Microfinance Intervention In Poverty Alleviation And Development

A.Shanthi[1] and M. Dhanabhakyam[2]

Introduction
Micro Finance

The Syngenta Foundation Discussion (SFD) indicates that concepts of microfinance vary widely, with significant implications on development strategies. Many reduce microfinance to microcredit or microfinancing, associating the recent microfinance movement with the so-called microcredit revolution spearheaded by credit NGOs during the 1970s. Given the recent popularity of the concept of microfinance, many players have redefined the concept for their own purposes, bringing it close to the point of meaninglessness. Some have reduced its meaning to such concepts as microcredit, credit NGOs, group finance or Grameen banking. A bias to credit for the poor or very poor is widespread. Statistics on microfinance institutions (MFIs) frequently continue to reflect the old bias to credit NGOs. The fact is widely ignored that in many countries agricultural development banks (AgDBs), various types of rural banks and savings and credit cooperatives continue to be the largest providers of Microfinance services in rural areas.

However, the term microfinance was first introduced in 1990 with the specific connotation of encompassing microcredit and microsavings as well as other financial services, in response to Robert Vogel's claim that savings were the forgotten half of rural finance. While the term is new, the concept is old if not ancient, with institutional origins for instance in European countries in the 18th and 19th century, Nigeria in the

[1] M.Phil Scholar, Department of Commerce, Bharathiar University, Coimbatore - 46
[2] Lecturer in Commerce, Department of Commerce, Bharathiar University, Coimbatore - 46

16th century and India around 1000 BC. This has resulted in a more general concept brought forward in the SFD: Microfinance is that part of the financial sector which comprises formal and informal financial institutions, small and large, that provide small-size financial services in theory to all segments of the rural and urban population, in practice however mostly to the lower segments of the population. This bias is partly due to self-selection of clients and partly to the mandate of institutions according to the will of their owners or donors. Worldwide formal and semiformal Rural Microfinancing Institutions (RMFIs) are in the hundreds of thousands; informal institutions are in the tens of millions. Sustainability is nothing new; without it the large numbers of informal MFIs could not have survived. Size of financial services is relative and varies widely by the economic development of a country; rigid definitions of size can lead to exclusion and unintended consequences. Microfinance covers a wide array of microfinance institutions (MFIs), ranging from indigenous rotating savings and credit associations (RoSCAs) and self-help groups to financial cooperatives, rural banks and community banks as well as non-bank financial institutions (NBFIs) including credit NGOs, all the way up to development banks and commercial banks. They may also comprise moneylenders and private deposit collectors. In contrast to microcredit, microfinance proper refers to a system of financial intermediation between microsavers and micro borrowers; it may further include microinsurance and other financial services such as money transfer.

Poverty

Poverty has been considered as a social phenomenon in which a section of the society is unable to fulfil even its basic necessities of life. It is absolute poverty, which is prevailing in all the countries of the world and it is a serious problem in developing and underdeveloped countries. The relative poverty is an income distribution of the population of the population in different fractal groups which is in comparison of the levels of living of the top 5 to 10 percent with the bottom 5 to 10 percent population. Geographically this poverty is again segregated as rural and urban poverty considering the type of area in which poor people are found. India being a developing country, there is existence of absolute as well as relative poverty that to in rural as well as urban areas. An attempt is made in this paper to study the magnitude of poverty in India with causes and remedial measures in general and special focus on micro financing as one of the measures of urban poverty alleviation.

Micro-Finance - An Innovation For Poverty Alleviation

As a policy intervention, micro-finance seeks to:

- Reduce poverty by increasing the access of poor people to savings and credit so they can invest in physical capital to increase the productivity of existing assets;
- Provide working capital for the purchase of inputs;
- Allow for consumption smoothing, enabling major expenses such as health treatment or funeral costs to be met.

