

THE ROLE OF MICRO-FINANCE IN SUSTAINABLE FINANCE, EMPLOYMENT AND POVERTY ALLEVIATION (A STUDY WITH SPECIAL REFERENCE TO KUMAUN)

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ABSTRACT

One of the greatest challenges before Indian sub-continent which accommodates more than one-third of its population living below poverty line. This paper examines the impact of microfinance on income and employment on socially disadvantage group in particular. The study primarily based on the field survey conducted by the author in various district of Uttarakhand. Both participants and non-participants are taken into consideration for better understanding of the impact of microfinance. Comparison of member and non-members socio-economic condition is reported and it was found that non-participants are the most vulnerable and are at a disadvantage position than their counterparts. Probity-model is applied to examine the household specific factors explaining participation in the program.

KEYWORDS: *Below-Poverty Line, Socio-Economic, Probity-Model.*

Introduction

Development of Financial System in India

Some serious attention was paid to the development of a sound financial system in India only after the launching of the planning era in the country. At the time of independence of the country in 1947, there was no strong financial institutional mechanism in the country. There was absence of issuing institutions and non-participation of intermediary institutions. The industrial sectors also have no access to the savings of the community. The capital market was very primitive and shy. The private as well as unorganized sector played a key role in the provision of liquidity. On the whole, chaotic conditions prevailed in the system.

With the adoption of the theory of mixed economy, the development of the financial system took a different turn so as to fulfill the socio-economic and political objectives. The government started creating new financial institutions to supply finance both for agricultural and industrial development and it also progressively started nationalizing some important financial institutions so that the flow of finance might be in the right direction.

History of Microfinance in India

Microfinance means provisions of small-scale financial products and services to the poor. Microfinance is one ancient origin in India. Traders and moneylenders have traditionally provided microcredit to the rural poor but charged exorbitant rates of interest, which led to considerable hardship and impoverishment of borrowers; and later this resulted into debt trap, bonded labor, and illegal and forced transfer of entitlement on properties. What we refer to as microfinance today does not include such exploitative practices; rather it refers to "lending to the poor at reasonable but sustainable rate from Government and private institutional sources."

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Social banking has been prevailing in India since long. Institutional credit was perceived as a strategy for rural development and poverty alleviation by enhancing rural production and productivity in independent India. Increasing access to credit for the poor and marginalized was more emphasized in Indian plans. In 1960, India had made one of the largest interventions in rural credit market and it was referred to as Social Banking Phase¹

From past researchers, it has been demonstrated that the provision of microfinance to the rural poor, especially ruralities and urban poor, resulted in significant in farm and business productivity. The poor require a wide range of financial products and services to sustain their livelihood. The accessibility to financial products and services enable the poor to maintain minimum level of consumption throughout the year. The rural economic systems within which the majority of poor people live and work are, by and large, characterized by large number of very small transactions. These frequent tiny transactions are the essential components of rural livelihood system.

The All India Rural Credit Survey Committee recommended expansion of the cooperative credit system in 1954 to cater to the credit needs of the rural poor. The committee on cooperative credit had proposed strong and stable institutional framework for strengthening of cooperatives in 1960 followed by the Lead Bank Scheme² in 1969. The All India Credit Survey Committee in 1969 recommended the adoption of "Multi-agency approach." It was the first time that the Government of India had accepted the fact that rural credit demand could not only be met from cooperatives alone and the commercial banks have to play a vital role in meeting rural credit demand.

In 1975, the Regional Rural Banks (RRBs) were incorporated and "Agricultural Refinance and Development Corporation" was set up.

In 1976, National Commission on Agriculture with collaboration of commercial banks experimented with "Farmers' Service Cooperatives." By the mid 1970s, the banking sector was operating as a three-tier system where the first tier had consisted of commercial banks, the second tier consisted of RRBs and Cooperative banks had formed the third tier. By the same period, 49% of all scheduled commercial banks had operated from rural areas.

