

Microfinance as A Tool For Economic Development

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Abstract

India is the second most populous country, and its rapid economic growth is widening the divide between the country's rich and poor. Microfinance is a system that helps the underprivileged get loans so they can save and invest their money and improve their standard of living over time. These loans allow the underprivileged to become self-employed, acquire more resources, and alleviate their economic situation. Microfinance in India is gaining momentum and might become a major force in the country shortly. Over the past two decades, substantial progress has been done in building the technologies necessary to provide financial services to the disadvantaged in a sustainable manner. This loan will enable the low-income start businesses, save more money, and eventually become financially independent. Microfinance has shown to be an effective tool in the fight against poverty and for the advancement of economies in underdeveloped countries. In this white paper, we will examine the benefits, risks, possibilities, and outcomes of microfinance in India.

Keywords: sustainable, challenge, growth, opportunity, and microfinance.

I. Introduction

Microfinance has been one of the most rapidly growing anti-poverty programmes over the past 30 years. Microfinance in India helps people in low-income areas build assets and earn a living wage, which is the primary benefit. Microfinance has a lasting impact since it teaches customers how to establish their own businesses and how to manage and grow their financial resources. There has been a significant rise in the use of microfinance in India and other countries. Its primary goal, to provide the unbanked with access to formal financial services, was clearly met. Many believe that by putting money in the hands of low-income families, they will be able to do much more, including increasing their expenditure on women's empowerment, health care, and education. A million people have regular access to the vast social infrastructure built by microfinance banks. Social infrastructure for microfinance has advanced to the point where it can effectively distribute solar lights, stoves that use less fuel, mobile phones, and mobile banking devices, all of which can be repaid over extended periods of time. It's no longer a viable source of funding. their. Over the past two years, many companies making solar-related products have relied on microfinance distribution networks to sell their wares. In this essay, we take a close look at microfinance and its potential, its limitations, its possibilities, and its outcomes in terms of long-term economic growth.

The issue is stated as follows:

The vast majority of people living in the world's poorest countries lack access to the most basic financial services. They need to be able to protect their families from harm, save money, make investments, and borrow money if they want to break the cycle of poverty. People with low incomes and no assets have a hard time receiving loans from banks and other formal financial institutions. Most of the world's impoverished live in rural areas, so one strategy for alleviating poverty is to provide them with access to microfinance. Credit, savings, insurance, and other forms of mainstream banking are democratized for the poor. Microfinance institutions, such as credit unions, financial non-governmental organisations, and even commercial banks, provide small loans to the poor. They can even preserve their funds by receiving money from family members working abroad.

Objectives to the study:

1. To study the importance of microfinance in Indian economy
2. To analyze the challenges of microfinance
3. To identify the obstacles of microfinance
4. To know the opportunities with respect to microfinance
5. To realize the outcome of microfinance in Indian economy

II. Methodology:

This study is mainly based on secondary data only. Secondary data is collected from various sources like journals, books, magazines and reports.

Need for the study:

India, the world's second-most populated country, is experiencing a widening gap between the rich and the poor as a result of its booming economy. Microfinance provides millions of rural men and women with access to credit, savings accounts, and insurance policies in exchange for a small percentage of their income. Since microfinance offers a way for the poor to improve their lot in life and move out of poverty, it has gained immense popularity in developing countries. Microfinance institutions are urgently needed to meet the rising demand for a variety of financial services among the poorest households and to provide them with the safe and flexible savings choices that they appreciate and need.

Significance of the study:

Most commonly, the term "microfinance" refers to the provision of financial services to micro-entrepreneurs and small enterprises that, due to the high transaction costs associated with serving these client categories, lack access to banking and related services. Group-based approaches, in which multiple entrepreneurs band together to apply for loans and other services as a group, and relationship-based banking for individual entrepreneurs and small businesses are the two primary mechanisms for delivering financial services to such clients. Most of the people who advocate for microfinance do so on the assumption that providing the impoverished with access to credit will help them rise beyond their economic circumstances. To others, microfinance is a tool for stimulating economic growth and job creation by lending a helping hand to sole proprietors and other small business owners. Microcredit is one subset of microfinance, which is a large field.

