

## MICROFINANCE INSTITUTIONS IN URBAN AREAS OF KURNOOL DISTRICT, AP: A STUDY

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### ABSTRACT

Development of a country doesn't allude to the improvement of foundation, advancements and innovation. Truth be told it is really connected with the advancement of all residents as far as their way of life. A nation goes being developed way assuming every one individuals are up to speed during the time spent development and appreciate nature of living by getting to essential offices of life like food, clothing, lodging, wellbeing, clean water, schooling, business and great regular and social climate. Everything happens when economy is sound and have predictable development rate. In our country the monetary development rate is straightforwardly relies upon the advancement of Urban areas as it is the spine to the economy. Offering monetary help to Urban individuals is a Hercules task as they don't keep up with any formal and essential reports, bombing which banks or some other monetary institutions don't give even a solitary penny. In this association, Microfinance institutions assist individuals in Urban areas with an assortment of administrations with negligible documentation. It incorporates advance, investment funds, credit, cash move, protection, annuity and other monetary developments and so on In this research an endeavor is made to discover new ways to deal with measure the effect of microfinance in the advancement of Urban areas.

**Keywords:-***Microfinance, Institutions*

### INTRODUCTION

In a nation like India, the general advancement of the economy absolutely relies upon equal development of its Urban economy. During the past 50 years, microfinance has acquired huge significance and driving force in India through the help of agreeable social orders and its MFI model. It is generally implied for minuscule ranchers, families, little finance managers and cabin ventures to convey their normal business exercises. The basic thought of microfinance is to lift up the profit of Urban individuals. Microfinance is certainly not a most recent peculiarity. It is begun as a development in Bangladesh in 1970s. Over the long haul it has turned into a trendy expression for business analysts as it is essentially contributing the advancement of Urban areas. It offers wide-running monetary administrations to individuals of low-pay individuals or gatherings particularly in Urban areas who can't take bank's help. Nowadays, microfinance has acquired significance as it offers

better monetary types of assistance to cater the requirements of disregarded gathering of Urban areas when contrasted with customary bank administrations.

### **Microfinance: Concept and Definition**

Microfinance and microcredit are however regularly utilized reciprocally, microfinance is very not quite the same as miniature credit. The previous is a wider idea that incorporates investment funds, credit, protection, cash move, value exchange and other monetary items focused on to poor people and low pay individuals. These items are frequently joined via preparing in monetary education and business the board, while the later alludes to little credit office gave to destitute individuals to inspire them to become independently employed. In basic words, miniature credit incorporates credit exercises just, yet microfinance incorporates acknowledge as well as non-credit exercises. Miniature credit is hence one part of microfinance. Miniature credit alludes to little advance projects worked by non-benefit associations, i.e., these projects have no benefit thought processes. Paradoxically, microfinance alludes to benefit making adventures (Ledge Wood, 2018; Remeyi and Quinones, 2019) supporting that microfinance adventures don't meet the definitional prerequisite of NGO.

The team on steady strategy and administrative system for microfinance (NABARD, 2019) defined microfinance as "arrangement of frugality, credit and other monetary administrations and results of tiny sums to raise pay levels of clients, and work on their expectations for everyday comforts."

Global Labor Organization (ILO) portrayed microfinance as a monetary improvement approach that includes offering monetary types of assistance through institutions to low pay clients.

Blend (Microfinance Information Exchange) depicts microfinance as "Microfinance administrations instead of monetary administrations overall are retail monetary administrations that are generally little comparable to the pay of an average person."

As indicated by CGAP, Microfinance can be defined as the stock of credits, investment funds and other essential monetary administrations to poor people.

As indicated by ACCION, microfinance is defined as — "Banking and/or other monetary administrations focused on to low and direct pay organizations or families, including the arrangement of credit."

Robinson (2001) defines microfinance as — "limited scope monetary administrations essentially credit and reserve funds gave to individuals who homestead, fish or herd and adds that it —refers to a wide range of monetary administrations gave to low-pay families and endeavors."

