# MICROFINANCE IMPACTING ON MICRO-ENTERPRISE DEVELOPMENT AND RURAL EMPLOYMENT:

## A Review of Past Experiences From India And Bangladesh

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**Abstract:**

An attempt has been made to review the past researches on the impact of microfinance interventions on rural employment and micro-entrepreneurship development in India and Bangladesh. Extensive scanning of past researches including the micro and macro studies has been done in this connection. Major focus in this study is past academic researches which are supplemented by evaluation programmes conducted by microfinance wholesalers. The study broadly acknowledges the positive impact of microfinance on rural employment and micro-entrepreneurship development in both India and Bangladesh. Self-employment and micro-entrepreneurship development for women have been the major gifts of the group-based microfinance interventions.

## 1. Introduction:

Microfinance denotes provision of finance on a small scale to people who do not have access to the formal banking system. Often people get confused and cannot differentiate between microfinance and microcredit, but basically microcredit is part of microfinance. It includes financial products like microcredit, microsaving, microinsurance, payment transfer, provident fund etc., and intermediation services like financial intermediation, social intermediation and business development. Of course there are many definitions of microfinance and many schools of thought, but all converge on the supply of financial products and services to the poor (Panda, 2009; Somanath, 2009; Ledgerwood, 1999).

Microfinance has been primarily dominated by the informal sources, especially the money lenders. Structured microfinance could be traced to the Irish Loan Fund (ILF) which was initiated by Jonathan Swift in the early 1700s and which used to provide collateral-free credits to the rural poor. Thereafter the microfinance interventions spread to the entire Europe in the 1800s with the innovation of structured credit-lending models like Credit Unions (CUs), Peoples' Banks (PBs), Saving and Credit Cooperatives (SCCs) etc. The momentum was further stepped up by the cooperative movement in Europe and North America. In the late 1800s, the Indonesian People's Credit Banks (BPR) laid the foundation of the microfinance revolution in Asia. This revolutionary phase went on up to the 1950s whereafter various developing countries experimented with subsidized credits either from national governments or development donors, but most of these subsidized credit schemes were not successful due to their inability to address the long term sustainability. Microcredit for micro-enterprise as pilot projects was started in Bangladesh, Brazil and some other developing countries in the 1970s and it started the new microfinance revolution in the world, especially with the Grameen Bank initiated by Prof. Muhammad Yunus in Bangladesh. The innovations over the years in microfinance refurbished and strengthened the sector especially with the establishment of institutions like Banco Postal in Brazil, ADOPEM in Dominican Republic, Basix and ICICI Bank in India, Micro-enterprise Access to Banking Services in Philippines, Unibank in Latvia, Prodem and Caja los Andes in Bolivia etc.

Past researches across the world have captured the impact of microfinance programmes on a set of variables like rural employment, literacy and migration. Different researches have had different outcomes which may not be too much apart, but in different directions and parameters. Weak evidence of impact of microfinance on rural employment, literacy and migration in developing countries may not be ignored. So it is important for researchers in microfinance, especially in the domain of impact assessment, to understand the past research outcomes, the methodology employed in such research, the point of view of the researcher and research gap, if any. For the same reason, this study was conducted by extensive scanning of past researches conducted in different countries of the world.

## 2. Microfinance and Employment:

Microcredit was conceptualised as production loans for farming and non-farming and later capacity utilisation and diversification of farming were brought in by the addition of microfinance products and services like micro-insurance, business-development services etc. The initial definition of microfinance focused on micro-enterprise development supported by small scale finance for the purpose of income enhancement and employment creation for the poor and unbankable sections of the population. Past academic and action researches had thus put a premium on income effect and enterprise growth through microfinance.

The researches from 1998 to 2009 had concentrated a little more on the employment factor apart from the income, saving and employment factors. Khandker, Samad and Khan (1998) tried to map the village level impact of microcredit programmes conducted by Grameen Bank, Bangladesh Rural Advancement Committee (BRAC) and Bangladesh Rural Development Board and found that these village level programmes had increased self-employment, largely non-farm self employment, and reduced wage employment, largely in farm activities. Also they found that the increase in self-employment was higher than the reduction in wage employment, which led to overall higher aggregate employment. A year later, an Indian study (Sarkar, 1999) in Birbhum district of West Bengal concluded that the microfinancing for DWCRA groups under the Integrated Rural Development Programme (IRDP) and TRYSEM programmes helped in micro-enterprise development among women leading to a growth in rural employment and this was found possible due to the social and financial intermediation of Non-government Organisations (NGOs). Another study in India (Puhazhendhi and Satyasai, 2000) commissioned by the National Bank of Agriculture and Rural Development (NABARD) covering a bigger sample size of 223 Self Help Groups (SHGs) spread over 11 states found that the SHG mode of microfinance intervention led to addition of about 200 economic activities creating more employment.

