

THE IMPACT OF MICRO FINANCE ON SMALL ENTERPRISES

(A CASE OF MICRO CREDIT USERS IN KHYBER PUKHTUNKHWA)

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Abstract

The concept of micro-finance is growing in Pakistan because of the positive impacts it has had on the life of the poor people locally as well as internationally up to some extent. Micro finance impact on the low-income people of Pakistan is to some extent because they do not have access to it. As this issue is of great importance that's why I am interested in this topic, and the researcher was keen to explore what the people having access to Micro finance have to say on it. For this purpose, small entrepreneurs were focused to find out the changes that micro-finance has brought in their lives. As the research is based on primary data, therefore, SME bank, other commercial banks and NGOs that give credit to low income people were contacted to have identification and access to the micro-finance borrowers. Through the help of employees of above mentioned institution access to micro finance borrower was made easy for the purpose of data collection. The small enterprises are like "back bone" in the developing of economy of any country. It has a necessary contribution towards GDP and employment opportunities. Micro enterprise Sector give opportunities to more than 80% of the work force in industrial sector, which helps in contribution of more than 30% of the manufacturing sector exports from Pakistan and accounts for nearly 1/3rd of the manufacturing sector's contribution to the Gross National Product. Moreover, the clients of these micro finance institutions remained highly cooperative in giving information about their business and loaning. In the end, it can be said that although, due to certain limitations, a lot cannot be done to further improve the study, but this definitely increased knowledge of the researcher on the subject and observed certain ground realities in the field. The researcher is also hope that it'll certainly give a good insight to the readers.

Keywords: Micro finance, Small enterprises, Micro credit users.

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1. Introduction

1.1 Background of the Study

Micro finance is a method of financing in which low income people are provided with small loans in order to enable them to start small-scale businesses and become entrepreneurs. This of course, is an important tool for alleviation of poverty. It is very broad topic because it affects differently the user of micro finance. Due to micro finance positive changes occurred in the life of target clients that is alleviation of poverty, generation of income, creating opportunities for employment and empowerment of women. In this research study, the focus will be generally on micro finance and its impact on small enterprises or entrepreneurs. Various countries have their own criteria for defining different entrepreneurs or enterprises. In Pakistan the small enterprise definition criteria is based on the number of employees and capital investment: that enterprise which have labours up to 25 and of capital investment up to 2 million without the cost of land is called small enterprise. Small enterprise or micro entrepreneurs play an important role in employment opportunities, as its rate is 40 % in this sector in developing countries. To give promotion to this sector facilities should be provided in different areas like promoting infrastructure, to liberalize economy, tax benefits and other financial incentives and other include training of developing skill, marketing skill and specialize functional skill are to be provided so that this sector give fruitful results. Rapid growth of technology and its extensive use in business and industry has increased the competition manifold among organizations across the globe, and the worker of the 21st century is facing more challenges as compared to his/her predecessors. These compelling forces in the organizations are continuously reshaping the business strategies, restructuring the hierarchy, re-engineering business processes, and altering managerial practices, thereby, forcing the organizations to adapt innovative business models with their unique blend of technology.

1.2 Study Objective

This study is aimed at conducting research survey on the clients of micro finance users. Main objectives of the study are:

- ❖ Know about the impacts of micro finance on small enterprises development.
- ❖ Know about the borrowers of small credit and the problems that they face.
- ❖ Know about the role of micro finance in jobs creation

1.3 Significance of the Study

Micro finance helps to alleviate poverty worldwide and is very helpful method as its repayment

rate is 99 % in developing countries like Bangladesh. As micro finance started in Bangladesh in early 80s, but it is so successful that other countries are establishing Grameen model of Bangladesh as well as Pakistan. Micro finance is in initial stage in Pakistan. But the importance of Micro finance is so high that it brings positive changes in the life of poor people and also helps in development of the economy of the country. This research study bears important because it enables the researcher to know about the role of micro finance in entrepreneurship development.

