

The Impact of Microfinance Lending on Economic Growth in Egypt

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Abstract

The study seeks to examine the impact of microfinance institution on economic growth using Egypt as a case study. The study employs the multiple regression analysis given the data is cross-sectional and time series in nature. Secondary data of all commercial banks were extracted from the Central Bank of Egypt and Annual Reports. Data used in this model are time series secondary data for the period 2003 to 2018. The findings of the study show that microfinance loans have a significant positive impact on the short run economic performance in Egypt. Microfinance loans enhanced consumption per capita in short-run with an impressive coefficient, although these banks' loans do not have a significant impact on economic growth in the long-run. Microfinance investment however, has a significant impact on economic performance in Egypt in the long-run. Although microfinance loans are relevant in growth process in Egypt, other measures such as boosting agricultural production and taking appropriate steps to enhance per capita income are equally important in boosting the Egyptian economic growth. It was recommended that microfinance institutions should loan to improve consumption in the short-run, while the long-run goal should be to improve investment and other capital accumulation.

Keywords: Microfinance institution • Capital consumption • Microfinance loan • Investment • Economic growth • Financial institution

Introduction

Microfinance banking today in Egypt and the world over, occupies a very strategic position in the enhancement of the socio-economic well-being of the poor who are typically self-employed low income entrepreneurs such as traders, street vendors, small farmers, hairdressers, barbers, and a host of others. Microfinance literally means building finance system that effectively and efficiently serves the needs of the poor. It is a powerful tool for fighting poverty the world over. This is true because when poor people have access to financial services, they can earn more, build their assets and cushion themselves against external shocks as they arise. According to Central Bank of Egypt, microfinance bank is the provision of a broad range of financial services such as savings, loans payment services, money transfers and insurance to the poor and low income persons, households and their microenterprises. According to Robinson (2010), microfinance enables clients to protect, diversify and increase their incomes as well as to accumulate assets and reduce vulnerability to income and consumption shocks. Saith sees microfinance banking in a wider term as comprising banking and non-banking, formal and non-formal financial institutions with financial services of a small scale mostly to low income people and that the

term micro banking is used for regulated microfinance institution belonging to the banking sector. According to the UNDP (2018), Egypt has a total population of about 100 million people with approximately 70% (98 million) living below the poverty level estimated at US \$1.25 per day. GNI per Capita is approximately US\$ 1140 with life expectancy at 60. The total adult population (18 years and above) is 84.7million and 70% of adults live in rural areas with 51% male and 49% female [1].

According to Sen and Samanta, the role of microfinance banking in the growth and development of the Egyptian economy cannot be underestimated in view of the astronomically growing population, coupled with the rising unemployment rate and youth restiveness; the government is facing a lot of challenges in providing enough jobs for the populace. One sure way to combating unemployment is to empower people with the necessary microfinance loans and services that will enable them start up or run business ventures of their choice. In this study the impact of microfinance institutions on economic growth will be examined [2].

Research problem

The development of a healthy national financial system is an important goal and catalyst for the broader goal of national economic

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development. In this era of globalization, generating economic growth in developing countries while reducing poverty is a fundamental challenge. Over time, inadequate supply of credit has been an important constraint on production in many developing countries where majority of the population lack access to financial services from formal institutions, either for credit or for savings. A serious problem however confronting many developing countries is the savings gap, which essentially means that these countries find it difficult to finance investments needed for growth from domestic saving.

Research questions

- To what extent does microfinance bank loans impact on economic growth in Egypt?
- What is the relationship between microfinance bank investment and economic growth in Egypt?
- What is the relationship between microfinance deposit and economic growth in Egypt?
- Is there any relationship between microfinance bank contributions to agricultural production and economic growth in Egypt?

