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MICRO FINANCE TO RURAL POOR FOR POVERTY ALLEVATION: A TECHNIQUE

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Abstract

Micro finance is emerging as a powerful instrument for poverty alleviation in the new economy. Beyond the direct link with poverty reduction, it is an indirect link to address the issues of health, education and gender. Micro finance cover not only consumption and production loans, but will also include other credit needs such as housing and shelter improvements. Women constitute a vast majority of users of micro-credit and savings services. The different organizations in the field of micro finance can be classified as "Mainstream" and "Alternative" Micro Finance Institution. National Agricultural Bank for Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), Housing Development Finance Corporation (HDFC), Commercial Banks, Regional Rural Banks, the credit co-operative societies etc., are some of the mainstream financial institutions involved in extending micro finance. On the other hand, institutions have come up to fill the gap between the demand and supply for micro finance. The people covered are mostly those who can not avail loans from banks and other financial institutions. The micro finance institutions take little or no collateral security for the credit extended.

Key Words: *Micro finance, Poverty, MFIs, Social capital, NGOs, SHGs.*

1. INTRODUCTION:

Micro finance is a key poverty reduction strategy that has spread rapidly and widely over the last twenty years, currently operating in more than sixty countries. The term microfinance means provision of financial services such as small loans to poor people while some institutions particularly strive for upliftment in lives of poor women and their families. Micro finance has emerged as a needful program to cater to the needs of the most under privileged people i.e., tribals, dalits, and women. The major concern today is ever increasing poverty and there is urgent need of empowering, enabling the most neglected sections of the society through organized support to all poverty alleviation programs. Considering the paucity of funds with poor people, the need of the hour is to provide adequate credit to the needy people to enable them to undertake entrepreneurial activity, however small, with the help of small Non-Governmental Organizations and Government. Micro finance plays a vital role in poverty eradication and employment generation by encouraging entrepreneurship, increases access to health and education, and builds social capital among poor and vulnerable communities. Micro finance is "the provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban areas for enabling them to raise their income levels and improve living standards. So, by offering credit to poor communities would provide a source of additional income and employment as well as access to low-interest loans, which help the poor segments of the population to escape from the clutches of moneylenders who charge exorbitant interest rates and empowers women who could find new business opportunities.

The rural people join together for self help to secure better economic growth. Self Help Group (SHG) mobilize saving and recycle the resources generated by the members but most of them come up due to the dynamic leadership of certain individuals with a group. The efficient and dynamic leader counsels with the group to formulate their rules and regulations which may show the light to have a good and successful journey for the group. The leader also helps all the group members to acquire skill to run the group as well as individual business to earn more for improvement of their quality life. Group leader not only manages the group efficiently as they can get loan and run business but also helps the group to undertake the responsibility of delivering noncredit services such as literacy, health and environmental awareness. So in this way, microfinance helps in building social capital and solidarity in impoverished communities because Micro financial institutions promoted group lending and are willing to accept social solidarity as collateral.

3. OBJECTIVES OF THE STUDY:

The following objectives have been set to carry out the present study.

1. To analyze the role of micro finance to the poor people in general and women in particular for poverty alleviation.
2. To study the challenges of micro financial institutions.
3. To suggest certain measures to make the micro finance more vibrant and effective.

4. ROLE OF MICRO FINANCIAL INSTITUTIONS:

Micro Financial Institutions (MFIs) are financial companies that provide small loans to people who do not have any access to banking facilities. The definition of "small loans" varies between countries. In India, all loans that are below Rs.1 lakh can be considered as microloans.

Micro financial institutions have been gaining popularity in the recent years and are now considered as effective tools for economic development. Economic development of our country can be achieved with the upliftment of village folk. Rural credit system of India has many diversities and peculiarities. People in general and rural people in particular are their credit Needs. Again financial sector reform has brought a sea change in the attitude and objectivity of the banks. In this context, there has been an imperative need for supporting rural sector development through provision of credit to rural poor through micro credit. MFIs provides easy access to credit. Microfinance opportunities provide people credit when it is needed the most. Banks do not usually offer small loans to customers; MFIs providing microloans bridge this gap. Microfinance makes more money available to the poor sections of the economy. So, apart from financing the basic needs of these families, MFIs also provide them with credit for constructing better houses, improving their healthcare facilities, and exploring better business opportunities. When the basic needs of people are met, they are more inclined to start saving for the future, It is good for people living in backward areas to inculcate the habit of saving. When people participate in microfinance activities, they are more likely to receive better levels of consumption and improved nutrition and provide better and continued education for their children. This eventually leads to the growth of the community in terms of economic value..

