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SUSTAINABLE MICRO- FINANCE AND THE RURAL DEVELOPMENT

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ABSTRACT:

Micro-Finance, also called micro credit, is a type of banking service provided to unemployed or low-income individuals or groups who otherwise would have no other access to financial services. In this article, we will understand the role of micro-finance in the lives of rural people and in their development. The impact of micro-finance on the economy of India. Finance is required by every individual to fulfill their necessities but most of the rural people do not get the money required at less rate of interest. This is made available by the micro-finance. This paper highlights the institutions who provide micro-finance, their services, the impact of demonetization on micro-finance and the changes happened to these institutions. The major beneficiaries of these services are entrepreneurs, women and rural people, who do not get money from other banks at low interest. The institutions who provide these services are non-profit organizations. Banks lend microcredit through Self-Help Groups (SHGs) and to local Micro-Finance Institutions (MFIs) based on the philosophy of peer pressure and group savings as collateral substitute. At macro level, the self-help group is a useful instrument for savings, mobilization and enhancing access to credit for the rural, unreached poor for their productive investment.

INTRODUCTION:

Micro-finance is a category of financial services targeted at individuals and small businesses who lack access to conventional banking and related services. Micro-finance includes micro-credit, the provision of small loans to poor clients; savings and checking accounts; microinsurance; and payment systems. Micro-finance services are designed to reach excluded customers, usually poorer population segments, possibly socially marginalized, or geographically more isolated, and to help them become self-sufficient.

Over time, micro-finance has emerged as a larger movement whose object is “a world in which as everyone, especially the poor and socially marginalized people and households have access to a wide range of affordable, high quality financial products and services, including not just credit but also savings, insurance, payment services, and fund transfers. The beneficiaries of micro-finance are those who do not have access to these traditional financial resources. The amount of loan to start a business is Rs.1Lakh to Rs.10 Lakh for entrepreneurs. The minimum amount for lending is Rs.50 Lakh and maximum is Rs.50 Cr.

Micro-finance services are offered by the following sources:

- Formal institutions, i.e., cooperatives and rural banks
- Semi-formal institutions, i.e., non-government organizations
- Informal sources, such as shopkeepers and small -scale lenders.

Institutional micro-finance encompasses the services provided by both formal and semi-formal institutions.

A micro-finance institution specializes in banking services for low-income individuals and groups. These institutions access financial resources from mainstream financial entities and provide support service to the poor. Micro-finance institutions are hence, emerging as one of the most effective tools in reducing poverty in India.

While several MFIs are well-run with great historical records, others are operationally self-sufficient.

The different types of institutions offering micro-finance in India are:

- Commercial banks
- Credit unions
- Non-government organizations (NGOs)
- Sectors of government banks
- Cooperatives

FEATURES OF MICROFINANCES:

- Microloans – Microfinance loans are significant as these are provided to borrowers with no collateral. The result of microloans should be to have its recipients outgrow smaller loans and be ready for traditional bank loans.
- Micro savings – Micro savings accounts allow entrepreneurs operate saving accounts with minimum balance. These accounts help users inculcate financial discipline and develop an interest in saving for the future.

- Microinsurance – Microinsurance is a type of coverage provided to borrowers of microloans. These insurance plans have lower premiums than traditional insurance policies.

IMPORTANCE OF MICROFINANCE:

Almost half of the population of our country does not have a basic savings account. This segment of society requires financial services so that their aspirations such as building of assets and protection against risk can be fulfilled.

Microfinance provides access to capital for individuals who are financially underserved. If microfinance institutions were not offering loans to this segment of the society, these groups would have restored to borrowing money from friends or family members which are at high interest rate.

Microfinance helps these groups invest wisely in their businesses, and hence, is in alignment with the government's vision of financial inclusion in the country.

MICROFINANCE CHANNELS:

In India there are primary two channels:

- SHG-Bank Linkage Programme(SBLP) – This channel was initiated by NABARD in the year 1992. This model encourages financially backward women to come together to form groups of 10-15 members. They contribute their individual savings to the group at regular intervals. Loans are provided to members of the group from these contributions. SHGs are also offered bank loans at later stages, and these loans can be used for funding income generating activities. It has gained a lot of popularity for contributing to the empowerment of women in the country.
- Microfinance Institutions (MFIs) – These institutions have microfinance as their primary operation. These lend through the concept of Joint Liability Group(JLG), i.e., an informal group that consists of 5-10 members who seek loans either jointly or individually.

