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EMPLOYMENTGENERATIONTHROUGH MICRO FINANCE

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Abstract

Microfinance can be viewed as an innovative attempt of the banking sector to provide financial products and services, primarily credit, to the poor and bridge the gap that commercial banking has not been able to fulfill and where philanthropy has not been able to go beyond pilot approaches to reach meaningful scale. However, the concept of micro finance itself is conceived with a different purpose than just providing the poor with access to capital. The main principle behind the approach of providing micro credits has been to meet the special goal of bringing innovation ill the society by channelizing the potential, skill and talent of under-privileged, women and economically challenged people by empowering and engaging them in commercial and purposeful activities. At the heart of this principle is the concept of human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and their children.

Microfinance is not just about giving micro credit tool credit to the poor rather it is an economic development tool whose objective is to assist poor to work their way out of poverty. It covers a wide range of services like credit, savings, insurance, remittance and also non-financial services like training, counseling etc.

The role of financial sector in the process of economic development has been well recognized. The role played by finance in stimulating substantial economic development has been emphasized by the eminent economists like AmartyaSen and MohdYunus. Eradication of poverty has been an important issue before the developing countries of the world. This is a big challenge for South live in this region. Again the intensity of poverty Asian nations, as about half of the world's poor is high in India .One of every three persons in India is officially poor .and two of every three are either undernourished or malnourished.

Keywords

Micro Finance, Financial Sector, Employment Generation

Introduction

Microfinance is generally considered as a specialized financial tool - such as small loans, savings accounts and insurance policies available to poverty stricken and small businesses that do not typically have access to financial services. These services are recognized as one best way to empower individuals and an effective social innovator, especially for those who fall in the low income trap, to lift themselves out of poverty.

Microfinance is considered as a development tool to alleviate poverty in Asian, African and South American countries. Microfinance gives quick and tangible results to the poor people, especially women. Microfinance, when extended to people, especially women, in rural areas coupled with supporting activities like training, raw material's supply, marketing of products leads to investment in micro enterprises, women may become entrepreneurs, generate main or additional income to the family, poverty is reduced, and development takes place and the women get the self-confidence to go for enterprising activities with social, economic and political empowerment and with her increased knowledge and awareness, development takes place. When the group of people join as a group and are provided with required financial assistance, mass development takes place with considerable reduction in poverty, and the empowerment leads to social and economic development in a holistic and sustainable manner.

Conceptual Background

The concept of micro finance can be described as small, short, unsecured lending of money and provision of very small loans that are repaid within a short period of time. It is essentially used by the low income individuals and households to empower them economically and enable them financially. The micro finance is used as a sustainable tool to combat poverty.

Empowerment literally means making someone powerful; facilitating the weak to attain strength, enable someone to confront injustice and oppression. Empowerment is a process which makes the powerless to acquire and control over power through awareness, capacity building, participation in decision making, acquiring information, attaining confidence and self employment. It is the process by which the powerless gain control over physical, human and financial resources. It is not only extrinsic - but also intrinsic capacity of self confidence and inner transformation to overcome barriers to access resources. In the process of empowerment, women become economically important, not only in earning, but also in controlling their income.

Micro Finance is a term having a broad meaning and it covers all types of micro products and micro services targeted at the poor population of any country, region, state, province and society. It refers to loans, savings, insurance transfer services and other financial products to low income clients. Among all these financial services micro credit is more popularly used in different parts of the world as an intervention, employment, generation and small enterprise creation.

Features of Microfinance

1. It is a tool for empowerment of the poorest.
2. Micro Credit is delivered normally through Self-Help Groups.
3. It is essentially for promoting self empowerment and productivity in the formal sector of the economy.
4. It is generally used for direct income generation and consumption smoothing.
5. It is not just a financing system but, a tool for social and economic change, especially for women.
6. It provides for seasonality allow repayment flexibility and avoid bureaucratic and legal formalities.
7. It assists the women to perform traditional roles better and to take up micro entrepreneurship.
8. Borrowers are from the low income group.
9. Loans are of small amount - micro loans.
10. Short duration loans.
11. Loans are offered without collaterals.
12. High frequency of repayment.

