

Role of Micro-Financing in Creation of Self-Employment in Pakistan: A Case Study of District Bahawalpur

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Abstract

Employment problem is one of the key issues in developing countries especially in Pakistan.

Self-employment (own business) is integral part of the society, majority of the people of our country is belong to business sector. Micro finance plays role in improving self-employment through business or productive activities. In this study an attempt is made to explore the determinants of self-employment in which micro finance is key determinant. This study used bivariate regression analysis based on primary data of Bahawalpur City and to check the relationship of different socio economic determinants on self-employment. Self-employment is measured by binary number as 01 coding of dummy dependent. As taking loan or not taking loan. Similarly all explanatory variables measured by binary coding shape of 01. The results show that self-employment is remarkably influenced by age, education, sex, family wealth, marital status, technical skill, micro finance and loan purpose. More over at the end it is concluded that microfinance is major independent variable in this research and it has positively and highly significant impact on self-employment, i.e. 200% or 2 times may can increase self-employment if provides loan at easy grounds.

Keywords: microfinance, self-employment, bivariate logistic regression,

Introduction

Creation of employment has remained a top priority in developing countries like Pakistan. A number of studies regarding growth and development have also focused on the labour market. Because the main source of an individual's income is associated with employment opportunities. Moreover, income and quality of job both affect social welfare significantly. Employment and economic development are concomitant. Among the various employment statuses, self-employment has attained a big deal of attention presently. Policy makers especially in developing countries are mainly focusing on promoting self-employment and small business.

Awan (2010) disclosed that in developing countries there are nearly 90 percent of the people which have lack of access to financial services from the institutions, either for credit or saving purpose. Especially for the poor who already have lack assets this situation become more critical for them. In microenterprises generally there is need for small capital but it is still difficult for the poor people to manage even that small quantity of capital. Resultantly, these lacks of capital hinder the growth of microenterprise (Robinson, 2002).

A. Self-Employment:

Self-employment is one of the commonly terms used in business, management, economics and other related fields. Self-employment means innovation, creativity, leadership, profit maximization or start of a new business. Self-employment helps in the process to increase economic growth, employment generation, increase national income and also creating innovation.

“Self-employment could be the act of bringing in one's income straight from customers, clients or other organizations instead of being an employee of any business or person”

Awan, (2010) says that self-employed individuals generally find his or her work rather than being provided with work by a great employer, earning income from a trade or business that they can operate. In some nations around the world governments (the Us and UK, for example) are placing more emphasis on clarifying whether a person is self-employed or maybe engaged in covered employment, often identified as the pretense of an contractual intra-business relationship to cover what is otherwise an effective employer-employee relationship. Someone whom will likely be self-employed could be the owner of online business, in which earns he a fantastic living by logging regarding himself/herself and also not being a staff of someone else. One man shop whether he utilize individual in the after ones connected with businesses:-

- Sole proprietorship
- Partnership
- Limited responsibility firm (LLC)

The IRS says the concept a good self-employed individual will likely be somebody which "owns a

great unincorporated business,

Self-employed people include employers, own-account workers, members associated with producers' co-operatives, in addition unpaid family workers. In the last regarding most of these groups do not make application for a formal contract to help get a fixed quantity involving funds in regular intervals, but they share at the cash generated because of the enterprise; unpaid family staff are particularly clicks in farming in addition to list trade. Note: It almost all individuals that operate within corporate enterprises, like institution directors, tend to be taken to be able to always be employees.

B. Microfinance:

Microfinance is a source of financial services regarding entrepreneurs and small businesses lacking access to banking and related services. Each main mechanism for the delivery of personal services to this sort of clients is:

1. Relationship-based banking regarding individual entrepreneurs and small businesses;
2. Group-based versions, where several entrepreneurs come together to apply for loans and other services as a gaggle.

