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## Emerging Face of Micro-Finance in India--A Review

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### ABSTRACT

Micro finance sector has grown rapidly over the past few decades. Nobel Laureate Muhammad Yunus is credited with laying the foundation of the modern MFIs with establishment of Grameen Bank, Bangladesh in 1976. Today it has evolved into a vibrant industry exhibiting a variety of business models. The main objective of this research paper is to help to poor women with respect of SHGs for capital formation in the all sectors specially agriculture sector and Grameen bank especially in the rural areas. Micro-finance not only offer micro credit but they also provide other financial services like savings, insurance, remittance and non-financial services individual counseling training and support. Through women face handicaps to their involvement in politics, then participation in Micro-finance and SHGs has altered them and these women can be prospective leaders in the local political field.

**Keywords:**-Micro-Finance, Key players of Micro –finance system, Women’s Entrepreneurship

### Introduction to Micro Finance

“Microfinance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services.” It is not just about giving micro credit to the poor rather it is an economic development tool whose objective is to assist poor to work their way out of poverty. It covers a wide range of services like credit, savings, insurance, remittance and also non-financial services like training, counseling etc. Micro-finance programmes for women are promoted not only as a strategy for poverty alleviation but for women’s empowerment. Financial services generally include saving and credit; however, some microfinance organizations also provide insurance and payment services. In addition to financial intermediation, many Microfinance institutions provide social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. Thus the definition of Micro-finance often includes both financial intermediation and social intermediation.

### Salient Features of Microfinance in India

- Borrowers are from the low income groups
- Loans are of small amount – micro loans
- Short duration loans
- Loans are offered without collateral
- High frequency of repayment
- Loans are generally taken for income generation purpose

### Objective of the study

The main objective of this research paper is to study about the following concept-

- a) To study the impact of microfinance in rural development in India.
- b) To comprehend the concept of Microfinance.
- c) To analyze the challenges of microfinance programme in rural India by the MFIs, NBFs.

## Research Methodology

The present study is based on the secondary data collected from journals, internet and publications of various business enterprises. Various studies on this subject have also been referred in this study. However, the interpretation of the data and suggestions made assume importance for the rural development by microfinance in India.

## Impact of Micro-Finance in Rural Development in India

According to the latest research done by the World Bank, India is home to almost one third of the world's poor (surviving on an equivalent of one dollar a day). Though many central government and state government poverty alleviation programs are currently active in India, microfinance plays a major contributor to financial inclusion. Reports show that people who have taken microfinance have been able to increase their income and hence the standard of living. These institutions not only offer micro credit but they also provide other financial services like savings, insurance, remittance and non-financial services like individual counseling, training and support to start own business and the most importantly in a convenient way.

- ❖ **Self Employment** -Most of poor people manage to optimize resources over a time to develop their enterprises. Financial services could enable the poor to leverage their initiative, accelerating the process of generating incomes, assets and economic security. However, conventional finance institutions seldom lend down-market to serve the needs of low-income families and women-headed households. Therefore fundamental approach is to create the self employment by financing the rural poor through financial institutions. Microfinance, thus, creates the hope and increases the self-esteem of the poor by giving the opportunities to be employed.
- ❖ **SHG-bank linkage programme** -Indian micro finance is dominated by the operational approach Self-help Groups (SHGs). The approach is popularly known as SHG-Bank linkage model. This model is the dominant model, initiated by the NABARD in the early 1990s. The groups begin by savings that are placed in a common fund. In a way, SHGs are co-operative (credit) societies linked to a commercial bank rather than an apex cooperative bank. Once linked to the bank, the SHGs may access a given multiple of the pooled savings for disbursement to its members. The SHG-bank linkage programme was conceived with the objectives of supplementary credit delivery services for the un-reached poor, building mutual trust and confidence between the bankers and the poor and encouraging banking activity both on thrift as well as credit and sustaining a simple and formal mechanism of banking with the poor.
- ❖ **Poverty reduction tool** -Microfinance can be a critical element of an effective poverty reduction strategy. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smooth their consumption, manage their risks better, build their assets gradually, and develop their microenterprises. Microfinance is only a means and not an end. The ultimate goal is to reduce poverty. Government, NGOs and other financial institutions have introduced various welfare schemes and activities to reduce poverty.
- ❖ **Women Empowerment** -In rural areas women living below the poverty line are unable to realize their potential. Microfinance programmes are currently being promoted as a key strategy for simultaneously addressing both poverty alleviation and women's

empowerment. The self help groups (SHGs) of women as sources of microfinance have helped them to take part in development activities.

