Microfinance helps in the upliftment of the Economically Weaker Section (EWS)

[a]**Revati P. Balutkar**, [b]**C. M. Joshi**
[a]Asst. Prof; Institute of Management, Education, Research and Trainning, Pune, Maharashtra, India
[b]Professor in Management Institute of Business Management and Research, Wakad, Pune, Maharashtra, India

---

Abstract

Indian population comprises approximately one sixth of the world's population. Among this, ten percent of the population possesses a large proportion of the total wealth of India. There is a wide gap exists between the rich and the poor in India. During the past few years, India has demonstrated a welcome willingness to innovate and to think afresh about financial services to alleviate poverty. The poverty reduction has become the object of unprecedented attention at national and international level. The Scheme of Micro-finance has been found as an effective instrument for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy as well as less vulnerable to poverty. Thus the concept of micro finance gained growing recognition as an effective tool in improving the quality of life and living standards of poor people. Microfinance institutions have many lending policies and schemes related to the upliftment of economically weaker sections.

KEYWORDS:- Microfinance, Poverty, Growth, Self- Employment.

A) Introduction:-

A business is an organization engaged in the trade of goods, services, or both to consumers. Businesses are predominant in capitalist economies, where most of them are privately owned and administered to earn profit to increase the wealth of their owners. Businesses may also be not-for-profit or state-owned. A business owned by multiple individuals may be referred to as a company, although that term also has a more precise meaning.

The etymology of "business" relates to the state of being busy either as an individual or society as a whole, doing commercially viable and profitable work. The term "business" has at least three usages, depending on the scope — the singular usage to mean a particular organization; the generalized usage to refer to a particular market sector, "the music business" and compound forms such as agribusiness; and the broadest meaning, which encompasses all activity by the community of suppliers of goods and services.

Finance plays a major role in the business. In general term finance means management of money for your expenses. In broad term finance is the science of funds management. Finance includes saving money and often includes lending money. The general areas of finance are business finance, personal finance, and public finance. Finance is also a money budget management. The field of finance deals with how money is spent and budgeted. It also deals the concepts of time, money and risk and how they are interrelated. Finance is used by individuals as personal finance, by governments as public finance, by businesses as corporate finance, as well as by a wide variety of organizations including schools and non-profit organizations. Finance is the need of the today world economy.

Finance comprises of Macro finance and Micro finance. Macro finance is a broader term than micro finance. Macro finance term itself means lending at a broader level and in a huge quantity to the customers.

Microfinance:-

Microfinance is usually understood to entail the provision of financial services to micro-entrepreneurs and small businesses, which lack access to banking and related services due to the high transaction costs associated with serving these client categories. Microfinance encompasses the provision of broad range of services such as deposits, loans, payment services, money transfers and insurance products to poor and low income households and micro enterprises. Microfinance allows replacement of high cost debt from informal sources thereby increasing disposable income.It inculcates financial discipline, resulting in ownership of assets, and enhancing the ability to withstand shocks due to access to savings products, credit and insurance. In lower income countries with inadequate institutional infrastructure, microfinance is an important development tool and has helped to expand the depth of financial services.The history of microfinancing could be traced back as long to the middle of the 1800s when the theorist Lysander Spooner was writing over the benefits from small credits to entrepreneurs and farmers as a way getting the people out of poverty. Independently to Spooner, Friedrich Wilhelm Raiffeisen founded the first cooperative lending banks to support farmers in rural Germany.The modern use of the expression "microfinancing" has roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Muhammad Yunus, were starting and shaping the modern industry of microfinancing. Another pioneer in this sector is Akhtar Hameed Khan.

Economically Weaker Section (EWS):-

According to the revised definition of the Economically Weaker Section, Families living in cities and towns with annual income of up to Rs. 1 lakh or monthly earning of up to Rs. 8,334 will fall in the category of economically weaker section (EWS).32.7% of the population of India lives below poverty line.

