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Causes Regarding Failure of Micro-Financing: The Study of Southern Punjab, Pakistan

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Abstract:

The rudimentary objective of this study is to perceive causes that destructively affect the microfinance product and services. Primary data collected through a structural questionnaires encompassing on questions regarding failure of microfinance. Sample size was 254 encompasses on the customers of all microfinance banks that are working in Southern Punjab, Pakistan. Reliability analysis steered to check the reliability of scale that is found highly reliable. Correlation analysis conducted to find out the relationship between dependent variable (Failure of micro-finance) and independent variable (Causes of failure) that is also found significant. Linear regression model uses to find out the intensity of relation between dependent and independent variable. The results of study indicate that

significant relationship between the observed variable. It failure of microfinance found through causes of failure including immediate needs (IM), amount of loan & borrowing cost (ALBC), personal capacity of customer (PCC), misuse of microfinance services (MMS) and external factors (EF).

Key words: FMF, COF (IM, ALBC, PCC, MMS & EF)

1. INTRODUCTION

Microfinance is playing a vital role against rapid growing poverty in various underdeveloped and developing countries especially in South Asian & African countries. But its expected outcomes and results are not same in all countries with special reference to poverty reduction. For example, in Bangladesh poverty rate decline at optimal level but in Pakistan we fail to get the desired results with reference to poverty reduction through microfinance. The core objectives of this piece of work are to perceive and identify the basic reasons and sprints that lying in the way of poverty reduction. Total two variables used in this study out of which failure of microfinance (FMF) is the dependent variable and causes of failure (COF) is the independent variables that is a combination of immediate needs (IN), amount of loan & borrowing cost (ALBC), personal capacity of customers (PCC), misuse of microfinance services (MMA) and external factor (EF). For further clarification each variables are operationalize and divided into different dimensions. Dependent variable FMF are divided into three dimensions including fails to pay principal amount, fails to interest on loan and fails to achieve the basic objectives to taking loan. As mentioned by Maclsaac (1997) poor people estimate or target low profit through business generating activities that resulting slow growth and income as well and they fail to pay the principal amount of loan and interest.

First independent variable IM needs were also divided into three dimensions like used of loan amount for construction of house, marriages of daughters & sons and used of loan amount for medication and education facility of their children. As discussed by Goplan, (2007) microfinance facilities were initiated so that poor people enable themselves to get rid of from poverty by starting small scale business. But majority of microfinance customers instead of starting small scale business used the loan amount to fulfill their immediate needs including construction of house, marriages of their family members, health and education of their family members. Second independent variable ALBC divided into overstated amount of loan, understated amount of loan and high interest rate. As discussed by Nwanyanwu (2011) misuse of government funds, inadequate financial products & services, frequent changes in government policies, high transaction cost, non-performing loan, branchless banking, low capacity of employees and customers, lack of technical skill, overstated or understated amount of loan and high interest rate are the key reason of microfinance failure.

Third independent variable PCC divided into three dimensions including lack of skills & knowledge, lack of business experience and unavailability of operational assistance from microfinance institutes. According to Ikechukwu (2012) majority of microfinance schemes fails as the microfinance institutes clients are not having required skills and neither have any business experience. Besides this no training program is being launched and no operational assistance is being provided by the microfinance institutes in this regard. Fourth variable MMS contain three dimensions like misused of loans by drugs addict person, gamblers and misuse of amount for their conveyance facility. According to Cheston et al. (1999) the success of microfinance program depends upon the customer how positively he used it. But the majority of customers misuse the facility of microfinance due to

the easy process of loan and no collateral securities are being required for this. Therefore, drugs addict and gamblers also become a part this scheme that becomes a cause of non-performing loan. Fifth independent variable EF divided into inefficiency and low capacity of microfinance banks employees, political pressure & interference and more competition and lack of latest technology. According to Ikechukwu (2012) majority of microfinance products and services are being failed due to poor management, political interference, competition in microfinance sector and lack of latest technology.

2. LITERATURE REVIEWS

According to Ikechukwu (2012) majority of microfinance schemes fail as the microfinance institutes clients are not having obligatory skills and neither have any business experience. Besides this no training program is being launched and no operational assistance is being provided by the microfinance institutes in this regard. Acha (2008) mentioned that all conventional microfinance banks not playing their role in poverty reduction as the interest rate is being charged by them is very high and not affordable for small scales business owners. According to CBN (2005) conventional microfinance banks do not have capacity to reduce the poverty level as they do not having well trained employees. Adeyemi (2008) limited product and service, inadequate, branchless banking, high cost of transaction, inefficient management and government poor policies are the major reasons of microfinance failure. According to Muhammad & Hassan (2009) the major cause of microfinance failure in Pakistan is the poor outreach and high interest rate. As discussed by Swain (2004) Microfinance put positive effect on the non-poor people instead of the core poor. Because core poor use the credit facility on consumable items to fulfill their basic needs due to lack of technical skills instead of

investing them in profitable activities. Microfinance also becomes a cause of smooth consumption of poor people.

