

The Role Of Microfinance In The Development Of Small And Medium Enterprises (SMEs)

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Abstract

This work has tried to investigate the impact of microfinance on the development of SMEs). The primary data was collected through questionnaires from SMEs in Peshawar. The results show that microfinance plays a vital role in the revenue and profit growth of SMEs and reveals that SMEs with higher financial risk and lower levels of productivity are more likely to seek microcredit. Furthermore, the results suggest that firm characteristics including product innovation efforts and managerial and entrepreneurial attitudes are the key determinants of the likelihood of receiving microfinance. The main problems identified were lengthy documentation process, lack of information about the microcredit other security requirements.

Keywords:*Microfinance, Small and Medium Enterprises, Microfinance Institutions, Micro Credit*

INTRODUCTION

Background of Study

Microfinance helps to promote SMEs) worldwide. The aim of every country is to promote business and entrepreneurship activities in their country, as SMEs increase the employment ratio, reduce poverty level and improves the lifestyle of the people. In European countries SMEs are supported by a different financial institutions but, In Asia, most of the countries are in the developing stage so, they are to be more focused on SMEs compared to developed countries. Microfinance is the finance arrangement for working capital needs and other short-term needs of the business. Their kind of finance is beneficial for SMEs.

The objective of microfinance is simply to introduce the systematic changing in financial systems in worldwide countries, the aim of the financing institutions is to provide microloans. Because these loans help then to run a small business in their country and remove the poverty

from the country (Waheed-ur-Rehman, 2007). Poor individuals require an assortment of financial services, not simply credit. Microfinance means building a budgetary framework that serves poor people. Microfinance is the strongest instrument to fight against poverty. Microfinance must pay for itself to achieve an expensive quantity of poor people. Microfinance is tired of building changeless neighborhood budgetary organizations. Interest rate roof making is harder for needy individuals to get credit. The part of the government is to empower financial services not to give them. The execution of SMEs has been noteworthy in creating economies. Distinctive creator's characteristics SMEs in an unexpected way. A portion of the creators separates them regarding capital resources while others based it on expertise and turnover. Jordan (1998) characterize SMEs that have less than 100 employees on a turnover of under 15 million euro. The United Nations Industrial Development Organization (UNIDO) characterize SMEs as far as a number of representative and arranges them in creating and created economies in an unexpected way.

As indicated by Pakistan's financial overview (2012-13), Pakistan's economy keeps on confronting challenges like vitality deficiencies, surges and rains, poor lawfulness circumstances, and a large group of other auxiliary obstacles that have kept down venture and development in the nation. The economy of Pakistan amid the most recent five years developed by and large at the rate of 2.9 percent for each annum. The mechanical area contains 20.9 percent of GDP having different subdivisions including power and gas, mining, producing, development, and quarrying and appropriation. Assembling area has a 13.2 percent share in GDP. The development of the assembling part is evaluated at 3.5 percent contrasted with the development of 2.1 percent a year ago. Microfinance institute performs a basic role in the economy to promote and extending small loans and other basic financial services to that person who has currently scarce capital. The microfinance is a vital solution and has some benefit of Microfinance i.e. access, better loan repayment rates, extending education, improve health and welfare, sustainability, job creation.

Problem Statement

SMEs are facing problems in Pakistan the main problem faced by SMEs, is the availability and benefits of lack of knowledge about Microfinance, SMEs owners or managers are unaware of benefits associated with Microfinance. The political stability, lack of funds, create problems for the SMEs, as we all know the aim of microfinance is to promote the SMEs because SMEs reduce poverty levels by generating employment, upgrading living standards. Microfinance is facing problems ranging from managerial to their inability to properly evaluate loan application and improper credit risk management which has resulted in a high degree of unpaid debt and consequently the closure of so many microfinance banks in the recent past. It is against this that the subject matter is seen as an empirical problem worthy of being investigated.

Research Questions

- What is the impact of microfinance on SMEs 'development in Pakistan?

- What are the potential obstacles faced by SEMs in getting credit from microfinance institutions?

Research Objectives

- To investigate the role of microfinance in the development of SMEs in Pakistan.
- To identify problems faced by SMEs in getting credit from microfinance institutions.

Significance of Research

The aim of this research is to understand the function of microfinance and how they help to promote the growth of SMEs. The purpose of doing this research is to create awareness among the people about the microcredit funds availability in the marketplace. This will also help policymakers to design credit policies that are more favorable to SMEs. As in every country, SMEs play a beneficial role in the development of the economy. SMEs increase the rate of employment, decrease poverty from the country and generate the capital for the country, boost up the country activity, changing lifestyle in the country. Through microcredit opportunity, all the people are accessed and start their business easily. This work will also enrich the literature already available and guide new researchers in their research.

LITERATURE REVIEW

Introduction

Many financial experts suggest increasing the rate of SMEs in the economy. As they helping in the unemployment ratio. SMEs have no common definition in the world. The developing and developed countries are dealing with SME for their growth of the economy (Ohashi, 2007; Soraino & Doborn, 2009; Sadi & Henderson, 2010).

The number of employees is the most widely recognized part of the meaning of SMEs. (Ardic, Mylenko & Saltine, 2011). Bekele and Zeleke (2008) suggest four categories which affect long term growth, survival and viability of Micro Small and Medium Enterprise (MSME) which are- Factors that affect macroeconomics, approach to social capital, affect the internal performance of small business and enterprises and that which contribute to microfinance services.

Mohammad (2015) suggests that in Saudi Arabia SMEs speak to over 90% of the enterprises giving 51% of employment in the private division and they contribute 22% of the GDP. The organization for economic cooperation and development (OECD) concluded that the significance of SMEs is generally perceived as a key part in making new employment and represents more than 95% of the firm's objectives will enhance the monetary social prosperity of individuals around the world. Almost of net occupations are made in SMEs, OECD nations OECD, 2006; Karadag, 2015).

Different analysts picked instead of supporting large enterprises and focused on their satisfactory situations. They opposed an expensive firms with positive suggestions for poverty improvement. They also suggested that large projects misuse economies of scale, which can impact efficiency (Pack & Westphal, 1986). The study of Asian Development Bank (2009) on SMEs in 13 nations getting capital is the best requirement for firm arrangement and development.

