

Effect of Microfinance on the Development of Micro-entrepreneurs in Rural Areas in Khulna, Bangladesh

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Abstract: *This paper aims to examine the impacts of micro finance on the development of micro- entrepreneurs in rural area. With this intention in mind, data have collected from entrepreneurs operating in rural areas applying structured questionnaire developed to capture their opinions on economic, social and psychological development before and after taking small loan from NGOs or Banks. Entrepreneurs were selected adopting convenience sampling strategy who were interviewed using close ended questionnaire. Paired sample t test is applied to identify the impacts of microfinance on the development of entrepreneurs. This study identifies that microfinance has contributed for the personal, social and business changes of micro-entrepreneurs.*

Keywords: *Microfinance, Entrepreneurs, Dependent Sample t-test*

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Introduction

Bangladesh is one of the underdeveloped countries of the third world. It has a population of about 147.9 million (Economic survey, 2011) which has made this country high densely populated. More than 80 percent of population live in rural areas where poverty is deep rooted and widespread. In this country almost half of the populations live on less than one dollar a day. Bangladesh has an agrarian economy but mere agriculture is not sufficient to meet all needs. Therefore, this country is trying to diversify economy. Industrial development is being given priority. Micro entrepreneurs have good contribution for improving business in the rural areas. A positive relationship between entrepreneurship and economic growth has been widely agreed upon (Carree et al, 2002). The entrepreneurship sector contributes towards the economic development of a country in several ways especially by creating employment and service provision (Hussain, Yaqub, 2010). In spite of its major contributions towards economic development, the rural-based micro entrepreneurs in Bangladesh suffer from lack in working capital, institutional credit facilities and poor management (Alam, Muhammed Nurul, 2009). Formal financing institutions like government and privately owned commercial banks normally give loans to large and medium scale industries (Alam, 2002). Cooperative banks in the country although gives loans to the rural-based micro enterprises, they confine their credit giving activities mainly to the members of the bank (BIDS 1981, 1988, 1989, 1990). One of the specialized and well known micro-credit giving organizations in Bangladesh called 'Grameen Bank' (Yunus, 1993, Nabi, 1996) also gives micro credit to the rural-based micro entrepreneurs especially the rural poor women.

About 90 percent of the people in developing countries lack access to financial services from institutions, either for credit or savings (Robinson, 2002). Micro entrepreneurs suffer for the acute shortage of capital most of the time after starting their businesses. This inhibits them to start new ventures as well as expansion. International Finance Corporation reported that more than 500 million poor people across the world run profitable microenterprises and often cite credit as the primary constraint to Business growth (IFC, 2002). Amartya Sen (1999) also found availability of finance as one of the important factor for development and mentioned that being financially more secure can help an entrepreneur become more successful, as it limits or reduces the various unfreedom which comes with poverty. Microfinance can serve as means to make micro entrepreneurs more capable financially and assist their growth and development. In this backdrop, this study has intended to study how microfinance entrepreneurs receive mainly from the NGOs contributes their developments.

Objectives of the Study

- To examine whether micro finance contributes economic development of micro entrepreneurs.
- To investigate whether micro finance helps in social development of micro entrepreneurs.
- To examine whether micro finance contributes in psychological development of micro entrepreneurs.

Literature Review

Microfinance includes a range of financial services such as savings, credit and insurance for the poor. Asian Development bank defines Microfinance as the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises (ADB, 2000). Ledgerwood (1998) defines microfinance as the provision of financial services (like savings, credit, insurance and payment services) to low-income clients (the poor), including the self-employed.

Entrepreneurs are individuals who instantiate and owns a business. They bear the risk of running the business. Micro entrepreneur is a special class of entrepreneurs who usually does business in rural areas. Their capital and manpower is limited. According to Credit and Development Forum (CDF), businesses with less than 10 thousand Taka capital investment can be considered as petty trades where micro enterprises are those which require more than 10 thousand up to 1 million Bangladeshi Taka (Alam and Miyagi, 2004). Basically, the owners of micro enterprises are micro entrepreneurs. Examples are bakeries, beauty parlors, child care facilities, repair shops, arts and crafts shops, painting businesses, contracting businesses, family-owned shops, auto body shops, small-scale restaurants, and small-inventory trading businesses.

