Micro Finance: Transforming Rural India- Catalyst in Shift of Rural Sector Economy -A Paper Based on Review of Literature

Scholar: Sanchi Singh
Research Scholar
Deen Dayal Upadhya University
Gorakhpur University.

Dr. Awdhesh Kumar Tiwari
Professor / Research Guide
Deen Dayal Upadhya University
Gorakhpur University.

Dr. Kamal Singh
Associate Professor/ HOD
Asian Academy of Film & Television
Noida Uttar Pradesh.

Abstract:

In this research paper researcher has tried to provide indebt literature and analysis, how and on what basis micro- finance has played a role of catalyst in transforming the economy of rural sector. Micro- finance has gained significant importance from last few years, as highest percentage of population of our country leaves in rural areas, therefore, it become vital important to uplift the growth potential of rural sector by adopting three sixty-degree approach i.e., rural economy must be improved in all aspects and for that the very first thing that need to be worked out was to improve the financial viability of the rural population and for this micro- finance have rendered lot of services from past few years like (providing loans, deposit schemes, insurance to poor and low- income households, business / financial support and operational consultancies to small and medium size enterprises) with an objective to improve their growth potencies.

The findings of the research have enlightened how micro-financial institutions has played a role of catalyst by developing social capital and entrepreneurial capabilities to uplift poor section of the rural India.

Keywords: Micro- finance, entrepreneurial capabilities, catalyst, social capital, financial support and operational consultancies.

Introduction:

Micro finance institutions have expanded the frontiers of institutional finance and have brought the poor, especially poor women, into the formal financial system and enabled them to access credit and fight poverty. It is observed that microfinance has had an asymmetric growth across the country with diverse rates of interest being charged to the members, which are areas of concern.

Microfinance can contribute to solving the problem 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 borrowers without imposing unbearably high cost of monitoring its end-use upon the lenders. Consumption loan is found to be especially important during the gestation period between commencing a new economic activity and deriving positive income. Successful microfinance operations demonstrate that the poor repay their loans and are willing to pay higher interest rates if they can access credit. The poor also save, and hence, microfinance should provide them savings facilities.

With globalization and liberalization of the economy, opportunities for the unskilled and the illiterate people are not increasing fast enough, as compared to the rest of the economy. In this context, the institutions involved in micro finance have a significant role in reducing inequality and contribution in rural development for overall growth. According to one of the survey reports of CNBC - With about 60 million households below or just above the strictly defined poverty line and with more than 80 percent unable to access credit at reasonable rates, it is obvious that there are certain issues and problems, which have banned the reach of micro finance to the needy.

Objective of the Study:

1. The primarily objective of the research scholar is to analyse the secondary data and understand how MFI's has played the role of catalyst in the growth of rural economy of India.
2. The secondary objective of the study is to find out the gap that need to be given utmost care for improving the operational efficiency of MFI's.

Review of Literature:

In the earlier days, the concept of micro finance was understood as providing small loans to poor families with intention to help them engage in productive activities or grow their tiny business. **(F.A.J. Bouman 1990).** Now microfinance includes a broader range of services such as microcredit, savings and micro-insurance etc.

Thus, the focus of microfinance has not been only on providing small credit, but to integrate it with other developmental activities. Today, microfinance the main agenda of public welfare policy and it has been increasingly used as a means to achieve the growth in rural areas and under developed sector of the society. Micro-finance is defined as "Financial services such as savings, insurance, fund, credit etc., provided to poor and low- income clients so as to help them raise their income, thereby improving their standard of living".

According to the National Micro-finance Taskforce constituted in 1999 – “The poor stay poor, not because they are lazy but because they have no access to capital”. “Micro-finance means provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improving living standards”.

Otero (1999) defined micro-credit as ‘the provision of financial services to low-income poor and very poor self-employed people in rural areas.

Schreiner & Colombet (2001) explained micro-credit as an attempt to enhance access to small deposits and loans for poor households. The proposition of this is that microcredit helps the poor to obtain financial services.

Ledger wood (2002): Microfinance is the critical thought used in evaluating the results of micro-credit on the rural economy. It offers a broad array of financial services like deposits, insurance, loans, money transfers, payment services and savings to low-income households and their micro-enterprises who are left out of the formal financial sector.

