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MICROFINANCE: A TOOL FOR POVERTY ALLEVIATION

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ABSTRACT

Year 2005 was called international year of microfinance by United Nations. In present years, microfinance has become an effective tool for reduction of poverty. It provides various financial services to low-income and poor people, including customers and the self-employed people. It includes various financial services such as deposits, savings, payment services, insurance and micro-credit to the poor. The importance of microfinance cannot be undermined, where many people in India is living under poverty and many people do not have an access to various banking facilities. Microfinance is one of the important tool for socio-economic development of the country. It plays crucial role to remove the property and economic development. In India, Self help Groups (SGHs) and Microfinance Institutions (MFIs) are the two most important approaches to eradicate the poverty. Self help Groups (SHGs) - Bank Linkage Programme dominates the micro-finance which has major aim to providing financial services to the unreached poor. Microfinance through SHGs has brought number of changes in the life of people. The growth of the microfinance industry has become possible with strong efforts of Government, Non-Government Organizations (NGOs) and as well as the donors who seek microfinance as a important tool for eradicating poverty. Thus, services of micro finance also helps in the improvement of resources allocation and helps to promote the economic growth and development. This study attempts to identify the current status and role of microfinance in the development of India. It also reviews the performance of SHG-Bank Linkage Programme in India.

KEYWORDS: *Micro Finance, Financial Services, Poverty, NGOs, Self Help Groups (SGHs).*

Introduction

Since independence in 1947, the Government of India and Reserve Bank of India have made strong efforts to provide the credit facilities to the poor people because Traditional aids during previous years have not helped in solving this major problem of poverty eradication. So, this resulted in search for new alternative policies, systems, procedures and various other ancillary services that would fulfill the requirement of poor people. As there are other development tools also but microfinance has penetrated the poorer group of the society. There is number of people who not have any access to the basic education and primary health care, similarly, there is majority of those poor people without access to microfinance. Micro finance provides various services such as loans, payments services, money transfers, savings, deposits and insurance to the poor and their micro-enterprises. This definition is not only confined to the people who are below poverty line, but it also includes low income households as well.

Microfinance is regarded as an adequate tool for financing technological applications and small scale activities in the rural areas. The provision of financial services enables them to manage the resources so that they can improve their livelihoods and cope up with the various uncertainties which arise from time to time. It is now evidenced that access to the financial services is one of the vital instrument for the economic development. In many nations, poor people don't have access even to basic

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saving accounts and even to various banking services. The main problem is that banks have to incur various substantial costs to keep a client account and while processing the loans, it does not matter how small the sums of money required. Banks demand for the collateral while sanctioning loans to the poor. In addition, the process to acquire the loans involves many lengthy and bureaucratic procedures, which lead further to the extra transaction costs for the poor while taking the loans. The need of micro-finance has arisen because financial base of the poor people is very weak in our country. They did not have easy and sustainable financing facilities. As a result, they have to rely on informal credit suppliers like landlords, traders at higher rates of interest. There is always a break even point in providing loans or deposits under which banks lose money on each transaction they make and the poor people usually fall below that break-even point. Microfinance covers not only consumption and production loans, but also provides other facilities to fulfill the credit needs of the society such as housing and shelter improvements of the poor section of the society.

Origin of Microfinance in India

Microfinance is not a recent development, it is very old concept. Prof. Mohammad Yunus who is known as father of micro-credit system, he encountered the problems of poor people and he extended the various loan facilities to poor people which earlier rejected by bank due to lack of collateral security against loan. Microfinance in India can trace its origins back to the early 1970s when the Self Employed Women's Association ("SEWA") established an Urban Cooperative Bank in Gujarat. Its one of the main objectives was to provide the banking facilities to the women who are employed in the unorganized sector. While establishing this bank, four thousand women members contributed Rs.10 each as a share capital. This bank is now working as a co-operative bank and also providing various services to poor, illiterate, self-employed women's with around 30,000 active clients. (Jaysheela, Shriprasad & Dinesha, 2009). Now the microfinance service providers include apex institutions like Rashtriya MahilaKosh (RMK) NABARD, SIDBI etc. At the lower level, Commercial Banks, Co-operatives bans and various other banks provide microfinance services. Besides, there are also some NGOs which lend credit to Self Help Group (SHGs). The NGOs that support the SHGs include MYRADA in Bangalore, Self Help Women's Association (SEWA) in Ahmadabad, and Bihar ADITHI in Patna.

