MICROFINANCE: A TOOL FOR POVERTY ALLEVIATION

Kavita Kumra¹
Research Scholar, Department of Commerce
Himachal Pradesh University, Shimla, India
Email: kumra.kavita@gmail.com

Dr. Vijay Kumar Sharma²
Professor, Department of Commerce
Himachal Pradesh University, Shimla, India
Email: vk_hpu@yahoo.co.in

ABSTRACT

India, one of the fastest growing economies in the world, is still battling with the issue of poverty. Rural Indians depend on unpredictable agricultural incomes, while urban Indians rely on jobs that are, at best, scarce. Since independence, the issue of poverty within India has remained a prevalent concern. This paper attempts to critically analyse the role of microfinance as a poverty alleviation tool. Where on one hand, Microfinance has emerged as a new form of institutional credit to bridge the gap in accessing credit facilities for the excluded sections of the people, on the other, its impact on poverty reduction still remains a doubt. Microfinance scheme provides a wide range of financial services to the people who have little or nothing in the way of traditional collateral. The prospect of Micro-Finance is dominated by SHGs (Self Help Groups) - Banks linkage Program. However, for any significant dent on poverty, the focus of the scheme should be on productive employment generation and training for entrepreneurial skill development.

Keywords: Microfinance, SHG’s, poverty alleviation, Bank Linkage Program

INTRODUCTION

It is well argued that the basic root of poverty is dearth of assets and inadequate flow of income. Consequently credit and savings has a crucial role in improving economic conditions of poor people since it can handle risky economic environment and enhance an economy’s investment efficiency (Besley 1995). It thus implies that a bundle of financial services even in small amount could make changes in their economic conditions. But against the expected implication, financing poor people is a problematic concern since long back due to market failures which is associated with the formal credit markets (Hulme and Mosley 1996). Moreover, higher probability of risk in repayment and lack of acceptable collateral exclude poor people from accessing finance from formal sources (Hermes and Lensink 2007).

A new form of institutional credit innovation, ‘microfinance’ emerged in late 1970s in Bangladesh to bridge the gap in accessing credit facilities for excluded sections of people. More than hundreds of replications have germinated worldwide in lopsided settings of the different countries over the period of four decades, which is due to demonstrated success of the Grameen Bank.

OBJECTIVES OF THE STUDY
Today microfinance has become a familiar term that many associate with financially sustainable poverty reduction. This paper attempts to discuss the success story of microfinance in India, particularly its role in poverty alleviation and also the problems associated with its successful implementation.

**REVIEW OF LITERATURE**

A number of studies have been carried out to study the condition and development of the microfinance sector, however, very few studies highlight its role in poverty alleviation.

Oommen, studies How successful has been the Kudumbashree (KDS) in reducing poverty under two heads: (a) Changing Poverty profile cent and (b) Women’s Empowerment. KDS (a micro finance institution with several unique features) has registered a spectacular growth in the number of NHGs and families covered. The study shows that economic empowerment was the least impressive impact of KDS. However, the reported progress in other areas of empowerment is impressive.

Emerlson Moses, has studied that micro finance has emerged as a catalyst of rural development, especially in an overpopulated country like India.

Devraja T.S. has studied the India’s achievement of the MDG of halving the population of poor by 2015 as well as achieving a broad based economic growth also hinges on a successful poverty alleviation strategy. In this backdrop, the impressive gains made by SHG-Bank linkage programme in coverage of rural population with financial services offers a ray of hope.

In a similar study Mr. Nikhil considered that the microcredit movement has proved that it is possible to deliver financial services to poor people living in rural areas at a large scale, free from any reliance on subsidies.

Manisha Raj, in his research paper entitled “Microfinance Institutions in India and its Legal Aspect the financial sector.cts” states that Microfinance institutions have proved a very important financial wing to incorporate the poor in the financial sector.

Rajesh and Ravi state in their paper, despite the role of microfinance is very good in poverty alleviation but the unethical and extortionist practices by MFIs led to arguably a draconian measure in its home turf Andhra Pradesh halting the industry in its tracks.

In the line of challenges Dr. Siddharth and their co-authors found that the Microfinance delivery involves macro and micro challenges. The macro challenges faced by MFIs include the inaccessibility of the micro finance services to the rural poor, the capital inadequacy of the MFIs, the demand supply gap in provision of microcredit and micro savings and the lack of women orientation in marketing evaluation and delivery of microfinance. The micro, challenges include the inability to reduce the high transaction cost involved in delivering microfinance, the non-availability of documentary evidence and collateral among majority of rural poor, difficulty in reducing the dependency of the rural poor on money lenders and lastly the problem of repayment tracking where lending is not based on documentary evidence.