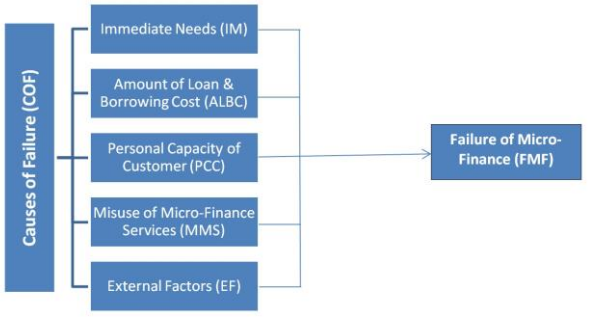
As discussed by Nwanyanwu (2011) misuse of government funds, inadequate financial products & services, frequent changes in government policies, high transaction cost, non-performing loan, branchless banking, low capacity of employees and customers, lack of technical skill, overstated or understated amount of loan and high interest rate are the key reason of microfinance failure. As discussed by Coleman (2004) microfinance products and services are useless for poor people as the interest rate charged by microfinance banks is very high, that is beyond the capacity of poor people. Besides this amount of loan in certain situation is overstated or understated that do not fulfill the requirements of poor people. According to Cheston et al. (1999) the success of microfinance program depends upon the customer how positively he used it. But the majority of customer misuses the facility of microfinance due to the easy process of loan and no collateral securities are being required for this. Therefore drugs addict and gamblers also become a part this scheme that becomes a cause of non-performing loan. According to Kieran and Donaghue (2004) Microfinance is not a sole solution for poverty reduction in every country. In various countries the performance of microfinance industry is not satisfactory due to the personal behavior and attitudes of customer and preference of microfinance institutes.

The Poor borrower usually get loans to fulfill their immediate needs so they get less gain through microfinance whereas the poor of middle level and upper level usually invest the microfinance credit in business generating activities rather than to fulfill their immediate needs so they get more gain as compared to the poor people who lies below the poverty line. (Maclsaac, 1997). Non-poor people successfully improving their living standard and household assets as compared to the poor people who generally spend the credit amount to fulfill their immediate needs including construction of house, marriages of

family members, medication facility and education of children rather than investing them in business to generating income on regularly basis. A change recorded in durable assets of non-poor as compare to the poor people (Shirazi& Khan, 2009). Anayo (2011) urges that, there are various factors which create hurdle in recover of loans or repayment of loan by the customer to the microfinance banks. The main factor is the behavior or attitude of the borrower regarding repayment of loans. Some people gain the microcredit facility to fulfill their immediate needs so; such types of borrower create problems regarding recovery of loans. Some others factors also create hurdle in this regard including inefficiency of banks staff, corrupt tendency of client as well as bank staff, and poor infrastructure of the banks as well as lack of latest technology.

3. METHODOLOGY

3.1. Theoretical Framework:



Independent Variable **Dependent Variable**

3.2. Hypothesis of Study:

1	**H_o**	*There is no association among causes of failure (COF) and failure of micro-finance (FMF)*
	H_1	*There is a association among causes of failure (COF) and failure of micro-finance (FMF)*

3.3: Sampling Techniques:

For this study non-probability sampling (Convenient sampling techniques) used and data collected from 254 customers of microfinance banks that are working in Southern Punjab, Pakistan.

3.4. Data Collection Method:

A structural questionnaire by using five points Likert scale used in this study that encompasses on questions regarding dependent and independent variables. Data was collected with the collaboration of all microfinance banks employees including the employees of Khushalli Bank Ltd, FINCA Microfinance Banks Ltd, Tameer Bank Ltd, Kashaf Foundation and First Microfinance Bank Ltd.

3.5. Response Rate

Three hundred questionnaires were distribute among all level of Govt. Employees working in District Bahawalnagar out of which 254 questionnaires were return back by the employees.

