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Role of Microfinance in Rural Development W.R.T. Gujarat

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Abstract: Microfinance certainly plays an important role in providing safety-net and consumption smoothening. The borrowers of microfinance possibly also benefit from learning-by-doing and from self-esteem. Professor Mohammad Yunus, the founder of Grameen Bank in Bangladesh and the originator of the concept of microfinance, believes that 5% of Grameen Bank's clients exit poverty each year. However, there are surprisingly few credible estimates of the extent to which microcredit actually reduces poverty. Rural people have very low access to institutionalized credit (from commercial bank). The Paper attempts to analyze that role of microfinance in Highlights of Micro-Finance Bill and Stumbling blocks of microfinance institutions. This paper contains the rural development through microfinance and it is based on Gujarat of Gujarat. There are mainly three major issues involved in microfinance. They are Strategic Issues, Institutional Issues and Connectivity Issues. The research contented what various factors are contributing to the development of Rural India. It enlighten on how the micro finance Institutions can help the people of rural area in Gujarat, so that they can get the equal opportunity for the Industrial and Agriculture growth.

Keywords: Micro finance, Rural Development, Strategic Issues, Connectivity Issues, Agricultural Growth.

I. INTRODUCTION

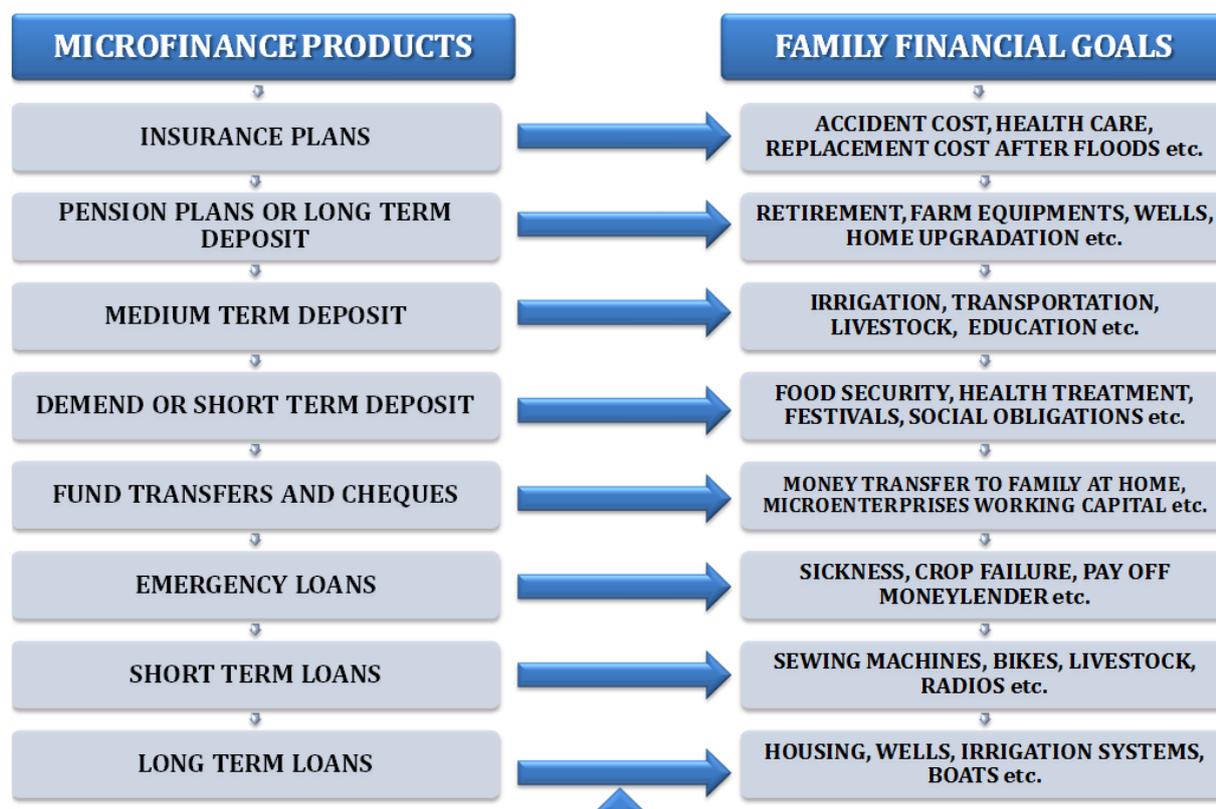
Microfinance in India can trace its origins back to the early 1970s when the Self Employed Women's Association ("SEWA") of the state of Gujarat formed an urban cooperative bank, called the Shri Mahila SEWA Sahakari Bank, with the objective of providing banking services to poor women employed in the unorganized sector in Ahmedabad City, Gujarat. The microfinance sector went on to evolve in the 1980s around the concept of SHGs, informal bodies that would provide their clients with much-needed savings and credit services. From humble beginnings, the sector has grown significantly over the years to become a multi-billion dollar industry, with bodies such as the Small Industries Development Bank of India and the National Bank for Agriculture and Rural Development devoting significant financial resources to microfinance. Today, the top five private sector MFIs reach more than 20 million clients in nearly every state in India and many Indian MFIs have been recognized as global leaders in the industry. In India Microfinance operates through two channels: SHG – Bank Linkage Programme (SBLP) and Micro Finance Institutions (MFIs).

