

Impact of Micro Finance on Enterprise Development in Uttar Pradesh

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Abstract

Micro finance programs are expected to make significant contributions to eradicating poverty and empower poor in economic, social and political sectors. Increase in the income of rural poor families will have an impact on income, housing, consumption, health care, education of children, reducing burden of debt and so on. JLGs/SHGs are necessary to overcome exploitation, create confidence for the economic self-reliance of the rural poor. These groups enable them to come together for a common objective and gain strength from each other to deal with business development and income generation endeavors. Significantly, credit is a major factor in boosting economic development if it is effectively utilized. The government's recent initiatives to streamline credit operations and delivery system through micro finance movement and strengthening and expansion of financial institutions can definitely help in the revival of rural economy and empowerment of the rural poor. Against this backdrop, present paper examines the impact of micro finance provided through micro finance institutions on the enterprises development in Uttar Pradesh. The paper is based on mainly primary data collected through field survey.

Introduction:

Micro Finance has emerged as is a powerful instrument for poverty alleviation and empowering poor. The global nature of the Micro Finance movement is reflected in the growing number of organizations providing Micro finance to poor people. Micro Finance is being referred to as one of the cost effective and supplementary tools of rural credit delivery system which facilitates prompt and timely availability of institutional credit to poor in an effective and economical manner. One of the objectives of development planning is to reduce extant of poverty by providing employment opportunities and raising the income levels of the population. There has been remarkable progress in the outreach and expansion of MFIs in India. In this part of dissertation an attempt has been made to analyze the views of MFIs



officials regarding micro finance activities. Entrepreneurship has been considered as the backbone of economic development. It has been well established that the level of economic growth of a region, to a large extent, depends on the level of entrepreneurial activities in the region. Microfinance has positive impact on enterprise development and most of the MFIs are providing technical and business development services besides financial services to the poor and small entrepreneurs. Against this backdrop, present study aims at examining the impact of microfinance on rural enterprises development.

The SHGs based micro financing programme has wider coverage to more than 10 million groups while a large amount of loan was disbursed for livelihood generating activities. The poverty alleviation programmes such as NRLM and NULM account for majority of SHGs (NABARD, 2019). However, Southern states have major share while Central Region (10.6 per cent) and Northern Region (5.5 per cent) recorded lower shares. Micro Finance Institutions presently are in operation in 29 States and 4 Union Territories with the outreach of 563 districts. Twenty one MFIs have wide outreach and are functional in more than five states while four MFIs are operating in more than fifteen states. However, 57 MFIs are functional in two to five states while 90 MFIs are confined to only one state. The client outreach of MFIs had grown significantly during the period of 2005 to 2011 and achieved a level of 317 lakh clients. Majority of these clients are being served by NBFCs (NBFC/ NBFC-MFIs). Number of functional MFIs during 2017 was reported large in Maharashtra followed by Madhya Pradesh, Bihar, Chhattisgarh and Uttar Pradesh. However, number of branches was reported large in Uttar Pradesh followed by Karnataka, Madhya Pradesh, Tamil Nadu, Bihar and West Bengal. Number of clients was reported high in Karnataka followed by Uttar Pradesh, Bihar, Odisha and Tamil Nadu. Gross loan portfolio was recorded high in Karnataka followed by Uttar Pradesh, Maharashtra, Bihar, Tamil Nadu and West Bengal (Mishra and Tankha, 2018).

MFIs can either grow by expanding their branch network or by adding more clients to the existing branch. While the first approach typically leads to greater breadth in operations, the second approach leads to depth within the existing area of operation. During the year 2017–18, an analysis of the operations of the top 10 NBFC-MFIs shows that a mixed approach was the trend. Except in the case of Spandana, Muthoot and Asirvad, growth in the number of clients is either similar to growth in branches or slightly less. The overall data for 47 NBFC-MFIs also confirms this trend, as the sector average was 25 per cent annual growth



in both the number of branches and clients. A logical corollary of this aspect is that the existing operational areas of MFIs are saturated, necessitating a move to new geographies. As the number of districts with NBFC-MFI presence did not see a corresponding increase during the year, it can be inferred that most of the new branches are within existing districts. It is a positive development because in previous years the focus was more on depth that is, adding more branches.

