

Role of micro finance and small financing schemes on entrepreneurship and economic development in Jharkhand state

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Abstract

Jharkhand, being the state furnished with abundant and enriching natural resources is pervaded mainly by the agrarian economy, marked with higher poverty rates and limited access to formal sources of credits or loans. Microfinance and small financing schemes emerge as a significant resolution to the problems of lack of funds for entrepreneurial activities of the state, developing its economy and society for the better. Microfinance along with diverse small finance schemes such as Jharkhand State Livelihood Promotion Society aid in assisting marginalized communities, minorities and women with adequate capital for starting various business activities. These schemes help in empowering minority communities of the state, by providing them access to entrepreneurship as well as ensure successful running of existing enterprises, thereby ensuring sustainable income generation and thus working towards poverty eradication. Microfinance has undoubtedly emerged as one of the most effective ways that supports people of Jharkhand, especially minorities and women in availing resources to conduct business, earlier limited and inaccessible. However, effective establishment of micro finance and small financing schemes do face various challenges in regard to interest rate, regulation etc. rising the need for research to develop ways to tackle these issues and develop further policies that help harness the potential of these schemes towards the economic and social development of the state. Study survey was conducted among 224 entrepreneurs to know the factors that determines the role of micro finance and small financing schemes on entrepreneurship and economic development in Jharkhand state. It is found that Financial Inclusion, Entrepreneurship Promotion, Poverty Alleviation and Economic Diversification and stability are the factors that determines the role of micro finance and small financing schemes on entrepreneurship and economic development in Jharkhand state.

Keywords:- Microfinance, Small financing schemes, Jharkhand, Business. Entrepreneurship, Economic development

Introduction

Jharkhand is a state furnished with abundant supply of natural resources and minerals, yet affected by an impaired economy with majority of people below poverty line. Most of the people of the state belong to rural regions, involving in agriculture and small-scale business activities. However, the technological advancement and commercialization of agriculture and business put people of Jharkhand in a position where they find it difficult to develop their economy without adequate capital support from financial institutions. The emergence of microfinance in providing adequate funds to the people of Jharkhand has helped them engage in entrepreneurial activities as well as develop agrarian economy, there by contributing towards economic and social development of the state.

Microfinance that provides small scale funds to people of the state depicts transformative potential in mitigating financial exclusion, advancing facilities for entrepreneurship and thereby contributing towards social and economic enhancement of the state. Researches conducted by Sahu (2018), Priyadarshani (2017) and Kumar Lal (2019) indicate lack of financial awareness, financial resources and financial literacy as some of the major constraints that hamper the development of people of Jharkhand. With microfinance services and help of other financing schemes, providing adequate capital encourage people of the state to pursue more entrepreneurial activities, creating self-employment and further job opportunities. Apart from that microfinance gradually help in reducing the gap of demand and supply of credits, empowering people of the state by creating more incomes ensuring financial sustainability.

The role of microfinance in creating job opportunities for women and marginalized communities of Jharkhand emphasizes the immense social role that these schemes play towards ensuring advancement of the society of the state. This pivotal role played by microfinance in empowering women and tribal people of Jharkhand by supporting them with adequate funds to

start their own ventures depict how these schemes also emerge as important tools for empowerment. By providing financial assistance to those groups who often face barriers to access formal credits, microfinance not only paves way for financial inclusion but also work towards gender equality and bring multifaceted significant impacts towards the overall progress of a society. Research by Sahu and Venkatachalapathy (2018) further confirms how microfinance help empower families in Jharkhand by focusing towards empowerment of women.

Microfinance definitely aids in ensuring financial inclusion and help develop the society of Jharkhand by creating more income, job opportunities, access to credit services as well as by empowering people with diverse skills and infrastructures. However, several challenges in association with regulatory frameworks, financial rates and sustainability exist in this arena affecting the effective running of microfinance schemes. These challenges require extensive investigation such that policymakers and co-operative societies be able to foster innovative ideas and schemes to tackle the issues, paving way for more inclusive and resilient economic landscape in Jharkhand.

Literature Review

Microfinance has emerged as one of the significant ways of promoting financial stability and inclusion, particularly among poor sections of society. In Jharkhand, marked by large number of people belonging to rural areas and leading their livelihood depending on agriculture, microfinance and small financing schemes help contribute towards the economic development of the society, providing adequate funds and resources to people for investing in various business enterprises. The existing literature review analyze how microfinance and various other financial schemes play pivotal role in empowering lives of Jharkhand, facilitating growth of entrepreneurial activities and assisting in the economic and social development of the state.

