



A STUDY OF ROLE OF MICRO-FINANCE IN RURAL EMPOWERMENT IN INDIA

MISAL D.M.*

Department of Economics, C. S. P. M. Arts Senior College, N-11, CIDCO, Aurangabad- 431 004, MS, India.

*Corresponding Author: Email- dilipmisal2012@rediffmail.com

Received: September 13, 2013; Accepted: October 21, 2013

Abstract- In the world there are four billion people who are in the bottom of pyramid. The major issues in rural areas are low income, lack of investment capability and lack of commercial approach. If their standard of living has to be changed, that can not be changed by providing mere charity or donations. Micro-credit provides the finance to open a small business. But there is risk in doing the business as all entrepreneurs have not necessary training and skills to start and manage a successful business. In this context micro-franchising is the turn key in the business. A micro-franchise can rely on the franchisor, who reduces the risk of failure by providing high quality initial and ongoing training. There is safety under the franchise network's umbrella, entrepreneurs even those who aren't particularly entrepreneurial are now able to succeed and thrive in ways not possible by going it alone. The companies which utilized the concept into profitable business are HUL, DRISHT-EE, VISIONSPRING, GRAMEENA TELEPHONE and LIJJAT.

Keywords- Poverty, Micro-franchising, entrepreneurs and rural people

Citation: Misal D.M. (2013) A Study of Role of Micro-finance in Rural Empowerment in India. Journal of Accounting and Finance, ISSN: 2249-3964 & E-ISSN: 2249-3972, Volume 3, Issue 1, pp.-37-41.

Copyright: Copyright©2013 Misal D.M. This is an open-access article distributed under the terms of the Creative Commons Attribution License, which permits unrestricted use, distribution and reproduction in any medium, provided the original author and source are credited.

Introduction

Bangladesh has been acknowledged as a pioneer in the field of micro finance. Dr Mehmud Yunus, Professor of economics in chitgaon university of Bangladesh, was initiator of an action research project Grameen Bank. The project started in 1976 and it was formally recognized as a bank through an ordinance issued by the government in 1983. Even then it does not have a scheduled status from the central bank of the country the Bangladesh Bank. The Grameen Bank provides loans to the landless poor, particularly women to promote self employment. At the end of December 2001 it had a membership 23.78 lakh and cumulative micro-credit disbursements of TK 14.653 crore. Bangladesh Rural Advancement committee (BRAC) Association for social Advancement (ASA) and Proshika are the other principal micro credit finance institution (MFIS) operating for over two decades and their activities are spread in all the districts of that country. BRAL is the largest NGO of Bangladesh with a total membership of 41.38 Lakh. Initially set up in 1972 as relief organization, it now addresses the issues of poverty alleviation and empowerment of poor, especially women, in the rural areas of the country. This institute also works in the field of literacy, legal education and human rights; BRAC has worked significantly in the fields of education, health nutrition and other support services.

PROSHIKA, derives its name from three Bengali words namely Partisan (training) Shiksha (education) and Kaj (action) PROSHIKA is also active in the areas of literacy, environment, health and organization building while ASA and Grameen Bank are pure MFIS.

The Micro finance practices of these institutions revolve around five basic features;

- Firstly, these institutions primarily have women as their target group.
- Secondly they adopt group approach for achieving their targets. The group approach focuses on organizing the people into small groups and then introducing them to the facility of Micro financing. The MFIS of Bangladesh place a great deal of importance to group solidarity and cohesiveness.
- Thirdly, savings are an essential precondition in all these MFIS for availing credit from them.
- Fourthly, the officials of the Bangladesh MFIS remain present in the weekly meetings of the groups and collect the savings update the pass books and even disburse the loans.
- Lastly, the systems and procedures of the MFI are quite simple and in tune with the requirements and capabilities of their clients.

