

Micro-Finance as an Anti Poverty Vaccine for Rural India

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Abstract

India falls under low income class according to World Bank. It is second populated country in the world and around 70 % of its population lives in rural area. 60% of people depend on agriculture, as a result there is chronic underemployment and per capita income is only \$ 3262. This is not enough to provide food to more than one individual. The obvious result is abject poverty, low rate of education, low sex ratio, and exploitation. The major factor account for high incidence of rural poverty is the low asset base. According to Reserve Bank of India, about 51 % of people house possess only 10% of the total asset of India .This has resulted low production capacity both in agriculture (which contribute around 22-25% of GDP) and Manufacturing sector. Rural people have very low access to institutionalized credit (from commercial bank).

Need of the study

- The need of microfinance arises because the rural India requires sources of finance for poverty alleviation, procurement of agricultural and farms input.
- Micro finance is a programme to support the poor rural people to pay its debt and maintain social and economic status in the villages.
- As we know that India is agriculture based economy so microfinance may be a tools to empower the farmers and rural peoples to make agriculture profitable.
- So the researchers are interested to find out the scopes of microfinance in rural India. This research paper is highlighting a picture rural India as a profitable segment for microfinance institutions.

Objective of the study

- To analyze the growth of microfinance sector developed in India and see potential for the microfinance institutions, NGOs, SHGs in the market.
- To analyze the structure and pattern of microfinance programme in rural Indian by the MFIs, NBFCs.
- To understand the marketing of microfinance products in rural market.
- To study the importance and role of microfinance in poverty alleviation and profitable agriculture activities.

Research Methodology

This is a descriptive research paper based on secondary data. Data have been found out by googling in different websites research paper and magazines.

Introduction

Micro-finance economically disadvantaged segments of society, for enabling them to raise their income levels largest in term of population after China. India's GDP ranks among the top 15 economies of the world. However, around 300 million people or about 80 million households are living below the poverty line, i.e. less than \$2 per day according to the World Bank and the poorest are which earns \$1 per day. It is further estimated that of these households, only about 20% have access to credit from the formal sector. Out of these 80 million households, 80% takes credit from the informal sources i.e. local Zamindars, Chit Funds etc. With about 80 million households below MFIs include non- governmental organizations (NGOs), credit unions, non-bank financial intermediaries, and even a few commercial banks.

Legal and Regulatory Framework for the Microfinance Institutions in India:**Societies Registration Act, 1860:**

NGOs are mostly registered under the Societies Registration Act, 1860. Since these entities were established as voluntary, not-for-profit development organizations, their microfinance activities were also established under the same legal umbrella. main purpose is:

- Relief of poverty
- Advancement of education
- Advancement of religion
- Purposes beneficial to the community or a section of the community.

Indian Trusts Act, 1882:

Some MFIs are registered under the Indian Trust Act, 1882 either as public charitable trusts or as private, determinable trusts with specified beneficiaries/members.

Not-For-Profit Companies Registered Under Section 25 Of Companies Act, 1956:

An organization given a license under Section 25 of the Companies Act 1956 is allowed to be some of the provisions of the

Companies Act, 1956.

For companies that are already registered under the Companies Act, 1956, if the central government is satisfied that the objects of that company are restricted to the promotion of commerce, science, art, religion, charity or any other useful purpose; and the constitution of such company provides for the application of funds or other income in promoting these objects and prohibits payment of any dividend to its members, then it may allow such a company to register under Section 25 of the Companies Act.

A Profile of Rural India

- 350 million Below Poverty Line
- 95 % have no access to microfinance.
- 56 % people still borrow from informal sources.
- 70 % don't have any deposit account.
- 87 % no access to credit from formal sources.
- Annual credit demand is about Rs.70,000 crores.
- 95 % of the households are without any kind of insurance.
- Informally Microfinance has been in practice for ages.

