International Journal of Technology Management & Humanities (IJTMH)
e-ISSN: 2454 – 566X, Volume 5, Issue 1-4, (Jan-Dec 2019), www.ijtmh.com

Micro Finance in India- A Tool for Rural Development

Author

[1]Shweta Goel, [2]Prof. (Dr.) D.K. Goswami

[1](Research Scholar Maharishi University of Information Technology)
[2](Professor/Department of Value Management/Maharishi University of Information and Technology, Lucknow)

Abstract

India is a developing country. Indian population comprises approximately one sixth of the world's population. In India more than 70% of the population lives in villages and most of these villages are underdeveloped.
The "rural sector" means any place as per the "latest census" which meets the following criteria,

- *A population of less than 5,000*
- *Density of population less than 400 per sq km and*
- *More than "25 per cent of the male working population" is engaged in agricultural pursuits.*

Microfinance is generally defined as financial services for poor and low-income people. Microfinance is a tool for financial inclusion. After the year and after so many practices and plans rural peoples are still away and unaware about the financial services and products. They are not able to avail these financial services. In India lots of problems are faced by rural people like lack of money, illness, illiteracy, etc.

Microfinance helps the entrepreneurs, small business persons and rural people to generate income, build assets, smooth consumption, and manage risks. The Scheme of Micro-finance has been found as an effective instrument for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy. It is observed that providing credit to the poor helps in income generation from business and reduce shocks such as illness of a wage earner, weather, theft, or other such events. It also provides attendant benefits on food security child's education etc. The paper focuses on micro finance and its role in promoting the rural poor.

***Keywords**: Microfinance; Rural development; Economy; Financial inclusion etc.*

1. Introduction

In a country like India with almost 30% (more than 360 million) people still below poverty line and according to latest census figures, more than 70% or 840 million people living in rural areas with little or no access to formal banking and other financial services, microfinance has a big role to play in order to bridge this gap. According to the latest report by the World Bank, India is home to almost one third of the world poor. The economy is unevenly distributed. This paradox and contradiction needs to be rightly attended. This can be justified when a large section is devoid of economic opportunities, then "dissatisfaction has seeds of revolution" may come true. Hence, instant Hence, instantaneous solution is required; to reduce the widening gap, by persuading participation of socially deprived section of the society. For this purpose, 'Micro Finance' is an answer to the problem. With Micro Finance countless number of problems can be addressed meaningfully.

In India, microfinance was introduced with the establishment of Self-Employed Women's Association (SEWA) in Gujarat. SEWA was registered as a trade union of self-employed women workers of the unorganised sector in 1972. This trade union established their bank known as SEWA Bank in 1974. To establish these bank four thousand union members contributed Rs. 10 each as share capital. Since then this 60 bank is registered as a co-operative bank and has been providing banking services to poor women and has also become a viable financial venture.

2. Meaning of Microfinance

Microfinance can be defined as the provision or the source of providing financial services to those sections of the society to whom these services are not available. This would include people from the lower end of the economic spectrum, the so called "bottom of the pyramid."
According to Patrick Meagher, "Microfinance is defined as lending small amounts of money for short periods with frequent repayments" (Meagher 2002:7).
For Van Maanen, "Microfinance is banking the unbankable, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral"

