

Role of Microfinance in Micro-Entrepreneurship Development in Bangladesh: Prospects and Challenges

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Abstract:-This paper presents the results of qualitative study on micro enterprises in Bangladesh that examines how microfinance institutions (MFIs) influence the starting and scaling up of the microenterprises (MEs). By analyzing both successful and failure microenterprises this paper also tries to identify why microenterprise starts as well as scales up and vice versa. This paper finds credit support of MFIs plays catalyst role for MEs development. It is key factor for both expansion and contraction but not the primary cause of MEs' success. Entrepreneurial mind and previous working experience play significant role for starting and skills training accelerates success of MEs. Other than financing, MFIs do not have significant role in promotion of MEs. Further, MFIs are rational financing organizations and usually finance in the ventures where recovery rate is higher. When they are in doubt about the recovery rate, especially during idiosyncratic shock of MEs venture they usually do not finance.

Keywords:- Microenterprise; MFIs; Microfinance;

I. INTRODUCTION

Micro-enterprises (MEs) contribute positively to the economy especially in rural economy by creating job opportunities and increasing income. ME loan outstanding of the microfinance institutions in Bangladesh reaches to 81.88 billion taka in 2014 which is 29% of their total loan portfolio and the growth rate of ME loan is 22% whereas the growth rate of total loan portfolio is only 10% in this sector (M. R. Authority 2014). Access to credit can have impact at two levels – for starting up of enterprises and for scaling up of activities. However, 8 per cent of microenterprises acquired loans from MFIs to start-up microenterprise activities in 2010 (Bank, Does Access to Finance Matter in Microenterprise growth? Evidence from Bangladesh 2013). This situation is improving gradually. In 2014 around 23 percent of the enterprises in Bangladesh have access to credit for starting up and around one-third of the enterprises have access to credit for scaling up of enterprises (Khalily, et al. n.d.). MFIs, in addition to ensuring access to finance, has positional advantage to help their clients in startup of micro-entrepreneurship, which conventional financial institutions

lack. Ironically, there is very little evidence to justify MFIs' role in developing MEs in Bangladesh. This paper examined the key factors that lead an enterprise to be successful or failure and role of MFIs in that respect by analyzing micro-narratives of both successful and failed MEs' cases.

II. OBJECTIVE OF THE RESEARCH

The main objective of this paper is to comprehend the role of MFIs in the development process of MEs in Bangladesh. It aims to explore different role of MFIs in different stages of MEs' development in Bangladesh. Therefore, objectives are as follows:

1. Role of MFIs during startup of MEs;
2. Role of MFIs during crisis period;

III. LITERATURE REVIEW

- *Micro-enterprise*

Microenterprise is the best way to recognize the fundamental ability of people to apply their individual talents, creativity and hard work to make their lives better. Usually microenterprise programs build on the unique ideas and skills of entrepreneurs. The way of operation, services, prospects and challenges are different from one enterprise to another. It is therefore, very difficult to classify enterprises into different groups—micro, small, medium, and large. Microenterprise defined largely as informal venture started mainly from the family (SEDA 2016). It has been characterized as are generally independent, largely family owned, employ low levels of skills and technology, and are highly labour intensive (Harvie 2003). In Kenya micro-enterprise is defined as having no more than 10 employees (MUIRURI 2014), are engaged in activities spanning the retail, service and manufacturing sectors and approximately 40 percent of microenterprises in Kenya are related to agriculture (Torres 1994). In Bangladesh microenterprises are run and operated purely by family labour. These micro-entrepreneurs operate micro-enterprises by choice. Most of the micro-enterprise owners are primarily interested in earning a living to support themselves and their families. They starts the business when something in their lives changes and they need to generate a larger income. Most of the enterprises (83.47 per cent) in Bangladesh with