Microfinance can be defined — "as the arrangement of expansive scope of monetary administrations to low pay clients, unfortunate families both in urban and Urban areas who are for the most part not bankable." - (Debadutta kumar Panda, 2009)

### **Definition of Microfinance Institutions**

According to the proposed Microfinance Services Regulation Bill, microfinance administrations is define as "giving monetary help to an individual or a qualified client, either straightforwardly or through a gathering system for:

- i. an sum, not surpassing rupees 50,000 in total for every person, for little and small endeavor, agribusiness, unified exercises (counting for utilization purposes of such individual) or
- ii. an sum not surpassing rupees one lakh 50,000 in total for every person for the end goal of lodging, or
- iii. such different sums, for any of the purposes referenced at things (I) and (ii) above or different purposes, as might be endorsed." (NABARD, 2008)

### **Procedural aspects of Microfinance**

The microfinance program runs under two fundamental model of asset streams under microfinance in India

(I) SHG-Bank Linkage (SBL) model

(II) Microfinance Institutions (MFI) model These models are examined as underneath.

#### **SHG-Bank Linkage (SBL) model:**

The SHG-Bank Linkage<sup>3</sup> Program (SBLP) of NABARD has arisen as the essential model for giving microfinance administrations to destitute individuals in the country. It attempts to lay out linkage between formal monetary institutions (FIs) and informed self improvement gatherings (SHGs). SBLP is subsequently a versatile methodology for empowering the poor to get to monetary administrations from the monetary institutions.

SHG is defined as a little casual relationship of individuals having homogeneous<sup>4</sup> social and financial foundation, willfully meeting up to save modest quantities routinely, to commonly consent to add to a typical asset consistently and to meet their crisis needs by creating low interest advances. The size of the gathering isn't in excess of 20 individuals. From one family, just a single individual can join the gathering as in this manner more families can partake in the development. The gathering arrangement cycle might be worked with by SelfHelp Promoting Institutions (SHPIs) Promoting Implementing Agencies (PIA), generally a NGO, or by the MFI or bank itself or government office like DRDA, or it might advance from a customary pivoting investment funds and credit gatherings (ROSCA) or other privately started gathering. Individuals from SHG meet week after week or month to month. Every one of the significant choices on saving and loaning exchange are taken in the gathering. The individuals likewise examine normal issues and offer data to come at an answer. Subsequently, SHG gatherings likewise gives the stage to decrease data holes. The gathering individuals utilize aggregate information and expertise to utilize credit and ideal reimbursement of advances. Bunch individuals likewise put forth attempt to tackle their financial and social issues through shared help.

SHG ordinarily manages the system of friend tension and joint liability<sup>5</sup>, in this manner forestalling the requirement for any substantial insurance to acquire advance. Since joint obligation regularly places high weight on other gathering individuals, a gathering typically use peer strain to guide, screen

and convince the borrower individuals to use the advance appropriately and to reimburse it expeditiously in light of a legitimate concern for all the gathering individuals (Shylendra et.al.). This will in general build the reimbursement rate and makes them qualified for additional credits. Consequently, they are viable in discouraging defaults. One might say that companion pressure is a viable substitute of collateral<sup>6</sup>. The investigations have perceived SHGs as a type of 'social guarantee' subbing different types of 'insurance security' demanded by banks.

### **Saving and Lending Mechanism under SBLP**

The gathering chief who is chosen equitably arranges the gathering, keeps up with the gathering records and assists with working with the most common way of banking and other financial and social contacts. The maxim of each SHGs is 'savings first-credit later'. It instills saving conduct among the individuals and they learn monetary discipline. Not long after a couple of gatherings, the SHG pass a goal in the gathering meeting, endorsed by every one of the individuals to open a saving ledger for the sake of SHG. The SHG approves something like three individuals, any two of whom, to together work the record. Subsequent to finishing all the bank related customs, a passbook is given to the SHG. Subsequent to saving for a base time of 2-3 months, the gathering begins inner lending based on conditions and at pre-concluded loan costs from the normal saving assets. For the most part, intra-bunch credits are accessible for creation as well as utilization purpose and loan fee fluctuates between 2 to 4 percent each month. Following a half year when the individuals have fostered a saving propensity and figured out how to make due, use and reimburse their advances, the SHG looks for outside credit from bank. The bank evaluates the exhibition of the gathering in view of specific boundaries, for example, bunch size, routineness of gatherings, saving assortment inside bunch, usage of savings, credit recuperations, and so on Subsequent to being fulfilled with regards to the suitability of the gathering, the bank gives an advance for the sake of the SHG. The quantum of credit by and large shifts between 1-4 times of the savings by the gathering however it very well may be more than that, gave past advances are effectively reimbursed and the bank gets fulfilled from SHG's presentation. For promoting the advance, the candidature of credit not entirely set in stone based on need and purpose of expenditure. The purpose can differ from purchasing resources for money creating exercises to crisis needs like ailment, marriage, and so on The premium procured is kept in the record as a piece of gathering store.