Rao & Priyadarshini in their study “Credit Options to the Rural Poor: Microfinance as a Source of Rural Credit in India”, explore the relationship between rural credit and microfinance instead of non-institutional sources of rural credit. The impact of microfinance on burden of rural debt is declined sharply, especially moneylenders and other non-institutional contribution in terms of lending to farmers, poor and women borrowings is going to downwards. Well managed and regulated microfinance programmes (particularly rate of interest, forced recovery of microcredit loans) augmented rural sector employment, productivity of non-agriculture sector, establishment of MSMEs, empowerment of women in socioeconomic aspects, it enhances health and educational facilities. Another important impact of microfinance programmes is that reduction of income and consumption disparities, especially vulnerable sections of the society will get the benefits from collateral or
guarantee free. Microfinance programmes implies that the consumption pattern, it encourages from non-productivity expenditure to productive expenditure because of timely repayments of loans.

Porkodi & Aravazhi in their study on “Role of Micro Finance and Self Help Groups in Financial Inclusion” stated that the Micro Finance Institutions are an integral part of financial inclusion and instrumental in providing ‘last mile connectivity’. But according to them, there needs to be a balance. They suggested that while working on this direction of bringing awareness among public, the government should focus on creating an environment by providing public infrastructure, encouraging competition, focusing on rules, using quality and wide publicity and strictly implementing the concept of financial literacy and credit counselling to educate the public in proper utilization of financial services offered by the service providers.

Shetty in his paper “The Micro Finance Promise in Financial Inclusion and Welfare of the Poor: Evidence from Karnataka State”, revealed that micro finance is not a panacea to all problems of poverty. However, it is considered as a vital tool to break the vicious circle of poverty that is characterized by low income, low saving and low investment. In order to generate higher income, savings and more investment, there is a need to inject capital in the form of micro finance.

Kanika Taneja in her paper “Micro Finance The New Mantra Of Rural Finance to Reduce Poverty”, highlights the characteristics of Micro Finance Institutions. The paper gives a brief background and success story of the Grameen Bank Model. Further, it explains how Micro Finance and Poverty relief in India are related.

P. Srinivasa Rao & Y. Jaya Priyadarshini in their paper “Microfinance and Rural Credit: Is it an Alternative Source of Rural Credit?”, highlight that Formal financial institutions failed to reach the poorer sections of the rural society due to informational asymmetry, moral hazard and enforcement problems. The necessity of having alternative rural credit systems which will solve the problems of rural credit institutions is clearly warranted. Micro finance institutions are seen to have characteristics that help solve the problems moral hazard and adverse selection, which other institutions failed to do. Group lending, peer monitoring and joint liability systems solve the adverse selection and moral hazard issues associated with rural credit markets. The objective of the study is to examine the success of the micro finance as an institution that solves the problems of moral hazard and adverse selection, which are the existing problems of rural credit institutions. This study focused in finding out the impact of micro finance programme on poverty, money lenders, women empowerment and living standards of the rural poor.

J. Ghosh in his paper entitled “Microfinance and the Challenge of Financial Inclusion for Development”, highlights the darker side of Micro Finance. According to him Within a relatively short time, perhaps just a decade, microfinance has gone from being hero to zero in the development discourse: from being lauded as the silver bullet to solve the problems of development and poverty reduction, to being derided as the progenitor of financial instability and enhanced vulnerability among the poorest people who can ill afford to take this additional burden. This is a far cry from the situation in the early 1990s, when microfinance – particularly in the form of microcredit – was the most popular fad of the international development industry (it has since been replaced by cash transfers), emphasised by the World Bank as almost a universal panacea for poverty and receiving the lion’s share of untied aid money from international donors.

STATEMENT OF THE PROBLEM

The microfinance sector is playing a vital role in poverty alleviation and in uplifting the living standard of the poor. But the problems in the path of its smooth functioning are no less and due to these issues and challenges there still remains a doubt about the success of microfinance programme in India. Thus, the paper attempts to analyse the role of microfinance as a poverty alleviation tool.
SIGNIFICANCE OF THE STUDY

The paper will help to understand the role played by microfinance sector in poverty alleviation in India and also the problems being encountered during the process of achievement of this goal. Further, the study provides some suggestions and recommendations to overcome these problems.

MATERIALS AND METHODS

The study is exploratory in nature and is mainly based on secondary data collected from the analysis of other related research studies.