A number of studies have been conducted focusing on microfinance. Ahmed et al (2011) describes the contribution of microcredit to the socio-economic development among rural women. They concluded women with micro credit contribute more to the family income than those without microcredit. Afrin et al (2008) identified that financial management skills and the group identity of women borrowers have significant relationship with the development of rural women entrepreneurship in Bangladesh. Hossain et al (2012) worked on the factors affected the development of entrepreneurship among members of microcredit fund. They found economic factors that have effect on entrepreneurship development. They also identified social and psychological factors are positively correlated with entrepreneurship development.

Alam et al (2008) worked on non-institutional barriers of micro entrepreneurship in Bangladesh. They concluded the barriers are political, social, cultural, technological, natural and personal. They believe that barriers must be removed for long run entrepreneurship development. McElwee (2006) explored the situation faced by micro entrepreneurs and found that entrepreneurs go through significant difficulties in accessing capital, distribution channel, and relevant business supports.

Hossain and Yaqub (2010) investigated motivation challenges and successful factors of micro entrepreneurs. They found customer service and relative business experiences are the key success factors. They commented accessing capital, bureaucratic hurdles and environmental uncertainty are major challenges. Some other studies have identified challenges including lack of supportive policies for micro small enterprise development (McCromick, 1997a, 1998), intense competition with replication of micro-business (Manning and Mashego, 1993); unavailability of fund (World Bank, 1993); manager characteristics including lack of skills, experience and culture (Katwalo and Madichie 2008; Ray, 1993); marketing techniques used including quality of service and market served (Blankson et al, 2006).

Micro and small enterprises have been recognized as a major source of employment and income in many countries of the Third World (Mead and Liedholm, 1998). The Inter-American Development Bank (1997) reported that MEs make a major contribution to aggregate employment, production, and national income in Latin America and the Caribbean. MEs provide income and employment for significant workers in rural and urban areas by producing basic goods and services such as made traditional foods, tailoring, barber shop and hawkers for the need of rapidly growing populations (Nawai and Shariff, 2011).

Most of the studies on microfinance have been conducted focusing on poverty alleviation, socio economic development. Some studies on micro entrepreneurs or micro enterprises have attempted to identify success factors and challenges. But empirical studies on impact of microfinance in developing micro entrepreneurs in rural areas of Bangladesh are almost absent thus the underlying situation necessitates this study.

Methodology

This study has been conducted with the intention of examining whether microfinance facilities development of entrepreneurs. Considering the nature of the research question the study focuses, causal comparative designed has been

Table 2: Respondents Profiles

Gender	Frequency	Percent
Male	84	84
Female	16	16
Total	100	100
Age of respondents	Frequency	Percent
15-25	16	16
26-35	62	62
36-45	19	19
Above 45	3	3
Total	100	100
Education	Frequency	Percent
Primary	38	38
Secondary/High School	62	62
Total	100	100
Family member	Frequency	Percent
4-Jan	26	26
9-May	71	71
10- above	3	3
Total	100	100
Organization offers loan	Frequency	Percent
ASA	24	24
Proshika	27	27
Grameen Bank	24	24
Brac	25	25
Total	100	100
Duration of receiving loan	Frequency	Percent
0-3	79	79
6-Mar	19	19
9-Jun	1	1
Above 10	1	1
Total	100	100
Duration of businesses	Frequency	Percent
0-5	70	70
6-10	24	24
11-15	5	5
Above 15	1	1
Total	100	100

selected to find the answer. Data have collected from the Southern part of Bangladesh from the entrepreneurs doing business at micro level who were found conveniently available using structured close ended questionnaire. A total 100 entrepreneurs were participated in the survey who was interviewed based on questionnaire meeting them physically. Questionnaire was developed in the light of previous literature to capture opinions of entrepreneurs regarding economic, psychological and social development. Five point Likert scale has been used to measure opinions of respondents on specific issues. Descriptive and causal (paired sample t-test) statistical tools have been applied for the analysis of collected data with SPSS.

