

Role of Micro-Finance Banks & Institutions in Creating Self-Employment

Madhushree Sur

Assistant Professor , St. Hopkins College of Management, Bangalore University Postal Address: Flat No. 206, Parkland Apartments,13 Eagle Street, Langford Town, Bangalore 560025, Karnataka

Abstract: *It is very difficult in this competitive world to sustain one's living. In fact it has become very critical to find out what to do and how to do? The question is- Are we able to sustain properly? The objective is to keep oneself aware of the surrounding environment and find out the suitable ways to keep oneself engaged along with some securities. We may find many individuals who are not interested to work under anyone. They want to pave their own path and achieve something of their own. But the major barrier while starting such venture is CAPITAL. Arranging capital for starting new venture is really a challenge. For entrepreneurs who don't have financial support to start up with a business, micro-finance is the best option. At a low investment cost, it provides a source of financial services, insurance, loans and such other facilities to poor entrepreneurs who have no other options or who are not able to qualify for standard loan. Such facilities are provided by institutions that are named as Micro Finance Institutions. Such institutions may range from non- profit organizations to large banks. The current paper is concerned about the role that has been played by micro-finance in developing self- employment. The emphasis is on the previous developmental works as well as on the future implications. This work will help potential entrepreneurs to focus more on their mission. Such work will open up the scope of employment as well as creativity.*

Keywords: Micro-Finance banks, Micro-Finance Institutions, Self-Employment

1. Introduction

As we can see in today's world, survival has become very difficult. People are much more qualified than before. But then what is the solution? Are they able to get jobs or rather desired jobs? Entrepreneurship is not a new process not definitely an old term in the dictionary of Management. In the words of Dr APJ Abdul Kalam-'Dream Dream & Dream. Never stop fighting until you arrive at your destined place - that is, the unique you. Have an aim in life, continuously acquire knowledge, work hard, and have perseverance to realize the great life'. People have now learnt to dream more. But only dreaming is not sufficient to make the dream real. Huge capital is required to start up with a new business. Moreover it is easy to take the option of loans from banks. But then it is accompanied with various lengthy procedures & sometimes litigations. Micro-Finance as the name defines is a limited amount of monetary support for the starters in such field. As the topic is named, not only the founder but also the associates of such processes are also hugely benefited. If such enterprises can be encouraged to grow further, they will help in creating self-employment as well as employment for others. Simultaneously the rate of unemployment will be decreased as a result of which the GDP will also increase. If we observe this whole proforma carefully, we will see that all the activities are sequential. The concept of Micro-finance was introduced by Professor Mohammad Yunus of Bangladesh. The concept at first was to provide small financial help to poor entrepreneurs but soon took the shape of small loans. It was provided to few women to start their own business. However as it took the form of short-term loans, the money was lent in the objective of being paid back with interest within 6months to 1 year. This work is an approach to focus light on the prospects of Micro-finance in creating self-employment. This is a belief that it will open up new directions for prospective entrepreneurs. Very limited works are there in the field of Micro-Finance. In

fact no such prominent works are there about the progressive works that are been going on all through the world. One such rare work was of Hulme, David, and Paul Mosley. *Finance against poverty*, 1996. Especially the rural areas are fetching lots of advantages from micro-finance. This paper is a small approach to present an overview of the different sources of micro-financial institutions as well as their constructive activities towards the growth of self-employment.

2. Materials and Methods

Like any other financial criteria , guidelines are there in order to apply for micro-finance. There is a proper network which decides the various eligibility criteria as well as code of conduct for the institutions providing micro-finance. Such network is known as Microfinance Institutions Network (MFIN). Now- a- days we can see many institutions have come up with the availability of micro-financial options.

Table 1: Account statement of micro-finance loans outstanding in 2016-17 is presented as below:

Organizations	Figures (in Rs crores)
NBFC-MFI	44519
BANKS	40993
SFBs	14477
NBFCs	6026

As per The Telegraph May 22, 2017: The micro-finance industry has recorded a 26% growth loan portfolio in 2016-17 with Rs 106.916cr outstanding data to be compiled by industry body MFIN. The share of NBFC-MFIs was the highest representing 42% of micro-finance lending followed by banks at 38% and small finance banks at 14%.

