ROLE OF MICRO FINANCE IN RURAL TRANSFORMATION

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Abstract:

Micro Finance relies on the idea everybody should have access to financial bank. Micro finance is a systematic way for uplifting the poor and deprived by providing themselves employment opportunities and making them credit worthy. Micro finance institution has been able to bring about a lot of change in the lives of millions of poor low income household in terms of generation of self-employment, promoting income and saving, smoothing consumption and coping vulnerability. Many innovative institutional mechanisms have been development across the world to enhance credit to poor even in the absence of formal mortgage. Micro Finance Institution (MFIs) held to reduce the dependency of poor on in formal money market directly through the provision of micro finance. To pay a direct war against poverty and employment generation, govt. has introduced SHG programmer. In India micro credit programmers are run by primarily by NABARD in the field of agriculture and SIDBI in the field of Industry, service and business. The remarkable impacts of micro finance programmer lies in the improvement of the poor women as more than 90% recipient of micro credit are women. By accelerating women participating in income generating activities, micro credit has emerged as the most powerful driver of financial inclusion. The paper attempts to explain the link between micro finance services and the rural development. The finding of the study shown that micro finance has impacted positively on the rural poor by providing loans and advances for agriculture, investment opportunities, saving mobilization and credit delivery. Despite the achievement of micro finance in transforming the rural areas. They have been met with stiff difficulties like repayment problems, illiteracy among the poor or non- monitoring of micro and small enterprises by the micro financial institution. This paper will analyze micro finance in terms of how will it achieved its own goal: to reach the poorest population, to ensure a positive measurable impact on live of client and their families, to build financially self-sufficiently institution and to reach and empower women.

Keywords: Micro Finance, Rural transformation, financial institution, rural credit, Women empowerment.

Introduction:

Micro Finance termed as broad range of financial services such as deposits loans, payment services and insurance to poor and their micro enterprises. Micro Finance can be non-governmental organization, saving and loan cooperative, loan union, government banks, commercial banks, or non-bank financial institutional (World Bank 2007). It seeks to make financial services available in a sustainable basis to the economically active poor, low-income earners and micro, small and medium enterprises through primarily owned enterprises. Three features distinguish micro finance from other formal financial products. The features are the low size of loan, not collateral and easy in operation. In both developed and developing countries, micro finance banks have been the strategy for poverty alleviation and human empowerment. Micro Finance is considered as a tool socio-economic development, can be clearly differentiated from donations. When it comes to rural development, with the growth of the credit infrastructure, credit flow to the poor and especially to poor women, remained near to the ground. As a result National Bank for Agriculture and Rural Development (NABARD) was set up with the objective of framing appropriate policy for rural credit, supervision of rural credit institution. After a time it was experienced that existing banking policies, systems and deposit & loan products were possibly not well matched to meet the instant needs of the poor. This has given beginning to an increasing emphasis of Micro Finance for improving the access to credit for the poor. A large number of NGOs have started their own micro finance programmers in an attempt to develop the people in their respective areas. The most current succession in this area is saving and credit groups or self-help groups (SHGs) as they are known India, as well as variety of micro finance institution (MFIs). Micro finance institution (MFIs) plays a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor. The introduction of micro finance programs increase the borrowing options for the rural poor and it is supposed to work as a weapon to alleviate poverty and to save the rural poor from the clutches of money lenders. Access to financial services enable poor households to transform from every day for survival to planning for the future, investing in better nutrition, their children's welfare and empowering women economically and socially. Micro finance claim to have faith in the world poorer and most vulnerable people, it claim that by allow the poor an opportunity they were previously deprived, the poor can and will themselves out of poverty. Many studies empirically proved micro finance as an effective and intervention towards poverty and reducing the role of money lenders by empowering women borrowers.

Concept of Micro Finance:

The terms Micro Finance came into existing in 1970 when organization, such as Gramin Bank of Bangladesh with Micro Finance pioneer Mohammad tunes, were stating and shaping the modern industry of Micro Financing. Thousands of M.F sprang up around the globe, the majority modeled closely on the classical grammar head. Micro Finance institutions in India emerged in the late 1980s in response to the gap in availability of banking services for the unserved and underserved rural population. Their business proliferated in 1990s under the open economy regime. Most of the institution that entered the field was from the social sector and hence they took the legal form of trusts or societies. However, due to specificity of the business they were pursuing, these institutions were then registered as NBFC-MFIS under the category created by RBI based on Male gam committee recommendation Inadequacies in access to formal finance has led to the growth of Micro Finance in India. Micro Finance operates through two main channels viz. a) banking system through the SHGs under SHG- bank linkage programmer (SHG-BLP) and JLG bank lending programmer and b) through Micro Finance institution (MFI)s lending through individual and group approach. Over the past few years Micro Finance through the formation of self-help groups (SHGs), has proved to be an effective channel for disbursement of credit in rural areas as a result, lending by MFIs exhibited a robust growth with 50% jump in loans disbursed consecutively during last three years from Rs.23682 crore during 2013-2014 to Rs.37599 crore and further to Rs.61860 crore during 2015-2016 as per (MFIN data). Micro Finance institution is involved building self-sustaining community or group of community and provided financial services, particularly mobilizing deposits and loans to people residing in the local areas.

Literature Review:

There have been conflicted ideas about the impact of Micro Finance in the transformation of rural dwellers by various researchers. Dash and Sanjay (2015) analysis the impact of micro credit on socio-economic empowerment of the women. A survey conducted by Weiss and Montgomery in 2004 among 518 Micro Finance institutions in Africa, Latin America, Eastern Europe and Asia revile that majority of the microfinance borrowers are served by institutions South and East Asia. The largest microfinance institutions are found in countries such as Bangladesh, India, Indonesia and Thailand. Further, a Rural Finance Access Survey 2003 conducted by the World Bank and NCAER, reviled that 79% of the rural households have no access to credit from formal sources (Basu, 2005). Of the MFIs in the sample, 57% are fiscally sustainable, and they serve 87% of all clients (Armendariz & Morduch, 2010). Rajendran and Raya(2014) examined about the role of Non-Governmental Organizations in Microfinance through SHGs reviled that NGOs and self-motivation of Women act as main motivational factors to join SHGs and NGOs play an important role imparting training to start income generating activities. Pitt and Khandker (2011) analyze whether the effects of Micro credit programs are sustainable over time. Ryne & Holt (1994) noted that the Microfinance institution is now a growing phenomenon all over the world. It is emerging as a rapidly growing financial services industry worldwide as a solution to the crippling effects the conventional banks interest on the poor and those operating Micro and small scale enterprises.

Objective:

- To explain the linkage between Micro Finance and rural development.
- To study the extent of progress made by Micro Finance in rural India.
- To enquire into the role of Micro Finance in helping the rural population in the case of financial inclusion.
- To look into the challenges ahead for Micro Finance in India.

Research Methodology:

Secondary sources of data are used. Data published by various institutions such as Government of India, World Bank, Consultative Group to Assist the Poor (CGAP), Reserve Bank of India (RBI), National Bank for Agricultural and Rural Development (NABARD), State level Banker's Committee (SLBC), etc. are used for the purpose of the present paper.

Impact of Micro Finance in Rural Transformation

The primary objective of Micro Finance bank is to ensure that the rural populations have access to find for Micro enterprise. Micro Finance has impacted on the rural communities in such a way that it has transformed the life of people. Rural development is also considered as an important segment of Economic development. It is not only about to change economic proposition of the rural areas, but also change in social and cultural dimensions for poverty alleviation employment generation, infrastructure development, social security and sustainable development in the rural areas. For, rural development, alleviating rural poverty and providing an improved quality of life for the rural population especially those living the below the poverty line is highly required.

As far as Micro Finance is concerned it is defined as financial services of small quantity provided by finance institution to the poor in rural areas for enabling to raise their income levels and improving living standard. Micro Finance as a part of much larger efforts to end poverty, will provide "Micro Finance services, specifically credit for self-employment saving capabilities" and self-focus on the world's poorest people, women's access should be prioritized, as they are "very adept at saving, highly creative entrepreneurs and consistent in ensuring that earnings go directly to meeting family needs". Micro Finance is an important tool for sustainable social and economic progress and a key strategy in ending poverty ("Declaration", 1997) (Yunus, 1997, pp.256). Micro finance has been promoted as a tool to reduce poverty. The wider impact of micro finance is that it generates greater social networks and a sense of community which translate into accumulation of information contributing to greater political participation, education rates and better health care.