Majority of the microfinance loans provided by MFIs are offered to women. Unemployed people and those with disabilities are also beneficiaries of microfinance. These financing options help people take control of their lives through the betterment of their living conditions. Micro Financial institutions (MFIs) in India began to play an important role in mobilizing women, both in rural and urban areas to become economically strong by providing income generating programs, training and employment. Women should have a vision for herself, her children, her home, rather than just being concerned about the meals and pleasing her husband. For this purpose, the availability of finance to women ensures that resources and profits generated are ploughed back into the development of the immediate household and family. Microloans are mostly taken by women borrowers. Statistics prove that female borrowers are less likely to default on loans. Apart from providing empowerment, microloans also have better repayment rates as women pose lesser risk to borrowers. This improves the credit management practices of the community. Protection of family values, health and safety of household members and more even distribution of income can be seen as a result.

India has been experiencing micro credit in the form of Self Help Groups (SHGs) as a part of formal credit delivery. Government of India and the Reserve Bank, realizing the importance of micro credit in the development programmes have taken up many steps for the linkage of SHGs with formal financial institutions. The basic purpose of the linkage is to strengthen the financial health of SHGs by ensuring adequate flow of bank credit to these institutions. The ongoing economic and financial sector reforms have raised issues challenging the traditional thinking on role of Governments as employment provider to that of a facilitator for enhancing opportunities through conducive policy environment enabling greater reliance on private initiatives. The lessons learnt in implementation of credit linked poverty alleviation and employment programmes call for qualitative redesigning the packages through participation of the targeted people. Financial services of micro finance institutions generally include savings and credit. However, some microfinance institutions also provide insurance and payments services. In addition to financial intermediation, many micro finance institutions provide social intermediation services such as group formations, creating self confidence among the rural folks, training programmes on financial literacy and marketing skills. There is an urgent need for micro credit providers to shift from a minimalist approach to an integrated approach to poverty alleviation taking more holistic view of the client including provision of enterprise development services like marketing infrastructure, introduction of technology and design development. Many of them operate in a limited geographical area, have a greater understanding of the issues specific to the rural poor, enjoy greater accessibility amongst the rural poor and have flexibility in operations providing a level of comfort to their clientele.

5. CHALLENGES AHEAD:

Although MFIs have been profitable in India, there have been regulations and populist politics that have proved to be unfavourable to them. The small size of these institutions imply that they will be affected by small adverse developments resulting in fragile finances.

a. The main constraint with regard to flow of credit to poor borrowers seems to be the comparatively high transaction cost to the banks in financing a large number of small borrowers who require credit frequently and in small quantities. The same holds true of the costs involved in providing savings facilities to the small, scattered savers in the rural areas. Besides, the perceptions of risk in financing small borrowers who are unable to offer physical collaterals, the urban orientation of field staff, inflexibility in their operations in terms of producer and policies.

b. Many NGOs lack clear vision, mission and strategies as these are run by poor professionals and hence, their interventions become a journey without a destination. In many cases NGOs are badly affected by political and religious leaders and in a few cases by certain extremists.

c. The mounting over dues under these programmes, the proportion of those assisted crossing the poverty line, a high proportion of assets getting mismanaged or disbanded and continuing high proportion of indebtedness from informal sources forced NABARD to look into the very premise of these programmes more seriously.

d. The credit needs of the rural poor are very peculiar and there is no clear cut distinction between the requirements for production and consumption purposes. The credit worthiness of rural poor according to experts is much above the normal requirement as they are very much accustomed to a system of payment of a very high interest rate.

e. Most of the formal credit agencies participating in the credit delivery system suffered from financial difficulties such as erosion of capital, accumulation of losses, mounting over dues and organizational weaknesses, etc.

f. It is difficult to assess the effect of interest rates on the demand for rural credit; evidence indicates that it is not so much the interest rates as inadequate supply of credit that affects the performance of this sector.

g. The serious problem of viability as the margin between their lending rates and cost of funds was not enough to cover their non-financial transaction cost. The mandatory lending rates of interest and rising cost of establishment etc have a far reaching impact on the micro finance.

h. The Non-Governmental Organizations lack adequate capital base to sustain and promote micro economic enterprises. The Self Help Groups strategy for promotion of micro finance in India has been targeted but due to lack of proper entrepreneurship and skills to ensure proper management of micro enterprises has bearing upon the micro finance.