The gathering is on the whole answerable for reimbursement of advances. A little standard reimbursement plan is drawn with the SHG. Peer pressure beats wilful default down. The gathering individuals can get to perplexing and touchy data very much like casual banks. The jumble among request and supply of assets is limited in light of the fact that the gathering utilizes the cash as per its own requirements. Adaptability of advance reimbursement is additionally improved, as the reimbursement timetable of the person to the gathering need not match that of the gathering to the bank. The gathering might have normal pay creating exercises for which the advancing organization might orchestrate preparing programs.

In the entire course of saving and lending under SBLP, the exchange cost lessens and consequently both the agents and borrowers are benefitted. While the lenders need to manage a solitary SHG account rather than an enormous individual from little estimated individual records, borrowers as a

component of a SHG cut down generally expenses on movement (to and from the branch and different spots) for finishing customs and on the deficiency of work days in peddling for credits.

In the SBL model, the asset streams happens by three techniques:

(I) SHGs shaped and financed by banks: Banks itself takes up crafted by framing and sustaining the gatherings, opening their saving records and giving them bank advances in the wake of fulfilling itself as their development to assimilate credit. Here the bank goes about as the SHPI.

(ii) SHGs framed by offices other than banks, yet straightforwardly financed by banks: NGOs and other proper organizations in the field of microfinance work with getting sorted out, shaping and sustaining of SHGs and train them in frugality and credit the board. The banks straightforwardly give advances to these SHGs in the wake of noticing their activities and developing to assimilate credit. While bank gives advances to the gatherings straightforwardly, the working with offices proceed with their connection with the SHGs. Around 75% of the absolute number of SHGs are financed under this model. This is the most famous strategy for SHG-Bank linkage in India as a portion of the troublesome elements of social elements are externalized.

(iii) SHGs financed by banks involving NGOs and different organizations as monetary go-betweens: Various reasons, banks in certain areas are not in a position even to back SHGs advanced and supported by different offices. In such cases, the NGOs go about as facilitators and microfinance go-betweens. To start with, they from the gatherings, support and train them and afterward they approach a reasonable bank for mass credits for on lending to SHGs.

### **Microfinance comprehensively covers the accompanying exercises**

**Miniature credit:** It is a modest quantity of cash advanced to a client by a bank or other foundation. Miniature credit can be offered, regularly without insurance, to an individual or through bunch lending.

**Miniature saving:** These are store benefits that permit one to set aside modest quantities of cash for sometime later. Regularly without least equilibrium prerequisites, these savings account permit families to save to meet startling costs and plan for future speculations. Miniature protection: It is a framework by which individuals, business and different associations make an installment to share hazard. Admittance to protection empowers business visionaries to focus more on fostering their business while alleviating different dangers influencing property, wellbeing or the capacity to work.

**Settlements:** These are moves of assets from individuals in a single spot to individuals in another, across lines to loved ones. Contrasted and different sources of capital that can change contingent upon the political or financial environment, settlements are a moderately consistent sources of assets.

### **Microfinance Institutions (MFI) Model**

As the SBLP model is the most famous model of microfinance in India, the MFI model has likewise acquired energy in the new past. In MFI model, MFIs acquire enormous measure of assets from pinnacle monetary institutions, contributors and banks for on - lending to the people or gatherings. These MFIs offer monetary types of assistance to the people or to the gathering like SHGs. These