In the 1980s, the concept of microfinance generated as a result of credit subsidization policy towards poverty-stricken farming community. During the same period, the concept of microenterprise credit arose which began with a motive to provide loans to poor people, especially women to invest in very small-scale business activities which had helped in accumulating assets and increase their household income.

In the early 1980s, the Indian Government has realized the importance and need for rural financial services. The National Bank for Agriculture and Rural Development (NABARD) was set up in 1982. Loans available through microcredit schemes were more accessible to the poor people as compared to bank loans. Again in 1982, "Development of Women and Children in Rural Areas(DWCRA)" was stated as sub-scheme of Integrated Rural Development Program(IRDP)³ and under the DWCRA, Government of India introduced the provisions of revolving fund to women groups for income-generating activities. In 1988, "Service Area Approach" was adopted; and in 1989, market-oriented approaches for cooperatives were taken as per the recommendations of the Khusro Committee.

The scaling up of microfinance program in India was due to the efforts led by the Self-Help Groups (SHG) movement, where poor households from rural India are organized homogeneous groups of around 10-20 each, and pooled their money which was lent to the need in the group in forms of credit. In the year 1922, the major microfinance program was initiated by NABARD by initiating the SHG-Bank Linkage Program. By the mid 1990s, several mainstream banks began providing credit and savings facilities to SHGs and that had built credible financial discipline.

During the 1970s, the major sources of credit to the population of the society with no access to formal banking were the government agencies and non-institutional sources like money lenders. Money lenders were the major players in providing consumption credit where the clients were forced to pay usurious interest rates. Rent-seeking behavior was a common observation during those years.

¹ Social banking phase was characterized by broadening the access to credit for poor and marginalized people and to section of the people with no access to formal banking in India.

² The objective of lead bank scheme is that one of the commercial banks of Government of India will act as a lead bank in one district. The scheme had focused on "Area Approach" for appropriate credit arrangement on the basis of local conditions.

³ Dr. Mehta Committee had provided its recommendations on banking under IRDP.

During early 1990s, the Non-Government Organizations (NGOs) became instrumental in providing financial services to the poor and during late 1990s; many of the NGOs transformed themselves into formal financial institutions in order to provide microfinance products like savings, credit, insurance, remittance etc. The scenario was changed by the entry of new generation MFIs in the 1990s. Apart from credit, all types of microfinance products became the main theme and individual clientele along with the clients who are organized into groups (SHGs), became the main focus. Rural financial products like credit and insurance dominated conventional saving style.

Phases of the Development of Microfinance

Phases	Year	Features
First Phase: Social banking	1960-1990	<ul style="list-style-type: none"> Nationalization of commercial banks Lead bank scheme was initiated Expansion of the network of rural banking. RRBs were set up in 1976. Extensive disbursement of subsidized credit
Second Phase: Financial system approach	1990-2000	<ul style="list-style-type: none"> NGO-based MFIs were developed to provide microfinance products & services. SHG-Bank linkage program was initiated and rapidly replicated. Innovative credit lending mechanism based on "peer pressure" and "moral collateral" were developed.
Third Phase: Financial inclusion	2000 onwards	<ul style="list-style-type: none"> Microfinance is seen as a business proposition and has been commercialized. Development of for-profit MFIs like Non-Banking Finance Corporation (NBFCs). NGO-MFIs are being legitimized. Customers"-centric/Client-centric microfinance products and services are given importance. Policy regulations are increased.

The most important contribution of microfinance is societal upliftment and social development, which is no longer grant based. People have realized that the formal credit is more important and yielding than grants. The most important impact of this is the development of confidence among poor and their realization to grow according to their own plan rather than the grant/assistance provider.

