

Contribution of the Microfinance on Economic Development

Saadat ali, Anum zulfiqar, Muhammad ibrahim , Syed muzammil Hussain, Sadique Hussain
Department of Business Administration BZU Bahadur sub Campus Layyah, Pakistan

Abstract

This paper examines the contribution of the microfinance on the economic development in west Punjab. Emphasis is made on the primary data which is used to show the relationship of the dependent variable and independent variables. By use of the SPSS software the descriptive analysis, reliability test and correlation analysis for checking the relationship among the variables. It was revealed from the finding that independent variables have significance impact on dependent variable. Research objective achieve by filling the 31 different types of the questionnaires. The sample size of this research contains 100 and population of this research from the different areas of west Punjab. Bank managers who are interested to improve their performance can read this research.

Keyword: Microfinance, living standard, investment, economic development

1. Introduction

The field of microfinance institutions (MFIs) now recently become a comparatively topic in economic and the social research. First microfinance institute has been establishing in 1980 such as the (Grameen Bank founded by 2006) noble peace Prize laureate (Muhammad Yunus). Now in these days, microfinance becomes the increasing attention for the research purpose. Many studies show the alternative to formal credit, which cite a main factor for helping the poor, economic growth and increasing the living standard of the people. Over the years, microfinance has emerged as a successful line of attack for increasing economic development and growth of the countries. They have little guarantee, self-importance in bulk amount of risks, and small loans by the bank made to poor people over and over again have high fixed costs, making lending to the poor an unprofitable business enterprise (Ray 1998). Providing the microfinance to the community becomes the successful strategy for fighting against the poverty, promoting the economic development and increasing the living standard.

In the recent year microfinance is in advance value as a successful instrument of living standard and enhances the country income level and positively impact on the economic growth in the Pakistan. Various types of institutions ranging from NGOs to private and government sponsored rural support program are providing microfinance services to the poor. In research survey evaluate the prospective impact of microfinance with the other forms on economic development, living standard and the poverty especially. Economic growth and development is due to the creation of the fundamental factor of investment and taking the action against the development of the country. The impacts of the investment become the dual effect on the country economy in direct and indirect way. It can reduce the level of the unemployment and increase the level of the productivity of the private sector. Investment increases the employment rate whenever the levels of the investment are maintained in the community. Investment of the country enhances the efficiency and become the source of the positive impact on the economy.

Commercial banks feel hesitate to do the business with the poor and their micro-enterprises, due to cost association and risk which to be relatively high. They also describe that In the Nigeria the micro entrepreneurship and Micro finance institutions have therefore evolve in past decades, where in the region of the world to accommodate for this group of people. Previous review of the practical research indicates that there are few sources which are include the turning point on the relationship of the economic development and investment (private and public) Abramowitz (1956). Investments and economic development both are running together in the society since long time. On this factor various researches have been done. It is found that investment activities are done due to better economy environment. one of the econometric research indicate that there is immediate and positive relationship among the investment and the economic development, on the other hand investment become the cause of the fast grown positive impact on the GDP of the country. Most of the studies show that it has the positive association among the investment and GDP.

Now in these days main determinant is consider to the investment for the economic development by the view of the both endogenous growth theories and neoclassical theories. (Kormendi and Meguire 1985); (De Long and Summers 1991); (Levine and Renelt 1992); (Mankiw et al. 1992); (Auerbach et al. 1994);(Barro and Sala-i-Martin 1995); (Sala-i-Martin 1997); (Bond et al. 2001); (Podrecca and Carmeci 2001). In the recent environment investment are playing critical role for enhancing the country income level, living standard and growth of the country as well as it become the initial source of the economic growth and transferring the technological instrument. (e.g. Borensztein et al. 1998); (Hermes and Lensink 2000); (Lensink and Morrissey 2006).

The scope of this study focuses on the impact of microfinance on living standard and the economic development

of the country. The entire financial institute likes bank play very important role between the surplus and the deficit of the community. Most of the previous research shows that the studies of the microfinance provide lot of positive impact on the community like increase the living standard, creating the more job opportunities, increase the human ability to use of the finance and conducting of new business and improve the education of the family. When community used financial service which is provided by the bank and the other institute, they could increase family circle income more easily than before and improve their living standards.