i. In spite of vast expansion of formal credit institutions, the rural poor at time of emergency approach the informal credit system. The borrowings from such institutions are very much convenient but with very hard terms and conditions. Over the years, due to the existence of competitors and due to less business, these informal credit groups tightened their conditionality and tried to fully exploit the poor people as and when a situation arises.

j. Micro finance products are of low quality and do not offer value (i.e., effective costs are too high). The majorities of micro finance institutions suffers from severely constrained effectiveness of efficiency of their procedures, structures and staffing and are thus neither profitable nor sustainable.

k. Banks usually have multiple products and an assured deposit structure. On the other hand, micro lending institutions are highly dependent on the market for funding. This means that at the smallest of events affecting business, MFIs could find it difficult to procure financing.

l. Additionally, banks today have a presence in the microlending space and they are also partnering with MFIs through strategic stakes. MFIs are also finding it difficult to grow independently without any support from anchor investors.

m. As of 2017,there were 223 MFIs that included NGO-run units and societies.47 non-banking finance companies-microfinance institutions(NBFC-MFIs) had also been registered with the Microfinance Institutions Network(MFIN). The top 10 MFIs always find it easy to get bank loans or equities; the smaller entities are usually at a disadvantage here.

SUGGESTIONS:

The credit both for introducing Self Help Groups as financial intermediaries for poor as well as for the result achieved so far under the linkage programme in major way goes to the NGOs in the country. Non-Governmental Organizations have emerged as the major Self Help Promoting Institutions. While some have taken up Self Help Promoting Institutions role as an add-on activity under NABARD's initiative, may have been pursuing the role on their own even before the programme had been initiated.

The following suggestions are made for making the micro finance as effective tool for alleviation of rural poverty.

a. Rural credit in general and micro credit in particular is running through its transition period. Micro finance institutions in the state are yet to be grown so that the benefit will reach to the poor. Banks are required to participate in large scale in promoting the MFIs to ensure the flow of adequate and timely credit to the rural sector.

b. There is a need for the development of a symbiotic relationship between NGOs and banks with the former efficiency utilizing their strength in social engineering and the latter focusing on pure financial intermediation.

c. The commercial banks must provide a greater linkage to Self Help Groups in providing them higher amount of bank loans. The Non-Governmental Organizations and banks officials as well as primary school teachers should be engaged in formation and development of groups in rural areas.

d. Micro credit loans are too small to make a dent in poverty alleviation and growth. Micro credit has to do with accumulations of assets physical, financial and human.

e. NGOs have to become accountable to an appropriate forum. Accountability norms have to be laid down properly. The financial loss of the NGOs is not adequate. There is need for broad design and improving it.

f. Banks approach towards NGOs should be positive and NGOs should develop an action plan for strengthening entrepreneurship development programme. Government should monitor and assist the NGOs through financial and moral support.

g. More effective steps should be taken by the Government in the training of Self Help Group member's to make micro financing more meaningful. Institutions, Micro Finance Institutions etc., while emphasis should be given on formulation of Women Self Help Groups, ensuring homogeneity and bank linkages.

h. Though the banking sector has played a significant role for making the provision of finance to the rural masses, but they should also give due weight age for equipping the poor with the necessary skills to become efficient money managers and successful entrepreneurs so as to avoid more and more people falling into debt traps and subsequently the death traps.

i. The increasing amount of savings mobilization by MFIs has to take place within a regulatory framework. In the absence of the same, the relative laxity given scope for unscrupulous elements to enter the sector and exploit the hard earned savings of the poor.

j. A proper mechanism should be evolved to prepare database on Self Help Groups, Self Help Promoting Institutions, Micro Finance Institutions etc., while emphasis should be given on formulation of Women Self Help Groups, ensuring homogeneity and bank linkages.

k. Though the banking sector has played a significant role for making the provision of finance to the rural masses, but they should also give due weight age for equipping the poor with the necessary skills to become efficient money managers and successful entrepreneurs so as to avoid more and more people falling into debt traps and subsequently the death traps.

l. The increasing amount of savings mobilization by MFIs has to take place within a regulatory framework. In the absence of the same, the relative laxity given scope for unscrupulous elements to enter the sector and exploit the hard earned savings of the poor.

CONCLUSION:

Micro finance contributes to poverty alleviation and food security. India has expanded microfinance, but it has not yet developed a strong system capable of serving massive number of poor in sustainable fashion. Without any doubts, the legacy of directed credit with its top down approach to lending retard the development of true market oriented microfinance. By reaching the un-reached rural poor, micro finance innovations are yielding results and giving hope to the millions of poor through providing credit.

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