Objectives of the study

The broad objective of the study is to determine the impact of microfinance bank on the economic growth in Egypt. However, other sub-objectives are to:

- Determine the relationship between micro finance bank loans and economic growth in Egypt. According to Salib (2018), credit delivery is one of the most important roles of microfinance banks as the loan extended are used to expand existing businesses and in some cases, to start new ones. Sekaran (2018) observed that microfinance banks have disbursed more than 800 million micro credits to over 13000 farmers across the country to empower their production practices. It was found that loans and advances have positive impact on economic growth and development and that microfinance loans are statistically significant in explaining changes in economic growth and development at 0.15 level of significance.
- Determine the relationship between micro finance bank investment and economic growth in Egypt. Salib (2018) examined the impact of microfinance to economy growth and development in Egypt laying emphases on the primary role of microfinance institutions which is poverty reduction and small scale enterprise financing. Using secondary data, the OLS multiple regression revealed that microfinance activities have a significant impact on economic growth and development in Egypt. If this is true, it therefore means that more investments by microfinance institutions will mean more reduction in poverty, more employment generation and more contribution to economic growth.
- Examine the relationship between microfinance bank deposit and economic growth in Egypt. Microfinance bank deposits are products of customers' savings which are a source of loans to microfinance customers. Nader (2018) asserted that savings mobilized from local depositors will ultimately be the largest

source of capital for microfinance. The public is encouraged to save so as to create deposits. If microfinance is successful by the measure of any of its aim in Egypt, including raising income, promoting entrepreneurship, advancing loans, engaging in domestic fund transfer and encouraging savings, then over time, the impact assessment especially in the area of effects on savings mobilization can be gauged [3].

- Determine the relationship between micro finance bank contributions to agricultural production and economic growth in Egypt. Agriculture constitutes an indeed major part of developing countries' GDP and a large part of rural households' monetary income. Microfinance banks provide credit to the under banked sector of the economy and development of rural areas as well as the financial empowerment of those areas. It is believed that improved agricultural sector cannot be achieved without funds. Thus, through microfinance institution, funds are made available to the farmers in appropriately interpreted form to enhance the farmer's usage of loan.

Research hypotheses

The following are the null hypotheses that were used for the study:

- There is no significant relationship between micro finance bank loans and economic growth in Egypt.
- There is no significant relationship between micro finance bank investment and economic growth in Egypt.
- Microfinance deposit has no significant impact on economic growth in Egypt.
- There is no significant relationship between micro finance bank contributions to agricultural production and economic growth in Egypt.

Significance of the study

The results of this study will be of benefit to various stakeholders in the microfinance banking sector of the Egyptian economy, Secondly, it will also assist microfinance banks managers in the banking sector in managing their investment more effectively by adopting appropriate policies and strategies that will take risks to the microfinance bank in the Egyptian banking sector. Thirdly, it will also enhance the knowledge of researchers and students in management sciences on the relevance of microfinance bank to economic growth and thus stimulate their interest in this area. Such interest could lead to further researches which may seek to verify the results of this study or to replicate same using different methodologies or different populations [4].

Scope of the study

This study focuses on the analyses of the relationship between microfinance bank and economic development in Egypt. It covers an interval of 15 years (2003 to 2018). The choice of this period is based on the fact that most of the reforms initiated by the Government of Egypt through the instrumentality of the Central Bank of Egypt in the microfinance banks took place during this era.

Literature Review

Microfinance bank deposits and economic development

Microfinance bank deposits are products of customers' savings which are a source of loans to microfinance customers. Mayoux (2017) asserted that the low level of microfinance deposit can be attributed to the general low level of income and the low confidence of the saving public in microfinance institution. Leach found that saving habits of microfinance customers improved with the provision of microfinance services and their monthly income increased as loan facilities were granted.

Microfinance institution loans and economic growth

Kishor (2018), assess the impact of Microfinance bank on the socioeconomic standard of living of rural sector in Egypt. From the results obtained, the study concludes that there is a significant relationship between the microfinance bank loans and economic growth by improving the standard of living of rural sector in Egypt.

