Role of Microfinance in Rural Development

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Abstract:
Microfinance is not a financial system but a tool to alleviate poverty from the country and bring social change which especially uplifts the status of women in our country thereby they can become self- reliance. Today, there are 82 major microfinance institutions in India, which offer small loans to help people rise from poverty. This paper describes the conceptual framework of microfinance institutions in India. The researcher made an attempt to diagnose the role of microfinance in the development of the rural era. It is an effort to bring light the role of microfinance in rural development through the study of micro financial schemes. The study can conclude that weaker sector of Indian economy is in dire need of money lending methods to earn credits. So microfinance programmes should be an important one to focus the need of the poor people and improve their standard of living which leads economic growth.

Keywords: *Microfinance, schemes, rural development, Self-Help Groups, credit.*

1. Introduction:

Microfinance is defined as financial services such as savings account, insurance funds and credit provided to poor and low income people to help them to increase their income, thereby improving their standard of living. It plays a major role in the development of India. It acts as an anti-poverty vaccine for the people living in rural areas. It aims at supporting communities of the economically excluded to achieve greater level of asset creation and income security at the household and community level. According to the report of the year 2018, majority of the population still resides in rural area with lack of facilities and have minimum amount of development. They have obtained only 65.97% officially from recognized source. Nearly 60% of population in India which is the second largest populated country, depends agriculture sector, consequently leads which leads to under- employment and that in consequence further leads to low per capita income.

Microfinance links the gap and works as a boon for the people in living in rural areas which help them to have stability with respect to their financial issues.

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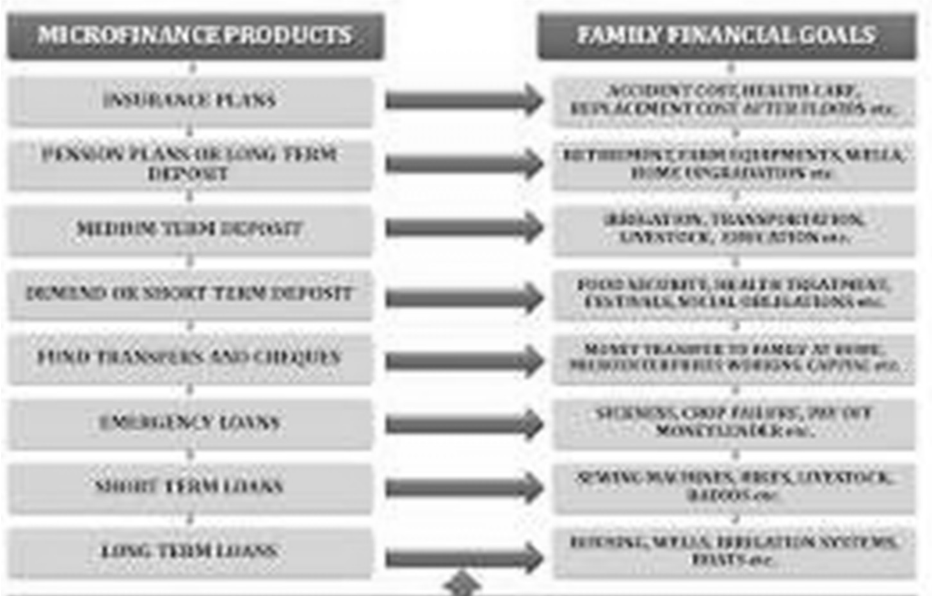

FIGURE 1: GENERAL TYPES OF MICROFINANCE USED BY RURAL PEOPLE

Micro finance includes the following products:

Microloans: The special feature of the microloans is that it is provided with no collateral. It offers a better overall loan repayment rate than traditional banking product.
Micro savings: It allows the small entrepreneurs to operate savings bank account with no minimum balance. It helps users inculcate financial discipline and develop an interest in saving for future.
Micro Insurance: It is a type of coverage provided to borrowers of microloans. It protects the poor people from all the mishap that might take place in future. Example: Accidents, chronic disease etc.
1.1 Objectives of the study:

- To know the concept of Microfinance India
- To study the role of Microfinance in Rural Development in India
- To study the Models of Microfinance in India

1.2 Research Methodology

This is a conceptual study based on the secondary data source. The secondary data is used to describe the concept and review of literature. The data were collected from reports, journals and articles.

