An Analysis Of The Microfinance As A Tool For Economic Growth

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Abstract

India is the second most populous country in the world, whose rapidly developing economy, is widening the gap between rich and poor. Microfinance allows the poor to get the loans, they need to save, invest, and create a sustainable lifestyle of financial independence and growth. These loans are used productively by the poor to create their own business, grow their assets and get out of poverty once and for all. Microfinance is gathering momentum to become a significant force in India. In the last two decades, substantial progress has been made in developing techniques to deliver financial services to the poor on a sustainable basis. These loans are aimed to empowering the impoverished the people to start their own business and to grow their money so that they can achieve long term financial independence. Microfinance is one of the effective ways for poverty alleviation economic growth and development in emerging economies. This paper will focus the importance, challenges, obstacles, opportunities and outcome of microfinance in India context.

Keywords-Microfinance, Sustainable, Challenges, Growth, Opportunities.

INTRODUCTION

Microfinance is one of the most visible innovations in anti-poverty policy in the last half-century, and in three decades it has grown dramatically. The most important benefit of microfinance in India is that it helps long-term financial independence in the poverty-stricken
areas. Microfinance help sustained impact by educating recipients on how to create their own business and how to properly manage and grow their money. Microfinance in India and several other countries received a major boost. Undoubtedly it has been successful in bringing formal financial services to the poor. Many believe it has done much more and, by putting money into the hands of poor families and it has the potential to increase investment in health and education and empower women. Microfinance institutions have created a massive social infrastructure uniquely positioned to reach million of clients on a regular basis. Microfinance social infrastructure is no more a financing channel but it has also emerged as a strong distribution channel with numerous credit products, repayable over a longer period of time, and solar lamps fuel-efficient stoves, mobile phones and mobile banking devices are some of them. In the last two years, many companies are manufacturing solar products with microfinance distribution channel to sell their products. This paper will discuss microfinance a sustainable tool for economic growth in terms of its importance, challenges, obstacles, opportunities and outcome.

STATEMENT OF THE PROBLEM:

Most of the world’s poor lack access to basic financial services that would help them manage their assets and generate income. To overcome poverty, they need to be able to borrow, save and invest, and to protect their families against adversity. With little income or collateral poor people are seldom able to obtain loans from banks and other formal financial institutions. Microfinance is one way of fighting poverty in rural areas, where most of the world’s poorest people live. It puts credit, savings, insurance and other basic financial services within the reach of poor people. Though microfinance institutions such as credit unions, financial non-governmental organizations and even commercial banks, poor people can obtain small loans, receive money from relatives working abroad and safeguard their savings.

OBJECTIVES TO THE STUDY:

1. To study the importance of microfinance in Indian economy
2. To analyze the challenges of microfinance
3. To identify the obstacles of microfinance
4. To know the opportunities with respect to microfinance
5. To realize the outcome of microfinance in Indian economy

**METHODODOLOGY:**

This study is mainly based on secondary data only. Secondary data is collected from various sources like journals, books, magazines and reports.

**NEED FOR THE STUDY:**

India is the second most populous country in the world, whose rapidly developing economy is widening the gap between rich and poor. Although the amounts involved may be small, the loans, savings and insurance options that microfinance offers can give millions of rural men and women an opportunity to find their own solutions. Microfinance has become very popular in the developing world and has shown to empower poor people to get out of their current economic situation and improve their status. There is an urgent need for microfinance institutions to improve the ability of poorest families and to satisfy their growing demand for a range of financial services and also safe and flexible savings services that poor people need and value.

**SIGNIFICANCE OF THE STUDY:**

Microfinance is usually understood to entail the provision of financial services to micro-entrepreneurs and small businesses which lack access to banking and related services due to the high transaction costs associated with serving these client categories. The two main mechanisms for the delivery of financial services to such clients are relationship-based banking for individual entrepreneurs and small business; and group-based models, where several entrepreneurs come together to apply for loans and other services as a group. Many of those who promote microfinance generally believe that such access will help poor people to get out of poverty. For others, microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses. Microfinance is a broad category of services, which microcredit.
ROLE AND ACTIVITIES OF MICROFINANCE:

- **Microcredit**: It is a small amount of money loaned to a client by a bank or other institution. Microcredit can be offered, often without collateral, to an individual or through group lending.