Micro finance therefore forms part of an asset-based community development strategy with the following features:

- **Savings:** With savings facilities available to them, the poor are able to accumulate cash surpluses, which could be turned into productive assets and make a significant contribution to household livelihood strategies. Cash surpluses can also create a barrier for the foreseen and unforeseen expenses of the future, thus reducing vulnerability to debt traps.
- **Transaction services:** Given the legacy of the migrant labour system, transaction services are an especially important issue in South Africa. The program outlined in the financial services charter and the recently launched Mzansi account take us some way forward in addressing access to transaction banking.
- **Credit:** In the right circumstances credit can assist the poor in building assets and 'smoothing' the up-and-down nature of their income. Like savings, credit can assist in converting very small, irregular incomes into a large lump sum, which can augment livelihood strategies and reduce vulnerability.
- **Insurance:** Like savings and credit, properly managed insurance services can 'smooth' income. Our people have organised themselves into popular insurance enterprises in the form of burial societies, which indicates the importance of insurance services to the poor.

Micro Finance In Poverty Alleviation

The role of micro finance in poverty alleviation and empowerment of the weaker sections is gaining increasing recognition in many developing countries. In India, the programme of micro finance was heralded in 1992 as a pilot project. After more than a decade, it is now poised for a major expansion both in terms of scope and coverage. Given adequate policy support, the programme could make a major dent in poverty and help in arresting the gradual impoverishment of the countryside.

It is time to promote NGO-business partnerships in micro finance to provide gainful activities to, and empower, the poor. Many NGOs are funded by corporates, but there are hardly any NGO-business partnerships as in developed countries. The Government must encourage business houses to participate in this activity as they have a stake in creating a market for their goods and services in the rural areas, As on March 31, 2003, the programme had grown to cover 31,000 rural outlets with a loan portfolio of more than Rs 2,000 crore reaching formal banking to the doorstep of 11.6 million very poor households through 7.17 lakh self help groups (SHGs). The significant jump in the number of SHGs linked was made possible by the active involvement of 504 bank branches, 2,800 non-governmental organisations (NGOs) and many other agencies, including the development departments of different State governments.

Moreover, the average loan amount per beneficiary in micro credit works out to a paltry Rs 1,360. While micro finance, by definition, involves tiny amounts, this amount is too small to enable the poor families to cross the threshold of poverty. If a poor family is to start even a tiny enterprise that will generate some regular income, the amount of micro credit should be at least Rs 20,000 or so.

Development Process Through Micro-Finance

Micro finance is expected to play a significant role in poverty alleviation and development. The need, therefore, is to share experiences and materials, which will help not only in understanding successes and failures but also, provide knowledge and guidelines to strengthen and expand micro finance programmes.

In India, a variety of micro-finance schemes exist and various approaches have been practiced by both GOs and NGOs. In the development sector, credit has been viewed as one of the missing inputs and therefore, a growing emphasis on re-formulating and re-strengthening micro credit programmes is observed. There are examples of spectacular successes and there are also examples of not-so-successful programmes, which experienced high default rates and were unable to provide financial services in the long run. Ultimately the aim is to empower the poor and mainstream them into development. Amongst different approaches of micro-finance schemes, the process and stages remain more or less the same.

