Abstract

The Unemployment problem is spreading in all developing countries very rapidly and due to this unemployment poverty lies in these countries. Microfinance as a tool of poverty removal is working in this regard and trying to reduce the problem of poverty. This study is an attempt to show the impact of microfinance on poverty reduction. For this purpose the relationship between the borrowed money from MFI and actual amount of money invested in business or used for self-employment purpose has been analyzed by considering the effect of training & guidance received from microfinance institutions on the growth and success of self-employment. The multiple regression models have been used to analyze the impact of microfinance on self-employment. To analyze the impact of microfinance on self-employment, a primary survey is conducted with the unemployed members of social system.

1. Introduction

The most important finding in the last two decades in the world of finance did not come from the world of the rich or the relatively well-off. More important than the hedge fund or the liquid-yield option note was the finding that the poor can save, can borrow (can indeed decide on loans to fellow poor), and will certainly repay loans. This is the world of microfinance. Today’s market driven economy has re-defined the financial sector in India. The post liberalization era has seen the consolidation of the financial organizations in India. There is a marked change in their functioning from pre-liberalized era of protection to now in the post liberalized era, which is oriented to the
dictates of the market needs. Small financial enterprises are rising as the most positive growth for the financial sector to find its reach in all types of large and small markets.

Microfinance is not a new phenomenon. Its origin can be traced back to 1976, when Muhammad Yunus set up the Grameen Bank, as experiment, on the outskirts of Chittagong University campus in the village of Jobra, Bangladesh. Since then several microfinance institution came up with the idea to serve and fulfil the needs of poor people. These institutions have succeeded in reaching the poorest of the poor, and have launched new strategies for the fulfilment of their vision. Mainly these institutions have included the provision of collateral free loans to poor people, especially in rural areas, at heavy interest rates that are repayable in frequent instalments. Borrowers are organized into groups and peer pressure among them, which reduced the risk of default.

Microfinance is now being considered as one of the most important and effective tool for poverty alleviation. It is also very effective in terms of health care, education, legal rights, sanitation and other living standard mark-ups. Microfinance is helpful in providing opportunities to the general and poor public for self-employment.

2. Literature Review

Hulme and Mosley (1996) state that microfinance projects can reduce the isolation of women as when they come together in groups they have an opportunity to share information and discuss ideas and develop a bond that wasn’t there previously. Otero (1999) the aim of microfinance according to is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. Madeline Klinkhamer (2000) shows that the lack of paper title should not preclude micro lending for housing purposes, particularly for shorter term, smaller loans. In fact, the onerous process of foreclosure is prohibitive for MFIs to enforce even in the presence of clear titles. Simanowitz with Walter (2002) argue that microfinance is a compromise between this social mission and commercial mission. As there is more emphasis on financial and institutional performance, opportunities for maximising poverty impact and depth of outreach have been compromised. Murduch and Hashemi (2003), the Women’s Empowerment Program in Nepal found that 68% of its members were making decisions on buying and selling property, sending their daughters to school and planning their family, all decisions that in the past were made by husbands. They refer to studies in Ghana and Bolivia, which indicated that women involved in microfinance projects, had increased self-confidence and had an improved status in the community (ibid.). Zohir and Matin (2004) state that many MFI loans are used for agricultural production, trading, processing and transport, resulting in an increase in the use of agricultural inputs and increased output of agricultural production. This leads to enhanced employment opportunities in these sectors for the wider community and a reduction in the prices of such produce due to increased supply. Cheryl Young (November 2007) Housing Microfinance: Designing a Product for the Rural Poor microfinance, hard collateral is not a necessary prerequisite for lending. In India, the Self Help Group (SHG) model predominates, which utilizes group guarantees, exercising peer pressure and character assessment to mitigate risk of non-repayment. MitaliSen (2008), Microfinance holds a big promise to generate income and employment and alleviate poverty in the developing countries. The Microfinance Institutions (MFIs) are financial institutions with a primary objective of making credit available to that segment of the population, which has been ignored by the commercial banking system for not having collateral requirements.
3. Objective of the Study
In the light of the research topic, the main objective of this study is to show how microfinance works for eliminating poverty and what challenges it faces in doing so. The objectives of this research paper are as follows:
   i. To measure the impact of microfinance on self-employment
   ii. To open new areas for further research.

4. Conceptual Model

![Conceptual Model Diagram]

5. Research Model
The research model can be written in the mathematical form as:-
\[ SE_{c,t} = \alpha_0 + \beta_1 BMFI_{c,t} + \beta_2 TAG_{c,t} + \beta_3 AMIB_{c,t} + \epsilon_{c,t} \]
\[ \text{--------------------} \]
\[ (1) \]
The above given mathematical equation has the following interpretation which is given in Table 5.1 below.

