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## A LITERATURE REVIEW ON THE CONTRIBUTION OF MICROFINANCE INDUSTRY IN LEVERAGING THE ECONOMIC STANDARD OF SOCIETY

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### Abstract

In the growth of any nation, inclusive development is one of the most crucial elements. Financial involvement has become an imperative objective in the reforms of major policies and becoming a way of providing economical benefits to untapped and underprivileged domains existing in our society. Microfinance is considered as an effective tool to deal with the problem of poverty, income inequalities and unemployment. In India, Microfinance Institutions (MFIs) lending started big way in mid 90s with a suitable adaptation of Grameen model where the core continued to thrive on the reliance of creditworthiness of poor people by leveraging their social collateral. The success of the model, industry or institution has always been around customer centricity. Starting in a humble way by extending tiny loans to economically underprivileged households, the industry has earned the recognition of being instrumental in inclusive financing and fuelling the growth at bottom of the pyramid. This study is focused toward discussing about the influence created by micro-banking system on the economic scenario of the society. Furthermore, the reason for this study also includes the curiosity to know and understand the trend of Microfinance during the years 2009-2019, specifically for underprivileged section of the society. The information needed for the research has been acquired with the help of various articles, research journals and reports related to different segments of microfinance industry. Some of the relevant research works done in the segment of micro-banking focussing primarily on the period of 2009-2019 have been analyzed for the same purpose.

### 1. Introduction

“Microfinance is defined as lending small amounts of money for short periods with frequent repayments” (Meagher, 2002). “Microfinance is banking the un-

bankable, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral” (Maanen, 2004).

In the past three decades, microfinance services around the world have been considered as vital and significant element of developmental policies (Ahlin and Jiang 2008; Elahi and Rahman 2006). This concept of micro-banking has been highlighted since 1970s with an aim to uplift the poor section of the society and to enhance economic growth. According to the report of the 2018 of World population this is the well-known fact that much of the Indian population still resides in rural area with lack of facilities and knowledge and have minimum amount of development indicator, complied with officially recognised source is 65.97%.

Microfinance sector has played a massive role in the economic growth of India. This industry is portraying itself like a vaccine for poverty reduction and aims to assist economically secluded communities in order to attain an optimum level in the domain of asset creation and assurance of income both at the individual and societal level. The people of rural areas have very low access to the institutionalized credit, so micro-financing works as a boon for the people living in rural areas which help them to have stability with respect to their financial issues. Policy makers as well as academicians are giving significant attention to the role of microfinance in economic development (Bartual Sanfeliu et al. 2013; Hermes and Lensink 2007a; Ingham et al. 2013; Knight et al. 2009).

Credit facility is vital to the poor people for various income generating activities. Their accessibility to the services offered by banking is relatively low because of lack of resources and nature of formal credit institutions. Consequently in India, Microfinance institutions and self-help groups are leading to other traditional banking channels as they are catering the need of credit to poor people. It has contributed a lot in enhancing the quality of life of the poor people. To the poor, micro-banking industry has been an invaluable source of financial support which allows them to setup and develop their micro-enterprises that ultimately helps in the decline of poverty level (Al-Mamun et al. 2014a; Imai et al. 2012; Matin et al. 2002). The present study attempts to answer the following pertinent research questions:

- (i) How microfinance industries are contributing to the economy?
- (ii) What are the various challenges being faced by these micros and small-scale industries?

For establishing the theoretical grounds the variety of articles, research journals and reports, from year 2009 till 2019, related to different segments of microfinance industry have been studied from Scopus and World of science databases. The detailed review of related scientific writings is discussed in upcoming section.

## 2.Literature Review

Kumari et al.(2019) claimed that the microfinance industry presents a dynamic approach to improve the sources of income of lower level groups which eventually helps in eradication of poverty. It also defines a pathway for small level businesses to run efficiently by empowering poor women entrepreneurs. This study has also identified the requirement of setting up a structure by the governing bodies for ensuring an easy access towards the credit facilities of micro-finance units. Sohn & Ume (2019) analysed the significance of the role played by a microfinance industry in dealing with the poverty of the society.

