

## **Loan Procurement of Microfinance Institutions to Entrepreneurs and its Impact on Organizational Growth in Quetta for the Period 2008-17**

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### **ABSTRACT**

*The purpose of this research paper is to analyze the loan procurement of microfinance institutions to entrepreneurs and its impact on organizational growth. For achievement of this main objective the primary data was collected from clients of two MFIs providing loans in district Quetta for ten years before 2008-17 and secondary data was collected from the reports of microfinance institutions and bank. The study is quantitative and time series. Cross-Sectional review project has been framed to achieve the aim of research intentions for this study. In this study initiation of entrepreneurship, income generation and business asset (net worth) are dependent variables whereas loan procurement from microfinance institutions is independent variable. Correlation, linear regression, ADF and granger casualty tests are applied for the finding of the study. The result of the study shows positive impact of loan procurement of microfinance institution on initiation of entrepreneurship, income generation and business assets. The descriptive statistics analysis show significant relation of loan procurement of microfinance institutions on initiation of entrepreneurship, income generation of entrepreneurs and business asset of entrepreneurs. It has been also observed from the literature that those customers who have used loans efficiently can influence the entrepreneurship more effectively.*

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## **INTRODUCTION**

### **Background of Study**

The origins of microfinance recline in a collectiveundertaking of intensify overdo to reducemoney deficiency more freshly, the most important move in significance from the collective impartial of poverty reductionin direction of monetary impartial to maintain in existence and market based fundamental financial services. In addition, recently created focal points of microfinance demands balance between exceed and grouped (Rhyne, JULY, 1998).

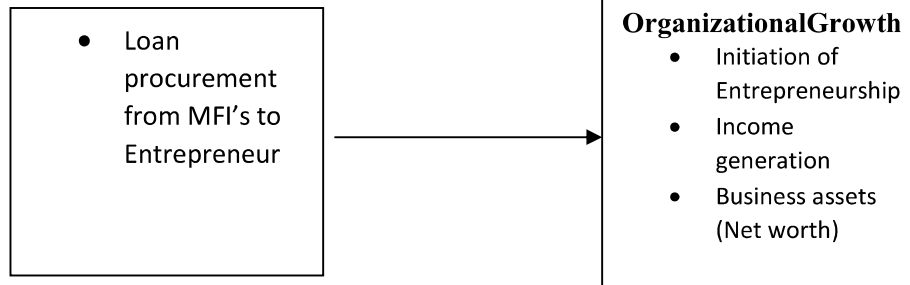
The province of Balochistan is largest in term of land area, roughly 44% of the entire land region of Pakistan and its population is about 8 million mankind (12 person/sq.km) split into numerous Iranian Baloch, Pashtun and Hazara communities. Balochistan is managerially alienated into 32 districts where Quetta is the capital city of the province. The province is formed at South-Western of Pakistan. The literacy rate of Balochistan is 44% with the ratio of 36.5% male and 15.0% female (PDMA, 2012).

The developing challenges Balochistan is fronting are accomplishment of high and continuous broad-based reducing poverty, procurement of basic social and economic services, economic growth and substructure to the needy and poor, good governance and increase of job opportunities. For overwhelmed these tasks the government of Pakistan as well other economic development determination use microfinance as one of implement of development. It is likely to challenge economic destitutions if government gives appropriate consideration to entrepreneurial development, small & medium enterprise agricultural and Industrial areas growth. The small and medium enterprises sector donate to develop the economy in numerous conducts e.g. generating occupations for disbursed rural and city work power and give revolution and growth to the total economy. In directive to endorse Small and Medium Business Enterprises the Government requirements to boost without job youth to found Micro enterprises and permit them to underwrite at the state economy.

## THEORETICAL FRAMEWORK

### Independent Variable

#### Variables



### Dependent

## HYPOTHESES

H<sub>1</sub>: Loan procurement from MFI's has a positive effect on Initiation of Entrepreneurship.

H<sub>2</sub>: Loan procurement from MFI's has a positive effect on Income Generation of Entrepreneurs.

H<sub>3</sub>: Loan procurement from MFI's has a positive effect on Business assets of the firms.

## LITERATURE REVIEW

### **Loan Procurement**

(Inayatullah Jan & Saleh Hayat, July 2011) describe in their study that entrepreneurship is a procedure that improves poor's capability to variation those configurations and beliefs that retain them dependent, deprived and intimidated. The procedure of loan procurement allows poor to initiate entrepreneurship, generate income and to create business assets to improvement further access to capitals and improved control over their way of life. In current maximum of the rural support Programs (RSPs) functioning in province of KPK and Balochistan of Pakistan are consuming loan procurement by way of instrument intended for initiation of entrepreneurship and income generation.