participation by both family and hired labour would be considered also as micro enterprises (InM 2013). However, the size of these enterprises, in terms of employment, is higher than that of the former group. The former group has a little over than one percent of average employee size compared to 2.34 for the micro enterprises run by family and hired labour while for small enterprises it is estimated at 5.86, and for medium and large enterprises is 75.27 (Khalily and Khaleque 2013). Bangladesh Bank has defined enterprises types based on fixed assets and employment size whereas, Bangladesh Bureau of Statistics (BBS) has classified enterprises in terms of number of employees on full-time and regular basis (Khalily, et al. n.d.). According to BBS (i) enterprises with employees between 1 and 9 are called micro-enterprises, (ii) enterprises with employees between 10 and 49 are called small enterprises, (iii) enterprises with employees between 50 and 99 are medium enterprises, and (iv) enterprises with more than 100 employees are called large enterprises. However, MFIs consider micro-enterprise based on the loan size. Different MFIs disburse different amounts as ME loan according to their policy and most of the MFIs termed a loan as ME when loan amount is more than BDT 30,000 (Khalily and Khaleque 2013).

• *MFIS and ME loan in Bangladesh*

MFIs are considered very fundamental development stakeholders for poverty alleviation in Bangladesh. Micro-enterprise loan is one of the important services provided by them. It is expected to ensure self-employment in small scale businesses especially for the rural poor where employment opportunities are very low. MFIs play a crucial role in MEs development by providing consultancy and loan facility. MFIs normally provide micro-enterprise loans for starting up or scaling up the MEs to the entrepreneurs who are deprived from the formal financial sector due to their lack of collateral, connections and financial literacy. The demand of microenterprise loan is in increasing trend and the MFIs' microenterprise loan disbursement and outstanding became more than the previous year. In 2015, the total micro-enterprise loan outstanding of MFIs was BDT 115.52 billion which is 41% more than microenterprise loan outstanding of previous year. The following table shows the increasing share of micro-enterprise loan to the total loan outstanding of the MFIs licensed under Microcredit Regulatory Authority (MRA).

Descriptions	2011	2012	2013	2014	2015
Micro-enterprise loan	40.80	57.45	66.96	81.88	115.52
Share (%)	23.48%	27.19%	26.05%	29.01%	32.78%

Table-1: Trend of ME load disbursement

• *Source: MRA Annual Report, 2015*

Different MFIs disburse different amounts of micro-enterprise loan in different ventures according to the prospect of the ventures. Some MFIs provide lion share of their ME loan in small business, some in poultry, some in handicrafts, etc. Generally, in Bangladesh MFIs provide supports to the poor through micro-enterprise loan as well as consultancy in some definite sectors like small trade and business, agriculture, livestock and poultry, fisheries, handicrafts, cottage and small industries, transportation, food processing, etc. The following table depicts a general picture of the area where MFIs contribute by disbursing micro-enterprise loan in different percentage, although the percentage and area may change over the years.

Types of MEs	No. of MFIs	% out of 550 MFIs who have MEs
Small trade & business	193	35.09
Agriculture	96	17.45
Livestock & poultry	118	21.45
Fisheries	87	15.82
Handicrafts, cottage & small industries	116	21.09
Transportation	66	12.00
Food processing	46	8.36
Others (timber business/carpentry, water, health & sanitation, housing, Phone/Fax, garments & tailoring, etc.)	148	26.91

Table-2: Types of ME loan disbursed by MFIs in 2013

• *Source: CDF survey 2013.*

While small trade and business was the highest priority, livestock and poultry came up as the second largest single sector with 21.45 percent of total 550 MFIs having coverage as on December 2013. Handicraft, cottage and small industries scored third largest position in priority with slightly above 21% and agriculture came next to handicrafts with only 17.5% of total MFIs having coverage. Mixed sector combining timber business/carpentry, water, health & sanitation, housing, Phone/Fax, garments & tailoring etc. came up as the fourth largest with nearly 27% of 550 reporting MFIs. On the other hand, fisheries, transportation and food processing sectors were covered by more or less 15%, 12% and 8% MFIs respectively.

IV. METHODOLOGY

The study is a qualitative analysis of twenty micro-narrative cases of MEs. The primary information and data has

been collected by conducting in depth personal interview on twelve successful micro-entrepreneurs and eight failure micro-entrepreneurs of different leading NGO-MFIs in Bangladesh. Interviews have been done following a semi-structured questionnaire and informal discussion with the entrepreneurs and cross checked by Focus Group Discussion (FGD). The respondents are micro-entrepreneurs selected from different profession and different districts (mainly Jamalpur, Chapai Nababgonj and Dhaka) of Bangladesh. Secondary data has been collected from Microcredit Regulatory Authority (MRA), Credit Development Forum (CDF) BBS, research papers, online resources and other secondary sources.