The number of micro finance institutions functional in the state was reported high in Maharashtra followed by West Bengal, Tamil Nadu, Madhya Pradesh, Bihar and Uttar Pradesh. Number of districts of the state which were covered by MFIs operation was reported high in Uttar Pradesh followed by Madhya Pradesh, Maharashtra, Tamil Nadu, Bihar, Karnataka and Odisha. Similarly, there were 10233 branches of MFIs and a large number of MFI branches were found located in Karnataka, Tamil Nadu, West Bengal, Uttar Pradesh, Madhya Pradesh and Maharashtra. The top five states viz., Karnataka, Tamil Nadu, Uttar Pradesh, Odisha and Bihar account for 60 per cent of total client outreach in India.

Most of MFIs provide financial services through group based financial model such as JLGs/ SHGs . These institutions lend through the concept of Joint Liability Group (JLG). A JLG is an informal group which comprising of 5 to 10 individual members who join together for receiving credit either individually or through the group based mechanism. Out of cumulative number of JLGs promoted in India as on March 31st, 2019, southern states accounted share of 30.97 percent while eastern states constituted more than one third share. The share of northern states was recorded 13.24 percent while least share went to north eastern states. Out of the total loan disbursed as on March 31st , 2019, about two fifth share accounted for southern states while about 27 percent share was reported for eastern states (NABARD, 2019) .

Micro-enterprise development and microfinance has been widely adopted as anti-poverty strategies in most of the countries. Micro enterprises have been accepted as an engine of economic growth and development. Women owned businesses are one of the fastest growing sectors of micro-enterprises. Micro-enterprise support programs aims to help people with modest means to start, strengthen and expand very small businesses. Micro-enterprises encourage self-employment to a large amount. Micro enterprises have been accepted as the engine of economic growth and for promoting equitable development. Women owned businesses are one of the fastest growing sectors of micro-enterprises.



Economic growth, stability and equity can be achieved significantly through micro-enterprises . Micro-enterprises encourage self-employment to a large extent. Microenterprise development helps micro-entrepreneurs combine their knowledge and determination with microfinance services to attain standard of living and generate income through business. Microenterprises are small or petty business ventures, usually conducted by the poor. They are limited to an income generation activity but are included in the concept of business activity in which profit is a major motive of the owner/ entrepreneur. Microenterprises are mostly the outcome of the efforts at promoting self employment. Microenterprises are generally known as poor people's businesses. They are small in size and scale and locally served. Microenterprise is seen as one of the alternatives for the livelihood of the poor. Entrepreneurial spirit and efficient role of the supporting systems for the expressions seem to be important factors indevelopment of microenterprise.

Microenterprises also usually operate in the informal sector and could a trading (street vendors, food stalls), beauty-parlors, transport operators etc. are service sector set up or even a small manufacturing unit(machine shops or assembly units etc.). Microenterprises are set up a little investment in fixed assets and inventory. They operate mostly on cash and carry terms. The enterprises sales may not be distinguished from any other kind of income of the individual or household earning. These enterprises may be quite unstable and footloose. If better opportunity arises or cost cannot be recovered, the entrepreneurs may move on or shift to other activity. Microenterprise has been found in literature related to non-farm sector, employment, Self Employment, Microfinance, Self Help Groups etc. It is a strategy for creation of jobs, self employment promotion in non-farm sector, rural industrialization and economic development with special reference to the poor, marginalized and excluded population of the society.

Review of Literature:

Alaoui and Tkiouat (2019) opined that microfinance provide traditional banking services with the aim of reducing their poverty. Various strategies have been utilized to demonstrate consumer loyalty in micro-finance. Bhatia and Singh (2019) revealed that females residing in urban slums area didn't need access to budgetary foundations yet encountered (a) fiscal perils, for instance, variable income, non-legitimately binding casual occupations, (b) cash-related threats, for instance, reliance on the money economy, casual