SMEs' financing programs are just in ones, at the point SMEs regularly approach casual hotspots for their financing needs (Tanaka & Molnar, 2008). In China that the local casual loan specialist tends to the center around the borrower's present activities, especially the extent of receivable, while formal money lenders, for example keeping money establishments to a great extent center around pest execution (Tanaka & Molnar, 2008).

Different financing strategies for SMEs arise at end of the twentieth century, enabling economies to exploit opportunities and the most essential and the extensive part of world economies are the small firms that had increased numerous researchers to look for and tries to understand these organizations. Even the administration of every economy of the globe and especially those workplaces where improvement and understanding about these organizations are required (Hill & McGowan, 1999).

SMEs in Pakistan

In Pakistan, SMEs division is not just the minor sharer (having little commitment) till yet in boosting the economy, actually, Pakistan's entire economy is exceedingly subject to the pace and profitability of SMEs. Out of Pakistan's 3.2 million enterprises, 95 percent are the individuals who have 99 representatives in the private sector and employ around 78 percent of not agriculture labor force. SMEs contribute above 25 percent of assembling merchandise and 30 percent of GDP. SMEs will be the principle wellspring of neediness decrease in Pakistan that will make the advancement for the nation in the future (Bizomer, 2009).

Pakistan economic survey (2012-13) Pakistan's economy face challenges like vitality deficiencies, surges and rains, poor lawfulness circumstance, and a large group of other auxiliary hindrances that have kept down speculation and development in the nation. The economy of Pakistan amid the most recent five years developed all things considered at the rate of 2.9 percent for each annum. The mechanical division contains 20.9 percent of GDP having sub-segments: producing, development, mining and quarrying and power and gas dispersion. Assembling part has a 13.2 percent share in GDP. The development of the assembling part is evaluated at 3.5 percent contrasted with the development of 2.1 percent a year ago.

According to State Bank of Pakistan (2009) & Economic Survey of Pakistan (2009-10). The SME area in Pakistan contributes 30 percent in the GDP, alongside farming part gives 90 percent occupations, 80 percent of the non-rural workforce, makes 35 percent esteem option in the assembling business and includes 25 percent fares income in the national exchequer [up to US\$ 2.5 billion] (Qureshi, 2012).

Growth and Services of SMEs by Microfinance

Microfinance refers to the arrangement of monetary administrations custom-made to the prerequisites of low salary individuals like economized scale business visionaries, especially the conveyance of small credits, the arrangement of small advances, receipt of small investment funds stores and simple installment administrations required by smaller-scale business people and other poor individuals (USAID Prisms, 2005). Microfinance indicates little scale business or credit administrations which are made accessible to individuals working chose business running

small enterprises in which products are fabricated, reprocessed, repaired or traded in provincial and additionally no rural areas (Stanley, 2008).

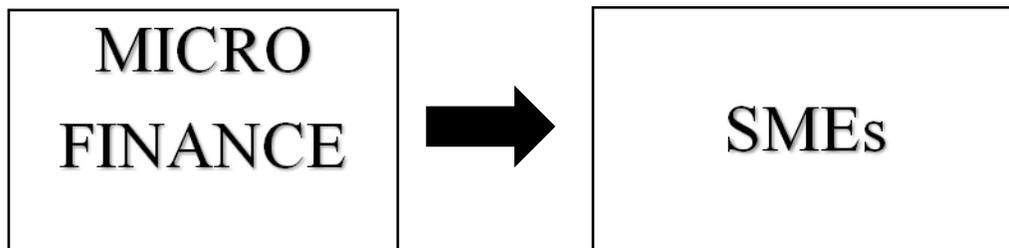
Probability in Microfinance could be authoritative, administrative or money-related. Microfinance includes making an extensive variety of budgetary administrations accessible similar to stores, credits, exchanges and protection administrations to small businesses. It additionally includes making accessible budgetary administrations to a small businesses that are generally not cooked for by the business banks (Thapa, 2007). Microfinance institutions (MFIs) evaluate the observing and control phases of the loaning procedure (Sheila, 2011).

Kolawole, (2013) states that microfinance banks help to deliver reserve funds in the economy, allure outside contributing offices, encourage enterprise and advance improvement in the economy. Okpugie, (2009) expressed that the high premium asked for by the microfinance banks has been seen to be the reason for disturbing default.

Obisesan and Oyedele (2015) concluded that these casual credit foundations offer loans and funds to their individuals. Microfinance is more extensive than small scale credit as it includes reserve funds, credit, and protection among others (Kirkpatrick & Maibo, 2002). The non-conventional formal Microfinance Institutions (MFIs) are working nearby with casual organizations. The improvement of the microfinance organizations came as an outcome of the powerlessness or hesitance of the customary banks to draw from the budgetary resources in the country regions (Onaolapo & Oladejo, 2011). Akinlabi, Jegede, and Kehinde (2011) argued that although the entire universe, the underprivileged are regularly exempted from the formal money related framework either incompletely in created nations or full exception in Less Developed Countries (LDCs).

Microfinance program is proper when there are upgrades in credit availability particularly to those who need help dismissed by banks" aside from advance arrangement microfinance additionally give non-money related administrations, for example, preparing (Schreiner & Colombet, 2001). Microfinance as the arrangement of budgetary administrations to poor people who are over the official neediness line and profoundly poor family units. Otero (1999). Microfinance administrations are given in view of the installment conduct of the borrower which demonstrates the capacity of the borrower to recoup the obligation (Ledgerwood, 1998).

Theoretical Framework



Hypothesis

H1: Microfinance has a significant impact on the performance of SMEs.

H2: Microfinance has an insignificant impact on the performance of SMEs.

METHODOLOGY

This section highlights the research population, design, sample, data validity and reliability, data collection methods, data analysis, and techniques.

Research Design

This is a descriptive study. Primary data was collected through a questionnaire, a non-probability convenience sampling technique from 120 employees working in different SMEs of Peshawar.

RESULTS, ANALYSIS, AND DISCUSSION

Data Analysis and Presentation

The questionnaires were analyzed and prepared for coding. The statistical package for social sciences (SPSS) was used for further data analysis.

Business Type

Respondents were required to specify the nature of their businesses. 51.7% indicate that the small business and remaining 48.3% of them is a medium business. The findings show that there was a proportional representation of the two categories of business.

