



A RESEARCH ON THE IMPACT OF MICROFINANCE ON INDIA'S ECONOMIC DEVELOPMENT

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ABSTRACT

The Indian economy is characterized by a slow rate of development, a large rural population, an over-reliance on agriculture, a high rate of unemployment and poverty, among other factors. Some recently developed solutions, including micro financing, are playing a crucial role in helping to solve these issues. Microfinance plays a crucial role in the lives of small business owners and residents of rural areas. Rural residents have very limited access to institutionalized credit, thus microfinance acts as a blessing for them by helping them to resolve their financial issues. In a developing nation like India, microfinance is viewed as an instrument for socioeconomic advancement. It is anticipated to have a big impact on development and reducing poverty. The importance of microfinance in India's economic development is highlighted in this study.

KEYWORDS: *Microfinance, Institutionalized credit, Poverty alleviation, Developing country*

INTRODUCTION

Microfinance is the provision of small loans, savings accounts, remittance services, insurance, and programmes for education and skill development for the underprivileged who are not served by conventional financial institutions. For small business owners and residents in rural areas, microfinance institutions offer a range of financial and non-financial services. These services boost the innate ability of the underprivileged to engage in business, generate revenue, create jobs, and ultimately lessen poverty.

Microfinance institutions' major goal is to give people permanent access to suitable financial services that aren't offered by traditional financial institutions. Microfinance is the provision of credit, savings, and other vital financial services for the underserved who are unable to obtain loans from traditional banks due to a lack of appropriate collateral. In general, banks are not for those who lack money; rather, they are for those who do. For unemployed, low-income business owners or farmers who are not bankable, microfinance is a service. One of the best strategies for reducing poverty and promoting economic growth and development in emerging economies is microfinance.

Commercial banks, regional rural banks, SHGs, cooperative societies, and organizations that take on numerous forms, such as NGOs and Non-Bank Financial Institutions, among others, all offer microloans. It is impossible to overstate the significance of microfinance in developing nations like India since microfinance institutions are essential for the socioeconomic uplift of the underprivileged.

OBJECTIVES OF THE STUDY

- To comprehend the Indian notion of microfinance.
- To research the significance and functions of microfinance in India.
- To investigate the issues Indian microfinance organizations are having.



REVIEW OF LITERATURE

Kumar Vipin et. al. (2015) according to the study SHGs and microfinance institutions are playing a very important role in the delivery of microfinance services for small business owners and people living in rural areas. These services all contribute to the growth of low-income and poor people in India. However, issues with group functioning, slow graduation rates for SHG members, and other factors made it difficult to deliver microfinance services effectively. Therefore, it should be considered when developing the next stage of SHG programmes.

Mahanta et al. (2012), their study revealed that lending to the poor through microcredit is not the solution to the issue, but rather the start of a new age. If properly managed, it has the potential to make a huge difference in the reduction of poverty and the expansion of emerging economies. But it needs to be combined with initiatives that boost capacity. Giving clients access to training programmes for skill development is crucial. Further provide technical and expert support for the growth of their microbusinesses. Microcredit may significantly contribute to the reduction of poverty and the expansion of the economies of developing nations if the government and microfinance organizations collaborate.

Idowu Friday Christopher (2010) In order to determine how microfinance affected Small and Medium Sized Enterprises in Nigeria, the researcher conducted a study. The study's conclusions showed that a significant number of small and medium-sized businesses benefited from the many financial and non-financial services offered by microfinance organizations. But just a small number of them were able to secure the needed sum. But the majority of small and medium-sized businesses acknowledged that the benefits of microfinance institutions assist them in expanding their market.

METHODOLOGY OF THE STUDY

The current study is based on secondary data that has been gathered through literature reviews, journals, websites, and other sources.

CONCEPT OF MICROFINANCE

According to Robinson, microfinance is a development strategy that offers or grants very small loans, savings, micro leasing, micro insurance, and money transfers to help the extremely or desperately poor start or grow their companies. Along with financial services, they also offer other services like group formation, training for group members, etc. The needy in India can obtain microfinance services through commercial banks, non-banking financial organizations, NGOs, credit unions, etc.