Chatterjee and Das (2016) conduct an empirical study on how diverse skills of micro-entrepreneurs from districts of Dhanbad, Bokaro and Ranchi help develop entrepreneurial activities, enhancing the economic development of the state. The research analyzes reasons behind backwardness of the state in its socio-economic development and entrepreneurial activities despite being the place consisting of rich mineral resources and industrial bases. The analysis discovers that 46.2% population of the state is below poverty line and lack access to formal credits for engaging in any entrepreneurial activities, pulling back the state from economic enhancement. Development of microfinance and skill enhancement of micro-entrepreneurs is a thrust area that has helped uplift the state in various ways generating income and financial stability to the people.

Microfinance and small financing schemes play pivotal role in poverty alleviation in the state of Jharkhand by providing small loans and financial services to people of the state that help them start their business. Chauhan and Oraon (2017) discuss how microfinance with the help of self-help groups assist rural people of Jharkhand by providing them with savings products, loans and other financial services, there by supporting the aspirations of many people including women and marginalized communities to give wings to their entrepreneurial dreams. In the study conducted in Gumla district of Jharkhand, Chauhan and Oraon (2017) coherently indicate how microfinance, beneficial for both banks or agencies that provide loans and rural people, facilitate in reducing the gap between demand and supply of credits. Jha and Nandurkar (2020) conduct extensive research on how Large Area Adivasi Multipurpose Co-operative Societies (LAMPS) help in providing adequate financial resources to poor farmers of Jharkhand, helping them create a marketing infrastructure for their agriculture. The study clearly indicates how microfinance and provision to provide small loans to poor sections of the society by Co-operatives such as LAMPS have helped Jharkhand uplift its tribal people, farmers and women by providing necessary capital to conduct agriculture and entrepreneurship that have been highly commercialized in contemporary times.

Kumar Lal (2019) looks at how microfinance help empower women communities of Jharkhand. The financial institutions that provide microfinance services help women of the state to avail small loans and credits that assist them in starting their own business enterprises. By supporting women entrepreneurship, microfinance schemes not only cater to gender equality and active participation of women in the public arena, but also increase the human resources and capital in the workplace, contributing to the economic development of the state. Sahu and Venkatachalapathy (2018) conduct an empirical study to investigate how microfinance has helped in the upliftment of women in rural areas of Khunti district in Jharkhand. The study that surveys 118 poor tribal women of the district clearly expose huge differences in the socio-economic background, income, borrowing of finances, employment activity etc. of these women before and after the access to micro-credits. Apart from the above study, research conducted by Singh, Ojha, Rath and Sukthankar (2020) in reference to women entrepreneurs of Ranchi city in Jharkhand also expose the pivotal role played by microfinance in uplifting the communities of the state. The research clearly exposes how micro-credits that empower these women automatically empowers entire family thereby enhancing the economic conditions and financial sustainability of the state.

Kumar, Behera and Bihari (2020) on investigating pioneering approaches that facilitate entrepreneurial skills of people in Jharkhand discuss how microfinance emerge as the most successful and significant tool in poverty alleviation, skill enhancement and income generation of the society. Microfinance services encourage more people to engage in entrepreneurial activities and therefore ensure increased income generation and economic empowerment of the society. Many people who involve in agrarian economy make use of the financial services provided by microfinance institutions to link entrepreneurship and agriculture building a marketing infrastructure for their products.

Priyadarshani (2017) in her research conducted on role of microfinance in empowerment of people of Deoghar district in Jharkhand analyses lack of financial resources, financial literacy and financial awareness as some of the major constraints that pull back people of the state from maintaining a stable income. The findings of the research propose for the necessity of microfinance services in the state of Jharkhand in order to assist these people gain resources to start various ventures. Similarly, study by Patel and Jha (2017) on the impact of microfinance on socio-economic weaker sections of society in Ranchi district of Jharkhand indicates how microfinance help sustain micro-entrepreneurship and various other activities resulting in creation of more employment opportunities for the people of the state. The fact that microfinance facilities and help people to start their own enterprises not only create self-employment opportunities but also enhance skill and management of people empowering them in various aspects of their life.

