Impact of Microfinance on the Performance of an Agriculture Industry in Pakistan

Subhani, Muhammad Imtiaz

Iqra University Research Centre (IURC), Iqra university Main Campus Karachi, Pakistan

2010

Published in
South Asian Journal of Management Sciences
Vol. 4, No. 2, (Fall 2010) pp 23 - 28

Impact of Microfinance on the Performance of an Agriculture Industry in Pakistan

M. I. Subhani and Sana Awan

ABSTRACT

This study is an attempt to investigate the impact of microfinance on industry performance. The findings explain that there is no as such impact of microfinance on agriculture industry performance in a country like Pakistan. Research problem is to find out whether Microfinance has positive impact on agriculture industry growth or not, what role is played by microfinance in under developing countries like Pakistan, are people aware of it. Five years secondary Data comprised on years 2003-2008 was collected from the Sindh Statistical Bureau based on GDP contribution on agricultural sector in accordance to disbursed, recovered and outstanding amount.

Key words: Microfinance, Loan recovered amount, Loan disbursed amount, Loan outstanding amount

Introduction

Microfinance services are financial services that poor people desire and are willing to pay for. Microfinance has evolved an economic development approach intended to benefit low-income groups. Financial services generally include savings and credit, and some micro finance organizations also provide insurance and payment services (Mitchell, 2003). Microfinance intuitions have been built for providing the benefits, lend money to the poor in the developing countries Economists (Hulme & Mosley, 1996). The aim of this research is to examine impact of microfinance on the performance of an agriculture industry in Pakistan after success of microfinance in many other countries, this research based on efficiency of microfinance conducted and tested through logistic regression but the result came that there is no significant association. And thus it indicates that microfinance is not reaching to the actual poor and has no positive impact. Microfinance sectors are not only for providing loans but also make an effort with view to success and subdue fluctuations in income. Hulme and Mosley (1996) said that they have got proofs from their cases which reveal that participating to reducing vulnerability of the poor household bring unexpected fall in income. In the rare case it has been seen opposite (Mitchell, 2003).

Literature Review

The micro-level imperfections in the financial markets restrain formal financial intermediaries and puts informal lenders in a better position for “efficient market coverage” on the other hand, limited funds and high interest rates may be improved upon. Microfinance, a basic fundamental of financial services is for a poorer clientele, which has

managed imperfections by utilizing mechanisms used in the informal sector, and has the prospective of providing financial services more efficiently (Svensson, 2007).

The microfinance revolution has helped the poor in many countries and in some countries has provided substantial flows of credit, often to very low-income groups or households, who would usually be excluded by conventional financial institutions. Bangladesh is the starkest example of a very poor country, where currently roughly one quarter of rural households are direct beneficiaries of these programmers (Khandker 2003 : John Weiss, Heather Montgomery and Elvira Kurmanalieva , 2003).

The Agricultural Development Bank (ADB) a major dealer of the countryside credit, is not a hundred percent with huge selection of non-performing loans (NPLs), low loan recovery rates and as a result, low profitability. The institutional competence in stipulations of superiority of service to the clients and optimistic impact on the sector is also not very pleasing. The ADBP (ZTBL) loan is on the other hand, security based and by itself might not accommodate to the pecuniary needs of the poor except from side to side-special plan, the outreach of which is imperfect (Imaduddin, 2002).

Looking at the bank's total micro savings over the years from 2004 to 2006, it has been rising fairly significantly, with about 20% growth in 2005 and 30% in 2006, with a total outstanding of USD 8.78 million in microsavings at the end of 2006 (Basu & Pradeep, 2004). CARD categorizes its aim cluster on the basis of housing and marketable possessions (up to P25, 000) firm on the basis of means tests on prospective members (Hosain & Diaz, 1997).

Microfinance approaches is a countrywide effort, initiated by non-governmental organizations, and at the present maintain by the state, to make links between commercial banks, NGOs, and casual local groups ('self-help groups', or SHGs). The enlargement of SHG bank Linkage has been beyond doubt amazing, above all since the late 1990s. In 2003, the number of SHGs linked to banks was close to 800,000, compared to just 33,000 in 1999. SHG Bank connection attains some 12 million women and their households. But outreach is still self-effacing in terms of the proportion of poor households served, wrapper less than 5% of India's rural poor (Basu & pradeep, 2004)

A World Bank-NCAER Survey on countryside access to finance (the Rural Finance Access Survey-RFAS, 2003) specify that 70% of the countryside poor do not have a bank account and 87% have no access to credit from a official source. Casual sector lenders stay a strong occurrence in countryside India, send finance to the poor: the RFAS, 2003 finds that 48% of landless and marginal farmers rented from a casual source at least once in the past 12 months, at rates averaging 48% per year (Basu & pradeep, 2004).

