

An Insight into Poverty Reduction by Microfinance Institutions in India: Case Studies

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Abstract

Micro finance enables the poor and expelled sections of the society, who do not have a way in to official banking to make resources, to have an access to diversified employment options and increased income and decrease in their susceptibility to economic pressure. The objective following the concept of micro finance is to generate financial service for those people which are missing from financial services and to help poor people to pull out from the vicious cycle of poverty. But, the idea of micro finance is very naive to produce suitable change in financial system all over the world. In this paper we will discuss about poverty reduction through microfinance. How microfinance works to reduce poverty?

Keywords: Microfinance, NABARD, Poverty Reduction, Employment, Financial Service, Self Help Groups

Introduction

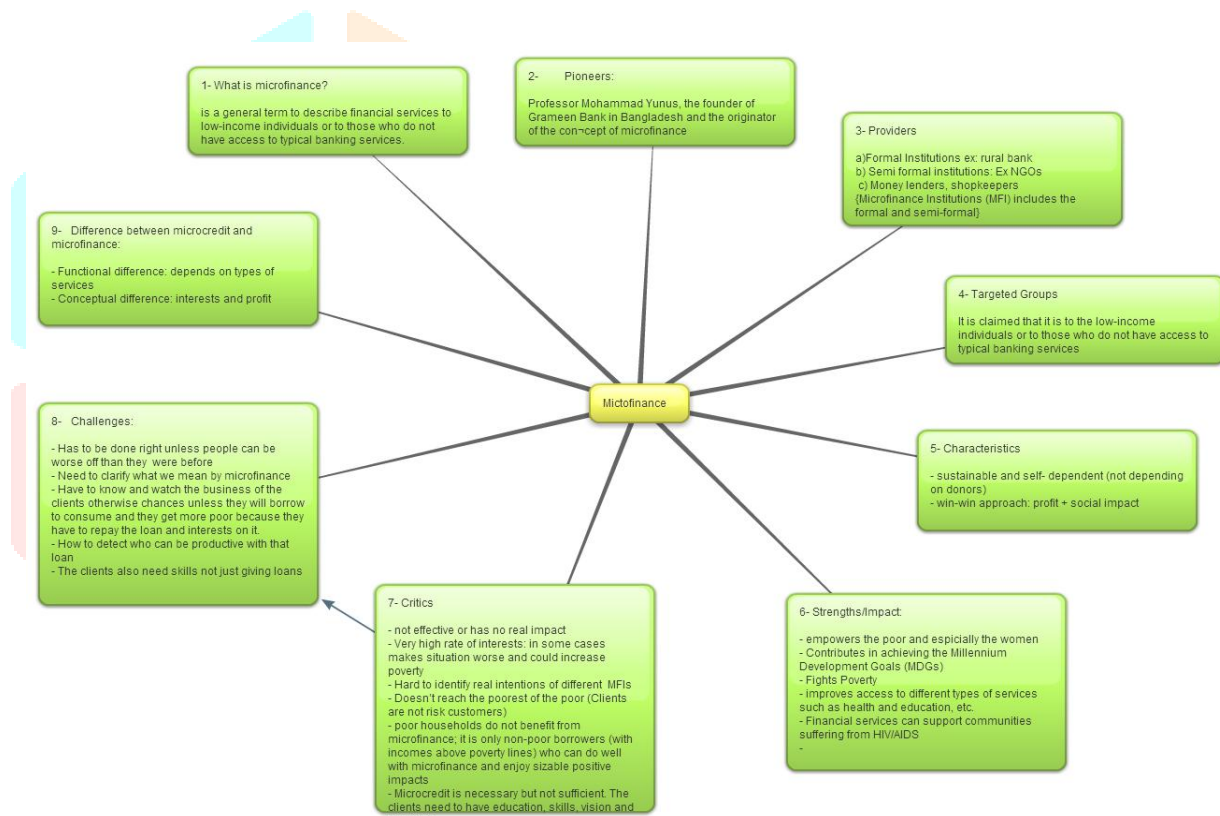
Micro finance refers to the condition of financial services to the poor or low income households counting consumer and the self-employed. The term also refers to the training of maintaining capably delivering loan to the needy sector of the society. To order of make it more clearly, it refers to the movement that the idea a world in which as many poor and near-poor households as potential have enduring access to a suitable range of high quality financial services together with not only credit but also saving insurance and finance transfers. More usually according to Oxford dictionary micro finance defined as - A world in which as many poor and near poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also saving insurance and fund transfer.