Rural India and Microfinance

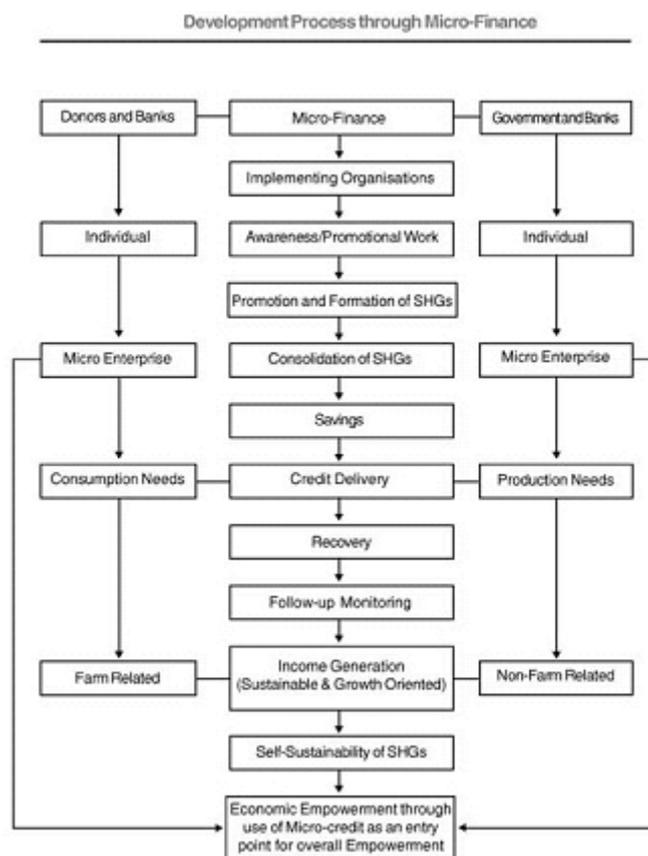
Micro financing has become important since the possibility of a sub-Rs 1,000 mobile handset has been ruled out in the near future. Rural India can generally afford handsets in the price range of Rs 1,500-2,000.

To succeed in India, agribusiness must empower the farmer by making agriculture profitable, not by expropriating him for this particular purpose the farmer should be funded for their basic and small needs.

Micro finance is expected to play a significant role in poverty alleviation and development. The need, therefore, is to share experiences and materials which will help not only in understanding successes and failures but also provide knowledge and guidelines to strengthen and expand micro finance programmes.

The development process through a typical micro-finance intervention can be understood with the help of the following Chart The ultimate aim is to attain social and economic empowerment. Successful intervention is therefore, dependent on how each of these stages has been carefully dealt with and also the capabilities of the implementing organizations in achieving the final goal, e.g., if credit delivery takes place without consolidation of SHGs, it may have problems of self-sustainability and recovery. A number of schemes under banks, central and state governments offer

direct credit to potential individuals without forcing them to join SHGs. Compilation and classification of the communication materials in the directory is done based on this development process.



Success Factors of Micro-Finance in Rural India

Over the last ten years, successful experiences in providing finance to small entrepreneur and producers demonstrate that poor people, when given access to responsive and timely financial services at market rates, repay their loans and use the proceeds to increase their income and assets. This is not surprising since the only realistic alternative for them is to borrow from informal market at an interest much higher than market rates. Community banks, NGOs and grass root savings and credit groups around the world have shown that these micro enterprise loans can be profitable for borrowers and for the lenders, making microfinance one of the most effective poverty reducing strategies.

A. For NGOs

- The field of development itself expands and shifts emphasis with the pull of ideas, and NGOs perhaps more readily adopt new ideas, especially if the resources required are small, entry and exit are easy, tasks are (perceived to

be) simple and people's acceptance is high – all characteristics (real or presumed) of microfinance.

- Canvassing by various actors, including the National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), Friends of Women's World Banking (FWWB), Rashtriya Mahila Kosh (RMK), Council for Advancement of People's Action and Rural Technologies (CAPART), Rashtriya Gramin Vikas Nidhi (RGVN), various donor funded programmes especially by the International Fund for Agricultural Development (IFAD), United Nations Development Programme (UNDP), World Bank and Department for International Development, UK (DFID)], and lately commercial banks, has greatly added to the idea pull. Induced by the worldwide focus on microfinance, donor NGOs too have been funding microfinance projects. One might call it the supply push.
- All kinds of things from khadi spinning to Nadep compost to balwadis do not produce such concrete results and sustained interest among beneficiaries as microfinance. Most NGO-led microfinance is with poor women, for whom access to small loans to meet dire emergencies is a valued outcome. Thus, quick and high 'customer satisfaction' is the USP that has attracted NGOs to this trade.