Micro Finance in India

India is a home to the largest population of poor in the world and out of its total population there are nearly 75 million poor households in India, thus it has become the prime obligation of the regulators to provide some definite solution for poverty alleviation. So India has also been a forefront participant in using micro finance as a tool of poverty alleviation as microfinance is used both by government and Reserve Bank of India as a means for poverty alleviation

with credit support from the banking system. RBI & NABARD regulate the microfinance operations of the banking sector as apart of their overall banking operations. The informal group lending in India started in 1986-87 when the NABARD supported & funded an action research project on ' Saving and Credit Management of Self Help Groups' of the Mysore Resettlement & Development Agency (MARYADA). The large no's of women's organizations, like SEWA (Self Employed Women's Association), Working Womens Forum (WWF) etc., were also involved in microfinance activities like group lending. A range of institutions in public sector as well as private sector offers the micro finance services in India. They can be broadly categorized into two categories namely, informal institutions and formal institutions as shown in [Table-1]. The former category, that provide micro finance services in addition to their general banking activities are referred to as micro finance service providers. On the other hand, the informal institutions that undertake micro finance services as their main activity are generally referred to as Micro Finance Institutions. (MFIs) Small Industries Development Bank Of India(SIDBI), an apex financial institutions for the promotion, financing and development of small industries in India, has launched a major project christened SIDBI Foundation for Micro Credit (SFMC) as a proactive step to facilitate accelerated & orderly growth of the microfinance sector in India. The microfinance in India is mostly perceived through SHG-Bank linkage model & Micro-finance institution model.

India has adopted the Bangladesh's model in a Modified form. To alleviate the poverty and to empower the women the micro finance has emerged as a powerful instrument in the view economy. With availability of Micro finance self help groups (SHGs) and credit management groups also started in India. And thus the movement of Self Help Groups has spread over in India. In India, banks are the predominant agency for delivery of Micro Credit in 1970, Ilaben Bhat, founder member of 'SEWA (Self employed women's Association) in Ahmedabad, had developed a concept of women and Micro finance, the Annapurna Mahila Mandal in Maharashtra and working women's forum' in Tamilnadu and many National Bank for Agriculture and Rural Development (NABARD) - sponsored groups have followed the path laid down by 'SEWA' 'SEWA' is a trade union of poor self employed women workers. Since 1987 'Mysore Resettlement and Development Agency' (MYRADA) has promoted credit Management Groups (CMGs) CMGs are similar to self help groups. The basic features of this concept promoted by MY RADA are:

- Affinity

- Voluntarism
- Homogeneity

Membership should be limited to 15.20 persons. Aim of the CMG is to bestow social empowerment to women. In 1991-92 NABARD started promoting self help group on a large scale and it was the real take off point for the Self Help Groups movement. In 1993, the Reserve Bank of India also allowed Self Help Groups to open saving accounts in banks facility of availing bank services was a major boost to the movement. The movement of Self Help Groups was nourished in the states of Gujarat, Maharashtra, Andhra Pradesh, Rajasthan, Tamil Nadu and Kerala. Now nearly 560 banks like NABARD, Bank of Maharashtra, State Bank of India, Co-operative Banks, Regional Rural Banks, the Government institutions like Maharashtra Arthik Vikas Mahamandal (MAVIM) District Rural Development Agency (DRDA) Municipal Corporations and more than 3,024 NGOs are collectively and actively involved in the promotion of Self Help Groups movement.

The [Table-1] shows the growth of linked SHG's in the region of all India we can see from the table that the beneficiaries of SHG has doubled from the year 2004 to 2007, in the year march 2004 there were 1079091 beneficiaries of SHG which have increased to 2924973 in the year march 2007. Overall we can see that majority of the beneficiaries are from south India 1522144 as on March 2007.

[Table-2] shows that growth is concentrated in two regions, the South and East, which already account for about 95% of membership. The 31% growth was recorded in the West, on an extremely small base, while only 11% growth was registered in the North, among a larger base. With financial support from government for SHG programmes the establishment of a large number of MFIs following the SHG model has been registered [Table-3].

Note: Actual number of MFIs provided with bank loans would be less as several MFIs have availed loans from more than one bank During the year 2007-08, the banks financed 518 MFIs with bank loan of ₹ 1,970.15 crore as against 334 MFIs with bank loan of ₹ 1,151.56 crore during 2006-07 with a growth rate of 55% (No. of MFIs) and 58.4% (Bank Loan disbursed to MFIs). As on 31 March 2008, the outstanding bank loan to 1109 MFIs was ₹ 2748.84 crore as against ₹ 1584.48 crore to 550 MFIs as on 31 March 2007. Safely under the franchise network's umbrella, entrepreneurs, even those who aren't particularly entrepreneurial are able to succeed and thrive in ways not possible by going it alone.