1.4 Research Methodology

Employees of SME bank, other commercial banks and NGOs were informed about the objectives of the research. They sought proper approval from their officers and then helped a lot the researcher. After proper approval from the MFIs, they identified the names and addresses of their borrowers to whom they were providing micro credit for small enterprises. They also contacted some of their clients and ensured their support for the study. As the study is based on impact of micro finance on small enterprises, therefore focus was on borrowers of small credit. For this purpose a questionnaire was developed. Thus this research study is mainly based on first hand data. Apart from it secondary data was also collected from different sources. Apart from primary data the researcher also gathered data from certain secondary sources such as, previous researches, relevant books, Internet sources, and banks' reports etc. Population of this research is users of micro credit through the province of Khyber Pakhtunkhwa, Pakistan. The researcher used the convenience sampling method for collecting data .A total of 150 questionnaires were distributed among micro credit users in the districts of KPK, out of which 100 responses were filled properly and were correct for the purpose of conducting this research. The remaining 50 questionnaires were either half-filled or even not attempted. Data collected through questionnaire was analyzed with the help of Statistical Package for Social Scientists, SPSS version 17.

1.4.1 Variables

The main variables in this research paper are:

1. Micro finance: Due to micro finance what are the effects that it brings in the small entrepreneurs.
2. Small enterprises: It is dependent variable it needs money or small credit to become developed.
3. SME bank: A source of microfinance in KPK
4. NGOs that involved in micro finance, they give small credits for business.

5. Income: what is the impact of small loans on the income of the microfinance users?
6. Borrowing and re borrowing: changes in the process of re borrowing.

2.1 Introduction to small enterprises

Various countries have their own criteria for defining different entrepreneurs or enterprises. In Pakistan the small enterprise definition criteria is based on the number of employees and capital investment: that enterprise which have labors up to 25 and of capital investment up to 2 million without the cost of land is called small enterprise.

2.2 The Role of Small Enterprises in Economic Development

Small enterprises play an important role in the progress of the economy of a country. A country without small enterprises will not think that its economy will grow because the services of small entrepreneurs provide food and other necessities of the everyday life. Industries, which are in manufacturing sector, also purchase raw materials and other supplies at very low cost, so without small enterprise the economy come to standstill.

Pakistan has more labor force but the financial resources are very less. Therefore, keeping in mind this factor small enterprises have very great effects in the development and progress of the country. It has a number of advantages comprising to large industrial enterprises that are: Small enterprises creates more jobs as compared to its capital cost, It is very cost effective, These enterprises greatly contribute into national economy, Small enterprises use mostly domestic raw materials, They also manufacture products that are used locally, It gets resources at grass root level and Medium and large scale manufacturing resulted from small industry promotion in long run.

2.2.1 Employment Generation

Small enterprise or micro entrepreneurs play an important role in employment opportunities, as its rate is 40 % in this sector in developing countries. To give promotion to this sector facilities should be provided in different areas like promoting infrastructure, to liberalize economy, tax benefits and other financial incentives and other include training of developing skills, marketing skills and specialize functional skills are to be provided so that this sector give fruitful results.

2.2.1 Poverty Alleviation

The term “Micro credit” refers to the giving of extremely small amounts of loans to poor entrepreneurs or small enterprises in order to create a mechanism to alleviate poverty by providing the poor and destitute with resources those are available to the rich, at a smaller scale.

This particular form of lending has existed in the world for quite some time, though formalized by Mohammad Yunus in Bangladesh during the 1970's. Yunus won the Nobel Peace prize in 2006 for his efforts in eliminating poverty and providing resources to the poor via the Grameen Bank and the micro finance model.

A large number of populations of the country live below the poverty line and due to less resources it is difficult for government to improve the life of these poor people. While birth rate increases day by day, as it is 3% in population so it is terrible for poverty. Because of these reasons unemployment increases and income level decreases. Mostly micro enterprises network is found in the rural area. It is proved that the cost of employment per job created is so many times less than as it is in large industrial enterprises. Micro entrepreneurs or small enterprises not only create job opportunities for entrepreneurs but also for their family members and other relatives. On the other hand it generates goods and services to our population at a very low cost, which will break the cycle of ever-increasing price rise. The more employment and goods and services produced will increase our GNP tremendously and become catalyst in breaking the poverty cycle.

