MICRO FINANCE – AN ANTI POVERTY VACCINE FOR RURAL INDIA

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ABSTRACT: Micro-finance interventions are well-recognized world over as an effective tool for poverty alleviation and improving socioeconomic status of rural poor. In India too, micro-finance is making headway in its effort for reducing poverty and empowering rural women. The need of micro finance arises because the rural India requires sources of finance for poverty alleviation, procurement of agricultural and farms input. Micro finance is a programme to support the poor rural people to pay its debt and maintain social and economic status in the villages. As we know that India is agriculture-based economy, micro finance may be a tool to empower the farmers and rural peoples to make agriculture profitable. This research paper is highlighting a picture rural India as a developing segment for micro finance institutions.

Key Words: Micro-Finance, Rural India, Socio-Economic, Poverty.

INTRODUCTION

Micro finance is a term used by many in different domains to fight poverty. Micro finance is not a new concept. It dates back in the 19th century when moneylenders were informally performing the role of now formal financial institutions. The informal financial institutions constitute; village banks, cooperative credit unions, state owned banks, and social venture capital funds to help the poor. These institutions are those that provide savings and credit services for small and medium size enterprises. They mobilize rural savings, have a simple and straightforward procedure that originates from local cultures, and are easily understood by the population. These funds are to finance the informal sector SMEs in developing countries and it known that these SMEs are more likely to fail.

The creation of SMEs generates employment but these enterprises are short lived and consequently bound to die after a short while causing those who gained job positions to lose them and even go poorer than how they were. Banks do not lend to them because they do not have what is required to be granted a loan or to be provided with the bank services. The lack of financial power is a contributing factor to most of the societal problems. These problems emanate from poverty and it is known that with poverty one is bound to suffer so many consequences ranging from lack of good health care system, education, nutrition, micro finance have proved this bank concept to be wrong. They target the poor who are considered risky but the repayment rate turns to be positive as compared with the regular commercial banks.

REVIEW OF LITERATURE

Researchers have viewed micro finance in different dimensions. Micro finance gives people new opportunities by helping them to get and secure finances so as to equalize the chances and make them responsible for their own future. It broadens the horizons and thus plays both economic and social roles by improving the living conditions of the people (Micro finance Radio Netherlands, 2010). The UN millennium goal to alleviate poverty by the year 2015 is far from fetch despite the enormous works that microfinance institutions are doing to contribute in this domain (Hiderink and Kok, 2009). The main challenge facing the poor is to gain financial power to enable them boost their income generating activities (Yunus, 2003).

OBJECTIVES OF THE STUDY

- To analyze the growth of microfinance sector developed in India and potential for the microfinance institutions, NGOs, SHGs in the market.
- To analyze the savings of Self Help Groups with Banks.
- To analyse bank loan disbursed to SHGs in rural market.
- To analyse bank loan outstanding against SHGs in rural market.

RESEARCH METHODOLOGY

Data Collection:

This is a descriptive research paper based on secondary data. Data have been collected through books and various websites and publications of recent research papers available in different websites and magazines.

Research Instrument

Percent Growth Rate

A percent growth rate (or sometimes-referred to as percent change, growth rate, or rate of change) is a useful indicator to look at how much a population/product or instrument is growing or declining in a particular area or in a particular year. The rate of change (percent change, growth rate) from one period to another is calculated as follows:

Percent Change = (value at the end of period - value at the beginning of period)/ value at the beginning of period * 100.

A PROFILE OF RURAL INDIA

Micro-finance helps economically disadvantaged segments of the society, for enabling them to raise their income levels largest interms of population after China. India's GDP ranks among the top 15 economies of the world. However, around 300 million people or about 80 million households are living below the poverty line, i.e. less than $2 per day according to the World Bank and the poorest are which earns $1 per day. It is further estimated that of these households, only about 20% have access to credit from

the formal sector. Out of these 80 million-house hold, 80% take credit from the informal sources i.e. local Zamidars, Chit Funds etc. With about 80 million households below MFIs include non- governmental organizations (NGOs), credit unions, non-banking financial intermediaries, and even a few commercial banks.

- 50 million people are in Below Poverty Line.
- 95 % have no access to microfinance.
- 56 % people still borrow from informal sources.
- 70 % do not have any deposit account.
- 87 % have no access to credit from formal sources.
- Annual credit demand is about Rs.70, 000 crores.

