



Measuring the Twin Benefits of Microfinancing: Some Empirical Evidence with Reference to Employment and Income

KEYWORDS

Microfinance, Microcredit, Poor, Employment, Income Generation and Inclusive Growth

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ABSTRACT Poverty reduction has been a concern of the microfinance industry in India. All MFIs have been attempting to apply new financial service strategies to reach the families below the poverty line and target the poor. The main use of micro credit is for directed investment. The core objective of the present research effort is to assess the impact of the said directed investment through Micro finance institutions in the form of income and employment in the enterprises promoted by MFIs. The study found that MFIs have played a vital role in enterprise development further leading to more employment and income generations. Hence, it is suggested to enhance the scale of Micro finance and provide liberal credit finally aiming at inclusive growth.

It is a demonstrated fact that through variations in the supply of finance, it is possible to influence the level of national income, employment, standard of living, and social welfare. The importance of finance in development depends upon the desired nature of development. Given the real resources and suitable attitudes, a well-developed financial system can contribute significantly to the acceleration of economic development. Microfinance is an offshoot of the emerging trends in Indian financial system. Social businesses hesitate to invest in enterprises of the poor based on subsistence oriented informal economy with low skill requirements and at the same time does not build confidence in formal commercial institutions. Priya Basu and Pradeep Srivastava have observed that despite substantial efforts and a vast network of rural banks, the rural poor still have very little access to formal finance and informal lending remains strong.

Samapti Guha and Gautam Gupta have found that micro credit institutions play an important role in creating income generation activities for the poor in India.

Poverty reduction has been a concern of the microfinance industry in India. All MFIs have been attempting to apply new financial service strategies to reach the families below the poverty line or target the poor. Frances Sinha has observed that microfinance is making a significant contribution to both the savings and borrowings of the poor in the country. The main use of micro credit is for directed investment. The core objective of the present research effort is to assess the impact of the said directed investment through Micro finance institutions in the form of income and employment in the enterprises promoted by MFIs.

OBJECTIVES OF THE PAPER

1. To assess the employment effects of MFIs
2. To estimate the income effects of MFIs

METHODOLOGY

To make a comprehensive study we have surveyed 600 respondents who are borrowers from MFIs from three districts namely Khammam, East Godavari and Chittoor. These three districts were selected on the basis of the volume of MFIs business in their respective regions. The sample respondents selected mostly by adhering to the principles of stratified random sampling. The criteria for stratification are social status and nature of activity.

MAJOR FINDINGS

- I. Table-1 refers to the distribution of the borrowers from MFIs by their employment in before and after MFI loan

setting.

Table-1
Employment in man days of the microfinance beneficiaries in before and after MFI loan setting

Sl. No.	Employment in Before MFI Loan Setting			Employment in After MFI Loan Setting		
	Average Man Days	No. of Beneficiaries of MFI's Loan	Percent	Average Man Days	No. of Beneficiaries of MFI's Loan	Percent
1	143	304	50.7	195	148	24.7
2	212	251	41.8	285	343	57.2
3	265	45	7.5	312	109	18.2
	Total	600	100.0	Total	600	100.0

Source: Primary Data

An attempt has been made to measure employment in terms of man-days. It is found that 50.7 percent of the respondents have had an average of 143 man-days of employment followed by 41.8 percent of the respondents with 212 man-days of employment. 7.5 percent of the respondents had 265 man-days of employment before the MFI loan setting. In the scenario after the MFI loan setting, it is found that 24.7 percent of the respondents have had an average of 195 man-days of employment followed by 57.2 percent of the respondents who had 285 man-days of employment and 18.2 percent of the respondents who had 312 man-days of employment.

II. The investment and income relationship

The relationship between investment and income is also estimated with the help of a simple regression equation, which is specified as follows

$$Y = a + bX$$

Where Y = income generation by the units

X = Loan assistance received from MFIs

a and b are regression coefficients

The estimated simple regression equation is as follows

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$$Y = 5755.06 + 1.093X$$

(837.502) (0.023)

F ratio = 2274.835

R-square = 0.792

Adjusted R-square = 0.791

Note: Figures in the brackets are standard errors

The analysis of the above regression equation indicates that the amount of loan borrowed from the MFIs has got positive

impact on income generated by the units under examination. The relationship between the said variables is found to be significant at 0.01 level. The estimated regression equation as whole is found to be significant as is evident from F value. It is further observed that the borrowed amount from MFIs could be able to explain variations in income generated by the units to the extent of 79.2 percent, which is evident from the value of coefficient of determination.

Conclusion:

Thus, it is concluded that MFIs have played a vital role in enterprise development further leading to more employment and income generations. Hence, it is suggested to enhance the scale of Micro finance and provide more credit finally aiming at inclusive growth.

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