A feature that makes official banks unappealing for countryside borrowers is with the intention of banks stipulate security, which deprived countryside borrowers be deficient in. The mass of loans extensive by money-making (commercial) banks, RRBs and supportive are collateralized, with 89% of households who borrowed from RRBs, and 87% of households who borrowed from commercial banks, reporting that they had to provide collateral (Basu & Pradeep, 2004).

From monetary sustainability point of view, it is created that MFIs in Ethiopia are positive. They are outfitted sustainable deliberate by arrival on asset and return on equity and the industry's turnover performance is civilizing eventually. Reliance proportion measured by the proportion of contributed equity to total investment turn down, proportion of retained earning to total investment is moving up leasing the industry to be economic self-sufficient. (Kereta, 2007).

Theoretical Framework and Construction of Hypothesis

Loan Disbursed amount

In 1996, Millions of direct grant and $27million in delayed credit, $47 million of implied funds subsidize via soft credit (McGuire and Conroy ,2000).

One ballpark figure point toward that the standard loans disbursed by the top 10 MFIs in India amounted to just Rs 160 million (US$3.5 million) per MFI. One more approximate, based on 69 rated MFIs(microfinance) (which are among India's top 100 MFIs), demonstrates that these MFIs had about 6500 borrowers and Rs 23 million (a little over US$500,000) outstanding, per MFI (Basu & Pradeep , 2004).

Microfinancing help farmers to procure essential chemicals for their fields on loan such as pesticides and fertilizers that have impact on pollution and health hazard (Murali, 2006).

Asian MFIs display moderately good outreach. They account for the major number of borrowers (70% of which are women) and are second only to African MFIs in terms of number of charitable investor. In conditions of impact, size of loans and deposits are taken as a simple indicator of impact on the poor.

Four of the old branches now disburse over six million pesos in a year to over 800 active members, with five field staff per branch, the distribution of borrowers by the number of loans taken and the expansion of the average size of loan with successive repeat loans, as estimated from the survey. Nearly 25% of the borrowers have already taken five or more loans with an average size of loan of more than P15,000. The first two loans are usually small, because the institution does not want to take risks with new and inexperienced borrowers. The small sizes of loan also allow new members to gather confidence in handling credit and explore markets. The size of loan grows fast after two years, as the members could also access loans for housing improvement (Hosain & Diaz, 1997).

Loan Outstanding Amount

Center Fund has grown to 11.05 million which is about 55% of the loans outstanding with the borrowers. The number of outstanding loans with the members increased from P2.3 million in 1993 to 19.9 million by the end of March 1997.

The khushhali Bank (KB) has an outstanding disbursement of approximately Rs.450 million to about 50,000 borrowers and during next five years it will get to another about 450,000/- borrowers and almost similar number of savers (Imaduddin, 2002).

HNB defines microsavings as the savings collected in rural communities, with an average deposit balance of approximately USD 150. Looking at the bank's total micro savings over the years from 2004 to 2006, it has been rising fairly significantly, with about 20% growth in 2005 and 30% in 2006, with a total outstanding of USD 8.78 million in microsavings at the end of 2006 (Basu & Pradeep, 2004).

Loan Recovered amount

By March 1997, CARD has mobilized through 13 branches over 7000 members and disbursed P82.3 million of which 76% has already been recovered. The amount of outstanding loans with borrowers has reached P20 million, and savings in the members' collective funds at P11 million (Hosain & Diaz, 1997).

The Agricultural Development Bank (ADB) a major dealer of the countryside credit, is not a hundred percent with huge selection of non-performing loans (NPLs), low loan recovery rates and as a result, low profitability. The institutional competence in stipulations of superiority of service to the clients and optimistic impact on the sector is also not very pleasing. The ADBP (ZTBL) loan is on the other hand, security based and by itself might not

accommodate to the pecuniary needs of the poor except from side to side-special plan, the outreach of which is imperfect (Imaduddin, 2002).

The rate of recovery of credit and the demand for repeat loans are not direct indicators of the financial viability at the borrower level. If the member incurs loss in the business enterprise, she would not have capacity to pay back the loan. If she had been forced to pay back the loan from incomes of other household enterprises, she would not demand a repeat loan and would drop out from the organization, unless, of course, she finds other benefits from the association with the organization.

Repayment rates, as stated in the survey, materialize fairly high at 91 percent. If subjective by the loan quantity, the velocity increases to 98 percent, involving that MFIs (micro finance) with larger loan amount (**I**apenu and Zeller, 2001).

Swarnima schemes shows that they got tremendous loan recovery by 75% out of the 100% loan. The loan recovered from 537 beneficiaries' accounts for 53.1% in Kolar district. Loan is valid to the weaker group and women (Murali, 2006).

Research Method

The previous chapter introduced the problem of the study and review of the related literature. This chapter sets forth the methodology of the study.