Poverty is big business.

Even in the United States, one of the richest countries in the world, the poverty industry is worth about $33 billion a year comprising payday loan centres, pawnshops, credit card companies and microfinance providers who generate business from the poorer segments of the population **(Rivlin, 2010).**

Mansuri (2010): Microfinance is a very vital strategy for financing the requirements of rural people in order to bring notable change in their standard of living and involve them in the process of socio-economic development. Many projections show that 350 million people live below poverty line In India.

Better social and economic outcomes could be achieved if social investment was directed at initiatives aimed at reducing risk and vulnerability such as building hospitals or schools, investing in building and supporting local businesses to provide employment and a steady income all year round for family members, or investing in social movements for fair and equitable access to land for farming.

The target populations of poverty reduction programmes must play a key role in developing and running programmes like financial cooperatives, credit unions, local development banks and farmers’ societies. Alternatives to profit-driven, ‘new wave’ microfinance models are emerging from other parts of the world such as the Mondragon model in Spain, Self Help Groups and Neighbourhood Help Groups as well as farmers’ cooperatives in the Indian state of eastern utter Pradesh **(Bateman, 2011).**

Studies of market-based measures to alleviate poverty are also gaining considerable traction in the management literature where scholars have developed concepts like ‘base-of-pyramid’ and ‘creating shared value’ to address what businesses can do to alleviate poverty and enhance social welfare **(Porter and**

Kramer, 2011). The Study also, contribute to the literature on the role of social capital in poverty reduction. Emerging research on base-of-pyramid (BoP) approaches to poverty reduction and empowerment of poor populations suggests that market-based initiatives directed at impoverished communities can leverage their social capital to develop capabilities that could lift them out of poverty **(Ansari et al., 2012).**

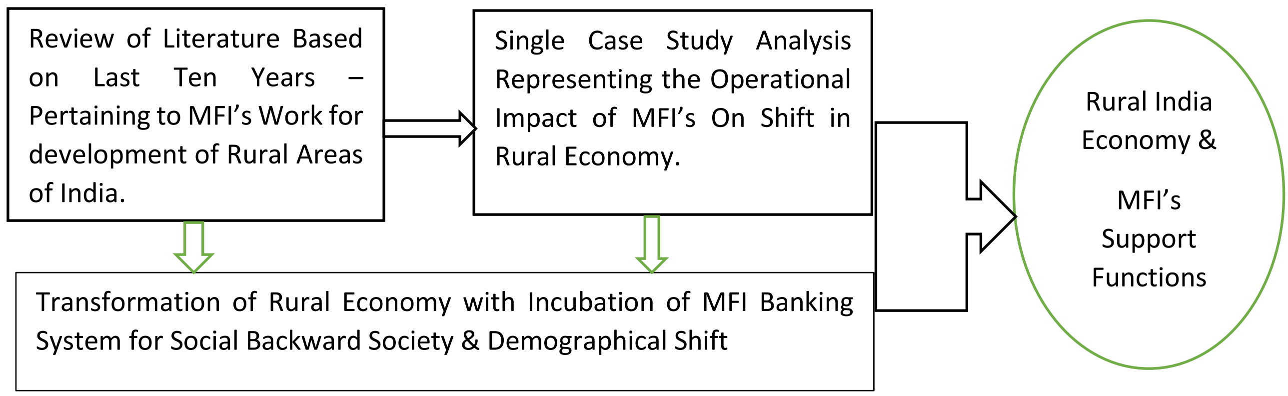
Economic measures of poverty may reflect the structural aspects of poverty but do not capture the cultural, social and psychological dimensions of poverty and more importantly precludes any kind of agency to the poor by ignoring their survival strategies, social relations and practices of resistance (Arora and Romijn, 2012). With 96 percent of women and 92 percent of the overall population in India working in the unorganized sector, it is clear why there was urgency for microfinance. From there, the sector grew into what it is today. (SEWA Bank: History, 2012).

