

ROLE OF MICROFINANCE TO REDUCTION UNEMPLOYMENT IN INDIAN ECONOMY

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ABSTRACT

Microfinance, also known as microcredit, is a financial service that offers loans, savings and insurance to entrepreneurs and small business owners who don't have access to traditional sources of capital, like banks or investors. Unemployed or low income individuals who were not able to get financial services from other banks are provided loans from microfinance. Most of the institutions that join microfinance are somehow involved in lending, many additional services which includes bank accounts and also provide financial and business education. Foremost goal of Microfinance is to give loan to people in debt. People a chance to become autonomous.

The primary goal of microfinance service is to offer money to individuals, which they can invest in their startups or business.

- *Is to explore how microfinance can add to economic development as measured by income growth.*
- *To analyze how investment in human capital can enhance economic growth at the community level.*
- *Understand the payout of micro loans should have a capability set that would allow poor borrowers to boom both economically and socially.*

Therefore the current research article entitled "Role of microfinance to reduction unemployment in Indian economy" is formulated to overview the current regime of stated problem and its solutions in general.

KEYWORDS: *Microfinance, Unemployed, Insolvent, Economically, Community Level.*

Introduction

The proposed Microfinance Services Regulation Bill of India defines microfinance services as "providing financial assistance to an individual or an eligible client, either directly or through a group mechanism for:

- An amount, not exceeding rupees fifty thousand in aggregate per individual, for small and tiny enterprise, agriculture, allied activities (including for consumption purposes of such individual) or
- An amount must not exceed rupees one lakh fifty thousand in cumulative per individual for housing purposes, or
- Such other amounts, for any of the purposes mentioned at items (i) and (ii) above or other purposes, as may be prescribed."

The bill further defines Micro Finance Institution as "an organization or association of individuals including the following if it is established for the purpose of carrying on the business of extending microfinance services:

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- A society registered under the Societies Registration Act, 1860,
- A trust created under the Indian Trust Act, 1880 or public trust registered under any State enactment governing trust or public, religious or charitable purposes,
- A cooperative society / mutual benefit society / mutually aided society registered under any State enactment relating to such societies or any multistate cooperative society registered under the Multi State Cooperative Societies Act, 2002 but not including :

A cooperative bank as defined in clause (cci) of section 5 of the Banking Regulation Act, 1949 or a cooperative society engaged in agricultural operations or industrial activity or purchase or sale of any goods and services.”

Key Principles of Micro Finance

- Poor people may require additional financial services other than loans.
- To wrestle against poverty, microfinance can be used as an effective tool.
- Microfinance means to build such a financial system that could serve the needy.
- Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people.
- Microfinance is a cycle with a motive to build a financial institution which attracts domestic deposits, use it as giving loans to poor and eventually provide them with financial services.
- Microcredit is not actual requirement always but other services may work.
- The job of government is to enable financial services to the customers rather than providing them directly.
- Donor funds should complement private capital, not compete with it.
- The key bottleneck is the shortage of strong institutions and managers.
- With perfect measures and performance, microfinance work its best.

Objectives of microfinance

Many organizations work to promote microfinance institutions in different part of the world which conclude a variety of objectives. The important among them are listed as follows:

- Support socio-economic development at the grass root level through community-based approach
- Self-Help group must be totally developed and strengthen which could facilitate sustainable development through them
- Make available livelihood training to disadvantaged population.
- Encouraging community participation and sharing of responsibilities.
- Encouraging programs for the disabled
- Empower and mainstream women
- Encourage sustainable agriculture and ecologically sound management of natural resources.
- Organize and bring together networking of grass root level organization
- Making use of local resources and reducing outflows would get benefits
- Increasing the earnings at household level and the number of wage days.

Research Methodology

This Study is descriptive, analytical and exploratory in nature. Secondary data is used for the purpose of the study. To develop this study in depth literature review has been used which is collected from different books, websites, different libraries and previous research find.

