MAINSTREAMING THE MARGINALIZED THROUGH MICRO-FINANCE-
A LITERATURE REVIEW

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ABSTRACT

Microfinance as a tool has emerged as one having the potential to have effective role in empowering rural people and their security related issues. Under this, with the help of banking services loan facility is provided to the lower income individuals and groups and also to the unemployed rural mass who do not have access to these financial services. In every model there are bound to be some limitations that to in the initial stages. Keeping aside the same, if we look into the other side (positive side), there is definitely the role of micro-finance that cannot be undermined. In the present paper we have tried to understand whether the micro finance institutions have contributed for the development of the economy and more specifically in the rural and underprivileged areas. The objective of the study is to find out various variables which are reflected through the micro-finance initiatives. It is found in the various studies, that the presence of these institutions in the rural area has been already felt by the people that area.

Key words: Self Help Groups (SHGS), Micro-Finance (MF), Rural Area & Poverty.

AN OVERVIEW

India lives in villages. At present there are more than 6 lakh villages in India. Economic freedom is a challenging factor ever since independence. It is very unfortunate that even after 66 years of independence the living conditions of the interior areas of India not changed as it should be. It is not that development is not occurred in last 66 years; however the fruits of development have not reached to the rural area to the extent, expected. The dreams of 21st century cannot be realised without financially empowering the rural mass. The banks are trying at their best to include the
excluded through financial inclusion initiatives however it seems to be that initiatives are not enough for mainstreaming the rural poor in this direction. In the recent times the initiatives of micro-finance institutions are also highly accepted by the rural population. The presences of these institutions are already felt by the rural masses. These institutions with the help of self help group are able to reach the needy and underprivileged people and able to contribute for the upliftment of rural economy and living conditions of the people. The present paper tries to understand the various roles played by the micro-finance institutions in this direction.

**OBJECTIVE OF THE STUDY**

- To understand the various variables that contributes to the economic development of rural area through micro-finance initiatives.
- To make in depth study on the effectiveness in the pre and post micro-finance initiatives in the Jagatsinghpur district of Odisha.

**METHODOLOGY OF THE STUDY**

The present paper is developed through the secondary sources by visiting various libraries and also from on-line journals.

**REVIEW OF LITERATURE**

Puhazhendi V and Satya Sai KJS (2000)- In their study they have made an assessment of impact of microfinance on socio-economic status of 560 households from 223 SHGs covering 11 states like Odisha, West Bengal, Rajasthan, West Bengal, UP, MP, AP, Karnataka, Tamil Nadu, Gujrat, Maharashtra. The selection of SHGs were made based on multistage stratified random sampling method. The sample SHGs identified for study in surveyed states were distributed as per probability proportional to cumulative linkage made as on March 31, 1998 subject to minimum 10 SHG for each state and age of SHG were minimum one year of Bank linkage. Majority of sample SHG members belonged to economically weaker sections, having uniform socio-economic status, education level ranging from primary to higher secondary and proximity in residence. The study revealed that economic condition improved in Post SHG situation of the sample, by substantial increase in average borrowing which was invested in income generating assets, increase in household income significantly, reduction of households below poverty line, decline in income inequalities, savings and borrowing and increase in employment performance. In social aspects, the participating women members of SHG were showing improved self confidence, reduction of family violence, increased capability to deal with social evils and problems faced in their everyday lives.

Akoijam Sunindro L.S (2003)- In this paper, Rural Credit: A source of Sustainable Livelihood of Rural India the author has analysed in detail the various tools of rural credit in pre and post reform periods concerning Financial exclusion and vital role of institutional credit as the central theme of development process by RRB, Cooperative credit structure and SHG-Bank linkage of NABARD as a meaningful. The core objective was to ensure timely and adequate credit at reasonable rates to large rural populace resting on three major pillars: directed lending to disadvantaged people on priority sectors, rapid expansion of institutional structure and lower interest rates. Despite all these efforts, flow of credit to rural India was not in the expected lines as high cost, no timely availability of loans are the major problem in the rural areas.