3. Components of Microfinance

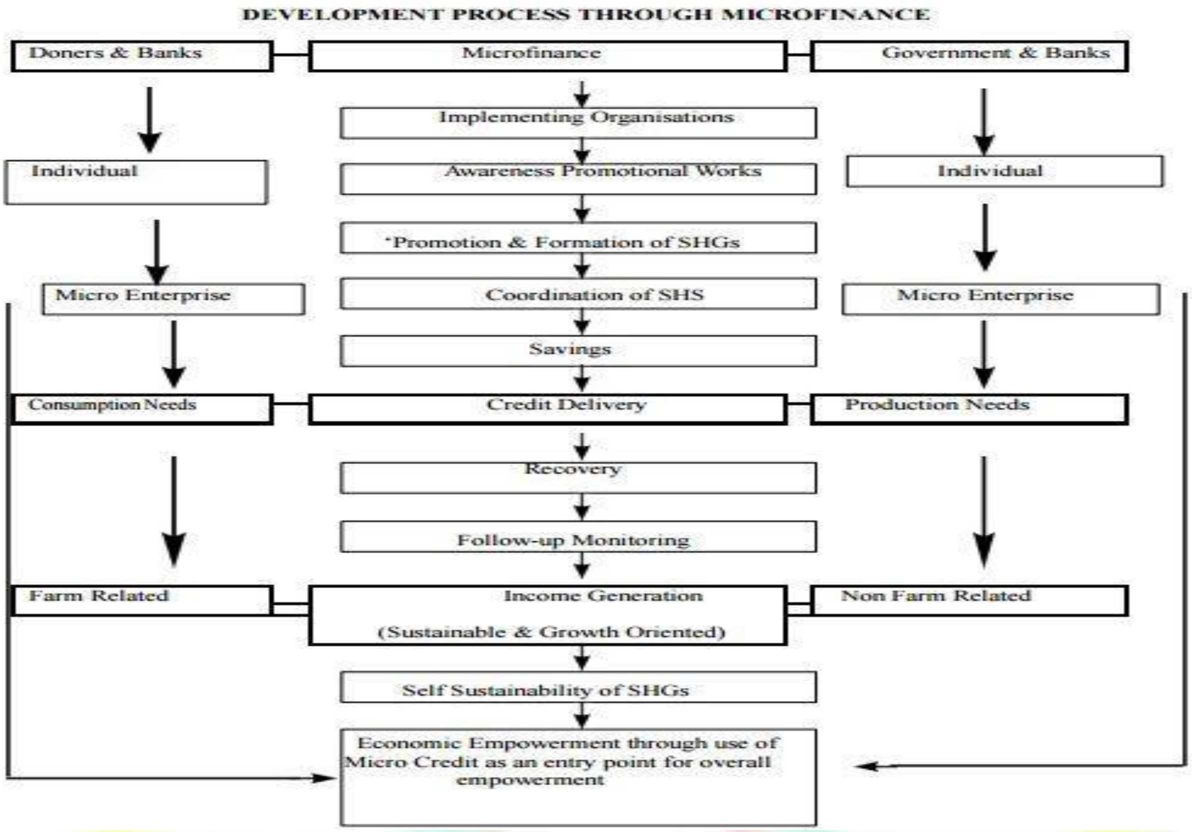
The following components of the microfinance which are mostly discussed are:

3.1. Micro credit: Micro credit is the lending of small amounts of money at low interest to new businesses in the developing world. It helps to improve borrowers who typically lack steady employment and verifiable credit history. It is a tool for entrepreneurship and alleviates poverty but also helps women empowerment and uplifting the social class by extension.

3.2. Micro insurance: Micro insurance is the provision of insurance services for people with low income. A vast majority of the poor in developing countries work in the informal or agricultural sectors and do not have access to formal insurance. They neither can afford commercial insurance nor access social protection benefits (such as health, disability, or unemployment coverage), which are provided by employers and often co-financed by governments. Micro insurance is a viable strategy to fill this gap and deliver insurance that is affordable, accessible, and appropriate to the needs of the poor.

3.3. Micro saving: Micro finance branch of small deposits accounts recommended as an incentive to those with lower incomes for saving money. They are similar to saving accounts, but designed for small deposits. There are either low or minimum deposits and typically no services charge. Micro finance accounts are designed for small and in some cases very small deposits into a savings accounts that has minimum balance.

