

THE ROLE OF MICROFINANCE IN ECONOMIC DEVELOPMENT

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ABSTRACT

The role of microfinance institutions in developing economy is helping people to gain confidence by providing them proper financial education, skills and training. It acts as a tool used to empower women as well as poor community in a society. This study analyzing the conceptual framework of role of micro finance institutions in India and also find out the economic development of micro finance institutions in India. This study data collected through internet, articles and also this study fully secondary data. This study suggests that the regulation was not a major concern when the microfinance was in its nascent stage and individual institutions were free to bring in innovative operational models. This study concludes that role of MFI's development in relation to remove unemployment, poverty, and empowering women, who were identified as poorest in society. Finally, the economic development of microfinance is to give low income people an opportunity to become self-sufficient by providing a means of saving money, borrowing *money and insurance*.

Keywords: *Microfinance, Institutions, Economic Development.*

INTRODUCTION

Micro finance provides the facilities towards financial services such as deposits, loans, payment services, money transfers and insurance to weaker section and low income family for their micro enterprises. It is an effective tool for making the banking services available to the rural community, where the facility of banking is not easy access to rural and poor people. Improved access and efficient provision of saving, credit and insurance facilities would enable the poor community to set up economic assets, manage the risks better and enhance income earning capacity and resultantly improve their standard of living.

Microfinance is the tool of financial services to low-income clients, including consumers and the self-employed, who were basically lack of access to banking and related services. Microcredit, or microfinance is banking the unbankable, bringing credit, savings and other essential financial services within the reach of lacks of people who were too poor to be served by regular banks, in most cases because they are insufficient to offer sufficient collateral.

MICROFINANCE INSTITUTIONS IN INDIA

Microfinance institutions (MFI's) is that provides services to weaker community and unemployed people..Who is basically lack of access to banking and related services for poor community neglected by bank?

The few microfinance institutions are,

- Grameena bank,
- NGO's,
- Credit Co-operative society's,
- A non-banking financial institution.

OVERVIEW ON MICROFINANCE

The microfinance is the old concept. It introduced to meet the rural people and to strengthening them by providing financial support. The microfinance concept was first developed by Jonathan swift in 1700 in Ireland with a view to provide banking services to poor people. In 1800's credit co-operative society's start to emerge in Europe to help the rural people that who were depend on money lenders. The modern concept of microfinance can be stated as a Marshall Plan at the end of Second World War in the middle of 20th century. In 1900's microfinance companies came with specific object for standardize the commercialization of rural area and poor community. The beginning of the microfinance India could be traced to self help groups/banks in 1992 by NABARD. This program has started as the most famous model of microfinance in India. Now-a-days, the financial/non-financial institutions like microfinance institutions and non-government organizations, self help groups, banks etc have giving an opportunity to borrowers.

MEANING OF MICRO FINANCE

Microfinance is a type of banking service which provides service to unemployed or low-income individuals, people below poverty line or groups who would otherwise have no other means of gaining financial services. Finally, the objective of microfinance is to give low income people an opportunity to become self-sufficient by providing a means of saving money, borrowing money and insurance.

DEFINITION OF MICRO FINANCE

The author Rutherford in 1999 Define Micro Finance "The means by which poor people convert small sums of money into large lump sums".

REVIEW OF LITERATURE

The following studies have done in this topic.

Karlan and Zinman (2007) evaluated a consumer loan program in South Africa by starting with a group of people who had narrowly failed to qualify for loans, and randomly suggesting that some of them be reconsidered by loan officers (about half of those reconsidered ended up receiving loans). By following both those who have been suggested for reconsideration and those who have not - and knowing that randomization had been used to separate the two groups - the researchers were able to make a compelling case that the differences between the two groups could be attributed to the effects of the loans themselves. They found that those who have been suggested for reconsideration (who have been more likely to receive loans) were significantly better off 6-12 months later on measures of income, reported hunger, and employment status.

Coleman (1999) evaluated a microfinance program in northern Thailand, studying program participants, non-participants, and what we call "willing non-participants": people who had signed up to participate in the program even though it was not yet available in their village. He found that microfinance clients were better off than those who chose not to participate, by a variety of metrics (including expenditures on health care and education). However, he found no positive effects (and some negative effects) for microfinance when comparing participants to "willing non-participants." We agree with his position that the later comparison is more appropriate, because it is closer to isolating the effect of the program itself, as opposed to the differences between those who were and weren't interested in participating.

Khandker (1998), Pitt, et al. (2003), and Khandker (2005) all examined a microfinance program in Bangladesh using a rich data set and a highly complex set of methods. These methods aimed to compare program participants to people who would likely have participated (according to a variety of statistical models) but were ineligible (due to a variety of sub-program restrictions based on village, gender, and owned land). All three analyses concluded that the microfinance program had a significant positive effect on participants' consumption, and the later studies also pointed to village-wide increases in consumption for those villages in which microfinance was available.

