



Exploring the Impact of Microfinance on Socio-Economic Characteristics of Borrowers in Khyber Pakhtunkhwa, Pakistan

Original Article

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ABSTRACT:

Microfinance facility in Pakistan is extended by microfinance institutions to the micro entrepreneurs including Khushali Bank who took initiative being founder institution in Pakistan. It is operating since 1983 and extended enormous financing through loans employing a collateral with a sound recovery rate. This study attempted to find the effect of microfinance on the socio-economic conditions of the borrowers in the province of Khyber Pakhtunkhwa. Based on data gathered from old and new borrowers, the study analyzed the effect of microfinance on welfare of the household of the borrowers' households concerning the housing conditions, food security, children's education, poverty status, monthly income, and expenditures before and after availing the loan using "with or without approach". Likewise, a non-parametric method was also employed to check the difference between old and new borrowers regarding income, consumption expenditure, housing improvement, access to education, and access to medical facilities, poverty status. The study reported that Microfinance significantly improve the borrowers life and living conditions, furthermore, this impact was much greater for the old borrowers as compared to the new ones.

Keywords: Microfinance, Khushali Bank, Poverty Alleviation, Living Standard & MFIs.





Introduction

In Pakistan, about 23% of the citizens are claimed to be living under the poverty line, which could be alleviated if the socio-economic status of borrowers is improved especially with the means of Microfinance. In Pakistan, several MFIs are operating including commercial Banks and Non-Governmental organizations. Khushali Bank was the first of its kind that initiated microfinancing for micro-entrepreneurs and small farmers. It extends loans on the principles with collateral but a sound rate of recovery. The basic purpose of the Khushali Bank is to alleviate poverty alleviation by extending small amounts as a loan at nominal interest to poor citizens for their economic and social improvement. Interested borrowers can approach the nearest branch by applying collateral principles. The unit head assesses the applications to check eligibility, once eligibility is established, it is sent to the branch manager for assessment and decision on technical grounds. And finally, the case is moved to the approval committee, however, the process takes three weeks, and finally through one window facility disbursement is done. A borrower is required to ensure at least two guarantors who will monitor the utilization of the amount and assure the timely return of the loan. If a borrower intends to start a small business, his business idea is evaluated for feasibility concerning improvement in his income against his household expenses. This idea is taken from the Grameen Bank of Bangladesh. Microfinance is a significant economic tool to alleviate poverty and improve the socio-economic conditions of borrowers. The micro-credit finance is used around the globe (Latifee, 2003). According to the data revealed by Grameen Bank, it has been extended to around 54.9 million borrowers who started their small or medium businesses and by the end of 2002, the microcredit facility was extended to nearly 35 million borrowers. In this way, it generated self-employment opportunities and helped the poor segments of society to increase their level and come out of the doldrums of poverty. According to (Latifee, 2003), if microcredit extending institutions ensure easy access to the borrowers it could result in poverty reduction through small but targeted loans to significantly transform their socio-economic status. Khushali Bank is operating for the same for financing small businesses and small farming inter alia social guidance, capacity building, and developing entrepreneurial skills as well. This study tried to address the question that how microfinance plays its role in improving the socio-economic conditions of the borrowers. The main goal of this investigation was to analyze the role of microfinance on the socio-economic conditions of the small businessmen and farmers in Khyber Pakhtunkhwa besides examining the difference between old borrowers and new borrowers concerning their income, housing improvement, access to education and medical facilities, consumption expenditures, and food, etc.

