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Rationale of micro finance in semi urban economy

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Abstract

The contrasting development from 20th to 21st century could be witnessed in various aspects, but the most influential transformation took place in the field of “Human Resources Indicators”. Whether it may be health, education or employability, a progressive temperament blended with standard of living which has created wonder of wonders. The innovations in context to financial sector, micro finance, self help groups have dynamically enhanced human civilization. So as it has largely contributed towards grooming income sector, particularly to the semi rural regime. The importance of micro finance could be better realized in the current state of developing economy. The exposure of tiny entrepreneurs towards self employment from a very early age has fruitfully resulted in their adaptation to the macro economic growth. A wide variety of financial assistance has played a pivot role in creating an ecosystem for the earning aspirants at every level. The underlying paper is an effort towards drafting the role of micro finance as a facilitator, providing various services to the earning individuals and groups, for extension of self employment opportunities. The facts used in the appraisal are drawn from various programs undertaken by NABARD and government authorities in providing optimum financial assistance to people in semi rural areas. As a service provider, micro finance has varied features which have been helping earning individuals in forming self help groups, raising funds, generating employment and enhancing production capacity. It won't be an exaggeration that the progress of financial sector largely depends on the progress of micro finance.

Keywords: Employment, micro finance, self help groups

Introduction

The roots of microfinance or micro credit could be traced back to 15th century, in Europe, when Franciscan Francis founded a community oriented pawnshop. Historical events traces back to 1800's, when Lysander Spooner writes about the benefits of small credit to entrepreneurs and small farmers. After this, in 19th century, the European credit union movement was founded by Friedrich Wilhelm Raiffeisen, as an initial micro finance institution to support the marginal farmers in Germany. The financial movement was also accelerated by the contributions of Muhammad Yunus and Al Whittaker in 1970, who actively aimed at building institutions for various opportunities and to act as a risk management tool [3].

The modern micro financial system got emerged in one of the poorest countries of the world named Bangladesh. Muhammad Yunus, a professor of Economics observed that-

- (a) The free market could not protect his country from the adversities of famine.
- (b) The efforts to fight against poverty, including its aids and subsidies, were not enough in achieving their goals.
- (c) The banking system failed in fulfilling the needs of poor population.

Thereafter, in the village Johva, Yunus decided to extend a personal loan to a group of 42 women to help them start a business, and it worked effectively. These women workers making bamboo stools took advantage of the loan to boost their productivity, before repaying the sum as a whole. The above act established the basic principle of modern micro financing mechanism, combating poverty through micro credit and particularly serving to women in the developing countries.

The base of modern micro financing could be rewarded as an effort of Muhammad Yunus, who incorporated Grameen Bank in the year 1976. An inevitable contribution was made by a Pakistani social scientist, Akhtar Hameed Khan in the successful implementation of the scheme.

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After the success of financing women self help group, Yunus received a warm appreciation from the banking system, after which he decided to create his own program, named "Grameen". The program aimed at-

- (a) Providing small loans to poor population, with no financial obligation in return.
- (b) It developed the principle of joint responsibility that involves the liability of optimum utilization of funds, on every member of self help group.
- (c) The program aimed at the providing financial strength to women who have totally been excluded from the financial system

The program attained the status of Grameen Bank in the year 1983 and expanded its branches over 80000 villages. The bank extended credit to millions of beneficiaries, including 97% women in them. During the era of 1980's and 90's, this model got acceptance in the world and got established in the developing countries. A large number of institutions got flourished in India, South America and Europe.

Review of Literature

The published work on certain aspect of knowledge is termed as review of literature. It is the scholarly work done by the scholars which acts as the base for further research works. It acts as a way for constructing further premises for advance learning. A sound collection of literature motivates individuals towards quality research work. The achievements of subject can be judicially justified by a proper review of existing literature.

The review of literature includes review of books, thesis, research articles, research papers etc. by which different views about the subject can be assembled-

The book entitled "The Economics of Microfinance" written by Beatriz Armendariz and Jonathan Morduch, revolves around the microfinance revolution which got initiated in Latin America and South Asia in the year 1970. It enabled around 65 million poor people in the world to receive small loans without collateral, build up assets, and buy insurance. This comprehensive survey of microfinance seeks to bridge the gap in the existing literature on microfinance between academic economists and practitioners. Both authors have pursued the subject not only in academia but in the field; Beatriz Armendariz founded a microfinance bank in Chiapas, Mexico, and Jonathan Morduch has done fieldwork in Bangladesh, China, and Indonesia. The authors move beyond the usual theoretical focus in the microfinance literature and draw on new developments in theories of contracts and incentives.

