

Factors Affecting Economy of Khyber Pakhtunkhwa

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Abstract

The financial system spurs the economic growth or economic growth necessitates the development of financial system is a million dollar question. Many studies across the globe have been undertaken to find an amicable solution with different degrees of success. This study abridged the gap between knowledge in the current literature to address the specific problem of resolving the economic problems and bringing uplift to the economy of Khyber Pakhtunkhwa by suggesting appropriate measures and measuring the impact of political, religious, economic and cultural factors on perceived economic growth. Survey questionnaires have been used to record responses from respondents to gain insight into their political, religious, cultural and economic perceptions. The study relied on convenience sampling and utilized structural equation modeling technique to test the measurement and structural models to represent relationship among latent variables or constructs. The results of hypotheses tests for overall model revealed an insignificant impact of Perceived Cultural Stability and Perceived Religious Affiliation on Perceived Economic Growth while Perceived Economic Environment and Perceived Political Stability had a significant impact on Perceived Economic Growth. Though the study is limited to evaluation of how different factors impact the perception of economic growth, future studies may evaluate the same from a wider perspective. Furthermore, future studies may also involve other factors that could potentially influence the economic growth. The study was limited to Khyber Pakhtunkhwa; future studies to validate the findings of the present study may be conducted in other regions also.

Keywords: Financial Systems, Perceived Political Stability, Perceived Cultural Stability, Perceived Religious Affiliations, Perceived Economic Growth.

The financial system in Pakistan is made up of the State Bank of Pakistan, all scheduled banks, financial institutions regulated by the Security & Exchange Commission of Pakistan (SECP), Directorate of National Savings, Micro Finance Institutions (MFI's), remittances sent or received through legitimate chartered exchange companies, Pakistan Post Office Directorate, Insurance companies, money dealers in the private sector, kinship, acquaintances, merchants and traders and dealers operating in the rural areas (Mehrteab, 2005). Countries in the South Asian hemisphere in particular are under the tremendous influence of economic slump but the situation in war torn areas like Khyber Pakhtunkhwa is even worse. The Khyber Pakhtunkhwa province in Pakistan is one of those areas which are badly affected by the war-like situation and terrorism. According to the Economic Survey of Pakistan, the KP Province is contributing 13 % to the GDP of the country as against a total population of 27 million which amounts to 14 % of the total population of Pakistan. Majority of the people living in KP Province

do not have access to formal financial system and are handicapped to be associated with informal financial services. According to official reports, the current annual economic growth in KP Province has been recorded at 4.5 %. Remittances from overseas Pakistanis amount to 5 % of total GDP and it is interesting to note that every 4th overseas Pakistani belongs to KP Province. The major industries encompass Agriculture, Construction, Manufacturing, Livestock, Mining and Tourism. The poverty rate amounted to 39 % which stands which makes it 2nd poorest province in Pakistan. The contribution made to the GDP by services sector is 67 % while Industry contributes 20 % and Agriculture contributes just 13 % (Sources: Reclaiming Prosperity in KP: Economic Growth Strategy: Medium Term Inclusive Growth Strategy. P & D, Government of KPK, 2014).

In order to enhance the access of the poorest and down trodden people of Pakistan to the financial services and digital banking, the World Bank has accorded approval to a special project namely ‘financial inclusion and infrastructure project’ having a cost of 137 million USD. The project intends to facilitate the proper implementation of the National Financial Inclusion Strategy-2020 and will help the financially excluded population which amount to more than 50 %, to have better access to banking and financial services. The FIIP aspire to bring a drastic uplift of 15 % in private sector credits to SMB’s as compared to the meager figure of 7 % in 2015 (Source: World Bank Resident Mission in Islamabad, June 2017).

Gaps in the Literature

The controversies surrounding the interactive role of informal institutions with formal institutions and economic growth Sargrario & Ray, 1997; Braton, 2007; Casson, 2010; Lauth, 2015 are quite evident which leads to the importance of further research in terms of finding any relationship between institutions (formal and informal) and economic development. Streamlining the efficient utilization of financial resources by financial system has been imperative for economic development and growth (De Gregario & Guidotti, 1995). A solitary model addressing the diversified developmental economic requirements of different countries is not possible at all (Lucas, 1988) . Therefore, a gap still exists in terms of finding the direction and differences in perception of economic growth pertinent to the users of formal and informal institutions for financial proceedings.

The two competing hypotheses elaborating the causal relationship between financial system and economic growth in terms of financial development induce economic growth and economic growth creates demand for financial products are still inconclusive (Calderon, C., Liu, & L., 2003). In developing countries like Pakistan and especially the less developed province of Khyber Pakhtunkhwa, the role of informal financial institutions is very important to scrutinize. Though role of

formal financial institutes in the economic growth of a country has been extensively researched, however very little is known about the informal financial institutions in the economic growth of a country. The research gap exists mainly due to lack of measurement and quantification tools for the informal financial system. Guerin, 2011 argued that formal financial system's inflexibility and standardization is the major cause of existence of informal financial system and formal financial system cannot replace the informal system.

A little is known about the role of informal financial system in the economic growth of the country despite its significant role in the economic growth of the country. This gap in literature attracted our attention to explore the role of formal and informal financial systems in the economic growth of KP province of Pakistan. Furthermore, although studies exist on the linkage of different external factors (political, cultural, religious and economic) on economic growth however little research has been conducted with the perspective of comparing the influence of these factors on economic growth between the users of formal and informal financial institutions.

