MICRO FINANCE AS AN ANTIDOTE TO POVERTY IN RURAL INDIA

ShriKrishanDuhan*

ABSTRACT

The problem of poverty can be seen substantially in many developed economies such as in Europe and America but this problem is severe in third world nations especially in Asia and Africa. However, most of the countries in the world are making an improvement in prosperity in varying degrees but still poverty exists. It is estimated that 2.5 billion people around the world live in poverty, struggling to survive on less than 2 US dollar a day. In recent years, most of the countries across the globe are in a sweeping mood to promote micro finance institutions not only as a positive rural development intervention but also as an antidote to poverty. Allured by the success of micro credit institutions in developed countries, Government, NGOs and other financial institutions have introduced various welfare schemes and activities to reduce poverty of rural India. Microfinance, by providing small loans and savings facilities to those who are excluded from commercial financial services has been developed as a key strategy for reducing poverty throughout the world. In India, a substantial microfinance system based on self-help groups (SHGs) was developed. It allows poor people to protect, diversify and increase their sources of income, the essential path out of poverty and hunger. As a developmental and economic tool it has caught the imagination of banks, financial institutions and NGOs in India. Keeping consistency with the title of the paper, it not only explores the importance and role of microfinance in poverty alleviation but also makes an attempt to bring to the focus the Success Factors and critical issues of Micro-Finance in Rural India.

KEY WORDS: Microfinance Institutions, NABARD, Poverty, Rural Development, SHG-Bank linkage Programme, Sustainable growth.

*Teaching Associate, Department of Business Administration, Chaudhary Devi Lal University, Sirsa

INTRODUCTION

The problem of poverty can be seen substantially in many developed economies such as in Europe and America but this problem is severe in third world nations especially in Asia and Africa. However, most of the countries in the world are making an improvement in prosperity in varying degrees but still poverty exists. It is estimated that 2.5 billion people around the world live in poverty, struggling to survive on less than 2 US dollar a day. There are more than 400 million people in India who are seeking an opportunity to reduce their vulnerabilities, create assets and ensure income security. However, the percentage of population living below poverty line has declined but the number of people living below poverty line in urban areas has increased in recent years. The maximum proportion of poverty in urban areas is transmitted from rural areas in India. Poor Families struggle to afford even their most basic needs. They are unable to afford adequate meals, clean drinking water, education, proper shelter and even medicine when they are sick. Most of the economies have not got much expansion mainly due to poor accessibility to the credit market. For smooth and overall development of Indian economy, it is necessary to stimulate the banking system at micro level so that banking services can be insured easily accessible to the vast sections of disadvantaged and low income groups at affordable cost in a fair and transparent manner. It will also help to protect the poor households and small businessman from harsh moneylenders who charges unexpectedly high rate of interest and exploit them. In other words, it is possible only through durable microfinance system with well-equipped resources which can help to stimulate the economic growth from very basic level.

REVIEW OF LITERATURE

Researchers have viewed micro finance in different dimensions. Micro finance gives people new opportunities by helping them to get and secure finances so as to equalize the chances and make them responsible for their own future. It broadens the horizons and thus plays both economic and social roles by improving the living conditions of the people (Micro finance Radio Netherlands, 2010). The UN millennium goal to alleviate poverty by the year 2015 is far from fetch despite the enormous works that microfinance institutions are doing to contribute in this domain (Hiderink and Kok, 2009). The main challenge facing the poor is to gain financial power to enable them boost their income generating activities (Yunus, 2003). Greenwood and Jovanovic

(1990) discussed how financial intermediaries may induce people to change their savings from unproductive liquid assets to productive illiquid ones and in this way promote capital accumulation. Financial intermediaries make it possible for small savers to pool funds and allocate them to the highest return investment, and then to provide capital for investing in costly new technology (King and Levine 1993; Greenwood and Smith, 1997). Innovative and appropriate financial intermediation may play a vital growth and develop the financial sector as a whole. Thus, we see that a well-developed, innovative and appropriate financial intermediation may facilitate growth that is specifically concerned with poverty reduction. According to Levine (1997) reported that a well-developed financial system reduces information and transaction costs and influence saving rates, investment decisions, technological innovation and long run growth rates. In this context, microfinance has emerged as a financial innovation tool to serve the millions of poor households that are out of reach of the formal banking and financial institutions. Microfinance is the result of financial service innovations which includes microcredit, micro savings, money transfer vehicles and micro insurance. It is a special kind of financial service designed to cater the needs of poor people who are unemployed, entrepreneurs or farmers who are not bankable.