Microfinance as a tool has emerged as having the potential to have good impact on the security and empowerment of rural poor people through SHG-Bank linkage model. The major issues and concerns of rural credit are: wasteful expansion of rural credit institutions, inadequacy of staff,
and emphasis on credit neglecting non credit services, poor quality of lending and mounting overdue, lower lending rates, Lower CD ratio, non recycling of resources of banks affecting profitability and viability. This has led to comeback of money lenders in the informal market While RRBs need merging and revamping, cooperatives plagued with politicisation and increasing focus of PSBs on commercialisation of credit after IRAC norms and capital adequacy came into force in post reform era, there is a need to revamp the efficiency of credit delivery system in rural areas. Towards this end, RBI introduced KCC, elimination of SAA, debt restructuring policies,, OTS and debt swapping, disincentives for PSC lending, credit to farmers based on individual risk etc.MFIs made inroads in rural areas for providing demand driven products and services using cost-effective delivery through rural group lending having social cohesion and individual lending also.SHG Bank linkage conceived as a PPP model of SHGs.  

Basu Priya and Srivastava Pradeep (2005) – In their study it is found that the rural people have limited access on the formal sources of finance. However, with the help of micro-finance initiatives the rural mass able to include themselves in the mainstream of financial inclusion and also these institutions are able fulfill the wishes of rural people. The effectiveness of micro-finance institutions in these areas is quite significant due to quick and hassle free loan facility available to these needy and underprivileged section of the society in the rural area.  

Aloysius P Fernandez (2006) – In this paper the author find that the role of the SHG should not be restricted to including the landless and marginalised farmers in the mainstream of financial inclusion, it is also strongly felt that the SHGs should also extend their involvement in the non-farm sectors also for creating a scope for revenue generation.  

Khandelwal Anil K (2007) in his article Microfinance Development Strategy for India, published in Economic and Political Weekly has argued that formal financial institutions should strive to make "coordinated and collaborative approach" with local grass root institutions having greater understanding of credit needs and cash flow of people in rural area to bring the marginalized and low income rural people to the fold of national mainstream economy. . The emphasis in designing new products and innovative services to cater the need of heterogeneous poor masses would enable to produce desired results of socio-economic upliftment on a sustainable basis.  

Badjena Nirbachita, Gundimeda Haripriya (2008) This paper studied the acceleration of financial inclusion using a SHG Bank linkage model of Microfinance A large number of research studies made field experiments and observed that financial inclusion has significant beneficial effects for individuals, for empowering them by both economically and socially.. In particular, the evidence is most significant when the use of basic bank accounts with relaxed KYC norms was provided to the socially excluded people to bring them into ambit of organized Banking System.  

Shetty,Navin K.( 2008)- In this paper the author tried to change the traditional thinking of financial service providers that the poor are not able to save money and having very hard time to save money because of inherent problems. However, if these sections of the society can be included through the micro-finance plus services by making insurance for the possible business loss or non-performing assets, in that case the same people will bear the premium for the insurance against the possible loss to the micro-finance institutions. This will help in improving the credit needs for consumption and productive purpose.  

Thorat Usha (2008), Dy. Governor, Reserve Bank of India has opined at the seminar on‘Vision-2020- Indian Financial Services Sector’ hosted by NDTV that Financial Inclusion is the key process for sustaining the growth and development of our country She envisioned that the challenges in the coming days are going to be building synergy between MFIs and SHGs and Banks by using seamless ICT based models for implementing Financial Inclusion which requires skilled manpower to manage IT platform successfully.  

Kumar Pankaj, Golait Ramesh. (2009)- made a study of secondary data relating to Spread of Banking at Regional and All India level, CD ratio, Spatial disparity in SHG Bank Linkage model,
Per Capita Income and Poverty ratio and showed that SHG programme augurs well for the task of financial inclusion, financial equity and efficiency.\(^9\)

Rangapa K.B, Bai Renukaand Sandesh A.J (2009)- made an empirical study on the outcome of SHG Bank Linkage programme and its efficacy as tool for alleviating poverty and employment generation and social upliftment. The methodology of research was based on Multistage Stratified random Sampling Method, Chi square test was opted to verify test of significance between degree of FI and SHG., t value study at 5% probability for institutional borrowing which considered the Financial Inclusion index. The study focused on the Borrowing from institutional and non-institutional sources by SHG members. SHG Bank linkage increased the flow of institutional credit to SF, MF and Landless farmers and discouraged non-institutional borrowing through thrift creation and suggested that there is positive correlation between SHG and Financial Inclusion.\(^10\)

