



# Micro Finance : Ray Of Hope For Hopeless

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*Microfinance does not only fulfill the shortage of physical capital amongst the poor but also creates social awareness among corporate level to marginalized market segment of the society. It gives services such as deposits, loans, payment services, money transfers, insurance to poor and low income households and their micro enterprise. The main objective is to develop institutional financial self-sufficiency and to penetrate breath and depth wise across the low income groups/individual profitably. Present paper analyses the role of microfinance in the rural India.*

**Key words : Microfinance, SHGs**

## Introduction

Micro finance refers to a small scale financial services for both credits and deposits- that are provided to people who farm or fish or herd; operate small or micro enterprises where goods are produced, recycled, repaired or traded, provide services; work for wages and commissions: gain income from renting out small amounts of land, vehicles, draft animals or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas.<sup>1</sup> Micro finance provides financial services such as micro credit, micro savings or micro insurance to poor people. Micro-credit helps hardworking small entrepreneurs to start or expand their small businesses and the income from these businesses provides better food, housing, health care and education for entire family. This additional income provides hope for better future for those who are poor and hopeless for life. Micro finance is provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards.<sup>2</sup> Thus microfinance is a major weapon for the poor people for their development. Nowadays microfinance specially SHGs are working for the rural empowerment in our country.

## Indian Economic Scenario At A Glance

India with a population little over one billion has its 70% people living in rural and semi urban areas with almost 260 million people living below poverty line. The population scenario by category of workers could be understood by the following table no. 1.

Approximately 75 million household needs microfinance. Of these, nearly 60 million households are in rural India and the remaining 15 million are urban slum dwellers. The current annual credit usage by these household is estimated to be rupees 495000 million.<sup>3</sup> Poverty and rural development remains a major challenges for India as in the past to even today. The marginalization of rural and urban poor from the mainstream society is primarily caused by the absence of the three forms of capitals from the poors, namely material capital, human capital (Education and relevant skills) and social capital

**Table 1**

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(Local organizational settings, democratic systems, protection of human rights). Most of them are

**Population by Category of Workers (Census 2001)**

(in lakhs)

Particulars	Rural	Urban	Total
Total population	74.25	28.61	102.86
Total workers	31.00	9.23	40.22
Marginal workers	8.08	0.85	8.92
Main workers	22.92	8.38	31.30
Category of Total Workers			
Cultivators	12.47	0.24	12.73
Agriculture Labourers	10.24	0.43	10.68
Household Industry Workers	1.21	0.48	1.70
Other workers	7.07	8.05	15.12

Source: Office of Registrar General India, New Delhi.

landless or poor land owner depended upon traditional farming practices. They have to rely mainly upon the monsoon. In absence of proper education and skill their employability in non-farming jobs is very low. The traditional ways of resource allocation (Public distribution system) have proven inefficient in eradicating poverty as the social capital has not developed in the country.

## Importance Of Micro Finance

Rural development, special schemes and rural banking could not tackle the under spread poverty in rural areas. Research indicated that the existing banking policies & procedure is not suited to immediate needs of the poor. What they really needed was better access these services and products rather than cheap subsidized credit. The priority of rural poor appeared to be consumption credit, savings, production credit and insurance. They demand start period credit for emergent needs, which was usually met by informal sources at exploitative interest rate. As poor borrowers were unable to offer banks any security for small consumption loans. Banks also faced high transaction cost in scattered rural areas not only in providing loans but also in recovery of loans.

Against this background, a need was felt for alternative policies, system and procedures, savings and loan products complementary services and new delivery mechanism which will fulfill the requirement of the poorest especially for the women member of such households.

Microfinance does not only fulfill the shortage of physical capital amongst the poor but also creates social awareness among corporate level to marginalized market segment of the society. It gives services such as deposits, loans, payment services, money transfers, insurance to poor and low income households and their micro enterprise.<sup>4</sup> The main objective is to develop institutional financial self-sufficiency and to penetrate breath and depth wise across the low income groups/individual profitably.

