



## Micro Finance as a Tool for Creation of Self-Employment opportunities in Khyber Pakhtunkhwa Pakistan

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**Abstract-** Under Developed countries of the world are facing the main issue of unemployment. This problem/issue is interlinked with the socio-economic prospects. Economic Development is possible due to creation of employment opportunities in the country. Self-employment can be created and improved through creation of various business, economics and prolific activities. Micro finance plays role in improving self-employment through business or productive activities. In this Research study various factors of self-employment through Micro finance have been explained. Primary data through structured questionnaire has been used. Regression analysis has been used to analyze the association between self-employment and socio-economic determinants. Binary number (0 and 1) as dummy dependent is dealt by Self-employment, whereas all independent variables were dealt by the binary coding shape (0 and 1). The outcomes of this research study represent that demographics have a great influence on self-employment. It is concluded that if the Micro finance is available at convenient grounds by the MFIs then Micro finance has positively significant impact on creation of self-employment in the study area.

**Keywords:** Microfinance, Self-employment, Socio-Economic, Demographics, MFIs

### I. INTRODUCTION

Pakistan has made various strives for the creation of employment through various means. Many studies have been conducted to improve the socio- economic development by means of Micro finance. If employment opportunities are created in bulk then the individual's income will also be increased, so the main focus must be given by the state to create various employment opportunities in the country. Socio-Economic Development and employment opportunities are linked with each other and have significant impact on each other as well. By using available means, one must create self-employment opportunities. Government must give focus on creation of self-employment opportunities by promotion the small and medium business.

According to Awan (2010) majority of the people in developing countries like Pakistan and India do not have access towards micro finance for their contribution towards saving and investment. Poor segment of the society is facing lot of problems when they feel hard situation to get loan from different Financial institutions

Most popular term which is used in Commerce and Business field is Self-employment. Starting of any new legal profit-oriented activity gives birth to the term Self-employment. It helps both in micro and macro factors of socio-economic development, living standard, empowerment, national income. The income obtained directly from the consumers or from different channels of distribution rather than the employee of any organization is self-employment.

Microfinance means small amount of credit provided to the people for their wellbeing and to improve their livelihood. (Shriner,2001). Nowadays microfinance has become successful approach for economic development specially to alleviate the poverty and to improve the living standard of people. According to Morduch and Haley (2001), micro finance has turned out to be a valuable and powerful tool for creating employment opportunities to improve their living standard. Latifee (2003) also argues that the poor live in a high hazard and defenseless conditions. Their capacity to exploit opportunities that will lead to increasing their earnings or economic position, to protect themselves against risks of crises, and to deal with these when they occur is very insignificant. This may also be understood in the form of building up a range of assets that will reduce the defenselessness of the poor of physical, economic and social shocks. During 1990s, the Micro finance has been considered as very important tool for the economic growth by the international forums. More over Micro finance sector has got a lot of funds from International

Financial Institutions for the development of Micro finance. In Pakistan, since late 1990s Micro finance has got a great importance for the public deployment and alleviation of poverty to improve the living standard of the people. According to Awan and Tahir (2015) Alleviation of poverty and improvement in employment opportunities become possible because of provision of financial services to need ones, they can increase their income level, to empower their own business and to create self-employment opportunities.

According to Awan and Hashmi (2014) In Pakistan microfinance has been introduced very late but achieved extraordinary development in this field through different MFIs such as Khushali Bank, Wasilla Bank, Microfinance Tamer Bank etc.

### **Objective of the study:**

Following are the main objectives of the research study

1. To remove the unemployment in Khyber Pakhtunkhwa and create the self-employment opportunities through micro-finance.
2. To examine various factors of self-employment.
3. To analyze the role of micro finance in creation of self-employment in Khyber Pakhtunkhwa
4. To compare the self-employment opportunities with other social economic factors of self-employment through Micro finance

## II. LITERATURE REVIEW

Fraidi et al (2006) used primary data to investigate the various factors of self-employment in Pakistan. Interview was conducted by 494 borrowers of micro finance in KP Pakistan. They used Logistic Regression model to evaluate the factors of self-employment. They concluded in their research study that self-employment through Micro finance was greatly influenced by various demographic factors which have positive significant impact. According to Aftab (2013) Microfinance and entrepreneurship contributed a lot towards creation of employment opportunities and to reduce the poverty. He used primary source (interview) and took one hundred and fifty borrowers of different MFIs in Gujrat. Non parametric test and descriptive statistics was used in the research study. Pietrobelli et al (2004) used new empirical evidence for developing and developed countries to test the factors of determinants which may cause for creating the employment opportunities. Data of sixty-four developing countries and nineteen developed countries during 1960 to 1990 was used. Results showed that there was negative correlation between the self-employment rate and economic development. During development phase the self-employment was vanished.

