DEVELOPING A NEW MICROFINANCE MODEL FOR RURAL DEVELOPMENT

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ABSTRACT

BACKGROUND
In 2012, the Indian government stated that 22 percent of its population is below its official poverty limit. In India about 276 million people live below poverty line. Major problems in rural areas are low income, low savings, and low investment. Microfinance is one opportunity used to supply credit and credit related services to the rural poor of society. It helps them to encourage their productive activities and develop their business. Microfinance plays important role in increasing women’s savings and their decision making. This paper focuses on Indian rural sector as the emerging and vibrant sector which will make India to fulfil the dream of the developed country.

KEYWORDS
Microfinance, Self-Help Groups (SHGs), Microenterprises, Rural Development, New Model.


BACKGROUND/Microfinance
Poverty is the main root of several problems in developing the economy. A Microfinance Institution is an organisation that offers credit and other financial services to the poor people. Microfinance is being considered as one of the tools to reduce the poverty and for financing small groups of poor people through saving facilities, credit facilities and other financial services to increase their income levels. The microfinance institutions access financial sources from the banks and provide them to the poor. Microfinance can operate solely on mutual trust, accountability, participation and creativity of the people. It helps in self-employment of the rural people to generate income of their own. It can also provide housing loans for poor people.

Microfinance Models
In India, the concept of microfinance was started in the year 1992 by NABARD with Self-Help Group-Bank Linkage Programme. Later this programme developed into a popular model of Microfinance in INdia.

In India, many institutions are engaged to provide microfinance services like NABARD, SIDBI, Commercial banks, Regional Rural banks, Cooperative banks and other non-banking financial institutions.

Generally, there are three microfinance models which are currently followed by the Microfinance providers. In the first model, SHGs are promoted, guided and financed by banks. In the second model, SHGs are promoted by Non-Governmental Organizations (NGOs)/government agencies and financed by banks. In the third, SHGs are promoted by NGOs and financed by banks under NGOs/formal agencies as financial intermediaries. In India, the second model of microfinance is predominantly followed.

Three-fourths of total micro-financing adopts second model where all activities rest on the joint liability of Self-Help Groups and facilitating agencies and are linked directly with banks for the purpose of receiving and repaying credit.

Rural banking and microfinance need to be addressed for sustainable growth and development of rural areas. Rural population of about 780 million with limited access to financial services must be viewed seriously. Hence, there is a need for consolidating all activities under a common roof by building a single window system and designing a control mechanism for proper coordination, monitoring, support, execution and development.

To effect the above requirement, a model has been developed. The designed model would instil the concepts of microcredit, networking, mentoring and enterprise management skills among the members of the SHGs and pave the way for the transformation of SHGs into Microenterprises to rural development. This model has been developed based on the survey made with the stakeholders of microfinance.

Development of Microfinance Model
The model for rural development has been designed and developed as a path finder which may be effectively implemented to achieve greater rural development. In that, microfinance is a vital concept in planning at the first level.

Figure 1. Microfinance Model for Rural Development

The second level looks on the sustainable growth of rural SHGs. Next level promotes the transformation of the rural SHGs into Microenterprises. The final one accommodates the improvement of farming and non-farming sectors resulting in development of rural areas.
Objectives of the Study
1. To combine all activities in a single system through microfinance.
2. To form and apply a control structure for proper coordination, mentoring, monitoring, support, execution and development of SHGs.
3. To build a framework and evaluate the performance level of SHGs.
4. To create various enterprise management skills and train SHGs.
5. To describe successful SHGs through best practices for transforming them into microenterprise.
6. To give suggestions for SHGs for improving various possibilities to develop rural areas.
7. To reconstruct the present system by networking, mentoring, training and promoting the SHGs into microenterprises.

Linking Microfinance and Rural Microenterprises
There must be a control to setup standards and measure the activities, performance and approach of banks, NGOs and other MFIs. It is not enough to provide only the credit required to the SHGs in rural areas, but also they must be guided to run the business profitably. The member of the group may not have expertise, experience, education and entrepreneurial capabilities. So, they must be mentored and trained to be competent enough to do the business of their choice. All the microfinance activities are to be planned so that they can be implemented properly. Most of the MFIs do not have sustainability as the microfinancial institutions are comparatively costlier in terms of delivery of financial services.

The borrowings of MFIs were very hard. After the year 2000, RBI facilitated to provide funds for MFIs through private sector Bank Partnership Model and viewed the sector as a good business proposition.

Tenets of Sustainable Microcredit
The Self-Help Group is a village based financial intermediary usually of 10-20 local people. Members make small regular savings over a few months until there is enough capital in the group to begin lending. In India, many SHGs are linked to banks for the delivery of microcredit. Microcredit in common parlance refers to small loans that help the poor people to meet their immediate credit needs. It typically comprises a group of micro-entrepreneurs having homogeneous social and economic background, all voluntarily coming together to save regular small sums of money, mutually agreeing to contribute to a common fund and to meet their emergency needs on the basis of mutual help. The purpose of starting SHG is to avail credit from microfinance institutions and save surpluses. This can be like a small joint venture of pooling money for a specific goal of earning a marginal profit to support their living and enabling them to have more autonomy in financial decision making and wider social participation. Self-Help Group participants are selected from the same socioeconomic status on the basis of equal contribution of all members.

There must be a transformation of Self-Help Groups into Microenterprises and get them energised to contribute for rural development. For this, necessary enterprise management skills are required. These skills must be available for the SHGs so that they can grow to next level. The availability of microcredit and other credits must be ensured for the matured SHGs so as to promote them as microenterprises in the pursuit of transforming the farming and non-farming sectors in the rural areas.

Research Background
The study views the microfinance system to find out whether there is a gap between the existing system in terms of achieving the goals of MFIs and the impact of microfinance on SHGs by analysing proper coordination, mentoring, monitoring, support, execution and development of SHGs. The research has been carried out to determine all the parameters involved in establishing a framework to evaluate the performance level, the rate of growth and the maturity of SHGs.

This research was done to design various enterprise management skills and training to SHGs, and to make them as successful in their venture. There is need for this research in order to formulate the practices for transforming the successful and matured SHGs into microenterprise.

The research should be done to identify the modalities of integration and transformation of the existing system under a common platform by networking, mentoring, training and promoting the matured SHGs into microenterprises in farming and non-farming sectors.

Sample Survey
This study is an approach of integrating all the facets of microfinance for rural development. The selected rural areas in Andhra Pradesh state have been selected and the Self-Help Groups (SHGs) were approached for conducting the survey. Based on the survey results, the objectives and the model have been framed.

Some of the existing data sources have been used in analysing the need to develop a single system. There are some surveys which could be used to find the impact of existing microfinance models to achieve greater rural development. Obviously, general surveys are used when there are sufficient numbers of qualitative and quantitative parameters available in the survey. In our survey, the general surveys are used.

CONCLUSION
This paper establishes the need for the integration of all activities of microfinance initiatives from planning to microfinance and rural development. Truly speaking, there is no such kind of initiatives to integrate and transform the microfinance and SHGs. The need was felt and survey was conducted to identify the factors contributing to the rural development integrating farming and non-farming sectors.

This study would be of great help for the stakeholders to understand the necessity to implement the fusion model fulfilling all the objectives stated in this study.

This model extended small loans without the harsh provisions of established lenders to lend usually to women in small groups. This will provide an idea to poor people on getting capital and to use it to draw themselves out of poverty.

REFERENCES


