Micro Finance- A more vibrant tool for Poverty Alleviation and Rural Development

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Abstract

The present paper is a modest attempt to highlight the need and importance of Micro-Finance through Self Help Groups (SHGs) as an effective and vibrant tool of Rural Development and Poverty Alleviation. Even after 68 years of independence and several developmental efforts initiated by central and state Governments, Rural India is still plaguing with problems of Poverty, unemployment, inequality etc. Micro finance and Self Help Groups (SHGs) are playing an effective role in generating income, asset and employment among rural people, but still much has to be done in this area. The main aim of the study is to find the weaknesses of microfinance sector and to provide recommendations to overcome them so that this sector may become more efficient and effective in poverty eradication and sustainable development of Indian rural economy.

Key words: *Microfinance, Self Help group, poverty alleviation and rural development.*

Introduction:

' India lives in its villages' is as true today as it was 68 years ago when India was freed from the British rule. The majority of its population (68.2%) still lives in rural areas and is dependent on agriculture for sustenance . A significant proportion of this population (near about 21.9%) lives under poverty by 2011-12, which is a complex phenomenon and manifests itself in a myriad ways. The rural poor not only suffer from low incomes and high unemployment , but also low life expectancy, low levels of literacy , poor health, poor sanitation, poor housing condition etc. Thus rural development has been remained a key area in all our planning process.

Since India 's independence , each plan document has been making big pronouncement- for the removal of poverty. Yet after 65 years of planning , India is still struggling with poverty. Though the incidence of poverty has declined, the poverty is still a challenge and has been a controversial issue because process of growth is accompanied with increasing intensity of poverty. Since the first implementation of planning process in India with a large number of grants and subsidy and based poverty alleviation programs . But it has been experienced that these poverty alleviation programs implemented through banking institutions have not been successful in mitigating their poverty particularly rural poverty.

Credit is one of the most crucial inputs in rural development. Access to institutional credit for the rural poor is a very important precondition to any poverty alleviation strategy. India has the largest network of bank branches in the world co-operative institutions, regional rural bank and the rural branches of commercial banks have been providing credit to the poor through several schemes in rural areas under the directives of the gut of India. But unfortunately, it is found that the poorer sections of the rural economy and destitute can not avail of the credit from banks and other formal financial institutions due to their inability to deposit collateral security and mortgage poverty. The government sponsored poverty alleviation programs are evolved centrally and planned without participation of the local people and therefore, often fail to address the need and requirement of the poor . lack of participatory approach in planning and execution of these programs result in complete failure to improve socio-economic condition of the poor masses for which these were evolved.

Under such circumstance microfinance and micro credit is being looked upon as the instrument that can be considered us the golden stick for poverty alleviation vis-à-vis rural development Micro-Financing programs through

SHGS, introduced and expanded by Non-governmental organization (NGOs) in several parts of the India have the potential to minimize the problems of inadequate access of banking service to the poor.

Micro finance is providing financial service to poor who are unable to borrow through banks due to various eligibility conditions involved. This has proved to be boon for the two most deprived section of the society, the poor and the women. Over 80% of poor household in rural India have no access to formal financial service. Hence micro credit assumes a lot of significance in India.

Micro Finance –

Micro Finance is a powerful anti-poverty tool that has demonstrated relevance to people on every continent and in every country. Micro Finance focuses on the human desire and ability to overcome poverty in given adequate opportunity and resources . In Indian Context, Task Force on micro finance (NABARD -1999) defined micro finance as provision of thrift, credit and other financial service 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 to improve living standards. Micro Finance encompasses the provision of a board range of services such as deposits, loans, payment services, money transfers and insurance products to poor and low-income households and micro enterprises. It indicates financial disciplines resulting in ownership of assets and enhances the ability to withstand shocks due to access to savings products, credit and insurance. Financial intermediation is the lubricant that oils the wheels of economic activity in performing inclusive growth for the poor developing countries like |India, micro finance has come as a breakthrough in the philosophy and practice of poverty eradication and economic empowerment. However, over the last several years, the Indian micro finance industry has undergone considerable evolution. It helped the poor to catch up with the rest of the economy as it grows. It also helped the poor who are resource-part to increase income, build viable business and reduce their vulnerability to external shocks micro finance helps in income creation, asset creation and employment creation in rural areas "Self-realization and self initiative are the two most powerful weapons to wash poverty out from the world map", this dynamic quotation of world's greatest economist Chanakya is being translated to one word that is SHG. Micro finance through SHG has become a ladder for the poor to bring them up not only economically but also socially, mentally and attitudinally. Starting from the Bancosol of Bolivia to India's NABARD all are the witness of the triumphant Saga of Micro finance.

Concept of Self Help Group (SHG)

The Indian Microfinance is dominated by self help groups (SHGs) and their linkage of bank. The SHGs are small bodies formed by poor people for meeting their specific objectives, particularly credit. Each SHG is managed by rules and regulations, formed by its members, and it functions on domestic principles. A Self – Help Group (SHG) refers to self governed, peer controlled informal group of people with similar socio economic background and having a desire to collectively perform common purposes.