Microfinance funding and economic growth

Mahmud et al (2016) examined the development process adopted by the microfinance sector and its impact on performance in microfinance institution in Egypt. To strike a balance between outreach and poverty alleviation, an intensive development technique was used and it shows that extra price is powerful at the initial levels of development. This may have reflected in improved efficiency, efficiency and productiveness. As a substitute, the sector adopted huge progress procedure which worried huge investment in physical infrastructure and fast broaden in recruitment and department network. Thus, the credit restrained institutions need to focus extra on sustainability than their foremost goal of social support [5].

Inflation and Economic growth

Lather et al (2018) urged that Microfinance banks should expand the interval between inquiring for loans reimbursement and the time of granting the loans as this renders vain the taut of the borrower feasibility which will certainly be beneath inflationary period. If inflation can have an impact on the aim of microfinance, financial progress would be affected.

Empirical review

Malhotra (2018) empirically examined the impact of microfinance bank on the Egyptian economy. They employed pooled regression and ordinary least square econometric technique on annual time series data for the period 2003-2018. The empirical findings show that the current level of sectoral output is positively influenced by loans and advances from the banking sector. However, a sector analysis using OLS reveals that while loans and advances from microfinance banks positively affect output of manufacturing, building and construction, mining and quarrying sector, the same could not be established for the agricultural sector. They concluded that microfinance banking is very critical to the well-being of the economy as it does not only provide financial assistant to small and medium scale enterprises

but also to the real sector of the economy, thereby fast tracking economic growth in Egypt. Menard (2009) empirically investigated the role of microfinance to financial sector development and economic growth in Egypt. He employed Panel data approach in addition to Granger causality test for 103 countries for the period 1995- 2008 in order to determine the causality between microfinance banks and economic growth. From the review of these prior studies, it is being observed that most of the studies found a positive relationship between microfinance and economic growth. While some had significant impacts, others had insignificant impact.

Theories of economic growth

The neo-classical and endogenous growth theory: The neoclassical perspective is based on a basic principle in economics which suggests that economic growth requires capital investment in the form of long-term commitment. The neoclassical growth theories assume that capital investment like Foreign Direct Investment (FDI) can channel required funds to the productive sectors of a capital deficient economy which, in turn, would help to increase the economic growth rate by increasing the marginal productivity of capital [6].

The solow development model: The key variable in Solow growth model is labor and productivity (output per worker). Solow opines a continuous production function linking output to the inputs of capital and labor which are sustainable. This theory determines the values of the variables, equilibrium conditions, that is, conditions when the economy is in a position of balance and when the variables that are focused on are "stable", that is, when the variables are changing in simple and predictable ways.

Musgrave conception of public expenditure growth: This theory was propounded by Musgrave as he found changes in the income elasticity of demand for public services in three ranges of per capita income. He observed that at the high levels of per capita income, typical of developed economies, the rate of public sector growth tends to fall as the more basic wants are being satisfied.

Harrod-Domar theory of progress: The Harrod-Domar models are based on economic growth on the experiences of advanced economists. They are primarily addressed to an advanced capitalist economy and attempt to analyze the requirements of steady growth in such an economy. Harrod-Domar assigns a key role to investment in the process of economic growth. But they lay emphasis on the dual character of investment. Firstly, it creates income and secondly, it augments the productive capacity of the economy by increasing its capital stock.

The Keynesian theory: Keynes regards public expenditures as an exogenous factor which can be utilized as a policy instrument to promote economic growth. From the Keynesian thought, public expenditure can contribute positively to economic growth. Hence, an increase in the government consumption is likely to lead to an increase in employment, profitability and investment through multiplier effects on aggregate demand.

Methodology

Research design

The research design adopted in this study is the ex-post-facto research design. It is the best design for the study of this nature because the entire variable under consideration has already manifested.

