

Microfinance - A Tool for Socio - Economic Development in Rural India

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Abstract-

Microfinance stands as one of the most promising and cost effective tools which fight against global poverty. The findings from this study suggests 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.

Key Words- *Microfinance, Poverty elimination, financial Inclusion, Credit delivery, Economic Empowerment.*

I. INTRODUCTION

Microfinance stands as one of the most promising and cost effective tools which fight against global poverty. The microfinance programme through SHG (Self Help Group)- Bank linkage has been launched by the government of India as a strategy of poverty elimination and rural economic development. The pioneering efforts at this has been made by National Bank for Agriculture and Rural Development (NABARD) which is vested with the task of framing appropriate policy for rural credit, provision of technical assistance banked liquidity support to banks, supervision of rural credit institutions and other economic development initiatives. The term microfinance could be defined as provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards.

II. OBJECTIVES OF THE STUDY

- To analyse the Socio economic growth of microfinance sector in India.
- To analyse the framework of Microfinance programme in Rural India by MFIs, NBFs.
- To high light a Picture of Rural India as a profitable segment for microfinance institutions.
- To study the importance and role of microfinance in poverty elimination.

III. A PROFILE OF RURAL INDIA

1. 68.8% of total population is living in rural India.
2. 29.8% of total population is under below poverty line.
3. 95% have no access to micro finance.
4. 55% people still borrow from informal sector.
5. 450 million people don't have any deposit account.
6. 93% of the households are without any kind of insurance

IV. GOAL FOR PROMOTING FINANCIAL INCLUSION IN RURAL INDIA BY GOVT. & RBI

According to the estimates of RBI, there are over 450 million "unbanked" rural areas. They are mainly depending upon the informal providers of finance, such as the village moneylender. It is undisputed that access to finance is critical for enabling individuals and communities to climb out of poverty. Village money lenders are exploiting the rural poor by charging high interest rate and utilising them for different works. Therefore the Indian govt. and RBI have a policy of "financial inclusion". As part of this policy the govt. requires Indian banks to lend to "Priority sectors", one of which is the rural poor. Until recently, banks were happy to lend money to MFIs who would then on-lend funds, primarily to poor women across rural India. The bank have welcomed this policy because historically they tended to charge MFIs average interest rates of 12-13% and benefited from 100% repayment rates. Thus, by lending to MFIs, banks have been able to meet their "priority sector" lending requirements with what historically has amounted to a risk free and very profitable arrangement.