13. Loans are generally taken for income generation purpose.

Review of Literature

Microfinance brought considerable improvement in decision making skills among the women (Anjugam and Alagmani 2001) gave them confidence in managing the financial crisis of the family, decision making capacity in household matters, and assertiveness in protesting against social evils drinking, gambling (Puhazhendi and Badyata 2002), positive effect of economic and social development in Andhra Pradesh and social empowerment in Tamil Naud (Satyasai 2003), improvements in decision making and monitoring the village development activities (Gariyali and Vettivel 2004), Women moving from wage work to self employment and retained their control over their earning (Venna 2005), which resulted in access and control over resources at the household level (Punithavathy and Eswaran 2006), Women were economically empowered after joining Self Help Groups (Leelavathy and Aradhana 2006). SHGs lead to social and economic empowerment of rural women (Karmakar 2008).

Rajashekhar O. (2000) conducted a study on *"Micro Finance Programmes And Women's Empowerment: A Study Of Two NGO's From Kerala* ", and found that Micro finance programmes are important institutional devices for providing small credit to the rural poor in order to alleviate poverty. Owarakanath H. O. (2002) in his study analyzed the characteristics and development of self-help groups in the state of Andhra Pradesh and found that SHGs were mainly using the loan facilities from the cooperative credit banks, commercial banks, Mahilabanks and Maheswaran banks, and had produced more than 50 varieties of products - such as candles, carpets, coir items, pickles.

Objectives of the Study

The main objectives of the study are-

1. To study the channels of Microfinance.
2. To analyze the role and effectiveness of self help groups in the process of women empowerment.
3. To analyze the socio-economic conditions of self help groups after the formation of the groups.
4. To assess the impact of Microfinance on women empowerment.

Hypothesis

The main hypothesis of the study is-

“Due to the effective role of Microfinance socio-economic conditions of members of self help groups are improved.”

Research Methodology

The said research study is based on secondary data. Such secondary data is collected from various reference books related to Banking Microfinance SHG, Foreign Direct Investment, Retail Sector, entrepreneurship development, trade, commerce, industry, Women Empowerment, Rural Development, Economics Management.

The secondary data is also collected from various websites and other related literature and reviewed it. For the said research study secondary data is also collected and reviewed from the various National and International Research Journals which are related to Microfinance, SHGs, Women Empowerment etc.

Channels of Micro Finance

In India microfinance operates through two channels:

1. SHG - Bank Linkage Programme (SBLP)
2. Micro Finance Institutions (MFls)

For a Prosperous Rural India: Following are some of the suggestions that would help in strengthening the scope and reach of Microfinance to Rural India:

1. Expanding horizons: It has been observed that in order to reduce the initial cost, MFls are opening their branches in places which .already have MFls operating. Encouraging MFls for opening new branches in areas of low microfinance penetration by providing financial assistance will increase the outreach of the microfinance in the state and check multiple lending. This will also increase rural penetration of microfinance in the state.

2. Technology to reduce Operating Cost: New technologies and IT tools & applications should be applied to reduce the operating costs. Though most NBFCs are adopting such cost cutting measures, which is clearly evident from the low cost per unit money lent (9%-10%) of such institutions. NGOs and Section 25 companies are having a very high value of cost per unit on money lent i.e. 15-35 percent and hence such institutions should be encouraged to adopt cost-cutting measures to reduce their operating costs. Also initiatives like development of common MIS and other software for all MFls can be taken to make the operation more transparent and efficient.

3. Regulation Framework: An enabling regulatory environment that protects the interest of the stakeholders as well as promotes growth is needed. The regulation was not a major concern when the microfinance was introduced in India and individual institutions were free to bring in innovative operational models.

4. Sound Supervision: In addition to proper regulation of the microfinance sector, field visits can be adopted as a medium for monitoring the conditions on ground and initiating corrective action wherever and whenever required. This will keep a check on the performance of ground staff of various MFls and their recovery practices. This will also encourage MFls to abide by proper code of conduct and work efficiently.