Objectives of the Study: The basic objectives of this study is to offer a deep, relevant, and meaningful study of microfinance and microfinance organization especially in Kumaun with the help of available information, collection, classification, tabulation, analysis and interpretation of data. In this study I will analyze the social and economical aspects of microfinance in Utrakhand, especially in the fields of financial self sustainability poverty alleviation employment etc. There are certain objectives of this study are:

- To examine the scope of microfinance in India, in the fields of poverty alleviation, employment generation and financial sustainability for huge mass.
- To examine and analyze the functions of microfinance organizations in Kumaun.
- To assess the achievements and drawbacks of microfinance organizations in India and also assess the future prospects of microfinance organizations in social and economic fields.

Research Methodology

According to the Websiter's international dictionary research is "A careful enquiry or examination in seeking facts or principles diligent investigation in order to a certain something." Research, in general is taken as search of knowledge.

Research Methods

A descriptive research aimed at empirical examinations and analysis of the stated problem. It will use mainly two methods:

- The survey method: A survey of a selected sample groups of microfinance organizations in Kumaun.
- Content analysis: Secondary data will be collected with the help of related government and non-government organizations and publications, journals and website etc.

The study will also involve comparative studies of the selected sample groups with other groups.

The Sample

The scope of proposed research work is very wide. It covers the six districts of Kumaun, Nainital, Almora, Pithoragarh, Udham Singh Nagar, Bagheshwar, Champawat. I would take a selected sample of approximately fifty individuals in each district of Kumaun. Total members of sample taken by me in six districts would be as following:

50*3=300 Respondents.

Methods of Data Collection: This study will involve both qualitative and quantitative analysis of collected data. Quantitative analysis will involve statistical analysis, especially descriptive statistics. Beginning with tabulation of data and grouping into class-intervals, measurement of central tendency ; it will also involve cross-tabulation.

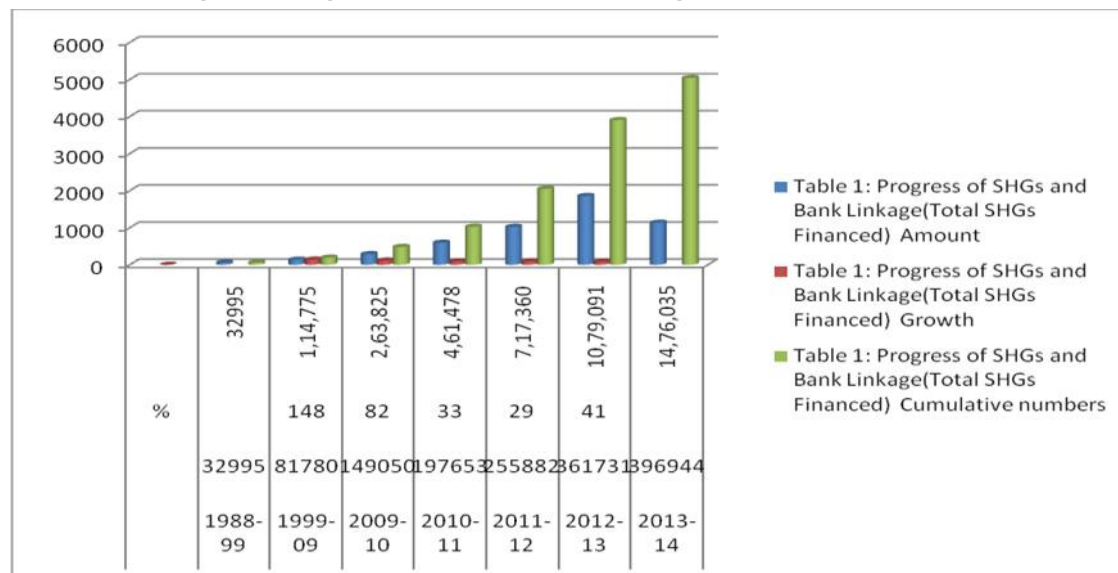
Microfinance in India: The program of linkage of banking Self-Help Groups(SHG) of the rural poor with the banking system was launched as a pilot project in 1992. Over the year the SHG-Bank linkage program in the country 560 banks including 48 commercial banks, 196 RRBs, and 316 cooperative banks are now actively involved in the operation of this program. The program has been providing the rural poor access to the formal banking system and has achieved several milestones in terms of gender sensitization and empowerment and poverty lessening.

