

# Micro Finance

## The Entry Point of Rural Development and Women Empowerment

**Ashim Borpatragohain**

Associate Professor & HOD Commerce, Mariani College, Mariani  
Email: ashimbgp@rediffmail.com

**Abstract** – The role of financial sector in the process of economic development in the rural areas has been well recognized. Finance plays a big in stimulating substantial economic development, which is being emphasized by the eminent economists like Kaleeki and Keynes. According to Amartya Sen, lack of capability and opportunity are the major responsible factors for poverty and hunger in the developing countries including India. Again the intensity of poverty is more in rural sectors of developing countries. The today use of the expression Micro financing has its roots in the 1970s when organization, such as Grameen Bank of Bangladesh with the Micro finance pioneer Muhammad Yunus were starting and shaping the modern industry of micro financing. Another pioneer in this sector is Akhtar Hameed Khan. An attempt has been made to highlights the role of Micro finance in the process of Rural development, and Micro finance as a tool for the economic empowerment of women.

**Keywords** – Micro Finance and Rural Development, Centrally Sponsored Programme, (SGSY), Micro Finance and Women Empowerment, Micro Finance in Indian Scenario etc.

### I. INTRODUCTION

The role of financial sector in the process of economic development in the rural areas has been well recognized. Finance plays a big in stimulating substantial economic development, which is being emphasized by the eminent economists like Kaleeki and Keynes. According to Amartya Sen, lack of capability and opportunity are the major responsible factors for poverty and hunger in the developing countries including India. Again the intensity of poverty is more in rural sectors of developing countries. Hence, for the development of rural areas, now a day microfinance programme has become more effective and important tool. In India, Microfinance is dominated by the Self Help Groups (SHGs) - bank linkage programme aimed at providing a cost effective mechanism for providing financial services to the unreached poor. Micro financing has turned out to be an effective strategy for institutional financing agencies. Through group approach, small loans can be made available to the poor by creating saving habits. Group lending also reduces the transaction costs. So far Micro finance is concerned, the women are found to be the greatest beneficiaries. Therefore, Prof. Yunus has rightly said, "we focused on women because we found giving loans to them always brought more benefits to the family".

Micro finance is a financial service of small quantity provided by Financial institutions to the poor. These financial services may include savings, credit, insurance,

leasing, money transfers etc. provided to the poor to meet their financial need viz. life style, economic opportunity and emergency (Dasgupta and Rao 2003) with the only condition that :

1. Transaction value is small and
2. Customers are poor.

### II. HISTORY OF MICRO FINANCE

The history of Micro finance can be traced back as long to the middle of 1800s when the theorist Lysander Spoones was writing over the benefits from small credits to entrepreneurs and farmers as a way getting the people out of poverty. But it was at the end of the World War II with the Marshall plant that the concept had a big impact. The today use of the expression Micro financing has its roots in the 1970s when organization, such as Grameen Bank of Bangladesh with the Micro finance pioneer Muhammad Yunus were starting and shaping the modern industry of micro financing. Another pioneer in this sector is Akhtar Hameed Khan.

### III. OBJECTIVE OF THE STUDY

With the following objectives the study has been undertaken:

1. The role of Micro finance in the process of Rural development, and
2. Micro finance as a tool for the economic empowerment of women.

### IV. MICRO FINANCE IN INDIA

A wide range of financial institutions both in public and private sectors are providing Micro finance services in India. The formal financial institutions including Central banks, Regional Rural banks and Co-operative banks are micro-credit service providers as they provide micro finance services as their secondary function in addition to their other primary activities. On the other hand, there are specialized informal institutions that undertake Micro finance services as their primary activity. They are called Micro Finance Institutions (MFIs). Self Help Groups (SHGs) as the best form of MFIs in India has been practicing since last three decades.

The Micro finance programme undertaken by National Bank for Agricultural and Rural Development (NABARD), began in 1992 with the formation of 500 Self Help Groups (SHGs), has emerged as the largest Micro finance in the world. The Self Help Groups-bank linkage

programme, the main Micro finance model and institutional finance mechanism to provide financial credit support to the micro-entrepreneurs (including farmers) in the country as a whole, has been proved to be the most cost effective credit delivery system in India. The programme has also helped in providing banking services to the uncovered rural poor.

