

## Micro-Credit and Microenterprise Development: Evidence from District Quetta, Pakistan

Dr. Abdul Naeem<sup>1\*</sup>, Dr. Sana-ur-Rehman<sup>2</sup>

<sup>1</sup>Director, Institute of Management Sciences, University of Balochistan, Quetta Pakistan

<sup>2</sup>Head of Department of Business Administration, NFC- Institute of Engineering & Technology, Multan, Pakistan

\*Corresponding author: Dr. Abdul Naeem

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### Abstract

### Review Article

The main objective of this study is to find out whether the provision of microcredit by MFIs has brought any changes on microenterprise, household and micro-entrepreneur. For this an empirical study was conducted by collecting primary data from clients of three MFIs providing micro-credit in district Quetta. The Cross Sectional design using household as the Unit of assessment was selected for the research study. Primary data was collected through structured questionnaires covering the total 250 (180 male and 70 female) clients who availed loans from the MFIs for at least two years prior to the survey by using convenient sampling. The study shows a very strong relationship between Microcredit services and demographic variables with microenterprise, micro-entrepreneur and household developments. So it is clear from finding that the productivity of poor can be increase by removing or reducing their financial constraint. The finding of this study also strengthens worldwide claim that the microfinance services can act as a tool of economic development.

**Keywords:** Microcredit, Microfinance, Microfinance Institutions, Microenterprise, Micro- entrepreneur.

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## INTRODUCTION

Balochistan is the largest province (by area) of Pakistan, constituting approximately 44% of the total land mass of the country. Despite its large area, the population density is very low due to mountainous terrain and scarcity of water. The provincial capital is Quetta, while Gwadar a developing port city. The main languages in the province are Balochi, Brahui, Pashto, Sindhi and Urdu.

Balochistan despite having a key strategic location and rich natural resource base contributes only 8.0 percent to national GDP, Balochistan's GDP primarily depends upon agriculture, transport & relying sectors. It underpins the fact that historically Balochistan's economy has largely underperformed compared to its potential. The underlying facts behind this weak economic performance of the province include; volatile political and security environment, and structural bottlenecks. The structural challenges, such as energy shortages, low public and private investments, and weak financial flows had an extreme adverse effect on Balochistan's economic output [1].

This province is least developed as compare to other three provinces of Pakistan, where highest proportion of household (35%) resides below poverty

line. The numbers of unemployed people in province has increased to 0.07 million in 2011 as compared to 0.06 million people in 2010 [2]. On the other front child mortality is very high in Balochistan, as more than 785 mothers out of 100,000 live births die during pregnancy, childbirth or soon after; with devastating effects on families and livelihoods [3].

After observing all facts it is clear that the main development challenges the province of Balochistan is confronting includes achievement of high and sustained broad-based economic growth particularly in rural areas; reduction of poverty; provision of essential social and economic services: infrastructure development; creation of job opportunities, and improvement of governance. In order to overcome the development challenges there is a need to provide employment opportunities to the unemployed populations. It is only possible if government give proper attention to the development of agriculture, Industrial and Small and medium Enterprise (SMEs) sectors. Small and Medium Enterprise sector contribute to economic development in multiple ways like creating employments for expended rural and urban work force and providing innovation and development to the entire economy.

In past the main focus of all government economic policies, budgetary planning objectives and regularities effort was up-gradation and development of large scale industries instead of small scales. Such one sided emphasis produced some depressed results like structural inequalities in business atmosphere. The result of which is unhealthy impact on promotion of large scale industries. Throughout the world, Small and Medium Enterprises (SMEs) play a crucial role in addressing the impediments of poverty, inequality and job creation. They are an important source of employment, particularly for women, low skill workers and the youth. The government of Pakistan needs to gets full benefit from SMEs sector which is still undeveloped and needs government support & attention.