This study elucidates the importance of the steps taken in the form of credit facilities in order to ensure the minimisation of poverty at the macro level of economy. It has also been found that female beneficiaries of micro-banking are more efficient as compared to their male counterparts in maintaining a feasible growth in the industry so some specific strategies should be implemented focussing them. Ali & Mughal, (2019) made an analysis that monetary assistance offered by microfinance units can deliver fruitful results only when it is complemented with a sense of knowledge to run a business in an effective manner. This study has specifically identified the importance of developing managerial as well as non-managerial skills in a small level entrepreneur in order to make him/her good enough for completely utilising the growth opportunities availed from the financial benefits of a micro-banking system.

Sussan and Obamuyi, (2018) have emphasized the contribution of microfinance institutions in empowering the budding entrepreneurs to that extent where they can ensure the growth and development of their businesses. The result has also recognised the importance of non-financial services offered by MFIs for creating a substantial influence in the overall enhancement of a business enterprise. Hussain et al., (2017) highlighted the significance of microfinance segment by analysing its impact on the economy. Research has particularly evaluated the influence of microfinance sector on the poverty-stricken segment of the society. The study has revealed that microfinance industry has specifically offered its contribution in the income segment, housing infrastructure, education, agriculture, health safety and food security in order to minimize the level of poverty and raises the living standard of the people. Taiwo et al., (2016) research has examined the significance of contribution of microfinance banks or institutions on the SME sector. It has discussed about the level of support and assistance received by the small scale businesses from microfinance sector. The study has actually discussed about the kind of influence it carries on the growth of business enterprises by providing them sufficient amount of financial as well as non-financial support in every possible manner.

Ferdousi, (2015) evaluated the importance of microfinance institutions in facilitating the growth of micro-entrepreneurs by assisting them with the necessary support and sufficient guidance regarding innovative methods, market trends and latest technologies that needs to be implemented in the business. It has recommended that microfinance segments need to support the small level entrepreneurs by educating them with some effective business knowledge to upgrade their skills along with the financial support in order to develop a sustainable business setup for them. This analysis has firmly augmented the role of client oriented services in enhancing the potential of entrepreneurs to a greater scale. Ali et al., (2015) studied contribution of various factors such as level of education, increment in income and improvement in the business process in making an influence on the standard of living of the people. It has revealed that the financial or non-financial services availed through microfinance organisations plays a crucial role in the overall growth and development of the society. Fwamba et al., (2015) have observed that microfinance industry expanded its service dimensions to the segments like advisory and savings rather than limiting itself to the traditional approach of offering monetary services only. It has proven to be a great help for female entrepreneurs. They are now getting themselves highly engaged in the process of decision making. This has encouraged them to a great extent since it provides an approach to satisfy their needs and empowers them by increasing

their capabilities that subsequently motivates them to perform and handle all sorts of activities in the business

Modi et al., (2014) given an insight about the various dimensions of microfinance segments which are responsible for uplifting the situation of unprivileged rural women. It has also identified the contribution of some specific factors such as status of socio economic up-gradation, position of woman in society/family, autonomy for life choices and positive approach towards child development in creating an influential impact on the living standard of the society. The outcome of the research simply focuses on the role of government and microfinance institutions to setup the measures that are needed to drastically enhance the social and economic conditions of the poor rural women entrepreneurs. Al-Shami et al., (2014) disclosed about the approaches followed by microfinance institutions to empower the clients and improve their wellbeing. It has analysed the role of microfinance institutions in the reduction of poverty and increasing the sustainability of the small level entrepreneurs. The study has subsequently discussed about the positive influences of those services which are delivered by microfinance units in the form of monetary support, efficient training, proper guidance and social empowerment. These benefits are majorly responsible for the overall functioning and growth of the small scale business segments.