Theoretical framework

The theoretical framework adopted for the foundation of this study to examine micro finance and growth is the Schumpeter (1911) theory of finance and growth which can also be derived from the neoclassical growth model by incorporating financial development into the simple model (Anderson et al, 2017; Amin et al, 2016; Anderson 2015). Thus, from the simple production function, financial development variables are included as the shift parameter in addition to the usual factors of production to form the unrestricted neoclassical growth model. Data used in this model are time series secondary data covering the period 2003 to 2018.

Model specification

To examine the effect of micro finance on economic growth, the study adopts the Schumpeter growth model where output (economic growth) is expressed as a linear function of micro finance, F_t , and a set of control variable X_t . Hence the error correction model used in this study as short run equation is specified as: Where:

ΔPCC = Changes in Per Capita Consumption

MFL = Micro Finance Loan

MFI = Micro Finance Investment

MFD = Micro Finance Deposit

INFR = Inflation Rate

AGPR = Agricultural Production

α_0 = Constant (Intercept) = Coefficients = Error term = error correction term

t = respective variables at time t

The short run effects are captured through the individual coefficients of the differenced terms. This captures the short run impact while the coefficients of the variables contain information about whether the past values of variables affect the current values of the variables under study. The size and statistical significance of the coefficient of the error correction term measures the tendency of each variable to return to the equilibrium. A significant coefficient implies that past equilibrium errors play a role in determining the current outcomes. Captures the long-run impact, the Co-integration test is based on the Granger and Engel two stage co-integration approach. A priori expectations as derived from operationalization of variables are expressed as: $\alpha_0 > 0$. These show that microfinance

factors (activities) tend to promote economic growth in Egypt. Thus, micro finance loan, investment, savings and loan to agricultural productivity growth will stimulate both short and long run economic growth in Egypt. The relationship between inflation rate and economic growth is however, expected to be negative [7].

Operationalization of variables

The variables used in this study are based on theoretical background provided in the previous chapter as well as empirical studies in the area. Economic Growth as proxied by Changes in PCC (ΔPCC): dependent variable in this case is Economic Performance for which changes in PCC will be used as proxy. It was found in literature, Arora et al (2018), that PCC has been used as a proxy for economic growth. Microfinance Bank activities peroxide by microfinance banks' investment, aggregate loans disbursed and deposit. The impacts of microfinance institutions on the economy are primarily felt based on their loan activities as well as their investment structure. Loans are expected to promote consumption activities as well as short term business developments. In the same vein, the rise in MFI will stimulate economic growth in the long run. Agricultural productivity refers to the yield per labor input into the agricultural sector in Egypt. It is measured by dividing total agricultural output by the population involved in agriculture. Inflation rate is the perpetual rise in price level over time. The variable is measured as the year-on change in price levels in the country over the period.

Data presentation and analysis

Introduction: In this session, the empirical analysis of the study is performed. This involves the presentation and analysis of the data used for the empirical evaluation of this study. The aim of this analysis is to address the objectives of the study with reference to the impact of microfinance banks on economic growth in Egypt. It should be noted that the measure of poverty used in this study (the per capita consumption) has a unique implication in the estimation analysis.

Unit root analysis: Generally, unit root test involves the test of stationary for variables used in regression analysis. The importance of stationary time series used in regression borders on the fact that a non-stationary time series is not possible to generalize to other time periods apart from the present. This makes forecasting based on such time series to be of little practical value. Moreover, regression of a non-stationary time series on another non-stationary time series may produce spurious result.

Since the data set is time series, the time series properties were first examined in order to ascertain whether or not the selected variables are stationary in level or possess unit roots. This involves the unit root test in which the Augmented Dickey-Fuller (ADF) method was employed. The result of the unit root test in levels is presented in Table 1 below. In the result, none of the ADF statistics of the variables is greater than the 95 percent critical value. This indicates that the variables are not stationary in levels and are actually time-dependent.

Variable	ADF test statistic	95% critical ADF value	Remark
LCONPC	-0.534	-3.029	Non-stationary
LMFL	-1.766	-3.029	-
LMFD	2.081	-3.029	-
LAGPR	-0.676	-3.029	-
LMFI	-2.611	-3.029	-
LINFL	-1.942	-3.029	-

Table 1. Unit root test for variables in levels.

