Information and knowledge management
ISSN 2224-5758 (Paper) ISSN 2224-896X (Online)
Vol.1, No.4, 2011

Mollifying Poverty through Microfinance – Indian Perspective

Bhat Arshad Hussain[1*] Nengroo Aasif Hussain[1]

1. Post Graduate Department of Economics, University of Kashmir, 190006.

* E-mail of the corresponding author arshadku09@rediffmail.com

Abstract

The micro finance is a tool through which the poverty level would be reduced because in India there are obstacles like population explosion, crime, illiteracy etc. The system which is concerned to eradicate the poverty is not keen to abolish the menace so people have to come out and get rid of this menace. The present paper is the slogan or promise with people who are suffering with the menace of poverty. We want to confine that how we reduce poverty level in our motherland India. And we are using the tool Micro Finance for empowerment. In every country there are different ways to empowerment. And as far as India is concerned, we know that India is multi-cultured, so it has to take various steps in Micro-Finance because every region is different from its counterpart and vice versa. It is up to state governments to involve themselves to see the things which are appropriate to be taken because they have records in which they can go and use as blue print for development and empowerment.

Keywords: Micro-finance, Poverty, credit, income, saving, borrowing.

1. Introduction

India has supported social banking for a long time. Policy directions to rapidly expand rural branches, mandate credit allocations for priority sectors, deliver large subsidy oriented credit programmes to serve marginal communities and poor households and control interest rates have been tried for over 35 years.

The new generation microfinance was slow in coming to India. Low levels of grants to microfinance institutions, an unfavourable policy environment, substantial traditional banking infrastructure and a search for context specific solutions has constrained rapid scale up. The first breakthrough emerged from policy support to enable informal self-help groups of 15-20 members (mainly women) to transact with commercial banks. These groups build up and rotate savings amongst themselves, open bank accounts and take responsibility for lending and recovering money financed by banks. With the missionary zeal of the National Bank for Agriculture and Rural Development (NABARD), insights gained by NGOs, the increasing enthusiasm of bankers and politicians and emerging successes in repayment and social impacts, this national movement now encompasses 1.4 million such groups (over 20 million members).

The Small Industries Development Bank of India recognised the opportunity and started implementation of an ambitious national programme. Providing loan and capacity building support to MFIs and capacity building and rating support for sector development, this programme already supports 70 MFIs and has disbursed US$46 million.

Since banks face substantial priority sector targets and microfinance is beginning to be recognised as a profitable opportunity (high risk adjusted returns), a variety of partnership models between banks and MFIs have been tested. All varieties of banks - domestic and international, national and regional - have become involved, and ICICI Bank has been at the forefront of some of the following innovations:

- Lending wholesale loan funds.
- Assessing and buying out microfinance debt (securitisation).
- Testing and rolling out specific retail products such as the Kasson (Farmer) Credit Card.
- Engaging microfinance institutions as agents, which are paid for loan origination and recovery, with loans being held on the books of banks?
- Equity investments into newly emerging MFIs.

2. Few scheme of government of India

There are so many schemes for the upliftment of poor In India. One of them Micro-credit programmes is run primarily by NABARD in the field of agriculture and SIDBI in the field of Industry, Service and Business (ISB). The success of Micro-credit prgramme lies in diversification of services. Micro Finance Scheme of SIDBI is under operation since January, 1999 with a corpus of Rs. 100 crore and a network of about 190 capacity assessed rated MFIs/NGOs. Under the programme, total amount of Rs. 191 crore have been sanctioned up to 31st December, 2003, benefiting over 9 lakh beneficiaries. Under the programme, NGOs/MFIs are supposed to provide equity support in order to avail SIDBI finance. But they find it difficult to manage the needed equity support because of their poor financial condition. The problem has got aggravated due to declining interest rate on deposits. The office of the development commissioner (Small Scale Industries) under Ministry of SSI is launching a new scheme of Micro Finance Programme to overcome the constraints in the existing scheme of SIDBI, whose reach is currently very low. It is felt that Government's role can be critical in expanding reach of the scheme, ensuring long term sustainability of NGOs / MFIs and development of Intermediaries for identification of viable projects.

2.1 Salient Features of Microfinance Programme of Government of India

- ***Arranging fixed deposits for MFIs/NGOs*:** Under this scheme government of India arrange money to MFI/NGO like SIDBI for micro credit to poor.
- ***Training and studies on micro-finance programme:*** Government of India would help SIDBI in meeting the training needs of NGOs, SHGs, intermediaries and entrepreneurs and also in enhancing awareness about the programme. Institution building for 'intermediaries' for identification of viable projects: The Government of India would help in institution building through identification and development of 'intermediary organization', which would help the NGOs/SHGs in identification of product, preparation of project report, working out forward and backward linkages and in fixing marketing/ technology tie-ups.
- ***Budgetary provision for the scheme during previous plan:*** There was a budgetary provision in previous five year plan and hoping more funds in next plan.
- ***Administrative arrangement:*** A committee has been formed to control and monitor the administrative arrangement of MFI/NGOs.

