

Research Paper

MICROFINANCE IN INDIA

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ABSTRACT

This paper discusses regarding microfinance- its nature, objectives, framework, principles, challenges and opportunities with the reference to Indian context. The microfinance – which is becoming more important financial institutions with the intention to provide the credit facilities and the supportive services to the needy people, community, especially empowering the women.

Key Words : Microfinance, Microcredit, Microfinance Institutions, SHGs, NGOs.



The main object of microfinance is to finance those areas of thrust from where the generation of income and the employment may be takes place. In this regard Self Help groups play an important role. There are certain principles also through which the microfinance process takes place. As this sector is becoming most important many banks- public and private, NGOs, Cooperative banks have shown very keen interest towards microfinance. In addition to providing the microfinance, the financial institutions are coming forward for offering the supportive services. These services are Micro savings, Micro insurance, Micro Leasing and the money transfer which are similar to banking services. With this, there are certain challenges and opportunities before the microfinance in India. As illiteracy is more in rural area, there is less chance about understanding about the microfinance. Even in urban area the information about microfinance is very less. Therefore it is important that the ministry of finance, ministry of I& B should pay keen attention toward publicity of microfinance.

Introduction :

Micro finance, by its name refers the whole journey of financial and non financial services which covers skill up gradation, entrepreneurship development rendered to the poor needy people so as to enable them to overcome poverty & its related issues. In designing the programme for the poor, the microfinance is always considered and accepted as a most important tool of development paradigms for poverty alleviation through social and economical empowerment of poor, specially by focusing on empowering women. The origin of Micro Finance goes back to the beginning of cooperative movement in Germany in 1944. With small efforts by forming Self

Help Group (SHGs) with main intention to provide the credits services to the needy people. National bodies like SIDBI, NABARD came forward and even now devoting significant and sufficient time & financial sources to MFs. This point put the growing importance of the sector. Beyond providing the microfinance the other services also expanding. They are duly involved in providing services like Micro savings, Micro Insurance, Leasing & similar to banking services.

Statement of Problem:

Microfinance – as it contributes the small credit supply so as to start the small business for the poor, needy people. The microfinance in India started with a view to improve the quality of life of poor by providing the financial and supportive services to mobilize the resources and creation and generation of income & social life. In this regard many financial institutions and NGOs are in practicing the microfinance, raising or funding for Microfinance Institutions.

Significance of the Study :

The present study focusing on the framework, microfinance institutions and the challenges and opportunities with the context to India country. The main role of microfinance is to finance such a group of people especially empowering the women – those who are in position to create and generate the income and the employment opportunities which always leads towards the well being of society by increasing the standard of living of them. Of course the functions and working of microfinance always runs on the certain principles – It must be used for only productive purpose not for other proposes. Microfinance should be useful to poor households; helping them to raise the income, standard of living of themselves. Microfinance means building permanent local institutions. Microfinance institutions should measure and disclose their performance – financially and socially. The role of NABARD, SIDBI, Self Help Group (SHGs), NGOs commercial banks and the cooperative banks is also an important. As many factors are directly and indirectly concerned with the microfinance there is a greatest opportunities on the part

of government and NGOs so as to make publicity and awareness regarding the microfinance by considering the key involvement of Finance ministry, Ministry of Broadcasting and last but not least the role of media.

Objectives of the study :

The objectives of the study are as follows :

1. To study evolution and Genesis of Microfinance.
2. To study framework of Microfinance.
3. To study the Microfinance Institutions in India.
4. To study the challenges & Opportunities before Microfinance in India.
5. To study the Principles of Microfinance.
6. To study the support services.

Research Methodology :

The secondary literature is drawn in house. The primary data was collected through the informal interview method while the secondary data was collected through various research publications, journals – online & printed, magazines, web sites. The literature is cross checked and validated to gives the latest information.

Review of Literature :

A.N. Sarkar (2005) has reviewed that the main motto of microfinance is to supply the financial and supportive services to the needy people especially empowering the women. He also considered the framework of microfinance. With the help of NABARD annual reports, bulletins of world Bank he has tried to disclose the current scenario of microfinance in India and the future strategies for microfinance. M.S. Shriram (2006) has concluded that microfinance in India started in the early of 1980s. He has studied the transformation of micro finance sector in India as well as globally.

