

Issue of Microfinance in Rural Areas

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Abstract – Technology, innovation, and knowledge have become the key drivers of economic growth today. A broad scan, across many industry verticals, suggests that much of the economic growth of the last decade has been facilitated by the existence of strong technology platforms. The effective absorption and utilization of data and information is extremely important for any sector at various developmental stages. However, the importance of data management becomes more pronounced at the advent of the growth stage when an industry is expanding and diversifying rapidly. This is the state in which the Indian Microfinance industry is in today. As a result, microfinance practitioners' motivations to use technology interventions are the same as those for any other similar business model: technology's ability to speed up the flow of information and capital, automate transactions, control and analyze data, improve customer experience, reduce transaction costs, and increase efficiency and customer outreach. Technology's potential has, therefore, led Microfinance stakeholders to believe that technology can have a profound impact on their operations. As a result, technology's promise and potential is being explored by both technology providers and microfinance institutions.

Keyword:- Microfinance, Rural, Technology, Economic Growth etc.

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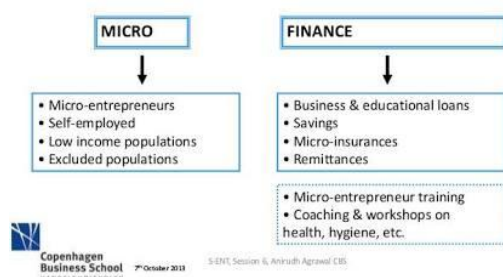
INTRODUCTION

The concept of micro financing is well known for social Upliftment as well as for the development of rural and backward areas considerable efforts are being made at the public and private sectors to bring in enough number of technologies in the rural areas for their implementation and use through micro financing for the overall development. In the rural areas people are not much aware about the micro financial schemes and their benefits. Hence, in order to provide sustainable rural development and progressive poverty alleviation, the role of micro financing agencies becomes an important in the context of current scenario. The present paper focuses on the whole mechanism of micro finance, its role to achieve sustainable rural development and for social economic benefits are discussed in details.

Microfinance can be defined as the provision of a broad range of financial services such as deposits, loans, payments services, money transfers, and insurance to the poor and low-income households and their farm or nonfarm microenterprises. Micro financing for the poor over the last two decades was led by practitioners who developed methodologies that achieve very high rates of repayment and cost recovery and also reach predominantly poor clients, especially women (Robinson, 2001). Greater sustainability means that donor subsidies can be leveraged to reach greater numbers of poor clients. In the past, the failure to charge interstates enough to cover costs and enforce repayment meant that subsidies were largely absorbed in covering operating costs and loan losses, while only a select few benefited from the limited number of subsidized loans that could be delivered.

What Is Microfinance?

- Microfinance is the offer of financial & non-financial services to people **excluded** from the traditional banking system. The services are **adapted** to the needs of the target populations.



Though microfinance significantly differs in some ways from the traditional banking industry, traditional banking technologies, when applied innovatively in developing countries, have played a role in reducing costs and increasing outreach and penetration, of the microfinance model. Management Information Systems (MIS), Point of Sale technologies (POS), Automatic Teller Machines (ATMs), Interactive Voice Response (IVR) systems and smart cards are among the major technologies that have entered microfinance over the years from the formal financial sector.

ORIGIN AND GROWTH OF MICROFINANCE IN INDIA:--

On 12th July 2002, Prime Minister Atal Behari Vajpayee outlined an eight point agenda to push the economy on a growth path of eight percent during the 10th plan. PM Vajpayee assured that it would be government's endeavor to ensure that "the poor and the unorganized sector can access to savings credit and insurance services". This statement itself is a great boost to the microfinance sector, as one can see the changing perception of the people inflecting the policies, towards it; Microfinance is being practiced as a tool to attack poverty the world over.



GROWTH OF MICROFINANCE WITH REFERENCE TO E-GOVERNANCE:-

The growth of microfinance is visible in many aspects. There are more than 2000 NGOs involved in the NABARD SHG-Bank linkage program. Out of these, approximately 800 NGOs are involved in some form of financial intermediation. Further, there are 350 new generation co-operatives providing thrift and credit services. According to an estimate, the present total outstanding, including Sa Dhan members and bank linkages is approximately Rs.700 crores (Rs. 150 crores of Sa-Dhan members and another Rs. 550 crores from the Banking system). The total client base is estimated at 6-8 million as opposed to the Government of India (GOI) intention to reach 25 million clients.