Role and activities of microfinance:

- **Microcredit:-** It is a small amount of money loaned to a client by a bank or other institution. Microcredit can be offered, often without collateral, to an individual or through group lending.
- **Micro Savings:-** These are deposit services that allow one to save small amounts of money for future use. Often without minimum balance requirements, these savings accounts allow households to save in order unexpected expenses and plan for future expenses.
- **Micro Insurance:-** It is a system by which people, business and other organizations make a payment to share risk. Access to insurance enables entrepreneurs to concentrate more on developing their businesses while mitigating other risks affecting property or the ability to work.
- **Remittances:-** These are transfer of funds from people in one place to people in another, usually across border to family and friends. Compared with other source of capital that can fluctuate depending on the political or economic climate, remittances are a relatively steady source of funds.

Importance of microfinance:

SHGs and other types of small-scale organisations rely heavily on microfinance. Microfinance provides a significant source of funding for self-help groups (SHGs), which are putting the money to a wide variety of uses.

In order to serve the needy without spending a fortune on operations and monitoring, SHG-based microfinance that has been developed and supported by NGOs has become a significant alternative to traditional lending. The government and NABARD have taken note of this fact, and they have placed an emphasis on the SHG strategy and partnering with NGOs in their projects. Despite its potential to change the socioeconomic profile of India's poor, microfinance in the country is still too limited at the moment to have a major impact on poverty alleviation. The growth of the self-help culture is one outcome of microfinance.

Women have organised into groups of ten to twenty people under the aegis of the "self-help" movement; these organisations use a "savings first" business model, with members' savings serving as collateral for loans. Self-help groups (SHGs) are proving to be an effective means of alleviating poverty, thus their outcomes have attracted a lot of attention. Despite this, microfinance is a long-term solution that provides essential portfolios to the community from many different angles.

Thousands of underprivileged communities are getting the education, funds, and employment opportunities they need to break the cycle of poverty thanks to microfinance grassroots programmes. Create and sustain self-help groups that empower women and other marginalised people by providing them with access to financial education and credit, encouraging the accumulation of savings, relieving them of unjust debt loads, and opening the door to collective action that reduce the likelihood of exploitation.

Financial needs of poor people:

Many things in rural economic development would be categorised based on what farmers and other rural residents need. The demand for money or goods money may buy arises frequently in their life for a variety of reasons.

- Requirements Across the Life Span: Marriage, Parenthood, Education, Housing, Loss of a Spouse, and Retirement

Illness, illness, unemployment, harassment, and death all fall under the category of "personal emergencies."

- Natural and man-made disasters, including fires, floods, cyclones, and events like war and the destruction of homes by bulldozers.

Opportunities to Invest Money Include: Growing an Existing Business, Acquiring New Land or Equipment, Improving Existing Housing, Securing a New Job (usually by paying a hefty bribe), etc.

To get by, low-income people often work together to come up with novel solutions, the most common of which is the production and exchange of non-monetary goods and services. Livestock, crops, jewels, and precious metals are common international currencies that can be exchanged for cash. The goal of the microfinance industry is to help alleviate poverty by meeting the vastly increased demand for its services.

Though the microfinance industry has made great strides in the last few decades, many challenges still need to be overcome before it can meet the enormous demand from around the world.

Challenges of microfinance:

For the most part, impoverished people have not been given preferential treatment by banks and moneylenders in most countries when it comes to borrowing money in times of emergency. Microfinance is the practise of lending money to people with low incomes, whether they be individuals looking to start their own businesses or low-income customers. Generally speaking, it's a movement that wants to see "a future in which as many poor and near-poor households as possible have permanent access to an acceptable range of high quality financial services, including not just credit but also savings, insurance, and fund transfers."

Proponents of microfinance often argue that giving the poor easier access to credit will help them rise beyond their economic circumstances. The new financial systems approach humbly recognises the centuries-long heritage of microfinance and the vast variety of institutions currently helping the world's impoverished. It has its origins in the realisation that the poorest people in the world require a wide range of financial services, and that these people do not all reside or work in the same kinds of places. Few MFIs that match the needs for savings, remittances, or insurance; Limited management competence in MFIs; Institutional inefficiencies; Inappropriate donor subsidies; Poor regulation and supervision of deposit-taking MFIs; More efforts should be made to share and implement microfinance strategies in rural and agricultural settings.

