A CONCEPTUAL FRAMEWORK: ENSURING THE DETERMINATION AND IMPACT ON ADOPTION OF MECHANISM FOR PROCESSING MICROFINANCE

(A CASE STUDY OF D.I.KHAN DISTRICT KPK, PAKISTAN)

Muhammad Imran Qureshi

Lecturer Department of Commerce Gomal University D. I. Khan, Pakistan

M.Amjad Saleem

Government College of Commerce and Management Sciences D.I.Khan, Pakistan

Zaffar Abbas

Department of Commerce Gomal University Dera Ismail Khan, Pakistan

Abdul Waheed Qasuria

Department of Commerce Gomal University Dera Ismail Khan, Pakistan

ABSTRACT

Microfinance contributes an emergent task in economic development of many developing countries of the world. Micro Financial Institutions provide small loans to poor people, farmers and small businessmen. Half of the population of the developing countries lacks access with respect to adopting the mechanism for processing Micro finance from different MFIs. Provision of Micro finance to the needy people for the formation of their new business or enhancing the volume of existing business may reduce poverty, increase their income and also increase the productivity. People must be given the know how to obtain and adopt mechanism for processing micro finance for their different determinants of life. This research study provides an overview on adopting the mechanism for processing micro finance by the respondents living in D.I.Khan district KPK Pakistan. This study is based on both quantitative and qualitative methodologies in order to find out the feasible solution of this research question: what measures and effects on households' welfare have been adopted for processing micro finance by the users in the field of income, employment, education, communication, health care, children's education and housing etc? Stratified random sampling techniques were used to get a response of 96 respondents. Data were collected through close ended questions, semi structured interviews, observations and documentary reviews. Data analysis was based on descriptive statistics using various statistical tools like regression, t- test and ANNOVA with the help of tables.

Keywords: Micro finance, MFIs, Access, income, employment, education, communication, health care.

Introduction:

Micro finance is defined as "The contribution to improve the access to credit and to save services for Poor people" (Shriner, 2001). Micro finance assists the people either to form their own business or increase the volume of existing business and reduce their vulnerability. It also works as a tool of self-employment with respect to gender so as to bring positive changes in their life style. It is estimated that there are about thirty five million borrowers of micro finance around the globe but the government has placed the outreach goal posts to nearly about three million by 2010 and have to move it in to ten million up to 2015. A wide development plan has been adopted to increase outreach the sector and the overall developmental rate of outreach changed from 100 % to 52 % from 2004 to 2007. According to Pakistan Microfinance Network, (2008) The Number of dynamic borrowers of Micro finance in terms of outreach increased from a low base of 240,000 to 1.3

million from 2004 to 2008. Gross loan portfolio increased from Rs. 2.3 billion to 13 billion from 2004 to 2008, loan volume increased as well from Rs. 6,629 to Rs. 10,000 from 2004 to 2008. The number of savers increased from 888,000 to 1200000 from 2003 to 2008 and investment in this sector is as high as $500 million during 2000-2007.

Zia A U, (1989) In 1970s micro finance was provided to rural poor but the flaws in system, politics and corruption have made it unsuccessful. It gives birth to generate the concept of core program to be initiated for micro finance on poverty alleviation such as, savings mobilization, human development and solidarity. The liquidity and liquidity related problems are also emphasized by the micro finance.

Different theories such as Tort Theory, Micro finance and gender equality have represented the reflection of micro credit on the work and place of working model of the research. In the research, discussion has been made about

the work study previously done as experimental evidences to go deep into and support the analysis.

Micro finance has been seen as a significant mechanism for gender empowerment in Pakistan. The Government of Pakistan and various rural and urban support programs realize that social status of the people belonging to poor situation can be changed by micro finance which is used for income acceleration and consumption. The mechanisms or tools which are being used in Pakistan for processing or adopting include consistency in moderate rate of economic growth and emphasis on personnel or human resource development.

