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## Role of microfinance in employment generation in the Rohilkhand Region

**Saurabh Verma**

### Abstract

Micro finance is a financial innovation that is commonly considered to offer financial services to low income people including consumers and self-employed who traditionally lack access to formal banking and other related services. Herein the present study demonstrates the role of microfinance in generating employment. The employment status of both the beneficiaries and non-beneficiaries are discussed thoroughly on the basis of field survey. The study showed that microfinance programme has increased the income of the programme beneficiaries and more number of programme beneficiaries are engaged in income generating activities as compared to the non-beneficiaries. Mature group beneficiaries are better-off in terms of their employment and income as compared to the young group beneficiaries. The employment regression also shows that the group maturity is significantly contributing in increasing the employment.

**Keywords:** employment, financial, non-beneficiaries, consumers

### 1. Introduction

Micro finance is considered a tool for socio-economic development. Micro finance refers to small savings, credit and insurance services extended to socially and economically disadvantaged segments of the society for enabling them to raise their income levels and improve their standard of living. Asia has been leading the global exposure to microfinance: it is estimated that in 2010, 75% of the world's microfinance borrowers (around 74 million borrowers) were based in Asia (Microfinance Information Exchange, 2012) <sup>[7]</sup>. Seven out of every 10 of such borrowers live in India (32 million) or Bangladesh (22 million). Furthermore, over the past decade India has become the most dynamic country for microfinance. In 2011, there was an estimated \$4.3 billion given out as loans to around 26.4 million borrowers in India, most of whom (nearly 90%) were concentrated in just two states: Andhra Pradesh and Tamil Nadu (Kalpana, 2005 and 2008) <sup>[2, 3]</sup>. Pattanaik (2003) <sup>[4]</sup> in her study reveals that SHGs are continuously striving for a better future for tribal women as participants, decision-makers and beneficiaries in the domestic, economic, social and cultural spheres of life. Sahu and Tripathy (2005) <sup>[8]</sup> in their edited book views that 70 per cent of world's poor are women. In the Rohilkhand region, the programme was started from 1998-99, and no comprehensive study, by any researcher or government organisation, is available so far, which assessed the impact of microfinance programme in this region. The main objective of the study is to find the impact of microfinance programme on employment generation of the programme beneficiaries.

### 2. Materials and methods

#### Sampling design

The sample of the study was based on multistage random sampling technique. Rohilkhand region is consisted of seven well defined districts Bareilly, Moradabad, Bijnore, Rampur, Shajhhanpur, Pilibhit and Badaun (Figure 1). Five SHGs were selected from each selected districts.

