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Micro Finance: A Significant Contributor Exaggerating the Growth and Diversification of Rural Economy in India- A Comprehensive Analysis

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Abstract*: According to World Bank estimates, in a country like India, 70% of the population lives in rural areas, with the remaining 30% living in urban areas and approximately 60% depending on agriculture. Rural India, which has the second-largest population, requires the combined assistance of NGOs like SHG. Government less organizations are essential to India's economic growth. Non-Governmental organizations (NGOs) are not limited to large, well-known NGOs that are registered; they also include small-scale social assistance organizations like village-level Self Help Groups and local women's skilled assistance Organizations. The goal of this research study is to describe how microfinance is made accessible to those in need in rural areas, as well as how microfinance organizations can prevent or lessen poverty through offering microfinance. Data were gathered for a critical study of the research using secondary sources that were already available, and conclusions were reached through comparison analysis. India has experienced unprecedented growth and advancement over the past ten years, but while the growth story has been excellent, there are other factors that warrant caution. Indian households with low incomes frequently need to borrow money from friends, relatives, or moneylenders. An open and effective society must have unrestricted access to public goods and services. It is stated that because banking services are inherently a public benefit, it is crucial that their accessibility to the general populace without restriction be the main goal of public policy. Poor people expect the financial system to provide them with deposits that are secure and safe, cheap transaction fees, flexible operating hours, frequent deposits, quick and simple access to credit, and other goods, including remittance that is appropriate for their consumption and income.*

Keywords: Microfinance Institutions, Rural Finance, Banking System, Poverty alleviation, Microfinance, Microfinance product, Self-help groups, Rural development

Literature Type: A comprehensive analysis

I. INTRODUCTION

Micro Finance means Financial services such as savings accounts, insurance funds, and credit are provided to poor and low-income people to help them increase their income and improve their standard of living. Microfinance plays an important role in India's development. It acts as a vaccine against poverty for people living in the rural areas. The aim of microfinance is to support the economically excluded communities to create more wealth and income at the household and community levels. According to a report of 2018, most of the population still lives in rural areas with inadequate facilities and minimal development. They have only received 65.97% of their income officially from recognized sources. Nearly 60% of the population in India, the second largest country in terms of population, is dependent on the agriculture sector, which leads to unemployment and consequently, low per capita income. According to the 61st round of the National Sample poll Organization's (NSSO) poll, roughly 27.7% of India's population is thought to be poor, which puts the number of people who need be taken into account for financial inclusion at about 300 million. The need for financial inclusion at all levels is seen as being of the utmost importance because the

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proportion of rural poor is predicted to be 28.5%, compared to 25.7% for urban poor. Herein lays the main obstacle. Financial inclusion is an instrument for development and an integral part of the economic growth process. Sustainability is the key to achieving inclusive growth. It is a fact that India's economy is on the path towards faster and more inclusive growth. This concept first initiative is part of India's eleventh year plan. Currently, in India, the focus on financial inclusion is limited to providing a basic access to a savings bank account without any fuss to everyone. It is important to provide a wide range of financial services to everyone. At this point, let's talk about the involvement of technology in solving the microfinance problem in India. The concept of microfinance is seen as an approach that has a lot more potential for poverty alleviation and economic emancipation. Microfinance bridges the gap and acts as a safety net for people living in rural communities, providing them with financial stability.

Types of Microfinance Products:

(i) Microloans: One of the unique features of the microloan is that it does not require collateral. It also provides a better overall loan repayment rate compared to the traditional banking product.
(ii) Micro savings: It enables small entrepreneurs to run a savings bank account without a minimum balance. It teaches users financial discipline and encourages them to save for the future.
(iii) Micro Insurance: It is a form of insurance for microloan borrowers. It safeguards the poor people from any kind of accident that may happen in the future. For example, accident, chronic illness, etc.

II. SIGNIFICANT NATURE OF MICROFINANCE

(i) Micro-financing is a key component of rural finance.
(ii) Micro-finance mainly focuses on small loans and essentially targets poor households.
(iii) It is mainly provided through Non Governmental Organisations (NGOs), commonly known as self help groups (SHGs)
(iv) One of the most successful and justified poverty alleviation strategies.
(v) Provides an incentive for poor people to take up self-employment.
(vi) More service oriented and less profit oriented.
(vii) Designed to help small entrepreneurs and manufacturers.
(viii)Poor borrowers rarely default on loans because of their simplicity and faithfulness.
(ix)India needs to set up several microfinance institutions.