4. Development process through Microfinance



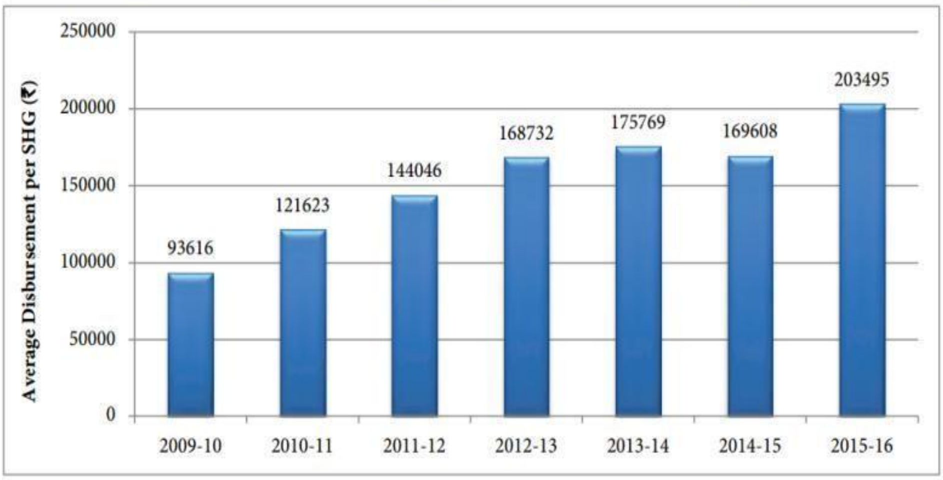
5. Microfinance and Poverty Reduction for Rural Development in India

India consists over a quarter of its population below to poverty line. The World Bank reports that India is a home around some 260 to 290 million poor, numbers that rise to around 390 million if poverty is measured by the international standard of those living on less than 1US$ dollar a day. Almost half of India's poor, more or less 133 million, are found in three states: Uttar Pradesh, Bihar, and Madhya Pradesh. Rural area in India is the home of three quarters of India's poor which is supported by the increasing urban and rural disparities. The Indian government's poverty reduction strategy focuses on infrastructure, social development (especially education and health), and rural livelihoods. The improvement of rural livelihoods is the aspect of poverty reduction that Microfinance Institutions concentrate on. Most poor people manage resources to develop their enterprises and their home over a time. Financial services could enable the poor to force their initiative, accelerating the process of assembling incomes, assets and economic safety. Traditional finance institutions rarely lend money to serve the needs of low-income families and women-headed households. However, the income of many self employed households is not stable, regardless of its size. A large number of small loans are needed to serve the poor, but lenders prefer dealing with large loans in small numbers to minimize administration costs. They also look for guarantee which many low-income households do not have in hand. Over the last ten years, however, successful experiences in providing finance to small entrepreneur and producers demonstrate that poor people, when given access to responsive and timely financial services at market rates, pay back their loans and use the profits to increase their income and assets. This is not shocking since the only realistic alternative for them is to borrow the money from informal market. Community banks, NGOs and credit groups around the world have shown that these microenterprise loans can be profitable for borrowers and for the lenders, making microfinance one of the most effective poverty reducing strategies.

6. Microfinance and Self Help Groups (SGHS) For Rural Development

There are two common approaches of Micro Finance India - The Self help groups method and the Garmin system. SHGs are small, informal and homogeneous groups of 10 to 20 members each. These groups are formed by the bank officials, NGOs and various other institutions at the village level. Members of almost equal economic and social status are chosen to minimise any mutual conflict. Each such group is given a name and each group has a head, cashier and secretary, democratically elected by the group members to manage the group affairs. The members are encouraged to make a voluntary thrift on regular basis. The group members mutually decide about the amount and frequency for individual savings to be deposited in the group account. They use this pooled resource to make small interest bearing loans to their members within the group. This process, known as inter-loaning, gradually builds financial discipline among the group members and they learn to handle resources of a size that is much beyond their individual capacities. The SHG members begin to understand that resources are limited and have a cost. Once the groups show this mature financial behaviour (generally after six months of group formation), banks are encouraged to provide loan to the SHG in certain multiples (three to four times) of their accumulated savings.

Figure 5.10: All India Trend in Average Bank Loan Amount Disbursed per SHG



Source: NABARD

Source : NABARD Report 2016-17

The average loan amount disbursed per SHG has been on the increase. It was `203495 during 2015-16 across India. Average loan amount disbursed per SHG has been maintaining an increasing trend over the period of years.