NABARD (1997) defines SHGs as "small, economically homogeneous affinity group of rural poor, voluntarily formed to save and mutually contribute to a common fund to be lent to its members as per the group members decision ". Self Help Groups(SHGs) is an association of like minded people who are coming together voluntarily to undertake common economic activities. Generally, a self-help group may consist of 10 to 20 persons. However in difficult areas like deserts, hills and areas with scattered and sparse population and in case of minor irrigation and disabled persons, this number may me 5 to 20.Generally all members of the group should belong to families below the poverty line. However, if necessary, a maximum of 20% and in exceptional cases, where essentially required, up to a maximum 30% of the members in a group may be taken from families marginally above the poverty line living contiguously with below poverty line members of the group.

History of Micro finance Movement

In 1976, Prof Muhammad Yunus of Bangladesh initiated organizing poorest of the poor women into Self Help Groups in Bangladesh as a means to develop thrift and savings. Now, it has developed into a Bank named "**Grameen Bank**". The success achieved by Grameen Bank, Bangladesh gave a new impetus to micro credit for socio-economic empowerment of rural poor in the developing countries including India. Microfinance in India started in the early 1980s with small efforts at forming informal self help groups(SHGs) to provide access to much need savings and credit services. From this small beginning, the microfinance sector has grown significantly in the past decades. In 1994,NABARD, Small Industries Development Bank of India(SIDBI) also came forward to provide bulk lending to NGOs for on lending to group /individuals since 1994. Ministry of human resource development, Government of India established Rashtriya Mahila Kosh (RMK) for providing loan to NGOs to on lending to poor women. Other National and State Financial Corporations also enter into the micro-finance sector. International funding agencies also started micro-finance services in India through their projects.

Self Help Group (SHG) -Bank Linkage Programme

The Self Help Group(SHG)-Bank Linkage Programme in the past 20 years, has become a well known tool for bankers, developmental agencies and even for corporate houses. SHGs, in many ways, have gone beyond the means of delivering the financial services as a channel and turned out to be focal point for purveying various services to the poor.

Table -1 Physical status of SHG- Bank Linkage Programme 2013-14

Sl no	Particulars	Achievement	
		Physical (No.in lakh)	Financial (Rs. in crore)
1	Total number of SHGs saving linked with banks	74.30	9897.42
(i)	Out of total (of which) exclusive Women SHGs	62.52	8012.39
(ii)	Out of total (of which)SHGs under NRML/SGSY/Other Govt.Spons.Programmes	22.62	2477.52
2	Total number of SHGs credit linked during 2013-14	13.66	24017.36
(i)	Out of total (of which) exclusive Women SHGs	11.52	21037.97
(ii)	Out of total (of which)SHGs under NRML/SGSY/Other Govt. Spons.Programmes	2.26	3480.60
3	Total number of SHGs having loans outstanding as on 31 March 2014	41.97	42927.52
(i)	Out of total (of which) exclusive Women SHGs	34.06	36151.58
(ii)	Out of total (of which)SHGs under NRML/SGSY/Other Govt.Spons.Programmes	13.07	10177.42
4	Average loan amount outstanding/SHG as on March 2014(in Rs.)		102273.21
5	Average loan amount disbursed /SHG during 2013-14(in Rs.)		175768.36
6	Estimated number of families covered up to 31 March 2014	97 million	

Source: NABARD, Status of Micro Finance in Indian – 2013-14

The programme, over a period, has become the common vehicle in the development process, converging important development programmes. With the small beginning as Pilot Programme launched by NABARD by linking 255 SHGs with banks in 1992, the programme has reached to linking of 74.30 lakh saving-linked SHGs and 41.97 lakh credit linked SHGs and thus about 97 million households are covered under the programme, envisaging, synthesis of formal financial system and informal sector .

As on 31 March 2014, a total of 74.30 lakh SHGs were having saving bank accounts with the banking sector. Thus, more than 97 million poor household were associated with banking agencies under SHG-Bank Linkage Programme . The Banks have financed 13.66 lakh SHGs, including repeat loan to the existing SHGs.

