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ROLE OF MICROFINANCE INSTITUTION IN ECONOMIC AND SOCIAL UPLIFTMENT

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ABSTRACT

Microfinance is a significant provision of financial services releasing to saving no access to low-income poor household having no access to formal financial organisations. It has been instrumental in removing poverty of the society, empowering the socially low- income bracket people, locating gender related issues and for promoting the society. Microfinance has hence developed as important tool for insuring economic and social upliftment and empowerment to the low- income poor people of the society. In India Microfinance has played a pivotal role in the socio-economic development of Bihar. The agriculture of Indian provides 70 percent population in employment directly or indirectly. But the condition of poor population of rural area is very alarming due to lack of financing. Hence rural part of India needs sources of finance for meeting its different requirement.



KEYWORDS: financial services , Microfinance, agriculture of Indian.

INTRODUCTION:

Microfinance programs like the SHGs in India have been promoted for positive impact on poverty alleviation and women empowerment. The Microfinance, termed microcredit, is a type of banking service provided to unemployed or low-income people or groups. In India introduction of microfinance became significant due to its organisature of economy, where 2/3 portion of population resides in rural area. Women form a major portion of rural population and achieve participants of the business of the family. Microfinance plays key role in uplifting the life style of women, welfare of women and empowerment of women and reduction of poverty¹. The Microfinance refers to such financial services which is provided to poor people/unemployed/low-income individuals/groups especially for women to become dependant. Microfinance is defined as the provision of financial services to poor people for enabling them to raise their income and improve the standard of life. It is expected from microfinance to play a very vital role in alleviating poverty and creating opportunity for employment. Microfinace includes not only credit but also includes savings, insurance, payment services, fund transfer. The main objective of microfinance is to serve the poor people to reduce poverty and promote women empowerment.

The term empowerment is used by different people in different way. In simple word empowerment means to make one powerful. But in board sense empowerment refers to a person acquiring the power to think and act freely. There are five types of empowerment which is required to empower the women; these are social empowerment, political empowerment, education empowerment, economic and financial empowerment and psychological empowerment. Women empowerment is a process by which women gain more control over intellectual resources which will assist them to increase their self-reliance and enhance them to assert their independent right but there are challenge to ideology of patriarchy and the gender-based discrimination against women. Empowering women does not mean to give them power to dominant men. Women empowerment is a multidimensional process which moves from various phases. It is not an easy task to measure how much women are empowered. However different studies have been made to measure the women empowerment. But on the basis of experience, knowledge, custom, tradition and behavior of women; the measurement of women empowerment can be done. There are mainly two criteria namely qualitative and quantitative indicators which measure the power of women empowerment. Qualitative indicators include- increase in self-esteem in Individual, time allotment for family and work, work load related to job, protest to social changes like child marriage, dowry, discrimination against widows. Quantitative indicators include- women participation in development related programmes of the society, accessibility of women related to mobilisation of resources such as government schemes accessibility to higher education, participation of women in the economic activities etc. Therefore, on the basis of above said aspect it can be said that microfinance is an important tool for the empowerment of women especially of rural women.

REVIEW OF LITERATURE

Karim. P. (2016) in his paper said that women has been disempowered in the way of repaing loan and suffers humiliation, physical violence and unbal abuse from men in her families. He further describes that microfinance proves to be insufficient to empower women.

Kabeer (2014) in this study found that there has been positive impact of microfinance on the status of female. Microfinance improves the status of women and her family and make has independent

Palmer and Jony, 2014 in their study described that microfinance do not have transformational impact on poverty alleviation. They further says that microfinance is not proper solution to end property and empower women.

Simphony (2016) says that recognized the need of fund for small size enterprises, for sustaining economic growth of the nation

Sundaram, K. (2017) in his study depicts that the Indian economy has witnessed a heavy proliferation of microenterprises in the last yester decades. He again stated that a good number of small enterprises is operating below the minimum efficient scale have note only increased vulnerability of borrowers but also absorb the nations resources and depriving small size enterprise.

Sitaram, (2007) described that how the failure of productivity plunges he clients into a debt trap. He again said that socio-culture limitations like limited access to workout side home, lack of market awareness have significant impact on women's loans. Because women are less engage in productive microenterprise and hence fall in debt-trap.

CONCEPT OF MICROFINANCE

In India the concept of microfinance was launched in 1990's by NABARD to link the gap between demand and supply of funds in the lower level of the economy. NABARD has defined microfinance as "provision of credit and other financial services and products of small amount to the poor in rural, and urban areas for making them to raise their income levels and to develop living standards". National Credit Fund for Women or Rashtriya Mahila Kosh both are the national level microfinance apex organizations provide financial services to women in India, defines microfinance as a set of services consisting the following activities:

(a) Micro Credit: (Small loan) mainly for income generation activities and also for livelihood purposes.