### MFI's role in initiation of entrepreneurship

The management particularly the administration of emerging states can grow complete advantage from enormous fledgling power who jobless via embracing appropriate growth strategies. They require complete Institutional Agenda development exclusively to simplify physical activity in

minor measure trades and enterprises. The Management should implement good strategy and grow functioning relationships amidst these institutions and MFIs to speed up procedure of progress. Such kind of determinations won't just be useful in creating themselves engaged and beginning of entrepreneurship at personal glassy nonetheless in upgrading of income production (Haque, 2007-2009).

#### **MFIs role in Employment Generation**

The management of emerging states can acquire complete assistance from vast youth strength who jobless via implementing appropriate advance strategies. They requisite to create suitable Official Structure only aimed at enablement of physical activity in slight measure enterprises and industries.

#### **Organizational Growth of SMEs**

To the International stage, SMEs have performed an important character in the organizational development and growth of SMEs of the world like South Korea, USA, China, Japan and others of these states are generous due significance to SMEs section. The MFIs can show an energetic part in organizational growth of entrepreneur of SMEs sector by procurement of microloan to the needy and deprived people who have lack of access to financial services (Haque, 2007-2009)

### **RESEARCH METHODOLOGY**

#### **Research Design**

The Cross-Sectional review planned is approved for current investigation by way of this strategy in fewer time period overwhelming and also charge Operative naturally. The review project enclosed totally those debtors, previously expected loan subsequently the MFIs for duration of ten years erstwhile to the survey i.e. 2008-2017. The choice of clients who have at smallest ten years founded on the statement that influences are not probable felt amongst newer debtors. (Nelson, 2001).

#### **Population and Sample Size**

Population of this study involves, time series data relating to small businessmen and procure by MFI and SBP which ultimately show the results of small Businessmen and its client in Quetta district

To accomplish the investigation to complete in specified duration then financial plan limit, a entire of 82 sample dimensions were carefully chosen by means of random sampling methods. Amongst whole sample size of some were carefully chosen from the male customers and some were

carefully chosen after feminine customers who have got microfinance facilities for at least ten years from three carefully chosen MFIs proceeding center of their populace by way of subsequent formula. (Nelson, 2001).

$$n_i = n \cdot \frac{N_i}{N}$$

Where:  $n_i$  = Sample Size for  $i^{\text{th}}$  Stratum.

$N_i$  = Stratum size.

$N$  = Population size.

$n$  = Sample size.

## RESULTS & DISCUSSION

The unit of this study shares statistical inclusions which have arisen after liability correlation of this data, directing the linear regression, performing the test of ADF and granger causality test of this study. The clarification of the entire test is likewise specified in the measure of this study.

**Table 4.1 Pearson Correlations**

	LP	IE	IG	NW
LP	1			
IE	.684**	1		
IG	.731	.801	1	
NW	.883**	.774**	.851	1

\*\*Correlation remains substantial by the 0.01 level (2-tailed).

Pearson correlation remains solid for variables of interest. Loan procurement & initiation of entrepreneurship was .684 which is significant at .01. Loan procurement & Income generation was mediocre ( $r=0.731, p<.05$ ) and its relation with net worth is strong ( $r=0.883, p<.01$ ). The relationship among independent and dependent variables are relatively strong showing the good positive sign. When income generation is analyzed with initiation of entrepreneurship, it depicts ( $r=.801, p<.05$ ) and its relation with net worth is strong ( $r=.851, p<.05$ ). It shows the strong relationship among the all dependent and independent variables.

### The Regression Analysis

On the road to discover outcomes, linear regression is smeared for the statistics to get, in condition a relationship among D.V. & I.Vs. Occurred. Conclusions from findings are specified in the table drawn & shown as under meant for conclusion constructing and additional researches Regression Table of the Study as follow:

Regression Table: 4.2

Variables	Coefficient Beta	Standard Error	T Statistics	R <sup>2</sup>	Adjusted R <sup>2</sup>	Significance
Constant	18.324	9.705	2.098	0.877	0.800	.04125
I E	0.045	0.027	1.401	0.857	0.810	0.0218
I G	0.019	0.043	0.421	0.921	0.902	0.0084*
N W	0.234	0.750	2.864	0.957	0.930	0.0028*

\* Significant on 0.01 & 0.05.

#### Regression Table Interpretation:

Table set over head demonstrations the subsequent results:-

There is existence of a positive beta significant value and t score within the range ( $\beta=0.041$ ,  $t=2.098$ ,  $p<0.005$ ).

There is existence of a positively significant regarding initiation of entrepreneurship whereas ( $\beta=0.0218$ ,  $t=1.401$ ,  $p>0.005$ ).

There is existence of a positively strong significantly influence on generation of income whereas ( $\beta=0.084$ ,  $t=0.421$ ,  $p<0.005$ ).

