

## **Impact of Microcredit Scheme on Socio-economic Status of Farmers (A case study of PRSP in District Gujranwala)**

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### **Abstract**

Pakistan is an agricultural country and the majority of the population belongs to rural areas, therefore rural sector is the main source of economic development and manpower in the country. The development of rural areas is essential for the enhancement of agriculture sector and for the betterment of rural communities. The aim of the present study was to find the impact of microcredit on socio- economic status and living standards of the farmers in rural areas of district Gujranwala. The universe for the present study was all farmers who got loan from the Punjab Rural Support Program in district Gujranwala for agricultural purpose. The Sample of 185 respondents was selected from the targeted population using the simple random sampling technique. A survey was conducted to carry out the study in which a close ended structured questionnaire was developed to collect data from the farmers. Both descriptive and inferential statistics were used to draw the results from the study. Through descriptive analysis, the study clearly demonstrated that microcredit has played a positive role in improving the socioeconomic status of farmers after getting the loan. In this regard the study observed that microcredit played the positive role in changing and improving the living standards, diet patterns, health status and childrens education of the respondents. Chi square test was used to test the proposed hypothesis of the study and to verify the association between variables. The results of the Chi square test revealed that there was a significant impact of microcredit in improving socioeconomic status and household living standard of the farmers.

**Key Words:** Farmers, Living standard, Microcredit, health status, diet patterns, PRSP

## **Introduction**

The living standard in low income developing countries always remains 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 (Akram & Hussain 2011).

Agricultural credit provides financial resources to the farming community particularly for the purchase of primary inputs like fertilizer, seeds, pesticides, machinery, equipment etc. The government considers it an important instrument for achieving higher production and attaches high priority to ensure its timely availability to the farmers. Credit requirements of the farming community have shown an increasing trend over in recent decade (Khan et al).

The roots of the Pakistan economic development depends mainly on agriculture sector rather than non-agriculture sector. Therefore, the Government should have a special focus on agricultural sector for the development of farmers and poverty alleviation in Pakistan. Growth in the agriculture sector will enhance the productivity which will lead to the betterment in the economic conditions of farmers, improvement in their children's education, health status and living standards. Farmers in the rural areas of the country need more facilitation than the farmers in urban areas. Therefore rural areas should be focused according to their requirement. Technology has increased the production of crops in agriculture sector in this modern era. In Pakistan, production of crops has not been increased due to lack of technology in the rural as well as in urban areas.

Microcredit plays an important role in agricultural development. One element of an effective strategy for poverty reduction is to promote the productive use of farm inputs. This can be done by creating opportunities for raising agricultural productivity among small and marginalized farmers. Microcredit is particularly relevant to increasing productivity of rural economy, especially agricultural productivity in such an environment where economic growth is occurring. Microcredit may enable small and marginalized farmers to purchase the inputs they need to increase their productivity, as well as financing a range of activities adding value to agricultural output (Nosiru & Omobolanle 2010).

Rural microcredit is intended primarily for investment in rural production activities to improve the well-being of the poor. However, its use to meet daily consumption needs is not prohibited. Nonetheless, credit increases income and consequently effects consumption. Punjab Rural Support Programme provides micro loans to the rural poor who have regular source of income (Seemi 2009).

PRSP has succeeded in creating an enabling economic environment in leading to a considerable increase in the income of the rural poor. PRSP aims to increase the income of farmers by helping them overcome the problems through total factor productivity. It also facilitates awareness building among the communities through information dissemination and organizing different activities such as field days and workshops in agriculture, livestock and poultry farming (Manzoor and Akhtar 2006).

## **Objectives of the Study**

- To explore the role of microcredit in improving the socioeconomic status of farmers.
- To analyze the improvement in household living standard (household assets, clothes, infrastructure) of farmers due to microcredit.
- To see the improvement in quality of food available to the farmers due to microcredit.
- To assess the microcredit as reason to increase children's monthly educational expenditures.

## **Review of Literature**

Bashir (2009) stated that the agriculture sector is the largest contributor to the national incomes (GDP) of the world economies as well as for in Pakistan, contributing nearly 21 percent to the GDP and provides employment to nearly 43 percent of the workforce and supplies raw material to the industrial sector (notably textile industry) of Pakistan. Credit is an important tool for getting the inputs in time thereby, increasing the productivity of the farms particularly those of small ones. The current study was designed to know the diversifying characteristics of the loanee and non-loanee farmers. It was found in the study that almost on all account variations were observed in the characteristics of loanee and non-loanee farmers. It is suggested that improvement in education status will help farmers not only to understand the myths about loan / credit but also to utilize the finances in a much better way.

