EFFECT OF MICRO-FINANCING ON DEVELOPING COUNTRIES AND INDUSTRIAL SECTOR

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ABSTRACT

Third world countries are considered as the developing countries of the world. Microfinancing and industrial sector are the lifeblood of the developing economies because it assists the economies to augment in terms of business activities. The micro-financing assist the small businesses within the economies to fortify their foundations at the starts so that the businesses can survive and contribute to the overall economy of the country. The strong foundation of the businesses also results in the development of large industries because once the small businesses are established then these businesses result in large industries in the long run. Therefore, micro-financing is playing a central role in the development of the industrial sector of the economy. Furthermore, one of the aims of developing countries is to enhance the overall GDP of the country in order to get into the list of developed countries. The increase in GDP provides a number of benefits to the economies of developing countries i.e. increase the employment rate of the country, decrease the poverty rate, and enhance the standard of living of the people. Therefore, it is also determined that the micro-financing possess dynamic importance for the developing countries in comparison with the developed countries because the micro-financing has resulted to be more beneficial for the developing countries.

Keywords: Micro-financing, developing countries, industrial sector, GDP, economic activities.

INTRODUCTION

Microfinance is one of the aspects of providing loan facilities. This loan facility allows the individual to grow and prosper if they possess a business idea and require an investment to carry out business activities. Microfinance is of vital importance in the third world country because it allows the country to develop and grow through the establishment of economic activities (Arbolino et al, 2018). The third world countries are considered as developing countries. The microfinance provides an opportunity for developing countries to develop their economies and the industrial sector of the economy (Maengwe, 2016). The industrial sector provides a great source of foreign and domestic income for the economy and thus boost economic activities. Hence, the micro-financing does not only provides loans to small business and poor individuals, but it also provides a wide range of services other than loans which include insurance services, savings, and offering of credit facilities.

LITERATURE REVIEW

As per Nanayakkara (2017), micro-financing is provided by financial institutions and other governmental and non-governmental organizations to lay the basic foundations of the businesses within the economy. Micro-financing is the lifeblood of developing economic due

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to the fact that through the micro-financing activities the economic activities are increased which results in increasing the overall GDP of the country (Ullah, 2018). The increase in the GDP of the country results in an increase in employment which provides an opportunity for the individuals residing in the country. Ezeanyeji et al, (2020) stated that the decreasing unemployment rate in the economy can result in declining the poverty rate of the economy and improve the standard of living of the people. When the standard of living if the people enhances, then people usually provide higher education to the children and in this way the country can grow and prosper. The skills and expertise are of vital importance for the economy which can be acquired through education and if the economic activities of the country enhance, the illiteracy rate of the country also decline (Golesorkhi et al, 2019). Micro-financing is the necessary element in boosting the overall economy of the country. The economic growth is essential and can be increased at an increasing rate in comparison with the developed countries where the competition is tough and it's hard for the small companies to survive within the industry (Raihan., 2017). Thus, micro-financing provides an opportunity for economic development in developing countries.

According to Schmidt (2016), the utilization of micro-financing requires strong banking structure and policies along with economic policies set by the government. The policies of the government play an important role in utilizing the micro-financing provided by financial and non-financial institutions efficiently and effectively (Kersten et al, 2017). The industrial sector is the main element of the economic activity in the country and micro-financing is conducted to stabilize and establish the industrial sector of the economy. The micro-financing is usually provided to the small businesses which result in the large industries and organizations in the long run (Tongurai, 2018). Apart from banking institutions, the non-governmental organization are playing an imminent role in providing micro-financing to small businesses in the developing countries in order to boost economic activities.

METHODOLOGY

In order to analyze the effect of microfinancing on the third world countries and the industrial sector, the methodology selected is the qualitative approach to analyze the impact in detail. The qualitative research assists in analyzing the study deeply along with different aspects of research conducted by other researchers. Qualitative research also assisted in determining the opinions and problems of other researches and comparing our opinions with other researchers (Jayachandaran, 2020). The combination of data collection method which is used to conclude this study is through the observation technique and a focus group of discussion of economists with regard to the impact of micro-financing in the third world countries and the industrial sector. Furthermore, the qualitative study is considered for conducting this research because it allows the researcher to come up with the opinions by digging deeper into the research work of other researchers.

RESULTS

Micro-financing appears to be a great boost to the development of economic activities in third world countries. The development of the industrial sector in the third world countries also depends upon the micro-financing activities due to the fact that it provides the small businesses with an opportunities to become large industries and organizations in the long run (Bagudu, 2016). The micro-financing is also one of the major sources for the developing countries to enhance the overall GDP as it boosts the production and business activities within the country. The increase in GDP also results in increasing employment opportunities for the individuals and the illiteracy rate of the country also declines which results in increasing the technical employment force for the country.

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DISCUSSION

It is also observed that the GDP rate do the developing countries is increasing at a faster rate in comparison with the growth rate of the developed countries. This indicates that micro-financing activities can play an important part in the development of the economy (Ibrahim, 2018). The opportunities are available in developing countries because of a lack of innovative ideas and business ideas to conduct business activities. Therefore, micro-financing is an essential factor in the development of the overall economy. The increasing microfinancing activities in the developing countries took place because not only the financial institutions are providing micro-financing to the small businesses but also the non-governmental organizations are also providing micro-financing activities (Kumar, 2017). On the other hand, the industrial sector is one of the crucial parts of the economy and large industries are not provided with micro-financing facilities. However, the micro-financing facilities are provided to the small businesses which result in large industries in future (Adewusi, 2019). Therefore, micro-financing plays an important role in the development of developing countries.

CONCLUSION

Micro-financing has affected the economies all around the world. Micro-financing is the necessary element for the development of economic systems due to the fact that it assists the economies to augment the economic activities by supporting the small businesses. Financial institutions play an important role during the development of the economy. Moreover, after the initial stage, companies also require financing for expansion activities as well as financing for working capital i.e. financing to manage operational activities of the company. The industrial sector also plays an imminent role in augmenting the economy and large industries within the economies requires micro-financing at their inception in order to strengthen the foundations of the businesses. Hence, micro-financing and industrial sector are crucial for the development of third world countries.

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