Table 1- Growth of linked SHG's in the regions

Region	Beneficiaries				% increase in 2005-06	% increase in 2006-07	Share of Population	Share of BPL Population
	Mar-04	Mar-05	Mar-06	Mar-07				
North	52,369	86,018	1,33,097	1,82,018	6%	6%	13%	7%
North East	12,278	34,238	62,517	91,754	3%	3%	4%	3%
East	1,58,237	2,65,628	3,94,351	5,25,881	18%	18%	22%	29%
Central	1,27,009	1,97,365	2,67,915	3,32,729	12%	11%	25%	32%
West	54,815	96,266	1,66,254	2,70,447	7%	9%	15%	14%
South	6,74,356	9,39,941	12,14,431	15,22,144	54%	52%	21%	15%
All India	10,79,091	16,18,456	22,38,565	29,24,973	100%	100%	100%	100%

Source: Poverty Estimates for 2004-05, PIB, Government of India, New Delhi, March, 2007

Table 2- Region-wise growth on outreach in 2003-04 and 2004-05

MFIs by regional distribution	No. of MFIs	Outreach FY 2005	Annual Growth (%) in outreach FY 2005	Annual Growth (%) in outreach FY 2004
East	18	3,32,476	61.12	32.68
West	2	6,738	31.4	42.15
North	3	91,317	11.34	19.5
South	45	17,10,323	67.5	51.73
Total	68	21,40,854	62.86	45.94

Source: Poverty Estimates for 2004-05, PIB, Government of India, New Delhi, March, 2007

The organizations successfully implemented micro-franchising model are discussed below.

HUL's Project Shakti

Hindustan Unilever Ltd. (HUL) is the Indian subsidiary of the multinational company Unilever whose nutrition, hygiene and personal care products and brands are widely recognized worldwide. Recognizing the potential of the rural untapped market, HUL launched Project Shakti in 2001. This Base of the Pyramid initiative is com-

prised of rural women, or Shakti Entrepreneurs (SE), who sell HUL products such as soap, toothpaste, and detergent, in their villages and nearby communities for a profit. As of now there are more than 40,000 SEs covering over 100,000 villages throughout India. Members of the Shakti network penetrate and reach out to some of the most unfrequented corners of rural India.

Hewlett-Packard

Hewlett-Packard has a different micro-franchising scheme for rural camera women. Wedding photos are a growing business in rural areas. Hewlett-Packard has trained rural women in Andhra Pradesh to use digital cameras to cover weddings and other celebrations. The photos are printed out on HP colour printers.

Grameena Telephone

Mohammed Yunus pioneered using poor women to operate mobile phones as public call offices (PCOs) in rural areas. Grameen Telecom, Yunus' non-profit outfit, took a 38% stake in GrameenPhones, a commercial provider with a national cellular licence. Grameen Bank members with the best track record of running small businesses and repaying loans were trained and financed to acquire cell-phones.

Table 3- Bank Loan provided to MFIs- 2006-07 & 2007-08

Agency	Years	Amount of loan disbursed to NGOs/MFIs		Loan Outstanding against NGOs/MFIs as on 31 March		Percentage Recovery of loans
		No. of MFIs	Amount (Crore ₹)	No. of MFIs	Amount (Crore ₹)	
Commercial Banks (Public & Private Sector)	2006-07	327	1,151.34	541	1,584.27	92-100
	2007-08	497	1,968.60	1072	2,745.24	82 -100
	% growth	52	71	98.2	73.3	
Regional Rural Banks (RRBs)	2006-07	7	0.22	8	0.2	90
	2007-08	8	1.51	24	3.58	95.5 - 100
	% growth	14.3	586.4	200	1,690.00	
Co-operative Banks	2006-07	0	0	1	0.01	100
	2007-08	13	0.04	13	0.02	NA
	% growth			1,200.00	100	
Total	2006-07	334	1,151.56	550	1,584.48	
	2007-08	518	1,970.15	1,109.00	2,748.84	
	% growth	55.1	71.1	101.6	73.5	

Source: Status of Micro Finance in India 2007-08

VisionSpring

VisionSpring (VS), formerly called Scojo Foundation, is a nonprofit social enterprise that reduces poverty and generates opportunity by enabling partners to diagnose minor eyesight problems and sell affordable reading glasses that correct those problems. VisionSpring targets rural areas with the explicit goals of increasing the number of people with access to reading glasses, creating jobs for local entrepreneurs and facilitating access to comprehensive eye care.

