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Micro Finance and Its Relationship with Unemployment in India

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ABSTRACT: *This research paper is an attempt to understand micro finance as a tool to eradicate poverty, analyzing the causes of rural unemployment and evaluating the policies introduced by the government in order to catalyze the availability of opportunities. This paper addresses the issues and status of micro finance with focus on specific states in India- Andhra Pradesh, Kerala and Rajasthan. It highlights the major crisis in micro finance industry in Andhra Pradesh (2010) as a result of which there were changes in the whole mechanism of micro finance.*

KEYWORDS: *Micro Finance Institutions, Self help groups , financial inclusion.*

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I. INTRODUCTION:

Micro finance or micro credit is a banking service majorly provided to low income individuals or unemployed people who have little or no access to financial services. Talking about the general banking system, it was difficult for the poor to avail the loans as they had a number of limitations like requirement of security and high operating cost. To overcome this problem, an alternative was discovered to make finance available to the poor through a mechanism called micro finance. The main objective was to eradicate the financial inequality and move towards creating financial inclusion. The concept of micro finance was first introduced by a Bangladeshi social entrepreneur and famous civil society leader, Muhammad Yunus. M. Yunus was awarded with a Nobel peace prize for founding the Grameen bank and bringing up the ideas of micro finance and credit. As rightly quoted by Norwegian Nobel Committee , “lasting peace cannot be achieved unless large population groups find ways to break out of poverty ”, this statement correctly explains the fact that despite the increase in the country’s GDP , the disparity in the income distribution remains intact. In India there are about 14 models of micro finance. The working mechanism of micro finance institutions is different from typical financial institutions. In normal financial institutions, the lending party is concerned about collateral offered by the lender to cover the loan risk whereas in micro finance institutions, the main aim is to provide help to the poor entrepreneurs. Here, instead of giving primary importance to the collateral, the borrowers are expected to have money management skills for which they are trained by the MFIs. The agenda is to make them aware about the financing agreements, various rates of interest , cash flows, budgeting and debt management. However, MFIs do charge nominal rate of interest. As of 2018, according to the report published by World Bank, it is estimated that around 500 million people have been benefitted by micro finance operations. The micro finance industry has been progressing continuously which is clearly shown by the figures as the number of people affected by micro finance in the year 2014 were 130 million. This industry has not reached its saturation in terms of growth as only 20% of 3 billion people (poor) are being able access this facility. Micro finance also plays an important role in giving women equal opportunity to support their families.

II. REVIEW OF LITERATURE

A. Micro finance in India. (Panda, Panda, & Das, 2013)

This paper highlights major drawbacks of Indian economy which include –low rate of growth dependence on agricultural sector, stagnant growth of rural areas, high disparity in income distribution, poverty and unemployment. In India, the major problems are faced due to two factors that are poverty and unemployment. To help overcome this problem, micro finance has played a vital role over the years. It provides the poor with credit and enables them to come out of poverty.

B. Women employment and micro finance in Kerala, International Journal of Scientific Engineering and Applied Science. (Irshad, 2015)

The paper focuses on Kudumbshree as a comprehensive programs with the objective of alleviation of poverty .Micro finance programs are promoted as an important strategy for women’s empowerment. This paper also focuses on the extent to which women are aware about micro credit management in Kudumbashree. Also, the financial literacy of women in Kerala has been analyzed.

C. Status of micro finance in Rajasthan: problems and prospectus. (Sharma, 2017)

This paper attempts to analyze the self help group movement in Rajasthan which has helped to alleviate poverty and women empowerment. This paper also describes the problem with respect to micro finance .Also , the objective was to study the impact of micro finance in the state of Rajasthan. The paper concludes by bringing facts that indicate that micro finance is one of the rapidly growing programs in Rajasthan.

D. Financial resources of micro finance sector: Issues and challenges with MFIs and Grameen koota. (Jayadev & Rao, 2012)

The funding requirement of MFIs is met through securitization. This article talks about micro finance and the way MFIs get their funding. It also throws a light on the fact that this sector needs to be restructured with a bigger picture of financial inclusion. For this to happen, banks and MFIs need to collaborate. For micro finance sector to grow, MFIs need some financial support from banks to shift over to low cost finance through innovative concepts like securitization.

E. An overview of financial inclusion policies in India. (Larquemin, 2015)

This paper gives evidence for the importance of micro finance in the economic growth and development. The paper is a case study on India with an aim to present the initiatives taken in the micro finance sector. It also focuses on the Indian Institutional framework including Reserve Bank of India (RBI) , Government of India(GOI) and National Bank for Agricultural and Rural Development(NABARD). The paper ends with a conclusion that there should be coordination between public and private sector.

F. Andhra Pradesh micro financing crisis and its repercussions on micro financing activities in India, Global journal of management and business studies. (Kaur & Dey, 2013)

The crisis of Andhra Pradesh in 2010 led to reduction in net worth of many MFIs due to which they were no longer able to borrow funds from banks. This article tries to analyze the reasons behind Andhra Pradesh crisis (2010). The article also talks about how the enactment of Andhra Pradesh Microfinance Institutions (regulation of money lending act 2010) had an impact on loan recovery and profitability of micro lenders.