More than 3600 microfinance institutions reached 205 million clients with micro loan in 2012. 105 million clients were among the poorest when they took their first loan. (Microcredit summit campaign report 2013)

Awan et,al (2015) pleads that microfinance (MF) is the provision of financial services, usually in the form of small sized financial transactions to people who are unable to access such services from commercial banks. After the inception of Grameen in Bangladesh in 1984, the first formal microfinance bank of the world, MF has widely been recognized as an important tool for poverty reduction. Successful experience of Grameen Bank, in serving the financial needs of the poor segment of the society on sustainable basis, made the bank a role model for private and public sector institutions in other countries to follow. During 1990s, the importance of microfinance has been recognized at international forums; more importantly International Financial Institutions (IFIs) started providing funds for development of MF sector. Presently, development of MF sector has become one of the main pillars in poverty reduction strategies of many developing countries. In Pakistan, MF has started gaining importance, as a tool of social mobilization and poverty reduction, since late 1990s. Indeed the enhanced international emphasis, in particular the increased funding from IFIs for MF, encouraged both public and private sector to develop microfinance in the country.

Awan and Tahir (2015) suggest that microfinance seems to be one of the effective solution to removing the unemployment and poverty of the people. It can help to improve their income it can help their own business and decrease their vulnerability. It also works as an instrument of self-employment for men and women to bring about change. The microfinance sector is young and under developed in Pakistan.

Awan and Hashmi (2014) argue that Pakistan entered late in microfinance industry but made remarkable progress in this filed. The Government supports the development of microfinance sector under the ordinance 2001. In Pakistan so many microfinance institutions are working. Such as NRSP (Nation Rural Sport Programmed), Wasilla Bank, Microfinance Tamer Bank and different NGOs etc. moreover recently introduced the PM Youth loan scheme it can also increase the self-employment ratio in Pakistan.

C. Objective of the Study:-

1. The main purpose of the study is to remove the unemployment in Pakistan and create the self-employment opportunities through micro-financing.
2. To explore various determinants of self-employment.
3. To analyze the role of micro finance in creation of self-employment in Pakistan especially a case study of Bahawalpur.
4. To find the impact of micro finance on self-employment as compared with other social factors of determinants of self-employment.
5. To find the impact of micro finance and used of micro finance in different business, (as self-employment) i.e. how the people takes the loan and how they use in different business (as self-employment).

Literature review

Fraidi et al (2006) the objective of this paper is investigated the various determinants of self-employment in Pakistan, considering primary source of data at the district level. The sample of 494 workers living in Bahawalpur district has been interviewed. Author has employed Logistic Regression technique to estimate the determinants of self-employment model. The study concluded that experience and of self-employment model. The study concluded that experience and variables have also significant and positive influence on workers' decision to be self-employed.

Aftab (2013) explained, Microfinance and entrepreneurship help as a combine tool to contribute in

development. The foremost objectives of this paper is to see the role of microfinance institutions in entrepreneurship development and also measure the level of satisfaction of microfinance institutions clients toward their respective banks considering primary source of data at district level. The sample of 150 microfinance bank clients residing in Gujrat district has been interviewed. Descriptive analysis used in this paper and also non parametric test Kruskal-Walli and Mann-Whitney test are used.

Pietrobelli et al (2004) suggested that, Official statistics record a tremendous diversity in the level and dynamics of the self-employment rate across countries. Such diversity is even more pronounced for developing countries than for industrial countries. In these countries, self-employment figures may represent evidence of the spark of an emerging entrepreneurial class still in its infant stages, or conceal marginal urban manufacturing employment at the mere level of subsistence and disguising actual unemployment in years of economic depression. This paper documents this diversity for developing and developed countries with new empirical evidence, and tests the determinants of this diversity with econometric techniques. Estimates are presented on a sample of 64 developing countries and 19 developed countries in a period from the 1960s through the 1990s. The results generally confirmed a negative association between the rate of self-employment and the stage of development: self-employment would tend to disappear with the development process. However, the present evidence suggested that in some cases self-employment is also related to high value-added manufactured exports, representing a dynamic and emerging form of entrepreneurship.