Nader (2018) has argued that non-stationary time series in levels may be made stationary by taking their first differences. A given series is said to be integrated of order d (denoted $I(d)$) if it attains stationarity after differencing d times. If the series is $I(1)$ it is deemed to have a unit root. The result of the unit root test on these variables in first differences is reported in table 2 below. From the result, it is seen that the ADF test statistic for each of the variables is greater

than the 95 percent critical ADF values (in absolute values). With these results, these variables are adjudged to be stationary. This implies that the variables that were initially non-stationary are actually difference-stationary, attaining stationarity after the first differences of the variables. Thus, the hypotheses that the variables possess unit roots are accepted. Indeed, the variables are integrated of order one [8].

Variable	ADF test statistic	95% critical ADF value	Remark
Δ LPC	-7.662	-3.029	Stationary
Δ LMFL	-5.583	-3.029	-
Δ LMFI	-4.064	-3.029	-
Δ LAGPR	-4.356	-3.029	-
Δ LMFD	-5.827	-3.029	-
Δ LINFL	-4.108	-3.029	-

Table 2. Unit root test for variables in first difference.

Having established that the series in the analysis are not stationary in their levels, next to test if they are co-integrated. According to Islam (2018), if two time series variables, pt and qt , are both non-stationary in levels but stationary in first-differences, i.e., both are $I(1)$, then there could be a linear combination of pt and qt , which is stationary, i.e., the linear combination of the two variables is $I(0)$. The two time series variables that satisfy this requirement are deemed to be co-integrated. The existence of co-integration implies that the two co-integrated time series variables must be drifting together at roughly the same rate (i.e., they are linked in a common long-run equilibrium). A necessary condition for co-integration is that

they are integrated of the same order. The Engle and Granger single equation method is employed for the test of co-integration and the result of the co-integration tests are summarized in Table 3 below. From Table 3 using the Engle and Granger co-integration procedure, both models have at least one co-integrating relationship between them. This can be seen from the significance of at least one variable in each of the test using the z-statistic. Based on this result, the null hypothesis of no co-integration among the variables is not accepted. Therefore, long run relationships exist between the particular dependent variable and the selected independent variables. An inter-temporal model can therefore be estimated for the relationships.

Variable	Tau-statistic	Prob.*	z-statistic	Prob.*
LPC	-4.186	0.3	-19.19	0.28
LMFL	-5.418	0.08	-20.78	0.19
LAGPR	-6.035	0.02	-77.8	0
LMFD	-2.677	0.49	-15.08	0.6
LMFI	-2.793	0.83	-11.64	0.84
LINFL	-3.112	0.72	-13.72	0.71

Table 3. Results of engle-granger single equation co-integration test.

Analysis of Regression Results

The dynamic results

The dynamics of the relationship between microfinance banks and economic growth in Egypt is analyzed using the importance model. Moreover, the relationship is estimated within the error correction framework which brings out the pattern of short term changes in the poverty measure arising from movements in the explanatory variables. In order to examine the particular contribution of each of the explanatory variables to the behavior of economic growth (as measured by the per capita consumption levels), the individual coefficients of the variables in terms of sign, size and significance are considered. The results in Table 4 show that only the MFB investment coefficient does not possess the expected positive sign. However, the coefficient of MFB investment fails the significance test at the 5 percent level and implies that the investment made by the microfinance banks is not a significant factor in explaining short run incidence of poverty in Egypt. The other coefficients in the model possess the expected signs in line with a priori expectation [9].

