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A Study on Growth of Entrepreneurship in Microfinance with Special Reference to Cuddalore District

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Abstract

A lack of access to financial institutions also hinders the ability for entrepreneurs in countries like India to engage in neither new business ventures, inhibiting economic growth and often, the sources and consequences of entrepreneurial activities neither financially nor environmentally sustainable. This paper deals with the concept of “sustainable micro entrepreneurship” is neither formal, nor derived, but rather a development process combining the three aspects of microfinance, entrepreneurship and sustainability. It refers to the specific practice of “Social conscious-driven entrepreneurship” perpetuated by a sustainable access to credit and without bearing undesirable externalities on people or environment. Sustainable micro entrepreneurship is a small-scale, self-sustaining active development process initiated by the poor to help themselves break free from their poverty.

Keywords: Microfinance • Entrepreneurship • Sustainability • Poverty reduction

Introduction

The prime responsibility of a nation is to provide basic amenities to its people and raise their quality of life [1]. People have certain basic needs without which life would be impossible and “life sustaining basic human needs including food, shelter, health and protection [2]. Employment creation in the rural informal sector, creation of self-employment and increase in income through the diversification of agriculture and promotion of allied sector and small scale and cottage industries would be helpful in the suppression of poverty besides ensuring”.

Alleviation of poverty, the core of all developmental efforts, has remained a very complex and critical concern among developing countries. Poverty is deeper rooted covering several interlocked aspects such as uselessness, under employment, uncertain and relatively unproductive employment, and low remuneration, lack of bargaining power, economic vulnerability, illiteracy, and proneness to disease, social disadvantage and political powerlessness. Also, poverty has its various manifestations like underfeeding, overcrowding immorality, slum housing conditions and infant humanity, drought flood and cyclone and resource-power areas [3].

About 90 percent of the people in developing countries lack access to financial services from institutions, either for credit or savings, which further fuels the “vicious cycle of poverty”. If the people of India have a limited capacity to invest in capital, productivity is restricted, incomes are self-conscious, domestic savings remain low and again any increases in productivity are prevented. Microfinance serves as a means to empower the poor, and provides a valuable tool to assist the economic development process [4]. However, necessarily, various obstacle and hurdles limit the roles of microfinance, entrepreneurship and sustainability in reducing poverty in India [5].

Early concept of entrepreneurship

In 1951 census, the approach was income based whereas the 1961 census was based on work in terms of time or labour force as per recommendation of ILO (International Labour Organization). Following the adoption of work approach in 1961 census, the classification of population was done into two categories workers and non workers. A person was treated as worker if he or she devoted more than one hour a day for regular work for a larger part of the working season or if he or she was employed during any of the fifteen days preceding the visiting day of enumeration to the household [6].

In 1971 census also, the population was divided into two broad streams of main activity as workers and non workers. If a person had participated in any economic activity on any single day during the reference period (one week to the date of enumeration) was treated as main worker and the rest were treated as nonworking even if they were engaged in same economic activity partly or wholly during the year excluding the reference period [7]. The non-workers were those who had not worked at all during the reference year. In other words, the strength of non-workers could be arrived at by subtracting the total strength of main and marginal workers from the total population.

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While formulating the economic aspect for 1981 census, a tracheotomy of persons into mutually exclusive groups of main workers, marginal workers and non workers was introduced. Finally, as 1991 census based on the discussions in the data user conference, it was decided unanimously to follow the concepts and definitions used in 1981 census including the reference period of one year for both regular and seasonal activities [8].

Characteristics of entrepreneurs

If one looks into the characteristics of entrepreneur it represents a special type of person and everybody cannot become an entrepreneur. But this impression does not give a cent percent correct picture of entrepreneurship. Nonetheless an entrepreneur would certainly be different from non entrepreneur in terms of his psychological and social dispositions. However he/she does not need to have all these characteristics together. This does not mean that an entrepreneur cannot be successful without some of these characteristics. Without possessing many of these characteristics, an entrepreneur with strength in creative abilities may succeed.

Verma 1960 while describing an entrepreneur mentions the following characteristics of entrepreneurs:

Entrepreneur is energetic, resourceful, alert to new opportunities, able to adjust to changing conditions and willing to assume risks involved in the change.

