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LINKAGE BETWEEN MICROFINANCE AND RURAL DEVELOPMENT IN INDIA

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Abstract ***The basic assumption of this paper is that rural development in India should not be seen as a package of specific needs but as a transformation of rural life and conditions of the country. In this paper, it is assumed that the term rural development means the overall development of rural areas on a sustainable basis. In this background, the paper attempts to explain the link between the microfinance services and the rural development. The paper also argues that microfinance is not a magic bullet for poverty reduction and rural development in India. The paper which is conceptual in nature is totally based on secondary data.***

Keywords: *Microfinance, Rural Development, Magic bullet, Poverty reduction*

INTRODUCTION

Since independence, the development of rural areas with the objective of improvement in the quality of life of rural people has been primary concern in the economic planning and development process of India. The latest data of Census of India, 2011 clearly indicate that though there is a trend of increase in population in urban areas, the majority of the population of India are still in rural areas (see note 1). From the Census report, it is also found that 68.84 percent of the total population of the country are living in 6,40,867 villages of rural India. In terms of literacy rate, out of these, only 68.9 percent are literate. It means that 32.1 percent of the total rural population of the country is illiterate. It may also be mentioned that while the male literacy rate has reached 78.6 percent, female literacy rate is 58.8 percent. It clearly indicates that almost half of the women of rural India are illiterate. Then, who is responsible for it? Is it possible to bring rural development without giving education to women?

Here, it may also be mentioned that the Millennium Development Goals for India has set a target of reducing poverty by 50 percent by 2015 of what it was in 1993. According to the government reports, while the proportion of the people living below poverty line has been declining over the years, another report also shows that one-third of the total poor are living in India. The Annual Report 2012-2013 of the Ministry of Rural Development, Government of India clearly mentions that about thirty percent of the population of the country are still living below poverty line and nearly 80 percent of the people living below poverty line are located in rural areas, with a large share coming from the category of wage workers. Hence, there is an urgent call for serious studies on rural development aspects of the country.

India has started her free market policy with a vision to give more benefit to her consumers but we should also remember that the country has a strong workforce of 42.2 percent rural illiterate women and millions of rural poor. There are different theories and assumptions to make India a superpower/super-economy by 2020/2030, etc. But, there are few basic questions with this regard: is there any magic stick to convert this 42.2 percent of rural women to educated group who can fight for their rights and take their own decisions independently within a very short span of time? Will it be possible for India to become a superpower/ super economy without developing our rural areas? Everybody will agree that there is no magic stick. It will take time; it needs a target approach; it needs to change the environment. In addition to this, another important issue in rural development in India is reducing poverty. Many researchers have also shown in their works about the problems of poverty in rural India; many also reveal that poverty is one of the important reasons of the rising trend of anti-social activities, particularly in north-eastern India (Chanu,2005, Borman and Chanu, 2011).

The government of India has also been introducing various programmes to arrest problems like unemployment and poverty, particularly in rural areas, but, the outcomes are below the satisfactory level. The involvement of NGOs and private players in the name of rendering small financial services to the rural poor for rural transformation has also been very popular in developing countries including India since late 80s. The involvement of government agencies with a special target to rural women came into limelight only in 1992 when NABARD took the initiative of formation of SHGs to give micro-credits to these groups. But, by providing such services, (popularly, now we call it "microfinance service") only to the rural poor, will it bring rural development in our country? We need a serious analysis in this regard. As there are number of successful stories on the microfinance programmes, there are number of arguments on microfinance for leading overburden to the poor clients (Chanu and Borman 2009). The paper is an attempt to study about microfinance and rural development in the present day Indian context. The paper is divided into four parts. The first part is about the introductory theme of the paper and objectives; the second part gives an understanding about the concepts of rural development, microfinance and approaches of rural development. The third part has a critical evaluation on the theme of microfinance programme and its application in rural development and the last part gives concluding remarks to the paper.

Objectives

1. To explain the linkage between the microfinance and rural development;
2. To study various approaches of rural development in India;
3. To show the critical areas of using microfinance for rural development.

4.Suggestions, if any.

Methodology

The paper is theoretical and descriptive in nature. Only secondary data has been used and the data was collected from books, journals, and websites of government agencies. A review of literature has been done in order to know about the various approaches of the rural development and evolution of microfinance in India.