Today micro-finance is used in agriculture and rural enterprises and recommends measure for promoting

sustainable access to micro finance in rural areas. Women entrepreneurs face lot of problems while arranging money for starting a new business. Micro-Finance opens up new areas for entrepreneurs.

The rural financial system in India has evolved through 2 sets of financial institutions-formal and informal. The formal system consists of a multi-agency approach, comprising of co-operatives, public sector commercial banks (CB), regional rural banks(RRB) and private sector banks. The public sector banks and RRBs constitute the government sectors.

The informal system consists of Rotating Savings & Credit associations(ROSCAS), traders, merchants etc. Each of these are governed by norms and rules that have been formulated by concerned institutions/persons.

Regulatory Bodies

↓
Apex Bodies

↓
Intermediaries

↓
Clients

Figure 1: Institutional Mapping of Micro-Finance participants

In India also the micro- finance sector has flourished rapidly. This has helped to create small business opportunities. Simultaneously the growth of employment has also taken place. Currently the Indian micro-finance sector consists of-

- NABARD, Mumbai;

- Small Industrial Development Bank of India (SIDBI), Lucknow;
- Rashtriya Mahila Kosh (RMK), a government initiated NGO under the department of Women & Child Development;
- Housing &Urban Development Corporation (HUDCO), New Delhi;
- Housing Development Finance Corporation (HDFC), Mumbai;
- Friends of Women's World Banking (FWWB), Ahmedabad.

The next components of the industrial mapping are the intermediary agencies , which comprise of banks of various kinds-scheduled, regional rural and co-operative, micro-finance institutions & facilitating NGOs.

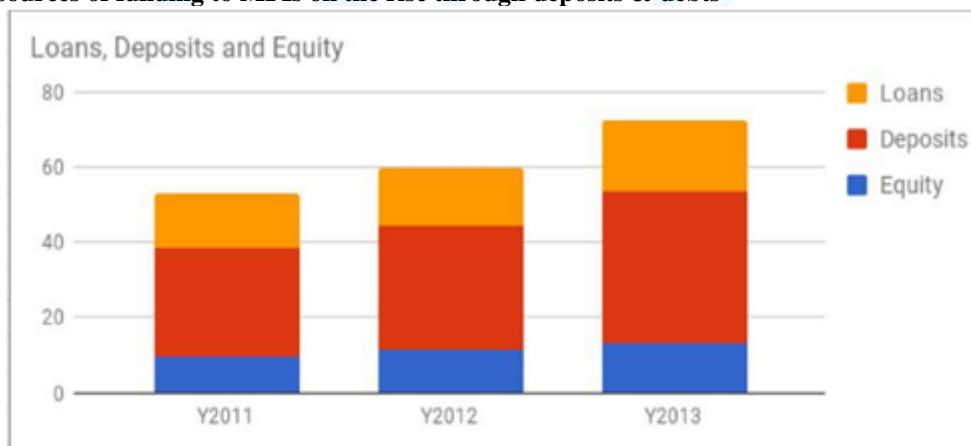
A 14-Point Action plan, which concerns credit for women was outlined and implemented for banks. By the end of the first year of the implementation of this plan, factual data would be available on the number of women financed, the amount of credit flow extended to women as also the percentage to net bank credit.

3. Data

The following are the data related to micro-financial assistance obtained by different poor entrepreneurs over the years:

Self help association for Rural Education and Employment. SEWA has helped in making available women access to credit & micro-finance in rural India.