The core idea of extending funds to the poor is included in the work named "Mainstreaming Microfinance: How Lending to the Poor Began, Grew and Came of Age in Bolivia Paperback" by Elisabeth Rhyne. The contents focus on how microfinance in Latin America lifted whole populations into the financial mainstream, offers a non-technical, in-depth analysis of the micro lending debate. Some people tout microfinance as the most important tool now available for fighting poverty while still others doubt its contribution to the "truly" poor. This volume offers a reasoned, moderate voice on the virtues and problems of microfinance. Drawing on the success story of Bolivia, Rhyne traces the transformation of NGOs into formal financial institutions, and examines microfinance under the

conditions of commercialization and competition that have altered the dynamics of the new industry.

The empowerment of women through SHG is summed up in "Women At The Center: Grameen Bank Borrowers after One Decade 1st Edition". The work was written by Helen Todd, in the year 1996. It examines the long-term effects of two decades of loans to poor women in Bangladesh through portraits of the lives of women in two villages who have benefitted from the loans. Details the day-to-day processes of how they generate income from the loans, what they do with their income, and how much control they retain over it, demonstrating that credit alone can fundamentally change poor women's lives.

The renowned authors Stuart Rutherford and Sukhwinder Arora, in their work "The poor and their money" sites different types of needs of the poor for which they raise funds from local bodies. These needs include life cycle needs, personal emergencies, disasters, investment opportunities and so on. People find creative and collective ways by which funds could be raised. They exchange non cash values, livestock, grains, jewellery and precious metal to satisfy their need for money.

One of the remarkable works about MFI's id done in "The micro finance revolution: Sustainable finance to the poor" by Margerite. S. Robinson, which concludes about the profitability of microfinance, which could be generated over a long period of time. The sources of micro credit acted as a genuine source of fund to those who needed funds for nominal wants. By the end of 1990, micro finance began to develop as an industry, employing large population as beneficiaries.

The research paper by Sharif Muhammad named "A Study on the Performance of Microfinance Institutions in India" is another source of appraisal about MFI's in India.

In a country like India where 70 percent of its population lives in rural area and 60percent depend on agriculture (according to the World Bank reports), micro-finance can play a vital role in providing financial services to the poor and low income individuals. Micro-finance is regarded as a useful tool for socio-economic up-liftment in a developing country like India. It is expected to play a significant role in poverty alleviation and development. The emphasis of present paper is to study the performance and role of microfinance institutions in the development of India.

The achievements of micro finance system over past two decates are broadly covered in a research article named "Microfinance: Where are we today and where the research should go in the future?" the authors, Juanyi Chen, China, Amber Y Chang, Gary D Bruton, are scholars of unovercity of Jilin, Hong Kong and Tesax. It emphasizes on the fact that there have been substantial efforts to expand the impact of microfinance around the world, especially in emerging economies. This commentary and Special Issue of International Small Business Journal, seeks to better understanding of both the contributions and limitations of microfinance in terms of fostering entrepreneurship and economic development.

The Case Study named " Research Study about the Role of Microfinance Institutions in the Development of Entrepreneurs " by scholars, Sowmyan Jegatheesan, Sakthi Ganesh, and Praveen Kumar S. has its Focus on entrepreneurs who want to run a business and yet can't afford a piece of equipment and merchandise. A research whereby providing equipment or merchandise to enable the

project to run a self funding profitable project. In turn, A share in the project plus getting the full costs of the asset equipment or merchandise including an interest. So, direct seed finance is not needed to be put in a project. Microfinance is the provision that provides access to various financial services such as credit, savings, micro insurance, remittances, leasing to low-income clients including consumers and the self employed, who traditionally lack access to banking and related services.

The adversities of repayment of loan and its vicious circle is elaborated under the head "Loan Repayment Pressure in the Practice of Microfinance in Bangladesh: An Empirical Study on Grameen Bank, BRAC and ASA". This is a work by Mohd Aminul Karim, who shades light on the 'loan repayment pressure', which is allegedly exerted by the Micro-Finance Institutions (MFIs) on their borrowers in Bangladesh. A qualitative study was carried out to assess the experiences of the borrowers, who are engaged with Building Resources Across Communities (BRAC), Grameen Bank (GB) and Association for Social Advancement (ASA). The observations and findings from the in-depth interviews highlight the effects of repayment pressure imposed on the borrowers. This pressure pushes the borrowers into a vulnerable economic condition while disharmonising their social and family lives. Thus, this study provides a deeper understanding of repayment issue. Findings of this study can add value to the current literature by providing insights on the forced loan recovery technique and its negative effects.