Keeping in mind the above scenario current research study is an attempt to bridge the gap between knowledge in the current literature to address the specific problem of resolving the economic problems and bringing uplift to the economy of Khyber Pakhtunkhwa by suggesting appropriate measures and measuring the impact of political, religious and cultural factors on perceived economic growth. This study aims at weighing the potential impact of different factors (political, Cultural and religious) on the economy of Khyber Pakhtunkhwa.

The present research intends to contribute handsomely towards the existing knowledge in terms of providing comprehensive answers to the research questions and to further elaborate the practical implications and significant input in advancing scientific knowledge by testing the hypotheses framed in the study which are not being studied previously. It is also worthwhile to mention in this regard that the KP economy has been in shatters and on the verge of collapse due to severe blows inflicted to it by terrorism, poverty, and ignorance and it is the need of the hour to evaluate the scenario and endeavor to find the answers to the gap in the current literature. The contribution of this research study in terms of concrete suggestions and useful recommendations aid to the existing body of knowledge.

Literature Review

Status of Economy of KP Province

The role of financial system in the economic uplift of a country is an established fact though documentation of the claim lacks substantially. This gap in literature attracted our attention to explore the role of financial systems in the economic growth of KP province of Pakistan. The current study intends to scrutinize the mutual relationship

between different factors and its impact on the Khyber Pakhtunkhwa economy in order to augment the process of decision making for the policy makers and state regulators in devising an appropriate strategic plan in pursuit of economic uplift of the Province. (Marcelli, 1999) described the formal economic activity as selling products in a grocery shop while selling them on a highway to clients is an informal activity. In the same vein, products being produced at a factory registered with the Security & Exchange Commission of Pakistan are a formal economic activity while manufacturing units producing different products with no enforcement of health standards labor laws is an example of informal economic activity. The salient hallmark of financial system operating in many developing countries is the presence of both formal and informal financial systems. Pakistan is no exception where the informal financial institutions provides financial services at a much cheaper rates in comparison with formal financial institutions with varying degree of risk and required documentation associated with the transactions.

The WorldBank in its 2009 report estimates that two third (2/3) of all workers in the world are engaged in the activities associated with Informal economy which amply demonstrate the enormous magnitude and size of this important aspect of economy. The importance of informal economy is not lying in its size only but the role it plays in employment generation, poverty alleviation and improving the quality and standards of lives of masses justly invite the attention of policy makers and regulators to focus on its relationship with the Formal economy. The deficiency, ill-structure and lack of formal financial system pave way for the consolidation of informal financial system as a viable alternative to the needs of the people. The interplay involved in mobilization of savings in an economy and its subsequent allocation towards diversified avenues of investment projects is an established phenomenon in modern finance literature (Ojo & Adewunmi, 1982). The need for maintaining an adequate financial system for an economy has been widely recorded in the literature. The flow of concentration of funds through formal and informal channels is mandatory to keep the businesses going and ensure the uninterrupted flow of commercial and industrial proceedings in a streamlined fashion.

Allen, Chakrabarti, & De (2007) elaborated the two channels through which the businesses in any economy can fetch finances to cope up with production needs: the formal financing channels like banks and financial institutions loans and informal financing channels like private money lenders that largely rely on subscribers' reputation, trust and reciprocity with little legal supervision. Comprehending the essential attributes, characteristics and relationships of the formal and informal financial systems and vis-à-vis its implications for policy making entails tremendous importance for the economic development. A sizable magnitude of people in developing countries does not have access to the formal financial services due to limited collateral and low financial

credibility (Banerjee & Duflo, 2014); (Madestam, 2005). While fighting the menace of terrorism, the businessmen living in Khyber Pakhtunkhwa province in Pakistan conceded heavy human and financial losses due to war against terror and it has resulted in stagnation of business activities due to lack of access to formal financial services and security situation.

Consequently, there emerged a gap between the inadequate provision of formal financial services and demand for any such services by the people in business community. The financial services being provided by the informal sector, which can be safely termed as provision of financial services outside the ambit of state sector scrutiny and regulation, emerged to bridge the gap between supply and demand. There is a potential to cater for the low income and vulnerable segments of the society in terms of providing them with financial services like bank deposits, loans and borrowings, money transfers and insurance proceedings, hence creating a shelter to combat poverty (Zaman, 2004). This study will positively recommend some concrete policy measures to establish useful linkages between informal and formal financial systems in Khyber Pakhtunkhwa. The earlier perspective was that the growth of the economy was solely the result of formal financial system but on the other hand a vast majority of people are earning their livelihood that does not come in ambit of the organized sector. Keeping in view the prevailing issues of poverty, unemployment and lack of access to civic amenities within the society, there seems to be enormous need for striving to enhance the co-operation between the formal and informal institutions of financial systems to bring prosperity and sustainability to the masses.

Reducing the magnitude of informal economy at KP seems indispensable to grab the benefits of a more sustained and robust economy for the people of KP in terms of better provision of civic amenities, more sustainable employment, broad base the tax horizon, curtail the cash economy, improve documentation in transactions, facilitate investment, build investor confidence, improve business services and improve the standard of life of the people associated with informal economy in terms of better securing their rights to participate in market opportunities.

Culture and Perceived Economic Growth

UNESCO (1982) defines culture as “all the specific features, spiritual, material, intellectual, or affective, that characterize a society or human group. Culture includes basic art and literature, way of life, basic human rights, system of value tradition and religions”. Culture plays an important role in economic development. According to Scott (2000) culture amounts to a specific sector of economic activity aimed at impacting the avenues of employment and civic environment. The cities of Khyber Pakhtunkhwa are growing at an accelerated pace and the cultural scenario is also changing at a rapid pace. To revive the cultural

diversity, the Government of KP has established institution in order to safeguard the issue of KP integration in terms of its sites to outside world has got pivotal importance.