OBJECTIVES OF THE STUDY

1. To study the importance and role of microfinance in poverty alleviation and rural development in rural India.
2. To study Success Factors of Micro-Finance in Rural India
3. To look into the challenges ahead for microfinance in India

RESEARCH METHODOLOGY

This is a descriptive research paper based on secondary data. Various magazines, newspapers, research articles, referred journals and books have been studied and used for the collection of data.

DISCUSSION OF RESULTS

The role of microfinance has been discussed from various viewpoints as:

MICROFINANCE AND RURAL DEVELOPMENT

Microfinance sector has grown rapidly over the past few decades. The financial sector reforms in

India with financial inclusion emerging as a major objective for the policy planners to search for products and strategies for delivering financial services to the poor households and small entrepreneurs in a sustainable manner. As a result, microfinance has occupied centre stage within a fast growing Indian economy as a hopeful medium for extending financial services to the rural population who generally lack direct access to the banking services. Nobel Laureate Muhammad Yunus is credited with laying the foundation of modern Microfinance Institutions (MFIs) with establishment of Gramin Bank, Bangladesh in 1976. National Bank for Agriculture and Rural development (NABARD) was established in 1982 which had taken this idea and became first organization to introduce the concept of microfinance to enhance the agriculture and rural development activities in India. After that the spread of microfinance is steadily growing through the Self-Help Groups (SHGs).

The SHG-Bank Linkage Programme, a bank-led microfinance intermediary was initiated by NABARD in 1992 to make the traditional and formal banks to extend financial services to deprived sections through informal SHGs. It has been recognized as a decentralised, cost effective and fastest growing microfinance initiative in the world, enabling over 103 million marginalized asset-less and resource deficient poor families access to a variety of sustainable financial services from the banking system by becoming members of nearly 8 million SHGs till March 2012. Similarly, Govt. of India has set up a Rural Infrastructure development Fund in NABARD in 1995-96 with an allocation of Rs. 2000 crore to facilitate the completion of on-going project of rural infrastructure. A Kisan Credit Card (KCC) scheme was introduced by NABARD in 1998 to provide credit for production requirements of farmers like purchase of seeds and inputs for agriculture through cash credit limit. KCC holders were also provided an accidental insurance against death or permanent disability. General Credit Card (GCC) scheme was also introduced for non- agricultural client of banks in rural and semi-urban areas to provide credit up to Rs. 25000 as indirect finance to agriculture preferably to women clients. All such schemes have provided easy credit to the bank customers without insisting on security and indirectly helped in linking more population with banks.

MICRO FINANCE AND FINANCIAL INCLUSION

The direct approach of financial inclusion was started in Nov. 2005 when RBI had directed the banks to open "No-Frills Account" with zero or minimal balances. The basic objective of this approach was to allow the unbanked households to maintain an account with minimal balances and permit limited number of transactions per month. Such accounts were used overtime by the government to make welfare payments like pensions, cash subsidy, social security benefits and wage payments under MGNREGA. The "No-Frills Account" increased from about 5 lakhs to over 5 crores presently. However, Skoch development foundation in its study stated that out of total "No-Frills Account" opened between April 2007 and March 2009, only 11 % were operational which an issue of concern was. Further, on the recommendations of Financial Inclusion Committee headed by Dr. Rangarajan in 2006, two funds i.e. Financial Inclusion Fund was established to meet the cost of development and promotion of financial inclusion and Financial Inclusion Technology Fund was established to support the technology efforts in the process of financial inclusion. These funds with a corpus Rs. 500 crore each were operated by NABARD. The other institutions which provide microfinance in India are Small Industries Development Bank of India (SIDBI), RashtriyaMahilaKosh, Commercial Banks, Regional Rural Banks, Cooperative Banks and Non-Banking Financial Companies (NBFCs). These institutions provide finance through the concept of Joint Liability Group (JLP). A JLP is an informal group comprising of 10 to 15 individual members who come together for the purpose of availing bank loans either individually or through the group mechanism against a mutual guarantee. Presently, these institutions constitute the 42% of the microfinance sector in terms of loan portfolio and dominated by NBFCs which cover more than 80% of the total loan portfolio through MFI channel.