Different legal forms under which MF can be provided in India:

Commercial Banks	Cooperative Banks	Regional Rural Banks (RRBs)
Local Area Banks (LABs)	Cooperative Societies	SHGs and Federations Societies
Trusts	Non-Banking Finance Companies (NBFCs)	Organizations under guidelines of the Reserve Bank of India

Issues Regarding Microfinance:

STRATEGIC ISSUES	INSTITUTIONAL ISSUES	CONNECTIVITY ISSUES
Paradigm for micro-finance	Need for a new institution	Involvement of Corporate Financial Sector
Clearly visible pattern across the country	Operations	Role of Donor Agencies
Clearly defined foundation building	Location	Political Issues
Blocks such as organizing principles, gender	Leading Institution	Government Policy Issues
Preferences and operational imperatives	Contextual interconnections	
Methodological issues	Beneficiaries	

General Microfinance products used by rural families:**II. LITERATURE REVIEWS**

✚ “ROLE OF MICROFINANCE INSTITUTIONS IN RURAL DEVELOPMENT”

S.C.Vetrivel & S. Chandra Kumarmangalam (2010)

International Journal of Information Technology and Knowledge Management July-December 2010, Volume 2, No. 2, pp. 435-441.

In this paper researchers discussed on micro finance and the framework of MFIs in India. Authors observed that more than subsidies poor need access to credit. Absence of formal employment make them non 'bankable'. This forces them to borrow from local moneylenders at exorbitant interest rates. Many innovative institutional mechanisms have been developed across the world to enhance credit to poor even in the absence of formal mortgage. The present paper discusses conceptual framework of a microfinance institution in India. This paper is based on secondary data.

✚ “MICRO FINANCE PRACTICES IN INDIA: AN OVERVIEW”

N. Tejmani Singh (2009)

International Review of Business Research Papers Vol. 5 No. 5 September 2009 Pp. 131-146

This paper attempted to give a comprehensive overview of all aspects of microfinance in India – its essence, the different institutions involved in its promotion, the different modes of delivery, its weakness and the challenges that lie ahead. Micro finance is a participative model that can address the needs of the poor especially women members. For this research work he used both Primary and Secondary data. The study was conducted in 13 priority states during the period from 2003-2007. For this research he made various survey on NABARD and SHGs.