V. DEVELOPMENT PROCESS AND TYPES OF MICROFINANCE IN RURAL INDIA:-

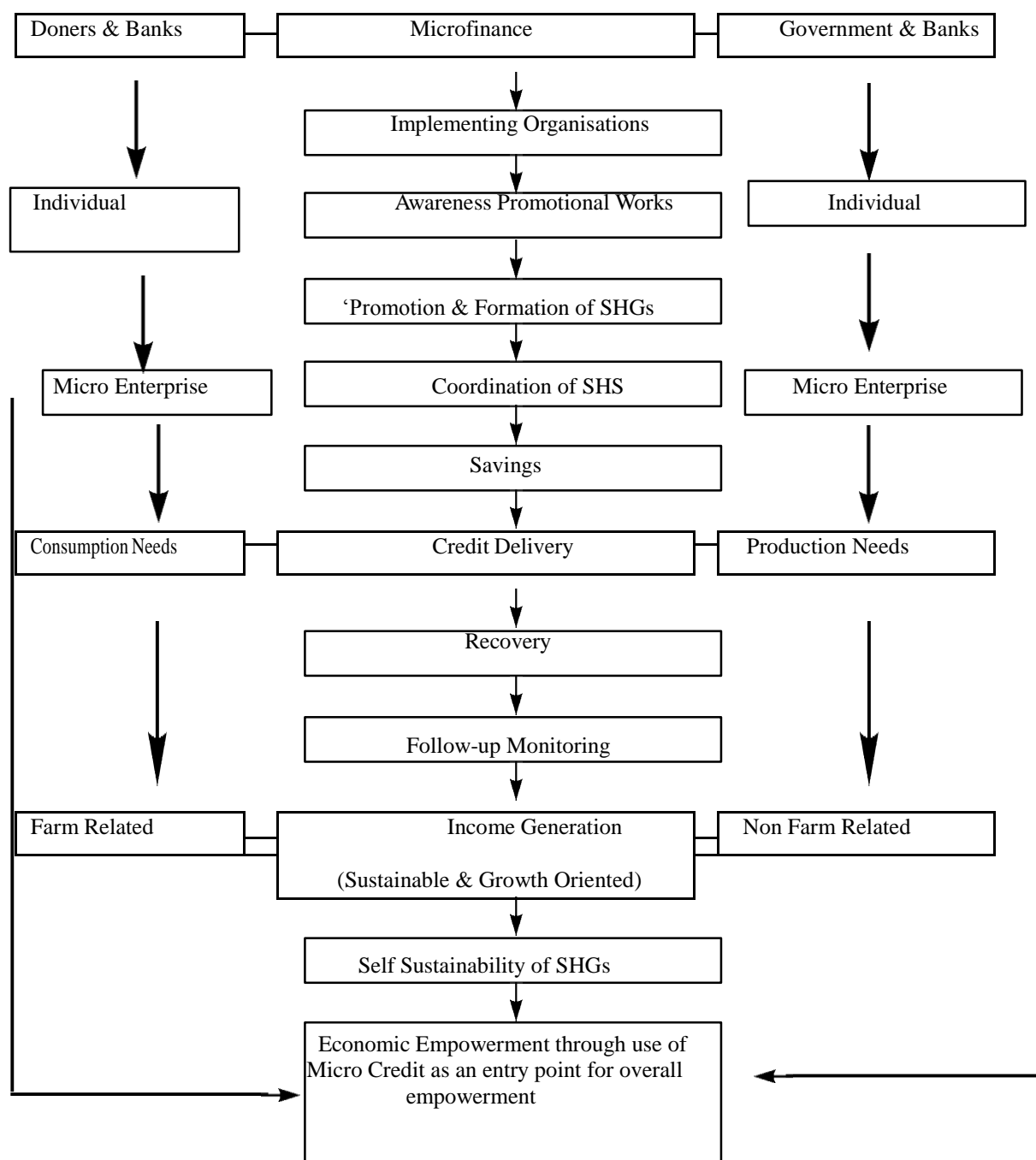
The People of rural India are mainly depending upon agriculture and small business units like fishing, earning through domestic animals, small business units etc. They are not making the agriculture and business profitable because due to the lack of monetary resources. Only few people of rural India 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.

DEVELOPMENT PROCESS THROUGH MICROFINANCE



VI. TYPES OF MFIS.

1. Domestic Commercial Banks including Public sector, Private sector and local Banks.
2. Regional Rural Banks.
3. Co-operative Banks.
4. Co-operative Societies.
5. Registered NBFIs.
6. Unregistered NBFIs.
7. Others include Societies and Trusts.

VII. GROWTH OF MICROFINANCE

Microfinance is emerging as a powerful instrument for poverty alleviation in the new economy. In India, Microfinance scene is dominated by SHGs Bank linkage programme as a cost effective mechanism for providing financial services to the unreached poor which has been successful not only in meeting financial needs of the rural poor women but also strengthen collective self help capacities of the poor leading to their empowerment. Rapid progress in SHGs formation has now turned into an empowerment movement among women across the country. The SHG - Bank Linkage Programme started as an Action Research Project in 1989. In 1992, the findings led to the setting up of a Pilot Project. The pilot project was designed as a partnership model between three agencies, viz., the SHGs, Banks and Non Governmental Organisations (NGOs). The SHG Bank linkage Programme which started in 1992 has grown exponentially over two decades and around 74.62 lakh SHGs are linked to different Banks up to 2011 of these nearly 65 per cent have direct credit link with bank. Out of these 74.62 lakh SHGs 60.98 lakh are women SHGs. The overall progress under microfinance from the period 2006-07 to 2010-11 is presented in table-1.

