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RURAL FINANCE : MICRO-FINANCE

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ABSTRACT:

Microfinance has potential to improve the well-being of poor women in developing countries. It helps to break the cycle of poverty, decrease unemployment, increase earning power of poor and valuable tool for the financially underserved when used properly. This paper is an attempt to note the role of Microfinance in finance and development.

KEYWORDS: *Microfinance, microcredit, micro savings, Development, NABARD*

INTRODUCTION:

Microfinance, microcredit, micro savings Interest in micro savings—beyond just microcredit—has grown just as microfinance practitioners have come to understand that small loans are not always appropriate for poor women. After all, a loan becomes debt, and the poor are exposed to crisis if an expected source of funds for repayment evaporates. Thus, borrowing is often riskier than saving. For example, a woman could save or borrow to buy a sewing machine. If a child falls ill, savings could be tapped to pay for medicine; debt repayment might preclude medical treatment. Furthermore, although not all people are creditworthy or want debt, all people are deposit worthy and want assets. Of course, saving requires current sacrifice, and with saving—unlike borrowing— the sacrifice precedes the reward. On the other hand, saving offers flexibility, and while borrowers pay interest, savers earn interest. Also, the choice to save is voluntary; once indebted, repayment is mandatory. Both savings and loans have a place, but saving is often a better choice for poor women. As stated by Johnson and Kidder not all poor people are "budding entrepreneurs. . . . for people living in poverty, perhaps it is access to a savings account . . . that needs to be the core service on offer." suggests that the poor (like the non-poor) use financial services to turn small, frequent cash inflows (such as from daily milk sales) into usefully large sums (perhaps to buy a cow or land). They may also use financial services to turn 4 large inflows (such as monthly salaries or proceeds from the sale of a cow) into small, frequent outflows (such as daily food purchases). Accumulated savings can also buffer expected or unexpected spikes in household expenses due to childbirth, school fees, home repairs, life-cycle celebrations, or widowhood (by death, divorce, or abandonment). Savings may also cushion familial risks due to illness, theft, or job loss or structural risks due to war, floods, or fire. Finally, savings allow people to take advantage of unexpected investment opportunities. As stored resources, savings are useful for a wide range of purposes

Micro Finance is a novel approach to "Banking with the poor". This finance is particularly meant for rural and poor community group. In Micro Finance self help group (SHG) plays an important role . Micro Credit attempts to combine lower transaction costs and high degree of repayments. NABARD has supported and encouraged strongly to SHG. In more than 30000 commercial banks and district banks as well as cooperative banks they support self help group finance. As many as 11.2 Lacs SHG's are now linked with banks and more than 3000 NGO's are associated with the schemes related to self help group.

Approximately 18 million very poor families were brought within the fold of formal banking services. For survival and success in any operation one must followed the principle of e-spirit – de – corps i.e. unity is strength. This is the base of S H G. If people at grass route level they gather and united then any type of change would take place. And it has happened with SHG. Compared to male communities , females are performing leading role in SH G and the result are very positive and shows in upward direction.

As mentioned above the notable feature was the active participation of women more than 90 % of the groups linked with banks were exclusive women groups. The problem of repayment never arises in SHG Scheme. There was strong repayment performance at more than 95% of the loans disbursed. Average loan per SHG came to nearly Rs. 30000 to 35000. Micro Finance has been hailed as the best method of creating additional employment and removing poverty. Employment generation and poverty eradication are the two main value addition of SHG and indirectly of Micro Finance.

MICROFINANCE AND DEVELOPMENT:

Microfinance has assumed a prominent place in the development debate over the last ten years and has generated great expectations from donors. There is a considerable amount of optimism regarding the ability of microfinance institutions to become financially sustainable, and increase their outreach capacity exponentially without reliance on funding from donors. In these respects, microfinance has often been far over-advertized. Microfinance is also not the panacea for poverty alleviation, eventhough it is true that it can be an efficient tool to combat poverty through self-help. Only a small percentage of the thousands of microfinance institutions supported by donors have the capacity to become financially sustainable. Donors have tended to under-estimate the price of sustainability; reaching that stage involves taking unpopular decisions (such as charging the full cost of services), and implies a tremendous effort to build reliable information systems and maintain low delinquency rates. Although many MFIs claim to aim for financial sustainability, few may be willing to pay the price necessary to reach this objective. Moreover, donors need to recognize that they have much less ability than they might believe to turn around MFIs into profitable and sustainable institutions through technical assistance and financial support. The comparative advantage of donors is rather their ability to identify and support the MFIs that have the vision and capacity to become sustainable.

LIMITATIONS OF MICRO FINANCE:-

1. Nearly 70% of poor families are yet to be covered under Micro Finance.
2. Only 4 States in the country viz. Andhra Pradesh, Tamilnadu, Karnataka & Utter Pradesh accounts for 70% of network and in other states it only 30%. It means there is great imbalance among the states.

MEASURES FOR BETTER PERFORMANCE OF MICRO FINANCE:-

a) Adequate funding is required to be provided by Central and State Governments.
b) Rules and regulations are to be strongly structured for its proper implementations.
c) Good Organization Structure and sustainability
d) Building and improving capacity of Micro Finance Institutions . i.e. Self Help Groups, Credit Societies etc.

CONCLUSION:-

Micro Finance and SHG plays an important role in removing poverty both in urban as well as rural area. Governments should encourage such SHG for poverty removetion and should motivate the poor sector to join for sustainable development. There are some other developments in rural finance it included Kisan Credit Cards (KCC). The purpose of KCC is to facilitate short-term credit to farmers. KCC holders are also provided Personal Accident Insurance. Both KCC and SHG plays an important role in Micro Finance and Rural Finance have a positive effect on poverty alleviation.

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