MICRO FINANCE: A POWERFUL ANTI-POVERTY TOOL

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ABSTRACT
Micro finance is finance provided to benefit the low income women and men. It can be defined as provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards. Over the years, micro finance as a financial service innovation, is fast emerging as an important method of bettering the lot of the poor and the downtrodden. An often-neglected aspect of emerging economies is the severe poverty that still remains, and there have been many strategies designed to provide the necessary financial assistance that can help to eradicate the third world living conditions.

The potential of micro finance is to ensure financial inclusion and thereby inclusive development which is not hidden from anybody. Micro credit is based on the premise that the poor have skills which remain unutilised or underutilised. It is definitely not the lack of skills that make poor people poor but lack of proper distribution and management of available funds. In its latest report on the state of the micro finance industry, the Microcredit Summit Campaign says: if we want to provide financial services in a way that helps people to move out of poverty, then we need to provide things that cannot be stolen. Poor people are exposed to a wide array of risks, which make them vulnerable to income shocks.

Micro finance program is a powerful tool in poverty reduction, aimed to helping the poor. It essentially aims at providing new opportunities for rural women. In fact, micro finance has succeeded in making a remarkable reduction of poverty.

Keywords: Micro Credit, Income shocks, Poverty reduction.
1. INTRODUCTION

Micro finance is the way of providing small loans to poor families who lack access to traditional financial Institutions and help them in growing their small businesses. Over the years, micro finance as a financial service innovation, is fast emerging as an important method of bettering the lot of the poor and the downtrodden. An often-neglected aspect of emerging economies is the severe poverty that still remains, and there have been many strategies designed to provide the necessary financial assistance that can help to eradicate the third world living conditions. For a country like India, where substantial number of population is poor, access to credit facility is indispensable for optimizing their contribution to the growth of national economy.

According to the ‘High Power Task Force in micro finance’ set up by the NABARD, micro finance is defined as provision of thrift, credit and other financial services and products of very small amount to the poor for enabling them to raise their income levels and improve living standards. Poor people save all the time, although mostly in informal ways. In India, efforts are being made to promote micro finance, through various institutional set-up and linkages, approaches, strategies, alliances and partnerships. It is the lack of efficient use of capital that keeps the poor in perpetual poverty trap. Poor people are exposed to a wide array of risks, which make them vulnerable in all spheres of life. The risks occur at individual level, household level and community level. Credit for poverty alleviation depends on the productive use of capital that is made available to the poor. Micro finance through interventions, enhances the capacity to generate income, savings, investment and employment.

Micro finance is fast emerging as an important method of bettering the lot of the poor and the women. The subsidy driven schemes were given importance to make the poor self-reliant, in particular, and eradicate poverty in general. There has been more emphasis on empowering the powerless rural women. Micro finance programme offers the surest ways by which to make best use of the scarce development funds to achieve the objective of poverty alleviation. Rather it aims at improving the lot of the women by effectively organising women to work for women. For this, their active and committed participation is needed. The various models of micro financial services attempt to explain the role of micro finance, in the realm of development and growth of poor and the rural people. The two apex level financial institutions which are promoting, supporting and financing such development programmers in the country are NABARD and SIDBI. Besides these two, there are many other Micro Finance Institutions (MFIs).

2. OBJECTIVES OF THE STUDY

- To study how micro finance serves as a powerful anti-poverty tool
- To create awareness about the provisions of credit and funds available in the Indian Financial System


3. LITERATURE REVIEW

Microfinance is seen as an important tool for poverty alleviation and over the years, microfinance institutions (MFIs) have placed themselves as fulfilling this developmental goal.