Literature Review

S. No.	Paper Name (Name of Author)	Objectives	Variable	Type of Research	Findings
1.	Report on impact of microfinance on the living standards of SHG members (V. Puhazheudi, KC Badatya) (1999-2000)	To study the impact of microfinance on the living standards of SHG members.	Increase in income, living condition, asset creation	Descriptive	The research highlighted that the core of SHG Bank linkage in India has become an important role in human living standards and it ventured in microfinance in a massive way by adopting the SHG bank with linkage program model.

2.	Microfinance as a poverty reduction tool – A critical assessment. (Anis Chowdhary, 2009)	To appraise the effectiveness of microfinance as a universal poverty reduction tool.	Increase in employment, Income growth, etc	Applied	The study revealed that Microfinance played an important role in providing safety-net and consumption smooth-ending. Microfinance borrowers learn to do new things and develop self esteem which is really beneficial for them. Author concluded that the policy of government should be emphasized on growth-oriented and equity-enhancing programs, such as broad-based productive employment creation.
3.	Challenges and opportunities of microfinance in Oman (Muawya Ahmed Hussein, August 2014)	To explore challenges and opportunities of microfinance in Oman	Improved standard of living, social capital and economy	Exploratory	The author elucidated from the study that loan repayment default was as a result of non management capacity of borrowers as a result of inadequate training of borrowers on utilization of loan funds before the receive loan and also because dependency of youth on govt. jobs.
4.	Women and repayment in microfinance (Berd .D Espalier, Lessius Hoge school, March 2009)	To find out gender difference with respect to microfinance repayment.	Women empowerment	Descriptive	The research highlighted that more women clients are associated with lower portfolio at risk , lower right offs and lower credit loss provisions. It confirms common beliefs that women in general are better credit risk for MFIS.
5.	Microfinance; creating opportunities for the poor? (Susanna Khavul, (2010)	The main focus of this paper is to identify opportunities for poor people	Financial Services	Descriptive	The paper represents a new way for financial capital to potentially stimulate economic growth in developing countries. However, microfinance is poorly understood, and it remains unclear whether it delivers on its promises.
6.	Microfinance as sustainable entrepreneurship development (Farhana Ferousi,) (2015)	This paper focus on effective utilization of loan capital.	Loans microfinance institutions	Analytical	The study proponents the financial growth that giving relatively larger loans to the non poor in the response of microfinance institutions towards the demand of existing and potential clients.
7.	Microfinance institutions in India Piyushtiwari and S.M Fahad Mumbai (2004)	This paper focus on people to borrow from local moneylenders at exorbitant interest rates it developed across the world to enhance credit to poor in the absence of formal finance.	formal employment	Descriptive	This paper discusses conceptual framework in microfinance of institution in India. The absence of formal employment make them non "BANKABLE".

Findings of Research

- **Role of Microfinance**

- **Poverty Reduction:** Microfinance is a poverty reduction tool which can be used for an successful poverty reduction strategy. If a channel is created for poor to access their savings, credit and insurance facilities in a much better way could help out poor to manage their risks better, build their assets regularly and can develop their small business or enterprises. Microfinance is only a means and not an end. It is the main goal is to reduce the poverty by the help of Government, NGOs and other financial institutions who have come up with several welfare schemes and activities to reduce poverty. To all those people who have been excluded from commercial financial were

provided loan from Microfinance which has become an approach to reduce poverty throughout the world.