Literature Review

Razaulahindaman (2014) conducted a study in district Gujranwala to analyze the role impact of microcredit in improving the socioeconomic conditions of those who borrowed likewise, Saad (2014) assembled data from one hundred and twenty sample respondents in District Multan and analyzed the economic and social status through a survey after availing the Microfinance credit. Both reported positive effects of microfinance in bringing improvement in the economic and social status of the borrowers. Babajide, (2012) claimed that Microfinance significantly transforms lives, especially the small farmers as their study yielded that microfinancing significantly improved their lives. Qualification and Experience of borrowers had been operated with relatively insignificant impact. Mazumder *et al.* (2013) conducted a survey and gather data before and after borrowing a loan through microfinance in two steps to check the relationship between microfinance and socio-economic growth in rural areas with a sample of 360 and reported the significant role microfinance and its impact in the alleviation of poverty reduction, shifts in income pattern, empowerment, living standard. The study concluded that around 87% of poor borrowers got 40% relief from poverty after they participated in Microfinance, the study also established a significant but very positive association between microfinance and poverty alleviation. Similarly, Rehman *et al.* (2012) have also found an association between microfinance programs and socio-economic conditions in Bangladesh employing budgetary and multivariate analysis and reported that positive association between the attitude of borrowers and socio-economic conditions. Further Durrani *et al.* (2011) claimed an up gradation and economic growth regarding accommodation and living standards among microfinance borrowers. In recent times, microfinance has been recognized as a vital tool for poverty alleviation, predominantly after the success of Bangladesh's Grameen Bank. Yunus (2004) concluded that Grameen Bank has transformed the socio-economic conditions into better housing, improved income, healthier diet and nutrition, women empowerment, lesser mortality, access to education, and improved health. There could be numerous measures to assess the impression of microcredit in poverty alleviation, yet one main barrier in studying the impact is





how to assess its impact in poverty alleviation. There are two approaches that are generally used by the economist, i.e., nonrandomized, and randomized approaches.

Non-Randomized and Randomized Approaches

There are only a few studies that measured the effect of microfinance on the control group, but the participants were those who had no access to microfinance. Most of the studies employed a non-randomized approach. Initially, it is hard to find the effect of microfinance on the transformation of socioeconomic conditions of the borrowers however, comparatively rich people are less inclined towards risk than then poor ones. This might be because rich ones do not need to avail of microcredit facilities which result in a self-selection bias. An ex-post assessment of income rich and poor thus leads to incorrect findings i.e., microcredit has stimulated the income. Further, to boost the role of microcredit to show, Microfinance institutions need to extend the programs enough to comparatively more well-off areas (Karlan, 2001). The non-randomized approaches, however, brought to the fore diverse evidence of the effect of microfinance on the social and economic conditions of the borrowers. Pitt and Khandker (1998) recorded a significant role of microcredit among Bangladeshi borrowers. Their study used survey household data (1991-92) and reported that microcredit significantly upturns the borrower's consumption spending, principally in the case of female borrowers. Khandker (2005) employed panel data (1991-92, 1999) they investigated microcredit benefits among extremely poor borrowers, likewise, Chemin (2008) used a propensity score matching, according to his results, microcredit financing plays a significant role in the child enrollment in schools and expenditures. Copestake *et al.* (2005) studied the role of microfinance in the rural community however, they did not find any valuable impact. In a study conducted in Peru in 2002, Promuc employed two dissimilar assessment approaches to study the effect of microcredit i.e., qualitative with detailed interviews, and the second method he employed was the difference in difference (DID), according to the results, these are not the core poor rather more well-off poor who grabs its benefits. In contrast to non-randomized methods randomized methods, it has fewer flaws than the non-randomized approaches. Here researcher used a control group and target group yet, they generated mixed results and found robust outcomes in comparison to non-targeted groups. A randomized approach was first employed by Coleman (1999, 2006) who evaluated the effect of microcredit. He used an event method i.e., microcredit was introduced in Thailand with unpredicted intervals by the microfinance program.