RATIONALE OF MICROFINANCE

In developing countries, financing to the rural poor through formal financial services failed to meet the credit requirements of the rural poor people. The main reason of failure was absence of any recognised employment and hence absence of collateral with the poor. The high risk and the high transaction costs of banks associated with small loans and savings deposits are other factors which make them non-bankable. The lack of loans from formal institutions leaves the poor with no other option but to borrow money from local money-lenders on huge interest rates. In different countries including India, efforts have been made by their governments to deliver formal credit to rural areas by setting up special agricultural banks/rural banks or directing commercial banks to provide loans to rural borrowers. However, these programmes have also not worked well due to various reasons. The common reasons found by many researchers are the political difficulty for governments to enforce loan repayment and the selection of relatively wealthy and influential people, rather than the poor, for bank loans. Women’s World Banking (1995) estimated that in most developing countries, the formal financial system reaches to only top 25 per cent of the economically active population. This leaves the bottom 75 per cent without access to financial services apart from those provided by money-lenders and family. Thus, the inability of formal credit institutions to deal with the credit requirements of poor effectively has led to emergence of microfinance as an alternative credit system for the poor.

Today microfinance has become a familiar term that many associate with financially sustainable poverty reduction. The year 2005 was proclaimed the International Year of Micro-Credit by the UN, and the Nobel Peace Prize was in 2006 bestowed to Muhammad Yunus and the Grameen Bank —for their efforts to create economic and social development.

MEANING OF MICROFINANCE

Microfinance refers to a wide range of organizations dedicated to providing micro financial services including non-government organisations, credit unions, co-operatives, private commercial banks, non-banking financial institutions and some state-owned banks. It is defined as a provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban and urban areas so as to enable them to raise their income levels and improve their living standard.

Microfinance- has the following characteristics:

1. Providing small loans for the working capital requirements of the rural poor.
2. Minimal appraisal of borrowers and investments as compared to commercial banks.
3. No collateral demanded, however, these institutions impose compulsory savings and group guarantees. It is based on "trust", not on legal procedures and system.
4. Based on the loan repayment history of the members, microfinance institutions extend larger loans to the members repeatedly.

ROLE OF MICROFINANCE IN POVERTY ALLEVIATION

Poverty is a significant issue in India, despite having one of the fastest-growing economies in the world. A major chunk of world poor population lives in India. Though many central government and state government poverty alleviation programmes are currently active in India, microfinance plays a
Microfinance has been successful in taking institutionalized credit to the doorstep of poor and have made them economically and socially sound. Microfinance develops savings habit among people. Poor people with meagre income can also save and become bankable. The financial resources generated through savings and micro credit obtained from banks are utilised to provide loans and advances to its members. Reports show that the participants of microfinance programme have been able to increase their income and hence their standard of living.

Microfinance programmes help the poor by providing self employment opportunities. They also help them improve entrepreneurial skills and encourage them to exploit business opportunities. Employment increases income level which in turn reduces poverty. Women borrowers constitute more than 80% of the total clientele of microfinance programme. Microfinance has been successful in providing women access to financial and economical resources. It is a step towards greater security for women. Thus, microfinance empowers poor women economically, socially and also personally. Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

**PROBLEMS AND SUGGESTIONS**

1. One major problem that is being encountered is that the deserving poor are still not reached. The microfinance programme is not exclusively focused on those who are below the poverty line or very poor. About 50 per cent of SHG members and only 30 per cent of MFI members are estimated to be below the poverty line. The extreme poor often lack self-confidence so they hesitate to join a group. Therefore, sincere efforts towards inclusion of deserving poor within this programme should be made.

2. Meticulous use of credit for the income generating activities rather than for consumption so that the economic conditions of the BPL families is enhanced. It is evident that if any project is meticulously planned and nurtured with pumping of micro-credit then livelihood issues of BPL households can be addressed to a great extent. Thus, focus should be laid on productive employment generation.

3. Another major challenge for this programme is the viability of economic activities pursued. It is difficult to find whether economic activity will yield a rate of profit necessary to cover the interest rate on the loan.

4. Another problem faced is the depth of outreach of the programme. Though the outreach of the programme is expanding and large numbers of people are being provided with microfinance services but the amount of loans is very small. The amount is not sufficient to fulfil the financial needs of the poor people.

5. Ensure the uniform distribution of micro financing in both rural and urban areas of each state of India.

6. Another aspect that requires attention is training. Training in entrepreneurship and skill development should be provided to SHG members.

7. The distribution of micro financing is non-uniform. Efforts should be made to remove regional disparity in the distribution of microfinance services and ensure proper distribution in both rural and urban areas of the country.

**REFERENCES**