### **V. MICRO FINANCE AND RURAL DEVELOPMENT IN ASSAM**

In order to improve the standard of living of the poor and the downtrodden, the concept of micro finance has been initiated in the recent past. It is defined as providing credit, thrift and finance related services and products of very small amount with credit removed collaterals. This concept is based on the assumption that poor are bankable and the micro enterprise finance through repayment incentive structures streamlined administration is sustainable.

In Assam the focus of SHG- Bank linkage programme is seen to be picking up its importance lately. However, the programme has gathered momentum from the year 2001-02 onwards. Till the end of March 2010, total 374745 SHGs have been bank linked in the state out of which 163855 SHGs were credit linked.

The NABARD, Assam Regional office has played a vital role by extending grant assistance of Rs 358.06 lakh to 119 NGOs for promotion of 14259 SHGs in the state upto 31st Oct.2010. In areas where the NGOs and Bank network is weak, a scheme for associating Individual Rural Volunteers (IRVs) in promotion and linkage of SHGs was introduced. The scheme is currently implemented through the RRBs and SBI in the state. NABARD has sanctioned a grant assistance of Rs 135.18 lakh to promote and credit link 7510 SHGs with banks with the help of 751 IRVs in all the 27 districts of the state. With a view to increase the flow of credit, particularly to the small borrowers having limited or no collateral to offer, a new concept of Joint Liability Group (JLG) lending has been evolved wherein social collateral substitutes the physical collateral. This JLG lending was introduced on a pilot basis in the state of Assam involving RRBs to promote the concept. After completion of the pilot project, the RRBs started financing JLGs on a regular basis. As on 31st Oct. 2010, 7291 JLGs have been financed by these RRBs with an aggregate credit of Rs 3170.49 lakh. Of late, the commercial banks like Indian Bank, ICICI Bank, SBI, UCO Bank and Assam State Co-operative Apex Bank have also adopted the JLG mode for

financing the tenant farmers and other activity groups (Economic Survey, Assam 2010-11).

### **VI. CENTRALLY SPONSORED PROGRAMME IN RURAL AREAS**

The ministry of Rural Areas and Employment administers a number of schemes aimed at improving the quality of life in rural areas. Many of the schemes address the issue of creating sustained employment opportunities for ensuring a certain minimum level of employment and income of the rural poor. In Assam the Department of Rural Development is implementing a number of programmes in rural areas for poverty reduction, employment generation, rural infrastructure, habitant development, provision of basic minimum service etc. The important programmes presently being implemented by the department are:

- Pradhan mantra Gram Sadak Yojana(PMGSY)
- Swarnajayanti Gram Swa-rozgar Yojana(SGSY)
- Sampoorna Grameen Rozgar Yojana (SGRY)
- Indira Awash Yojana (IAY)
- Chief Ministers' Swa-Niyojan Yojana etc.

### **VII. SWARNAJAYANTI GRAM SWAROZGAR YOJANA (SGSY)**

The SGSY is single self employment programme for the rural poor. The yojana which came into effect from 1st April 1999, has been conceived as a holistic programme covering all aspects of self-employment like organization of rural poor into Self Help Groups and their capacity building, training, planning of activity clusters, infrastructure development, financial assistance through bank credit and subsidy and marketing support etc. The scheme is funded by the Central and State Govt. in the ratio of 75:25 basis. The objective of the SGSY is to assist the rural poor popularly known as swa-rozgaris to come above the poverty line in three years by providing them income-generating assets through bank loan and Govt. subsidy.

### **VIII. SHG-BANK LINKAGE UNDER SGSY**

Up to the end of March 2010, 1.64 lakh SHGs have been formed out of which only 84678 SHGs were given loans by banks. Cumulative progress of SHG-Bank linkage programme under SGSY IS shown in the following Table:

Table: SHG-Bank linkage under SGSY

Year	Total Credit Linked SHGs		Credit Linked SHGs under SGSY	
	No	Amount (in Lakhs)	No	Amount (in Lakhs)
2004–05	42712	17566.70	20388	11273.74
2005–06	94352	38392.36	48235	25024.66
2006–07	109428	52778.91	54735	36549.70
2007–08	115716	51372.98	54790	31006.57
2008–09	138392	69879.98	69144	45898.66
2009–10	163855	83601.33	84678	55161.36

Source: Reports of State Level Bankers Committee, Assam.

