Microfinance:- A boon to 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. 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. This paper attempts to provide the descriptive statistical analysis of the generation of the self employment opportunities and reduction in the vulnerability in poverty of economically weaker section. The objectives are, to study the extent of self-employment opportunities generated with the help of microfinance, to investigate if participation in microfinance programmes significantly reduces household vulnerability to poverty of the economically weaker section and the methodologies used by the microfinance institutions with respect to the service provided by them. Hypotheses of the paper are self-employment opportunities in the economically weaker sections are generated with the help of microfinance and participation in Microfinance programs significantly reduces household vulnerability to poverty of economically weaker sections. The research methodology used is the survey method and primary data used is questionnaire and personal interviews of economically weaker section. Data collection and analysis is done with the help of stratified random sampling technique.

KEYWORDS: - Economically Weaker Section, Self Employment, Vulnerability.

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 asagribusiness; 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) Literature Review:-

The researcher has reviewed various research articles and doctoral theses and has observed that though there were some researchers studying various microfinance institutions and their works for the poor there seems to be no doctoral study undertaken on micro finance institutions contributing on the entrepreneurship development of the economically weaker section in Pune district**.**

- K. G. Karmarkar, executive director of NABARD, in his research paper **“Microfinance in India”** said,

“Microfinance is not a panacea for poverty reduction, and that its impact alone onpoverty reduction in India has been negligible. To bring about income growth, microcredithas to be complemented by a number of livelihood promotion strategies.”

- Shailendra Kumar B Hegde, Ramakrishna Goud B, Twinkle Agrawal, Abhita Braganza, AbhaySood, Dias Brendan in their research paper**“Expenditure patterns of micro-savings among members of community based women’s organizations in a rural area in Karnataka”** said,

“Microfinance is a financial service of small transaction value provided by financial institutions tothe poor to meet their financial needs. CBWOs with Micro-financing initiatives serve as effective means for alleviation of poverty, human development and social empowerment.”

- ChandujiThakor and Indubhai Patel is their research paper **“Whether Self Help Groups Based Micro - Credit Program Can Shrink Deficiency: A Case Study In Mehsana District Of Gujarat”** said,

“The rationale for working with SHGs varies from institution to institution, and also from project to project. For some, SHGs are viewed as a way to reduce transaction costs and enhance outreach, for others interested in poverty reduction it constitutes part of a mandated poverty reduction strategy or it is only an entry point for the broader goal of empowerment and transformation of power relations within society.”

- M. Radhakrishna, Adhoc faculty School of Management, NIT Warangal is his research paper **“Performance of Microfinance Institutions in India”** says,

“The micro finance sector in India has developed a successful and sustainable business model which has been able to overcome challenges traditionally faced by
the financial services sector in servicing the lower income population.Microfinance is an economic development tool whose objective is to assist the Poor to work their way out of poverty.”

- NayakaraHonnurswamy and MalappaDandgund, Research Scholar, Dept of Economics,Gulbarga University in their research paper, **“Role of Microfinance on Poverty Reduction in Rural India”** says,

“India is always depending up onrural area development. Suppose the rural area will develop automatically nation will grow faster way, many economist to find out the what types of rural planes Indian villages need , with the help of
scientific establishment of microfinance is possible to remove the village poverty.”

- Prof Zohra Bi, Assistant Professor Alliance University, Bangalore; in his research paper**, “Comparison Of Performance Of Microfinance Institutions With Commercial Banks In India”**

“Microfinance has been an important tool in poverty alleviation, empowerment of women and in bringing about financial inclusion. Continuous efforts are required to diversify the sources of funding available for the microfinance institutions in order to attract foreign investments for well established microfinance institutions in order to serve the rural low income population, increase efficiency of staff members, alleviate poverty and also make them profitable.”

- A research paper by United Nations Development Programme (UNDP) named **"Essentials Of Microfinance"** states,

"Key areas where microfinance cannot make a contribution include: assisting the poorest through income transfers or subsidies or serving as a vehicle to provide health and education services. Microfinance also cannot be used as a substitute for investments in the infrastructure that is necessary to link more remote areas to markets."

- According to Manisha Sharma**,** Assistant Professor, Department of Commerce, A.P.J. College of Fine Arts, Jalandhar and Vishal Sarin**,** Assistant Professor, Lovely Honors School of Business, Lovely Professional University, Phagwara; in their research paper**, "Exploring The Benefits Of Microfinance Organisations For Poverty Alleviation (A Research Study Conducted In Punjab)."**

"Financial upliftment is the key factor which helps in poverty alleviation. Microfinance organizations must focus on other factors which includes empowerment, health, education, housing etc. also need attention of microfinance organizations."

C) Need and significance of study:-

The need and significance of the study are as follows:-

- 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.

D) Aims and Objectives:-

Based on the observations and the literature review the researcher has set the aims and objectives of the study as under:

1) To study the extent of self-employment opportunities generated with the help of microfinance.
2) To investigate if participation in microfinance programmes significantly reduces household vulnerability to poverty of the economically weaker section.
3) To study the sources, lending policies and procedures of microfinance companies in order to support the economically weaker section.
4) To evaluate the business performance of the micro- finance providers.

E) Hypothesis:-

The tentative hypothesis of the study is as follows:-

- Self-employment opportunities in the economically weaker sections are generated with the help of microfinance.
- Participation in Microfinance programs significantly reduces household vulnerability to poverty of economically weaker sections.

F) 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.

G) 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.

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