According to the survey of the World Bank, India falls under the low class income. It is second populated country in the world and 70% of its population living in rural area and 60% of the population depends on the agriculture, so underemployment and per Capita income is very depressed in India. Due to this critical situation, it is not easy to supply food. Consequences are poverty, victimization and low rate of education. According to the Reserve bank of India, approximately 51% of the people possess only 10% of the total assets of India. This has resulted in less production resources both in agriculture and manufacturing Sector. India is a modernizing country but still 30% of its population still is under the poverty line. Thus, poverty alleviation has remained the major focal point for development practitioners since the independence of India. Although the percentage of formal financial sector in the total rural credit increased significantly from 8.8 percent in 1951 to 53.3 percent in 1991, but it was found that rural banks served only the needs of rich rural borrowers instead of poor people.

Role of Microfinance in Poverty Alleviation

Microfinance deals in providing wide range of financial services to low- income people. It helps them to start the small business so as to come out of poverty. Besides giving loans facilities, microfinance programs provides various other financial and non financial services such as savings, insurance, skill development training and motivation to start income generating activities. This programme ha been emerges a powerful tool for poverty alleviation in other countries also such as Africa, Europe, Asia and America. Microfinance provides the benefits to all the sectors and all regions of the economy. So, micro financing is emerging as effective tool to promote the inclusive growth and thus helps in reducing poverty by providing a regular source of livelihood to the poor people. However, SHG-bank linkage programme provides the financial services to the poor in a sustainable manner. Poverty reduction has been an important challenge over the decades. One of the major constraints facing the poor is lack of access to formal sector funds. The fastest growing poverty has become one of the major challenges in present time.

Review of Literature

Sheokand (2000): discussed the evolution of Indian Banking and discussed regarding about its failure to provide credit facilities to the poor people. According to him, the government sponsored programmes did not achieve the objective of alleviating poverty.

Manimekalai and Rajeshwari (2001): In this study, the researcher examined the socio-economic background of Self-Help group women in rural micro-enterprises in Tamil Nadu and also examined the factors which motivated the women to become SHG members and eventually as entrepreneurs.

Fisher and Sriram (2002): In this study, the researcher explained the financial sector developed in India by the end of 1980s was largely supply and target driven. During the study, it was found out that the finance for the rural poor people was a social obligation and not a potential business opportunity for the poor people.

Khandker (2003): In this study, the researcher analyzed and measured the impact of microfinance institutions on the poor people using the panel data of two time periods of 1991-92 and 1998-99 in Bangladesh.

Basu and Srivastava (2005): In their Rural Finance Access Survey- 2003 conducted jointly by World Bank and National Council of Applied Economic Research, India, highlighted the inadequacies in rural access to formal finance. The survey took a sample of 6000 rural households from two Indian States: Andhra Pradesh and Uttar Pradesh.

Yunus (2006): In this study, the researcher examined the difference between Grameen Bank and Conventional banks. He explained that the Grameen Bank methodology was almost the reverse of the conventional banking methodology.

Sangwan (2008): In this study, the author ascertained the determinants of financial inclusion and studied the relevance of SHGs in achieving financial Inclusion. The data of 42 Regions from different states and UT of India was used for the purpose of the study.

Ali & Alam (2010): Concluded that Microfinance is the most important resource to provide loans and other basic financial services to increase the employment rate, productivity and earning capacity. The study showed that high interest rates on micro credit are one of the problems faced by the microfinance sector.

Mayowa Agboola (2012): in this study, the researcher investigated about the impact of microfinance on entrepreneurship development of small scale enterprises in Nigeria.