B) Need and significance of study:-

- Unemployment in India is a serious issue and a key concern of the current Indian Government. (out of total population of India i.e. 1.22 billion 4,63,67,600 population is unemployed).
- Procuring finance is a critical factor in developing self employment opportunities for economically weaker section. Micro Finance Institutions (MFIs) provide finance by way of short term credit.
- The MFI service provision to economically weaker sectionhas not been examined.

- Understanding the current extent of institutional microfinance toeconomically weaker section and possible areas for support.

C) Aims and Objectives:-

1) To study the role of microfinance institutions in the upliftment of economically weaker section.
2) To study the lending policies of microfinance institutions in order to support the economically weaker section.
3) To evaluate the business performance of the micro- finance providers.

D) Hypothesis:-

Microfinance institutions help in the upliftment of the economically weaker section through different lending policies.

E) Role of Microfinance Institutions:-

1) Poverty Reduction:-

Microfinance can be a critical element of an effective poverty reduction strategy. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smooth their consumption, manage their risks better, build their assets gradually, and develop their micro enterprises. Microfinance is only a means and not an end. The ultimate goal is to reduce poverty,

2) Women Empowerment:-

Microfinance programmes are currently being promoted as a key strategy for simultaneously addressing both poverty alleviation and women‘s empowerment. The self help groups (SHGs) of women as sources of microfinance have helped them to take part in development activities. The participation of women in SHGs made a significant impact on their empowerment both in social and economic aspects. Several programmes were implemented by various governments and nongovernmental organizations to uplift them both economically and socially.

3) Self Employment opportunities:-

Poverty reduction through self employment has long been a high priority for the Government of India. Microfinance is an experimental tool in its overall strategies. Most of poor people manage to optimize resources over a time to develop their enterprises. Financial services could enable the poor to leverage their initiative, accelerating the process of generating incomes, assets and economic security. Microfinance, thus, creates the hope and increases the self-esteem of the poor by giving the opportunities to be employed.

4) Development of overall financial system:-

Most poor households continue to rely on meager self-finance or informal sources of microfinance, which limits their ability to actively participate in and benefit from the development opportunities. Microfinance can contribute to the development of the overall financial system through integration of financial markets. Microfinance institutions (MFIs) can be small and medium enterprises at the heart of sustainable development.

5) Reduction in the household vulnerability:-

It is now widely acknowledged that a major aspect of people’s lives involve developing mechanisms to mitigate risks and to minimize the effects of shocks. There are threats of loss of income as well as fluctuations and decline in earnings. Yield risks are especially significant when business price and other supports are inadequate or non-existent. In addition, there are unexpected shocks due to illness, death, and chronic health conditions of household members that affect well-being and can undermine the household’s ability to meet its future consumption needs, especially when they have stringent liquidity constraints and are compelled to use their resources in order to cope with these economic stresses. Thus, microfinance plays a very major role in the development of such class and bringing them out from the vulnerability of poverty. It helps them by making them economically strong and building up the confidence amongst them.

F) Lending Policies of Microfinance:-

1. Associations Model:-

This is where the target community forms an 'association' through which various microfinance (and other) activities are initiated. Such activities may include savings. Associations or groups can be composed of youth, women; can form around political/religious/cultural issues; can create support structures for microenterprises and other work-based issues.

2. Bank Guarantees Model:-

A bank guarantee is used to obtain a loan from a commercial bank. This guarantee may be arranged externally (through a donor/donation, government agency etc.) or internally (using member savings). Loans obtained may be given directly to an individual, or they may be given to a self-formed group.

3. Community Banking Model:-

Community Banking model essentially treats the whole community as one unit, and establishes semi-formal or formal institutions through which microfinance is dispensed. Such institutions are usually formed by extensive help from NGOs and other organizations, who also train the community members in various financial activities of the community bank.

4. **Cooperatives Model:-**

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Some cooperatives include member-financing and savings activities in their mandate.