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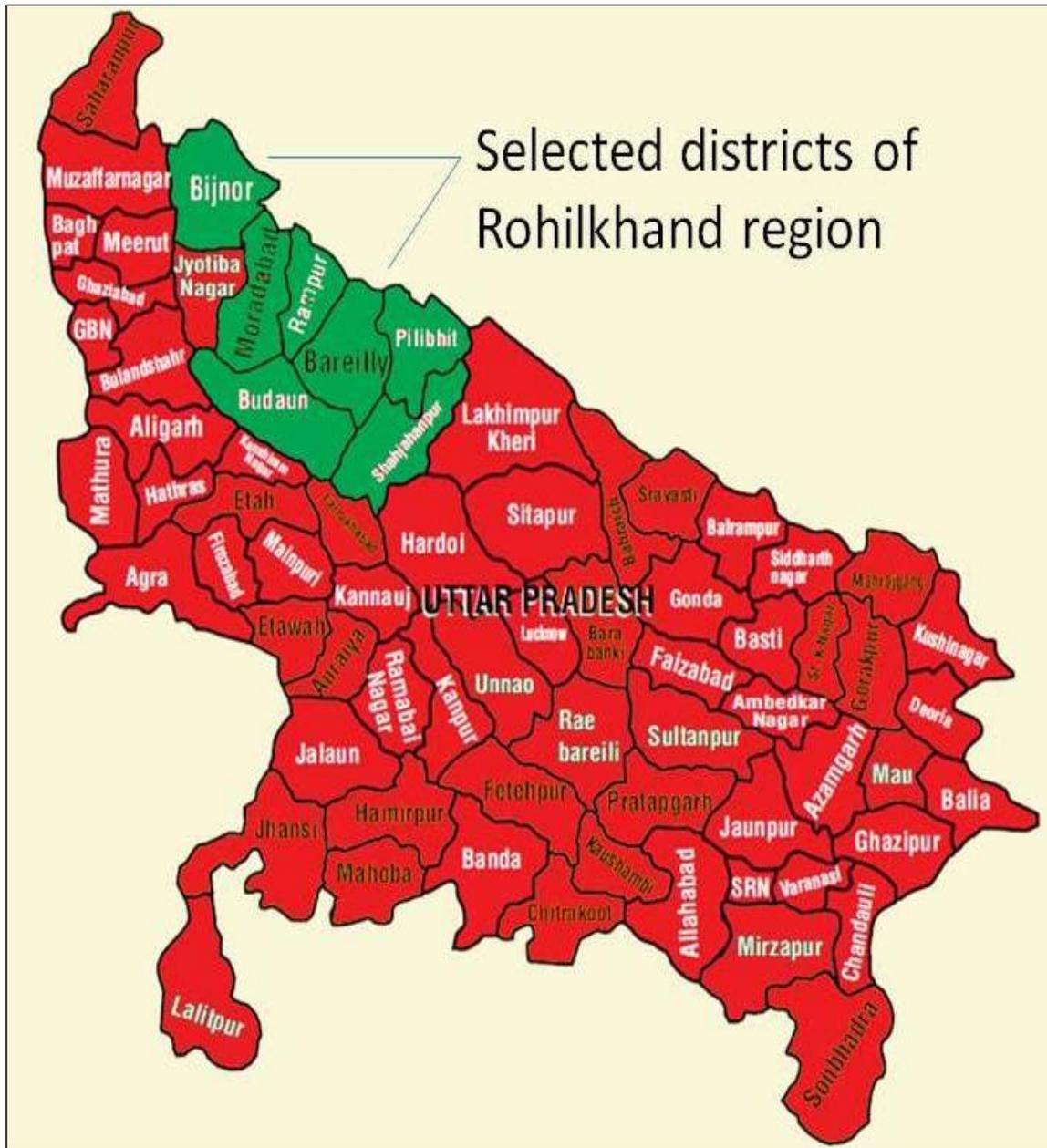


Fig 1: Map of Uttar Pradesh including seven districts of the Rohilkhand region (in green)

**Respondent’s selection**

A sample of 1050 beneficiaries and non-beneficiaries (150 respondents from each district) was taken from all seven districts of the Rohilkhand region of Uttar Pradesh.

**3. Results and discussion**

The labor force in India is growing at a rate of 2.5 per cent annually, but employment is growing at only 2.3 per cent, facing the challenge of unemployment’s, approximately seven million people every year (Employment Scenario in India). A perusal of the Table 1 showed that before joining the microfinance programme 46 per cent of the total

beneficiaries were employed and 54 per cent were unemployed. The beneficiaries started utilizing the loan to adopt financially viable activities. As a result, 83 per cent of the beneficiaries are employed in post-SHG situation. Hence, 37 per cent of the beneficiaries who were unemployed in pre-SHG situation gained employment. In order to measure the impact of programme, beneficiaries are also compared with the non-beneficiaries. The table shows that 43 per cent of the non-beneficiaries are employed and 57 per cent are unemployed. Chi-square ( $\chi^2$ ) test shows the significant difference among the beneficiaries and non-beneficiaries regarding their level of employment.

Table 1: Employment Status of the Beneficiaries and Non-Beneficiaries.

Status of Employment	Beneficiaries													
	PRE – SHG													
	BE	PBE	BDN	SPN	MBD	RMU	BJO	Total Rohilkhand						
Employed	37 (49)	35 (47)	38 (51)	32 (43)	30 (40)	33 (44)	39 (52)	244	(46)					
Unemployed	38 (51)	40 (53)	37 (49)	43 (57)	45 (60)	42 (56)	36 (48)	281	(54)					
Total	75 (100)	75 (100)	75 (100)	75 (100)	75 (100)	75 (100)	75 (100)	525	(100)					
Status of Employment	Beneficiaries													
	POST – SHG													