Rural Development and Microfinance: the Linkage Between

In the words of Amartya Sen (2008) development is a process of expanding real freedom that people enjoy. Hence, development requires the removal of major sources of un-freedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or overactivity of repressive states. If so, rural development, here, may be argued as a process of expanding real freedom that rural people enjoy. However, development is gradual and has sequential phases. Always there is increasing differentiation. Sometimes development refers to the overall movement towards greater efficiency and complex situations. In sum, rural development may refer to upward movement of rural areas to give real freedom to the rural people.

Rural development is also considered as an important segment of economic development. It is not only about to change economic proposition of the rural areas, but also change in social, psychological and cultural dimensions for poverty alleviation, employment generation, infrastructural development, social security, and sustainable development in the rural areas. For, rural development, alleviating rural poverty and providing an improved quality of life for the rural population especially those living below the poverty line is highly required. Hence, it is a process, which aims at improving the well being and self-realization of people living in the rural areas through collective process. According to United Nations, rural development is a process of change, by which the efforts of the people themselves are united, those of government authorities to improve their economic, social and cultural conditions of communities into the life of the nation and to enable them to contribute fully to national programme. In sum, rural development may also be termed as a movement for progress.

As far as microfinance is concerned, it is defined as a financial service of small quantity provided by financial institutions to the poor in rural, semi-urban and urban areas for enabling to raise their incomes levels and improving living standard. These financial services may include savings credit, money transfers, insurance to the poor and low income groups and their micro-enterprises. The issue that may be raised here is that by providing microfinance services to the rural poor, will it be able to expand the real freedom that the poor rural people can enjoy?

Many literatures on microfinance also argue its successful stories regarding the improvement in the standard of living, even empowerment of women. The success stories of Bangladesh, Philippines, etc, are frequently used as examples of microfinance programmes.

In case of India, we get few articles and reports on successful recovery rate as well as highest repayment rate, but, the reality is different. Are the microfinance clients getting the real benefits in India? Another question which may be raised is that if the microfinance is so good as its aim is to raise the income levels and improving living standard of the poor clients, why there were suicide cases of microfinance clients in Andhra Pradesh (see 2006 and 2010 crisis). Once Andhra Pradesh was called as "Mecca of Microfinance", but now called as " Microfinance Crunch". We may look into the real situation of this state as an example. India has witnessed a sizable increase in the number of SHGs since 1992, but, have we ever seen any such a village that has transformed really after two decades of the expansion of microfinance programmes? Have we ever thought why the microfinance programmes target the rural women in particular most of whom are illiterate?

Approaches to Rural Development in India

As mentioned, India has developed a number of rural development approaches and accordingly, various policy and programmes have been formulated to develop the rural India since its first five year plan. The approaches to rural development have also changed over a period of time. Some of the approaches to rural development in India since the first five year plan are rural reconstruction, community development, target sector, target groups, growth centres, backward area development, minimum need, area planning with full employment, etc. In order to get the real freedom that the rural people can enjoy, any rural development approach needs to be concentrated on not only the removal of disabilities from which the rural population generally suffers but also on programmes meant to enhance gainful employment opportunities and raise productivity levels in the rural sector.

It may be mentioned that according to the different approaches to rural development of the government of India, the emphasis of such approaches differ from one to another. For rural reconstruction approach, the emphasis is village-centred movement based on the principles of voluntary effort. For community development approach, the emphasis is rural development based on ideas of motivation, self-help and self-reliance. As far as target sector is concerned, intensive development of a selected sector or sectors of activity with emphasis on concentrating in areas of comparative advantage. In case of target group approach, the emphasis is growth with social justice for weaker sections of the populations. With the growth centre approach to rural development and backward area development approach to rural development, the emphasis is given to spatial planning and development and reduction in regional imbalances in development. Equalization of social consumption is the main emphasis of minimum needs whereas for area planning with full employment approach, the emphasis is rural development in an area frame with the removal of unemployment and poverty as an important aim (Sundaram, 2011).

From National Community Development Programmes (NCDP) in 1952 to IADP , IRDP, SGSY, MGNREGA, RGRLM, etc are the examples of different programmes introduced by the government of India for rural development. However, there are certain areas which call for serious concern in the planning of rural development in India. Marginalization and casualisation of the rural work force with the increase rate of unemployment in the rural areas cannot be solved even after the implementation of various policies and programmes. It has rather increased manifold. In such situation what is the real role of microfinance programmes; it calls for a serious study.