5. **Grameen Model:-**

The Grameen model emerged from the poor-focused grassroots institution, Grameen Bank, started by Prof. Mohammed Yunus in Bangladesh.

6. **Group Model:-**

The Group Model's basic philosophy lies in the fact that shortcomings and weaknesses at the individual level are overcome by the collective responsibility and security afforded by the formation of a group of such individuals. The collective coming together of individual members is used for a number of purposes: educating and awareness building, collective bargaining power, peer pressure etc

7. **Individual Model:-**

This is a straight forward credit lending model where micro loans are given directly to the borrower. It does not include the formation of groups, or generating peer pressures to ensure repayment.

G) Analysis:-

The research methodology used was Survey Method and the data was collected randomly with the help of questionnaire and personal interviews of the Economically Weaker Section. The sample size of the data collected was 50. The graphical representation is shown:-

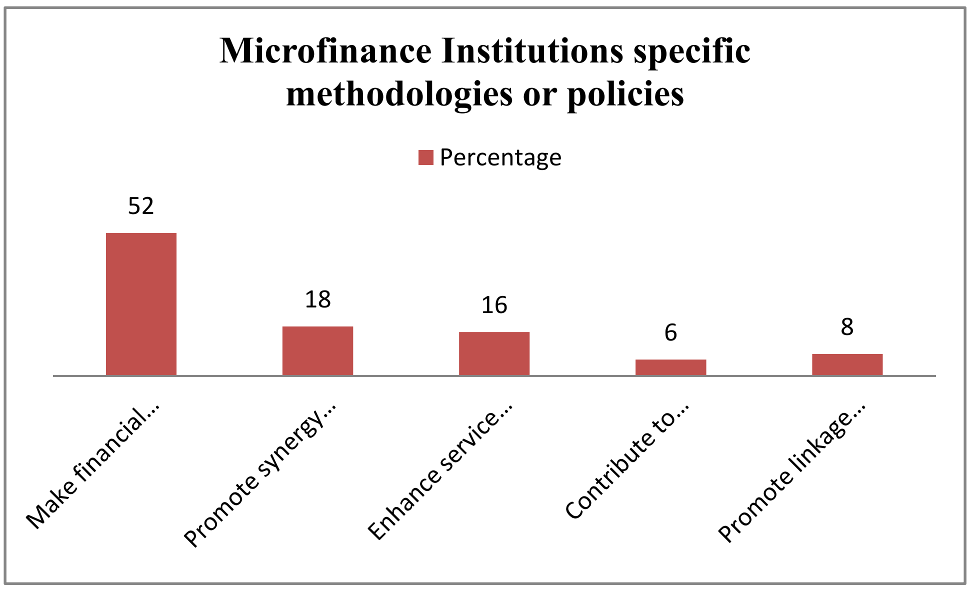
H) Business performance of Microfinance Institutions:-

In order to find out the business performance of the microfinance institutions, the researcher has done a random survey of nearly about 50 people from the economically weaker section of the society. The sample of 50 was taken for the purpose of the study from the Pune city respectively.

1. The Micro Finance Institutions Develop Specific Policies Or Methodologies (Except For Social Collateral) To Reach Remote Areas, And/Or To Facilitate Access For An Excluded Population Or Poor Clients.