The Pakistani young in general and Balochistani in particular has potential but they need government support in professional skill development and require financial assistance for establishment of micro enterprises. Financing micro enterprises act as an effective tool for development and eradicating absolute poverty from its grass roots level. It has been exposed from various research studies that microcredit has a major impact on reduction of poverty both at local as well as at national level. It is also clear from the evidence that microenterprises are becoming more effective because they are helping the poor to help themselves and make them self-employed.

An empowerment of poor people by microfinance and enabling them to establish and develop their own business is a great idea for economic development. People should not be just helped by providing money but by making them self-employ and help them to create their own micro-enterprise in order to optimize their share of production to the society. All these issues lead to research on this topic that how microfinance is contributing for entrepreneurship development in one of the district of Balochistan i-e Quetta, how it impact on the clients.

Based on the above discussion the present research study is an attempt to evaluate “Does access to microcredit facility has contributed positively on microenterprise’s performance, household’s welfare and economic & socially wellbeing of entrepreneur’s?”

#### **The study focuses on the following Objectives**

- To assess the impact of Microcredit on performance of microenterprises.
- To analyze and assess the Impact of microcredit entrepreneur level.
- To analyze and assess the Impact of Microcredit at household level.

The main object of the government is to stabilize its economy by promoting microenterprises. To achieve this superior objective the government of

Pakistan has launched various integrated rural support program, allowed various NGO and granted license to various Microfinance Bank to start their operation also encouraged commercial Banks to open their window to promote microfinance sector for eradication of poverty and make desired changes in the lives of the poor section of community. Dr. Younas rightly says “If we are looking for one single action which will enable the poor to overcome their poverty, I would focus on credit [4]”. The impact assessments of microfinance help us in further improvement of microfinance services and promotion of innovation. The impacts of microfinance sector in Pakistan need to be evaluated.

#### **Literature Review**

Microcredit refers to the act of providing the micro loan for short period, In other words microcredit refers to microloan/small loans provided to unsalaried borrowers with little or no collateral requirements by registered microfinance institutions. The amount borrowed through microcredit commonly utilized for three purposes 1) for starting up new business 2) for operational purpose 3) for consumption purpose. The poor individual need microcredit but they have lack of access to generate it through formal sources. The microcredit program is a best innovation of credit delivery technique for boosting income generation activities of the poor. The program extends small loans to poor people for self-employment activities hence allowing the participants to achieve a better quality of life [5]. The research study at Nigeria has found positive impact of microfinance on entrepreneurial development [6], similar types of results has been revealed by ADPB in their study report for Tajikistan [7] Nepal & Pakistan [8]. All these studies experienced improvement in entrepreneurial activities which has increased their income and broaden their income sources.

In study at Pakistani rain-fed area of Potohwar it have been revealed that male entrepreneur who used microcredit facilities for extension of their business were earning more as compared to female, The main reasons behind difference in earning among two groups were that the female who have invested microcredit for initiation of their business were with less business experience and capital base as compare to male for running their business activities. Moreover the female has small scale enterprises as compared to their male counterpart [9].

It has been revealed in a research study at District Dera Ismail Khan, Pakistan that client’s education level and health position have significantly improved their financial situation which has positively affected their standard of living [10]. Similar finding were observed by Hossain [11] in his research study at Bangladesh that incidence of poverty declined of those household who were more educated. A positive relationship was found between family size and

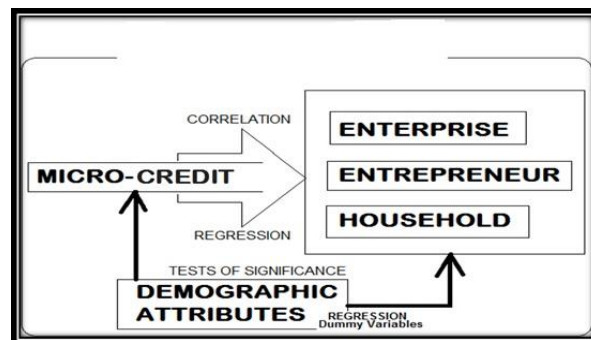
household income upto certain maximum threshold but beyond that level as the size of family increases a significant negative relationship were experienced. The education level of household is significantly related to household income. But in case of gender the household headed by female earn lower incomes than headed by male. It has been revealed that microfinance has more positive impact on wealthier household as compare to less wealthier household [12]. Sarumathi & Mohan [10] have reported in their study that improvements in member's educational level leads to children's education.