2.2 Assessing development impact of microfinance programmes

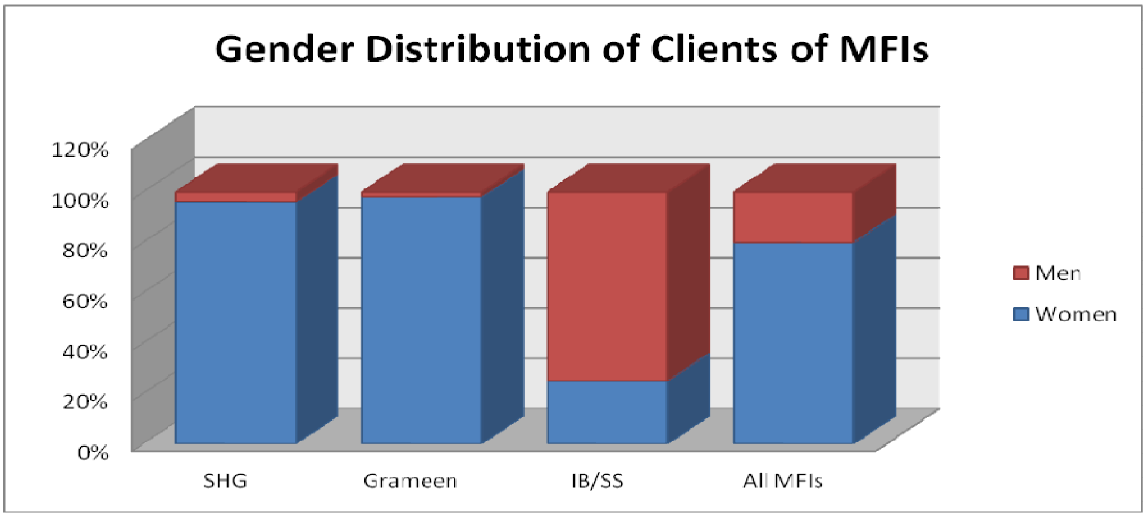
A recent survey of India's leading 15 MFIs shows the industry's strength in both size and growth. While MFIs globally and within the region average less than 20,000 clients per institution, well managed Indian microfinance institutions already rank top in outreach, despite their relative young age; with nearly a decade more experience, only Bangladeshi institutions reach more borrowers. Not to be left behind, Indian institutions top the charts of all 78 countries for their phenomenal growth rates, the median leading MFI doubling coverage in a single year. In fact, five of the top 20 fastest growing MFIs in 2008 were Indian, from a survey of nearly 450 institutions worldwide. While global microfinance talks about increasing commercial capital available to MFIs and of integrating with local financial markets, Indian microfinance defines the forward lines of this movement.

Microfinance is an effective strategy for extending financial services to the poor and other disadvantaged groups not reached by formal sector finance. This section describes the development impact of microfinance programmes.

