

An Attempt to Empowering Rural People through Micro Finance

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Abstract - According to Mohammad Yunus founder of the Grameen Bank said " If you can run a bank, lend money, and get it back, cover all your costs, and make a profit, and people get out of poverty, what else do you want?" Microfinance refers to the provision of various financial services like savings, credit, money transfers, insurance, for the poor to enable them to raise their income levels and improve economic condition of rural people. As we all know that in India there are many back-ward regions of characterized by stumpy per-capita income, short capital formation, not enough infrastructure facilities, geographical remoteness and communication restricted access, insufficient exploitation of natural resources . It is a concept of providing loans, savings and other basic financial services to the poor class and lower income group population. These people either do not know the functionality of banking or do not have access to typical banking services. This concept usually helps poor class in their small need fulfillment. This article is an attempt to identify either the Micro Finance sector in India which comprises Self-Help Group (SHG)-Bank Linkages and Micro-Finance Institutions (MFI) - Bank Linkages being operated in the country. The growth of the Microfinance industry in India has been phenomenal. The SHGs have also managed to create deep roots within the country. However much needs to be done to see significant change in different parts of the country.

Keywords - Financial services, Economic Condition, SHGs, Poor class, Loans, Per-capita income, Infrastructure facilities

I. INTRODUCTION

The rural development is a wide area that comprises of infrastructure creation, sustainable livelihood, better lifestyle, access to education and health consciousness. Rural development caters to welfare of rural households and communities. It has a long history in which efforts have been made to achieve sustainable development of the rural society. The concept of Microfinance dates back from 19th century when moneylenders, informally, used to perform the role of financial institutions. The last two decades have seen an increase in the number of policies, initiatives and schemes towards the development of finance paying way to microfinance. Microfinance is a tool in finance through which the credit is provided to the needy and greedy ones who do not have eligibility to take loan from bank or financial institutions. Microfinance refers to the provision of various financial services like savings, credit, money transfers, insurance etc. in small doses for the poor to enable them to raise their income levels and improve living standards.

Microfinance has been an accepted idea for now over two decades as a pathway to emerge out of poverty. In India too, microfinance (beginning with microcredit) took roots around 18 years ago with the linkage-banking program started by NABARD in 1992. Through the SHG-bank linkage program, a mechanism of the poor getting very small loans was unveiled. The SHG bank linkage program has become one of the largest microfinance initiatives in the world with over 5.99 million SHGs and a cumulative lending of Rs227 billion by March 2009.

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II. REVIEW OF LITERATURE

The literature available on micro insurance is of large size but the concept of linking it with the sustainability of rural development has not given much attention.

Stefan Horchman, Reinhard Mechler, Daniel Kull, (2010) found that micro insurance instruments may help low income farming households better manage drought risk by smoothing livelihoods and reducing debt.

Jannat Ara Parveen in her paper 'Sustainability Issues of Interest Free Micro Finance Institutions in Rural Development' and Poverty alleviations' says that supporting the sustainable development of micro enterprise through financial markets requires self sustainable financial institutions.

III. NEED OF MICROFINANCE

The need of microfinance lies with the disadvantaged sections of the society who do not have access to services of formal sector financial intermediaries and are typically excluded from the formal banking system for lack of survival. They need micro-finance to undertake economic activity, smooth consumption, mitigate vulnerability to income shocks in times of illness and natural disasters, increase savings and support self-empowerment. In such conditions Microfinance works as the ray of hope for the poor and the very poor population of the country.

Microfinance fulfilled following needs of the Rural Poor:

Credit facilities to Rural Poor

Usually rural sector depends on non-institutional agencies to fulfill their financial requirements. Micro financing has been successful in taking institutionalized credit to the doorstep of poor and have made them economically and socially sound. Not only that but it also aims towards creating a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers.

Poverty Alleviation

Accessing small amounts of credit at reasonable interest rates give poor people an opportunity to set up their own small business. They can earn more, build their assets, and cushion themselves against external shocks. Poor households use microfinance to move from everyday survival to planning for the future: they invest in better nutrition, housing, health, and education, which will be enough to take those availing Microfinance facility out of poverty.

