

A Note on Impacts of Microfinance on Poverty Eradication: A Pilot Study of Micro, Small, and Medium Enterprises of Khyber Pakhtunkhwa Province

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ABSTRACT

This study aims to find out the correlation among microfinance, education, and basic health in the weavers' clusters of District Charsadda. As several banks financed the enterprises located in the cluster from time to time but less was known regarding the social-economic change that occurred as a result of the financing in the area. Thus the rationale behind the undertaken study was to understand how the financing helped bring change in their lives and improve their livelihood. The data were collected from the micro level enterprises so as to assess the impact of microfinance on those enterprises located in District Charsadda of KPK province. Some fifty multi-facet personally administered questionnaires were distributed with specific quantitative data questions out of which only twenty-two were returned filled and the rest of them were discarded due to no show by the entrepreneurs or then irregular filling by them. The study suggested that a positive linear correlation between Poverty, Education, and Basic Health. Regression analysis identified a significant degree of change that Poverty initiated in Education and Basic Health subsequently. The study proved to be worth replicated in other clusters nationwide and an eye-opening situation for the microlending practitioners and functionaries.

Keywords: Micro Finance, Poverty Eradication, Micro Small & Medium Enterprise.

INTRODUCTION

Microfinance is always a subject of interest for researchers. It is considered as a potential source of poverty reduction, improving quality of life such as health, education and overall economic development. Besides, developed areas or urban localities it proves to be a socio-economic development stimulator for rural areas. As poverty is often considered as a state of deprivation where an individual or group of people fail to live a prosperous life, therefore, owing to lack of resources, people are unable to fulfill their basic needs of life. Such situations resultantly lead to malnutrition, diseases, low self-expectancy, less per capita income and fragile communication and infrastructure (Ebimobowei, et al., 2012).

With the identification of several entrepreneurial clusters in Khyber Pakhtunkhwa Province, the need for improving micro-level enterprises was deeply felt. Keeping in view the concept of assessing the impact on eliminating or reducing poverty at gross root levels a micro level Weavers Association/Cluster, already identified by the authorities, was targeted in the study. The Weavers Association/Cluster

was ideal for the research study as it was located in District Charsadda and some of the banks were already engaged in micro-financing in the area. The weavers were engaged in producing Shawls/Covering Sheets that were sold nationwide and the same were exported to the neighboring countries. The self-employment through micro-level entrepreneurial activities also improved the livelihoods (education and basic health) of the individuals representing the cluster. The current study aims to find out the correlation among microfinance, education and basic health in the weaver's clusters of District Charsadda.

Objectives of the Study

1. To take note of the effect of micro-financing on poverty eradication in the Khyber Pakhtunkhwa province.
2. To identify the relationship between micro-financing and basic health and education and to understand the effect of micro-financing on the level of education and basic health in micro enterprises/owners.
3. To assess the socio-economic change occurring as a result of the micro-financing of micro enterprises/owners.

LITERATURE REVIEW

Microfinance does not benefit everyone. Suitably the desired ability and management skills are important to successfully establish, manage and run an organization. Such skills and necessary techniques may not be possessed by every person and thus every person is not an entrepreneur and may not require microfinance as well. When equally qualified for a micro-credit scheme only those individuals that fall fit in the above notion would tend to improve himself, his enterprise and finally would help in reducing poverty. Similarly, the disabled, under skilled, illiterate and even ill that finally form a minority in society and continue to live below the poverty line are often ignored by the microfinance providers as they don't come up to the standard requirements of the micro-financing in any case. In many cases, those having any disability or than those that are unable to perform a routine action in a normal way would be subject to direct assistance they are usually unable to pay back in a skillful manner.

Microfinance has become a common word available in dictionaries and is used in development vocabulary in today's world. Specifically, the word micro-finance consists of two terms micro that means small and finance means credit thus microfinance means micro-credit provided to someone for performing micro level activities for development sake. Christen (1997) characterize microfinance as the right channel of getting access to

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financial products and services by the poor using market based and industrial ways. Meaning thereby that microfinance itself can be considered a mechanism that helps enterprises to become more prosperous by opening more and more windows of financial inflows by providing more exposure to the micro level financial markets.

Expressly there are a number of studies that tend to discover and identify that there is little or almost no such proof that there exists a converse connection in between the customer's point of poverty and their entrepreneurial ability (Garson, 1997). The process of borrowing, as well as the preference to save some money, has been observed to be kindred in microfinance customers at diverse stages of poverty (Zaman, 2000). Economic effectiveness of microlenders directed towards the least poor micro level borrowers can be similar to those microlenders that often are unable to access the poorest (Khandker 1998; Gibbons and Meehan, 2000). Very rarely evidence can be found that may show that the micro level borrowers and those employed through microlending are the only beneficiaries of the microfinance (Robinson, 2001).