A study conducted by Sarker (2001) in India with data collected from 96 households from 10 SHGs belonging to two villages of Howrah district of West Bengal revealed that the impact of microfinance on the generation of employment for SHG households was quite significant. Out of the 96 households, 70 per cent reported employment of 200 man days and the rest reported employment of more than 200 man days in a year. Similar outcomes were traced from a study of an SHG in the Kalahandi district of Orissa where the SHG- based microfinance intervention had led to 185 person days per member through micro-enterprising (Mishra and Hossain, 2001). Another sample study in India of 150 women SHG members from five blocks of Tiruchirapalli district of Tamil Nadu conducted by Manimekalai and Rajeswari (2001) concluded that the SHG members were running micro-enterprises which included trade, agriculture, animal husbandry, processing of food and food-based industries, tailoring, gem cutting, catering, petty shops, bamboo-based units, agro-based units etc. But interestingly, they found a significant difference between the mean performance of entrepreneurs based on their age, community, education and previous experience. Goankar (2001) had collected data from five women SHGs from Bardez and Bicholim talukas of Goa and these indicated that the SHG movement made a significant contribution in regard to reduction of unemployment in the rural sector.

There was much hue and cry over the utilisation of microcredit, even for production purposes. In some places, greater use of credit was for micro-enterprise while in some other places crop farming received a major share. Das, Barman and Baruah (2001) had made a study on the male, female and mixed SHGs in Assam and they found that the maximum loan fund utilized by male SHGs was for crop production while the female SHGs largely utilized the loan fund for weaving and textile activities. Mixed SHGs for their part invested the loan fund in crop enterprises, animal husbandry, weaving and textiles.

To understand the impact of microfinance programme in the watershed area, Awasthi, Rathi and Sahu (2001) had made a study of 70 women members of 4 women self-help groups from Karondi Milli watershed area of Katni district in Madhya Pradesh and found that the SHG women members had started income generating activities like mahua collection, mushroom production, aamchur papad making, pisciculture nursery etc. with the financial assistance of the SHGs. This income generating activity had demanded employment in the micro-enterprises and increased employability of the unemployed household members. Panda (2005) found similar experiences in Orissa where the financial facilitation done by external agencies like NGOs helped in increase of micro-enterprise development like trading of agriculture output, cultivation and processing of Golden Grass, processing of paddy, pisciculture, herbal garden, cashew plantation, goatary etc. among the microfinance clients.

In the year 2004-05 NABARD had conducted an evaluation study of the SHG-bank linkage programmes in the KBK regions of Orissa. This evaluation study revealed that the poor economic base and the rural structure of the regional economy had hindered the SHG group members from taking up any major economic activity. However, some SHGs undertook business activities like pisciculture, diary enterprises etc. The study also revealed that about 39 per cent of the SHG members out of 392 members undertook small business activities and about 49 per cent of these members only engaged in rice business. About 26 per cent of SHG members were engaged in animal husbandry activities like diary, goatery, poultry, duckery etc. In the post microfinance intervention period, as many as 392 SHG members had taken up small business which had generated an additional employment of 100-160 days per annum per member of family. About one third of landless labourers had taken up small business activities like animal husbandry, fast food kiosks etc.; and one third of marginal farmers had taken up remunerative crops like vegetables and banana. Another experience was traced from the study made by Chavan and Ram Kumar (2002) where the micro-credit programmes and institutions generated a positive impact on the number of days of family employment but their performance in the generation of wage employment had been poor.

Umdor (2006) in his study in the North-Eastern region of India, found the utilization of rural credits/loans for different purposes like production and consumption. He found that the production loans were used for farm development, animal husbandry, tree plantation and business investment like weaving, tailoring, carpentry etc. But at the same time Indian findings (Arun, Imai and Sinha, 2006) underline the positive impact of microfinance on alleviation of poverty, making for significantly positive effects on the multidimensional poverty indicator. Also they bear out the view that the households in rural areas need more micro credits for productive purposes than for consumption. Additional employment generation in rural India is achievable with the creation and diversification of livelihoods. Aheeyar (2006) in his examination of microfinance and microfinance institutions in post-tsunami period found that the major microfinance institutions were involved in post-tsunami relief and non-financial services and some did provide cash grants. Cash transfers received from the government and other organisations were used to repay existing debts and to restart livelihood activities. The reactivation of livelihoods using cash grants helped rural people to begin repaying loans. Evidence shows that project Shakti of Hindustan Lever Limited (HLL), where HLL intervened through SHGs, and the SHGs by themselves were instrumental in rural micro-entrepreneurship development which in turn promoted employment in the rural sector, according to Xavier, Raja and Nandhini (2007).