<table>
<thead>
<tr>
<th>Symbols</th>
<th>Meanings</th>
</tr>
</thead>
<tbody>
<tr>
<td>( \alpha )</td>
<td>Constant</td>
</tr>
<tr>
<td>( C )</td>
<td>Model error</td>
</tr>
<tr>
<td>( C )</td>
<td>Respondent</td>
</tr>
<tr>
<td>( t )</td>
<td>Finance at particular time</td>
</tr>
<tr>
<td>( BMFI )</td>
<td>Borrow money from MFI</td>
</tr>
<tr>
<td>( TAG )</td>
<td>Training and Guidance provided</td>
</tr>
<tr>
<td>( AMIB )</td>
<td>Amount of money invested in business</td>
</tr>
</tbody>
</table>

6. Hypothesis

> \( H_1: \) There is no relationship between borrowed money from MFIs and Self-employment
H2: There is no relationship between the training and guidance provided by MFIs and self-employment

H3: There is no relation between proportion of borrowed funds invested in business and self-employment

7. Procedure
The data collected by means of well developed, adopted scale having four sub-parts. All the questionnaires were distributed among the respondents in the area of Gwalior and Agra. Total 219 questionnaires were distributed but only 200 questionnaires were returned. The responses of questionnaire were fed into the statistical packages of social sciences (SPSS) version 16 for analysis and evaluation. Multiple regression analysis was used as a statistical test to determine the degree of relationship between the variables involved in this study.

8. Result and Analysis
The table 8.1 shows the result extracted on the basis of multiple regression to find the association between independent variables and dependent variable. The mathematical model of equation 1 has been modified as:

\[ SE_{c,t} = \alpha_0 + \beta_1 BMFI_{c,t} - \beta_2 TAG_{c,t} - \beta_3 AMIB_{c,t} + \epsilon_{c,t} \]

Table 8.1 (Beta Coefficients, standard errors in parenthesis t-values in bracket and p-value in italics)

<table>
<thead>
<tr>
<th>Constants</th>
<th>BMFI</th>
<th>AMIB</th>
<th>TAG</th>
<th>R Square</th>
<th>F Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.452 (0.555)</td>
<td>0.169 (0.108)</td>
<td>0.161 (0.076)</td>
<td>0.160 (0.078)</td>
<td>0.049</td>
<td>3.400</td>
</tr>
<tr>
<td>6.219 [1.564]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.000 0.119</td>
<td>0.034</td>
<td>0.041</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Result of Hypothesis testing</td>
<td>H1</td>
<td>H2</td>
<td>H3</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rejected</td>
<td>Accepted</td>
<td>Accepted</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Legend: Constant: Self Employment
BMFI: Borrowed money from MFI
TAG: Training and Guidance provided by MFIs
AMIB: Proportion of borrowed fund Invested in business

The above mathematical model and table 1.2 shows that hypothesis 1 is rejected on the basis of their weak association among the variables (p>0.05). Hypothesis 2 and 3 is accepted on the ground of strong relationship between the dependent and independent variables (p<0.05). Here we found that there is positive significant impact of these independent variable on the dependent variable (F=3.400) (p<0.05).

Reasonable interest rate of microcredit and operational assistance provided by MFIs shows weak association with beneficiaries (p>0.05) while easy procedure of getting loan, face any problem in taking help from MFIs shows strong association with beneficiaries(p<0.05). This result indicates that beneficiaries are not bothered about the interest rates charged by the MFIs but they are more satisfied with the easy procedure of collecting loan. As the interest rates are very high in comparison of other sources of borrowed funds than also people prefer MFIs because of other benefits involved with it.
Even people are not concerned much with the other assistance provided by MFIs to run their businesses. People are more interested in financial assistance provided by the MFIs and from this service, the results shows that they are very satisfied. The another reason why beneficiaries are more satisfied with the procedure of getting loan as the earlier studies says MFIs involve less formalities in comparison of banks and other financial institutions. The amount of loan is also very flexible in nature as people can borrow funds with very small amount like Rs. 1,000 which is generally not possible in case of banks and other sources of borrowed funds.

9. Conclusion
The result of this research study clearly indicates that there is weak relationship between the borrowed money from MFI and self-employment. This shows that beneficiaries are not utilizing the whole borrowed fund for their self-employment purpose or not investing the amount in their businesses. Studies reveal that people are using this borrowed fund for fulfilling their other household requirements, like marriages of their children, school fees, daily foods, etc. The second hypothesis: Training and Guidance provided by the MFIs shows the strong relationship with self-employment hence it is accepted. The acceptance of second hypothesis clearly shows that the training and guidance provided by MFIs to the beneficiaries is very helpful in running their businesses successfully. Here in this research study we found that MFIs are fulfilling their objectives by serving the poor people in different manners. The third hypothesis is also accepted under the research test which is related with the aspect that beneficiaries are utilizing or investing full amount of loan in their businesses or some portion. The result shows that people are investing a good proportion of borrowed fund in their businesses but not completely.

References
[2] Agion, Beatriz A. de; Morduch, J. (2003), “Microfinance, Where do we Stand?”, the British Association for the Advancement of Science Meetings, University of Salford, UK
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