According to Herani (2010) suggested various tools comprised upon computer-based resolution through which Poverty in Pakistan can be alleviated and recommended the management of micro-Finance and Self-help Financial system to create the self-employment opportunities. It has been concluded in this research study that poverty can be eliminated by minimizing the human resource expenditures and irregularities which will lead to uplift individual welfare. According to Sarmah (2004) there was huge disaster in Lakhimpur district due to flood and it remained retrograded economically but they focused on microfinance with its best utilization to generate their own earning which leads a lot towards creation of self-employment for them. Rauf et al (2009) in their research study concluded that intensive growth strategy remained cost effective because of improper use of micro finance but due to expansion in the microfinance sector, improved performance, there was rapid in socio economic development.

According to Saleem et al (2007) Micro finance had significant impact on the borrowers of microfinance living in Dera Ismail Khan. In this research study fifty respondents were interviewed by random sampling technique. In this study all the demographics had statistically significant impact on the living standard of the borrowers of Micro finance living in Dera Ismail Khan District. Akram et al (2011) concluded in their research study that developing countries are facing very crucial issues of living standard and unemployment, they conducted research in Okara District to examine impact of micro finance in raising the level of living standard and creation of self-employment through micro finance. In their research study primary data was used descriptive statistics was used. The results showed that there was

significant impact of micro finance on raising the borrower's income through the proper utilization of micro finance.

### III. RESEARCH METHODOLOGY

The primary data comprised of 2009 -13 has been collected by the borrowers who have taken benefit from micro finance from different MFIs in Khyber Pakhtunkhwa by means of structured Questionnaire. Total Population of this research study comprised of nine thousand borrowers out of which three hundred both males and females were selected as sample. In order to find out the valid results, Cross sectional data were collected to investigate the various factors of self-employment in the study area. Detail regarding the borrowers of Micro finance like Name, addresses, cell number were obtained from the Different MFIs, Questionnaire was distributed among them by distributing it from door to door. Some people were reluctant to tell the true picture about the utilization of micro finance.

#### **Research Question**

The study was guided by the following research question. How the problems enabled the respondents of Micro finance to create the self- employment, improve their economic and living standard in the fields of income, employment, education, communication, health care, children's education and housing?

#### **Problem Statement:**

It has been observed that in Developing countries like Pakistan, India and Bangla Desh etc, microfinance has been considered a prominent tool to create the employment opportunities and to improve the living standard. But this depends upon the appropriate use of Microfinance which differs from person to person with different demographics. This study is designed to analyze the Microfinance taken by active borrowers from different Micro financial banks situated in Khyber Pakhtunkhwa to find out the impact of micro finance on creation of self-employment opportunities in KP Pakistan.

#### **Research Hypothesis**

This research study is based on the following hypothesis

H<sub>1</sub> = There is positive impact of microfinance on creating the self-employment opportunities.

#### **Designated Variables:**

Variation on explanatory variables explains the Self-employment, so objective of micro finance obtained is the main variable. Self-employment is determined by various demographic factors which include Age, Sex, Marital Status, Tenants, Family size, Education, Wealth, Technical Skill. These all variables are concerned with the amount of micro finance taken by the borrowers for fruitful activities.

#### **Dependent variable: (Self-Employment)**

Self-employment is measured by the binary coding 0 and 1 in shape of dummy dependent variable. In this research study "0" coding will show "not own business" i.e. not self-employed while coding "1" will show "Own business" i.e. self-employed. Own business means starting of new enterprise/business after taking micro finance from Micro financial institution. On the other hand if a person is employee in other organization, it will be termed as "Not self-employed person

#### **Independent Variables:**

In this research study we took some significant interdependent variables such like Age, Sex, Marital Status, Family size, Wealth, Education, Technical Skill, Microfinance (key variable), and loan purpose.

#### Definitions of Variables:

Age: Age of the borrowers of micro finance.

Sex: It is measured by 0 and 1 i.e. 0= female, 1= male.

Education: Education is measured by ranges from 0 to 4. 0= Primary to Middle, 1= Matric, 2=intermediate, 3=Graduate, 4=Masters or Highly qualified

Family Wealth: Family wealth is measured by ranges from 0 to 6.

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

Technical Skill: It is measured by 0=unskilled and 1= skilled

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

Loan Purpose: It is measured by ranges from 0 to 5. 0= for starting new enterprise 1=strengthening of the existing business 2=for education of children, 3=for marriage, 4=for house building

### Model Specification:

The econometric model is specified in the following: -

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

In this research Binary logistic regression model has been used to find out the impact of each explanatory variable on explained variables. For Example, impact of age, sex, education, Marital Status, Family size, wealth, micro finance and loan purpose on self- employment.