Kwon (2005) revealed in his study the cultural effects on economic development in South Korea. The study introduced the concept of transaction cost as an intermediary between culture and economic development. He examined the recent shifts in Korean Culture. He found that individualism was higher and saw a decline in team work, trust, rule of law. He opined that these factors increases the transaction cost and will have negative effects on Savings, investment and economic development. It will also adversely affect the creativity, which is driving force behind recent economic growth in Korea.

Greif (1994) opine that culture of a region and its historical development greatly influence economy of a country. Culture also defines economic development of a country. It depicts the customs and values of a society in different eras. Culture is also a reference to society's attitude and values. Researchers believe that culture, politics and economic are the three pillars of a society and the society grow fast when there is a synergy among these factors (Xuewen, 1997).

According to Sapienza (2014) culture and economics move together. She was of the opinion that different cultures shape different habits and attitudes, which has different economic implications. She further elaborated that in culture where trust level is low, the parents will teach their kids not to trust. Societies with low trust tend to have fewer financial contracts, which have adverse impact on the economic development. In contrast, societies where trust level was high had more transparent governance. The element of cheating was low and people entered into more financial contracts, which resulted in economic development.

Mokyr, (2016) elaborated that values, beliefs and preferences helps change behavior, which transform societies. The author explained that industrial revolution, which took place in Europe in 18th century and not in other parts of the world, was the result of culture of growth. This culture of growth resulted in numerous inventions and scientific advancement. Author compared economies of Europe and China and argued that both had access to same level of technology and intellect but Europe was more open to innovation, which resulted in faster economic growth. Chinese enlightenment was controlled by the ruling elite. That discouraged innovation and growth.

Tabellini (2010) concluded that culture have causal effect on economic development. He opined that two cultural traits social capital and confidence in the individuals are strongly correlated with economic development in Europe and other countries of the study. He was of the opinion that literacy rate and political intuitions of the nineteenth century in Europe shaped culture which was highly conducive for economic development.

Healy & Hampshire, (2002) studied the role of culture and creativity in the new economy. It claimed the Culture and innovation are main pillars of Economic Development in new Economy. The author is of the opinion that Internet has changed the world and brought a revolution of creativity and changed the work culture by bringing transparency. Van der Burg and Russo (2005) believed that culture is the most important component of postindustrial events. According to the authors cultural economies incorporate creative features of the society into every aspect of economy, which encourages innovation and novelty, thus making it attractive for investment.

Political Factors and Perceived Economic Growth

Majority of the studies revealed that economic growth has been hampered by financial crises but some studies also reflected financial crises as stemming in the long run from financial liberalization yielding positive results for economic development (Cavallo & Covoal, 2010; Cerra & Saxena, 2008; Reinhart & Rogoff, 2009; Reinhart & Vincent, 2010).

Miljkovic and Rimal, (2008) has quoted Lipset & Man (1960) that regardless of the system of governance in a country, whether it is democracy or autocracy, if the regime survives a span of 25 years, it can be clubbed into politically stable countries and if not, then otherwise (Carmignani, 2003) argues that ethnic, religious, ideological and economic variables constitute the fabric of socio-political unrest which manifest itself into conflict situation leading to disruption of economic activities in terms of hampering the investment and growth. While going through the literature, the researcher observed some very interesting patterns like to the question that how the disparity between socio-economic statuses has been reacted by people, it has been observed that high degree of polarization between rich and poor class tends to lead people to adopt abnormal ways and means to safeguard their interest rather than adherence to the political and social milieu.

Cavallo and Covoal (2010) analyzed the role being played by political institutions in terms of making crucial political decisions in times of financial distress thereby highlighting critical junctures. They were of the view that long term economic growth stems from the performance of political institutions in terms of exercising the best possible courses of actions. However, they also observed that the democratic institutions takes its own course and time which leads to unusual delays in decision making thereby resulting in problem creation in comparison with autocratic form of governance where efficient decision making has been a hallmark but controversial state of its quality . Tommasi (2003) arguments are also in alignment with Cavallo and Covoal (2010) elaborating the relationship between effective policy reforms and institutional fabric within a country.

The above cited works amply demonstrate the rationale why political stability is congenial for economic growth and political instability detrimental for economic growth and development. So it can be safely concluded that addressing the root cause of all political conflicts and endeavoring its amicable solutions has been the only way out to aspire for handsome economic growth in a country.

Religion and Perceived Economic Growth

Haar & Ellis (2006) suggested four ingredients, two carrying network feature namely practices, organization and values and spiritual experiences are meant to be forming actual behavior of individuals paving way of proper societal activities. Marini (2004) elucidated the three distinctive phases of economic development in history with attributes of economic growth size, per capital income and values. He described the major characteristics of the first primitive phase as heavy dependence on agriculture, economic stagnation, low incomes and slim economic prospects for development whereas the second phase termed as modern age brought high economic growth in its wake along with marked increase in per capital income and technological developments. The increase level of savings somehow helped the communities to overcome poverty to some extent in the second phase while the post-modernization phase amply exhibited growth levels and higher incomes with additional trait of consistency in life standards.

Inglehart and Baker (2000) explained the process of changes in economic conditions and its association with corresponding changes in drastic values like freedom of expression and amelioration in life quality standards. The religious impact on economic development could be seen in the light of the economic conditions of the time in particular vicinity. Lavergne, Doppelhofer, & Miller, 2004 find out a positive influence of religion on economic growth in the case of Islam and Confucianism. Platteau (2007) elaborated the role of politicians in using religion as a shelter to endure and consolidate their respective positions in the political arena.