B. For Financial Institutions and banks

- Microfinance has been attractive to the lending agencies because of demonstrated sustainability and of low costs of operation. Institutions like SIDBI and NABARD are hard nosed bankers and would not work with the idea if they did not see a long term engagement – which only comes out of sustainability (that is economic attractiveness). On the supply side, it is also true that it has all the trappings of a business enterprise, its output is tangible and it is easily understood by the mainstream. This also seems to sound nice to the government, which in the post liberalisation era is trying to explain the logic of every rupee spent. That is the reason why microfinance has attracted mainstream institutions like no other developmental project. Perhaps the most important factor that got banks involved is what one might call the policy push. Given that most of our banks are in the public sector, public policy does have some influence on what they will or will not do. In this case, policy was followed by diligent, if meandering, promotional work by NABARD. The policy change about a decade ago by RBI to allow banks to lend to SHGs was initially followed by a seven-page memo by NABARD to all bank chairmen, and later by sensitisation and training programmes for bank staff across the country. Several hundred such programmes were conducted by NGOs alone, each involving 15 to 20 bank staff, all paid for by NABARD. The policy push was sweetened by the NABARD refinance scheme that offers much more favourable terms (100% refinance, wider spread) than for other rural lending by banks. NABARD also did some system setting work and banks lately have been given targets. The canvassing, training, refinance and close follow up by NABARD has resulted in widespread bank involvement.

Marketing of Microfinance Products

Contract Farming and Credit Bundling

- Banks and financial institutions have been partners in contract farming schemes, set up to enhance credit. Basically, this is a doable model. Under such an arrangement, crop loans can be extended under tie-up arrangements with corporate for production of high quality produce with stable marketing arrangements provided – and only, provided – the price setting mechanism for the farmer is appropriate and fair.

Agri Service Centre – Rabo India

- Rabo India Finance Pvt Ltd. has established agri-service centres in rural areas in cooperation with a number of agri-input and farm services companies. The services provided are similar to those in contract farming, but with additional flexibility and a wider range of products including inventory finance. Besides providing storage facilities, each centre rents out farm machinery, provides agricultural inputs and information to farmers, arranges credit, sells other services and provides a forum for farmers to market their products.

Non Traditional Markets

- Similarly, Mother Dairy Foods Processing, a wholly owned subsidiary of National Dairy Development Board (NDDDB) has established auction markets for horticulture producers in Bangalore. The operations and maintenance of the market is done by NDDDB. The project, with an outlay of Rs.15 lakh, covers 200 horticultural farmers associations with 50,000 grower members for wholesale marketing. Their produce is planned with production and supply assurance and provides both growers and buyers a common platform to negotiate better rates.

Apni Mandi

- Another innovation is that of The Punjab Mandi Board, which has experimented with a ‘farmers’ market’ to provide small farmers located in proximity to urban areas, direct access to consumers by elimination of middlemen. This experiment known as "Apni Mandi" belongs to both farmers and consumers, who mutually help each other. Under this arrangement a sum of Rs. 5.2 lakh is spent for providing plastic crates to 1000 farmers. Each farmer gets 5 crates at a subsidized rate. At the mandi site, the Board provides basic infrastructure facilities. At the farm level, extension services of different agencies are pooled in. These include inputs subsidies, better quality seeds and loans from Banks. Apni Mandi scheme provides self-employment to producers and has eliminated social inhibitions among them regarding the retail sale of their produce.

Findings

- Considerable gap between demand and supply for all financial services.

- Majority of poor are excluded from financial services. This is due to, inter-alia, the following reasons:
- Bankers feel that it is risky to finance poor peoples because of their creditworthiness.
- High transaction costs

Conclusion

The potential for growing micro finance institutions in India is very high. Major cross-section can have benefit if this sector will grow in its fastest pace. Annual growth rate of about 20 % during the next five year. The loan outstanding will consequently grow from the present level of about 1600 crores to about 42000 crores Annual growth rate of about 20 % can be achieved during the next five years.

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