3. Outreach

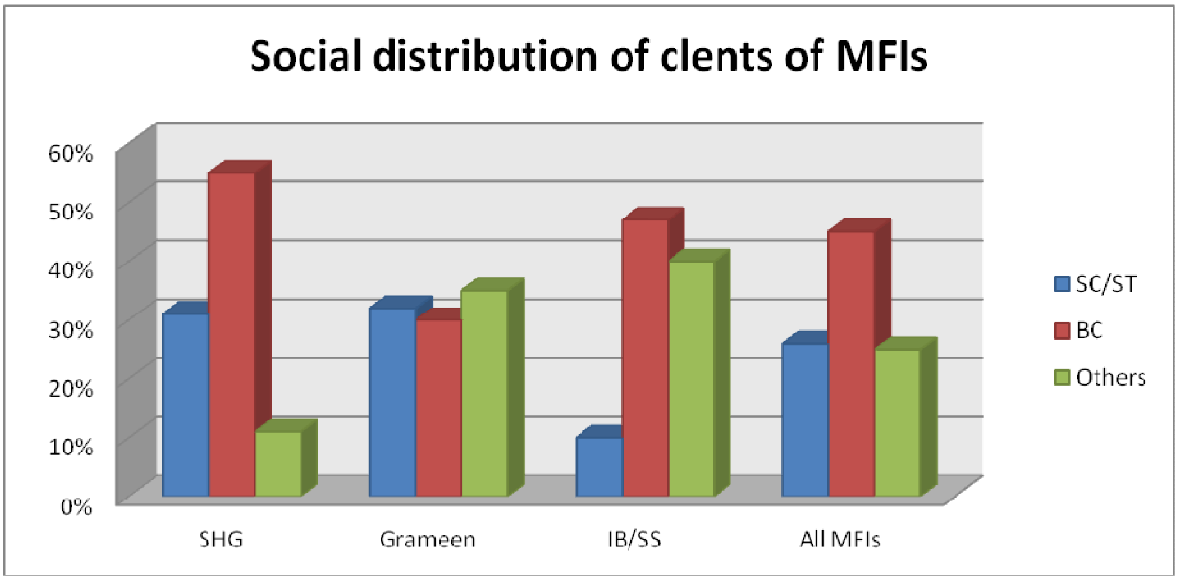
- Microfinance movement has gained momentum mainly in the Southern States which have a better socio-economic scenario due to gender-inclusiveness of cultural traditions and rich natural resources.
- MFIs generally serve rural clients. The proportion of rural clients under SHG, Grameen, Individual Banking and Sector-specific MFIs is 67 per cent, 86 per cent, 72 per cent and 100 per cent respectively.
- Female clients constitute 80 per cent of the total clientele - 96 per cent in case of group-based MFIs, 98 per cent in case of Grameen, 30 per cent in case of Individual Banking and 21 per cent in case of Sector-specific MFIs.

Graph 1



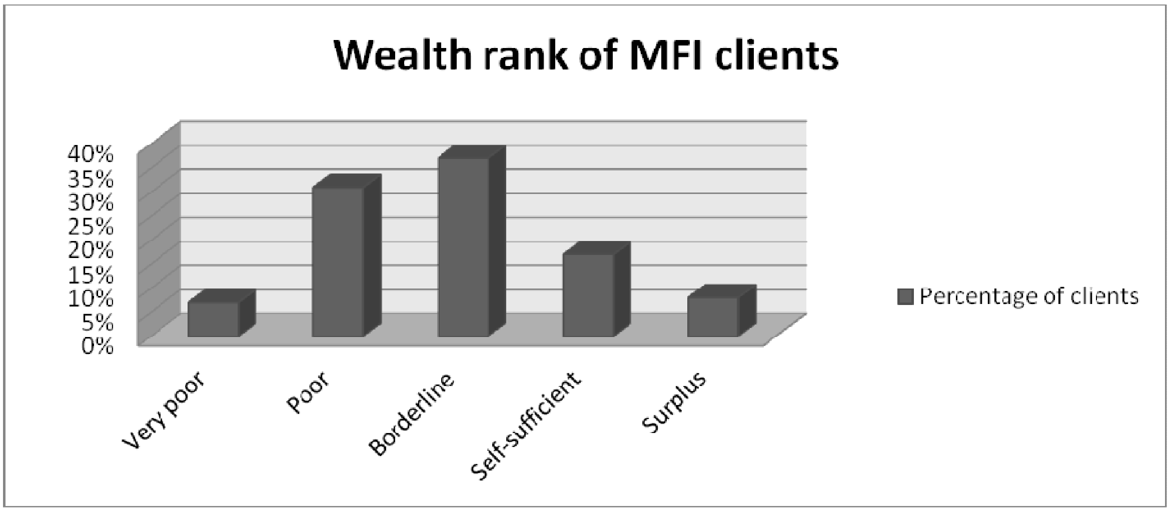
- Among various social groups, clients belonging to Backward Classes have the highest share (45 per cent), followed by clients belonging to Scheduled Castes (26 per cent). However, Scheduled Tribe clients have the least representation (1.9 per cent).

Graph 2



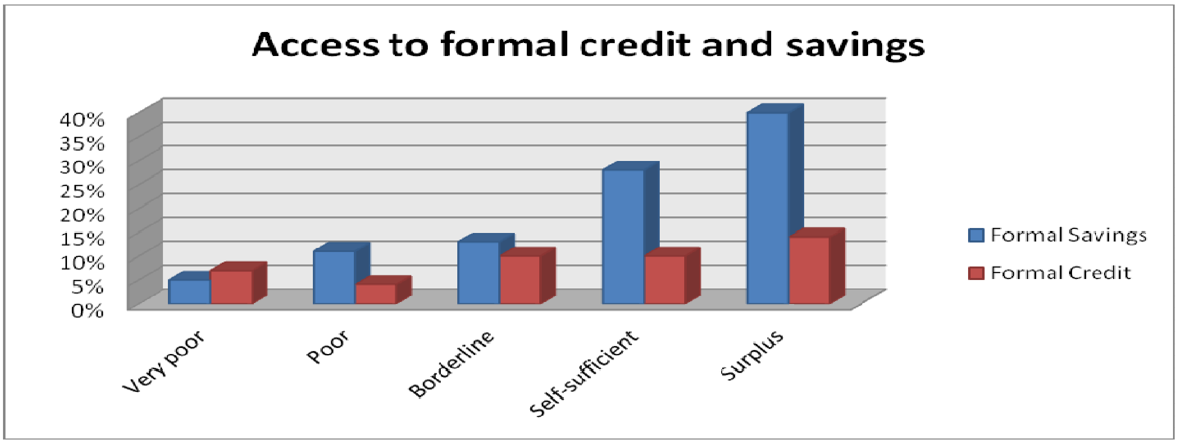
- Classification by wealth rank reveals that, majority of the clients belong to 'borderline' category (37 per cent) followed by 'poor' category (31 per cent). However, 'very poor' clients have least representation (7 per cent).