Krueger (2007) opine that income disparity and extreme poverty are not the reason behind religious violence. He further elaborates that even people with highest academic qualifications can be a prey of religious intolerance and violence. Obeyesekere (1970) analyzed the phenomena introduced by Krueger in the situation of conflict in Sri Lanka and found it perfectly correct in the scenario.

Ekaterina, Elbakian, and Medvedk (2003) Discussed the linkage of religion and Economic activities since ages. He was of the opinion the religion has great impact on the behaviors of its believer's work attitude and economics and production of that particular economy. He further argued that religion plays a very important role in economic success of a society. Religion provides moral grounds, which shape work ethics norms for particular society.

Kuran (2009) concluded that religion greatly influences economic performance. He stated that societies which deprive their women from education have slower economic growth than societies, which offer equal educational opportunities to female. Religion also influences openness to change.

Pryor (2007) Compared the Economic systems of Islamic Countries with other countries of same Development and also explored the impact of Islamic System on the economies of Islamic Countries. Author concluded that as such there was no specialized exclusive economic system in those countries and therefore it had no impact on the economies of those countries. In another study Meyer & Lobao (2003) studies the impact of religion and economic Hardship on the mental health of the workers. They found that religion had positive impact on mental health. Religion was found to be a mediator for coping stress and depression and was a support for mental health mainly among female workers.

Research Methodology

Population of the Study

The population for this research study is money dealers and lenders in private sectors, Small & Medium Enterprises and scheduled banks in public and private sector in Khyber Pakhtunkhwa. Responses received from them have been gauge to record the impact of cultural, political, religious and economic factors on the perceived economic growth at Khyber Pakhtunkhwa through formal and informal financial sector. Five hundred (500) subscribers have been taken from formal and informal financial sectors as a sample. Three hundred and sixty nine (369) respondents responded and a total of three hundred and nine were found valid hence the response rate came to 61.8 %.

Instrument Design

This questionnaire has been designed for the first time in 2013 at the propelling stage of this study. Afterwards, some drastic changes have been made in order to cater to the needs of existing data gaps and to improve quality of data. Those questions having been sensed as problematic were modified in terms of rewording and adjustments.

Table 1. Sources of Instrument Items

Construct	Sources
Political Factors	Akongdit, 2013; Johnson, 1987; Schneider and Frey, 1985; Yahyazadehfar, Zali, and Shababi, 2011; Seiler, Seiler, and Lane, 2012; Muermann, Mitchell, and Volkman, 2006.
Cultural Factors	Cochran, 1960; Casson and Godley, 2000; Franke, Hofstede, and Bond, 1991; Omo and Stanley, 2011; Weber and Hsee, 2000; Grinblatt and Keloharju, 2001.
Religious	Eid and EL-Gohary, 2015; Canepa and Ibnrubbian, 2014.

Factors	
Economic Factors	Sheikh, 2010; Yahyazadehfar, Zali, and Shababi, 2011); Nagy and Obenberger, 1994; Muermann, Mitchell, and Volkman, 2006; Qureshi, Kashif ur Rehman, and Hunjra, 2012; Al-Ajmi, 2009;
Economic Growth	Lewis, 2013; Kuznets, 2016.

Data Analysis and Results

Respondent Profile

Majority of the respondents were middle aged belonging to the age group between 31 to 40 (122, 39.5%) while the least number of respondents were in the age group between 51 to 60 (26, 8.4%). Majority of the respondents were holding Master degree as they constituted 42.7 percent of the total respondents. Majority of the respondents were male (242, 78.3%) while the study had a total of 67 (21.7%) female respondents. Majority of the respondents were employed in a private organization (147, 47.6%) followed by government employees (84, 27.2%) while a total of 77 (24.9%) were self-employed.

Table 2. Respondents Profile

Age				
below 30	98	31.7	31.7	31.7
31-40	122	39.5	39.5	71.2
41-50	63	20.4	20.4	91.6
51-60	26	8.4	8.4	100.0
Total	309	100.0	100.0	
Education				
Secondary	12	3.9	3.9	3.9
HSSC	16	5.2	5.2	9.1
Bachelors	112	36.2	36.2	45.3
Masters	132	42.7	42.7	88.0
Above masters	37	12.0	12.0	100.0
Total	309	100.0	100.0	
Gender				
Male	242	78.3	78.3	78.3
Female	67	21.7	21.7	100.0
Total	309	100.0	100.0	
Occupation				
Government employed	84	27.2	27.3	27.3
Private employed	147	47.6	47.7	75.0
Self employed	77	24.9	25.0	100.0

Total	308	99.7	100.0
Missing System	1	.3	
Total	309	100.0	

PLS Evaluation

The model developed in this study examines the relationship between four factors: Perceived Political Stability, Perceived Cultural Stability, Perceived Religious Affiliation, and Perceived Economic Environment with Perceived Economic Growth. The model is shown in the following Figure.