1.3 Initiatives of NABARD for the Microfinance Sector:
NABARD has initiated various interventions to strengthen the programme from time to time for providing access to a range of financial services. During the year 2020-21, it continued with this role as the facilitator of microfinance initiatives in the country through;

- Granting support to partner agencies for promotion and nurturing of SHGs
- Implementing scheme for promotion of women SHGs in backward districts of

India
- Promoting Joint Liability Groups (JLGs) for strengthening finance through JLGs
- Self-employment generation through MEDP (Micro Enterprise Development Programme) and LEDP Livelihood and Enterprise Development Programme.
- Supporting the training and capacity building microfinance clients
- Granting support for Village Level Programme
- e-Shakthi – In line with Government of India's Digital India mission, a pilot project for digitalization of SHGs
- The Centre for Research on Financial Inclusion and Microfinance (CRFIM) was set up to emerge as a centre of reference, information, knowledge valued opinion related to microfinance sector.
- Refinancing support to Banks, MFIs.
- Revolving Fund Assistance / Capital support to MFIs by NABARD
- Implementing of National Rural Livelihood Mission (NRLM) and Scheme for Interest Subvention to women SHGs.

1.4 Microfinance in India:

The term Microfinance came into existence in 1970s when organizations such as Grameen Bank of Bangladesh with the microfinance pioneer Muhammad Yunus, were starting and shaping the modern industry into microfinancing. Even in India, its origin is back to the early 1970s when Self Employed Women's Association (SEWA) of the state of Gujarat formed an urban cooperative bank, called the Shri Mahila SEWA Sahakari Bank, with the objective of providing banking services to the poor women.

1.5 Microfinance and its facets:
- Microfinance is an essential part of rural finance.
- It does not require any collateral.
- The purpose of microfinance is to lend a helpful hand towards needy / low income people.
- A small amount ranging from Rs. 20,000 to Rs. 30,000 is availed.
- The tenure of the loan is really short as the amount of loan is too small.
- It focusses to generate income for the poor people.
- It is more service oriented and less profit oriented.
- It is one of the most effective and warranted Poverty Alleviation Strategies.
- It is provided through the NGOs, generally referred Self Help Groups (SHGs).
- Conduct research on demand for finance and savings behavior of borrowers to determine the mix of multipurpose loans.

Progress of MFI operations during 2020 – 2021:

Table: 1 - Loans to MFIs by banks and Financial Institutions (No.in lakh, Amount in Crore)

Type of Lender	2019-20		2020-21		Growth (%)	
	No. of Active loans	O/S Balances	No. of Active loans	O/S Balances	No. of Active loans	O/S Balances
NBFC - MFI	356	72,110	359	79,115	0.9%	9.7%
Banks	303	81,001	416	1,10,122	37.1%	36.0%
SFB	168	38,986	163	37,724	-3.0%	-3.2%
NBFC	84	18,073	78	18,765	-6.7%	3.8%
Non-profit MFI	8	1,679	11	2,113	42.8%	25.8%
Total	**919**	**2,11,849**	**1,028**	**2,47,839**	**11.8%**	**17.0%**

Source: NABARD, 2021. Status of Microfinance in India 2020-2021, Micro Credit Innovation Department (MCID), Mumbai

1.6 Top 10 Microfinance institutions in India:

1. State Bank of India
2. Ujjivan Financial Services
3. Equitas Small Finance Bank Ltd.
4. M&M Financial Services
5. Sundaram Finance Ltd
6. Bandhan Financial Services
7. Bharat Financial Inclusion Ltd
8. Muthoot Microfin Ltd
9. Janalakshmi Financial Services
10. MUDRA Bank

In India microfinance operates through two channels:

The search for delivering financial services to rural poor in a sustainable manner led to two distinctive approaches for extending microfinance in India, called

