

# A Study on Microfinance as a tool in Developing Entrepreneurship Special Reference to Ampara District of Sri Lanka

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**Abstract:** Microfinance is becoming a very relevant instrument to promote micro entrepreneurship in developing economics. The aim of the research was to investigate the role of microfinance to promote entrepreneurial development in Sri Lanka. Hence the study focused on for variables related to micro entrepreneurship in Ampara District, Sri Lanka. Desired sample size of the study was 200 respondents. Convenience sample techniques were applied to collect primary data from the microfinance beneficiaries by using a well-designed and pre-tested interview schedule. Multiple regression model and, Chi-square test were used to test hypotheses. Micro finance seems to be an instrument for the development of micro entrepreneurs. The F value (80.974) shows that the model fitted is statistically at 5 percent level. The researchers suggested how to overcome the problem of micro finance sectors and make them economically and socially viable. Several institutions were involved in the micro credit activities in country in Sri Lanka. This is not suitable to the policies of micro finance programmes. So the government and institutions related micro finance should take steps to make sure of providing awareness training, insurance, savings and credit connected with micro finance programmes. Hence, this study might me immense value to developing countries such as Sri Lanka to promote micro businesses.

**Keywords:** Micro finance, entrepreneurship, micro entrepreneurs

## Introduction

Micro finance contributes to generate employment, increases productivity and full utilization

of resources. Millions of the world's poor and low-income people have taken the advantage of small loans to improve their lives. Over the past three decades, people have used small loans known as micro credit to launch new enterprises. The active micro finance service uplifts the standard not only the individuals but also the households and enterprises. Poor people need a variety of financial services not just loan for their standard of living.

In the developing countries like Sri Lanka, entrepreneurship plays a vital role in the development process. Entrepreneurship plays an important role in the economy of a country (Stokes.D, 1998). Segal et al. (2005, p. 42) stated, "Being an entrepreneur, one who is self-employed and who starts, organizes, managers, and assumes responsibility for a business, offers a personal challenge that many individuals prefer over being an employee working for someone else. Entrepreneurs accept the personal financial risks that go with owing a business but also benefit directly from the potential success of business". Starting up a new firm is very much an individual decision, which is why the individual's qualities as an entrepreneur are central in the investigation of entrepreneurship (Littunen, 2000).

Micro finance primarily targets the poor people and especially women who are underprivileged. Micro finance provides loans, savings and other basic financial services to the poor including the self-employed. Through micro finance, many small enterprises have been established and developed during the past years, but most of them are not sustainable, and successful to the expected level.

Muhammad Yunus, a Professor of Economics at Chitagong University and the founder of Grameen bank is a pioneer figure in the field of micro finance. He discovered that a very small loan could make a difference in a poor person's ability to survive. But, the traditional banks are not interested in making such small loans to the poor people who may have repayment risks. Muhammad Yunus's first loan consisted of \$ 27 from his own pocket which he lent to 42 people including a woman. In 1976, Muhammad Yunus founded the Grameen bank to make loans to poor Bangladeshis. Since then, the Grameen Bank has issued more than five billion US dollars as loan to several million borrowers. At the close of 2005 the number of outstanding loan was not more than 4 million. The success of the Grameen bank model has inspired similar efforts throughout the developing world and even in industrialized nations including the United States. Close to 96% percent of Grameen loans have gone to women. Originally, the program started with men and women but later it focused on women when data showed a dramatically lower credit risk among women. Muhammad Yunus and the Grameen bank were honoured for this achievement with the Nobel Prize in 2006.<sup>1</sup>

### **Problem of the study**

Globally 1.2 billion people are extremely poor surviving on less than \$1 a day and three-quarter live in rural area. In Sri Lanka one fourth of the population suffers from poverty. Due to the war internal displacements and tsunami hit 2004, Poverty has become one of the major impediments in the way of development programs in Sri Lanka.

Employment generation through self-employment in a developing country like Sri Lanka is vital for accelerating employment and uplifting the poor people's standard of living. The upliftment of the stranded of living is based on providing the self-employment opportunities to start employment. Higher labour intensity employment generation in micro and small and medium sector costs less to create one job in SME sector than in large enterprise sector. Globally 1.2 billion people are extremely poor

surviving on less than \$1 per day and three-quarter live in rural area. In Sri Lanka and India one fourth of the population suffers from poverty. Poverty has become one of the major impediments in the way of development programs. Millions of the world's poor and low-income people have taken advantage of small loans to improve their lives.

