



---

## THE ROLE OF MICRO FINANCE FOR SOCIAL TRANSFORMATION IN PASTORAL INDIA

**Dr. Jakku Srinivasa Rao**

Faculty

Department of Philosophy

Andhra University , Visakhapatnam

### **Introduction:**

“The soul of India lives in its villages,” said Gandhi in the beginning of the 20<sup>th</sup> Century. My first encounters with Indian village were from the distance of passing trains, looking out of the windows at the endless fields and farmers at work. At any given point, there was always some form of life around -a human, a cow, a dog. The picture represented an idyllic view, one reinforced by the portrayal of the village in Indian cinema. The village was about big farmhouses and bigger families, ample time on hand with none of the chaos of the cities, a simple life that represented the India in which Gandhi believed. I could not have been more wrong.

### **Understanding Rural India**

In most of the rural villages in India, Cell was not connected to the world. There were no cellular operators, no internet and no fixed lines. A public telephone booth in the campus of the non-profit that we stayed in was the only form of communication for miles. The villages that we visited were off dirt roads that were difficult to reach by public transportation. Most villages had a Panchayat (village government) office which was used for all kinds of public meetings. Some villages had a primary school, and fewer had health dispensaries. The houses varied in size and construction — from pucca two storied buildings to kachahuts. We usually find a pay phone in each village, next to a small shop selling basic household necessities. The infrastructure was a bare minimum, with no certainty of whether there would be electricity or water available. This is rural India — the village as an entity synonymous with extreme poverty.

### **Transforming Public Services**

Rural India is poorly served by both the government and the corporate sector, thus many rural people live in informal settlements, lack access to water and sanitation



services, electricity, and basic health care. Most have no bank account and no access to financial services other than an informal economy dominated by local moneylenders charging exorbitant interest rates. Lack of transportation limits their access to markets to sell their crops or craft, and they have no choice but to sell to middlemen who use unfair means and exploit them. People living in rural India pay much higher prices for basic goods and services which are usually of lower quality, not only in the form of money but also in the time spent to obtain those goods and services. In order to enable rural India to find its own route out of poverty, one needs to look at the existing infrastructure and public services, and understand the unmet needs of the people.

Over the past twenty years, programs that include microcredit, savings, skills training and other related services have increased income and economic empowerment for some eight million people around the world.

The Micro credit Summit in Washington, D.C. aims to bring together the institutions, financial resources, and global commitment so that by the year 2005, one hundred million of the world's most resource-poor families - and particularly the women of those families - will have access to credit and other financial services.

Although it still meets with skepticism in some quarters, the notion of making small-scale loans to the poor - and expecting that they will pay them back - has proven to be an eminently sound idea. The success rate for loan repayment in many microfinance programs matches or exceeds loan programs to big business. The underlying success of microfinance programs stems, in part, from the fact that the principles are based not only on sound economics but also the practical application of spiritual principles.

Thus have spiritual principles facilitated the discovery and implementation of practical measures that have made microfinance programs work. At this juncture, then, as the world seeks to expand the reach of microfinance, development specialists and program participants alike must recognize and systematically apply the lessons learned thus far about the power of spiritual principles to induce economic and social transformation. More than any other factor, the degree to which programs of development harmonize with the essential elements of human nature, which are inherently spiritual, they will promote the empowerment of people, the discovery of new aspirations, and the release of new levels of will.

---



Currently, however, even in programs that work through solidarity groups, the primary focus of most implementing agencies remains on the progress of the individual rather than community. They laud the success of each woman, each borrower, rather than seeing the individual within the context of community. With all good intent, these agencies may not only perpetuate a very Western obsession with individualism, but may inadvertently undermine the foundation of community.

