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MICRO FINANCE AND RURAL DEVELOPMENT

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ABSTRACT : India is basically an agrarian economy, but with the new economic policy in 1991 its economy underwent a new change opening its doors to liberalization, privatization and globalization thus focusing on improving and accelerating the pace of its own economic development. As it is generally believed, India lives in its villages, therefore the process of economic development should start by improving the village economy. Today, though India stands as a fastest growing Asian economy but it still suffers from poverty, huge population and unemployment. In remote rural areas people do not have proper access to financial credit as adequate finance is a crucial component to start any business or economic activity. To achieve economic growth, it is necessary to attain rural development. Therefore in this context, the concept of micro finance becomes important in meeting the credit requirements of the poor and also one of the mechanisms to attain financial inclusive growth in India. This paper is an attempt to study the importance of micro finance and its components in serving the credit requirements of small farmers, poor people and small entrepreneurs which will enable them to earn a better living income.

Keywords: Micro finance, poverty, rural development, inclusive growth

1. INTRODUCTION

Poverty in India is like a dread disease towards economic development. Though Government has introduced various schemes to eliminate poverty, but one of the causes for poverty is the non-availability of finance to undertake small ventures. It is felt that micro finance is viewed as one of the measures to reduce poverty initiated by the National Bank for Agriculture and Rural Development (NABARD). The setting up of micro finance institutions is considered as one of the development goals which needs to be achieved. Micro finance may be defined as one of the sources of finance in terms of savings and credit which will help the poor, women and people living in the rural and semi-urban areas.

The very concept of micro finance is supported by the Government in order to attain financial inclusion and growth in the retail sector. Micro finance in terms of micro lending helps the rural and poor people to develop savings habits and make them understand the importance of utilizing the funds effectively. To develop the economy at the aggregate level, rural development is an essential requirement. Adequate capital being the utmost requirement to meet the financial needs of the farmers, small entrepreneurs and artisans in the rural areas and also to attain rural development, micro finance becomes prominent. Micro finance is a cost effective mechanism for providing financial services to the poor. Thus this paper is an attempt to understand the implementation of micro financial services to the poor.

2. RESEARCH METHODOLOGY

This is a conceptual study based on the secondary literary sources of information namely articles and journals.

3. OBJECTIVES OF THE STUDY

a) To understand the concept of micro finance

b) To study how micro finance helps in meeting the credit needs of the small farmers and poor people

c) To understand about the concept of inclusive growth

3 a) Concept of Micro Finance

Micro finance may be defined as a provision of credit and other financial services of small amounts to the poor people in rural and semi-urban areas helping them to improve their levels of income and the institutional support to provide them rural credit thereby improving their standard of lives. According to the United Nations, microfinance institutions can be defined as provider of small-scale financial services such as savings, credit and other basic financial services to poor and low-income people. The term 'micro finance institution refers to those organizations and agencies that provide these financial services which includes non-governmental organizations (NGOs), co-operative banks, non-banking financial companies (NBFCs) and private commercial banks. The micro finance institutions have a greater grass root level reach and these institutions understand the importance of meeting the credit and economic needs of the poor people. It has been observed that with a faster growing retail market in India, these institutions in general act as intermediaries in the retail supply chain and the banking sector in particular helps the micro finance sector to grow by allowing the micro finance institutions to open bank accounts thereby providing various financial services at the micro levels. Micro finance in terms of micro lending helps the rural and poor people to develop savings habits and make them understand the importance of utilizing the funds effectively. Micro finance includes a provision of wide range of financial services such as opening of bank accounts, deposits, advancing of loans at nominal rates of interest, money transfers and insurance to very low income households.

To promote micro finance is one of the objectives of the World Bank. It has introduced strategies to increase the accessibility of financial services through micro finance amongst the low income groups and households. It includes fundamental and regulatory framework which will allow the rural and co-operative banks to provide financial services and also to increase private sector micro finance institutions to enable the poor to have access to credit and to cope with high income variability.

