Micro finance: impact on rural development

Microcredit is the extension of very small loans (microloans) to those in poverty designed to spur entrepreneurship. These individuals lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credit. Microcredit is a part of microfinance, which is the provision of a wider range of financial services to the very poor.

Microcredit is a financial innovation that is generally considered to have originated with the Grameen Bank in Bangladesh. In that country, it has successfully enabled extremely impoverished people to engage in self-employment projects that allow them to generate an income and, in many cases, begin to build wealth and exit poverty. Due to the success of microcredit, many in the traditional banking industry have begun to realize that these microcredit borrowers should more correctly be categorized as pre-bankable; thus, microcredit is increasingly gaining credibility in the mainstream finance industry, and many traditional large finance organizations are contemplating microcredit projects as a source of future growth, even though almost everyone in larger development organizations discounted the likelihood of success of microcredit when it was begun. The United Nations declared 2005 the International Year of Microcredit.

Rural development in general is used to denote the actions and initiatives taken to improve the standard of living in non-Urban neighbour-hoods, countryside, and remote villages. These communities can be exemplified with a low ratio of inhabitants to open space. Agricultural activities may be prominent in this case whereas economic activities would relate to the primary sector, production of foodstuffs and raw materials.

Rural development actions mostly aim at the social and economic development of the areas. These programs are usually top-down from the local or regional authorities, regional development agencies, NGOs, national governments or international development organizations. But then, local populations can also bring about endogenous initiatives for development. The term is not limited to the issues for developing countries. In fact many of the developed countries have very active rural development programs. The main aim of the rural government policy is to develop the undeveloped villages. To develop a country not only industrialization is sufficient but also the every common man has to survive.

Microcredit emphasizes building capacity of a micro-entrepreneur, employment generation, trust building, and help to the micro-entrepreneur on initiation and during difficult times. Microcredit is a tool for socioeconomic development.

In the past few years, savings-led microfinance has gained recognition as an effective way to bring very poor families low-cost financial services. For example, in India, the NABARD (National Bank for Agriculture and Rural Development) finances more than 500 banks that on-lend funds to self-help groups. Self-help groups comprise twenty or fewer members, of whom the majority was women from the poorest castes and tribes. Members save small amounts of money, as little as a few rupees a month in a group fund. Members may borrow from the group fund for a variety of purposes ranging from household emergencies to school fees. As self-help groups prove capable of managing their funds well, they may borrow from a local bank to invest in small business or farm activities. Banks typically lend up to four rupees for every rupee in the group fund. Groups generally pay interest rates that range from 30% to 70% APR, or 12% to 24% a year, based on the flat calculation method. Nearly 1. 4 million self-help groups comprising approximately 20 million women now borrow from banks, which make the Indian self-help groups-Bank Linkage model the largest microfinance program in the world. Similar programs are evolving in Africa and Southeast Asia with the assistance of organizations like Opportunity International & Catholic Relief Services. Micro-financing also helps in the development of an economy by giving everyday people the chance to establish a sustainable means of income. Eventual increases in disposable income will lead to economic development and growth.

REVIEW OF LITERATURE

Misra A(2006) discusses the factors and theoretical position associated with evolution of microfinance and its global acclaim based on it being a Win-Win proposition for both Micro Finance Institutions (MFIs) and Clients. The paper brings out the missing link of impact assessment in the Indian context, which is a precondition for poverty reduction on account of the influence of new paradigm of Institutional viability under commercial microfinance. The paper argues for mainstreaming impact assessment in evaluation of programmes for realizing the full potential of microfinance in achievement of Millennium Development Goals (MDGs).

Roth J (1997) state rise of neo-liberalism has facilitated a distorted perspective of the prospects and possibilities of Micro-finance as a rural development intervention. The promotion of micro credit as a rural development intervention has tied in neatly with neo-liberal development ideology. As mentioned, it develops new markets and promotes a culture of entrepreneurship; it involves minimal state intervention; and provides loans, not grants, moving away from welfare type interventions; finally and perhaps most importantly, it shifts the locus of attention away from society towards the individual.

RATIONALE OF THE STUDY

The 2005 World Summit, the 60th High-level Plenary Meeting of the United Nations General Assembly, gathered 151 heads of state from around the world. Held in September at UN headquarters in New York, the Summit was the first opportunity for world leaders to review progress in reaching the MDGs (Millennium Development Goals), whose primary aim is to eradicate extreme poverty by the year 2015. Microfinance was prominent on the agenda of this historic gathering. The most significant recognition of its importance was made in the 2005 World Summit Outcome Document adopted by the gathering, which states: â€Å“ We recognize the need for access to financial services, in particular for the poor, including through microfinance and microcreditâ€. Support for microfinance was also strongly implied in the endorsement by the Summit of the 2002 Montery Consensus, which states: â€Å“ Microfinance and credit for micro, small and medium-sized enterprises, including in rural areas, particularly for women, as well as national savings schemes, are important for enhancing the social and economic impact of the financial sector”.

The above acceptance show the importance of microfinance in today scenario specially for rural area.

OBJECTIVES

To analyse the structure of micro-finance in Punjab

To analyse the role of rural banks and other financial institution (Post office, NGOs & SHGs) in development of micro finance.

To analyse the role of government in development of micro finance institution in Punjab

To analyse the role of micro finance in eradication of poverty, unemployment, education development and gender empowerment in Panjab.

To suggest the measures for development of micro-finance in Punjab.

HYPOTHESIS

Growth of microfinance reduces poverty level in rural area of Punjab.

Growth of microfinance increase self employment in rural area of Punjab.

There is positive co-relation between the growth of microfinance and education development.

There is significance relation between availability of microfinance and gender empowerment

RESEARCH METHODOLOGY

Research type:

The proposed research is descriptive in nature.

The proposed research is developed from quantitative point of view.

Population:

The proposed research area is rural sector of Panjab

Data Collection

The proposed research is based on Secondary data collected by NABARD on regular basis. Data are also collected from Post office and NGOs

Instruments and tools used for analysis:

Simple correlation and regression technique is used to build a model for forecasting and analyse the relation between microfinance and poverty eradication, generation of self employment, education and gender empowerment.

Limitation:

The proposed study limited to organized sector which provide micro-finance. Other sources like local money lenders whose contribution is more than 25% are not included in study. The study is limited to the rural area it does not analyse the impact of microfinance in urban area. The study is also limited to only Punjab State during 2001 to 2010.