Response rate

No. of Questionnaire Distributed	No. of Questionnaire Collected	% of Collected Questionnaire	No. of Questionnaire Completed	% of Completed Questionnaire
300	254	85%	254	85%

3.6. Data Analysis Techniques

To achieve the objective of this study and to observe the causes of failure of micro-financing in District Bahawalnagar, Punjab, Pakistan SPSS used and following steps were espoused to analyze the available data and finding out the results of the study.

3.6.1. Reliability Analysis

Reliability analysis used to events the reliability of each item of scale regarding failure of micro-finance (Dependent variable), and causes of failure (Independent Variable).

3.6.2. Correlation Analysis

Correlation analysis techniques used to observe the relationship between dependent variable failure of micro-finance (FMF) and independent variable causes of failure (COF).

3.6.3. Multiple Regressions

To test the hypothesis of the study, linear regression mode used. For this purpose average of all items of each dimension was computed and finally this average was used in linear regressions to test the hypothesis of the study.

4. FINDING AND CONCLUSION:

4.1. Reliability Analysis

Reliability Statistics

Cronbach's Alpha	N of Items
.925	18

Reliability analysis used to measure the reliability of scale that is used for data collection. Cornbrash's Alpha value is scale is 0.925, it means scale is highly reliable and that can be used for data collection and further analysis.

4.2. Correlation Analysis

Correlations

		COF	FMM
COF	Pearson Correlation	1	.572**
	Sig. (2-tailed)		.000
	N	254	254
FMM	Pearson Correlation	.572**	1
	Sig. (2-tailed)	.000	
	N	254	254

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

The results of correlation matrix indicate the value of Pearson's correlation among the failure of micro-finance (FMF) and causes of failure (COF) is 0.572. This value indicates that there is a relationship found between dependent variable and independent variable at significant value of 0.000. It means a significant relation is observed between all the concerned variables.

4.3. Model of the Study:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.572[a]	.327	.324	1.41110

a. Predictors: (Constant), COF

The Model Summary table indicates that value of adjusted R square is 0.324 which represent 32.4% variation in dependent variable observed through independent variable.

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	243.936	1	243.936	122.506	.000[a]
	Residual	501.785	252	1.991		
	Total	745.720	253			

a. Predictors: (Constant), COF

b. Dependent Variable: FMM

The above cited ANOVA table indicates F value 122.506 at significant level 0.000, which represent that model is good fit.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.132	.553		11.098	.000
	COF	.102	.009	.572	11.068	.000

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.132	.553		11.098	.000
	COF	.102	.009	.572	11.068	.000

a. Dependent Variable: FMM

The coefficient table indicates the standardization of beta coefficient that is interpreted similarly to correlation coefficient. The t-value and P-value of causes of failure (Independent variable) is 0.000, it means these three independent variables significantly contribute and becomes a cause of failure of microfinance.

4.4. Summary of Results:

Sr. #	Hypothesis	Results/Findings
H_o:	*There is no association among causes of failure (COF) and failure of micro-finance (FMF)*	**Reject**

4.5. Recommendations

- The loan amount may not be fixed and the amount of loans may be given accordance to the capital requirement of business. The loans amount may not be overestimated and not under estimated for smoothness of business. As the overestimated amount is being misuse by the customers and underestimated amount become a cause of business failure.
- As compared to the Bangladesh a major change in poverty level is not occurring because most of the poor people spent loan amount to fulfill their immediate needs including marriages of their daughters, construction of house, payment of their children dues, dowry for their daughters etc. so to stop this MFIs should get business proposal and relevant machinery

and equipment according to the business requirements may be provided instead of loans given in form of cash.

- Most of drugs addict also succeed to get the loans from MFIs as the MFIs required no collateral against loan so to overcome this problems proper medical checkup of the customers may be conducted before sanctioning loans.
- MFIs provide loans to the poor people without any collateral or securities due to this most of the gamblers misuse the amount of loans so, to overcome this problems customer's track record and personal character may be ensured through the respectable personality of the specific areas.
- Due to branchless banking the cost of MFIs is high it may be minimized by opening sub branches in rural area.
- Interest rate charged by the MFIs is high as compared to others conventional banks, for achieving the role of MFIs and to ensure the role of poor people in overall economic development interest rate may be reduced and loan may be provided at reasonable interest rate.
- Majority of the customers of the MFIs are illiterate and need operational assistance for conducting successful business. So MFIs should play their role in this regard and operational assistance to customers may be provided in terms of business and management skills.
- Proper training program regarding microfinance products and services of banks employees may be planned to increase the efficiency of employees.
- Latest technology and product line should be enhanced.

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