According to Agion & Morduch (2005), Micro finance has resulted in many opportunities like market extension, poverty reduction and fostering social change. Confusion exists regarding micro finance because it is considered to be just provision of loans to poor people but the fact is that that microfinance is not only loan rather it is a source of poverty alleviation, social change agent.

According to Ledger wood (2000) "Microfinance has evolved as an economic development approach intended to benefit low-income women and men. The term refers to the provision of financial services to low income clients, including the self employed." (Ledger wood 2000)

While according to ADB (2008) "Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their micro enterprises." (ADB 2008)

Above citations show that microfinance is a financial service that designed with the aim to finance poor people in order to improve their standard of life by enabling them to become entrepreneurs.

2.3 Micro finance Activities

According Ledger wood (2000) main activities and characteristics of microfinance are a) short term small lending (b) social collateral (c) possibility of long term lending in case of success in repayment (d) accessing the poor and fulfilling their demand (e) monitoring of business on continuous basis (e) offering high interest rates because of expenses in financial transactions and

the factor of risk (f) easy method to get finance (g) facilitating borrowers with saving services (h) providing them with training (i) provision of literacy training to borrowers (j) providing them training in areas like health care, social services etc

2.4 Grameen Model

In Grameen Model, loan is primarily advanced to a group of 5 people. In this method loan is firstly given to 02 members for investment purpose. After 06 to 08 weeks of successful return by this group, next two members are provided with loan. And after successful return of the amount by these two groups the last member will receive loan. In each group a president and a secretary try to coordinate activities within the group and they also help in creating communication and coordination with outsiders. Thus 08 groups are made at central level. According to Khan (2007) these centers possess a chief and a leader. According Sengupta, Aubuchon (2008), for the first time, bank lend \$100 10% amount was required to be repaid. This repayment makes sure loan security, and it is also helpful increasing the sense of savings among borrowers. Along with five percent of loan deposited in group account for emergency and social need. For example, in case of the need for health care of any one member, in case of emergency, this five percent deposit will be use.

Sengupta, Aubuchon (2008) told that group lending is beneficial in many ways as (a) group consists of members who are neighbors, thus they can know each other properly and know about needs of each other. (b) In case of absence of any member of the group, leader or other member will pay his installment. Thus it results in mutual understanding among members. (c) In south Asia there are certain important social pressures on members. If any member does not pay an installment, social pressure will be put on him from all eight groups. Ultimately he will pay his installments. Thus the level of risk will be reduced.

According to Batliwala (Makombe, 2006), empowerment means to have possession of assets and thoughts. Assets under control and possession include four Ms like Man, Money, Materials and machines.

4. Data Analysis and Findings

The study is conducted through a research survey in major cities of Pakistan. A questionnaire was distributed in various software houses through a contact person in every software house.

4.1 Respondents' Profile

- 65% of the respondents prefer SME bank for small credit while 35% use other resources for financing.
- 50% of the respondents use small credit for the stability of business while 30% for starting new business and 20% for expanding their business.

- 72% of the micro finance users are satisfied and want re borrowing while 28% not want re borrowing.
- After borrowing the impact on micro credit users was 55% of them have stable their business while the rest have started new businesses.
- 90% respondents are male and 10% are female.
- 60% have qualification of metric and intermediate while 12% bachelor and 10% master and the rest of them were illiterate.

Table:1 Purpose of borrowing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	New business	30	30.0	30.0	30.0
	Stability of business	50	50.0	50.0	80.0
	Expansion of business	20	20.0	20.0	100.0
	Total	100	100.0	100.0	

Survey result: 2015

Interpretation

Results of the question when asked from the respondents about their purpose of borrowing show majority told that they need loan for stability of their businesses. Table 1 is about purpose of the loan when it is asked from the respondents that for what purpose they need loan so most of them wants small loans for stability in business, 30 % of the respondent want to start new business while 20 % shows that they want that loan for expansion of his business. It is shown from the table that after stabilising the business they will then in the position to increase their income level.