	BE		PBE		BDN		SPN		MBD		RMU		BJO		Total Rohilkhand	
Employed	62	(83)	59	(79)	65	(87)	57	(76)	68	(91)	61	(81)	63	(84)	435	(83)
Unemployed	13	(17)	16	(21)	10	(13)	18	(24)	7	(9)	14	(19)	12	(16)	90	(17)
Total	75	(100)	75	(100)	75	(100)	75	(100)	75	(100)	75	(100)	75	(100)	525	(100)
Status of Employment	Non – Beneficiaries															
		BE		PBE		BDN		SPN		MBD		RMU		BJO		Total Rohilkhand
Employed	35	(47)	39	(52)	30	(40)	32	(43)	29	(39)	33	(44)	28	(37)	226	(43)
Unemployed	40	(53)	36	(48)	45	(60)	43	(57)	46	(61)	42	(56)	47	(63)	299	(57)
Total	75	(100)	75	(100)	75	(100)	75	(100)	75	(100)	75	(100)	75	(100)	525	(100)

Source: Field survey 2012.

Note: The figure given in parentheses indicates percentages of Beneficiaries and non-Beneficiaries. The values of Chi-squares ( $\chi^2$ ) are 20.72 between Beneficiaries and non-Beneficiaries. The table values at 5 percent and 1 percent with 1 degree of freedom are 3.84 and 6.63 respectively.

**Employment status of beneficiaries**

**(i) Number of beneficiaries Employed in Post-SHG Period**

An examination of the Table 2 provides that 89 per cent of the beneficiaries are employed and 11 per cent are unemployed. Out of 80 per cent of the employed beneficiaries 36 per cent are newly employed, 40 per cent of the beneficiaries have expanded their business and the remaining 13 per cent of the beneficiaries have failed to expand their business even after receiving loans. The employment status of different types of programme beneficiaries shows that 95 per cent beneficiaries of Badaun districts are employed. Out of these, 40 per cent of the beneficiaries are newly employed after joining the microfinance programme. Forty-three per cent of the employed beneficiaries are those who are also employed in their pre-SHG situation and expanded/diversified their previous existing business by utilising the group loans. Twelve per cent of the beneficiaries have failed to expand their previous business. Out of 92 per cent of the employed beneficiaries belonging to Shahjahanpur district 40 per cent of the beneficiaries are newly employed, 45 per cent have

expanded their business, and 7 per cent have not expanded their business. Out of 91 per cent of the employed beneficiaries from Rampur district 42 per cent beneficiaries are newly employed, 41 per cent have expanded their business, and 8 per cent have not expanded their business. Out of 89 per cent of the employed beneficiaries belonging to Bijnore district 35 per cent of the beneficiaries are newly employed, 48 per cent have expanded their business, and 6 per cent have not expanded their business. Out of 87 per cent of the employed beneficiaries belonging to Pilibhit district 23 per cent of the beneficiaries are newly employed, 44 per cent have expanded their business, and 20 per cent have not expanded their business. Out of 85 per cent of the employed beneficiaries belonging to Moradabad district 37 per cent of the beneficiaries are newly employed, 38 per cent have expanded their business, and 10 per cent have not expanded their business. While out of 81 per cent of the employed beneficiaries belonging to Bareilly district 36 per cent of the beneficiaries are newly employed, 17 per cent have expanded their business, and 28 per cent have not expanded their business.

**Table 2:** Employment Status of Beneficiaries under the Microfinance Programme.

District	Total No. of Beneficiaries	Beneficiaries Employed in Post-SHG				
		Newly Employed	Expanded Business	Not Expanded	Total Employed	Unemployed
	1	2	3	4	(2+3+4=5)	(1-5=6)
Bareilly	75	27 (36)	13 (17)	21 (28)	61 (81)	14(19)
Pilibhit	75	17 (23)	33 (44)	15 (20)	65(87)	10 (13)
Badaun	75	30 (40)	32 (43)	9 (12)	71 (95)	04 (5)
Shahjahanpur	75	30 (40)	34 (45)	5 (7)	69 (92)	06 (8)
Rampur	75	31 (42)	31 (41)	6 (8)	68 (91)	7 (9)
Moradabad	75	28 (37)	29 (38)	8 (10)	64 (85)	11 (15)
Bijnore	75	26 (35)	36 (48)	4 (6)	67 (89)	08 (11)
Total Rohilkhand	525	189 (36)	208 (40)	68 (13)	465(89)	60(11)

Source: Field survey 2012.