PROBLEM OF THE STATEMENT

Most of the Studies have done in role of microfinance in India. But no one studies concentrate on only economic development of role of microfinance institutions. This is the reason my study concentrate on role of microfinance institutions in economic development in India. This study finds out the conceptual framework of microfinance in India and also analyzes the economic development of microfinance in India.

OBJECTIVE OF THE STUDY

- To study the conceptual framework of role of micro finance institutions in India.
- To analyze the economic development of micro finance institutions in India.

RESEARCH METHODOLOGY

The present paper study is of analytical exploratory and diagnostic in nature and makes use of secondary data. This secondary data information are collected from few research papers and also from the study of some old articles.

ROLE OF MICRO FINANCE INSTITUTIONS IN INDIA

The word micro finance is a new concept and is usually used in addressing issues related to poverty eradication, financial support to poor community, women development etc. The term "Micro" literally means "small", but the task force has not defined any amount. However as per Micro Credit Special Cell of the Reserve Bank of India, the borrowal amounts upto the limit of Rs.25000/- could be considered as small credit products and this amount could be gradually raised up to Rs.40000/- over a period of time which is equal to \$500 – a standard for South Asia as per international view.

The term micro finance sometimes is used inter-concept with the term micro credit. However while micro credit refers to supply of loans in less quantities, the term microfinance has a wider meaning which includes other financial services like saving, insurance etc. as well.

The mantra "Microfinance" is banking through number of people. The important features of the module are to provide monetary services through the number of individuals, existed either in joint liability or co-operative mode.

- Mobilize the savings
- Credit is related with savings
- The Borrowers are small-income groups
- SHG's plays a vital role in credit appraisal, monitoring, evaluating and recovery.

Basically groups can be of two types:

Self Help Groups (SHGs):

The group in this case does financial agent on behalf of the formal institution. This is the predominant model followed in India.

Grameena Bank Groups:

In this institution, financial support is given to the person in a group by the formal institution to strength the group's as well.

ECONOMIC DEVELOPMENT OF MICRO FINANCE IN INDIA

Finance plays a major role in promoting sustainable economic growth because microfinance increases the production of goods and services, which increases GDP and contributes to economic growth of the country.

Poverty:

People in India are below the poverty line .The income and wealth is not equally distributed. Therefore microfinance boosting those people by providing finances.

Employment Opportunity:

In India, we find different types of unemployment like chronic-unemployment, underemployment and disguised unemployment. These problems are due to rapid growth of population, slow industrialization, lack of man power planning...etc are contributing this problem. As a solution for this problem microfinance providing generous employment opportunity to this group.

Women empowerment:

Women empowerment it refers to empowering women to be self-dependent by providing them to all financial support and opportunities and capacity to operate their day-to-day activity. In a specific sense, women empowerment refers to improving the current status in the socio-economic structure of the society

Standard of Living:

Microfinance helps to people to lead standard of living. By providing basic quantity of necessities, comforts and luxuries used by the people of the country during the given time.

People Per- capita –income:

Per-capita income of the people in India is very low compared to that of other countries in the world. Therefore Microfinance creates an opportunity to increase the standard of living of the people and also increases the country income as well as economic development by raising the standard of living and quantity of consumption.

Urbanisation of rural people:

MFI,s shall provides financial support to the backward and rural area , people may become economically self-sufficient. Eventually people have urbanized.

Capital formation:

Human beings are the main sources of capital formation. High capital formation will accelerate the pace of economic development.

Findings:

- Improved access of saving, credit and insurance facilities would enable the poor community to set up economic assets, manage the risks better and enhance income earning capacity and resultantly improve their standard of living.

- The microfinance sector is the financial illiteracy of the people. This makes it difficult in creating awareness of microfinance and even more difficult to serve them as microfinance clients. Though most of the microfinance institutions claim to have educational trainings towards people.
- MFIs to raise sufficient fund remains one of the major concern in the microfinance sector.
- MFIs are restricted from taking public deposits. Not-for-profit companies which constitute a major chunk of the MFI sector have to primarily rely on donations and grants from Government and apex institutions like NABARD and SIDBI.

Suggestions:

- In microfinance sector, field visits can be adopted as a medium for monitoring the conditions on ground and initiating corrective action if needed. This will keep a check on the performance of ground staff of various MFIs and their recovery practices.
- The regulation was not a major concern when the microfinance was in its nascent stage and individual institutions were free to bring in innovative operational models.
- MFIs should use new technologies and IT tools & applications to reduce their operating costs. Though most NBFCs are adopting such cost cutting measures, which is clearly evident from the low cost per unit money lent (9%-10%) of such institutions.

CONCLUSION:

I have reviewed the role of microfinance institutions and their role of economic development in India today. The role of MFI's development in relation to remove unemployment, poverty, and empowering women, who were identified as poorest in society. The microfinance usually called smooth income generation and it is used to promote self-employment and it improves the level of literacy of the family members. Therefore, there is a greater scope for MFIs to carefully design services that meet the needs of the poor.

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