INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

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THE MICROFINANCE, ENTREPRENEURSHIP AND SUSTAINABILITY AS AN EFFECTIVE TOOLS FOR REDUCING POVERTY IN INDIA

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ABSTRACT

A significant challenge for microfinance, to serve as a sustainable poverty alleviation tool, is reaching sufficient scale to fulfill demand for financial services. The role of Micro-finance and Enterprises in socio-economic development as a means for sustainable development is increasingly recognized in developing economies. Indian microfinance promoters and public sector banks have invested heavily in the Self Help Group (SHG) approach to providing loans to the poor on micro and small scale enterprises. The Indian microfinance community rightfully takes great pride in this most impressive achievement, especially when one considers that the SHG movement really took off just over a decade ago. A widespread impression has formed that SHGs, when linked to banks, form a sustainable model for providing access to financial services for India's low income families. The general perception, reinforced by many bankers themselves, is that SHGs are profitable clients for banks, and that SHGs are the vehicle through which banks can most effectively reach out into rural communities. The "Large-scale sustainable microfinance helps create an enabling environment for the growth of political participation and democracy." Thus, the economics of microenterprise make it a compelling anti-poverty strategy Hence, the present study aims to seek the answer to what extend does microfinance empower entrepreneurship in India, and are these processes economically and environmentally sustainable?

KEYWORDS

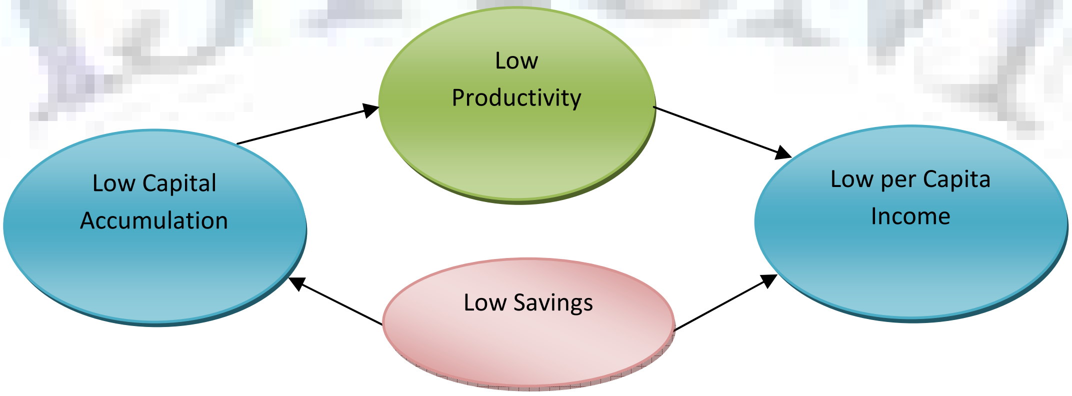
Entrepreneurship and Microfinance, Poverty and Sustainability.

INTRODUCTION

The role of Micro-finance and Enterprises in socio-economic development as a means for sustainable development is increasingly recognized in developing economies. Indian microfinance promoters and public sector banks have invested heavily in the Self Help Group (SHG) approach to providing loans to the poor on micro and small scale enterprises. The Indian microfinance community rightfully takes great pride in this most impressive achievement, especially when one considers that the SHG movement really took off just over a decade ago. A widespread impression has formed that SHGs, when linked to banks, form a sustainable model for providing access to financial services for India's low income families. The general perception, reinforced by many bankers themselves, is that SHGs are profitable clients for banks, and that SHGs are the vehicle through which banks can most effectively reach out into rural communities.

