



## REVIEW ARTICLE

### MICROFINANCE: EMPOWERING THE LIVING STANDARDS OF RURAL POPULATION

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#### ABSTRACT

Microfinance service is a tool for providing financial services to the low-income population, which do not have access to the mainstream financial services. Micro finance will serve a range of financial service including credit, savings, insurance, money transfer and other financial products provided by different service providers, targeted at poor and low-income group. This paper emphasises on role of microfinance in improving the rural poor with reference to Bangalore rural. Micro-finances plays a major role in financing micro entrepreneurs, cottage industries, small scale industries etc. and also the State Government initiated Microfinance Service are made available under different Self Help Groups, Non-Governmental Organizations, Grameen Banks etc. The study is made by the Direct Interview Method. The study reveals there is lack of awareness amidst the 21% rural population to avail the schemes initiated by the Government. The rest availing the facilities has been not utilized optimally for new ventures but for personal use. The microfinance can contribute to solve the problems of inadequate housing and urban services as an integral part of poverty alleviation programs. Collaborative models between banks, NGOs, MFIs and Women's Organizations are furthest advanced and would lead in uplifting the standard of living for rural population.

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## INTRODUCTION

Microfinance is a form of financial development that has primarily focused on alleviating poverty through providing financial services to the poor. Most people think of microfinance, if at all, as being about micro-credit (i.e.) lending small amounts of money to the poor. Microfinance is not only this, but it also has a border perspective which also includes micro insurances, micro transactional services and importantly savings. Microfinance service is a tool for providing financial services to the low-income population, which do not have access to the mainstream financial services. Micro finance will serve a range of financial service including credit, savings, insurance, money transfer and other financial products provided by different service providers, targeted at poor and low-income group.

#### Meaning and Definition

Microfinance is the finance that is provided to unemployed or low-income people or groups. It is the provision of small loans (microcredit) to poor people to help them engage in productive activities or grow very small business. According to *International Labour Organization (ILO)*, "Microfinance is an economic development approach that involves providing financial services through institutions to low income clients".

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## Models of Microfinance in India

### 1) Self Help Group (SHG) Bank Linkage Model:

The microfinance movement started in India with the introduction of the SHG-Bank Linkage Programme in the 1980s by NGOs that was later formalized by the Government of India in the early 1990s. Pursuant to the programme, banks, which are primarily public sector regional rural banks, are encouraged to partner with SHGs to provide them with funding support, which is often subsidized. A self help group, or SHG, is a group of 10 to 20 poor women in a village who come together to contribute regular savings to a common fund to deposit with a bank as collateral for future loans. The group has collective decision making power and obtains loans from the partner bank. The SHG then loans these funds to its members at terms decided by the group. Members of the group meet on a monthly basis to conduct transactions and group leaders are responsible for maintaining their own records, often with the help of NGOs or government agency staff.

NABARD is presently operating three models of linkage of banks with SHGs and NGOs:

**Model – 1:** In this model, the bank itself acts as a **Self Help Group Promoting Institution (SHPI)**. It takes initiatives in forming the groups, nurtures them over a period of time and then provides credit to them after satisfying itself about their

maturity to absorb credit. About 16% of SHGs and 13% of loan amounts are using this model (as of March 2002).

**Model – 2:** In this model, groups are formed by **NGOs** (in most of the cases) or by **government agencies**. The groups are nurtured and trained by these agencies. The bank then provides credit directly to the SHGs, after observing their operations and maturity to absorb credit. While the bank provides loans to the groups directly, the facilitating agencies continue their interactions with the SHGs. Most linkage experiences begin with this model with NGOs playing a major role. This model has also been popular and more acceptable to banks, as some of the difficult functions of social dynamics are externalized. About 75% of SHGs and 78% of loan amounts are using this model.

**Model – 3:** Due to various reasons, banks in some areas are not in a position to even finance SHGs promoted and nurtured by other agencies. In such cases, the **NGOs act as both facilitators and micro-finance intermediaries**. First, they promote the groups, nurture and train them and then approach banks for bulk loans for on-lending to the SHGs. About 9% of SHGs and 13% of loan amounts are using this model.