III. OBJECTIVES OF THE ANALYSIS

(i)Analyze the social and economic impact of microfinance enterprises in India.
(ii)Identify the impact of microfinancing through small and medium-sized enterprises (SMEs) on social and economic development in India.
(iii)Explore the importance of SHGs in rural development in India.

IV. CONTRIBUTION OF MICROFINANCE IN THE GROWTH AND DIVERSIFICATION OF RURAL ECONOMY OF INDIA

(i) Poor people do not have access to banking services because of their low income and inability to manage banking procedures and documentation. It is through micro-finance that a wide range of financial services, including deposits, loans, payments, money transfers, and insurance, can be provided to poor households and micro-enterprises.
(ii) Through their Non-Governmental Organisations (NGOs), micro-credit institutions help to create saving habits among the poor. The financial resources generated through saving and micro-credit from banks are used to provide the members of the Self Help Groups (SHGs) with savings and advances. Thus, microcredit institutions help to mobilize savings and use it for the benefit of its members.
(iii) Under normal banking system, loans require collateral or counter-guarantee which poor peoplecannot provide, hence, they cannot get loans. On the other hand, high interest rate and procedural and documentation formalities act as a barrier for poor people to access banks for loans. Microfinance eliminates all these barriers and provides finance to rural and poor populations on easy terms

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(iv) Micro-financing provides low-cost loans to the less-privileged segments of society, enabling them to establish small-scale businesses, expand their business, and break out of poverty and become self-reliant. It helps in building long-term financial independence among the poor segments of society and thus promotes self-reliance among them.
(v) Micro-financing is done through the help of SHGs. More than 50% of the SHGs are made up of women. Women now have more access to financial and economic funds. It is the first step towards financial stability for women. Therefore, micro-financing gives poor women economic and social empowerment.

The reputed Microfinance Institutions in India are as follows: (a)State Bank of India (b) Ujjivan Financial Services (c) Equitas Small Finance Bank Ltd (d)M&M Financial Services (e) Sundaram Finance Ltd (f) Bandhan Financial Services (g) Bharat Financial Inclusion Ltd (h) Muthoot Microfin Ltd (i) Janalakshmi Financial Service (j)MUDRA Bank.

The term ‘microfinance’ was coined in the 1970s when organizations like Grameen Bank (Bangladesh) with its microfinance pioneer Mohammad Yunus were pioneering and shaping the modern industry of microfinance. Microfinance can also be traced back to the early 1970s in India when the self-employed women’s association (‘SEWA’) in the state of Gujarat established an urban cooperative bank (‘Shri Mahila Sewa Sahakari Bank’) with the aim of providing banking services to the poor women employed. Subsequently, the microfinance sector developed in the 1980s around the idea of SHGs, informal entities that would provide much-needed savings and loan services to their clients. India’s GDP is among the world’s top 20 economies, but around 400 million people or about 60 million households live below the poverty line. This means that only about 20 percent of these households have access to credit, and these segment of the rural population doesn’t have good access to financial intermediaries, including savings services. Micro-credit on rational terms to the poor can lead to a significant reduction in poverty. This is why micro-credit is important in the context of India. With about 60 million households living below the poverty line or just above it, and over 80 percent of them unable to get credit at affordable rates, there are certain issues and problems that prevent micro-finance from reaching the needy. Globalisation and liberalization of the economy means that opportunities for the unskilled and illiterate are not growing as quickly as the rest of the economy. Institutions involved in micro-financing play an important role in reducing inequality and contributing to rural development for overall growth in India, which has more than 25% of its population below the poverty line. According to the World Bank, India has between 260 and 290 million poor people, rising to around 390 million if poverty is measured by living on less than one US dollar a day. More or less 133 million Indians live in the three states of Uttar Pradesh, Bihar and Madhya Pradesh. Three quarters of India's poor live in rural areas. This is due to the growing urban-rural divide. The Indian government's poverty reduction strategy focuses on infrastructures, social development (mainly education and health) and rural livelihoods. Improving rural livelihoods is the aspect of poverty reduction that Microfinance Institutions focus on. However, the income of many self-employed households is not stable, regardless of its size. Most poor people manage their resources to develop their own businesses and their home over a long period of time. Financial services could enable the poor to force their initiative, which would speed up the process of building income, assets and economic security. However, traditional finance institutions rarely lend to serve the needs of low-income families and women-headed households. Many small loans are required to serve the poor. However, lenders prefer dealing with large. Over the past decade, however, successful experiences in providing finance to small entrepreneurs and producers demonstrate that poor people, given access to responsive and timely financial services at market rates, repay their loans and utilise the proceeds to increase their incomes and assets. This is not surprising, as the only real option they have is to borrow money from the informal market. Community banks, NGOs, and credit groups all over the world have demonstrated that microfinance can be a profitable option for borrowers and lenders, making it one of the best poverty reduction strategies. Micro-finance is emerging as a powerful tool for poverty alleviation in the new economy. In India, it is dominated by Self-Help Groups (SHG) – Banks Linkage Programme which aims to provide a cost effect mechanism for providing financial services to the “unreached poor”. In India, terms such as “small and marginal farmers” “rural artisans” “and “economically weaker sections” have been used to define microfinance customers. Recently, a refined model of microcredit delivery has been developed which emphasizes the combination of financial services, technical assistance, and agricultural business development. Compared to the broader SHG bank link movement in India, the outreach of private MFIs has been limited. However, we have seen a recent trend of large micro-finance institutions turning into “Non-Bank Financials (NBFCs”. This changing face of microfinance in India is positive in terms of its ability to attract more funds and thus increase its outreach. As regards the demand for micro-finance. These include:

(i) At the bottom of income and assets are landless people who work on a seasonal basis in agriculture and manual labourers who work in forestry, mining, household industries, construction, and transport. This segment requires, first and foremost, consumption credit for those months when they do not get labour work and for contingencies like illness. It also requires credit for the acquisition of small productive assets like livestock to generate additional income.

(ii) The next segment is made up of small and marginal farmers, rural artisans, weavers and self-employed people in the informal urban sector such as hawkers, vendors and workers in household microenterprises. This segment primarily needs working capital, a portion of which also serves consumption needs. It also needs term credit to acquire additional productive assets like irrigation pump sets and bore wells and livestock for farmers and equipment (loom, machinery and work sheds) for non-farm workers.

(iii) The third market segment consists of small and medium-sized farmers who have shifted to commercial crops, including surplus paddy, wheat, cotton, and groundnuts, as well as dairying, poultry, fishing, etc. Other non-agricultural activities include running provision stores, repairing workshops, tea shops, and various service businesses. These people are not all poor, but they live below the poverty line and lack formal credit.

V. RESEARCH METHODOLOGY

This is the study based on secondary data. Data was extracted from various sources including reports, journals, and articles.

Measures taken by NABARD for microfinance sector: During the course of 2020-21, It continued to serve as the coordinator of microfinance programs in the country by means of :

(a) Helping partner agencies to promote and support SHGs.

(b) Program for Women's Self Help Groups (SHGs) in Backward Areas of India

(c) Empowering JLGs to strengthen finance with JLGs\

(d) Generate self-employment through the Micro Enterprise Development Programme (MEDP) and LEDP Livelihood & Enterprise Development Programme (EEDP).

(e) Providing Training and Capacity Building for Microfinance Clients.

(f) In line with the Digital India mission of the Government of India, a pilot project on the digitalization of SHGs is being conducted under the title of "e- Shakthi".

(g) CRFIM was established to serve as a reference point, source of information and knowledge-based opinion on the microfinance sector.

(h) Refinancing Assistance for Banks and Micro, Small and Medium Enterprises (MFI)

(i) NABARD Revolving Fund Assistance/Capital Support to Micro, Small and Medium Enterprises.

(j) The implementation of national rural livelihood mission (NRLM) and scheme for interest subsidies to women SHGs.