Girabi and Mwakaje, (2013) have identified the role of microfinance segments in up-scaling the standard of the small-scale farmers by enhancing their level of productivity. It has been concluded through the research that the assistance offered by the microfinance institutions contributes to a great extent in providing a better access to agricultural markets, farming products, efficient labour and suitable transportation facilities which eventually generates the chances to increase the profitability of the small farm holders. This study has also suggested some supportive measures that are needed to be taken for controlling the factors responsible for creating any hindrance in availing the micro-banking services by the poor farmers. Awojobi, (2013) came up with the fact that an active participation of government in controlling the issues faced by microfinance banks is highly required in order to ensure an easy accessibility of the financial services provided by them. It has actually acknowledged the role of government to ensure the fund requirements of microfinance institutions so that they can perform their credit operations effectively. This study has also helped in evaluating the impact of positive influence created by microfinance in empowering women entrepreneurs by enhancing their income generating sources. Adhikari and Shrestha, (2013) presented an image of microfinance segment as a change-maker in the society. It has revealed about the role played by the micro-banking industry in bringing a socio-economic stability in the society. This stability occurs especially due to the fund mobilisation exercises performed efficiently by micro-banking units which subsequently empower the women entrepreneurs to a great extent that helps them to raise their standard in the society. Nwankwo et al., (2013) reflected that induction of microfinance industry in the economy became a necessity due to the result of inefficient banking mechanism to address and resolve the financial requirements of the underprivileged sections of the society. This concept of micro-banking open new avenues for the people to fulfil their economic needs and enhances their potential to achieve a sustainable growth in the business. The study has also suggested certain measures for curbing the problems which are imposing a challenge against the efficient performance of micro-banking.

Imai et al, (2012) have analysed the overall impact of microfinance in building up the level of sustainability in an economy. It has been revealed that the active involvement of microfinance industry in the economy of a country minimises its poverty level to a large extent. In fact the study has shown a negative relationship of microfinance loan portfolio with the state of poverty in the society. Reduction in loan portfolio along with the GDP brings unemployment which eventually exemplifies the level of poverty. So, the role of micro-banking industry is considered to be huge in improving the financial performance of the country. Yahaya and Osemene, (2011) have come up with the concept of promoting micro-banking system in the society as it helps in developing a mechanism to access and support the small level entrepreneurs. It has also highlighted the importance of governing bodies in setting up a system for offering guidance to the micro level businessmen to grow their business. It is clearly evident from the research that the microfinance industry is majorly responsible for improving the conditions of poverty-stricken community of the society through affordable financing, fund mobilisation and opportunities of employment generation.

Okpara (2010) has recognised the influence of certain factors in causing poverty and also acknowledged the role of micro-financial support in controlling these factors. It has measured the impact of microcredit facilities in two stages. Initially it observes a marginal increment in the poverty level with a reducing rate but later on it has shown a steep decline due to constant growth in credit services offered by microfinance segment. This impact clearly signifies the need to establish a system for enhancing the expansion of microfinance industry in the economy. Anono (2009) have appreciated the role of microfinance industry in actively engaging itself with the underprivileged sections of the society. Research has greatly emphasized its contribution in poverty alleviation. This study has not only highlighted the financial contribution of micro-banking to the entrepreneurs but also focussed on the concept of offering non-financial support and guidance to them in order to enhance their growth opportunities.

### **3. Microfinance in India**

In India, microfinance started with SHG-Bank Linkage model, an initiative of NABARD, to link the unorganized sector with the formal banking sector. However, at the starting phase many formally structured financial set-ups were not very inclined to provide a supportive platform to the microfinance until the feasibility of its commercial aspects introduced before them. Since then this industry has grown on a fast-paced massive rate for a considerable period of two decades and reached to a significant level of penetration in the entire segment of market that needs to be addressed. Tremendous growth has been observed in recent five years, where microfinance portfolio has moved from INR 26,2000Cr. To INR 1,87,000 Cr., with a compounded annual growth rate of around 48% in financial year 2019. At the same time growth of around 20% has also been observed in the client base, i.e., from 180lakh to 440lakh. As per the official record about 82 NBFC-MFIs cover the highest segment of portfolio in micro credit domain alongwith the total loan outstanding of INR 68,868 crore which takes into account about 37% of the entire micro-credit universe until Mar'2019. Banks are also known to be one of the most prolific providers of micro-credit covering approximately 33% of the entire portfolio of the industry with a loan amount outstanding comparatively lower than the one held by NBFC-MFIs. In an approach of increasing the accessibility of the universal banking to the lower unprivileged segment of the society the Reserve Bank of

India has offered licensing to acquire the status of a Small Finance Bank to 10 lending companies Pan India.

