

## Microfinance: Coping Up with Emerging Banking Needs

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### ABSTRACT

India is at the age of major reforms in the economic growth & development. But for overall development of any country economic as well as social growth of people is required. The major obstacle in achieving overall national growth is poverty & imbalance socio-economic development. It is essential for a developing country to have growth on both social as well as economical background to transform into a Developed country. In India major population is living in rural areas having lack of literacy, lack of resources, and absence of employment opportunities & non availability of credit facilities to meet their consumption & production needs. Credit plays very crucial role in the economy of poor households. This is the common situation of all the developing countries. To come out of this vicious circle of poverty, most of the countries have introduced various campaigns & programs for the poor. Among all these poverty alleviation programs & campaigns, Micro Finance is the most effective tool over some years. The origin of Micro Finance can be traced to early 1700s. But the perfect & modern of micro finance was given by Dr. Mohammad Yunus of Bangladesh. He introduced the concept in most effective way in 1972. He was awarded with noble prize in 2006 for initiating the modern model of micro finance. India has also initiated & developed many programs & campaigns for eradication of poverty & achieve overall national growth. In India SEWA has introduced the most powerful weapon in micro finance known as Self Help Groups (SHG) in 1974. SHG model of micro finance has generated eye-snatching results for eradication of poverty, women empowerment & availability of easy credit to the poor. In India the Government, NGOs & SHGs are doing their best for socio-economic growth. Among the SHGs have rapidly become common rural phenomenons all over the India. The paper concentrates on the study of impact of micro finance & SHGs on the poor.

**Key words** : microfinance.

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### INTRODUCTION

Globalization has presented new challenges for economic growth clubbed with gender equality & economic equality. Micro finance is the tool for serving financial services to the poor. The poor need a diverse range of financial instruments to run their business because of their small needs for small business. The poor are excluded from the formal banking system because of having no collateral, but the micro finance activities explores new contractual structures and organizational forms that reduce the risk and cost of making small, uncollateralized and cheap loans. The basic financial services required by the poor are in need of loan for

capital to start business. Credit consumption, working capital loans, consumption credit, savings, pensions, and insurance and money transfer services. Generally the poor approaches informal credit provider as they can't be helped by the commercial banks. These providers charges very high rates of interest. Therefore NABARD and GOVERNMENT felt to develop a system which satisfies all the needs of poor with solving the problem of collateral and with lower rate of interest, so that they can be benefited for their upliftment at the most.

The financial institutions that provide financial services to the poor are called **micro**

**finance institution** that includes wide range of poises that vary in their legal structure, mission and methods of intervention. There are three types of resources that retail micro finance in India. Those are as follows:

1. Formal institutions such as rural banks and cooperatives
2. Semi informal institutions such as NGOs  
Other financial institutions

### **NEED FOR MICROFINANCE IN INDIA**

Empowering of women pre-purposes a drastic, dynamic & democratic change in the perception from women in our society. To help women to attain economic independence is the first priority for such change. It is the matter of concern that if the country is having economic development & growth, the country is contributing in exports & imports also, the standard of living of the rich is too high, huge business houses also exists, but if it fails to draw the poor out of the vicious circle of poverty, that economic growth doesn't matter much. In India we find economic inequalities to a very large extent. The Poor are becoming more & more poor, which rich class is enjoying more & more luxuries. In such condition to attain overall economic growth, to achieve an ideal economy, it was primary need to up lift the poor from social & economical sufferings.

According to the reports India has a population exceeding 1027.01 million, with 742 million living in rural areas. About 40% of population is poor. 23.62% of urban population & 27.09% of rural population are living below poverty line. The major causes of poverty are lack of availability of resources to the poor class of people. The poor have very little savings & have to rely on the borrowings more to meet their consumption & production needs. So credit plays very crucial role in the economy of poor households. Poverty & consequent inequality has often been described as a condition that is influenced by combination of economic & social factors, which push, a class of people below a level of poverty line. Even the poor families cannot get their basic livelihood needs of food & shelter. This results in social & economic exclusion of a this class and

moving forward to the path of growth without considering this neglected class.

"The notion that poverty is an economic issue alone is not correct, it has both social and economic dimensions" says Nobel Laureate AmartyaSen, to eradicate poverty; attempts are to be made to empower the poor appropriately. This idea of empowerment has got utmost importance during the last decades. Microfinance has been identified as a powerful tool; for solving the socio economic issues concerning the poor. By helping the poor and need class of society which leads maximum portion of the population, microfinance is doing remarkable job which can lead to poverty eradication and reduction in economic inequalities.