RBI in January 2006 introduced Business Correspondents/Business Facilitators (BC/BF) models for providing financial and banking services. The activities performed by BCs include disbursal of small value credit, recovery of principal/collection of interest, collection of small value deposits, sale of micro insurance/mutual fund/pension products/other third party product, receipt and delivery of small value remittances/other payment instruments. Similarly, BFs perform the activities like identification of borrowers, collection and preliminary processing of loan applications, creation of awareness about savings and advise on managing money, Debt counseling, processing and submission of loan applications to banks, post sanction monitoring, promotion, nurturing, monitoring and handling of SHGs, and follow up for recovery.

Recently Government of India introduced a scheme to directly transfer the government subsidies and social security benefits to the accounts of the beneficiaries; who in turn could draw the money from BCs in their village itself. For the effective implementation of scheme, banks are asked to provide banking facilities to areas with population of 1000-2000 in North-Eastern states and hilly states; and with population of 1600-2000 in all states/UTs by March 2013.

Microfinance industry is considered as a tool of financial inclusion as well as poverty reduction for the marginalized and disadvantaged people of rural areas. Thus, it has considered as a significant and emerging issue in developing countries and generated a great deal of interest among academicians, researchers, policymakers and economists. The main objective of this paper is to study the role of microfinance in economic development and the challenges of this sector in India.

MICROFINANACE AND POVERTY REDUCTION

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.

MICROFINANCE AND SELF HELP GROUPS (SGHs)

There are two common approaches of Micro Finance India - The Self-help group method and the Grameen system. An SHG is an unofficial group of approximately 10-20 members. 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 financial decision making as well as wider social participation. SHG meetings are set to take place at regular intervals and at a designated time. Group members are drawn from the same social-economic layer and work on the basis of equal participation and contribution from all members. The groups are chaired by one lead member at a time; this role is usually rotated to allow capacity building for all members. Meetings are structured and accurate and up to date records of all financial transactions, group decisions and actions are compiled. Once established, SHGs are encouraged to make links with other SHGs and eventually with financial institutions to allow access to further financial assistance.

MICROFINANCE AND WOMEN EMPOWERMENT

Women are essential part of the society. The role of women in economic activities and decision making is very low. Micro financial schemes plays vital role in increasing women□s participation in economic activities and decision making. There has been huge growth of organizations, known as Microfinance Institutions (MFIs) in this field to deal with the micro financial activities. With increasing demand for rural finance, and the shortages of formal sources, the MFIs have tremendous challenges and opportunities in microfinance in India. In India self-help groups (SHGs) constitutes of 85-95 % women. The reasons for this is that women are familiar with finances responsibility; making them trustworthy, reliable and prompt savers. Empowerment of women also occupies central place to wide development goals. Women empowerment is critical factor in the eradication of poverty, as the women are the key contributors to the economic and to fighting with poverty through both remunerative and un-remunerative work at home, in the community and in the workplace. SHGs have been recognized as one efficient means of empowering women.

SUCCESS FACTORS OF MICRO-FINANCE IN RURAL INDIA

Over the last ten years, 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, repay their loans and use the proceeds to increase their income and assets. This is not surprising since the only realistic alternative for them is to borrow from informal market at an interest much higher than market rates. Community banks, NGOs and grass root savings and credit groups around the world have shown that these micro enterprise loans can be profitable for borrowers and for the lenders, making microfinance one of the most effective poverty reducing strategies.