Table 1.1

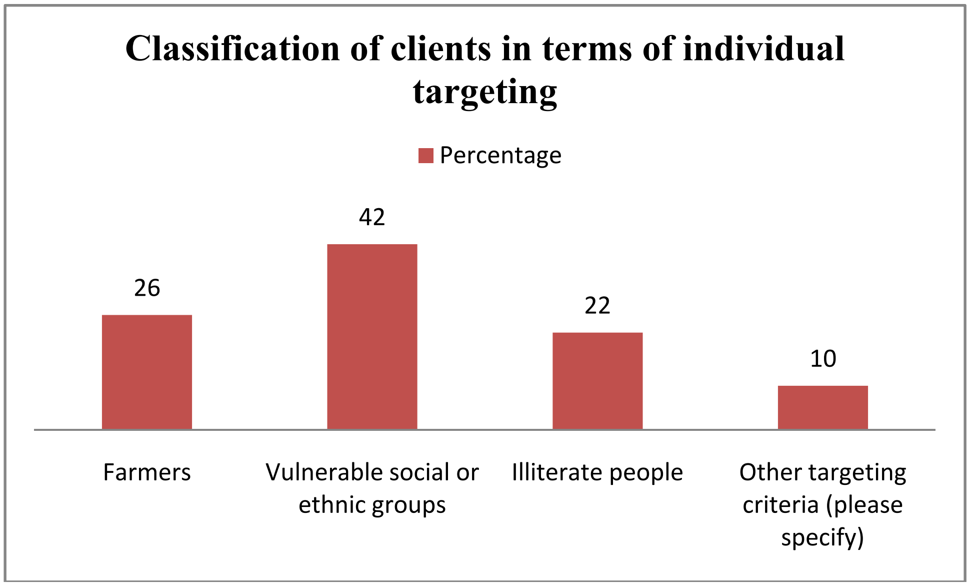
Microfinance Institutions specific methodologies or policies	**No. of Respondents**
Make financial services more accessible to the population;	26
Promote synergy and mainstreaming of the informal sector into the national financial system;	9
Enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs;	8
Contribute to rural transformation; and	3
Promote linkage programs between universal/development banks, specialized institutions and microfinance institutions.	4
Total	50



2. The Micro Finance Institutions Classify Clients In Terms Of Individual Targeting.

Table 1.2

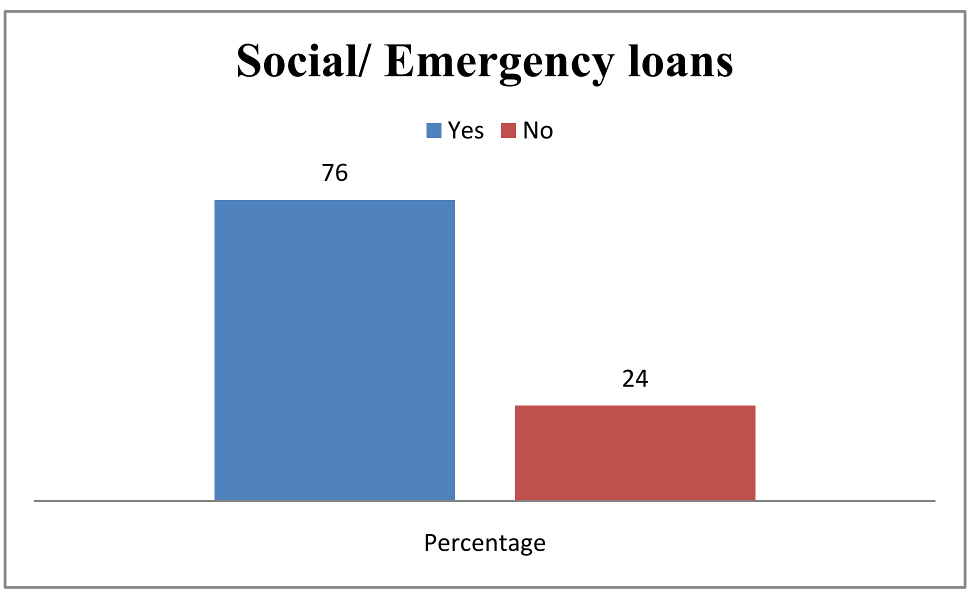
Classification of clients in terms of individual targeting	**No. of Respondents**
Farmers	13
Vulnerable social or ethnic groups	21
Illiterate people	11
Other targeting criteria (please specify)	5
Total	50



