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ROLE OF MICRO-FINANCE INSTITUTIONS IN GENERATION OF SELF-EMPLOYMENT

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ABSTRACT

Micro-finance is the provision of a broad range of financial services such as deposits, loans, payments, money transfers, savings, insurance, etc., to the unbanked population of the country. It is basically provided to those whose incomes are small and unstable. Micro-finance Institutions are defined as institutions whose major business is the provision of micro-finance services. Micro-finance in India has emerged at a very fast pace in the last few decades. The present paper discusses the role of micro-finance institutions in generation of self-employment and examines the impact of MFIs on self-employment of beneficiaries in light of type of employment activities.
Key words : Micro-finance, business

INTRODUCTION

The concept of micro-finance was originally initiated by Muhammad Yunus of Bangladesh (Nobel Laureate) who organized the poor into groups in 1976 and helped them in realizing the concept of 'theory of survival'. The basic reason behind the creation of Grameen bank was to enable the poor and weaker sections to avail the banking facility, which they could not avail due to the complicated banking formalities. Micro-Finance evolved from this. According to NABARD, The term "Micro-finance" is defined as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas, for enabling them to raise their income levels and improve living standards".

CGAP (2003) define micro-finance as "a credit methodology that employs effective collateral substitutes to deliver and recover short-term, working capital loans to micro entrepreneurs. According to Robinson, Micro-finance refers to all types of financial intermediation services (savings, credit, funds transfer, insurance, pension remittances, etc.) provided to low-income households and enterprises in both urban and rural areas, including employees in the public and private sectors and the self-employed.

In other words we can say that micro-finance is the provision of a broad range of financial services such as deposits, loans, payments, money transfers, savings, insurance, etc., to the unbanked population of the country. Micro-finance helps the poor to be thrifty and encourages them to make regular smaller savings and to extend micro loans amongst themselves. The availability of such financial services helps the poor in raising their income level and the standard of living. Micro finance has evolved as a need based programme to cater to the till now neglected target groups of society, especially (women, poor, rural, deprived etc.). It is basically provided to those whose incomes are small and unstable. The weaker and marginalized sections of the society need finance for the following reasons: a) their needs are small and arise suddenly (b) the banks demand collateral security, which they cannot provide (c) most of the time, they are in need of funds to meet their consumption demands, for example, to meet expenses related to education, illness, funerals, weddings for which it is difficult to obtain institutional finance (d) for purpose of investment in income generating activities. The micro-finance programme is typically viewed as an economic development strategy, where disadvantaged groups are not benefited from involvement with the formal economic activities. Micro-finance Institutions are designed to improve the accessibility of the rural poor to financial services, that make them bankable clients and promote savings mobilization among them.

Thus, micro-finance institutions have emerged as a needful programme to cater to the needs of the most underprivileged people of the country. Micro-finance Institutions are defined as institutions whose major business is the provision of micro-finance services. In India, micro-finance is divided into two main sectors, namely- a) the SHG Bank Linkage Programme and b) the MFI model. Both the models are different from each other but play a very significant role in the Indian economy. SBLP is promoted by the apex agricultural bank (NABARD) through the commercial banks while the MFI model is privately managed with some institutions being regulated by the Reserve Bank of India.

REVIEW OF LITERATURE

Batra & Sumanjeet (2011) in their paper found that in India, micro-finance had grown at a tremendous speed in recent years and achieving significant outreach amongst rural household across the country. MFIs, on one hand and linkages between banks and SHGs supported by the NABARD, on the one hand, had emerged as the two most prominent means of delivering micro-finance services in India. Thus, there should be emphasis on three strategies for inclusive financial services viz. scaling up quality financial services to serve large numbers of people, reaching increasingly poorer and more remote people, and lowering costs to both clients and financial services providers.

