

## “MICRO FINANCE - OPPORTUNITIES & CHALLENGES IN INDIA”

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### INTRODUCTION

The concept of Micro Finance in India is gaining importance all over the world especially in developing countries due to its unique features and specialties. Although the concept has recent origin, it has a deep and lasting impact. It is necessary to understand the reasonable tray behind development of this concept. There are various reasons behind growth of Micro Finance phenomenon. One of the most important and dominant reasons is the changing social structure and change in the awareness of different sections of the society. The classical economists usually considered the problems of elite classes and select sections of the society as the genuine problems of economic process. The neglected, socially deprived and low income classes were not even the matter of consideration of these thinkers. Selective approach and sectional thinking was the major focus of these thinkers. Hence larger but neglected sections of the society was never the mainstream focus of these thinkers. It was only in the 70's of the last century where the scenario began to change. Economists and thinkers like G. Myrdall and others started thinking in terms of developing economies. The low income and resource-less class became the focus of economic discussions. This was further geared up by thinkers and experts like Md. Yunus, Amartya Sen and many others. Today the major plank of economic thinking is how to uplift socio-economic standards and participation of the have-nots in the economic processes. Even with limited resources and uncertain income, this section also can contribute to the developmental process for which an appropriate system, structure and positive attitude is needed. Micro Finance is the solution offered from this point of view.

**STATEMENT OF THE PROBLEM**

The movement of helping the socially and economically neglected section of the society, low income earners, wage earners, small entrepreneurs and landless labourers to participate in the economic process has come out in the form of Micro Finance. Today a large section of the society is linked with the financial inclusion process through Micro Finance and Self Help Groups. The issues which raise questions regarding Micro Finance and related activities are -

Whether the idea of Micro Finance and SHG is rightly accepted by the people?

Whether beneficiaries of this scheme participate in true spirit in such movements?

Further more can Micro Finance and such related activities bring desired change in the society?

Though conceptually the idea of people coming together, working together and achieving common goals appears very sound; however there are many limitations and practical hindrances in the whole process of implementation. Many concepts that theoretically proved to have a great utility are often found less effective in practice. The conceptual strengths are lost due to procedural and practical weaknesses. Hence even in the case of Micro Finance, the questions which remain to be answered are-

To what extent the idea of Micro Finance shall be successful?

What are the likely hindrances in its success?

What future it may have in the years to come?

Can Micro Finance alter the socio-economic status of its potential beneficiaries?

Hence the title of the study is "Micro Finance - Opportunities & Challenges in India"

**OBJECTIVES OF THE STUDY**

The principal objectives of the study are stated as follows-

1. To identify the reasons of growth of Micro Finance movement in Indian Context.

2. To examine the factors favouring Micro Finance in India.
3. To enlist the determinants influencing Micro Finance structure and systems in India.
4. To identify hindrances in the progress of Micro Finance.

**RELEVANCE OF THE STUDY**

The issue of Micro Finance has now become very important in India with a population of 120 million; the economic problems have become very critical and complex. The pyramid of economy is unevenly distributed. The small and micro-size vertex is very strong with concentrated wealth and wealth generating resources; whereas the large and widespread bottom has become extremely weak and has thin opportunities to participate in the economic activities. This paradox and contradiction needs to be rightly attended. It will be inappropriate to presume that weakness in the social structure will not disturb the economic stability. On the contrary the vis-à-vis is also true.

When a large section of the society is devoid of meaningful economic opportunities, it is not possible that this section will accept the growing inequalities and disequilibrium without any reasons. On the contrary, the old maxim, "*dissatisfaction has seeds of revolution*" may come true. On this backdrop the immediate solution is to minimize the widening gap, create a favourable situation and encourage participation of society socially deprived section of the society in meaningful economic exercises. For this purpose, 'Micro Finance' is a key solution. With Micro Finance many of the socio economic problems can be addressed meaningfully.

**DISCUSSION****1. GROWTH OF MICRO FINANCE MOVEMENT IN INDIAN CONTEXT**

Today the number of Self Help Groups and networks working for Micro Finance has increased significantly. Almost in every state there is a well established network of small groups working for self help and promotion of Micro Finance activities. The emergence of such groups has occurred in last 2 decades. It is up surgence of small but well defined movement for collective action and benefit to the needy and

neglected sections of the society. It will be improper to deny the existence and contribution of such small groups in the process of development and neglected sections of the society. This section includes self employed women, household workers, homemakers and women working in unorganized sectors either as independent workers or on a contractual basis. These workers have no protection of law and no assurance of security from any Governmental authority.

