Micro-finance Schemes and Upward Economic Mobility: A Break from Poverty in India

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ABSTRACT

Poverty and unemployment can be solved, among other ways, by creating self-employment opportunities. Micro-financing has proved particularly useful to this end. It facilitates opportunities for self-employment and makes the credit-worthy. The divergence of services is central to the efficacy of micro-finance schemes and programmes. The concept of micro-finance is simple. With access to financial services, including credit, the poor find themselves in better positions to expand a micro-enterprise that will help them escape poverty. This makes micro-finance one of the most effective interventions for the economic empowerment of the poor.

The focus of this study is to identify the role micro-finance programmes play in poverty alleviation and providing opportunities for upward economic mobility in India.

Keywords: *Microfinance, Self-employment, Micro-enterprise, Micro-credit, Financing.*

INTRODUCTION:

The most efficient intervention for economic empowerment of the poor is micro-finance. It is also an effective response to unemployment. The Ministry of SSI (Small Scale Industries) tells us that over 24 crore Indians live below the poverty line. In the face of rampant poverty, microcredit, or loans amounting to small sums, becomes a pertinent institutional tool to lift people from economic difficulties. The increased self-employment opportunities presented to people as a result make these loans credit-worthy.

The fundamental idea of micro-finance is simple. By the provision of financial services like credit to the poor, they are enabled to start or expand a micro-enterprise. This further enables them to escape poverty. The Micro Finance Corporation has introduced a scheme for Micro Financing through nominated Channelising Agencies for small entrepreneurs in the target group.

Microcredit, as an idea, was first conceptualised and executed with the Grameen Bank in Bangladesh. The idea of providing a credit delivery system to the rural poor was cemented with a research project launched to this end in 1976 by Professor Muhammad Yunus. In October 1983, via government legislation, the ‘Grameen Bank Project’ thereby became an independent bank. Eventually, Regional Rural Banks (RRBs), Deposit Insurance and Credit Guarantee Corporation (DICGC), National Bank for Rural and Agricultural Development (NABARD), Small Industrial Development Bank of India (SIDBI), Export Credit Guarantee Corporation (ECGC) and the latest Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE) followed suit. These institutions support the uninterrupted flow of credit to small time borrowers. The RBI presently directs that priority sectors must get a minimum 40% share of a commercial banks' total lending, including 10% for the agriculture sector in India. NABARD in the field of agriculture and SIDBI in the field of Industry, Service and Business (ISB) are primarily responsible for micro-credit.

Divergence of services is crucial to the realization of micro-credit services. The micro-finance Scheme of SIDBI has been operating since January, 1999, with a corpus of 100 crore and a network of about 190 capacity assessed related MFIS/NGOs. 191 crores had been sanctioned by 31 December 2003, with over 9 lakh beneficiaries. NGO/MFIs are supposed to provide equity support in order to avail SIDBI finance according to the programme, but they find it difficult to manage the needed equity support because of their condition. Declining interest rate on deposits has increased this issue. The Office of the Development poor financial Commissioner (Small Scale Industries) under Ministry of MSME is launching a new scheme of Micro Finance Programmes to overcome the limitations in the existing schemes of SIDBI, since their ambit and reach is currently very low. In such a scenario, the Government's role can prove critical in expanding the reach of the scheme, and ensuring the long term sustainability of NGOs/MFIs along with the development of intermediaries for the identification of crucial projects.

DIFFERENT TYPES OF MICROFINANCE INSTITUTIONS IN INDIA

The microfinance institution models are developed in India in order to handle with the financial challenges in financially backward areas. The various microfinance institutions operating in India are depicted below.

(A) Joint Liability Group (JLG)

Joint Liability Group is the informal group which consists of 4-10 individuals who try to avail loans against mutual guarantee to banks for the purpose of agricultural and associated activities. This category generally consists of occupants, farmers other rural workers. They work primarily for lending purposes, although they also offer the savings facility. In these type of institutions, every individual of a borrowing group is equally liable for the credit. These kind of institutions are simple in nature and requires little or no financial administration.