Graph 3



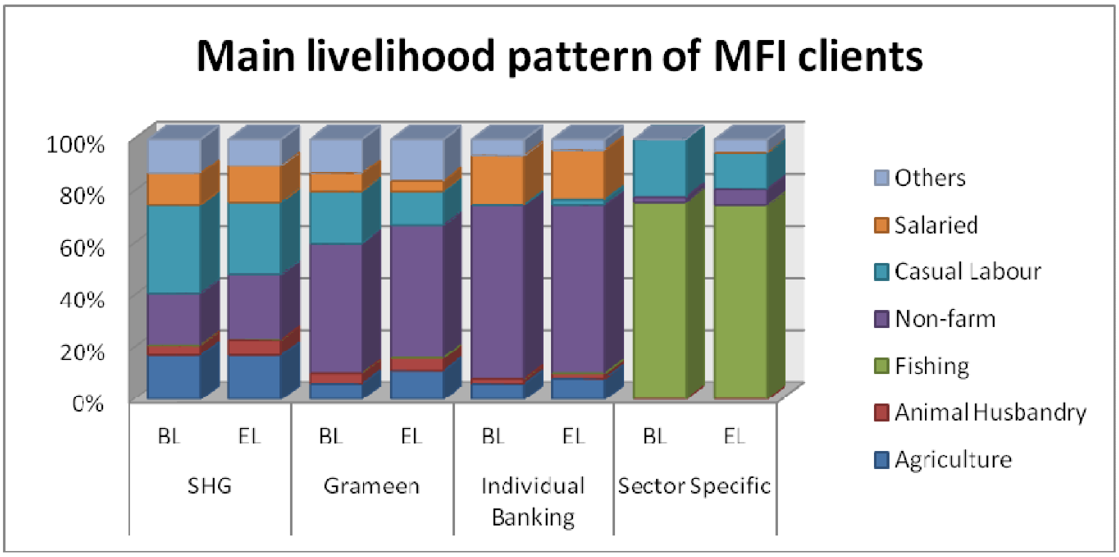
- Majority of the women clients are illiterate (55 per cent) followed by those who have completed primary level education (38 per cent). In the case of male clients, the scenario is better and the corresponding percentages are 26 and 35.
- Percentage of clientele with access to formal financial institutions like banks and post offices has increased slightly in case of formal credit (7 per cent to 8 per cent) but decreased in case of formal savings (16 per cent to 15 per cent).

Graph 4



- The percentage of households reporting their main source of income as agriculture, animal husbandry and non-farm activities has gone up, whereas, those reporting casual labour and others has gone down. The fishing activity and salaried income has not registered any significant change.
- The analysis of livelihood pattern of the sample households indicates that the percentage of client households of SHG model reporting animal husbandry, non-farm activities, salaried income and others as their main source of income has gone up with fall in casual labour and agriculture. In Grameen models, the rise is most significant in agriculture followed by animal husbandry and other activities, but the non-farm activities, salaried income and casual labour have witnessed a decline over the period.

