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ROLE OF MICRO FINANCE IN REDUCING POVERTY BY GENERATING RURAL SELF EMPLOYMENT

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ABSTRACT

Micro finance is emerging as a powerful instrument for poverty alleviation in the new economy. Beyond the direct linked with poverty reduction, it is an indirect link to address the issues of health, education and gender. Micro finance cover not only consumption and production loans, but will also include other credit needs such as housing and shelter improvements. Women constitute a vast majority of users of micro-credit and savings. This paper is based on the study of micro finance as a key player in the way to reducing poverty.

Key words:* *Formal Financing, Poverty, Micro finance.

INTRODUCTION

The Historical account of the emergence and growth of micro finance sector at the global level has started after the emergence of the Gramin Bank, Bangladesh which was started as an experiment in 1976 and accorded a special banking charter in 1983. In India, Rural Financial markets have been dominated by informal lenders over many centuries. The Volume of finance is large relative to the total size of credit markets. The main role of commission agents however is in reducing information costs of both buyers and sellers; Indigenous bankers are age- old Indian Institutions serving business usually trade. There is a bewildering array of brokers in informal markets whose main and sometimes only role is informational.

As a result, micro- finance has emerged as a new sunshine in the rural life. On should know first about micro- credit before Micro- Finance. It will help in identifying and prioritizing the challenges of universalizing services, assessing impact, documenting learning experiences and broad basing a strategy for making micro-finance an all inclusive tool for reducing poverty and promoting sustainable livelihoods. Micro-finance has a key role to play in meeting the UN's Millennium Development Goals of reducing poverty by half of 2015.

Micro Finance is not enough for poverty reduction, women empowerment and livelihoods. Inputs such as market linkages, investments in infrastructure, education and health services, and capacity building need to supplement microfinance. Thus, micro finance helps to manage risks and cope with uncertainties. "Micro finance should be so soft to touch the lives of the people they serve but hard enough to leave a distinct impact on their lives." As a result there were sector wide reforms made including substantial deregulation on interest rates for RRB's, Commercial banks, change in the target orientation, a supportive policy environment and experimentation with NABARD-SHG linkage programme.

REVIEW OF LITERATURE

The title published by **DHAN foundation (2001)** on self help groups (SHG's) traces the evolution of SHG's and the role of NABARD in the late 1980's which led to uncovering of certain striking field level realities such as, the poor need small and frequent credit at unpredictable times, people's initiatives and voluntary participation was lacking or absent, need for local specific approaches to be found. Above all the need for a suitable mechanism for meeting the economic aspirations of the poor was considered necessary. In this scenario, the pilot phase was followed by setting up of a working group on NGO's and SHG's by the RBI came out with wide ranging recommendation in internalization of the SHG concept as a potential intervention tool in the area of banking with the poor.

The research studies and action research instituted by NABARD to improve access to financial services found-

- Traditional savings and credit products are not suitable for the poor.
- Systems and procedures of the banking system are too rigid.
- Absence of consumption credit.
- Savings as a financial product are not yet recognized.
- A need was felt to keep safe thrift, provide emergent consumption credit and credit for very small micro enterprises in a hassle free and flexible delivery system.

The conceptual thinking behind the SHG philosophy and the bank linkage could be summarized as a SELF- HELP GROUP is a small economically & socially homogenous and affinity group of rural poor voluntarily coming together. Micro Finance

I. Facilitates to save small amounts regularly.

II. Helps to meet basic necessities of the members of the group.
III. Cultivates saving habits.
IV. Members are expected to provide support to each other in carrying out occupational and social activities.
V. Linkage of financial activities with SHG.

The key players, NABARD, BANKS, NGOs, SHPIs, VVV clubs (Farmer's Club) etc. play the major role for micro finance in the state/ region. NABARD has been extending 100% finance to banks for their lending to SHGs since the SHG-BPL was launched and after that purchasing capacity increased for rural masses. SHGs helped in improving by and large every one's living standard in society where cultural activities or living standards increases, there the mind of society won't divert towards naxalism or other criminal activities. Hence, this will definitely take people to a developing way. NABARD also gives training programmes for skill development. Cumulative disbursement of refinance by NABARD for SHG lending now stands at Rs. 22,396 crore. The topics covered in the study have got tremendous variation and move around with the strategies and recent approaches by which micro financing can become easier to reach poorest among the poor who were in the unreached segment.

Most of the rural masses are simply farm labourers or having very small lands for agricultural activities. Therefore, microfinance has become the most appropriate tool of bringing the poorest section of society within the ambit of formal primary lending institution i.e. banks. Several Govt. and non-Govt. agencies have promoted and credit linked around 10,000 SHGs and JLGs in the district. NABARD has sanctioned grant assistance to NGOs, banks, rural volunteers and book writers for promotion and linkages of SHGs & JLGs, record keeping awareness creation & rural entrepreneurship and skill development programmes & capacity building of different stake holders.

Financing small scale activities in the rural areas because of the following features:

(a) Provide credit for investment in small scale activities chosen by the poor people.
(b) Empower the poor to build self confidence that I can do something.
(c) Can pay for itself with the interest earned.
(d) Allow to develop opportunities for self employment to the underserved people.
(e) Have the broadest utility and the least cost per beneficiary.

Formal financial institutions have little negative motivation to lend to the rural poor for the following reasons:

Administrable difficulties

Small rural farmers often live geographically scattered, in areas with poor communication facilities, making loan administration difficult.

Systematic risks

Agricultural production is associated with some systemic risks, such as drought and floods, which is reflected in a high covariance of local incomes.

Lack of information

The absence of standardized information, Standard lending tools, such as financial statements or credit histories, do not exist in these areas.

Repayment problems

The repayment of working capital may be required only once a year for example during the harvest season.

On the other hand, access to informal loans is relatively easy, convenient, and available locally to low income households for the following reasons:

- Informal moneylenders use interlinked credit contracts to reduce default risk such as development of business relationship with the clients.
- Informal moneylenders have local information which helps them to appraise credit needs and credit worthiness of the client.
- Informal moneylenders are considering the needs and requirements of clients even for small amount of loan.
- Informal moneylenders will profit from social sanctions such as those that may exist among members of a family. These sanctions may serve as a substitute for legal enforcement.
- Informal moneylenders use specific incentives to stimulate repayment, such as repeat lending to borrowers who repay promptly, with gradually increasing loan size.

CONCLUSION

Microcredit and microfinance have received extensive recognition as a strategy for poverty reduction and for economic empowerment. Microfinance is a way for fighting poverty, particularly in rural areas, where most of the world's poorest people live rural development and poverty reduction are commonly related to the issue of rural employment. Rural households livelihood strategies comprise several options, including farming and non-farm activities, local self-employment and wage employment, and migration. Microfinance has proven to be an effective and powerful tool for rural development and poverty reduction. Like many other development tools, it has sufficiently penetrated the poorer strata of society. The poorest form the vast majority of those without access to primary health care and basic education; similarly, they are the majority of those without access to microfinance. Microfinance is one of the ways of building the capacities of the poor and developing them to self-employment activities by providing financial services like credit, savings and insurance.

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