credit, and (c) social risks, for instance, social cracks. Joseph and Kibera (2019) in their study highlighted the determining factors that influence organizational culture on the performance of micro-finance institutions. Ghosh et.al. (2018) highlighted the issue of interest rate sensitivity in micro finance sector. Jose (2017) finds out that the basic objective for a microfinance institution to sustain the borrower, but that is not satisfactory achievable due to diversification offunds. Gullifer and Tirado (2017) in their paper highlighted that micro finance has significant impact on economy. Mishra and Haque (2016) are of the view that economic evolution had a major impact on economic development in all major areas. Sa-Dhan (2016) analyzes that the existence of MFIs has spread in areas across the countries, although they are still limited in some states. Seenivasan (2015) points out why the MFIs fail and the poverty alleviation targets are forgotten. Brown et.al. (2012) have examined the geographical proximity of micro finance institutions towards financial inclusion. Firdausi (2013) measures the relative efficiency of microfinance institutions in India, Bangladesh, and China. Goel & Rishi (2012) highlighted that measures and norms that can develop entrepreneurship skills among the poorest people. The review of pertinent literature simply demonstrates that there is paucity of literature, research findings and empirical data pertaining to impact of micro finance extended by micro finance institutions to the rural borrowers for enterprises development.

Objectives and Methods:

Present paper is based on a major research study. The main objectives of the paper are as follows:

- To examine the socio- economic profile of borrowers and examine the issues of micro financing ;
- To assess the impact of micro-finance and enterprises development;
- To suggest the policy measures for empowerment of rural entrepreneurs, development of SHGs based micro financing and micro enterprise development.

The present study is analytical in nature with major focus on primary data gathered through the survey. The study is confined to Central region of the state of Uttar Pradesh. We have selected Lucknow ,Raibareli, LakhimpurKheri, Sitapur and Unnao in Lucknow region of the state. Overall, 300 rural entrepreneurs/ borrowers supported by micro finance



institutions were randomly selected for interview with the help of structured interview schedule .

Discussion of Results:

Majority of borrowers were from the middle age group while most of the borrowers were females. About 18 per cent respondents were Muslims. However, majority of respondents were from reserved category such as OBCs, Scheduled Caste and Minority communities. Most of the respondents were found married. However, educational backgrounds of the respondents were found to be poor. Their main occupation was reported to be self employment in agriculture and non-agriculture sector. However, about 22 per cent respondents were casual labour.

Most of the respondents have their bank account and are saving money. However, average monthly saving of family was reported to be low. Majority of respondents revealed that they have never use ATM card. Less than half of the respondents reported that they have life insurance policy in their name. About 67 per cent respondents reported that they are from joint families and their main family occupation is petty business and labour. Their annual family income was reported above Rs. 90,000 for majority of the cases. Most of the respondents were found living in pucca houses with availability of drinking water, electricity, cooking gas and toilet facility.

Most of the borrowers were members of JLGs. Majority of the respondents revealed that they joint JLGs/SHGs before 5 years. About 73 percent borrowers reported that they get information of micro finance through JLGs. They further reported that they were motivated to join micro finance institutions mainly by JLGs, family members, media and friends and relatives. The main factors for joining micro finance institutions were reported to be motivation by JLGs, hassle free process to sanction loan, collateral free loan, low rate of interest on loan, advice of bank and financial incentives. Most of respondents reported that they received loan as member of JLGs. About 51 per cent respondents received one time loan while about 37 percent respondents reported that they have received loan twice.

The main purpose of using micro finance was reported to be income generating and business development. The average amount of loan was reported to be low as more than 2/3rd borrowers received loan in between Rs. 20,000 to 30,000. More than 1/4th respondents revealed that they also approached to take loan from other agencies as the loan amount was



not adequate. More than half of the respondents reported that they are making their regular payment of installments of loan during group meetings while about 47 per cent respondents said that MFIs representatives are collecting installments of loan. Most of the respondents reported that they have paid their loan amount. Majority of respondents were found satisfied with the services of micro financial institutions. These services include service charges, rate of interest. Interest based loan system, loan repayment installment, loan repayment cycle, financial service advice and micro finance products. They were found in favour of that MFIs are engaged in poverty reduction, community development, social development and enterprise development.