Apart from microfinance, government funded small financing schemes and self-help groups also help towards the economic development of the state. In a case study conducted by Parwez (2013), clearly depicts how self-help groups introduce diverse programs that build skills of people as well as help facilitate market-linkage to entrepreneurs. Initiatives like Jharkhand State Livelihood Promotion Society (JSLPS) that conduct such workshops including skill-building programs, build marketing schemes and infrastructures for the people complement the capital support by microfinance aiding towards the overall economic and social development of the state. However, despite the immense role and benefits that microfinance along with small financing schemes ensure in the growth of people of Jharkhand, it also exhibits various challenges in terms of sustainability, regulatory frameworks etc. There is need of persistent research to discover further ways that help in ensuring effective establishment of microfinance services that help empower people create more income, job opportunities as well as enhancement of their skills.

Objective

1. To know the factors that determine the role of micro finance and small financing schemes on entrepreneurship and economic development in Jharkhand state.

Methodology

A survey was conducted among 224 entrepreneurs to know the factors that determine the role of micro finance and small financing schemes on entrepreneurship and economic development in Jharkhand state. “Convenient sampling method” and “Factor Analysis” were used to collect and analyze the data. The sampling units were the owners of small businesses, startups, and innovative enterprises. The geographical areas covered in the study were three cities of Jharkhand namely Ranchi, Bokaro and Dhanbad.

Findings

Table below is showing respondent’s general details in which it is found that males are 61.6% and females are 38.4%. 33.0% of them are below 40 years, 41.1% comes under the age group of 40-45 years and rest 25.9% are above 45 years of age. 26.3% of the respondents are in small business, 31.3% are in scalable start-up, 36.2% in innovative entrepreneurship and the rest 6.2% are some other kind of business.

Table 1 General Details

Variables	Respondents	Percentage
Gender		
Male	138	61.6
Female	86	38.4

Total	224	100
Age (years)		
Below 40	74	33.0
40-45	92	41.1
Above 45	58	25.9
Total	224	100
Entrepreneurs		
Small business	59	26.3
Scalable start-up	70	31.3
Innovative entrepreneurship	81	36.2
Others	14	6.2
Total	224	100

Table 2 “KMO and Bartlett's Test”

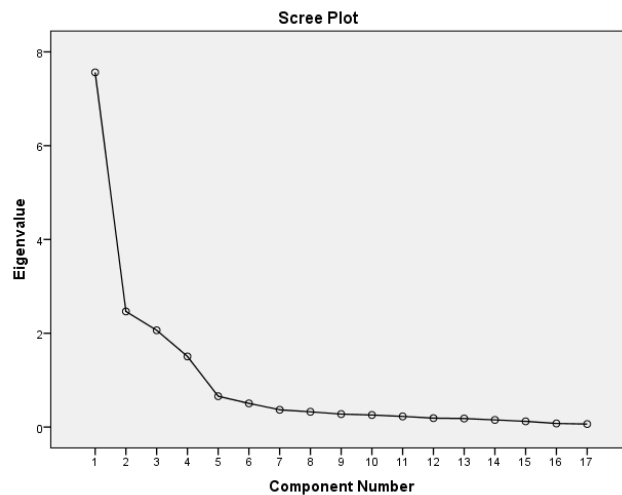
“Kaiser-Meyer-Olkin Measure of Sampling Adequacy”		.885
“Bartlett's Test of Sphericity”	Approx. Chi-Square	3456.902
	df	136
	Sig.	.000

In the table above KMO value is 0.855 and the “Barlett’s Test of Sphericity” is significant.

Table 3 Total Variance Explained

Component	“Initial Eigen values”			“Rotation Sums of Squared Loadings”		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	7.563	44.487	44.487	7.563	44.487	44.487
2	2.465	14.502	58.989	2.465	14.502	58.989
3	2.064	12.139	71.128	2.064	12.139	71.128
4	1.506	8.859	79.987	1.506	8.859	79.987
5	.658	3.868	83.855			
6	.505	2.970	86.825			
7	.368	2.167	88.992			
8	.325	1.913	90.906			
9	.276	1.622	92.528			
10	.257	1.511	94.039			
11	.227	1.336	95.375			
12	.191	1.121	96.495			
13	.181	1.067	97.562			
14	.153	.898	98.460			
15	.121	.713	99.173			
16	.077	.450	99.623			
17	.064	.377	100.000			

The “principal component analysis” method was applied to extract the factors and it was found that 17 variables form 4 Factors. The factors explained the variance of 44.487%, 14.502%, 12.139% and 8.859% respectively. The total variance explained is 79.987%.