Table:2 Reasons for Small credit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Better interest	5	5.0	5.0	5.0
	Longer time period	20	19.8	20.0	25.0
	Better repayment mode	20	19.8	20.0	45.0
	Bigger amount	15	14.9	15.0	60.0
	Shorter disbursement period	40	39.6	40.0	100.0
	Total	100	99.0	100.0	
Total		100	100.0		

Survey result: 2015

Interpretation

Table shows that forty percent of micro finance users are choosing small credit because of their shorter disbursement period. According to results of table 2 small enterprises prefer the quicker process so that they receive loan with shorter time, 20 % select SME on their better repayment mode, 20 % of the micro finance users borrowed because of longer time period in repayment, while remaining 15% have chosen SME bank due to its bigger amount and better interest rate. From the analysis of this table we conclude that as the small enterprises have less time required for loan receiving so they chose SME bank which give them loan very quickly and with less requirements and supervision.

Table:3 Reborrowing after repaying current

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	72	71.3	72.0	72.0
	No	28	27.7	28.0	100.0
	Total	100	99.0	100.0	
Total		100	100.0		

Survey result: 2011

Interpretation

When it was asked by researcher that you want to reborrow after repayment so majority of the respondents are in favour of reborrowing. Table 4.10 indicate the results of the asked question which shows that 72 % of them are in favour of reborrowing while 28 % results show that they will not reborrow.it is analysed from the results that majority of the micro credit users are satisfied from the loan disbursement process because they want again as it bring positive changes in their income.

Table 4 Impact after borrowing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Maintain current stability	55	54.5	55.0	55.0
	Establish new business	45	44.6	45.0	100.0
	Total	100	99.0	100.0	
Total		100	100.0		

Survey result: 2015

Interpretation

Table shows the results of the impact of the micro finance on the businesses after borrowing, which indicates that most of the respondents have the impact of stability of their current business. As they are small entrepreneurs therefore they must have problems in stability when they receive a little amount so they become stable, Table: 4 shows that, 55 % of the micro finance users the micro finance has impact of current stability of their business after borrowing, while 45 % need that borrowing for establishing new business.

Major Findings

Major findings of the research conducted by the researcher are as follows:

- It has been found by the researcher that most of the microfinance users utilize the borrowed funds for business purposes. According to results of the table titled *purpose of borrowing*, 50% of the total sample size use micro credit for stability of the existing business, 30% use it for starting new businesses whereas 20% use it for expansion of existing business.
- As majority of the users i.e. (50%+20%=70% from table 4.7) used borrowed amount for business stability and its expansion therefore it resulted in increase in their income level. Hence it can be said that micro finance can result in poverty alleviation and entrepreneurship development.
- Some of the reasons that persuade people towards borrowing from SME bank are; quick processing and disbursement of loan, the amount lent by SME seems to be more than that provided by other banks, and that longer repayment period offered (see results of table 4.15).

- It has also been found by the researcher that majority of people are unaware about the micro-finance program, showing that micro finance providers are not much serious in marketing related activities.
- Another important finding is that majority of the microfinance borrowers are not having enough qualification, and it is one of the big hurdle in enabling microfinance providers to make sure proper utilization of the loan. According to table no.4.22 only 10% of the users of micro credit have a master degree whereas the percentage of those who are fully illiterate is 18%.

5.2 Recommendations

- It is suggested that micro finance providing banks should arrange training program for its clients in order to educate them about how to use micro credit.
- It is also recommended that micro finance organizations should get help of marketing and advertisement programs to make people aware of their programs and activities
- It is also recommended that, if possible, the rate of interest should be reduced in order to make these loans more attractive for poor people
- As micro finance results in increasing the level of income and entrepreneurship therefore it should be used aggressively as a tool of poverty alleviation and entrepreneurship development.

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