Herani (2010) told in this paper to find out the techniques and suggested computer-based solution to reduce poverty from Pakistan, and suggested sustainable management of micro-Finance and Self-help Finance systems. Literature review at national and international level revealed that many researchers have attempted to suggest microfinance as a tool to reduce poverty. Self-help financing blended with donor's finance is also successfully being practiced. Presently NADRA e-Sahulat and Telenor's easy paisa are programs that have capability to help the masses with maximum accuracy in the financial transactions. Some studies also encourage establishing a microfinance bank, with small deposits plus donor's funds, to be electronically managed by NGOs and controlled by organizations of indigenous peoples in villages. This study concluded that by reducing manpower intermediate-expenditure and irregularities will reduce poverty and will help in saving the amount for maximizing their own welfare. Presently, facilities are already available with latest technology, which if modified and innovated will bear fruit.

Sarmah (2004) explained, As Lakhimpur district is one of the floods affected, economically backward and zeroindustry districts of Assam. Therefore, microfinance through SHGs can play an important role on creation of self-employment and generation of income for the rural poor of the district. But till now no investigation has been undertaken on performance of SHGs and their impact on creation of employment and generation of income for the poorer section of the district.

Rauf et al (2009) in his paper explained the growth strategy adopted by the microfinance sector and its impact on performance of the microfinance institutions. To strike a balance between outreach and poverty alleviation, an intensive growth strategy would have been more cost effective at the initial stages of development. This would have reflected in improved performance, efficiency and productivity. Instead the sector adopted an extensive growth strategy which involved huge investment in physical infrastructure and rapid increase in recruitment and branch network. Thus, the credit constrained institutions had to focus more on sustainability than their primary objective of social support. The issue of sustainability would not have been as central had the sector adopted an intensive growth strategy. The six dimensions of outreach examined also indicate that the targets set were modestly attained as breadth of outreach is below the target outreach, depth of outreach is concentrated in big urban cities, scope of outreach is mostly limited to credit.

Saleem et al (2007) examined the impact of Micro finance on living standard of poor people of D.I.Khan district. A total of 50 respondents were selected by using stratified random sampling technique. Regression analysis showed significant impact of micro finance on living standard. Living standard is further divided into Education (x1), health care (x2) and financial situation (x3). The coefficient values are $x1=0.250$, $x2=0.223$ and $x3=0.369$ respectively. It shows that all the explanatory variables have statistically significant impact on the living standard of the poor people of D.I.Khan. Therefore, this study strongly recommends the provision of micro financing to be given to the poor segment of the society. This will not only improve the educational, health and financial position of the poor but will also contribute to the overall development of the economy.

Akram et al (2011) explained, living standard in low income developing countries always remained crucial issue to be addressed. In many developing countries, like Bangladesh, microfinance has been used as a tool to gear up the living standard of poor people. The aim of this study is to assess the contribution of microfinance in raising the living standard of low income people of District Okrara-Pakistan. For this purpose, data has been collected through questionnaires and descriptive research design has been applied. Borrowers of microfinance from major microfinance institutions operating in the district Khushhali Bank Limited (KBL), Tameer Micro Finance Bank (TMB) and The First Micro Finance Bank (FMB) have been selected as population.

Positive impact of microfinance on income level is observed in this

Methodology

Data and Types

The data has been used and collected by those peoples who have benefitted from different microfinance institutions those are working in Bahawalpur City. The data consist of last four years 2009-2013 of male and female. Presently six Microfinance Institutions are working in Bahawalpur City, Khusalli Bank, National Rural Support Program Bank, First Microfinance Bank, Kashaf Foundation Bank, Micro Finance Tamer Bank and Akhuwat (non-profit organization). Basic information collected by local branches of Bahawalpur city furthermore information has been collected with the help of questionnaire , which include all necessary variables for this study and interview were also selected from male and female.

A stratified random sample of 300 house hold was drawn from population of 9000 male and female clients. Cross section data were collected for the specific purpose of investigation the different determinants of self-employment and amount of the loan or microfinance and loan purpose are the major determinants of self-employment, and it is analyzed that Microfinance may can play a vital role in the self-employment in Pakistan .

In this study we chose primary data source. Data has been collected of clients of different microfinance institutions of Bahawalpur City through questionnaire.