3. The Micro Finance Institutions Provide Social/Emergency Loans.

Table 1.3

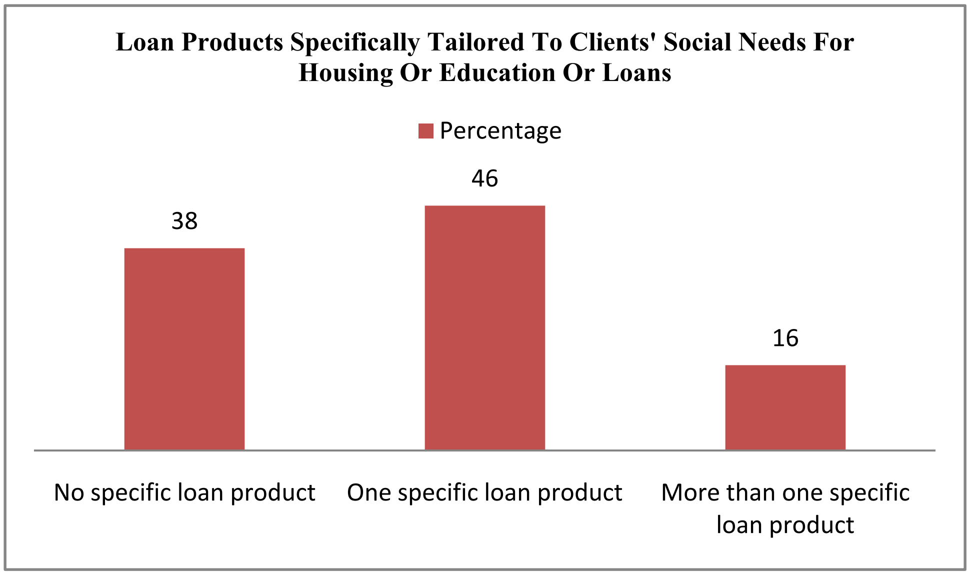
Social/ Emergency loans	No. of Respondents
Yes	38
No	12
Total	50



4. The Micro Finance Institutions Provide Loan Products Specifically Tailored To Clients' Social Needs For Housing Or Education Or Loans

Table 1.4

Loan Products Specifically Tailored To Clients' Social Needs For Housing Or Education Or Loans	No. of Respondents
No specific loan product	19
One specific loan product	23
More than one specific loan product	8
Total	50

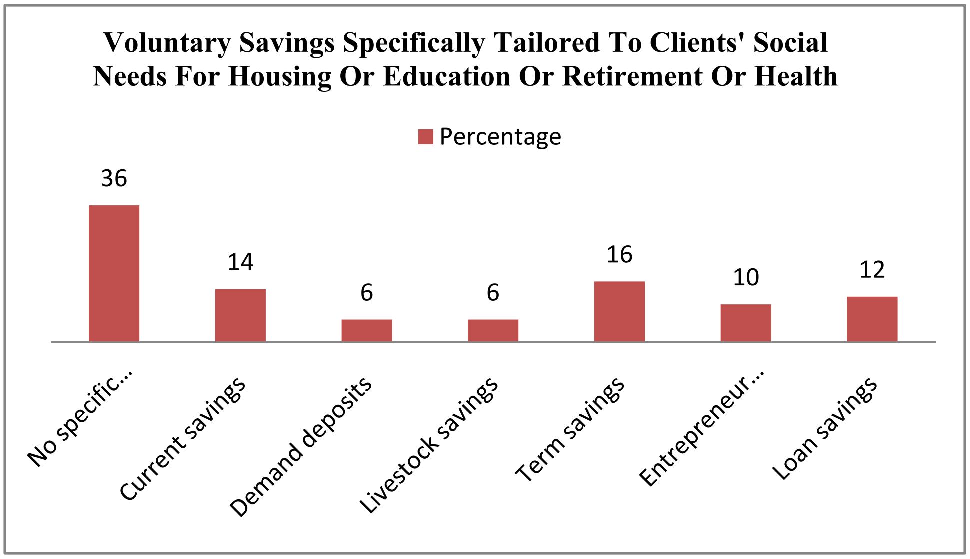


5. The Micro Finance Institutions Provide Voluntary Savings Specifically Tailored To Clients' Social Needs For Housing Or Education Or Retirement Or Health.

