

Role of Microfinance in Emergence of Small Scale Entrepreneurs

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Abstract: *The microfinance revolution in India reveals that it is playing a vital role in the vision of poverty eradication with various effort of Government of India. The role of microfinance now has been more tactical than in the past. It promotes financial inclusion by adoption of individual lending to the poor and targeting micro enterprises. It is not limited to only productive poor but also extend the innovation oriented entrepreneur. The microfinance is a bigger contributor of one factor of production namely capital to entrepreneur.*

The research focuses on the study of combining microfinance with entrepreneurship for poverty alleviation, empowerment of poor and sustainable development. The study is to identify the role of microfinance in the development of small scale entrepreneurs; to find out the demographic characteristics of small scale entrepreneurs who have acquired microfinance, to find out the impact of various perceived roles of microfinance in economic empowerment of small scale entrepreneurs. The significance of the study is that microfinance enables small scale entrepreneurs to acquire skills and increase income, develop business and empowerment in the social areas of society. It can be concluded that steps should be taken to develop the selected roles i.e financial role, capitalist role, enterprise development role, financial inclusion to scale up the economic empowerment and psychological empowerment of small scale entrepreneurs..

Keywords: Entrepreneurship, Empowerment, Financial Inclusion, Microfinance, Small Scale Entrepreneur

I. INTRODUCTION

Micro financing, according to Conroy (2003) is the delivery of financial services to poor and low income households with limited access to formal financial institutions. Microfinance is also being described as banking for the underprivileged. The creation of Microfinance banks as a means to enhance access to loans and savings services for the underprivileged is presently being encouraged as an essential development strategy to facilitate poverty eradication and economic development. In India, Microfinance programme are implemented through Self Help Groups (SHGs). The SHG is an association of people belonging to similar socio-economic characteristic, residing in same locality. The SHGs are voluntary associations of people formed to attain some common goals. These are groups have similar social identity, heritage, caste or traditional occupations.

Although the demand for micro-finance by small scale business is high, banks believe that lending small loans to low income people is not a profitable activity for them. For example a study conducted by International Labour Organization (2003), reported that two-thirds (67.2%) of small entrepreneurs used their own savings to start businesses, 32.8% received assistant from micro-finance institutions, 3.9% got credit from family and friends, only 8.6% borrowed from moneylenders. These results suggest that limited access to funds by small enterprises from commercial banks has in many ways constrained the emergence and growth of small scale enterprise.



II. LITERATURE REVIEW

According to Agion and Morduch (2005, pp.3), due to microfinance, many possibilities have emerged including extending markets, reducing poverty and fostering social change. There is wide spread confusion that microfinance is just lending loan to poor. However microfinance is not only include loans, but also covers the issues of poverty alleviation, putting social impact on poor and educating poor on savings.

According to Ledgerwood (2000, pp.1) "Microfinance has evolved as an economic development approach intended to benefit low-income women and men. The term refers to the provision of financial services to low –income clients, including the self-employed."

According (Ledger wood, 2000, pp.1), many activities and characteristics are included in microfinance, such as small and short term loans, social collateral rather than financial collateral, access to larger amount of loan if repayment performance is positive, search and access the real poor and their business demand.

The Role of Microfinance in India, published jointly by Rajesh Babu Dasari, Naratejaswini, Jeerala Umakanth in 2019- This paper was based on conceptual study of Microfinance, it mainly aims at Role of Microfinance in India and models that deals with Microfinance.

A Conceptual study of Micro Finance in India, Published by Ms Neha Saini, Dr Bhupendra Kumar, OP Pathak in International Journal of Marketing & Financial Management 5 (11), 2017- This research paper successfully analyse the concept of Micro finance. And aims at identifying the current status and role of microfinance in development of India. But this paper fails to provide practical solutions which limits the growth of Micro Finance.

Microfinance in India: Contemporary issues and challenges, published by Sibghatullah Nasir, in Middle-east journal of scientific research 15 (2), 191-199, 2013-Firstly, this paper analysed the issues and consequence related with microfinance, then This paper offers practical solutions to address microfinance challenges in India and overcoming microfinance issues in India as well.

Book titled Problems faced by Microfinance Institutions & measures to solve it, Written by Brijesh Rupapara and Jitendra Patoliya- This book covers the basics of microfinance, self-help groups, microfinance institutions performance, urban and rural microfinance, micro insurance, technology and microfinance business models. However, it falls short in analyzing the limitations of microfinance.

