The Impact of Micro Finance on Rural Households

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Abstract— **Micro Finance has become one of the most effective instruments for economic development of the poor. Expansion of rural credit delivery system since 1947 has not changed the dependence of the poor on money lenders ad commission agents. The dependence of the rural poor on non-institutional sources of credit is one of the causes that perpetuate their poverty. The poverty alleviation and government sponsored schemes in banks have problems in implementation, with more Non Performing Assets than of other schemes and therefore failed to deliver the expected results. Thus the rural banking institutions are out of step with changing rural credit. The situation necessitated the formation Self Help Groups for enabling the poor to participate in the process of development. Micro Finance or Micro credit for the poor and women has received extensive recognition as a strategy for poverty reduction and for economic development. Micro finance aims at organizing people particularly around credit and building capacities to manage money. The focus is on getting the poor to mobilize their own funds, building their capacities and empowering them to leverage external credit.**

Key words - **Micro Finance, Micro Credit, Self Help Groups, Community Development Society**

Introduction

In India micro finance has fuelled the efforts of rural development, women empowerment and wealth generation by providing small scale savings, credit insurance and other financial services to poor and low income households. Micro finance thus serves as a means to empower the poor and provide a valuable tool to help the economic development process.

In the early stage of credit delivery the emphasis was on providing more credit, in later stages the emphasis was shifted to ensure that credit went to all segments of society. Even the prescription of a proportion of total credits for priority sectors was not considered to be adequate. Despite, the expansion of the organized banking system deep into the rural areas, a very large number of the poor continued to remain outside the fold of the formal banking system. The formal banking system with its systems and procedures was found to be in accessible to the poor. This had led to a search for an alternative delivery mechanism which would meet the requirements of the poor and particularly the women among them. Therefore, a need was felt for alternative policies, systems and procedures, savings and loan products, other complementary services and new delivery mechanisms, which would fulfill the requirements of the poorest, especially of the women members of such households. Micro finance is now widely accepted over the world as an effective tool for socio economic empowerment of the poor. In Kerala too, Micro finance beginning from the Community Development Societies in Alappuzha in 1992 has become a movement.

The major objective of the micro finance programme is to create employment for the poor and the weaker section of the society by empowering them to take up economic activities. It views income generating activities as opportunities for providing gainful employment to the poor by which they can improve their income and standard of living. The fundamental premise of the modern micro finance programmes are based on the concept that borrowers are the best judges of their own situation and know best how to save and how to use credit when it is available. The emergence of Self Help Groups as a supplementary credit channels to a business opportunity for the banks is a departure from traditional banking practices. It ensures grass root level involvement of the people in their development work

Self Help Groups are informal institutions and the primary role of Self Help Groups is to promote savings and credit. Effective linking of Self Help Groups to other formal institutions becomes crucial for their functioning. The group members are encourage o save by inculcating in them thrift habits. The meager amounts thus saved are rotated among them to meet their emergent credit needs. However, linking these groups to banks is found necessary to enlarge their resources. Self Help Groups from the basic constituent unit of the micro credit movement in India. Self Help Group is a group of a few

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individuals usually poor and often women – who pool their savings into a fund from which they can borrow as and when they can borrow as and when necessary. Such a group is linked with a rural bank, cooperative or commercial bank where they maintain a group account. Most of the NGOs have been previously functioning in different developmental roles among the poor, and now added macro credit to the list of services they provided

Micro finance delivers a wide range of financial services such as credit, savings, insurance facilities to the poor with no access to formal banks for initiating Income Generated Activities and thereby, to augment their income security and wellbeing. That is any type of financial services provided to customers to meet their normal financial needs with the only qualifications that, the transaction value is small and the customers are poor. It has assumed great significance in all the developing countries as a vital instrument to break the vicious circle of poverty which is characterizes by low incomes, low savings and low investments. Woman as micro and small entrepreneurs have increasingly become a key target group for micro credit programme.

Micro finance programme can cover a range of financial services that attempt to meet the needs of the poor people, both protecting them from fluctuating income and other shocks, and serving to promote their incomes and livelihoods. The link that exists between credit and poverty reduction is from new investment to the pattern of income change to poverty alleviation. Such positive relationships depend in the profitability of the projects undertaken by the credit and their ability to generate direct and indirect employment.

The government of Kerala lunched a micro finance programme called Kudumbashree in 1998, with the active support of Government of India and NABARD for alleviating all forms of poverty from the state within a period of 10 years. It is participatory women oriented poverty eradication programme implemented by the State Poverty Eradication Mission. **K**udumbashree plays a vital role in enhancing the financial status of the less privileged women in the State through its thrift and credit societies. These societies facilitate them to save and provide them with cost-effective and easy credit. The savings of the women are pooled together and given out as loans to the most deserving. These loans have been used for purposes ranging from covering hospital expenses to meeting working capital needs for micro enterprises. The Community Development Societies facilitate bank linkages for farming, micro housing and micro insurance. They also serve as the delivery point for skill up gradation and market development support to micro enterprises.