Bivariate logistic regression model has been used instead of Multivariate logistic regression for comprehensive findings. Through bivariate logistic regression we can conclude more comprehensive results and may explore each variable on the impact of explanatory variables. Logistic regression model has been used rather than other models because in this research study dependent variable is dummy shape which is coded by "01".

Table 1 *Bivariate Logistic Model Regression Results*

Variables	$\beta$ Values	Df	$\chi^2$	Pseudo R <sup>2</sup>	Sig
Age	.224	1	8.35	.27	.004
Sex	.309	1	1.36	.005	.241
Education	-.239	1	8.19	.27	.005
Family size wealth	.298	1	6.49	.21	.012
Marital Status	.414	1	2.69	.009	.100
Technical skills	1.491	1	36.47	.114	.000
Micro finance	2.025	1	52.67	.161	.000
Loan Purpose	.640	1	41.42	.129	.000

#### IV. FINDINGS AND RESULTS

Beta value of age is positive i.e 0.224 which shows that 22 units has been increased by 1 unit increase in age and chi square value is too much small i.e.  $\chi^2 = 8.35$  which designates in favor of model. Hence P value 0.004 is significant.

Sex variable results shows the increase in 30% self-employment due to one man increase and  $\beta$  value is 0.309. Moreover, Chi Square value is very low i.e.1.36 with R<sup>2</sup> is 0.005 that is also less than one which recommends the model. p value 0.241 is insignificant. It shows that there is no role of both sexes (male or female) in self-employment.

There is \_ve relationship between education and self-employment. Beta value of Education is negative i.e -0.239. It means that 1 % increase in education may bring 23% decrease in self- employment. In this particular research study it is clear that education does not matter in self-employment creation on private sector, those who are highly qualified or educationists may search jobs in Government sector.

$\beta$  value of family size wealth is +ve i.e. 0.298 and p value is 0.012 significant which shows that one percent increase in family wealth brings 30 % increase in self-employment. More over chi square value (6.5) is very small that favors the model.

There is positive relationship between self-employment and Marital status with beta value = 0.414, but p value is insignificant i.e 0.10. Beta value shows that if 1 unit increase in marital (married or un married) status will bring 41% increase in self-employment.

Beta value of technical skill is more than 1 i.e 1.491 which shows that if there is 1 unit increase in technical skill then self-employment will increase 149%. There is positive and significant relationship between technical skill and self- employment, this shows that trained and technically skilled persons may start their new business or run the existing business in a better way.

There is positive and significant relationship between self-employment and the amount of microfinance. Beta value is 2.025 which shows that if 1% increase in amount of micro finance obtained then there will be 202% increase will self-employment. Here p value is 0.000 means there is highly significant impact on self-employment. Moreover, chi square and pseudo R<sup>2</sup> is high therefore above model is best.

The results show that Beta value of loan purpose is 0.640, it means that there is one percent increase in loan purpose then there will be 64% increase in self-employment. Loan purpose has highly significant impact on self-employment because p value is 0.000. Positive and highly significant relationship exists between loan purpose and self- employment.

#### V. CONCLUSION:

This study is based on result mentioned above, it can be concluded that the self-employment in KP province can be significantly increased by improving their income generating or productive activities by providing Micro finance without any security through different micro financial institutions. The socioeconomic factors of self-employment have also been analyzed in this research 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 Kp province. 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 Khyber Pakhtunkhwa unemployment rate is increasing both in public and private sector year by year, so microfinance with easy procedure may increase self-employment opportunities.

#### VI. RECOMMENDATIONS, SUGGESTIONS AND FUTURE POLICIES FOR DECISION MAKERS:

Majority of the society consists of poor or middle. For enhancing the self-employment opportunities through Micro finance in Pakistan, following recommendations and suggestion are presented which may help to boost up the economy as well. The government must focus on framing/establishing the policies which may be helpful for enhancing the self-employment through provision of micro finance. Following suggestions, recommendations are presented for accelerating the self-employment opportunities through easy availability of microfinance.

1. Technical and Vocational training institutes must be established by the Government.
2. Government should make expenses on human capital for job trainings vocational trainings.
3. Government should promote and encourage small and Medium enterprises.
4. Home made products i.e. handy crafts centers must be encouraged by the Government.
5. Rebate and Relaxation in income tax must be given by the Government on homemade or small-scale manufacturing products.
6. Government should implement microfinance ordinance 2001 in true and real sense.
7. Micro financial institutions must provide the micro finance with easy and lenient security and documentary procedures.

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