

## MICROFINANCE AND MICROINSURANCE AS A TOOL OF ECONOMIC UPLIFTMENT OF RURAL POOR IN INDIA

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### ABSTRACT

*Development strategy adopted in the post independence era in India has achieved many goals. Yet on the front of rural development it could have done little. India is still a country with majority of its population living in rural areas and the benefit of the economic growth could not have trickled down to the rural poor and low income group people. Microfinance package has come as a ray of hope in this context and it can be utilized for the purpose of rural development in India. Amidst this fact the present paper attempts to explore the efficacy of the micro finance and microinsurance initiatives for economic development or rural poor in India. It has been concluded that with certain modifications and proper implementation, microfinance and micro insurance can help the poor to uplift his socio-economic condition and he can come out of vicious trap of poverty and deprivation.*

**JEL Classification:** I32, O2, O18.

**Key words:** Micro finance, SHG, Poverty, socio-economic development, NGOs.

### Introduction

Even after more than six decades of independence, a big chunk of Indian population is still based in rural areas. Hence rural development is still a big issue to resolve. One can find a big disparity between urban and rural India, with rural India lagging behind in almost all counts and suffering from out migration to urban areas. For the sustainable economic growth in India, it is imperative to include rural India in the mainstream of the development and provide benefits of growth to the marginalized rural people. The way of prosperous India goes from Indian villages. Without improving economy of villages one should not think of improving the condition of Indian economy. At present times rural economy is badly hit by critical conditions of agriculture and micro and small scale industries in rural areas. The poor, land less and marginal farmers are suffering the most, who are failing to get any employment within or outside the periphery of agriculture.

The rural people are not getting enough opportunities to earn sufficient income. The prime occupation is agriculture which provides volatile and fluctuating income as it still depends upon the monsoon and weather conditions. There is a need of understanding a fact that the agriculture and industrial sectors are complementary to each other, while industrial sector helps in augmenting agriculture sector, the agriculture sector also helps in promoting industries by providing valuable inputs and also by creating demand for the industrial produce. Hence the rural upliftment cannot be achieved without improving agriculture conditions. Secondly in the rural areas the traditional micro and small scale industries could not have been sustained. Due to less

education or lack of proper skills and training, rural people could have not been successful to earn a sound income. Moreover there are various risks associated with agriculture and any other entrepreneurial activities, which a less educated rural person cannot handle effectively. These conditions increase the tendency of shifting to urban areas, in the search of better employment and growth opportunities.

Amidst this story, the concept of microfinance and micro insurance has emerged as an effective and sustainable solution for the problem of rural development. While microfinance has become an innovative tool for fulfilling the financial needs of the poor the microinsurance is helping rural people to eliminate the risk. Thus microfinance and microinsurance both are empowering the rural people by bringing material, intellectual, informational and ideological well being to them. It has changed the lives of many poor and deprived people in the rural areas worldwide by gaining them access to financial resources. In this back drop the present study is an attempt to explore the efficacy of microfinance and micro insurance to achieve the goal of rural development, and to put some suggestions to better implement these strategies to magnify the positive results.

### **Review of Literature**

Impacts of micro finance were addressed by many researchers and some important studies are presented here.

Ghosh (2005) indentified that microfinance can be an effective weapon for the poverty alleviation and rural development. Microfinance can bridge the gap between institutional finance and the rural poor. Ahmad (1999) maintained that self help groups have been successful in Assam (North Eastern India) even in the period of insurgency too. Women are coming to the administration directly for their just rights and to address their grievances boldly. Rangarajan (2008) advocated the finance is the basis for economic upliftment of rural poor and vulnerable groups and microfinance can play a vital role in this context. Puhazhendhi (1999) analyzed that self help groups are performing well and have been a carrier to the economic and social empowerment of the poor. Bhatia and Bhatia (2000) explored that recovery of SHG's is higher than other credit extended to borrowers and living standards of the SHG's members, in terms of ownership of assets, increase in savings and borrowing capacity, income generating activities and income levels, changed significantly. Dasgupta (2000) in his paper assessed that the poor are reaping many benefits through self help groups like mobilization of savings, access to the credit etc. Gurumoorthy (2000) in his study found that SHG is a viable alternative to achieve the objectives of rural development and to get community participation in all rural development programs. Nagayya (2000) explored that an informal arrangement for credit supply to the poor through SHG's is fast emerging as a promising tool for promoting income-generating enterprises. He advocates that NABARD and SDBI are playing prominent role in implementing the microfinance programs. Rakesh Malhotra (2000) in his study explored the male dominance even in the in the usage of credit borrowed by the women participants. V. M. Rao (2002) maintained that due to the failure of the formal financial system in India, SHG movement flourished well and helping the poor to come out of the vicious circle of poverty. Satish (2001) in his paper maintains that for the efficient functioning of the self help groups, it is essential that homogeneity of socio-economic status of the members, should be ensured while forming SHG's.