Review of Related Literature:

Sengupta & Aubuchon, (2008) there are more than seventy million poor people who have taken the advantage of obtaining micro finance from more than twenty five hundred MFIs in more than one hundred countries around the globe. Borrowers usually use micro finance for small business, for small farming activities, for meeting the net working capital requirements, for appraising the investment activities, for collateral purposes such as group guarantee for granting micro finance or compulsory savings etc.

Shahzad et al, (2004) Use of formal short or long term sources of finance are little different from micro finance which are used for debts capacity or streamlining the loan disbursement. Coleman, (1999) conducted research on the impact of a village bank on borrower welfare in Thailand. He found that there was very small positive impact of micro finance on customer's welfare on adopting the mechanism for processing micro finance. Meanwhile he discovered that there was positive impact of village bank on the accumulation of women's landed wealth but the impact show bias result. Mckernan, (2002) investigated the inverse relationship between participation in twenty three program and household assets. He also found that household assets have got a few benefit from mostly participating in a program.

Sichanthongthip, (2004) study showed that micro finance has positive impact on borrower's higher monthly income level after the member adopting the mechanism to micro credit. Shaw, (2004) studied two microfinance institutions in Sri Lanka and showed that the less poor clients' micro business that accessed loans from micro finance programs could earn more income than those of the poor do. Mosley, (2001) evaluated the impact of loans provided by two urban and two rural MFIs on poverty in Bolivia. He found that the net impact of microfinance on adopting the mechanism for processing from all micro financial institutions, at the average level, was positive in relation to borrowers' income, even though that net impact for poorer borrowers might be less than the net impact on richer borrowers, the study showed positive impact on income distribution at the household and enterprise level.

Khandker, (1996 & 1998) estimated the effect of microcredit obtained by both males and females for the Grameen Bank and two other groups based micro credit programs in Bangladesh on various indicators. They showed that the clients of programs could gain from participating micro finance programs in many ways. It can be seen that income per capita consumption could be increased by adopting mechanism for processing micro loan from a microcredit program such as the Grameen Bank. Morduch, (1998), however, argued that the eligible households that participated in microfinance programs have strikingly less consumption levels than others. Khandker, (1998), based on double difference comparison between eligible and ineligible households and between program and control villages, focusing on Grameen, Bangladesh and Bangladesh Rural Advancement Committee, found that microcredit alleviated poverty up to 5 percent annually by utilizing the mechanism for processing micro finance. Coleman, (2002) and Alexander (2001) found that wealthier households are comparatively more likely to be involved with MFIs in adopting the mechanism for processing micro finance.[3]

Statement of the Problem:

The ways, procedure and technicalities for adopting the mechanism in obtaining micro finance are not too much easy tasks for the businessmen and farmers especially in Dera Ismail Khan District. Lack of knowledge, mechanism and procedure about obtaining micro finance keep them away from taking the benefit of Micro finance. Poor people of the area require finance for improving their living standard, self employment and to meet their genuine needs of farming or other business. So this study has been designed to find out the impact of micro finance on adopting the mechanism for processing in study area and bringing into light the problems faced by borrowers as well as lenders.

Research Hypothesis:

This research study is based on the following hypothesis
H_0 = Micro finance has no impact on adopting the mechanism for processing in the study area.
H_1 = Micro finance has impact on adopting the mechanism for processing in the study area.
H_0 = MF = 0, Hi = MF $\neq$ 0

Methodological Frame work:

The population for this particular study comprised upon farmers and other businessmen in Dera Ismail Khan's district Khyber Pakhtunkhwa, Pakistan. The population was too large and it was impossible for researcher to contact every member of the population. To overcome this difficulty the study was confined to certain boundaries. Researcher, therefore, selected 96 respondents from within the population taking in to consideration the cost and time benefit analysis. To give maximum chance of selection to each and every member of the population, stratified sampling method was used by the researcher.

Data was collected from the concerned quarters; questionnaire was used as a tool. In this connection, a

Analysis of Data and Interpretation:

Table 1 Impact of different variables on adopting the Mechanism for processing Micro finance (Regression)

Collective impact F=2.717 (Table 1) of all independent variables used in the model had significant impact on adopting the mechanism of processing micro finance p=0.008 (Table 1).