It has been fairly well observed that microcredit is helpful in the smoothening consumption, reduction in vulnerability of the poor and helpful in enhancing income level of the clients. Availability of credit may facilitate investment and improve production practices and thereby increase the output of the micro-entrepreneur.

### Needs and types for Impact Evaluation

An Impact evaluation is conducted to measure changes that have occurred because of a program or introduction of product. For measurement of impact one needs to be able to make a case that the changes which has occurred are because of program or product and not due to any other factors [13]. The Hulme [14] in his research study claimed that the goals of impact assessments studies emphasize both on 'proving' impacts and 'improving' intervention accordingly. That is why impact evaluation gaining importance with donor agencies as well as becoming increasingly significant activity for recipient agencies.

Karlan and Goldberg [12] have explained in their research paper that impact evaluation can be used either to measure the effect of an entire program or to estimate the impact of each of a new product or policy.



**Fig-1: Schematic Diagram of the Research Model**

The first objective of this study was presentation of hypothesis on the basis of reviewed literature to analyze the impact of microfinance on enterprise, household and entrepreneur after seeking microfinance services from Microfinance Institutions and utilized them in their operational activities. The second objective was development of theoretical model to assess the impact of microfinance at microenterprise, household and entrepreneur.

The research has identified both independent and dependent variables. The independent variable microloan provided by the micro-financial Institutions whereas dependent variables are improvements in enterprise, household and livelihood of the entrepreneur. Therefore the finding of the research study depends on the relationship and outputs of independent and dependent variables. The schematic diagram (Figure 1) shows the relationship between independent and dependent variables.

### Research Methodology

The methodology adopted for present study is cross sectional survey designed as being less time consuming and also cost effective in nature. The survey designed has been formulated with the aim of achieving

the research objectives. The survey design covered all those borrowers or former borrowers who have already received loan from the MFIs for at least minimum period of two years prior to the survey i.e. December 31st, 2011.

Three different MFIs have been selected for conducting the present research study. Two Micro credits Banks (MCB) and one NGO (Non-Government Organization) which were providing Microcredit services in the Quetta district were selected for critical study.

The researcher collected data through pre-structured or pre-coded survey the researcher provided list of questions with already prepared list of option or answer to the questions and respondents pick any answer from prepared list of options. To manage the research to be completed within given time duration and budget constraint, a total of 250 sample size were selected using random sampling techniques. Among the total sample size of 180 were selected from the male clients and 70 were selected from female clients who have obtained microcredit for at least two years from three selected MFIs on the basis of their population. Out of total sample 250, 233 were valid for data analysis.

From these valid respondents, 174 were male and 59 were female, so the rate of response for the present research was 93.2%.

**Findings of the Study**

*Hypothesis # H 1: Microcredit has positive Impact on the Microenterprise Performance?*

**Table-1.1**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.374a	.140	.136	.95639
a. Predictors: (Constant), Microcredit				

**Table-1.2**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	34.292	1	34.292	37.491	.000a
	Residual	211.291	231	.915		
	Total	245.583	232			
a. Predictors: (Constant), Microcredit						
b. Dependent Variable: Enterprise						

**Table-1.3**

Coefficients						
Model		Un-standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.586	.266		9.740	.000
	Micro Finance	.313	.051	.374	6.123	.000
a. Dependent Variable: Enterprise						

- a. Predictor in the Model: (Constant), Microcredit.
- b. Dependent Variable: Enterprise.

Analysis revealed a significant positive relation between Microcredit and Enterprise performance ( $\beta = 0.31$ ,  $t = 6.12$ ,  $P < 0.05$ ). Microcredit

caused significant amount of variance in Enterprise ( $R^2 = 0.14$ ,  $F(1,231) = 37.49$ ,  $P < 0.05$ ). Therefore hypothesis # H 1 is accepted.