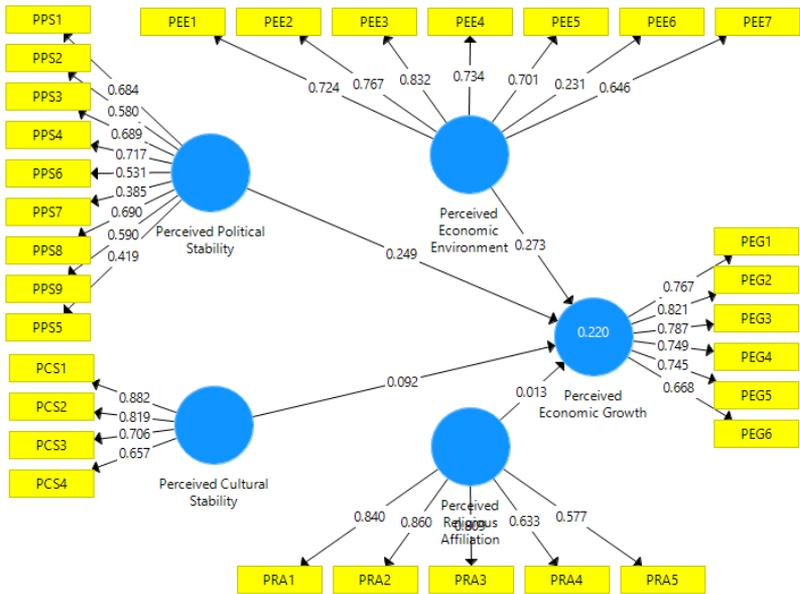


Figure 1. Initial Model with Item Loading

The results from initial model analysis in SMART-PLS revealed that all factors has good Cronbach’s Alpha value and Composite Reliability. However, the AVE values for Perceived Economic Growth and Perceived Political Stability were below the recommended value of .50. Analysing factor loadings for these two factors revealed a number of items having loadings below the recommended .70. Stepwise each item with lowest loading was removed and model was re-run to evaluate the reliability and validity values.

One Item (PEE6) having factor loading .231 was removed from Perceived Economic Growth, and the model was re-run. Having reevaluated the model with the removal of PEE6, the results showed acceptable AVE value. Five items (PPS2, PPS5, PPS6, PPS7, and PPS9) were removed from the factor Perceived Political Stability due to low factor loadings. After removal of the items acceptable value for Perceived Political Stability was obtained. The final model after removal of some items is shown in the following figure.

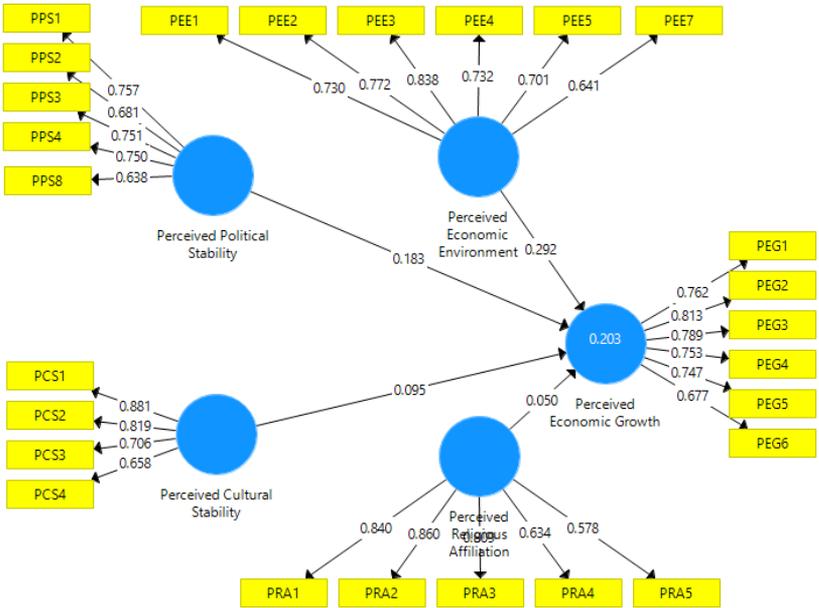


Figure 2. Final Model with Item Loading

The factor loadings for each of the construct in the modified model are presented in the following table. Although some of the items still have loadings below .70. However, since acceptable values for Alpha, CR, and AVE were attained. The items weren't removed from further analysis.

Table 3. Factor Loading of the Constructs in the modified model

	PCS	PEE	PEG	PPS	PRA
PCS1	0.881				
PCS2	0.819				
PCS3	0.706				
PCS4	0.658				
PEE1		0.730			
PEE2		0.772			
PEE3		0.838			
PEE4		0.732			
PEE5		0.701			
PEE7		0.641			
PEG1			0.762		
PEG2			0.813		
PEG3			0.789		
PEG4			0.753		

PEG5	0.747	
PEG6	0.677	
PPS1		0.757
PPS2		0.681
PPS3		0.751
PPS4		0.750
PPS8		0.638
PRA1		0.840
PRA2		0.860
PRA3		0.809
PRA4		0.634
PRA5		0.578

Note. PCS: Perceived Cultural Stability, PEE: Perceived Economic Environment, PEG: Perceived Economic Growth, PPS: Perceived Political Stability, PRA: Perceived Religious Affiliation

Reliability Analysis

Each of the factors in the revised model are evaluated for reliability. Reliability in the present study is assessed using Cronbach Alpha and Composite Reliability. Reliability analysis was conducted to determine the internal consistency for each construct. Composite reliability refers to consistency of the group of items measuring a latent construct. Traditionally Cronbach's Alpha has been widely used to measure reliability of a construct. However, recently Cronbach and Shavelson (2004) recognized that using Alpha coefficient alone to determine reliability may not be sufficient. Hence, composite reliability is utilized that draws on the standardized loadings and measurement errors of each item (Fornell & Larcker, 1981). The results of the Alpha and Composite Reliability are shown in the following table. The alpha of the constructs in the present study range between .762 and .854 while CR values ranged between .841 and .890. Results indicate that reliability of all the constructs is well above .70 which indicates good reliability is attained. Descriptive for scale item if deleted were also analyzed to check if there is a substantial increase in reliability upon deletion of an item. It was found that removing an item would not improve the construct reliability.