Model	R	R^2	Adjusted R^2	F	Sig.
1	.471	.221	.140	2.717	.008
Independent variables	**Un standardized Coefficient**		**Standardized coefficient**	**t**	**Sig.**
	B	Std. error	Beta		
(Constant)	20.884	5.363		3.894	.000
Age	-.062	.073	-.112	-.848	.399
Education	.292	.125	.274	2.340	.022
Family size	.167	.216	.087	.776	.440
Credit amount	-1.594E-5	.000	-.086	-.372	.711
Investment	-3.742E-5	.000	-.255	-1.032	.305
Gender	2.773	1.219	.241	2.276	.025
Experience	.085	.113	.106	.755	.453
Marital status	-2.534	1.494	-.204	-1.696	.094
Occupation	1.178	1.660	.080	.710	.480

Three variables such as education, gender and marital status out of nine independent variables were found significant. Age, family size; credit amount, investment, experience and occupation were found to be insignificant. R^2=0.221 shown in (Table 1) that a very small change in all independent variables brought approximately 22% change in dependent variable i.e. adopting the mechanism of processing micro finance.

Table 2 Impact of different variables on adopting the Mechanism for processing Micro finance using t-test

Variables	F	Sig.	t-values	Df	Sig.(2-tailed)
Gender	.176	.676	-2.166	94	.033
Occupation	.840	.362	-1.365	94	.176
Marital status	.838	.362	.851	94	.397

structured questionnaire was developed by the researcher himself, containing appropriate number of closed end questions to allow the respondent maximum information.
Due to largely scattered population and also to avoid risk of meager responses, researcher himself delivered the questionnaire to the respondents in different towns and regions and got back, dully filled by them. Primary data collected during the course of this research **Model:** subjected to statistical analysis by using SPSS Package for Social Sciences) version 1.1.

Modeling:

The General Linear Model using ordinary least square is much popular analytical tool being used in Business administration, Social and Management sciences (Cleary & Angel 1984). Most of the statistics used in these sciences are based on linear model. Researcher used ordinary least square to predict a function that relates dependent variable (Y) to independent variables (x_1, x_2, $x_3 \dots x_n$)
This linear function that can be shown as:
$$Y = a + bX_i + e_i \quad \text{Where}$$
a) Constant

b) Slope of line
c) Independents variables
d) Error term
To know the impact of micro finance on adopting the Mechanism for processing, researcher developed following model.

Adopting the Mechanism for processing Micro Finance:

$$Y = a + bX_1 + bX_2 + bX_3 + bX_4 + bX_5 + bX_6 + bX_7 + bX_8 + bX_9 + e_i \quad \text{Where}$$
Y = Adoption of Mechanism for processing Micro finance
a = Constant, X1=Age, X_2=Education, X_3=Family Size, X_4=Credit Amount,
X_5=Investment, X_6=Gender, X_7=Experience, X_8=Marital Status, X_9=Occupation, e_i=Error term

Gender:

Gender had significant impact p=0.033 (Table 2) on adopting the mechanism for processing micro finance. In study area Males can go easily in any financial institution to get know how and discuss the matter to get loan rather

Table 3 Impact of different variables on adopting the Mechanism for processing Micro finance using ANOVA

Age:

Age had insignificant impact p=.735 (Table 3) on adopting the mechanism for processing micro finance.

