

MICRO FINANCE AND RURAL DEVELOPMENT

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Abstract: The term Microfinance could be defined as provision of shift, credit and other financial services and products of very small amounts to the poor in rural, semi urban areas, for enabling them to raise their income levels and improve living standards (NABARD 99). Robison (2001) defines microfinance as small-scale financial service primarily credit and savings provided to people who farm, fish or herd and adds that it refers to all types of financial services provided to low-income households and enterprises. Microfinance in India started in the early 1980s with small efforts at forming informal self-help groups (SHG) to provide access to much needed savings and credit services the members of which undergo a training programme on the basic procedures and system requirements. The members of the (SHG) save regularly, to minimize the financial burden. From this small beginning, the microfinance sector has growth significantly in the past decades.

Keywords: Microfinance, Poverty elimination, financial Inclusion, Credit delivery, Economic Empowerment.

INTRODUCTION

Microfinance has spread extremely rapidly since its beginnings in the late 1970's. It aims at eradication of poverty and hunger, universal primary education, the promotion of gender equality and empowerment of women, reduction in child mortality and improvement in material health. Hundreds of millions of people lack access to the formal financial sector. As a result, they cannot save, borrow, buy homes, or grow their businesses? Microfinance is being practiced as a tool to attack poverty the world over. The term Microfinance could be defined as provision of shift, credit and other financial services and products of very small amounts to the poor in rural, semi urban areas, for enabling them to raise their income levels and improve living standards (NABARD 99). Robison (2001) defines microfinance as small-scale financial service primarily credit and savings provided to people who farm, fish or herd and adds that it refers to all types of financial services provided to low-income households and enterprises.

The origin of micro finance or micro credit can be traced to the 1976 when Mohammed Yunus set up the Grameen Bank experiment on the outskirts of Chittagong University Campus as an experiment. Grameen mean rural or village in Bangladesh language. In Bangladesh, 97 percent of homes and virtually all rural villages lack a telephone, making the country one of the least wired in the world. This lack of connectivity has contributed to the underdevelopment of the country and the improvement of individual Bangladeshis. To address this problem, these Grameen Banks provide loans to the put up for collateral. Microfinance in India started in the early 1980s with small efforts at forming informal self-help groups (SHG) to provide access to much needed savings and credit services the members of which undergo a training programme on the basic procedures and system requirements. The members of the (SHG) save regularly, to minimize the financial burden. From this small beginning, the microfinance sector has growth significantly in the past decades.

DIFFERENT MODES OF SERVICES PROVIDED BY MFIS

Microfinance sector has covered a long journey from micro savings to micro credit and then to micro enterprises and now entered the field of micro insurance, micro remittance, micro pension and micro livelihood.

Micro-savings: These are deposit services that allow one to save small amounts of money for future use. Often without minimum balance requirements, these saving accounts allow households to save in order to meet unexpected expenses and plan for future expenses.

Micro credit: Micro credit is the extension of microloans to the unemployed, to poor entrepreneurs and to others living in poverty that is not considered bankable. Micro credit can be offered, often without collateral, to an individual or through group lending.

Micro-insurance: It is a system by which people, businesses and other organizations make a payment to share risk. Micro insurance products are mainly targeted at low income groups in the unorganized sector-farmers and craftsmen. The amount of premium in these schemes ranges between Rs.200 to Rs.500. the finance ministry recently considered two schemes Aam Admi Bima Yojna to extend death and disability insurance and Rashtriya Swasthya Bima Yojna, a health insurance scheme for below poverty line families.

Remittances: These are transfer of funds people in one place to people in another, usually across borders to family and friends. Compared with other sources of capital that can fluctuate depending on the political or economic climate, remittances are a relatively steady source of funds.

Participants in the Micro-Finance System

Asmitha: Provides rural poor women access to financial resources in the form of collateral free small loans for income generation and livelihood promotion. This enables them to set-off small start up business as a result low-income women become economic agents intrinsic to development rather than simply home makers.

Bandhan: Bandhan was set up to address the dual objective of poverty alleviation and women empowerment. The micro finance activities are carried on by Bandhan Financial Services Pvt. Ltd. (BFSPL), incorporated under the companies act, 1956 and also registered as a Non banking Financial Company (NBFC) with the Reserve Bank of India (RBI).

Cashpor India: The mission is to identify and motivate poor women in the rural areas and to deliver financial services to them.

Grameen Foundation: Works in 6 key areas: Connecting micro finance institutions with capital markets, strengthening organizations by building people practices, harnessing the power of technology, helping track people's movement out of poverty, sharing knowledge widely for boarder impact and social business.

Hand in Hand: Is a development organization whose objective is to eliminate poverty by creating enterprises and jobs. Focusing on help to self-help, we take a holistic approach that combines micro finance and support for women to start enterprises with work for women to start enterprises with work in four other areas that matter most to poor communities: education and child labor elimination, health and sanitation, a sustainable local environment and information technology access.

Micro Credit India: Today MFI works primarily with women. Through its field staff, MFI trains them in good financial practice, facilitates access to micro credit loans, equips them with business skills and facilitates access to new markets for their products.