V. ANALYSIS AND FINDINGS

Access to credit was critical for the success of almost every enterprise of this study. From the starting up of business venture to scaling up, and sustaining the ventures, access to credit was the catalyst of success. MFIs in that case played as very flexible and reliable source of financing to the enterprises. Almost all the respondents of this study have started becoming successful when they could ensure influx of money into their business. It is evident from both successful and failed enterprises that credit was key player behind success and failure. When entrepreneurs could ensure required investment, their business expanded and when they had to withdraw money from their business due to personal, familial or other reasons their business stumbled and in few cases shut down. After analyzing the cases, critical role of MFIs found in three stages of microenterprises development viz.; during starting up the venture, during scaling up of venture and during critical time of venture.

At the inception of business idea, loan is not the concern. Entrepreneurial mind plays significant role. Decision of taking initiative is evolved from persons' own creative thinking, pursuit of doing business, taking risk and sometime persons' situational necessity. From all the cases related to range of sectors like cow rearing to furniture making, it has been found that entrepreneur had decided to initiate business first by him/herself then thought about capital and loan. Access to credit affects positively in starting up business to almost all the respondents of this research. When they decided to start business, along with personal savings took loan from the MFIs. Without the credit support from the MFIs he may not start and continue his venture. So MFIs play a significant role in enterprise development with credit support and providing credit.

However, as claimed by many of the scholar that MFIs helps in inculcating business aptitude or skills among the micro-entrepreneur, was not evident in the study. It was the entrepreneur own-self who took the initiative first and took

loan from the MFIs. Persons' previous exposure to skills found very much determining factor regarding choosing the business sector. All the narrative cases of this study portray that previous learning and professional exposure act as main factor while planning for a new business by an entrepreneur. In addition, prior knowledge which a person achieves through observing others like father's profession, local known persons' business or learning by doing, etc. was very important. Previous exposure to the job develops confidence to initiate a new business or initiate larger form of business. Moreover training provided by government, MFIs and other entities helped them with better knowledge regarding the business which in turn played important contributions behind success of entrepreneurs.

Analyzing the loan history of the respondents, this research found that the MFI plays an important role in scaling up the enterprise through ensuring continuous capital flow to the business by providing credit support. All the successful entrepreneurs, contrary to the unsuccessful entrepreneurs, found have taken credit support from the MFIs as a regular basis. Analyzing the loan history of last five years it is found that successful entrepreneurs took loan and paid back almost every year and in almost every time loan amount got bigger than that of previous years and sometimes the amount is just double or tripled than the previous years'. On the other hand unsuccessful entrepreneurs had taken one or two time loan within five years period. Continuous credit support helped the entrepreneurs to expand their business further and lack of credit support plays as restriction to growth. Furthermore, credit also helped in continuous capital formation of the enterprises which, consequently, helped in achieving efficiency through increasing economic return on capital, sales, assets and family labor. For some entrepreneur economic return on sales rose to 40% to -80% due to expansion of business and efficiency. Similar picture also found in case of family labor. Almost all the enterprises started with negative return on family labor or alternatively may be called as profit of microenterprises during the inception of the business however, return increased in course of time. It is found that within five years period average profit rose from BDT 4000 to BDT 130000 for some microenterprise. Economic efficiency of the enterprises juxtapose to expansion in size has been experienced by most of the successful enterprises due to capital regular capital support provided from the MFIs.

Apart from loan support there are some key factors that helped enterprises to grow faster and sustain. Targeting the right market and delivering the clients demand by using previous working experience and learning helped a lot to the entrepreneurs. That means his learning by doing in the previous position plays an important role. Relocation of the business considering cost and market condition also found very effective in scaling up of the business. One respondent

moved from capital city to Chapai Nababgonj where wage and other expenses were relatively low but transport facility was good. The entrepreneurs also got the opportunity to use his own house to operate the business which influences his success. It is also example of cost cutting at the inception period which that responded could successfully done. So microenterprise should start relatively low expensive area to generate more profit. Hard work is another very common issue found in this research as one of the major catalysts for scaling up of business. One respondent could scaled up her business after the death of her husband because of loan support and her dedication, sincerity, creative or innovative design and hard work.