Variables	Levels	Sum of square	Df	Mean square	F	Sig.
Age	Between Groups	19.268	2	9.634	.309	.735
	Within Groups	2898.888	93	31.171		
	Total	2918.156	95			
Experience	Between Groups	267.380	3	89.127	1.359	.260
	Within Groups	6032.360	92	65.569		
	Total	6299.740	95			
Family size	Between Groups	232.496	3	77.499	1.175	.324
	Within Groups	6067.244	92	65.948		
	Total	6299.740	95			
Credit	Between Groups	943.251	2	471.625	8.188	.001
	Within Groups	5356.489	93	57.597		
	Total	6299.740	95			
Investment	Between Groups	81.946	2	40.973	.613	.544
	Within Groups	6217.794	93	66.858		
	Total	6299.740	95			
Education	Between Groups	479.768	4	119.942	1.875	.121
	Within Groups	5819.972	91	63.956		
	Total	**6299.740**	**95**			

than Females. Although in many financial institutions females employees have been working, yet the female customers were not allowed by their guardian to enter in to the institutions where more males are working. Apart from this many females who were allowed to go but they felt hesitation to discuss the mechanism in an environment where many males were working.

Occupation:

Occupation had insignificant impact p=0.176 (Table 2) on adopting the mechanism for processing micro finance. People in the study area keep them away to adopt the formal procedure in taking Micro finance from different MFIs and such other attributes had no change to farming or other business in the study area. They required a huge amount for their occupation i.e. farming or other business, but the MFIs give them a little amount which does not meet their requirements.

Marital Status:

Marital Status had insignificant impact p=0.397 (Table 2) on adopting the mechanism for processing micro finance. There is no role of marital status in obtaining and processing the micro finance, credit provision and interest rate etc because the Micro financial institutions provide it to different users irrespective of married or un married customers.

Major reason was that age group either Young, middle or old age group may have equal access to adopt the procedure of obtaining the micro finance for processing but on the other hand MFIs prefer the group of young

borrowers because they can better utilize Micro finance for their needs and requirements.

Experience:

Experience had insignificant impact p=.260 (Table 3) on adopting the mechanism for processing micro finance. The respondents in the study area had to support their families to great extent but MFIs do not give the edge of lending micro finance to be obtained by the users. The users who had already availed such opportunity may form the group on the basis of their expertise in taking the advantage of adopting the procedure for processing micro finance.

Family Size:

Family size had insignificant impact p=.234(Table 3) on adopting the mechanism for processing micro finance. The family with large or small numbers had no role to adopt the mechanism for processing micro finance. They may get the required information to adopt the procedure, source of micro finance and payment procedure etc

Credit:

Credit had significant impact p=.001 (Table 3) on adopting the mechanism for processing micro finance. Greater amount of Micro finance gives much satisfaction to the users so they take keen interest in adopting the mechanism for processing micro finance. They must keep themselves informed about the rules and regulations of the MFIs being framed and changed from time to time by different MFIs.

Investment:

Investment had insignificant impact p=.544 (Table 3) on adopting the mechanism for processing micro finance which showed that utilization of investment was not appropriated. It was used for multipurpose rather than single genuine purpose. Investment needed more information regarding the procedure and mechanism for processing micro finance.

Education:

Education had insignificant impact p=.121 (Table 3) on adopting the mechanism for processing micro finance which depicted that all education groups had equal access to adopt the mechanism for processing micro finance in the study area but all the respondents of the education level group had no relevant information in this regard.

Results, Conclusions & Recommendations:

From the data analysis of this research study, it can be concluded that participating in micro finance and adopting the mechanism for processing micro finance depend upon farmers and other businessmen' characteristics. This study showed that respondents' decision to adopt the mechanism was significantly predicted by Gender, Age, Education, Occupation, Marital status, Family size, Experience, Amount of credit and Investment. Regression results showed that all independent variables effect significantly on dependent variable at approximately 3% level of significant rejecting the null hypothesis.

In study area micro finance had been granted to the different users for multipurpose like poverty reduction, improving their financial and economical situation and for raising their living standard. They had to amortize the micro finance along with interest in installment. Although micro finance had positive impact on adoption of mechanism, yet it has assisted the people to come over the poverty line. Mostly respondents were of the opinion that Interest rate was high and the procedure for adoption of mechanism was out of their reach but the researcher traced that formation of group and provision of collateral or personal guarantee were the main obstacles in the way of users for adoption of mechanism for processing micro finance.

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