Table 4.3: Business Type

Business	Frequency	Percentage
Small	62	51.70%
Medium	58	48.30%
Total	120	100%

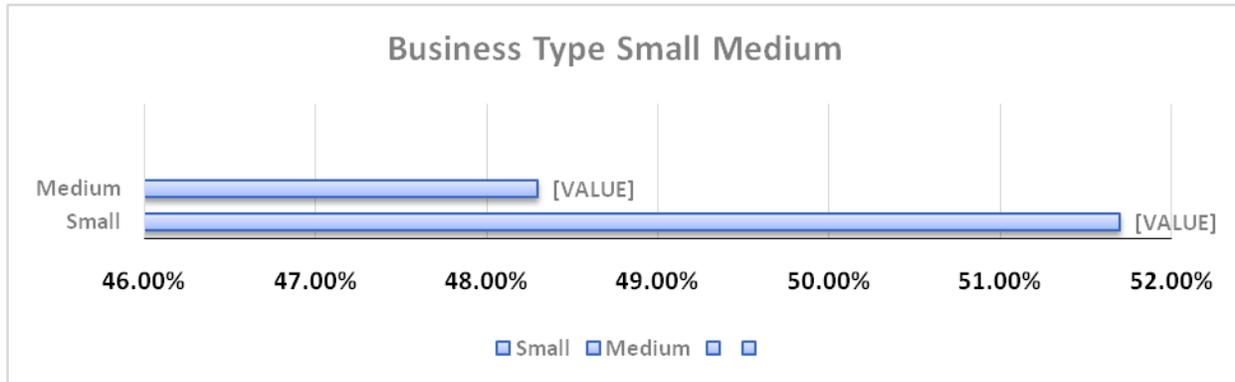


Figure 4.1: Business Type

Number of Employees

Respondent were required to specify the number of employees their business had.75.8% of them indicate that they had 6-20 employees in their business and the remaining 24.2% of them indicate that they had 21-50 employees. The finding declares that most of the SMEs had few employees working for them attribute to the small scale of operation.

Table 4.4: Number of Employees

Business	Frequency	Percentage
Small	62	51.70%
Medium	58	48.30%
Total	120	100%

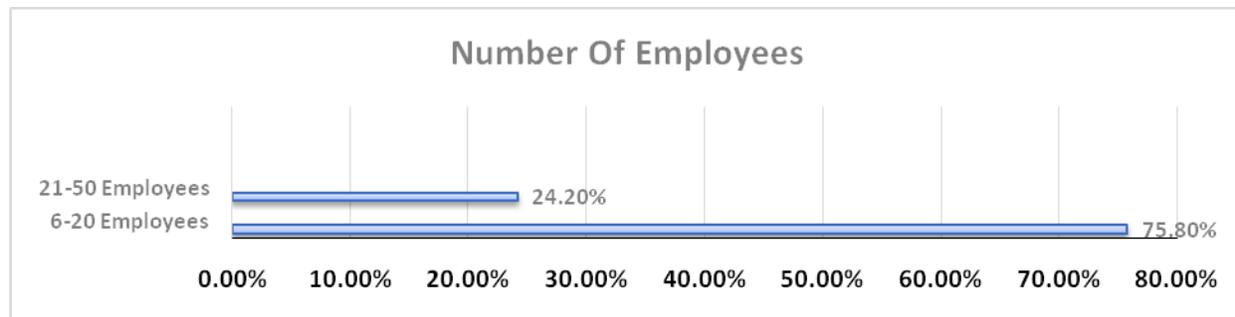


Figure 4.2: Number of Employees

Period SMEs Had Been in Operation

The result shows that 24.2%)of the respondents in this study had been in operation for a period of fewer than 10 years. The 43.3 of them had been in operation for a period of between 11-20 years. Another 23.3% of them had been in operation for a period of between 21-30 years. And the remaining 9.2% of them had been in operation for a period of more than 30 years. This

specifies that the majority of the SMEs had been in operation for long enough to facilitate them access credit.

Table 4.5: Period SMEs Has Been in Operation

Period	Frequency	Percentage
10 years or less	29	24.20%
11-20 years	52	43.30%
21-30 years	28	23.30%
More than 30 years	11	9.20%
Total	120	100%

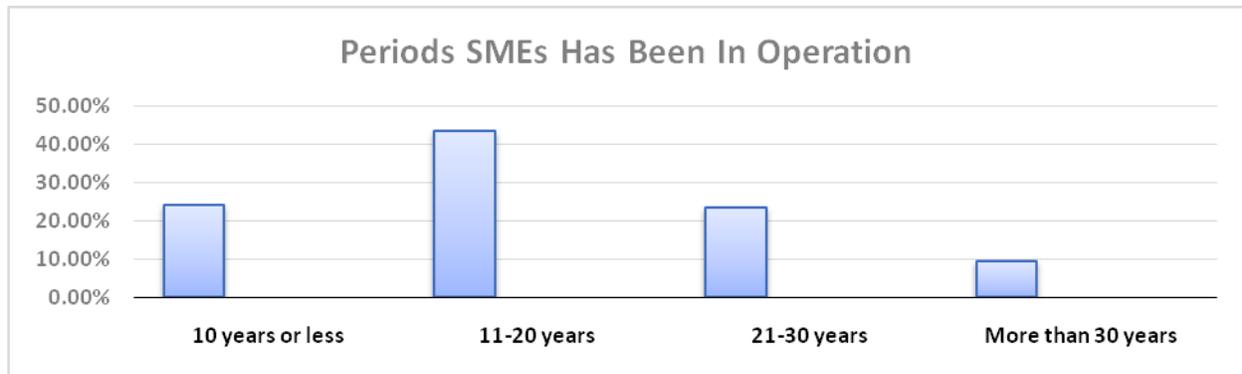


Figure 4.3: Period SMEs Has Been Operation

Availed Microfinance Opportunity

The result shows that 40% of SMEs have availed microfinance opportunity and 40% of them not availed the microfinance opportunity and 20% of them don't know about the microcredits loans.