TABLE-1
The Overall Progress under Micro-Finance, 2007-08 to 2010-11

Sl. No.	Particulars	2007-08		2008-09		2009-10		2010-11	
		No. of SHGs (in Lakh)	Amount (Cr.)	No. of SHGs (in Lakh)	Amount (Cr.)	No. of SHGs (in Lakh)	Amount (Cr.)	No. of SHGs (in Lakh)	Amount (Cr.)
1	Savings of SHGs with Bank	50.09	3785.4	61.21	5545.62	69.53	6198.71	74.62	7016.3
				(22.21)	(46.5)	(13.6)	(11.8)	(7.3)	(13.2)
2	Bank Loans disbursed to SHGs	12.28	8849.3	16.09	12253.5	15.86	14453.3	11.96	14547.7
				(31.1)	(38.5)	(-1.4)	(17.9)	(-24.6)	(0.01)
3	Bank Loans Outstanding with SHGs	36.25	16999.9	42.24	22679.8	48.51	28038.3	47.87	21221.17
				(16.5)	(33.4)	(14.8)	(23.6)	(-1.3)	(11.4)

Source: NABARD,

Note: Figures in parentheses are percentages

Table-1 Shows that the savings in number of SHGs has been increased from 2007-08 to

Particulars	Year	Total SHGS	Women SHGs	% of Women SHGs to Total SHGs
Saving Linked of SHGs	2010	69.53	53.1	76.37
	2011	74.62	60.98	81.72
	% Growth		(7.32)	(14.84)

Bank Loans disbursed to SHGs	2010	15.87	12.94	81.54
	2011	11.96	10.17	85.03
	% Growth	(-24.64)	(-21.41)	
Bank Loans Outstanding with SHGs	2010	48.51	38.97	80.33
	2011	47.87	39.84	83.23
	% Growth	(-1.32)	(2.23)	

2010-11. In the year 2007-08 it was 50.09 lakhs, 2008-09, 61.21 lakhs, 2009-10 69.53 lakhs and 2010-11, 74.62 lakhs. From 2007-08 to 2010-11 the savings in number of SHGs has been increased by 46.95%. The amount increased from 3785.4 Crores in 2007-08 to 7016.3 crores in 2010-11. The amount increased from the period 2007.08 to 2010-11 was 85.35%. Regarding the amount of savings it has a overall significant growth from 2007-08 to 2010-11. Regarding bank loan disbursement to SHGs it shows a declining trend and in terms of number of SHGs become negative in 2011. The cause may be non-repayment of loan with regard to bank loan outstanding the growth in amount in increasing 33.4% during the year 2007-08 & 2008-09, 23.6% from 2009-10 to 10-11 which in a good sign.

Table-2: Position of Women SHGs (in Lakh)

Source: NABARD

Table-2 shows that in terms of percentage growth bank loans disbursed to women SHGs is declining from 2010 and negative in 2011. But percentage of women SHGs to total SHGs is showing an increasing trend in all the three cases. Again it is observed from the data (NABARD) that, with regard to amount of saving with banks percentage of women SHGs has increased from 1.46 per cent in 2009-10 to 17.8 per cent in 2011. But as regards to the growth in amount of loan disbursement to SHGs, the data shows a continuous declining trend from 40.8 per cent in 2008-09 to 18.1 per cent in 2009-10 and 1.6 per cent in 2010-11. Whereas, percentage growth in loan outstanding is gradually declining from 39.4 per cent in 2008-09 to 13.4 per cent in 2010-11, showing a positive aspect about microfinance in India.

1. SHGs were to facilitate collective decision-making by the poor and provide 'doorstep banking.
2. Banks as wholesalers of credit, were to provide the resources and
3. NGOs were to act as agencies to organise the poor, build their capacities and facilitate the process of empowering them.

Of the total SHGs formed more than 1.6 million have been linked with 35,294 bank branches of 560 banks in 563 districts across 30 States of the Indian Union. Cumulatively, they have so far accessed credit of Rs.6.86 billion.

VII. CONCLUSION

The potential for growing micro finance institutions in India is very high. Major cross-section can have benefit if this sector will grow in its fastest pace. Annual growth rate of about 20 % during the next five year. The loan outstanding will consequently grow from the present level of about 1600 crores to about 42000 crores Annual growth rate of about 20 % can be achieved during the next five years.

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