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The Impact of Microfinance on Rural Development in India

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Abstract

Microfinance is used toa supply small credits to very poora section of society sthat is unable to access the traditional economicala financial institutions such as banks. It helpAs them in acquiring finance to expand their tinya businesses and other financial needs. Microfianances also helps in improvinga contribution of women in economic activitiesa by providinga economical resources to invest. Thisa research paper is an effort to bring light the role of microfinance in rural development through the study of micro financial schemes. We can learn important lessons from microfinance for developments in terms of what can be the strategy that we can adapt to make a difference. We can conclude that weak sector of Indian economy is in dire need of money lending methods to earn credits so microfinance programs should be an important area of focus to provide these people the chance to improve their standard of living via means of economical growth.

Keywords: *microfinance, money lending, rural development, financial planning etc.*

1. INTRODUCTION

The weaker section of Indian economy uses their resources to developa Their businesses and their homes slowly over time. Financial services enable the poor to take advantage ina this Initiative, accelerate the construction of revenue in the processa,m Assets and economic security. Hoawever, conventional financial institutions rarely lend bottom of the market to serve needs of low-income familiesa and women-headeda households. Theya are often denied access to credit for what purpose, makinga the debate about the level of interest rates and other conditions relevanta funding. Therefore, fundamental problem isa not unaffordable terms but lack of access to credit itself.

Also when we talk about rural development, if the credit infrastructure grows, credit flows to the poor. As a result National Bank for Agriculture and Rural Development (NABARD) was set up with the objective of framing appropriate policy for rurala credit, provision of technical assistance backed liquidity support to banks, supervision of rural credit institutions and other development initiatives. So it was experienced that existing policies were inefficient in thea ways of procedures, deposits and loan products. The poor needed better access to all these services and also alla these products. If anyone feels that an institution is unfriendly and uncaring in itsa behavior towards its customers, they hesitate in dealing with them. More importantly, if a persona doesn't have any security to offer in return of credit, even though he is sure in paying the credit back, legal financiala institutions can't help even the promising customer due to its rules and regulations. The lack of access to credit for the poora is attributable to practical difficulties arising froma the discrepancy between the mode of operationa followed by financiala institutions and the economica characteristics and financing needs of low incomea Households.

However, many attempts are beinga made in last decade to improve the microfinance for rurala economy. successful experiences in providing finance to small entrepreneur and producers demonstratea that poor people, when given access to responsiveaa and timely financial services at market rates, repay their loans and use the proceeds to increasea their income and assets. This is not surprising since the only realistic aalternative for them is to borrowa from informal market at an interest much higher than amarket rates. Community banks, NGOs and grass root savingsa and credit groups arounda the world have shown that these micro enterprisea loans can be profitable for borrowers and for the lenders, making microfinance one of the most effective poverty reducing strategies.

Table-1 : Microfinancial Plans and needs in rural economy

S.No.	Loan/Deposite	Plans	Reasons/needs
1.	Deposit	Insurances, pension plans and other long term deposits like F.D.s	Retirement, savings, homes, irrigation and agricultural facilities, accidental and health insurances, traditional and social requirements.
2.	Deposit	Medium and short term deposit	Food and health security, festivals and celebrations, cultural functions, irrigation and livestock needs, education, transportation etc.
3.	Loan	Emergency Loans	Sickness, crop failures, natural calamities, getting rid of money lending cycles from informal moneylenders.
4.	Loan	Short term and long term loans	Housing, home equipments, purchasing agricultural land and resources, Livestock and transformational needs etc.

2. HISTORY OF MICROFINANCE

Due to the large population of around 1250 million, India's GDP is among top 20 economies of thea world, but around hlf these people are living under poverty line. Hence microfinancea is very significant to Indian economy.

In early 1970s of Indian subcontinent, mainlya in India and Bangladesh, Microfinance came into existence by the initiatives of microfinance pioneera Muhammad Yunus of Bangladesh. Microfinance in India came into strengtha with the formation of Shri Mahila "SEWA" Sahkari Bank, (Self Employed Women's Association) in the state of Gujrat witha the motive of providing financial help to poor women employed in the unorganized sector in Ahmadabada.