Concept of Micro Finance

Micro finance means the accessibility of small scale financial commodities and service to the poor. Traders and moneylenders usually make available microcredit to the rural poor, but charge very expensive rates of interest, which leads to substantial lack of money and insolvency of borrowers. Later, this resulted into debt trap bonded labour and illegal and forced transfer of properties. What we refer to as microfinance today does not consist of

such unequal practices rather it refers to, ‘lending to the poor at reasonable but sustainable rates from government and private institutional sources.’

The field has since increased with the approval and progress of Prof. Muhammad Yunus’ ideas to different countries and context. The United Nation Year of Micro Credit (2005) indicates a turning point for micro finance as the private sector began to take more serious interest in what has been considered the field of NGOs. However, with all the excitement about the scenario of the field to supply to poverty alleviation and the combination of the world are poor into the quickly connecting global market system. The Counselling Group to Support the Poor (CGAP) estimated that micro finance possibly reaches less than 5% of its possible clients though this is over rough estimate of those not reached by official financial institutions it capacity serve to afford a general idea of what share of the possible customers of micro finance have yet to be reached.



Micro Finance and Rural Development

Development of local resource based economy provider’s additional employment to people’s to living in rural areas. In this context sumacher observed that in order to bring work to the people not people to the work it was absolutely necessary to establish millions and millions of small scale industries in rural areas.

The new paradigm, which was centralised in the central places only. The new paradigm of development is concentrating fiercely in its rural development, especially the precedent of the developing countries which by all predictions would make a world power (developed countries) in the next stipulated time period because all the nations have traced out that under-development of any area will retard the growth of prosperity. ‘Poverty

anywhere is a threat to prosperity everywhere.’ Adam Smith the Father of Economics had composed the same as, “what improves the circumstance to the whole. No society can surely be flourishing and happy of which the far greater part of the members are poor and miserable.”

Developing economy like India aims at maximum employment of their own national and manpower resource. Even the countries availing raw material in abundance and cheap labour resources, cannot achieve their targeted growth rate without having sufficient financial resources. In a labour extensive economy it is necessary to liberalize and change the financial and monetary policies which are the tools to achieve the multidimensional life goal of the poor. To achieve these goals and keep the rural poor away from the burden of heavy interest rates prescribed by the moneylenders the government, the NGOs and voluntary organizations play a crucial multi-linked role in rotating microfinance. Now a day’s microcredit is worldwide scheme and it is broadly established as a tool to uplift the rural poor from the measurable and deplorable condition.