Jaya Anand (2000) in his article concluded that the concept of micro-credit is undoubtedly superior to the traditional rural credit system. The impact of micro-credit has revealed a positive impact on household income and participants usually have higher and more stable income than before they joined the group. The micro-finance programmes motivates the poor to take an initiative to start a micro enterprise by availing credit from MFIs and most important benefit is the thrift component, which has totally relieved the group members from the money lender

John Cordero et al., (2007) visualizes that the micro-finance industry had been criticized for their tyrannical functioning which apparently has caused hardships to credit seekers in some districts of Andhra Pradesh. The main reason was said to be the high rates of interest. MFIs also argued that they themselves get funds at a very high rate of interest, and when one adds the operating expenses of MFIs the final credit rate would come up to what MFIs are generally charging.

Khanka S.S (2010) in his study stated that the evolution and development of micro-finance in India and highlights the scope along with challenges of micro-finance in India and concludes that micro-finance is a useful tool for poverty alleviation and also micro-finance over the period has made quite impressive progress in terms of outreach in India.

Mahanta, Panda &Sree kumar (2012) in their study visualized the growth of micro-finance in India. In their paper they discussed the factors that affect micro-finance programme growth and its role in global scenario. They explained that micro-credit is not the end of the problem but beginning of a new era and if it is handled effectively it can create miracle in the field of poverty alleviation. But to do so, it must be bundled with capacity building programmes. In absence skills development programme the client will use the fund in consumption and procurement of non-productive assets. Hence it becomes important to provide skills development training programmes like handicraft, weaving, carpentry, poultry, goat rearing, masonry, bee farming, vegetable farming and many other agricultural and non-agricultural training as well. Government has to play proactive role for the success of micro-finance programme all over India.

Mohanty, Mohapatra & Khuntia (2013) emphasized promoting the rural poor through micro-finance institutions and their role has almost assumed the shape of an industry, embracing thousands of NGOs/MFIs in India. During the last decade, the sector has observed development with the emergence of a number of Micro-Finance Institutions (MFIs) providing financial and non-financial supports to the poor with the determination to lift them out of poverty. These institutions also assume the responsibility of making available much needed micro-credit to the poor section of the society for generating self-employment and raising the income level. The MFI channel of credit delivery, together with the national level programme of SHG-Bank Linkage, today, reaches out to millions of poor across the country.

Study by Devaraja T.S.(2011) uncovers that, saving habits of the members enhanced significantly subsequent to participation in the micro-finance schemes. The reliance on local money lenders reduced considerably and the social awareness of members improved. Despite the fact that the micro finance paved the way for poverty alleviation, but it confronts a few difficulties like high interest rate, lack of skill among members

MFIs AND EMPLOYMENT GENERATION

The problem of unemployment or underemployment is a serious and intricate problem of the Indian economy. This problem raises various issues such as deprivation to the individual, humiliation to society as well as damage of human resources. All this emasculates the development of the economy as a whole. So to hold this serious concern, MFI took an exuberant step in this regard. MFI has tried its best to promote economic activities of its members through micro-credit since economic activities are a pre-condition for economic development and employment generation. If people can manage the risk and pitfalls of their lives then through self- employment, they can become the authors of their own lives.

In developing countries especially, conventional sources of employment entail unstable income streams and no job security. Moreover, such livelihoods often remain uncovered by formal sector labor regulations. A key area of policy interventions to mitigate these risks is the provision of small-scale loans, especially to women, though micro-finance and rural banks, in order to stimulate entrepreneurship. Providing greater access to credit in order to finance self –employment activities can be particularly beneficial in regions with limited paid employment opportunities for women due to labor markets characterized by discrimination, imperfect information, or insufficient labor demand. (Karlandean, and Jonathan Morduch. 2009)

In case of weaker sections in developing countries like India, a high proportion of the workers have very less schooling and they are also restricted in geographical mobility. In such a situation, they are more likely to be self- employed like in agriculture weavers, rickshaw pullers, etc. which generate only that much income through which they are able to bear the expenses of their family. So, there is a need for improved accessibility of credit to the weaker and marginalized section of the society which provides them with the opportunity to move up the ladder of self-employment activities so as to undertake large scale operations with more profitability.

