

Micro-finance and rural development : The challenge

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Received : April, 2011; Revised : June, 2011; Accepted : July, 2011

ABSTRACT

Micro-finance has come to mean the provision of credit and other financial services to the poor so that they can reduce their poverty and raise their living standard. As country like India, where more than one-fourth of people are suffering from extreme poverty and scarcity of credit, micro-finance has the potential to become an important component of successful and sustainable poverty alleviation programme and rural development. This serves the starting point of the present paper in considering micro-credit as the limiting factor of rural development intervention. Keeping consistency with the title of the paper, it not only explores the limitations of micro-finance as a rural development intervention but also attempts to bring to the focus the concept of rural micro-finance in which the issues of credit markets and the poor are explored. The objective is to the forefront is to assess the potential impact of micro-finance institutions as development interventions. Finally, an attempt has been made to look at the evolution of the micro-finance movement in the world, its needs and significance in rural development in country like India, conditions which limit the effectiveness of micro-finance institutions as development interventions in different parts of the globe including India.

Deka, Parag Kr. and Sarmah, Dinesh (2011). Micro-finance and rural development : The challenge. *Internat. J. Com. & Bus. Manage*, 4(2): 239-244.

Key words : Micro-finance, Micro-credit, Self-help-group, Rural development, MFIs.

Micro-finance is the extension of financial services to low income clients, who traditionally lack access to banking and related services. Micro-finance as a tool of rural development through the development of micro-enterprises and basic facilities were introduced to the economy because formal credit institution and informal lending system either failed to deliver the goods or not very much conducive to the growth of micro- enterprises. More broadly, micro-finance is a movement whose object is a world in which as many poor and near poor household as possible have permanent access to an appropriate range of high quality financial services.

The basic history behind the innovation of micro-finance project is related to one of the economically underdeveloped country of Asia. Bangladesh is the country, which first implemented this project for the upliftment of economic conditions of the rural poor. In 1974, Professor Muhammad Yunus, then a Professor of Economics in Bangladesh was moved by the plight of

people when the country faced a famine. Yunus felt guilty teaching economics in the cool comfort of this classroom in this scenario. In words of Md. Yunus, "What good were all my complex theories when people were dying of starvation on the sidewalks and porches across from my lecture hall? My lessons were like the American movies where the good people always win. But when I emerged from the comfort of the classroom, I was faced with the reality of the city streets." He left the campus and went to Jobra, a village in Chittagong of Bangladesh, to learn a new method of banking for the poor. That is where he tried the idea of tiny loans for self-employment of the poor, and thus, the idea of micro-credit was born. It is from here that it took the shape of Grameen Bank, Bangladesh, and thereafter, has spread all over the world.

The World Bank estimates at there are now over 7000 Micro-finance institutions, serving some 16 million poor people in developing countries. The total cash turnover of MFIs worldwide is estimated at US\$2.5 billion and the potential for new growth is outstanding. It is estimated that, worldwide, there are 13 million micro-credit borrowers, with US\$ 7 billion in outstanding loans, and generating repayment rates of 97 per cent. It has been growing at a rate of 30 per cent annual growth (Data Snapshots on Micro-finance-The Virtual Library on Micro-credit).

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