## Challenges in Micro-Finance

The main challenges faced by Micro-Finance in India are as follow-

- 1) **Dropout and migration of group member**-Majority of the microfinance loans are disbursed on group lending concept and a past record of the group plays an important role in getting new loans either through SHG-Bank linkage or through MFIs. The two major problems with the group concept are dropouts (when one or more members leave the group) and migration (when one or more members move to another group). Most MFIs lend on the basis of the past record of the group i.e. SHG or JLG and also on the individuals repayment performance. In absence of a decent past record, members are deprived of getting bigger loan amounts and additional services.
- 2) **Transparent Pricing** -Though the concern about the transparent pricing in the microfinance sector has been an older one, it is gaining significance with the growing size and the increasing competition in the sector. Non-transparent pricing by MFIs confines the bargaining power of the borrowers and their ability to compare different loan products, because they don't know the actual price. In absence of the proper understanding of the pricing, clients end up borrowing more than their ability to payback which results in over-indebtedness of the borrower.
- 3) **Financial Illiteracy**-One of the major hindrances in the growth of the microfinance sector is the financial illiteracy of the people. This makes it difficult in creating awareness of microfinance and even more difficult to serve them as microfinance clients.

## Key players of Micro –finance System

The main players of Micro –finance system are-

- 1) **National Bank for Agricultural and Rural Development (NABARD):-** NABARD was established in 1982 as a development Bank. In discharging its role for development of rural regions its functions are:-
  - It provides refinance to lending institutions in rural areas.
  - Evaluate, monitor and inspect the client banks.
  - Provides support to NGOs through a variety of schemes.
  - Making model projects / Development Schemes for Banks and farmers.
  - It prepares, on annual basis, rural credit plans for all districts in the country.
- 2) **Reserve Bank of India:** - RBI as the apex bank of the country has done considerable Work in the field of Micro-finance. In 1991-92 a pilot project for linking up SHGs with banks was launched by NABARD in consultation with RBI .RBI perform promotional and supervisory functions regarding Micro-finance.
- 3) **Self Help Groups:-**This is the bank-led microfinance channel which was initiated by NABARD in 1992. Under the SHG model the members, usually women in villages are encouraged to form groups of around 10-15. The members contribute their savings in the group periodically and from these savings small loans are provided to the members. In the later period these SHGs are provided with bank loans generally for income generation purpose. SHG are considered a new lease of life for the women in village for their social and economic empowerment. The main characteristics of SHGs are as follow:-
  - The ideal size of an SHG is 10 to 20 members.
  - The group need not be registered..
  - Women's groups are generally found to perform better.
- 4) **Micro-Finance Institutions (MFI):-** A range of institutions in Public sector as well as private sector offers the micro finance services in India.MFI did a very good job in terms of reach, customer coverage and loan ticket size. The total MFI outstanding grew

extremely rapidly till 2010. Some of the examples of MFI are SKS, SHARE, Grameen Koota, Bandhan, Spandana, and Equitas .

**5) Non Government Organizations (NGO):-** A non-government organization (NGO) is a legally constituted, non-governmental organization created by natural or legal persons with no participation or representation of any government. The NGOs are involved in promoting SHGs and linking them with the Formal Financial Agencies (FFAs). NGOs perform the following functions:-

- Organizing the poor people into groups.
- Training and helping them in the organizational, managerial and financial matters.
- Helping them access more credit and linkage with formal financial agencies.
- Helping the people of the group in availing opportunities, available for economic development.

### **Key National Trends of Women's Entrepreneurship**

Any strategy aimed at economic development would be imbalanced without the involvement of women. The hidden entrepreneurial potentials of women have gradually been changing with the growing sensitivity to the role and economic status of women in the society. Besides skill, knowledge and adaptability in business being the main reasons for women to emerge into business ventures, there are various environmental factors like Policies, Legal framework, Market and Geographical areas which influence women entrepreneurship development process. As this study proposes, among other objectives, to understand trends related to MSME development in India from a gender perspective, the size of the country and its immense diversity will play an important role while analyzing the participation of women in this sector.

