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A STUDY ON IMPACT OF MICRO FINANCE ON RURAL DEVOLOPMENT

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INTRODUCTION

Microfinance (MF) is an emerging Sector, playing a vital role in poverty alleviation for the low-income families and women-headed households promoting social and economic justice by increasing access and participation in the formal financial system. This sector is providing loans, guarantees and other financial services to eligible institutions to expand outreach and profitability, which would enable the poor to leverage their initiative, accelerating the process of building incomes, assets and economic security, self-sustaining and integral to the communities in which they operate and they have potential to attract more resources and expand services to clients. It is widely assumed that microfinance will have a positive impact on women's livelihood in leading to higher income that will help women to better perform their reproductive role as brokers of the health, nutritional, and educational status of other household members;

Microfinance is the key mantra for a sustained and long-term economic growth in India. The same is in sharper focus today with the Government taking keen interest to ensure a comprehensive and visible uplift or rural people through effective implementation of various schemes. Therefore, it is clear that the Microfinance is most important factor to attain sustainable rural devolopment[1] .Rural development implies increase in per capita income and the achievement of various economic and social attributes of development societies, such as increased use of a capital, productive activities based on science and technology, expansion of infrastructural facilities, increase in per capital income, expansion of educational levels, reduction in mortality and fertility rates, etc.

CONCEPT OF MICRO FINANCE

The term "microfinance" describes the range of financial products 9such as micro loans, micro savings and micro-insurance products) that microfinance institution (MFIs) offer to their clients. Microfinance began in the 1970s when social entrepreneurs began lending money on a large scale to the working poor. Microfinance can be defined as "any activity that includes the provision of financial services such as credit, savings, and insurance to low-income individuals which fall just above the nationally defined poverty line, and poor individuals which fall below that poverty line, with the goal of creating social value. The creation of social value includes poverty alleviation and the broader impact of improving livelihood opportunities through the provision of capital for micro enterprise, and insurance and savings for risk mitigation and consumption smoothing".

CONCEPT OF RURAL DEVELOPMENT

The word rural development connotes overall development of the rural areas with a view to improve the quality of life of rural poor people. Village development is a strategy to attain infrastructure, community services for the poor people to enrich human development. The development of rural areas and improving the economic and social conditions of the people residing in rural areas has been among the central concerns of development planning since its inception. Both the Central and the State governments in our country are making serious efforts to reduce rural poverty by introducing programmed aimed at asset building, income generation and wage employment. Poverty and unemployment are the two important problems in our rural villages. These problems encountered through women SHGs because the government, banks, NGOs and other financial institutions encouraged to women people for form a group.

OBJECTIVES OF THE STUDY

The broad objectives of the study is to examine the "Impact of Micro Finance on Rural Development" and to identify their financial services to the rural poor and thereby pointing out strengths and weaknesses of the present selected SHGs in the Districts of the Telangana Region of Andhra Pradesh State for micro level analysis. The following are the specific objectives of the study:

1. To understand the importance and status of microfinance in India.
2. To present the conceptual view and developments of Microfinance sector in global as well as in India in a phased manner.
3. To examine the socio-economic characteristics of the sample respondents.
4. To analyze the impact of microfinance on rural development.

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5. To offer suggestions for the effective implementation of micro finance programmes and thereupon conclusion is drawn.

OPPORTUNITIES OF MICROFINANCE

While Indian microfinance has grown substantially over the last decade, future success will require informed decisions and proactive strategies by key stake holders, taking advantage of emerging opportunities and mitigating potential risks.