In absolute terms at the global level there are currently between 1.2 and 1.5 billion people still living in extreme poverty and 162 million children still suffering from chronic under-nutrition, a figure the UN deems '**unacceptable' (United Nations Development Programme, 2014).**

Almost Rs. 60000 crores of annual credit were demand by the poor in the country but unfortunately the cumulative payment is only about Rs. 6000 crores only under all microfinance programs. It is just about 10% of the rural people who have access to microfinance **(NABARD, 2017).**

Research Methodology:

Figure 1 shows the research methodology followed in this work in order to answer the two objectives under taken in the study:



The research involved study of the past literatures about the microfinance sector, related online research papers and journals. The study also involved survey of all MFIs in the state of Uttar Pradesh through collected data through available census survey. The annual reports and the sector reports published by regulatory bodies, MFI associations and major microfinance players facilitated the study, especially in understanding the size, growth and past trends. Interactions with some of the industry experts helped in understanding and analysing the emerging concerns in the microfinance sector and also to look for some possible solutions.

The research methodology is based on the analysis of last ten years of secondary data collected from multiple sources such as government survey reports, academic journals, book of economy of India, various newspapers etc. to develop the comprehensive insights about the subject matter and understand the parameters stated the significance of MFI's in the economy of the rural India.

Further, one case study has been undertaken in the study to generate the in-depth knowledge about the operational functionality of the MFI's due to which today they are called the backbone of the rural India and friends of poor people of the economy.

Case Study Analysis:

With financial inclusion emerging as a major policy objective in the country, Microfinance has occupied centre stage as a promising conduit for extending financial services to unbanked sections of population. At the same time, practices followed by certain lenders have subjected the sector to greater scrutiny and need for stricter regulation.

This case study aimed at giving a brief history of Indian microfinance practices, its shortcomings, and most importantly suggestions that could help improve its current state of being. The use of microfinance has proved to be an important poverty alleviation strategy that has withstood the challenges of last several decades. From simple beginnings, the industry has grown exponentially, creating a global network of microfinance organizations that has positively impacted millions of poverty-stricken families and individuals. Significant advancements to the microfinance industry in India specially in Uttar Pradesh 31 in both growth strategies and regulation have allowed microfinance organizations to extend loans to millions of people. The movement has largely focused its effort on women empowerment, using microloans as a platform for social change. Women have been able to integrate themselves into their communities and offer services that few had deemed possible prior to micro financing. Still, Indian micro financing faces several barriers that must be overcome in order for the programs to become the poverty alleviation tool it is intended to be.

In order for borrowers to fully escape poverty, certain MFI practices; such as poor loan design, loose credit extension and heightened interest rates, all which can have severe impacts on microloan borrowers, must be addressed. Therefore, it is important that the industry follows market trends and updates loan methods accordingly. In addition, Indian MFIs must know their demographic and how to properly manage their clients. By so doing, they will be able to better develop their outreach and capabilities, further improving the lives of those in need. The underlying message is that these institutions must always be aware of their purpose. These people innately possess the necessary requirements that will allow them to succeed; they only lack the external financial structures that will enable opportunity. The moment MFIs begin to focus on profit before supporting their members, the entire movement takes a step backward. MFIs are proof that when structured correctly, financial relief is entirely possible. Although several questions 32 remain in regards to the well-being of the microfinance industry in India, its practices promote a social and economic change that will continue to have a lasting impact.

Problems Associated with Indian Microfinance:

From the outside looking in, the microfinance industry appears to be an effective method for increasing economic opportunities and battling oppression. In reality, there are several flaws that have detracted from what Muhammad Yunus originally intended microfinance programs to be. The underlying question has become whether or not microfinance programs actually help borrowers escape poverty. In some areas of economic disparity, the most necessary step in aiding the impoverished community is only related to basic needs like food and medicine. As important as it is for these depressed areas to gain access to economic relief, it has been questioned whether microfinance programs are enough to actually overcome the widely embedded poverty within these developing regions. (Chester, 2014) There are many cases and reports that have stated that those who have taken part in microfinance alleviation programs have actually worsened their economic situations and status. Although microfinance organizations are entirely focused on alleviating poverty in developing countries, they are distinctly different from any charity. Borrowers must pay back their loans, and with those payments comes heightened interest rates. (Kanoria, Rawat, 2016) These borrowers often see short-term alleviation, but are burdened with much greater economic stress as payments become greater. (Polgreen, Bajaj, 2010) In addition, the industry needs higher levels or regulation in order to make sure that borrowers are being supported correctly. In many cases, MFIs offer sales incentives to employees, which can often lead to over lending to those who are not financially able to support such a loan. Without proper 19 regulation, microfinance can become an insurmountable burden for those who use and sometimes abuse its programs.

