Introduction
CHAPTER 1
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Microfinance has become widely recognised today as an effective tool in combating poverty and empowering the world’s marginalised populations. Case studies have highlighted its potential role in creating social capital and advancing human development. As the sector continues to expand, the need for comprehensive analyses on the role and structure of microfinance as well as its problems and prospects, increases. Microfinance and specifically micro-credit have the power to transform people's lives, through providing the poor with credit to stabilise their income, while also enabling them to invest in income-generating activities. Microfinance promotes financial inclusion among those who have never been considered “credit-worthy” or “bankable” before, and provides the poor with the services of micro credit, micro savings, micro insurance and remittances [1]. The economic role of microfinance in eradicating poverty is only one aspect of development that it targets. Microfinance also has the potential to promote social development through empowering women and promoting gender equality, providing the poor with sustainable livelihoods and creating social security and support for the poor, particularly amongst women.

Despite the numerous benefits of microfinance, its limitations must also be considered. Does microfinance genuinely benefit those living under crushing poverty, or are its clients limited to the non-poor, or those on the very cusp of the poverty line? Under which circumstances do microfinance institutions flourish the most, and under which circumstances do they face significant obstacles? What are some of the predominant risks that microfinance institutions face when operating, with specific reference to India and Rajasthan? These are all questions that this documentation will address.

The extent of microfinance operations in India has seen a significant surge in recent years. This documentation therefore proposes a comprehensive survey of the
current structure and role of microfinance in India and Rajasthan, taking into account it’s economical and social impact and potential, as well as its risks and setbacks.

1.1 LOCAL CONTEXT OF MICRO FINANCE SECTOR

Microfinance sector and its growth are dependent on the local context of the state, its geo climatic conditions and livelihood systems of people. Micro Finance needs of poor are guided by the larger development context and the opportunities emerging from economic growth. This chapter tries to detail out the local context of Rajasthan, the status of economy, livelihood systems, poverty and its reasons, and livelihood opportunities for poor so that the importance of microfinance services are understood in the context of Rajasthan.

1.1.1 About Rajasthan

Rajasthan has a very rich history and culture. It is at the forefront of tourist destination in India. The state has western ‘Thar Desert' with average annual rainfall of 250 mm and also has eastern parts where annual rainfall is about 700 mm. The geographical location of Rajasthan poses challenges for its inhabitants (low and erratic rainfall and droughts, extreme heat in summers etc.) but it has certain advantages as well. To name a few, its rich culture and architecture attract domestic and foreign tourists which help a large number of people to gain livelihood. State has largest average land holding in country Rajasthan is leading producer of pulses and oilseeds. Its northern part is close vicinity of national capital and thus has potential to develop as industrial hub. Rajasthan also connects Gujarat and Mumbai with Delhi. Its rich mineral deposits of minerals especially marble and granite are very famous. Rajasthan is also famous for its colourful handicrafts.

Rajasthan is the largest state in the country in terms of total geographical area, with 3.42 lakh sq. kms, which is about 10% of country's area. Out of this only 40% area (1.64 lakh sq. kms. hectare) is under cultivation. There are vast areas, which are uncultivated due to non-availability of water. Western Rajasthan has the maximum uncultivated lands.

The population of Rajasthan (2001 census) is 5.65 crores of which 77 % is in rural areas. The density of population is 165 persons per sq km. The sex ratio is 922 females for every 1000 males. Rajasthan has the highest proportion of Scheduled
Caste (SC) population in India (17%) and a high proportion of Scheduled Tribes population (12.4%). The SC population is fairly distributed all over the state (though higher concentration in western part). The tribal area is mostly in south eastern parts.

The Arawali hill ranges divide the state into two parts from north to south. The western part is the Thar Desert. Nearly 60% of state area is under Desert Districts and about 40% population lives in this part of state. This is characterized by extreme in temperature and scanty rainfall.

The eastern part of Arawali hills is mostly hilly and ravenous. Large part of it drains out in Bay of Bengal through Chambal and its tributaries. Most of top soil in this part has already been washed away. Almost entire tribal population of Rajasthan lives in this area.

