

MICROFINANCE, ENTREPRENEURSHIP AND EMPLOYMENT

Arnab Saha

Abstract: Microfinance has till date been thought of as providing an extension of credit facilities to those not covered under the banking system. This paper focuses on the role of microfinance in fostering entrepreneurship and employment generation. A survey of 300 “mothers” was conducted in South 24 Paraganas district in West Bengal to understand the role of microfinance in creating new businesses and generating community based employment. It was observed that microfinance has not played any role in creating new businesses and in generating new employment among communities. New business creation can add significant value to MFIs in terms of risk management as this will diversify the fund allocation and therefore the requirement of holding emergency reserves can be minimized. Moreover along with that, the required sum can be used to provide incentives to those who are creating new businesses or are creating employment beyond their own families.

Keywords: Employment Generation, Entrepreneurship, India, Microfinance

INTRODUCTION

Microfinance as a concept has made its presence felt in India via the activities of several prominent MFIs and NGOs. Microfinance has a tremendous potential in creating sustainable economic development in the economically backward areas of India and globally. Quite a bit of work has already been done regarding the role of microfinance as the provider of credit and banking facilities for those not covered under the purview of the Indian banking system and the associated benefits. However, apart from the obvious benefit of extending the benefit of credit facility to the rural community, microfinance also has a huge potential in being the harbinger of community based entrepreneurship with the ability to create significant employment in the communities. This is so due to the closed knit community structure of Indian rural system and the fact that microfinance has used it successfully to create a model. This study focuses on the role of microfinance in fostering the culture of entrepreneurship in the rural community and the creation of community based employment, an area where not much work has been done academically.

Methodology of the study

This study has been conducted via a survey of 300 “mothers” (each representing a single family). The survey was conducted amongst the families covered under the microfinance unit of Institute of Indian Mother and Child, a NGO based out of South 24 Paraganas district, West Bengal, India. The questions were asked in a group interview format instead of a questionnaire based survey given the educational background of the respondents whereby they responded typically by raising their hands the count of which was noted.

Along with this, interviews of coordinating officers (CO) managing the women workgroups, their supervisors (CDM) and unit managers (UM) were conducted to understand the issues revolving around the broader issues of management, control and risk management. A total of 25 CO's, 10 CDM's and 4 UM's were interviewed.

The key questions that were asked to the “mothers” were pertaining to:

- Usage of loans: Expanding existing business or starting new business
- Employment creation due to businesses
- The businesses for which loans were provided

Results of the survey

The following observations were made:

- Most of the funding by the microfinance units was done for individuals/businesses (~ 95% of 300 respondents) that already existed. Hence, as a result of the above phenomenon majority of the financing was made for expanding the already existing businesses.
- Most businesses (almost 100%) that were funded by the Microfinance initiative have led to no further employment generation amongst the community participants (0% of employment generation). It is interesting to note that microfinance for all the involved families has created a new source of income but there has been no further employment generation for other people in the communities.

- The funding by different units was provided to localized areas. However, most of the funding was provided to businesses related to agricultural items or fishery. In a particular branch, *90% of the respondents (~ 30 out of a total of 35 respondents)* were involved in fisheries business.

Inferences

Some of the major inferences out of this study under the different heads are:

Funding for existing businesses

- Since, majority of funding was done for already existing businesses this will lead to only “mothers” already doing some kind of a business and are self-employed to form the groups. As a result of this even if somebody is interested in starting a business, that person forming a part of the group is extremely difficult.
- As a result of this in the long term, this will eventually create a demarcation between the business families and the non-business families likely leading to higher inequality of income.
- Regarding new businesses it maybe also interesting to note that even the existing families who do businesses do not attempt to start newer businesses and generally try their hands at the tried and tested stuff. As a result of these issues: no new business or enterprises, no ideation of new business by newer members rather doing those businesses which have already been started by others generally what happens is that in a particular area the variety of businesses is generally low unless there was already sufficient variety from the onset to start with.

Employment generation

- It is really important to note that the microfinance initiatives have not created any kind of employment generation beyond the families involved. The funds that have been allocated have been used for expanding businesses. These businesses are mostly run by the “mothers” and provide an additional source of income for the families.
- The funds allocated, in no way is able to benefit the further deprived people in the villages who do not own a business. If we try to reconcile the previously mentioned issue that the villagers who do not have a business are anyways not going to be a part of the group along with the fact that even no employment is created for them, then we can understand that this has huge potential of creating stark inequalities in the rural community.

- It is important to appreciate that even to reach the stage of starting a business a person would require some income/resources. Therefore, it is expected that the poorest of the lot would first gain some income via employment with the erstwhile rich in a village, post which they can think of starting something on their own. Given the inability of the MFI’s in creating new employment for the poorest of the poor, this can lead to serious economic issues.

Types of business

- There is not much diversity in the businesses to which the funds have been allocated. This is because most funds are allocated to people with already existing businesses and typically the localities specialize in particular businesses.
- This situation is of prime concern since it has huge implications for the risk management of the funds. This institute specifically has a huge amount of reserve funds for managing sudden one-time events. There is a substantial understanding of political risk involved in microfinance. However, in the same breath the appreciation of business risk is much lower.
- A key way in which the risk is mitigated is by forming social groups where group members are empowered to nominate members.

RECOMMENDATIONS

- Focus on motivating the “mothers” to start new businesses and not just expand old businesses. Special incentives may be provided to the “mothers” like lower rate of interest or higher loanable amount for creating new businesses. Coordinating committee members may be appraised or given special mention if they are able to get newer business ideas rather than already existing ideas.
- Focusing on the ability of a business to provide employment to the other people in the community. This is of utmost importance as it holds the key to sustainable economic development for the entire rural community.
- *Financial Risk Management:* Focus on diversification of businesses to which the loans are allocated. This can be implemented also by encouraging the “mothers” to start new businesses. This is on and above the social checks conducted by the CO’s.

LIMITATIONS

This study is focused around a survey of “mothers” covered by a particular NGO. The processes followed by different institutions are expected to be different including the issues of creation of new businesses, employment generation in the community and risk management practices.

CONCLUSION

This study focused on the role of microfinance in fostering entrepreneurship and generating community based employment. This is an area where not much work has been done. Microfinance for sure provides credit facility to rural areas but its impact on long term sustainable development may be low since it is not able to create high

employment in communities as a whole, which can lead to significant disparities going forward. Moreover, microfinance as a medium has a significant potential in creating new businesses which should be leveraged upon. Along with this the risk management practices need to be improved thereby releasing part of the huge cash reserves to be used for creating new incentives for achieving the stated objectives.

ACKNOWLEDGMENT

I would like to thank Dr. Sujit K. Brahmochary, Director – Institute of Indian Mother and Child, Kolkata, for his incessant support and motivation without which this study would not have been possible.



Arnab Saha
Reliance Corporate Park, 8B First Floor, Navi Mumbai, 400701
Sr. Manager, President's Office
Reliance Industries Limited
Email: 9arnabs@iimahd.ernet.in