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Impact Of Microfinance Institution On Socio Economic Development Of India

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ABSTRACT

Microfinance is a strategy that has shown to be beneficial in alleviating poverty and providing marginalized people with the opportunity to participate in the social and economic life of their nation. A number of groups, according to previous research, provide assistance to those who are living below the poverty line in order to enable them receive modest loans that would aid them in accomplishing their objectives. Self-help groups, also known as SHGs, and bank linkage programmes, also known as SBLPs, are organisations that are founded on a voluntary basis and are self-governing in order to meet the requirements of the general population. The objective of microfinance in rural areas is one that the Micro Finance Institutions also work towards accomplishing. It has been proved that microfinance is an excellent instrument for supporting low-income families in escaping poverty and boosting their ability to create cash, which therefore enhances the economy of the nation as a whole. The creation of jobs, the reduction of the unemployment rate, and the provision of products and services to the economy of the country in order to bridge the gap between supply and demand are all goals that small and medium-sized enterprises attempt to achieve in order to achieve economic development. In addition, they intend to improve people's standard of living by doing so by increasing salaries. The creation of small and medium-sized enterprises (SMEs) and the performance of these businesses, which in turn has an effect on the economic development of nations, are both significantly influenced by microfinance.

Keywords: Microfinance , Institution , Socio , Economic , Development

INTRODUCTION

The relationship between microfinance and the alleviation of poverty has been the subject of investigation by a great number of academic research initiatives. Several studies, such as Imai, Gaiha, Thapa, and Annim (2012) and Gutiérrez-Nieto, Serrano-Cinca, and Mar Molinero (2017), have been conducted on this topic. [1] As a result of focusing just on the economic implications of microfinance, however, it is possible that other significant aspects of the wider ecosystem in which microfinance is really utilised may be overlooked. [2] In addition to having a favourable impact on the economic well-being of respondents, microfinance has also been shown to have the capacity to favourably improve social and capability well-being. (2013) Satyasai (2013) and Goetz (2012) According to Makumbe et al. (2015) and Malhotra and Schuler (2016), microfinance has been associated with positive results such as the empowerment of women and the advancement of their capabilities. [3] When social and capability well-being factors are taken into consideration, the process of measuring the impact of microfinance becomes more rigorous. This research seeks to discover significant aspects of social and capability well-being in addition to the impacts of microfinance on economic well-being. In an effort to foster economic growth, small and medium-sized companies (SMBs) provide job opportunities for individuals and reduce the rate of unemployment. According to Fischer and Smith (2014), increasing salaries will not only improve people's standard of life but will also provide the economy of the country with products and services, so putting an end to the imbalance that exists between supply and demand. Uma (2013) is the year. The creation of small and medium-sized enterprises (SMEs) and the performance of these businesses, which in turn has an effect on the economic development of nations, are both significantly influenced by microfinance. According to Gyimah and Boachie (2018), this may be observed in the increasing size of the economy as well as in other aspects of the lives of individuals and society. [5]

Socio-Economic Benefits of Microfinance

"Credit creates economic power, which quickly translates into social power," Yunus (2019) states. "Credit quickly brings about social power." There is a lot of research that investigates the benefits that microfinance may provide to those who are living in poverty. As a result of providing financial services to those who do not have bank accounts, microfinance contributes to the achievement of six of the seventeen Sustainable Development Goals (SDG) set out by the United Nations. Microfinance has been found to have a wide range of socioeconomic effects, including but not limited to the following: raising household income, increasing work opportunities, empowering women, improving educational opportunities, and improving health. According to the research that has been conducted, these factors have been widely regarded as having a significant impact on crucial indicators of poverty and well-being. Within the scope of this investigation, these components have been separated into two distinct categories: indirect benefits, which include female empowerment, education, and health, and direct benefits, which include family income and employment. [6]

Income and Employment

Microcredit gives economically disadvantaged people the tools to start their own businesses, creating jobs. The unexpected consequence is more work options for family and neighborhood members. It helps homes retain a profit and increase revenue. Morduch (2019) defends microfinance's success with this interpretation. He feels that having more money to spend allows a household to pay for their children's education and better healthcare rather than cutting out on needs. [7]

It's hardly surprising that poor people prioritize spending over saving. However, Morduch's (2019) research shows that given the right resources, students can learn how to save money and reduce their loan dependence. Khandker (2015) uses panel data to show how revenue and sustainability might reduce income hunger and consumption. His research shows that microfinance increases household spending per person. Goldberg and Karlan (2016) conducted an effect evaluation study to support this. These data could potentially indicate that the individuals used microcredit to buy too many important items. [8]