Cross section data has been collected by door to door in the house of men and women interviewed, most of the respondent were hesitate to tell true facts of loan, that is why just asked to respondent, they got loan or not and loan amount are vary from 10000 to 100000. The interview was conducted in Urdu language and after this translates in English in filled by all questions.

Selected Variables

There are number of factors which determine the self-employment. The social factors includes Education, Age, Sex, Marital Status, Family Wealth, Technical Skill is concerned with amount of loan which is taken by the people for productive activities, while self-employment is explained variation on the basis of foresaid explanatory variables, and one of the variable is loan purpose which show that people takes the loan for business activities but actually they used for other purpose also, such that marriages house building education etc.

Dependent variable

S.E= Self Employment

Self-employment is measured by the binary coding in shape of 0,1 for as a dummy dependent variable . In this study self-employment = 0= for not own business i.e. not self-employed while 1 for = own business i.e. self-employed respectively. Own business mean that person if takes the loan from microfinance institution that would use loan in start for new business or strengthens of the previous business that person would be called self-employed person. in contrast if any person have not own business mean may can be other employee in government sector or private sector so we will count as not self-employed person if that person takes the loan but he/she will called not self- employed he/she will use in any other purpose of life

Independent Variables

There are so many variables which determine the self- employment in different ways but in this study we took some significant variables such like Age, Sex, Marital Status, Family Wealth, Education, Technical Skill, Microfinance (key variable), and loan purpose.

Definitions of Variables:

Age: Age of the respondent which is measured by the ranges f to 7.

Sex: sex is measured by 0=female, 1= male.

Education: Education is measured by ranges from 0 to 4.

0= middle an below, 1=matric, 2=intermediate, 3=Graduate, 4=Masters

Family Wealth: Family wealth is measured by ranges from 0 to6.

Marital Status: marital status is measured by 0=unmarried and 1=married.

Technical Skill: Is measured by 0=unskilled and 1= skilled

Microfinance: is measured by 0=not taken loan and 1=taken loan.

Loan Purpose: is measured by ranges from 0 to 5

0= for start new business

1=strengthens of the previous business

2=for education

3=for marriage

4=for house building

5=other needs of life

Model Specification:

The econometric model is specified in the following:-

$$S.E = f(\beta_0 + \beta_1 \text{ Age} + \beta_2 \text{ Sex} + \beta_3 \text{ Edu.} + \beta_4 \text{ Tech} + \beta_5 \text{ M.S} + \beta_6 \text{ F.W} + \beta_7 \text{ M.F} + \beta_8 \text{ L.P})$$

The above model is our model specification, in this study we are going to analyzing descriptive and testing of hypothesis analysis. We will use binary logistic regression and will see one to one impact of each explanatory variable on explained variables. Such that we have to find the impact of age on se, sex on se, edu, on se, m.s on se, f.w on se, mf on se and lp on se. we can use multivariate logistic regression but we are using bivariate logistic regression for more and comprehensive results. Through bivariate logistic regression we can see comprehensive results and exploring one to one impact of explanatory variables. Now here the question is raised that why we are using logistic regression rather than other models. It is answered that our dependent variable is dummy shape which is coding 01 that is why logistic regression will be used in this analysis. Our research is conducted on primary data base we have been collected data through questionnaire, door to door stratified random sampling of different clients of different microfinance institutions those are working in Bahawalpur City.

Table 1 Bivariate logistic regression results

Variables	β Values	df	χ^2	Pseudo R ²	Sig
Age	0.224	1	8.35	0.27	0.004
Sex	0.309	1	1.36	0.005	0.241
Education	-0.239	1	8.19	0.27	0.005
Family Wealth	0.298	1	6.49	0.21	0.012
Marital Status	0.414	1	2.69	0.009	0.1
Technical Skills	1.491	1	36.47	0.114	0.000
Microfinance	2.025	1	52.67	0.161	0.000
Loan Purpose	0.640	1	41.42	0.129	0.000

Findings and Results

The results show that of age beta value is 0.224 is positive, it means that if 1 unit increase in age the self-employment will increase 22 units and chi square Wald test shows that 8.35 value this is so small value of chi square this shows smaller value of chi square the model will be good fitted.