III. RESEARCH DESIGN

Statement of problem

Microfinance is a banking service that provides finance to the unemployed and people belonging to lower income groups. Despite being a developing economy there is a large part of population that remains unemployed due to lack of access to banking facilities and opportunities.Microfinance was introduced as a remedy to this problem. But this was not the end to the problem as there were major flaws in the mechanism of micro finance. This was very well witnessed in the year 2010 during Andhra Pradesh micro finance crisis. The system needs to be regulated as there is still a major portion of poor population (approximately more than half) deprived of these financial facilities. Microfinance in a layman's language still remains a mere source of debt which creates a vicious cycle as people take loans from more than one MFI at a time without having adequate knowledge to utilize the funds. As a result, they fail to repay.

Research objectives

- To assess impact of micro finance on rural unemployment
- To determine the loopholes in schemes related to microfinance
- To recommendations for proper implementation and future action
- Blow of demonetization on micro finance
- Analyze the root cause of Andhra Pradesh micro finance crisis and changes henceforth
- To assess the status of micro finance in Andhra Pradesh , Kerala and Rajasthan
- Contribution in women empowerment and education

Hypothesis

H0: micro finance has increased employment opportunities
H1: micro finance has not increased employment opportunities

Methodology

The type of research included in the study is qualitative and descriptive study .To understand the topic well , a detailed review of literature consisting of published reports of NABARD and Bharat Finance report was carried out. Based on the information available about lack of finance, awareness and opportunities , we analyzed the importance of systematic mechanism for successful implementation of programs/policies. We studied the policies introduced by the government and identified the areas where there is a scope of changes.

Limitations of the study

- The study focuses on the states of Andhra Pradesh , Kerala and Rajasthan
- The study has focused only on micro finance and its impact on employment

IV. ANALYZING THE IMPACT OF MICRO FINANCE :

In order to understand the impact of micro finance in India , the following categorization has been done:

- Individual level
- Household level
- Enterprise level

Household level: Major areas affected at household level includes the income , asset possession , standard of living , gender equality , better health services , education etc. There is a change in the pattern of above mentioned factors as a result of increased accessibility to finance. There is a significant change in the level of household income and also the sources of this income. Talking about the rural areas, there was a high level of dependency on agricultural income which is not very certain as income from agriculture is highly dependent on climatic conditions which keep on changing. With the introduction of micro finance, this dependency has been reduced to certain extent as people have found alternate sources of income as well. With the increase in sources of income, the asset holding and consumption (basic needs) has improved. People have started making enough money to educate their children and live a better life.

Individual level: By impact at individual level we mean the positive changes in beneficiary's status in society as well as family. It enhances one's managerial ability which in turn brings about a change in their standard of living, individual income level, literacy rate, awareness etc. Due to increased availability of funds, the resources are utilized in a more efficient way. There is also a change in people's self esteem, confidence and women empowerment.

Enterprise level: Impacts on enterprise level include –

a. Profitability margin changes
b. Benefitting economies of scale through changes in scale of operation
c. Diversification in operations and business opportunities
d. Improved micro enterprise revenues
e. Better fixed asset holding
f. Increased employment

V. IMPACT ON ANDHRA PRADESH, KERALA AND RAJASTHAN

Andhra Pradesh is considered as the motherland of micro finance. The work of the state government of Andhra Pradesh has been extraordinary. Also, 5 major NBFCs are headquartered in Andhra Pradesh making it the core of micro finance industry in India. Andhra Pradesh is said to have the highest penetration rate with respect to micro finance as compared to other states. Pavalavaddi scheme was introduced by Andhra government to reduce the financial burden on the MFIs for introduction of new micro and small enterprises.

Despite being one of the most developed states with the highest literacy level, the women of Kerala were not being able to come out of their households. There was lack of participation at leadership levels. People in Kerala had no formal savings or credit during the period prior to micro finance. Micro finance has brought a drastic change in the borrowing pattern. The Women Component plan helped in increasing the savings in the form of neighborhood and self help groups. The main impact of micro finance can been seen on women empowerment, poverty reduction, socio economic development and leadership training. Micro finance came as a remedy for the problem faced by women.

Rajasthan, the largest state of India , depends majorly on agriculture for income which shows high dependency on agriculture. The success of micro finance in Rajasthan is comparatively lesser as compared to other states. The major impact includes diversification in the sources of income. As published by the Center of micro finance (2010), the number of self help groups has increased three times in previous three years. The impact of micro finance in Rajasthan can be seen in the form of increase in income level, decreased dependency on money lenders, increased expenditure on education of children, health (specially women health) , inputs for agriculture.

VI. CONCLUSION:

Even after numerous amendments, there are a number of changes that are required. To ensure proper working of MFIs, there needs to be a more systemized and well regulated framework which should be supervised by a national level authority. An expert committee of learned people should be formed to provide regulatory mechanism and supervision. Another major issue which restricts the growth of micro finance is that the people end up taking multiple loans from more than one MFI (beyond permissible limit) which creates a vicious debt circle as the borrowers fail to pay back. The solution to this problem can be that the individual borrowers or members of SHGs should login in their personal profiles using their adhaar card number or NPR (national population register) number. This database should be maintained by RBI or some national level regulatory authority. In this way, MFIs will be able to avoid the problem of multiple loans beyond permissible limit and consequent default. The people working in MFIs like bank managers should be kept motivated, trained and up to date with recent changes in banking system so that they can ensure smooth functioning and suggest appropriate financing option to the borrower.

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