Table 4. Reliability analysis of the constructs

	Cronbach's Alpha	Composite Reliability
PCS	0.788	0.853
PEE	0.834	0.877
PEG	0.854	0.890
PPS	0.762	0.841

PRA	0.821	0.865
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Convergent Validity

One of the two forms of validity established in the present study is convergent validity. Convergent validity is established when the concepts that should be related to each other are in fact related. Statistically convergent validity is established if an AVE of .50 or greater is achieved for the constructs. Based on the factor loadings, convergent validity was calculated. The results indicate that AVE for all the constructs in the present study was found to be over the recommended value of .50. Hence, convergent validity was established. The following table shows the AVE value for each of the constructs in the present study.

Table 5. AVE for constructs

	Average Variance Extracted (AVE)
PCS	0.595
PEE	0.545
PEG	0.575
PPS	0.514
PRA	0.567

Discriminant Validity

Discriminant validity determines the extent to which sufficiently distinct constructs are not strongly related with each other. Discriminant validity in the present study is established through three different techniques

1. Fornell-Larcker Criterion
2. Cross Loadings Analysis
3. Heterotrait-Monotrait Ratio (HTMT)

Using Fornell-Larcker criterion, discriminant validity is established if square root of AVE for each construct is greater than inter-correlations of other constructs. Following table compares AVE square roots and inter-construct correlations. The results indicate that square root of AVE of each construct is greater than other inter-construct correlations. Hence, discriminant validity is established.

Table 6. Fornell and Larcker Criterion

Constructs	PCS	PEE	PEG	PPS	PRA
PCS	0.771				
PEE	0.027	0.738			
PEG	0.162	0.386	0.758		

PPS	0.154	0.446	0.345	0.717	
PRA	0.613	0.190	0.228	0.347	0.753

The next method is cross loadings. The cross loadings table below reports details of correlations among each scale. This table is a complete frame of discriminant validity and convergent validity as it reports on factor loadings of all indicators; this should be greater than the constructs of them than any other factors (McLure Wasko & Faraj 2005). The results indicate that all the factor loading of measurements are greater than their cross-loadings. Additional support for discriminant validity was obtained through the assessment of cross-loadings. Since, the diagonal loadings were significantly greater than the off-diagonal loadings in the corresponding rows and columns (Hulland, 1999).

Table 7. Cross Loadings

	PCS	PEE	PEG	PPS	PRA
PCS1	0.881	0.064	0.183	0.203	0.535
PCS2	0.819	-0.049	0.119	0.055	0.450
PCS3	0.706	-0.012	0.078	0.039	0.507
PCS4	0.658	0.073	0.061	0.128	0.426
PEE1	-0.016	0.730	0.231	0.445	0.132
PEE2	-0.035	0.772	0.205	0.312	0.149
PEE3	-0.123	0.838	0.260	0.347	0.027
PEE4	-0.030	0.732	0.349	0.222	0.115
PEE5	0.062	0.701	0.188	0.246	0.123
PEE7	0.204	0.641	0.357	0.384	0.248
PEG1	0.185	0.344	0.762	0.295	0.188
PEG2	0.138	0.278	0.813	0.306	0.153
PEG3	0.148	0.279	0.789	0.276	0.180
PEG4	0.000	0.386	0.753	0.321	0.112
PEG5	0.146	0.202	0.747	0.200	0.225
PEG6	0.145	0.199	0.677	0.089	0.218
PPS1	0.168	0.289	0.254	0.757	0.309
PPS2	0.048	0.350	0.218	0.681	0.073
PPS3	0.055	0.335	0.261	0.751	0.176
PPS4	-0.022	0.338	0.228	0.750	0.158
PPS8	0.272	0.289	0.266	0.638	0.482
PRA1	0.606	0.054	0.195	0.243	0.840
PRA2	0.490	0.104	0.191	0.332	0.860
PRA3	0.464	0.228	0.223	0.246	0.809
PRA4	0.370	0.224	0.045	0.279	0.634

PRA5	0.313	0.303	0.055	0.353	0.578
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HTMT is an estimate of the correlation between the constructs. Its interpretation is straightforward. Using the HTMT as a criterion involves comparing it to a predefined threshold. If the value of the HTMT is higher than this threshold, one can conclude that there is a lack of discriminant validity. The exact threshold level of the HTMT is debatable; Some authors suggest a threshold of 0.85 (Kline, 2011), whereas others propose a value of 0.90 (Teo, Srivastava, & Jiang, 2008). The table below shows that the estimates do not exceed the recommended values. Hence, discriminant validity is established.

Table 8. *Heterotrait-Monotrait Ratio (HTMT)*

	PCS	PEE	PEG	PPS	PRA
PCS	-				
PEE	0.145				
PEG	0.190	0.406			
PPS	0.220	0.555	0.401		
PRA	0.734	0.290	0.234	0.474	-

Structural Equation Model

The structural model comprises the hypothesized relationship between exogenous and endogenous variables in the model. The structural model provides information as to how well the theoretical model predicts the hypothesized paths. The coefficient of determination (R^2), effect size (F^2) and the predictive relevance measure (Q^2) were obtained in order to assess the structural model.