Region-wise Performance of SHG-Bank Linkage Programme

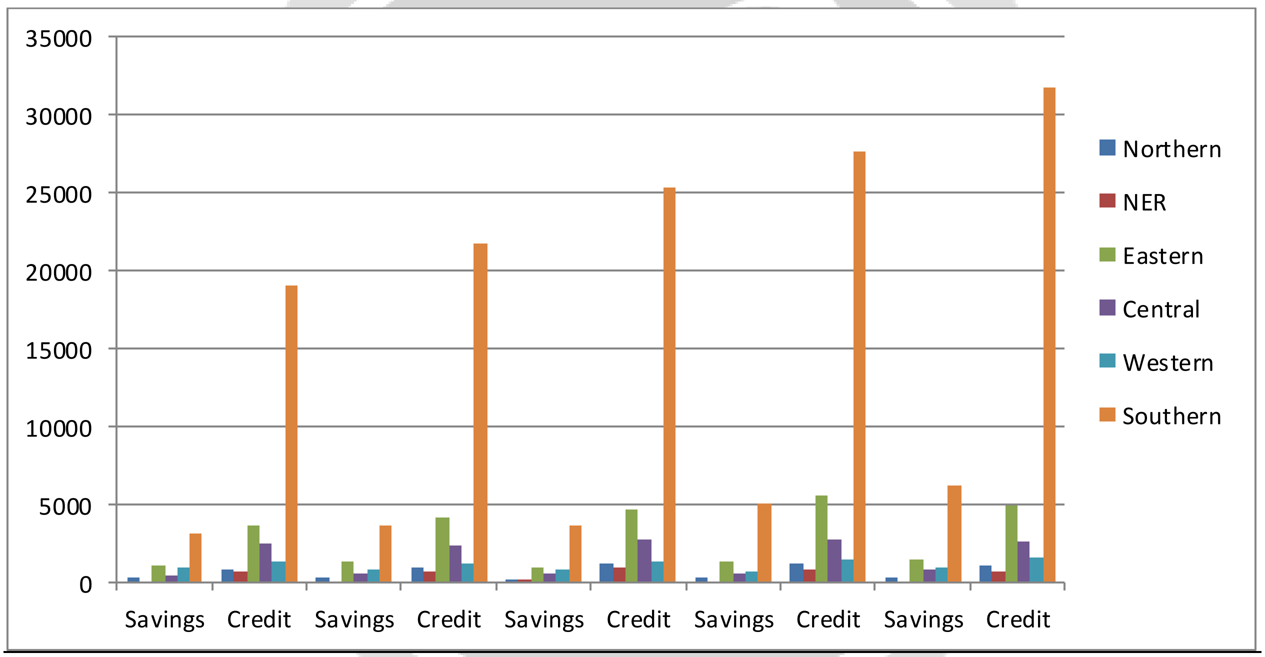
The various status of number of SHG-Bank linkage and bank loan disbursed have been classified into six major regions namely Northern Region, North Eastern Region, Eastern Region, Central Region, Western Region and Southern Region. The States and Union Territories included in each of the categories as.

The Northern region comprises Himachal Pradesh, Rajasthan, Punjab, Haryana, New Delhi and Jammu Kashmir. The North Eastern Region includes Assam, Meghalaya, Tripura, Sikkim, Nagaland, Arunachal Pradesh and Mizoram. The Eastern region comprises Orissa, Bihar, Jharkhand, West Bengal and UT of Andaman & Nicobar Islands. Central Region includes Madhya Pradesh Chhattisgarh, Uttaranchal. The Western Region comprises Gujarat, Maharashtra and Goa. The Southern Region includes Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and UT of Pondicherry.

Table -2. The region wise details of savings deposit of SHGs with banks and credit outstanding.

Region	Saving deposit with/ credit outstanding from banks (Rs core)									
	2009-10		2010-11		2011-12		2012-13		2013-14	
	Savings	Credit	Savings	Credit	Savings	Credit	Savings	Credit	Savings	Credit
Northern	342	815	329	903	253	1178	291	1161	283	1101
NER	121	673	131	695	153	993	130	797	129	754
Eastern	1120	3695	1408	4203	947	4630	1393	5538	1527	4944
Central	514	2463	603	2365	613	2780	624	2776	790	2697
Western	927	1369	829	1246	872	1364	696	1468	930	1640
Southern	3174	19023	3716	21809	3713	25395	5083	27635	6238	31791
Total	6198	28038	7016	31221	6551	36340	8217	39375	9897	42927

The region wise details of savings deposit of SHGs with banks and credit outstanding



<u>Micro- Finance Instrument for Poverty Alleviation</u>

Equitable gains from development on a sustainable basis and ensuring viability of financial services key elements in a strategy of poverty reduction by means of credit support to the poor. As micro finance fulfills all these criteria, it has assumed significance an effective tool in lighting poverty in all the developing countries.

<u>The Micro-Finance since in India is dominated by Self-Help Groups over the years (SHGs)</u> -

Bank Linkage adults model has emerged in India as a core strategy for the banking system to extend their outreach to the poorest among poor. As formal banking system already has a vast branch network in rural areas.

<u>The SHG</u> - Bank Linkage programme was conceived with the objectives of developing supplymentary credit delivery services for the unreached poor, building mutual trust & confidence between the bankers and the poor and encouraging banking activity both on thrift as well as credit and sustaining a simple and formal mechanism of banking with the poor. It is a design relying heavily on collective strength of the poor, closeness of NGOs to people and large financial resources of banks. Further the SHGs have also undertaken effective social mobilization function contributing to an overall empowerment process.

Conclusion

In fact, micro – finance programme is a powerful, anti – poverty tool aimed to help the poor of the rural economy especially in developing countries. Micro Finance is the new fad in the Indian financial system. All though is growing rapidly and getting a lot of attention from financial institution, nongovernmental organizations (NGOs) and the government, as an instrument that can transform the lives of the poor & many of the poorest families in remote rural areas could not utilize this programme satisfactorily. Hence, the micro finance institutions and Self Help promotion institutions must take initiatives to conduct considerable village based training and capacity building for a responsible growth of the microfinance programme in the country.

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