The details about the progress of micro finance in India are clearly demonstrated by Dr. Swati Sharma under the head of "Growth of microfinance in India: A descriptive study"

It portrayed Indian economy by its low rate of development, predominance of rural population, overwhelming dependency on horticulture, unfavourable land mass proportion, exceptionally skewed income distribution and wealth beside, high frequency of destitution and joblessness. The last two variables poverty and joblessness posture real difficulties to the development and success of the nation. To conquer this issue, some recently created parts like micro finance are assuming an essential part. Microfinance has been viewed as a capable tool to battle poverty through the arrangement of essential financial services including reserve funds, protection, credit and transfer of funds.

Comparative Study of Microfinance Institutions in India by Siddhartha Sultaniya, Mahiraj Shaikh, Raghunandan is an examination to comprehend the working of microfinance, explanations behind the destruction in the execution and its commitment towards monetary advancement. The microfinance organizations have contributed a ton towards the general upliftment of individuals living in provincial zones. The microfinance organizations additionally give assets to poor people (particularly focusing on ladies in the general public) and different other money related and non monetary administrations. The money related execution of the chosen organizations has been broke down dependent on couple of techniques. The issue looked by MFIs has been featured and answers for defeat such issues have been brought out.

A Ph.D thesis by Priyanka Priyadarshani (UID No. 13JU11300014) has also been studied with the title "Impact of microfinance on social, economic and capability well-being of families below poverty line, with special reference to Deogher district in Jharkhand"

The subject focuses on the development paradigm, microfinance has evolved as a need-based programme for empowerment and alleviation of poverty to the so far neglected target groups (women, poor, deprived etc.). It has also become one of the most effective interventions for economic empowerment of the poor. In this context, the present study focuses on the impact of microfinance on the social economic and capability well being of people languishing Below Poverty Line (BPL) in the Deoghar district of Jharkhand. Microfinance, in simple terms, means providing financial assistance, in the form of a loan, insurance saving, fund transfer, training to the small entrepreneurs and small businesses, lacking access to banking and related services. Microfinance as (Pralhad, 2005) defines, "a scheme for provisioning small loans to impoverished entrepreneurs in less-developed countries is often cited in the literature as the quintessential example of a business solution to global poverty".

Rationale of the Subject

The importance of finance could be felt in the smooth functioning of trade and commerce. In the deprived belt of Surguja district, availability of funds is a common challenge to common people. Therefore, microfinance is a boon for the upliftment of economic conditions of tribes in the outskirts. The region suffers from mass illiteracy, poverty and lack of awareness among common people ^[6]. Moreover, limited growth of traditional sources of financial market makes it difficult for the people to undergo entrepreneurial aspects. So, the bodies providing micro credit cater the need of seed capital for small and marginal business units.

The relevance of the subject can be felt in the achievements of beneficiaries of the credit system. Different people from the socially and economically deprived background have achieved excellence in enhancing their living standards. Generation of livelihood, setup of new business units, expansion, modernization, growth of farm and non- farm activities are the contributions made by micro finance credit system.

The elaboration of MFI's largely adds to the empowerment of women as they contribute to the financial as well as social autonomy to the women SHG's. The prosperity of skill development and enhancement of productivity diverts the tribal economy on the track of betterment. The optimum achievements of micro credit can be felt in the expansion of women SHG which in turn acts as a sound ground for rural productivity.

Contemporary Relevance of Micro Finance

In 21st century, micro finance got international recognition, when first micro credit summit took place in Washington in 1997. The outlines of micro financial system were outlined by G8 in the year 2004. These contours believed in the emergence of a new sector in the economic system names as micro credit. The UN named the year 2005 as "international year of micro finance", after which Muhammad Yunus won Noble Peace prize in the year 2006.

The micro finance model in India is being derived from the grameen model of Bangladesh ^[8]. A blend of traditional and innovative methods is being adopted in country that caters to the needs of large deprived population. It aims at resolving financial problems of those who find themselves unable to access the banking services. Apart from the grameen model, the SHG model also actively works in the

Indian perspective. It includes an involvement of 5 to 20 members who pool their savings towards lending loans to the members, who employ the funds in employment generation opportunities.