Obstacles of microfinance:

- Despite good intentions microfinance still has several hurdles to face:
- Perceived high risk of lending to the poor (the loan may be misused easily)
- Technology-related hurdles, such as the high costs involved in small loan transactions for microfinance providers
- The poor's inability to offer marketable collateral for loans to MFIs
- Difficulty in measuring the social performance of MFIs
- Lack of customized solutions/microfinance models for the poor
- Inappropriate targeting of poor households by microfinance programs
- Lack of microfinance training for MFIs
- Poor distribution system of MFIs, i.e. a need to spread out loan facilities into rural areas
- Lack of information about microfinance investment opportunities.
- Poor institutional viability of microfinance ventures
- Dual mission of MFIs to be financially sustainable as well as development oriented

Opportunities of microfinance:

Workshops and other training opportunities can help women and other underrepresented groups become more financially secure, self-reliant, and employable in their local communities. Training in areas like marketing, distribution, pricing, and management should also be provided to local microenterprises as part of the entrepreneurship education programme. To further expand and increase microfinance programmes' exposure to remote communities, more study and analysis is required into a wide range of topics, including local economic conditions, migration patterns, obstacles to economic growth, and the usefulness of microfinance programmes. Those in favour of microfinance do so because they think it would lift the poor from poverty. The new financial systems approach humbly recognises the centuries-long heritage of microfinance and the vast variety of institutions currently helping the world's impoverished. It has its origins in the realisation that the

poorest people in the world require a wide range of financial services, and that these people do not all reside or work in the same kinds of places. Some of the obstacles to establishing a robust commercial microfinance sector are:

There are not enough financial institutions (MFIs) that can meet customers' needs for savings, remittances, or insurance; MFIs have insufficient management capacity; institutions are inefficient; there is a need for greater dissemination and adoption of rural, agricultural microfinance approaches; and so on.

Outcome of microfinance:

There should be more efforts made to promote microfinance and similar models in the economic system because of their significance to growth. The microfinance industry has made great strides in efficiency and reach over the past few years, thanks in large part to the experiments conducted by a wide range of stakeholders in different regions of the world. It is important that practitioners, who are focusing on areas where microfinance has not yet penetrated, have access to information on the many successful models/experiments. How the microfinance industry will respond to the credit crunch and global economic crisis, and the role that microcredit plays in fostering economic growth, are both still hotly contested topics. In addition to reducing poverty, microfinance initiatives are now focused on bettering environmental conditions. The social and financial effects of microfinance institutions may determine whether or not these objectives are realised. There is no correlation between the size of a loan and the success of the business, people with specialised knowledge perform best, and natural resources are put under less stress as a result of microfinance. Based on these findings, it is clear that there is a requirement for training in knowledge-intensive occupations, the inclusion of institutions in corporate processes, and the implementation of equitable regulations pertaining to the administration of protected areas. The idea behind microfinancing is that small business owners will be more easily able to adapt to changing market conditions and bounce back from the recession.

III. Conclusions:

Microfinance's main perk is that it allows the financially disadvantaged to gain access to services while still being financially sustainable for the provider. Microfinance helps the economy expand by giving average people an opportunity to establish themselves financially. If people can afford to spend more money, the economy will thrive. It entails facilitating access to banking and other financial services for low-income people, such as loans, savings accounts, insurance, and educational opportunities. In addition, it is seen as a just and lasting answer to the issue of global poverty and is considered one of the 30 years' biggest success stories in the developing world. Although Opportunity is willing to lend money to those in need, they believe that microfinance programmes that encourage individuals to take on the role of entrepreneur have the most potential to alleviate poverty.

In order to provide loans, education, savings plans, and insurance that are tailored to the specific needs of each developing country, Opportunity has pledged to create banks that are scalable, sustainable, and widely accessible across the globe. Through providing underserved people with equal access to microloans, microfinance can help build a society where poverty can be overcome by hard work and initiative. Microfinance can still help people get ahead financially by opening doors to new careers and experiences.

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