The coefficients of microfinance loans, agricultural productivity and per capita income all pass the significance test at the 5 percent level and these imply that each of these variables has a significant short run impact on poverty reduction in Egypt. Since per capital consumption is used to capture economic growth, the positive

coefficients of these variables indicate that as the leach of these factors rise, per capita consumption also rises and thus boosting the rate of aggregate expenditure and economic growth in the country. This indicates that in the short run, each of these factors is strong predictors of the behavior of economic growth in Egypt. The coefficient of microfinance loans is positive and significant at the 5 percent level. This indicates that microfinance loans tend to improve economic growth in the short run. Apparently, application of the microfinance loans in boosting consumption spending as well as improving small investment and business development has a strong effect in improving the rate of growth in terms of short term fluctuations in Egypt [10].

In other words, microfinance institutions tend to smoothen consumption in the short run and hence, tend to dampen the level of fluctuations in real income in Egypt. The error correction term in the model possesses the correct negative sign and is significant at the 5 percent level. This indicates that equilibrium will be restored in the long run after a temporary movement away from equilibrium in the short run. The very high coefficient of the error term (at -1.083) indicates that adjustment to long run equilibrium after a short term deviation is not asymptotic. This indicates that micro financing has not played an effective role in adjusting the economy on the path of long run poverty reduction. Apparently, additional factors are required for rapidly adjusting the economy to long run growth path that will ensure steady-state growth in Egypt.

Variable	Coefficient	T-statistic	Prob.
Constant	-0.081	-1.55	0.15
Δ LMFL	0.041	2.72	0.03
Δ LAGPR	0.478	2.22	0.04
Δ MFD	3.257	2.32	0.04
Δ MFI	-0.082	-0.6	0.56
Δ LINFL	-0.006	-0.1	0.93
ECM t^{-1}	-1.083	-3.83	0
R ² =0.618	0.443	F=3.52	D.W=1.64

Table 4: Dynamic short run model result (dependent variable is consumption per capita for economic growth indicator).

The long run analysis

The results of the long run model are reported in table 5 below. The results also possess very impressive goodness of fit statistics. The R squared value indicates that over 70 percent of the long run behavior of the poverty indicator was explained in the model. The adjusted R squared value is not so high and indicates that the model has a moderate predictive ability. The F-value passes the significance test at the 5 percent level, showing that the model has a strong overall significance. Apparently, a strong relationship exists between the dependent variable and all the independent variables combined. A close look at the individual coefficients of the explanatory variables shows that, apart from the inflation coefficient, all the other coefficients have the expected signs in line with prior determination. It was focused on the significance of the coefficients. The results show

that the microfinance loans variable fails the significance test at the 5 percent level while those of agricultural productivity and per capita income pass the test. The coefficient of microfinance investment only passes the test at the 10 percent level while inflation fails the significance test [11].

These results imply that though microfinance loans improve the economy in the short run, its impact in the long run is not discernible. This indicates that focus of loan application by the MFBs should be on improving the short term performance of the economy. The loans available from microfinance banks do not seem to exert any long run impact on economic growth in Egypt. However, the coefficient of microfinance investment passes the significance test at the 1 percent level with a positive coefficient. This suggests that in the long run, after all adjustment has been made, the MFB investment strategies tend to impact significantly on the growth of the Egyptian economy. Indeed, the results imply that policies for adjusting long run growth rates in Egypt cannot adopt microfinance loan applications as an

essential tool. Rather, stimulating the investment patterns of MFBs may help to ensure positive adjustment in the economy in the long run. Agricultural productivity and per capita income are significant in

the long run model even though they failed the test in the short run [12].

Variable	Coefficient	T-statistic	Prob.
Constant	5.061	1.17	0.26
LMFL	0.028	0.48	0.64
LAGPR	0.156	3.45	0.02
LMFD	0.202	2.75	0.05
LMFI	0.187	2.02	0.06
LINFL	0.085	1.15	0.27
R ² =0.704	0.605	F=7.13	D.W=1.58

Table 5. The long run results (dependent variable is consumption per capita for poverty level).