Formal Interview with Mr. G.D. Patil – Retired Branch Manager of Bank of Baroda (2011) had shared his experience and opinion regarding microfinance. He discussed the basic concept, nature, framework, objects of microfinance. He opined that microfinance should be done to such a people who have capability to generate the income and employment opportunities. And by considering the same now a day the various financial institutions are coming forward for financing such people or organization. The small entrepreneur like Tea stall, small hotels, catering service providers, flower merchants, daily required items shop etc may be beneficiary of Microfinance. Purushottam, S. Laxminarayana, T.G. Ramaiah (2010) has reviewed the process of evaluation of SHG- Bank Linkage in 3 districts of Andhra Pradesh. They were Adilabad, Khammam, Srikakulam. They concluded that SHGs should be improved. And the branch managers also must be sensitive to consider the needs of tribal poor and the government should be explore technological , institutional, financial innovations to address the issues of branch viability in backward, tribal regions. E.M. Reji (2010) has opined that Self Help Group (SGGs) which is important link in microfinance sector plays vital role in the country by helping 45 Million household access financials rives from the formal banking system in the country. Also he mentioned that some of the SHGs are highly succeed and other not so much. He also revealed that effective functioning of group is influenced by a key factors; quality of group meeting, savings habits, group leadership, group interactions, sense of self, equity,

accountability and transferency etc. H.S. Shylendra, Sampati Guha, Veerashekharappa (2010) had studied the role of SHGs as micro financial intermediaries with the reference to Sabarkantha in Gujarat district. The outcome of this was SBPL (Self Help Group Bank Linkage Programme) is aimed at helping the poor in easily accessing the financial services. The linkage programme has given a fillip to the formation of SHGs in the study district. There are few potential strength and some inherent constraints of SHGs. K.K.Tripathy & Sudhir. K. Jain (2010) had conducted primary research in the year 2006-2007 with intention to assess the issues in the operation of SHGs in rural area in India. The study was conducted in Orissa and Haryana state with some selected districts. The result of this study underlined the need for an integrated approach to programme in rural areas. The paper concluded with the policy guidelines which help towards the rural self employment programme.



Microfinance : Nature and Framework

The famous economist Robinson (2001) defined microfinance as small financial services with object to provide the credit & savings to people who farm fish or herd. He also added that it refers to all types of financial services provided to low income group, households and enterprises. In India, the concept of microfinance is understood but not yet clearly defined. E.g. if SHGs gives loan for an economic activity, it is termed as 'microfinance' while it is sanctioned by the commercial bank then it is called as 'Loans'. In Indian context microfinance activity takes by NGOs. It is something done with the poor. Lastly the R.B.I has defined microfinance by mentioning criteria of investment amount.

Poverty is the main reason of concerns in improving the economic, social status of developing or under developing / underdeveloped countries. In this situation the microfinance institutions is an organization that offers financial and support services to the low income populations. Micro finance is increasingly one of the most effective tools of reducing the poverty. It plays significant role in bridging the gap between the formal financial institutions and rural area. The Microfinance Institutions access the financial resources from the banks and other main stream financial institutions and provides the credit and other facilities.

Micro finance is not a panacea from all the troubles; it means that not any poor person can obtain the loan. Especially the representative of poor population, lack of

stable income, living by means of chance earning, having debts cannot be a client of microfinance. Thus the microfinance is provided to such a person or organization for such an economic activity which reproduces, generate the income and employment opportunities which is being useful to the society. The operational framework of micro finance essentially rest on the premise that (a) Formation of Self Employment enterprises is a viable alternate means of alleviating poverty. (b) Incapable to raise capital/ assets/ credit acts as a constraint on the potentially of microfinance. (c) The poor but capable for savings despite their low and poor income level. In this situation the microfinance is always considered as an institutional mechanism of providing credit in small amount and make capable to take up economic activity. The poor entrepreneurs are the future representations the population who will be act as a “Successful” in the future. They may have some skills & ability to operate toughest operations. The managers of MFIs carefully ensure the borrower success and keep well informed about the risk involved, which makes borrower performing the better. This leads often to earn dignity & lasting self confidence associated with loan repayment responsibilities.

Principles of Microfinance :

There are certain principles which are categorized in 2004. They are ;

1. Poor people needs not only loans but also savings, insurance, money transfers allied services.
2. Microfinance should be useful to poor households; helping them to raise the income, standard of living of themselves.
3. Microfinance means building permanent local institutions.
4. It also means integrating the financial needs of poor people in the mainstream of financial system
5. The role of government is to enable the financial services not to provide them.
6. Microfinance institutions should measure and disclose their performance – financially and socially.

