

MICRO FINANCE: THE SOUL FOR RURAL FINANCE

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ABSTRACT

Nationalization of business banks and formation of regional rural banks initiated social banking for upliftment of BPL population, small farmers and artisans but couldn't make satisfactory progress during this regard. Rural people specifically face variety of problems in undertaking economic activities i.e. non-availability of credit, lack of organizational skills, illiteracy, gender inequality, discrimination on the premise of caste, religion, including conservative mindset and lack of confidence. Regardless of legal provision "Women are often denied property and inheritance rights, their freedom are restricted by social norms. Hence, healthy atmosphere be created to develop women particularly. Micro finance recognized as a conspicuous tool to eradicate poverty, generating income activities and employment opportunities especially within the developing countries. Indeed micro finance in recent times has recognized as a robust tool for socio-economic empowerment of rural poor women within the world. Everywhere the state there's a realization that the most effective way to tackle poverty and enable the community to boost its quality and standing of life, through social mobilization of poor, especially women through self help group. Ever since independence of India, variety of innovative schemes is launched for the upliftment of poor women in our country. The policy makers now identified the necessity to uplift the poor neglected section of the society, unless and until we uplift the poor neglected section of the society, the dream of socio-economic development of poor women, especially within the developing countries, can't be materialized.

KEYWORDS: *Women Empowerment, Sustain, Poverty Eradication, Upliftment, Development.*

Introduction

India remains predominantly a rural nation with around sixty eight per cent of its population living in rural areas. Even today seventy percent of the entire rural population doesn't have access to banking services, (Savings or credit through the formal banking system). Incidence of poverty is far higher in rural areas adversely affecting the agricultural economy likewise, because the overall economy of the state. Rural development has been a vital goal of coming up with in India. The event of the agricultural people is crucial for development of the country. Rural development is that the dynamic process of development of the agricultural people through series of programmes, making them self sustaining citizens of the country. Socio-economic development of the country mainly depends on social and financial empowerment of rural poor women; therefore the government of India has taken several initiatives to strengthen the institutional rural system protecting national interest. The agricultural network of commercial banks has extremely expanded and certain policy prescriptions imposed so as to confirm greater and guaranteed flow of credit for rural development moreover as socio economic development of rural poor women. In India micro finance program needs to play a pivotal role in uplifting over 30 core people living below poverty line. Poor people that board pervert line don't have quick access to finance and naturally they're not in good position to begin their livelihood and creating assets to come up with income. Formal institutions are available for the agricultural sector, but they're not providing adequate financial resources to rural poor.

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What is Micro Finance

The concept of micro-finance isn't new. Micro finance refers to the whole range of economic and non-financial services, including skill up gradation and entrepreneurship development for the poor for enabling them to beat poverty. Within the context of designing programmes for the poor, microfinance is recognized and accepted collectively of the new development paradigms for alleviating poverty through social and economic development resulting in empowerment of rural poor people, with a main objective of empowering the rural poor women. The concept micro-finance was introduced for overcoming the present constraints and providing significant credit supply to the poor by following a straightforward procedure. The system of micro finance has been viewed as a robust and result oriented tool for uplifting the status of the asset less poor people through group approach that ensures greater involvement of beneficiaries in programme implementation. The most objectives of Micro Finance includes providing supplementary credit to SHGs, to cut back transaction cost for both the bank likewise as Self Help Groups by reducing paper work, to make mutual trust and confidence between banks, NGOs and rural poor, To mobilize small savings among poor rural women, and to make healthy relations between SHG members and therefore the linking agencies, constant supervision and monitoring by banks, through NGOs. Savings and credit groups that have operated for hundreds of years include the "Susus" of Ghana, "Chit Funds" in India "Tandas" in Mexico, "Arisan" in Indonesia, "Cheetu" in Shri Lanka, "Tontines" in West Africa and "Pasanaku" in Bolivia, similarly as numerous savings clubs and burial societies fund everywhere the world. Formal credit and saving institutions for the poor have also been around for many years providing folks that were traditionally neglected by commercial banks the simplest way to get financial services through co-operation and development finance institutions.

