	100

Note: After* means at least ten months after taking loan

A comparison was made about the monthly income of the 202 borrowers before and after borrowing loan from Khushhali Bank, the details are as follows: Before acquiring loan, 29% respondents were earning between 10 thousand to 15 thousand rupees monthly, 21% were earning between 15,001-20,000, 16% between 1,001 to 5,000, 15% between 5,001-10,000, 11% respondents were not earning at all, 3% were earning between 20,001 to 25,000, 2% were between 25,001 to 30,000, only 2% were earning between 30,001 to 35,000 while income of 1% was less than 1,000 rupees. But after utilizing Khushhali Bank loan, the income of the 25% of the respondents was increased which was 20 thousand to 25 thousand now, 21% earning between 15,001-20,000, 19% between 5,001 to 10,000, 14% between 10,001 to 15,000, 10% between 25,001 to 30,000, 6% between 30,001 to 35,000,

while only 5% were earning between 1,001 to 5,000 after utilizing loan. Average monthly income before loan was 10,619 rupees and after loan it was 17,206 rupees. Difference in mean monthly income was found as 6,587 rupees. (Table 7)

Table 8. Repayment Rate during the month

Repayment Rate	Total	
	Frequency	Percentage (%)
Installment paid on time	187	93
Delayed in paying installment	15	7
Total	202	100

During the month when research was carried out, repayment rate was 93% while 7% paid their installments with delay. (Table 8).

Table 9. Number of Respondents who want to Borrow again from Khushhali Bank

Want to borrow again	Frequency	Percentage (%)
Yes	188	93
No	14	7
Total	202	100

Out of 202 respondents, 93% wanted to borrow again from Khushhali bank while 7% were not interested in borrowing loans in future (Table 9).

Conclusion

The analysis shows that income before and after loan is positively correlated (Rank Coefficient of Correlation = 0.35). Loan was found as a source of support for the families. Majority of the loan was disbursed to the already running businesses; it can be due to the sureties for repayments and may be another reason is that loan money which is very small in size; new initiatives are not very much possible. Majority of the respondents in the area were illiterate and were owing small businesses. If the functional literacy of the respondents is increased then they can use the loan money more productively. Repayment rate was high (93%) in the area. Majority of the borrowers were satisfied with the service and claimed that their economic condition is better than before. They wanted to borrow again from Khushhali Bank, which shows that service has a worth.

Recommendations

Main suggestions, observed and found during research are as follows:

- Loan amount should be increased, because according to the economic situation of the country, fifteen thousand is not enough. This increase in loan size will consequently bring more increase in households' income.
- Loan amount should be disbursed according to the enterprise and affordability of the respondents, especially to the agriculture and

livestock clients, because farming and purchase of livestock is expensive.

- Borrowers should be trained in new skills, so that they can replace their low paid businesses.
- Observational visits for the borrowers should be arranged to the other big enterprises so that they can get new ideas for their businesses.
- Some compensation should be given to those borrowers who face loss in their businesses for a certain time period.

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