Women Empowerment

Women make up a large proportion of microfinance beneficiaries. Traditionally, women have been unable to readily participate in economic activity. Microfinance provides women with the financial backing they need to start their business ventures and actively participate in the economy. It gives them confidence, improves their status and makes them more active in decision-making. Normally more than 50% of SHGs are formed by women. Now they have greater access to financial and economical resources. It is a step towards greater security for women.

Economic Development

Microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses. Finance plays a key role in stimulating sustainable economic growth. Due to microfinance, production of goods and services increases which increases GDP and contributes to economic growth of the country.

Skills Development

Another objective of Microfinance is to train its beneficiaries to become self-sufficient as well as to meet the needs of their family. The training providers under Microfinance scheme assist rural entrepreneurs develop their skills and abilities in setting up or expanding their business whether jointly or individually. The training providers also develop leadership qualities in them for their overall development in the society as a whole.

Social Welfare: Microfinance came into being with the vision of welfare of the society. With employment generation the level of income of people increases. They may go for better education, health, family welfare etc. Thus micro finance leads to social welfare or betterment of society.

IV. MICROFINANCE IN RURAL DEVELOPMENT

Micro finance provides measures to deal with risk or obtaining credit in case of emergency. This is achieved by providing easy accessibility of loans to rural people. This ensures flow of income by protecting the productive assets (land, machinery, inventory and livestock) which are otherwise sold for arrangement of financial aid during emergency. With the initiatives of microfinance the rural households now have opportunity to produce, consume and invest in their own self small productive enterprises.

Microfinance acts as a reliable source of funding which manage the food consumption requirement of rural households. As now they don't have to sell their crops in advance and ensures food availability to them round the year. The benefits of microfinance are many like increased in per capita income, employment and diversification of livelihood activities, self employment opportunities, and health & nutrition consciousness. All these benefits of microfinance will collectively lead to rural development.

V. MICRO FINANCE IN RURAL INDIA

Usually, the formal banking sector in India have been confined to serve only the middle and upper income group by providing loans and other financial assistance. The very low income groups are left out mainly because of the risk incurred in it. Hence they are left with some informal practices which they seek for meeting their financial requirement. Some of the current practices followed by the low income group rural people are discussed below:

Traditional money-lending

The rural population of lower income group who cannot get out of problem like seasonal unemployment, drought etc have no other option than seeking financial help from money lenders. These money lenders provide money on inflated interest rates due to

their monopoly in the vicinity. A vertical interest rate is charged which is so large to return that most of the time they cannot repay it. The illiteracy of rural people becomes the detrimental sometimes.

Loan from Chit Funds

Chit Funds assemble huge amounts of small savings, and help the member group to avail loans in lump sum amount of money which is difficult to arrange from traditional banks. This form of financing provides easy accessibility and flexibility. The positives of chit fund are that they require almost no documentation in land of illiterates and more flexibility. The limitations of chit fund are that it cannot necessarily provide funds when required as only one person can win the pot. This could potentially be detrimental to people who cannot postpone their need.

Collect Loans through sells their Agro Food

This is also one of the ways that rural class follows for arranging funds or loans. They sell their crops in advance even before harvesting. In this process, they not only get the market value of their produce, but also increase the risk of being indebted for long if crop get affected by natural calamities. This makes them more economically weak.

Groups based financial system

There are many groups working in rural areas to which provide financial help to rural people in need. The group based financial intermediary and some NGO linked financial intermediary are the common ones in this process. Some NGO's have also come forward to provide short term loans for meeting short term needs. The credit offered is at the subsidized rate of about 12 to 36 % of interest rate with flexible re-payment system. People seek these loans due to security reasons and in some cases collateral like jewellery is also kept as security. This is mainly practiced for seeking loans at lesser rates than money lenders. The most of the rural people prefers this form of finance due to its low interest rate and flexibility nature. However, these loans normally encourage the practice of corruption.