Mechanism of Micro Finance

India has two sets of Microfinance mechanism. The first one is the "mutual" strand, which is based on mutual collection in self help groups and others. The other strand could be termed that of "providers", wherein an external agency commonly called Micro Finance Institutions (Micro Finance Institutions) offers the financial services without opening up its own governance structure to the clients. SHGs provide scope for a two way transaction, starting on the bottom of small savings – rotating and later linking it to loans that would address the problem of livelihoods. In some places attempts are being made to produce exclusively designed risk mitigation products for the poor and vulnerable. Microfinance has become a lovely mechanism to succeed in financial services to the poor and therefore the methods evolved reduce certain forms of transaction costs, eliminate basic problems of incorrect client identification and mitigate repayment risks to a good extent. While there are some places where men participate in microfinance style of activities by choice, the movement has been women-centric. Though the mutual's are within the country for about 20 years and therefore the providers are operating for over a decade, the movement has not spread throughout the country. It's found that microfinance activities seem to happen only in certain pockets of the country, regardless of whether or not they follow the mutual or the provider strategy. While microfinance has had the patronage of successive governments no matter party affiliation at the centre, the regional spread of the movement is incredibly disparate.

Microfinance –A Tool for Poverty Alleviation

It's now recognized that providing efficient microfinance services to poor and low income households is vital for a range of reasons. Consistent with ASIAN DEVELOPMENT BANK (ADB 2000) that

- Microfinance are often a critical element of a good poverty reduction strategy by enabling the poor to smooth their consumption, manage risks better, build their assets gradually, develop their microenterprises, enhance their income earning capacity, and luxuriate in an improved quality of life.
- Microfinance can provide a good way to assist and empower poor women.
- Microfinance can contribute to the event of the economic system through integration of monetary markets.

Microfinance is usually taken to the availability of monetary services, primarily savings and credit but also other financial services, to poor and low income households that don't have access to formal financial institutions. Thus, ADB's microfinance developments strategy states that "Microfinance is the provision of a broad range of economic services like deposits, loans, payments services, money transfers, and insurance to poor and low income households and their microenterprises." there's a

requirement for safe and convenient deposit services. Contrary to some pre conceptions, there's much evidence that the poor have the capacity and willingness to avoid wasting. They have to save lots of for emergencies, investment, consumption, social obligations, the education of their children, and plenty of other purposes. Other basic demands are for credit both from households and microenterprises. Poor households require credit to finance livelihood activities, for consumption smoothing and to finance large expenses for purposes like education, housing improvements, and migration. Poor and low income households even have a requirement for other financial services, as insurance. Since the late 1970s, there has been a stress on establishing financial systems able to reach poor clients on a more sustainable basis, both within the Asia pacific region and elsewhere.

Micro Finance Initiates (Models) in India

In the post nationalization era, the industry in India witnessed unprecedented growth and achieved phenomenal outreach. However, empirical studies within the 1980s revealed that a awfully sizable amount of the poorest of the poor still remain outside the reach of the formal banking industry. It absolutely was realized that the prevailing banking policies, systems and procedures and deposits and loan products weren't like minded to fulfill the credit needs of the poor. Aside from the present banking network, with a view to developing supplementary credit delivery system that's cost-effective and user friendly for banks and also the poor, microfinance initiatives were encouraged in India. Microfinance initiatives don't seem to be recognized as a value effective and sustainable way of expanding outreach of the banking industry to the agricultural poor. The guiding spirit behind microfinance initiatives are:

- To supply cost effective approach to formal institutions for expanding outreach to the poor.
- To develop collateral substitutes.
- To pilot test other micro-credit delivery mechanisms as alternative channels to the formal banks.
- To effectively pursue the objectives of macro-economic policies.
- To target the agricultural and concrete poor.

There are two major models under microfinance viz Self Help Group (SHGs-BANK LINKAGE) and Micro Finance Institutions –Bank Linkages.