Models of Micro Finance in India:

The Micro Finance industry has been impressive growth for longer than a decade yet still reaches only a small percentage of its potential worldwide. How do we reach those still un-banked? What steps can we take to make Microfinance available to more people and do so on a lasting basis and, as well, provide them with the financial services they need other than just credit? Many paths have emerged in response to these questions, including the downs calling of commercial banks and the creation of startup, for-profit Microfinance institutions. However, one-way which has proven successful in many cases around the world, is through the transformation of non-governmental Microfinance providers into regulated deposit taken financial institutions. In honoring their social mission, many MFIs decide to transform to extend their services to larger numbers of low-income clients who do not have access to financial services. There are two main models of Micro credit in the country and they are 'Banking model' and the 'MFIs' model. In the case of the banking model self-help groups are formed and financed by banks. In the MFIs model SHGs are formed and financed by the MFIs that octane resource spot from various channels.

Bank–SHGs Linkage programed:

A self-help group consists of 15-20 members who are poor, having low savings capacity and who depend on money lenders or private sources for meeting their consumption needs and other pressing obligation. SHGs are co-operative societies linked to a commercial banks rather than an apex co-operatives bank. SHG-Bank linkage programed through its innovative module of linking informal SHGs with the formal banking system had brought in a paradigm shift in expanded the credit penetration and financial inclusion of the marginalized and excluded sections in society. According to RBI Guidelines, banks may give loans to SHGs up to Rs.5 lac without insisting on collateral safety. SHGs are being promoted primarily under the two separate schemes of NABARD/Ministry of Finance and the Ministry of Rural Development.

Features of SHGs:

- SHGs are small, cohesive and participative groups of the poor, who pool in their savings regularly and use it to make small interest bearing loans to members.
- Subsequently they graduate to access bank credit for lending to their members.
- Over the years the pooled resources of the SHGs become a sizeable corpus, which complimented by higher volume of bank loan enables them to take up livelihood activities.
- There are 69, 53000 SHGs in the country savings linked with banks.
- The estimated number of families covered under this model is about 970 lac.
- In India NABARD Finances more than 500 banks that on lend funds to self-help groups (SHGs).

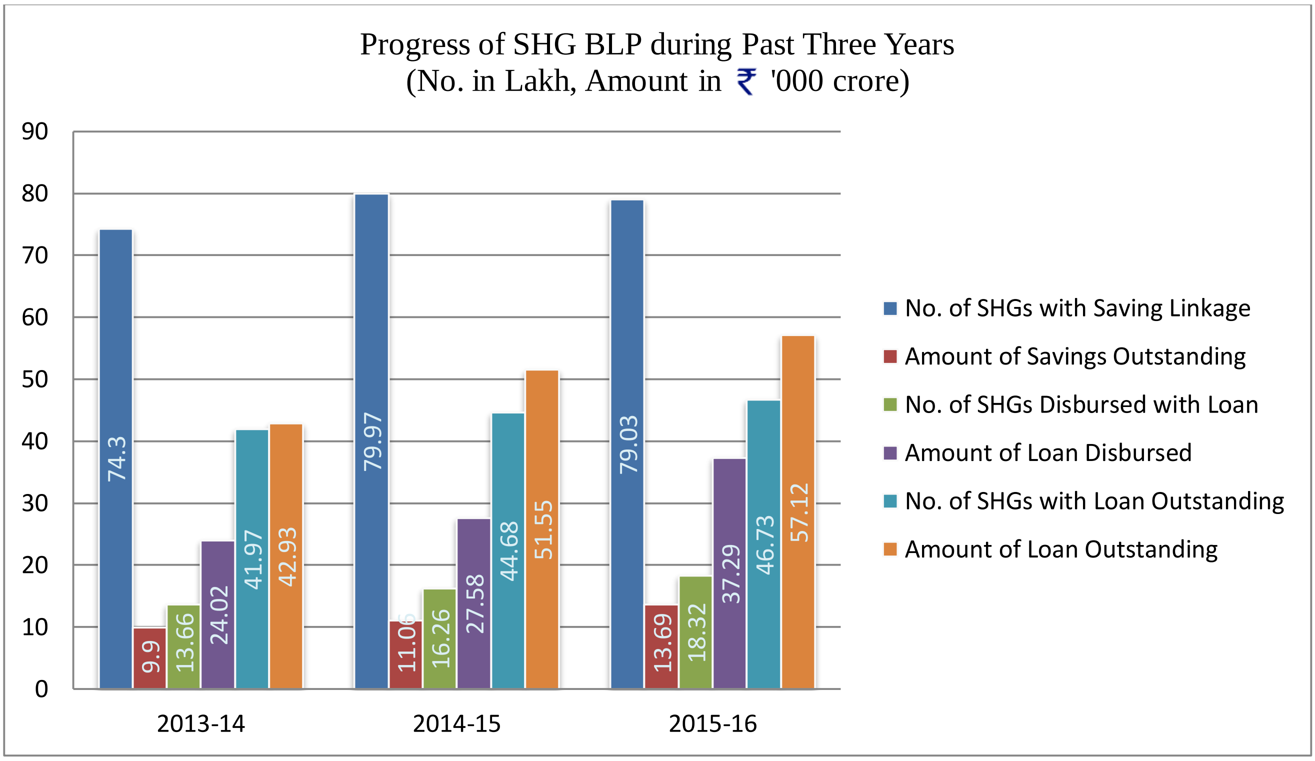
Growth of Financing to Self Help Groups SHGs:

Efforts of NABARD during the year had paid off and can be seen in the turnaround made. It is heartening to shear that green shoots are visible in all aspects of the movement as compared to last year. There was a net addition of 2.06 lakh SHGs during the year increasing the number of SHGs having saving linkage to 79.03 lakh as on 31st march 2016. During the year, banks disbursed loan of Rs 37,287 crore, recording 35 percent an all-time high of Rs.13691 crore. Assuming that about one- third of thrift of SHGs is kept as savings with banks and rest used for internal lending, total thrift mobilized by SHGs may be to the tune of Rs.41000 crore. The total bank loan outstanding to SHGs increased by 10.8% and stood at Rs.57119 crore against Rs.51545 crore as on 31 March 2015. By including internal lending at two times of the savings lying with banks, total micro credit through SHGs-BLP channel was of the order of Rs.78000 crore.

Overall Progress under SHG-Bank Linkage programed during past Three Years

(Numbers in Lakh/Amount ₹ crore)

Particulars		2013-14		2014-15		2015-16	
		No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
SHG Savings with Bank as on 31st March	Total SHG Nos.	74.30 (1.53%)	9897.42 (20.45%)	76.79 (3.59%)	11059.84 (11.74%)	79.03 (2.68%)	13691.39 (23.79%)
	All Women SHGs	62.52 (5.27%)	8012.89 (22.99%)	66.51 (6.38%)	9264.33 (15.61%)	67.63 (1.68%)	12035.78 (29.92%)
	Percentage of Women Groups	84.15	80.96	86.41	83.77	85.58	87.91
	Of which NRLM/SGSY	22.62 (10.46%)	2477.58 (36.01%)	30.52 (34.92%)	4424.03 (78.56%)	34.57 (13.27%)	6244.97 (41.16%)
	% of NRLM/SGSY Groups of Total	30.45	25.03	39.65	40.00	43.74	45.61
	of which NULM/SJSRY	NA	NA	4.33	1071.81	4.46 (3.00%)	1006.22
	% of NULM/SGSY Groups of Total	NA	NA	5.63	9.69	5.64	(6.12%)
Loans distributed to SHGs during the year	No. of SHGs extended loans	13.66 (12.02%)	24017.36 (16.67%)	16.26 (19.03%)	27582.31 (14.84%)	18.32 (12.67%)	37286.90 (35.18%)
	All women SHGs	11.52 (11.02%)	21037.97 (17.83%)	14.48 (25.69%)	24419.75 (16.07%)	16.29 (12.50%)	34411.42 (40.92%)
	Percentage of Women Groups	84.3	87.6	89.05	53.53	88.92	92.29
	Of which NRLM/SGSY	2.26 (24.56%)	3480.60 (567.67%)	6.43 (28.45%)	9487.69 (27.26%)	8.16 (26.91%)	16785.78 (76.92%)
	% of NRLM/SGSY Groups of Total	16.52	14.49	39.54	34.40	44.54	45.02
	Of which NULM/SJSRY	NA	NA	1.05	1871.55	1.11 (5.71%)	2620.22 (40.00%)
	% of NULM/SJSRY Groups of Total	NA	NA	6.46	6.79	6.06	7.03
Loans Outstanding against SHGs as on 31st March	Total No. of SHGs Linked	41.97 (-5.71%)	42927.52 (9.02%)	44.68 (6.46%)	51545.46 (20.06%)	46.73 (4.59%)	57119.23 (10.81%)
	No. of all Women SHGs linked	34.06 (-9.34%)	36151.58 (10.08%)	38.58 (13.27%)	45901.95 (26.97%)	4.36 (4.61%)	51428.91 (10.81%)
	Percentage of Women SHGs	81.2	84.2	86.35	89.05	86.37	90.04
	Of which NRLM/SGSY	13.07 (9.55%)	10177.42 (18.38%)	18.46 (41.24%)	19752.74 (94.08%)	21.91 (18.69%)	26610.16 (34.72%)
	% of NRLM/SGSY Groups of Total	31.1	23.7	41.32	38.32	46.89	46.59
	Of which NULM/SJSRY	NA	NA	3.18	34.62.62	3.13 (-1.57%)	3979.75 (14.93%)
	% of NULM/SJSRY Groups of Total	NA	NA	7.12	6.72	7.00	6.97



