

Rural Credit and Enterprise Development: A Way to Combat Poverty through Institutional Loaning

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Abstract

Generally, poverty means low standard of living. The disproportionate increase in the distribution of wealth has become one of the main ills of society in these days. Lot of people suffers from the pain of poverty because of high population growth rate. In order to curtail poverty, the government has devised different policies and plans in assistance with private sector and various NGOs. The main impetus behind these policies was to get benefit from the Bangladesh's experience of Grameen Bank. This bank gives loan to resource less people particularly to women. This model has been adopted by many countries around the world as well as by Pakistan. The present study was conducted in Pallandri Tehsil of district Sadnothi of Azad Jamu & Kashmir where National Rural Support had started a project by establishing an organization known as Rural Credit and Enterprise Development. The results of the study indicate that a little support to rural household helps to increase its income level. There was an average increase of Rs. 1268 in the income per month of the respondents. The credit facility also enabled them to save a little amount of money. The mean value of the data shows that the average increase in the saving of the respondents was four times after taking loan. However, a majority of the loanees (80 percent) expressed inadequacy of the loan and 52 percent of them were not satisfied with the repayment schedule. They were of the view that the given time period was too small to fully harnesses the benefits of the project.

Key words: Poverty, Rural Credit, Enterprise Development, Community Organization, National Rural Support Program.

Introduction

Economists normally define poverty from five different perspectives. The first is income poverty or consumption poverty. Most of the time economists refer to this definition of poverty. The second set of meanings is material lack. Besides income this includes lack of basic needs and services of life like shelter, health, education etc. The third definition revolves around the capability deprivation referring to what we can or cannot do. The fourth cluster takes a yet more broadly multi dimensional view of deprivation with material lack or want as only one of the several mutually reinforcing dimension (UNDP, 2006).

There is now huge amount of literature available on poverty, its measurement and its cure. Two measures are considered as basic reference, (i) UNDP Human Poverty Index, which includes life expectancy, literacy, access to safe drinking water and child malnutrition as the criteria for defining the proportion of population who are poor (ii) a new method for determining the poverty using utility theory (UNDP, 2006).

Naya (1995) viewed community development as the process by which the efforts of the people themselves were united with those of government authorities to improve the economic, social and cultural conditions of the communities, to integrate these communities

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in the life of the nation and to enable them to contribute fully to national progress. Jha (2002) argued that community development was a larger and more comprehensive process, which included community organization. It was concerned with much wider field of improving the quality of human life.

Tri (1986) stated that the primary objective of participation in development was to meet the needs and satisfy the aspiration of peoples, especially those of less fortunate people who have often been overlooked in the past. This means that development should emerge from what people are, what they do, what they want and what they think and believe. Khan (1990) stated that community participation means a broad decentralized homogenous organization at village and neighborhood level. Aziz (2000) observed that community banks and grassroots saving and credit groups around the world have shown that the micro enterprise loans can be profitable for both borrowers and the lenders, making micro-finance one of the most effective poverty reduction strategy. Similarly Masuad (2002) argued that micro credit program should be designed in such a way that recovery is ensured besides reaching maximum number of needy persons and also it should be sustainable.

The present paper revolves around the income poverty and the role of small scale credit provision in the rural community. The results of the paper are based upon a study conducted in the central highland zone of Azad Jamu & Kashmir (AJK) in district Sidhanoti. Many non-government organizations (NGOs) are executing different development program in AJK. National Rural Support program (NRSP) is one of such NGOs. The general objective of the program is to set up a countrywide network of grassroots level community organization (Cos) which, can enable rural communities to plan, implement and manage the development activities and program for the purpose of ensuring productive employment, poverty alleviation and improvement of quality of life at their own.

One of the major interventions of NRSP is Rural Credit and Enterprise Development (RCED). The Cos that are established by NRSP prepare their micro investment plans. These plan are prepared for each CO member and the CO as a whole. Cos are interested in carrying various projects at community level and also at individual level. For this purpose they need either training or financial capital to start an income generating activity. NRSP has made available a program of skills development and a credit line to meet these household levels needs. The RCED does this through making small credit more accessible to the rural communities in the field of (i) Agriculture (ii) Livestock (iii) Small Scale Enterprise and (iv) Infrastructure Development.

The maximum limit of credit is Rs. 10000 for the first time and Rs. 15000 for the second time. The limit is made intentionally small to give credit to maximum clients. The study has tried to explore the socio-economic benefits that have accrued to the community where the NGO is working.

Methodology

A sample of sixty lonees who had obtained loan at least six month before was drawn from Pallandri Tehsil of Sadnothi district of Azad Jamu & Kashmir. Data were analyzed by using percentage and Chi-square analysis. The Chi-square was applied to test the significance of association between socio-economic variables and the rise in income of the people or their change in saving pattern. The following formula was used to calculate the Chi-square.

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

Where:

O = observed values

E = expected values

Σ = sum of values

The significance of the value of χ^2 was judged at 0.05 level of probability.