The concept and role of micro financing is well known for social upliftment as well as for the development of rural and backward areas. Considerable efforts are being made at the public and private sectors to bring in enough number of technologies in the rural areas for their implementation and use through micro financing for the overall development. However, support of micro financing agencies including banks is not reaching at the grass route levels and therefore, most of the developmental programmes get diluted or ineffective and many a times they don't even take off. In the rural areas people are not much aware about the micro financial schemes and their benefits. Hence, in order to provide sustainable rural development and progressive poverty alleviation the role of micro financing agencies becomes an important in the context of current scenario. In the present communication the whole mechanism of micro finance, its role to achieve sustainable rural development and for social economic benefits are beneficial to the rural communities.

Many underdeveloped countries have emphasized how micro financing stimulates growth and development of the rural section in their respective countries (from internet). In India more than 70% of the population lives in villages and most of these villages are underdeveloped. Research and development sector in our country brings number of green and eco-friendly technologies every year. Implementation of these technologies in the rural sector can bring radical change in the rural economy which may also lead to poverty alleviation, create employment opportunities and generate or stimulate good growth. However, for implementing these technologies micro financing through public and private sector agencies is the need of the hour. In the present paper efforts have been made to critically analyze all the issues focusing how micro financing can bring mutational changes in the rural economy for overall benefits to all the communities and weaker sections of the society.

### **Green technology for rural development**

The green technologies are those technologies which are eco-friendly. In other



words, the technologies developed by using natural resources and when adopted will not create any nuisance to the environment. In India there are number of R & D scientific organizations like Council of Scientific and Industrial Research (CSIR), Indian Council of Agricultural Research (ICAR), Indian Council of Medical Research (ICMR), Indian Institute of Technology (IIT), Conventional Universities, Agricultural Universities, Baba Atomic Research Centre (BARC) and number of private industrial research agencies are contributing in evolving one or other technology which is rather eco-friendly and can be defined as green technology. Depending on the necessity and challenges that are required for the overall development of the rural sector we need to bring in and implement at least some of the green technologies in such locations. For this purpose micro financing is very much needed for applications of green technologies. Integration of micro financing and technological application will definitely stimulate growth and overall development of the rural sector. Today we have number of green technologies namely renewable energy from wind, water, tidal energy, solar energy, development of bio-fuels from natural resources, bio-gas plants, bio-fertilizers, bio-manures, bio-pesticides, bio-waste recycling, bio-conservation, cattle farming and aquaculture, dairy and dairy products, pollution control and water purification, water conservation, rejuvenation for plantation and development of forest etc.

Under the project, farmers contribute 50% of the cost and the balance 50% is financed through low interest micro finance loans from the bank. The repayment of the micro finance loan is then structured in a manner by which the income received from carbon credits is used for repayment.

### **Information, awareness and technology selection**

Though number of green technologies is available, all these cannot be implemented each and every where. Depending upon resources available and geographical and climatic condition, location specific technologies we need to bring in and implemented. In such efforts we may have to critically examine location specific technologies and their feasibility for implementation.

To familiarize about the technologies and develop skill there is again need for training and awareness. For this purpose regular training programmes have to be organized through various agencies and create a kind of awareness and develop expertise. This kind of exercise is very much needed for successful implementation of



---

technological applications. Micro financing including lending and repayment rules and its awareness should be the part of such training programmes.

### **Micro finance for technology applications**

Microfinance is defined as provisions of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standard. Microfinance is provided in varying context either to individuals or groups ranging from personal micro credit to small enterprise support and rural finance.

The institution that provide microfinance and credit services are diverse including non-government organizations(NGOs), credit union, non-bank financial intermediaries and commercial banks. Generally, microfinance clients are poor and low income people that do not have access to other formal financial institutions. Microfinance clients are usually self employed or house hold based entrepreneurs. Their diverse “Micro enterprises include small retail shop, street vending, artisan manufacture and service provision”. In rural areas micro entrepreneurs often have small income generating activities such as food processing and trade. However in order to bring rural development on the faster track micro financing is essential to all these clients for technological applications. As referred earlier there are number of technologies available in the country. As the outcome of the efforts made by the R&D institutions in the country and in order to implement such location specific technologies, support of micro financing from the microfinance institutions is required. It is very much essential that while giving such support of microfinance to the different clients, the lending policies should be clear to take care of the client interest, so that, the technological application becomes a successful programme. While implementing such programmes both micro financing agencies as well as clientele should utilize the expertise for technological applications through outsourcing agencies.