- He/She is interested in advancing technologically and in improving the quality of product.
- He/She is interested in expanding the scale of operations and reinvests earning.
- Historic in 1992 describes entrepreneur's characteristics in three categories.
- **Technical skills:** Writing, oral communication, monitoring environment, technical business management, and technology know how, interpersonal, listing, ability to organize, network building, coaching, being a team player.
- **Business management skills:** Planning and goal setting, decision making, human relations, marketing, finance, accounting, management, control, negotiation, venture launch, managing growth.
- **Personal entrepreneurial skills:** Inner control, discipline, risk taking, innovative, change oriented, persistent, visionary leader, ability to manage change. Entrepreneurial Development Institute of India at Gandhi nagar describes the entrepreneurial competencies as under:
- **Initiative:** Entrepreneurs displaying this competency undertake a task even before being asked or forced to circumstances. Such an initiative taking capability impacts efficiency and becomes basis of sustainable competitive advantage.
- **Seeking and acting on opportunities:** By their very nature successful entrepreneurs intensify their access to resources, opportunities, finance, land and equipments. They have this unique entrepreneurial ability that helps them seize unusual opportunities.
- **Persistence:** An important competency that makes all entrepreneurs repository of gift and perseverance. Obstacles do not dishearten such an entrepreneur and he continues making efforts to emerge victorious out of problems.
- **Information seeking:** The presence of competency lends him a deterministic attitude. He identifies various sources of information and ensures a continuous information flow in order to maximize the success of the organization.
- **Concern for high quality of work:** The primary endeavor of entrepreneur with such a competency is to beat the existing standards of excellence. It is his concern for high quality of work that gives him a sense of satisfaction and achievement.

Functions of entrepreneurs

An entrepreneur is one who carries out the whole set of activities of the business. The functions of an entrepreneur are co-ordination of the business management of the enterprise, risk taking, controlling the enterprise, innovation for change, motivation and other related activities. He/she has to react to new ideas, demands and exploit the opportunities. He/she is expected to perform the following functions; Desai 2003.

- **Assumption of risk:** An entrepreneur assumes all possible risks of business including possibilities of change in tastes of consumers, techniques of production and new invention. An entrepreneur tries to reduce the uncertainties by his initiative, skill and good judgment.
- **Business decisions:** The entrepreneur has to decide the nature and type of goods to be produced. He enters a business that according to his knowledge is optimally profitable. He uses his skills and ideas to take best decisions for development of his business.
- **Managerial functions:** An entrepreneur formulates plans, arranges finance, purchases raw materials, provides production facilities, organizes sales and assumes task of personal management. In a large establishment, paid personnel do these functions.
- **Function of innovation:** An entrepreneur is the one who conceives ideas for improvement in quality and quantity of business. He continuously remains informed about innovations and tries to apply them whenever wherever possible.

Micro finance, entrepreneurship and poverty reduction: The extent to which microfinance, entrepreneurship and sustainability are inter related is dependent on the extent to which it addresses the economic development process. Yunus, claims, "If we are looking for one single action which will enable the poor to overcome their poverty, I would go for credit. Money is power". Credit invested in an income generating enterprise as working capital or for productive assets leads to establishment of a new enterprise or growth of an existing one. Profit from the enterprise provides income, and a general strengthening of income sources. A variety of financial institutions, worldwide, have found ways to make lending to the poor sustainable and to build on the fact that even the poor self-employed repay their loans and seek savings opportunities.

The challenges are to build capacity in the financial sector drawing on lessons from international best practices in micro small enterprises and rural finance. However, ensuring environmental sustainability is equally important as sustaining micro, enterprises financially. The Sustainable Financial Markets Facility (SFMF, 2004) recognize the importance of promoting "environmentally and socially responsible lending and investment in emerging markets, thus stimulating sustainable markets/sustainable private sector activity and enhancing other sustainable initiative in the developing world. Thus, the interrelated nature of microfinance, entrepreneurship and sustainable development is evident.