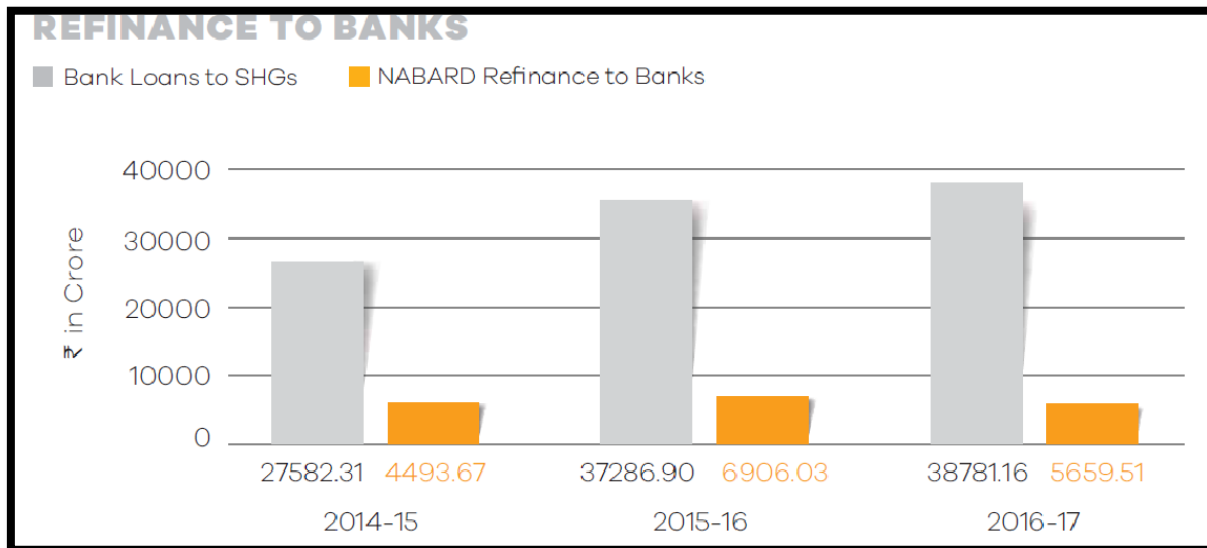
Micro Finance Role of NABARD

Indian public policy for rural finance from 1950s till date mirrors the patterns observed worldwide. Increasing access to credit for the poor has always remained at the core of Indian planning in fight against poverty. The assumption behind expanding outreach of financial services mainly credit was that welfare costs of exclusion from the banking sector, especially for rural poor are very high. Starting late 1960s, India was home to one of largest state intervention in rural credit market and has been euphemistically referred to as ‘social banking’ phase. It saw nationalization existing private commercial banks, massive expansion of branch network in rural areas mandatory directed credit to priority sectors of the economy, subsidized rates of interest and creation of a new set of rural banks at district level and an apex bank for agriculture and rural development at national level. These measures resulted in impressive gains in rural outreach and volume of credit. As a result, between 1961 and 2000 the average population per bank branch fell tenfold from about 140 thousand to 14000 (Burgess and Pande 2005) and the share of institutions in rural credit increased from 7.3% 1951 to 66% in 1991-2002.

Micro finance in India started in the early 1980s with small efforts at forming informal self-help groups to provide access to much needed saving and credit services. From this small beginning the micro finance sector has grown significantly in the past decades. National bodies like the Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) are devoting significant time and financial resources to micro finance.

NABARD investigates for different models of getting the rural poor brought the subsistence of informal groups of poor to the fore it was realized that the poor tend to come together in a diversity of informal ways for pooling

their savings and provision small and unsecured loans at changing costs to group members on the basis of need. Under the programme generally as SHG-Bank Linkage programme there are generally three models of credit linkage of SHGs with banks. However, the essential formulate element in all remains the same i.e. identification development and promotion of groups either by NGOs other improvement agencies or banks handholding and original period of inculcating habit of thrift follow by deposit free credit from bank in section to the groups savings.