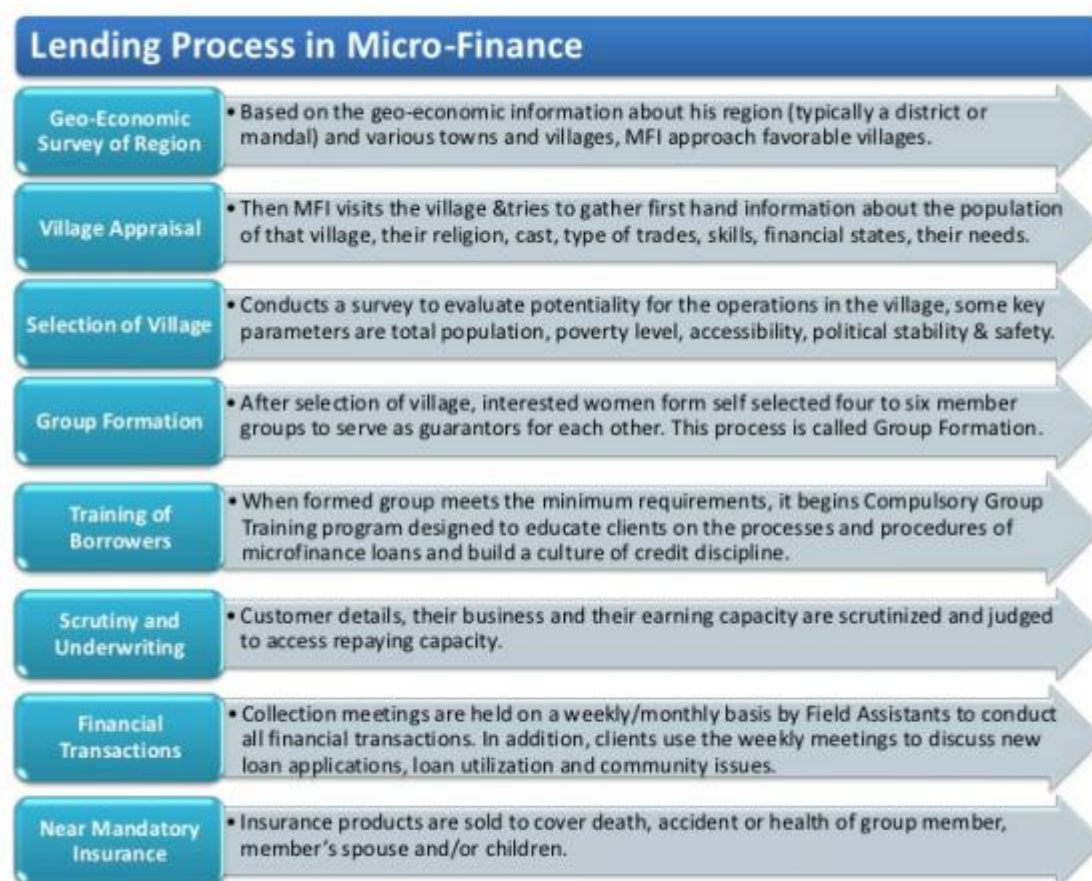


institutions loan through the idea of Joint Liability Group (JLG) . The MFI model in India is described by a variety of institutional and authoritative documents. MFIs in India exist in an assortment of structures like trust to enlisted under the Indian Trust Act, 1882/public Trust Act, 1920; social orders enrolled under the Societies Registration Act, 1860; Co-agents enlisted under the Mutually Aided Cooperative Societies Acts of the States; and non-banking monetary organizations (NBFC)- MFIs, which are enrolled under Section 25 of the Companies Act, 1956 or NBFCs enrolled with the Reserve Bank. These MFIs are dissipated the nation over and because of the assortment of enrolling specialists. However the vast majority of the MFIs entered the microfinance field solely after SBLP was all around dug in, business of these institutions gears at a lot quicker pace than the previous. MFIs are more forceful and inventive in looking out to the Urban poor with very much oiled dissemination channels when contrasted with the conventional financial framework.

**Fund flow process in microfinance**

Microfinance fund flow process requires a detail analysis to understand it thoroughly. It is graphically presented in below diagram (Kapare P, 2019).

**Fig. 1. Microfinance lending process**



As talked about in above diagram 1 , microfinance process begins with overview of district and it closes with conversation in regards to utilization of advance sum and other related issues. It show that at all stages microfinance institutions are thinking about the attainability of subsidizing and toward the end target is to accomplish the goal of improvement of recipients. Now and again, at beginning stage it

is expect to go for cash the board class of forthcoming clients. As it is starting stage, the clients have various inquiries in their psyche like pace of revenue, financing understanding, bank saving record work, spending plan and the board of obligation sum and so forth When the clients are through with this cycle, they can decide for getting interaction and use of it. Presently, they can apply for advance sum. If there should arise an occurrence of new clients, bank authorities upholds them in lending process procedural including documentation. In view of client investigation report of bank authorities, the bank endorses the expected sum. This sum upholds the recipients to satisfy their goal. The microfinance organization additionally gives preparing to help them to be a business visionary.