The study was quasi-experimental, it reported an assenting impact of microfinance among the only well-off villagers. Karlan & Zinman (2009) investigations in Manila, Philippines evaluated the role of microfinance regarding small businesses and appeared with a dispersed picture but brought in the front that small businesses earned higher income, study further reported that small businesses replaced the formal insurance with informal insurance as well as labor into education. Banerjee *et al.* (2009) in Hyderabad conducted among 104 slums randomly for newly opened branches and found a reasonable impact of microcredit. Deaton (2009) and Rodrik (2008) and Armenda'riz de Aghion & Morduch (2005) criticized the use of randomized approaches and pointed out that results from one microcredit experiment could not be generalized, such as, a microcredit scheme might yield outcomes and could not yield the same results elsewhere. However, believers of randomized approaches answer this dilemma i.e., repetition of the experiments in different contexts. Yet one can't be certain of the time to draw the safest conclusions concerning the impact outcomes. Similarly, repetition is unwise since it is time and resource-consuming and costly and incentive for researchers. Easterly (2009) and Roodman & Morduch (2009) assert that randomized and non-randomized approaches could be beneficial to assess microfinance impact, both having strengths and weaknesses. Becchetti & Castriota (2011) studies the impact and effectiveness together as recovery after a natural calamity in serving the people affected by the calamity, using the quasi-natural experiment with two randomly chosen groups among 305 microcredit borrowers concluded that before the disaster, convergence in the income of the borrowers was attributed to the microcredit loans. Yet, the process of convergence in income got disruption after the disaster, however, the loans helped to narrow down the income gap between the borrowers and the affected, and no affected. It was found that Microcredit loans resulted in a convergence of the real income, and these results point these were more effective than donations and grants, and subsidies from the government. These findings were sufficient evidence of the usefulness of microcredit being a recovery tool. Later, McIntosh, Villaran, & Wydick (2011) introduced a different method i.e., Retrospective analysis of Primary Events, it evaluates the changes in the household's welfare because of treatment i.e., microcredit access; the treatment uses a cross-sectional approach containing questions concerning the primary events in the borrowers' history. In this method, studies use a retrospective panel data set and relative questions in the background of the events.



Method

The study used households as a unit of assessment. A structured questionnaire was used for a cross-sectional from 218 households who availed of microcredit loans at various times. Old borrowers with two more years of experience were compared as a treatment group with the new borrowers, the new borrowers were treated as a control group. This comparison helps in controlling the selection bias; the fundamental belief was that both groups will be similar in the entrepreneurial spirit. Data was also gathered from Khushali Bank's different branches throughout Khyber Pakhtunkhwa where every 5th was selected from the register through systematic sampling. The study used 105 sample borrowers in total with a sample size of 60 for old and 45 for new borrowers.

With or Without Approach

With or Without Approach is useful to find the effect of microfinance on the social and economic conditions of the borrowers in the context of studies focusing on the alleviation of poverty inter alia income, assets, expenditures, etc.

$$P^* = (Pb_1 - Pb_0) - (Pnb_1 - Pnb_0)$$

In this model P* stands for the net impact of microfinance in improving the borrower’s social status. The Pb₁ refers to the social and economic conditions of the old borrower households who benefited from microfinance. Where Pb₀ represents the social and economic status of the old borrowers before benefiting from microfinance. Pnb₁ describes the social and economic status of the new borrower households post-microfinance benefits, and Pnb₀ refers to the social and economic status pre microfinance benefits by the new borrowers.

Findings and Discussion

This section analyzes the effect of microfinance on the borrower’s socio-economic conditions in Khyber Pakhtunkhwa.

Table 1

Socioeconomic status of old Borrowers before & after taking the benefit from Microfinance.

	Rs. 3150 Per HH (PL)		Rs. 3150 Per HH (PL)		TI
	Old Borrowers (BTMF)		Old Borrowers (ATMF)		% Variance
Status	Households (HH)	% of HH	Households (HH)	% of HH	
Underprivileged	49	82	22	37	-45
Privileged	11	18	38	63	45
Total	60	100	60	100	

Table 1 indicates that 82% of borrowers fall in the category of underprivileged borrowers before availing of the microfinance benefits, while 18% fall under the category of privileged ones. 37% of old borrowers were among the underprivileged post loan while 63% were the privileged borrowers. The core aim of the Khushali Bank facilitates the underprivileged class out of poverty through microfinance programs. According to the results, the Khushali Bank microfinance program has reduced the underprivileged households by 45% which means that it falls from 82% to 37% and entered into the privileged status. The findings thus support the major objective of the Khushali Bank since 18% moved from 45% to 63% which shows considerable improvement in socio-economic conditions.