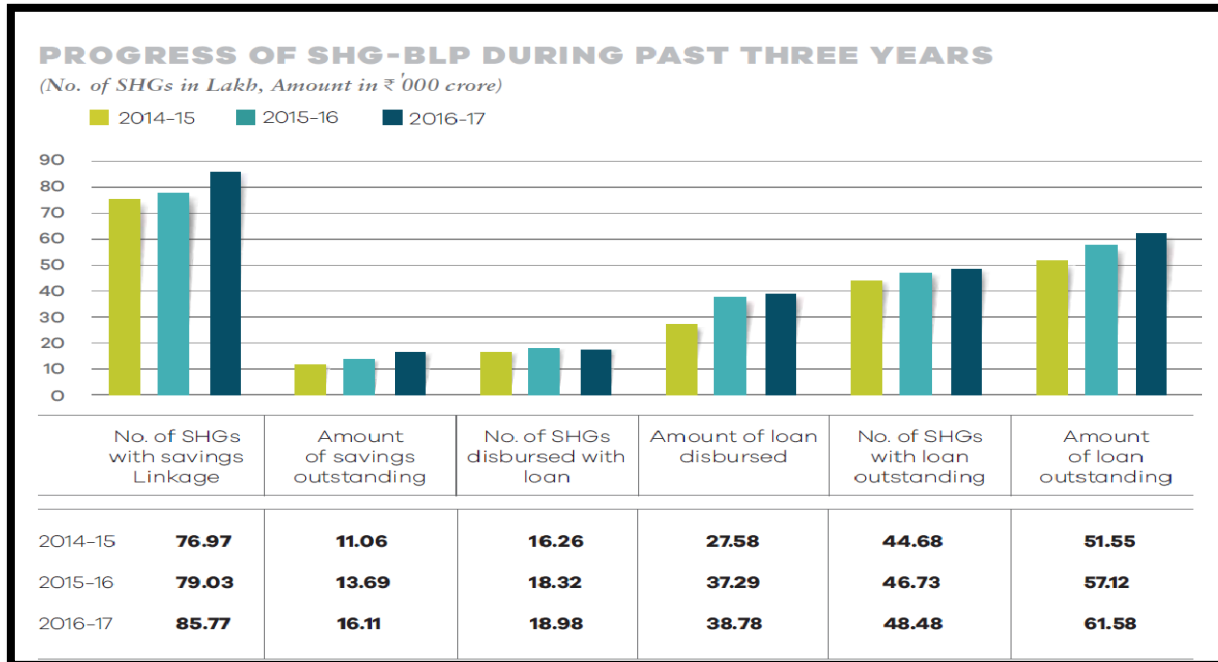


Source: Status of Micro finance 2016-2017

Micro Finance Service Providers

In India a variety of intuitions in the public sector as well as the private sector offers microfinance services these can be generally considered into two categories namely official institutions and semi-formal institution. The previous group include apex progress financial institution, Commercial Banks, Regional Rural Banks and Cooperative Banks that make available microfinance services in adding up to their common banking performance and are referred to as microfinance service providers. On the other hand semi-formal institutions that accept microfinance services as their major movement are usually referred to as microfinance intuitions. Whereas equally private and public ownership are establish in the case of regular financial intuitions contribution microfinance services the MFIs are mainly in the private sector.

Self-help groups have a significant role to play in micro finance programs for boosting developmental activities for creating employment generation, women empowerment and poverty alleviation etc.



Source: Status of Micro finance 2016-2017

Review of Literature

- Vijayachandran P.B., & Harikumar, V., (2006) in their study reviewed that existence of SHGs is highly relevant to make the people of below poverty line hopeful and self-reliant. SHGs enable them to increase their income improve their standard of living and status in society. It acts as a catalyst for bringing this section of the society to the mainstream.
- Mansuri, B.B., (2010) analyzed in his study that poverty has global presence and varied genesis and dimensions. Since independence government has taken several initiatives to tackle the insufficient of poverty through area development approach. Formal banking sector also ignored the poor due to risk involved in lending to poor as they do not have collaterals and apprehension of non-bankability. Against this backdrop SHGs bank linkage from NABARD is considered as best alternative to reach the poor.
- Babi David Kamusaala (2016) in their study succeed meaningful poverty reduction policy, access to financial services is dynamic for the Development of the private and informal sectors of the national economy; and in the development discourse, microfinance is measured a dynamic instrument especially for sectors that hardly meet the requirements of mainstream financial services. In Uganda, which is not different from what is happening in the rest of Africa, financial services are largely underdeveloped, lacking in depth, highly inefficient, concentrated in the urban areas and dominated by a few, often foreign-owned commercial banks. In outcome microfinance finance institutions (MFIs) became to be viewed as the most obvious vehicles for delivering financial services to the poor.

- Selvaraj A., Balamurugan P (2017) in their study details on the satisfaction level of beneficiaries about the services providing by microfinance institutions in the study area. Beneficiaries were noted other money to these institutions in the manner of annual savings. In the meantime they were hired the amount of loan in the microfinance institutions for professionals' commitments. The findings also specify that the maximum of the sample beneficiaries less level satisfaction about the microfinance institutions.

Objective of the Study

Micro finance is regarded as one of the most efficient and flexible strategies in the fight against worldwide poverty. The proposed research study essentially studies the initiatives of the micro-financial institutions in regular and self-help groups in precise. Self-help group is a replica of the model used by the Grameen Bank. How SHGs are effective for the SHG members in improving their socio-economic status and the financial requirements of the participating members. It was also important to see the participation of Non-Government Organizations in serving the financial wants of a huge number of economically weaker sections of the society.