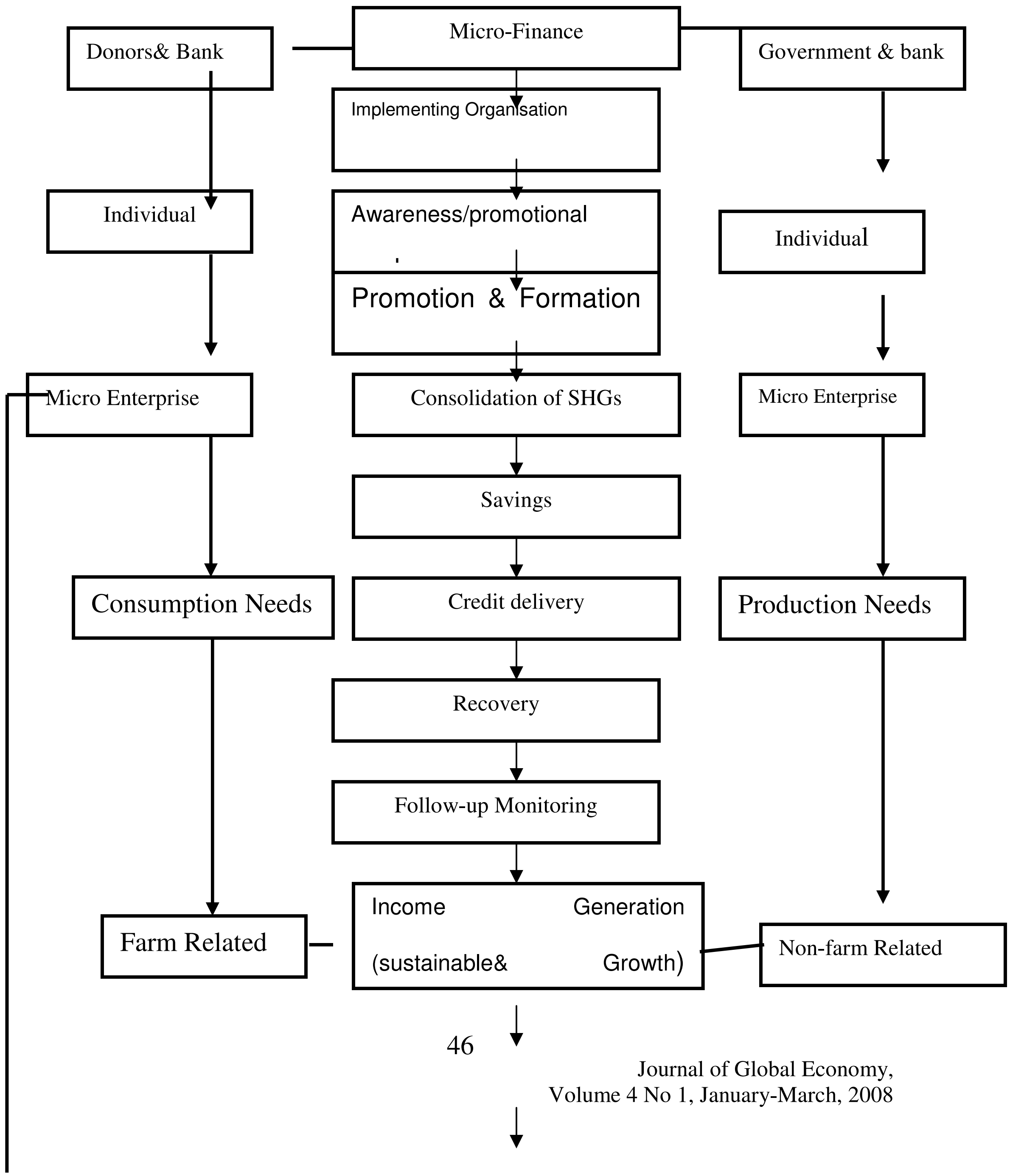
Causes of Poverty and Interventions

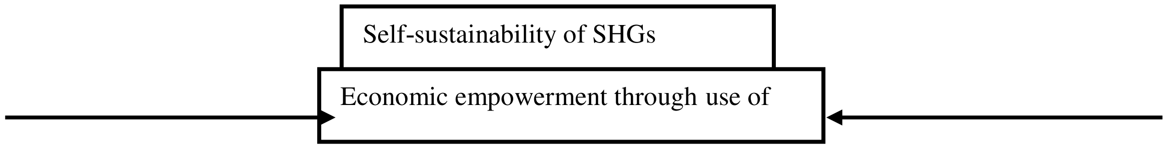
Causes of Poverty	Interventions Required
Failure of growth and lack of employment opportunities	• Sustained economic growth; • Labor-intensive growth; • Removal of discrimination against activities in rural areas where the most of the poor reside

Inequality of incomes, wealth and access to resources	• Asset redistribution, i.e. agricultural land, natural resources, credit
High population growth	• Aggressive population management program
Declining factor productivity	• Removal price distortions; • More investments in R&D particularly in agriculture • Provision of allied services, i.e. infrastructure, extension services
Inadequate provision of social services	• Protecting the social sector budget; • Increasing internal efficiency - more basic education and primary health care
Poor or degraded resource base	• Better management of resources under open access
Unresponsive and graft-ridden politics and bureaucracy	• Encourage popular participation and consultation in policy formulation and design of projects

The ultimate aim is to attain social and economic empowerment. Successful intervention is therefore, dependent on how each of these stages have been carefully dealt with and also the capabilities of the implementing organisations in achieving the final goal, e.g., if credit delivery takes place without consolidation of SHGs, it may have problems of self-sustainability and recovery. A number of schemes under banks, central and state governments offer direct credit to potential individuals without forcing them to join SHGs. Compilation and classification of the communication materials in the directory is done based on this development process. The development process through a typical micro-finance intervention can be understood with the help of the following chart.