Graph 5

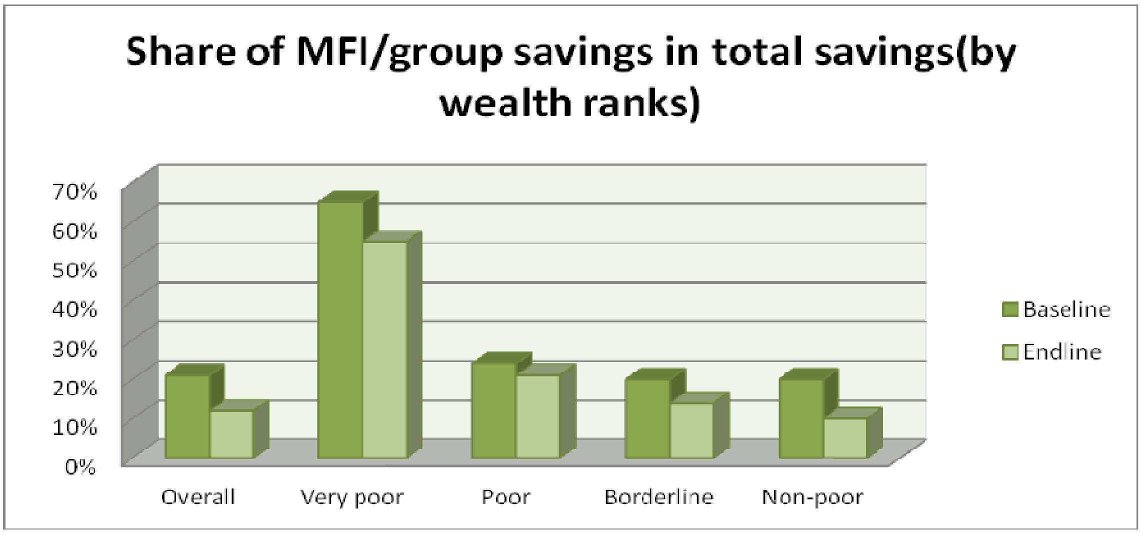


4. Access to micro finance, contribution and use.

4.1 Access to Micro Savings

Though savings is the most popular microfinance service among the clients, the discontinuation of savings schemes by some MFIs, has resulted in fall in number of clients with savings with MFIs (overall from 84.4 per cent to 71.7 per cent) in endline across all wealth ranks.

Graph 6



Provision of opening micro savings account in the group under the programme has proved to be a boon for the clients, especially for the vulnerable ones. The reasons for preference of the savings scheme, especially by women, are their ability to:

- maintain savings account at their doorstep
- save small amounts on regular basis which is not possible in any formal financial institution
- create emergency fund to give them a kind of security against the odds
- contribute to their family or near and dear ones during distress

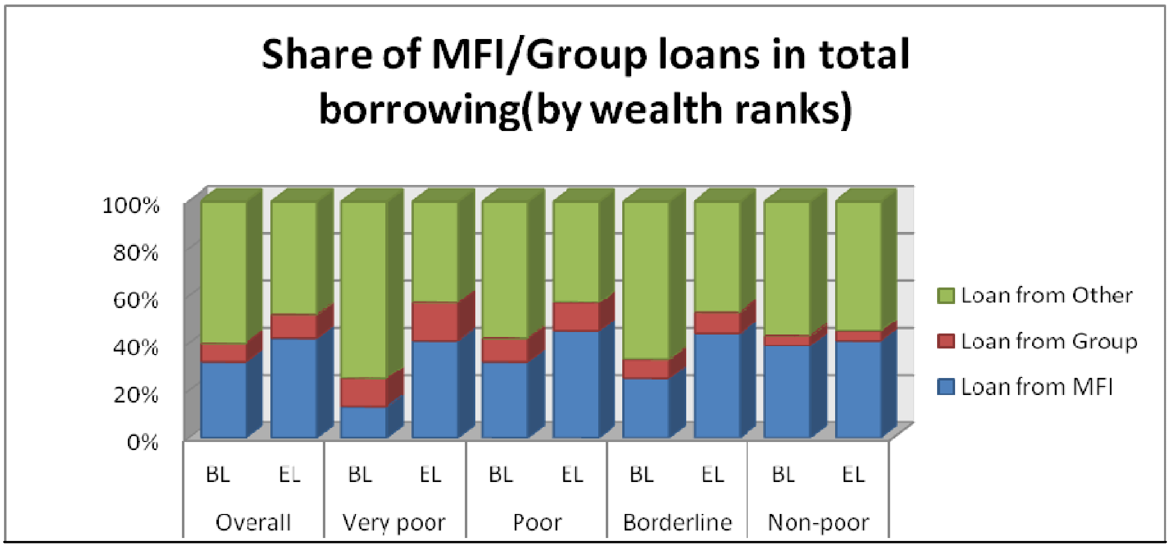
- pay monthly instalments in case of paucity of funds
- exercise control over the expenditure decision
- create fellow feelings/bondage among the members of the group

Members feel that savings in SHG is a panacea as it helps in emergency situation including releasing of mortgaged land or house, medical purposes, children's education and social and religious functions.

4.2. ***Access to Micro Credit***

Micro credit has made a perceptible impact on the lives of many client households through provision of small loans with easy repayment terms, which, in turn, has helped them in starting new enterprises or expanding their existing ones. Availing of loan from MFIs has gone up across all wealth rank categories but the increase is more visible for the 'very poor' category and all of them have opted for it at the expense of group loan.