2. Research question

Microfinance institute always play an important role in the community for improvement of the business, increasing the living standard and improvement of the economic development of country because the local institute does not properly such types of the facilities to the poor people. That is way it is important to find out the impact of the microfinance on enhancing the living standard of the people and improvement of community development in the Pakistan. For such purpose the following questions has been arise.

How much economic development is possible by the microfinance?

How much contribute investment in the improvement of the economic development?

3. Statement of the Problem

The microfinance institutes are considering the best source of financial services for enhancing the income level of the low income earners in the rural and urban areas. However it is also shown that microfinance institute face various types the problem which are not to limited coverage, lack of contribution driven and the organizational structures. It is seem that there is need of more research which should be done in regard to know whether microfinance impact on the living standard, investment and economic development

4. Purpose of Study

The purpose of this survey research is to find out how the microfinance institutions influence community like living standard and economic development) and to find out how much contribute the investment of the financial sector impact on the country economy. it is also point out weather the microfinance are full fill the basic consumption needs of the community.

5. Objectives of the Study

- I. To indicate that the microfinance play a role to enhance the economic development.
- II. To find out that whether the living standard impact on the economic development.
- III. To evaluate how much change occur on economic development due to investment.

6. Literature review

Supply of the loans to the poor people, savings and the other basic financial services is considered as the microfinance. The people who manage the micro and the small enterprises to meet the requirement of the working capital, building of the new assets and protecting themselves against the risk will have to need of the different range of the financial instrument (Ehigiamusoe 2005). In the recent global environment the microfinance institute are delighted instruments for filling the gap of services of conventional banks, boundaries in reaching vulnerable and poor with banking services. In the course of these MFIs, the poor are able to right of entry financial services, which up to that time were completely available to the upper-income people. The fundamental suggestion on the back of the intervention is that right to use to micro-finance services such as micro credit, savings, and micro-insurance to the poor which could help them. According to the (Hulme and Mosley 2005) various studies indicate that in the community credit is only one aspect in the production of output or income. Microfinance has offered to the community to use of finance method for their new business through which their living standard increase, new socialist regions construction and won the support of agriculture and former. In the china the impacts of the microfinance is in the term of the unfairness and also find there are lot of benefit of the microfinance for the women, increase the economic power, providing the better living standard quality and also delivering the stronger social empowerment (Dyar, Harduar, koenig 2006).

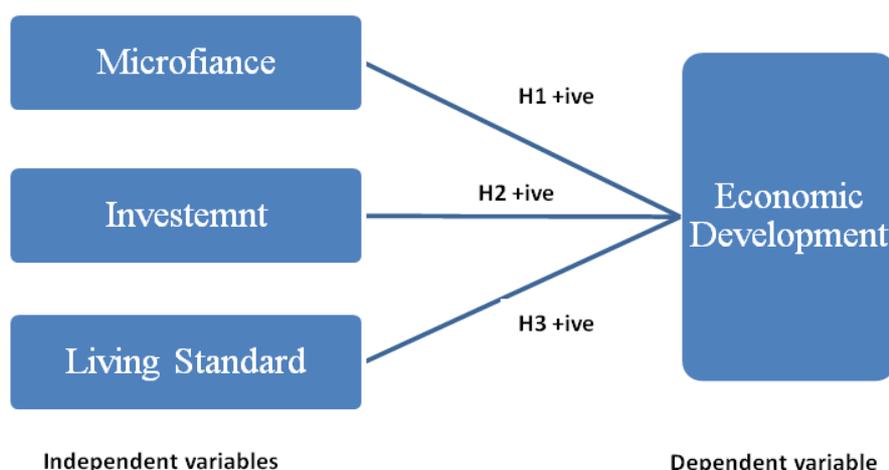
A small number of surveys have also been conducted that microfinance enhance the living standard and which impact on the economic development (Hulme and Mosley 1996), that the case in point based on the argue against on fact combined approach, analyzed the impact of microfinance on the enhance the living standard and impact on the economic development using sample data for India, Indonesia, Bangladesh and Sri Lanka and it Conclude that growth of borrower income enhance that of control group and increase income of the borrower is better for the borrowers. Like this the (Mknelly et al 1996) in their survey shows the positive benefit of the microfinance for the borrowers.