- Self Help Group – Bank Linkage Programme (SHG-BLP)
- Micro Finance Institutions

1.SHG- Bank Linkage Programme (SBLP)

The SHG-BLP has become success of a microfinance programme globally with an outreach to 13.87 crore families, providing social, economic and financial empowerment to the rural poor, especially women. SHG Model is one of the two approaches to reach the poor. It leads the scenario in India in terms of clients' outreach, loan amount disbursed, savings etc. It becomes feasible only when members merge their resources together towards a common fund. Various kinds of skill development training are also provided to the members to make them self-employed at very low cost and capital involvement.

Table 2: SHG-Savings with Banks as on 31st March 2021

Particulars	2018-19		2019-20		2020-21	
	No.of SHGs	**Amount**	**No.of SHGs**	**Amount**	**No.of SHGs**	**Amount**
Total SHG (Nos)	100.14 (14.52%)	23324.48 (19.05%)	102.43 (2.29%)	26152.05 (12.12%)	112.23 (9.57%)	37477.61 (43.31%)
All Women SHGs	85.31 (15.44%)	20473.55 (17.01%)	88.32 (3.53%)	23320.55 (13.91%)	97.25 (10.11%)	32686.08 (40.16%)
Percentage of Women	85.19	87.78	86.22	89.17	86.65	87.21

Table 3: Loans disbursed to SHGs during the year

Particulars	2018-19		2019-20		2020-21	
	No.of SHGs	**Amount**	**No.of SHGs**	**Amount**	**No.of SHGs**	**Amount**
Total SHG (Nos)	26.98 (19.33%)	58317.63 (23.59%)	31.46 (16.60%)	77659.35 (33.17%)	28.87 (-8.23%)	58070.68 (-25.22%)
All Women SHGs	23.65 (13.98%)	53254.04 (19.51%)	28.84 (21.95%)	73297.56 (37.64%)	25.9 (-10.19%)	54423.13 (-25.75%)
Percentage of Women	87.66	91.32	91.67	94.38	89.71	93.72

Table 4: Loans outstanding against SHGs as on March 2021.

Particulars	2018-19		2019-20		2020-21	
	No.of SHGs	**Amount**	**No.of SHGs**	**Amount**	**No.of SHGs**	**Amount**
Total SHG (Nos)	50.77 (1.14%)	87098.15 (15.21%)	56.77 (11.82%)	108075.07 (24.08%)	57.8 (1.81%)	03289.71 (-4.43%)
All Women SHGs	44.61 (-1.93%)	79231.98 (12.54%)	51.12 (14.59%)	100620.71 (27.00%)	53.11 (3.89%)	96596.6 (-4%)
Percentage of Women	87.87	90.97	90.05	93.10	91.89	93.52

2. Micro Finance Institutions (MFIs) Microfinance – A lifeline for poor rural people

The Forbes rankings and the Deutsche Bank Report emphasize that microfinance has moved beyond the fringes of financial services. IFAD (International Fund for Agricultural Development) supports with its Rural Finance policy which aims to build sustainable rural finance institutions that reach the rural poor, promote sound rural financial infrastructure.

- One billion people live on less than US $ 1- day and 75% of them live in rural lives. Microfinance institutes often target women as customers. Because it has a much greater impact on household consumption and the quality life for children.
- Poor rural people need to access a wide variety of financial services not just credit. They need secure, convenient deposit services that allow for small balances, small transactions and easy access to funds.
- IFAD is one of the largest lenders in rural finance for poverty reduction. In India, SHGs are being developed and linked to commercial banks, giving rural people access to financial services on a massive scale.
- The Rural Finance Support Programme started in 2005 to help poor people to help each other with the assistance of IFAD.

Conclusion:

The MFIs are a huge factor in impacting an India's social and economic development. Micro finance provides both savings and loan facilities. 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 also expected to contribute towards women empowerment in the society A core conclusion of this paper is that microfinance can contribute into solving this problem of insufficient housing and rural services as an integral part of a poverty alleviation programmes.

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