(B) Self Help Group (Shg)

Self Help Group are formal or informal groups consisting of small entrepreneurs with similar kind of socio-economic backgrounds. Such individuals temporarily come together and generate a common fund to meet the emergency needs of their business. These groups are generally non-profit organizations. These groups assume the responsibility of debt recovery. The advantage of this micro-lending system is that there is no need for insurance. Interest rates are also generally low and fixed especially for women. In addition various linkups of banks with SHGs have been instigated for the hope of better financial inclusion in rural areas. One of the most important SHG is NABARD SHG link program where many self-help groups can borrow credit from banks, once they successfully present a track record of regular repayments of their borrowers In year 2005-06 states of Tamil Nadu, Kerala, Andhra Pradesh and Karnataka achieved 60% of SHG linkage credit.

(C) The Grameen Bank

Grameen bank models were introduced by Prof. Muhammad Yunus in Bangladesh during 1970s. It was widely adopted in India in the form of Regional Rural Banks (RRB). The goal of this system has been the overall development of the rural economy which generally consists of financially backward classes. But this model was not been fully successful in India as rural credit and system of recovery was a real problem. Huge amount of non-performing assets also led to failure of these regional banks. Compared with this model Self Help Groups have been more successful as they were more suited to the population density of India and far more sustainable.

(D) Rural Cooperatives

Rural Cooperatives in India were set up during the time of independence b the government. They used the mechanism to pool the resources of people with relatively small means and provide financial services. Due to their complex monitoring rupture, their success has been limited. In addition, this system only catered to the credit worthy individuals of rural areas, for covering a large part of the country's financially backward section.

REVIEW OF LITERATURE

Bhasin and Akpalu (2001) conducted a study on Impact of Micro-Finance Enterprises on The Efficiency of Micro Enterprises in Cape Coast. It was observed by them that the NBSSI was performing very well as far as the training services are concerned. As per the provision of credit is concerned, NBSSI didn't performed well according to the expectations of hair-dressers, dress-makers and wood-processors because of lack of funds. It was observed that the informal sector caters for the needs of these micro-enterprises and they generally take loans from their friends/relatives and suppliers/clients. There exist many disparities in the efficiency of hair-dressers, dress-makers and wood-processors within each group and across these groups, which indicates that there is ample scope for raising the level of efficiency in these micro-enterprises. The most significant factors of technical efficiencies of hair-dressers, dress-makers and wood-processors are the age of operator, business experience, and level of education, training programmes, credit, and contact with the lender.

Sam Afrane (2002) conducted a study on Impact Assessment of Microfinance Interventions in Ghana and South Africa Synthesis of Major Impacts and Lessons. Delivery of microcredit it to operators of small and microenterprises (SMEs) in developing countries increasing being viewed as a strategic means of assisting the so-called "working poor" (ILO 1973). Over the past decade, a considerable amount of multi- and bilateral aid has been channeled into microfinance programs in the Third World with varying degrees of success. Like all development interventions, donors, governments, and other interested parties demand evaluations and impact assessment studies to ascertain the achievements and failures of these programs. This paper reviews two such studies conducted in Ghana and South Africa that focused mainly on impact results. The outcomes of the two case studies have established that microfinance interventions have achieved significant improvements in terms of increased business incomes, improved access to life-enhancing facilities, and empowerment of people, particularly women.

Rahmat, Megananda and Achmad Maulana (2006) conducted a study on The Impact of Microfinance to Micro and Small Enterprise's Performance and the Improvement of Their Business Opportunity. Results of this study find several interesting issues, such as Microfinance has positive impact to improvement of MSE's Performance Indicated by sales, the difference of regional characteristic of MSE is also play role in determining its business scale, Since doubling amount of loan has negative impact to the performance, it's very Important to allocate the loan to the productive activities, such as investment, in the way to improve the business opportunity