The extent to which microfinance, entrepreneurship and sustainability are interdependent is becoming increasingly recognized by experts in their respective fields of work, associated with economic development. Over 6 million poor people around the India run profitable micro-enterprises and often cite credit as the primary constraint to business growth (IFC, 2002) thus, credit is essential for poor entrepreneurs. Additionally; firms supplying the finance to these entrepreneurs are equally dependent on them for business, and to expand their services to more village or urban areas. However, this dependency belies the assumption that microfinance can be profitable in fewer developing countries. Robinson, a prominent expert in the field of microfinance, notes that "The formal sector has begun to realize that financing the poor can be both economically and socially profitable".

The dependency of environmentally sustainable initiatives, however, can be slightly more controversial. The Environmental Business Finance Program (EBFB) suggests that, "Private sector support is crucial to help solve the world's environmental problems", however, "incremental costs discourage the private sector from pursuing many environmental business opportunities." This is particularly true among small enterprises due to a lack of access to finance. The interrelationships and interdependency of microfinance, entrepreneurship and sustainability in LDCs further exemplify the informal practice of "Sustainable Micro Entrepreneurship' among the world's poor. But although interrelated and interdependent, each of aspects must be further explored individually to gain a greater understanding of the complexities of the connection between them. This will also aid in evaluating the case of sustainable micro entrepreneurship in reducing poverty in countries like India.

Micro finance and poverty in India

In the last 20 years, the "microfinance industry" has emerged. During the 1980's and 1990's, particularly in Asia, Africa, and Latin America, thousands of microfinance NGOs (Non-Government Organizations) were established to provide micro loans, using individual and group lending methodologies. In the 1990's while many of the NGO's failed to reach scale or financial sustainability, others led the way in demonstrating that;

- Poor people particularly poor women are excellent borrowers, when provided with efficient, responsive loan services at commercial rates.
- Microfinance institutions can provide micro-loans to poor people in an efficient and financially sustainable way.
- Microfinance-lending savings, and other financial services to poor people-is an effective way to help poor people help themselves build income and assets, manage risk, and work their way out of poverty.

Strategies to promote the capability and capacity of microfinance to reach the world's poor are a primary objective of the world bank group. They have announced a "strategy to increase access to financial services and low-income households', which address three principal areas;

- **Fundamental framework:** The policy, legal and regulatory frameworks that allow innovative financial institutions to develop and operate effectively.
- **Institution building:** Exposure to and training in best practices that banks and microfinance organization need to expand their outreach and develop sustainable operations, along with performance-based support for capacity building.
- **Innovative approaches:** Leasing, lending and other products to increase access of small and medium-size enterprises to financial services.

Despite apparent benefits of microfinance in reducing poverty, inevitable controversy exists. Microfinance has its critics. In a Research and Impact Assessment by the Department for International Development (DFID), it was noted that, "International microfinance experience indicates that micro credit is not a suitable tool to assist the chronically poor", suggesting instead', "savings, can assist them to ride out crises by strengthening their economic security. Hickson claims "most MFIs have far to go in finding ways of reaching extremely poor households. This possible belies a lack of understanding of the dynamics of poverty and the opportunities that exist for the provision of financial services to the extremely poor".

Opponents of microfinance have pointed out that valuable aid money from fatigues donor agencies has been diverted to untested and non-viable microfinance programmes-away from vital programmes on health, education etc., that are in dire need of such money. Additional barriers to microfinance included the perceived 'myths' surrounding the industry, such as that poor people are bad borrowers, especially women; or that microfinance is not profitable. However, in the 80's and 90's microfinance programs bucked conventional wisdom and showed that poor people, especially women, had excellent repayment rates, sometimes better than formal banks in most developing countries. Experience has also shown that the poor are willing and able to pay interest rates that allow microfinance institutions to cover their costs. Thus, conflicting views exist regarding microfinance, and its effectiveness at reducing poverty in India.

Entrepreneurship is the active process of recognizing an economic demand in an economy, and supplying the factors of production (land, labour and capital) to satisfy that demand, usually to generate a profit. High levels of poverty combined with slow economic growth in the formal sector have forced a large part of the developing world's population into self-employment and informal activities. But this is not necessarily negative; micro-enterprises contribute significantly to economic growth, social stability and equity. The sector is one of the most important vehicles through which low-income people can escape poverty. With limited skills and education to compete for formal sector jobs, these men and women find economic opportunities in micro-enterprises as business owner and employees.

