MICRO FINANCE: A TOOL FOR SELF EMPLOYMENT WITH SPECIAL REFERENCE TO RURAL POOR

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Abstract: *Indian population comprises roughly one sixth of the world's population. Among this, ten percent of the population holds a large part of the total wealth of India. The poverty alleviation has become national attention. The Indian economy at present is at a crucial stage, poor contributes on an average of 26 per cent of the total population. Thus creating self-employment opportunities is one way of attacking poverty. There are over 24 crore people below the poverty line in our country. The Scheme of Micro-finance has been found as an effective instrument for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy. Thus the concept of micro finance gained growing recognition as an effective tool in improving the quality of life and living standards of poor people. The present study focuses on micro finance institutions and their role in promoting self employment in the rural poor.*

Key Words: *Micro Finance, Rural Area, Self Employment, Poverty Alleviation, women empowerment.*

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I. INTRODUCTION:

In India more than 70 per cent of the population lives in rural area and most of the rural area are underdeveloped. Through Research and Development programmes one can implement various strategies in favour of these people in the Yearly Plans of Government of India. Implementation of such technologies in the rural sector can alleviate poverty, create employment opportunities and thereby provide good growth engine to our economy.

Microfinance may be considered as critical element of an effective poverty reduction strategy. Improved access and efficient provision of savings, credit, and insurance facilities enable the poor to easily manage their consumption, their risks, build their assets gradually and develop their micro enterprises. In India, substantial microfinance system based on Self Help Groups (SHGs) was developed. It allows poor people to protect, diversify and increase their sources of income and thereby proved an essential path out of poverty and hunger.

II. MAJOR INITIATIVES IN RURAL CREDIT:

Government‘s initiative to reduce poverty by improving access to financial services to poor is in practice since independence. India’s overwhelming majority of poor is located in rural areas and this motivated the government to give special attention to rural credit. Following the report of All India Rural Credit Survey in mid 1950‘s, previously disadvantaged groups to formal credit even if this may entail a weakening of the conventional banking practices led to the nationalization of commercial banks in 1969, adoption of direct lending programmes to rural areas and development of credit institutions such as Regional Rural Banks (RRBs). Under Integrated Rural Development Programme (IRDP) and its subsequent variations including the current self-employment programme known as Swaranjayanti Gram Swarozgar Yojana (SGSY).

III. INDIAN MICROFINANCE SECTOR:

Indian microfinance sector is expected to grow nearly ten times by 2011 to a size of about Rs. 250 billion from the current market size of Rs. 27 billion, at a compounded annual growth rate of 76 per cent. Microfinance in India started evolving in the early 1980s with the formation of informal Self Help Group (SHG) for providing access to financial services to the needy people who are deprived of credit facilities. Microfinance has enormous growth potential as half the world‘s population earns less than US$2 per day, which is insufficient to meet their basic needs. One of the fastest growing sectors of India, microfinance is spearheading intense competition among the largest players. By the end of March 2009, microfinance institutions expanded their outreach to 50 million households and about 38 million borrowers. These institutions are organized under three models: SHG, Grameen Model, Joint Liability Groups and Individual Banking Groups as in Cooperatives. As of March 2009, both SHG bank linkage and MFIs have collectively disbursed US$3.9 billion to the poor.

TABLE-1: STATE-WISE POSITION OF MFIS

STATE	No. of MFIS	Share%
Andhra Pradesh	484	62
Bihar	44	6
Gujarat	8	1
Jharkhand	1	0
Karnataka	20	3
Kerala	18	2
Madhya Pradesh	14	2
Maharashtra	15	2
Orissa	28	4
Rajasthan	18	2
Tamilnadu	101	13
Uttar pradesh	5	1
West Bengal	30	4

Source: NABARD IV. TYPES OF MF PROVIDERS

The different legal forms under which Micro Finance (MF) can be provided in India are:

1. Commercial Banks
2. Cooperative Banks
3. Regional Rural Banks (RRBs)
4. Local Area Banks (LABs)
5. Cooperative Societies, SHGs and Federations
6. Societies
7. Trusts
8. Section 25 (Not-for-Profit) Companies
9. Non-Banking Finance Companies (NBFCs)
10. Organizations under Business Facilitator/Business Correspondent guidelines of the Reserve Bank of India

Among these, the MFIs can either take up the form of a Society, Trust, Co-operative Society, or NBFC. There is no centralized database on the number of microfinance institutions that operate in the country; however, estimates have put it anywhere between 800 and 1,200. The overwhelming majority of MFIs are societies and trusts, followed by cooperative and section 25 companies. Among the large MFIs, most are NBFCs. It is estimated that top 20 MFIs account for 80 per cent of the total portfolio.