Myrada: MYRADA is a non government organization managing rural development programmes in 3 states of south India and providing on going support including deputations of staff to programmes in 6 other states. It also promotes the self help Affinity strategy in Cambodia, Myanmar and Bangladesh.

New Life: New life designs projects based on survey of the socio, economic problems of the project area and support the poor, abused and abandoned children and women by executing the projects with defined goals/objectives. The current projects of new life includes orphanages for children from Child Labor, Ensuring primary education for the rural children in India. Early learning centers for children of vulnerable community groups, Reads to Lead Projects, Taking care of the medical needs of Physically handicapped and Mentally retarded children.

Saadhana: Saadhna is a non profit organization established in the year 2001 to reach out the urban and rural poor women with the specific mandate to catalyze the Endeavor of the poor for self sufficiency.

Samrudhi: Samrudhi's mission is to empower the poor and underprivileged to become economically self reliant by providing cost effective and need based financial services in a financially sustainable manner.

SKS India: Launched in 1998, SKS micro finances organization in the worlds. SKS also offers interest free loans for emergencies as well as life insurance to its members. Its NGO wing SKS foundation runs the Ultra Poor Program. SKS currently has micro finance branches in 19 states across India. SKS aims to reach members 15 million by 2012. In the last year alone, SKS micro finance has achieved nearly 170% growth, with 99% on time repayment rate.

National Bank for Agricultural and Rural Development (NABARD): NABARD was established in 1982 as a Development Bank, in terms of the Preamble of the act, regulating credit and other facilities for the promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas and for matters connected therewith or incidental thereto. The major support provided by NABARD relates to promotion and nurturing of SHGs by SHPIs. Training and capacity building of the stakeholders in the Sector right from SHGs leaders to policy level officials of the NGOs, banks and Government, equity/capital support and provision of soft loan assistance to MFIs. NABARD is also experimenting innovative projects for further developing the SHG-Bank linkage, particularly in different areas which are lagging behind and are prioritized for promotional efforts. NABARD also provides refinance support to banks to the extent of 100% of the bank loans disbursed to SHGs.

Reserve Bank of India: The earliest reference to micro finance in a formal statement of monetary and credit policy of RBI was in former RBI president Dr. Bimal Jalan's Monetary and credit policy statement of April 1999. The policy attached importance to the work of NABARD and public banks in the area of micro finance. The banks were urged to make all out efforts for provision of micro credit, especially forging linkages with SHGs, either at their own initiative or by enlisting support of non government organization (NGOs).

Self Help Groups: The origin of SHGs is from the brainchild of Grameen Bank of Bangladesh, which was founded by Mohammed Yunus SHG was started and formed in 1975. SHG are considered a new lease of life for the women in villages for this social and economic empowerment. SHG is a suitable means for the empowerment of women. Since SHGs have been able to mobilize savings from persons or groups who were not normally expected to have any saving and also to recycle effectively the pooled resources amongst the members, their activities have attracted attention as a supportive mechanism for meeting the credit needs of the poor.

Other Micro Finance Institutions (MFIs): A range of institutions in public sector as well as private sector offers the micro finance services in India. Based on asset sizes, MFIs can be divided into three categories:

- (1) 5-6 institutions which have attracted commercial capital and scaled up dramatically when last five years. The MFIs which include SKS, SHARE and Grameen Style Program but after 2000, converted into for-profit, regulated entities' mostly Non banking finance companies (NBFCs).
- (2) Around 10-15 institutions with high growth rate, including both new and recently from for profit MFIs. Some of MFIs are Grameen Koota, Bandhan and ESAF.
- (3) The bulk of India's 1000 MFIs are NGOs struggling to achieve significant growth. Most continuous to offer multiple development activities.
- (4) The non government organization (NGO's) involved in promoting SHGs and linking them with the formal financial agencies (FFAs) perform the following functions:
 - Organizing the poor people into groups.
 - Training and helping them in the organizational, managerial and financial matters.
 - Helping them access more credit and linkage with formal financial agencies.
 - Channelizing the group effort for various development activities.
 - Helping them in availing opportunities, widening the options available for economic development.

CONCLUSION

Micro finance is a powerful tool for poverty alleviation and development. In order to declare micro finance a success in India, not only do tens of millions of more people need to be reached, but those services must have a transformational impact on their lives and those of their family members. For that considerable work and continuous efforts are needed to diversify the source of funding for micro finance, to attract more foreign investment for well established MFIs, to use all the possible channels to serve more rural and urban poor, to develop its staff as more productive and professional to make it more poverty focused and profitable. Micro financial services can not only solve their own poverty, but can also serve as a complementary tool within a broader strategy to reduce poverty. In reality, poor people need access to many more financial services than just micro credit, including a range of micro savings and insurance products. These services can protect poor people from the impact of unforeseen crisis and emergencies in their household or micro business, from falling yet further into debt, and enable poor households to plan and manage their limited resources more effectively to meet their basic needs. The powerful push behind this huge and increasing support for micro finance indicated that national economic and social impacts are significant and it needs to be examined more closely.

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