With globalization and Liberalization of the economy, opportunities fora the unskilled people are not improving with sufficient rate as compared to the resta of the economy. So in this context micro financial institutions are significant and gaining its role in Indiana economy.

2.1 The existing Informal Financiala sources

The informala financial sources generally include funds available from family sources or local money lenders. The locala money lenders charge exorbitant rates, generallya ranging from 36% to 60% interesta due to their monopoly in the absence of any other source of credit for non-conventional needs. Chit Funds and Bishis are other forms of credit systemaa operated by groups of people for their mutual benefit awhich however have their owna limitations.

Commerciala and cooperative banks, SIDBI etc. get involved in microfinance on a largea scale, as given by National Banka for Agriculture and Rural Development (NABARD) 2013 report, in table 2.

Table No. 2 : Loans to MFIs by banks and financial institutions

Financing Agency	Year	Loans disbursed during the year to MFIs	Amount (₹ crore)	Loan outstanding against MFIs	Amount (₹ crore)
Commercial Bank	2009-10	645	8,036.31	1,407	10,095.32
	2010-11	460	7,601.02	2,153	10,646.84
	2011-12	336	4,950.98	1,684	9,810.98
	2012-13	368	7,422.66	1,769	12,467.72
RRBs	2009-10	46	24.14	103	52.22
	2010-11	9	4.16	23	42.01
	2011-12	113	13.28	128	37.51
	2012-13	14	4.58	153	70.66
Cooperative Banks	2009-10	0	0	3	0.01
	2010-11	-	-	-	-
	2011-12	4	1.61	19	4.75
	2012-13	3	4	18	6.83
SIDBI	2009-10	88	2,665.75	146	3,808.2
	2010-11	2	843.78	139	3,041.77
	2011-12	12	239.42	129	1,597.11
	2012-13	41	408.27	102	1,880.63
All Agencies	2009-10	779	10,728.5	1,659	13,955.75
	2010-11	471	8,448.96	2,315	13,730.62
	2011-12	465	5,205.29	1,960	11,450.35
	2012-13	426	7,839.51	2,042	14,425.84

Source : NABARD, 2013. Status of Microfinance in India 2012-13, Micro Credit Innovation Department (MCID), Mumbai.

Most of the NGOs like SHARAN in Delhi, FEDERATION OF THRIFT AND CREDIT ASSOCIATION (FTCA) in Hyderabad or SPARC in Bombay have adopted the first model where they initiate the groups and provide the necessary management support. Others like SEWA in Ahmedabad or BARODA CITIZEN's COUNCIL in Baroda pertain to the second model.

The experience of these informal intermediaries shows that althougha the savings of group members, small in nature do not attract high returns, it is still practiced due to security reasons and for getting loans at lowera rates compared to that available from money lenders.

3. STRENGTHS OF INFORMAL SECTOR

A synthesis that can be evolved out of thea success of NGOs/CBOs engaged in microfinance is based on certain preconditions, institutional and facilitatinga factors.

(a) Preconditions to Success : Those NGOs/ CBOs have been successful that have financial value/ disciplinea through savings and have demonstrated a matchinga value themselves before lending. A recovery systema based on social intermediationa and various options including non-financial mechanisms has proved to be effective. Another important feature has been the communitya governance. The communities in which households are direct stake holders have successfullya demonstrated the successa of programs.

(b) Operating Indicators : The operating indicators show that programs which are designed taking intoa account the localizeda and geographical differences have beenaa successful. Effective and responsive accounting and monitoring mechanisms have been an important and critical ingradienta for the success of programsa. The operational success has been more when interesta rates are at or near market rates: The experience of NGOs/CBOsindicatesa that low income households are willingaa to pay market rates. The cruciala problem is not the interest rates but access to finance. Eventually in absencea of such programs householdsa end up paying much higher rates whena borrowinga from informal markets.

(c) Facilitating Factor : Another factor that has contributeda to the success is the broad environment. A facilitative environment and enabling regulatory regimea contributes to the success. The NGOs/CBOs which havea been able to leverage funds from formal programs have been successful. Ana essential factor for success is that all development programs should convergea across sectors.

4. EFFECT ON POVERTY

The Biggest Irony in today's world is that the producer of most importanta human asset, food, lives in rural Area and struggles to put food ina their own children's mouth.

