STATUS OF MICROFINANCE IN RURAL INDIA: A REVIEW

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Abstract

Rural is often looked down upon as a not a healthy place to live, where that place is a secluded place for the underprivileged and where only the down trodden people can live. On the other side, micro is a word that has its presence that reflects only the small and the underprivileged. Lack of access to finance is often cited as a key reason why poor people remain poor. This paper will throw light on the Indian rural sector as the emerging and vibrant sector which will take India to fulfill the dream of the developed country. India can be divided into two parts on the basis of development: one is Developed India and other is Undeveloped India, there arises a need of Development of the underdeveloped Area. Microfinance stands as one of the most promising and cost effective tools which fight against global poverty. The findings from this study suggest that there is rise in the history and perspectives of rural credit in India in form of microfinance and there is need for improved governance to manage challenges for future so that socio-economic growth is possible. The present paper discusses conceptual framework, development process, growth of SHG linked microfinance programme, types of micro finance services and developmental role of these institutions in rural India. It also focuses on the status of microfinance and provides some policy framework to meet the challenges faced by Indian microfinance. The article traces that the evolution of the microfinance revolution in India as a powerful tool for socio-economic development in rural India.

The research will focus to determine that, what various Factors are contributing to the development of Rural India. It will focus on how the micro finance Institutions can help the people of Rural India, so that they can get the Equal opportunity for the Industrial and Agriculture growth.

Keywords: Microfinance, Rural Development, Financial Services and Economic Empowerment.

INTRODUCTION

Microfinance is defined as, "a type of banking service that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services"(refer to bibliography). In other words it is provision of financial services such as savings, credit and insurance to individuals that fall below the poverty line. Microfinance therefore is also stated as creation of social value for these individuals by elevating their circumstances and helping them to envision the livelihood opportunities. Through the provision of capital for micro enterprise, savings for risk mitigation and insurance the purpose or the goal for the sustainability of rural developers is achieved. It is stated that private corporations, individual donors and government schemes are using range of microfinance methods. There are some banks like ICICI that provide access to help the rural developers by means of financial services. The Indian government adopts piloted national programs to contribute to the microfinance for the rural developments. NGO's on the other hand undertake fund raising activities and encourage donors to participate in microfinance as much as they can.

The purpose of this paper is not only to understand the broad definition of microfinance and its structure and purpose but it is mainly to project the creation of social value by showing and proving how microfinance has been capable in proving itself for the rural dwellers.

MICROFINANCE IN DETAIL

According to the International Labor Organization (ILO), Microfinance is also defined as, *"an economic development approach that involves providing financial services through institutions to low income clients"* (Bib). Alternatively, the second definition of the same stated by 'The National Microfinance Taskforce, 1999' states that, " *it is the provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards"* (Bib). An article on 'Microfinance - A small ideal with a big impact' stated that, "The poor stay poor, not because they are lazy but because they have no access to capital" (Bib, Feb 27, 2008). Alternatively, the definition of finance is simple as it simply quotes that it is the, "management of money" (Bib). Management of money means acquiring and using money. Now microfinance word is created from bringing the finance and money related definitions together to conclude that in simple terms, 'we are financing the micro entrepreneurs'.

As already stated microfinance is emerged in need of acquiring special goals to empower under-privileged of the society. The underprivileged of the society can include women, men, low caste, etc. The principles of microfinance have been established on the philosophy of cooperation, equality, equity and self sustenance. In the heart of these underlined principles is the concept of human development and brotherhood expressed via people working together to live a better life for themselves and their children. It is stated that traditionally microfinance was used to provide standardized credit to the poor. Now there is earnest longing to use microfinance as just not a product of credit but rather a quality credit that extends good livelihood for those that have the capability and potential to sustain their livelihood. This paper reflects microfinance as a quality measurement than the quantity measurement. Microfinance plays a huge role in changing one persons or a family's life. Further on, this research will unfold to share more secrets on microfinance in today's world.

THE CLIENTS OF MICROFINANCE

This paper is reflective of the low-income and underprivileged groups that may be self-employed or small scale house hold entrepreneurs such as farmers or small industrialist from the rural settings. Microfinance for the poor means it is for those that has limited access or no access to formal financial institutions. Unlike, the urban dwellers like shopkeepers, artisans, providers, and street vendors etc, those that can depend on other conventional financial institutions for the sustenance of their businesses. It is stated that the poorer you are, it seems less likely that you have the access to the conventional formal financial institutions. Additionally, the informal financial arrangements also seem more expensive and seem to be unreasonable for ordinary poorer person. The strength of the microfinance therefore reflects the weaker population of our society those that are excluded from the norms.

KEY PRINCIPLES OF MICRO FINANCE

1. Poor people need a variety of financial services, not just loans.
2. Microfinance is a powerful tool to fight poverty.
3. Microfinance means building financial systems that serve the poor.
4. Microfinance ca n pays for itself, and must do so if it is to reach very large numbers of poor people.
5. Microfinance is about building permanent local financial institutions that can attract domestic deposits, recycle them into loans, and provide other financial services.
6. Microcredit is not always the answer. Other kind of support may work.
7. Interest rate ceilings hurt people by making it harder for them to get
8. The job of government is to enable financial services, not to provide them directly.
9. Donor funds should complement private capital, not compete with it.
10. The key bottleneck is the shortage of strong institutions and managers.
11. Microfinance works best when it measures and discloses its performance.

OBJECTIVES OF MICROFINANCE

The organizations working to promote microfinance institutions in different parts of the world determine various objectives to microfinance. The important among them are listed as follows.