### **Sustainable micro finance-features and principles**

Microfinance is considered to be an adequate tool for financing small scale activities/technological applications in the rural areas because of the following features.

- Provide credit for investment in small scale activities chosen by the poor people.



- Empower the poor to build self confidence that I can do something.
- Can pay for itself with the interest earned.
- Allow to develop opportunities for self employment to the underserved people.
- Have the broadest utility and the least cost per beneficiary.

The principles of sustainable micro-financing are as follows: (1) offers flexible customer friendly services preferred by low-income group, (2) has opportunities for streamlining operations and reducing costs (standardized simple lending process, decentralized loan approval, inexpensive offices, and use staff from local communities), (3) operate in market basis charging market interest rates and fees, and (4) strive to recover the costs of the loan.

### **Micro finance as an industry**

“Many view rural microcredit as an input, along with business development services, into rural micro-enterprise development. Traditional microfinance products and methodologies generally reflect this model, with products aimed primarily at micro entrepreneurs, especially market vendors, with short loan terms, regular repayment schedules, and ever-increasing loan amounts. Increasingly, a new consensus is emerging among microfinance practitioners, donors and experts. This new view considers microfinance as an industry worth promoting in and of it.

Microfinance institutions (MFIs) can be small and medium enterprises at the heart of rural sustainable development. Their development positively correlates with rural business development. A new approach considers a wide range of flexible financial services for a variety of poor clients, not just rural micro-entrepreneurs. This means that micro credit becomes transformed from input into rural enterprise development into a financial service that available to poor people. What this mean to MFIs and donors is the following:

### **MFIs:**

Under the current micro-enterprise development model, an MFI offers very limited number of range of supply driven credit products, which tend to focus fairly narrowly on micro enterprises needs and activities. Loaning for green technological systems is not a usual practice for MFIs.



Under the new approach MFIs need to evolve to provide more demand driven flexible and efficient financial services for the rural poor. These flexible demand-driven services would recognize the varying requirements of poor.

### **Donors:**

Currently, donors design projects to reach the rural micro-enterprise sector or other specific target groups. Many of these projects combine credit with business development services, reflecting the traditional micro-enterprise development model. Donors often insist that the MFIs charge “market” or “sustainable” interest rates in order to become developmental activities sustainable. Under the new approach, donors need to push for the transformation of these MFIs into demand-driven financial service providers with a wider variety of financial products.

The dynamic growth of the microfinance industry has been promoted not only by market forces but also by conscious actions of national governments, Non-Governmental Organizations (NGOs), and the donors who view microfinance as an effective tool for eradicating poverty. The powerful push behind this huge and increasing support for microfinance indicated that national economic and social impacts are significant and it needs to be examined more closely.

### **Models of micro finance institution and rural development:**

It is worth to mention few micro-finance institutions that may successfully expand their business to provide small loans for rural development programmes that have a focus on rural sustainable development and poverty alleviation. There are three accepted models in micro financing in India namely, (1) Self Help Group/ SHG Bank Linkage Model (2) Grameen Model (3) Individual Banking Model operated through micro financing institutions. Among the three models the first model is most popular in India. 90% of the micro-credit is being disbursed through SHG bank linkage mode. Infact, with emphasis on capacity building of micro finance institutions and intermediaries, micro credit has transformed into micro finance.