Support during the critical periods is very important for a business. In this study in this case of unsuccessful entrepreneur, it is found idiosyncratic shock causes to exhaustion of working capital and that leads to shrink the business. Type of shock also varies from sickness to victim of fraudulent incident. Financing during the critical period is not very usual practices in any time of financial sector where repayment rate is very important indicator of success. MFIs, similar to other financial institutes, follow same path of financing, at least during critical period of clients. One of the respondents in this study has faced a health related shock. To cope with that he had to borrow money from an informal source (one of his customers) with the condition to pay 10% interest per month as he did not get new loan from the MFI for being default some last installments of the loan. Therefore, in the long run his asset continuously declined since his income was not enough to meet the interest rate and debt. Other respondents faced with familial reason to withdraw large amount of her working capital and had to shut her business due to not having any credit facility during that critical time. MFIs, like other financial institution, behaved as a risk averse and minimized their risk by not providing credit during the critical period of business venture. In addition to MFIs behavior, lack of proper training, knowledge, experience and managerial skill to face any kind of idiosyncratic shock and leaking out the capital of the business also leads to failure in micro-entrepreneurship. If properly financed in such crisis period those entrepreneurs would be a successful one.

In a nutshell, from the cases we found prior knowledge and experience, finance flow, managerial prudence, proper marketing strategies are the important keys to success of the microenterprises. MFIs, as finance provider, smoothen the process of enterprise start up, scaling up and sustaining, however, do not risk their portfolio in providing support to microenterprises during shock period. On the other hand, constraints like idiosyncratic shock, scarcity of fund, inappropriate product marketing, lack of asset support, lack of knowledge to use available local raw materials, limitation to produce high quality product, unable to identify the demand-supply gap and poor market segmentation etc. work as

hindrance to the success of micro-entrepreneurship in Bangladesh.

VI. RECOMMENDATIONS

The study suggests for expanding the horizon of MFIs services. MFIs have to address multidimensionality of entrepreneurship development. Financing the poor is merely a single solution out of many interrelated and integrated approach of micro-entrepreneurship development in Bangladesh. Therefore, the research suggests reviewing the existing policy regarding micro-enterprise and taking the following issues into considerations:

- Value chain development and financing;
- Market demand driven skills training and financing for entrepreneurship;
- Investigating the reasons of Credit Rationing of MFIs and taking necessary steps;
- Increase the level of financial inclusion;
- Explore most efficient enterprises and catalyze existing resources to finance them;
- Developing cooperation and collaboration strategy with relevant stakeholders to develop a graduation sensitive integrated plan of action for the micro-entrepreneurs;

VII. CONCLUSION

The role of MFIs in micro-entrepreneurship development is widely accepted fact across the world. However, in what areas, when the MFIs help the micro-entrepreneurs are not clearly articulated in the existing literature. This research, instead of quantitatively measuring the relationship, tries to find role of MFIs in micro-entrepreneurship development more qualitative way. This research found MFIs role in three stages of micro-entrepreneurship development is very prominent. To start a business, to expand microenterprise and to achieve sustainable level finance is inevitable. Finance is much more important during the period when entrepreneur face an idiosyncratic/covariate shock. However, like other rational financing institutions, MFIs always try to invest in very comfort zone. The moment they find risk in investing money they stop financing a vulnerable enterprise. MFIs do not like to take the entrepreneur's business risk into the MFI's portfolio risk. Policy should be there regarding certain percentage of the microenterprise loan portfolio which would be used to finance to the enterprise that are at the verge of failure in absence of sufficient fund. Different initiatives like value chain, market demand driven skill training and financing entrepreneurs, linkage with the SME and LE through MFIs or other proper

ways should be taken. Government and policy makers should take initiatives for micro-entrepreneurship development during starting, scaling up and critical period because the micro-enterprise contributes more in growth and the local economy in countries like Bangladesh.

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