## 2) Micro Finance Institution (MFI) Model:

The MFI model has gained significant momentum in India in recent years and continues to grow as the viable alternative to SHGs. In contrast to an SHG, an MFI is a separate legal organization that provides financial services directly to borrowers. MFIs have their own employees, record keeping and accounting systems and are often subject to regulatory oversight. MFIs require borrowers from a village to organize themselves in small groups, typically of five women, that have joint decision making responsibility for the approval of member loans. The groups meet weekly to conduct transactions. MFI staff travel to the villages to attend the weekly group meetings to disburse loans and collect repayments. Unlike SHGs, loans are issued by MFIs without collateral or prior savings. MFIs now exist in a variety of legal forms, including trusts, societies, cooperatives, non-profit NBFCs registered under Section 25 of the Companies Act, 1956, or Section 25 Companies, and NBFCs registered with the RBI. Trusts, cooperatives and Section 25 companies are regulated by the specific act under which they are registered and not by the RBI. Attempts have been made by some of the associations of MFIs like Sa-Dhan to capture the business volume of the MFI sector. As per the Bharat Micro Finance Report of Sa-Dhan, in March 2009, the 233 member MFIs of Sa-Dhan had an outreach of 22.6 million clients with an outstanding microfinance portfolio of INR 117 billion (USD 2.5 billion).

## Review of Literature

Definition of Microfinance has been given in different ways by the institutions and microfinance professionals. For instance Asian Development Bank (2000) has defined Microfinance as "...the provision of broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor low income households and their microenterprises". Ledger wood (1999) defined Microfinance as "...the provision of financial services to low income clients"

since microfinance has emerged as an "economic development approach" to benefit low income section of the society including women. Besides, savings, credits, and insurance and payment services, social intermediation services such as group formation, development of self-confidence, training in financial literacy and management capabilities among members of a group are also delivered. "Microfinance refers to different types of financial and social services provided to the small farmers for their reasonably decent living. Financial services include savings, microcredit, insurance and payment services, where as social services include group formation, awareness programs, skill development training, and social and community development services namely adult and children literacy, water and sanitation program, family planning, infrastructure development etc." (Shrestha, 2010)

Above definitions have addressed for the socio-economic empowerment of the poor by increasing their income and social development through credit and social development services thereby reducing poverty. Internationally Microfinance has been proved as one of the appropriate mechanisms to contribute in poverty reduction. Therefore, Millennium Development Goals (MDGs) has set quantified target to contribute in poverty reduction by uplifting the living condition of 500 million poor people and freeing more than 300 million from hunger between 1990 and 2015 (Shrestha, 2010). In Nepal Microfinance has played genuine role to reduce rural poverty. However the data / information regarding poverty reduction in Nepal through microfinance are not available. The poverty has reduced to 31percent on 2003-04 as compared to 42percent on 1995-96 in the period of 8 years according of Poverty Trends in Nepal (1995-96 and 2003-04) published by Government of Nepal, National Planning Commission Secretariat, Central Bureau of Statistics, September, 2005. According to economic survey for the fiscal year 2069/ 70 (2012/13), the poverty level is decreased to 23.89 percent. There are many reasons behind reduction in poverty in Nepal that, one of prime reasons is foreign employment. Around 3.50 million Nepali youths (around 3.0 million officially and 0.5 million unofficially) are estimated having employment in foreign soils contributing almost one third of GDP of Nepal. Majority of the activities of microfinance is targeted to small and poor farmers and small entrepreneurs but on the other hand there is a trend of large area of productive/ fertile lands left uncultivated due to scarce of human resource in Nepal.

## Statement of problem

Today the Government has initiated lot of programs for the development of poor and socially and economically ignored class of the society, it is the responsibility of each and every one of the society to contribute for the empowerment and economic development of the poor people and to reduce the gap between rich and poor in the society and also provide the necessary financially, morally and ethically in order to bring in a definite change in the life style of the poor people. Microfinance is playing a very crucial role in financial inclusions, women empowerment and eradication of poverty. They have improved the standard of living of very poor people, especially in rural India. However there are many problems in path of micro financing. Which are these problems? This paper attempts at identifying the problems in path of micro financing.

It also attempts to give some suggestions to solve these problems and issues.

**Objective of study**

1. To know whether the MFI's are used for the Micro finance Beneficiaries.
2. To know about the MFI's been helpful in training them to optimum usage of funds.
3. To know about the Microfinance Beneficiaries has done any business after taking loans from MFI's.

**Methodology of Research**

From the literature review it is cleared that very little research has been done in India

**Type of research**

The study is Analytical and descriptive in nature.

**Sources of Data Collection**

Both primary and secondary sources of data have been used. Primary data were collected through structured questionnaires, schedule & direct interview. And secondary data were relied upon books, journals, magazines, newspaper and Websites.

**Sampling technique**

Stratified and Convenience sampling technique has been used to collect the data.

**Sample size**

Questionnaires were given to 110 respondent's out of which 100 respondent's answers were collected.

**Scope of the study**

The scope of the study is restricted to Bangalore rural and it is also restricted to micro finance helps to empowering the living standards of rural population.

**Limitations**

It is purely based on the responses given by the respondents. Due to time and resource constrain, only a small sample size of 110 respondents has been considered.

**Tools of analysis**

Frequency, Percentage analysis has been used to analyze the data.