There does exist a significantly positive impact on business asset net worth where ( $\beta=0.028$ ,  $t=2.864$ ,  $p<0.005$ ).

Test of Augmented Dickey Fuller (ADF)

Below the drawn Table 4.7 represents the outcomes and consequences of ADF test. These results built at the null hypothesis this states that, (the time series has a unit root test):

ADF Statistics	LP	IE	IG	NW
T-statistics	0.047	1.795	1.614	0.647
Prob*	0.045	0.006	0.002	0.005*

\*Mackinnon (1996) one-sided p values

Table: 4.3

### ADF Test Findings

The outcomes which have been set up by use of the test i.e. ADF test make known that a p-value of loan procurement, Initiation of entrepreneurship, Income generation and business asset net worth, smaller than 0.005. It shows that, the null hypothesis is rejected. Furthermore, statistics composed from the research has a unit root test and in extra confrontations the statistics is not stagnant round the mean. Moreover the statistics variations through the time sequences or the time period have a test of unit root.

### Test and Application of Granger Causality

Underneath drawn Table of the Granger Causality test discloses that this subsists a causal connection among the two no of variables for which the outcomes of these same are below:

Initiation of Entrepreneurship & Loan Procurement:

Table: 4.4

Null hypothesis	F-statistics	Probability	Causal inference
LP doesn't cause granger IE.	1.755	0.004*	Causality
IE doesn't cause LP.	0.85	0.517	No causality

**Analysis of the Table:**

Since the results completed overhead, the situation can be contingent as there occurs an important Casual Result of loan procurement in an assumed span of time for the initiation of business such as p-value ( $.004 < 0.005$ ). Going to the further pointer, outcomes likewise disclose that, there subsists none outcome for initiation of business of loan procurements such as p-value is ( $0.517 > 0.005$ ).

**Income Generation & Loan Procurement:**

**Table: 4.5**

Null hypothesis	F-statistics	Probability	Causal inference
IG doesn't granger cause LP.	1.711	0.001*	Causality
LP doesn't granger cause IG.	1.241	0.307	No causality

**Analysis of the Table:**

Since the conclusions prepared directly in upper table, this can be indirect that, here happens substantial unexpected impact of loan procurement in a certain duration on income generation such as p-value is ( $0.001 < 0.005$ ). The further indicator, results similarly make known that here occurs no impact of initiation of business on loan procurement such as p-value is ( $0.307 > 0.005$ ).

**Net Worth & Loan Procurement:**

**Table: 4.6**

Null hypothesis	F-statistics	Probability	Causal inference
NW doesn't granger cause LP.	2.081	0.002*	Causality
LP doesn't granger cause NW.	4.801	0.085	No causality

**Analysis of the Table:**

Since the results completed overhead, this can be indirect that here occurs significant Off-the-cuff effect of loan procurement in a specified span on income generation as p-value ( $0.002 < 0.005$ ). The further indicator, results likewise expose that here occurs no impact of initiation of business on loan procurement as p-value is ( $0.085 > 0.005$ ).

**Discussion**

In this discussion segment, discussion will be completed on the significant experiential results those have found after



the composed statistics throughout the research. Therefore, hypothesis are acknowledged as true and validated. In the research study it has correctly specified the output of deprived possibly will be unrestrained via eradicating the liquidity limitation. Therefore in manner, loan procurement would expand asset chances of poor. Many deprived remain deficient of admittance of the official financial institutions so the MFI offer deprived the obligatory loans, deprived of slightly securities regulations, which poor may devote of growth of microenterprises for improvement of the profit or income cradles.

It has been similarly experimental throughout field stays and argument with the officials of microfinance institutions, they have a tendency in the direction of prolong loan to the new microenterprises they have previously prevailing or else grownup enterprises. A chief impartial after this purpose is great profit and prompt regaining from the customers. Bestowing to the administrators of particular microfinance institutions aimed at the aspirant who are previously professional and they may set to compensation great interest on the loan they availed, likewise applicant wage the installments healthy within payable duration of interval. These intensions of microfinance institutions have partial effect on formation of fresh micro entrepreneur.

### **Conclusion**

The variables comprise initiation of entrepreneurship, income generation and business asset (net worth) two dissimilar Microfinance Institutions (MFIs) have been carefully chosen for leading existing study i.e. Khushhali Bank Ltd and Primarily Microfinance Bank which were provided that Microfinance facilities in the Quetta district were chosen for the study. The study displays a very robust connection amongst loan procurement of microfinance institution variable with initiation of business, income generation and business asset (net worth). Consequently this is flawless after outcomes that efficiency of the deprived may be uncontrolled through the reduction of their financial limitation. Thus this mode of the facilities of microfinance institutions may perform such as means of improvement. This have been contingent by the research that microfinance facilities absolutely effect on entrepreneurs.

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