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MICROFINANCE IS AN ANTI-POVERTY TOOL FOR RURAL DEVELOPMENT: A STUDY

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ABSTRACT

Micro-credit or micro finance is the extension of very small loans (micro loans) to the unemployed persons, to poor entrepreneurs, to households, to farmers and to others living in poverty who are often left out of the formal banking system, because of several reasons: their inability to provide collateral, the high risks in lending to them, the rigid formalities that are a part of the formal lending system and the high costs. As a result, the poor often have to resort to informal moneylenders, who charge high rate of interest and often exploit the situation. Micro finance is a novel approach to 'banking with the poor' and this system attempts to combine lower transaction costs and high degree of repayments. The most important cause of rural indebtedness is poverty. The farmer's income is low and he has no past savings. Whenever there is any crop failure, illness, accident, sudden fall in agriculture price, etc. the Indian farmer borrows year after year but he is not in a position to repay all the debts. As a result, the debt of the farmer goes to increasing. Rural micro credit is essentially helpful for farmers and promoting self-employment in the informal sector of the economy. India's microfinance experiments are much differ from the more substantial microfinance institutions and programmes of its neighbors countries. Creating self employment opportunities is one way of attacking poverty and solving the problems of unemployment. There are over 24 crore people below the poverty line in our country. The Scheme of Micro-finance has been found as an effective instrument for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy.

INTRODUCTION

Micro-finance is the loan of self help programme will provide poor people to earn money and survive in the society, apart from giving loan some other facilities can be provided like-storage facility, training, mutual co operation etc. Micro finance is the extension of very small loans (micro loans) to the unemployed persons, to poor entrepreneurs, to households, to farmers and to others living in poverty who are often left out of the formal banking system, because of several reasons: their inability to provide collateral, the high risks in lending to them, the rigid formalities that are a part of the formal lending system and the high costs. Micro finance is a novel approach to 'banking with the poor' and this system attempts to combine lower transaction costs and high degree of repayments. According to recent survey (Parida and Bandhu: 2012) *More than One billion poor people have no access to basic financial facilities,* which are essential for them to manage their precarious lives.

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In this situation microfinance emerged as an alternative source for ruralcredit. Micro finance institutions aim to reduce the default risk by devolving the risk to a group of lenders; that is repayment of a loan taken by a person becomes the collective responsibility of the group. In Md.Yunus's words, "It is based on "trust", not on legal procedures and system." In the Self Help Group (SHG) model, people from the group deposit their savings from time to time with a bank/NBFC/NGO, which then loans out money to people in the group when the need it. Group participation ensures that loans are not made to people with high risk proposition, or that the funds are not utilized for purposes other than for which they are borrowed, and peer pressure ensures that repayment schedules are met as the creditworthiness of the group depends on repayment of loans taken by the member. According to Kofi Annan (former Secretary General of the UNO) states that *"Microcredit is a critical anti-poverty tool a wise investment in human capital. When the poorest, especially women, receive credit, they become economic actors with power. Power to improve not only their own lives but, in a widening circle of impact, the lives of their families, their communities, and their nations."*

Objectives of the Study

The study aims at:

- Discussing the conceptual aspect of microfinance and rural credit;
- Discussing microfinance as an experimental tool;
- Highlighting the policy of microfinance;
- Highlighting the role of NABARD in providing rural credit;
- Discussing microfinance and unorganised poor workers' benefits; and
- Making some concluding remarks.

Review of Literatures

Actually, there is no authentic and huge number of literatures about this area but some literatures are there, which are helpful for the study and research purposes, some such references are Book India 2006 a reference annual compiled and edited by Research, reference and training division, Ministry of Information and Broadcasting, Govt. of India. State of the Micro-credit Summit Campaign Report 2003, 'Impact of Micro-credit on Children's primary and secondary schooling' by Edmark, Karin and Erica Ercison, 'In quest of Empowerment: The Grameen Bank impact in Women's power and status' by Mizan, Ainon Nahar (Bangladesh), "A Primer on Microfinance in India" by George, M, "Micro finance and poverty reduction in India (A Comparative study with Asian Countries)" by Rajesh Kumar Shastri, "Self Helf Group: A Keystone of Microfinance in India – women empowerment and social security" by C.S. Reddy, "Micro Credit: A West Bengal Perspective", by Debarchana Bhattacharya, Prabal Mojumder, etc.

MATERIALS AND METHODS

The article on **"**Microfinance is an anti-poverty tool for Rural Development: A study" is based on secondary sources of data. The main sources of data are different books, various Economic Surveys of India and Ministry of Commerce and Industry data, RBI bulletin, journals, and newspapers. This apart, the related websites have also been searched for having information/data.