Table-1
Distribution of beneficiaries according to their self-employment and type of employment before and after membership with MFI

Self-Employment	Pre		Post		Z	P
	No.	%	No.	%		
Yes	188	62.7	288	96.0	10.47	<0.001
No	112	37.3	12	4.0	10.47	<0.001
Total	300	100.0	300	100.0		

Type of Employment						
Shopkeeper	36	19.2	51	17.8	0.38	>0.05
Dairy work	20	10.6	22	7.7	1.12	>0.05
Assist in weaving	29	15.4	12	4.1	4.45	<0.001
Others	103	54.8	203	70.7	3.55	<0.001
Total	188	100.0	288	100.0	9.95	<0.001

Table-1 exemplifies that before becoming the member of the MFIs, 62.7% members were self- employed and 37.3% members were not self –employed. But after becoming the member of the MFIs, 95.7% members became self- employed and only 4.3% members are engaged into other work apart from being self-employed. It is observed that MFIs have contributed to a great extent for self –employment generation of the beneficiaries. The proportional Z test reveals that difference in proportion of beneficiaries between before and after joining of the MFIs, is found to be significant.

The provision of micro-finance induces the members to start various economic activities for employment generation. The employment activities of the members are classified into various types such as Shopkeeper, Dairy Work, Assist in Weaving, and Others (such as driving auto , repairing auto, rickshaw puller, stitching, vegetable and fruit seller, etc.) To understand the potentialities of the members, before and after employment situation of the beneficiaries is compared. It is clear from the table that total 188 beneficiaries were involved in various employment activities before becoming the member of MFI. The activities of members include shopkeeper (19.2%), dairy work (10.6%), assist in weaving (15.4%), and others (54.8%). But after becoming the member of MFIs, 288 beneficiaries are found to be self-employed with various employment activities such as shopkeeper (17.8%), dairy work (7.7%), assist in weaving (4.1%), and others (70.7%). The proportional Z test also states that difference in proportion is highly significant in assist in weaving activity and other employment activity but it is found insignificant in shopkeeper and dairy work employment activity between before and after joining of the MFIs.

Table-2
Distribution of beneficiaries on the basis of duration of employment before and after membership with MFIs

Duration (years)	**Before**		**After**	
	No.	**%**	**No.**	**%**
1-5	52	27.7	109	37.8
6-10	67	35.6	75	26.0
11-15	27	14.4	44	15.3
16-20	32	17.0	29	10.1
>20	10	5.3	31	10.8
Total	**188**	**100.0**	**288**	**100.0**
Average duration of employment ±S.D =	10.61 ± 6.79		9.24±7.63	
Range	(1-30)		(1-33)	

Table-2 states that 100 beneficiaries have started doing some or the other thing in between 1-2 years and old beneficiaries are continuing their profession after joining of the MFIs. Thus there is a significant impact on employment generation after joining of the MFIs.

AMOUNT OF LOAN TAKEN

The main aim of MFIs is to provide the credit facility to its members so that they can start up their ventures to earn a livelihood. MFIs are mainly targeting the weaker section of the society in its program which clearly indicates that they are contributing in terms of creation of employment opportunities through establishment of new small scale business or expansion of old business.

PURPOSE OF LOAN TAKEN

The purpose of taking loan is classified as (i) Productive purpose (ii) Consumption Purpose. If the loan or credit amount is used for income generating activity then definitely it will add to the income of the beneficiaries. So loan should always be used for intended purpose .Thus, it can be said that MFIs are a great source of finance for the weaker sections so that they can carry out their income generation activities.

TIME DURATION OF LOAN TAKEN

MFIs extend loans for twelve months, eighteen months, and twenty four months. The loan cycle depends on the amount of installments which can be paid by the beneficiaries as well as the amount of loan taken. MFIs generally extend loan for short periods of time and renew the loan amount on the basis of credibility of their clients.