Micro Finance India has two main approaches - Self-helping Groups (SHGs) method and Grameen system. A Self-helping Group (SHG) is an informal group of around 10-20 members who join the group for the sole purpose of providing savings and credit services to its members. Members pool their resources to set up a common fund. The process of SHG and social involvement are meant to be tools of empowerment, building members' capacity to conduct and manage SHGs on their own, giving them greater financial autonomy and wider social participation. SHG meetings are scheduled at regular intervals and at a designated time. Group members are drawn from the same social economic layer and work based on equal participation and contribution of all members. The groups are co-chaired by a lead member at any given time; this position is typically rotated to build capacity for each member. The meetings are well-structured and accurate and up-to-date records are compiled of all financial operations, group decisions and actions. Once set up, SHG's are encouraged to establish relationships with additional SHGs and, eventually, with financial institutions to access additional financial support

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Progress of MFI operations during 2020 – 2021:

Type of Lender	2019-2020		2020-2021		Growth(%)	
	No. of Active loans	O/S Balance	No. of Active loans	O/S Balance	No. of Active loans	O/S Balance
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%**

Table 1: Status of Microfinance in India 2020-21, Micro Credit Innovation Dept. (MCID), Mumbai.(Source: NABARD, 2021)

SHG- Bank Linkage Programme (SBLP): With an outreach of 13.87 crore families, the SHG -BLP has established itself as a successful microfinance program all over the world, empowering the rural poor in terms of social, economic, and financial empowerment, particularly women. The SHG Model represents one of two approaches to reaching the poor. In India, it is leading the way in terms of client outreach, amount paid, savings, etc. It only becomes possible when members pool their resources towards a joint fund. Different types of skill development training are provided to members to enable them to become self-employed with very low cost and capital involvement.

Particulars	2018-2019		2019-2020		2020-2021	
	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
Total SHG(Nos)	100.14 (14.52%)	23,324.48 (19.05%)	102.43 (2.29%)	26,152.05 (12.12%)	112.23 (9.57%)	37,477.61 (43.31%)
All Women SHGs	85.31 (15.44%)	20,473.55 (17.01%)	88.32 (3.53%)	23,320.55 (13.91%)	97.25 (10.11%)	32,686.08 (40.16%)
Percentage of Women	85.19	87.78	86.22	89.17	86.65	87.21

Table 2: SHG-Savings with Banks as on 31stMarch 2021.

Particulars	2018-2019		2019-2020		2020-2021	
	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
Total SHG (Nos)	26.98 (19.33%)	58,317.63 (23.59%)	31.46 (16.60%)	77,659.35 (33.17%)	28.87 (-8.23%)	58,070.68 (-25.22%)
All Women SHGs	23.65 (13.98%)	53,254.04 (19.51%)	28.84 (21.95%)	73,297.56 (37.64%)	25.9 (-10.19%)	54,423.13 (-25.75%)
Percentage of Women	87.66	91.32	91.67	94.38	89.71	93.72

Table 3: Loan disbursed to SHGs during the year.

Particulars	2018-2019		2019-2020		2020-2021	
	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
Total SHG (Nos)	50.77 (1.14%)	87,098.15 (15.21%)	56.77 (11.82%)	1,08,075.07 (24.08%)	57.8 (1.81%)	03289.71 (-4.43%)
All Women SHGs	44.61 (-1.93%)	79,231.98 (12.54%)	51.12 (14.59%)	1,00,620.71 (27.00%)	53.11 (3.89%)	96,596.6 (-4%)
Percentage of Women	87.87	90.97	90.05	93.10	91.89	93.52

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

According to the Forbes ranking and the Deutsche Bank report, microfinance has expanded beyond the boundaries of traditional financial services. The International Fund for Agricultural Development (IFAD) supports this development through its Rural Finance policy, which seeks to create sustainable, rural finance institutions that serve the rural poor and strengthen rural financial infrastructure.

VI. CONCLUSION

Microfinance institutions have widened the frontiers of institutional finance and brought the poor, especially poor women into the formal financial system and allowed them to access credit and fight poverty. However, it is observed that the growth of microfinance across the country has been uneven with different interest rates charged to members, which is a cause for concern. Consumption loans are found to be particularly important during the period between the start of a new economic activity and the emergence of positive income. The challenge is to find a credit instrument that is flexible enough to accommodate multiple credit needs of low income borrowers while not imposing a prohibitively high cost for end-use monitoring by lenders. Successful microfinance operations show that the poor are able to repay their loans, and are ready to pay higher interest rates if they are able to access credit. The poor also save money, which is why it is important for microfinance to provide savings facilities. Microfinance can help address the problem of inadequate housing and urban services as an integral part of poverty alleviation programmes.

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