Development Process through Micro Finance


Micro-Finance
Donors& Bank
Government & bank
Implementing Organisation
Individual
Awareness/promotional
Individual
Promotion & Formation
Micro Enterprise
Consolidation of SHGs
Micro Enterprise
Savings
Consumption Needs
Credit delivery
Production Needs
Recovery
Follow-up Monitoring
Farm Related
Income Generation (sustainable& Growth)
Non-farm Related



Classifying Micro-Finance Interventions

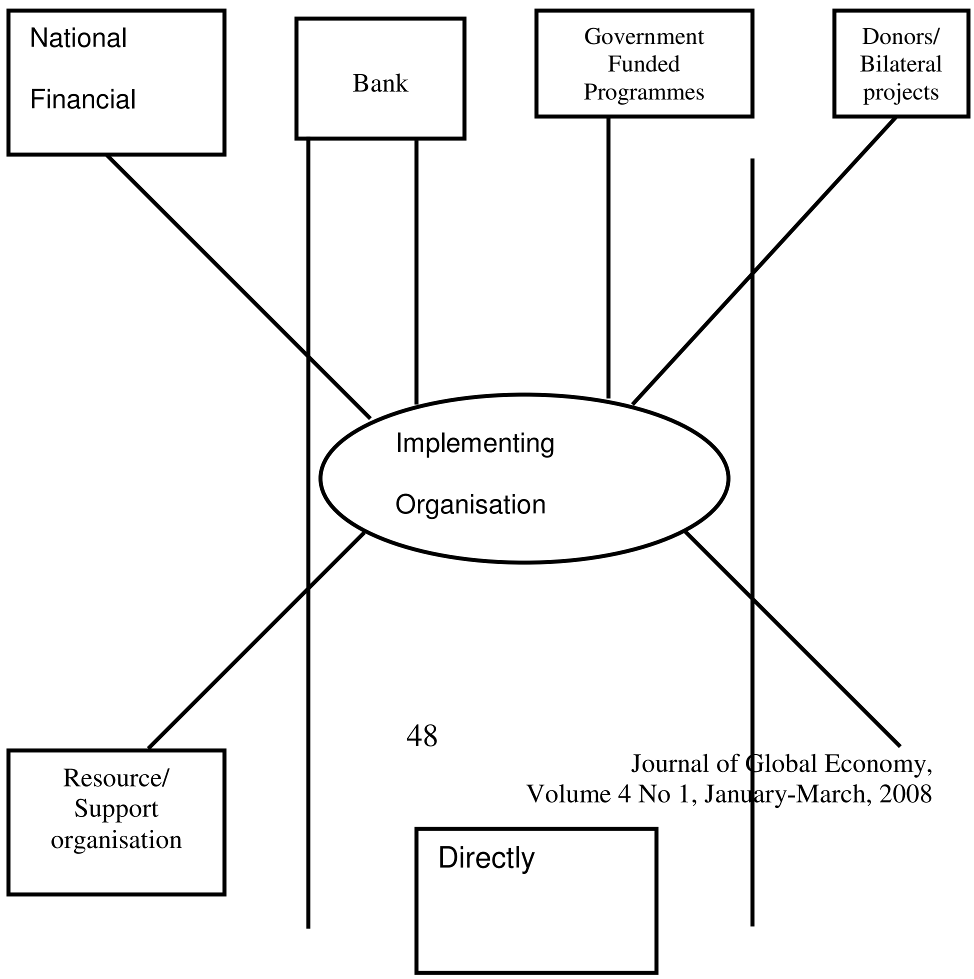
There are several Micro-Finance implementing organisations, which provide small loans in India. Some of them have successfully expanded their services to thousands of borrowers. Given the fact that most of these borrowers would not have had access to formal financial institutions, that many of the borrowers utilise the loans to enter and/or expand their informal sector micro enterprises, and that the informal sector continues to be an important source of livelihood for many poor people, these Micro Finance Organisations (MFOs) may very well have had a major impact on improving the living standards of millions of poor persons as well as on promoting economic growth. The term MFO has been used for all types of implementing organisations facilitating savings and credit and financial activities at individual and/or group level, not going into details of legal and technical aspects of MFOs.