5. Varied Products: MFls should provide varied range of products including credit, savings, remittance, financial advice and also non-financial services like training and support. As MFls are acting as a substitute to banks in areas where people don't have access to banks, will provide a complete range of products and will enable the poor to avail all services.

6. Transparency in Interest rates: MFls generally employ different patterns of charging interest rates including additional charges and interest free deposits (a part of the loan amount is kept as deposit on which no interest is paid). All this rr.ake the pricing very costly and confusing and hence the borrower feels incompetent in availing these services. So a common practice for charging interest should be followed by all MFls so that it makes the sector more competitive, transparent and the beneficiary gets the freedom to compare different financial products before buying.

Micro Finance &Employment Generation

Microfinance is a hard term to define precisely. If a self Help Group gives money to someone to buy a cycle rickshaw. It is considered micro finance, if a commercial bank does the same thing, it is not considered micro finance. In India, the term is generally understood to mean a loan given to the poor by the NGOs to start small business. The world over, microfinance is synonymous with the grameen bank in Bangladesh. Micro finance arose in direct response to the failure of the nationalized commercial banks to cover to the needs of the poor and marginalized.

In India, microfinance is dominated by self help groups-bank linkage programme aimed at providing financial services to the unreached poor. Micro financing has turned out to be an effective strategy for institutional financing agencies. Through group approach, small loans can be made available to the poor, create saving habits and minimize extravagancy.

Self help groups dominate the micro finance scenario and they are focusing more on poor women. Hence micro finance is emerging as a powerful instrument for empowerment of poor women both socially and economically. It aims at providing cost effective mechanism for financial services to the detached poor women.

Empowerment is a process of change by which individuals or groups gain power and ability to control their lives. It involves increased wellbeing, access to resources, raising self- confidence. increasing participation in decision making and controlling resources and livelihood.

The women empowerment has received extensive reorganization as a strategy of growth and poverty reduction. Before 1990, credit schemes for rural women were almost negligible. The concept of women's empowerment was recognized by women informal sector.

In modern economy the micro credit approach for women is considered as the best strategy to empower women economically. Through micro credit the poor women can rotate their funds to build economic capacities.

The co- relation between credit empowerment is always positive which has been established in all research studies. **Prof. AmartyaSen** in his book "Public Action to remedy hunger" in 1991 has also recognized the role of micro finance. in women empowerment and poverty reduction.

Conclusion

Microfinance is a global growth industry. In order to further broaden its horizons and bring maximum benefits to people in general and country in particular, there is still need to have more drainage of funds to the dry destination of the society, No country can afford to ignore substantial population suffering from poverty as it can be costly for growth of any economy. So rational approach in this regard is to identify the strengths vested in such poor lot and attempts should be made to channelize their energy for productive purposes. In India, the need is to have more dissemination and adoption of rural agricultural micro finance methodologies as majority of population belongs to the rural area. It is a widely recognized fact that access to financial services can playa critical role in helping poor people to widen their economic opportunities, increase their asset base and diminish their vulnerability to external shocks. Moreover, socioeconomic development as well as macroeconomic and financial sector stability areimportant components in ensuring an enabling environment for continued growth of the overall economy as a whole and the micro finance industry in specific.

Rural women were able to vote independently without any direction from their husbands and there is a high level of participation in Grama Saba meetings. Similarly, they were able to express their views freely in the family and in groups, they were able to discuss issues freely with bankers, government officials and NGOs. Regarding empowerment, women's role in decision-making in children's education had improved considerably, than their role in savings, expenditure related decision making. There was a moderate increase or income, enhanced savings, undertaking income-generating activities, reduced dependency on money lenders, ability to deal with the financial crisis and the women moved independently to other places without the support of male members of the family.

Micro-finance plays an important role in integrating rural development and poverty alleviation. The impact of micro finance on rural development and poverty reduction has been measured in terms of several dimensions such as improved income, employment and household expenditure and reduced vulnerability to economic and social crisis.

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