Table-3

Distribution of beneficiaries according to the amount of loan taken, purpose of loan and time duration of loan by different MFIs.

Amount of Loan taken (Rs.)	**No.**	**%**
≤ 15000	56	18.7
16000-25000	128	42.7
26000-35000	97	32.3
>35000	19	6.3
Total	300	100.0
Average Amount taken ±S.D = Rs.25597.38 ± 9134.11		
Range = (9000 – 60000)		
Purpose of Loan		
Productive	266	88.7
Consumption	08	2.6
Both	26	8.7
Time Duration for which loan is taken		
12 months	125	41.7
18 months	18	6.0
24 months	157	52.3
Average Duration of Loan ± S.D = 18.64 ± 5.79		
Range = (12-24) months		

Table-3 explains about the amount of loan taken, purpose of loan and time duration for which loan is taken by the beneficiaries. It is clear from the above table that 42.7% have taken loan ranging between Rs.16000 to Rs.25000 followed by 32.3% who have taken loan amount ranging between Rs.26000 to Rs.35000. 18.7% beneficiaries have taken loan amount of less than equal to Rs.15000 while only 6.3% beneficiaries have taken loan amount for more than Rs.35000.

Statistical calculation presents that the average amount taken by the beneficiaries from the MFIs is found to be Rs. 25597.38 with S.D 9134.11 which vary within the range of minimum Rs. 9000 to maximum Rs.60000.

The second part of the table demonstrates on the purpose of loan taken. The purpose of loan is categorized as Productive and Consumption. It is found that 88.7% have taken loan for productive purpose while 2.6% took loan for only consumption activity. Moreover, 8.7% took loan for both the purposes. Thus, it is clear that major beneficiaries took loan for productive activities only.

The last part of the table describes the time duration for which loan amount is taken. It is found that 52.3% took loan for 24 months followed by 41.7% have taken loan for 12 months and the rest 6.0% have taken loan for 18 months only. Thus it is evident that most of the beneficiaries have taken loan for 24 months since more time will generate them more flexibility of repayment of loan amount.

Table-4

Correlation Coefficient among amount of loan, time duration and amount of EMI

Variables	Amount of Loan	Time Duration	EMI
Amount of Loan	1		
Time Duration	0.141*	1	
EMI	0.811***	-0.300***	1

*<0.05

**<0.01

***<0.001

Correlation Coefficient of EMI with amount of Loan (r=0.811***) and time duration (r=-0.3000***) is found to be significantly positive and negative respectively which clearly indicates that EMI of total amount is significantly increasing with amount of loan and significantly decreasing with time duration.

Different kinds of productive activities:

MFIs provides loans to very poor families with small loans so as to engage them into productive activities through which they are able to build assets, stabilize consumption and protect themselves against risks. The beneficiaries take loan basically for income generating activities so as to ensure financial stability. The loan taken from MFIs for various kinds of productive activity includes dairy work, construction of house or shop, shop keeping, small scale business/trade, etc.

Table=5

Distribution of beneficiaries according to loan taken for the purpose of different kind of Productive activities

Different kind of Productive activities	No.	%
Dairy work	20	6.8
For the construction of house or shop	05	1.7
Shop keeping	73	25.1
Small Scale Business/Trade	162	55.5
Dairy + Small Scale Business/Trade	09	3.1
Construction of house or shop + Shop keeping	08	2.7
Construction of house or shop + Small Scale Business/Trade	15	5.1

Total	**292**	**100.0**

Table-5 states the various kinds of productive activities undertaken by the beneficiaries. The productive activities include mainly dairy work, construction of house or shop, shop keeping, small scale business/trade. Thus, 55.5% beneficiaries have taken loan for small scale business/trade followed by 25.1% for shop keeping, 6.8% have taken loan for dairy work and only 1.7% for construction of house or shop. It is also observed that beneficiaries have taken loan for even more than one productive activity. 5.1% have taken loan for construction of house or shop + small scale business/trade followed by 3.1% have taken the loan for dairy + small scale business/trade and only 2.7% have taken loan for construction of house or shop + shop keeping activities. Thus, it can be concluded that out of total 292 beneficiaries who have taken loan for productive activities, majority of them are indulged into setting up or establishing their business or trade. We can say that with the help of MFIs, beneficiaries are able to do income generating activities to earn their livelihood.