Table 1.5

Voluntary Savings Specifically Tailored To Clients' Social Needs For Housing Or Education Or Retirement Or Health	No. of Respondents
No specific savings product	18
Specific savings product like:-	
Current savings	7
Demand deposits	3
Livestock savings	3
Term savings	8
Entrepreneur savings	5

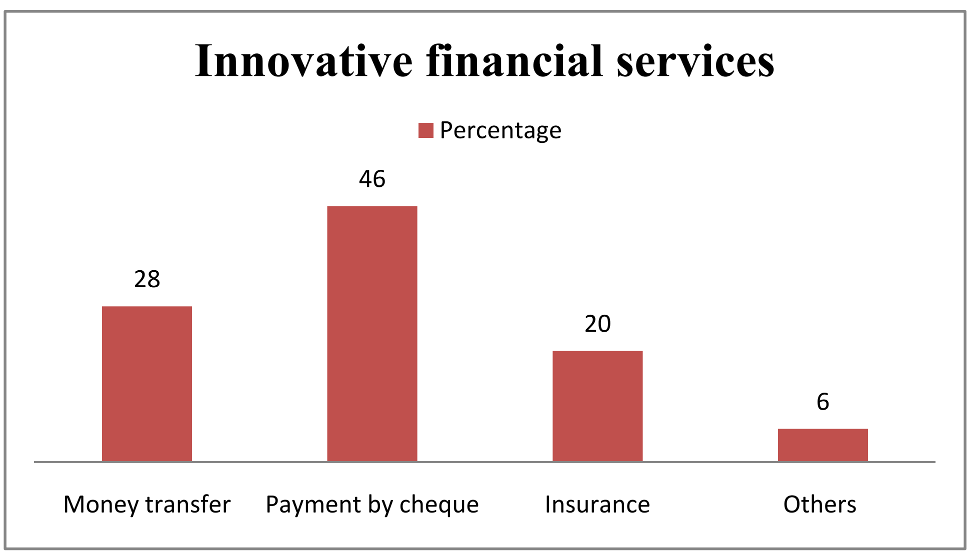
Loan savings	6
Total	50



6. The Micro Finance Institutions Provide Innovative Financial Services Accessible To Its Clients.

Table 1.6

Innovative financial services	No. of Respondents
Money transfer	14
Payment by cheque	23
Insurance	10
Others	3
Total	50



I) Findings:-

- From among 50 respondents, 26 respondents i.e. 52% respondents feel make financial services more accessible to the population as the main methodology of the microfinance institutions.
- 21 respondents, i.e. 42% of the respondents consider vulnerable ethnic group as the classification of the clients in the individual targeting.
- In case of social / emergency loans 76% respondents feel it is been provided by the microfinance institutions.
- 46% respondents feel that microfinance institutions provide only one specific loan product.
- In case of voluntary savings specifically tailored to clients' social needs for housing or education or retirement or health, 36% respondents feel that no specific savings are been given by microfinance institutions.
- 46% respondents feel payment by cheque is the most innovative financial service accessible to client.

J) Conclusion:-

Development of Economically weaker Sections (EWS) and their poverty reduction is commonly related to the issue of employment. EWS households livelihood strategies comprise several options, including farming and non-farm activities, local self-employment and wage employment, and migration. Microfinance has proven to be an effective and powerful tool for EWS development and poverty reduction. Like many other development tools, it has sufficiently penetrated the poorer strata of society. The poorest form the vast majority of those without access to primary health care and basic education; similarly, they are the majority of those without access to microfinance. Micro-finance is one of the ways of building the capacities of the poor and developing them to self-employment activities by providing financial services like credit, savings and insurance. To provide micro-finance and other support services, MFIs should be able to sustain themselves for a long period. There are so many schemes for the development of poor In India. Creating self employment opportunities through micro finance is one way of attacking poverty and solving the problems of unemployment and vulnerability to poverty. In India, the micro finance movement has almost assumed the shape of an industry, embracing thousands of NGOs/MFIs. During the last decade, the sector has witnessed a sharp growth with the emergence of a number of Micro Finance Institutions (MFIs) providing financial and non-financial supports to the poor in an effort to lift them out of poverty. There are over 1,000 Indian MFIs. These institutions assume the responsibility of making available much needed micro credit to the poor section of the society for generating the self employment opportunities. The MFI channel of credit delivery, coupled with the national level programme of SHG-Bank Linkage, today, reaches out to millions of poor across the country.