About 60 percent of the poor people in the country are lack access to financial services from institutions, either for credit or savings, which further fuels the "Vicious Cycle of Poverty" (Fig. 1). If the people of a country have a limited capacity to invest in capital; productivity is restricted, incomes are inhibited, domestic savings remain low, and again, any increases in productivity are prevented. A lack of access to financial institutions also hinders the ability for entrepreneurs to engage in new business ventures, inhibiting economic growth, and often, the sources and consequences of entrepreneurial activities are neither financially nor environmentally sustainable. Microfinance serves as a means to empower the poor, and provides a valuable tool to assist the economic development process. However, unavoidably, various barriers and obstacles limit the roles of microfinance, entrepreneurship and sustainability in reducing poverty in the country and around the world.

FIGURE: 1. THE VICIOUS CYCLE OF POVERTY



It is impossible to evaluate a development process without criteria to be addressed. Thus, economic development can be defined as "the process of improving the quality of all human lives", (Todaro, 1994), which incorporates three equally important aspects: raising incomes and consumption; fostering self-esteem through institutions that promote human dignity and respect; and increasing people's freedoms. This criterion has a distinct application to this particular development process. Robinson (2002), contends that "the first thing that many poor families do when their incomes rise is improve their nutrition, and send their children to school." This is fundamental to economic development, but also, "Because financial services help the poor expand their economic activities and increase their incomes and assets, their self-confidence grows simultaneously." And finally, "Large-scale sustainable microfinance helps create an enabling environment for the growth of political participation and democracy." Thus, the economics of microenterprise make it a compelling anti-poverty strategy (Rubinstein, 1993). Hence, the present study aims to seek the answer to w*hat extend does microfinance empower entrepreneurship in India, and are these processes economically and environmentally sustainable?*

THE RELATIONSHIPS BETWEEN MICROFINANCE, ENTREPREUNERSHIP AND SUSTAINABILITY IN REDUCING POVERTY IN THE COUNTRY

The extent to which microfinance, entrepreneurship and sustainability are interrelated is dependent on the extent to which it addresses the economic development process. Yunus (1994), 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 challenge is 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 microenterprises financially.

The extent to which microfinance, entrepreneurship and sustainability are interdependent is becoming increasingly recognised by experts in their respective fields of work, associated with economic development. Over 500 million poor people around the world run profitable microenterprises and often cite credit as the primary constraint to business growth (IFC, 2004) thus, credit is essential for poor entrepreneurs in India. Additionally, firms supplying the finance to these entrepreneurs are equally dependent on them for business, and to expand their services to more villages or urban areas. However, this dependency belies the assumption that microfinance can be profitable in India. Robinson (2002), a prominent expert in the field of microfinance, notes that "The formal sector has begun to realise 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 deter 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 India further exemplify the informal practice of "sustainable micro-entrepreneurship" among the world's poor. But although interrelated and interdependent, each of the 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 India.

THE ROLE OF MICROFINANCE IN REDUCING POVERTY IN INDIA

Microfinance sector has traversed a long journey from micro savings to micro credit and then to micro enterprises and now entered the field of micro insurance, micro remittance and micro pension. This gradual and evolutionary growth process has given a great opportunity to the rural poor in India to attain reasonable economic, social and cultural empowerment, leading to better living standard and quality of life for participating households. Financial institutions in the country continued to play a leading role in the microfinance programme for nearly two decades now. They have joined hands proactively with informal delivery channels to give microfinance sector the necessary momentum. During the current year too, microfinance has registered an impressive expansion at the grass root level.

Loans in India are made for a variety of purposes. Loans are made for housing and for "start up" loans so farmers can buy inputs to agricultural production: rice seeds, fertilizers and agricultural tools. But loans might also be used for a variety of non-crop activities such as: dairy cow raising, cattle fattening, poultry farming, weaving, basket making, leasing farm and other capital machinery and woodworking. Of course, funds may be used for a number of other activities, such as crop and animal trading, cloth trading and pottery manufacture. Credit is also issued to groups consisting of a number of borrowers for collective enterprises, such as: irrigation pumps, building sanitary latrines, power looms, leasing markets or leasing land for cooperative farming. Loans provide a source of income for diverse activities chosen specifically by the borrower, to create their *own* life.