✚ “IMPACT OF MICROFINANCE AND SELF HELP GROUPS (SHG) ON RURAL MARKET DEVELOPMENT”

Shinde keshav (2014)

Their analysis about the study conducted by NABARD revealed that financial services required by poor households are: safe-keeping of small surpluses in the form of thrift; access to consumption loans to meet emergency needs and financial services and products. The benefits in terms of higher income, consumption, and savings matter for the poor, the focus here is broader, as an attempt is made to assess some key dimensions of women's empowerment-defined broadly as expansion of freedom of choice and action to shape their own lives. Concluded with areas of future research emphasizing on review of literature on SHGs, the experiences of several leading NGOs involved in the formation of SHGs and interviews with chief executives and staff of other NGOs/projects promoting SHGs.

✚ “MICRO FINANCE AND WOMEN EMPOWERMENT”

Devi S. Kavitha (2014)

This topic in this article is the presentation in a succinct and applicative manner of several decision making processes“. Microfinance gained impetus primarily because it promised the social and economic uplift of women in developing countries across Asia, Latin America, and Africa. Countries in these regions have patriarchal societies that harbor gender-biased traditions preventing the liberation of women. The ability to generate and control their own income can further empower poor women. Research shows that credit extended to women has a significant impact on their families' quality of life. Of these methods microfinance providers tend to involve the husbands of their female clients when talking business, because his support is vital. Additionally, any plan to fight poverty cannot solely focus on one gender and circumstances therefore; many microfinance programs serve men as well.

III. RESEARCH METHODOLOGY

Kinds Of Data	Secondary Data
Source of Data	MFI directory, Various research articles, Past records and Descriptions from local DRDA
Research Design	Descriptive Research Design
Area of Survey	Gujarat Region MFIs

3.1 RESEARCH PROBLEM:

Research Problem of the Study is to analyse the scenario of Microfinance in Gujarat as it is the state where mostly women in rural area work same as Male population. Therefore they may be also in more number of beneficiaries of Rural area. The Self Help Group or Sakhimandals have linkage with many Micro Finance Institutions and following figure shows the savings of those SHGs:

	Commercial Banks		Regional rural Banks		Co-operative Banks		Total	
	No. of SHGs	Savings	No. of SHGs	Savings Amount	No. of SHGs	Savings Amount	No. of SHGs	Savings Amount
GUJARAT	118320	11442.29	58685	3942.43	31407	2170.33	208410	17555.05

3.2 OBJECTIVES OF THE STUDY:**PRIMARY OBJECTIVE:**

Primary Objective of this study is to identify the challenges of microfinance in rural area of Gujarat.

SECONDARY OBJECTIVES:

- To analyze the growth of microfinance sector developed in India and to see the potential for the microfinance institutions, NGOs, SHGs in the market.
- To analyze the structure and pattern of microfinance programme in rural Indian by the MFIs and NBFCs.
- To find out issues faced by micro finance institutions.
- To analyze the linkage between banks and rural beneficiaries of micro finance.

IV. ANALYSIS AND INTERPRETATION

Gujarat has been considered as a huge potential market in terms of microfinance. The maximum number of potential SHGs is found in Panchmahal, Banaskantha and Sabarkantha.

During the Vibrant Gujarat Summit 2011, GLPC had entered into anMoU with State Level Banker's Committee for provision of a minimum Cash Credit amount of INR 50,000 to all the eligible SakhiMandals/SHGs in the State of Gujarat. To implement this MoU, GLPC, RBI, NABARD and Bankers jointly deliberated and finalized new guidelines for Credit Linkage of SakhiMandals /SHGs. With this initiative, 1.7 lakh applications out of the eligible 2.5 SHGs have been sponsored to different Banks. A total amount of INR 1,100 crore has been sanctioned as cash credit to SakhiMandals/ SHGs in Gujarat.