According to studies, several groups help low-income people get small loans to achieve their goals. Self-help groups (SHGs) and bank linkage programs (BLPs) are voluntary, self-governing organizations that satisfy public needs. Rural microfinance is a goal of Micro Finance Institutions. Microfinance has been shown to help low-income households escape poverty and increase their cash flow, which boosts the national economy. Grameen Bank's microcredit initiative has helped 48% of Bangladeshi homes below the poverty line, according to study. Studies suggest that 5% of the poor may be able to escape poverty each year because to microcredit's potential to improve lives and invest in human capital. Microcredit helps the poor achieve their goals.[9]

Microfinance helps in trim down poverty

Microfinance is a strategy that has shown to be beneficial in alleviating poverty and providing marginalised people with the opportunity to participate in the social and economic life of their nation. Microfinance is a form of financial assistance that helps households satisfy their current needs while also assisting them in creating plans for a better future. [10]

Credit to Rural Poor - For the purpose of satisfying the credit needs of those who are economically disadvantaged, financial institutions offer microfinance. For the purpose of satisfying their monetary requirements, people living in rural regions rely on non-institutional groups. folks are able to address the needs of the underprivileged via the use of microfinance, which also fosters the social and economic well-being of these folks.

Tool for Poverty Reduction - It is possible for individuals to get employment with the assistance of microfinance, which enables them to have a stable income and contributes to the alleviation of poverty. [11]

Women Empowerment - The process of enhancing the economic status of women by providing them with the freedom to exercise their rights in a manner that is suitable is included in the concept of women's economic empowerment. More than one percent of Self-Help Groups (SHGs) are established by females. Through the implementation of this measure, the government has done an admirable job of providing women with safety and security. Therefore, microfinance acts as a catalyst for the economic development of women with low incomes. [12]

Mobilization of Savings-It is the savings that serve as the principal source of money for meeting unexpected expenses. People may develop habits of saving money with the assistance of microfinance, which is a valuable product. A portion of the money that are generated from savings are used to provide loans and credit to members of the organisations. As a result, microfinance is beneficial to the process of mobilising savings. [13]

Development of Skills - The disadvantaged are given assistance in seeking employment through the use of microfinance. In addition to assisting them in the establishment of their businesses, it inspires them to become future rural entrepreneurs. SHGs encourage their members to start their own enterprises, either on their own or in collaboration with other members. These individuals are also obtaining training that is pertinent to the management of their companies. For this reason, microfinance is absolutely necessary for the development of skills. [14]

Since the 1980s, the concept of microfinance has been conceptualized and implemented in India. There is not a single model that is effective in every circumstance; thus, a number of different approaches are utilised in order to give microlending resources. It is necessary to modify each model so that it is suitable for the specific conditions and requirements of the location. As a result of this, microfinance institutions have adopted a wide range of delivery mechanisms, which may be generally classified into the categories that are listed below.

Self Help Group in India

First self-help groups were founded in India. These organizations have expanded nationwide and helped rural communities. Their population is rising nationwide every day. [15] Government and non-governmental organizations construct these entities to facilitate development programs. Self-help groups typically include 20 members. [16] A "self-help group" is a group of people from the same socioeconomic background who want to work together. This informal, peer-run group governs itself. [17] This community of impoverished people shares their resources and saves what they can. After that, they agree to donate that amount to a common fund and lend it to each other for urgent and productive needs. These groups receive financing from government or non-government organizations so they can debate and solve social or financial issues through mutual aid. Self-help groups (SHGs) may be all women, all men, or a mix of both [18]. The government allows Self-Help Groups (SHGs) to open bank accounts in their own names. Additionally, the government could offer financial and other resources for their development work. [19]

OBJECTIVES OF THE STUDY

1. To study on Socio-Economic Benefits of Microfinance
2. To study on Microfinance helps in reducing poverty

Thematic Analysis to Highlight the Dimensions of M icrofinance

Vaismoradi et al. (2013) state that theme analysis provides a true and realistic perspective on narrative material by interpreting and describing data. These subjects illustrate the breadth of microfinance research. These subjects and the summaries of publications in these themes show the focus of microfinance research in several domains. The new issues and disputes are highlighted and separated for brevity. The literature review shows that microfinance has expanded to include women's empowerment, self-help groups (SHGs), financial inclusion, and more.

Table 1: Overarching Concepts in Microfinance Writing

Major Themes Identified	Sub-Themes
1 Women empowerment	Economic independence (4) Supply of credit to women (3) Family violence / Exploitation (2) Household gender equity (3) Assets Position (2) Socio-emotional well-being (1)
2 Self-help group	SHGs bank linkage programme (02) Regional disparity (01) Federation of SHGs (01)
3 Financial inclusion	Financial performance (03) Financial vulnerability of microfinance Institutions (01) Development finance (02) Developing credit system (02)
4 Sustainability	Determinants of sustainability (02)

	Functional structure for sustainability (03)
5 Andhra Pradesh Crises	Political reasons (02) Financial functioning (04)
6 Status of microfinance in India	Economic growth and development (10), Issue and challenges (10) Performance and sustainability (05) productivity and efficiency (07)
7 Poverty	Reduces poverty (20) No significant role in poverty reduction (05)

Source: Compiled by Authors.