The table 1 presents the overall progress of micro-finance in during the last three. It reveals detail of savings of SHGs with banks, Bank loans disbursed during the year and Bank loans outstanding with SHGs and growth performance with SHG-Bank Linkage Model.

TABLE 1: OVERALL PROGRESS UNDER MICRO-FINANCE DURING THE LAST THREE YEARS (RS.IN CRORE)

Particular		2007-08		2008-09		% Growth (2008-90)		2009-10		% Growth (2009-10)	
A. SHG-Bank Linkage Model											
Savings of SHGs with Bank as on 31 March	Total SHGs	5009794	3785.39	6121147	5545.62	22.2	46.5	6953250	6198.71	13.6	11.8
	Out of which SGSY	1203070	809.51	1505581	1563.38	25.1	93.1	1693910	1292.62	12.5	(17.3)
Bank Loans Disbursed during the year	Total SHGs	1227770	8849.26	1609586	12253.51	31.1	38.5	1586822	14453.30	(1.4)	17.9
	Out of which SGSY	246649	1857.74	264653	2015.22	7.3	8.5	267403	267403	1.0	9.1
Bank Loans Outstanding with SHGs as on March	Total SHGs	3625941	16999.91	4224338	22679.84	16.5	33.4	4851356	28038.28	14.8	23.6
	Out of which SGSY	916978	4816.87	976887	5861.72	6.5	21.7	21.7	6251.08	27.5	6.6

Source: NABARD, (2009-10), "Report on Status of Microfinance in India", Bandra, Mumbai, INDIA, www.nabard.org.

TABLE: 2: OVERALL PROGRESS UNDER MICRO-FINANCE DURING THE LAST THREE YEARS (Rs.in Crore)

B. MFI-Bank Linkage Model										
Particular	**2007-08**		**2008-09**		**% Growth (2008-90)**		**2009-10**		**% Growth (2009-10)**	
	No. MFIs	**Amount**	**No. MFIs**	**Amount**	**No. MFIs**	**Amount**	**No. MFIs**	**Amount**	**No. MFIs**	**Amount**
Bank Loans Disbursed to MFIs during the year	518	1970.15	581	3732.33	12.2%	89.4%	691	8062.74	18.9%	116.0%
Bank Loans Outstanding with MFIs as on 31 March	1109	2748.84	1915	5009.09	72.7%	82.2%	1513	10147.54	(21%)	102.6%

Source: NABARD, (2009-10), "Report on Status of Microfinance in India", Bandra, Mumbai, INDIA, www.nabard.org.

The table 2 reveals the overall progress of micro-finance with MFI-Bank Linkage Model. It depicts the details of Bank loans disbursed to MFIs during the year and Bank loans outstanding with MFIs and growth performance in India. 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 addresses 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 organizations need to expand their outreach and develop sustainable operations, along with performance-based support for capacity building; and
- Innovative approaches: leasing, lending and other products to increase access of small- and medium-size enterprises to financial services.

Despite the 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 microcredit 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 (2001) 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 (Hickson, Robert, 2001). Opponents of microfinance have pointed out that valuable aid money from fatigued 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 (Srinivas, Hari, 2004). 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 80s and 90s, 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 (World Bank, 2004). Thus, conflicting views exist regarding microfinance, and its effectiveness at reducing poverty in India.

THE ROLE OF ENTREPRENEURSHIP IN REDUCING POVERTY IN INDIA

Entrepreneurship is the active process of recognising 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 (Financial Sector of the World Bank Group, 2000). But this is not necessarily negative; microenterprises 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 microenterprises as business owners and employees (The IDB and Microenterprise, 2004). If successful, entrepreneurship is likely to result in a 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 sophistication and skills, and operate in very different markets and social environments. In most developing countries, microenterprises and small-scale enterprises account for the majority of firms and a large share of employment (refer to Fig. 1). Hence, the role of entrepreneurship in reducing poverty in 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 India. Collier and Batty have identified five primary reasons for the shortage of entrepreneurs in India. Firstly, this includes the limited profit opportunities which exist in India 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 monetary gain, restrict economic and social mobility, or assign very low status to entrepreneurs. And fifthly, an unfavourable economic and political climate might discourage the development of entrepreneurial talent and initiative. It is often argued that in light of these barriers, governments hold the key in opening doors to aspiring entrepreneurs in India.