- **Women Empowerment:** Women who are living in rural parts who are under poverty line are unable to realize their state. Together with reducing poverty, Microfinance are promoting women empowerment. The self help groups (SHGs) which are linked up with women are helping them to take crucial interest in development activities. The way women took part in SHGs made an outstanding impact on their empowerment both socially and economically. Even till now, poorer section of the society are depressed of basic services and opportunities since they are greatly subjugated by social norms and customs. Government and non-government organizations have executed various programmes to enhance them socially as well as economically. As it is well known to all that women were not given any opportunities to take decisions or to stand for their rights. Thus, SHGs main agenda was to empower women under their programme.
- **Development of the Overall Financial System Without Permanent Access to Institutional Microfinance:** Till today, many poor households keep on depending upon the informal sources of finance which bound their ability to equally participate in the development opportunities. To develop the overall financial system, microfinance should allocate through the combination of financial markets. The development of Microfinance directly rely on rural business development and they can be small and medium enterprises at the heart of rural sustainable development.
- **Self Employment:** For Government of India, Self-employment has been of a high priority quota. Microfinance plays an investigation tool in its overall policy. Poor people preserve resources to build their enterprise overtime. Financial services through microfinance can allow them to build their proposal into reality and eventually it could earn them income, assets and economic security. Nevertheless, traditional financial institutions never permit poor or low income generators to lend money from the market. Thus, the basic approach of Microfinance is to create self employment by financing loan to the poor through financial institutes. It ultimately develops self-esteem and hope of the poor by giving them an opportunity to grow.
- **SHG-Bank Linkage Programme:** Self-Help groups is an operational approach which dominates Indian micro finance. This approach is generally known as SHG-Bank linkage model. It is initiated by NABARD in the early 1990s as a dominant model. Microfinance now, has the largest outreach to micro financial clients all round the world and has links with informal groups of women to the mainstream system. Usually, SHGs has a group of 15-20 members who start to save money which are kept as common fund. SHGs are linked up with commercial banks and are called co-operative (credit) societies. The objective of SHGs-bank linkage was to provide credit delivery services to the poorest of poor, building trust and confidence between the bankers and the poor living in rural areas. International Journal of Research and Development - A Management Review (IJRDMR) ISSN (Print): 2319-5479, Volume-2, Issue-4, 2014 22 banking activity both on thrift as well as credit and sustaining a simple and formal mechanism of banking with the poor. Flexibility, sensitivity and responsiveness are combined in microfinance with the technical and administrative capabilities and financial resources of the formal financial sector which totally rely on heavily on collective strength of the poor, closeness of effective social mobilization functions contributing to an overall employment.
- **Challenges Facing to Reduce Unemployment**

Challenges Faced by Micro financing The Microfinance Institution in Ethiopia is growing with an unbelievable speed changing the lives of the poor. Besides the good things, below are some challenges faced by MFIs (Wolday, 2000). Limited outreach particularly for women (Befekadu, 2007)

 - Lack of enough whole sale funding possibilities (guarantee facility)
 - Operating and financing expenses are high.
 - Illegal government and NGO operations which stained the market
 - (Woldemicheal, 2010) high turnover of MFI staff thus weakening the skills based in.

- The industry lack of knowledge about microfinance services
- Weak governance and management capacities for further.
- Developments limited financial products unable to address the various needs of clients.
- Lack of homogeneous reporting and performance monitoring system
- Less interest and stress on the financial sustainability of MFIs
- 25 insufficient donors funding
- Deficiency and local market failures
- Poor infrastructure affects the outreach and sustainability of MFIs. This
- Increases the transaction cost and affects the profitability of the institution. Low interest rates in the microfinance industry affecting the financial
- Health and viability of MFIs

Conclusion

For economic empowerment and unemployment reduction, microfinance has achieved wide appreciation. Microfinance is the best way to fight unemployment mainly in rural areas as there reside poorest people and thus, rural development and poverty reduction becomes an essential issue of rural employment. Livelihood strategies of rural households include farming and non-farming activities local self-employment and wage employment, and migration. Microfinance has been used as a effective tool to reduce poverty and unemployment in rural areas. As compared to other development tools, Microfinance has adequately entered into the poorer layer of society. Microfinance is an useful way of building the capacities of the poor and developing them to self-employment activities by providing financial services like credit, savings and insurance. MFIs must sustain themselves to provide micro finance and other support services. There are various schemes for development of poor in India. Creating self employment opportunities through micro finance is one way of attacking poverty and solving the problems of unemployment.

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