Table 1: Reasoned of increasing Liabilities

Rising indebtedness	Loss of land assets
Farmer 1: Cannot afford to have proper meal each day. Need to rely on others for food. Despite hunger, I had to pay instalments NGO will never care why I can't pay. Woman 7: Say, you can collect some of the vegetable (leaves) from the roadside and eat (cook) them, that money you pay to the NGO like this. Woman 11: They ask about: what you do with this money? – We tell them whatever they want to know – We have several loans, we borrow from one and pay to others – We have few loans – When we are in deep trouble, borrow 10–20,000tks, we eat less and pay back. Woman 9: I had to tell lie to the agents for borrowing. If I tell them about the true reason then they will not give me loan. The true reason of borrowing money is to pay other loan that I had borrowed from other NGOs. Woman 3: I had borrowed the money for agriculture specifically for cultivating maize. At present, I have no source of income. My husband was a rickshaw puller, his rickshaw got stolen, since then he is unemployed. Whenever we need cash, we need to borrow because our daily or regular income is very low. I have not benefitted much from the loans because the crops were not as good as expected. So, we are not being able to repay the loans. If we want to restart, we will have to loan again. Oh, the loans have become burden to us. Woman 12: Every baree (household) took loans from NGOs. Not a single household has any earnings to pay it back	Farmer 2: Took loan from Bru-tangail, 20,000 taka, 550/week, 40 weeks. Agrani Bank, gave land document three years back, 12000 taka, still need to pay, interest is increasing, have to sell land, always on loan, no peace to farmers. Farmer 3: I had to sacrifice my land to pay the loan but I can spend few good days if I borrow. Farmer 4: These NGOs are not good for us, our poverty level is increasing but we have no other option. Does not matter if you die, you have to pay the instalment or sell house or land? The poverty is becoming 'boundary-less'. Farmer 3: My in-law in Daudkandi has lost all his land because he borrowed too much from many sources. Last year, he made huge loss due to bad weather and storm. He had sold all his land to pay the loan. He is still in huge debt. It is impossible to pay loan growing crops. Woman 14: I used to have a house and some land. My husband fell sick. Used the loan for medicine. Couldn't repay. Now we lost house and land. I live in my sister's place and work in her house.

Table 2: An Analysis of Impact of Microfinance and Microcredit in the socio-economic development of Rural People based on the available data

Sl. No.	**Statements**	Number / Percentage	**SD**	**D**	**N**	**A**	**SA**	**Total**
1	Microfinance has improved the adequate amount of loans to the low-income groups or people in rural area	Number				4	6	10
		Percentage				40%	60%	100%
2	The Sanctioned loans are applied for the purpose which they were given	Number				8	2	10
		Percentage				80%	20%	100%
3	Microfinance is really the solution for eliminating poverty, if it is implemented properly	Number				1	9	10
		Percentage				10%	90%	100%
4	Micro Finance Institutions should be established in the rural areas of the country	Number			1	1	8	10
		Percentage			10%	10%	80%	100%
5	Micro Finances charge same interest rates as the mainstream banks	Number		10				
		Percentage		100%				
6	Micro Finance charge low interest rate than the mainstream bank	Number				8	2	10
		Percentage				80%	20%	100%
7	Low-income group repay loans given to them in time satisfactorily	Number				8	2	10
		Percentage				80%	20%	100%
8	Households use loans given to them for food, children education, minor house repairs, farming, fishing, health matters and other emergencies	Number		7		3		10
		Percentage		70%		30%		100%
9	The Government has done enough to support microfinance sector	Number		1	1	1	7	10
		Percentage		10%	10%	10%	70%	100%
10	Many microfinances are fail as a result of fraud and insider abuse	Number			1	1	8	10
		Percentage			10%	10%	80%	100%
11	Microfinance really promote business development and bring about economic development	Number				8	2	10
		Percentage				80%	20%	100%
12	Easy to facilitate loan packaging to Group membership	Number				9	1	10
		Percentage				90%	10%	100%
13	MFI provides services in the areas of money transfer, savings etc	Number				8	2	10
		Percentage				80%	20%	100%

Limitations of the Study:

1. The research is conducted in the selected rural areas of Utter Pradesh state.

2. The research cover up a sample of 10 microfinance institutes only, hence the conclusions on cannot be indiscriminate.

3. The study is based on the secondary data by collecting facts & figures of the available on internet & other sources of information mentioned under the research methodology and it may vary from time to time.