Table 4.6: Availed Microfinance Opportunity

Microfinance Opportunity	Frequency	Percentage
Yes	48	40%
No	48	40%
Don't know	24	20%
Total	120	100%

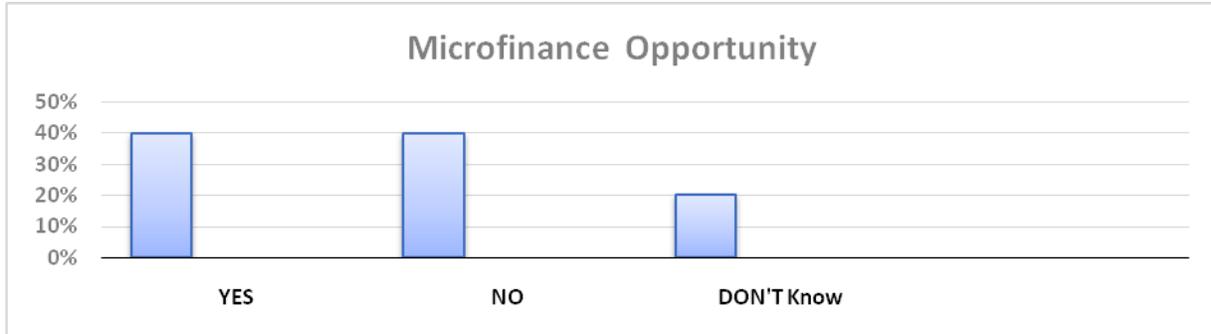


Figure 4.4: Availed Microfinance Opportunity

Sales Level before Getting Credit

The result shows that 40.8% of the respondent were of the view that their sales level were low before getting credit. 37.5% indicate that they have a normal sale before getting microcredit. 12.5% of them indicate that their sales level is high before getting credit. And 9.2% of them they don't know about microcredit loan.

Table 4.7: Sales before Getting Credit

Level Before Getting Credit	Frequency	Percentage
Low	49	40.80%
Normal	45	37.50%
High	15	12.50%
Don't know	11	9.20%
Total	120	100%

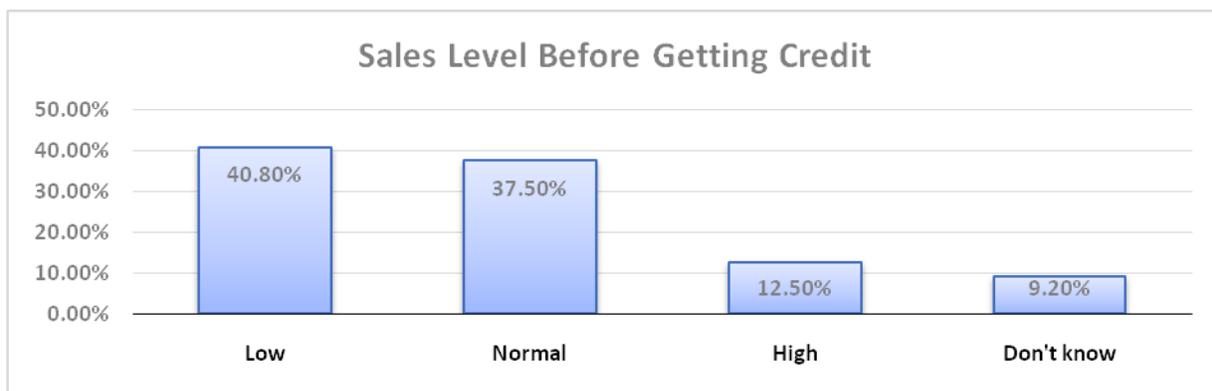


Figure 4.5: Sales Level before Getting Credit

Average Sales after Using Credit

Respondents were further required to indicate the average sales after using credit.5% of the average sales were low after using microcredit.26.7% had average sales normal after using microcredit.51.7% of them had high average sales after using microcredit. And 16.7% of them they don't know about the microcredit.

Table 4.8: Average Sales after Using Credit

Average Sales After Using Credit	Frequency	Percentage
Low	6	5.00%
Normal	32	26.70%
High	62	51.70%
Don't know	20	16.70%
Total	120	100%

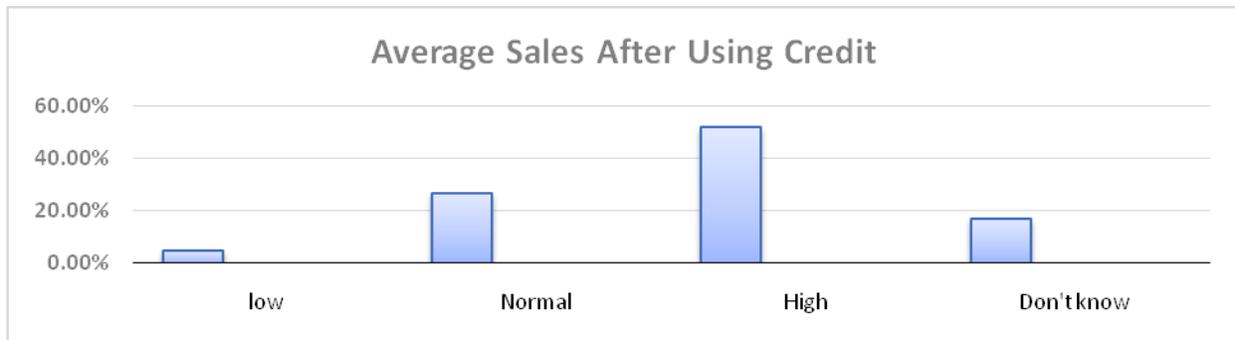


Figure 4.6: Average Sales after Using Credits

Sales Level after Using Microcredit

The results show that36.7% of the respondents indicate that after using microcredit their sales level is highly increased 4.2% of them indicate that after using microcredit their sales level are highly decreased.31.7% indicate that after using of microcredit there is no change in sales.27.5% indicate that their sale level is improved after using microcredit.

Table 4.9: Sales Level after Using Microcredit

Sales After Getting Credit	Frequencies	Percentage
Highly increased	44	36.70%
Highly decreased	5	4.20%
No change	38	31.70%
Improved	33	27.50%
Total	120	100%

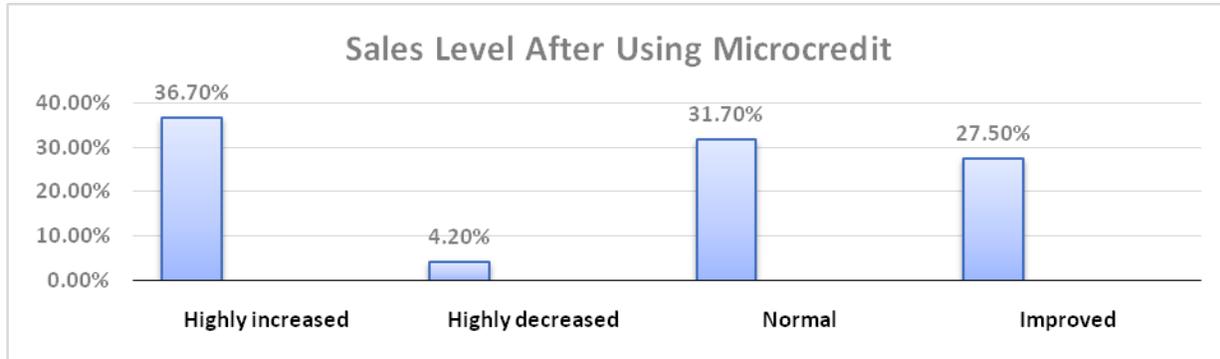


Figure 4.7: Sales Level after Using Microcredit

Microfinance Contribute to Your Annual Profits by Using Microcredits

The result shows that 69.2% of the respondents indicate that microfinance contributes to our annual profits by using microcredits. And the remaining 30.8% concluded that there is no change in their annual profits by using microcredits.