FOR NGOs

1. The field of development itself expands and shifts emphasis with the pull of ideas, and NGOs perhaps more readily adopt new ideas, especially if the resources required are small, entry and exit are easy, tasks are (perceived to be) simple and people's acceptance is high – all characteristics (real or presumed) of microfinance.
2. Canvassing by various actors, including the National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), Friends of Women's World Banking (FWWB), RashtriyaMahilaKosh (RMK), Council for Advancement of People's Action and Rural Technologies (CAPART), RashtriyaGraminVikasNidhi (RGVN), various donor funded programmes especially by the International Fund for Agricultural Development (IFAD), United Nations Development Programme (UNDP), World Bank and Department for International Development, UK

(DFID)], and lately commercial banks, has greatly added to the idea pull. Induced by the worldwide focus on microfinance, donor NGOs too have been funding microfinance projects. One might call it the supply push.

3. All kinds of things from khadi spinning to Nadep compost to balwadis do not produce such concrete results and sustained interest among beneficiaries as microfinance. Most NGO-led microfinance is with poor women, for whom access to small loans to meet dire emergencies is a valued outcome. Thus, quick and high 'customer satisfaction' is the USP that has attracted NGOs to this trade.

FOR FINANCIAL INSTITUTIONS AND BANKS

Microfinance has been attractive to the lending agencies because of demonstrated sustainability and of low costs of operation. Institutions like SIDBI and NABARD are hard-nosed bankers and would not work with the idea if they did not see a long term engagement – which only comes out of sustainability (that is economic attractiveness).On the supply side, it is also true that it has all the trappings of a business enterprise, its output is tangible and it is easily understood by the mainstream. This also seems to sound nice to the government, which in the post liberalisation era is trying to explain the logic of every rupee spent. That is the reason why microfinance has attracted mainstream institutions like no other developmental project.Perhaps the most important factor that got banks involved is what one might call the policy push.Given that most of our banks are in the public sector, public policy does have some influence on what they will or will not do. In this case, policy was followed by diligent, if meandering, promotional work by NABARD. The policy change about a decade ago by RBI to allow banks to lend to SHGs was initially followed by a seven-page memo by NABARD to all bank chairmen, and later by sensitisation and training programmes for bank staff across the country. Several hundred such programmes were conducted by NGOs alone, each involving 15 to 20 bank staff, all paid for by NABARD. The policy push was sweetened by the NABARD refinance scheme that offers much more favourable terms (100% refinance, wider spread) than for other rural lending by banks. NABARD also did some system setting work and banks lately have been given targets. The canvassing, training, refinance and close follow up by NABARD has resulted in widespread bank involvement.

CRITICAL ISSUES FOR MICRO FINANCE INSTITUTIONS IN INDIA

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:

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. 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.

LACK OF CAPITAL

The next part of concern for MFIs, which is on the expansion path, is that they face a scarcity of owned funds. This is a critical constraint in their being able to scale up. Many of the MFIs are socially oriented institutions and do not have adequate access to financial capital. As a result they have high debt equity ratios.

BORROWINGS

In comparison with earlier years, MFIs are now finding it relatively easier to raise loan from banks. This change came after the year 2000, when RBI allowed banks to lend to MFIs and treat such lending as part of their priority sector funding obligations. Private sector banks have designed innovative products such as the Bank Partnership Model to fund MFIs and have started viewing the sector as a good business proposition. But banks need to be most careful when they feel most confident about MFIs. Bank should find the right technologies to assess the risk of funding MFIs.

CAPACITY OF MFIs

It is now accepted that MFIs has both social and commercial dimensions. Since the sustainability of MFIs and their clients complement each other, it follows that building up the capacities of the MFIs and their primary stakeholders. These are preconditions for the successful delivery of flexible, client responsive and innovative microfinance services to the poor.