If successful, entrepreneurship is likely to result in s Small to Medium-Enterprise (SME). They include a variety of firms-village handicrafts makers, small machine shops, restaurants, and computer software firms-that possess a wide range of cleverness and skills, and operate in very different markets and social environments. In India, micro-enterprises and small scale enterprises account for the majority of firms and a large share of employment. Finally, it has been noted that, "SMEs constitute the most dynamic segment of many transition and developing economies. They are more innovative, faster growing and possibly more profitable as compared to larger sized enterprises." Hence, the role of entrepreneurship in reducing poverty in countries like India is promising.

It has already been identified that entrepreneurship is a major contributing factor to economic growth, however, entrepreneurial ability and leadership tend to be relatively lacking in rural India.

Five primary reasons for the shortage of entrepreneurs in India are:

- Firstly, the limited profit opportunities as a result of lower per capita incomes and limited markets.
- Secondly, poorly developed capital markets make it difficult for potential entrepreneurs to borrow the funds needed to establish new businesses and take advantage of new investment opportunities. This ties in closely with the role of microfinance in empowering entrepreneurship.
- Thirdly, poorly developed infrastructures hinder the development of new commodity and resource markets as well as inhibiting the efficient operation of existing ones.
- Fourthly, sometimes social, cultural and religious beliefs and attitudes attach little importance to financial gain, restrict economic and social mobility, or assign very low status to entrepreneurs.
- And fifthly, an unfavorable economic and political climate might discourage the development of entrepreneurial talent and initiative.

Sustainability in poverty reduction: The concept of sustainability is difficult to define, and its precise definition varies within differing contexts. However, regarding the development process, two primary aspects of sustainability emerge; economic and environmental sustainability. Both tie in with the notion of sustainable micro-entrepreneurship; economic sustainability refers to a continual supply of finance to meet a person/community's need, usually in the form of secure and accessible loans from a microfinance institution; and environmental sustainability is the aim to preserve environmental resources for use by future generations.

E. Little field (2004) claims, "If you are going to provide financial services permanently to people, they have got to be sustainable, and that means charging interest rates that cover your costs. Similarly, she notes, "Well-managed microfinance institutions have convincingly demonstrated that they can become profitable and sustainable institutions while making major contributions to poverty reduction by increasing economic opportunities and employment." This is core to sustainable micro-entrepreneurship.

However, there are challenges as well as opportunities in putting a greater emphasis on sustainability in emerging markets. Some may argue that the business case for sustainability does not apply in markets where incomes are low and mostly spent on basic needs, but also firms might not see benefits from improving environmental or social performance. However, others argue that businesses resisting sustainable practices may put themselves at a long-term competitive disadvantage by missing opportunities, such as economically efficient and environmentally sound production methods that allow new market entrants to produce for less. Such businesses may also face greater downside exposure to changes in the competitive environment and consumer behavior. Whereas non-sustainable operations were in the commercial interests of firms in the past, this may not be the case in the future, especially in the developing world, where efficiency and cleanliness are vital to the development process.

Objective of the study

The present study was undertaken with following objectives.

- To study the socio-economic status of the entrepreneurs of the Cuddalore District.
- To make a comparative study of the MSEs availing micro-financial intervention and those having no intervention.
- To study the relation between the MF intervention and the development and growth of the MSEs.
- To suggest some remedial measure to improve upon the efficiency and effectiveness of micro-finance in developing the MSEs.

Materials and Methods

Research methodology

Research design: To assess the effect of micro-finance loans given to micro and small-scale enterprises; a sample of enterprises receiving loans Intervention Group (IG) was randomly selected from the databases of the intervening organizations. A one to one matching was implemented to select a "similar" enterprise not receiving loans Control Group (CG)). The process of matching necessitate impressive a number of limitation in the selection of controls.

These limitations aimed at making the control group similar to the intervention group with respect to the distribution of one or more potentially difficult factors. However, matching does not prevent controlling for other difficult variables that show up during data analysis. The matching procedure has been based on four factors: location, activity and size of employees and year of starting the business and secondary data have been finding out by books, journals and magazines.

Data collection

The most backward district of the country, Cuddalore District was selected. A comprehensive questionnaire composed of five sections was developed. The questionnaire included the section like, socio-economic background, capital, training, marketing and employments.