Ahmed Salehuddin(2009)- has showed that the concept of Microfinance, MFI and other delivery channels of financial services to the poor have contributed to the economic development of people below poverty line in Bangladesh. He made an objective assessment of the impact of microfinance programme on poverty and employment opportunities for an enhanced income which is adequate to cross the poverty line. Of the various avenues self employment and small business trade accounts for more than 40% of funds disbursed by MFIs while agriculture loan and other activities were given lesser preference by MF clients. The authors have cited the findings of impact assessments of microfinance programmes like Rahman (1996) using Economic indicators and social indicators. The economic indicators like Household consumption increased due to higher purchasing power. Human capital and fixed investment increased and self employment activities contributed more than 50% of total income of Participating members which showed an increase. Among social indicators like no of meals taken by men and women, school enrolment rate, attitude to education and preference for pure drinking water increased by the participating members.\(^11\)

Deepti KC (2011)- has argued that Microfinance is recognized as an important tool in connecting the unbanked population to mainstream finance. The clearance of the draft document of the Microfinance Institutions (Development and Regulation) Bill by the Union Cabinet is an indication of the Government’s faith in the sector. The RBI and NABARD have supported the propagation of micro finance considerably through the SHG-Bank Linkage Programme (SBLP) since 1992 and have designed incentives to support micro finance institutions in forming Joint Liability Groups (JLGs). Commercial Banks are incentivised to lend to Micro finance institutions (MFIs) by placing MFIs under priority sector lending (PSL). PSL requirements mandate banks to ensure that 40% of their aggregate net banking credit goes to stipulated sectors that are considered important to foster financial inclusion.\(^12\)

Rama Murthi B.M:(2011): In this paper the author tried to examine the financial initiatives taken by the self help groups and some selected banks. It was found that the both internal and external components play an important role for the viability of these institutions. In addition to this the various supporting services streamlined though which credit is sanctioned and ranging from the formation of different groups and providing training for awareness about the financial literacy. Similarly, the other ancillary services are core components for successful operation of these organisations.\(^13\)

Bateman M and Chang H (2012)- In this paper the authors tried to understand whether the concept of MFIs is accepted by the political parties? It was found that as the core objective is to reduce the poverty keeping in mind the concept of inclusive growth, so this model is highly appreciated by the all political parties and accepted by all.\(^14\)

Bangoura Lansana (2012): The present paper tried to understand the role of micro-finance in the developing countries. The authors found that no developing country can develop, by ignoring the rural mass so the importance of the micro-finance is also being felt by the policy makers and now it is an integral part of development policies in the developing and poor countries.\(^15\)
Beg. Masroor Ahmad (2012): This paper made a study to evaluate the factors which act as barriers in accessing the banking services, level of penetration of bank services in deepening the outreach and impact on poverty and employment. The study has revealed that financial inclusion and the extent of poverty and unemployment is still positively correlated using the Karl Pearson’s method of correlation. Karl Pearson’s correlation technique was applied to establish relationship between two variables first is: Composite Index of Financial Inclusion and the second is: Poverty and Unemployment. The negative correlation between financial inclusion and the poverty ratio as well as unemployment was observed which indicates that there is significant impact of financial inclusion and the poverty/employment levels. However, the benefits of banking products should be brought into the knowledge of the low income people at the bottom of the pyramid. And large majority of vulnerable section of society excluded should be brought to the fold of financial inclusion.

CONCLUDING REMARKS

The role of micro-finance institutions highly accepted in the rural areas. Through the review of literature the various attributes identified are MF initiatives have increased the household income significantly, it helps in reducing the household below poverty line, helps declining income inequality, helps in increasing saving habits and borrowings, increases the employment performance, increases the confidence in rural mass, reduces family violence, increases the capability to deal with social evils and deals with day to day problems, it made roads in rural areas for providing demand driven products and products using cost effective delivery, rural poor enjoy very little access to finance from formal sources and MF helps to overcome the problem, provides the quick/hassle free credit to the poor, helps in promoting financial inclusion to the marginalized and small farmers, these are having greater understanding of credit needs and cash flows of people in rural area, it helps in empowering economically and socially, contributes in improving credit needs for consumption and productive purpose, there is a positive correlation between SHG and FI, through MF household consumption increased due to higher purchasing power, it is important tool for connecting the unbanked population to the mainstream of finance, politically acceptable, integral part of development policies in poor countries and both external and internal factor play an active role in making the group self reliant.

REFERENCES