Statement of the Problem

As we know Poverty is omnipresent in the world. It has been noticed that the Government of India has taken various steps or initiatives to reduce the poverty to the maximum extent. After the globalization, the poverty has increased unemployment among the poor people of the society. Therefore, it has become very much imperative to introduce such kind of programmes with which employment opportunities can be enhanced to eradicate the poverty. In this regard, micro finance is one of the major tool which offers solution to multiple social problems. If the poor people have access to credit, then they can make investments to come out of poverty. Microfinance is considered as a unique programme for serving the poor and empowering the poor by far. As the programme is different in structure, so there is need to find the answers to the following questions:

õ Who is being served through microfinance?
õ Does microfinance lead to reduction in poverty?
õ Does it provide employment opportunities to the poor people?
õ Does microfinance contribute to the enterprise development and income?
õ To what extent microfinance is useful for eradication of poverty both at rural and urban level?

Objectives of the Study

- To determine and understand the relationship between micro-credit and poverty alleviation.
- To know the growth and status of microfinance sector and as well as Self Help Groups in India.
- To pinpoint the reasons for slow progress of microfinance in India.

Research Methodology

This study is based on secondary data. Data have been collected from books, journals and related websites of the study.

Microfinance Delivery Models in India

Several initiatives have been taken by the Government of India from time to time to ease poverty and to provide various facilities to the poor people. A multi-agency approach was taken for providing credit to the poor people. Co-operative banks, commercial banks and regional rural banks play a major role to provide financing services. After the nationalization of fourteen major commercial banks in 1969 and another six commercial banks in 1980, it has become possible to reach the banking in far areas. The various other measures were also taken by Government of India to eradicate poverty of India. At present, there are mainly two models for delivery of microfinance in India.

õ SHG – bank Linkage Programme (SBLP)

õ Micro Finance Institutions (MFIs)

SHG – Bank Linkage Programme (SBLP):

Self-help Groups consists of small and informal group which comprises of 10 to 20 members each. These groups are formed by the bank officials, NGOs and various other institutions at the village level. The name is given to each group and one head and cashier is selected for each group. The group members take the decisions about the amount of savings of individuals to be deposited in the group account. Then, this money is used savings to make small interest bearing loans to their members within their group. The bank loans are given without any collateral and specified interest rates. The rate of interest is mutually decided by the group members. This model gives scope to the members of SHGs to participate in the decision making process, with four standing pillars of “self help is the best help”, “Unity is strength”, “United we stand and divided we fall”, and finally “we can make our own bank”. Under this Programme, loans are provided to the SHGs with three different methodologies:

- **Model-I:** SHGs formed and financed by Banks
- **Model-II:** SHGs Formed by Agencies other than Banks, but directly financed by banks.
- **Model-III:** SHGs financed by banks using other agencies as Financial Intermediaries.

MFI Model

The MFI Model became popular in India in recent past. MFI model is found worldwide whereas the SHG-BLM model is an Indian Model. In MFI Model, MFIs borrow large amount of funds from the apex financial institutions in order to provide lending to the individuals or groups. These MFIs provide financial services to the individuals or to the groups like SHGs. An important difference between SHG-BLM and the other groups (Grameen and Joint Liability Groups) is that in the former the loan is a single loan to the group as a whole, which is then divided by the group members, where as in Grameen and Joint Liability Groups, the MFIs provide loans to the individual members, although the disbursement and collection are facilitated by the group mechanism.

Present Status of Microfinance in India

Microfinance sector has been serving from long time from micro savings to micro credit and microenterprises and now this has also entered the field of micro insurance. Financial institutions play a leading role in the microfinance program for nearly two decades now. The data for the 2015-16 along with the few preceding years have been presented and reviewed under two models of microfinance.