MICROFINANCE COMPANIES IN INDIA:

The companies that offer loans to the unbanked and under banked population in India are as follows:

1. Arohan Financial Services Pvt Ltd
2. BSS Microfinance Pvt Ltd
3. Cashpor Micro Credit
4. Equitas Microfinance Pvt Ltd
5. Asirvad Microfinance Pvt Ltd
6. Bandhan Financial Services Pvt Ltd
7. Disha Microfin Pvt Ltd
8. Annapurna Microfinance Pvt Ltd
9. ESAF Microfinance and Investment Pvt Ltd
10. Fusion Microfinance Pvt Ltd

Lenders offering Microfinance Loans to MFIs:

- Reliance Money – It offers microfinance solutions at great interest rates by partnering with microfinance institutions. The documentation required for this is limited. Wholesale funding is provided to MFIs for on-lending. The lender also helps with guarantees so that MFIs can get loans from alternative sources.
- ICICI Bank – this bank has been partnering with MFIs for at least 10 years to provide microfinance loans to these institutions. The financing offered are predominantly term loans. Other value-added facilities such as cash management services, salary/savings accounts, and customized current accounts are offered to MFIs for treasury and staff products.
- State Bank of India (SBI)- SBI offers loans to microfinance institutions and NGOs that act as intermediaries for financing the needs of eligible entrepreneurs in the lower segment of the society. These term loans can be repaid every month, quarter, or at intervals of 6 months. The total payment period cannot be more than 3 years and cash credit loans should be renewed on an annual basis.
- Axis Bank – This bank offers loans to microfinance institutions that financially empower low-income earners and micro-entrepreneurs. The bank has partnered

with several MFIs across the country. Term loans are offered by the bank to MFIs that extent this to the eligible borrowers.

- DCB Bank – DCB Bank offers two types of products as part of microfinancing. These are term loans and loans to NFIs for on-lending purposes.

Impact on rural development:

Microfinance not only reduces the incidence of poverty, but its depth and severity too. The results support the assertion that microfinance is an effective tool for reducing poverty in most emerging and developing countries. They strive to improve the condition of women and help in their empowerment. Micro credit has increased household income of the rural. Access to the financial services enables the client to change their asset mix. They used the credits for land acquisition, housing construction or improvement, purchase of animal and consumer durables.

Some of the benefits of digitization of SHGs are:

Access to wider range of financial services by main-streaming of SHG members with financial inclusion, Ease in credit appraisal and linkage of SHGs after digitization of SHG accounts, automatic and accurate rating of SHGs which will be made available online for banks, mapping of persons not covered under Aadhaar platform and bringing them under Aadhaar fold, Ease of transfer of social benefits and Direct Benefit Transfer (DBT) through Aadhaar linked accounts and convergence with other Government benefits ,identifying suitable interventions and support for proper nurturing and strengthening of SHGs etc.

JOINT LIABILITY GROUP (JLG) IN INDIA:

The JLG model was the innovation of Prof. Muhammad Yunus. This model stemmed from the Grameen Bank of Bangladesh (Hussain, 1998). In India, both Self Help Groups (SHGs), as well as Joint Liability Groups (JLGs), are based on the concept of peer-pressure and joint liability. However, JLGs are promoted and linked to banks or MFIs to take care of higher quantum of loans. In some cases, matured SHG members are encouraged to form JLG groups with different contract rules than SHGs. (NABARD, 2017). The JLG groups are broadly developed, organized and nurtured by an intermediary. It is an informal group of 4-10 members.

OBJECTVES OF THE STUDY:

1. To understand micro-finance and its importance in the empowerment of women, small industries and entrepreneurs
2. Influence of micro-finance in rural development and institutions involved in providing these facilities.

STATEMENT OF THE PROBLEM:

The increasing of various other financial institutions emerging with various other schemes and opportunities these non-profit organizations should sustain in the economy to help the rural people. These institutions get less funds with which they must provide finance to the people and the development of rural arears get affected. During demonetization micro-finance sector was affected with less funds which were not sufficient to provide loans to the people.

SIGNIFICANCE OF THE STUDY:

The study mainly focuses on the micro-finance and its role in rural development and the services provided by these institutions. The major institutions and their contribution to the rural development. The impact of demonetization on micro-finance sector and on rural development.

METHODOLOGY:

Research methodology is a method to solve the problem systematically. In this study the information is taken from past records available from 2016-2017 to 2018-2019.

SOURCES OF DATA:

The data is completely purely collected from the secondary source, since it is a conceptual paper the data is analyzed and collected from various websites and journal.

In the current study employs secondary data for analysis. The primary data which is collected for the first time by a researcher. Secondary data is a second hand which is already collected by someone for his/her/their own study.