Khan et al. (2007) carried out the research on "short term agricultural loans scheme of Zarai Tarraqiati Bank on the increase in farm production" in which they describe that the unavailability of financial resources to farmers in the developing countries is one of the major constraints to increase farm production. The importance of agricultural credits, especially from the institutional sources, is widely recognized as an affective tool to enhance agricultural productivity. Keeping in mind the effective role of timely availability of financial capital to the farmers; (,) this study was designed to analyze the impact of short term credit scheme of Zarai Tarraqiati Bank Limited on farm production. The main findings of the study suggest that short-term agricultural credit by Zarai Tarraqiati Bank has positive effects on wheat, gram and livestock production. Based on the encouraging response of the farmers towards credit programme and timely repayment by the farmers, it is recommended that for increasing production per unit area in the region, ZTBL should expand the short term credit programme and increase the credit limits so that a large number of farmers could benefit from the credit programme of the bank.

Jehanzeb (2008) conducted the study on "The effects of agricultural credit on farm productivity and the income of the small farmer" as a result of the credit provided by Zarai Tarraqiati Bank of Pakistan. Farming was the main occupation of both respondents. The result reveals that the credit advanced by ZTBL in the study area has made (a) positive effect on the area of wheat and maize.

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Ahmad, Naveed, and Ghafoor (2004) conducted a study on “Role of micro finance in alleviating rural poverty” in which he describes that the concept of micro financing is now in place to play a vital role in alleviating poverty both in urban as well as in rural areas of the country. It was found that the microcredit scheme was efficiently serving the poor, helping them to get rid of poverty and improve their living standard.

Akram & Hussain (2011) conducted the study to assess the contribution of microfinance in raising the living standard of low income people of District Okara-Pakistan. 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) were studied. Positive impact of microfinance on income level and customers’ satisfaction level about the services of microfinance institutions were observed.

Adil & Badar (2003) conducted a research to examine the impact of microcredit on agricultural production, poverty status, income, consumption and savings of the farmers in Dera Ghazi Khan Region. The results indicated positive changes in agricultural production, poverty status, income, consumption, saving and farm expenditure after the utilization of credit. Data showed that there was a positive relationship between credit size and income, home consumption, saving and farm expenditure. The provision of microcredit through the National Rural Support Program (NRSP) has been considered as the latest panacea for poverty alleviation.

In Pakistani context, many studies on microfinance have documented the impact of such schemes on the borrowers. An important study in this regard is the economic impact of micro finance on borrowers: evidence from Punjab, Pakistan by Mushtaq (2011) in which he observed that the economic position of the microfinance borrowers was better than the non-borrowers. He also makes an important point about the significance of microcredit for asset creation which is essential for development of agriculture in Punjab.

## **Research Methodology**

The study was conducted in district Gujranwala to see the impact of PRSP microcredit on the socioeconomic status of farmers.

### **Universe**

The universe of the present research study was all the farmers of district Gujranwala who received micro-credit from PRSP only. There were total 470 farmers who borrowed loan from PRSP in the district Gujranwala.

### **Sample**

To get a representative sample, the simple random sampling technique was applied to collect the data. This technique was followed to ensure equal participation of all the strata of the population.

## **Sample Size**

The population of the study was 470 respondents from which 40 % of the respondents were considered appropriate for representation of the sample.

## **Technique of Data Collection**

The survey method was used to carry out this research study. Keeping in mind the sample size and scope of the present study the survey method was best to be used to collect data from the large pool of cases.

## **Type of Study**

The Present study was quantitative in nature. A Survey was conducted to measure the impact of PRSP Micro-credit scheme

## **Tool for Data Collection**

A Close ended structured questionnaire is a quantitative tool of data collection therefore it was developed to collect data from the farmers.

## **Method of Data Analysis**

Data was analyzed by using Statistical Package for Social Sciences (SPSS) software, version 16.0. Both descriptive and inferential statistics were used to draw the conclusion from variables.

## **Results and Discussion**

### **Table I: Income Increased Due to Microcredit Facility**

From Table I it is that the majority of the respondents (93.6%) have increased in their income due to the microcredit facility. Only 3.2% respondents reported that their income was not increased. While 3.2% respondents said that there was no effect in their income.

### **Table II: To What Extent economic status improved after getting the loan**

Table II shows that the majority of the respondents i.e. 67.00% said that micro-credit played a positive role in improving economic status after getting microcredit to a great extent, while 30.3 % respondents described that it play a role to some extent, only 2.7% respondents said that micro-credit has no effect in improving their economic status. From the data it is clear that a good strength of respondents were satisfied with the role of micro-credit loans in improving economic status.

**Table III: Improvement in HH Living Standard of the Respondents**

Income is the main source of improving household living standard and maintaining livelihood expenditures. Table III shows that the majority of the respondents (83.2%) have improvement in their household living standards due to the microcredit facility. It clearly indicates the success of PRSP microcredit programs and its productive benefits for the farmers. Microcredit significantly increased income of the farmers and due to increased income they achieved better financial status. They could easily fulfill the requirements of household expenditures and needs of livelihood. Therefore their living standard and access to the essential facilities of life improved.

**Table IV: Change/Improvement in Food/Diet Patterns of the Respondents**

Table IV indicates that there was change/improvement in food/diet patterns of a considerable majority (81.1%) of the respondents. Diet is improved due to increase in income level and achievement of better household living standards. It shows the merits of the PRSP microcredit scheme which effectively improved the food/diet patterns of the respondents through increasing their agricultural production with financial assistance. A better financial position made them able to have better diets for themselves and for their family members.