Case Studies

A Case of Saheyog Self Help Group

Saheyog self-help group was initiated in April 10 2012, with the help motivation, and encouragement from a NGO (Meerut Sewa Sadan) in Samaspur Sourani village of Daurala block of Meerut district. Twelve agreeing farmers decided to form a group with the objective of saving and credit. Mr. Ashok was democratically chosen as the secretary of the group and Mr. Parmod was appointed as the president. In the first meeting the group decided to save Rs. 100 every month to make a group fund. Thereafter saving was continuous.

Saheyog SHG was formed with 12 members and later on one member joined the group. All the members were from farming community and all were ST. The age group of the members varied from 30 to 55 years and all were married. There was homogeneity in the class and caste structure in the group. All the members belonged to BPL category. SHG members felt that participation and interaction with others would reduce that inequality in their system. For that Saheyog SHG tried to search opportunities to link up with others to shape their lives in a better way. The NGOs encouraged and assisted them in exploiting the opportunities.

With the help of NGOs the SHG first linked with the bank State Bank of India after two months the group had a regular monthly saving in the bank. Saheyog SHG had demonstrated its efficiency and effectiveness in the utilization of the loan in income generating activities (Bangle making, making sports goods, candle making and agriculture). The bank loan was repaid within 4 months. The average income of the group from the bank loan

was increased by 1000 per month. Started these activity SHG members' increased their income after joining the SHG. Before joining the SHG their income is less than Rs. 2000 thousand while after join SHG their income is increased and their income is between in 2000-3000 Rupees. Their average saving is Rs. 50-100 and the average benefit was increased after joining SHG.

Seeing the regular credit and saving, the NGO granted Rs. 40,000 as revolving fund to Saheyog SHG. The grant was successfully utilized in income generating activities. Apart from that, Saheyog SHG also received a pump set from the NGOs. The pump set was used by the members with the payment of a fixed rent and rented out to other villagers. NGO provided to the group members a grant loan to increase their employment generation activities. Encouraging the participatory process the NGO constructed a shelter home for Saheyog. The construction materials were supplied by the NGO and the labour for construction was provided by the group.

Sheyog SHG had got much support from NGOs and NABARD, also the group developed very good contact with the block development officer (BDO). The members of SHG regularly attended the meetings and trainings of NGOs. The activity reports and action plans were regularly sent to NGOs.

A Case of Palak Self Help Group

Palak Self Help Group was formed on January, 1 2009, in Salarpur village of Meerut district of Rajpura block of Uttar Pradesh. Motivated by SGSY, 6 women and 8 men came forward to form a group. Some members belonging to OBC, some were of General Category and married. With the common consent, Mr. Dhramveer and Ms. Mamta were chosen as president and secretary, respectively. Through all members were from BPL families still they decided to save 50 Rs. per month as members' monthly saving.

Ombiri aged 35 years, is a small farmer living in Salarpur village. The whole family members is depended on her and her husband, both husband and wife have been force to take up multiple activities such as agriculture, credit works or small hotel business, and wage employment. She has about 7 bheega land, one buffalo and two goat, she involved in crafts works (carpet weaving, cushion Cover, making beg) and works as a labour in agriculture, whereas her husband taken care of cultivation of land and also small hotel business set up in the village. The average annual income of the household was estimated at 3000, per month. She obtained a credit of Rs. 10,000 to establish a hotel business in the village and the business in the village and the business was started with a financial assistance obtained from Palak SHG.

Palak SHG in January 2013 formed by NGO with a primary objective to gain access to micro credit and set up a business. She started cloth selling business with an initial investment. The annual income earned from cloth

business was estimated at Rs.30, 000 but before joining the SHG, the income of household was much lower, even unable to meet their day to day expenditure. The increased income resulted in an improvement in the acquisition household assets. She felt that after joining the SHG, her income saving capacity, access to education and health, care services, banking institution and market have improved. After that, she obtained the bank loan from Union bank of India. It is found that bank loan through provided by group linkage has helped her to undertake economic activity and she has been greatly involved in major decision making activities. As we can see that the life style of the house-hold has become relatively better off.