- 95 % of the households are without any kind of insurance.
- Informal microfinance has been in practice for ages.

The sources of credit traditionally were moneylenders, who were either rich farmers, shopkeepers, or a community whose traditional occupation was money lending. After intervention by the government RRBs and NABARD were established to refinance all rural credit and developmental funds. Even after invention by the government and the establishment of financial institutions various types of credit providers coexist in rural. Though banks, cooperative societies and government institutions are the primary source of credit in rural, private moneylenders, continue to be important among credit providers.

RURAL INDIA AND MICRO FINANCE

Micro financing has become important. To succeed in India, agribusiness must empower the farmer by making agriculture profitable, not by expropriating him for a particular purpose the farmer should be funded for their basic and small needs. Micro finance is expected to play a significant role in poverty alleviation and development. The need, therefore, is to share experiences and materials, which will help in not only understanding successes and failures but also provide knowledge and guidelines to strengthen and expand micro finance programmes. The ultimate aim is to attain social and economic empowerment. Successful intervention is therefore, dependent on how each of these stages has been carefully dealt with and the capabilities of the implementing organizations in achieving the final goal, e.g., if credit delivery takes place without consolidation of SHGs, it may have problems of self-sustainability and recovery. A number of schemes under banks, central and state governments offer direct credit to potential individuals without forcing them to join SHGs. Compilation and classification of the communication materials in the directory is done based on this development process.

CONSTRUCTIVE ROLE OF NABARD

National Bank for Rural and Agricultural Development (Nabard) is playing a constructive role in ensuring that the coordination between the States and the institutions involved in rural development is smooth and result-oriented. Nabard has a very focused and different approach for each State in identifying the gaps, deficiencies and problems in the development of agriculture and rural industries and provides the needed coordination, support, guidance and encouragement to the agencies involved therein.

The institution is having a strong presence in terms of business, infrastructure and has proven commitment in serving the people. The commercial banks should gradually give way to regional rural banks (wherever feasible), strong cooperative banks or local area banks and micro finance institutions.

The State Government and NABARD have to jointly change the rural face by introducing incentives and awards for the retention of interest in agricultural and rural activities both among providers of credit and borrowers. Information technology and the proposed Unique Identity Card can be of great help to optimize the distribution of credit and making financial inclusion a reality.

DATA ANALYSIS & INTERPRETATION:

Table - I showing Savings of Self Help Groups with Banks (Rs in crores)

AGENCY	Amount (2008)	Amount (2009)	% of Growth
Commercial Banks	2077.73	2772.99	33.5
Regional Rural Banks	1166.49	1989.75	70.6
Co-operative Banks	541.17	782.88	44.7
Total	**3785.39**	**5545.62**	**46.5**

Source: Status of Micro Finance in India 2008-09 (NABARD)

From the above table it may be observed that the savings of SHGs with all the banks had increased by 46.5% as on 31st March 2009. It varies from as high of 70.6% with Regional Rural Banks to as low as 33.5% with commercial banks.

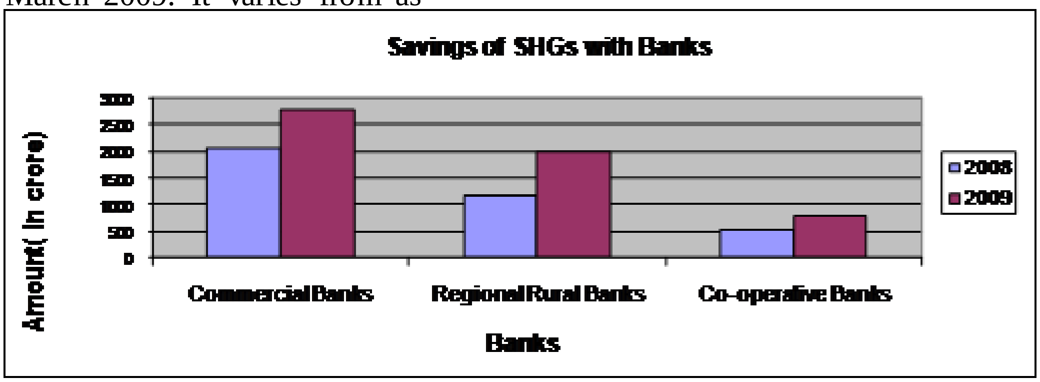


Table - II showing Bank loan disbursed to SHG (Rs in crore)

AGENCY	Amount (2008)	Amount (2009)	% Growth
Commercial Banks	5403.90	8060.53	49.2
Regional Rural Banks	2651.84	3193.49	20.4
Co-operative Banks	793.52	999.49	26.0
Total	**8849.26**	**12253.51**	**38.5**

Source: Status of Micro Finance in India 2008-09 (NABARD)

From the above table it may be observed that commercial banks had lead in disbursement of loans to SHGs during 2008-2009 with 49.2% followed by Co-operative banks with a share of 26% and Regional Rural Banks with a share of 20.4%.