Microfinance in Asia: trends, challenges & opportunities, published by Jamie Bedson in 2009- This report aims to contribute to the growth and development of the microfinance sector by providing practitioners with practical guidance on addressing challenges related to nonperforming assets and improving their ability to serve the underserved population.

Financing Microfinance: ICICI Bank partnership model, published by Bindu Ananth in 2005- This paper analyses the partnership model of financing microfinance institutions. The paper provides a comprehensive analysis of different financing models for microfinance, including ICICI Bank's innovative partnership model, the self-help group bank linkage model and the financial intermediation model.

Objectives

There are following objectives of this research paper:

- To understand the concept of Microfinance India
- To analyse the role of Microfinance in Rural Development in India
- To understand the Models of Microfinance in India.

Microfinance in India

The concept of microfinance took shape in the 1970s with establishment of organizations like Grameen Bank of Bangladesh with the microfinance founder Muhammad Yunus, were starting the modern industry into microfinancing. But in India, its originated in back to the early 1970s when Self Employed Women's Association (SEWA) of the state of Gujarat formed an urban cooperative bank, called the Shri Mahila SEWA Sahakari Bank, with the purpose of providing banking services to the marginalized women.



Prominent Microfinance Institutions of India

- State Bank of India
- Ujjivan Financial Services
- Asmitha Microfin Ltd.
- M&M Financial Services
- Sundaram Finance Ltd
- Bandhan Financial Services
- Bharat Financial Inclusion Ltd
- Muthoot Microfinance Ltd
- Janalakshmi Financial Services
- MUDRA Bank in India

Microfinance Utilizes Two Primary Approaches to microfinance in India are rooted in different methods of delivery financial services to rural poor and low income individuals called

- Self Help Group – Bank Linkage Programme (SHG-BLP)
- Micro Finance Institutions

Microfinance Impact on Micro and Small Business Development

A. Financial Inclusion and Access to Capital Numerous studies demonstrate that microfinance has significantly enhanced financial inclusion for micro and small businesses (Gonzalez et al., 2019; Ledgerwood, 2018). Access to microloans, savings accounts, and insurance products has enabled entrepreneurs to overcome capital constraints and invest in their businesses. This increased access to capital has led to improved business stability and the ability to exploit growth opportunities.

B. Entrepreneurial Skills Development and Training Microfinance institutions often offer targeted training programs to enhance the entrepreneurial skills of borrowers (Sinha & Ghosh, 2020). These programs cover various aspects of business management, marketing, and financial literacy. The acquisition of these skills has empowered entrepreneurs to make informed decisions, optimize resource utilization, and adapt to changing market dynamics.

C. Business Growth and Expansion Empirical evidence suggests a positive correlation between microfinance utilization and business growth (Karlan & Valdivia, 2011). Microfinance borrowers frequently experience higher revenue generation, increased production capacities, and expanded product lines. The provision of timely and affordable credit has allowed these businesses to invest in machinery, inventory, and marketing, thereby fostering growth.

D. Job Creation and Poverty Reduction Micro and small businesses supported by microfinance initiatives have contributed significantly to job creation and poverty reduction (Banerjee et al., 2015). As businesses expand, they hire more employees from the local community, thereby contributing to employment generation. This, in turn, aids poverty reduction by increasing household income and improving living standards.

E. Social and Community Development Microfinance interventions have demonstrated the potential to stimulate social and community development (Hossain, 2007). By empowering individuals to establish and grow businesses, microfinance indirectly enhances social capital within communities. Borrowers often engage in collaborative initiatives, share resources, and support local development projects, thereby contributing to a sense of community cohesion.

III. CONCLUSION

The analysis of existing literature on microfinance and its impact on micro and small business development has revealed a range of significant insights. Microfinance plays a crucial role in promoting financial inclusion and providing access to capital for entrepreneurs. It contributes to the development of entrepreneurial skills and fosters business growth, leading to job creation and poverty reduction. Additionally, microfinance initiatives have demonstrated the potential to enhance social capital within communities. Case studies highlight the successful integration of microfinance in various regions, showcasing its transformative effects on businesses and livelihoods. This study successfully addressed the research objectives by examining the multifaceted impact of microfinance on micro



and small business development. The role of microfinance in providing financial resources, enhancing skills, and fostering growth has been explored comprehensively.

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