Graph 7



- Average size of MFI loan and Group loan has gone up for all individual wealth ranks in endline. The rise is more significant for 'very poor' category (from Rs.7000 to Rs. 14,000).

4.3 Use of Micro Credit

- Micro-credit has been utilised for various purposes by the client households. Direct investment occupies the major share (64.9 per cent) in MFI loan-use pattern for all wealth ranks, both in the baseline and end line.
- Micro credit used for risk needs is highest for 'very poor' category (23.1 per cent) in baseline, but has substantially come down in the endline period (14.7 per cent). This shows that with the support of micro credit, the clients belonging to the vulnerable groups are gradually gaining strength, over a period of time, for coping with their vulnerability and are utilising the fund for productive investment.

4.4 Access to Insurance

- The number of MFIs offering life insurance has gone up marginally for all models, except for the sector specific MFIs, as this particular MFI has withdrawn the service in the endline.
- The percentage share of clients having Life Insurance coverage among the clients of the MFIs, which are offering the facility, has fallen from 78 per cent to 58 per cent for the Grameen model but increased substantially for the Individual Banking model from 44 per cent to 62 per cent.
- The coverage under Asset Insurance remains at the nascent stage across all models and is yet to make any perceptible impact among the clients.

- Many MFIs initially started their own in-house insurance schemes but due to the problems that arose in the running of these schemes, most of them stopped offering their own insurance products, while few sought assistance of established insurance companies.

4.5 Use of Non-financial Services

- While some MFIs are providing non-financial services like specialised training pertaining to the clients' occupation and/or enterprise development programme, a number of them have not taken adequate initiative in skill development of their clients in spite of the demand for such services.

The coverage of clients under various training programmes has gone up from 23 per cent to 37 per cent between baseline and endline. Similarly, coverage under Enterprise Development Programme (EDP) has improved from 13.8 per cent in baseline to 20.2 per cent in the endline. The coverage under health related services has gone up from 5.0 per cent in baseline to 22.1 per cent in endline.

5. Micro finance and income related effects

Microfinance contributes to improvement in income related aspects.

5.1 Acquisition of Assets

Acquisition of assets is an indication of capital formation and also improvement in the living standards of clients. In the case of "very poor" category, the percentage of households reporting acquisition of assets has increased from 32.3 per cent in baseline to 40.0 per cent in endline. However, for the overall sample, the percentage of households acquiring assets has remained almost same between the baseline and endline, indicating that the loan amounts are used more for working capital than acquisition of productive assets. The average value of assets has increased from Rs. 23170 to Rs. 25323 between baseline and endline. The share of productive assets in the total assets has increased from 37.0 per cent in the baseline to 47.0 per cent in the endline.

Availability of credit has played an important role in the acquisition of assets. The proportion of sample client households acquiring assets with micro credit support has increased from 73 per cent in baseline to 79 per cent in endline.

5.2 Human Capital

Micro credit has helped the clients in realising the need for providing education to their children. In the endline period, all children (below 14 years) of 57 per cent of households are going for school education. More remarkable is the fact that 65 per cent of female children are going to school (the percentage is 71 per cent for 'very poor' clients). Overall dependence of households on credit for education purpose has come down from 17.9 per cent in the baseline to 12.2 per cent in the endline period.

5.3 Multiple Sources of Income

Majority of the client households (over 67 per cent) have multiple sources of income. Between baseline and endline, the proportion of households with multiple sources of income has declined slightly, mainly for the 'non-poor' category. However, for 'very poor' and 'poor' clients, there has been an improvement, indicating that micro credit has helped the poorer clients to seek more sources of income.

Wealth rank wise, the dependency ratio (i.e. total number of members per earner in the household) of client households has fallen drastically for the poorer and borderline clients but risen for the non-poor indicating that the number of earners per household is on the increase. For non-client households, the ratio has risen for all wealth ranks except those in self-sufficient category.

5.4 Dependence on Casual Labour

There has been a decline in the casual labour employment among client households (41 per cent in baseline to 37 per cent in endline).

5.5 Cost of Borrowing

Microfinance has offered relatively cheap credit in a simplified manner to the clients who, otherwise, would not have been eligible to get any credit from institutional sources. However, this amount being small, the clients continue to borrow from non-MFI sources. But their proportion has declined between baseline and endline across all wealth ranks.