A study in two blocks of Haryana done by Singh, Patel and Suhag (2007) found that the commercial banks contributed the maximum (51.53 per cent) of the total credit disbursed, followed by RRBs (19. 17 per cent) during 2001-02, among farmers having buffaloes and Kirana shops. More was disbursed for buffalo activity than for Kirana shops, that is to say, 46.70 per cent in Hissar-II and 44.10 per cent in Hissar-I for buffalo activity as against 6.97 per cent and 6.72 per cent for Kirana shops. In the same year another study (Krishna and Sharma, 2007) was made and this was of Madhubani district of Bihar state covering 103 individual Swarozgaries from SGSYs. The study found that the microfinance provided by the SHGs was not productive enough even though the SHG concept was an important part of employment generation under SGSY. The SHGs were not very effective in providing training and marketing support for Swarozgaries. However, Kundu (2007) concluded that the poor households could obtain credit from SHGs for consumption or for training purposes. With this facility, poor households could invest in knowledge enhancement of their children which in turn could lead to entrepreneurship development in the rural sector. Trained labour could start their own enterprises based on their acquired skills or knowledge as capital with the help of SHGs and supporting NGOs.

However, Kumar (2007) found weaker evidence of microfinance in employment generation in rural India. State intervention and social banking were unable to restore compatibility between rural banking and borrowers. The microfinance groups were not able to achieve much as these were dependent upon credit linkage and did not form a base of production on their own using the collective labour power of their members. Contrary to these findings, Brook, Hillyer and Bhuvaneshwari (2008) in their impact assessment study of microfinance in Hubli-Dharwad came out with the assessment that the microfinance interventions had a significant impact on identification and establishment of alternative livelihoods and enterprises in peri-urban areas. Going indepth, Nath and Baruah (2008) in their study on the SHGs in Dibrugarh district of Assam found that 14.3 per cent of the participants had an 'adequate' business philosophy, 57.1 per cent had a business philosophy that was competent but needed to be sharpened and 28.6 per cent of the participants had yet to develop competencies in business.

SIDBI had conducted during 2001-2004 a national level macro impact assessment study across 111 clusters covering 41 districts of 10 Indian states including 20 microfinance institutions, 5327 households with 3908 clients and 1419 non-clients involving both crosectional and time-series samples and this study revealed that the microfinance interventions had succeeded in generation of employment opportunities. The impact on reducing unemployment was positive but not so large as to provide employment to everyone in a family.

Three impact studies conducted in the state of Orissa reported positive outcomes. Panda (2008) conducted his study in a tribal district of Orissa comprising 10 SHGs and this included both men and women SHGs. His study found that the SHG-based microfinance model helped in micro-entrepreneurship development and capacity building of microfinance target groups. Again in the same year another study (Panda, 2008) on the handicraft clusters found that the artisans of the filigree clusters of Orissa met their financial demands for raw materials and production needs from formal and non-formal sources. Microfinance helped in the filigree-based micro-entrepreneurship development. Patra (2008) had also conducted a study on SHGs in Jajpur district of Orissa and found that the utilization of micro credits by the SHGs had led to generation of microenterprises like pickle making, jam preparation and dry food making. Similar findings were derived from Palakkad district of Kerala under the Kudumbasree microfinance project. The membership in the project was not found attractive to employed women, while only 20 per cent of the clients were employed, 55 per cent were unemployed and 25 per cent were self-employed (Amma and Panicker, 2008).

Some of the experiences from Bangladesh supplemented the Indian findings. Chowdhury (2008) had carried out a study in Bangladesh taking a sample size of 920 households drawn from three microfinance institutions namely Grameen Bank, BRAC and ASA. The findings based on descriptive statistics and multivariate analysis showed that participation of households in microcredit programmes did not promote woman entrepreneurship at the household level but their participation in microcredit programmes significantly increased capital of existing businesses that were operated by male members of households. In another study in Bangladesh by Chowdhury (2009) with 570 sample households and using descriptive analysis and multivariate models concluded that participation in the microcredit programmes of Grameen Bank did not promote self-employment for women by enabling them to start micro enterprises at the household level, but women's participation in Grameen Bank's microfinance programmes impacted positively on the husbands of women members in start-up of micro-enterprises, in creating self-employment opportunities and in significantly increasing the capital of existing household micro-enterprises that were managed and controlled by husbands or other male members in the household.

## 3. Conclusions:

Experiences of India and Bangladesh broadly reflect the positive impact of microfinance programmes on employment generation and micro-enterprise development in the rural areas. The access to, and availability of, micro-credits have helped in scaling up the existing business and the addition of new enterprises. These have increased the employability of the non-employed family members and promoted additional employment. Hence micro credits have not only increased employment for the microfinance cliental households but also absorbed the workforce from the village or adjoining areas. For the farming households, provision of small scale finance has helped in higher capacity utilisation in crop production, animal husbandry and diversification. Since most of the microfinance programmes were carried out on group basis, primarily through women SHGs, these have increased self-employment and business development for women. Women entrepreneurship development has been one of the greatest outcomes of the group-based microfinance programmes. The outcomes of Indian microfinance interventions have not been much different from those of Bangladeshi microfinance programmes and the findings from the Indian studies corroborate the results of the studies conducted in Bangladesh.

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