Drishtee

Drishtee's mission is to create a network of micro-entrepreneurs throughout India's impoverished rural areas that sell new products and services to benefit local villages, to improve information access and to create employment. Through about 2,000 micro-franchised kiosks in 14 states of India, Drishtee and its micro-franchisees deliver fee-based products and services. These products and services range from the provision of computer and English-language educa-

tion to insurance and micro-credit loans to the selling of daily necessities such as eyeglasses, seeds and prepaid cell phone cards.

Lijjat

Shri Mahila Griha Udyog Lijjat Papad is a women's organisation of the women, by the women and for the women. It was started in 1959 with 7 lady members with a borrowed sum of ₹ 80 at Girgaum in Mumbai. The turning point of the organization was in 1966 when it was registered under the Bombay Public Trust Act 1950 and also registered under Societies Registration Act, 1860 and got recognition from Khadi & Village Industries Commission as a village industry. The objective of the institution is to provide employment to the ladies to enable them to earn decent and dignified livelihood. Any women who can render physical work in this institution without distinction of caste, creed and colour and agrees to abide by the objective of the institution can become a member of the institution from the date on which she starts working. Papad production work starts at early hours in the morning i.e. 4.30 am.

Self Help Groups

Self-Help Groups (SHGs) from the basic constituent unit of micro-finance movement in India. A Self Help Group (SHG) is a registered or unregistered group of micro entrepreneurs having homogenous social and economic background voluntarily, coming together to save small amounts regularly, to mutually agree to contribute to a common fund and to meet their emergency needs on mutual help basis. SHGs Play a very important role in the rural economies especially the upliftment of the woman because access to finance is a major problem for poor women. The SHG generally have a minimum number of 5 members and the number not exceeding 20. Prof. Md. Yunus of Bangladesh first promulgated this concept in 1976 with the help of 42 poor. Later on, in India, some NGOs adopted in 1987-88, NABRAD in 1991-92 and the leading public sector bank SBI in 1996-97 and so on. There are four stages in SHG formation:-FORMING(02months), STORMING (2-3 months), NORMING (4-6months) and FUNCTIONING (6-12 months) (Ramani D. 2007). These self Help Groups are almost always formed with outside assistance. The NABARD basic principles for the SHGs function are:

- The members of groups should be residents of the same area and must have an affinity.
- They have to follow the principle of savings first, credit thereafter.
- SHGs should hold regular meetings.
- SHGS should maintain a record of financial and other transactions.
- They should have norms regarding membership, meetings, etc.
- Group leaders should be elected by members and rotated periodically.
- There should be transparency in operations of the group and participatory decision making.
- Rates of interest on loans should be decided by the group.

The Linkages of Self Help Groups with Banks

With a view to developing supplementary credit delivery mechanism, SHG Bank Linkage Model was introduced as a core strategy that could be used by banking system in India for increasing their outreach to the poorest of the poor. The SHG Bank Linkage Program was started as an action research project by National Bank for Agriculture and Rural Development (NABARD) in a few states to assess the impact of linkage project brought out encouraging and positive features like increase in loan volume of SHGs, shift in loaning pattern of the members from the non-income generating activities to production activities, nearly 100% recovery performance along with gradual increase in the income level of SHG members. In 1992 the findings led to the setting up of a pilot project was designed as a partnership model between three agencies, viz the SHGs, the Banks and the Non Governmental Organizations (NGOs).

SHGs provide collective decision making by poor and also doorstep banking. Banks as wholesalers of credit, were to provide the resources and NGOs were to act as agencies to organize the poor, the process of SHGs have been divided into four models, they are:

Model I : SHGs formed and financed by banks.