The total number of respondents is categorized in term of their gender and it is found that 84% of them are male and only 16% are female thus micro entrepreneurs participated in the survey are male. The age of 100 respondents are categorized with a class interval of 10 years. It is found that maximum number of respondents is within 26-35 years' age group and respondents with age of above 45 are minimum in number. All of the respondents are categorized in two segments in term of education level, those are respondents having primary education only and respondents having secondary/high school education. It reveals that 38% of the total respondents have only primary education, whereas 62% of the total respondents do have their secondary education. It is also seen that respondents are facilitated with micro finance by four well-known and reputed micro financing institutions which are ASA, PROSHIKA, GRAMEEN BANK and BRAC. We have found that 27% of our respondents has been financed by PROSHIKA and BRAC has financed to 25% of the respondents, whereas both ASA and GRAMEEN BANK have financed to 24% of the respondents each. In this study, respondents are categorized by the total number of family members or their family size. It is found that most of the respondents have a family size of 5-9 members and it is 71%, whereas we have found minimum number of respondents having a family size of 10 members or above which is 3% only. Respondents are also categorized in term of the duration of receiving loan with the class interval of 3 years. It is found that maximum number of the loans is with tenure of only 0-3 years and it is 79%, whereas only 1% of the loans are found to have tenure of above 10 years with a minimum percentage. The total number of respondents is categorized by the duration of their business with the class interval of 5 years. It is found that the maximum numbers of respondents who have been facilitated with micro financing have business duration in between 0-5 years and it is 70%, whereas only 1% of the respondents were facilitated with micro finance having business duration of above 15 years.

Data Analysis and Interpretation

It reveals from the test that there is a difference of between the situations of micro-entrepreneurs without and with microfinance. This signifies that micro-finance contributes personal development of micro-entrepreneurs including better confidence, morale, ability of taking more initiatives and risk taking propensity.

Table 5: Personal change before and after microfinance

Pair	Personal Change before - Personal Change after	Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
					Lower	Upper			
-1.22433	.31940	.03194	1.28771	1.16096	38.332	99	.000		

Table 6: Social change before and after microfinance

Pair	Social Change before - Social Change after	Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
					Lower	Upper			
1.14000	.37227	.03723	1.21387	-1.06613	30.623	99	.000		

It reveals from the above table that there is a difference between the social situations of micro-entrepreneurs when they operate businesses without and with micro-credit and this difference is statistically significance ($p < .000$). The findings indicate that micro-finance plays positives for the social development of micro-entrepreneurs. Such development includes enhancing relationships with social members, more participation in social decision making and more influence on social functioning.

Table 7: Business change before and after microfinance

		Paired Differences					t	df	Sig. (2-tailed)	
		Mean	Std.	Std.	95% Confidence					Std. Error Mean
			Deviation	Error	Interval of the					
			n	Mean	Difference					
Lower	Upper	Lower	Upper	Lower	Upper					
Pair Business										
1	Change before - Business Change after	- 1.55500	.41981	.04198	-1.63830	-1.47170	-37.041	99	.000	

Table 7 shows that the difference between the situations of micro-entrepreneurs is evident when entrepreneurs operate business with and without taking micro-finance. This difference is statistically significant ($p < 000$). It can be concluded that micro-finance contributes positively for enhancement of business capital, cash flow, and business scope.

Conclusion

This study has examined the impacts of micro-finance on the entrepreneurs' social, economic and psychological conditions with the help of paired sample t-test using primary data. This study reveals that micro-credit has a positive relation with the social, economic and psychological development of micro-entrepreneurs. This study has significant implication for the micro-entrepreneurs on rustic areas in Bangladesh. The micro-entrepreneurs can go far for micro-finance as it will help them developing their socio- economic condition. Despite having important implications, this paper also has limitations. This study is done on a single division data only. So, the results might not be applicable for other division. Another limitation is that this study ignores the other factors which might be helpful for micro-entrepreneurs' development. More researches should be done on this topic in future since it is inconclusive issue. Suggestion for the future researchers is that they should carry out the research on the total country data and they should control the other variable which might be factors for the development of the small entrepreneurs.

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