Microfinance is expected to play a significant role in poverty alleviation and development. Microfinance is an attempt to break this deadlock, by providing the poor with the financial means to engage in new forms of economic activity, and so improve their lives. Equitable gains from development on a sustainable basis and ensuring viability of financial services are key elements in a strategy of poverty reduction by means of credit support to the poor as microfinance is seen to be an approach addressing these concerns effectively, it has assumed significance in all the developing countries as an effective tool in fighting poverty. In India, as the formal banking system already has a vast branch network in rural areas, it was perhaps wise to find ways and means to improve the access of rural poor to the existing banking network. The microfinance scene in India is dominated by Self Help Groups (SHGs)-Bank linkage programme for over a decade now. The group members use collective wisdom and peer pressure to ensure proper end-use of credit and timely repayment thereof. Further, the SHGs have also undertaken effective social mobilisation functions contributing to an overall empowerment process. The banks have externalised what would otherwise have been high transaction costs for mobilising savings of the poor, appraisal and sanction of loans and improved loan recovery through the financial intermediate role played by SHGs.

The need for micro financial services

The need for micro financial services, arises on account of the following reasons:

1. **Poverty alleviation**: In a country like ours, there is an urgent need to alleviate poverty and one of the means to accomplish this is through the promotion of sustainable livelihood by providing easy and affordable access to credit and other complementary services. Microfinance is considered as a potential instrument for combating poverty in a sustainable manner.

2. **Women empowerment**: Women play major roles as farmers and business people, however, many lack financial capability. Microfinancial services are essential for the empowerment and upliftment of women. It serves as a tool, by mobilising women, organizing them into groups, building their capacity for self-management at the grass roots and enabling them to access wide range of financial services. Thus microfinance helps in bringing out the hidden and untapped potential of the poor and the women.

3. **Harnessing talents**: Microfinancial services facilitate enterprise development and provide for employment generation in rural areas. Micro financial services
are needed to help harness the talent leadership and entrepreneurial abilities of the poor.

4. **Credit delivery**: micro financial services are needed to ensure effective credit delivery system. The system seeks to ensure rational allocation of resources in the form of subsidised credit especially in rural areas.

**Micro credit**

It is definitely not the lack of skills that make the poor people poor but lack of proper distribution of available funds and its management. Micro credit is based on the premise that the poor have skills which remain unutilised or underutilised. Observations and experience show that women are a small credit risk, repaying their loans and tend more often to benefit the whole family. In another aspect it’s also seen as a method giving the women more status in a socio-economic way and changing the current conservative relationship between gender and class when women are able to provide income to the household. There are many reasons why women have become the primary target of micro finance services. Giving women access to micro credit loans therefore generates a multiple effect that increase the impact of micro finance institution’s activities.

In common meaning Micro credit is “Loan of very small amount”. Micro Credit is provided to those individuals that lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credit. This group of individuals includes artisans, tiny and small industries, grocers, vegetable vendors, rickshaw pullers, roadside retailers and the like. Other activities include farming, poultry, cattle rearing, piggery, fishery etc.

Micro finance, especially micro credit, has been an effective tool to fight against social iniquity. Improved access to micro finance can enable the poor to manage their risk better, gradually build their asset base, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life. It is amazing to know how many people are desperately looking forward to getting money to kick-start their lives. It is also unfortunate to know that larger banks are not yet willing to lend money. As a result the credit demands in India remains unfulfilled. Microcredit must reach the poor, building their capacity to absorb higher credit, and also ensure greater availability of credit for small enterprises

**Income shocks**

Income shocks, or sudden and unexpected decreases in household income, can negatively affect the financial stability and well-being of households that experience them—and they are not uncommon. An essential part of poverty reduction programme should be to help the poor manage their risk, and should complement effort to increase
the household income. Crime and domestic violence, illness and injury, crop failure, old age, natural disaster, fluctuations in food price and demand for labour constitute such risks. People in the rural area respond to their risk exposure through various means like diversification of assets/sources of income and various types of self-insurance and informal insurance. Whenever and wherever these pre-emptive mechanisms prove inadequate, the households cope with the shock by increasing or diversifying labour supply through various means like child labour, selling assets or reducing consumption etc. Shocks will not affect all members of the rural household equally. Women and children are the worst sufferers. As a risk management tool, the key strength of microfinance programme lies in the awareness that loans will be available in time of need, making it possible for household to dispense with less effective and less desirable strategies. The confidence in future availability, is the key to success of microfinance programme as a risk management tool.