Microfinance in Gujarat

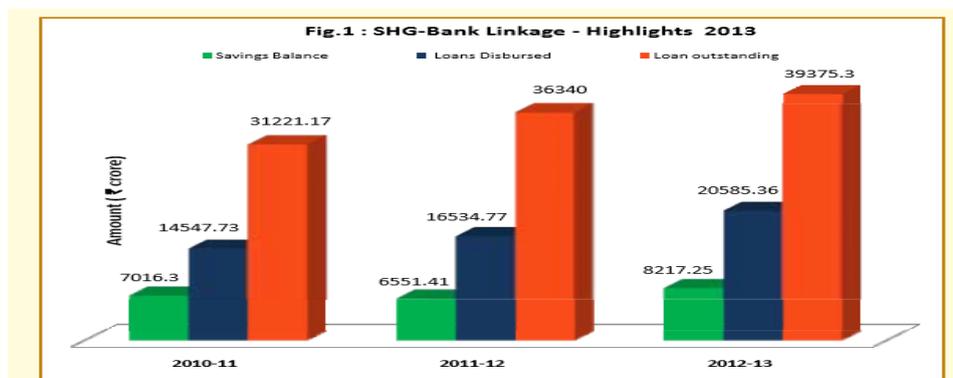


Potential Microfinance Districts

Numbers of Microfinance Institutions in Gujarat from reports of Government are,

SR NO	NAME OF MFI	LEGAL FORM	STATE HEAD QUARTER	SIZE	
1	ARMAN FINANCIAL SERVICES LTD.	NBFC	75	TIER II	Tier I: Client base > 2.5 lakh
2	DISHA MICROFIN PVT LTD.	NBFC	76	TIER II	
3	M Power Microfinance Pvt. Ltd.	NBFC	79	TIER III	Tier II: Client base 0.5 - 2.5 lakh
4	PAHAL FINANCIAL SERVICES PVT. LTD.	NBFC	77	TIER III	
5	PRAYAS (Organisation for Sustainable Development)	TRUST	80	TIER III	Tier III: Client base < 0.5 lakh
6	SHRI MAHILA SEWA SAHAKARI BANK LTD. (SEWA BANK)	CO-OPERATIVE	78	TIER III	
7	THE SAATH SAVING AND CREDIT CO OP SOCIETY LTD.	CO-OPERATIVE	81	TIER III	

Self Help Groups and Bank Linkages:



Major challenges faced by microfinance in Gujarat are challenges are,

- **Access to finance:** MFIs are facing major problem of accessing finance because the Small credit Groups are not linkage with them. So they first have to provide them accounts and have to check the accessibility of finance over the time period.
- **Client Retention:** Client retention is an issue that create Low Outreach: In India, MFI outreach is very low. It is a problem in growing the MFIs. There is about 28% client only 8% as compared to 65% in Bangladesh. This occurs because people are not properly informed and educated about services and products provided by the institutions more over current client has higher default rate.
- **Governance and management:** In order to register as a NBFC-MFI, an institution must meet requirements specified by RBI. RBI requires that a minimum of 75 percent of a NBFC MFI's loan portfolio must have originated for income-generating activities. Additionally, an NBFC MFI must have 85 percent of its total assets as qualifying assets (excluding cash, balances with banks and financial institutions, government securities and money market instruments). A qualifying asset is a loan which meets the following criteria:
 1. Borrower's household annual income does not exceed rs.60,000 or rs.20,000 for rural and urban areas respectively.
 2. Maximum loan size of 35,000 (first cycle) and rs.50,000 (subsequent cycles).
 3. Maximum borrower total indebtedness of rs.50,000.
 4. Minimum tenure of 24 months when loan exceeds rs.15,000.
 5. No prepayment penalties.
 6. No collateral.
 7. Repayable by weekly, fortnightly or monthly installments at the choice of the borrower.

Government Policies regarding Microfinance group are not supportive each time. So if there is a change in government policy the management of MFIs requires change. This change can result in to very tedious procedure if management is not efficient one. The Corporate Governance in these institutions is questionable and requires some regulations regarding it.