The government of India takes adequate care to develop micro financial institutes which shall counter to the needs of deprived class of society. One among such is NABARD, whose role is indigenous in the wide spread of micro credit. Among self help groups, SEWA is one of the leading women micro financed unit in country. By the end of March 2019, the, micro financial sector in India has a credit of around 200000 crore, dealing with 50 million clients in over 30 states with around 1 lakh employees in the sector.

The products being covered under the services of micro finance institutions are-

- (a) Extension of credit to women for increase in income.
- (b) Loans to home grown entrepreneurs.
- (c) Emergency medical loans.
- (d) House improvement and extension loans.

The provisions of funds are based on the skill and educational background of the beneficiaries. A similar peer group is being appointed for the repayment and recovery of loan [7]. These institutions have commenced their services from the rural areas and are now extended up to the urban poor's. In India it covers the areas of micro loans, micro insurance and micro savings. Also the micro financial channels are operated through two major streams-

- (a) **SBLP (Self help group bank linkage program):** This system was instituted by NABARD in 1992, to motivate women SHG of nearly 10 to 15 members. They contribute their savings towards offering loans to the members for further generation of income.
- (b) **Micro Finance Institutions (MFI):** This is the most

frequent setup of financial institutes, which elaborates the funds to the deprived population of country. These organizations are based on the fundamental principle of no financial guarantee and adequate financial support. Over the past era, these organizations have gained maximum acceptability in the world.

Rationale of Micro Finance in Semi Urban Sectors

In the state of Chhattisgarh, MFI act as an allied wing of NABARD. The linkage of SHG with banking system was a pilot project of NABARD, whose successful implementation helped in deepening the roots of rural credit. They further aim at creating social, economic and technological capital in the state [12]. The major players of these institutions in the state are the women SHG's, who belong from the poor background. They demand for small amount of loan which acts as seed capital for their traditional as well as regional occupations.

The development of these organizations also highlights the fact that even poor are able to save money out of their limited income. Also their savings keeps on increasing with an increase in their income. A large part of state's population lies in tribal areas, which deprives of basic resources, so it became the need of hour to link banking system with SHG and MFI [4]. The funding for SHG has been done by opening the savings account of such group with banks. By the end of March 2021 the total number of SHG registered are 130083 with total number of members 1920137. These groups have total amount in savings accounts as 24091.38 lakhs. The total number of women SHG in the state is 100058, with the total number of members enrolled as 1416721. These women SHG have their savings account with a total amount of 16542.29 lakhs.

Table showing number of SHG and loan extended by different banks

	Loan By RRB	Loan By Co-Operative Bank
No. of SHG	4469	2735
Amount of loan issued to SHG	5793.91 Lakh	2512.88 Lakh
No. of women SHG	4469	2726
Amount of loan issued to women SHG	5793.91 Lakh	2507.88 Lakh

Self-Help Group or in-short SHG is now a well-known concept. It is now almost two decade old. It is reported that the SHGs have a role in hastening country's economic development. SHGs have now evolved as a movement [3]. Mainly, members of the SHGs are women. Consequently, participation of women in the country's economic development is increasing. They also play an important role in elevating the economic status of their families. This has led boost to the process of women's empowerment Bangladesh Rural Advancement Committee (BRAC), Association for Social Advancement (ASA) and PROSHIKA are the other principal Micro-credit Finance Institutions (MFIs) operating for over two decades and their activities are spread in all the districts of that country. BRAC is the largest NGO of Bangladesh with a total membership of 41.38 lakh. Initially set up in 1972 as a relief organisation, it now addresses the issues of poverty alleviation and empowerment of poor, especially women, in the rural areas of the country [1]. This institute also works in the field of literacy, legal education and human rights. BRAC has worked significantly in the fields of education, health, nutrition and other support services. PROSHIKA is also active in the areas of literacy, environment, health and

organisation building, while ASA and Grameen Bank are pure MFIS. The micro-finance practices of these institutions revolve around five basic features. Firstly, these institutions primarily have women as their target group [6]. Secondly, they adopt group approach for achieving their targets. The group approach focuses on organising the people into small groups and then introducing them to the facility of micro-financing. The MFIs of Bangladesh place a great deal of importance to group solidarity and cohesiveness. Thirdly, savings are an essential precondition in all these MFIs for availing credit from them. Fourthly, the officials of the Bangladesh MFIs remain present in the weekly meetings of the groups and collect the savings, update the pass books and even disburse the loans, and lastly, the systems and procedures of the MFIs are quite simple and in tune with the requirements and capabilities of their clients.