The graph above depicts the Eigen values generated from the "Total Variance Explained table" for an elbow with 4 components.

Table 4 Rotated Component Matrix

S. No.	Statements	Factor Loading	Factor Reliability
	Financial Inclusion		.953
	Microfinance and small financing schemes extend financial services to individuals and businesses	.866	
	Helps in reducing economic disparities	.866	
	Give access to financial resources to a broader segment of the population	.852	
	Empowers women and tribal people and work towards gender equality	.847	
	Helps in creating income, job opportunities, access to credit services	.793	
	Entrepreneurship Promotion		.936
	Financial services empower aspiring entrepreneurs	.891	
	Help people to start and expand their small businesses	.889	
	Facilitate entrepreneurship and self-employment	.872	
	Ensures successful running of existing enterprises	.864	
	Poverty Alleviation		.890
	Microfinance and small-scale financing have the potential to empower individuals and families to escape the cycle of poverty	.903	
	Provide the means to invest in income-generating activities	.884	
	Allow people to earn a sustainable income and improve their standard of living	.863	
	Help to link entrepreneurship and agriculture building a marketing infrastructure for their products	.628	
	Economic Diversification and stability		.857
	Financing schemes promote economic diversification by supporting a wide range of small businesses in different sectors	.857	
	Reduces dependence on a single industry or source of income	.843	
	Promote economic development at the grassroots level and contribute to overall economic stability	.808	
	Making communities more resilient to economic shocks	.720	

Financial Inclusion is first factor which includes the variables like Microfinance and small financing schemes extend financial services to individuals and businesses, helps in reducing economic disparities, give access to financial resources to a broader

segment of the population, empowers women and tribal people and work towards gender equality and helps in creating income, job opportunities, access to credit services. Second factor is Entrepreneurship Promotion and its associated variables are financial services empower aspiring entrepreneurs, help people to start and expand their small businesses, facilitate entrepreneurship and self-employment and ensures successful running of existing enterprises. Third factor is Poverty Alleviation which includes the variables like Microfinance and small financing can help low-income individuals and families break the cycle of poverty, Provide the means to invest in income-generating activities, allow people to earn a sustainable income and improve their standard of living and help to link entrepreneurship and agriculture building a marketing infrastructure for their products. Fourth factor is Economic Diversification and stability, and its associated variables are Financing schemes promote economic diversification by supporting a wide range of small businesses in different sectors, reduces dependence on a single industry or source of income, promote economic development at the grassroots level and contribute to overall economic stability and Making communities more resilient to economic shocks.

“Table 5 Reliability Statistics”

“Cronbach's Alpha”	“N of Items”
.914	17

The reliability for 4 constructs with total of sixteen elements is 0.914.

Conclusion

The role of microfinance and other small-scale financing schemes in Jharkhand depict huge transformative potential in enhancing the social and economic conditions of the state by fostering entrepreneurship, business enterprises and agrarian economy of the society. Microfinance plays a pivotal role in providing financial and capital support to poor sections of the state who face several barriers in availing formal credit loans. The adequate support of capital encourages people to start their dream entrepreneurial activities creating more income and employment opportunities in society. Microfinance also caters to establishing financial sustainability in the state as well as acting as an empowering tool that enhance livelihoods of people belonging to marginalized communities. Microfinance also do play a significant role in empowering and creating more opportunities for women of the state, there by catering towards gender equality and social advancement. However, despite the immense role these schemes play in mitigating financial exclusion, there exists various challenges in association with microfinance particularly in terms of financial rates and regulatory frameworks. By leveraging the benefits and scope of microfinance and small financing schemes as well as by addressing existing challenges in this arena, new ways can be developed to harness the potential of the field working towards proper, resilient and sustainable economic landscape for Jharkhand.

The study was conducted to know the factors that determines the role of micro finance and small financing schemes on entrepreneurship and economic development in Jharkhand state and found that Financial Inclusion, Entrepreneurship Promotion, Poverty Alleviation and Economic Diversification and stability are the factors that determines the role of micro finance and small financing schemes on entrepreneurship and economic development in Jharkhand state.

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