Types of secondary data used in this study are:

- Books

- Websites
- Journals

LIMITATIONS OF THE STUDY:

- The study is limited to India
- It is based on the information available in various websites
- To understand the services provided by these institutions to various parties in rural areas and the role of self-help groups
- Role of microfinance in rural development and their impact on the economy

REVIEW OF LITERATURE:

Otero (1999), illustrates the various ways in which "microfinance, at its core combats poverty". She states that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty (1999). By providing material capital to a poor person, their sense of dignity is strengthened, and this can help to empower the person to participate in the economy and society (Otero, 1999).

Goankar, Rekha. (2001), the study resolved that the program of SHGs can considerably add towards the decline of poverty and unemployment in the rural sector of the economy and the SHGs can lead to social change in terms of economic growth and the social modification.

Jayasheela, Dinesha P T and V. Basil Hans (2008), in their paper on "Financial inclusion and microfinance in India: An overview" studied the role of microfinance in the empowerment of people and provision of a sustainable credit availability to the rural low-income population. The study relates to the opportunities available for the microfinance institutions with an increasing demand for credit in the rural areas due to inadequate formal sources of credit.

Verma, Renu. (2008), in her article concludes that microfinance is expected to play a significant role in poverty alleviation and rural development [J. Ref.No.30, P/163]. Microfinance has, in the recent past become one of the more premising ways to use core development funds to achieve the objectives of poverty alleviation. Further he stated that certain microfinance programs have gained prominence in the development field and beyond. The ultimate aim is to attain social and economic empowerment. These microfinance institutions may very well have had a major impact on improving the standard of living of millions of poor people as well as on promoting economic development. Therefore, microfinance has become one of the utmost active involvements for economic enablement of the poor.

Rajasekhar and Madheswaran (2005) examine the functioning of microfinance programmes and analyse economic and social benefits of the programme based on a study of the project areas of two NGOs in Karnataka and Andhra Pradesh. The study found that economic benefits of the programme are region specific. The programme did not result in large amount of loans and income in one study are (3 villages in Krishna district, Andhra Pradesh) while this result in substantial economic benefits to the members of another area (one village in Kolar district of Karnataka). They found that the NGO could not facilitate linkage between SHGs and banks in the former whereas the NGO was successful in doing so in the second case. Further, in the former region, most members had stable employment opportunities, thus they faced high opportunity costs in switching to other occupations. Thus, success of microfinance programme seems context and region specific. Further, they found that microfinance benefits were not significant in case of members belonging to the landless and SC/ST categories. They conclude "the microfinance programme do provide access to credit for the poor and enable them to undertake income generation programmes. Given that the formal banks have not very well succeeded in the past in improving the access to credit for the rural households, the strategy of supporting the formation and nurturing of micro-finance groups is to be supported".

Swain and Wallentin (2007) studied the Self-Help groups of five states namely Orissa, Tamil Nadu, Andhra Pradesh, Uttar Pradesh and Maharashtra and found that there was a significant increase in the level of women empowerment over a period (2000-2003). However, it does not mean that every woman has been empowered to the same degree, but on the average, the Self-Help Group members.

Karuppannan (2014) reviewed 53 studies in India and found that SHG respondents, by and large, had a positive impact on their economic well-being.

Anand and Jaya (2007) studied the impact of micro-credit programme on physical assets and amenities in Kerala and found that 28 percent of the members acquired livestock and 12 percent respondents renovated or constructed their houses. However, there is an improvement in knowledge level and social interaction among members after joining the groups. About 91 percent of members learned about the banking system and were confident in dealing with bankers which they could not have dreamt earlier. They also found that the returns from 44 micro-enterprises are hardly sufficient to meet daily expenses of the unit resulting in poor repayment of loans.

FINDINGS:

- Women are major borrowers of microfinance across India. Most of these women reside in rural parts as well.
- The Indian microfinance industry has growing the fastest when compared to other developing nations like Bangladesh, Vietnam and Peru.
- Microfinance loans have high repayment rate. This is clearly proof of the effectiveness of this concept.
- Microloans in the range of Rs. 20,000-Rs. 30,000 are availed the most in India. However, the category of loans in the range of Rs. 30,000-Rs. 40,000 saw a rise of 56% between Q3FY18 and Q3FY19.
- The microfinance industry has registered a growth of 44% YoY as on 31 March 2019. (As per CRIF High Mark Report)

CONCLUSION:

By this study we can understand that microfinance plays a very important role in the development of rural areas. The people who are underprivileged to get finance can get finance to satisfy their needs and develop their lives. In many situations entrepreneurs do not get loans to start their business at high rate of interest but these institutions help them to get finance. Many people have improved their living by microfinance.

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