Table 2 displays that 67% of new borrowers were among the underprivileged in pre microfinance scenario, while 33% were the privileged borrowers. However, post microfinance facility this number decreased from 67% to 44% thus the number of privileged borrowers increased from 33% to 56%. Since the aim of the Khushali Bank is to alleviate the poverty among underprivileged borrowers through microfinance and it is evident from the results that the program is successful in achieving its objectives, the results report that reduction of 23% in the numbers of underprivileged, which indicates a decrease from 67% to 44%, thus they moved to the privileged position. This means that the number of the privileged group increased by 23% i.e., from 33% to 56%.



Table 2

Socio-Economic status of new borrowers before and after taking the benefit from Microfinance.

	Rs. 3150 per HH (PL)		Rs. 3150 per HH (PL)		TI
	New Borrowers (BTMF)		New Borrowers (ATMF)		% Variance
Status	Households (HH)	% of HH	Households (HH)	% of HH	T2
Underprivileged	30	67	20	44	-23
Privileged	15	33	25	56	23
Total	45	100	45	100	

Table 3

The net impact of Microfinance on the socio-economic status of borrowers.

Status	TI (Table 1)	T2 (Table 2)	Variation (T1 – T2)
Underprivileged	-45	-23	-22
Privileged	45	23	22

Table 3 explains the results for the net impact of Microfinance on the socio-economic position of both the new and old borrowers. This table is created by considering the difference between the last columns of table 1 (T1) and table 2 (T2) and the variant discloses that socioeconomic status has overall decreased the underprivileged class by around 22%.

Impact Microfinance on Households Income of Borrowers

Table 4 indicates the impact of microfinance on borrowers’ income pre- and post-benefit from the microfinance (BTMF & ATMF) and explains the difference in the average income of both old and new privileged and underprivileged borrowers.

Table 4

The difference in Average Income of the Old and New Borrowers

	Avg. income of old borrowers			Avg. income of new borrowers			% Variation
	BTMF	ATMF	% in Var.	BTMF	ATMF	% in Var.	
Underprivileged	25289.8	30818.18	22%	25233.34	30500	21%	1%
Privileged	51363.64	57263.16	12%	57400	60320	5%	7%

Table 4 gives a picturesque of the income of underprivileged old borrowers, it indicates that their incomes increased by 21%, and simultaneously, the privileged old borrower's incomes also increased by 12%. Likewise, the income of the underprivileged new borrowers increased by 21% as compared to a 5% increase in the income of privileged new borrowers thus accounting for the sound cumulative impact of microfinance on the income of old and new underprivileged borrowers, this is around 1% however, it is very nominal increase but the net impact on the income of the old and new privileged is approximately 7%.

Impact on Households Assets

One of the key indicators of microfinance is a change in the household’s asset possession, which stands for improvement in households' wealth. Hypothesizing the fact that microfinance increases the income of in together their capacity to get more assets. It has a high impact on the promotion of socio-economic conditions including health, education, communications, residential facilities, etc. According to results, around one hundred and five borrowers’

socio-economic conditions i.e., the living standard have been improved by the means of microfinance as they purchased cultivated land. Among them, 50 respondents obtained micro credit up to fifty thousand rupees and bought agricultural land in the rural areas while 55% bought already cultivated lands. Similarly, 105 availed of microcredit finance to buy a motorcycle to progress in lifestyle, 51 belonged to the low class, also and the remaining one belonged to the group availed more than Rs. 50,000 for the said purpose. 34 it for house renovation in cities to improve lifestyle, and most of them availed Rs. 50000. Furthermore, 48 used it wisely by admitting their children to private schools, this group comparatively obtained less amount. 57 obtained big amount i.e., more than Rs. 50000 to improve their socio-economic positions. The survey of post-microfinancing reveals an increase in household assets, for example, motorcycles, washing machines, refrigerators, sewing machines, TV, and livestock. Thus, it brings us to conclude that the Khushali Bank microfinance program has positively improved the household's asset ownership.

Table 5

Descriptive statistics of change in asset ownership concerning Microfinance.