õ SHG-Bank Linkage Model

õ MFI-Bank Linkage Model

Overall Progress Under SHG-Bank Linkage Programme During Past Three Years

		2013-14		2014-15		2015-16	
		Number of SHGS	**Amount**	**Number of SHGS**	**Amount**	**Number of SHGs**	**Amount**
SHG Number of Savings as on 31st March	**Total SHG**	74.30 (1.53%)	9897.42 (20.45%)	76.97 (3.59%)	11059.84 (11.74%)	79.03 (2/68%)	13691.39 (23.79%)
	All Women	62.52 (5.27%)	8012.89 (22.99%)	66.51 (6.38%)	9264.33 (15.61%)	67.63 (1.68%)	12035.78 (29.92%)
		84.15	80.96	86.41	83.77	85.58	87.91
	Percentage of Women	13.66 (12.02%)	24017.36 (16.67%)	16.26 (19.03%)	27582.31 (14.84%)	18.32 (12.67%)	37286.90 (35.18%)
Loans Disbursed SGSY during the Year	Number of SHGs Extending Loans	16.52	14.49	39.54	34.40	44.54	45.02
	Of which Groups	11.52	21037.97	14.48	24419.75	16.29	34411.42
SHGs	Total Number	41.97 (5.71%)	42927.52 (9.02%)	44.68 (6.46%)	51545.46 (20.06%)	46.73 (4.59%)	57119.23 (10.81%)
	Of which SGSY Group	13.07	10177.42	18.46	19752.74	21.91	26610.16
Loans Outstanding	All Women SHGs	34.06	36151.58	38.58	45901.95	40.36	51428.91

Source: Status of Microfinance in India report 2015-16.

Progress Under MFI-Bank Linkage Programme

(Amount in Crores)

Particulars	2013-14		2014-15		2015-16	
	Number of Accounts	Amount	Number of Accounts	Amount	Number of Accounts	Amount
Loans disbursed by Banks/FIs to MFIs	545	10282.49 (31.16%)	589	15190.13 (47.73%)	647	20795.57 (36.90%)
Loans Outstanding against MFIs	2422	16517.43 (14.50%)	4662	22500.46 (36.63%)	2020	25580.84 (13.69%)
Loans Outstanding as % of		160.64		148.13		123.00

Source: Reporting Banks

The SHGs- Linkage programmes has been acceptanced among multiplicity of stakeholders, civil society organizations, bankers and international communities. New SHGs had bank loans of Rs.37286 crore (including repeat loan was disbursed to these SHGs in the financial year 2015-16. During the same period, 647 MFIs were provided loans by banks to the tune of Rs.20795.57 crore. Under the MFI- Bank Linkage Programme, number of MFIs disbursed loans by banks is higher than previous year and amount of the loan is much higher than the previous years.

No. of Savings Linked SHGS

Year	North Eastern Region	Northern Region	Central Region	Western Region	Eastern Region	Southern Region
2013-14	4.26	4.92	9.23	12.07	19.77	49.75
2014-15	4.34	4.69	10.62	12.23	19.81	48.32
2015-16	5.44	4.98	10.32	12.88	21.51	44.87

With the higher growth in SHG-BLP in North East Region and other priority states during the last three years, there has been slight correction in the southern region of SHG-BLP. All states in Northern, North Eastern, Western and Eastern Regions have registered increase in number of SHGs with savings linkage during the year.

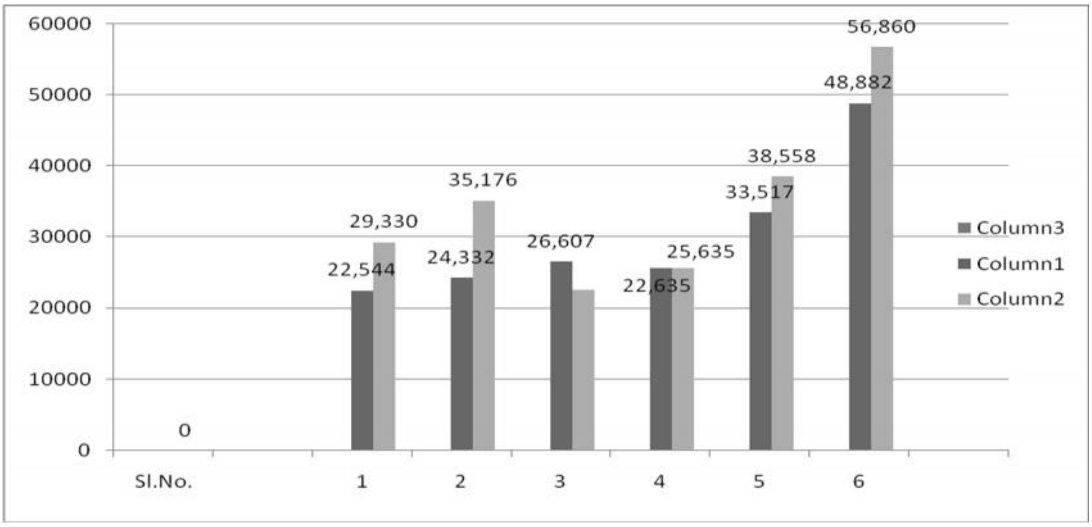
Agency-Wise Status of SHG-BPL in 2015-16