There is no perennial river in Rajasthan. Though average annual rainfall is 536mm but there is large variation across districts. The western districts like Jaisalmer and Barmer get about 100 to 250 whereas Banswara and Jhalawar in eastern part get about 900 mm. Both regions have acute shortage of water. Any change in either rainfall pattern or in total rainfall results into drought.

Agriculture and animal rearing are two main sources of livelihood on which about 70% of rural population is completely dependent. Rajasthan has 10% of India's land but only 1% of its water. Only 28% of its cultivated land is irrigated. About 50% of the farmers have access only to 10% of cultivated land. 35% of India's livestock population is in Rajasthan whereas it produces only about 10% of the country's milk and 30% of its mutton. Livestock provides 15 per cent of the state agriculture domestic product.

Increase in literacy rates in Rajasthan (1991-2001) is highest in India (from 38.6 to 61%). As per 2001 census, there is wide gap in male and female literacy; Male- 76.46% and Female 44.34%. There is wide gap in literacy in urban and rural areas; Urban-77% and Rural-56%. Literacy in SC/ST and tribal is extremely low and within that woman literacy rate is worse. Dropout rate in primary education is about 50% and majority of dropouts are from SC/ST children.
Life expectancy in Rajasthan has improved over past 5 decades. In western districts, it is higher than other parts of state. Dungarpur, Banswara, Chittorgarh, Dholpur and Pali are at the lowest in terms of longevity. Health indicators in Rajasthan are amongst the poorest in the country. The Infant Mortality Rate (IMR) of the state (63 per 1000 live births) far exceeds the national average (India, 53) and exhibits a wide rural-urban differential (Rural-69; Urban-38) [2]. While the Maternal Mortality Ratio (MMR) of the state has reduced, it continues to be unacceptably high. Anaemia level amongst women of reproductive age, especially pregnant women continues to be a matter of grave concern. Though Rajasthan continues to have a lower sex ratio than that of India, the gap between the two has reduced over the years. State is plagued by high level of child and adult malnutrition. About 1/3 of children under 3 years age are under-weight and similar proportion of married adult men and women have Body Mass Index (BMI) below normal [3].

1.1.2 Economy, Livelihood and Employment

During the Tenth Five-year plan (2002-07) the overall growth in the state was 5.95 %. The growth in primary sector was only 2.15 percent in the plan period whereas the secondary and the tertiary sector registered a growth of 8.58 per cent and 7.16 per cent respectively. The growth in non-agricultural employment has not been fast enough to compensate for the decline in employment in the agriculture sector. Under-employment is widespread especially in the agriculture sector and is very significant in the urban informal sector. The industrial based labour force is quite thin, just 7.15%, indicating its backwardness.

In Rajasthan, the main sector in terms of people employed continues to be agriculture and allied sector. The main sector in terms of income is services sector. The livelihoods in Rajasthan are based on agriculture, animal husbandry, mineral and textiles. Considerable percentage of adult are employed with daily wages. The tertiary sector showed the greatest GDP contribution with 41%, followed by the primary (32%) and secondary sectors (27%).

Agriculture and animal husbandry were two major sources of livelihoods for 66% [4] of people in state in 1999-2000. The agriculture is mainly rain fed and the irrigation is only to about 30% of the cropped area. Majority of small and marginal
farmers do agriculture at subsistence level (they grow food and fodder for household consumption). Even if they have small surpluses, they sell it off to buy other subsistence needs of the household.

Main produces in Rajasthan include millets (coarse grains) in Western Rajasthan, Soybean and Spices in eastern region, Wheat and Cotton in north western region while maize, millets, pulses and grains in hilly region. The water for irrigation comes from wells and tanks. The Indira Gandhi Nahar Pariyojna (IGNP) irrigates north western Rajasthan.