Table 4.10: Microfinance Contribution in Annual Profits

Microfinance Contribute	Frequencies	Percentage
Yes	83	69.20%
No	37	30.80%
Total	120	100%

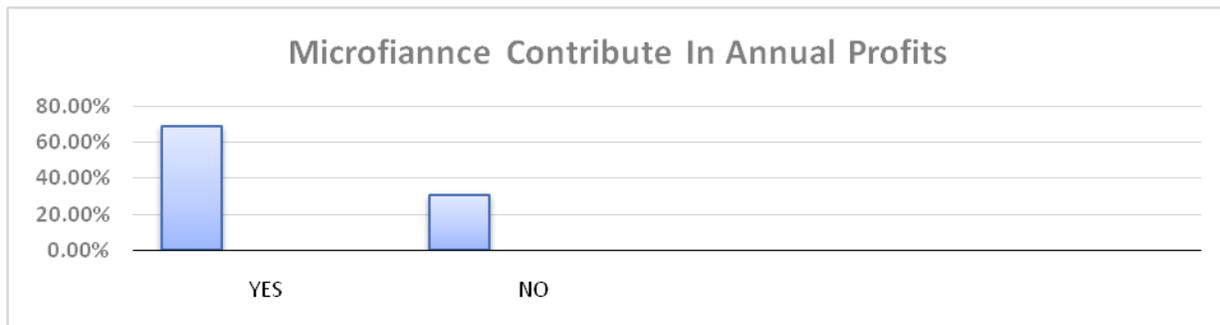


Figure 4.8: Microfinance Contribute to Annual profits

Firm Total Assets Increase Using of Microcredits

The result shows that 16.7% of the respondents indicates that the firm total assets increase by using microcredits are very little extent, 20.8% of them indicated little extent.19.2% suggest to some extent, 28.3% concluded a great extent. And the remaining 15.0% of them indicate that there is a very great extent increase in the firm total assets by using microcredits.

Table 4.11: Firm Total Assets Increase Using of Microcredit

Firm Assets Increase Using of Microcredits	Frequency	Percentage
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Very little extent	20	16.70%
Little extent	25	20.80%
Some extent	23	19.20%
Great extent	34	28.30%
Very great extent	18	15.00%
Total	120	100%

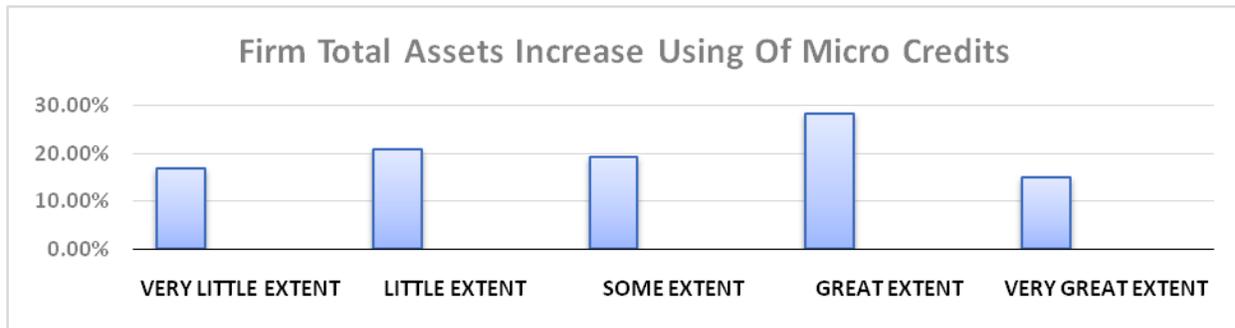


Figure 4.9: Firm Total Assets Increase Using of Microcredit

Microcredit Have a Role in the Growth of Sale Level of SMEs

The result shows that 8.3% of them indicated that there is a very little extent of the growth of the sale level of SMEs by the using of microcredit. 21.7% indicate little extent, 24.2% of them suggest some extent, 27.5% suggests that a great extent, and 18.3% of them suggest that microcredit to a great extent impact the growth of sale level of SMEs.

Table 4.12: Microcredit Have a Role in the Growth of Sale Level of SMEs

Growth of Sale Level	Frequency	Percentage
Very little extent	10	8.30%
Little extent	26	21.70%
Some extent	29	24.20%
Great extent	33	27.50%
Very great extent	22	18.30%
Total	120	100%