Research Design and Data Collection

Five years secondary Data comprised on years 2003-2008 was collected from the Sindh Statistical Bareau based on GDP contribution on agricultural sector in accordance to disbursed, recovered and outstanding amount.

This Research used a hypothesis to study the impact of microfinance on agricultural industry's performances. The first hypothesis H "there is relationship between microfinance activities and GDP contribution on agriculture sector performance (Agri-performance).

Analysis and Results

The objective of the study was to see the impact of microfinance activities on the GDP contribution of agriculture performance.

Analysis for Industry Performance

In this research the binary logistic Regression has been used that provides a linear model that could use to predict value of the dependent variable using value of the independent variable. Linear model that is the best fit of the data called the multiple regressions. This model can be represented by the following equation.

$$\hat{Y} = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + \bar{U}$$

Where

$\hat{Y}$ represents dependent variable (industry performance)

B_0 (beta) represents constant

$B_1, B_2 \ldots B_n$ the coefficients of the independent variables

Scenario

Data is collected from agricultural loans of 2008-2003 on borrowers of small farm and large farm in accordance to disbursed, recovered and outstanding amount.

Enter the data

By applying the **Enter** method, SPSS enters all the variables that study has chosen to enter into the multiple regressions.

Table 1:

Dependent Variable Encoding

Original Value	Internal Value
No	0
Yes	1

The table shows that study has encoded the predictions where O indicates that there is no impact of micro finance on an agriculture performance though '1' specifies that there is impact of micro finance on agricultural industry's output.

Table 2:

Block 1: Method = Enter

Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	6.730	3	.081
	Block	6.730	3	.081
	Model	6.730	3	.081

In **Omnibus Tests of Model Coefficients** the chi square value 6.730 with p=0.081 explain that there is no significant association between the variable dependent (output of agriculture performance) and independent (disbursed amount, recovered amount and outstanding amount).

The next table in the output is the **Model Summary**

Table 3:

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	.000[a]	.740	1.000

a. Estimation terminated at iteration number 19 because a perfect fit is detected. This solution is not unique.

Cox & Snell R square is 0.740 explains the lower limit of impact which is 74.0% and Nagellkerke R square is 1.000, Explains the upper limit of impact that is 100% at p> 5%. And thus significant value of the result is 0.081 which means that there is no significant association between the variables.

Table 4:

Classification Table[a,b]

Observed			Predicted		
			Agri Sec's Performance		Percentage Correct
			No	Yes	
Step 0	Agri Sec's Performance	No	0	2	.0
		Yes	0	3	100.0
	Overall Percentage				60.0

a. Constant is included in the model.

b. The cut value is .500

The classification table summarizes the result of research prediction about region performance based on disbursed amount, recovered and outstanding amount In the classification table explains 60% observation explains that there is a performance of agriculture sector due to the microfinance activity while 40% observation explain that there might be performance of agriculture sector due to microfinance activity.

Table 5:

Summary of Hypotheses Testing

		Cox R square	**Negelkerke R square**	**Significant level**	**Result**
H	There is relationship between microfinance activities and GDP contribution on agriculture sector performance.	0.740	1.000	0.738	Rejected

Discussion/Conclusion/ Implications

The objective of the study was to find out what impact has micro finance on the industry performance. The study clearly indicates with the empirical evidence that term in the form of interaction among number of borrowers, by disbursed amount, by outstanding, by recovered amount and industry performance has no impact.

Further research can be conducted using the same study by using the primary source (i.e. filling questionnaire from different micro finance institutes and respondents and ask in person from those who actually avail microfinance activity. The primary source will help to find how effecting microfinance in reality how much Microfinance activity convenient to borrowers, how much loan recovery and primary source will also help to find, does Microfinance reaches to poor in Pakistan.

References

Basu, P. & Pradeep, S., (2005). Scaling-up Microfinance for India's Rural Poor. World Bank Policy Research, Working Paper 3646, June 2005

Hosain, M., & Diaz, C. P., (1997). Reaching the Poor with Effective Microcredit:Evaluation of a Grameen Bank Replication in the Philippines, Philippine Sociological. Review 45 (1-4), 89-121.

Hulme, D. & Mosley, P., (1996). Finance against poverty. London: Routledge, 214.

Imaduddin, M., (2002). Policy & Regulatory Framework for Microfinance Banks/Institutions in Pakistan. For SAARC Finance Seminar: Micro-credit Operations Dhaka, Bangladesh. Banking Supervision Department. State Bank of Pakistan.

Mitchell, T., (2003). The Role Of Microfinance In Economic Development. Student Economic Review, 17, 175-186.

Murali, K.S., (2006). Microfinance, social capital and natural resource management systems: conceptual issues and empirical evidences. *Int. J. Agricultural Resources Governance and Ecology*, 5 (4), 327-335.