1. Promote socio-economic development at the grass root level through community-based approach
2. Develop and strengthen people's groups called Self-Help Groups and facilitate sustainable development through them
3. Provide livelihood training to disadvantaged population.
4. Promote activities which have community participation and sharing of responsibilities
5. Promote programs for the disabled
6. Empower and mainstream women
7. Promote sustainable agriculture and ecologically sound management of natural resources
8. Organize and coordinate networking of grass root level organization
9. Get benefits by reducing expenditure and making use of local resources as inputs for livelihood activities
10. Increase the number of wage days and income at household level

DEVELOPMENT PROCESS AND TYPES OF MICROFINANCE IN RURAL INDIA

The People of rural India are mainly depending upon agriculture and small business units like fishing, earning through domestic animals, small business units etc. They are not making the agriculture and business profitable because due to the lack of monetary resources. Only few people of rural India are using capital intensive method to cultivate their lands. The most of the rural people are not sustaining in their small business for a long period of time due to insufficient fund available with them. Microfinance in one of the important tool which plays a significant role in poverty elimination and economic development of rural poor. The need therefore, is to share experiences and materials, which will help not only in understanding success and failures but also provided knowledge and guidelines to strong them and expand microfinance programme.

The Development process through a typical microfinance intervention can be understood with the help of the following chart. The ultimate objective is to attain social and economic empowerment. Successful intervention is therefore; dependent on how each of these stages has been carefully dealt with and also the capabilities of the implementing Organisations in achieving the final goal e.g., if credit delivery takes place without consolidation of SHGs, it may have problems of self sustainability and recovery. A number of Schemes under banks, central and State governments offer direct credit to potential individuals without forcing them to join SHGs. Compilation and classification of the communication materials in the directory is done based on this development process.

SELF HELP GROUPS (SHGs)

The Self Help Groups (SHGs) is the dominant microfinance methodology in India. In this case the members of Self Help Group pool their small savings regularly at a prefixed amount on daily or weekly basis and SHGs provide loan to members for a period fixed. SHGs are essentially formal and voluntary association of 15 to 20 people formed to attain common objectives. People from homogenous groups and common social back ground and occupation voluntarily form the group and pool their savings for the benefit of all of members of the groups. External financial assistance by MFIs or banks augments the resources available to the group operated revolving fund. Saving thus precede borrowing by the members. NABARD has facilitated and extensively supported a program which entails commercial banks lending directly to SHGs rather than via bulk loan to MFIs. If SHGs are observed to be successful for at least a period of six months, the bank gives credit usually amounting 4 times more than their savings.

INDIVIDUAL BANKING PROGRAMMES (IBPS)

In Individual Banking Programmes (IBPs) there is provision by Microfinance institutions for lending to individual clients though they may sometimes be organized into joint liability groups, credit and saving cooperatives. This model is increasingly popular through cooperatives. In cooperatives, all borrowers are members of organization directly or indirectly by being member of cooperative society. Credit worthiness and loan securing are a function of cooperative membership in which member's savings and peer pressure are assumed to be key factors. BAXIS a MFI based in Ahmadabad offers both the joint liability group and individual lending loans in addition to loans to intermediaries. Bank of Rakyat at Indonesia, arguably the world‟s biggest and profitable microfinance institution is following this model.

CONCLUSIONS

Microfinance is multifaceted and works in an integrated system. There are many stake holders and each one has a definite role to play. In the core there is client. There is a second level called micro level where MFIs, NGOs, SHGs and Grameen work to provide financial support to individual client. Apex institutions like NABARD, SIDBI and other nationalized Banks operate in Meso-Level to provide infrastructure, information and technical support to micro level players. Around all these levels, there are financial environment, Regulations, legislations and regulators called Macro level. With passage of time new opportunities and new challenges are being felt in the field of microfinance. In recent years microfinance is in news for bad reasons. There are a number of suicide cases of micro credit clients all over India for excess interest charges and high handedness of recovery agents in recovery of loans. So, government of India has brought out a legislation to check the high interest rate on micro credit and protect the poor from clutches of greedy MFIs.

Government of India introduced Micro Finance Institutions (Development and Regulation) Bill 2012 on May 22, 2012 to establish a regulator under RBI to regulate and supervise the activities of NGOs and MFIs. The main features of the Bill are as follows: the Bill allows the central government to create a Microfinance Development Council with officers from different ministries and Departments. The Bill requires all MFIs to obtain a certificate of registration from RBI. The RBI has the authority to set maximum annual percentage rate charged by MFIs and sets a maximum limit on the margin MFIs can make. Margin is defined as the difference between the lending rate and the cost of funds. It is also responsible for redressal of grievances for beneficiaries of microfinance services. These initiatives may go long way in strengthening the micro finance status in India. Lending to the poor through microcredit is not the end of the problem but beginning of a new era. If effectively handled, it can create miracle in the field of poverty alleviation.

But it must be bundled with capacity building programs. Government cannot abdicate its responsibility of social and economic development of poor and down trodden. In absence of any special skills with the clients of microcredit, the fund is being used in consumption and procurement of non-productive assets. Hence it is very important to provide skills development training program like handicraft, weaving, carpentry, poultry, goat rearing, masonry, bees farming, vegetable farming and many other agricultural and non agricultural training. Government has to play proactive role in this case. People with some special skills have to be given priority in lending microcredit. These clients should also be provided with post loan technical and professional aid for success of their microenterprises. If government and MFIs act together then microcredit can play a great role in poverty alleviation.

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