### **Key findings**

The major key findings are organized as follows:

- Ownership by gender of owner
- Percentage distribution of enterprises by gender of owner and sector
- State wise Entrepreneurship Profile
- State wise and Area wise Entrepreneurship Profile in Percentage
- Type of enterprise vs. entrepreneurship profile
- Nature of activity vs. entrepreneurship profile

### **Recommendations for Creating an Enabling Environment for Women's Entrepreneurship**

In India, the potential for supporting and developing women's entrepreneurship is immense and

Women's increased participation in economic activities is a national priority. However, women entrepreneurs are still not yet widely supported and accepted. The efforts to develop women need to be substantiated and strengthened. To lead women towards Entrepreneurship by creating an enabling environment, a series of recommendations are provided here, including those that emerged from the National Consultation on Creating an Enabling Environment for Women's Entrepreneurship under the broad headings of:

- a) Role of Government
- b) Role of BDS Providers
- c) Role of Supporting Organizations
- d) Access to Finance
- e) Access to Market
- f) Access to Infrastructure and social service
- g) Access to Technology
- h) Other measures to create enabling environment

## **Case Study----**

### **Beautifully balancing Family and Entrepreneurship: Ashima Dang**

Ashima Dang is satisfied to have arrived at a stage where she is balancing her work and family responsibilities, but she feels that there is a long way to go.....

As a start of her career, Ashima took up a job in IT (Information Technology) industry. But soon she started realizing that even though working in an enterprise at a low profile, it became difficult to manage the family and work together. Her priority was family and work did become secondary. As usual being a woman, when her kids were at young age, she was looking at a business that would offer flexible timings and could be managed from home. Her job was taking a lot of time and hence she left it.

Bangalore is an IT hub and having an experience in IT industry, it was easy for her to select IT business. Her strong desires to balance work and family and to have Economic Independence at the same time persuade her to be an IT entrepreneur. She created her own proprietorship concern – New Avenues 4 years ago. IT business was highly technical and did not involve regular entrepreneurial activities like production, finance, raw material etc. market management however was found as a big challenge due to constant updates and too much reliability on technology.

Being a well experienced technical person, Ashima keeps herself update with various sorts of technical knowledge and information continuously. Since she is dealing with IT business her membership with business forums was a great opportunity for her to expand and keep informed with latest trends. Started at a slow pace, 'New Avenues' has in true sense taken to new and wider avenues at national and international level with Ashima's constant efforts. With her seasoned multimedia solutions for kids and youngsters, Ashima is also assisting her husband in growing his garment business by online marketing through her IT expertise. She says "Since I am technical person I took just 3 months to start operating my business but entry in the market was very difficult". Ashima does not find her work in any way different than man's enterprise. But she feels she could not get required support as men do in running their enterprises like business friendly policies, regulations, market, credit and financial support etc.

While dealing with her business she found women are not very supportive to other women. And our country is still a man's world. Her advice to women entrepreneurs;; "Balancing family and work sometimes hurts your ego, self-respect. Set your priorities and let it be known to your family that you will never compromise on their needs. Somehow, when your family is secured, your work gets done faster in office too....."

Coming from a Punjabi family, Ashima fought through all the hindrances and set an example of performing double duties at home and at work. Even though women have dire need to be economically independent and being equal to men capability wise, Indian tradition conditions make them run small business from home to begin with so that family life does not get disturbed

## **Conclusions**

A conclusion that emerges from this account is that micro finance can contribute to solving the problems of inadequate housing and urban services as an integral part of poverty alleviation programmes. The challenge lies in finding the level of flexibility in the credit instrument that could make it match the multiple credit requirements of the low income borrower without imposing unbearably high cost of monitoring its end use upon the lenders. A promising solution is to provide multipurpose lone or composite credit for income generation, housing improvement and consumption support. Consumption loan is found to be especially important during the gestation period between commencing a new economic activity and deriving positive income. Careful research on demand for financing and savings behavior of the potential

borrowers and their participation in determine the mix of multi-purpose loans is essential in making the concept work.

### **The organizations involved in micro credit initiatives should take into account the following facts -**

- Credit is important for development but cannot by itself enable very poor women to overcome their Poverty.
- Making credit available to women does not automatically mean they have control over its use and over any income they might generate from micro enterprises.
- In situations of chronic poverty it is more important to provide saving services than to offer credit.
- A useful indicator of the tangible impact of micro credit schemes is the number of additional proposals and demands presented by local villagers to public authorities.

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