Micro credit movement helps in improvement of women in the society at grass-root level, this system helps the women to come out and join a mainstream activity in the village. In many areas

where there have been support from NGO's or a strong SHGs. Women enjoys the pro active role and they come out from their traditional role. Women have been able to mobilise capital and in the process have acquired skills that have enhanced their economic, social and political power; 'Gramin credit' according to Muhammad Yunus, is based on the premise that the poor has skill which remain unutilized or under utilized. 'Gramin Credit' promotes credit as a human right and is targeted at the poor, particularly poor women.<sup>5</sup> The most distinctive feature is that it is not based on any collateral or legally enforceable contracts, but on trust. It provides credit to people. In order to obtain loans a borrower must join a group of borrowers. A new loan becomes available to borrowers if her previous loan is repaid and all loans are be paid back in installments. (Weekly or biweekly)

Another unique feature of 'Rural Credit' is that it gives high priority to building social capital through the formulation of groups and centers, develops leadership qualities and undertakes a process of discussion among borrowers. It lays special emphasis on protections of the environment and children education and provides scholarship and student loans for higher education.

Approximately 75 millions households need microfinance. Out of this nearly 60 millions are in rural areas and 15 million are urban slum dweller. The current annual credit usage by these households is estimated to be Rs. 500,000 million & this does not include housing which can be estimated another Rs. 10,000 millions annually.

### **Micro Finance & Upliftment Of Poor**

Credit is one of the most crucial inputs in the process of development. Micro credit for the poor has emerged as an idea that appears to several sections of people. In principle, even the world's poorest can acquire savings and investment if they have access to capital. The strategy is redistributive (appeals to liberals) entrepreneurial (appeals to conservatives) and empowering (appeals to radicals). The emergence of micro credit as an alternative to the existing methods of addressing rural poverty through the provision of credit has questioned the fundamentals of the development paradigm in developing country.

More than 10,000 micro lending organizations are to-day providing loans to 25 million poor people throughout the world, most of them women. The number of these organizations grew dramatically during the 1990s spurred by the notion of "Self-help" and the faith in the credit worthiness and entrepreneurial potential of the poor.

In India, there are several micro-finance implementing organizations in the government as well as non-government sectors. The main leading national financial institutions who have played a significant role in promoting micro credit are :

1. National Bank for Agriculture and Rural Development (NABARD)
2. Small Industries Development Bank of India (SIDBI) &
3. The Rastriya Mahila Kosh (RMK)

NABARD claims to be "the largest and fastest growing micro finance Programme of the world" with over 11 million poor households accessing banking services including micro credit through their 7,00,000 Self Help Groups (SHGs). It is the key promoter of the Self Help Group-bank linkage programme (SBLP). The SBLP aims at providing financial services to the poor by linking them to formal financial institutions through the mechanism of self help groups (SHGs). And SHG is a small informal group of up to twenty members working on the basis of principle of like self help and joint liability to obtain access to financial services from formal agencies. By march 2005, more than 1.62 million SHGs have been linked directly or indirectly to financial institutions like commercial banks,

regional rural banks (RRBs) and co-operatives with an estimated outreach of about 24 millions households (Table-2).

**Table-2**

Given the outreach achieved, SBLP has even come to be considered as the biggest microfinance programme in the world. SIDBI, an apex financial institution for the promotion, financing and

**All India Performance of SHG-Bank Linkage Programme**

Detail	1999	2005
Total number of SHGs linked	33,000	14,18,454
No. of families served (In million)	0.54	24.2
Annual loan disbursed (Rs. In million)		29,940
Cumulative loan disbursed (Rs. In million)	57	48,980

Source: NABARD

development of small scale industries in India, has launched a major project christened SIDBI foundation for Micro Credit (SFMC) as a proactive step to facilitating accelerated and orderly growth of the microfinance sector in India.

SFMC expected to emerge as the apex wholesale for microfinance in India, providing a complete range of financial and non financial services such as loan funds, grant support, equity and institution building support, retailing micro finance institutions (MFIs) so as to facilitate their development into financially sustainable entities. Non Government Organizations (NGOs) involved in savings and/or credit activities for individuals and groups. They adopt a variety of approaches and tend to operate at international, national and within a limited geographical range. A few at national level like PRADAN, ICECD, MYRADA, SEWA operate at national level and have been successful in replicating their experiences in other parts of a country; they also act as resource organizations. While same are working at limited geographical areas such a RAMKRISHNA MISSIONS, NVJK, KGVK, HOLLYCROSS etc in Jharkhand and do lend directly to borrowers, most rely on Self Help Groups (SHGs) to provide linkage with borrowerws.