Microfinancial Institutions in India :

Various types of institutions offer micro finance. Credit Union, Commercial banks, private banks, NGOs mainly works in remote rural areas whereby providing financial services to those person with no access to banking services. Aga Khan is the First Microfinance bank which was established in the year 2002. However NABARD, SIDBI, Rashtriya Mahila Kosh, Association for Sarva Seva Farms (ASSEFA), Mitrabharati- The Indian Microfinance hub, Mysore Resettlement and Development Agency (MYRADA), SADHAN- The association of Community Development Finance Institutions, SEWA : Self – Help Women's Association, Swayam Krishi Sangham – SKS India, Banking with Rural Women – Streedhan etc such organizations are duly involved in providing the microfinance. However it is very important to note that these financial institutions are meant for providing the finance for economic activity not for following purpose;

1. Payment of other Loans or Debts.
2. Production of Tobacco or Liquor.
3. Forming turnover capital of trade and intermediary business.

4. Purchasing of property not used for business.
5. Organization or purchasing products for gambling or entertainment services for the people.

Supportive Services ... Beyond Microfinance.

Microfinance is the provision of financial services to low income group, clients who traditionally lack access to banking and regulated services. Microfinance is a wider concept of services which covers the micro credits. It is a provision of credit services to poor people. This sector is continuously focusing on the understanding the needs of the poor and on devising better way of delivering services in lines with considering their exact needs, developing the most effective, efficient mechanism to deliver finance to needy people. In the microfinance sector there are the services expanding very rapidly. Micro finance institutions are in position to innovate new products to meet the needs, empowering the poor to improve their lives. These products are ; 1. Micro Savings : To save money without minimum balance so as to retain the money for future purpose or to meet the unexpected expenditures. Here the members saves small amount periodically on daily, weekly, monthly basis in a group. They may borrow from the group funds for various reasons. If SHGs proves the capability of managing funds in well manner then the local bank may borrow them to make invest in small business or farm activities. 2. Micro Insurance: Gives the chance to focus more on their core business which reduces the risk affecting their property, health. This is the different type of insurance services which is similar to life insurance, fire insurance, property insurance, health insurance and disability insurance. But scope of this service is expanding very slowly. 3. Micro Leasing : For leasing the equipments, agricultural machinery, vehicles. 4. Money Transfer: Transferring the money to family or relatives without opening current a/c is performed by the MFIs.

Challenges And Opportunities Before Microfinance In India :

Where is a challenge the opportunities comes automatically. There are certain challenges before microfinance. They are on the part of needy people and microfinance institutions. Regarding needy people; 1. They take money from the informal money lenders at high rate of interest. 2. Due to charging of high rate of interest they cannot return their debts in proper time. 3. There is a lack of knowledge. 3. Insufficient & improper information. This situation is not limited up to only rural area but also belongs to urban area. While on the part of MFIs the problem of high cost in services, recovery problems, lack of effective guidelines are the major challenges. But at the same time there are certain opportunities also. Of course, these should be tapped in well manner. To convert the opportunities in practical manner is an important. But this is not a task of any single person or organization. The best supportive action from the government, better policy, programmes formulation by the higher authority of banks – both public and private, NGOs, SHGs, media, the role of I.T is needed. The continuous awareness programme by the NGOs, finance ministry, ministry of information and broadcasting is also expected.

Conclusion:

The role of Microfinance in India is becoming a more vital. As the main purpose of microfinance is to finance such a group of people – who are needy, poor but they are capable to start their own new business- which creates and generates the income and automatically increase the standard of living of themselves in the society. By considering and tapping this picture many nationalized, private, cooperative banks and the various NGOs (Non Government Organization), SHGs (Self Help Group) are coming forward to finance the needy people especially empowering the women. The working microfinance is always runs on the basis of certain principles. In addition to this they are duly involved in providing the supportive services like micro saving, micro insurance and micro leasing and money transfer etc which are similar to banking services. Of course there are certain challenges and the opportunities which are two sides of the same coin. For an effective implementation the effective & efficient marketing programme is needed. At the same time the role of ministry of Finance, Ministry of Information and Broadcasting with the hands of media is expected. The continuous awareness programs, training and & development program at national, state as well as regional and district level is highly required. The effective and cost effective and efficient advertising and publicity is also needed on the large scale for the people. As the main motto microfinance is the programme for the poor needy people and for those who really wants to start their own new business which creates and retain the employment generation and increment in income and opportunities and wants to increase their standard of living of the people. These programs should be chalk out with the view and making focus on rural development.

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