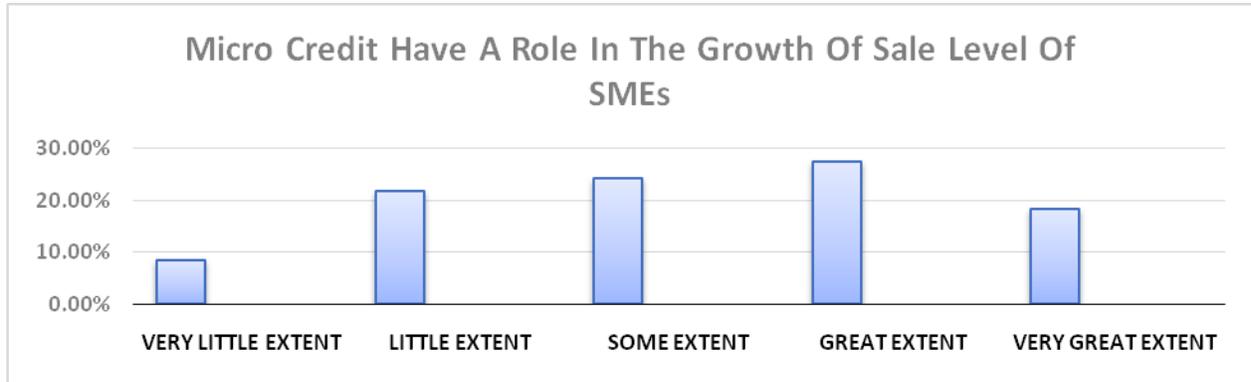


Figure 4.10: Microcredit Have a Role in the growth of Sale Level of SMEs

Microcredit Influence Employment Level with In the SMES Sector

The result shows that 10.8% of them are very little extent to Microcredit influence employment level with in the SMEs sector.18.3% were little extent to Microcredit influence employment level with in the SMEs sector. 34.2% they are some extent to employment level with in the SMEs sector.15.8% are of them are great extent to Microcredit influence employment level with in the SMEs sector. And the remaining 20.8% are very great extent to Microcredit influence employment level with in the SMEs sector.

Table 4.13: Microcredit Influence Employment Level with in the SMEs Sector

Employment Level with In the SMES Sector	Frequency	Percentage
Very little extent	13	10.80%
Little extent	22	18.30%
Some extent	41	34.20%

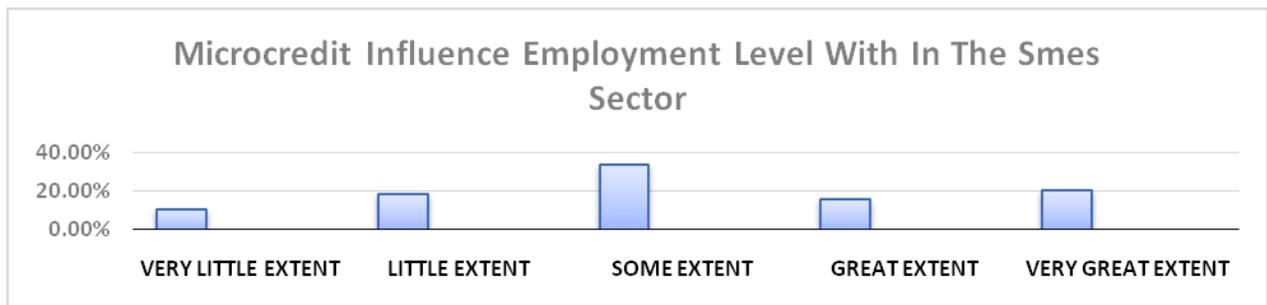


Figure 4.11: Microcredit influence Employment Level with in the SMEs Sector

Use of Microcredit Influence the Creation of More SMEs

There results show that 11.7% of them are little extent to use of microcredit influence the creation of more SMEs.22.5% of them little extent to use of microcredit the creation of more

SMEs.20.0% indicate that they were some extent to microcredit influence the creation of more SMEs. 22.5% are great extent and 23.3% of them are very great extent Use of microcredit influence the creation of more SMEs.

Table 4.14: Use of Microcredit influence the Creation of More SMEs

Microcredit Influence the Creation of More SMEs	Frequency	Percentage
Very little extent	14	11.70%
Little extent	27	22.50%
Some extent	24	20.00%
Great extent	27	22.50%
Very great extent	28	23.30%
Total	120	100%

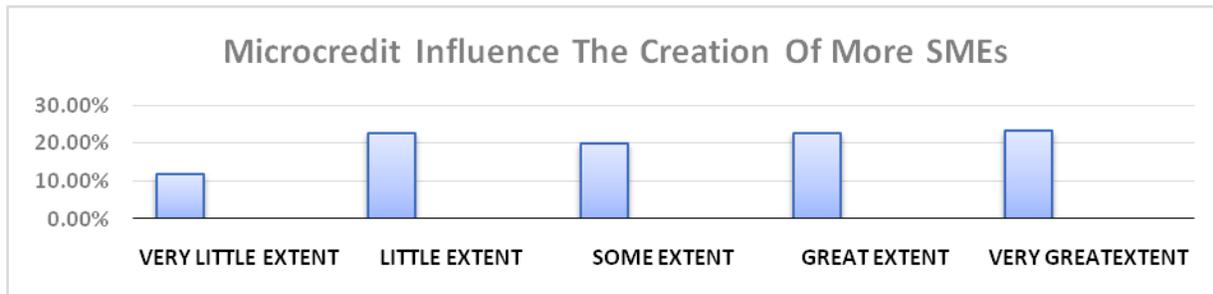


Figure 4.12: Microcredit Influence the Creation of More SMEs

Do Loan Granted Lead to Growth in Their Businesses?

The results show that 12.5% indicate that to a very little extent the loan granted leads to growth in their businesses.16.7% responded that to a little extent microfinance contributed in the growth in their businesses. 24.2% shows to some extent it leads to growth in their businesses.30.8% shows that to a great extent these loans contributed in the growth of their business. And remaining 15.8% are very great extent do loan granted lead to growth in their businesses.

Table 4.15: Do Loan Granted Lead to Growth in their Business

Loan Granted Lead to Growth in Their Businesses	Frequency	Percentage
Very little extent	15	12.50%
Little extent	20	16.70%
Some extent	29	24.20%
Great extent	37	30.80%
Very great extent	19	15.80%
Total	120	100%

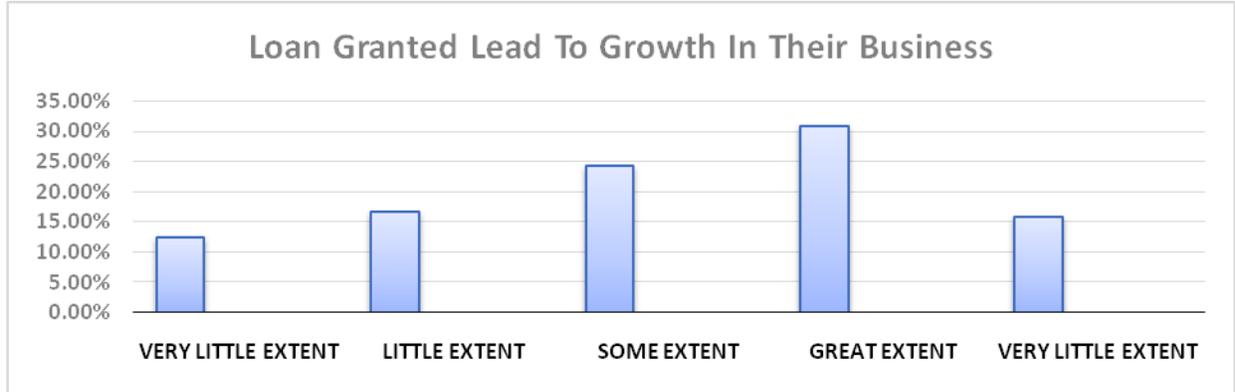


Figure 4.13: Do Loan Granted Lead to Growth in their Business

Do Client Use All Loan Granted for Business Activities

The results show that 11.7% of the respondents indicate that they used loan funds to very little extent, 21.7% shows a little extent, 20.8% shows to some extent, 22.5% of them are great extent, 23.3% are very great extent in their business activities.

