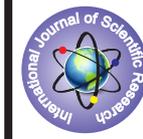


## MICRO CREDIT- SUPPORTIVE ROLE IN INDIAN ECONOMY



Commerce

**KEYWORDS:** microfinance, microcredit, empowerment, poverty

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### ABSTRACT

With the growth of industry, trade and commerce, the banking system also grew over a period of time and gained maturity. In the era of keen competition among banks almost every day a new type of scheme is being introduced by banks to attract customer. Most of the people in developing countries live in rural areas, they are poor and unable to save, and they need to be helped. Financial institutions in the country have been playing a leading role in the microfinance program for nearly two decades now. Microfinance sector has covered a long journey from micro savings to micro credit and then to micro enterprises. This gradual and evolutionary growth process has given a great boost to the rural poor in India to reach reasonable economic, social and cultural empowerment, leading to better life of participating households. This study examines role of micro credit in Indian economy.

### INTRODUCTION

Over the last several years, the reserve bank has undertaken wide-ranging financial sector reforms to improve financial intermediation and maintain financial stability. In this effort micro credit plays an important role in fighting the multi-dimensional aspects of poverty. Micro credit is the extension of very small loans. It means micro loans to poor borrowers who typically lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credit. Microfinance is used for the provision of a wider range of financial services to the group of individuals includes artisans, tiny and small industries, grocers, vegetable vendors, rickshaw pullers, roadside retailers and other activities include farming, poultry, cattle rearing, piggery and fishery for enabling them to raise their income levels and improve living standards. The institutions that provide Micro Credit are called Micro Credit Institutions. Microcredit is a part of "Microfinance". Microfinance increases household income, which leads to attendant benefits such as increased food security, the building of assets, and an increased likelihood of educating one's children. Microfinance is also a means for self-empowerment. It enables the poor to make changes when they increase income, become business owners and reduce their vulnerability to external shocks like illness, weather and more. Microcredit has widely been directed by the non-profit sectors while commercial lenders require more conventional form of collateral before making loans to microfinance institutions. Nowadays the mainstream finance industry is counting the microcredit projects as a source of growth.

### ROLE OF GRAMEEN BANK

Before the nationalization of banks in India in 1969, co-operative banks were the main dispensers of small loans in the organized sector. Commercial banks were not easily accessible to small borrowers. Nobody could think of a loan, big or small, without a guarantor or mortgage of immovable property. Profit was the only motive of the banking. Nationalization changed the picture and the nationalized banks opened branches in the remotest corners of the country. Microcredit is part of microfinance, which provides a wider range of financial services, especially saving accounts, to the poor. Modern microcredit is generally considered to have originated with the grameen bank founded in Bangladesh in 1983. Grameen Bank has successfully enabled extremely impoverished people to engage in self-employment projects that allow them to generate an income and, in many cases, begin to build wealth and exit poverty. Due to this success of microcredit, many in the traditional banking industry have begun to realize that these microcredit borrowers should more correctly be categorized as pre-bankable; thus, microcredit is increasingly gaining credibility in the mainstream finance industry, and many traditional large finance organizations are contemplating microcredit projects as a source of future growth, even though almost everyone in larger development organizations discounted the likelihood of success of microcredit when it was begun.

### MICRO CREDIT IS A SUPPORT FOR INDIAN ECONOMY

### Provide access to funds

Typically, the less privileged acquire financial services such as loans through an informal relationship, which might prove to be costly and unreliable. In addition most banks do not view the unprivileged as viable clients due to employment history or unstable credit and lack of financial security. Microfinance institutions often dismiss such requirements by providing small loans at flexible rates. Banks simply would not extend loans to those with little or no assets and generally don't engage in the small size of loan typically associate with micro financing. It is based on the philosophy that even small amount of credit can help end the cycle of poverty.

### Women empowerment

Microcredit also empowers women since they are the major beneficiaries. In the past, women were not able to participate in economic activities. Microfinance institutions now provide women with the capital they require to start business projects. This gives them more confidence and allows them to participate in decision making, thereby encouraging gender equality. Microcredit tends to target women borrowers who are statically less likely to default on their loans than men. They are often safer investment for those loaning the fund. It is designed not only to support entrepreneurship and alleviate poverty, but also in many cases to empower women and uplift entire communities by extension. In many communities, women lack the highly stable employment histories. Many are illiterate, and unable to complete paperwork required to get conventional loans. Microfinance has definitely facilitated the poor women's access to financial resources and also it has created microenterprises that lead to employment and additional benefits which have contributed to their overall economic improvement and social mobility. Indeed women can now start their own family business with the financial support that they get from banks and therefore it allows them to upgrade their position in the society and it has more impact on their decision making power in the household. As a result they do not remain mere housewives as they tend to develop some managerial skills, while also acquiring more knowledge concerning how to run their own source of livelihood.

