

Socio-Economic Factors Affecting Access to Formal Credit by Microenterprises in District Charsadda, Khyberpukhtunkhwa

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Abstract: The current study has tried to evaluate micro enterprisers socioeconomic characteristics and its impact on access to micro credit. This study has focused on the most vulnerable households in the district Charsadda. A sample of 95 respondents were selected by employing purposive sampling technique. Out of 95 sample, 60 (63%) respondents were access to micro credit whose take loan from bank and micro finance institution (formal). While 35(37%) respondent whose take loan from other sources (informal). The study has collected data from the sample respondent with the help of enumerator through closed ended questionnaire. The data was analyzed through SPSS software version 22. The study employed, Fishers Exact test, cross tabulation and Pearson Rank Correlation for data analysis. The findings of the study revealed that age, education level, marital status and annual income of the respondent have a significant impact on access to credit. While family size shows insignificant association with access to micro credit. Moreover, the socio-economic characteristics were also correlated with the access to credit. The study suggested that government should pledge schemes that would create employment opportunities for the young and lower income group to empower them a stable and trustworthy stream of income. This will open ways for them to get access to microcredit since income enriches access to credit through improvement of repayment capability.

Keywords: Socio-economic Characteristics, Access to Microcredit, Microenterprises, District Charsadda, Fisher Exact test, Pearson Rank Correlation.

INTRODUCTION

Access to Micro credit has received a great attention in both academicians and policy makers due to its significance as a source of finance to investment which spur economic growth. Micro credit is the endowment of Micro loans with the notion of supporting poor people to outfit their own small businesses and thus make profit to enrich their quality of life. The primary objective of micro credit is to change the life of poor people positively and make their life better from their previous life style. Hassan (2002) identified that micro-credit also plays a dynamic role in the improvement of an energetic sector of micro-enterprises. The central objective of the expansion of small enterprises is to create employment opportunities to people in rural areas and helps to develop the social and economic circumstances of people. Micro credit is playing active role in both rural and urban areas (Shirazi and Khan, 2007). In an urban context, a credit program mostly targets an urban informal sector providing support to street salespersons, market sellers and small home-based businesses. Since the last 25-year economic facilities have been used as a development tool such as microfinance organizations extending credits to primarily female micro-entrepreneurs, rural credit schemes providing to subsidize credits to poor farmers and a number of organizations offering a range of financial facilities like offering credits, savings and services of insurance, in order to enable poor people to increase their incomes (Noreen, et al, 2011) .

Microfinance in Pakistan

Microfinance is relatively new in Pakistan. The business of micro credit was on limited basis for several decades in Pakistan. In 1999 the government of Pakistan gave due importance to micro finance in designing the official Poverty Alleviation Strategy. Later on in 2001 a regulatory frame work for the support of microfinance was established (Saleem et al, 2011). The government of Pakistan has taken several initiatives intended at the provision of micro credit. These include Agriculture development bank, First Women Bank, National rural support programs and the establishment of first specialized MFI Khushhali Bank in collaboration with Asian Development Bank. Today, the bank provides micro loans with an objective of poverty alleviation by developing a sector of micro enterprises. Pakistan is among the countries, where potential market of borrowers for micro finance is more than 10 million adults. Population growth rate is high and this figure will increase considerably in future (Shirazi and Khan, 2007).

Study objectives

- To identify the socio-economic characteristics of borrowers in the study area
- To examine the effect of socio-economic characteristics on access to micro credit in the study area.

REVIEW OF LITERATURE

Credit is a contract between two people or between two institutions in which one acting as creditor and the is the mortgagor, to whom is given money, goods, services or securities in revival for the latent of future payment. Micro credit financing is the procedure of lending money to the poor people so that they can invest in self-employment and is devoted to the providing of small loan amounts to micro entrepreneurs who invest in their business (Mason, 2014). There are two types of credit formal and informal credit. In the formal credit markets, institutions such as financial institutions, co-operatives and commercial banks provide intermediation among investors and creditors and take comparatively low rates of interest that typically are government sponsored. In the case of informal credit institutions and individuals provide money to dealers, owners, friends, qualified money lenders, commission agents, and relatives. The formal sources comprise of commercial banks, financial institutes and co-operatives, while the informal sources consist of relatives, shopkeepers, friends and traders. The informal sources often offer limited credit and with high interest rates if a borrowing is made from traditional money lenders (Chowdhury. et al., 2005). The process of attaining a loan from formal sources is complicated, prolonged and very difficult for poor. So the outreach of formal intuitions is limited only to well off section of a society, excluding poor people (Taj et al, 2008).

Socio-economic factor affecting access to micro credit

Okurut (2008) claimed that age of the borrower has a significant positive relationship with access to microcredit. However, Bakhshudeh and Karami, (2008) found significant inverse relationship among age and access to micro credit. Abedullah et al., (2009) argued that access to micro credit has greatly increased with the education level of borrowers. Studies have revealed positive association of borrower's wealth with their access to credit. (Bayegunhi et al., 201). Kotir and Franklin (2009) emphasized the role of household size in access to micro credit. Many studies on the access to credit have pointed a significant negative relationship between borrowers' rural area and access to credit. (Akoten et al., 2006)

METHODOLOGY

Population and Sample Size

All small business enterprises in district Charsadda were the populations of the study. Non probability multistage sampling techniques were used for data collection. At first stage Shabqadar tehsil was selected purposively. At second stage sample of 95 SME, s was selected from selected area (Batagram) tehsil shabqadar, Charsadda on the basis of convenient. Since the researcher belongs to village Batagram, Shabqadar tehsil Charsadda so the SME, s of village Batagram were the specific focus of the study Because there is no proper study in this field in Batagram and that area are best for that study because respondent was known personally. Only those people were selected for interview through questionnaire who have got micro credit.

Data Processing and Analysis

Data on socio- economic characteristics of borrowers such as age, education level, wealth Household size and location of borrowers were reviewed, summarized, and analyzed by SPSS version 22 to find descriptive statistics such as averages and frequencies enlightening the different characteristics of respondents. Fisher's Exact test and Pearson Rank correlation were employed to obtain inferential statistics to determine if there were significant differences among the different categories of households in terms of access to micro credit and to determine the influence of different socio-economic factors on access to micro credit among households in (Batagram), Charsadda.

RESULTS AND DISCUSSION

Table I shows that about 16% of the total respondent are those whose age were less than 30 years, 63.2% of the total household are those whose age are in come into the range of 31 to 45 years while 21% were in come above from 45 years. More than 70% of the respondent education level was matric and intermediate. There is a strong variation in marital status of the respondent so the smallest percentage (8.3%)of respondent were those whose marital status were single, and 91.7% of the total household were married. Table I shows that more than 50% of respondents were those whose family member were in the range of 6-8. Households were divided on the basis of monthly income into three groups shown in table I. Lower income group are less than or equal to 20000PKRs, middle income group are come in the range of 20001-40000PKRs and upper income group are greater than 40000PRs. Amongst all the respondents (47.4 %) belong to the middle income group, 31.6%were belong to the lower income group while 21.1% to the upper income group.

Table I Socioeconomic Characteristics of Respondents (Microenterprises)

Variable	Frequencies	%age	Valid %age
Age of Household			
Less 30	15	15.8	15.8
31– 45	60	63.2	63.2
Above 45	20	21.1	21.1
Total	95	100	100
Education Level			
Primary	10	10.5	10.5
Matric	30	31.6	31.6
Intermediate	40	42.1	42.1
Above inter	15	15.8	15.8
Total	95	100	100
Marital Status			
Single	25	26.3	26.3
Married	70	73.7	73.7
Total	95	100	100
Household size			
Less 05	20	21.1	21.1
6-8	60	63.2	63.2
Above 8	15	15.8	15.8
Total	95	100	100
Household income			
Lower income group	30	31.6	31.6
Middle income group	45	47.4	47.4
Upper income group	20	21.1	21.1
Total	95	100	100