Table 4.16: Client Use All Loan Granted for Business Activities

Client Use All Loan Granted for Business Activities	Frequency	Percentage
Very little extent	14	11.70%
Little extent	26	21.70%
Some extent	25	20.80%
Great extent	27	22.50%
Very great extent	28	23.30%
Total	120	100%

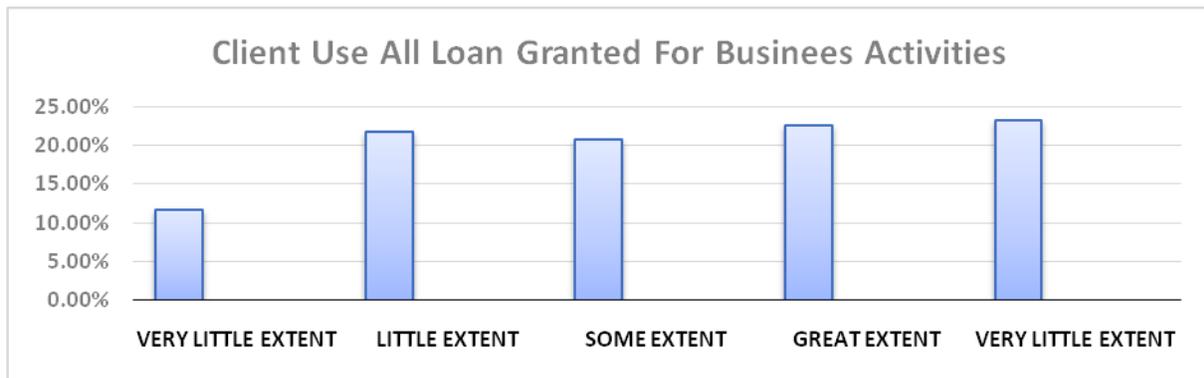


Figure 4.14: Client Use All Loan Granted for Business Activities

What Activities Do You Know Client Use the Loan For?

The results show that 25.0% indicate that loan use their personal activities 10.0% of them used to start a new business 25.8% indicate that they used it for expansion of their business activities and the 39.2% of them they don't know about what other activity to use the loan.

Table 4.17: What Activities Do You Know Client Use the Loan For

Client Use the Loan For	Frequency	Percentage
Personal use	30	25.00%
Start new business	12	10.00%
Expend in business activities	31	25.80%
Don't know	47	39.20%
Total	120	100%

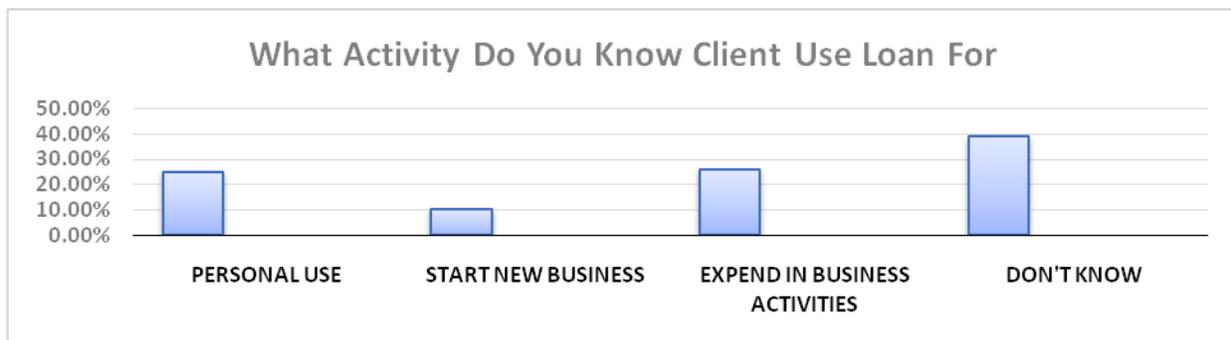


Figure 4.15: What Activities Do You know Client Use the Loan For

How Credit Misappropriation Can Be Avoided

The results show that the Respondents were avoid the misappropriation of credit 20.0% of them conclude that there is a lengthy process. 20.8% of them indicate that to take a high security. 16.7% indicate that there is very high risk to avoid misappropriation. 42.5% they are don't know about them.

Table 4.18: How Credit Misappropriation Can Be Avoided

How Credit Misappropriation Can Be Avoided	Frequency	Percentage
Lengthy process	24	20.00%
High security	25	20.80%
High risk	20	16.70%
Don't know	51	42.50%
Total	120	100%

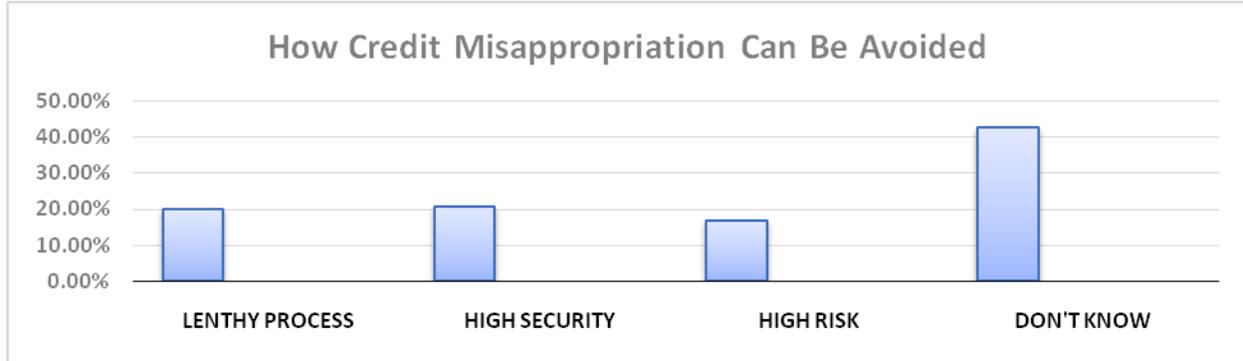


Figure 4.16: How Credit Misappropriation Can Be Avoided

Improve Accessibility of Microcredit by SMEs

The results show that improve the accessibility of microcredit there the 17.5% indicate that adopting good policies to improve accessibility of microcredit by SMEs. 16.7% of them are awareness about loan to improve accessibility of microcredit by SMEs. 13.3% indicate that its low markup to improve accessibility of microcredit by SMEs. And the remaining 52.5% they are don't know about to improve accessibility of microcredit by SMEs.