Microfinance in Rural Areas for Rural Development

When we discuss about the microfinance in rural area, two questions always come to the front: (a) is the microfinance programme through SHGs in India really for rural development? and (b) is it possible to reduce poverty in rural India by this programme? It can also not be denied that the programme itself is market oriented and market can never give equal justice to all the consumers. Regarding the microfinance and poverty reduction, Bhatt (1999), Schreiner (1999), and Sanders (2002) opined that microfinance may not be an effective poverty alleviation policy (in the US). Schreiner finds that although some programmes can move some people from welfare to self-employment, it only works one percent of the time.

We need financial assistance to change the economy , but sometimes it does not work. The case of development stories of East-Asian countries and African countries may be taken as example. While huge development assistance is provided in case of Africa, the success has been the least; in case of East -Asia the development has been most successful and assistance from non-profit organizations/ government official had little to do it. The argument is not about how much financial assistance is provided for development process. It is about to see the development patterns of different countries of the world.

Now the basic question is that is really the microfinance one of the best ways to help the poor in India. ? And can this be used as an alternative strategy for rural development in India? It needs an impact study. Till date, neither we find any basic infrastructural development as result of microfinance programme nor the improvement of any microfinance clients in our area (to jump out from their traditional way of living). However, success stories of microfinance in poverty reduction and women empowerment have been decorated in the literatures of microfinance. More than 90 percent repayment rate, quick wins, etc are the common merits of the microfinance programmes which are frequently mentioned. As David (2007) observes about the quick wins for microfinance that they move money to help the poor without addressing the financial needs of the small and medium sized enterprises with real growth potential and without making basic changes, for example in government corruption or in the business climate , needed for broader business development. He further argues that such programmes may undercut and crowd out longer term business development, as when microfinance shuttle traders crowd out local produces and such forms of help are actually unhelpful in creating local business capacity. If so, the microfinance programme may become an anti-development intervention that produces short run benefit but may misdirect and undermine sustainable development and poverty reduction in the long run (ibid).

Conclusion

It is worthy to mention here the father of nation, M K Gandhi's philosophy regarding the development to change the lives of people particularly the rural people. He clearly indicates in his works that the type of development that Europe had achieved was the result of a systematic colonization and exploitation of both people and nature; hence, as a result of such development, there was imbalance in the levels of development of different areas, monopolization of benefits by a few families and increase of poverty and violence in the country. He further emphasised that truth, non-violence, freedom, equality, full employment, bread labour, trusteeship, decentralization, *swadesh* and cooperation are cardinal principles for rural reconstruction. Are such principles there in case of microfinance? The charging of higher interest rates from the poor clients in the name of providing financial services and leading to overburden in the name of getting services in need (since most of the formal financial institutions do not want to provide financial services to the poor clients) are very common in all the countries where microfinance services are available. Will we call the making of rural poor people as the clients of microfinance and converting these clients as the most profitable target group of the market as positive sign of rural development in India?

According to Gandhi, economics that hurts the moral well-being of an individual or a nation is immoral, and therefore sinful. In this context, we may analyse seriously about the political economy of microfinance. Be it microfinance or microcredit, borrowing money means being in debt. Debt is always in trouble and trouble is associated very often with anti-social activities, thus may lead to a social crisis. We also found the microfinance programme as a strategy to increase the consumption pattern of the rural poor clients; and in today's world, more consumption is termed as an indicator of development. It means if the consumption level of the rural household increases, many call it improvement in the "standard of living". One of the basic objectives of microfinance programme is also to improve the standard of living not the standard of life. However, there are differences between 'Standard of Living' and 'Standard of Life'; the former merely states the material and physical standard of food, cloth and housing that is increasing consumer appetite. A higher standard of life, on the other hand, could be attained only if, along with material advancement. cultural and spiritual values and qualities are imbibed. There is a need for a serious attempt to imbibe these values and qualities. By Gandhi, increasing consumer appetite is like to animal appetite which goes to the end of earth in search of their satisfaction.

In the conclusion, it is suggested that the approach of rural development should be long term target oriented and as mentioned, the development should be considered as a process to get free from all sorts of unfreedom. As David (2007) rightly says, "microfinance programmes are like fast growing weeds that choke the ground before the slower crops can grow; the rush to do good with pre-packaged and easily installed microfinance programmes may well be another form of unhelpful help that has untoward longer term effects on the supposed beneficiaries. (p154)"

Notes: The Census report also further reveals that for the first time since Independence, the absolute increase in population is more in urban areas that in rural areas and the proportion of rural population declined from 72.19 percent to 68.84 percent (from 2001to 2011). *Rural urban Distribution: Census Data 2011 (provisional):* Office of the Registrar General and Census Commissioner, India. Retrieved from Website: http//www.censusindia.com. 2013-03-11

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