Sex variable results show that if 1 man population of labor force will increase than 30% self-employment will increase as shown in result B value is 0.309. Moreover Chi Square Wald test value is just 1.3 this is so small and pseudo R² is also less than one near to zero as 0.005 this shows that our model is good fitted. Very important value is p value is 0.241 this is not a significant value it shows that male or female population has not significant role in self-employment.

Education is 3rd variable B value is -0.239 it means 1 unit increase in education 23% self-employment will decrease is a negative relationship b/w self-employment and education. This is a real and empirical fact if someone has increased their education level, he/she chose Government job not prefer business especially in case of Pakistan and Bahawalpur city.

4th variable is family wealth B value is 0.298 and positive this shows that if 1 unit increase in family wealth than 29% increase will self-employment. Moreover chi square value is 6.4 this is small and shows that model is good fitted.

5th variable is marital status there is positive relationship between marital status and self-employment, but result is not significant this shows doesn't matter if clients are married or not married. B value shows that if 1 unit or 1 person will be married than self-employment will increase at the rate of 41% but it will not have significant impact on self-employment.

There is positive and significant relationship between technical skill and self-employment, this shows that if a person is technically skilled that may can run own business in better way. B value shows that if 1 unit increases skilled population than 149% increases will self-employment. In this model chi square and pseudo R² value is large this is not good fitted.

There is positive and significant relationship exists between microfinance or loan amount and self-employment. B value 2.025 shows that if 1% increase in amount of loan than 202% increase will self-employment. Here p value is 0.000 means it is highly significant impact on self-employment. Moreover chi square and pseudo R² is high but overall model is good fitted model.

Positive and highly significant relationship exists between loan purpose and self-employment. Loan purpose is also a key variable this shows that how many clients they used loan in business activities and how many they used in other purpose. The results show that B value is 0.640, it means that if one client more used loan in business activities rather than other purpose of life, than 64% self-employment will increase and this will be

highly significant impact on self-employment because p value is 0.000.

Conclusion:

This study based on result mention, it can be concluded that the self-employment in Bahawalpur City can be significantly increased by improving their income generating or productive activities by providing loans without any security through different microfinance program. The socioeconomic determinants of self-employment also analyzed in this study. The overall results of this study concluded that the self-employment is not much satisfactory at house hold or poor level of the middle class of the society in especially in Bahawalpur District. It also concluded that age, sex, education, family wealth, marital status, technical skill and loan purpose are influential factors which can accelerate self-employment in Pakistan.

Overall conclude that microfinance is a key factor as determinant of self-employment. providing by loans any interruption and complicated procedure self-employment may can increase more than 2 times as giving loan amount, especially in case of Bahawalpur whereas job opportunities are very low and only one source of job is government job and where no industries have in large ratio, so its concluded that at small scale manufacturing may can boost up the employment status of Bahawalpur.

Recommendations:

On above conclusion we can give some policy suggestions and recommendations i.e. how can boost up self-employment through micro financing in Pakistan especially in Bahawalpur district.

Basically Bahawalpur City is not too much rich people of the city. Majority of the people are belongs to middle class or poor class of the society. Moreover in Bahawalpur there is only one source of job that is government job. Because in this city has lack of industry and lack of job opportunities. That's why government should make those policies which could increase self-employment through small scale manufacturing and homemade products. That's why we can suggest and recommend some policies, which could accelerate self-employment through easy availability of microfinance. Polices are given below.

1. Government should focus on technical education rather than former education.
2. Government should open vocational training institutes especially for women.
3. Government should make expense on human capital for job trainings vocational trainings.
4. Government should promote and encourage small scale manufacturing industries.
5. Government should encourage to home made products i.e. handy crafts centers.
6. Government should relieve in income tax for homemade or small scale manufacturing products.
7. Government should implement on microfinance ordinance 2001.
8. Government should take those actions on microfinance availability i.e. microfinance should be provided without any security and without any complicated procedures.

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