The inadequacies of the formal financial system to cater to the needs of the poor and the realization of the fact that the key to success lies in the evolution and participation of community based organizations at the grassroots leveled to the emergence of new generation of MFIs. Another kind is NGO-MFI directly lending to the poor borrowers, who are either organized into SHGs or into Garmin Bank type of groups after borrowing bulk funds from SIDBI, RMK and FWWB. There are MFIs which are specifically organized as cooperatives, such as over 500 Mutually Aided Cooperative Thrift and Credit Societies (MACTS) in AP, promoted among others by Cooperative Development Foundation (CDF) and the SEWA Bank in Gujarat which also runs federations of SHGs in nine districts.

MICROFINANCE HELPING POOR THROUGH E-GOVERNANCE:-

Microfinance is yet to prove its worth as instrument poverty and bring a change in the rural socio economic structure. In some countries it is already generating positive results. The study of the Impact of Micro finance means how the micro financial services effects on the lives of the rural and as well as urban poor. That is, whether or not micro finance enhances the process of income growth, poverty reduction, asset building etc. Microfinance is the best possible method to improve the socio-economic structure in the rural areas. The admittance of commercial banks and other formal financial institutions into microfinance may enhance the competition for the ongoing micro finance institutions. Although it may better the rural financial sustainability but minimize lending to the poor. Providing efficient micro finance services for this segment of the population is important for a variety of reasons.

RURAL MODERN EDUCATION:-

The rural education framework is very important for absorbing technological innovations specially meant for rural areas. With the help of education, people develop a sound reasoning of what is good and what is bad and this also makes them self-reliant

Technology plays a crucial role in achieving this goal. There is a need to develop good infrastructure for education in villages. Apart from this more number of rural technology courses need to be floated in Polytechnics where youth can learn about these technologies and then start production on their own. Gandhi had proposed the idea of Nai Talim or 'New Education' for educating whole India which was largely followed at the time of its emergence in 1937. It is working as a model for imparting education by many Rural Institutes across the nation today.



GREEN TECHNOLOGY FOR RURAL DEVELOPMENT:-

The green technologies are those technologies which are eco-friendly. In other words, the technologies developed by using natural resources and when adopted do not create any nuisance to the environment. In India there are number of R&D scientific organizations like Council of Scientific and Industrial Research (CSIR), Indian Council of Agricultural Research (ICAR), Indian Council of Medical Research (ICMR), Indian Institute of Technology (IIT), Conventional Universities, Agricultural Universities, Baba Atomic Research Centre (BARC) and number of private industrial research agencies are contributing in evolving one or other technology which is rather eco-friendly and can be defined as green technology. Depending on the necessity and challenges that are required for the overall development of the rural sector. MFIs need to bring in and implement at least some of the green technologies in rural areas. For this purpose micro financing is very much needed for applications of green technologies. Integration of micro financing and technological application can definitely stimulate growth and overall development of the rural sector.



Three reasons have been thought of which are favorable for investors in rural sector i.e. high REO's (returns on equity), increasing investor comfort with renewable generation risk, and strong commitment from the central government to ensure renewable feasibility. The growth of the green sector is substantiated by pace of lending support financially through banks for implementing green technology projects. Recently Yes bank and State Bank of India have set aside certain percentage allocation of funds to implement projects related to clean technologies.

Yes Bank has offered Rs 700 crores for a project involving management of municipal solid waste and its disposal in an environmentally friendly manner. State Bank of India has tied up with Managing Emission, a Mumbai-based company involved in business of setting up projects for renewable energy and energy efficiency with carbon embedded assets, to provide 20,000 energy efficient plants to rural India through micro finance loans. The project involves building bio-gas plants at farmers' houses. The project aims at reducing greenhouse emission by saving conventional fuel such as fire wood, LPG and kerosene. Under the project, farmers contribute 50% of the cost and the balance 50% is financed through low interest micro finance loans from the bank. The repayment of the micro finance loan is then structured in a manner by which the income received from carbon credits is used for repayment.

