



Role of micro financing in development of rural areas of Shimla, Himachal Pradesh, India

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Abstract

This paper is an attempt to discuss the role of micro financing for the development of poor population of rural areas of Himachal Pradesh, India. Micro financing is a practice of providing loans and financial services to poor people in order to eliminate the poverty. Most of low income groups have almost negligible substantial assets due to which they are not given loans by the banks. So, micro financing is an initiative to develop such part of population in order to look after overall development of Nation.

Keywords: SHGs, NABARD, RBI

1. Introduction

Microfinance

Microfinance refers to an arrangement of financial services, including loans, savings and insurance, available to poor entrepreneurs and small business owners who have no collateral and wouldn't otherwise qualify for a standard bank loan. It refers to provide finances to poor, low income groups/people. Microfinance is a movement of guarantying access of poor people to not only credit but also to other financial services as savings, insurance, fund transfer etc. the objective behind introducing microfinance is to reduce and eliminate poverty.

Banks have traditionally not offered loans to low-income group people and poor people and the major reason for this is their inability to payback their outstanding loans. Most of these low-income group people and poor population have almost negligible substantial assets which cannot be kept as collateral security with bank. Therefore banks often refrain from lending loans to poor. Another reason is that the bank's transaction cost, administration cost of accounts is affected by such low-income people.

For a healthy development of National economy a good financial system is necessary. As income of nation rises, its savings also increases, which is being invested creating an effect on national economy. Although banks have provided a good system of financial services, its role in building income of poor people is almost negligible. Banks often provide loan to richer people whose proportion is lower in low-income countries. Microfinancing in this course provides a catalyst role in building income of poor, thus bringing them into national income stream. So, microfinance can be described as a provision of a wide range of financial services such as saving accounts, loans, payment services and insurance for people with no regular access to financial services through traditional financial institutions. Microfinance services are provided by following sources:

- Formal institutions, such as rural banks and cooperatives
- Semi-formal institutions, such as non-government organizations

- Informal sources such as money lenders

2. Review of literature

Benjamin and Piperk, (1997), have traced a traditional approach in rural financing. In this approach the key problem area is visualizes lack of market in rural areas, absence of moderate technology in rural areas and prevalence of money lenders.

Gebre, Yohannes Mekonnen, (1994), in his study observed that one of the major problems in development of rural people is lack of credit. In response to this problem bank branches were disseminated into rural district capitals, rural banking schemes were introduced and international agencies involved indirect provision of credit to farmers and similar target groups. But the outcome of these efforts is not satisfactory. The credit needs of the rural population are still not satisfied. Most of farmers are dependent on informal sector loan which is exploitive and inefficient.

Barbora and Mahanta, (2000), analyze the impact of micro financing through SHGs taking the case of Rashtriya Grameen Vikas Nidhi and found that 80% of SHG members were from poor families and belonged to age of 8 to 50 years. This was the case for both savings and for taking loan. The repayment performance was about 91% and the program has been successful outreach covering large number of groups.

3. Need of the study

Micro finance is a program started to support the poor rural people by providing them finances, alleviating poverty and procurement of agricultural and farms input. As India is a agriculture based economy so micro finance may be a tool to empower the farmers and rural people. The need is felt to study the role of microfinance in development of rural areas in Shimla, as it is a major program undertaken in order to make some efforts towards alleviation of poverty in rural areas and to accelerate the activities of farmers. Through this study we will come to know about prevailing trend in microfinance and will also help us to know about the contribution of microfinance in rural areas.

4. Scope of study

The study is confined to SHGs of five villages of District Shimla. The study is limited to the perception of respondents regarding the role of SHGs in development of rural areas of Shimla.

5. Objective of study

- To study the effectiveness of microfinance in rural areas.