Name of the Agency	Total Savings of SHGs with Banks as on 31st March, 2016		Loans disbursed to SHGs by Banks during the year		Total Outstanding Bank Loans against SHGs	
	Number of SHGs	Savings Amount	Number of SHGs Disbursed	Loans	Number of SHGs Outstanding	Loans
Commercial Banks	4140111	903389	1132281	2518497	26226364	3714562
% Share	52.6	66.0	61.8	67.5	56.2	65.0
Regional Rural Banks	2256811	248428	470399	916493	1445476	1610935
% Share	28.56	18.1	25.7	24.6	30.9	28.2
Cooperative Banks	1506080	217322	229643	293700	600781	386426
% Share	19.1	15.9	12.5	7.9	12.9	6.8
Total	7903002	1369139	1832323	3728690	4672621	5711923

The table reveals that commercial banks contributed 67.5 per cent of the total amount of loans disbursed to SHGs, while RRBs and Co-operative Banks shared 24.6 percent and 7.9 percent of the total loans amount. The SHG Bank linkage programme has become a part of the business for all private and public sector commercial banks.

Growth in Microfinance Sector

Sl. No.	Year	Outstanding Loan Portfolio (Rs. Crores)	Loan Disbursed (Rs. Crores)	Client Outreach (in Lakhs)
1	2009-10	22,544	29,330	267
2	2010-11	24,332	35,176	317
3	2011-12	26,607	22,635	275
4	2012-13	25,699	25,635	275
5	2013-14	33,517	38,558	330
6	2014-15	48,882	56,860	371



Source: Sa-Dhan (2015)

The above table depicts the growth in microfinance sector. It reveals that the amount of loans disbursed during the 2014-15 was Rs.56860 crores as comparatively to the previous year. In 2014-15, the amount of loans disbursed was only Rs. 38,558 crores.

Problems of Microfinance Programme in India

No doubt, microfinance programme has shown impressive achievements, but a number of problems arise: some of the main problems are discussed:

õ **Deserving Poor are still not reached:** The microfinance delivery models has not emphasized on the people who are below the poverty line or very poor. So, it can be said that poor population have not been providing any benefits.

õ **Regional Disparity:** It has been observed that microfinance programmes are working in only those selected areas of the country where there is tremendous growth of formal financial institutions. Microfinance institutions are not able to reach those areas where the formal banking system failed to reach the poor people.

õ **Unregulated Microfinance Institutions:** In India, microfinance is provided by a variety of institutions. These include commercial banks, RRBs and Co-operative Banks, Primary agricultural credit societies and MFIs. But they are not properly regulated. Only the banks and NBFCs fall under the Reserve Bank of India. Other entities e.g. MFIs are covered under their respective state legislations.

õ **Low Depth of Outreach:** It has been observed that large numbers of people are provided with microfinance facilties and services but the amount of the loans sanctioned is very small. The amount is not sufficient to fulfill the financial and basic needs of the poor people. The duration of the loans is very short.

Suggestions

- The banks and other financial institutions and state government should come forward to help the rural poor people through the SHG's and provide the liberalized credit facilities at cheaper rate of interest. The programs should be designed according to the needs of the poor people.
- Branch Managers of the financial institutions should remain in touch with the communities and should be alert about the new distribution channels through which they can profitably reach new customers. They should be ready to offer savings and lending products which are appropriate for local communities.
- A proper mechanism should be evolved to prepare database on SHG's, SHP's, MFI's etc. Moreover, MIS with good management needs to be developed to achieve sustainability of micro-financing institutions.
- The factors which are responsible for poor performance of microfinance and functioning of SHG's should be examined.

- Regulation of micro-financial services is necessary, which helps in long-term sustainability. The interests of small savers, ensuring proper terms of credit, instilling financial discipline and having a proper reporting and supervision system should put in place.

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