Micro Finance: Concern Challenges and Strategy

Microfinance being complex and rapidly evolving sector of activities continues to face persisting challenges which quotes for one amongst the most important new threat. Perhaps, the foremost crucial among the continuing challenges of the Micro Finance Institution model is to create much greater awareness of the necessity for Micro Finance Institutions to alter cost recovering interest rates, if they're to survive and grow. The amount of interest rates, especially for the poor and poorest could be a major problem. For tiny start-up Micro Finance Institutions, unit transaction costs are particularly high. Only documented experience with policies of conscious acceptance of upper loan loss rates will indicate where the optimal trade off lies between maintaining financial viability, on the one hand and public support on the opposite, but many people would guess it as lying between book to three %. It's now that microfinance sector has to rebuild the general public image. Micro Finance Institutions must experiment with new products and repayment schedules that will pay greater have to the client income compulsions and client perspectives generally, as hostile one minded preoccupation with their own must minimize costs. the foremost focused challenge within the sector is that the 'quest for numbers' referring to outreach and profitability of Micro Finance Institutions while extending the depth and breadth of outreach which is clearly central to Micro Finance Institutions mission of constructing a control on poverty through financial inclusion. Thus, it's concluded that the crisis is a useful reminder that there should be other measures as client centered consumer protection objectives, like transparency in dealings with borrowers and being careful to not saddle them with more debt that they'll handle.

Governance and Regulation of Microfinance Operations

Since its emergence microfinance cropped up as a developmental tool with problems with poor governance and regulation. Governance practices impact social performance as an enclosed climate of institutions. A number of the Micro Finance Institutions have set a really high standard of governance in terms of constitution of their boards. Independent boards that are capable of taking decisions both within the interest of business and therefore the society are a main requirement. But quite few Micro Finance Institutions have did not listen in constituting the board in such a way that might handle the problems

arising professionally. The Micro Finance Institutions cite a scarcity of knowledgeable people to man their boards. Sa-Dhan could play a job by maintaining a database of execs, willing to serve on boards after concluding a due diligence of their suitability. Audit and grievance redressal functions haven't been considered important for board level attention. There are reported instances where NGO-Micro Finance Institutions transformed in to NBFCs had sought to transfer all assets and liabilities with the NGO to the NBFC. Such transfers were sought to be effected even without the consent of the lending bank, to not mention the consent of the clients. The world must guard itself against recurrence of such events and protect the clients and other partners. February 2005 evidences the very fact of requirement of Microfinance bill, because of certain regulation calamities within the sector. The bill was introduced in parliament because the Micro Financial Sector (Development and Regulation) Bill, on 20 March 2007.

Conclusion

Microfinance industry is now tormented by strong competition: Commercial Banks have begun to focus on Micro Finance Institutions' traditional customers. New Micro Finance Institutions' are created in microfinance industry and therefore the microfinance clientele is becoming more sophisticated concerning the standard of service they require or expect. With client retention, institutional costs decrease because the institution has to do less marketing, less new client orientation, and fewer new client background checks, staff productivity increases because loan officers work with established clients whom they know well, client's income increases as loan sizes generally increase with experienced clients. Studies approached customer satisfaction within the same way by demonstrating that customer satisfaction may be a function of "the difference scores or gaps between expectations and perceptions denotes as $(P - E)$ ". In line with them, customer satisfaction is just achieved "if actual perceived quality surpasses the consumer's expectations". it's now more criticized due to practical problems associated with the gap "performance minus expectations". Thus, an alternate measurement of customer satisfaction has been proposed estimating that customer satisfaction would be only obtained by that specialize in actual perceived satisfaction. Urban poor have more alternatives of income generation; they need more options to go for. Literacy rate in urban areas is on top of rural areas such they response well to satisfactory levels. They need more knowledge of the products offered; the services, transaction costs, repayment rules etc. and that they are easily accessible by microfinance institutions in terms of outreach. They're more conscious and conscious of using their own rights than rural poor, in context of their dissatisfaction.

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