Results and Discussion

The analysis of the data shows a very wide spread of poverty in the study area. Twenty eight percent of the respondents had monthly income between Rs. 1500 and Rs. 6500 and 30 percent had monthly income more than Rs. 6500. The RCED provided Rs. 10000 to 75 percent and 15000 to only 22 percent of the respondents as the policy matter of the NRSP. Most of the loans are provided for livestock rearing i.e., 53 percent of the total loan advanced by the RCED. Forty seven percent of the loans were given for small scale enterprise development like grocery, vegetables or fruit shop etc. None of the respondents took loan for agriculture. Maize and wheat are the major crops grown for the home consumption. Majority of the female loanees have taken loan for livestock. Nearly all of the respondents argued that that NRSP had guided them how to utilize the credit. It means that it is a supervised credit scheme. Besides giving guidance to the loanees, training is also imparted to them on their demand by NRSP in order to ensure the best use of limited resources and timely recovery of the loans (Masuad, 2002).

Loan limit, was felt insufficient by all the respondents. According to them the amount provided by RCED was not good enough to start a new business or to buy a livestock. Similarly all 100 percent felt that their living standard was changed to some extent after joining the project and there was no big change in their living standard.

According to Anayat (2000) small amount of financial resources does affect the borrowers by immediately opening up the opportunity for the poor to translate their individual unused potential into concrete economic actions to create an economic flow. The present study supports the findings of Anayat.

Family Monthly Saving Before and After Taking Loan

Table 1 shows 17 percent of the respondents were saving Rs.100-700 and 8 percent had saved Rs.701 to 1300 per month before taking loan, 10 percent had their saving of Rs.1301-2000 and above per month while a significant majority i.e., 65 percent had no saving before taking loan. After getting loan 50 percent of the respondents saved Rs. 100-700 per month, 18 percent saved 701-1300 per month, only seven percent had saved Rs.1300 and above. Only 25 percent of the respondents were still unable to save. However, there is reduction in this group by 40 in absolute terms.

Table 1: Distribution of respondents with regard to their monthly saving before and after taking loan

Response Category	Before		After	
(Saving in Rs.)	Frequency	Percentage	Frequency	Percentage
100-700	10	17	30	50
701-1300	5	8	11	18
1301-2000 & above	6	10	4	7
No saving	39	65	15	25

$$\chi^2_{cal} = 23.31$$

$$\text{Mean} = 73$$

$$\text{Mean} = 272$$

$$\chi^2_{tab} = 7.81$$

$$P < 0.05$$

The difference between mean value shows that the average increase in the saving of the respondents is four times after taking loan which is quite significant with a small amount of loan and guidance provided to the respondents.

The value of chi-square shows that there is a highly significant difference between the monthly saving of the respondents before and after taking loan.

Table 2: Distribution of respondents with regard to their monthly income before and after taking loan

Response Category (income in Rs.)	Before		After	
	Frequency	Percentage	Frequency	Percentage
1500-4000	28	47	5	8
4001-6500	14	23	22	37
6501-9000	7	12	13	22
9001-11500	5	8	8	13
11501 & above	6	10	12	20

$$\chi^2_{cal} = 22.30$$

$$\text{Mean} = 4142$$

$$\text{Mean} = 5409$$

$$\chi^2_{tab} = 9.49$$

$$P < 0.05$$

Table 2 shows the family monthly income of the respondents before and after taking loan. A significant majority of the respondents i.e. 47 percent earned Rs.1500 to 4000 per month. Twenty three had monthly income ranging from Rs. 4001 to Rs. 6500. Twelve percent had monthly income of Rs. 6501 to 9000 and 8 percent had earned Rs. 9001 to 11500 per month. Earning of only 10 percent of the respondents was more than 11500 per month. After taking loan 8 percent of the respondents had monthly income of Rs. 1500 to 4000, 37 percent had monthly income of Rs. 4001 to 6500 while 22 percent had monthly income of Rs. 6501 to 9000. Thirteen percent of the respondents had earned between 9001 to 11500 per month and earning of the 10 percent respondents was more than 11500 per month.

The difference between the mean value of monthly income before and after availing loan shows that there was an average increase of Rs. 1267 per month in the income which is quite significant with a small amount of credit taken by the respondents. The value of chi-square shows that there is a highly significant difference between the monthly income of the respondents before and after taking loan. These results are in line with those of many researchers like Saadia (2000), which shows that income of the 73 percent respondents increased after investing loan.

Masud (2002) is of the view that a micro credit program should be designed in such a way that recovery is ensured besides reaching maximum number of needy persons. However, respondents were feeling it difficult to pay the loan in a short period of time (52 percent). Respondents were in favour of the concept that installments duration that is 11 months should be more so that they could easily return the loan. Similarly a large majority i.e. 80 percent of the respondents expressed inadequacy of the loan limit while 20 percent of the respondents had no disagreement with the adequacy of the loan. Table 3 provide data in this regard.

Table 3: Distribution of respondents with regard to limit and period of repayment of loan

Response Category	Frequency	Percentage
Satisfied with period of installment	29	48
Not satisfied with period of installment	31	52
Adequate amount of loan	12	20
Inadequate amount of loan	48	80

Conclusion

The increasing credit circulation of NRSP is a proof of the community need people friendly credit program that are easier to get and easier to pay. Majority of the respondents find that this scheme had a positive impact on their business. The monthly income of the respondents increased after investment of loan, while the borrowers, who availed loan but experienced no increase in income, felt that they could not invest the borrowed money properly. The paper also reveals a significant increase in the monthly saving of the respondents, which improved their living standard to some extent, but, poverty alleviation through this scheme was very limited.

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