1. **Funder coordination for retail microfinance**: Most investors, apart from a few funds such as Bellwether, Lok Capital, and Aavishkaar – Goodwell, tend to focus on the established Category 1 MFIs, leaving plenty of room for more early-stage MFI investments. Complementing this, the space can benefit from specialized microfinance debt financing vehicles that provide an alternative to commercial bank funding and an increased participation from capital markets through mechanisms such as bond issues and securitization.
2. **Supporting infrastructure needed**: As in any industry, microfinance can expect to see a period of consolidation with mergers and acquisitions, innovative financing mechanisms as well as unfamiliar risks such as competition and inadequate growth management. To complement this, parallel investments need to build a supporting ecosystems. Specialized advisory assistance is particularly relevant for MFIs that plan IPOs and bond issues and experiment with technology interventions such as mobile banking. Human resources for microfinance, both in terms of quantity and quality, will prove to be a key challenge, especially with a booming Indian economy and increasing competition for good quality human resources. Adoption of good governance practices and quality monitoring and reporting will be critical to ensure balanced growth and satisfied stakeholders.
3. **Policy**: Recognizing that SHGs and MFIs can form key actors in the pursuit of an inclusive financial system, the Indian policy makers have tried to adopt many promotional and regulatory measures over time, the latest being the proposed Microfinance Bill. The bill is expected to identify a specialized regulator and guidelines for NGO-MFIs while the for-profit entitles will be governed by the Reserve Bank of India regulations. Their legal status will determine their future scope of services, ability to mobilize various types of finance and to be part of the mainstream financial system.

CHALLENGES AND TASKS BEFORE THE MICROFINANCE SECTOR: Lessons from Bangladesh and elsewhere can be a good learning experience in India. Some of these practices have even made their way to other countries. Acquaintances from immigrant communities form savings groups and accumulate funds, which are used to start individual small businesses for each of the members in the new country. These informal sector financial services have supported the entrepreneurial success of many new arrivals in the industrialized world. There are number of critical policy and non-policy issues vis-à-vis a healthy micro-finance environment in India. MFIs should gradually enhance their capacities to serve mare comsumers. Considering that the majority ot the 360 million poor households (urban and rural) lack access to formula financial services, the number of customers to be reached, and the variety and quantum of services to be provided are really large. The following are the challenges before the infant Micro-Finance sector in India:

- The infant micro-finance industry has achieved a degree of success, and now it must institutionalize that success. To reach out the potential market the stake holders in the micro finance field requires serious capital, technology and human resources.
- MFIs need to gear up with emerging scenario of competition, consolidation and convergence to improve efficiency and outreach. Overall there is a divergent trend in the micro-finance domain in India. It is crucial that the significant and growing gap between surging in Eastern, central and North Eastern India in micro-finance activity is looked into.
- Micro-finance activities in India have to seriously address formidable challenges of under development, poor infrastructure and governance. The micro-finance movement need to focus on issues of quality and embedding social performance monitoring as a part of the management information systems. The issue of MFIs charging high rates of interest needs to be looked into. Per unit transaction costs of small loans are high but poor people cannot be charged rates that are higher than commercial bank rates.
- The situation of high transaction costs of serving small customers, their continuing dependence on the informal sector, the fact that most bankers shy away from retailing to this market as a business opportunity, and the poor quality of services currently provided have to be looked into built up sustainable micro-finance institutions.
- The strategic, institutional and connectively issues related to micro-finance are critical challenges. Strategic issues include nature of prevailing paradigm for micro-finance in India; a clearly visible pattern across the country;

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availability of clearly defined foundation building blocks such as organizing principles, gender performances and operational imperatives. Institutional issues includes need for macro institutions to deal with micro-finance activities in India; the beneficiaries from such mechanisms.

- The other challenges is that MFIs become financially viable, self-sustaining, and integral to the communities in which they operate, and thereby attract more resources and expand services to clients.
- A mutually beneficial partnership should be based on comparative strengths of each sector. Moving towards operating and self-sufficiency and expanding client reach, MFIs need to find ways to cut down on their administrative costs and also to broaden their resource base. Then there is need to broaden resource base of MFIs which can be mobilizing savings, accessing capital markets, loan funds and effective in situational development support prudential financial regulations become necessary to ensure the solvency and financial soundness of the MFIs and to protect the depositors.