There has been positive impact of MFIs on savings, income, poverty reduction, participation in decision making, development programmes, empowerment and self-esteem. There has been significant social impact of JLGs /SHGs while access and utilization of micro finance has significant social and economic impact on borrowers. The standardized structural model estimates coefficients of the latent and observed exogenous variables to the latent endogenous variable indicated that religion of respondents, marital status, types of family, and family occupations positive and significantly shown impact on microfinance, while, the gender of respondents found negative and significantly shown impact on microfinance. The result revealed that the impact on microfinance is negatively affected by the gender of respondents, while positively by the religion of respondents, material status, types of family, and family occupation. The chi-square test has been applied to find out the relation between the gender, age, education, social class, religion, type of family, occupation, family occupation, income of family etc, of the respondents and the impact of microfinance. The value of chi-square has been found significant at 1 percent level of significance.. This is showing that these variables are highly related to the impact on microfinance

Most of the respondents reported that micro enterprises are situated in rural areas. The enterprises were mainly in varied nature of business such as handicraft, handloom, garment making, chikanzardouzi, manufacturing of bag and office file folders, trade, services and animal husbandry. Majority of the respondents reported that established their business enterprises before 3 years. About half of the respondents revealed that more than 8 members joined their business. The persons employed in business enterprises were reported to be mainly group members and family members. About 3/4th respondents revealed that their members had experience in similar entrepreneurial activity prior to setting up business.



Decision of JLG/SHG, easily availability of raw materials, previous experience, market potential and home based work were some of the main factors which influence in selection of enterprise activities. However, about 2/3rd respondents reported that they were motivated by JLG members. About 7 per cent respondents were self motivated to start their enterprises. Most of the respondents reported that they are getting raw materials from local areas. They availed loan for business development. However, average amount of loan for business development was reported to be low (less than Rs. 55,000) for most of the cases. The main purpose of loan was reported to be business development. Most of the respondents further reported that they have availed CCL facility. Most of the respondents said that they availed adequate amount of loan.

The entrepreneurs reported that they are using multiple marketing channels for marketing of their finished products and services. These include both direct and indirect channels of marketing. A significant proportion of respondents reported that they are exploiting the market potential in local haats, weekly haats and fairs. About half of the respondents revealed that the quality of their products and services is below average while about 20 percent respondents said that quality of products and services are average. About 61 per cent respondents further revealed that they are facing difficulty in marketing of goods and products.

Most of the respondents revealed that they have institutional linkages for capacity building, availability of raw materials, market and financial support. Most of respondents revealed that JLGs are also monitoring their enterprises. About 60 per cent entrepreneurs were in favour of diversifying their business in near future while most of entrepreneurs are in favour of enlarging their business in near future. However, they require finance, assured market, technology, raw materials and technical know-how.

There has been positive impact of business enterprises on social and economic status of entrepreneurs. The impact has been mainly measured in terms of social mobility, recognition in family and community, access to health services, credit facility, income generation, asset building, participation in decision making, etc. The main problems in management of enterprises were reported to be availability of credit, adequacy of loan, timely availability of finance, collateral free loan, training, entrepreneurship development, availability of raw materials, and maintenance of quality, branding and marketing. The value of chi-square has been found significant at 1 percent level of significance with relation to



gender, age, education, religion, social class, marital status, family type, family income and occupation to the nature of enterprises has been found significant.

Suggestions:

- Entrepreneurial and management skills such as risk bearing, enterprise planning, product innovation, need perseverance, financial resource mobilization, production, marketing demand forecasting, cost control, human resources related aspects may be undertaken in the course curriculum of training programmes for entrepreneurs .
- It is the need of hour that government programmes should be streamlined in such a way so that convergence of schemes may be ensured for skill training, extension support, credit and other enterprise related services.
- *Strengthening the infrastructure to facilitate the all round development of the small and micro business is the need of hour. This requires development of adequate infrastructure such as roads, connectivity power, transportation etc. Giving piloting role in establishing infrastructure in the state may encourage private sector.*
- The enterprises based on local requirements should strive to offer innovative products or services. Efforts should be made for tie-ups with big firms for marketing networks.
- Government should set up common facility centre, micro business centre, advisory and consultancy services, etc. in the industrial and business clusters so that the interested women may be provided skill training, entrepreneurship development and proper guidance for starting up business enterprises.
- *Value chain for raw material, packaging and marketing would help in micro-enterprise development and should be established through the assistance from microfinance innovation fund. Common service centre for packaging and use of latest technology for packaging will help in marketing of the produce.*

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