### **REVIEW OF LITERATURE**

Review of literature consists of the reviews of the other authors who had done their remarkable research in the field of microfinance. This portion gives us the idea about the researches that have been done in this area & also the results derived from review of literature gives the overall understanding of micro finance, its success, failure, suggestion for improvement in micro financing activities.

❖ **Mr. V.Basil Hans** (April 21, 2014) has done his research on INNOVATION IN MICROFINANCE and his research reveals that Micro finance has clubbed social as well as economical intermediation to build well balanced society. It has enhanced empowerment by overcoming economic & social constraints with overall economic, social & individual growth of the poor.

❖ **SurenderrarKomera** (March 1, 2008), Institute for Financial Management (IFMR) Chennai. Has done his research on the topic PROVISION ON MICROFINANCE and he has focused on the Grameen Model of micro finance. By evaluating the Grameen model, he has suggested some favorable changes in Self Help Group Model of India for intense development of micro finance like in Bangladesh.

❖ **Dharm Pal Malik** (December 23, 2011) has done research on SHG BANK LINKAGE PROGRAMS IN INDIA, his research

reveals that SHG-Bank linkage program which was started in 1992, has provided formal financial system to the neglected class of India. SHG has created a movement in India for credit reforms to the poor, which is eye-snatching. He has also forecasted that SHG will approach to all the poor class.

❖ **MohdNajmal Islam** (June 14, 2011) has done research on INDIAN SHG MICROFINANCE EXPERIENCE ENDEAVOURS & CHALLENGES; his research reveals that Micro Finance in India is still not totally spread to bring about revolutionary changes. It should be provided new concepts & conventions for empowerment. But SHG-Bank Linkage Model has drastically changed the traditional financial system by offering small to large amount collateral & at easy terms.

❖ **Amit Kumar Kashyap** (March 10, 2010) National Law University, Jodhpur has done research on SUSTAINABLE MICRO FINANCE FOR WOMEN EMPOWERMENT, he has suggested to come out at practical solution for women empowerment rather than just discussing it. One of them is creation of Self Help Groups which turned into most effective tool for providing credit for consumption as well as production purpose. It helped to lower the level of poverty.

❖ **Naveen K. Shetty** (Institute for Social & Economic Change) AND Dr. Veerashekhara (Institute for Social & Economic Change) (October 19, 2009) has done research on THE MICROFINANCE PROMISE IN FINANCIAL INCLUSION, their research reveals that Micro finance institutions had developed financial services in rural areas. Moreover, MFI model & SHG model are the leading options to redefine the present financial system. The trend of conversion of NGOs into MFIs & emergence of new MFIs are the sign of upward scale of micro finance.

❖ **Jigna C. Trivedi** (ShriJairambhai Patel Institute of Business Management and Computer Applications) (June 2012) has done research on AN EMPIRICAL STUDY ON ROLE OF MICROFINANCE IN BOOSTING WOMEN ENTREPRENEURSHIP, the study reveals the role of micro finance for

employment generation & entrepreneurial development. SHG has done remarkable job for this purpose. She focused on credit facilities by SHGs for non commercial use also.

❖ **A P Pati** (North Eastern Hill University) (October, 2008) has done research on SUBSIDISED MICRO FINANCING & FINANCIAL SUSTAINABILITY OF SHG, his study reveals the impact of subsidy on financial sustainability has lessened the sustainability of SHG.

❖ **Sibghatullah Nasir** (2013) has done research on MICROFINANCE IN INDIA, his research reveals the obstacles in path of functioning of MFIs because of non availability of various products, higher rate of interest, deferred payments, customer overlapping etc. he suggested to move on the perfect direction for the growth of micro finance.

❖ **P. Satish** (2011) has done research on Institutional Alternatives for Promotion of microfinance: Self Help Groups in India, his research reveals that SHG is the most effective tool for success of micro finance in India which had developed formal financial system between informal groups of the society. NGO, government & banks are the real backbone of the tremendous success of SHGs in India.

#### **OBJECTIVES OF THE STUDY:**

- ❖ To evaluate the role of micro finance & for expansion of credit to the poor class.
- ❖ To evaluate the impact of Micro Finance for over all women empowerment & gender equality.
- ❖ To examine the impact of micro finance for poverty eradication.