Conceptual aspect of micro finance and rural credit:

There is no statutory definition of micro finance. The taskforce on supportitative policy and Regulatory Framework for Microfinance has defined microfinance as "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". The term "Micro" literally means "small". But the task force has not defined any amount. However as per Micro Credit Special Cell of the Reserve Bank Of India , the borrowed amounts up to the limit of Rs.25000/- could be considered as micro credit products and this amount could be gradually increased up to Rs.40000/- over a period of time which roughly equals to $500 – a standard for South Asia as per international perceptions. The term micro finance is sometimes used interchangeably with the term micro credit. However while micro credit refers to purveyance of loans in small quantities, the term microfinance has a broader meaning covering in its ambit other financial services like saving, insurance etc. as well. Micro credit is a financial innovation which originated in developing countries where it has successfully enabled impoverished people to engage in self-employment projects that allow them to generate an income and, in many cases, begin to build wealth and try and reduce poverty. Due to the success of micro credit, many in the traditional banking industry have begun to realize that these micro credit borrowers should more correctly be categorized as pre-bankable; thus, micro credit is increasingly gaining credibility in the mainstream finance industry and many traditional large finance organizations are contemplating micro credit projects as a source of future growth.

Micro-credit is a tool for empowerment of the poor; the higher the income and better the asset position of the borrower, the lower the incremental benefit from further equal doses of micro-credit is likely to be. It is essentially for promoting self-employment in the informal sector of the economy - generally used for (a) direct income generation (b) rearrangement of assets and liabilities for the household to participate in future opportunities and (c) consumption smoothing because micro credit is aimed at the poorest, micro-finance lending technology needs to mimic the informal lenders rather than the formal sector lending. Poor people do not want to stay poor. Like everyone else, they wish to put an end to their economic hardship and exploitation by either working or exploring self-employment. In the latter case, money can be raised through friends and family, gathered over time through savings, or obtained through loans from microfinance institutions. Microfinance is particularly relevant to increasing the productivity of self-employment in the informal sector of the economy. In an environment where economic growth is occurring, microfinance also has the capacity to transmit the benefits of growth more rapidly and more equitably through the informal sector.

Microfinance sector can also reinforce other poverty reduction policies, and vice versa. Many microfinance programmes, including that of the Grameen Bank in Bangladesh, encourage members to develop a socioeconomic agenda covering matters such as health, nutrition and children's education. Even where this emphasis is not explicit, increased empowerment and higher incomes from participation in microfinance programs can reinforce other policies. At the same time, microfinance programs are likely to be more effective in raising members' incomes where rapid growth in the economy and in agricultural output, and better infrastructure, create a demand for the products and services provided by micro entrepreneurs. Microfinance programs will also be more effective where inputs such as education and training enable members to use their loans more productively.

Microfinance: an experimental tool

The important objective of micro finance programmes in India is to provide credit to the poorest of the poor by providing loans without insistence on collateral. The second motive of micro-finance is to inculcate the habit of thrift among the poor and in order to improve their living standards. Micro finance can has been viewed as a potential way towards the empowerment of women also. Many of the studies on micro-finance have taken the institutional structure of Micro-Finance

(MF) *as a given* and proceed to evaluate its impact from different dimensions. Micro-Finance has been seen to emerge due to the failure of formal and informal rural credit institutions. Very little by the way of theoretical analysis is available on the fundamental change that MF *as an institution* solves the problems of rural credit. Though poverty reduction has long been a high priority for the Government of India, microfinance is a still experimental tool in its overall strategies. India's microfinance experiments are much differ from the more substantial microfinance institutions and programmes of its neighbors countries. The United Nations system was perhaps the first international partner to India's new experiments with small scale credit schemes. Most of poor people manage to optimize resources over a time to develop their enterprises. Financial services could enable the poor to leverage their initiative, accelerating the process of generating incomes, assets and economic security. However, conventional finance institutions seldom lend down-market to serve the needs of low-income families and women-headed households. They are very often denied access to credit for any purpose, making the discussion of the level of interest rate and other terms of finance irrelevant. Therefore the fundamental problem is not so much of unaffordable terms of loan as the lack of access to credit itself.

Microfinance: policy

Recognizing that SHGs and MFIs can form key actors in the pursuit of an inclusive financial system, the Indian policy makers have tried to adopt many promotional and regulatory measures over time, the latest being the proposed Microfinance Bill. The bill is expected to identify a specialized regulator and guidelines for NGO-MFIs while the for-profit entities will be governed by the Reserve Bank of India regulations. Their legal status will determine their future scope of services, ability to mobilize various types of finance and to be part of the mainstream financial system.