Table 4.19: Improve Accessibility of Microcredit by SMEs

Improve Accessibility of Microcredit by SMEs	Frequency	Percentage
Adopting good policies	21	17.50%
Awareness about loan	20	16.70%
Low markup	16	13.30%
Don't know	63	52.50%
Total	120	100%

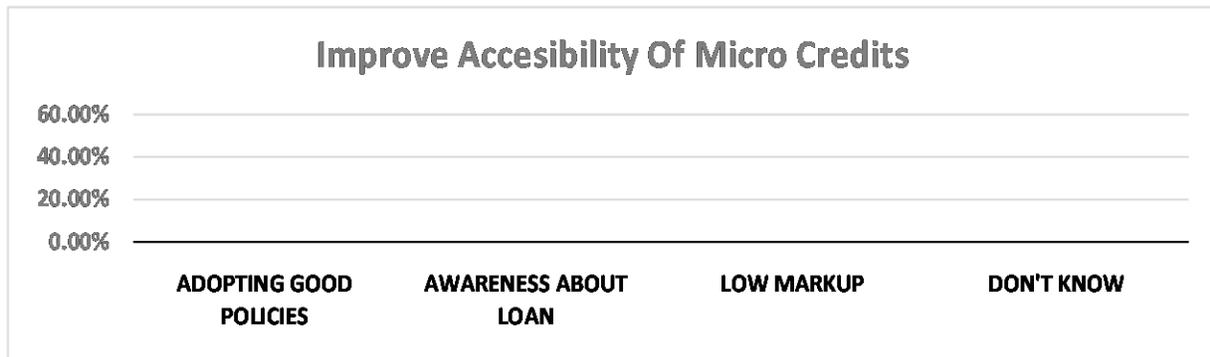


Figure 4.17: Improve Accesibility Of Micro Credits

FINDINGS, CONCLUSION AND RECOMMENDATIONS

Findings

This work had tried to access the relationship between microcredit and the growth of SMEs in Peshawar. 51.7% of the business were considered small and the remaining 48.3% of them are medium hence relative representation the two categories of business. Majority 75.8% of them had 6-20 employees are attributable to their small business. And remaining 24.2% of them had 21-50 employees are there in medium business. Most of their 24.2% businesses had been operate in business for a time of period of 10 years or less than. Another 43.3% businesses had been in business for a period of 11-20 years. And 23.3% businesses of them had been operate in a business for a time period of between 21-50 years. And the remaining 9.2% businesses had been operate since for more than 30 years. Which was sufficiently long for them to assemble a financial record. In SMEs there a 40% of them they availed a microfinance opportunity and 40% of them they can't availed the microfinance opportunity. The remaining they don't know about the micro credit loan.

Following major findings are settled. Access of credit accordingly led to increase in sales level. 40.8% of the respondents' opinion that before getting credit their sale level is low. 37.5% SMEs their sales are normal before getting credit. 12.5% business their sale level is high before getting credit. And the remaining 9.2% they don't know about the approximate sales level before getting credit. After using a microcredit 5% of them indicate that their average sale is low. 26.7% conclude that after using a credit their average sales are normal. And 51.7% they indicate that after using a microcredit their average sale is high. The remaining 16.7% they don't know about their average sale after using micro credit. 69.2% of them indicate that yes microfinance contribute to our annual profits by using microcredits. And the remaining 30.8% concluded that there is no change in our annual profits by using microcredits. 16.7% of them indicate that the firm total assets increase by using microcredits are very little extent. 20.8% of them indicated that the firm total assets increased by using microcredit are little extent. 19.2% the firm total assets by using microcredits are some extent. 28.3% concluded that the firm total assets by using microcredits are great extent. And the remaining 15.0% of them indicate that there is very great extent the firm total assets by using microcredits. Microfinance avoid the misappropriation 20.0% conclude that there is a lengthy process. 20.8% of them indicate that to take a high security. 16.7% indicate that there is very high risk to avoid misappropriation. 42.5% they are don't know about them.

In SMEs businesses different activities client use the loan. respondents 25.0% indicate that loan use as our personal activities 10.0% of them to start a new business 25.8% indicate that take a loan and expend in our business activities and the 39.2% of them they don't know about what other activity to use the loan.

Conclusion

This study investigates the impact of microfinance on the performance of SMEs in Pakistan. SMEs perform a vital role in the economy. A survey was conducted through self-administered questionnaire from Peshawar. The study suggests that different firms who take microcredit from

the microfinance bank and other sources, contribute significantly in the economic development and in reducing unemployment and poverty from the country. SMEs are struggling to for the access of microcredit in country like Pakistan. However, microfinance instrument seems to promote Pakistan's SMEs in different stages of a business life. The study finds that many businesses in the stage of starting-up have funded by owner's resources. Microfinance is mostly used when businesses intends to grow. The businesses use the microcredit influences the creation of more new SMEs in the country because the microcredit funds helps in generating the initial capital for new SMEs. The major difficulties recognized by the SMEs is lengthy documentation process, lack of information about the microcredit and other security requirements.

Recommendations

The researcher also recommends that the government should increase their efforts in encouraging microfinance banks and institutions to support the small businesses. The researcher also recommends that the Microfinance institutions should increase the number of SME owners trained on financial management by employing field agents to sensitize the business owners on the benefits of financial skills and also gather data on small medium enterprises to reduce adverse selection. The researcher would also like to recommend that Microfinance Institutions provide role models to small and medium enterprises as they can guide them on how to succeed in business. The researcher would also like to recommend to the Microfinance Institutions to Increase the number of savings accounts held by SMEs as savings was very important to their growth.

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