Over a period of time various crucial actions have been implemented continuously on the regular basis to enhance the accessibility of the services offered by micro-banking units to the unprivileged segments. The actions have subsequently led to the execution of certain measures such as

1. Implementing the concept of engaging specific schemes to restructure and refinance the functions of the micro-banking system.
2. Increasing the level of inclusion of central banking authority in developing the micro-system by extending its financial assistance to SHG groups.
3. Introducing a structure of financial support in the form of SIDBI to the micro-credit system.
4. Enhancing the role of NABARD in the formulation of targets for the micro-groups.

On analysing the quarterly report released by Microfinance Institutions Network (MFIN), it has been found that this industry has catered to the needs of more than 5 crore unique borrowers having about 10.11 crore loan accounts operating in 619 districts in 36 states and union territories

"The industry could reach to 30 percent of the potential households in the country that need microfinance. There is, hence, an immense scope for growth and expansion," MFIN chief executive officer Harsh Shrivastava said in the report. Based on the third quarter data available for 48 NBFC-MFI members, loan amount disbursed via cashless mode stood close to 90%. In terms of

State	No of MFIs	GLP (Gross Loan Portfolio) (INR Bn)
Bihar	32	79.91
Maharashtra	26	62.76
Uttar Pradesh	25	60.86
Orissa	25	73.29
Madhya Pradesh	24	45.15
Rajasthan	21	29.16
Chhattisgarh	21	15.64
Gujarat	19	13.53
West Bengal	19	59.58
Tamil Nadu	17	54.68
Haryana	16	11.84

#### Top 10 States by Number of MFIs

Source: SIDBI-Equifax Microfinance Pulse report April 2019 and MFIN Micrometer report Q4FY19

regional distribution of portfolio (GLP), East and North-east accounts for 40 per cent, South accounts for 28 per cent, North holds 10 per cent, West has a share of 14 per cent and Central contributes 8 per cent. During October-December, NBFC-MFIs received a total of Rs 10,960 crore in debt funding, which was an increase of 16 per cent from the second quarter of FY2019-20, the report showed.

#### 4. Conclusion

The research is focused on the contribution of micro-banking system in promoting a positive influence on the growth and development of the economic standard of the society. The analysis had revealed many facets of microfinance system in the national economy. Microfinance industry has played a significant role in identifying and resolving the challenges encountered by numerous small scale industry-based entrepreneurs, in particular women entrepreneurs. It is relatively not so easy for the lower class of society (in monetary terms) to access commercial banking in order to meet up their expected requirements. They have to face a lot of struggle to get any sort of support from the leading names of banking industry. It subsequently leads to the prominence of

microfinance industry which comes up with a helping approach to the underprivileged sections of the society. This industry acknowledges various unnoticed issues which have been posing a challenge to this overlooked community of entrepreneurs for so long. Microfinance industry has gradually started dealing with them for working towards providing an equal opportunity to these entrepreneurs in terms of financial growth and stability.

This study has also given us an idea about the suitable approach adopted by the microfinance institutions in uplifting the situation of poor households of the society. It has been revealed that the active involvement of microfinance in the economy generates ample opportunities for the poor women entrepreneurs in particular. It eventually helps in their growth and encourages them to work upon the important financial decisions on their own.

However, it becomes imperative on the part of microfinance institutions to facilitate them with the needed support and guidance on the available credit facilities. It actually gives them the required sense of knowledge to have an idea about the possible areas of investment, innovative methods in the technology and latest trends prevalent in the financial market which eventually motivates them for the enhancement of their skills so as to get empowered and excelled in bringing a sustainable approach in their business model.

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