It becomes more visible that a great deal of fit exists between the micro-lending as well as the availability of the essential social services and benefits for the micro level lenders. The effectivity of the benefits increases when micro-financing is provided along with the other social factors and services such as basic education, primary health care that the impact can be more on the micro level borrowers. Similarly, the expense estimates of the education provision and health care can be reduced to a certain level if an enhanced micro-finance system is already established. For such a reason the services, if any, that are subject to provision should be very much according to the dire needs of the targeted enterprise community and simply a burden on the weak existing systems (Dunford, 1999).

Micro, Small and Medium Enterprises (MSMEs) usually are tiny in nature, hardly fulfilling the criteria to be categorized and are often unregulated due to many a lot of reasons. Such enterprises rarely gain access to formal micro capital and are in possession of limited resources. Due to such reasons they financial institutions find difficulties in providing lending to those enterprises as they often lack collaterals and distribution of clean loans, usually without collaterals, makes it difficult for the bank to recover the same amounts thus raising the costs of recoveries. Further, adding together the risks attached to financing Small and Medium Enterprises (SMEs) usually put together an unappealing for the financial institutions to deal with micro-level enterprises and small enterprises (World Bank, 1994). Buckley (1997) believes to signs of success of microfinance schemes specifically high repayment rate, outreach, and financial sustainability never considers the impact it has on micro-entity activities and thus focuses on "*microfinance evangelism*".

Research studies reinforce the positive impact of microfinance on poverty reduction (Imai, Gaiha et al. 2012). Regarding the loans taken by SMEs from MFIs, it has been revealed that their impact on consumption of food was significant which confirms that it reduces poverty (Imai and Azam 2012). Studies undertaken on Pakistani female

entrepreneurs have confirmed that those females having high access to loan circles were more empowered than others (Weber and Ahmad 2014). Similarly, another study in Pakistan found that optimal loan size is critical for poverty reduction (Mahmood, Hussain et al. 2014). MFI efficiency is another determinant which has been investigated by researchers which have a significant effect on poverty eradication (Kim, Long et al., 2018)

Buckley (1997) noticed that there was hardly any proof to consider that noteworthy as well as the continued impact of microlending on the microfinance customers in terms of Small and Medium Enterprise development, improved cash flows or even level of employment. Zeller and Sharma (1998) argue that microfinance can help in the betterment of family enterprise, thus creating possibilities of bringing a change between eradicating poverty and economically sustainable lifestyle. In contrast, Burger (1989) believes that microlending helps in stabilizing rather than increase income and intends to protect instead of creating more jobs and employment opportunities. A microfinance research study of almost microfinance institutions in seven countries conducted by the Mosley and Hulme (1998) sums up that household income grows at a declining tendency as the income and assets of the borrowers is improved. Diagne and Zeller (2001) conducted a study in Malawi in which they opine that microfinancing does not have an important impact on household income that means no such impact on MSME development as well. Some studies have also argued that using gender empowerment as an impact indicator; microcredit has a negative impact (Goetz and Gupta, 1994).

METHODOLOGY

The research approach is deductive. The choice of research is quantitative and quantitative methods have been used in the research study. Survey method has been used as a research strategy. The time horizon of the present research study is cross-sectional. The data were collected using a five-point Likert scale with 1 representing (strongly disagree) and 5 representing (strongly agree).

Sample and Population

Sampling and sampling technique. According to the data provided by the weavers' association, the cluster of weavers included around fifty (50) enterprises engaged in the production and marketing their products. But due to remote locations of the enterprises and lack of necessary resources, it was out of the possibility to gain access to each of the enterprise available in the cluster. However, in order to follow the scientific research techniques, a sample was derived from the population using Yamane (1967:886) formula, mentioned below, used for deriving sample size.

$$n = \frac{N}{1 + N(e)^2}$$

A 95% confidence level and $P=0.5$ are assumed, where n is, in fact, the sample size and N stand for population size and e is the level of precision. Thus the total sample identified stood as 44 and so the questionnaires were randomly distributed among the 40 enterprises as some of them refused to even receive the questionnaires. Due to many reasons, that included past fears of creditors and financial institutions' surprise visits to their locations, most of the enterprises though received the questionnaires in good faith

but did not return them in majority and out of 40 only 22 number of respondents/enterprise's owners returned the data collection questionnaires filled in the desired manner. The sample included those enterprise owners that were easily available and those that had experienced microfinancing facility and were successful in managing the finances. The respondents were provided with technical help in fulfilling the questionnaires and due to their in little ability to understand the notions of the research instruments and were provided with interpretation/translation facilities to help them grasp the proper meanings of the contextual queries.