Note: The figures given in parentheses indicate percentages of Beneficiaries.

**(ii) Average employment generated for different types of beneficiaries**

An examination of the table 3 reveals that the beneficiaries who are employed in pre-SHG and have also expanded or diversified their business in post-SHG are employed for 251 days in their post-SHG as compared to 155 days in pre-SHG situation. The beneficiaries who are unemployed in the pre-SHG situation and start new business after joining

microfinance programme are employed for 161 days per annum. The beneficiaries who are employed in pre-SHG but have not expanded their business in post-SHG are employed for 163 days and there is no increase in their employment as a result of microfinance programme. Thus, it can be said that the beneficiaries who have expanded their business are employed for greater number of days as compared to other beneficiaries. But the addition in employment generated is

the highest for newly employed beneficiaries. Similar results have been given by Mishra *et al.* (2001) [6] and Manimekalai

& Rajeswari (2001) [5] regarding marketing difficulties faced by the programme beneficiaries.

**Table 3:** Average Employment Generated in Pre-SHG and Post-SHG.

District	Type of Participant	No. of Beneficiaries	No. of Days Employed in Pre-SHG	No. of Days Employed in Post-SHG	Incremental Employment Generated
Bareilly	Newly employed	27	-	189	189
	With expansion in business	13	171	280	109
	Without any expansion in business	21	190	190	-
Pilibhit	Newly employed	17	-	139	139
	With expansion in business	33	134	218	84
	Without any expansion in business	15	156	156	-
Badaun	Newly employed	30	-	141	141
	With expansion in business	32	136	220	84
	Without any expansion in business	9	160	160	-
Shahjahanpur	Newly employed	30	-	137	137
	With expansion in business	34	165	283	118
	Without any expansion in business	5	125	125	-
Rampur	Newly employed	31	-	166	166
	With expansion in business	31	151	246	95
	Without any expansion in business	6	177	177	-
Moradabad	Newly employed	28	-	191	191
	With expansion in business	29	195	280	85
	Without any expansion in business	8	181	181	-
Bijnore	Newly employed	26	-	195	195
	With expansion in business	36	179	286	107
	Without any expansion in business	4	191	191	-
Total Rohilkhand	Newly employed	189	-	161	161
	With expansion in business	208	155	251	96
	Without any expansion in business	68	163	163	-

Source: Field survey 2012.

**Determinants of Employment (Regression Analysis)**

Simple linear regression equation is fitted to the field data in order to determine the factors affecting the employment level of the beneficiaries. The independent variables selected for this purpose are: age of the participant, education level of the participant, age of the SHG, number of group loans received, amount of group loans used for productive purposes, employment days of the beneficiaries in pre-SHG situation, and the level of household income. Employment days in post-SHG situation are taken as dependent variable. The age of beneficiaries should not be confused with their experience. The age reflects the rigour and vigour of a person for doing the work. Education may be a very important variable for wage employment, but it will be interesting to see its relationship with self-employment. Level of group maturity plays an important role in increasing the self-employment. It is mainly because of the fact that in the initial year’s loans may be used for consumption purposes but the subsequent loans are used as investment in certain economic activities. Amount of loan used for productive purposes is a very important determinant in generating self-employment. The coefficients of employment determinants are calculated with the help of following linear equation:

$$EMP = b_0 + b_1 AGE + b_2 EDU + b_3 G-AGE + b_4 NUM-LOAN + b_5 AMTLONPROD + b_6 EMP-PSHG + b_7 THS-INCOM$$

Where:

EMP = Employment in post-SHG in person days

AGE = Age in years

EDU = Education level

G-AGE = SHG age

NUM-LOAN = Number of times loan taken

AMTLONPROD = Amount of loan used for productive purpose

EMP-PSHG = Employment in Pre-SHG in person days  
 THS-INCOM = Total household income in Rs.