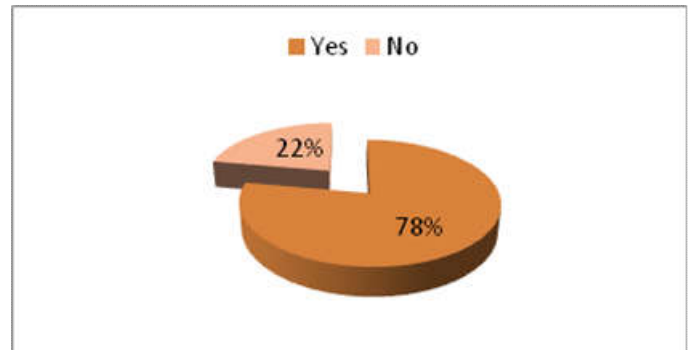
**Analysis**

The above table clearly depicts the respondents response towards whether the MFI's are useful to them and majority of the respondents were 78% gave a positive opinion that yes the micro finance institution were very useful for them followed by 22% of the respondents stating it was not useful to the fuller extent.

**Table showing the responses of Micro Finance beneficiaries about the usefulness of MFI's**

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	78	78.0	78.0	78.0
No	22	22.0	22.0	22.0
Total	100	100.0	100.0	100.0

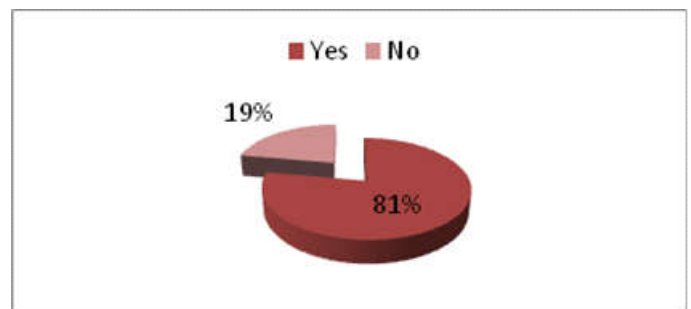
**Graph showing the responses of Micro Finance beneficiaries about the usefulness of MFI's**



**Table showing the responses of Micro Finance beneficiaries towards MFI's were helpful in training them to optimum usage of funds**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	81	81.0	81.0	81.0
	No	19	19.0	19.0	100.0
	Total	100	100.0	100.0	

**Graph showing the responses of Micro Finance beneficiaries towards MFI's were helpful in training them to optimum usage of funds**

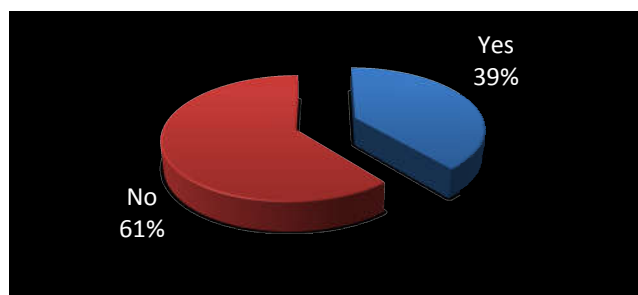


The above table clearly depicts the respondents response towards whether the MFI's trained them in optimum usage of funds and majority of the respondents were 81% gave a positive opinion that yes the micro finance institution trained them in optimum usage of funds followed by 19% of the respondents stating no it did not trained them in optimum usage of funds.

**Table showing the responses of Micro Finance beneficiaries towards did they start any business after taking loans from MFI's**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	39	39.0	39.0	39.0
	No	61	61.0	61.0	100.0
	Total	100	100.0	100.0	

**Chart showing the responses of Micro Finance beneficiaries towards did they start any business after taking loans from MFI's**

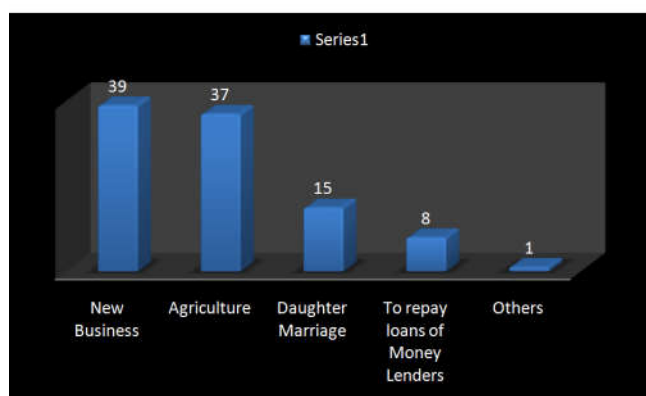


The above table clearly depicts the respondents response towards did they start any business after taking loans from MFI's majority of the respondents were 61% said no they did not start any business after taking loans from MFI's followed by 39% of the respondents stating yes they started business after taking loans from MFI's.

