



## PROBLEMS AND ACHIEVEMENTS: MICRO FINANCE AND RURAL DEVELOPMENT IN INDIA

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**Abstract:** *In India, the micro-finance sector has grown from a few self-help groups (SHGs) promoted by NGO's in the mid-1980s to over 29 lakh SHGs at present. The SHG-Bank linkage programme of NABARD accelerated the growth of the sector. The Government of India and RBI have laid greater focus on the micro-finance sector to increase the access of the poor to finance services. In time to come, the micro-finance sector is expected to grow further in term of reaching out to more families and would include more services for the poor. To provide an enabling environment for realizing the potential of micro-finance in India, a close scrutiny of issues that are constraining needs to be prepared for strong and consistent growth so that a majority of the poor have access to institutional financial services.*

*It has been proved through various studies that micro-finance is good strategy for addressing poverty. Though micro-finance alone may not be sufficient to remove poverty but it is surely a step in the right direction. Micro-credit especially the SHG model, has provided useful in empowering women, in providing some security to members in time of adversity and also in improving the economic status of the poor. In time to come, the micro-finance sector is expected to grow further in term of reaching out to more families and would include more services for the poor. To provide an enabling environment for realizing the potential of micro-finance in India, a close scrutiny of issues that are constraining the growth of the sector is required and a strategy needs to be prepared for strong and consistent growth so that a majority of the poor have access to institutional financial services.*

### Introduction:

Development countries aim at maximum utilization of their own national and man power resources. Even such countries availing raw materials in abundant and labour resources in cheap and surplus they cannot achieve their targeted growth rate without having sufficient financial resources. In a labour extensive economy it is necessary to liberalise and fluctuate the financial and monetary policy which are the tools to achieve the multi-dimensional life goal of rural poor. To achieve these goals and keep rural people from the burden of prescribed by the moneylenders: Government, NGOs and voluntary organisation plays a crucial multi-linked role in rotating Micro-finance. Now – a – days micro-credit is a world wide scheme and it is broadly established to uplift the rural poor from their poor condition. Muhammed Yunus (2004) stated that lessons from the experiences of other developing countries like Bangladesh, Indonesia, Bolivia and Philippines motivated India too to start experiencing innovative scheme of SHGs which are

also called as thrift and credit groups. The SHGs is a brainchild of Grameen Bank of Bangladesh which was founded by Prof. Muhammed Yunes of Chittagong University in the year 1975. in India Nabard Initiated it in 1986-87, but the real effort was made after 1991-92 from the linkage of SHGs with the banks.

### Statement of the problem :

We can say that the microfinance institutions are playing a vital role in the alleviation of poverty, uplifting living standard of very poor people. But what are the problems coming in the path of micro financing? The paper focuses on the issues and challenges prevailing in India regarding the micro financing. Are the microfinance institutions in very bad condition in India? An attempt is made through the peer to solve these problems.

**Significance of the study:**

The paper will help to know the condition of microfinance institutions in India. The research paper also tells why the microfinance institutions charge high interest to the borrowers. Here, in this research article, the attempt has been made to focus the problems of microfinance at social and cultural level, political level, educational level etc. the study presents some suggestions and recommendations to overcome from these problems.

**Microfinance in India an Overview:**

The field of Microfinance is much researchable. There is a lot of literature on Microfinance available but there is hardly any universally accepted definition of microfinance. Researchers and microfinance visionaries have not a single opinion when it comes to microfinance. According to Sriram and Upadhyayula. "it appears that what microfinance means is well understood, but not clearly articulated", However, microfinance is a term that refers to the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low-income households and their micro-enterprises. The need of microfinance comes from the disadvantaged sections of the society- who are unable to access services of formal sector financial intermediaries- and are typically excluded from the formal banking system for lack of survival collateral, in short the poor and the very poor. The definitions of these groups vary from country to country. The clients of the microfinance institutes are normally employed in the informal sector, with closely interlinked household and business activities and earning low income. In a much narrower sense though, microfinance is often referred to as microcredit for tiny informal business of micro entrepreneurs, the services being mainly delivered by socially oriented Non-Governmental Organizations.

**Delivery Models of Microfinance:**

Microfinance is a dynamic field and there is clearly no best way to deliver services to the poor and hence many delivery models have been developed over a period of time. Each delivery model has its share of problem and success. In India, various delivery models have been adopted by microfinance institutions and they can be categorized into following broad categories, discussed one by one.