Microfinance: weakness

Out of an estimated 56 million poor families at the end of March 2004, only 17 million poor families or 30 percent of the poor families have been covered by micro-finance schemes. Nearly 70 percent of poor families are yet to be covered. In other words, the SHG bank linkage is gaining momentum, but it has to grow faster. At present, Andra Pradesh accounts for 40 percent of SHGs linked to bank credit. The next three States, viz Tamil Nadu, Karnataka and Uttar Pradesh, together accounted for only 30 percent of SHGs linked to bank credit. Thus only four states in the country account for 70 percent of SHGs linked credit and 80 percent bank loans. In other words, most states in the country have not been encouraged the organization and promotion of SHG – bank credit link.

Role of NABARD in providing Rural Credit

Rural credit is a small amount of money which gives to the poor peoples including small scale farmers and unemployed person as loan to start their own work by development banks or any other financial institutions. In order to meet the credit requirements of rural farmers, the RBI has established National Bank for Agriculture and Rural Development (NABARD) in 1982. The main function of NABARD is to supply finance for agricultural activities and rural development. NABARD provides credit to the Commercial Banks, State Co-operative Banks and Regional Rural Banks and these banks again provide credit to the farmers. The commercial banks and Regional Rural banks are directly distributed the money received from NABARD among farmers as credit. The state co-operative banks give this fund to the district level co-operative banks which again give it to primary co-operative credit societies and these societies distribute credit among their member farmers. NABARD actually works as a representative of the Reserve Bank in the activities relating to rural credit. But the main problem faced by NABARD at present is its large amount of bad debt. One study shows that about 40 percent of the total loan sanctioned has not been repaid by farmers. If this trend continues, it is sure that how long NABARD will be able to finance agriculture and allied activities. Microfinance may also enable small and marginal farmers to purchase the inputs they need to increase their productivity, as well as financing a range of activities adding value to agricultural output and in the rural off-farm economy. Access to savings facilities also plays a key part in enabling the poor to smooth their consumption expenditures, and in financing investments which improve productivity in agriculture and other economic activities.

Microfinance: worker's benefits

Once loan is taken from other sources, it becomes very difficult for the workers to repay it; sometimes they repay it at compound interest. An investigation in this respect reveals that only 7 % borrowers has been able to repay the loan at due time with the amount of Puja or Id bonous, or by selling the house hold assets. Microfinance can play an important role in poverty reduction. At the end of March, 2007, as many as 2.9 million SHGs are now linked with banks and 7000 NGOs are associated with the scheme. It is estimated that, at the end of March 2007:

a). 20 million very poor families were brought within the fold of formal banking services;
b). More than 90 percent of the group linked with banks was exclusive women groups;
c). There was strong repayment performance at more than 95 percent of the loan disbursed;
d). Disbursement of bank loan to SHGs was Rs.18,040 crores in 2006-07;
e). Average loan per SHG came to nearly Rs. 30,000;
f). Average loan per family came to nearly Rs.1, 770.

Micro finance has been hailed as the best method of creating additional employment and removing poverty. NABARD has been playing a catalytic role in terms of promotional support to NGOs and also in nurturing quality SHGs. It has launched a pilot project in 2005-06 for promotion of micro enterprises among the members of mature SHGs.

Conclusion

Creating self employment opportunities is one way of attacking poverty and solving the problems of unemployment. There are over 24 crore people below the poverty line in our country. Credit requirements of the rural poor are diverse and their requirements of credit are unlimited because they need credit different purpose i.e. credit as working capital, fixed capital and consumption credit etc. But the sources available are limited and coverage is scanty. Failure both institutional and non-institutional sources of credit to supplement credit needs of rural poor led to the emergence of different Alternative credit institutions over the recent years. The necessity of having alternative rural credit systems which will solve the problems of rural credit institutions is clearly warranted. This study examined the success of the evolution of micro finance as an alternative credit institution that solves the problems of moral hazard and adverse selection, crucial problems of rural credit institutions. The Scheme of Micro-finance has been found as an effective instrument for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy. People belong to villages are still unaware about banking policies and credit system. So NGO should communicate to them and share their view with villagers. Banks should convert and build up professional system into social banking system for poor. RBI has been making efforts to give a fillip to micro finance initiatives through creating an enabling environment. It is looking into issues relating to creating an enabling environment.

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