The growth and activity of MF agencies and NGOs are increasing in geometric progression due to huge market potentials. By current estimates there are more than 2000 NGO's involved in helping banks identify self help groups to lend to under NABARDs self help groups- Bank linkage programme alone. According to published figures, the bank loans disbursed under this programme in fiscal 2002 were Rs. 5454 crore to around 2,40,000 SHG's. The average size per Self Help Group was Rs. 22,240.

Another agency Swayamsidha Project launched in 2001 under the department of women and child development in the holistic view of 'Women's Empowerment' through awareness generation, economic empowerment and convergence of various schemes in Self Help Groups. This scheme has benefited almost 10 lakh women through 53000 SHG's has an outlay of Rs. 116.30 crore funded by the world bank.

With the vast potential market almost all commercial banks like ICICI and international banks like City Bank have entered the field? Thus there is a need of further evaluation.

## **Conclusion**

Micro Finance is *sie que none* for the economic, social and human capital upliftment of the poor. Government and Non Government organization are working sincerely in this regards. But this is not enough. More is to be done for smooth and successful functioning of MFIs in India. Soft loan may remove cash poverty but not elusively. Unless loans are converted to investment in on farm productive activities, rural poverty will not go away. Micro-credit improve cash flow but does not create wealth. Far from helping people to generate wealth, easy credit is being used to encourage primary producers at the farm to become secondary distributors for consumer products. However lucrative the transaction has severe implications on the livelihood security of poor people. Thus researchers want to give some feasible and practicable suggestions which they have realized and faced while collecting primary data.

1. There is a urgent needs to have a well planned three tier strategy (viz-corporate, functional and operational level) for better performance of MFIs.
2. Each commercial banks should setup a separate microfinance (MF) cell under priority sector policy department as the Andhra bank has set up.
3. Targets are essential otherwise we may loose their portfolio. Thus the head office should give target to zonal offices about the member of SHGs to be linked. The zonal office in town give minimum target to branches coming under their jurisdiction.
4. MFIs and SHGs should also equip their members with advanced skills through a development wing so that they can steadily increase their earnings. Skill development has to become an integral part of such institutions and there is need for all those engaged in this endeavour to concentrate on this aspect.
5. At present SHGs are lending to members at the rate between 16% to 36% How do the poor pay such a high interest rate? Therefore the rate of interest of loans to SHGs members from the group should not be less than 12% credit should be available to poor at lower rate of interest.
6. Frequent awareness camps should be organized by the Rural Development Authorities both Govt. and Non Govt. Agencies (NGOs). MFIs including commercial Banks, RRBs and other micro finance agencies to create awareness about the different schemes of assistance available to the participants in the SHGs.
7. NGOs can play a significant role in empowering women entrepreneurs by providing basic education, motivation, training, financial etc and also identify the inefficient members of the group & can impart proper training to them in order to make them competent. For this proper, short term training programme can be arranged at the grass root level.
8. Sustainable development of SHGs, the members should be well equipped by not only the knowledge but also by providing proper marketing facilities by forming co-operative societies. Further the co-operative societies can undertake sales promotion activities and procure raw materials for the benefit of the members of SHGs.
9. As far as possible, heterogeneous groups should be discouraged & major focus should be laid on homogenous (in terms of common interest and socio-economic status) groups as they will be more promising in future from the point of view of sustainability of efforts.
10. And finally the MFIs should provide adequate financial assistance to the SHGs strictly in the basis of actual performance in that any discrimination of caste, greed, gender, politics etc.

Credit plays a more powerful economic, social and political role for the poor. Microfinance not only provides finance to poor people but also empowers the women economically and socially. Though

the credit provided is micro in nature but it has a macro effect in the life style of poorest people and become a ray of hope for hopeless.

## **Notes**

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