4. Discussions

Women Empowerment and Microfinance

Bhoj et al. (2013) found that women's self-help group (SHG) membership increased with education, age, and productivity. This improved SHG members' finances. According to Mula and Sarker (2013), microfinance for self-help group (SHG) members was new and increased their self-value and income. Reddy and Manak (2005) found that development program participation, fertility rates, female literacy, and economic independence increased. Nilakantan et al. (2013) explain that women-empowering programs must be developed.They discovered that group members might speak out against abuse and exploitation (Bansal, 2010).

Kalpana (2016) explained that the group had a crucial banking habit. studies found that women who participated had a high repayment rate, attended group meetings regularly, and had a positive attitude toward micro-credit (Samanta, 2009). Longevity in a group correlated with political and economic empowerment for women (Sahu, 2015).

Lyngdoh and Patil (2013) and Panda (2009) found that SHG membership improved income, savings, and expenditures, which improved assets and livestock and family wealth and reduced rural family outmigration.

Some woman power articles discussed women's empowerment and relationships. Because women were subordinates, they competed and fought. Thus, empowering some women may disempower others (Guerin, 2010). Swain and Wallentin (2009) explained that women's political participation and regular group meetings reduced loneliness. They realized that challenging culture and social norms was important to increase group collaboration. Krenz et al. (2014) found that women's engagement in SHGs improved household gender equity.

Studies examined women's empowerment in the perspective of regional program imbalance. Swain and Wallentin (2017) explained that southern India was prioritized. Additionally, Laha and Kuri (2014) found that women's empowerment was higher in southern India.

Microfinance and SHG

The relationships between microfinance and household groups were covered in the study. A case study of ten SHG members from Orissa was one of the subjects that Panda (2008) explored. He supplemented his study with new material by using quantitative data collected from both primary and secondary sources. The results showed that the capacity building that the SHG members experienced through effective networking with banking facilities led to a significant improvement in the members' average personal income, literacy level, health, and sanitation. Pokhriyal and Ghildiyal (2011) found that self-help groups (SHGs) did not have equal access to financial services across regions, based on their qualitative analysis. Scheduled commercial banks were not evenly distributed between 1996 and 2008; rather, they tended to be placed in cities rather than rural areas. The concentration of banking institutions was largest in the southern region, then in the north, then in the west, and finally in the east. This meant that the advantages gained were allocated equally among SHGs. Baland et al. (2008) surveyed 1,102 rural self-help groups (SHGs) with 16,800 female members between 1998 and 2006. The survey covered northern Orissa and central Chhattisgarh. Per a survey, personal conflicts, leadership issues, a lack of fundamental skills, policy implications, a bad habit of saving money, and unpaid debts were the main causes of the organization's failure and dissolution. Nair (2005) studied three SHG federations using case studies. He concluded that the Self-Help Group-Bank Linkage Program (SHG-BLP) reduced transaction and advertising costs, empowered persons, and increased economies of scale. Even still, SHG sustainability remained a worry. He believed the federation's governance, processes, and financial structure were vital to its long-term survival.

Financial Inclusion and Microfinance

One report used a multistage sampling survey to evaluate the financial performance of 318 Karnataka microfinance beneficiary families. According to Shetty (2008), microfinance-plus services increased household income, expenditure, asset creation, consumption, output, and employment. Deepika and Sigi (2014) studied a microfinance-linked micro enterprise business model for disadvantaged households' economic growth. Agarwal and Sinha (2010) compared the financial performance of 22 five-star MFIs based on their financial structure, revenue, expenses, efficiency, productivity, and risk variables and found a consistent link between financial performance and financial inclusion.

Guérin et al. (2009) found inefficiency in rural credit institutions and government financial support schemes. They also found considerable beneficiary household discrepancies.

Copestake (2010) and Mader (2014) promoted microfinance for financial inclusion. Microfinance can achieve positive social goals and develop capital accumulation markets, the authors said.

According to Field and Pande (2008), payback frequency and default were unaffected by repayment schedule type, although flexibility was positively correlated. Mader (2013) explained that microfinance institutions needed credit to develop credit relationships.

Microfinance and Sustainability

Only limited studies discussed Indian MFI sustainability.