Over the past three decades, people have used small loans, known as micro credit, to launch new enterprises, credit jobs and help economics to increase. Poor people have proved that they are able to repay these loans on time. Micro finance contributes to generate employment, increases productivity and full unitization of resources.

### **Objectives**

The present study is an attempt to identify the effectiveness of micro To identify the entrepreneurial skills among micro finance beneficiaries.

1. To analyse the effectiveness of effectiveness of micro finance programme through economic indicators.
2. To offer viable suggestions to improve micro entrepreneurship among the beneficiaries in Sri Lanka.

### **Hypotheses**

In order to serve the above stated objectives, the following hypotheses have been proposed

- H1: There is no significant influence of personal variables on choice of entrepreneurship.
- H2: Micro finance promotes the effectiveness of entrepreneurship Sri Lanka

### **Studies Related to Micro Finance and entrepreneurship**

Baskaran V. (2002), has studied "*Impact of credit on Small and Medium Industry (SMIS) in Sri Lanka*" According to the OLS regression results, SMI loans have a positive impact on investment the estimation for the level of investment in function of the amount

<sup>1</sup> <http://en.wikipedia.org/wiki/microcredit>

of loans granted in SMI loan scheme in the period 1980 to 1992. The model proposed is a simple linear regression model, which exhibits the relationship between investment (the dependent variable) and the amount of the loan granted (the independent variable in SMI loan scheme).<sup>2</sup>

Tilakaratna, G. and Wickramasinghe, U. (2007) in their study: “*Micro finance in Sri Lanka - A Household Level Analysis of Outreach and Impact on Poverty*” examined the issues related to the micro finance sector in Sri Lanka such as: outreach of micro finance, role of informal sources of finance and the impact on poverty and welfare of households. The study concludes that to create sustainable micro-enterprises in Sri Lanka, there is a need for: MFIs to facilitate or get directly involved in providing ‘credit-plus’ services to their clients; Development of rural infrastructure facilities that would encourage the private and NGO sectors to get involved in micro finance provision; Recognition of the heterogeneity of micro finance clients and their needs in designing more effective micro finance instruments.<sup>3</sup>

Shahidur R. Khandker. (2005) on “*Micro finance and Poverty: Evidence Using Panel Data from Bangladesh*” and examined that Micro finance supports mainly informal activities that often have a low return and low market demand. It may therefore be hypothesized that the aggregate poverty impact of micro finance is modest or even nonexistent. If true, the poverty impact of micro finance observed at the participant level represents either income redistribution or short-run income generation from the micro finance intervention. This article examines the effects of micro finance on poverty reduction at both the participant and the aggregate levels using panel data from Bangladesh. The results suggest that access to micro finance contributes to poverty reduction, especially for female participants, and to overall poverty reduction at the village level. Micro finance thus helps not only poor participants but also the local economy.<sup>4</sup>

Nirman Bhavan, (2004), in *the Scheme of Micro finance program* has indicated that the scheme of micro-credit has been found as an effective instrument for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy. Total requirement of micro-credit in the county has been assessed at Rs.50000 crore. Micro-credit programme works through NGOs/ SHGs and the merit lies in weekly monitoring and refund of installments. The rate of recovery under SIDBL’s micro credit programme is as high as 98 %.<sup>5</sup>

## Methods and Materials

### Area of the Study

The study is conducted in Ampara District in Sri Lanka. The districts are selected by the judgment of the secondary data. More than 80% of the population is in the rural area. Majority of the working population depends on agriculture.

### Sampling Technique

In order to evaluate entrepreneurship development in Ampara district in Sri Lanka, 200 entrepreneurs randomly selected from, CBO’s, and other beneficiaries of micro finance scheme.

### Sources of Data

The study is both empirical and exploratory in nature. The data required for the study was collected from both primary and secondary sources.

### Tools used for Analysis of data

The analysis and interpretation of data are made with the help of statistical tools and techniques. SPSS.17.0 (statistical package social science) was used to analyse the primary data and the quantitative descriptions.

### Analysis

Table 1 Shows the association between personal variables and choice of entrepreneurship in Sri Lanka.