7. Microfinance and Women Empowerment For Rural Development

Women are essential part of the society. The role of women in economic activities and decision making is very low. Economic independency strengthens and boost up women empowerment level. Since women's empowerment is the key to socio economic development of the community. Bringing women into the mainstream of national development has been a major concern of government. In India organizations like Self- Employed Women's Association (SEWA) among others with origins and affiliations in the Indian labour and women's movements identified credit as a major constraint in their work with informal sector women workers. On the other hand self help groups (SHGs) constitutes of 85-95 % women. The reasons for this are that women are familiar with finances responsibility. Empowering the women can play a vital role in eradication of poverty as they spend their income on family mostly on the education of children. Educating a generation will help in shaping a better future. So SHGs have been recognized as one efficient means of empowering women.

8. Research Methodology

This study is descriptive in nature and compiled with the help of the secondary data. Secondary data have collected by different websites reports, Journals and Magazines.

9. Critical Issues for Micro Finance

This is not a point of consideration that Micro financial services have capability to offer better services than conventional banking services and carry out the needs of the underprivileged people. The significant factor is that external Micro financial services should join hand to the running system of lending and/or borrowing money in rural areas instead of throwing them out. In this way the poor people especially women who require the fund to run their business and family activities in a well-organized manner will get benefitted more. Some critical issues for microfinance organizations are as follows:

9.1. ***Sustainability*** : The primary issue is related to sustainability. It has been reported in much news that the Micro financial institutions are comparatively costlier in terms of delivery of financial services. The volume of transactions is very small, whereas the fixed cost of those transactions is very high. It cannot vary with the size of the loan. This is partially explained by the fact that the cost of supervision of credit is high, while the loan quantity and loan volume is low. Therefore it is necessary for MFIs to develop strategies for increasing the range and volume of their financial services.

9.2. ***Low Education Level*** : The level of education of the clients is low. So it creates a problem in the growth and expansion of the organization because its percentage is around 70% in MFIs. Target population of Microfinance is people of rural areas and they have no or less education level. They are not aware about the banking or financial inclusion. So it creates big difference.

9.3. ***Borrowings:*** In comparison with earlier years, MFIs is now finding it relatively easier to raise loan funds from banks. Some where this creates a tendency to lend money for the fulfilment of need and not to employ it to generate any business or income. And then when it comes to repay the loan the borrower used to commit suicide.

Due to the fast growth of the SHG-Bank Linkage Programme, the quality of MFIs has come under stress. This is reflected particularly in indicators such as the poor members are estimated to be below the poverty line. As per Sa-Dhan Report On an average, the loan outstanding per SHG as of March 2016 is `122242 at an all India level, which is a jump of around 6% . Yet again, Commercial Banks lead the chart, with around 65% of total bank loans outstanding. RRBs are a distant second with 28%, followed by Cooperative banks with 7%.

10. Conclusion

Microfinance is very necessary in India for rural development and financial inclusion of the poor in the rural and urban areas. Lending to the poor people can be a miracle for the development of the country and alleviation of Poverty. If government and MFIs act together in effective manner then microfinance can play a great role in rural development. MFIs are the foundation institutions offering financial services to low income people. 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.

References

[1]. Abhijit Banerjee, Esther Duflo & Rachel Glennersters & Cynthla Kinnan “The Miracle of Micro Finance? Evidence from a randomised evaluation”
[2]. Anish Chowdhury – “Micro Finance as poverty Reduction Tool - A critical Assessment” (Desa Working Paper No.-89)
[3]. Basu, P. and P. Srivastava (2005): “Exploring Possibilities: Microfinance and Rural Credit”
[4]. Dr. Prasann Kumar Das (2014): “Microfinance - A Tool for Socio - Economic Development in Rural India”
[5]. Rajesh K. Yadav (2014): “Significance of microfinance institutions in rural development of India”
[6]. Devaraja T.S. “Microfinance India - A tool for Poverty Reduction”
[7]. Ghate, P. (2006): “Microfinance in India: A State of the Sector Report, 2006”, CARE & Ford Foundation, New Delhi
[8]. Kabeer, N. (2005) “Microfinance a Magic Bullet for Women’s Empowerment”, Economic and Political Weekly, 29 October
[9]. Kenny Kline & Santadasshan Sadhu, “Micro Finance India: A new Regulatory structure
[10]. NABARD (2000): “Task Force on Supportive Policy and Regulatory framework for Micro Finance in India”
[11]. NABARD (2016-17): Annual Report
[12]. www.worldbank.org