According to the (Marks 1981) Living Standard indicate that level at which people are in the position to gather their capital and received better living with such income for communication, foods, education, transport, health and clothing, etc. which enhance the economic development. the microfinance is a form of the development that basic purpose is to enhancing the living standard of the community by delivering the financial services to the poor which lead the economic development (Barr & Micheal S 2005). They also state that major community think that the microfinance is a micro credit i.e. providing the small amount of the money to the poor, but the

microfinance is not a smaller perspective it include the insurance, transactional services and saving which is not in the service of the micro credit. One of the experimental evidences indicate from various papers such as (Parker and Nagaragan 2000), (Khandker and faroque, 2001), (Pit and Khandker 2003), (Quach et al 2003), (Debadudda 2009), (Paunda 2005) found that the advantages of microfinance for the poor and it increase their living standard especially in health treatment and education. In the developing countries more than 80% households do not have accessing the services of the banking institution. It is due to the lack of collateral to secure loans from the financial institute.

In view of the (Manadhar and Pradhan 2005) that microfinance is an successful development tool for the improvement of the economic sector since financial institute service make possible to poor and household whose income are low to obtain advantages of the economic opportunities for enhancing their living standards by self-employment. They also notify that it can't be reject that poor do not have wealth, so in this case the low income households need financial support. The microfinance value for the most part in the countries perceived to be poverty suffering has been rising in currently years which have lead to policy makers of many countries to take on national micro-finance policies and programmers (Manandhar & Pradhan, 2005). According to the (Dupas and Robinson 2008) that common weapon which promote the economic growth and enhance the living standard of the individuals are increase by the micro financing. They also state that in the Kenya, employment in enterprises has been estimated more than 20% of adult and the national growth Domestic product is 12 to 14% in the small and the medium scale enterprise. According to the (Jonathan Morduch & Robert F 2002) that "for the enhancing the living standard for the improvement of the economic development and increasing of the living standard Micro finance has been confirmed to be an effective and powerful tool, like various other tools of development. In view of the (Dandana and Nwele 2011) that microfinance banking service providing the best service and playing the important role in the community in the modern age, as delivering the micro credit loan to the small and medium scale former. It become the cause of enhance the living standard of community. Mostly commercial banks give the loan to the medium and large enterprises but they are unable to recognize the credit worthy (Anyanwu 2004). According to the (Solow 1956) that increase in the level of the investment and level of the saving become the source of collective capital per employee bring into being. One of the empirical study of the (tyler 1981) show the response of the 66 sample of developing countries that export and investment are those factor which enhance the economic development. Recent survey of the World Bank shows that the higher economic development is due to the higher level of the investment. Investment include those factor which are to whole economic activity and that entire factor are involve to product the goods and services. Investment is major instrument which are use to enhance the productivity of the country and use to introduce the producer. Investment directly and indirectly effect on the productivity of the business. Investments in the agriculture research improve and facilitate the research and its dimension for increase the production. According to (Anderson 1990) that investment in the community enhances the growth and development of the economy also increase the efficiency of the investment

7. Hypothesis development



Followings are the some of the Hypothesis developed from literature

H1: there is positive relationship between the microfinance and economic development

H2: Investment has positive impact on the economic development

H3: Living standard has positively associate with the economic development

8. Research Methodology

Measures

This research contain on the primary data which are collected from the various place of the Punjab by filling of the questionnaires. There are minimum 5 questions on each variable. Likert scales are used for the selection of the close ended answer which are like a (strongly agree, agree, neutral, disagree and strongly disagree).

Data collection

Questionnaires are filled from the different places which are customers, employees, and teachers and from other places during the working days. The target population of this research is west Punjab for testing the hypothesis. Questionnaire contains the initial introduction and then others questions regarding about the research. The entire questionnaire is filled by the male and females groups. To meet the objective of the research random sampling technique was used that provide the equal opportunity to respondents. Total 120 questionnaires are filled from the various place of Punjab of which 100 were returned by giving the response rate 83 percent. There are 27 different questions of all variables, it's valid and verified by various sector and it reliability was measured by crobach's alpha test at 0.64 which is consider suitable for the further research analysis. All the questions are evaluated which are one dependent variable and 3 independent variables by use of SPSS software.