VI. MAJOR ACTIVITIES IN MICROFINANCE

Micro-Credit: This is a system where small amount of money is loaned to a client by an institution or a bank. Micro-credit is offered without collateral to a group or an individual.

Micro-Savings: These are specific deposit and saving services to allow the individual to save money for the future. This is one of the effective ways in meeting unexpected future expenses.

Micro-Insurance: There is risk involved in this type of microfinance. Access to this type of insurance enables entrepreneurs to concentrate on developing their businesses while mitigating other risks affecting health, property or the ability to work.

Remittances: This is transfer of funds to the people from one place to the other. This service often may involve transferring of funds across borders. It is said depending on the sources of capital, political and economic structure, remittances are relatively steady source of funds.

VII. WOMEN EMPOWERMENT IN THE LIGHT OF MICRO FINANCE

The role of microcredit spearheaded by the SHG movement in women empowerment is a well-established fact. Liberating rural women from their traditional confinements to homesteads, participation in microfinance programmes contributes to social change as well as empowering women by strengthening their economic roles. Access to the basic financial products such as savings and loans enable women to set up new economic activities or expand the existing ones for higher income. The control over this increased income and assets can be used directly for her own well-being and that of her children/family. Besides a popular poverty alleviation strategy, the empowerment of women has become a key rationale for SHG expansion and replication. A study of 1,000 households spread over four states on the role of microfinance in social and economic empowerment of women in four states revealed that animal husbandry was the primary occupation for about 20 per cent of women in both SHG and non-SHG categories. The results of the study suggest that micro finance creates an enabling environment for empowerment.

VIII. RURAL HEALTHCARE AND MICROFINANCE

Poverty and poor health are often entangled in a vicious cycle, and the problem of breaking this cycle is likely to become worsened as a result of growing costs of health care. Recent estimates suggest that the role of health expenditure of households has increased substantially in the most recent period. According to the Report of the National Commission on Macroeconomics and Health, 2005, households undertook nearly three fourth of all the health spending in the country. Public spending was only 22 per cent, and all other sources accounted for less than 5 per cent. There are two important justifications for microfinance institutions to include health services in their agenda of activities: health services are a natural extension of their mission of financial security and social protection of the client, and healthier clients better serve the microfinance institutions' goals of growth and long-term viability. Thus access to health-related programmes and services generally includes the household, not just the client.

IX. CONCLUSION

The study concluded that the SHG financing has reduced the dependency of its members on moneylenders and the income level of members has also gone up on account of their becoming members of SHGs. World Bank supported rural livelihood projects in seven states of India where nearly 13 million women were organized into affinity based self help groups managing own savings of `60 billion leveraging nearly `425 billion loans from commercial banks, helping poor invest in food security, commodity marketing and several other community enterprises. Youth belonging to poor households have been able to access

education and skill development opportunities resulting in the creation of half a million jobs in services, retail and other growth sectors of the economy.

Microfinance has contributed to social, economic development in different countries. More and more people are benefitted out of it. The literature supports this concept. Our society which is going to transition phase needs this concept. Microfinance seems to be a solution in sorting out issues in rural areas. The main challenge of microfinance is to have flexibility in credit providing schemes so as to match the multiple credit requirement of the low-income group. It is critical to link microfinance to formal financial system to achieve the goal of rural development. There is an urgent requirement of microfinance as an intermediary system between formal financial markets and low income borrowers.

As microfinance institutions work with the poor and have long-term relationship with their clients, mostly women, they offer a unique opportunity to employ their vast infrastructure for delivery of health-related services to those most in need. As a crucial means of women empowerment, microcredit programme could act as an important vehicle through which, not only the health-related awareness can be created but also the health service products could be delivered to rural poor at lower costs. Lack of health knowledge among rural poor especially among women, lack of physical and financial access to quality healthcare, and the importance of women's role in overall household health and nutritional status are the important reasons for a number of microfinance institutions to include health services in their agenda.

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