Table 1: Progress of SHGs and Bank Linkage(Total SHGs Financed)

Year	Amount(INR)	Growth %	Cumulative numbers	Amount	Growth %	Cumulative numbers
1988-99	32995		32995	57		57
1999-09	81780	148	1,14,775	136	138	193
2009-10	149050	82	2,63,825	288	112	481
2010-11	197653	33	4,61,478	595	89	1026
2011-12	255882	29	7,17,360	1022	87	2049
2012-13	361731	41	10,79,091	1856	81	3904
2013-14	396944		14,76,035	1134		5038

Source: Economic survey (Government of India) 2014-15

Figure 1: Progress of SHGs and Bank Linkage (Total SHGs Financed)



The members of SHGs linked to banks reached 10.79 lakhs by March 31 2014 covering an estimated 167 poor families. A redeeming feature of the program is that 90% of the groups linked with banks are exclusively women groups. Cumulative disbursements of banks loans to these SHGs amended to Rs. 3,904 crore at the end march, 2014 with an average loan of Rs. 36,179 per SHG and Rs. 2,412 per family. Refinance support extended by NABARD amounted to Rs. 2,550 crores.

Development of Microfinance in Kumaun Division

A strong financial base is essential for the growth of any country's economy. In our country huge mass of population is living below poverty line and only few people have access to credit from the formal financial sector. The lack of financial assistance and credit facilities are the major hurdles in removing poverty and creating employment for huge mass. The expansion of formal credit delivery system since 1947 has not changed the dependence of the poor on money lenders and commission agents/brokers. The population per branch ratio has been brought down from 65,000 in 1969 to 12,000 in 1992. But this impressive growth in branch network has been uneven; in many areas; there are no branches within 10-12 kms.

Table 2: The Expansion and Reach of Formal Financing System

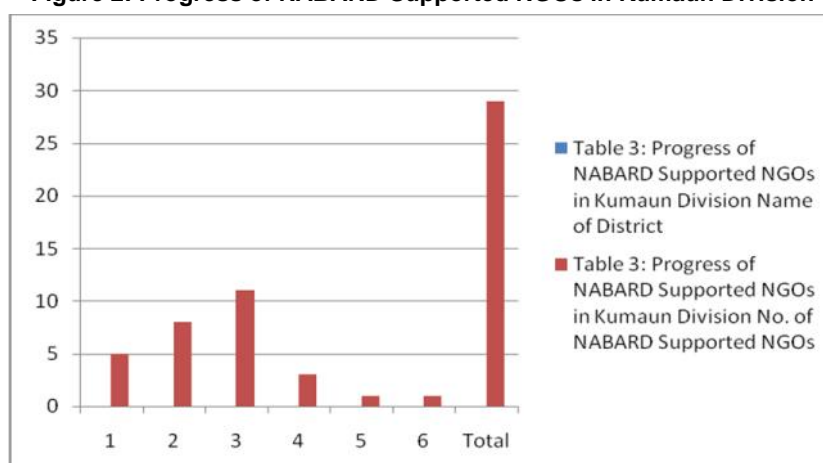
Districts of Kumaun Division	No. of Respondents	No. of individual who have saving bank A/C before membership of SHG		No. of individual who availed loan from banks		No. of individual who availed loans from money lenders	
Nainital	50	20	40	10	20	30	60
Almora	50	10	20	7	14	35	70
Pithoragarh	50	25	50	5	10	40	80
Champawat	50	15	30	6	12	29	58
U.S. Nagar	50	30	60	20	40	40	80
Bageshwar	50	12	24	6	12	35	70
Total	300	112	37.33	54	18	209	144