#### **MICRO FINANCE IN GUJARAT STATE**

Gujarat has been considered as a huge potential market in terms of microfinance. The maximum numbers of potential SHGs are found in Panchmahal, Sabarkanth, Banaskantha etc., and other similar areas all over the State. During 2010-11, 16 states had a positive growth rate and 11 states had a negative growth rate in client outreach. The client outreach recorded highest (1.6 million) in Uttar Pradesh, followed by Gujarat (1.53 million). However

Gujarat had the highest growth in portfolio at ~10.8 billion followed by Uttar Pradesh at

### **DEFINITION OF MICROFINANCE**

In simple terms Microfinance means **“offer of financial and non-financial services to people excluded from traditional banking system.”**

Microfinance can also be defines as “Microfinance is means by which poor people convert small sums of money into large lamp sums.”

According to Reserve Bank Of India Microfinance is **“A company (other than a company licensed under Section 25 of the Companies Act, 1956) which provides financial services pre-dominantly to low-income borrowers with loans of small amounts, for short-terms, on unsecured basis, mainly for income-generating activities, with repayment schedules which are more frequent than those normally stipulated by commercial banks and which further conforms to the regulations specified in that behalf”.**

According to International Labor organization: “Microfinance is an economic development approach that involves financial services through institutions to low income clients.”

In India National Microfinance Taskforce 1999 defines microfinance as “provisions of thrift, credit and other financial services & products of very small amount to the poor in rural, semi urban or urban areas for enabling them to raise their income levels & improve living standards.”

### **IMPACT OF MICRO FINANCE PROGRAM ON INDIAN ECONOMY**

- Micro finance has reduced poverty by increase in earnings and enabled the poor to improve their standard of living.
- Micro finance has influenced the level of literacy in good ratio.
- Children of the families participating in the program are having better school attendance & lower dropout rates.
- Empowered women by enhancing their contribution to house hold income. They also given them better decisions on the decisions that affect their lives

~6.3

- It had also reduced child mortality, improved maternal health along with nutritious food.
- It had reduced the dependency of poor on informal money lenders & other non institutional sources.’
- It had facilitated significant research into provision of financial services for the poor.
- Some NGOs has covered micro insurance products to their portfolios, many SHGs are maintaining Grains Banks also to provide with the basic need of food to the members.
- Especially in Gujarat this activity is controlled & regulated by GUJARAT LIVELIHOOD PROMOTION COMPANY LTD. (GLPC), which governs numbers of schemes to empower women.
- Under the scheme of MISSION MANGLAM, attempts are made to approach more & more women in backward area to provide them basic necessities, employment, training program, credit facilities, daily savings etc.
- More over by many RojgarYojnas, attempts are made to provide more employment opportunities by technical training & placement opportunities.
- Pregnant ladies are provided MAMTA KIT which consist basic requirements that a lady requires that time.
- More over every month each type of grains are sent to the leader of SHG, who in turn will distribute to the needy, small children, unmarried girls etc.
- In addition to that because of awareness programs by micro finance, the leader of the SHG themselves are inspired a lot & they are trying to approach more women to join SHG for the basic benefits.
- In rural areas, official of the Yojnas themselves, collaborate with the industries & arrange training & development programs & also establishment of businesses by providing sufficient machineries also.

### **CONCLUSION**

From the above analysis we can conclude that micro finance is found quite effective for

eradication of poverty & making the life of poor easier & stable. Due to microfinance the poor are now not afraid for getting loans for their emergencies, for their business establishments or business expansions, for costly but necessary medical treatments etc. Micro finance through creation of more & more Self Help Group generally consisting women as members had tried to reach to each & every corner of the country where the poor exists. The main problem of the poor of granting loan as having no collateral & no high earnings or income tax returns, is solved up to the satisfactory level. More over micro finance has also encouraged the women to save regularly in spite of having tiny amounts as savings. Gradually they will tend to save which can convert their savings in large amounts. All these can result into better and secured future for the women or poor. With the help of micro finance the poor class has been able to increase their level of income substantially, which shows a good sign of overall economic development & growth of the country. Over & above all the discussion we can conclude that micro finance is playing remarkable role in eradication of poverty, providing food, shelter, employment to the poor, empowerment of women, enhancing standard of living of poor & achieve balanced economic growth & gender equality.

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