**Table V: Change/improvement in Health Status of the Respondents**

Table V indicates that 74.1% respondents were having improvement in their health status. It indicates the advantages of the PRSP microcredit scheme for the farmers. Farmers achieved better economic status through the development of their agricultural business and increase in their crop production. Therefore they became able to spend more money to maintain their health and get access to the health facilities. On the basis of the improvement in health it can be said that the loan amount proved very beneficial for the farmers in several ways to uplift their socioeconomic status and to fulfill the requirements of their health expenditures to maintain and improve their health.

**Table VI Change/improvement in Children Education of the Respondents**

Table VI shows that 67.6% respondents improved the educational status of their children due to increase in the income, while 32.4% respondents have no improvement in their children's education.

Due to having financial resources after enhancement in crop production; they spend more money on the education of their children. Achievement of financial resources made them able to educate their children rather than involving them in labor and other tasks. Increased income has been very supportive for them to fulfill the educational expenditures

of their children. So the results are clearly indicating towards fruitful benefits of the microcredit scheme for the respondents in uplifting their socioeconomic status.

Income Increased	Frequency	Percentage (%)
Yes	173	93.6
No	6	3.2
No Effect	6	3.2
<b>Total</b>	<b>185</b>	<b>100.0</b>
<b>Table II: To What Extent economic status improved after getting the loan</b>		
To what extent	Frequency	Percentage (%)
To Great Extent	124	67.00
To Some Extent	56	30.3
No Effect	5	2.7
<b>Total</b>	<b>185</b>	<b>100.0</b>
<b>Table III: Change/Improvement in HH Living Standard of the Farmers Due to Microcredit</b>		
Improvement in HH Living Standard	Frequency	Percentage (%)
Yes	154	83.2
No	31	16.8
<b>Total</b>	<b>185</b>	<b>100.0</b>
<b>Table IV: Change/Improvement in Farmers Food/Diet Patterns</b>		
Change/Improvement in Food/Diet	Frequency	Percentage (%)
Yes	150	81.1
No	35	18.9
<b>Total</b>	<b>185</b>	<b>100.0</b>
<b>Table V: Change/Improvement in Health Status of Farmers</b>		
Change/improvement in Health status	Frequency	Percentage (%)
Yes	137	74.1
No	48	25.9
<b>Total</b>	<b>185</b>	<b>100.0</b>
<b>Table VI: Percentage Distribution of Respondents Regarding Change/Improvement in Children's Education</b>		
Change/improvement in Children Education	Frequency	Percentage (%)
Yes	125	67.6
No	60	32.4
<b>Total</b>	<b>185</b>	<b>100.0</b>

## Hypothesis

**Ho:** There is no association between Microcredit and improvement in the socioeconomic status of the borrowers

**H1:** There is an association between Microcredit and improvement in the socioeconomic status of the borrowers

Level of Significance **Alpha:** ( $\alpha$ ) = .05

### Chi-Square Test

Chi square test was carried out to verify the relationship between microcredit and socioeconomic status of the respondents in which microcredit was used as an independent variable and household living standard, food quality, health practices, and education expenditure as dependent variables.

The Null hypothesis for the present study was assumed as Ho: There is no association between Microcredit and improvement in the socioeconomic status of the borrowers. While alternative hypothesis was assumed as, H1: There is an association between Microcredit and improvement in the socioeconomic status of the borrowers.

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Chi square test was applied to test the above stated hypothesis and for checking the association between the two variables. The level of significance for the calculated was  $(\alpha) = .05$ .

Table VII: Association between Microcredit and Improvement in the Socioeconomic Status of the Borrowers

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	28.960 <sup>a</sup>	4	.000
Likelihood Ratio	22.249	4	.000
Linear-by-Linear Association	12.813	1	.000
No. of Valid Cases	185		

Table VII shows that there was a significant relationship between the two variables (Chi square value =28.96, df =4, p=.000 which is < .05). As the level of significance of the calculated value is less than 0.05, so the alternative hypothesis H1 i.e. there is an association between microcredit and socioeconomic status of the borrowers is accepted. Hence the null Hypothesis Ho i.e. there is no association between microcredit and improvement in the socioeconomic status of the borrowers is rejected.

## Conclusion

It was observed from the research that the PRSP Microcredit scheme has positive impact on the socio-economic conditions of the farmers. Microcredit investments in the agriculture sector led the farmers towards the betterment in economic conditions, improvement in their living standards, children's education, and health status. Micro-credit significantly increased income of the borrowers. And due to increased income farmers achieved better financial status. They could easily fulfill the requirements of household expenditures and needs of livelihood. Therefore their living standard and access to the essential facilities of life improved. The study results clearly indicating fruitful benefits of the micro-credit scheme for the small farmers in uplifting their socioeconomic status. Eventually the study concluded that the PRSP microcredit scheme plays an imperative role to enhance the agricultural production in farming which not only improves the socio-economic condition of the farmers but also leads towards agricultural development in the rural areas.

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