(b) Micro Savings: (Small savings) Microfinance refers to financial services of small quantity provided by financial institutions to the poor people. These financial services include savings, credit, insurance, leasing, money-transfer etc. and financial services provided to customer to meet their normal financial needs with the only qualification criteria: where transaction value is small and customers are poor.

The Microfinance is the provision of loans and other financial services to the poor. The microfinance has evolved because of the efforts of committed individuals and financial agencies to promote self-employment and contribute to poverty alleviation and provision of social security. India has been able to develop its own model of microfinance organizations in the form of savings and credit groups known as the Self Help Group (SHGs), which are bank-linked. These SHGs are mainly formed and managed by women and this has become an instrument, which has led to women's empowerment and social change. The term women empowerment consists of two word women and empowerment which means to give power to women to do something in her life. Women empowerment is a process by which women gain greater control over materials and intellectual resources which will assist them to increase their self-reliance, and enhance them to assert their independent right, are challenge to ideology of patriarchy and the gender-based discrimination against women, Empowering women does not mean to give them power to dominant men. The concept of empowerment of women is of recent origin.

"Empowerment of women" is the central issue that has been pervading the development debate seriously since the 1970s. The Government and NGOs of different nations approached towards the advancement of women through various policy interventions Such policy interventions have come across the approaches like 'welfare' to 'equity' to 'anti-poverty' to 'efficiency' and 'empowerment', resulting in more inclusive and sustained growth. In India also efforts towards empowering women and placing them on to mainstream development was done during the 6th Five Year Plan During this time, NGOs and Government after doing various experiments realised that, among many strategies to empower women, the delivery of micro-finance through group-based approach is crucial to empower women both economically and socially. By considering the points in favour of the existence of poverty, it is expedient to explore solutions that permit women to come out from the cycle of poverty, overcome from the lack of autonomy and provides them greater empowerment. The microfinance can be considered as one of the solutions. The microfinance has been characterized by targeting women living in rural areas. Microfinance can contribute to women's empowerment by increasing their self-esteem and her decision-making power, even in small household issues.

History of Microfinance

The term Microfinance, is provision of financial services mainly of saving and credit to low-income households who do not have access to traditional financial institutions. The Task Force for microfinance set up by NABARD defines microfinance as provision of credit and some other financial services and products of very low amounts to the poor of rural, semi urban or urban, India for making them to raise their income limits and up lift living standards². The financial services include loans, payment, money transfers and insurance to low income households and their business. The term micro-finance is used for such financial services, offered to poor individual having low socio-economic status and lacking access to traditional financial system services. It includes various services like saving accounts, checking accounts, micro-insurance, microcredit and fund transfer. Microfinance is supposed to be provision of financial services to poor borrowers or lending group including such poor people. Who are traditionally lacking access to formal banking services and other financial services. Microfinance mean to provide microcredit (small loan amount) to low income poor people or poor families so that to help them in their productive activities or small business.

The story of microfinance can be observed back to the second half of the 18th Century. In the 1800s, the benefits of low credits to entrepreneur and farmers was given to reduce poverty. In 70's the word "microfinance" was firstly introduced in this period of development of the Grameen Bank of Bangladesh, which was given by the microfinance pioneer, Dr. M. Yunus. In 1978, Yunus institutionalised the idea of microfinance, along with the foundation of Grameen Bank. Further another important person in this area is Akhtar. H. Khan. In this period a new wave of microfinance initiatives was

introduced and so many new innovations came in the sector. Many pioneering enterprises began witnessing to provide loan to the poor persons. Today the world bank estimates that more than 24 millions are served by 11000 microfinance institutions all over the globe. In a report of Microcredit summit the goal was fixed to reach 125 million of world's poorest people by credit. Further the year 2007 was said to be the international year of Microcredit by the economic and social council, to call for the financial and building sector to fuel the entrepreneur spirit of the poor people around the globe.

There are four key goals of the Microcredit. There are –

- (1) Promote the contribution of microfinance institutions.
- (2) To make a supporting system for sustainable assess of financial services.
- (3) To support partnership by encouraging new innovations.
- (4) The promotion should be inclusive for the financial sector.

The story of microfinance can be witnesses back of the 1800's, when the L. Spooner was written regarding the benefits of small credits to entrepreneurs and farmers for getting people out from the poverty. Presently the use of term microfinance has been profounded by Muhammad Yunus who was started the modern industry of microfinancing. The idea of microfinance was institutionalised by M. Yunus in 1976, with the foundation of Grameen Bank in Bangladesh. Another Pioneer in this sector has been social scientist Dr. Akhtar H. Khan. Though people of the developing countries largely depend on farming or food trade for livelihood, important resources have gone into supporting small agriculture in developing nations on the creation of microcredit of social entrepreneur Muhammad Yunus in 1983, microfinance was simultaneously created. In 1983, Yunus set up Grameen Bank in Bangladesh. The objective of Grameen Bank was to provide small amount of loans to small businessmen.