3b) Micro finance helps in meeting the credit needs of the small farmers and poor people

Micro finance is used as an important tool for poverty alleviation. The microfinance movement was initiated by National Bank for Agriculture and Rural Development(NABARD) in collaboration with co-operative banks, non-government organizations (NGOs) and self help groups (SHGs) programme in 1992. The programme was a Government initiative. The self help groups (SHGs) consists of a group of women and men members interested in accessing financial services including savings, credit insurance etc. After the training, the non-governmental organizations (NGOs) provide self help groups (SHGs) access to funds by linking them to banks which provided financial services to them directly and to ensure financial stability of the self help groups

(SHGs). The Reserve Bank of India (RBI) issued guidelines to regulate non-banking financial companies (NBFCs) to retain priority sector lending status for micro-finance institutions. It issued specific guidelines to ensure that the clients are offered services in a transparent manner including clear communication of lending rates, tenure of loans, repayment flexibility etc. In addition to this it also mentions that micro finance institutions need to have customer redressal mechanism in place to address customer grievances aimed at customer protection principles by the micro finance institutions. It has been understood that the micro finance sector in terms of lending and savings to poor people is an effective way to help poor people help themselves build income and assets, manage risk, and reduce poverty. The loans help farmers to buy inputs to agricultural production like rice seeds, fertilizers and agricultural tools, cattle rearing, poultry farming, co-operative farming, weaving, basket making and carpentry work. Of course, funds may be used for a number of other activities, such as crop and animal trading, cloth trading and pottery manufacture.

A small loan, a savings account or an insurance policy can make a great difference to a low-income family. They enable people to invest in better nutrition, housing, health and education for their children. The year 2005 announced as the International Year of Microcredit has helped to raise global awareness of the pivotal role that more inclusive finance can play in achieving the millennium development goals.

3c) Concept of inclusive growth

The concept of inclusive growth gained prominence during the eleventh five year plan (2007-2012). Rapid growth in all economic sectors is vital for an economy to achieve growth and development. Reduction and elimination of poverty, unemployment is necessary to attain growth in the long run which encompasses a large part of the country's labour force. Inclusive growth implies a direct linkage between the micro and macro determinants of growth and includes the importance of structural transformation for economic diversification and competition, it refers both to the pace and pattern of growth.

The Commission on growth and development in its report on Strategies for Sustained Growth and Inclusive Development (2008) states that inclusiveness is a concept that encompasses equity, equality of opportunity and protection in market and employment transitions which is an essential ingredient of any successful growth strategy. Therefore, inclusive growth is the equality of opportunity in terms of access to markets, resources, and unbiased regulatory environment for businesses and individuals. It also means improvement in social and economic indicators namely housing, education, health and access to adequate financial services of which micro finance is an important instrument in meeting this very objective. This very concept of inclusive growth also emphasizes the need to attain rural development by giving importance to education, housing, basic infrastructural facilities, employment and training, better health care facilities in the rural areas.

4. FINDINGS OF THE STUDY

India's approach to micro finance making it profitable and so widely available has helped to reduce the incidence of poverty from about 40 percent of the population. The year 2005 announced as the International Year of Microcredit has helped to raise global awareness of the pivotal role that more inclusive finance can play in achieving the millennium development goals. The micro-finance sector in India is dominated by Self Help Groups (SHGs). In India, despite the large size and depth of its financial system, the majority of the rural poor still do not have access to formal finance and financial services.

5. CONCLUSIONS OF THE STUDY

An access to banking and financial services will certainly improve the income of the rural poor people helping them to lead a life of dignity as the very concept of micro finance not only helps in providing credit but also helps in opening new avenues of work that will raise their standard of living. As far as inclusive growth is concerned, this requires sustained investment from the Government and other regulating bodies in areas of health, education, housing, transport and energy infrastructure. The various employment schemes and poverty alleviation programmes introduced by the Government requires that all such measures are effectively implemented, only then the objectives of inclusive growth will be attained.

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