A perusal of the Table 4 provides that the coefficients of age and education level of the beneficiaries appear in the negative. It may be due to the fact that as the age of beneficiaries’ advances, they spend less time for work and more time for other jobs or leisure. Similarly, increase in education level of the beneficiaries has led to limited involvement in self-employment activity. However, both these variables are not statistically significant. Maturity of the group, i.e., group age is considered to be very important variable for increasing employment. The regression coefficient of group age is high and significant which shows that maturity of an SHG leads to significant addition in the employment. The coefficient of number of group loans received shows that the large number of group loans leads to high employment level but this coefficient is also not statistically significant. The amount of loans utilized for productive purposes is significantly influencing the employment of the beneficiaries. The amount of loans utilized for starting new ventures or expanding the existing business contribute positively towards the employment generation. The employment of beneficiaries in the pre-microfinance is also taken as a variable. The coefficient for this variable is positive, very high and statistically significant showing that the beneficiaries who are already employed in pre-SHG situation are getting more benefits of microfinance regarding employment. In other words, it may be interpreted that well-established beneficiaries have more benefits of microfinance than those who are new entrants in any economic activity. Family income of the beneficiaries is also positively related to the level of employment. The value of this coefficient is positive and significant which shows that the sound financial position of the family contributes to increase the level of employment. The coefficient of

determination (R<sup>2</sup>) shows the goodness of fit. It represents the proportion of variance in the dependent variable explained by the linear combination of the independent

variables in the model. The magnitude of R<sup>2</sup> is 0.647 in the Rohilkhand region which shows that the regression equation explains about 65 per cent of the variation.

**Table 4:** Regression Analysis

Variables	Standardized Coefficients							Total Rohilkhand
	BE	PBE	BDN	SPN	RMU	MBD	BJO	
Constant	(0.373)	(0.197)	(1.985)	(1.997)	(0.295)	(1.883)	(1.899)	(1.405)
Age	-0.098 (-1.330)	-0.012 (-0.159)	0.019 (0.170)	-0.084 (-0.349)	-0.088 (-1.982)	0.079 (1.989)	0.015 (1.853)	-0.041 (-0.839)
Education level	-0.063 (-0.810)	0.013 (0.181)	-0.07 (-0.645)	0.087 (0.765)	0.019 (0.191)	-0.06 (-0.486)	0.016 (0.177)	-0.041 (-0.808)
Maturity of the Group	0.317 (4.382)*	0.116 (1.603)	0.147 (1.273)	0.143 (4.049)*	0.983 (3.989)*	0.122 (1.909)	0.159 (1.339)	0.198 (4.038)*
Number of times loan taken	0.12 (1.567)	0.001 (0.001)	0.138 (1.983)	-0.15 (-1.676)	0.023 (0.101)	0.176 (1.381)	0.008 (0.023)	0.002 (0.04)
Amount of loan used for productive purposes	0.294 (3.888)*	0.324 (4.964)*	0.392 (4.109)*	0.994 (3.932)*	0.344 (4.499)*	0.933 (4.902)*	0.378 (4.433)*	0.337 (7.212)*
Employment in pre-SHG	0.543 (7.611)*	0.707 (9.711)*	0.788 (6.936)	0.359 (7.521)*	0.711 (8.119)*	0.891 (7.366)	0.955 (6.526)	0.597 (12.80)*
Total household Income	0.097 (1.371)	0.183 (2.488)**	-0.195 (-1.524)	0.097 (1.885)	0.169 (2.569)**	-0.187 (-1.242)	0.089 (1.349)	0.105 (2.188)**
R <sup>2</sup>	0.656	0.751	0.862	0.564	0.793	0.879	0.739	0.647

\*Signature at 1 percent level. \*\*Significant at 5 percent level.

Source: Own calculation from field survey data 2012.

Note: The figures given in parentheses indicate t-values

#### 4. Conclusions

The impact of microfinance programme on employment. The analysis of data showed that microfinance programme has increased the income of the programme beneficiaries. Impact of microfinance programme on employment shows that more number of programme beneficiaries were engaged in income generating activities as compared to the non-beneficiaries. The employment regression also shows that the group maturity is significantly contributing in increasing the employment. The study also brings out that among the programme beneficiaries the addition in employment is higher for the beneficiaries who are newly employed with the help of micro-credit but the addition in income is greater for the beneficiaries who were employed in pre-SHG situation also and expanded their business with the financial support provided under the microfinance programme. Therefore, it can be said that the already working beneficiaries are more benefited as their work experience helps them to earn more by working for the same or less hours as compared to the beneficiaries who have started their new business.

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