Yunus' vision for microcredit was inspired when he saw women making bamboo stools in Bangladesh earning two cents in a day. He decided that if a women can be able to fall back on a loan, they can be able to improve their margins and gain a more profit. After giving them a loan amount of \$ 28, following the group model, the women were became able to repay the loan amount and keep their business in operating condition. Actually microfinance was started with microcredit, which is practice of giving very small loans to those who don't have a source of income, or collateral. Its aim entrepreneurs who have no financial support to start small business. The purpose of microfinance is same like that of microcredit, its goal is to provide financial add to encourage entrepreneurs in impoverished countries to present their ideas and obtain the financial support. Its prime goal is to foster economic development, reduce unemployment, and promote small and petty business.

Crux of Microfinance

The crux of microfinance are stated below

Borrowers are normally from low-income strata.

- (1) The loans under microfinance are normally of small amount (micro-loans).
- (2) Short loan repayment period.
- (3) The microfinance loans required no collateral.
- (4) Loans can be repaid at higher intervals.

Benefits of Microfinance

Following are the main benefits of microfinance–

- To provide collateral-free loans amount.
- To disburse fast loan.
- To help people to meet financial needs.
- To provide extensive portfolio of loans amount
- To develop self-sufficiency.
- Tough repayment criteria regarding loan.
- Small amount of loan
- The high rate of interest.

Challenges of Microfinance institutions

The main challenges of MFIs are below

- More indebtedness.
- More Interest Rate than Mainstream Banks.
- Large Dependence on Banking System of India.
- Improper Investment Validation.
- Lacking Awareness of Financial Services in the Economy.
- Various Regulatory Issues
- The choice of proper model.

Microfinance organisation's **gross loan portfolio** rose 4.4 percent to `2,38,389 crore as of August 30, 2021, compared with `2,37,727 crore as of August 30, 2020, as per report of Microfinance Institutions Network.

Borrowers of Microfinance

Traditionally, microfinance has focused on providing a very standardised credit products. The poor need a wide range of financial instruments to become able to build assets, regulate consumption and protect from risks. The microfinance clients are normally low-income strata people that have no access to formal financial organisations. The microfinance borrowers are self-employed, sometimes household entrepreneurs. In Indian rural areas, they are small farmers, who are engaged in small income-generating works like food processing and small trade. In urban areas, microfinance activities are more wide and include, retailers agents, shopkeepers, artisans, vendors. In India microfinance help the poor to increase income, build businesses, and reduce vulnerability for external problem. It can be a full proof tool for self-empowerment by enabling the poor people mainly women, to become agents of change of the economy.

In India poverty is multi-dimensional, by providing access to various financial services, microfinance plays significant role to fight against various factors to poverty. For example income generation from business helps in expanding the business and also contributing to household income, like food security, education. Further for women, who are in many contexts secluded for public space can build confidence and empowerment. The prime objective of microfinance is to empower women. Microfinance provides women more financial back-up to start small business and participate in the economy. This gives her confidence, improves her status and make her more active in decision making, therefore encouraging gender equality. Indian women have been found to spend more of their income on her households. Hence, when even women are helped to enhance her incomes, the welfare of the whole family go up. In India empowerment of women is one of very significant issue. In spite of women are integral part of society, her status and participation in decision making and in economic activities has been very poor. Microfinance plays important role in increasing women decision making by participating in economic development. It is apparent that microfinance has contributed positively to economic and social improvement of women. Microfinance has improved the women's social lives.

Significance of Microfinance in India

In India microfinance plays a significant role in the development of the country. It work as an poverty alleviation machinery for the low-income people living in rural India. Its purpose is to assist community of economically excluded people to attain high level of income security of community and house hold level. The most important feature of microfinance in the country is it dispense the access to the capital to low and small business owners. Women has been in the centre of microfinancial activities. The main focus of microfinance is on female by granting them loan. Microfinance has been instrumental in empowering the low-income poor women so that they can become independent. By getting advantages of microfinancial activities women can directly contribute for the betterment of their family and can in counts made dominance in the society and can confront the gender inequality. The prime targets of microfinance is the low income households of urban and rural area and especially women of

the society. It is RBI which is not imposed any calling relating to maximum amount as given for the loan amount. It is clear that for low income people it is important to make a balance between income and expenditure. The reach of formal banking system are not to make in different part of the country. Hence microfinance provides proper opportunities to needy people. The microfinance is supposed to be a tool of financial operation which provides small loan to depressed business men for expansion of their small business. It has been found that microfinance is much more beneficial because it provides financial support to such people having lower socioeconomic backgrounds. It encourage poor people and makes them financially self dependent to counter unforeseen future. Apart from this microfinance provides financial services to those people living in remote area where other traditional financial institutions are not in operation or not working properly. Further in poverty-stricken location microfinance can encourage business development. Microfinance services helping poor rural female for becoming financial independence and getting empowerment to take proper decision. For stabilising income and to save future requirement of low income strata people. Microfinance helps such poor families in rebuilding their business.