Some of these organisations have evolved from small NGOs to become important providers of financial services. Realising the potentially important role that MFOs play in deepening the benefits of economic growth, it is necessary that providing them experience-sharing opportunities, materials and training, should strengthen these MFOs. Furthermore, the relative success of many MFOs soundly refute the claims of some that "the poor are non-bankable" or that MFOs are a waste of scarce development funds. In fact, it would be difficult to find another type of developmental initiative, which has been relatively effective on such a large scale in recent years.

In India, there exist a variety of micro finance organisations in government as well as non-government sectors. Leading national financial institutions like the Small Industries Development Bank of India (SIDBI), the National Bank for Agriculture and Rural Development (NABARD) and the Rashtriya Mahila Kosh (RMK) have played a significant role in making micro credit a real movement. In India, the size and types of implementing organisations range from very small to moderately big organisations involved in savings and or credit activities for individuals and groups. These groups also adopt a variety of approaches. However, most of these organisations tend to operate within a limited geographical range. There are a few exceptions like PRADAN, ICECD, MYRADA, and SEWA who have been successful in replicating their experiences in other parts of the country and act as Resource Organisations. Also, many organisations are involved with SHGs, not only for credit, but for other purposes like watershed, agriculture, etc.

Micro-finance interventions can be identified based on their span of activity, source of funds, route through which it reaches the poor or the coverage. However, it seems that one of the most common practices and approaches prevalent is providing credit through Self-Help Groups. The approach is to make SHGs the main focal point to route all credit to members. Almost all national funding organisations (NABARD, RMK) as well as other Government schemes advocate forming of Self-Help Groups and thus providing or linking with credit. However, many organisations providing individual finance directly also exist.

Micro Finance Intervention Through Different Organisation



Indirectly engaged in

Impact Of Micro-Finance

While the GoI tries to widen the micro-credit reach for the million poor in India through the self-employment scheme, namely, SGSY, the Nabard envisages reaching banking services to one-third of the very poor in India, that is, a population of about 100 million rural poor through one million SHGs by 2007-08.

With Nabard's support, bank loans were provided to 197,653 new SHGs during 2001-02 and repeat finance was provided to 41,413 existing SHGs during the year.

Overall, the Nabard's SHG-bank linkage programme benefited four million families covering an estimated 20 million poor in 2001-02.

The potential

- Micro-finance is an innovative credit delivery mechanism that ensures viable financial services for the needy. It has the potential to address issues like actualising equitable gains from the development on a sustained basis and can play a vital role in developing nations in fighting poverty.
- The micro-finance scene in India is dominated by SHG-bank linkage programme. Though the groups existed even before the linkage programme (under the SGSY and Nabard's SHG-bank linkage programme), the banks could not recognise their potential as business clients and both operated independently in most of the cases, without knowing the strength of the other.

Intervening to forge a linkage, besides SGSY, the Nabard has helped in the emergence of a very strong micro-finance movement in the country.

- The SHG-bank linkage programme was conceived with the objectives of supplementary credit delivery services for the un-reached poor, building mutual trust and confidence between the bankers and the poor and encouraging banking activity both on thrift as well as credit and sustaining a simple and formal mechanism of banking with the poor.

The linkage programme combines the flexibility, sensitivity and responsiveness of the informal credit system with the technical and administrative capabilities and financial resources of the formal financial sector, which rely heavily on collective strength of the poor, closeness of effective social mobilisation functions contributing to an overall empowerment process.