MICROFINANCE'S PROPERTIES

- It plays a crucial role in rural financing.
- It works with tiny loans.
- The loan's term is brief.
- Most of the debtors are low-income individuals.
- Microfinance loans are given out to produce income.
- It is one of the best methods for reducing poverty.
- It is more customer-focused.

MICROFINANCE PRODUCTS

Micro credit

Small business owners and residents of rural areas are eligible for loans from microfinance organizations. These loans are important since they are given to borrowers without any form of security. The pledge of collateral as security for loan repayment is not required from the borrower. These loans support small business owners' business growth.

Small savings

Entrepreneurs can manage savings accounts with no minimum balance. These accounts encourage savings and enable business owners to turn small amounts of money into substantial sums.



Low-cost insurance

Micro insurance is a sort of protection offered to microloan borrowers. Compared to conventional insurance plans, these insurance products have cheaper premiums. Offering insurance protection to those with low incomes both encourages investment and lessens the impact of unforeseen external shocks.

MICROFINANCE'S PARTICIPATION AND IMPORTANCE

The following ways that microfinance significantly contributes to the improvement of the Indian economy:

Credit to rural poor

Rural residents cannot fulfill their financial needs by relying on financial institutions. For their financial needs, they primarily rely on non-financial entities. The rural poor have received a variety of financial and non-financial services through microfinance.

Economic expansion

The level of living for the impoverished has increased because of microfinance. Additionally, it boosts the economy's capacity to produce products and services, which raises our nation's overall national revenue. All of these ultimately result in the expansion of our nation's economy as a whole.

Reduction of poverty

Microfinance aids the underprivileged in taking advantage of new business opportunities by fostering their entrepreneurial spirit and providing funding. Employment raises their standard of living and income, which in turn lowers poverty.

Creating jobs

Small business owners and residents of rural areas are given loans and other forms of financial support by microfinance institutions. Microfinance aids the underprivileged in taking advantage of new business opportunities by fostering their entrepreneurial spirit and providing funding.

Women empowerment

The majority of SHGs in India are created and run by women. When it comes to providing women with microfinance services, SHGs and microfinance institutions are quite important. As a result, microfinance gives underprivileged women more economic and social influence.

Mutual assistance and cooperation

Microfinance encourages members to help one another and work together. The group members work together to accomplish their goals and advance economic interest.

Mobilization of savings

Microfinance encourages people to start saving. Entrepreneurs can manage savings accounts with no minimum balance. These accounts encourage saving and enable the business owners to turn little sums of money into significant sums of money for upcoming development projects.

Improvement of abilities

Through the development of their entrepreneurial abilities, microfinance enables the underprivileged to take advantage of new business prospects. They gain leadership skills and receive training from organizations that support them. Therefore, microfinance aids in the growth of people's entrepreneurial talents.

Social services

Microfinance aids the underprivileged in taking advantage of new business opportunities by fostering their entrepreneurial spirit and providing funding. Their standard of living and income both rise as a result of employment. They might move for better health, education, etc. Therefore, microfinance promotes social welfare or advances society.

PROBLEMS FACED BY MICRO FINANCE

- Obstacles relating to technology.
- Micro financing initiatives have poor institutional viability.



- Risk of lending to the poor was thought to be considerable.
- High fees associated with micro lending.
- Lack of knowledge about investing options in micro financing.
- Measurement of the social impact of microfinance institutions is challenging.
- Lack of stock and loan financing.
- Shoddy distribution network.
- Lack of specialized solutions and microfinance models for the underprivileged.
- Microfinance institutions lack training in the subject.

CONCLUSION

As they play a significant role in economic development, financial institutions are, as we all know, an essential component of our economy. Although there are many financial institutions in India, their operations are not favorable. However, small business owners and residents in rural areas depend heavily on microfinance. Microfinance is crucial in developing nations like India since it aids in the socioeconomic improvement of low-income and poor individuals and eradicates poverty from the economy.

Any nation's economic growth is influenced by its financial services industry. Microfinance organizations offer low-income persons a range of financial services and support them in developing their entrepreneurial abilities. It improves people's quality of life. Therefore, microfinance institutions are essential to the socioeconomic growth of our nation. The RBI and the national government should make the necessary preparations for the expansion of microfinance institutions in India. The state government also takes the required steps to educate the public about the numerous services provided by microfinance organizations.

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