## **OBJECTIVE OF THE STUDY**

1. To study on Concept and Definition of Microfinance
2. To study on Microfinance Institutions (MFI) Model

## **RESEARCH METHODOLOGY**

In this research, the effect of microfinance and microcredit on Urban individuals not entirely settled by contrasting pre and post financial circumstance. The research depends on both the essential data also the optional data. The research is directed in the Urban areas of the Kurnool locale of Andhra Pradesh. To gather the essential data, a purposive irregular inspecting technique is utilized. In this association a purposive example of 10 miniature monetary institutions were chosen. Organized poll was planned on five point Likert's scale. The respondents are field officials, workers at administrative framework, and chiefs. A top to bottom meeting has taken from them to know the ground real factors, live encounters which they looked during their visit and how it contributes during the time spent financial advancement of Urban people group.

## **DATA ANALYSIS**

The data gathered from the field overview were arranged and dissected with the assistance of recurrence table, percentile investigation and proportions of focal inclination.

**Table-1: Questionnaire on Impact of Microfinance and Microcredit in the socio economic development of Urban People.**

Sl. No.	Statements	Number / Percentage	SD	D	N	A	SA	Total
1	Microfinance has improved the adequate amount of loans to the low-income groups or people in rural area	Number				4	6	10
		Percentage				40%	60%	100%
2	The Sanctioned loans are applied for the purpose which they were given	Number				8	2	10
		Percentage				80%	20%	100%
3	Microfinance is really the solution for eliminating poverty, if it is implemented properly	Number				1	9	10
		Percentage				10%	90%	100%
4	Micro Finance Institutions should be established in the rural areas of the country	Number			1	1	8	10
		Percentage			10%	10%	80%	100%
5	Micro Finances charge same interest rates as the mainstream banks	Number		10				
		Percentage		100%				
6	Micro Finance charge low interest rate than the mainstream bank	Number				8	2	10
		Percentage				80%	20%	100%
7	Low-income group repayloans given to them in time satisfactorily	Number				8	2	10
		Percentage				80%	20%	100%
8	Households use loans given to them for food, children education, minor house repairs, farming, fishing, health matters and other emergencies	Number		7		3		10
		Percentage		70%		30%		100%
9	The Government has done enough to support microfinance sector	Number		1	1	1	7	10
		Percentage		10%	10%	10%	70%	100%
10	Many microfinance are fail as a result of fraud and insider abuse	Number			1	1	8	10
		Percentage			10%	10%	80%	100%
11	Microfinance really promote business development and bring about economic development	Number				8	2	10
		Percentage				80%	20%	100%
12	Easy to facilitate loan packaging to Group membership	Number				9	1	10
		Percentage				90%	10%	100%
13	MFI provides services in the areas of money transfer, savings etc	Number				8	2	10
		Percentage				80%	20%	100%

\*Source: Primary data, SD = Strongly Disagree, D = Disagree, N = Neutral, A = Agree, SA = Strongly Agree

**Interpretation:** From the above table it was accounted for that 80% microfinance fizzled and couldn't get accomplishment in the objective because of the fake exercises and insider exchanging. Microfinance institutions are giving the financial administrations to the networks that don't have simple admittance to the standard banks and they are giving the monetary and social administrations to change the economic wellbeing of individuals so it ought to be un-political, liberated from the debasement and more straightforward. Respondents likewise concurred 100 percent that Microfinance truly advance business improvement and achieve monetary turn of events.

**CONCLUSION**

Microfinance Institutions are created with a main role to contribute during the time spent financial changes of Urban people group. Microfinance and Microcredit are not just centering in the space of credits and savings yet in addition empowering the ability focused income age acts to raise the financial status of Urban individuals. The meaning of microfinance was felt imperative in Urban areas because of the absence of infrastructural improvement. Microfinance exercises are a lot of fruitful in lessening the social issues looked by the economy, for example, neediness and joblessness as it instilled a propensity for savings in Urban individuals. Microfinance has fundamentally fostered the business in the Urban areas by giving the sufficient and enough advance offices to them. It is additionally important to screen and control the microfinance exercises by the states all together get liability and straightforwardness the exercises of microfinance establishments. It is suggested that



states ought to form the extremely viable systems to control the functioning mechanism of microfinance institutions as they become an integral part of Indian economy.

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