Relationship between Access to credit and Socio-economic characteristics of Respondents

A brief assessment of the respondents in respect of borrower's socio-economic characteristics shows in table II, that 60 (63%) respondents were access to micro credit whose take loan from bank, and micro finance institution(formal). While 35(37%) respondent whose take loan from other sources (informal). Results in the table II reveals that there is a significant association between age of the respondent and access to credit (Fisher's Exact Test = 0.000). Only 46.60% respondent whose are less or equal to 30 years have access to credit, and 71.6% of them are those whose were lying in the age group of 31-45. Fifty percent respondent with primary education have an access to formal credit while 71.43% of the respondent with higher education level. A significant difference was found between access to credit and educational level (Fisher's Exact Test = 0.001, Spearman Rank correlation = 0.271). Marital status and monthly income of the respondent have a significant association with access to formal credit while family size of the respondent was found insignificant association with access to credit as shown in table II. The finding also reveals that socioeconomic characteristics have a positive correlation except family size with access to credit.

Table-II Relationship between Access to credit and Socio-economic characteristics of Respondents

Household Age	Access to Micro credit		Total
	Yes	No	
Less than 30	7 (46.60)	08 (53.3)	15 (100)
31-45	43 (71.6)	17 (28.3)	60 (100)
Above 45	10 (50.0)	10 (50.0)	20 (100)
Fisher's Exact Test = 0.000			Spearman Rank correlation = 0.547
Education Level			
Primary	5 (50.0)	5 (50.0)	10 (100)
Matric	15 (50.0)	15 (50.0)	30 (100)
Intermediate	30 (71.43)	12 (28.57)	42 (100)
Above inter	10	03	13

	(76.92)	(23.07)	(100)
Fisher's Exact Test = 0.001	Spearman Rank correlation = 0.271		
Marital Status			
Single	15 (60.00)	10 (40.00)	25 (100)
Married	45 (64.29)	25 (35.71)	70 (100)
Fisher's Exact Test = 0.000	Spearman Rank correlation = 0.456		
Household size			
Less 05	10 (50.00)	10 (50.00)	20 (100)
6-8	40 (66.67)	20 (33.33)	60 (100.00)
Above 8	10 (66.67)	05 (33.33)	15 (100.00)
Fisher's Exact Test = 0.256	Spearman Rank correlation = -0.116		
Household income			
Lower income group	20 (66.67)	10 (33.3)3	30 (1)00.00
Middle income group	35 (77.78)	10 (22.2)2	45 (100.0)0
Upper income group	05 (25.00)	15 (75.0)0	20 (100.00)
Fisher's Exact Test = 0.012	Spearman Rank correlation = 0.248		

Source: Field survey 2019

Note: Figures in parenthesis indicates percentage

CONCLUSION AND RECOMMENDATION

The significant positive association between age of respondent and access to formal credit revealed that respondent with high age more likely to access formal credit. Likewise, age, education level of respondent was also found significantly positive associated with access to micro credit. It shows that education level of respondent has the potential to contribute significantly to credit access. Marital status was found positively and significantly correlated with access to credit. This shows that married people were more access to credit as compared to unmarried respondent. Annual income of the respondent indicates a positive association with access to microcredit. Its means that upper income group respondents were easily access to micro credit as compare to middle income and lower income group respondents, because every respondent of upper income group were easily access to micro credit. Therefore, it is recommended that should pledge schemes that would create employment opportunities for the young and lower income group to empower them a stable and trustworthy stream of income. This will open ways for them to get access to microcredit since income enriches access to credit through improvement of repayment capability.

The financial institutions (banks and micro finance institutions) may concentrate more on borrowers with low level of education to support particularly the young people who have been found more likely towards functioning micro businesses because of scarce job opportunities for them due to low level of education.

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