4. PROVISIONS OF CREDIT AND FUNDS AVAILABLE UNDER MICROFINANCE

An overview of the sector

The microfinance movement was initiated by NABARD in collaboration with Banks and Non-Government Organisations (NGOs) for unbanked population known as Self Help Group (SHG) - bank linkage program in 1992. The program was government initiated program with refinancing to banks from NABARD. SHG bank linkage program involved NGOs to form Self Help Group (SHGs) and train them. Each SHG typically consists of a group of women/men members interested in accessing financial services including savings, credit insurance etc. These groups are then provided extensive training. In some places one from the SHG is chosen as leader and given the needed training.

MFIs, on the other hand, grew out of private initiatives. Rapid growth in the number of MFIs took place mainly in 1990s. The early MFIs were set up as cooperative banks, societies or trusts. As the profitability of micro credit became established, some of them started transforming themselves into non-banking finance companies, so that they could access equity in order to leverage the funds increasingly becoming available from the banking system.

NGOs provided SHGs access to funds by linking them to banks which provided financial services (including thrift, credit etc.) to them directly. NGOs’ role was to ensure financial discipline of the SHGs. Apart from this there were state government run SHG programmes. Thus microfinance in this phase was government driven. The microfinance sector started evolving with private sector participation leading to formation of microfinance institutions (MFIs). The MFIs accessed bulk funds from

banks and did on-lending to the end borrowers (either SHG members or joint liability group members). From there on the microfinance activities were being implemented by the two channels including MFI model and SHG bank linkage model. The sector witnessed high growth rate during the period from 2006 to 2010 supported by funding availability and potential demand in the sector. The growth was mainly driven by the MFIs due to large scale availability of funding in terms of both debt and equity.

The Andhra Pradesh crisis in 2010, has been something of turning point in public assessment of micro finance, with suicide wave caused by widespread over indebtedness badly tarnishing the sector’s image in India as well as abroad. The blame for this unfortunate situation falls on the MFIs that failed to restrain aggressive growth even as the market became increasingly saturated. To certain extend, investors must also be blamed because they paid dearly for shares in the MFIs and they need fast growth to make their investments pay off. Microfinance institutions went through a rough patch after a crisis unfolded in Andhra Pradesh in 2010, leading to large defaults. The crisis itself was a result of unregulated lending to smaller borrowers, with many companies often lending to the same borrower.

Recent revival

In the second half of 2010, MFIs in the state of Andhra Pradesh drew widespread criticism on account of their multiple lending and coercive collective practices. The pressure of multiple lending appear to have eventually placed enormous financial strain on some borrowers, causing MFIs to increase the intensity of their collection efforts. In late 2010, the collection practices of MFIs were linked by the media to suicides by borrowers in some parts of AP. The problems in Andhra Pradesh generated a sense of urgency about instituting a regulatory framework for the micro finance sector. This effort first began in 2007 when a Micro finance Bill was introduced in the Indian Parliament, which subsequently lapsed without being passed. However, not much progress was reported on the development of a regulatory framework till the AP crisis erupted. The RBI, in October 2010, appointed the Malegam Committee, to study issues and concerns in the micro finance sector.

After more than three years, the micro finance industry is attracting new players. In six to eight months, at least six new micro finance institutions have got membership of industry body micro Finance Institutions Network (MFIN). The six are:

- Jagran micro finance (Kolkata based)
- Savasti micro finance and Jagdhan Investment Finance (Mumbai based)
- Sahayog micro finance (Bhopal based)
- Margadarshak micro finance (Lucknow based)
- Annapurna micro finance (Bhubaneswar-based)
MFIN, which had 49 members as of 2010, saw a fall in membership to 39 by 2011 due to adverse market conditions. With the new entrants, it is now a 44 member body. Main signs of renewal are: 30% industry gross loan portfolio growth in second quarter of financial year 2014 over second quarter of financial year 2013; 50% rise in total loan disbursals compared to second quarter of financial year 2012; lending rises significantly in states such as Uttarakhand, Rajasthan, Punjab and UP etc. “The MFI industry is expected to grow by at least 55 per cent this financial year due to a favourable business environment”, says Alok Prasad, CEO, MFIN.