- **Demand for low interest rates:** As the beneficiaries of MFIs mostly from poor rural class they demand for low interest rates on their small amounts loan. At the time of repayment also fraud activities can be seen.
- **Managing competition:** In today's era it is tough for any Institution to compete. The institutions can give various schemes to women beneficiaries as they always proved loyal customers. Literacy about finance and borrowings are must in this era after education.

- **Training and capacity development:** Training at Senior and junior management level is required through proper model or channel. This only can judge their capacity to survive in the market and to help others too for survival. Service providers from different states or countries can help MFIs growth in right way.
- **Range of products tends to be limited to simple credit offerings:** In Gujarat the population is about 6 crore and literacy rate is about 78 percentages. The beneficiaries from rural area want a high range of products and also simple credit procedures. Because this group is from other 22 percentages of total population.
- **Absence of social audit in many cases:** Audit in MFIs seems to be not fair. Because of many issues the NPA in microfinance institutions are in progress year by year. Therefore, Financial Audit as well as Social audit both are required to access the capabilities of institutions with their clients.

According to Microfinance India, NABARD's Strategic Focus on SHG-BLP (2013-17) is as follows:

- All eligible poor rural households in the country to be covered through SHG- BLP by March 2017.
- Promotion of Women SHGs in 150 Left Wing Extremism affected and backward districts of the country to be speeded up to cover every rural household in the identified districts within the next two years.
- In all, it is expected that about 20 lakh new SHGs are to be promoted and linked to the banks during this period.
- Convergence with Government Programmes like National Rural Livelihood.
- Strategic shift from State / District-based planning for SHG-BLP to Block-based planning, to address the issue of intra-district imbalances in promotion of SHGs.
- Special schemes to revive dormant SHGs through effective capacity building and hand holding support.
- Initiate additional financial literacy drive at the SHG level to eliminate over- indebtedness at the member-level, especially in high SHG density States.
- Focus on convergence of SHG-BLP and Financial Inclusion (FI) initiatives.
- Priority to shift from promotion of SHGs to provide livelihood opportunities to the SHG members in a calibrated manner through skill building, production optimisation, value chain facilitation and market linkage.

The Co-operative Sector of Gujarat has developed several micro finance models with variation working successfully reaching out to the lowest sections of society. The micro finance activity in Gujarat is distinct from various other States as it is being operated by the Co-operative Sector vis-à-vis the Private Sector Model. These models operate on the co-operative principles of concern for Community & provide lending support on fair & reasonable terms to such groups.

V. CONCLUSION

The MFI is leaving enormous economic and social impact. Microfinance provide both savings and loan facilities An MFI is likely to provide the much needed funds to the potential entrepreneurs of the rural India. Also it is anticipated that the people would become socially more advanced as they come into touch with the outside world. In order to be sustainable, microfinance lending should be fixed on market principles because large scale lending cannot be completed through financial support. A core conclusion of this paper is that microfinance can contribute into solving the problem of insufficient housing and rural services as an integral part of poverty alleviation programs and empower women to play a vital role in the society. Eventually it would be ideal to improve the creditworthiness of the poor and to make them more bankable to financial institutions and allow them to meet the criteria for long-term credit from the formal sector. Microfinance institutions have a lot to contribute to this by building financial discipline and educating borrowers about compensation requirements. Services sector is the largest sector of India. Gross Value Added (GVA) at current prices for Services sector is estimated at 61.18 lakh crore INR in 2014-15. Services sector

accounts for 52.97% of total India's GVA of 115.50 lakh crore Indian rupees. With GVA of Rs. 34.67 lakh crore, Industry sector contributes 30.02%. While, Agriculture and allied sector shares 17.01% and GVA is around of 19.65 lakh crore INR. Total contribution of Travel and Tourism Industry to GDP of India is expected to grow by 9% from current INR 3,680 billion (4.5% of GDP) in 2011 to INR 8,523 billion (4.9% of GDP) by 2021. So far, urban areas have been the focus of services sector, but for a more equitable economic development, services need to be expanded to the rural areas also. It creates a huge potential for the services sector in the rural areas in the coming future.

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