- **Micro Savings**: These are deposit services that allow one to save small amounts of money for future use. Often without minimum balance requirements, these savings accounts allow households to save in order of unexpected expenses and plan for future expenses.

- **Micro Insurance**: It is a system by which people, business and other organizations make a payment to share risk. Access to insurance enables entrepreneurs to concentrate more on developing their businesses while mitigating other risks affecting property or the ability to work.

- **Remittances**: These are transfer of funds from people in one place to people in another, usually across border to family and friends. Compared with other source of capital that can fluctuate depending on the political or economic climate, remittances are a relatively steady source of funds.

IMPORTANCE OF MICROFINANCE:

Microfinance is a vital tool for many important portfolios like SHG and other type of Small scale organization. The self-help group (SHG) avail lot of support from micro finance and they are using it for various purposes. SHG-based microfinance nurtured and aided by NGOs, have become an important alternative to traditional lending in terms of reaching the poor without incurring a fortune in operating and monitoring costs. The government and NABARD have recognized this and have emphasized the SHG approach and working along with NGOs in its initiatives. Micro finance in India is still presently too small to create a massive impact in poverty alleviation, nurtures the skill and opportunity development of the poor and it holds the promise to alter the socioeconomic face of the India’s poor. One such of microfinance has been the development of the self-help movement. Based on the concept of “self-help”, small groups of women have formed into group of ten to twenty and operate a saving-
first business model whereby the member’s savings are used to fund loans. The results from these self-help groups (SHGs) are promising and have become a focus of intense examinations as it is proving to be an effective method of poverty reduction. Nevertheless micro finance is a sustainable tool which is helping to the community in various dimensions to the important portfolios. Microfinance grassroots initiatives are offering thousands of marginalized groups the training, financial resources, and job opportunities needed to rise out of poverty. Initiate and maintain of self-help groups that offer financial guidance and credit, promote savings, free members from unfair debt burdens, and create collective action opportunities that minimize exploitation of women and other marginalized groups.

FINANCIAL NEEDS OF POOR PEOPLE:

In developing economic and particularly in the rural areas, many activities that would be classified according to the needs of the rural people. There are different circumstances often arise in their lives in which they need money or the things money can buy.

- Lifecycle Needs:- Such as weddings, childbirth, education, home building, widowhood, old age.
- Personal Emergencies:- Such as sickness, injury, unemployment, harassment or death.
- Disasters:- Such as fires, floods, cyclones and man-made events like war or bulldozing of dwellings.
- Investment Opportunities:- Expanding a business, buying land or equipment, improving housing, securing a job (which often requires paying a large bribe), etc.

Poor people find creative often collaborative ways to meet these needs, primarily through creating and exchanging different forms of non-cash value. Common substitutes for cash vary from country to country but typically include livestock, grains, jewelry and precious metals. The microfinance industry’s objective is to satisfy the unmet demand on a much larger scale and to play a role in reducing poverty.

While much progress has been made in developing a viable, commercial microfinance sector in the last few decades, several issues remain that need to be addressed before the industry will be able to satisfy massive worldwide demand.
CHALLENGES OF MICROFINANCE:
In most countries, banks and moneylenders have not often favored the poor when it comes to lending money in times of need. Microfinance refers to the provision of financial services to poor or low-income clients, including consumers and the self-employed. More broadly, it refers to a movement that envisions “a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers.” Those who promote microfinance generally believe that such access will help poor people out of poverty. The new financial systems approach pragmatically acknowledges the richness of centuries of microfinance history and the immense diversity of institutions serving poor people in developing world today. It is also rooted in an increasing awareness of diversity of the financial service needs of the world’s poorest people, and the diverse settings in which they live and work. The challenges to building a sound commercial microfinance industry include:

- Inappropriate donor subsidies
- Poor regulation and supervision of deposit-taking MFIs
- Few MFIs that meet the needs for savings, remittances or insurance
- Limited management capacity in MFIs
- Institutional inefficiencies

- Needs for more dissemination and adoption of rural, agricultural microfinance methodologies

OBSTACLES OF MICROFINANCE:
- Despite good intentions microfinance still has several hurdles to face:
- Perceived high risk of lending to the poor (the loan may be misused easily)
- Technology-related hurdles, such as the high costs involved in small loan transactions for microfinance providers
- The poor’s inability to offer marketable collateral for loans to MFIs
- Difficulty in measuring the social performance of MFIs
• Lack of customized solutions/microfinance models for the poor
• Inappropriate targeting of poor households by microfinance programs
• Lack of microfinance training for MFIs
• Poor distribution system of MFIs, i.e. a need to spread out loan facilities into rural areas
• Lack of information about microfinance investment opportunities.
• Poor institutional viability of microfinance ventures
• Dual mission of MFIs to be financially sustainable as well as development oriented

OPPORTUNITIES OF MICROFINANCE:

Offer skills training and capacity-building workshops to increase economic independence, empowerment, and local employability of women and other underserved groups. The Entrepreneurial skills training programme should be arranged in required areas such as conducting the feasibility studies, perform cost/benefit analysis, write business plans, acquire financing and initiates start-ups, marketing, distribution, pricing, and management training to local microenterprises. Moreover the research and analysis to be done in numerous topics and these must bring about the local economic conditions, migration patterns, obstructions to economic growth, and efficacy of microfinance programs and further expand and increase the exposure of microfinance programs to outlying the villages.

OUTCOME OF MICROFINANCE:

Micro finance plays an important role in economic growth and it should be done more to encourage similar models in the economic system. The microfinance sector across the globe, over the past few years, has shown tremendous growth in terms of efficiency and outreach which was made possible due to various experiments done by diverse stakeholders in different parts of the world. The various successful model/experiments need to be widely disseminated amongst all the stakeholders in order to provide suitable options, particularly to those practitioners who are concentrating the regions where microfinance has not yet penetrated. The debate over how the microfinance sector will react to the credit crunch and global
economic crisis, as well as microcredit’s importance in stimulating economic growth is still alive. Microfinance projects now seek to achieve improvement in environmental quality in addition to poverty alleviation. Achievement of these goals may depend upon the economic and environmental impact of microfinance business. The impact of microfinance in our economy is that loan amount does not affect the economic outcome, special skills have best performance, and skills cause less pressure on forest resources. These results suggest the need for development of knowledge-intensive skills, involvement of institutions in the operations of business and inclusive policies for protected area management. Microfinance is that it will be much easier for micro entrepreneurs to recover from the economic crisis because their business is small and hence it would be flexible.

CONCLUSIONS:

The biggest strength of microfinance is bringing financial services to poor people and making it financially sustainable by the economies of scale effect. Microfinance helps in the development of an economy by giving everyday people the chance to establish a sustainable means of income. Eventual increases in disposable income will lead to economic growth. It is the provision of financial services such as loans, savings, insurance, and training to people living in poverty. Moreover, it is one of the great success stories in the developing world in the last 30 years and is widely recognized as a just and sustainable solution in alleviating global poverty. While opportunity gladly extends loans to the people, the organization believes the greatest opportunity for interrupting cycles of extreme poverty come from microfinance programs that target the entrepreneur role. Opportunity has committed to building scalable, sustainable and accessible banks throughout the developing world to provide loans, training, savings and insurance products tailored to the specific needs of each region. Microfinance can help to create a world in which the underserved have fair access to economic opportunities and the hope to move beyond poverty. Never the less microfinance can sustain the economic development of the people in terms of making chances for their life in different role.
REFERENCE:


