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“THE IMPACT OF MICRO CREDIT ON RURAL DEVELOPMENT IN INDIA”

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ABSTRACT

Microfinance is used to supply small credits to very poor section of society that is unable to access the traditional economical a financial institutions such as banks. It helps as them in acquiring finance to expand their tiny businesses and other financial needs. Micro finances also help in improving a contribution of women in economic activities by providing economical resources to invest. This research paper is an effort to bring light the role of microfinance in rural development through the study of micro financial schemes. We can learn important lessons from microfinance for developments in terms of what can be the strategy that we can adapt to make a difference. We can conclude that weak sector of Indian economy is in direct need of money lending methods to earn credits so microfinance programs should be an important area of focus to provide these people the chance to improve their standard of living via means of economical growth.

KEYWORDS: *Microfinance, Credits, Financial Institutions & Rural Development etc.*

INTRODUCTION

The effect of microcredit is a subject of much discussion. Advocates express that it diminishes destitution through higher business and higher wages. This is required to prompt improved sustenance and improved training of the borrowers' youngsters. Some contend that microcredit engages ladies. In the US and Canada, it is contended that microcredit causes beneficiaries to move on from government assistance programs. Pundits state that microcredit has not expanded livelihoods, however has driven helpless family units into an obligation trap, now and again in any event, prompting self destruction. They include that the cash from advances is frequently utilized for strong purchaser merchandise or utilization as opposed to being utilized for profitable ventures, that it neglects to engage ladies, and that it has not improved wellbeing or instruction.

The accessible proof shows that much of the time microcredit has encouraged the creation and the development of organizations. It has regularly created independent work, however it has not really expanded salaries after intrigue installments. Now and again it has driven borrowers into obligation traps. What's more, it can create unintended lease looking for business. There is no proof that microcredit has enabled ladies. To put it plainly, microcredit has accomplished considerably less than what its defenders said it would accomplish, however its negative effects have not been as extreme as certain pundits have contended. Microcredit is only one factor impacting the achievement of a private ventures, whose achievement is affected to an a lot



bigger degree by how much an economy or a specific market develops. A basic audit of 58 papers covering encounters in 18 nations finished up "there is nothing but bad proof for the gainful effect of microfinance on the prosperity of destitute individuals" and that "the best effects are accounted for by concentrates with the most fragile structures".

The endeavor to equitably assess the effect of microcredit on a worldwide or a neighborhood scale is damaged by various methodological difficulties. There are just not many thorough assessments of microcredit, and a significant part of the writing on the effect of microcredit is situated in recounted reports or contextual analyses that are not agent. Indeed, even among the thorough assessments many "experience the ill effects of frail techniques and deficient information", as per a methodical writing survey of the effect of microcredit led in 2011 by a gathering of analysts in the interest of UK Aid. A 2008 audit of more than 100 articles on microcredit found that lone 6 utilized enough quantitative information to be agent, and none utilized thorough strategies, for example, randomized control preliminaries. Thorough effect assessments utilizing control and treatment bunches are hard to attempt today, in light of the fact that microcredit is so regular in creating nations today that couple of areas remain where such an examination setting can at present be applied. Further confusing effect contemplates is the regularly exceptionally politicized setting of destitution mitigation activities.

INCOME AND POVERTY

Miniaturized scale loaning targets expanding pay through gainful exercises, for example, goat grouping, as appeared here in Rwanda on a helpful supported through small scale loaning. Among 6 delegate considers chose from an example of in excess of 100 investigations as being methodologically generally solid, five found no proof that microcredit decreased destitution, in spite of the fact that they discovered other positive effects. The principal randomized assessment of the effect of presenting microcredit in another market has been attempted by Abhijit Banerjee of the M.I.T. Destitution Action Lab in ghettos in Hyderabad, India, in 2008. It thought about two gatherings of haphazardly chose ghettos. In the treatment bunch banks opened branches that gave small scale credits, while in the benchmark group this was not the situation. The examination demonstrated that fifteen to year and a half subsequent to loaning started, there was no impact on normal month to month use per capita, however consumption on tough products expanded. Utilization along these lines moved from consumables to tough merchandise. Additionally, the quantity of new organizations expanded by 33%, however they were not entirely gainful. Pulitzer prize champ Nicholas Kristof cites another thorough investigation by Abhijit Banerjee and Esther Duflo covering credits by Spandana in India. For this situation, advances were likewise used to purchase strong products, however moreover they were utilized to extend existing organizations.