6. Research methodology

The study is based on secondary data collected from different sources like Mix Market, NABARD, RBI, UCO Bank and SIDBI and primary data has been collected from the beneficiaries through interview schedule. Among 12 districts of Himachal Pradesh, District Shimla has been selected and out of 17 Tehsils if district Shimla, Shimla (rural) Tehsil has been selected as this Tehsil contains a number of SHGs linked with banks. From Shimla (rural) Tehsil 5 villages has been selected for the purpose of the study.

Table 1: No. of SHGs in District Shimla

S. No.	Villages	No. of SHGs	No. of Respondents
1	Bagoti	1	24
2	Mashobra	3	35
3	New Tutu	2	20
4	Shakra	1	11
5	Ranol	1	10
	Total	8	100

Source: official data of UCO Bank, Shimla

Table 1 represents the detail of respondents from five villages of District Shimla, Himachal Pradesh under the study.

7. Perception of Beneficiaries

7.1 Services availed by rural population from Micro Financial Institution:

Table 2: Services availed from Micro Financial Institution

	No. of Respondents	Percentage
Loan	75	75%
Deposits	15	15%
Insurance	10	10%
Total	100	100%

Source: official data of UCO Bank Shimla

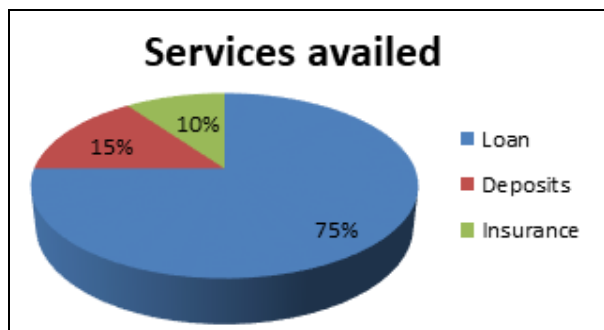


Fig 1

Table 2 and graph 1 represents that 15% of respondents availed Deposit facilities, 10% insurance facility and 75% of

respondents availed loan facility from micro financing.

7.2 Satisfaction level of respondents with the interest rate of micro financial institution

Table 3: Satisfaction level of respondents

	No. of Respondents	Percentage
Satisfied	70	70%
Dissatisfied	30	30%
	100	100%

Source: Primary data collected through interview schedule

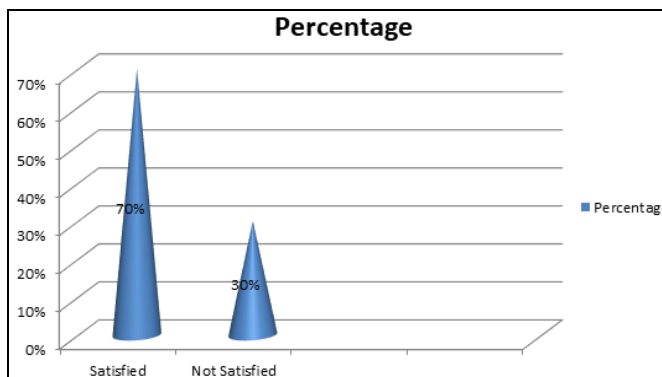


Fig 2

From table 3 and figure 2 it is evident that 70% of respondents are satisfied with the micro financing schemes and 30% are not satisfied.

7.3 Factors influencing respondents to take loan from Micro Financing Institutions:

Table 4: Factors influencing respondents to take loan through Micro Financing

Factors	Respondents	Percentage
Low rate of Interest	26	26%
Easy process & sanctions	29	29%
Approachability	15	15%
Installments	30	30%
Total	100	100%