INFORMATION AND COMMUNICATION TECHNOLOGIES (ICTS) AND MICRO FINANCE ACTIVITIES:-

The MIS involves all aspects of gathering, storing, tracking, retrieving and using information within a business or organization. The information system helps loan officers track their client's repayment schedules and balances. It helps management to assess the quality of the loan portfolio. And it can help the entire institution monitor progress toward operational objectives. Thanks to the development of computers and the software applications that run on them, much of this work can now be automated and information more readily accessed. When applied in

combination with sound operating procedures, IS software can improve transparency and efficiency, lower costs, improve reporting, and allow management to make more informed decisions.

ICTs can be effectively used to provide information about micro finance organizations and their services. Though many web sites provide information on micro financing, there is dearth of information on the terms and conditions, institutions that provides micro finance etc. This information can be provided both in English and also in other Indian languages. ICTs can be effectively utilized to monitor the various Micro Finance activities. The various schemes implemented by the Department of Rural Development are monitored physically through various impact assessment studies. The information required to assess the schemes at the grass root level can be out sourced to the self-help groups.

ICTs can be used to provide access to wider markets and better prices. ICTs can be used to enhance the economic returns for the micro finance activities by providing access to global markets at better prices. At present RURALBAZAR ([http:// ruralbazar.nic.in](http://ruralbazar.nic.in)) the application software has been conceptualized to assist market needs of products produced by rural people. It offers internet web to show case there products to the world. It seems some of the states like Tamil Nadu, Goa and Tripura have successfully adopted the software. However, efforts should be made to ensure quality of the products produced by rural producers and to provide adequate logistic support like appropriate packages and timely delivery to the products.

PROBLEMS IN IMPLEMENTATION OF E-GOVERNANCE:-

An introduction of technology necessarily brings with it problems in the education and acceptance by microfinance customers. These customers, often illiterate or educationally deficient, may lack even a basic understanding of how to interact with technology that is vital to the success of microfinance. Microfinance institutions must first gain a complete understanding of the local community. They must then decide whether a particular technology is viable in that area, and if so, how it should be tailored to meet the specific needs of the people they wish to serve. These institutions may also develop educational programs or offer personal support services to increase the comfort level of their customers in using microfinance technology. Problems also arise in the implementation of technological infrastructure. Many of the areas that microfinance institutions serve do not have adequate electrical or communication wiring. Their populations are also not concentrated in a single area, and the costs associated with transportation and serving a limited amount of transactions are often too high for

institutions to service. When a microfinance institution attempts to introduce a sophisticated or unfamiliar technology into its business structure, an important consideration is the level of knowledge the average customer possesses on that technology. A promising technology, such as point-of-sale cash terminals or ATM machines, could ultimately fail and lead to a large financial waste if its intended population does not know how to use it. According to Guatam Ivatury, an adviser with CGAP, the most successful strategy in instituting a new technology into an MFI is to follow a six step process: project preparation, needs analysis, design, selection, implementation and management .In the beginning stages, bringing in outside consultants that can provide insights into what has worked before, which technology providers best suit their specific customer profiles, and whether or not it is cost effective to provide additional education to the public in how to use the technology. Additionally, donor funds could be channeled towards necessary education programs that can ensure the technology takes hold.

The lack of infrastructure - in areas such as transportation, communication, and electric wiring - is a major hurdle for MFIs attempting sustainability. Additionally, as a result of clients being spread out in rural areas, there are additional transaction costs even with the proper infrastructure.

CONCLUSION:-

The role of microfinance as a viable alternative to formal financial systems has expanded beyond what many considered possible at its inception. Regions of the world in which there were no realistic means for the poorest and least educated to obtain credit or save now rely on microfinance to avoid the exclusionary nature of formal banking systems, finally beginning the process of overcoming poverty. Much of this success has been due to the innovative use of communication, transportation, and information technologies that allow microfinance institutions to survive, or even thrive, in financial environments that are exceptionally difficult to work with. Continued growth of the microfinance industry, however, will depend on overcoming technology related problems that have yet to be adequately addressed

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