EMERGENCY OF MICRO FINANCE SYSTEM

Micro finance system can only supplement the role of banks and financial institutions in helping solve the problems of poverty and unemployment credit is in the Country.[2] Micro credit is considered ideal to tackle the twin problems encountered by institutional Credit agencies serving the poor viz., higher transaction the Grameen Bank model of group-based lending have flourished in Bangaladesh and elsewhere, and micro credit institutions have emerged in dozens of other countries as well.

Micro-credit institutions evolved their own design features such as class, eligibility for membership in the group ranging from landless to minimum land holding; prior entrepreneurial experience to no experience; monthly repayments to weekly repayment, individual lending to group based lending, requirement of collateral to no collateral and group-lending contracts to no group lending contracts.[4] The group formations under micro-credit institutions are based on a growing institutional concept in terms of resources and management skills of the women members to reduce the gender inequality and to increase their confidence to get involved is issues and programmes in the public and private spheres. The success of group lending is attributed to various factors such as the ability of the group of mitigate asymmetric information problems in the credit markets through active screening of members.[5] information advantage of the groups about the applicant's credit worthiness [6] social cohesion and heterogeneity of asset holdings [7]assortative matching of members[8], social ties between borrowing group members[9], group pressure to repay the loans[10] and peer monitoring through intra group insurance. [11]

STATUS OF MICROFINANCE IN INDIA

The positive picture is the growing importance of microfinance in India, which is a home to a quarter of the world's poor, holds great potential for micro credit. There has been an explosion of Micro Finance Institutions (MFIs), usually setup by Non-Governmental Organizations (NGOs). A decade ago, India had only 400 micro-finance institutions with 2,00,000 customers between them. Today, we find around thousand such institutions. Over decade's policy directives have oriented towards rapidly expand rural branches, mandate credit allocations for priority sectors like agriculture, deliver large subsidy oriented credit programmes to serve marginal communities and poor households and control interest rates. Commercial banks, too, have started participating in the movement and the result is that micro-finance now serves an estimated 17 million people. Of course, small loans were being granted by Public Sector Banks (PSBs) in the rural areas ever since nationalization of banks and the extension of bank branches into the hither land. Much of this lending, however, was based on top-down government initiatives like the Integrated Rural Development Programme (IRDP). Even concepts like SHGs are not new group guarantees used to be provided during the 1980s. But the initial thrust by commercial banks suffered from severe handicaps. Most importantly, politicians hijacked the development initiative, and as a result, non-performing assets soared.

An estimated 350 million people live Below Poverty Line, which translates to approximately 75 million households.

- Annual credit demand by the poor in the country is estimated to be about Rs. 60,000 crores. Cumulative disbursements under all micro-finance programmes are less than Rs. 10,000 crores.
- Less than 10 percent rural poor have access to micro-finance. The non-poor comprise of 29 percent of the outreach.
- There are considerable gap between demand and supply for all financial services. Banks attitude, high transaction costs, unfavourable policies like caps on interest rates effectively limits the viability of serving the poor.

IMPORTANCE OF MICROFINANCE FOR RURAL DEVELOPMENT:

A Microfinance programme organizes its borrowers into small homogeneous groups on the self-help methodology. The group formation process facilitates solidarity among the members as well as participatory interaction. It also organizationally strengthens the programme, so that they could acquire the capacity for planning and implementation of micro-level developmental activities. the true value of a microfinance programme lies in the change it can make in the lives of ordinary people. It lies in the access to credit, skills gained, enterprises begun, markets opened up, and homes built and children sent to school. It is the stories of ordinary people being able to overcome extraordinary odds that inspire other people to initiate change at the community level. It assists in monitoring and evaluation of financial operations, and educates the community members on how the functions of a bank and financial institutions. Over the past several years, much has been learned in the way of extending credit to the poorest micro-entrepreneurs. Many of these lessons have been based on concepts long employed by traditional informal finance activities, which are remarkably resilient and flexible to the needs of the client. Microfinance is being practiced as a tool to attack poverty the world over. During the last two decades, substantial work has been done in developing and experimenting with different concepts and approaches to reach financial services to the poor.

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