India has over 25% of its population belowa poverty line. According to the world bank, India is home to around 300 million poor by Indian standards and around 400 million by international standards. Rurala area is home to one third of india's poora which is supported by the increasing urban and rural disparities.

Our traditional financial institutions like banks rarely lend money to the low-income familiesa to serve their financial needs. The income of many low income households is not stable either. Smalla loans in large numbers is required for the special condition of Indian economya by ironically moneylenders prefer to givea large loans in small numbers for reduction in administration and maintenance cost. Moneylenders also expect guaranteea in return of loan which is not possible for the case of loan to weaker section aof Indian economy.

Over the last ten years, however, successful experiences in providing finance toa small entrepreneur and producers demonstrate that poor people, when givena access to responsive and timely financial services at market rates, pay back their loans and usea the profits to increase their income and assets. This is not shocking since the only realistic alternative fora them is to borrow the money from informal market. Community banks, NGOs and credita groups around the world have shown that these microenterprise loans can be praofitable for borrowers and for the lenders, maaking microfinance one of the most effective poverty reducing strategiaes.

5. MICROFINANCE AND SELF HELP GROUPS (SGHs) FOR RURAL DEVELPOMENT

There are two common approachesA of Micro Finance India - The Self help groups method and the Grameen system. An SHG is an unofficial group of approximately 10-20 membersa. The members of the SHG are joined for the specific purpose of facilitating saving and credit services for its members. This is made possible through members pooling their resources to create a common fund. The process and social involvement of SHGs are intended to be instruments of empowerment, building the capacity of members to eventually conduct and manage SHGs for themselves, and enabling them to have greater autonomy in financiala decision making as well as wider social participation. SHG meetings are set to take place ata regular intervals and at a designated time. Group members area drawn from the same socialeconomic layer and work on the basis of equal participation and contributiona from all members.

The groups are chaired by one lead member at a time; this role is usually rotated to allowa capacity building for all members. Meetings are structured and accurate and up to date recordsa of all financial transactions, group decisionsa and actions are compiled. Once established, SHGs are encouraged to make links with other SHGs and eventuallya with financial institutions to allow access to further financiala assistance.

6. WEAKNESS OF EXISTING MICROFINANCIAL MODELS

The MFIs have successfully served the rural poor with noa physical collateral relying on group responsibility toa replace the collateral requirements. However,

- ❖ It involves too much of external subsidy which is not replicablea. MFIs havea not oriented themselves toward mobilisinga peoples' resources.
- ❖ The repayment system of limited timed equal instalments is not practical because poor do not have a stable job and have to migrate to other placesa.
- ❖ Most of the existing microfinance institutionsa are facing problems regarding skilled labour whicha is not available for local level accounting. Dropa out of trained staff is very high.
- ❖ Current system lack in appropriate legal and financial structure. There is a need to havea aa sub-group to brainstorm on statutory structure/ ownership control/ managementa/ taxation aspects/ financial sector prudential norms. Aa forum/ network of micro-financier (self regulating organization) is desireda.

7. REMEDIES

The problema of poverty, unemployment and illiteracy is prominent in rural India. Rurala population gets misled by informal moneylending and thus helpa in economic halt of the nation.

- ❖ The apparent solution to this problem seems that: it is very critical to link poor to formala financial system, awhatever the mechanism may be, if the goal of poverty allieviation has to be achieved.
- ❖ It is desired that an intermediary institutiona is required between formal financial markets and grassroot. The intermediary should encompass the strengthsa of both formal financial systems and NGOs and CBOs and should be flexible to the needs of endaa users.

8. CONCLUSION

The MFIs are a huge factor in impactinga India'sa social and economical development. Microfinance provide both savings and aloan facilities. MFI are the main source of loans to potential rural entrepreneurs of India. Also it is anticipated thata the people would become socially more advanced as they come intoa touch with the outside world. In order to be sustainable, microfinance lending should bea fixed on market principles because large scale lending cannot be completed througha financial support.

A core conclusiona of this paper is that microfinance can contribute into solving thes problem of insufficienta housing and rural services as an integral parta of poverty alleviation programs. Eventuallya it would be ideal to improve the creditworthinessa of the poor and to make them more bankable to financial institutions aand allow them to meet athe criteria for long-term credit from the formal asector.

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