## IX. MICRO FINANCE AND WOMEN EMPOWERMENT

The focus on women's empowerment and micro finance is neither new, nor, Northern imposition. It dates back to 1970s and the beginning of the International Women's Movement. Many women's organization worldwide set up credit and saving components as a way of both enabling women to increase their incomes and come together to address wider gender issues. Micro finance for women has recently been seen as a key strategy in meeting not only Millennium Goal 3 on gender equality, but also poverty reduction, health, HIV/ AIDS and other goals. The problem of women's access to credit was given particular emphasis at the 1<sup>st</sup> International Women's Conference in Mexico in 1975 as part of the emerging awareness of the importance of women's productive role both for national economies and for women's rights. This led to the setting up of the Women's World Banking Net work and production of manuals for women's credit provision. Other women's organization worldwide set up credit and savings components both as a way of increasing women's income and bringing women together to address wider gender issues. Micro finance experts generally agree that women should be the primary focus of service delivery. Evidence shows that they are less likely to default on their loans than men.

## X. MICRO FINANCE IN INDIAN SCENARIO

Govt. of India has given maximum importance in Micro finance for promoting SHGs and women empowerment. Union Finance Minister Srijut Pranab Mukherjee on presenting the budget on 28th Feb.2011 for the year 2011-12, made important statements relating to Micro finance and financial inclusion. The Finance Minister stated that Micro Finance Institutions (MFIs) had emerged as an important means to financial inclusion. He proposed to create in course of the year "India Microfinance Equity Fund (IMEF)" of Rs 100 crore with SIDBI. He also said that to empower women and promote SHGs, he intended to create a "Women's SHGs Development Fund" with a corpus of Rs 500 crore. This shows the importance of micro finance in the present economic situation. Self Help Groups dominate the micro finance scenario and it is focusing more on poor women. Hence, micro finance is emerging as a powerful instrument empowerment of poor women both socially and economically. Before 1990, credit schemes for rural women were almost negligible. The concept of women's credit was recognized by women oriented studies that recommended access to credit by the woman informal sector. In modern economy the micro credit approach for women is considered as the best strategy to empower women economically. Through micro credit the poor women can rotate their funds to build economic capacities. Prof. Amartya Sen in his book "Public Action to Remedy Hunger" in 1991 has also recognized the role of micro finance in women empowerment and poverty reduction.

## XI. SUGGESTIONS & CONCLUSION

Micro finance programme not only give women and men access to savings and credit, but reach millions of people worldwide bringing them together regularly in organized groups. There is the need of identifying the weaknesses in the linkage programme of the banks and proper addressing of the programmes. There is no doubt that micro finance can provide micro solution to the poor people but it will yield moderate economic benefits. The SHG – Bank linkage has not made substantial impact in the poverty belts of India. In many cases it has been observed that SHGs are generally not composed of mainly the poorest families rather it has been constituted by financially sound people with some vested interest. The financial skill of group members have not developed in Self Help Groups as planned. Therefore, the following few aspects in micro financing should be considered by the planners and the policy makers to strengthen the micro financing in our state:

- Self Help Groups should be provided adequate training and counseling for the proper utilization of fund obtained through micro finance.
- Suitable policy measures must be taken to ensure participation of the private sector banks in the promotion of SHGs.
- Middlemen interference between the SHGs and the bank should be avoided.
- Mobile banking offers one of the most promising options for providing financial services to the world's unbanked population should be provided.
- Financing the SHGs by the banks should be given utmost importance. We may therefore, rightly come to the conclusion that Micro finance is an essential tool for rural development and women empowerment.

## REFERENCES

- [1] Das, S,K , Nanda ,B.P and Rath, J.-Micro finance and Rural Development(2008)
- [2] Bora, Deepali- Women Empowerment —Present and the Way Forward (2009).
- [3] Dhar, P.K.- Indian Economy and its Growing Dimension.
- [4] Economic Survey of Assam 2010-2011.

## AUTHOR'S PROFILE



### Dr. Ashim Borpatragohain

born on 1<sup>st</sup> November 1959, graduated in Commerce from JB College Jorhat, Assam in 1979. Completed his Post-graduation from Gauhati University, Guwahati in 1983, then he joined as a Lecturer in Nogaon College, Nogaon Assam. On 1st January 1984 he joined Mariani College, Mariani, Jorhat. At Present he is serving as Associate Professor, in Mariani College, Mariani and holding the post of Academic Vice-Principal & HOD, Commerce. He obtained his Ph.D from Gauhati University, Guwahati in 2010. So far he has completed UGC sponsored Minor Research Project and published 5 (five) nos. of Research Papers in different fields in International referred Journal.