

# MICRO FINANCE TO EMPOWER RURAL POOR

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## Abstract

The concept of rural development has emerged with new force and is almost at the top of agenda in national policies of developing countries. The objectives of the rural development are providing social goods and services in terms of social and economic infrastructure, increasing the income of rural family, creation of employment opportunities in rural areas, improvement of the living standards of low-income population living in rural areas through transforming the improvement of services of rural masses, and improvement of know-how which infuses in the rural people a sense of pragmatism in the process of development. Creation of employment opportunities and generation of adequate income for the beneficiaries are the theme of all social banking programmes. The endeavour is to lift the weakest among the weaker sections of society above the poverty line on a permanent basis. In developing economies, helping the rural poor and meeting their basic needs have been goals of the government. Micro finance means provision for smaller working capital loans to the self-employed or self employment seeking poor. This paper deals with micro finance, its feature, evolution of micro finance and its familiar models.

**Key words:** Micro finance, rural empowerment, poverty eradication, rural development, self-employment, etc.

## 1. Introduction

India is owned with abounded of natural and human resources. They are extremely used in public sector, private sector and co-operative sector. Even though these sectors work in more than sufficiently, but the magnitude of poverty and unemployment till continues. It was expected that the emergence of co-operative sector in all areas would solve fully the problems of poverty and unemployment. From 1970s, the micro finance has grown into a massive financial option manifesting itself into an inclusive process to strengthen micro enterprises of the poorest of the poor. In many countries, slowly the micro finance creates useful products making social transformation through a social platform. Micro finance was considered to be the bloodline for the growth of tiny self-employment units. Financial services to low income groups may be the single most effective way to reduce poverty and achieve broad based economic growth. During the last two decades, micro finance involving SHGs targeting women have become a major plank of donor poverty alleviation strategies in India.

## 2. Concept of micro finance

The idea of micro finance is the basic “theory of survival.” The concept of micro financing the self-employment activities in rural areas has developed considerably over the last twenty years. Strategically micro finance relies on rotational investment done to motivate poor to empower themselves and to save for the future and use those resources during the time of need. Theoretically micro finance means provision for smaller working capital loan to the self-employed or self-employment seeking poor. The micro credit summit defined micro credit programmes as those “extending small loan to poor people for self-employment project that generate income, allowing them to care for themselves and their families.” The micro credit summit also stated that “in most cases, micro credit project offer a combination of services and resources to their clients in addition to credit for self-employment”. These often include savings facilities, trainings, networking and peer support. In India, NABARD and RBI defined micro finance as the “provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban areas enabling them to raise their income levels and improve living standards. Prof. Mohammed Yunus articulated in his speeches and writings the self-evidence nature of the relationship of credit access to self employment. Indeed, Yunus compelling oratory has, over the years, foregrounded appealing images of the hard working poor carving a niche for themselves within the informal segments of market economics. Images of poor women, who initiate and sustain tiny, often home based enterprises in harsh economic environs and strive for upward mobility even as they unfailingly repay micro loans have come to constitute the staple public perception of the global micro finance to recognize both the institutions and the individual and therefore, the idea they jointly represent that access to micro credit, is one of the means by which large population groups finds ways in which to break out of poverty.

## 3. Features of micro finance

1. Micro finance involves loans without collateral security. It enables the poor and small entrepreneurs to access to finance and financial services.
2. Micro finance is a useful tool in building the capacity of the poor in management of sustainable self employment opportunities.
3. Micro finance empowers the vulnerable sections of the society especially the women and it can be an instrumental in ensuring better human development.
4. The transaction cost of banks and other financial institutions can be lowered significantly.
5. Micro credit scheme is the basis for useful and socially progressive experiments in social mobilization.

6. Micro credit helps borrowers to overcome the vicious cycle of poverty by improving their financial and economic position.
7. Increase in savings reduces the dependence on external sources of funds and helps in continuity and sustainability.
8. Creates awareness regarding health care, sanitation, family planning, insurance, literacy, energy conservation, local ecology, management of common resources, etc.
9. Loans for income generation through market based self-employment empowering poor and women especially.
10. Micro finance enables rural poor to participate in planning and deciding their own destiny.