Table 1- Borrowing from Non-Institutional Sources

Clients by	Percentage of Households Borrowing from

Wealth Rank	Moneylenders		Friends		Others	
	Baseline	Endline	Baseline	Endline	Baseline	Endline
Very poor	6.36	5.45	4.55	2.27	1.82	2.73
Poor	7.44	4.73	4.02	3.12	1.01	0.80
Borderline	8.66	6.72	5.80	1.68	2.35	2.52
Self-sufficient	7.85	3.07	5.80	4.10	3.41	1.37
Surplus	8.37	2.66	7.60	1.90	2.66	0.76
All	7.96	5.04	5.32	2.61	2.12	1.66

The percentage of households borrowing from money lenders has come down from 7.96 per cent to 5.04 per cent while from friends has come down from 5.32 per cent to 2.61 per cent.

5.6 Reduction in Poverty

A wealth ranking exercise has been done to assess whether microfinance has improved the position of the clients with respect to poverty. An Index Based Ranking has also been designed for the purpose. Using these ranking exercises, the clients are ranked in five categories in the endline survey.

The results show that half of the clients in the 'very poor' category have moved up to 'poor' category. Only about 17 per cent still remain in the same category in the endline. The remaining clients have moved to still higher category. For the poor category, about 40 per cent remain in the same category and a number of them have moved to higher categories. About 10.0 per cent of them have moved down to 'very poor' category.

Since Micro-financing provides mainly one input (credit) for economic upliftment, perhaps it may not be right to expect that all clients would come above the poverty level because of participating in the programme.

6. Implications for micro finance policy

The MFI sector in India is growing fast. The growth is, however, taking place mainly in the informal sector; where MFIs are set up under different statutes, and there is hardly any monitoring thereunder. The major problems of this sector are the lack of equity and access to loanable funds, organisational weaknesses, shortage of trained staff, etc. and they strongly need developmental support in most of these areas.

6.1 Role of SIDBI

SIDBI has, over the past seven years, made multifarious efforts to develop the MFI Sector. These have, no doubt, yielded good results, but still much more needs to be done to enable the microfinance sector to increase its outreach and scale as a step towards financial inclusion. The MFI sector is also getting support – particularly financial, from other donor agencies, public and private sector banks and other financial institutions. But capacity building of the MFI sector is of crucial importance and SIDBI, which has developed close association with this sector, will have to address this problem principally, with such support as is available from other institutions.

6.2 SHG-Bank Linkage Programme (SBLP) and Space for MFI Sector

SBLP of NABARD is another major source of credit assistance to the financially excluded households in India. In fact, SBLP is the largest microfinance programme in the world. At the end of March 2006, 32.98 million poor households had been assisted under this programme through 2.24 million SHGs to the tune of Rs 113.9 billion. By comparison, the expanse and pace of growth of MFI assisted households is quite small. The SBLP, however, has developed extensively particularly in the Southern and Western regions of India, where the socio-economic conditions are more propitious for the growth of Self Help Group culture. In the other regions of the Country, particularly Northern, Eastern and North-Eastern regions, there is vast unsatisfied demand for microfinance from the financially excluded households. In the circumstances, even if the SBLP has been developing extensively, serious efforts need to be made by all concerned to promote the MFI Sector in a big way under the leadership of SIDBI with assistance of Government and donor agencies.

6.3 Major Policy Issues

In the context of the urgent need to develop the MFI Sector to service the neglected sections of the Society, the study has highlighted the following policy issues.

- There is need for the MFIs to have transparency in the interest rate charged by them. This would not only imbibe confidence of the clients, but also of the regulatory authorities towards MFIs.
- There is a need for a Central Legislation for strengthening the MFI sector through prudential norms, transparency and capital flows. The legislation would clear the decks for the operations of the national microfinance support institutions, in strengthening the sector, by toning up the working of the MFIs.
- There is need to have national level “Regulatory Authority” which should be endowed with the responsibility of supervision, monitoring and guidance of the entire microfinance sector. This would not only ensure proper financial discipline amongst the MFIs, but also facilitate adequate transparency and adherence to requisite prudential norms, for balanced growth of the sector and as also to facilitate increased flow of funds into the industry.
- Emphasis, should, however, be placed on self-governance and self-regulation by individual MFIs, with minimal interference from the regulator.

Promotional support from Government, Financial/Regulatory/MF Promotional Institutions, with Government and donors’ assistance, should continue, on an increasing scale.

7. Conclusion

The international financial crisis has destroyed many certainties, but one of the touted survivors is the old saw that small is beautiful. Sure, no one is flogging mansions to paupers anymore. But microfinance is still flourishing, and even expanding. Ever since Bangladeshi economist Noble Laurite Muhammad Yunus started handing out small loans to the poor in 1974, the idea that a little credit can help peasants and simple villagers climb out of poverty has swept the map. Civic groups, the World Bank, even commercial lenders have gotten into the act, capturing millions of barefoot clients across the developing world.