Tazul Islam contends that the Grameen Bank doesn't come to the least fortunate, since the customers of the bank will in general be grouped around the neediness line of dominantly respectably poor or helpless non-poor. Of the helpless who join Grameen bank's microcredit program, a high rate regularly drop out after just a couple of credit cycles, while numerous others in the end drop out in later advance cycles as advance aggregates surpass their reimbursement limit. By the by, he reasons that microcredit in Bangladesh had a "positive effect on big business and family unit pay and resource accumulation".[12] Microloans in Canada have permitted entrepreneurs to make their organizations their essential wellspring of salary with 67% of the borrowers demonstrating a critical increment in their pay because of their support in certain miniaturized scale advance projects. A film by the Danish writer Tom Heinemann, *The Micro Debt*, affirms that microcredit in Bangladesh had little effect on destitution. The film featured the indicated proceeded with destitution of Sufiya Begum, the first advance beneficiary of Grameen, in Jobra Village. After an intensive examination in December 2010 by the Norwegian Foreign Ministry, the supposed issues have been demonstrated to be bogus. Narrative producer Gayle Ferraro found the lady perfectly healthy, affirming the first Grameen story.

Milford Bateman, the creator of *Why Doesn't Microfinance Work?* contends that microcredit offers just a "figment of neediness decrease". "As in any lottery or round of possibility, a couple in destitution do figure out how to set up microenterprises that produce a nice living," he contends, yet

"these disengaged and regularly impermanent positives are overwhelmed by the generally disregarded negatives." Bateman presumes that "The global advancement network is currently confronted with the truth that, in general, microfinance has been an improvement strategy bumble of very noteworthy extents." Professor Anu Muhammad of Jahangirnagar University in Bangladesh, a Marxist and pundit of microcredit, claims that "as indicated by various examinations" which he doesn't name, "you can't discover more than 5-10 percent individuals who could change their financial conditions through miniaturized scale credit."

German columnist Kathrin Hartmann relates stories of ladies who she met in 2012 while visiting Kurigram District in Bangladesh caught owing debtors. She was told by rustic ladies of fierce strategies to uphold obligation reimbursements, including the constrained offer of goats, cows, house utensils and land. She likewise depicts extraordinary friend pressure under gathering loaning plans. Intensely obliged people even offered their kidneys to sorted out gatherings so as to have the option to reimburse advances, as found by the police in summer 2011. Hartmann composes, without citing a source, that 33% of small scale credits are taken so as to pay for food or social insurance, particularly during the seasons called Monga whenever food and work openings are most difficult to find. Youngsters drop out of school to procure cash and families cut down on food costs so as to reimburse advances. At the point when catastrophic events strike, for example, Cyclone Seder in 2007, week after week portions to reimburse credits proceed, despite the fact that the capacity of borrowers to acquire salary has been wrecked by the debacles.

An examination in the Philippines by Dean Karlan of Yale University and of Innovations for Poverty Action looked at a treatment gathering, financed through microcredit, and a benchmark group that didn't get microcredit, in Manila. For this situation numerous small scale credits were lent to individuals with existing organizations. The organizations turned out to be progressively beneficial, however laid off ineffective representatives including companions and family members that they recently had felt obliged to utilize. Male-claimed organizations expanded benefits, however female-possessed organizations didn't. Obligation traps, suicides and gathering pressure: In 2008, financial analyst Jonathan Morduch of New York University noted there were despite everything significant holes in research on microcredit, for example, on obligation traps and the utilization of miniaturized scale credits for utilization.

There has been a lot of analysis of the high loan fees charged to borrowers. The genuine normal portfolio yield referred to by the example of 704 microfinance foundations that willfully submitted reports to the Micro Banking Bulletin in 2006 was 22.3% every year. Notwithstanding, yearly rates charged to customers are higher, as they additionally incorporate neighborhood expansion and the terrible obligation costs of the microfinance organization. Financing costs charged by the Mexican Banco Comparators on their small scale advances arrived at 86% every year while it sold stocks in the securities exchange in 2007.

In India microfinance foundations have been censured for making little obligation snares for the poor in Andhra Pradesh with high loan costs and coercive strategies for recuperation. Residents frequently didn't have the foggiest idea about the intrigue that they were being charged and didn't know about the results of accepting numerous advances as they take the subsequent credit to clear the main advance. In 2010 forceful loaning by microcredit foundations has been accused for more than 80 suicides in Andhra Pradesh. Bangladesh's previous Finance and Planning Minister M. Saifur Rahman charged in 2005 that some microfinance establishments utilize inordinate financing costs. A recent report in Bangladesh indicated that some credit beneficiaries sink into a pattern of obligation, utilizing a microloan from one association to meet intrigue commitments from another. Field officials who are in a place of intensity locally and are compensated dependent on reimbursement rates now and again utilize coercive and even vicious strategies to gather portions on the microloans. Some microfinance organizations loan just to gatherings of ladies. This training puts advance beneficiaries under tension, since all ladies are subject for the credits of different ladies in the gathering and every part can possibly acquire another advance if every part has reimbursed the past advance. Muhammad Yunus contends

that microfinance establishments that charge over 15% over their drawn out working expenses should confront punishments.

EMPOWERMENT OF WOMEN:

Meeting of customers of the Indian smaller scale loan specialist ESAF in the province of Kerala.

Microcredit has been aimed at ladies since it was accepted that, contrasted with men, they are better customers of microfinance foundations and that ladies' entrance to microcredit has progressively attractive advancement results, since ladies will in general spend more cash on essential needs contrasted with men. Microcredit has likewise been elevated as a device to engage ladies. Early examinations would in general affirm this positive picture. For instance, a recent report in Bangladesh asserts that the "achievement" of arriving at ladies with microcredit was "profoundly great", yet additionally noticed that advances are regularly offered over to male family members or spouses. Just in a minority of cases there was an expansion in abusive behavior at home for ladies who didn't get the advance or needed to hold up quite a while to get the advance. The investigation additionally indicated that ladies are bound to hold command over their credits in customary ladies' work like animals raising that are considered "ladies' work". The President of Grameen Foundation USA proposed in 2005, in view of an audit of different examinations, that "there is solid proof that female customers are enabled". It additionally found that "even in situations when ladies take yet don't utilize the advance themselves, they and their families advantage more than if the advance had gone straightforwardly to their spouses"

In any case, a 2008 investigation of microcredit programs in Bangladesh found that ladies frequently act simply as assortment specialists for their spouses and children, to such an extent that the men go through the cash themselves while ladies are burdened with the credit hazard. The greater the size of the advance, the more ladies lose control. For instance, an investigation in Bangladesh indicated that ladies have 100% command over advances that are littler than 1000 Taka however just 46% of control if the credit is greater than 4,000 Taka. An investigation in India demonstrated that ladies might be put under tension by their male family members to join a credit gathering and indebt themselves. An examination in Bangladesh indicated that microcredit expands shares, with ladies constrained on occasion to take microcredit credits as the main way to pay these expanded endowments for their little girls. The primary randomized assessment of the presentation of microcredit, completed in Hyderabad in India, found no effect on ladies' dynamic.

One researcher contends that strengthening can't be given to ladies by (generally male) advancement professionals as credits, since strengthening is a self-coordinated procedure. Increasingly female representatives ought to be employed by microfinance establishments, and male staff ought to be prepared in sexual orientation mindfulness.

In light of the proof of the two thorough assessments in India and in Manila, Nicolas Kristof reasons that "there is no proof that microcredit has any impact on ladies' strengthening."

MICRO CREDIT SCHEME:

Micro Credit Scheme or MCS is a loan scheme that is offered by micro financial institutions (MFIs). The scheme is primarily offered for micro enterprise activities such as agricultural activities, artisan activities, and so on.

Micro Credit Scheme (MCS) refers to a loan scheme that is primarily provided by micro financial institutions (MFIs). These financial schemes are offered chiefly for micro enterprise activities such as agricultural activities, artisan activities, etc. These schemes assist low-income individuals to engage themselves in income-generating activities for a sustainable livelihood. Micro credit schemes are provided to self-help groups as well in order to enable them to set up ventures and earn incomes. These schemes are helpful to tribal people as well.

Misconceptions regarding poor people's financial knowledge that led to the provision of micro credit schemes. In the past, there were many fallacies that poor individuals did not have proper knowledge to take care of the finances carefully. Some of the common misconceptions included:

- They do not have creditworthiness.
- They are not educated.
- They lack the ability to save money.
- They cannot repay loans.

These misconceptions led to the false idea that poor people in rural and urban areas are not eligible to avail regular banking services. In order to address these misconceptions, micro credit schemes were introduced to offer affordable financial assistance without the involvement of conventional banks. Misapprehensions about women's financial knowledge

In many rural as well as urban areas, poor women are not provided with access to financial assistance due to discrimination from men. These micro credit schemes serve as a great boon to women as they help them to be financially independent. The functioning of self-help groups has shown that low-income individuals, especially women, have the ability to handle finances proficiently. Common Activities that are funded by MCS. Micro credit schemes are provided exclusively to help out people who live below poverty line (BPL) by offering them credit to start small business ventures in multiple sectors for earning incomes. Some of the most common types of activities that are sponsored by micro credit schemes include:

- Cottage industry activities
- Agricultural and farming work
- Artisan activities
- Small scale industrial activities

EVOLUTION AND DEVELOPMENT OF MICRO CREDIT SCHEME

The micro credit sector has been existent in India from a very long time. It started to gain excellent modifications during the 1990s. Many alterations were made to the micro credit system and its policies in order to make the whole system more organised and efficient. One of the main organisations that worked towards developing the MCS is the Small Industries Development Bank of India (SIDBI).

The Micro Credit Scheme was officially launched in the year 1994. The SIDBI has a great credit delivery system that works towards offering credit schemes to the weaker sections of the society at a micro level. How are Micro Credit Schemes distributed to beneficiaries?

Micro credit schemes are offered to individuals, micro units, self-help groups, small industries, etc. through various channels. In India, there are mainly 4 types of bodies that offer micro credit schemes to individuals and self-help groups and they are:

- Qualified bodies that choose their beneficiaries for micro loans
- Public bodies that accumulate money in order to provide micro credit to individuals as well as groups
- Certain banks that agree to offer micro loans
- Social bodies such as non-profit organisations and non-governmental organisations that extend tailor-made support to micro credit beneficiaries

Some of the organisations that have taken up the responsibility of providing micro credit schemes to beneficiaries include:

- Small Industries Development Bank of India (SIDBI)
- National Bank for Agriculture and Rural Development (NABARD)
- National Handicapped Finance and Development Corporation (NHFDC)
- Micro Units Development and Refinance Agency Ltd. (MUDRA)
- National Scheduled Tribes Finance and Development Corporation (NSTFDC)

CHARACTERISTICS OF MICRO CREDIT SCHEMES

Micro credit schemes come with great benefits that assist low-income individuals to be financially secure and independent. Some of the characteristics of micro credit schemes are:

- They are very affordable.
- These schemes offer small amounts of money.
- They are typically not governed by the regular banks.
- These can be taken by beneficiaries without providing any collateral or guarantee.
- They can be used for self-employment projects and activities.
- Some of these schemes even come with micro insurance and micro leasing.
- Keeping the financial condition of the beneficiaries in mind, the interest rates for micro loans are very low and economical.
- The repayment periods for micro credit schemes are decided after assessing the nature and duration of the self-employment activity.
- Some micro credit schemes even offer repeat loans to individuals or self-help groups depending on the necessity.

ADVANTAGES AND DISADVANTAGES OF MICROFINANCE

Microfinance presents many opportunities to the non-profit sector, but also comes with some qualities that make it a unique form of philanthropy. Although the idea of microfinance seems to be a simple way of helping those in need, the actual paying back of a loan and qualifications for a borrower make it a difficult to assess whether all markets are suited for microfinance. In the case of S2S, we will be communicating with established microfinance agencies to determine which groups are the prime candidates to be borrowers.

The following is an excerpt about the pros and cons of microcredit:

"In the last two decades, substantial progress has been made in developing techniques to deliver financial services to the poor on a sustainable basis. Most donor interventions have concentrated on one of these services, microcredit. For microcredit to be appropriate however, the clients must have the capacity to repay the loan under the terms by which it is provided. Otherwise, clients may not be able to benefit from credit and risk being pushed into debt problems. This sounds obvious, but microcredit is viewed by some as "one size fits all." Instead, microcredit should be carefully evaluated against the alternatives when choosing the most appropriate intervention tool for a specific situation.

"Microcredit may be inappropriate where conditions pose severe challenges to standard microcredit methodologies. Populations that are geographically dispersed or nomadic may not be suitable microfinance candidates. Microfinance may not be appropriate for populations with a high incidence of debilitating illnesses (e.g., HIV/AIDS). Dependence on a single economic activity or single agricultural crop, or reliance on barter rather than cash transactions may pose problems. The presence of hyperinflation, or absence of law and order may stress the ability of microfinance to operate. Microcredit is also much more difficult when laws and regulations create significant barriers to the sustainability of microfinance providers (for example, by mandating interest-rate caps).

I completely agree with this assessment of the advantages and restrictions of microfinance. Although it is a promising way to help global education and poverty, there are certain aspects to microfinance that make it unrealistic for some groups that are in need of help. Similarly, one aspect that was not brought up is the necessity for people who are easily accessible by a team that is on the ground in the area being helped. If a certain country has restrictions on who can enter and do what, it may be difficult for our team to help the people there. While microfinance cannot reach all economic segments of society, it has been shown to reach segments previously un-served by other financial markets.

CONCLUSIONS AND DISCUSSIONS

The study results proved that positive impact on women empowerment through self help groups, in terms of increase in social awareness and participation, savings habits, income level, self

employment, asset creation, repayment of other debts, improvement in decision making skills and improved nutrition level at their household. The self help groups have enabled poor women to get access of various financial products and services. The self help group concept enabled many women to achieve social recognition. Greater emphasis has to be given to provide education, training and creating awareness among the members of the group.

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