**Self help group model:**

The self-help group (henceforth, SHG) model has evolved in the NGO sector and works on the belief that the poor can help themselves and the NGOs can provide networking and education to them. Almost 90 percent of the SHGs in India are female only due to the known fact that world's poorest households tend to rely more heavily on income generated by women of the house. In India, SHGs have been the most popular way to help the poor and make them bankable. An SHG is a small group of about 20 persons from a homogenous class, who come together voluntarily to attain certain collective goals, social or economic. The group is democratically formed and elects its own leaders. The essential features of SHGs include members belonging to the same social status and sharing a common ideology. Their aims should include economic welfare of all members. The concept of SHGs is predominantly used in the case of economically poor people, generally women, who come together to pool their small savings and then use it among themselves. The group members meet regularly (once in a week) and carry out their financial transactions. The group mobilizes savings among its members only and provides need based loans to the members only. The rules and norms pertaining to finance or other matters are made by the group. The internal transactions are strengthened first and after that, the NGO supporting the group links them to banks for more financial assistance. There are many disadvantages of SHG models and they have been discussed in literature, a lot. Despite that fact, the advantages of the SHG have outnumbered the disadvantages and have made the SHGs as the most popular delivery model for microfinance in India. We can gauge the popularity from the following simple fact that even the government programs have SHG as the core of their strategies.

**I. Role of Micro-Finance in rural development**

Ratna Ravikumar (2006) stated that SHG is a small economically homogenous and affinity group to rural/urban poor voluntarily formed to save and contribute a common fund to be lent to its members as per group decisions and for working together for the socio-economic upliftment of their families and community. SHGs is a medium group for the development of saving habit among women. These SHGs come to the rescue of women and they enhance the quality of status of women as

participants, decision-makers and beneficiaries in the democratic economic, social and cultural spheres of life.

## II. Employment Potential

Nagayya (2000) reported that the Associated for Advancements (ASA) in Bangladesh Society for Helping and Awaking Rural Poor through Education (SHARE) in India, Centre for Youth and Social Development (SYSD) in South Asia and Bangladesh, Rural Advancement Committee, consultative group to assist the poorest, Professional Assistance Development Action, Self-Employed Women Association and Credit Development forum and focusing their financial attention to the income and employment generation of the rural poor with livelihood support. Under the scheme of SHARE 11% of Andhra Pradesh and 44% of Bihar Respondent raised their employment generation in the year 2004. 97% of the PRADAN and 83% of the SHARE scheme belonged to Adivast. Dalits and other and other backward castes in rural areas.

## III. Co-Operation and SHGs

Kanagaraj (2005) explained that a federation of SHG members can function as co-ordinating and monitoring agency for a particular coverage area the federation is a democratically elected and evaluate all the activities carried out by the groups of SHGs under one panchayats. The federation gives support, motivate and train members a part from networking with other agencies for village development. The ultimate goal of this federation is to evaluate all the activities carried out by SHGs for the betterment of the group as well as society.

## IV. Micro-Finance and Poverty Allevation

John E.A. Korten (2006) indicated that micro-credit and small enterprises play an important role in improving livelihood of rural and urban population in developing countries. There is a significant difference in their mean value of loan both for men and women. Women getting higher proportion (90%) rather than men (10%) because poverty can easily be eradicated through the active participation of women in income generating and saving motivating activities. The most important goal of micro-credit is having world poverty by 2015.

## V. Self-Sufficiency

Pitt (2003) mentioned 90%. SHG clients are women in the Grameen bank of Bangladesh and their consumption expenditure increases 18 taka for every 100 taka borrowed by women. Credit provided to women importantly improve measurement of health and nutrition and educational status of their children. The Grameen Bank of credit services for poor rural people throughout the country 'slowly but surely' more and more people can work themselves out of poverty. The Grameen Bank achieved repayment rate of 98% from its borrowers, 94% of whom are women so successful.

## VI. Micro-Finance and Linkage Programme

MFIs have been through linkage programme NABARD would like to realize the vision of empowering rural poor by improving their access to the formal credit system in an effective and sustainable manner to reach the goal of 100 million poor through one million SHGs by 2019.

## VII. Micro-Finance and Decision-making Power

The MFIs evaluated that micro-credit integrated scope for personal, social and political empowerment. The experience of micro-credit began in the early 1950s as a social development initiative to alleviate rural poverty created positive impact on cash starved poor and women in rural areas increase confidence, sense of self-worth, higher conscious of their rights, greater awareness and exposure to the outside world, greater decision-making with the households and outside activities and improved health and nutrition of family members.

## Methodology :

The data for the present study is collected from the primary and secondary sources. Various magazines, news papers, research articles, referred journals and books have been studied and used for the collection of data. Prime Minister Rozgar Yojana (PMRY) PMRY is being implemented since 1993. The scheme is designed to create and provide sustainable self-employment opportunities for one-million educated unemployed youth in the country during the 8th plan period.

**Objectives**

- 1) To evaluate the investment structure, in terms of loan/ subsidy and personal savings of the SHGs.
- 2) To recognize the group activities of SHGs women on the household economy.
- 3) To estimate activity-wise return on investment

**Hypotheses**

- 1) There is a significant relation between maximum employment potential and return on investment.
- 2) The impact of SHGs create positive effect on literacy and decision-making power of women in rural areas.