Assets Possession	Total ATMF		
	Rs. 25,001-50,000	Rs. 50,001 & above	Total
Land	50	55	105
TV	35	70	105
Telephone / Cell	44	61	105
Motorcycle	51	54	105
Car	60	45	105
House Renovation	34	71	105
Education of Children in Private Schools	48	57	105
Arrangement of Tuition for children's Education	30	75	105
Health facilities by Specialist Doctors	49	56	105
Livestock	70	35	105

Source: Field survey

Similarly, Table 6 presents the percentage change in possession of assets of the old and new borrowers, according to figures positive change could be observed in the growth of assets among the old borrowers, likewise, we cannot see any negative percentage change in the new borrower's assets, yet a positive impact could be seen in the last column accounts microfinance intervention that resulted in growth assets for the old and new borrowers.

Table 6

Change in assets of old and new borrowers.

Assets Possession	Old Borrowers N=60			New Borrowers N= 45			% Variance
	BTMF	ATMF	%age	BTMF	AFTM	%age	
Land	60%	82%	22%	84%	84%	0%	22%
TV	0	2	2	0	0	0	2
Telephone / Cell	75	87	12	84	84	0	12
Motorcycle	70	80	10	87	87	0	10
Car	82	87	5	73	82	9	4
House Renovation	85	93	8	95	95	0	8
Education of Children in Private Schools	60	70	10	45	65	20	10
Tuition for children's Education	8	10	2	9	9	0	2
Health facilities by Specialist Doctors	8	10	2	9	9	0	2
Livestock	3	3	0	16	16	0	0

Impact on Household's Consumption Expenditures

The average monthly consumption expenditures are given in table 7 indicating a 33% increase for the underprivileged and privileged old borrowers in contrast to a 10% increase in the average monthly consumption expenditures for the privileged old borrowers. Similarly, a 10% increase could be seen in the average monthly consumption expenditures of new underprivileged borrowers. The table also reports -a 6% decrease in the average monthly consumption expenditures income of the new privileged borrowers. The reason could be that the number of new underprivileged borrowers has reduced post-microfinance benefits. Further, the table reveals a 23.50% significant increase in the net average monthly consumption expenditures of the underprivileged old and new borrowers. We can further observe the 16% net impact of microfinance on the average monthly consumption expenditures among privileged old and new borrowers.

Table 7

Impact on Household's Consumption Expenditures.

	Old Borrowers (Target group)			New Borrowers (Control group)			Mean
	Before MF	After MF	% in VAR	Before MF	After MF	% in VAR	
Underprivileged	23366	31136	33	27166	29750	9.5	23.5
Privileged	34090	37368	10	38666	36400	-6	16

Conclusions

This study analyzed the Khushali Bank Microcredit financed program to understand the magnitude of the effect of microfinance services on the socio-economic conditions of the borrowers in Khyber Pakhtunkhwa. The study employed with and without approach. It was found that socio-economic conditions employing their monthly income have been improved up to 22% and 21%, 12%, and 5% increase in the income of underprivileged old and new borrowers. The monthly consumption expenditures of old as well the new underprivileged increase by about 33%, 10%, and 10% for privileged old borrowers, while a 5% decrease is recorded for the average consumption expenditures of the privileged new borrowers.

Limitations, Future Implications, and Policy Recommendations

The sample size was small and limited to a few districts of Khyber Pakhtunkhwa, thus result could be generalized to regions and provinces of the country. Therefore, it is suggested that government and non-government MFIs have to start a comprehensive microfinance program to facilitate more people, especially in the urban and rural areas to obtain progressive economic growth and alleviate absolute poverty and improve the living standard of its citizens. Future researchers can cover the work on socio-economic conditions with the help of a larger sample from the rest of the provinces. In the future, a comparative study could also be conducted by including more microfinance institutions as well. According to the findings, microfinance could positively and significantly transform the socio-economic status of the borrowers, in this regard, this study recommends that public and private organizations need to direct the micro-financial institutions to provide finances to borrowers conveniently in a short time, must educate the borrowers to proper utilization and its benefits for the overall economic uplift of the country. Further, credit limits shall be extended reasonably for the borrowers of backward areas with expansion in the operation across the country. Furthermore, the interest rate shall be reduced for this purpose in contrast to commercial loans, especially for businesswomen. It is further suggested that based on the result of this study, the government is required to focus more on interest-free loans with increased limits.

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