Scale: All Variables

Reliability Statistics

Cronbach's Alpha	N of Items
.65	27

9. Frequency analysis

		Frequency	Percent	Valid	Cumulative percent
Gender	Male	35	35	35	35
	Female	65	65	65	100
Age	Under 25	44	44	44	44
	25 – 40	23	23	23	67
	40 – 60	33	33	33	100
Occupation	Student	40	40	40	40
	Professional	28	28	28	68
	Businessman	23	23	23	91
	Other	9	9	9	100
Qualification	Up to secondary school	25	25	25	25
	Higher education	75	75	75	100

In the above mentions table show the total respondents were 100, in which there was 35 male and 65 females. There was 44 respondents which age are under 25 year and 23 respondent having the age 25 to 40 year last age group which are minimum respondents belong to 40 to 60 years. Maximum respondents of this research having the age less than 25 years. Mostly respondents were students which are belong to different universities. Total number of the businessman 23 and the 28 percent of the research respondents are professional and there are 9 respondents which are belong to different other categories. Maximum questionnaire are filled by the people who are having higher education, they are 75 percent of the total respondents. There are only 25 percent of the total respondents belong the up to secondary school level .

10. Correlations

For the purpose of the checking relationship among the dependent and independent variable we describe the correlation analysis which are given below:-

Correlations

		microfinanc e_mean	investment_me an	L_S_mean	Eco_Dev_me an
microfinance_mean	Pearson Correlation	1	.408**	.596**	.426**
	Sig. (2-tailed)		.000	.000	.000
	N	100	100	100	100
investment_mean	Pearson Correlation	.408**	1	.637**	.676**
	Sig. (2-tailed)	.000		.000	.000
	N	100	100	100	100
L_S_mean	Pearson Correlation	.596**	.637**	1	.825**
	Sig. (2-tailed)	.000	.000		.000
	N	100	100	100	100
Eco_dev_mean	Pearson Correlation	.426**	.676**	.825**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	100	100	100	000

** . Correlation is significant at the 0.01 level (2-tailed).

The given tables show the correlation analysis among the variables like dependent variable Economic development and independent variables like microfinance, investment and living standard.

H1: there is positive relationship between the microfinance and economic development

Given table value of the microfinance show .426 at $P = 0.000$. The given value indicates that there is positive relationship between the microfinance and economic development. We accept the hypothesis because its value is less than the alpha level. The value shows the moderate relationship of the microfinance with the economic development. Because there are other various factors which contribute to the economic development.

H2: Investment has positive impact on the economic development

The relationship between the investment and the economic development is positive. The above-mentioned table shows a value of .676 at $P = 0.000$, which indicates that there is a positive relationship between the investment and independent variables economic development. Which means investment contributes to the economic development. We accept the hypothesis H2 because its P value is less than the alpha level which is 0.05. The result clearly indicates that investment contributes to enhancing the performance of the economy.

H3: Living standard has positively associate with the economic development

There is a strong positive relationship between the living standard and economic development. The correlation table shows the value 0.825 at $P = 0.000$. The result clearly indicates that various other factors which enhance the living standard will become the cause of enhancing the economic development. We accept H3 because its P value is less than the alpha level. We conclude that the living standard has a strong positive relationship with the Economic development because other various factors contribute and enhance the living standard which is associated with the economic development.

11. Limitation

This research has a lot of limitations like other research. Sample size consists of 100 respondents which are from specific areas, which should be diversified and sample size should be enhanced. The frequency of the questionnaire should be increased. The main limitation of this research is the duration, which is limited.

12. Conclusion and recommendation

In this study, it has been concluded from the correlation analysis that microfinance does not have more impact on the economic development. There is a lot of contribution of the investment for enhancing the economic development. They should be in private and public form; can enhance the income level of the people and reduce poverty from the country, therefore Government sector and private sectors should enhance the investment level in various factors. There should be diversifying the strategy of the microfinance because it is just a fulfillment of the need of the people. There is a need to launch other various new products of the microfinance for improving the economic activity. And the microfinance sector should strictly monitor the utilization of funds, especially in rural areas. The financial institutes should just fulfill the primary needs of the people and various people should not utilize the microfinance facility in a proper way. The repayment schedule of the loan and deposit should be changed so there should be more fluctuation in the money. However, the result shows that the activities of the microfinance do not contribute more than investment for the improvement of the economic development. It is recommended that there should be a new strategy developed by the Government, which leads the microfinance bank for the delivery of the

microcredit.

13. Reference

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