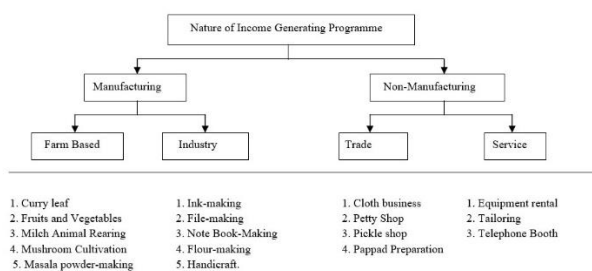


Table 1 explains that SHGs availed loan for different purposes under DWACRA scheme indicating that majority of the members of the groups have got loans for trade followed by small scale industry. This can be mainly attributed to predominance of industry and trade because their return on investment is usually higher than the other two categories.

**IV. Evaluation of Micro-Finance for Rural**

**Table-II**

S.No	Name of Activity	No. of Members	Percentage
I	Farm-based	21	13.5
II	activity	57	36.5
III	Industry	69	44.2
IV	Trade Service	9	5.8
Total		156	100.00

**Micro Finance Achievement**

The support and facilities of the Micro-Finance scheme.

1. Organizing exhibitions exclusively for product manufactured by SHGs at to the month intervals.
2. Helping the SHGs to participate in the training programme organized by various Government departments.
3. Special attention given to SHGs on Government offices.
4. Extension of market scope for the product of the SHGs.
5. Tie-up arrangement with Co-operative Institutions and training centres.
6. Special effort taken by the Government officials, financial agencies such as SFIs, NABARD and NGOs to develop the personal skill of SHGs members.
7. Recommended to purchase the materials produced by the SHGs through the Government departments and academic institutions.

**Skill development**

Effective utilization of investment mostly depends on the familiarity of small scale industry of the borrowers and the skill they possess in particular trade activities. The effort taken by the Tamil Nadu corporation for women development and NGOs plays a active role in providing and upgrading the skill of the members of SHGs. Out of 156 members 44% of the beneficiaries have undergone training in the trade and 36% in small scale industry.

**Economic of Micro-Enterprises**

To ascertain the earnings from each of the activities undertaken by the members calculations are made out on revenue generation and expenditure incurred under each activity. This has helped to derive net income per annum from each activity as percent of total investment to provide return on investment. Employment potential denotes persons employed per Rs. One lakh investment.

**Unregulated Microfinance Institutions**

In India, micro finance is provided by a variety of institutions. There include banks (including commercial banks, RRBs and co-operative banks),

primary agricultural credit societies and MFIs that include NBFCs, Section-25 companies Act-1956, trusts and societies. But only the banks and NBFCs fall under the regulatory purview of the Reserve Bank of India. Other entities, e.g., MFIs are covered in varying degrees of regulation under their respective state legislations. There is no single regulator for this sector. As a result, MFIs are not required to follow some standard rules and are not subject to minimum capital requirements and prudential norms. This has weakened their management and governance, as they do not feel it mandatory to adopt some specific systems, procedure and standards. Therefore, there is a need for regulating the varied number of microfinance providers which are influencing the lives of millions of poor people. The regulation would, therefore, help in improving the growth of MFIs in an orderly approach.

#### **Lack of Insurance Services.**

Poor people are valuable to financial shocks. A small change in their earning patterns due to natural calamities, health problems, death of earning member etc. can push them to destitute. So, a provision of insurance under the microfinance programme is very essential to help the poor to cross the poverty line. But, in reality, the current microfinance programme in India is just focused on regular saving and micro-credit. SHG-BLP developed by NABARD is also providing saving and credit services mainly and the provision of insurance is very less. However, some of the MFIs have started providing insurance services but the efforts are still at an experimental stage. A research report by Invest India Market Solutions Pvt. Ltd. (IIMS, 2007) indicates that the penetration of life insurance is only 12 percent among the rural poor and 19 per cent among the urban low-income population. The penetration ratio for insurance in India was estimated at 4.80 in 2006, whereas for Asia it was 6.60 and for Europe at 8.30. So, in India the provision of insurance services is at the initial stage and this integral part of the microfinance Programme is still neglected.

#### **Suggestions**

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. 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. Proper training for the clients should be organized in an efficient way so that they could know each and every small thing about their debt. Ensure the uniform distribution of micro financing in both rural and urban areas of each state of India.

#### **Conclusion**

The financial assistance provided to SHGs for the development of socio-economic status reached preferably having member from socially and economically weak and downtrodden. The Government officials, Banking agencies and NGOs played very good role on bringing up the groups at the maximum betterment. Micro-credit is a multi-disciplinary concept to support the rural poor and women for their standard of living preferably with the satisfaction of minimum needs. It is advisable for the selected/graded SHGs whereas members have demonstrated leadership initiative, a stand-up mind set to challenge at any cost plus hard work against odds and the necessary skills to get them connected by means of franchise holdings to medium or small industries in small towns or the rural fringe of urban centres.

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