The phenomenal growth of micro financing is evident from the fact that the number of SHGs which was 4757 in 1995-96, had increased to 1.83 million by the end of December, 2005 and the volume of credit had increased from Rs. 6 Crore to



---

Rs.8319 crore during the same period. However, in spite of this phenomenal growth, micro financing has not attained the shape of a movement. There exist a vast gap in demand and supply of credit. As per one study, micro credit requirement was assessed at Rs. 50000 crore for the year 1999-2000. By adding other requirements such as housing loan, education loan and micro-enterprise loan, the upper ceiling of loan requirement was assessed at Rs. 2 lakh crore of micro credit. At present date of cost escalation and taking the base at Rs. 50000 crore, it is estimated that the present minimum requirement of micro credit may be Rs. 70000 crore. As against this, the supply is not more than Rs. 10000 crore. Recently, during the 11th five year plan the Government of India has announced an allocation of Rs. 145000 crores for the rural infrastructure development.

### **Donor support market intervention:**

In India development of market are not well organized not only at district, town and village level but also in metropolitan cities. In order to build well structured market the role of donor agencies and their intervention become and important factor. Well structured market helps in keeping and maintaining the quality of products made out of technology applications and these products in turn helps both at consumer level as well as manufactured level benefiting collaterally. This kind of market linked technology application may help micro finance industries to be sustainable benefiting each and every unit and leading to overall development of the rural sector.

### **Conclusion and suggestions:**

Micro-finance plays an important role in integrating rural development and poverty alleviation. The impact of micro finance on rural development and poverty reduction has been measured in terms of several dimensions such as improved income, employment and household expenditure and reduced vulnerability to economic and social crisis.

However, integrated rural development and technology based programmes leading to incoming generating opportunities for rural population can easily be put on fast track by the use of micro financing. For implementing these technologies we have to make efforts to examine location specific technologies and its implementation. People belonging to villages are still unaware of the banking policies and credit systems. They are lacking the knowledge of the technologies available and how micro finance





is used. We must make villagers to familiarize about the technologies by conducting training and awareness programmes and the aim of these programmes should be not only on lending and repayment of microfinance but proper use of micro finance for technology implementation. NGOs should also communicate to them and share their views with villagers. Banks should convert and build up professional system into social banking system for poor. While giving micro finance to the villagers the micro finance institutions should also arrange the experts who are aware of how, when, where and which technology is being used and how best they are useful for villagers so that it will build and sustain the rural developmental activities. In these efforts, the Government of India and the State Government should also provide the support for capacity building initiative and ensure transparency and enhance credibility through disclosure.

#### References:

1. Chalfin, Brenda. "Risky Business: Economic Uncertainty, Market Reforms and Female Livelihoods in Northeast Ghana." *Development and Change* 31 (2000): 987-1008.
2. Chant, Sylvia. "Women-Headed Households: Poorest of the Poor? Perspectives from Mexico, Costa Rica and the Philippines." *IDS Bulletin* 28, no. 3 (1997): 26-48.
3. World Bank (1993) *World Development Report: Investing in health*. Oxford University Press; 1993: 3 - 75.
4. *Economic Survey 2003-2004(2004)*. Government of India, *Directorate of Statistics and Economics*, New Delhi, 3-180.
5. *Economic Review 2005-2006 (2007)*. Directorate of Statistics and Economics, Government of Kerala, Thiruvananthapuram, 158-225.
6. *Economic Review 2004-2005 (2006)*. Directorate of Statistics and Economics, Government of Kerala, Thiruvananthapuram, 3-300.
7. Jaya.S (2002) *Self Help Groups in Empowering Women: Case Study of Selected SHGs and NHGs*. Discussion Paper No.38 KRPLLD, *Center for Development Studies*, Thiruvananthapuram.
8. Zafar, Roshaneh. "Microfinance and the Empowerment of Women: The Experience of Kashf Foundation, Pakistan." Paper presented at the Microcredit Summit, Meeting of Councils, New Delhi, India, 1-5 February 2001.