Discussion

In this study, we have sought to investigate the basic impact of microfinance institutions in the quest for economic growth in Egypt, on an aggregative level. It is argued that though many researchers have found remarkably impressive performance of the microfinance banks in terms of improving the living standards of individuals as a general outcome, the role of these institutions in promoting the drive for economic growth has not been extensively examined in aggregate terms. This study takes a closer look at the impact of microfinance banks on economic growth by considering the loans and investment levels of the banks and its consumption-enhancing capacity. Specifically, the following findings were made for the study: That microfinance loans have a significant positive impact on short run economic performance in Egypt. The results show that microfinance loans enhanced consumption per capita in the short run with an impressive coefficient. That microfinance banks'loans do not have a significant impact on economic growth in the long run [13]. The coefficient of microfinance loans failed the significance test in the long run model. This implies that after all adjustments have been made, the direct impact of microfinance loans on the economy seems to be ineffective. That only microfinance investment has significant impact on economic performance in the long run in Egypt. Thus for sustainable growth to take place in Egypt, loans from MFBs should be channeled for short term issues while investment should be channeled to long term issues. That microfinance banks do not ensure rapid long run consumption equilibrium.

Conclusion

Micro-financing has been hailed as a veritable tool for the socio-economic growth of less developed economies in the past few years. The role of these institutions has been said to encompass a wide range of the economic life. In this direction therefore, its ability to ensure socio-economic equity is through its activities to the less-reached by the mainstream financial services has come to be a veritable anchor for the emphasis of these institutions in developing economies. In this study, the place of the microfinance institutions in stimulating economic growth through improvement in the livelihood of

the poor was empirically examined. It is shown that the impact of microfinance on economic growth can be determined by the time period - strong in the short run and weak in the long run. The empirical analyses in this study have helped to address the objectives of the study. The level of penetration of the banks through loan disbursement is shown to be rather weak but growing in the country. On the impact of microfinance banks on economic growth, the analysis has shown that microfinance loans have a positive impact only in the short run while investment has the long run impact.

It is therefore clear that the welfare implications of microfinance banks' loans on the economy is limited to the immediate period when perhaps, access to loans may improve consumption levels and stabilize the households from plunging into further poverty levels. This study will contribute to knowledge in the following ways; It added to the existing body of knowledge on the relationship between microfinance bank and economic growth in Egypt by providing additional evidence in favor of the stand that microfinance bank has strong positive impact on economic growth in the short-run, while it does not have significant impact on economic growth in the long- run. It reveals that microfinance Bank's investment is a veritable factor in the long-run performance of the Egyptian economy. It added that though microfinance loans are relevant in the growth process in Egypt; however, other measures such as boosting agricultural production and taking appropriate steps in enhancing per capita income will equally help in great dimension in boosting the Egyptian economic growth. It specifically adopted the econometric tools of co-integration test to determine the short and long- run impact of microfinance bank on economic growth in Egypt. It is noted that less than 5% of Egyptian-specific studies in this area used this method.

Recommendations

Based on the foregoing, the following recommendations can be made with respect to microfinance participants, the government authorities and the microfinance institutions in Egypt. First, the initial focus of microfinance institutions should be providing loans to improve consumption in the short run. The long run goal should then be to improve investment and other capital accumulation. It is these channels of participation in the economy that will ensure optimal use of the microfinance resources in the country with the target of achieving sustainable growth. The results have shown that

application of the loans for long term economic challenges may not yield meaningful impacts. Thus, boosting consumption and increasing income streams should be the main focus of microfinance loans so as to address short term challenges. Second, another area where microfinance loans can improve short term economic growth is when loans are targeted at business expansion. The implications from the results in this study suggest that business growth may not be a major outcome of microfinance loan applications.

The failure of the microfinance loans to perform in economic growth in the long run suggests that other policy measures by government should be used to augment microfinance activities in order to achieve long term and sustainable growth in the country. Since, the microfinance banks are profit oriented, their contributions to poverty reduction can be limited in the long run if appropriate complementary roles are not played by the government to ensure steady growth in the economy. We recommend that, microfinance institutions should give loans to improve consumption in the short run, while the long run goal should be to improve investment and other capital accumulation.

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