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## Role of Microfinance Institutions in Rural Development in India

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### Abstract

*Microfinance provides micro credit to people residing below the poverty line and who are deprived of formal financial. It is a supplement which makes these people involved in their small businesses. Microfinance focuses on providing microcredit in standardised manner. Microfinance has various schemes which play crucial role in enhancing women's role in decision-making. This paper is an attempt to diagnose the role of microfinance in the development of the rural area through its policies. It aims to find out impact and importance of rural development in India. It is observed from the study that microfinance brings effective changes in the society with the policies and practices. It is concluded marginalised people in rural areas especially in a country in India. Its main aim is to cater the needs of poor people and guide, motivates them to increase their economic and social status.*

**Keywords:** Microfinance, Rural Development, Financial Services, Women Empowerment

### Introduction

Microfinance refers to providing financial services to the marginalized section of the society which is deprived of getting those services through formal modes. Even with so many developmental and growth policies and practices still, a large number of persons in India lives below the poverty line. As a result of this, a greater need and demand of Microfinance sector is felt. And this becomes the reason to observe the changing picture of the Microfinance sector in India. Microfinance leads to provision of a very small amount of loans in form of micro credit to the marginalised and weaker section of the society, without any collateral security involved in it and fixed interest rate.

Such microcredit is provided to the borrower to start any small business like carpentry, fishing, agriculture, stitching, etc. Microfinance is considered as one of the most significant contributors to eradicating rural area poverty and improving the living standard of the poor people. If the focus is on rural development it requires infrastructure credit growth, movement of microloans to poor people and especially poor women. And the result of these needs National

Agricultural Banks for Rural Development (NABARD) was established in India. NABARD is established with the major objectives of making suitable policies and practices for providing credit to rural people, providing technical and field support to banks along with maintaining liquidity position, supervising and guiding institutions and agency providing rural credit facilities and other development related issues. In the past decades, it is observed that currently followed banking policies, procedures, practices, regulations, services and products offered are practically not meeting up with the requirements and expectations of the marginalised people. It is observed that poor people expect better and improved access to these financial services from the service providing institutions. They are more desperate towards getting loans without collateral securities and at a lower interest rate as compared to private lenders. It is a human tendency we tend to avoid to go the places where we get a low or poor response, so is the case with commercial banks dealings with poor peoples. These raise the demand for an alternate methodology, systematised approach for the provision of services like savings, loan requirements, other such allied services with the new delivering mechanism in order to fulfil the requirements of the focused section of the population especially the women participants. All this has laid the requisite foundation for the Microfinance program in the country. A large number of NGO's has started working in this sector as an attempt to create their client base in the rural and urban areas by providing such Microfinance services.

Most recent initiative in Microfinance is Joint Liability Group (JLG) model of loan distribution. It has become widely popularised among Microfinance Institutions these days. As the name suggests in this mode the loan is provided to a group of 10-15 peoples in a group and not individually. The risk factor of non-repayment is neutralised due to the involvement of group members and risk sharing between them. To guide and look after such activities various NGO's have come forward. These institutions have become the base for the Microfinance program and now are continuing their work for its support and extensive growth ultimately leading to country's rural economic development.

The term Microfinance has been derived in the year 1970 by establishing Grameen Bank in Bangladesh. It was the idea of Muhammad Yunus that was transformed into a worldwide movement throughout the world. He is known as the father of Microfinance.

In India, also it was started in 1970's with the formation of Self- Employed Women's Association (SEWA) in Gujarat as a Co-operative Bank named as Shri Mahila SEWA Sahakari Bank. The main objective of this bank is to provide banking and financial services to poor and weaker women involved in unorganised sector in Ahmedabad, Gujarat. Microfinance grabbed its strength through the formation of Self Help Group mode in 1980 by providing saving and credit facilities. Still, a large part of India's population depends upon unorganized sector and lives below poverty line. And it is quite obvious that these people don't have access to formal banking credit and other such services. Also, the habits and facility of savings have also not been developed among such poor people. Credit facilities to such people can diminish the poverty level to a very great extent. Thus, Microcredit is a tool for poverty eradication in a country like India. But this largely marginalized population is not only due to poor financial services but it is also due to some other practical constraints. However, still there lies a great scope for the Microfinance Institutions to work for the financial and social upliftment of the weaker section of the society in India.

## **Microfinance and Poverty Reduction in India**

More than 20% of India's population lives below the poverty line. And it is highest in the states of Uttar Pradesh, Bihar and Madhya Pradesh. Rural areas of India consist the majority of its poor population. This is also due to the gap between the living standard of Urban and rural people. Our government's policy for removing poverty goes with infrastructure development, social development (health, food, education, etc). The growth in lives of rural people is the main focus and target of the poverty reduction which should also be adopted by every Microfinance Institution as their primary goal. People manage their limited financial resources between their business and their personal expenses. These financial services should make them establish a proper balance between income, savings, expense, asset creation, etc.