A Case of Saraswati Self Help Group

Saraswati self-help groups was formed on September, 11 2012, in Sakepuri village of Meerut district of Rohata block of Uttar Pradesh. Motivated Meerut Sewa Sadan NGO 3 women and 9 men came forward to form a group. All members were OBC, and all members were married. With the common consent Mr. Raju and Ms. Omparkash were chosen as president and secretary. Through all members were from BPL families, still they decided to save 50 Rs. per month as members' monthly saving.

Ramesh aged 45 years, is a resident of Shekpuri village of Meerut district. He lives in his house with his wife (40 year) two sons and two daughters. Both of them were not educated, due to poverty. But they are educating their children's. He had only 8 bheega Land he mainly involves in management of kirana shop and her elder son (who discontinued education) works as labour in agriculture as well as agriculture activity in the village. His wife involves in handicrafts activity and also cares of Kirana shop and occasionally works as a labour in agriculture.

After his marriage, they have struggled a lot to lead married life for about more than 15-20 years. He becomes the member of self-help group saraswati with objectives to gain access to micro credit and take up income generation activities. She obtained a loan of Rs.20000 for the purpose of establishing kirana shop in the village. The total investment made for kirana shop was estimated 30,000. After established his shop their income is increased 2,000 per month. After increased income has result an improvement of household assets. After join SHG he purchases many thing, his knowledge about children's education, health and banks has improved. The expenditure towards education, health and better housing has increased. He is now more confident of his life to lead act on foresee any difficulty in near future.

It can be concluded from the above studies that the lack of productive land. Human capital (education), employment growth, poor performance of agriculture and more dependent people are the important source of poverty. Lack of government programme (wage and self-employed, social security scheme etc.) and lack of

opportunities and common property resources are also found to be important factor keeping a large chunk of the people in poverty. As it has been brought out by various studies that the people, who joined the SHGs, are now living in better conditions before joining SHG, the condition of poor households was worse. They were not able to fulfil their day to day needs. Their income level was very low and they were falling in BPL. After joining SHG their income level was increased.

A Case of Balaji Self Help Group

Balaji self-help groups was formed on April 24, 2006, in Mustafabad village of Meerut district of Sardhana block of Uttar Pradesh. SHGs Motivated by SGSY 9 women and 6 men came forward to form a group. Some members were Sc some St Category.

Sunita a widow in her early age 22, she had a 2 daughter. She came up to stay with her parents in their house. When Sunita introduced to the self-help group members in the village Sunita decided to become a member that entire she needed to become a member was deposit Rs.50 per month. After joining the group she secured a small loan and started a vegetable shop at her house. Her brother used to help her in procuring the vegetable from the main market that was 10 Km. away her house. Her business improved and she earns a lot of profit her living condition of the family has improved and the daughters are going to school. She felt that after joining the SHG, her income saving capacity, access to education and health, care services, banking institution and market have improved. Before joining SHG Sunita was not aware of banking procedure after that she learns new skills about bank. She had no confident interaction with outsiders. Now she is very confident and her standard of living is too good, now she is very happy to work with the SHG. The increased income resulted in an improvement in the acquisition of household assets. She felt that after joining the SHG, her income saving capacity, access to education and health care services, banking institution and market habit have improved.

Conclusion

In conclusion has revealed that micro finance SHGs in India which are classified under informal organizations intentionally or unintentionally help formal banks by increasing the number of accounts by inculcating habits in rural people especially the women. The analysis also reveals that being a member in SHG and more importantly having leadership experience in SHG greatly influences the bank account holding.

SHG approach in the recent years has been rightly recognized as the best of socio economic empowerment of people. The main economic activities being adopted by the SHG are cutting sewing embroidery dairy farming and other job works etc. the SHG movement for its forceful outreach amongst the poor as now not only been categorized as a silent revolution in the empowerment of millions of poor but has also been recognized as an

effective tool for poor alleviation. While a late entrant into micro finance the Indian sector is characterized by a diversity of legal entities that are using different approaches in providing financial services to the poor. The growths of these institutions and the policy attention they have received have facilitated the systematic entry of commercial capital into the micro finance sector.

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