A feature of MFI growth has been a shift in industry focus from southern to northern states. MFIs in Uttarakhand, Rajasthan, Punjab and Uttar Pradesh have seen significant portfolio growth in the recent past. In the second quarter this fiscal, Uttarakhand saw the highest gross loan portfolio growth, followed by Rajasthan and Punjab. The amount of loans disbursed in the second quarter of this financial year increased by 50 per cent over the same period of the previous year, according to MFIN. Funding to the industry during the second quarter grew by close to 300 per cent compared to the first quarter, according to MFIN.

RBI introduced new regulations governing the sector, limiting their lending capabilities significantly. Among other limitations, the RBI, in July 2014, had mandated that the margins earned by large micro-finance companies with loan portfolios of Rs.100 crore and above could not exceed 10%. The limit was set at 12% for other such companies.

“The move by RBI to raise lending limits for MFIs is a very positive development. Much needed, but even greater loosening up is necessary. Previously, microfinance companies had to turn away many borrowers because they could not serve them fully under the limitations that the regulations had put. The industry is well poised to serve the wide spectrum of the ‘unfunded’ world, where credit demand ranges between Rs.50,000 to around Rs.20 lakh,” said Alok Prasad, chief executive officer, Microfinance Institutions Network (MFIN).

Microfinance has become an important instrument in reaching credit to the poor and to tiny enterprises. These must reach the poor in far greater numbers and build their capacities to absorb higher amounts of credit. The key to the empowerment of all people is education and the assurance of gainful employment. Our challenge is to ensure that the benefits of economic growth and development translate into productive employment for all, including women.”

Microcredit and microfinance have received extensive recognition as a strategy for poverty reduction and for economic empowerment. Microfinance is a way for fighting poverty, particularly in rural areas, where most of the world’s poorest people live. Accessing small amounts of credit at reasonable interest rates give poor people an
opportunity to set up their own small business. Many studies show that poor people are trustable, with higher repayment rates than conventional borrowers. When poor people have access to financial services, they can earn more, build their assets, and cushion themselves against external shocks. Poor households use microfinance to move from everyday survival to planning for the future: they invest in better nutrition, housing, health, and education. Most poor people cannot get good financial services that meet their needs because there are not enough strong institutions that provide such services. Strong institutions need to charge enough to cover their costs. Cost recovery is not an end in itself. Rather, it is the only way to reach scale and impact beyond the limited levels that donors can fund.

The basic philosophy of the ‘linkage model’ promoted by NABARD is to establish synergy between the banks, who have the financial strength and the NGOs, who have the ability to mobilise the poor and build up their capacity to avail loans from the banks. This is expected to facilitate the poor to graduate to a level, from where they can access larger amounts of loan directly from the banks without the intervention of NGOs. In addition to providing refinance to banks, NABARD has been supporting various partner agencies for capacity building through grants and Revolving Fund assistance (RFA) for micro credit innovations.

5. CONCLUSION

Micro finance is significant, it serves as an important agenda for poverty alleviation. Micro finance revolution provides abundant stimulus for taking the process of poverty reduction forward. A financially sustainable institution can continue and expand its services over the long term. Achieving sustainability means lowering transaction costs, offering services that are more useful to the clients, and finding new ways to provide banking services to the poor. At the end it should be mentioned that Poor people with no income or means of repayment need other kinds of support before they can make good use of loans. In many cases, other tools will alleviate poverty better—for instance, small grants, employment and training programs, or infrastructure improvements where possible. Such services should be coupled with building savings. It shows that access and efficient provision of microcredit can enable the poor to smooth their consumption, better manage their risks better, gradually build their assets, develop their micro enterprises, enhance their income earning capacity and enjoy an improved quality of life. Microfinance services can also contribute to the improvement of resource allocation, promotion of markets, and adoption of better technology; thus, microfinance helps to promote economic growth and development.
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