The governments of India can play an important role in improving the quantity and quality of entrepreneurs in a number of ways. Collier and Batty suggest a number of policies to reduce the shortage of entrepreneurs in India, such as the establishment of specialist educational institutions offering courses in business management and administration, and the establishment of specialist government agencies and departments to provide advice and assistance to local entrepreneurs about to take up a business venture are likely to aid the process. Additionally, tax relief, subsidies, investment allowances and other incentives may encourage entrepreneurial activities, similarly, the provision of credit facilities to finance appropriate new business ventures might help. And finally, the attempted maintenance of an economic, social and political climate, which is favourable to entrepreneurs, is essential. It has also been suggested that official policies often make business difficult for micro-entrepreneurs. Improved business regulations, tax regimes, licensing requirements, financial sector reform and bank supervision will promote better conditions for microenterprise development (The IDB and Microenterprise, 2004). A final optimistic suggestion, according to economic theory, implies that the income expenditure multiplier effect may also help to create chain reactions through developing economies, thus helping to break the cycle of poverty.

THE ROLE OF SUSTAINABILITY IN REDUCING POVERTY IN INDIA

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 needs, 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. Littlefield (2004) claims, "If you're going to provide financial services permanently to people, they've got to be sustainable, and that means charging interest rates that cover your costs." Similarly, the IFC (2004) 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.

Sustainable development bears relevance to the developing world, primarily due to the role of the private sector in reducing poverty (such as microfinance institutions, business organisations and multinational corporations). This affects them because the growing public awareness of corporate governance and of environmental and social issues is driving changes in consumer behaviour, investment, and policy or regulatory adjustments. All signs point to continued pressure on the private sector to demonstrate that economic growth and sustainability are compatible (IFC, 2004). In an examination of 'ordinary' businesses in India, who have strategically integrated sustainability into their operations, it was noted that, "the evidence confirms that there are compelling commercial reasons to take action, despite a common assumption that sustainability is a luxury which emerging markets cannot afford (Sustainability, 2004)". Thus, economic and environmental goals may be pursued simultaneously, and it is now becoming apparent that this may be in firms' interests.

Strategies exist to promote sustainable development in India all over the world. However, it is argued that, "Sustainable development will only be achieved by ensuring that the economic, social, cultural and environmental dimensions of development be addressed in an integrated and balanced manner. This requires breaking down institutional and mental barriers between different sectors of society (UN, 2001)", and in forging close cooperation between the sectors of India.

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 (IFC, 2004).

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.

CONCLUSION

In India, despite the large size and depth of its financial system, the majority of the rural poor do not have access to formal finance and financial services. For this reason, innovative microfinance initiatives pioneered by nongovernmental organizations strove to create links between commercial banks, NGOs, and informal local groups to create the "SHG Bank Linkage" (World Bank, 2003). The success of SHG Bank Linkage has been largely attributed to good policy and strong leadership, in conjunction with facilitating government policy and legal framework. India's approach to microfinance – making it profitable and so widely available – helped the country reduce the incidence of poverty from about 40 percent of the population in the mid-1970's to about 11 percent in 1996 (Robinson, 2002). Members of SHG recognise that "several challenges lie ahead," but still believe it has "the right ingredients to be scaled-up into offering mass access to finance for the rural poor while improving sustainability" (World Bank, 2003).

The economic benefits of sustainable micro-entrepreneurship in India are compelling, 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 of India around the world. They can now stabilise 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.

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