*Hypothesis # H 2: The microcredit has positive impact on the Micro-Entrepreneurs to run the operation of the business?*

**Table-2.1**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.830a	.689	.688	.58830
a. Predictors: (Constant), Microcredit				

**Table 2.2**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	177.328	1	177.328	512.359	.000a
	Residual	79.949	231	.346		
	Total	257.277	232			
a. Predictors: (Constant), Microcredit						
b. Dependent Variable: Entrepreneur						

**Table 2.3**

Co-efficientsa						
Model		Un-standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.362	.163		8.342	.000
	Microcredit	.711	.031	.830	22.635	.000
a. Dependent Variable: Entrepreneur						

- a. Predictor in the Model: (Constant), Microcredit.
- b. Dependent Variable: Entrepreneur.

Analysis in the above tables revealed a significant positive relation between Microcredit and Entrepreneur ( $\beta = 0.71$ ,  $t = 22.63$ ,  $P < 0.05$ ). Microcredit caused significant amount of variance in Entrepreneur

( $R^2 = 0.68$ ,  $F(1,231) = 512.35$ ,  $P < 0.05$ ). Therefore hypothesis # H 2: is accepted.

**Hypothesis # H 3: The microcredit contributes positively toward Household activities?**

**Table-3.1**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.765a	.585	.583	.65312
a. Predictors: (Constant), Microcredit				

**Table 3.2**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	138.860	1	138.860	325.532	.000a
	Residual	98.536	231	.427		
	Total	237.395	232			
a. Predictors: (Constant), Microcredit						
b. Dependent Variable: House Hold						

**Table 3.3**

Coefficients <sup>a</sup>						
Model		Un-standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.856	.181		10.238	.000
	Micro credit	.630	.035	.765	18.043	.000
a. Dependent Variable: House Hold						

a. Predictor in the Model: (Constant), Microcredit.

b. Dependent Variable: Household.

Analysis revealed a significant positive relation between Microcredit and Household ( $\beta = 0.63$ ,  $t = 18.04$ ,  $P < 0.05$ ). Microcredit caused significant amount of variance on Household ( $R^2 = 0.58$ ,  $F(1,231) = 325.53$ ,  $P < 0.05$ ). The analysis revealed that the Microcredit positively influence the household. Therefore hypothesis # H 3: is accepted.

## DISCUSSIONS

### The Interpretation of findings

The research analysis (Refer to Table. 1.3) revealed a significant positive relation between Microfinance and Enterprise. So the Microfinance services had caused significant amount of variance in Enterprise which is also statistical proved from statistical results. Therefore our hypothesis "Microfinance services have positive Impact on the Enterprise Performance" is accepted. Similar results were revealed from the Nigerian study that the financial institution helpful in provision of financial resources which facilitated the development of small and medium scale enterprises [15]. In an Indian research study wherein about 32% more new businesses were established in treatment area than the control area [16]. The results show that microcredit is helpful in development of microenterprises.

In order to check the impact on micro-entrepreneur the analysis revealed a significant positive relation between Microcredit and Entrepreneur (Refer to Table. 2.3). Microcredit caused significant amount of variance in Entrepreneur. Therefore hypothesis # H 2: is accepted. The research study of PPAF conducted by Gallup, Pakistan reported that participation in the microfinance program has enhanced personal income of treatment group as compare to control group [17].

Analysis also revealed a significant positive relation between Microcredit and Household, Microcredit caused a significant amount of variance on Household (Refer to Table. 3.3). The analysis revealed that the Microcredit positively influence the enterprise, entrepreneur, and household. Therefore hypothesis # H 3 is accepted. The case studies at Haiti, Kenya, Malawi and Nigria have reported similar finding that programs participation have increased economic and social empowerment and enhanced self-esteem and helped in improvement of their decision making [18].

The analysis of research study revealed that the Microcredit have positively influence the enterprise, entrepreneur, and household.

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