Conclusion:

The study has some limitations. We do not claim that microfinance does not provide any benefits to poor populations or that our findings are generalizable to all poor communities that are recipients of microfinance. Rather, our aim is to generalize our findings into theory – in this case, theories of vulnerability and social capital in the context of poverty. It is reasonable to ask what would the situation have been if no microfinance was available?

Would individuals have been pushed further into poverty? Randomized trials and field experiments with economic, social and environmental indicators are needed to answer this question but such studies are rare given the challenges of conducting these types of studies in rural areas of the developing world.

If we really want to bring the balance & impoverished communities are to be empowered, we need to provide opportunities for chronically poor communities to tell their own stories about their real situations and discuss their real needs.

We can start to empower them by listening, so that more financial institutions like MFI's come forward and accept the challenges for the development of the rural social infrastructure and people of such backward areas because if the villages of India transformed than only India will call the developed nation of the world as majority of our population still belongs to rural India.

References:

Adler PS and Kwon SK (2002) Social capital: Prospects for a new concept. Academy of Management Review 27(1): 17–40.

Aldine de Gruyter. Glewwe P and Hall G (1998) Are some groups more vulnerable to macroeconomic shocks than others? Hypothesis tests based on panel data from Peru. Journal of Development Economics 56(1): 81–106. Gond JP, Igalens J and Brès L (2013)

Ansari S, Munir K and Gregg T (2012) Impact at the 'bottom of the pyramid': The role of social capital in capability development and community empowerment. Journal of Management Studies 49(4): 813–842.

Armendáriz de Aghion B and Morduch J (2005) The Economics of Microfinance. Cambridge, MA: MIT Press. Arora S and Romijn H (2012) The empty rhetoric of poverty reduction at the base of the pyramid. Organization 19(4): 481–505.

Banerjee AV and Duflo E (2007) The economic lives of the poor. Journal of Economic Perspectives 21(1): 141–167.

Banerjee SB (2008) Corporate social responsibility: The good, the bad and the ugly. Critical Sociology 34(1): 51–79

Barnberg MGV and Andrews M (2004) Considering Counter Narratives: Narrating, Resisting, Making Sense. Amsterdam: John Benjamins Publishing Company

Baruah B (2010) NGOs in microfinance: Learning from the past, accepting limitations and moving forward. Geography Compass 4(8): 979–992.

Bateman M (2010) Why Doesn't Microfinance Work? The Destructive Rise of Local Neoliberalism. London: Zed Books. Bateman M (2011)

Confronting Microfinance: Undermining Sustainable Development. Sterling, VA: Kumarian Press. Bateman M and Chang HJ (2012)

Datar SM, Epstein MJ and Yuthas K (2008) In microfinance, clients must come first. Stanford Social Innovation Review 6(1): 38–45. De Soto H (2003)

Do powerful CEOs determine microfinance performance? Journal of Management Studies 49(4): 718–742. Glaser B and Strauss AL (1967) The Discovery of Grounded Theory. New York:

Microfinance and the illusion of development: From hubris to nemesis in thirty years. World Economic Review 1: 13–36.

Rendre compte du social. L'art du compromis performatif (No. 123456789/13777). Paris: Dauphine University.

The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else. New York: Basic Civitas Books. Dichter TW and Harper M (2007) What's Wrong with Microfinance? Rugby: Practical Action Publishing. Galema R, Lensink R and Mersland R (2012)

Watts M and Bohle HG (1993) The space of vulnerability: The causal structure of hunger and famine. Progress in Human Geography 17(1): 43–67.

Westover J (2008) The record of microfinance: The effectiveness/ineffectiveness of microfinance programs as a means of alleviating poverty. Electronic Journal of Sociology. Available at: http://www.sociology.org/ejs-archives (accessed 15 February 2016)