The results of the analysis show an R^2 value of .203. This shows that 20.3% change in perceived economic growth can be accounted to perceived political stability, perceived cultural stability, perceived economic environment, and perceived religious affiliation. The model with R^2 value is shown in the figure below:

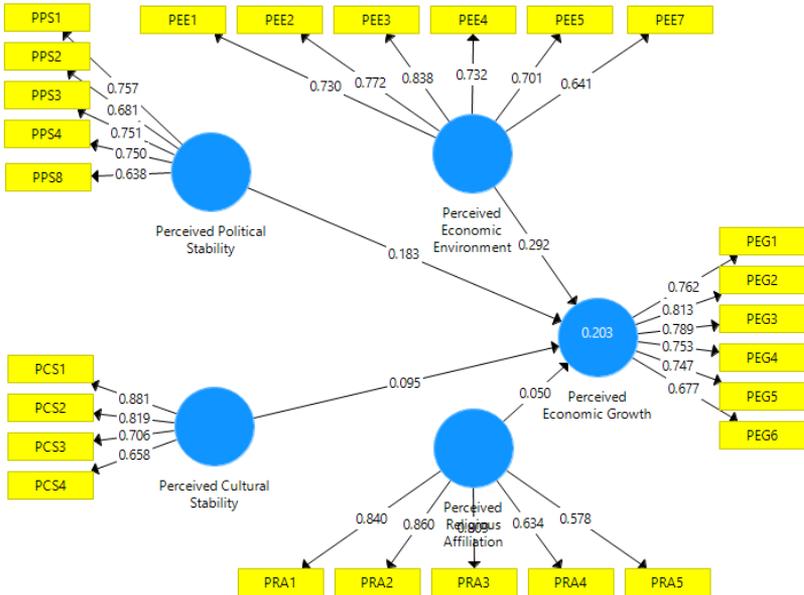


Figure 3. Overall Structural Model with R²

In addition to evaluating the R² value, the change in the R² value when a specified independent variable is omitted from the model can be used to evaluate whether the omitted construct has a substantive impact on the dependent variable. This measure is referred to as the f² effect size (Hair Jr, Hult, Ringle, & Sarstedt, 2013). The results show that removal of perceived cultural stability and perceived religious affiliation have negligible effect on the dependent variable (perceived economic growth), while perceived economic environment will have a large effect and perceived political stability will have a medium effect. The effect size is shown in the following table.

Table 9. Effect Size for Independent Variables

Constructs	Effect Size (f ²)
Perceived Cultural Stability	.007
Perceived Economic Environment	.085
Perceived Political Stability	.030
Perceived Religious Affiliation	.002

The Q² effect size for the predictive relevance of perceived political stability, perceived cultural stability, perceived economic environment, and perceived religious affiliation on perceived economic growth. The .101 indicates that the independent variables have a small effect in producing the Q² for perceived economic growth.

Hypotheses Testing

The results of hypotheses tests revealed an insignificant impact of Perceived Cultural Stability ($t = 1.237, p > .05$) and Perceived Religious Affiliation ($t = .632, p > .05$) on Perceived Economic Growth while Perceived Economic Environment ($t = 5.419, p < .0001$) and Perceived Political Stability ($t = 2.259, p < .05$) had a significant impact on Perceived Economic Growth. The results are summarized in the following table and diagram.

Table 10. Hypotheses Testing

	Original Sample (O)	(STDEV)	T	Sig
PCS -> PEG	.095	0.077	1.237	0.217
PEE -> PEG	.292	0.054	5.419	0.000
PPS -> PEG	.183	0.081	2.259	0.024
PRA -> PEG	.050	0.080	0.632	0.528

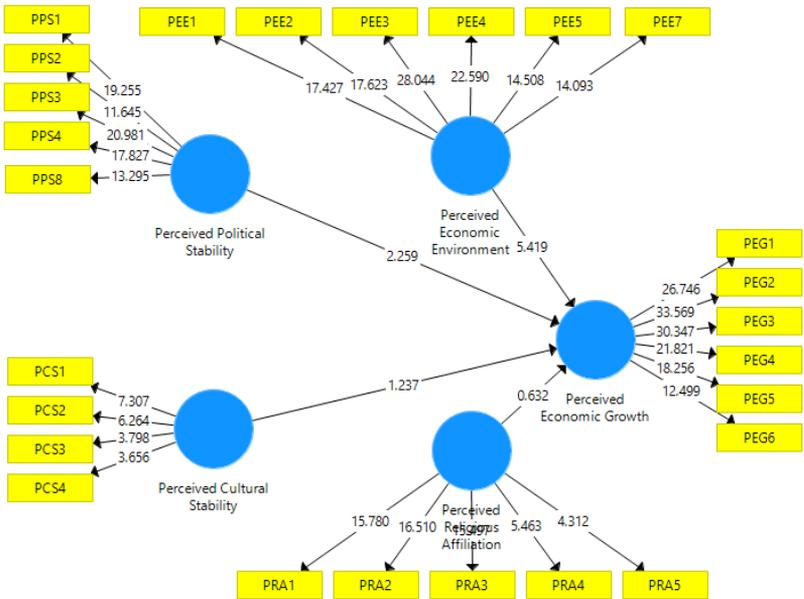


Figure 4. Structural Model for hypotheses testing with T-Model

Discussion and Conclusion

The primary aim in the current research study is to bridge the gap between knowledge in the current literature to address the specific problem of resolving the economic problems and bringing uplift to the economy of Khyber Pakhtunkhwa.

The regression results for hypothesis H1, Perceived Political Stability was found significant on Perceived Economic Growth in KP province. Similar results were validated by the preceding studies by

(Abadie, 2006; Feng, 1997; Asteriou & Price, 2001; Julio & Yook, 2012; Braunfels, 2014), which indicates that less distress in political environment provides the strong foothold to the country economy, it is because if the political stake holders are on one page than government can take corrective measures for the burning and broad economic issues of the country which subsequently uplift the real economic outcomes of the economy. Taking political scenario of Central Eastern European (CEE) countries in comparison with KP political scenario; results are contrary with the study of Radu (2015), where political determinants found highly correlated with economic variables but have no noteworthy contribution directly to the economic development.