SUGGESTIONS:

1. Presently, there is no distinctive regulatory framework for the MFIs in India. Regulation of the MFIs is largely in the purview of the state governments. So there is a need of an exclusive regulation to regulate to MFIs in India.
2. Ensure the quality of MFIs in an environment of exponential growth. 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 maintenance of books and accounts etc.
3. Proper training for the clients should be organized in an efficient way so that they could know each and every small things about their debt
4. Ensure the uniform distribution of micro financing in both rural and urban areas of each states of India.

CONCLUSION

Finance is the lubricant, which oils the wheels of development. Micro finance is leaving enormous economic and social impact. Microfinance provide both savings and loan facilities An MFI is likely to provide the much needed funds to the potential entrepreneurs of the rural India. Also it is anticipated that the people would become socially more advanced as they come into touch with the outside world. In order to be sustainable, microfinance lending should be fixed on market principles because large scale lending cannot be completed through financial support. 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. Barry (1996), "Role of Micro Finance Institution in Rural Development," International Journal of Information Technology and Knowledge Management, PP 435-41.
2. Base K. and Jindal (2000), "Micro finance Emerging Challenges", Tata Mcgraw Hill Publishing Company, New Delhi.
3. Chaves Rodrigo A., Claudio Gonzalez-Vega (1996): „The Design of Successful Rural Financial Intermediaries: Evidence from Indonesia", World Development, 24(1); 65-78.
4. Chikodikar, M. (2012), "Financial Inclusion - An Overview", The Management Accountant, Vol. 47, No. 1.
5. Dev Mahindra (2004), "How to Make Rural India Shine", Economic and Political Weekly, October 2, PP 4415-22.
6. Dichter Thomas W. (1996): "Questioning the Future of NGOs in Microfinance", Journalof International Development, 8(2); 259-269.
7. Havers M. (1996): "Financial sustainability in savings and credit programs", Journals ofEconomics, 6(2); 144-150.
8. IqubalFarukh (1988): "The Determinants of Money Lender Interest Rates: Evidence from Rural India", The Journal of Development Studies, 3; 364-378.
9. James C. Brau, Gary M. Woller (2004): " Microfinance: A Comprehensive Review of the Existing Literature", Journal of Entrepreneurial Finance and Business Ventures, 9(1) 1-26.
10. Kanunga, M. (2012), "Rural Development through Micro Finance, MGNREGA and Women Empowerment", Orisha Review PP 75-78.
11. Khandelwal A. K. (2007), "Micro Finance Development Strategy in India", Economic and Political Weekly, Vol. Xlii No. 3, March 31- April 6. PP 1127-35.
12. McIntosh Craig, Bruce Wydick (2005): "Competition and microfinance", Journal ofDevelopment Economics, 78(2); 271-298.
13. NABARD (3012), "Status of Micro Finance In 2011-2012" http://www.nabard.org
14. Rajakutty S. (1997): "Development of Women and Children in Rural Areas: Are we in the right course?",Journal of Rural Development, 16(1); pp. 85-11.
15. Robert Cull, AsliDemigucKunt, Jonathan Morduch (2007): "Financial performance and outreach: A global analysis of leading microbanks", Economic Journal, 3; 107-133.

16. Robert Cull, AsliDemirguc-Kunt, Jonathan Morduch (2009): "Microfinance Meets the Market", Journal of Economic Perspectives, 23(1); 167-192.
17. Rajesh K. Yadav, NishantDabhade, International Letters of Social and HumanisticSciences 5 (2014) 44-62.
18. Uppal R. K. (2011), “Micro Finance in India-Growth, Trends and Emerging new Issues In India”, Arabian Journal of Business and Management Review, Vol. 11, No. 5, PP 32-47.
19. www.authorstream.com
20. www.familiesinbusiness.net
21. www.forbes.com
22. www.ifmr.ac.in
23. www.indiamicrofinance.com
24. www.investopedia.com
25. www.knowledge.allianz.com
26. www.microfinanceinsight.com
27. www.seepnetwork.org