Amount of EMI:

EMI stands for Equated Monthly Installment. It is that fixed amount of payments which the beneficiaries have to pay to the MFIs at a specified calendar date of each month. EMI includes the interest plus principal amount each month the beneficiaries have to pay till the loan amount is paid off in full. MFIs generally take EMI on weekly or 15 days basis.

Table-6
Distribution of beneficiaries on the basis of amount of EMI

Amount of EMI (Rs.)	No.	%
< 1500	113	37.7
1500-2000	129	43.0
> 2000	58	19.3
Total	**300**	**100.0**
Average Amount of EMI ± S.D = 1790.72 ± 829.47		
Range = (800-5140)		

Table-6 illustrates the amount of EMI that the beneficiaries have to pay every month which depends upon the amount of loan taken. It is clear from the above table that 43.0% beneficiaries pay EMI between Rs.1500 to Rs.2000 followed by 37.7% who pay EMI below Rs.1500 and the rest 19.3% pay EMI of more than Rs.2000.Statistical calculation indicates that the average amount of EMI paid by the beneficiaries is found to be Rs.1790.72 with S.D 829.47 which vary within the range of minimum Rs.800 to maximum Rs.5140.

Amount of Loan and Amount of EMI:

There is a direct relationship with the amount of loan and the amount of EMI. This means that more the loan amount then more amount of EMI will be paid by the beneficiaries.

Table-7
Distribution of beneficiaries between amount of loan taken and amount of EMI

Amount of EMI (Rs.)	Amount of Loan Taken (Rs.)									
	≤ 15000		16000-25000		26000-35000		>35000		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
< 1500	54	96.4	47	36.7	12	12.4	0	0.0	113	37.7
1500-2000	02	3.6	81	63.3	45	46.4	01	5.3	129	43.0

>2000	0	0.0	0	0.0	40	41.2	18	94.7	58	19.3
Total	**56**	**100.0**	**128**	**100.0**	**97**	**100.0**	**19**	**100.0**	**300**	**100.0**
Mean EMI ± S.D =	1297.14±155.73		1482.00± 288.19		2091.75± 754.54		3788.42 ±1263.23		1790.72± 829.47	
	F= 114.41, P< 0.001 Significant Pairs = (1vs3&4) (2vs 3&4) (3vs 4) (Tukey Post Hoc Test)									

Table-7 expounds the distribution of beneficiaries between amount of loan taken and amount of EMI. It is found that 43.0% beneficiaries pay EMI of Rs.1500-Rs.2000 followed by 37.7% who pay EMI of Rs.< 1500 and only 19.3% who pay EMI for Rs.>2000 for loan amount ranging between Rs. ≤ 15000 to >35000.The average EMI is found to be significantly in increasing order with increase of total amount of loan taken by the beneficiaries within the range of minimum Rs.1297.14 among total loan amount less than Rs.15000 to maximum Rs.3788.42 among the total loan amount of Rs.>35000 respectively. The statistical test also signifies that there is highly significant mean difference in EMI amount among different amount of loan taken.

CONCLUSION

In briefly we can say that MFIs have contributed to a great extent for self –employment generation of the beneficiaries. Out of total 292 beneficiaries who have taken loan for productive activities, majority of them are indulged into setting up or establishing their business or trade. We can say that with the help of MFIs, beneficiaries are able to do income generating activities to earn their livelihood. MFIs also provide with training as well with the help of which the beneficiaries are able to utilize the loan amount in a much proper way. Thus, MFIs are playing a very important role in shaping and securing the future of the beneficiaries.

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