#### 4. Evolution of micro finance

The concept of micro credit can be traced back to portions of the Marshall Plan at the end of World War II in the middle of the 20<sup>th</sup> century or even back to the mid-1800s and the writings of abolitionist legal theorist Lysander Spooner who wrote concerning the benefits of numerous small loans for entrepreneurial activities to the poor as a way to alleviate poverty. It is also tied to New York's Providence Fund. However, in its most recent incarnation it can be linked to several organizations starting in the 1970s and onward. 1959, Dr. Akhtar Hameed Khan as the founder of East Pakistan (now Bangladesh) Academy for Rural Development introduced the idea of micro credit. His Comilla Co operative Pilot Projects considered an early example of micro credit and rural development initiatives in developing countries.

Micro finance institutions have been in vogue across the world and these organizations have been catering to the specific social groups who fall outside the orbit of mainstream financial institutions. Some of the well known organizations include Al Whittaker's Opportunity International established in 1971, ACCION International in 1973 and the later and more famous Grameen Bank founded by Prof. Mohammed Yunus. To ensure repayment, the bank uses a system of solidarity lending through "solidarity groups," small informal groups, nearly all of them exclusively female, that meet weekly in their villages to conduct business with representatives of the bank, and who support each other's efforts at economic self-advancement. As it has grown, the Grameen Bank has also developed other systems of alternate credit that serve the poor. In addition to micro credit, it offers housing loan as well as financing for fisheries and irrigation projects, venture capital, textiles, and other activities, along with other banking services such as savings. Among the other well known micro finance institutions are: Women's World Banking founded in 1976 by Ela Bhatt (India), Esther Ocloo (Ghana) and Michaela Walsh, an American investment banker, FINCA International in Bolivia by John Hatch with the mission of providing financial services to the world's lowest income entrepreneurs so they

can create jobs, build assets, and improve their standard of living, Thengamara Mohila Sabuj Sangha, a women-oriented leading Bangladeshi national non-government organization whose focus is to alleviate poverty and upgrade the living standard of the most degraded poor to a dignified level through diversified ways.

## 5. Focus of micro credit on women

Women have become the focus of many micro credit institutions and agencies worldwide. The reasoning behind this is loan to women tend to more often benefit the whole family than loan to men do. It has also been observed that giving women the control and the responsibility of small loan raises their socio-economic status, which is seen as a positive change to many of the current relationships of gender and class. According to the Micro credit Summit Campaign; 1.2 billion people are living on less than a dollar a day. Women are often responsible for the upbringing of the world's children and the poverty of the women generally results in the physical and social underdevelopment of their children. Experience shows that women are a good credit risk, and that women invest their income towards the well-being of their families. At the same time, women themselves benefit from the higher social status they achieve within the home when they are able to provide income. Many micro credit organizations focus completely on women borrowers.

## 6. Indian micro finance models

**Model I:** The banks themselves assume the role of promoting the formation of SHGs and extending credit to them.

**Model II:** The SHGs are formed and developed by the NGOs, government agencies or other community based organizations. Banks open savings bank accounts of the SHGs that are formed and developed by the NGOs and provide them credit in due course of time.

**Model III:** The NGOs promote the formation of SHGs. The banks provide bulk assistance to these SHGs for undertaking financial intermediation.

## 7. How micro finance works?

Micro finance products such as savings accounts, micro credit and health insurance empower the poor to lift themselves out of poverty. Through micro finance, they can secure better nutrition, education, healthcare and housing for their families. Micro finance has helped millions in developing countries raise their standards of living and protect themselves from economic setbacks. The tragedy is that the vast majority of the world's poorest people still lack access to these basic financial services. Many micro finance institutions utilize social collateral in the form of peer groups to ensure loan repayment. Borrowers take out loans in groups of five to eight individuals. If a borrower defaults on her loan, the entire group typically is penalized and sometimes barred

altogether from taking further loans. This peer pressure encourages borrowers to repay loans in full and on time, resulting in the higher than 95 per cent repayment rates among well run programs. Among the few who default, the most common reason is an illness in the family, which disrupts their lives, rendering them unable to continue their business and repay their loans. The second most frequent reason is natural disaster or unanticipated crisis.

## 8. Conclusion

Today, they exist and strive in every region of the world, and have been able to adapt to very different socio-economic environments. Credit unions too have demonstrated that they can provide micro finance to poor and low income communities in a sustainable way. The micro finance is having a powerful impact on the lives of those living in poverty. In addition to helping families emerge from poverty, it is helping them reach balance in gender equality, garner better education for themselves and their children, and move towards a better life for the next generation.

## 9. Reference

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