India has adopted the Bangladesh's model in a modified form. To alleviate the poverty and to empower the women, the micro-finance has emerged as a powerful instrument in the new economy. With availability of micro-finance, self-help groups (SHGs) and credit management groups have also started in India [10]. And thus the movement of SHG has spread out in India. In India, banks are the predominant

agency for delivery of micro-credit. In 1970, Ilaben Bhat, founder member of 'SEWA' (Self Employed Women's Association) in Ahmadabad, had developed a concept of 'women and micro-finance'. The Annapurna Mahila Mandal' in Maharashtra and 'Working Women's Forum' in Tamilnadu and many National Banks for Agriculture and Rural Development (NABARD)-sponsored groups have followed the path laid down by 'SEWA'. 'SEWA' is a trade union of poor, self-employed women workers. Since 1987 'Mysore Resettlement and Development Agency' (MYRADA) has promoted Credit Management Groups (CMGs). CMGs are similar to self-help groups. The basic features of this concept promoted by MYRADA are: 1] Affinity, 2] Voluntarism, 3] Homogeneity and 4] Membership should be limited to 15-20 persons [5]. Aim of the CMG is to bestow social empowerment to women. In 1991-92 NABARD started promoting self-help groups on a large scale. And it was the real take-off point for the 'SHG movement'. In 1993, the Reserve Bank of India also allowed SHGs to open saving accounts in banks. Facility of availing bank services was a major boost to the movement. In India three different models of linkage of SHGs to the financial institutions have emerged. They are:

- Banks, themselves, form and finance the SHGs.
- SHGs are formed by NGOs and other agencies but financed by banks.
- Banks finance SHGs with NGOs and other agencies as financial intermediaries.

The second model is the most popular model. Almost three-fourths of all the SHGs come under this model. Only 20% of the SHGs are covered under the first and 8% under the third model respectively.

The year 1975 was declared as a 'year for women'. Also, the decade from 1975 to 1985 was declared as a 'decade for women'. During this period, the movement for empowerment of women received a fillip [11]. The importance of role of women, which consists 50% of the society, was highlighted in this span of period. It was emphasised that woman should get the same opportunities as that to men. The year 2001 was declared as a 'year of women empowerment'. Efforts were being made in the direction that women should have a role in all walks of life; and special provisions should be made in the budget for activities related to the development of women. Many schemes were planned and started to be executed, at government level, in respect of women education, laws regarding prevention of atrocities on women, their participation in economic and political spheres etc. At this juncture, SHG movement also started and in a way journey towards women empowerment began.

Objectives of SHGs may be summed up as under

- Basically the SHGs are economic organisation. Small funds are raised for day today needs. The saving groups when transformed to earning groups not only increase the productivity of women but the credibility also.
- Doors are wide open to women to understand and gain knowledge about Banking, Gram Panchayats, Zilla Parishad, Law and Judiciary etc.
- As economical solutions are available, the family structure is maintained.
- SHG is a good way to stop the exploitation of consumers.

- Broadening of view is a major gain. The ascending order of family, group, village, Tahsil, Zilla, Zone, State, Nation, World, makes the vision global.
- Development of self-confidence is achieved.
- A common platform is available for a dialogue and sharing of views.

Discussing particularly about the role of MFI and SHG in the district of Surguja, which is an acute tribal belt of Chhattisgarh state, the district comprise of a large population which has marginal income. The people deprive of basic awareness about banking and financial sector, so, it is obvious to observe that they have limited sources of raising funds [9]. Pointing towards SHG, the region has got more number of women SHG registered, as compare to other organisations. They play a vital role in the upliftment of the economic condition of local folks especially women. The growth of MFI's in the district has helped women to raise micro credit and get access to various other aspects of financial market. The social gatherings have removed the barriers of caste, community and also untouchability. Women have formed different community organisations such as school monitoring committee, solid liquid management centres and so on to contribute towards their social responsibility.

Conclusion

The above study shall appraise the effects of micro credit finance system on the upliftment of economic condition of common people in Surguja district. It shall also evaluate the reality of credit financial system and its accessibility in the remote belt of tribal region. The study of the subject can be concluded as-

- (1) Micro finance shall add towards improvement in the economic condition of common people. It is more beneficial to those who have limited access to the banking sector.
- (2) As a part of MFI, SHG shall act as a means to inculcate women empowerment in the rural economy.
- (3) The growth of MFI in both urban and rural areas provides adequate financial strength to the beneficiaries. They access the system as per their need and requirements.
- (4) The achievements of MFI at both micro and macro level remains similar to each other, yet they vary in their objectives and way of working.

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