Shetty (2009) advised policymakers to evaluate MFI sustainability in terms of microfinance group connection failure. Groups were poorly managed due to inadequate leadership, insufficient and badly maintained accounting, sporadic group meetings, and poverty and unemployment among members. He also believed that the group's average age, lack of credit, savings, and payments affected its viability. Mahapatra and Dutta (2016) investigated microfinance viability factors. The loan balance per borrower, cost per borrower, and gross loan yield all affected a microfinance organization's operational sustainability, according to the author. Increasing economies of scale to minimize borrowing costs was a top recommendation.

In his study on the benefits of a well-regulated functional structure for MFIs, Pati (2012) found that operational expenses affect profitability and sustainability. Christen (2006) recommended financial openness and an integrated paradigm for long-term group sustainability. The author also noted that microfinance institutions (MFIs) are incompetent due to their higher costs, reliance on subsidies and their misuse, poor governance, lack of control mechanisms, and unethical practices. Due to high interest rates, limited returns on investments, and high operational costs, Sureda (2008) questioned the sustainability of microfinance providers to most vulnerable groups. All of these things increased uncertainty. Diversion of funds and underinvestment in microfinance firms also decreased sustainability, according to the author.

Andhra Pradesh crisis

Studies were done which focused on the political causes of the Andhra Pradesh crisis. The crash was blamed on MFIs' political incompatibility (Yerramilli, 2013). According to Kaur and Dey (2013), the Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Act, 2011 failed to safeguard borrowers from unethical activities, forceful debt collection, and higher interest rates, resulting in 54 suicides. Author analysis of numerous studies showed that the act safeguarded SHGs from MFIs.

The authors warned that the Act substantially impeded debt recovery from 99% to 10%, contradicting the findings. MFI sustainability and profitability were harmed by liquidity shortage, risk, and uncertainty. Some research blamed the collapse on microfinance companies' finances. According to Priyadarshee and Ghalib (2011), Andhra Pradesh's crises were caused by excessive lending, overindebtedness, defaults, and coercive loan recovery. The authors found that a weak regulatory regime and a concentration on profit above society caused the crisis. Taylor (2011) noted that expanding microfinance does not require an army of micro-entrepreneurs to take clients out of poverty. The article also stated that microfinance expansion did not solve the agrarian situation. According to Mahajan and Navin (2013), the crisis was caused by over indebtedness, liberal credit allocation, and the entire ecosystem from rich investors to poor borrowers. Kaur (2014) found that Andhra Pradesh's financial crisis made institutions unsustainable since they couldn't recover operational costs from revenue.

Status of Microfinance in India

As the research conducted discussed how microfinance helps economic growth and development. All scholars concluded that microfinance contributed to social and economic development in their countries. Some argued that microfinance could achieve socio-economic growth only by improving operational efficiency, and technology may help. Another 10 articles examined Indian microfinance institutions' issues. Outreach decreased production, according to Twaha and Rashid (2012). Narwal and Yadav (2014) found that MFI size hurt outreach. Low client repayment was a challenge for Guha (2007). Other authors noticed imbalanced institutional funding, inadequate operations management, exorbitant interest rates, and insufficient MFI regulation. Five papers examined MFI performance and sustainability in India. Despite being covered under sustainability, these articles linked sustainability to microfinance growth in India.

Some research by the authors focused on MFI production and efficiency. Ghate (2007) and (2008) found no significant poverty reduction in cross-sectional and longitudinal studies. Masood and Ahmad (2010) reported that technical efficiency has improved, but operational efficiency varied by location, with south India performing better. Srinivasan (2011) noted that MFIs affected different groups differently. According to Twaha and Rashid (2012), aging and size decreased operational efficiency, but client count increased it. Contrary to this, Narwal and Yadav (2014) found that size increased profitability and outreach. Others believed MFI sustainability and outreach depended on operating spending, capital structure, and asset quality. GDP was also strongly correlated with SHG microcredit (Pati, 2015; Sharma and Puri, 2013).

CONCLUSION

The current study has shed light on a number of factors that non-bank financial companies (NBFCs) and microfinance institutions (MFIs) ought to take into consideration in order to guarantee that microfinance is extended to the most deserving sectors of the population. An examination of the breadth and nature of the microfinance services provided by non-bank financial companies and microfinance institutions (NBFCs and

MFIs) would make it feasible to make present and prospective customers aware of the many programmes especially tailored for them. The non-bank financial companies (NBFCs) and microfinance institutions (MFIs) that are functioning all over the country will receive assistance from this study in their efforts to eradicate poverty and enhance the lives of those who are impoverished in rural areas. Those that provide services to the general public in an effort to improve their community's level of living will have their eyes opened by the findings of this study. In addition, this will provide financial assistance to a number of non-governmental groups that provide assistance to members of society who are less fortunate.

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