Micro Finance Institutions Model:

Since the 1990's, Micro-finance movement are reaching the poor for their micro credit needs. Some of the MFIs are based on the Gramin Modal, which entails formation of a center comprising eight solidarity groups of five borrower members of each solidarity group mutually guarantee each other loan,. MFIs in India register themselves either as societies as trust under Trust Acts, as Non-Banking Financial Companies (NDFCs) or as Local Area Banks (LABs). Micro-finance Company are with a minimum equity capital requirement of Rs. 25 lakhs. Such MFIs are designed to provide credit only.

Agency Model of Micro Finance Institutions:

The internal Group of Rural Credit and Micro Finance of RBI (July 2005) came to the conclusion that parking of funds with MFIs is faced with two sets of exposures, namely once at the Mf/NGO level and thereafter at the levels of SHGS/Individual borrower level. The RBI has nevertheless forwarded the agency Model of MFIs under this model, In addition to the MFIs, CSO etc. only those NBFCs which are incorporated under Section 25 of the Companies Act, 1956 are permitted to be appointed as Business Facilitators (BFs) or as Business Correspondents (BCs).

Micro Finance Institutions Bulk Lending Model:

While agency model may appear more appropriate in the case of small MFIs the larger MFIs may like to operate independently of banks (e.g. as LABs). This category of MFIS belong to MFI build lending (equity Participating) Model whereby they can access funds in the form of cheaper loans, subordinated debts, equity or quasi, equity from agencies, such as, The Rashtriya Mahila Kosh, The

SIDBI foundation for credit (SEMC), The Micro Finance Development\ and Equity Fund (Under the chairmanship of NABARD).

Micro Finance and Women Empowerment for Rural Development:

Empowerment of women requires not only access and control of Material resources, but also challenging culturally embedded ideology and practices. Access to financial and credit empowers women. This empowerment is manifest in the form of increased earning capacity and control of household assets, resulting in greater autonomy and decision making within the household. Another hope of Micro finance was that Social Services offered by some MFI's would educate women. Providing the education of their children and enabling them to provide better healthcare for themselves and their families. In India, Self Help Groups (SHGs) constitutes of 85-95% women. The reason for this is that women are familiar with finances responsibility, making them trustworthy, reliable and prompt savers.

Challenges Ahead For Micro Finance in India:

The momentum of Growth in the micro finance sector has brought into focus the importance of regulating the sector to function in an efficient and orderly manner. There would be need for greater transparency in their functioning and for facilitating their reach to unbanked population of the country. Despite the achievement of micro finance, banks in transforming the rural areas, they are involved with a lot of challenges which include following:

- High Operating Cost
- Lack of Capital
- Repayment problem
- Lack of Experienced Credit Officers
- Problem of Illiteracy

Conclusions:

Micro finance as a tool to provide fiscal stability through consumption smoothing effects is the fact that the borrowers must store or save extra money until a time when it is needed. The build-up of saving can be seen as one of Micro-finance's most promising contribution to reducing the vulnerability of the poor. This The most Important Step for an MFI considering transformation to a regulated deposit taking MFI is to acquire a full understanding of the basic principles that underline successful voluntary savings mobilized from the public – including large number of low income savers. In this context, analysis of the institutions capability and resources for mobilizing savings from the public must be undertaken and an informed decision made as to whether the institution should take this route. The Micro Finance model extends credit and savings to the poor, the challenges faced by the industry has to be rectified during the due course for the effective working of the model. For micro finance organizations that have the leadership, vision, and skills to change their institutions fundamentally, transformation to regulated deposit taking institutions can be a route to viable long term commercial micro finance and to large scale outreach to the poor.

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