Education	Control Group		Intervention Group		Total	
	No.	Percentage	No.	Percentage	Nos.	percentage
Illiterate	16	16	4	6	22	22

Read only	18	18	8	6	24	24
Primary	10	10	30	28	38	38
High school	4	4	3	5	9	9
College	2	2	5	5	7	7
Total	50	100	50	100	100	100
Chi-Square test at α=5percent	d.f.	X_2 cal			X_2 crit at α=5percent	Difference
	4	2.4747	9.488	Significance		

Table 1. Distribution of the entrepreneurs according to the educational level.

The educational attainment levels of the entrepreneurs there is no clear evidence of the existence of a significant difference between the two groups in this respect. The only remark visible from Table 1 is that the percentage of the illiterates is relatively lower in the case of the Intervention Group. This could be an indicator that micro-finance programs prefer to lend entrepreneurs who have a certain minimal level of education, and/or that the entrepreneurs who seek micro-credit come from better educational backgrounds. The social status of the entrepreneur differs significantly between the intervention Group and control Group and the same applies to the age distribution of the entrepreneurs in the two groups (Table 2).

Age	**Control group**		**Intervention group**		**Total**	
	No.	**Percentage**	**No.**	**Percentage**	**Nos.**	**percentage**
Below 30	3	6	2	4	5	5
30-39 Yrs.	14	28	16	32	30	30
40-49 Yrs.	26	52	29	58	55	55
50-59 Yrs.	3	8	2	4	5	5
60 Yrs. and above	4	8	4	2	5	5
Total	50	100	50	100	100	100
Chi-Square Test at α=5percent	d.f.	X^2 cal	X^2 crit at α =5percent	Difference		
	4	2.497	9.488	Significance		

Table 2. Distribution of the entrepreneurs according to the gender and age group.

That the control group population is relatively younger in age, since nearly 6 percent of the entrepreneurs are less than 30 years old, while the intervention group entrepreneurs in this category represent only 4 percent of the total intervention group. That young entrepreneur (less than 30 years old) seem to represent only a minor fraction (5 percent) of the total number, which is an unexpected result at least in the case of the interventional group (only 2 percent) where there is an emphasis on offering new opportunities to the youth through micro-finance. That the age bracket with the highest concentration of entrepreneurs is in the range of 40-49 years old for both the intervention group and the control group, except for the females in the intervention group, where the highest concentration is in a lower age bracket (30-39 years old). If this remark is added to previous one concerning the interest of the intervention programs in endorsing the females' position in respect to access to micro-finance, one could conclude that there is relative attention given to females in younger age brackets (Table 3).

Employment status	**Control group**		**Intervention group**		**Total**	
	Number	**% age**	**Number**	**% age**	**Number**	**% age**
Employer	30	60	31	62	61	61
Self-employed	20	40	19	38	39	39
Total	50	100	50	100	100	100
Chi-Square test at α=5percent	d.f.	X^2 cal	X^2 crit at α =5percent	Difference		
	1	0.042	3.841	Non-Significance		

Table 3. Entrepreneurs in the IG and CG distributed according to present employment status.

There is no apparent or significant difference between the entrepreneurs in the two groups. The percentage of them that is employing others is practically the same in both cases. So far, it is not possible to say that the Intervention Group included more employers as compared to the control group (Table 4).

Uses	Control group		Intervention group		Total	
	No.	Percentage	No.	Percentage	Nos.	percentage
Start a venture	12	24	16	32	28	28
Continuity	32	64	28	56	60	60
Expansion	4	8	3	6	7	7
Others	2	4	3	6	5	5
Total	50	100	50	100	100	100
Chi-Square test at α=5percent	d.f.	X^2 cal	X^2 crit at α =5percent	Difference		
	4	1.181	9.488	Significance		

Table 4. How did the Loans helped the Entrepreneurs.

The majority of the entrepreneurs did not change the number of workers because they were able to get loans. It is however noticeable that the IG had more tendency to increase the labour as they borrowed, which is understandable and coincides with their above mentioned answers, which indicated that a far more larger percentage of the IG used external finance to sustain or to expand their activity.