Bibliography:-

1) K. G. Karmakar , Sage Publications India (2008) : *“ Microfinance in India”*

2) Manish Kumar, Dean (Management Program);Narendra Singh Bohra, Assistant Professor Graphic Era University, Uttarakhand, India; Amar Johari, Lecturer Graphic Era University, Uttarakhand, India, International Review of Business and Finance (2010); "*Micro-Finance as an Anti Poverty Vaccine for Rural India."*
3) Manisha Sharma and Vishal Sarin, Zenith, International Journal of Multidisciplanary Research (2011): *"Exploring the benefits of Microfinance Organisations in Poverty alleviations."*
4) PadmalochanMahanta,Research Scholar Fakir Mohan University Balasore, Orissa; Gitanjali Panda, Lecturer in Economics, Dept of Social Science, Fakir Mohan University, Balasore, Orissa; Sreekumar, Associate Professor Rourkela Institute of Management Studies, Rourkela; International Journal of Marketing, Financial Services & Management Research (2012); *"Status Of Microfinance In India - A Review."*
5) M. Radhakrishna,Adhoc faculty School of Management, NIT Warangal; International Journal of Computer Science and Information Technology & Security (IJCSITS)(2012); *"Performance of Microfinance Institutions inIndia"*
6) NayakaraHonnurswamy and MalappaDandgundResearch Scholar, Dept of Economics, Gulbarga University, Gulbarga Karnataka, Indian Streams Reserach Journal, (2012), *"Role of Microfinance on Poverty Reduction in Rural India."*
7) Shailendra Kumar B Hegde, Ramakrishna Goud B, Twinkle Agrawal, Abhita Braganza, AbhaySood, Dias Brendan, Nat.J.Res.Com.Med. (2012), *"Expenditure patterns of micro-savings among members of community based women'sorganizations in a rural area in Karnataka."*
8) Norbert Kloppenburg, Senior Vice President, KfWEntwicklungsbank; "Microfinance Investment Funds: Where WealthCreation Meets Poverty Reduction."
9) K.V. Kamath, Managing Director & CEO, ICICI Bank; " Microfinance and Economic growth."
10) Klaus Glaubitt, Vice President, KfWEntwicklungsbank; Hanns Martin Hagen, Principal Sector Economist;Johannes Feist, and Monika Beck, Principal Project Manager; *"Reducing Barriers in Microfinance Investment."*
11) M. S. Sriram and Rajesh S. Upadhyayula; *"The Transformstion of Microfinance sector in India- Experiences, Options and Futures."*
12) DurgadeviSaraf Institute of Management Studies, S.V. Road, Malad West, Mumbai andSangeetaDeshpande Department of Management Studies & Research Tirpude College of Social Work, Civil Lines, Sadar, Nagpur, Research Journal of social science and management*"Microfinance in India - A Comprehensive Analysis of the Growth and Performance of MFI's"*
13) ChandujiThakor, HOD, VJKM Institute of Management and Computer Studies, Vadu, North Gujarat and Indubhai Patel, Assistant Professor, C. N Arts and B. D Commerce College, Kadi, North Gujarat, AbhinavNational Monthly Refereed Journal Of Reasearch In Commerce & Management, "*Whether Self Help Groups BasedMicro - Credit Program Can ShrinkDeficiency: A Case Study In Mehsana DistrictOf Gujarat.*