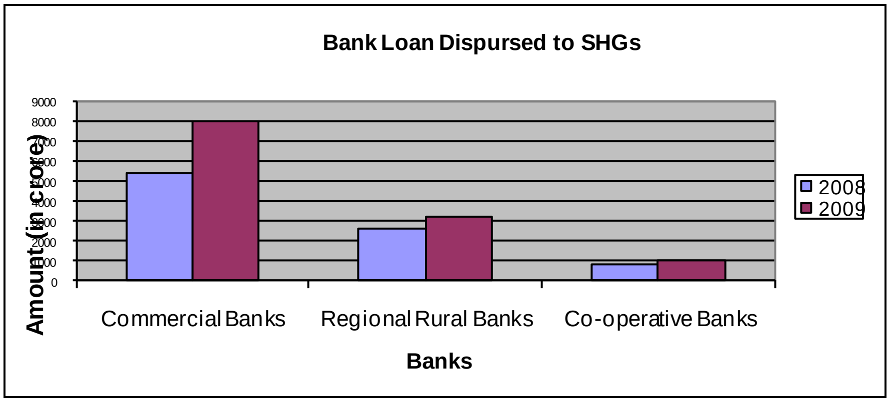
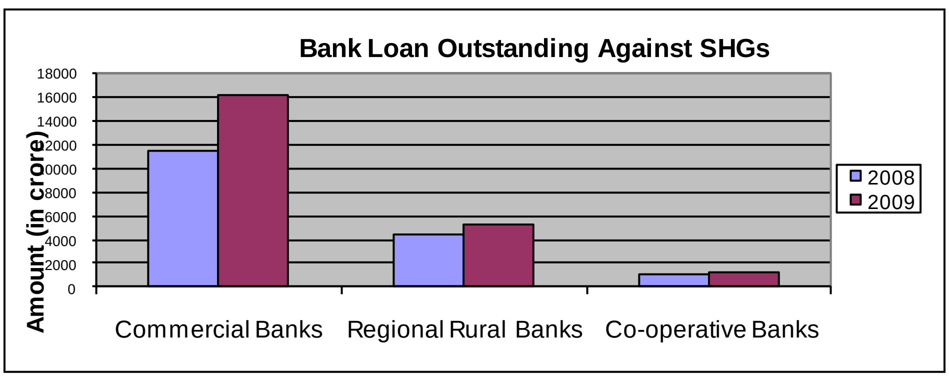


Table - III showing Bank Loan outstanding against SHGs (Rs in crore)

AGENCY	Amount (2008)	Amount (2009)	% Growth
Commercial Banks	11475.47	16149.43	40.7
Regional Rural Banks	4421.04	5224.42	18.2
Co-operative Banks	1103.39	1306.00	18.4
Total	**16999.90**	**22679.85**	**33.4**

Source: Status of Micro Finance in India 2008-09 (NABARD)

From the above table, it may be observed that commercial banks had the maximum share of outstanding bank loan to SHGs with a share of 40.7% followed by Co-operative banks with a share of 18.4% and Regional Rural Banks with a share of 18.2%.



SUCCESS FACTORS OF MICRO-FINANCE IN RURAL INDIA

Over the last ten years, successful experiences in providing finance to small entrepreneurs and producers demonstrate that poor people, when given access to responsive and timely financial services at market rates, repay their loans and use the proceeds to increase their income and assets. This is not surprising since the only realistic alternative for them is to borrow from informal market at an interest much higher than market rates. Community banks, NGOs, grass root savings, and credit groups around the world have shown that these micro enterprise loans can be profitable for borrowers and for the lenders, making micro finance one of the most effective poverty reducing strategies.