When we look into the comparisons between the formal and informal finance enterprises, it could be noticed that between the two year the first group of EUs was able to increase its employment by 20%, while the second only managed to increase it be 8%. However, this visible increase in employment in the enterprises receiving formal loans did not prove to be of statistical significance. One possible explanation is the small sample size (Table 5).

Sales activities	Control group		Intervention group		Total	
	Number	% age	Number	% age	Number	% age
Self	42	82	12	24	54	54
Co-operative	3	6	3	6	6	6
NGO/GO	1	2	32	64	33	33
Private middlemen	4	8	3	6	7	7
Total	50	100	50	100	100	100
Chi-Square test at α=5percent	d.f.	X^2 cal	X^2 crit at α =5percent	Difference		
	3	45.9307	7.815	Significance		

Table 5. Sales activities done by the entrepreneurs.

Work relations and work distribution: Both types of enterprises were facing difficulties with the workers. Absenteeism, late arrival to work, and the high wage levels were considered the major sources of problems. As to the distribution of work among workers in the enterprises according to specialty, it is apparent from the following tale that the intervention group has been more successful in this area. The intervention group entrepreneurs tend to be more organized in the way they run their unit, the following major features appear to do dominant.

Results and Discussion

The data analysis and providers report brought to light several results

One of the main drawbacks of all the ongoing schemes, especially those that have been studied, is the nearly nonexistent training and support components. This deficiency resulted in the high failure rates especially among the small credit beneficiaries. Another drawback of the on-going schemes is the provision of small credit to inexperienced start-up entrepreneurs. Their failure rate is high, and their ability to create employment is no different from the matching control group enterprise. Interventions offered by both the GO and the NGO financed programs succeeded in presenting better chances to female entrepreneurs whether those who were starting up with new businesses or those who were already active in the market.

However, this consideration for gender issues is still quite limited and there is a necessity to expand the role of the interventions in this respect.

Successes of micro enterprises

Poverty is often the consequence of unemployment and being gender related, leads to feminization of poverty. To eliminate poverty particularly that affects women, they should be encouraged to undertake micro enterprises with available credit facilities from banks and through micro credit. Micro enterprises are considered as a growth engine that triggers developmental process. Micro enterprises have emerged as a real boom for the poor. Besides solving the problem of poverty, it helps to generate additional income for families in both rural and urban sector. Tailoring, embroidery work, bookbinding, soaps and candle-making provide ample prospects for illiterate and poor women to make a livelihood. Development of micro enterprise helps to create immediate employment opportunities involving a number of women at low investment level.

The success of micro enterprises depends on identification of enterprises with local talents and native capabilities of poor rural, extent training to develop in them self-confidence, self-esteem, self-reliance and motivation promotion of small saving through micro finance, supply of raw materials, facilities for marketing, technology up gradation and evaluation and assessment.

Moreover, thrift and credit operations under micro finance and micro enterprises enhances the economic status of the rural poor in family and society which help eradicate poverty at the root itself.

Conclusion

The main objective of this research was to try and assess the impact of the micro-finance programs, on poverty reduction process on sustainable basis in the MSEs that benefited from these interventions. The economic benefits of sustainable micro-entrepreneurship and its potential effects on the development process are equally promising. In terms of development and social impact, the microfinance industry allows significant improvements in quality of life for the micro-entrepreneurs. They can now stabilize the cash flow of their economic activity, bringing security to the enterprise. This allows them to better manage spending, which often generates savings; and this provides better standards of living to their family, and dependents in terms of housing, nutrition, health and education. Finally an access to banking and increased security promotes a sense of entrepreneurship, and thus their self-esteem and reputation increase. It is often argued that in light of these barriers, government holds the key in opening doors to aspiring entrepreneurs. The government can play an important role in improving the quantity and quality of entrepreneurs in a number of ways. A number of policies undertaken to reduce the shortage of entrepreneurs, such as the establishment of specialist educational institutions offering courses in business management and administration, and the establishment of specialist government agencies and department to provide advice and assistance to local entrepreneurs about to take up a business venture are likely to aid the process. A final optimistic suggestion, according to economic theory, implies that the income expenditure multiplier effect may also help to create chain reactions through developing economics, thus helping to break the cycle of poverty.

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