Model II : SHGs formed by formal agencies and NGOs but directly financed by banks. This model is the most popular model.

Model III : The NGOs work as a financial intermediary between the bank and a number of SHGs. Thus linkage is indirect. NGOs accept contractual responsibility for repayment to the bank.

Model IV : This model envisages bank loans directly to individual members of SHGs-but this model is not as such prevalent in India.

Factors of Micro-Finance Success Program

Thus microfinance plays a very important role in the poverty alleviation and it had a great impact in the following ways:

- **Financial Self Sustainability:** SHGs help in increasing the financial self sustainability among the poor, by developing in them a habit of saving, and thus increasing their income level.
- **Fostering Credit Culture:** Microfinance has fostered credit culture among the poor people through SHGs which, in turn improved the credit recovery rates in rural areas.
- **Promoting Income Generating Activities:** Microfinance also helped in promoting income generating activities among the members, thus, resulting in the growth of assets and income.
- **Empowerment of Women:** Microfinance, activities help in empowering the women. SHGs play a very important role in the rural economies, especially the upliftment of the women, thus, empowering them socially and politically. Giving woman access to microcredit loans therefore, generates the impact of a micro-finance institution's activities.
- **Promoting Entrepreneurial Skills:** Microfinance has promoted and sharpened the entrepreneurial skills among the rural and urban populace especially woman as different types training is provided by various Government and non-government organizations to acquaint them with various microfinance programmes.
- **Increased Well Being:** Microfinance, particularly through SHGs, has increased the well-being of the poor by providing the timely and adequate help and saving them from the clutches of cruel moneylenders as they charge enormous rate of interest.
- **Lessening of Social Evils:** Microfinance as a tool of poverty alleviation is also indirectly helpful in lessening of social evils like child marriage, child labour, dowry drinking and other anti-social activities as a result of woman empowerment.
- **Improved Health Facilities:** The improvement in income level has contributed to the improved health and sanitation(through better vaccination rate and access to the clean drinking water) and improved family planning, thus, resulting in decline in the population growth.

Suggestions

Though microfinance is very powerful tool for poverty alleviation, it is observed that it has had an asymmetric growth across the country with diverse rates of interest being charged to the members, which are areas of concern. Thus various roadblocks in the way of success of microfinance and suggestions to overcome them include the following:

- Ownership and Governance Risk
- Credit Risk
- Outreach
- Access to Funds
- Legal and Regulatory Framework

- Commercialization
- High Administrative Cost

Conclusion

Compared with an individual entrepreneur, the franchisor often has better negotiating power with suppliers and is able to reach economies of scale in other areas (such as product design, use and development of new technologies and supply chain development). The franchisor is usually better equipped to focus on marketing and growth as well. Furthermore, with the presence of a central franchisor, innovations developed by one franchisee can be quickly implemented throughout an entire network of franchisees. Micro-finance is one of the practical development strategies and approaches that should be implemented and supported to attain the bold ambition of reducing world poverty by half. Indeed, micro-finance is interwoven into many of the recommended strategies to achieve the Millennium Development Goals. It is an important means of halving poverty by 2015. When aggregated and invested properly, these small, sometimes seemingly insignificant amounts can add fuel to country economic growth.

References

- [1] Barry N. (1995) *Women's World Banking*, 44-50.
- [2] Barry N., Armacost N., Kawas C. (1996) *Women's World Banking and International Coalition on Women and Credit*, 78-82.
- [3] Christen R.P., Rhyne E., Vogel R.C. (1995) *Maximizing the outreach of microenterprise finance: The emerging lessons of successful programs*, Harvard Institute for International Development, Arlington, Virginia, 96-99.
- [4] Churchill C.F. (1996) *Microfinance Network*, 21-28.
- [5] Kim K.H. (1995) *Housing Finance International*, 9(4), 22-27.
- [6] Otero M. and Rhyne E. (1994) *The New World of Microenterprise Finance Building Healthy Financial Institutions for the Poor*, Kumarian Press, West Hartford, Connecticut, 36-40.
- [7] Phelps P.M. (1995) *GEMINI*, Bethesda, Maryland, 57-60.
- [8] UNCHS and ILO (1995) *Shelter Provision and Employment Generation*, Geneva, 69-70.