### Non financial impact of microfinance

Beside financial support, we can denote that microfinance provides psychological benefits to its poor clients by promoting a sense of self respect and dignity as they are convinced that they possess the capabilities to improve their lives thus there would be no need for the poor to rely on loans sharks or moneylenders, who charge them for exorbitant interest rates to finance their daily needs. Microfinance contributes to fight against HIV while focusing on women empowerment. Many women and their wards were getting indulge into prostitution so as to sustain their economic needs. With the help of microfinance, there is a reduction in the vulnerability of AIDS as they are less likely to get involved in to high risk behavior. It can lead to improved access to clean water and better sanitation while also providing better access to health care.

**Economic development**

The Indian economy is firmly on the recovery path. The improved performance of the micro finance institutions is also reflected in the improved condition of less privileged section. Microcredit has proven itself as a strong stimulant to economic development. It is an investment in people that pays back many times its initial outlay. Loan recipients support themselves through their increased income, as well as employing others and generating business for their supply chain. Governments benefit through decreased social assistance cost and increased tax income. As the loans are repaid, the money is invested into other loans, bringing the benefits of microcredit to ever-expanding pool of entrepreneurs.

**Grameen credit**

Grameen credit is based on the premise that the poor have skill which remains unutilized or underutilized. It is definitely not the lack of skills which make poor people poor. Grameen credit believes that poverty is not created by the poor, it is created by the institutions and policies which surround them and charity is not the solution of poverty. It promotes credit as a human right.

The mission of grameen credit is to help the poor families to help themselves to overcome poverty. It is based on trust, not on legal procedures and system. A borrower must join a group of borrowers in order to get loans. Loans can be obtained regularly. New loan becomes available on the repayment of previous loan. All loans are to be repaid in installments. Installments may be weekly or bi-weekly. A borrower can obtain more than one loan simultaneously.

**Extending education**

Families receiving microcredit are less likely to pull their children out of school for economic reasons. Saving allow for improved nutrition, reduced illness, better living conditions and educational investment.

**Sustainability**

Even a small working capital loan can be enough to launch a small business in a developing country that could help the benefactor pull themselves and their family out of poverty. It can help create a new employment opportunity which has a beneficial impact on the local economy. Microfinance gives people enough capital stability, which gives them financial security from sudden monetary problems.

**SOME ISSUES REGARDING MICRO CREDIT**

In spite of all these measures the performance of micro finance in India has neither been quite satisfactory quantitatively nor qualitatively. The money disbursed has not been adequate, nor has it yielded the desired results. The main shortcoming to microcredit is that default rates are often high especially when borrowers are not able to pay off their loans due to unexpected circumstances such as illness or death. Instead of being recycled, the major portions of loans have been lost as bad debt.

**Lending Norms:**

Banks have been given freedom by Reserve Bank of India to formulate their own lending norms keeping in view ground realities. They have been asked to devise appropriate loan and savings products and the related terms and conditions including size of the loan, unit cost, unit size, maturity period, grace period, and margins. Such credit covers not only consumption and production loans for various farm and non-farm activities of the poor but also include their other credit needs such as housing and shelter improvements.

**Rates Applicable:**

The reform of the interest rate regime has constituted an integral part of the financial sector reforms initiated in our country in 1991. In consonance with this reform process, interest rates applicable to loans given by banks to micro credit organizations or by the micro credit organizations to Self-Help Groups/member-beneficiaries has been left to their discretion.

The interest rate ceiling applicable to direct small loans given by

banks to individual borrowers, however, continues to remain in force.

Critics argue that microcredit has not had a positive impact on gender relationships, does not alleviate poverty, has led many borrowers into a debt trap and constitutes a privatization of welfare. Critics say that microcredit has not increased incomes, but has driven poor household into a debt trap, in some cases even leading to suicide. They add that the money from loans is often used for durable consumer goods or consumption instead of being used for productive investments, that is fails to empower women, and that it has not improved health or education.

**CONCLUSION**

Hence, micro credit is the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans. In developing countries micro credit enables very poor people to engage in self-employment projects that generate income. There is no doubt that poverty is hindering many countries over the world and despite microcredit has acted as an innovative financial tool to enhance the lives of many people, it has certainly not be able to completely eradicate poverty. Microfinance has improved the lives of many people, we notice that high interest rates are increasing the problems of a poor till a point that they actually commit suicide. To end with we can argue that microfinance is just a step to alleviate poverty and it can only be successful if the low-income people have the determination to fight poverty on their own. Microfinance can only be considered as a source of hope for those who are strong enough to become independent.