A. For NGOs

- The field of development itself expands and shifts emphasis with Full of ideas, and NGOs perhaps more readily adopt new ideas, especially if the resources required are small, entry and exit are easy, tasks are (perceived to be) simple and people's acceptance is high – all characteristics (real or presumed) of microfinance.
- Canvassing by various actors, including the National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), Friends of Women's World Banking (FWWB), Rashtriya Mahila Kosh (RMK), Council for Advancement of People's Action and Rural Technologies (CAPART), Rashtriya Gramin Vikas Nidhi (RGVN), various donor funded programmes especially by the International Fund for Agricultural Development (IFAD), United Nations Development Programme (UNDP), World Bank and Department for International Development, UK (DFID), and lately commercial banks, has greatly added to the idea pull. Induced by the worldwide focus on microfinance, donor NGOs too have been funding microfinance projects. One might call it the supply push.

- All kinds of things from Khadi spinning to Nadep compost to Balwadis do not produce such concrete results and sustained interest among beneficiaries as microfinance. Most NGO-led microfinance is with poor women, for whom access to small loans to meet dire emergencies is a valued outcome. Thus, quick and high 'customer satisfaction' is the USP that has attracted NGOs to this trade.

B. For Financial Institutions and banks

Microfinance has been attractive to the lending agencies because of demonstrated sustainability and of low costs of operation. Institutions like SIDBI and NABARD are hard-nosed bankers and would not work with the idea if they did not see a long-term engagement – which only comes out of sustainability (that is economic attractiveness). On the supply side, it is also true that it has all the trappings of a business enterprise, its output is tangible and it is easily understood by the mainstream. This also seems to sound nice to the government, which in the post liberalization era is trying to explain the logic of every rupee spent. That is the reason why microfinance has attracted mainstream institutions like no other developmental project. Perhaps the most important factor that got banks involved is what one might call the policy push. Given that most of our banks are in the public sector, public policy does have some influence on what they will or will not do. In this case, policy was followed by diligent, if meandering, promotional work by NABARD. A seven-page memo by NABARD initially followed the policy change about a decade ago by RBI to allow banks to lend to SHGs to all bank Chairpersons, and later by sensitization and training programmes for bank staff across the country. Several hundred such programmes were conducted by NGOs alone, each involving 15 to 20 bank staff, all paid for by NABARD. The policy push was sweetened by the NABARD refinance scheme that offers much more favorable terms (100% refinance, wider spread) than for other rural lending by banks. NABARD also did some system setting work and banks lately have been given targets. The canvassing, training, refinance and close follow up by NABARD has resulted in widespread bank involvement.

FINDINGS

1. Considerable gap between demand and supply for all financial services and majority of poor are excluded from financial services [Source: Status of Micro Finance in India 2008-09 (NABARD)].
2. Savings of SHGs has increased by 46.5% in the year 2008-2009. The increased deposits in banks indicate changing trends in rural savings, where the farmer intends to retain liquidity in his assets.
3. Regional Rural Banks are very popular among villagers as a place to save. It has attracted nearly 70.6% savings of SHGs. The shift in investment to formal financial institutions has allowed rural consumers higher liquidity in recent years.
4. Commercial banks had lead in disbursement of loans to SHGs during 2008-2009 with 49.2% followed by Co-operative banks with a share of 26% and Regional Rural Banks with a share of 20.4%.
5. Bankers feel that it is risky to finance poor peoples because of their creditworthiness.
6. Commercial banks had the maximum share of outstanding bank loan to SHGs with a share of 40.7% followed by co-operative banks with a share of 18.4% and regional rural banks with a share of 18.2%.
7. Outstanding bank loan to SHGs are due to high transaction costs [Source: Status of Micro Finance in India 2008-09 (NABARD)].

CONCLUSION

The potential for growing micro finance institutions in India is very high. Major cross-section can have benefit if this sector will grow in its fastest pace. Financial institutions will need to educate villagers on the ease of procedures for availing loans and at reasonable rates of interest. The repayment schedule will have to be designed to suit the seasonality of rural income (e.g. availability of money after harvest). Nationalized banks have not encouraged loans for SHGs for lack of creditworthiness, but these banks have excellent reach to SHGs so that they should come forward to exploit this business opportunity. Similarly, the lakhs of SHGs can be trapped by nationalized banks to encourage monthly savings among members.NABARD is working for the 360-degree development of rural India. NABARD is providing rural India all round assistance and proved to be an institution where "Growth with Social Justice" exists.

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