Operational definitions

Micro Finance

Micro finance is the provision of a set of micro financial services namely savings, micro credit, insurance and technical services like training to the poor in rural, semi-urban and metropolitan areas to enabling them to build assets, to reduce their vulnerability and improve their standard of living.

Micro Credit

Micro Credit refers to the supply of small amount of credit to the poor, where in the lenders, namely Self Help Groups, NGOs, or banks as the case may be have discretion to determine the rate of interest on its micro credit. In this study the terms micro finance and Micro credit use interchangeably.

Self Help Groups

Self Help Groups is an informal association of homogeneous 10 or 20 poor persons in a place , with a common objective of helping themselves mutually striving for their economic as well as social advancement and also for their overall community development.in Kudumbashree the Self Help Goups are known as Neighbourhood Groups

Community Development Society

Community Development Society is a registered body under the Charitable Societiis Act is formed by federating various Area Development Societies at Panchayat level, the Community Development Society has three distinct bodies: General Body, Governing Body and Advisory Body.

Methodology

The study used both primary and secondary sources. Primary data were collected by using questionnaire schedule among 50 kudumbashree workers in the Nellikuzhi Grama Panchayat of Ernakulam District of Kerala state. The sample selection was on systematic random sampling. The questionnaire was developed to assess the impact of micro finance on rural households. Secondary data were collected from books, journals, articles , magazines, research papers and periodicals.

Table1: Distribution of respondent by Age

Age groups	Number of respondents	percentage
Below 30	1	2

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31-40	17	34
41-50	20	40
51-60	9	18
Above 60	3	6

From the table 1, it is found that the highest percentage of the total respondents (40%) belongs to the category of 41-50 age groups followed by 34%, who belongs to the category of 31-40 age groups. Only 2%belongs to the age group less than 30 and 6% respondents are from the group above 60.

Table 2: Distribution of Respondents by level of Education

Educational level	Number of respondents	Percentage
Illiterate	0	0
Primary School Education	14	28
Secondary School Education	28	56
Above Secondary Education	8	16

The table – 2 shows the respondent's profile is with respect to their educational qualifications. About 56% of respondents have attained education up to secondary level as another 28% got primary level school education. No illiterate member is reported among the participants, while 8% are having higher educational qualifications.

Table3. Distribution of respondents according to occupation during post micro finance period

Occupation	Number of Respondents	Percentage
Agriculture	7	14
Animal Husbandry	12	24
Self employed	22	44
Wage laborers	9	18
unemployed	0	0

Table 3 shows all the micro finance clients could find some occupation with the help of micro finance. It can be observed that proportion of participant members working in the agriculture sector is comparatively low (14%) and self-employed activities comes first with 44 percent.

Table 4: Saving habits of the respondents before joining the group and after joining the group

Savings	Prior to the membership		After joining the group	
	Number of respondents	percentage	Number of respondents	Percentage
Yes	5	10	50	100
No	45	90	0	0

From the table-4, we observed that there has been significant increase in the savings of the members .It shows that all the respondents have some savings after joining the Self Help Groups, while almost 90% of them had no savings before joining the Self Help Groups. Self Help Group concept helps members to develop both economic and social strengths and these initiatives should be replicated far and wide for the benefit of the marginalized poor.

Table5: purpose for which loan is utilized

Purpose	Number of respondents	percentage
Family expenditure	25	50
Education	14	28
Meeting Medical expense	4	8
Marriage	6	12
others	1	2

Regarding the purpose for which loans are taken by the respondents, the majority of the respondents (50%) utilize the amount for loan on family related expenditure.28% of the respondents have used the loan for education for meeting the children's educational needs. 12% of the respondents have used the loan for meeting the marriage expenses of their children.

Conclusion

Micro Finance programme has been successful in triggering a virtuous cycle of growth and development of the rural poor. It is now well recognized that economic contribution by women makes possible through credit access, results in an increase in the security and welfare of the entire households. The system of micro financing through Self Help Groups has proved highly successful not only in addressing the limited day to day financial difficulties of rural people but also strengthening the social bond and reciprocity among the rural people which enabled them to contribute substantially to the generation of social capital. On the basis of such a finding resulted from the study, it is recommended here that the central government should take positive steps to facilitate

adequate financial assistance with maximum flexibility to the system of micro financing through Self Help Groups.

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