Analytical study of table reflects that formal financial sector failed to fulfill the financial needs of people. The table reflects that out of 300 people in Kumaun division only 112(37.33) people have a saving bank account before the membership of SHG. The main reason for the weak development of the region is lack of capital, without having adequate capital, we cannot exploit natural resources of the region, capital is needed for the development of agriculture, horticulture and water resources available in the region. The table reflects that in Kumaun Division the No. of individual who availed loans from money lenders is very high, it is approximately 70%. Out of 300 individuals only 18% of individuals availed loans from the formal financial sector. After joining SHG 70.6% of members avail inter loan from SHG and the return rate of loan is 98% it is very good.

Table 3: Progress of NABARD Supported NGOs in Kumaun Division

Sl. No	Name of District	No. of NABARD Supported NGOs
1	Nainital	5
2	Almora	8
3	Pithoragarh	11
4	Champawat	3
5	U.S. Nagar	1
6	Bageshwar	1
	Total	29

Figure 2: Progress of NABARD Supported NGOs in Kumaun Division



From the district wise table it can be concluded that in Almora district there is a good progress of NGOs. In Kumaun division 29 NGOs work with NABARD but in rest of the districts there are tremendous opportunities for micro finance. In Uttarakhand overall performance of NABARD can be said to be satisfactory but there is a great of micro finance in Kumaun.

The Role of Microfinance in the Fields of Sustainable Finance, Employment, and Poverty Alleviation in Kumaun

The problem of poverty in our country has promoted government to come up with poverty alleviation programs. In our country most of the government promoted poverty alleviation programs failed to deliver the expected results, certain innovative efforts hold out fresh hopes. One such effort is to form the MFOs for providing the sustainable finance to the poor people. Sustainable finance has many meanings in the field of micro finance for understanding sustainable finance we have to focus on following points:

- Finance services for poor people to become self reliant.
- Providing easily, timely and adequate financial services to the poor people.
- Try to understand social and economic problem and needs of the poor people.
- SHGs can not be successful without proper attention and adaptation to the environment in which SHGs will operate. It is not possible to design a blue print to suit every condition, that's a way a wide range of different methods are available for providing micro-finance services.
- Increase self-esteem, self-confidence of poor people.
- Increase the habit of savings of poor people.

Important Steps for the Development of Sustainable Financial Services

- Choose a program model
- Build consensus
- Designate staff for economic development
- Formalize National Regional Policies
- Assess and Choose financial institutions partners
- Create agreement with partners
- Manage partnership Agreement

Progress of Savings in Different Areas, March 2018

Sl.No	Working Areas	No of SHGs	Total Savings in Rupees
1	Naukichityal	280	5,50,049
2	Suyalbari	601	5,01,018
3	Bageshwar	264	79,022
4	Reetha	518	11,44,626
5	Kasiyalekh	263	6,61,015

Source: Chirag Annual Report 2017-18

There is another significant success shown of our Microcredit program when PAHAL supported on SHG named Surabhi SHG has been selected as best performing SHG in Uttarakhand by NABARD. This SHG has been awarded by Union Finance Minister Mr. Arun Jaitley in New Delhi.

Conclusion

In recent years, the development community comes to view micro credit as an important tool for poverty alleviation and economic empowerment. In Kumaun region, micro finance developed rapidly in numbers and size. Micro-finance is a difficult mode of financial services. Micro finance provides different financial services in a sustainable way. Micro financial services are the hopes for sustainable finance, employment generation and poverty alleviation for poor people. Now, the micro finance 'approach' has engendered a new relationship between the bankers and the poor, because with the help of this tool (microfinance) the banks have reported 95% on time repayment by SHGs across the country; and they have reported nil Non Performing Assets (NPAs.) Nothing short of a miracle when compared to earlier interventions.

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