The principal reason of bringing these sections under one umbrella is to develop their economic strength and provide them with financial security. Though individually they are small, negligible and have insignificant strength, however collectively they become a force to be recognized. The purpose of organization of Self Help Groups is to develop this kind of acceptable, strong and responsive force which will work for upliftment of poor and neglected sections of the society. This movement shall educate about economic and financial system, create appropriate awareness and develop a suitable mechanism for their participation in main stream economic activities.

## 2. FACTORS FAVORING MICRO FINANCE IN INDIA

### EMERGENCE OF MICRO FINANCE

The growth of Micro Finance in India should be linked with socio-economic condition. An X-Ray analysis of growth process of Micro Finance in India can throw light on a variety of reasons responsible for growth of Micro Finance.

A few important reasons that have favoured the growth of Micro Finance are presented here :

- a. Many poor people are served by informal money lenders who generally provide easy access to credit but at high cost charging poor borrowers nominal monthly effective interest that typically range from 10% or more that 100%. Many times the monthly effective rates of sustainable formal financial institutions which are usually 5 to 20%.
- b. The exploitation by formal money lenders both social and economic is very high and of varied type. This disturbs the fabric of peace, equality and social justice. In many cases it results in social unrest and feeling of retaliation in a very rash way.

- c. The earning capacity and margin of savings of poor in informal sector is very low and irregular. People in this sector are unable to satisfy their savings to meet their present and future needs. This often results in vicious circle of indebtedness which never ends. The only way to overcome this vicious circle is to enhance savings above expenses and to provide a financial support for sustainable development.

Illiteracy, lack of awareness, absence of prudent thinking are some of the important reasons responsible for failure of the people in improving their economic lot. Belief in destiny, lack of training and inappropriate financial as well as economic understanding also mars their chances to improve their socio economic status.

### 3. CONSTITUENTS OF MICRO FINANCE STRUCTURE

Present Micro Finance structure in India is influenced by certain institutional as well as policy considerations. It is necessary to identify all such factors leading to constitution of a particular type of Micro Finance structure in India.

A few important determinants responsible for formation of a typical Micro Finance structure are presented here -

- a. Prevailing policies of government- both central and state encourage formation of Self Help Groups working for promotion of financial independence and financial literacy among deprived and neglected sections of the society.
- b. Self Help Groups backed by bank and financial institution are coming up to promote economic awareness, skill development and self employment.
- c. The principle reason for promotion of Self Help Groups is to create a planet of economic empowerment and increase the total participation of various social and economically backward classes by providing them employment opportunities, skills and capacity building for their self development.

### 4. WHAT HAMPERS GROWTH OF MICRO FINANCE ?

Though initially a great lead was taken to promote Micro

Finance and Self Help Groups in India, however today it seems to be a movement lagging behind and sinking due to its own weight. A careful analysis of this fall out can offer insights to improve its present status. Few important reasons responsible for restricted success can be identified as follows-

**A. POLITICAL INTERVENTION**

The continuous and growing political intervention for developing social and economic pressure groups is a major problem in sound development of Micro Finance movement. Politicians and opinion makers consider Self Help Groups as their power pocket. This has curbed the effectiveness and utility of Self Help Groups movement.

**B. MYOPIC VISION**

The promoters and leaders of Self Help Groups have not shown the desired, positive and broad based vision to give direction to Self Help Groups. On the contrary their leadership has worked to achieve only short term objectives and few self centered goals, which has worked as a curse in the development of sound financial and social upliftment movement.

**C. LACK OF APPROPRIATE STRUCTURE AND SYSTEMS**

The Self Help Groups require a well defined scientifically structured organizational set up which can improve its effectiveness and impact. However, most of the Self Help Groups are struggling for suitable organizational framework. Their failure in developing such a framework is responsible for lack of effective implementation of many socio-economic transformation programmes. The most cherished objectives remain on paper- unfulfilled and unsolved.

**CONCLUSION**

The above discussion helps us to understand the process and problems associated with growth and development of Micro Finance in India. In true sense, Micro Finance movement can play the role of catalyst for quick and effective transformation of Indian society. It is the agency which has tremendous potential for expediting growth and developmental process. It is an appropriate transformation agency. The only hurdle with progress is absence of vision and lack of leadership. Association of dedicated workers can definitely promote a sound Micro Finance movement in India.