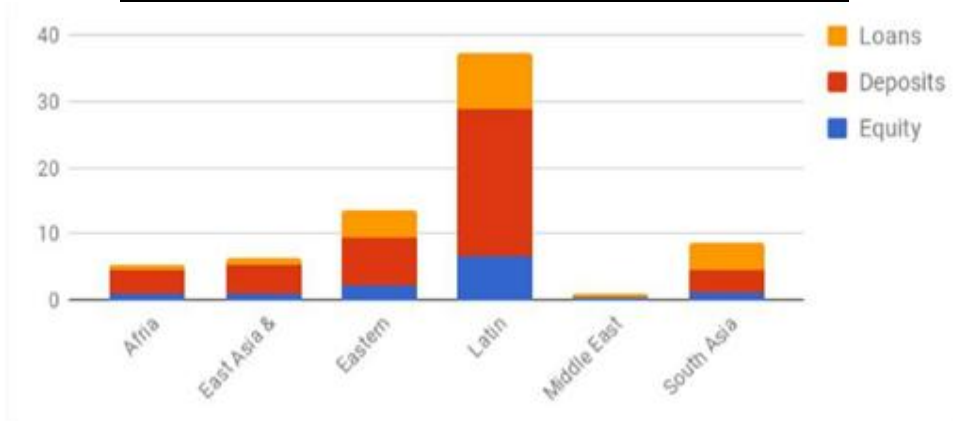
Chart 1: Local sources of funding to MFIs on the rise through deposits & debts



Interpretation: The following data shows that micro-finance consists of 3 broadcategories- Loans, Deposits & Equity. The column chart chart above indicates the percentage of the 3 mentioned categories which have increased from the year 2011 to 2013 gradually. For e.g. , in

the year 2011, the % of deposits in micro-finance was 28.6. This has increased to 40.4% in the year 2013, which is 11.8% more than earlier.

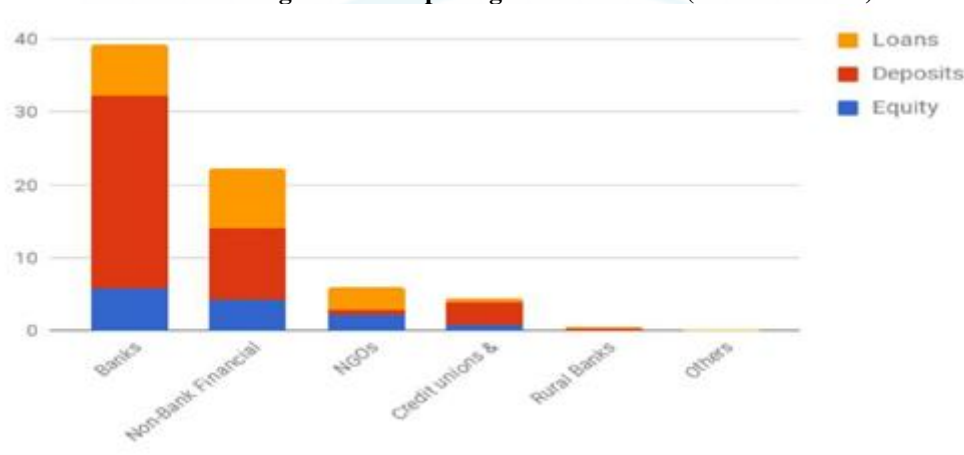
Chart 2: Funding Sources as per region in 2012 (in USD Billion)



Interpretation: The investment in micro-finance is not only flourished in India but also in other countries & continents. However, the chart above highlights that,

maximum investment in micro-finance has been encouraged by Latin America and Caribbean Islands.

Chart 3: Funding Sources as per legal status in 2012 (in USD Billion)



Interpretation: Banks have played a very important role in the introduction of micro-finance. About 26.5% of the total micro-finance have been deposited in banks, 9.7% in NBFIs, 3.1% in Credit unions & cooperatives, .8% in NGOs, .3% in rural banks. Likewise, Loans & Equity formed a significant part of Micro-finances in different institutions as shown in the above chart.

Micro-finance institutions borrow money from mainstream financiers like banks to lend to entrepreneurs without credit histories. The main reason behind this is, these are poor entrepreneurs and it's very difficult for them to arrange sufficient capital for them for start-ups. The micro-finance loans can be as small as \$100 or even less. Now-a-days provisions of savings, insurance and money transfers are also available in micro-finance.

Table 2: Prominent MFIs in India

Arohan	Focus on financial planning, cash flow management, etc
Sonata	To make microfinance financially self-sustainable
Bandhan	Dual objective -poverty alleviation & women empowerment
SKS Bharat Financial Inc.	Provide financial services to poor & poverty alleviation
Asmitha	Bridge gap between poverty & a comfortable SOL

4. Credit Disbursement

The RBI mandates all banks to lend MFIs. According to RBI definition, all credit given which is less than Rs 50000 qualifies as micro-credit. These credits are provided without any collateral security. The upper limit of credit disbursed depends upon group or individual lending model.

Table 3: Credit disbursement model of Grameen Koota

MFI	First Cycle	Second Cycle	Upper Limit	Interest Rates
Group Model	Rs 10000	Rs 15000	Upto Rs 30000 in 5 th cycle	Flat 10%/year
Individual	Rs 40000	Increase upto 50% of amt	Upto Rs 50000	Flat 15%/year

According to Economic Times, March 25, 2016 in Kolkata, micro-finance institutions have never had it so good in the

past 6 years at least in terms of receiving funds. More importantly, banks are liberally lending to small & medium

size micro lenders after the transformation of Bandhan into a bank. MFI's outstanding borrowings in 2016 was Rs 36439 crores representing a 86% growth according to MFIN. Average loan size for each beneficiary grew to Rs 17917 in 2016 compared to Rs 14409 in 2015.

Growth & Outreach of MF in 2017: Currently MFI operates in 29 states, 4 union territories & 588 districts in India. Outreach grew by 8% and loan outstanding grew by 31% over the previous year. The most important factor is that, women borrowers constitute 97% of total clientele of MFIs. Approximately 85% of clients outreach is contributed by NBFC-MFIs.

Employment:

MFI sector employs 103415 personnel out of which 35% are women & 62% are field staff. An active borrower per credit officer (ABCO) is 440, which is also higher than previous year. MF is usually related to rural areas of the country.

According to International Labour Organization (ILO), decent employment & incomes depend on accessibility to the financial market. For this reason, micro-finance can have a strong & positive impact on employment studies show that micro-credit significantly contributes to self-employment & job creation. Micro-finance plays an increasingly important role as a strategy in labour market policies in Europe.

As updated in European Union(EU) Joint Employment Report & EUROSTAT, the unemployment rate exceeded by 10% in the year 2014. In the same year the rate approximately doubled by 21.6% in the month of September. This shows people are facing problems in grabbing a job or even set up a business of their own. According to EU employment policies, one of the major aims of Europe 2020 strategy is to employ 75% of 20-64 years age category. One of the tools proposed for this is self-employment. Micro-finance is explicitly quoted as a means to reach these goals.

Micro-finance in India was first introduced in early 1970s when Self-employment Women's Association (SEWA) of Gujarat was formed with the objective of providing banking services to poor women employed in unorganized sector. Government of India is helping different MFI/NGO like SIDBI for providing micro-credit to poor entrepreneurs.

5. Conclusion

Employment as stated before is one of the biggest factors to enhance growth in an economy. Micro-finance is one such tool to develop employment activities in an economy. For this, micro-financial institutes should come forward with different services like credit facilities, savings, insurance etc. Not only that, MFIs should be able to sustain for a long period & develop schemes for developing employment facilities in a country like India. Thus creation of self-employment opportunities through MF is one way of solving unemployment problems.

References

- [1] Field, Erica, and Rohini Pande. "Repayment frequency and default in microfinance: evidence from
- [2] India." *Journal of the European Economic Association* 6.2-3 (2008): 501-509.
- [3] Khandker, Shahidur R. *Fighting poverty with microcredit: experience in Bangladesh*. Oxford University Press, 1998.
- [4] Mahajan, Vijay, and Bharti Gupta Ramola. "Financial services for the rural poor and women in India: Access and sustainability." *Journal of International Development* 8.2 (1996): 211-224.
- [5] McKernan, Signe-Mary. "The impact of microcredit programs on self-employment profits: Do noncredit program aspects matter?." *The Review of Economics and Statistics* 84.1 (2002): 93-115.
- [6] Olu, Ojo. "Impact of microfinance on entrepreneurial development: The case of Nigeria." *The International Conference on Economics and Administration, Faculty of Administration and business*.2009.
- [7] Oni, Emmanuel O. "Development of small and medium scale enterprises: The role of government and other financial institutions." *Oman Chapter of Arabian Journal of Business and Management Review* 1.7 (2012): 16-29.
- [8] Shastri, Rajesh Kumar. "Micro finance and poverty reduction in India (A comparative study with Asian Countries)." *African journal of business management* 3.4 (2009): 136.