<sup>2</sup> Baskaran V., *Impact of credit on Small and Medium Industry (SMIS) in Sri Lanka* the World Bank and ADB sponsored SMI Loan Schemes., Central Bank of Sri Lanka. 2002,P: 6-7

<sup>3</sup> Tilakaratna, G. and Wickramasinghe, U.,: “*Micro finance in Sri Lanka - A Household Level Analysis of Outreach and Impact on Poverty*” International Development Research Center (IDRC)

<sup>4</sup> Shahidur R. Khandker, “*Micro finance and Poverty: Evidence Using Panel Bangladesh*” <http://wber.oxfordjournals.org/cgi/content/abstract/19/2/263>, 2005

<sup>5</sup> Nirman Bhavan, *Scheme of Micro finance program2004*,<http://www.small India.com/schemes/micro finance.htm>, p, 1-10

**Table 1: Personal variables and Choice of**

S.No	Variables	$\chi^2$ value	Critical Value	Results
1	Age	13.57	21.0	Not significant
2	Gender	2.74	7.81	Not significant
3	Marital Status	5.21	12.6	Not significant
4	Qualification	5.97	16.9	Not significant
5	Business location	0.96	7.81	Not significant
6	Experience	21.08	21.0	Significant

Source: computed from primary data

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Further the table depicted that in Sri Lanka only experiences significantly influence the choice of entrepreneurship.  $\chi^2$  value (21.08) for experience was greater than the critical value of (21.0) but other variables age, gender, marital status, qualification, and business location of the respondents were not significantly influencing the choice of the entrepreneurship in Sri Lanka.

Table 2.1 describes the estimated regression model to determine the effectiveness of entrepreneurship in Sri Lanka

Among these significant variables, eight are positively related to the micro finance in the study area and family expenditure and liability in pre credit period were negatively related to the effectiveness of entrepreneurship. It means expenditure is increased at the same time the effectiveness of entrepreneurship will be improved.

It is inferred from the analysis that the variable individual income (t=1.180) and asset post credit period (t=1.571) have a greater influence on the determining factor of effectiveness of entrepreneurship in Sri Lanka.

**Table 2 Estimated Regression Model**

Variables	Regression Co-efficient
Constant ( $\beta_0$ )	23.504 (10.625)
Individual Income ( $\beta_1$ )	3.324 (1.180*)
Family Income ( $\beta_2$ )	1.556 (0.913*)
Sales Amount ( $\beta_4$ )	1.970 (0.214*)
Profit ( $\beta_3$ )	1.614 (1.010*)
Savings ( $\beta_5$ )	0.404 (1.077*)
Family Expenditure ( $\beta_6$ )	-0.975 (1.064*)
Liabilities in Pre-credit Period ( $\beta_7$ )	0.725 (0.947*)
Liabilities in Post-credit Period ( $\beta_8$ )	2.460 (1.394*)
Assets in Pre-credit Period ( $\beta_9$ )	0.872 (0.648*)
Assets in Post-credit Period ( $\beta_{10}$ )	1.106 (1.574*)
R <sup>2</sup>	0.529
F value	38.572*
No. of Observations	200

\* Indicates the 'F' and 't' values are statistically significant at 5 percent level. Figure in bracket indicates the 't' value .

## Findings

Through this research the researcher has found out certain things out of the detailed analysis.

Experience highly influence the choice of entrepreneurship in and Sri Lanka  $\chi^2$  value (21.08) for experience was greater than the critical value of (21.0). Other variables namely age, gender, marital status, qualification and business location were not influencing the choice of entrepreneurship in and Sri Lanka

Microfinance programme improves the effectiveness of entrepreneurship among beneficiaries in Sri Lanka. It was proved through the hypothesis testing Independent variables in the regression model are jointly responsible for 52.9 per cent (R<sup>2</sup>) variations in the effectiveness of entrepreneurship in Sri Lanka. And also The F value (38.572) shows that the model fitted is statistically significant at 5 percent level.

## Conclusions and Recommendations

The researcher suggests the following to overcome the problem of micro finance sectors and make them economically and socially viable. Several institutions were involved in the micro credit activities in countries in Sri Lanka. This is not suitable to the policies of micro finance programmes. So the government and institutions related micro finance should take steps to make sure of providing awareness training, insurance, savings and credit connected with micro finance programmes.

Community based organization (CBOs) in Sri Lanka. Their activities are inadequate. CBOs in Sri Lanka are totally depending on the NGOs. So CBOs should have been strengthening its effectiveness. NGOs in Sri Lanka should take action to promote and empower CBOs in the backward region level and allow them to work independently. Governments and private bank should initiate CBOs in Sri Lanka.

Coordination and networking among MFIs could help in reaching the unreached clients and avoiding excess funding of others. Coordination among MFIs may help to ensure that the scarce resources are optimally utilized. Self-employment related knowledge and training should be incorporated in the school curriculum. Self help group members should attend the skill development training conducted by the micro finance institutions.

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