Universe International Journal of Interdisciplinary Research
(Peer Reviewed Refereed Journal)

© UIJIR | ISSN (O) – 2582-6417
SEPT. 2022 | Vol. 3 Issue 4
www.uijir.com

IMPACT OF MICRO FINANCE TO DEVELOPMENT IN RURAL SECTOR OF THE INDIA

Author's Name: Dr. S. Prabakaran

Affiliation: Assistant Professor of Economics, Gobi Arts & Science College, Gobichettipalayam, India

E-Mail ID: prabakaran99806@gmail.com

DOI No. – **08.2020-25662434**

Abstract

Microfinance refers to small savings credit and insurance services extended to socially and economically disadvantaged segments of society. It is emerging as a powerful tool for poverty alleviation in India. The prospect of Micro Finance is dominated by SHGs (Self Help Groups) – Banks linkage Program. Its man's aim is to provide a cost-effective mechanism for providing financial services to the poor India fails under low-income class according to World Bank. It is second populated country in the world and around 70 % of its population lives in rural area 60 % of people depend on agriculture, as a result there is chronic underemployment and per capital income is only $ 3262. This is not enough to provide food to more than one individual.

Keywords: *Microfinance SHGs MFIs NABARD*

INTRODUCTION

Microcredit or Microfinance is the process of grating small loan to poor people, primarily to women, who have no collateral and are marginalised. These women tend to use their income to benefit their households and children. The process is accomplished through a microfinance institution. In developing countries financing to the rural poor through formal financial services failed to meet the credit requirements of the rural poor people. The main reason of failure was absence of any recognized employment and hence absence of collateral with the poor. The high risk and the high transaction costs of banks associated with small loans and savings deposits are other factors which make them non bankable.

According to International Labour Organizaton (ILO) " Microfinance is an economic development approach that involves providing financial services through institutions to low income clients.
Microfinance in India has had a significant shift from the days when microfinance was being discussed as the next big innovation to address the poverty issues in India to being discussed in terms of the next big investment opportunity. The language of microfinance has undergone a fundamental charge in the two decades of its evolution Microfinance started undergone a fundamental change in the two decades of its evolution Microfinance started with the recognition that poor people had the capability to lift themselves out of poverty if they add access to affordable loans. High repayment rates in the industry have changed the perception that the poor are not credit worthy. With the right opportunities, the poor have provided themselves to be productive and capable of borrowing saving and repaying even without collateral.

OBJECTIVES OF THE STUDY

- To Analysis rural area financial developments activities

- To analysis various financial supporting institution to expand SHGs
- To find various improvement activities of SHGs in India

FUNCTIONS OF MICROFINANCE INSTITUTION

- Recruits and trains responsible appropriate borrowers, each of whom establishes her small business.
- Helps them form groups that are accountable for each other's loans
- Distributes funds for loans
- Meets with groups of borrowers to collect loan repayment and to guide their endeavours.

REVIEW OF LITERATURE

The poor are those who have very low incomes. They only have little capital and some even have none at all. In addition, they also do not have access to loans provided by financial institutions in general. This is because the poors do not have collateral which is a prerequisite for disbursing loans from financial institutions. Their financial literacy is also very low. The poors need to be helped so that they can get out of the poverty line. Microfinance institutions are projected as a solution to the problem of poverty. This is because microfinance institutions can provide microloans to micro and small businesses. The poor and very poor people who are at the bottom of the pyramid get credit services like other people. With this credit service, it is hoped that they can open new businesses as an additional source of income. In addition, credit services are needed by the poor to cover their daily needs, ranging from food, drink, education costs, wedding expenses, and so on. However, conventional microfinance institutions have not been able to become a solution to the problem of poverty, especially for the Muslim community. One of the reasons is that conventional microfinance institutions still operate with an interest system, which is prohibited in Islamic teachings because it is part of usury. In addition, there are still elements that are forbidden in microfinance institution transactions such as maysir and gharar. So, the presence of Islamic microfinance institutions is expected to be a solution for the Muslim community, where many of them are still below the poverty line. Islamic microfinance institutions operate by applying the values of Islamic teachings. These values include monotheism, the application of Shariah maqashid, prohibition of usury, upholding justice, eliminating injustice, and eliminating elements of gambling in financial transactions. The existing contracts at Islamic microfinance institutions consist of buying and selling based contracts (bai' al-murabahah), business cooperation-based contracts (al-musharakah, al-mudharabah), leasebased contracts (al-ijarah), and loan contracts, pure without interest (qardh-hasan). Islamic microfinance institutions have experienced significant developments in the last two decades although it remained slower than conventional microfinance institutions. Along with the growth of Islamic microfinance institutions, research related to the theme of Shariah microfinance institutions has also developed. Research related to Islamic microfinance institutions is deemed necessary to examine the shortcomings and advantages to obtain solutions and strategies for overcoming the problems faced by IMFI. In the end, all of this is useful for the development of Islamic

STRUCTURES OF A MICROFINANCE INSTITUTION

Microfinance institutions broadly operate under a wide range of legal structures. They could be registered as

1. NGO
2. Trusts

3. Sec 25 Companies
4. Cooperative Societies
5. Cooperative Banks
6. Regional Rural Banks
7. Local Banks
8. Public and Private Sector Banks
9. Non-Banking Finance Companies.

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 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 substituted.

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 collative decision marking power and obtains loans from the partner bank. The SHG then loans these funds to its members at term 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 (SHP). 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 18% 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) of 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 and social 13 dynamics are externalized about 75 % of SHGs and 78 5 of loan amounts are using this model.

Model -3 Due to various reason 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 borrows MFIs have their own employees record keeping and accounting systems and are often subject to regulatory oversight MFI 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 members loans. The groups met weekly to conduct translations. 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, cooperative, non profits NBFCs registered under Section 25 of the Companies Act 1956, or Section 25 Companies and NBFCs registered with the RBI trust cooperatives and section 25 companies are regulatory by the specific under which they are registered and not by the RBI.

ACTIVITIES OF MICROFINANCEM

Micro savings : These are deposit services that allow one to save small amounts money for future use often without minimum balance requirements these savings accounts allow households to save in order to meet unexpected expenses and plan for future expenses.

Micro Insurance : It is a system by which people business and other organisations make a payment to share risk. Access to insurance enables entrepreneurs to concentrate more on developing their business while mitigating other risks affecting property, health or the ability to work.
Remittances : These are transfer of funds from people in one place to people in another usually across border to family and friends. Compared with other sources of capital that can fluctuate depending on the political or economic climate remittances are a relatively steady source of funds.

CONCLUSION

Microfinance refers to a movement that envisions' a world in which many poor and near poor households have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance and fund transfers. The microfinance sector in India has developed a successful and sustainable business model which has been able to overcome challenges traditionally faced by the financial services sector in serving the low income population by catering topics specific needs capacities and leveraging pre existing community support networks

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