In India microfinance plays significant role in the economic development. It makes foundation for removing poverty from the country and hence as a anti-poverty tool. The philosophy of microfinance has been came in light in 1970 with an objective to promote poor strata of the community by providing economic development. During yester decades the prime role has been played by the microfinance in the country. It is treated as an anti-poverty tool to promote economic development of India.

Winner of Nobel Prize Muhammad Yunus, helps the financially marginalised poor people by providing necessary capital to start business and work for financial independence. These loan amount may be necessary because they are provided borrower without any collateral. Further the interest rate of microloans are sometimes high because of risk of default involved in it. The microfinance can benefits poor people residing in developing countries. It can serve as an significant resource for those living developing nations. The microfinance can support poor to break the graph of poverty. These loans can be very low as \$50. The microfinance is a significant model of business for poor people, wants to work for the betterment of the ignored group of the country. There are many issues that has to face in running their business activities. This business model is fit to provide more interest, but it can give more growth because of demand for credit. Therefore it can be concluded that microfinance business is more of an initiative than a company works below the ambit of profit. The microfinance is a way by which loan, credits, insurance account, and money transfers is provided to small businessmen in the rural areas of India. Further, the beneficiaries of microfinance are those having no access to these formal financial resources. Interest rates of microloans are normally more than personal loan given by financial organization.

In this regard we should consider

1. Who are the clients of microfinance?
2. How does microfinance help the poor?
3. Related Resources

For many experts, microfinance is for providing small amount of loan to very poor families for helping them who are engage in productive activities or managing small business. After full time, microfinance has come to include a wide range of financial services like credit, savings, insurance, etc. So that to realise that poor or very poor, who are lacking access to formal financial institutions, need a wide range of financial products. Microcredit came existence in 1980s, however it came in Bangladesh thirty years back and so many countries. The significant difference of microcredit was that it has overlooked the drawbacks or an earlier generation of development by insisting repayment, by charging interest rates, and focusing on borrow groups whose alternative source of credit has been the informal sector. Microfinancing in India work as an anti-poverty tool in rural area. For the developing country like India, it is the fact that most of the population still lives in rural area having lacking facilities and have poor amount of money to full fill basic needs.

As per report of World population (2020) this is fact that most of the Indian population still lives in rural India with lack of facilities and have poor amount of development signals, matched with recognised source is 66.98 percent. India is the second largest populated country, in which 60% of the population engaged in agriculture leads to underemployment and, leads to low per capital income.

Features of Microfinance

With regard to features of microfinance, we should consider below stated points-

Do not required any collateral

The prime feature of microloans under microfinance is that it require no collateral. The borrowers is not bound to provide collateral.

Borrowers are low-income people

The objective of microfinance is to lend needy people. Normally the borrowers of microfinance are the people belonging to rural area of India and are small businessmen or entrepreneurs.

The Loan Amount

The loan amount is used under microfinance are usually poor amount. The money given in the form of microloan under microfinance to the low-income group of society and small and poor businessman are normally of low amount in between 20,000 ` to 30,000 ` in the country.

Short Loan Period

Payment tenure of the loan is short as the amount given in the form of microfinance is more small. The clients have to repay the loan in the given time period given by the banks. They do not worry regarding the assets to be kept in banks for security.

Purpose is to Raise Income

As well known that microfinance loan is only given to low income, poor people and small businessmen. The main object of microfinance loans is to generate income for the low-income, poor people of undeveloped or rural part of India.

Role of Microfinance

The role of microfinance is much more widen, it is not only concerned with poverty alleviation rather it is concerned with empowerment of women at social and economical front.

- Formal institutions, like cooperatives and rural banks of India.
- The semiformal institutions, such as non-governmental organisation of India.
- The informal sources, like shopkeepers and small lenders of rural and urban area.

CONCLUSION

The Indian microfinance sector has several approaches found across the world. Majority of the development programmes started in the past were gender biased. However, the prominence of the microfinance programme is precise because in most of the developing countries women have a low socio-economic status. They are the most disadvantaged, poverty struck and vulnerable segment of the society characterized by the need of access to resources and education.

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