**Table showing the responses of Micro Finance when there is a significance relationship between loans provided and the development of poor**

Funds used		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	New Business	39	39.0	39.0	39.0
	Agriculture	37	37.0	37.0	76.0
	Daughter Marriage	15	15.0	15.0	91.0
	To repay loans of Money Lenders	8	8.0	8.0	99.0
	Others	1	1.0	1.0	100.0
	Total	100	100.0	100.0	

**Graph showing the responses of Micro Finance beneficiaries towards the funds they used after taking loans from MFI's**



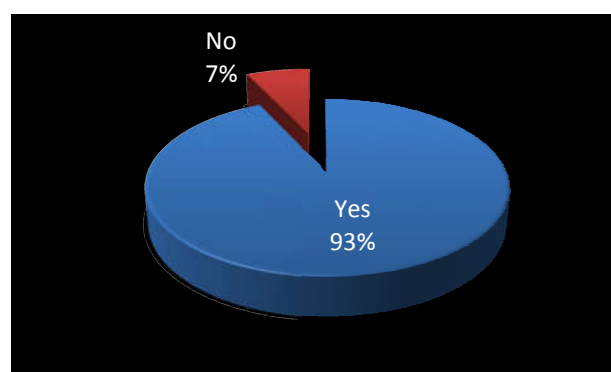
The above table clearly depicts the respondents response towards the purpose for which they took loans from MFI's majority of the respondents were 39 said they took it for starting a new business followed by 37% of them said they took it for agriculture related purpose and 15% of them said for daughters marriage and others. The above table clearly depicts the respondents response towards overall opinion of the respondents towards MFI is helping in development of poor

People in the economy majority of the respondents were 93% gave a positive opinion that yes the micro finance institution helping in development of poor People in the economy followed by 7% of the respondents stating no for the above said factor.

**Table showing the overall opinion of the respondents towards MFI is helping in development of poor People in the economy**

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	93	93%	93	93
No	7	7%	7	100
Total	100	100	100	

**Graph showing the overall opinion of the respondents towards MFI is helping in development of People in the economy**



**FINDINGS**

- NAREGA (National Rural Employment Guarantee Act) and SGSY (Swaranjyanti Gram Swarojgar Yojana) are one of the schemes which are introduced by the government to help the poor people Schemes are provided by the government to poor people but there are less people who avail the benefit from these schemes.
- Most of the members are literate and reasonably educated and are capable to lead the group efficiently.
- There is significant increase in the income of the respondents after they have become members of the SHG.
- Great majority of the Self-Help Groups are women groups. In some areas men groups and mixed groups also exist.
- Majority of the SHGs are repaying their loan to the bank promptly, transaction costs of the banks are very low and lending to the rural poor through SHGs is profitable to banks.
- There are many challenges face by women to doing the business as entrepreneur like lack of capital, networking problems etc. But these challenges can be overcoming with the help of Provide micro credit for livelihood support and to micro enterprises development, establishing sources of credit.
- SKS is the largest micro financial institute which providing the micro finance through different ways. It also coming up with their IPO to get the more capital to increase their functioning

- With the help of relationship data we can see that there are more percentage of women SHGs out of total SHGs. So that is good indicator for women entrepreneur.

### Suggestions

- More supportive and patronizing attitude on the part of the Government, NABARD, NGOs and Banks are highly essential for the members to develop their entrepreneurial abilities and skills. Separate departments have to be formed in these institutions for the development of microfinance and Microenterprises in the state.
- Belts of lower income people have to be identified in their meagerly represented areas and brought within the span of SHGs.
- Adequate marketing facilities have to be made available. The Government or NGOs shall take the initiative at the Panchayath level so that the members can sell their products at a reasonable price.
- Majority of women are ignorant of their legal rights; programmes are to be organized to enhance their awareness.

### Conclusion

Micro finance can contribute to solving the problems of inadequate housing and urban services as an integral part of poverty alleviation programmes. The challenge lies in finding the level of flexibility in the credit instrument that could make it match the multiple credit requirements of the low income borrower without imposing unbearably high cost of monitoring its end use upon the lenders. A promising solution is to provide multipurpose lone or composite credit for income generation, housing improvement and consumption support. Consumption loan is found to be especially important during the gestation period between commencing a new economic activity and deriving positive income. India is the country where a collaborative model between banks, NGOs, MFIs and Women's organizations is furthest advanced. It therefore serves as a good starting point to look at what we know so far about 'Best Practice' in relation to micro-finance for women's empowerment and how different institutions can work together. Microfinance could be a solution to help them to extend their horizon and offer them social recognition and empowerment. Numerous traditional and informal system of credit that was already in existence before micro finance came into vogue. Viability of micro finance needs to be understood from a dimension that is far broader- in looking at its long-term aspects too.

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