### **Issues of development in rural India**

Even after a six decade of independence and almost three decades of economic reform initiation in India, the rural areas could not have attained the benefits of economic growth. Rural India is still deprived of development despite the fact that it supports more than half of the total population of the country. Rural India is characterized by poverty, economic and social backwardness, unemployment, poor human capital, low farm productivity, low education etc. All these characteristics make rural people more vulnerable. Rural India has seen a mass migration from rural areas to urban and semi urban areas across India, Which is a serious problem both for rural and urban areas. Over the time the share of agriculture has declined in GDP and various problems of India agriculture has made it an affair of loss for the poor farmer. Even though the green revolution has proved its efficiency in terms of overall production of food grains in the country but it has not been fruitful for the marginal and poor farmers. In fact they have suffered from the advent of green revolution, with increased numbers of farmer suicide in various states. Investment in agriculture could not have increased up to the desired level, lack of research and technological development, lack support to farmers, low irrigation facilities and lack of alternate ways of farming and crop pattern, lack of horticultural advancements, lack of marketing and storage facilities has made the situation more severe.

However rural India also faces various other problems like lack of infrastructural facilities, lack of education, sanitation, drinking water, medical facilities etc. Even though government has taken various measures for rural development yet there is a lot to do.

### **Efficacy of microfinance for rural development**

Microfinance can play a significant role in the upliftment of the masses in rural areas. The evidences of positive impact of microfinance services on the life of rural deprived people are in abundance across the globe. Moreover its impact has not been confined to the level of income improvement of the poor but it has led their lives to be socially bright too. There is much evidence of making the life of rural women better both economically and socially, India and also in the whole world. As a matter of fact microfinance has become an important tool of women empowerment around the world. There is a wide array of indicators which can show the efficacy of the microfinance for the rural development. It can helps to improve the life of masses both financially and non financially. It has positive impact on health, job creation, social inclusion, education, savings, asset building, entrepreneurial skill building and it is also improving the basic household facilities for the microfinance beneficiaries (Rooyen et al, 2012), (Pokhriyal and Ghildiyal 2012). Microfinance has led to the improvement of the health of the family members of the participants of the microfinance programs. Microfinance has helped in improving both nutrition level of beneficiaries (Doocy et al.2005) and improving the sanitation habits of the masses. The behavioral and attitudinal changes have also improved towards health issues of the participants of the microfinance programs (Pronyk et al. 2008). Food security meal quantity has also improved among participants (Dupas & Robinson, 2008). There is positive impact in terms of education for the clients of microfinance programs. The schools enrollments and also the performance in the school have been improved for them (Ssewamala et al., 2010). A Study

conducted (Barnes, Gaile, et al. 2001), shows that clientele of microfinance have been able to acquire the ownership of the houses they were residing in. Moreover they also have improved basic facilities at their homes.

### **How can micro insurance assist for rural development?**

Risk is essential part of life. With low income, the risk arises from various factor becomes more severe. There are various risks which a poor family struggles with like economic, social, natural etc. Risk can be perceived in terms of crop failure, occurrence of natural calamities, loss of cattle, joblessness, health issues and many more. Even though these risks are associated with all sections of society but the economically weaker section suffers the most form it. There efforts of defeating poverty gets a set back by the losses arising out of these risks. Poor becomes more vulnerable and falls in a perpetual trap of poverty because of these risks. They positive impact of any income generating activity is engulfed by these risk incidences. Therefore the poor requires a mechanism that can safeguard them against various risk events. Micro insurance has come as a big hope for the poor people to get a cover against these risks. It is also important because traditional formal insurance has been unable to reach to the poor and the marginalized people. Micro insurance is win win condition for both the ends as it also provides huge business opportunities for micro insurance companies. India has a vast number of poor people which are still uncovers by any kind of insurance facilities whether formal or micro insurance. According to (International Association of Insurance Supervisors “Micro insurance is defined as insurance that is accessed by the low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices .Importantly this means that the risk insured under a micro insurance policy is managed based on insurance principles and funded by premiums”<sup>1</sup> (International Association of Insurance Supervisors, 2007).

Micro insurance is a part of microfinance packages, which ensures the financial services to the poor people that can help in sustaining their livelihood. The micro insurance service is provided under microfinance array and the intermediaries are NGOs and MFIs. In India the micro insurance segment is in its infancy yet and the spread is not evenly distributed. It is more prevailing in southern part of the country and in the western part similar to its counterpart microfinance services. Micro insurance can prevent the poor from the various risks like injury, illness or even death, damage of property, crop failure, loss of livestock and risk of natural disaster etc. It can also help in economic development of poor and low income group people by giving them safeguard against various risk thereby preventing them from falling into poverty trap. Micro insurance also increases the risk taking capacity of the poor thereby enabling them to start a good income generating farm or nonfarm activity.

### **Conclusion**

It can be concluded that microfinance undoubtedly has emerged as a tool for economics and social upliftment for rural poor across the globe. In India its efficacy has been proved by various studies. Similarly Micro insurance has increased the positive impact of the microfinance initiatives in the various areas. Yet there are various steps which can be taken to improve the positives of microfinance and micro insurance initiatives. In case of microfinance services, its

reach is still limited and there are still a good numbers of poor families which could not have been included in the income generating activities, sometimes it is found that the size of loan is too meager to be utilized effectively, therefore the loan amount is needed to be increased. Some time the group lending is less effective than individual lending. Moreover the marketing assistance and other trainings about income generating activities should also be given to the participants. In context of micro insurance, the insurance product should be tailor made in accordance with the need and condition of the poor. Insurance product should be priced in a more justified ways considering the capacity of the poor customer. Institutions like RRBs, Post Offices etc should also be involved to the promotion of microinsurance products. With all these measures, Microfinance and microinsurance can be used as a proven strategy of rural development in India.

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