Today microfinance is a global growth industry. It reaped Muhammad Yunus the Nobel Prize. Even the developed world is catching on. Grameen Bank, the Bangladesh-based micro-lender Yunus founded, opened a branch in Queens, New York, last year and plans to unveil another in Omaha, Nebraska.Yunus’s claim “that five percent of Grameen borrowers get out of poverty every year” became the movement’s mantra. In the subtext of India's recent economic success story, lies the stubborn statistic of 400 million to 600 million people living in poverty, according to Shanta Devarajan, chief economist of the World Bank's South Asia region.

India's rapid economic growth can obscure rampant poverty, and flawed public policy is a culprit. A key to helping the poor is to alleviate Indians' financial dependence and the exploitation that can accompany it.

There is ample evidence to support the positive impact of microfinance on poverty reduction as it relates to fully six out of seven of the Millennium Goals. In particular, there is overwhelming evidence substantiating a beneficial effect on income smoothing and increases to income. There is less evidence to support a positive impact on health, nutritional status and increases to primary schooling attendance. Nevertheless, the evidence that does exist is largely positive.

Microfinance is an instrument that, under the right conditions, fits the needs of a broad range of the population—including the poorest—those in the bottom half of people living below the poverty line. While there will be people in this group who will not be suited for microfinance because of mental illness, etc., the exclusion of this small percentage of the population will likely not be a limiting operational issue for MFIs.

Empirical indications are that the poorest can benefit from microfinance from both an economic and social well-being point-of-view, and that this can be done without jeopardizing the financial sustainability of the MFI. While there are many biases presented in the literature against extending microfinance to the poorest, there is little empirical evidence to support this position. However, if microfinance is to be used, specific targeting of the poorest will be necessary. Without this, MFIs are unlikely to create programs suitable for and focused on that group.

8. Some suggestions to increase the impact of financial services for the poor:-

- Prioritize large scale outreach. Support financial institutions with potential for sustainability and growth.
- Invest in a range of promising financial institutions to ensure that diverse clients at many income levels are reached, extending outreaches both outwards and downwards as far as possible.
- Promote the twin goals of sustainability and impact; monitor MFI progress against both goals.
- Encourage market research to better understand client preferences and the constraints that prevent the poor from taking best advantage of financial services (i.e. literacy, land titles, etc.).
- Support proactive institutions that develop delivery mechanisms and products to meet client needs.
- A review of key existing microfinance programs, using recognized poverty assessment/wealth ranking tools, should be organized to determine the current poverty levels of clients presently being served.
- A percentage of government`s new and renewing microfinance program funding should be allocated directly to programs that target the poorest. This percentage should increase over the next five years until the poorest are receiving a percentage that is proportional to their representation in the population. Targeting should be done through the use of recognized poverty assessment/wealth ranking tools.

Government`s funding for new and renewing microfinance programs and projects should include resources for summary evaluations to be carried out regularly throughout implementation to provide information about the intake poverty level of clients as well as for the basic financial and social impact assessments.

References

Barry, N.(1995), "The Missing Links: Financial System that Works for the Majority," Women's World Banking, New York.

Barry, Nancy, Armacost, Nicola and Kawas Celina (1996) "Putting Poor people's Economics at the Center of Urban Strategies," Women's World Banking, New York.

Chriseten, R.Peck Rhyne, Elisabeth and Vogel, Robert C (1994) "Maximizing the Outreach of Microenterprise Finance: The Emerging Lessons of Successful Programs," September IMCC, Arlington, Virginia.

Churchill, C.F. (1996)," An Introduction to Key Issues in Microfinance: Supervision and Regulation, Financing Sources, Expansion of Microfinance Institutions," Microfinance Network, Washington, D.C. February.

C.K.Prahalad, (2009)'The Fortune at the Bottom of the Pyramid', Wharton School Publishing.

Ghate, P. et.al.(1992) Informal Finance: Some Findings from Asia, Oxford University Press, Hong Kong.

Jean Dreze and Amartya Sen (2008) 'India: Development and Participation',Oxford University Press.

Jennefer Sebstad (june 1998) Toward Guidelines for Lower-Cost Impact Assessment Methodologies for Microenterprise Programs, AIMS.

Johnson S. and Rogaly B. (1997) Microfinance and Poverty Reduction, Development Guidelines, Oxfam Publications.

K.G. Karmakar, (2009), 'Rural Credit and Self-Help Groups: Micro-finance needs and concepts in India', Sage Publications.

Neera Burra, Joy Deshmukh-Ranadive and Ranjani K.Murthy,(2008) 'Micro- Credit, Poverty and Empowerment: Linking the triad' Sage Publications.