In western Rajasthan, livestock is the main livelihood for farmers and nomadic groups. Farmers who have better quality land and some irrigation source rear cattle, while small and marginal farmers and landless people rear goat and sheep. As per NSSO (59 round) survey, number of sheep and goats per 100 farmers was 280, which was highest in India. Animal husbandry contributes over 19% to State's agriculture GDP. In Rajasthan, wool is a major livelihood in animal husbandry. Wool is mainly used for carpets and blankets. The state also accounts for 10% of total production of milk in India.

Rajasthan is pre-eminent in quarrying and mining in India. The state is the second largest source of cement in India. It has rich deposits of salt, copper, zinc, sand stone etc. However large numbers of people working in quarries are in informal sector and work without safely gears. Many of them suffer from tuberculosis, silicosis and other such diseases. Rajasthan is the second largest producer of polyester fibre in India.

In Rajasthan, a significant percentage of unskilled workers are employed on daily wages. Some 65 lakh households [5] have been provided employment through MGNREGS (Mahatma Gandhi National Rural Employment Guarantee Scheme) till 2010. Under this scheme, 89.29 lakh households have been allocated MGNREGS job cards by 2009-10.
1.1.3 Women Empowerment

Rajasthan has historically been a patriarchal and feudal society where gender discrimination has been a concern. This has drastically affected women's health, financial status, literacy level and political involvement.

The problems are further aggravated by high levels of seasonal migration. For many men in Rajasthan, migration is required since rural parts of Rajasthan often lack a sufficient economy to provide income for a family year-round. Women are commonly left behind to care and provide for the entire household. This has been increasingly difficult because it is estimated that an average woman's wage is 30 percent lower than a man's wage working in a similar position. While these mothers work, they must also tend to domestic responsibilities. This leaves little resource for the growth and development of women's rights and education levels.

A strong "son preference" exists in the region, as it does throughout the country, and high rates of female infanticide and female feticide plague the area. A strong need for women empowerment is evident considering the present status of Rajasthan's women.

1.1.4 Government's strategy for poverty alleviation

The strategy of the government towards poverty alleviation is three pronged; targeting poor and proving subsidy to give initial boost, helping poor to take up income generating activities by accessing credit from financial institutions, and creating infrastructure like roads, irrigation, marketing facilities etc. The government subsidies to poor are critical for their survival needs but for sustainable economic development of poor, public investment in infrastructure and access to financial services are very crucial.

1.1.5 Role of Microfinance

Access to financial services plays a very crucial role in economic and social development of people. The impact assessment of microfinance programmes in Rajasthan and elsewhere clearly indicates the change in income level of beneficiaries; reduction of dependence on money lenders; increase expenditure/ investment on children education, health, agricultural inputs, increase in production and most important the increased awareness and self confidence among poor.
Microfinance due to its inherent qualities of timely supply of financial services and flexibility of products can give impetus to potential sectors such as animal husbandry, wool and mutton processing, Information Technology, tourism etc. In addition to harnessing potential sectors of development, microfinance helps in reaching out to the vulnerable segments of the society like Women, SC and ST, which are outside the purview of formal financial institutions.

Kele Devi is an illiterate rural woman who lives in Khidrath village; Tehsil Baph of Jodhpur district along with her husband and six children. She is the member of Kamdhenu SHG in village Khidrath which is about 22 kms. from Baph town. Before, all the villagers and especially members of the SHG had to go to Baph to get their wheat crushed into wheat floor in the wheat flour mill. They loose lot of time and couldn’t make it day to day life. Moreover as to get it, either they made it on aata chakki at home or had to go to the town. As a consequence children also participated at the labour and therefore didn’t go to school as to help the family.

Ever since then Kele Devi has received a loan of Rs. 10,000 from the SHG to which she belongs, life has become easy for the whole community. She has bought a small aata chakki and installed at her house. Now, all the members of the SHGs are using it and are saving a precious time that they can use it for other tasks. Moreover, not only the members but also all villagers from Khidrath are benefitting from this investment as they all use it. In addition to this Kele Devi has find a sustainable source of livelihood that has also a positive collective impact on villagers near around.