Environmental Setting

Most of the enterprises were located in rural area of the district that specifically was on the border of the adjoining tribal areas of Mohmand Agency. As the enterprises were having weak communication infrastructures thereby ample time was allowed to gather the enterprise reps at a meeting point located in the same cluster. A detailed briefing was given to the enterprise owners in order to give them an idea about the proposed research study and help them to understand the purpose of the study to be beneficial to their businesses.

Reliability

Cronbach's alpha coefficient of internal consistency was used to estimate the reliability of the research instrument and the coefficient of alpha was .632 that proved that the instrument was reliable enough to become a source of gathering accurate data with minor error.

Statistical Treatment

Simple Correlation and Regression techniques were employed in order to come up with some understanding of the impact of micro-financing on various factors. In order to cross check the data obtained descriptive statistics was used to manage the response in pictorial form.

EMPERICAL RESULTS

Table 1. Correlation Analysis

		MF	E	BH
1	MF	1	.226	.413*
2	E	.226	1	.458*
3	BH	.413*	.458*	1

**/* Correlation is significant at the 0.05 level (2-tailed) and is significant at the 0.05 level

(2-tailed) respectively. Where n=22, MF=Microfinance, E= Education and BH= Basic Health.

Pearson's correlation analysis indicates that there is a significant relationship between the Microfinance (MF) and Basic Health (BH). Similarly, significant relationships exist between Education (E) and Basic Health (BH). As well as a degree of significance shows that is a positive significant linear relationship between the above variables. Microfinance in both the cases on the basis of the correlation analysis played vital roles in improving the educational level of the enterprise owners and the basic health. In order to understand the degree of change in a society the primary indicators include improvement in the education level and the personal health and hygiene that goes side by side.

Table 2. Regression Analysis

Variables	R	R Square	Adjusted R Square	Std. The error of the Estimate
Education	.226	.051	.001	1.075
Basic Health	.413	.170	.127	1.085

Predictor: (Constant), Microfinance.

Regression Analysis suggests that Microfinance (Predictor) is becoming a source of bringing a variation in Education and Basic Health R Square for both the values suggest that the slight variations .051 and .170 respectively have been caused to due to a predictor that is becoming an agent of change for the two dependent variables.

Discussion

After going through the analysis it can be concluded that microfinancing despite an important element in becoming a source of eradicating poverty, improving education and basic health, may not necessarily be considered as vital to the development of micro, small and medium enterprises (MSMEs) the way it is perceived. However, while keeping other things constant, micro-financing would be an immense help in feeding the operations of a micro or small entity that may require finances for fulfilling its operational needs and thus financing its production cycles and fulfilling working capital deficiencies. But it might not be worth notable or even helpful in reducing poverty at a steady pace. The change in socio-economic level as a result of the micro-financing in improving education and basic health are the indicators of much importance for the microfinance practitioners. As with improved micro-financing human lives can be improved and social livelihoods may improve gradually.

Microfinancing a much-needed instrument would affect the enterprise much rather the social set up of an entity in which it operates. Cost of basic health services and education, as well as reduction of poverty due to micro-financing, might be more realistic if micro-financing focuses on the purpose of the enterprise expenditure as well. Meaning that microfinancing provided to microenterprises may not necessarily be spent on enterprise requirements rather it may be more helpful to those individuals i.e. micro entrepreneurs that are managing the affairs of the already financed micro enterprises as well.

Micro enterprises owners and associates, if are considered as beneficiaries of the micro-financing along with the enterprises themselves then there are chances that poverty may start alleviating to a certain level. As the money inflow to an enterprise should consider its beneficiaries too. With such kind of micro-financing that excludes the social perspective of financing, there are bleak possibilities that a process of community uplift may excel with a right pace.

Recommendations

Microfinance institutions need to take due care in disbursing the loans to the borrowers so and they should be capable enough to assume and understand the nature of financing required by the entity. Cash inflows to the entity must be in a way so as to benefit the community along with the enterprise itself. Such assumptions and recommendations, if included in the process of financing, would no doubt raise the cost of financing but would prove to be helpful to society as a whole. Poverty alleviation being the prime purpose of the micro-financing institutions along with broad objectives of the profit-making would be of much comfort if the money spent on enterprises becomes an engine of human development too. Microfinancing may continue to increase and may benefit the microfinance providers but the beneficiaries won't be able to reduce the poverty level and at a final stage, the chances of micro business defaults would

start surfacing. A case that can put MFIs in a risky situation in the long run to more default cases as well as the bad debt.

CONCLUSION

The purpose of the research was to find out the correlation among microfinance, education and basic health in the weavers' clusters of District Charsadda. The study has found that positive linear correlation between Poverty, Education, and Basic Health. The regression analysis identified a significant degree of change that Poverty initiated in Education and Basic Health subsequently. The future researchers should analyze the similar nature clusters in KPK with more sophisticated statistical tools with different procedures.

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