The results of regression for testing hypothesis H2, Perceived Cultural Stability was found insignificant on Perceived Economic Growth in KP province. Results found contradicts with the previous studies by (Maridal, 2013; Tylus, 2014; Ciobanu & Bahna, 2015) suggested that cultural factors stimulates the motivation/trait of the individual and society both to take initiatives for innovative business concerns, which ultimately brings the economic prosperity. According to Manz, Sapienza, and Zingales (2006), Culture is composed of those customary principles and values that ethnic, religious and social groups convey legitimately unchanged from one generation to next. Hence the above argument also clarifies the casual link between cultural factors and economic growth by emphasizing on various cultural dimensions i.e. priorities and preferences; that have a substantial influence on economic outcome of the country. Also saving pattern of the nation considered as a significant factor for the prosper economy, but Carroll, Rhee, and Rhee, (1994) reported that there is statistically no influence of culture on saving pattern, which supports the results of the present study that. Therefore in future more in depth study can be made in perusing to explore the causal linkage between cultural variables and economic growth.

Assessing the hypothesis H3, Perceived Religious Affiliation was found insignificant on Perceived Economic Growth in KP province. The relevant previous studies by (Eum, 2011; Durlauf, Kourtellos & Tan, 2005) emphasizes on religiosity factors as a momentous determinant for determining economic growth, but study found statistically no evidence for religion as a potential measure for economic growth, because more the time spent in religious activities goes at the cost of the time for economic activities. Also the results of the study finds contradictory with the study of Barro and McCleary (2003), which suggest religion as a significant predictor toward economic growth, because this is religion which shapes the characteristics of the individual i.e. honesty, transparency and enthusiasm to work. Therefore, more the individual is close to his/her religion more he/she can contribute towards economic growth.

With regard to the role of perceived economic factors H4, the results indicates the significant impact of perceived economic factors on

perceived economic growth in KP province. The outcome of the current study is similar to the findings reported by (Antwi, Mills & Zhao, 2013; Upreti, 2015). However, this impact is contextual in nature because it varies from country to country and time to time (Ekanayake & Chatrna, 2010). Like say for instance Inflation, Money Supply and Interest rate have negative influence on economy suggested by (Semuel & Teddy, 2014; Ali, Mahmood & Bashir, 2015) while export, foreign direct investment and trade have positive influence on economic growth (Hussain & Haque, 2016).

Practical Implications

The research study highlighted diversified elements of critical value to financial performance. Previously the information about perceptions of people about political, religious, cultural and economic factors was limited to certain extent. The results suggest that it carries critical importance for the financial regulators and policy makers in the Province to monitor vigorously the changes in subscriber needs and meticulously observe the changes taking place in the financial arena for enhancement in economic growth. This research study endeavored to highlight the needs and requirements of financial systems in Khyber Pakhtunkhwa that are indispensable for the survival and sustainability. The study has elaborated in clear terms that the policy makers in the public sector to evolve a strategy of devising a viable financial inclusion plan that could be used amicably for the economic growth of Pakistan. The afore-mentioned strategies not only will boost the local KP economy but will contribute on the national and international arena also.

Limitations of the Study

Every research study is subjected to many assumptions and limitations and this study is no exception. In the first instance, several assumptions accompany this research study. First of all, the study assumed that the respondents in the sample population has answered the survey questions very truthfully, unbiased and without any fear in line with their best ability. However, there are chances that the respondents may have responded in terms of social desirable answers (Krumpal, 2013; Weigold, Weigold, & Russel, 2013). Secondly, the sample representing the total population is assumed to be fully representative of the people associated with formal and informal financial systems in KP Province. All respondents are assumed to be literate enough to understand at least the know-how of responding to any such questions and its importance.

The limitations of this study are basically centric to its methodological issues like the demographics, sample size and research design. First to discuss the last aspect, since the research data is constrained time period and it has been collected in a sphere of three months only, the data represent a limited timeframe. There is a

possibility that the population left over from this study, if contacted, may have been able to have contributed in a better way than the current respondents. On a similar note, different people possess different IQ levels and it leads to different capability levels among people.

The larger size of sample increases the statistical strength of the data and on the contrary, a smaller one decrease the same in size or overall effect, similarly score range is accordingly restricted and limited variability (Faul, Erdfelder, Lang & Buchner, 2007). As for as demographic attributes of the respondents is concerned, it is worth-mentioning that the study concedes a drawback of having all respondents from KP Province only and rest of the country has not been considered for data collection due to time and financial constraints.

Furthermore the study is limited to the evaluation of how different factors impact the perception of economic growth and the comparison of the factors and economic growth between formal and informal system. Future studies may evaluate the impact of formal and informal systems on economic growth and how they both may be linked to each other.

Future Research

In order to address the study limitations, it is pertinent to suggest the future direction of the study. First, the research study intended to focus on people perspective about formal and informal financial system, the future researcher can investigate the strategic orientation towards firm performance in formal and informal financial set up. Secondly, the future researcher should take into consideration the possibility of including greater clientele in the data collection process. The future researcher should also concentrate on broadening the scope of the study by including institutions like ‘not-for-profit’ organizations. For data collection, apart from survey method, other data collection techniques shall also be relied upon. Third, the present research study concentrated on only one Province; Khyber Pakhtunkhwa in this study with focus on big cities, the future researcher should include other provinces of Pakistan also along with concentration to get data from smaller cities of Pakistan to overcome this sort of limitation. Fourth, the present study used positivistic approach for collection and analysis of data. This procedure has resulted in data collection through survey instrument only. The future researcher is suggested to focus on a more pragmatist approach to get hold of deep routed information regarding people perceptions about the financial systems.

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