Maruthi Ram Prasad, Sunitha and Laxmi Sunitha (2011) conducted a study on Emergency and Impact of Micro-Finance on Indian Scenario. After the pioneering efforts by Government, Banks, NGOs, etc the microfinance scene in India has reached in take off stage. An attempt could be initiated to promote a cadre of new generation micro-credit leaders in order to strengthen the emergence of Micro-Finance Institution (MFIs), so as to optimize their contribution towards the growth of the sector and poverty alleviation. Each Indian state could consider forming multi-party working group to meet with microfinance leaders and have a dialogue with them about how the policy environment could be made more supportive and to clear up misperceptions. With one state leading the way, we need to build on a successful model. By unleashing the entrepreneurial talent of the poor, we will slowly but surely transform India in ways we can only begin.

IMPORTANCE OF THE STUDY

The study is important as it analyze the total capital invested by micro and small enterprises and it studies the contribution of financing, it tells the effective utilization of capital loans provided by Micro-Finance Institution (MFIs) to micro and small through Micro-Finance Institution (MFIs) enterprises.

It enables us to investigate whether capital loans and services of Micro-Finance Institution (MFIs) to micro and small enterprises lead to the growth and development of the organization or not.

RESEARCH METHODOLOGY

The study is analytical in nature and based on secondary data collected from various published reports like Indian public finance statistics, economic surveys, ministry of statistics India and budget documents. In addition, books, journals, various websites of Government of India and central board of excise and customs were also used for the study. For the analysis of data simple techniques like percentage, simple ranking method and growth rate have been used.

FINDINGS

The current study is very important for the development of socio economic activities in developing countries like India and its contribution to the development of micro and small enterprises. The present study identified the role of

Micro Finance Institution (MFIs) products and services in small and micro enterprises sector. This will enhance in their localities to boost their living standards in a sustainable manner. Microfinance evolutionary growth has given a great opportunity to the rural poor to attain reasonable economic, social and cultural empowerment, leading to better living standard and quality of life for participating households. Microfinance has been a panacea for poverty reduction in India and thus it is profoundly promoted by our financial system throughout the economy. Financial constraints need to be removed by make favorable Microfinance policy which can lead to entrepreneurial development in India. For example, improve the environmental conditions for the microfinance to operate including microfinance market, and microfinance infrastructures.

CONCLUSION

The face of Indian Microfinance has changed drastically over the years. Now, it is a dynamic space featuring various players that offer various products and services to low income clients. A multitude of approaches are employed in doing the same. The banking system, along with other legal forms such as NBFCs, Section 25 companies, cooperatives and NGO-MFIs are targeting rural markets. Various entities forge many types of relationships to exacerbate and derive from each other’s strengths. These developments do, however, fail us in a few aspects. The penetration of microfinance remains low and spread highly skewed in Southern India. Gaps need filling-these issues, when mended, will snowball further changes in the Microfinance space. Microfinance remains a powerful tool to help eradicate poverty, caution against overwhelming push for Micro-Finance Institution (MFIs) to become financially self-sustainable, mission drift/questionable practices, and call for greater transparency and (public) awareness. Solving a number of problems, indeed, microfinance in India is a multifaceted and dynamic industry. The education of villagers on loan-sanctioning procedures is needed. Access to micro-finance improved their living standards. From the study conducted, the poor reported an improvement in their quality of food, clothing, education, housing, health services and access to quality life. From the above findings, it is evident that clear micro-finance has had a positive impact on its client's living standard. Micro-Finance Institution (MFIs) overall continue their efforts to become more efficient. Growth and expansion- the essence of microfinance as a programme for reaching the poor and excluded- is not in the centre-stage anymore. We must emphasise not the quantity of microfinance, but also the qualitative usages of micro-finance instead. It is imperative to supervise the utilization of the microfinance.

In this research paper, News and articles of The Hindu, Danik Jagran, Danik Bhaskar, Umar Ujala, The Indian Express, Business Line, PIB of India, have been analyzed and the various aspects of Micro-finance Schemes and Upward Economic Mobility, have been discussed. As per the requirement the ideas of various economists have been included.

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