Source: Primary data collected through interview schedule

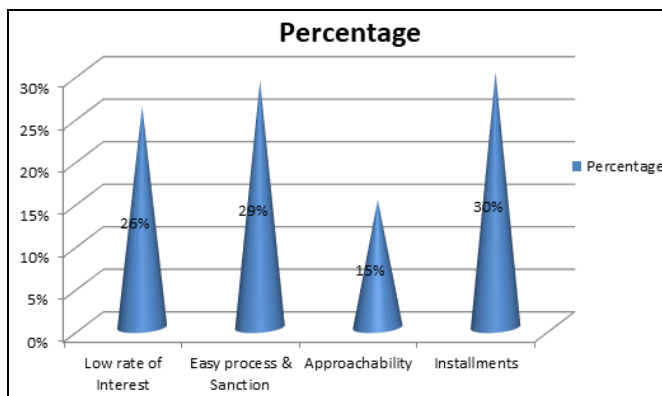


Fig 3

From table 4 and figure 3 it is evident that 26% of respondents

avail micro financing due to low rate of interest, 29% due to easy process and sanction, 15% due to easy approachability and 30% due to installment patterns.

7.4 Utilization of funds borrowed through Micro Financing:

Table 5: Funds Utilization by Respondents

	Respondents	Percentage (%)
Small Business	19	19
Buying Assets	20	20
House Building	11	11
Agriculture	50	50
Total	100	100

Source: Primary data collected through interview schedule

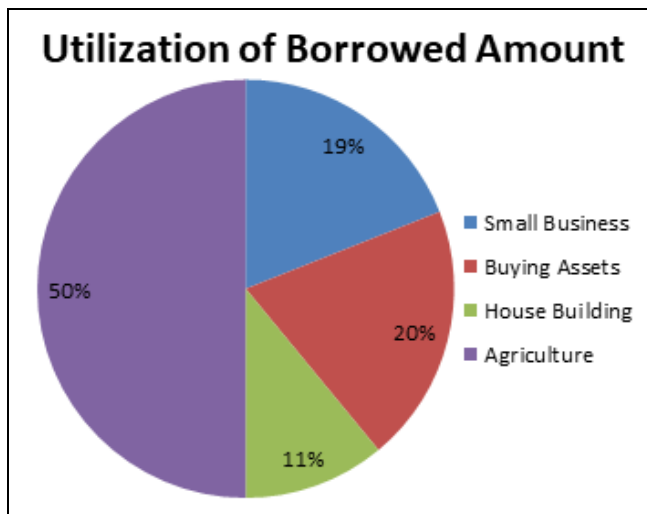


Fig 4

It is evident from table 5 and figure 4 that 50% of amount borrowed through micro financing is utilized towards agriculture, 19% towards small business, 20% towards butyng assets and 11% towards building house.

7.5 Improvement in income after availing services of micro financing:

Table 6: Improvement in Income after availing loans

	Respondents	Percentage (%)
Improved	60	60
Not Improved	34	34
Uncertain	6	6
Total	100	100

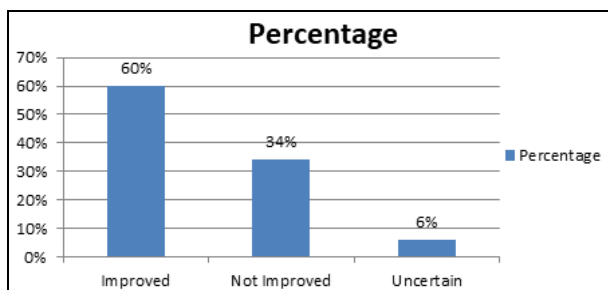


Fig 5

Table 6 and figure 5 represents that 60% of respondents under the study feel that there is improvement in income after availing financial assistance through micro financing, 34% find no improvement and 6% are uncertain about any kind of improvement after financial assistance.

8. Conclusion

The above research paper is an effort to highlight the role of Micro Financing in the development of rural areas in Shimla, Himachal Pradesh. For the purpose of study data was collected through interview schedule from the respondents of five villages of District Shimla where these self help groups are active. From above study it can be concluded that self help group is a fruitful initiative which has improved the financial and social status of poor people up to a certain extent. More financial institutions and banks should promote these groups in village level to benefit the poor people.

9. References

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