

## Micro finance – A panacea for rural upliftment

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**M**icro-finance is the provision of financial services to low income clients, who traditionally lack access to banking and related services. More broadly, it is a movement whose object is a world in which as many poor and near poor households as possible have permanent access to an appropriate range of high quality financial services.

Over the past centuries, practical visionaries from the franciscan monks who founded the community-oriented pawnshops of the fifteenth century to the founders of European Credit Union movement and the founders of the microcredit movement in the 1970s have tested practices and built institutions designed to bring the kinds of livelihood opportunities and risk management tools that financial services provide to the doorsteps of poor people. Regionally the highest concentration of micro-finance operations was in India (188 million accounts representing 18% of the total national population). The lowest concentrations were in Latin American and the Caribbean (14 million accounts representing 3% of the total population) and Africa (27 million accounts representing 3% of the total population).

Micro-finance has made tremendous strides in India over the years and it has become a household name in view of the multi-pronged benefits reaped from micro-finance services by the poor in our country. Self-help groups (SHGs) have become the common vehicle of development process, converging all development programmes. SHG-Bank Linkage Programme launched by NABARD way back in 1992 envisaging synthesis of formal financial system and informal sector has become a movement throughout the country. It is considered as the largest micro-finance programme in terms of outreach in India and many other countries. This is recognized as a part of priority sector lending and normal banking business by Reserve Bank of India. As on March 2009, there were more than 61 lakh saving-linked SHGs and more than 42 lakh credit-linked SHGs and thus about 8.6 crore poor households were covered under this

programme.

### Micro-finance in India – At a Glance:

Micro-finance sector has covered a long journey from micro-savings to micro-credit and then to micro-enterprises and now entered the field of micro-insurance, micro-remittance, micro-pension and micro-livelihood. This gradual growth process has given a great boost to the rural poor in India to reach reasonable economic, social and cultural empowerment, leading to better life of participating households. Financial institutions in the country have been playing a leading role in the micro-finance programme for nearly two decades now. During the current year too, micro-finance has registered an impressive expansion at the grass root level.

In India, micro-finance is being pursued through SHG-Bank Linkage Model (SBLP) and MFI-Bank Linkage Model.

#### SHG – Bank Linkage Model:

This model involves the SHGs financed directly by the banks *viz.*, Commercial banks, Regional Rural Banks and Cooperative Banks.

#### MFI – Bank Linkage Model :

This model covers financing of micro-finance Institutions (MFIs) by banking agencies for on-lending to SHGs and other small borrowers covered under micro-finance sector.

### Impact of SHG bank linkage programme:

In view of the large outreach and pre-dominant position of micro-finance SHG - Bank Linkage Programme it is very important to examine the status, progress trends, qualitative and quantitative performance comprehensively. Thus, the author accessed the overall progress of micro-finance sector related to savings of SHGs with banks, loans disbursed by banks to SHGs, outstanding loans of SHGs with the banking system and the details of NPAs and recovery percentages in respect of bank loans provided to SHGs as on 31 March 2009.

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