Typical financial institutions do not provide any sort of credit facilities to low-income families and women who do not have any collateral security to be kept with such financial institutions. As the income of several households is not evenly distributed throughout the months, so the lenders avoid lending them credits. They tend to provide credit services more to the large enterprises whose income regularly distributed throughout the years. However, in the past few years, results have shown that if required credit is been provided to such small entrepreneurs at reasonable interest rates then they do timely repay the loans with a noticeable increase in their income, assets, savings and other such factors.

## Self Help Groups for Rural Development

Microfinance mainly has two delivery approaches or models. First one is the Self Help Group Model (SHGs) and another one is through Microfinance Institutions. SHG model leads the scenario in India in terms of clients outreach, loan amount disbursed, savings, etc. SHG is an unofficial group of 10-20 members. The primary motive behind this group formation is providing credit facilities and savings corpus to the members. It becomes feasible only when members merge their resources together towards a common fund. This social initiative is expected to turn the marginalised member self-dependent, able to manage their funds effectively, to generate better financial and social results.

To maintain the continuity of the group SHG group meetings are held at regular periodic intervals to guide, train, and resolve the issues and problems faced by the members. Various kinds of skill development training are also provided to the members to make them self-employed at very low cost and capital involvement. One important thing to be kept in mind while forming groups is that members of the group should be of similar financial and social status. So that equal participation and contribution from every member of the group are possible. Each group has one group leader assigned to it and this chair is shifted from one member to another so that leadership quality can also be developed among them. All the issues, suggestions, decisions are recorded in every meeting to match it with the other similar age groups.

## Women Empowerment and Rural Development Through Microfinance

Women are the better half of the society. Still, the involvement and the role played by the women in decision-making in the family is quite low. And here Microfinance plays a crucial role in developing women's role in financial and social decision making. With the increment in the involvement of rural people in financial plans with existing gap informal credit sources there exists a big problem for the Microfinance Institutions to overcome with. In India, mainly the SHG's consist of women participants. The reason for this is that women have the actual responsibility towards family's financial and social needs and demands.

This makes them more dependable, trustworthy and better option in comparison to men in the society. Women empowerment is the most important factor for poverty eradication, as women are the main role players in economic, social security, SHGs has been considered as one of the most effective and efficient modes for empowering women.

## Critical Issues for Microfinance Institutions

It should be considered here that Microfinance services are capable of providing better financial services as compared to traditional banking services; they also better look after the needs of the marginalised people. The urban Microfinancial services should go parallel with the rural services. This leads to supplement the needs of the poor people to run their business and family requirements in a systematised manner. Some issues related to Microfinance organisations are as follows:

- a. **Lack Of Capital:** It is the matter of concern for the MFI that they have a very little capital base in form of their own funds. This becomes the biggest hindrance in scaling up of these institutions. Many of them are socially operated hence, financial sources are very less. This makes their debt-equity ratio quite high.
- b. **Sustainability:** It has been observed that delivery model of Microfinance is quite expensive than the traditional ones. It is supported by the fact that the monitoring cost of loan beneficiaries is higher while the quantum of the loan and the loan volume is quite low.

c. **Borrowings:** After showing good performance in past few years by MFIs now banks provide better and higher credit facilities to the MFIs. This change becomes visible after the year 2000 when the RBI granted permission of granting loans to the MFIs by the banking institutions. And that too as their primary lending sector. Private Banks are more interested in granting loans to MFIs through new and innovative schemes. But banks are required to monitor these MFIs properly and make their periodic assessment of the risk involved in lending them.

d. **The Capacity Of Mfis:** It is now evident from the various studies that MFIs have an equal proportion of financial and social development. MFI should become more capable and sustainable then and only then its clients will become same too. This is the basic requirement for effective delivery mechanism and innovative Microfinance practices.

e. **Non-Repayment Of Loans:** It is the biggest issue under consideration. MFIs should try to reduce the no. of clients defaulting in loan repayment. As this default leads to huge loss and affects financial sustainability of the MFIs.

## Conclusion

Microfinance Institutions showing are the remarkable impact on the economic and social development of the society. They provide mainly saving holdings and loan offerings. Microfinance Institutions are supposed to provide loans to the much needed marginalised and weaker section of the society. It is expected that people will tend to be sustainable by providing funding services after considering the market scenario and other conditions.

It can be concluded from the paper that Microfinance plays a very decisive role in providing financial services to the needful sections of the society. It is the requirement of the time from MFIs to eradicate poverty from the country. It is also expected to contribute towards women empowerment in the society.

In the follow-up of this poor people will become more stable and a step forward towards formal banking services and making them more approachable towards long-term formal debts and credit services. Microfinance has several factors to contribute towards nation building process and by developing the unbanked rural population of the country. By bringing the marginalised section of the society into the mainstream through the provision of financial services including credit and savings is amongst the most effective way of rural development.

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