- India has a strong potential to promote the women as key decision-makers through encouraged local leadership, which can be facilitated by complete involvement and participation of poor women in micro-credit programmes.
- This will succeed only with the coordination among the government, banks, participating members and microcredit finance institutions.
- Micro-finance can be a powerful tool in initiating a cyclical process of growth and development.
- Micro-finance activity can improve the access of rural poor to financial services.
- The micro-finance interventions help in inculcating necessary habits for economic independence and self-reliance. Appropriate and participatory credit plans by the members of a group can help in social and economic empowerment.
- Increased access signifies the overcoming of isolation of rural women in terms of their access to financial services and denial of credit due to absence of collateral security.
- The pool of savings generated out of very small but regular voluntary contributions improves access of the poor women to bank loans.
- It could also help in strengthening poor families' resistance to external shocks and reducing dependence on moneylenders.
- The group utilises its corpus to disburse loans of small amount amongst the needy members. In the beginning, the members meet out their consumption needs out of their own fund and afterwards they obtain loans from the Banks for taking up some economic activities for their sustained living.

The constraints

The mainstream financial institutions are generally seen as flushed with funds and have access to enormous amounts of low-cost savings deposits. It is found that the poorer the region, the lower the credit-deposit ratio.

Most of eastern Uttar Pradesh, Bihar, Orissa and the North-East regions have credit deposit ratios of 20-30 per cent. Some of the main reasons for the constraints associated with micro credit are:

1. **Non-productive loans and procedural delays for productive loans:**
2. Since most of the poor and needy are illiterate and prefer loans for consumption rather than productive purposes, majority of the poor find it hard to get loans sanctioned for taking up economic activities, even if they want to. Sometimes, the loanees are asked to furnish some documents and collateral security against the loan sanctioned, contrary to the directives of the Government and the RBI.
3. **Inflexibility and delay:**
4. The rigid systems and procedures for sanctioning loans and disbursing them to the beneficiaries result in a lot of delay in time for the borrowers, which de-motivate them.
5. **High transaction costs:**
6. Although the interest rate offered to the borrowers is regulated, the transaction costs in terms of the number of trips to be made, the documents to be furnished etc. plus the illegal charges demanded by the lending institutions clandestinely, result in increasing the cost of borrowing, thus, making it less attractive to the borrowers.
7. **Social obligation, not a business opportunity:**
8. Micro-finance has been seen as a social obligation rather than a potential business opportunity.
9. **High interest rates:**
10. Sometimes, a few financial institutions charge the beneficiaries of a group high interest rate, which makes the repayment difficult for the very poor. The poorest of the poor are, therefore, unable to access the micro-finance benefits.
11. **Lack of training:**
12. In most of the cases, it has been found that members of a group take up certain economic activities for their sustenance, which are not preceded by relevant training. After the pioneering efforts of the last few years by the government, banks, NGOs, and so on, the micro-finance scene is reaching the take-off point.

An attempt could be initiated to promote a cadre of new generation micro-finance leaders to strengthen the micro-finance institutions (MFIs) to optimise their contribution towards the sector's growth. This needs close monitoring of the on-going microfinance initiatives, suitable modification or formulation of innovative and forward-looking policies, based on the ground realities of successful MFIs in India. This, combined with a commercial approach from the MFIs in making micro-finance financially sustainable, will make this sector vibrant and help in achieving its single-minded mission of alleviating poverty through providing financial services to the poor.

CONCLUSION

Micro finance is an innovative mechanism for alleviating poverty. Indeed, it offers an inspiring tool for concerned people be it businessmen, industrialists, professionals, administrators, researchers or students, for making their area a better place to live, work and invest in. All these stakeholders can deploy micro finance institutions to solve the problems of the pavement dwellers first through the conduit of SHGs by availing of assistance of SIDBI and other facilities and freedom given by RBI towards mainstreaming and upscaling of micro finance sector.

There are many features to this seemingly simple proposition, which are quite attractive to the potential target group members, government policy makers, and development practitioners. For the target group members, the most obvious benefit is that micro-finance programmes may actually succeed in enabling them to increase their income levels. Furthermore, the poor are able to access financial services, which previously were exclusively available to the upper and middle-income population. Finally, the access to credit and the opportunity to begin or to expand a micro-enterprise may be empowering to the poor, especially in comparison to other development initiatives, which often treat these specific target group members as recipients.

For development practitioners, the success of micro-finance programmes is encouraging. Too often in the past, costly large-scale development initiatives have failed to achieve any sustainable benefits, especially after funds have dried up. Thus, micro-finance has become one of the most effective interventions for economic empowerment of the poor.

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