V. ROLE OF MICRO FINANCE INSTITUTIONS:

1. POVERTY REDUCTION TOOL:

Microfinance can be considered as a critical element of an effective poverty reduction strategy. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to manage their consumption, and risks better, build their assets gradually, and develop their microenterprises. Microfinance is only a means and not an end. The ultimate goal is to reduce poverty. Government, NGOs and other financial institutions have introduced various welfare schemes and activities to reduce poverty. Microfinance, by providing small loans and savings facilities to those who are excluded from commercial financial services has been developed as a key strategy for reducing poverty throughout the world.

2. WOMEN EMPOWERMENT:

In rural areas women living below the poverty line are unable to realize their potential. Microfinance programmes are currently being promoted as a key strategy for simultaneously addressing both poverty alleviation and women‘s empowerment. The self help groups (SHGs) of women as sources of microfinance have helped them to take part in development activities. The participation of women in SHGs made a significant impact on their empowerment both in social and economic aspects. It has been an accepted premise that women were not given enough opportunities to involve themselves in the decision making process of the family as well as in the society. Hence, women were the main target groups under SHG programme. Microfinance can provide an effective way to assist and empower poor women.

3. DEVELOPMENT OF THE OVERALL FINANCIAL SYSTEM:

Without permanent access to institutional microfinance, most poor households continue to rely on meagre self-finance or informal sources of microfinance, which limits their ability to actively participate in and benefit from the development opportunities. Microfinance can contribute to the development of the overall financial system through integration of financial markets. Microfinance Institutions (MFIs) can be small and medium enterprises at the heart of rural sustainable development. Their development positively correlates with rural business development.

4. SELF EMPLOYMENT:

Poverty reduction through self employment is at high priority in the various Plans of the Government of India. Microfinance is an experimental tool in its overall strategies. Most of poor people manage to optimize resources over a time to develop their enterprises. Financial services could enable the poor to leverage their initiative, accelerating the process of generating incomes, assets and economic security. However, conventional finance institutions seldom lend down-market to serve the needs of low-income families and women-headed households. Therefore fundamental approach is to create the self employment by financing the rural poor through financial institutions. Microfinance, thus, creates the hope and increases the self-esteem of the poor by giving the opportunities to be employed.

5. SHG-BANK LINKAGE PROGRAMME:

Indian micro finance is dominated by the operational approach Self-help Groups (SHGs). The approach is popularly known as SHG-Bank linkage model. This model is the dominant model, initiated by the NABARD in the early 1990s. Today the SHG model also links the informal groups of women to the mainstream system and it has the largest outreach to micro financial clients in the world. SHGs comprise a group of 15-20 members. The groups begin by savings that are placed in a common fund. In a way, SHGs are co-operative (Credit) societies linked to a commercial bank rather than an apex cooperative bank. Once linked to the bank, the SHGs may access a given multiple of the pooled savings for disbursement to its members.

VI. CONCLUSION:

Rural development and poverty reduction are commonly related to the issue of rural employment. Rural households livelihood strategies comprise several options, including farming and non-farm activities, local self-employment and wage employment, and migration. Microfinance has proven to be an effective and powerful tool for rural development and poverty reduction. Like many other development tools, it has sufficiently penetrated the poorer strata of society. To provide micro-finance and other support services, MFIs should be able to sustain themselves for a long period. There are so many schemes for the development of poor in India. Creating self-employment opportunities through micro finance is one way of attacking poverty and solving the problems of unemployment. In India, the micro finance movement has almost assumed the shape of an industry, embracing thousands of NGOs/MFIs. During the last decade, the sector has witnessed a sharp growth with the emergence of a number of Micro Finance Institutions (MFIs) providing financial and non-financial supports to the poor in an effort to lift them out of poverty. The MFI channel of credit delivery, coupled with the national level programme of SHG-Bank Linkage, today, reaches out to millions of poor across the country. Therefore it is imperative for such institutions to shoulder the responsibility of making available much needed micro credit to the poor section of the society for generating the self-employment.

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