MICRO FINANCE – AN EFFECTIVE TOOL FOR POVERTY ALLEVIATION

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Abstract

Micro financing is a concept popularizing very fast in the world today. In many countries, it is proved that micro finance is the best alternative to fight against unemployment and poverty. Micro financing by the banks through the SHGs in Kerala has been utilizing effectively by the beneficiaries. A study in Kollam and Kozhikkode districts in Kerala show that 80 per cent of the respondents are really benefited and expressed full satisfaction. To them the scheme provides employment, earnings and ensures savings though not in large amount. As the women, who are the members of SHGs, are forced to engage in some selected entrepreneurial activities, the chances of building self -confidence and, thus, to become efficient entrepreneurs are more.

Key Words: Micro Finance, Poverty Alleviation, SHG's, Women Empowerment.

Introduction

icro finance is a new reality in the world of development discourse and financial intermediation. The term 'micro finance' refers to small scale financial services both credit and savings – that are extended to the poor in rural, semi-urban and urban areas. The poor need micro finance to undertake economic activities, smoothen consumption, and mitigate vulnerability to income shocks (in times of illness and natural disasters), increase savings and support self–empowerment.

Commercial banks as well as cooperative banks see in it a new profitable area of credit with a high repayment rate in a world of mounting non-performing assets and sub-prime hazards. Now, many countries started welcoming it as a less burdensome tool to fight against poverty. The most important economic rationale in bringing financial services to the door steps of the poor households is the economy in the transaction costs.
For formal banks, it will be costly to mobilize the small savings of the poor families lying widely scattered. Equally prohibitive is the cost to the conventional banks in financing a large number of these families who require credit frequently and in small volume and that too not backed by collateral securities.

Micro finance as a major financial service emerged in the 1970s, notably after Muhammad Yunus, the Nobel Prize winner started the Grameen Bank in Bangladesh. The Bank began to offer financial services to the poor once excluded from formal banking primarily because they lacked collateral. Today, micro finance has emerged as an industry in which even big multi-national and national banks are interested because they are sure of repayment and fetches profit.

Three different approaches are identified in the evolution of micro finance in the world: the Latin American model, the Grameen Bank model and the SHG – based model. Latin American model is a commercial model in which case, emphasis on social and community development of poor women is totally missing. The Grameen bank model, on the other hand, is basically centred on women and poverty. The self –help group (SHG) based model is the Indian variant of micro finance popularised and institutionalised by the NABARD, largely through the commercial banking system.

Indian Scenario

Micro finance sector has traversed a long journey from micro savings to micro credit and then to micro enterprises and now entered the field of micro insurance, micro remittance and micro pension. This gradual and evolutionary growth process has given a great opportunity to the rural poor in India to attain reasonable economic, social and cultural empowerment, leading to better living standard and quality of life for participating households. Financial institutions in the country continued to play a leading role in the microfinance programme for nearly

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two decades now. They have joined hands proactively with informal delivery channels to give microfinance sector the necessary momentum.

Microfinance Institutions (MFIs) in India exist as NGOs (registered as societies or trusts), Section 25 companies and Non-Banking Financial Companies (NBFCs). Commercial Banks, Regional Rural Banks (RRBs), cooperative societies and other large lenders have played an important role in providing refinance facility to MFIs. Micro finance services in India are dominated by SHGs – bank linkage. The National Bank for Agriculture and Rural Development (NABARD) is the nodel apex institution to provide micro-finance services to the poor through the existing banking network and Non Governmental Organisations (NGOs). NABARD has been encouraging voluntary agencies, bankers, socially spirited individuals, other formal and informal entities and also government functionaries to promote and nurture SHGs. The focus in this direction has been on training and capacity building of partners, promotional grant assistance to Self Help Promoting Institutions (SHPIs), Revolving Fund Assistance (RFA) to MFIs, equity/ capital support to Mutual Fund Institutions (MFIs) to supplement their financial resources and provision of 100 per cent refinance against bank loans provided by various banks for microfinance activities.

The Self Help Group (SHG)-Bank Linkage Programme, in the past eighteen years, has become a well known tool for bankers, developmental agencies and even for corporate houses. The micro-credit system provides for organisation of SHGs consisting of members with homogeneous economic interests. People with limited means join together as an informal group, approach the bank to raise loans individually and the security for the loans is given in the form of a collective guarantee. The banks are assured of getting back their principal amount with interest since the borrowed funds are being used for undertaking some small economic ventures. The borrowed money is never used extravagantly and so the repayment capacity of the borrowers increases. The success of such micro-credit depends largely on the confidence of the bankers on the borrowers and vice-versa.

SHGs, in many ways, have gone beyond the means of delivering the financial services as a channel and turned out to be a focal point for extending various services to the poor. The programme, over a period, has become the common vehicle in the development process, converging important development programmes. With the small beginning as Pilot Programme launched by NABARD by linking 255 SHGs with banks in 1992, today the programme has reached to linking of 69.5 lakh saving-linked SHGs and 48.5 lakh credit-linked SHGs and thus about 9.7 crore households[1] are covered under the programme, envisaging synthesis of formal financial system and informal sector.

Role of Cooperative Banks in Micro Finance

Banking with the poor and illiterate requires special attention and mechanisms taking into account their needs, economic conditions and activities. It is this need for integrated financial services that makes cooperative banks more suitable than their strong and resourceful counterparts in the commercial banking sector, to serve the poor and the financially excluded. Cooperative banks, primarily, are perceived as micro finance institutions to serve the poor and marginalized sections. These types of banks are deeply rooted into the local areas and different communities. Through increasing banking access in areas or markets where other banks are less present- small and medium enterprises, rural farmers, middle and low income households in semi urban and urban areas-cooperatives help to reduce banking exclusion among the poor. This has helped to foster the economic ability of millions of people. Cooperatives play a commendable role in the economic growth of many countries and even to strengthen the international financial system.

The role of cooperative banks in providing micro credit to the poor is unquestionable. For instance, 11.14 per cent of the total micro credit disbursed in Kerala during the year 2009-10 was by the cooperative banks. There were 53585 SHGs with a membership of 617516 linked to the district cooperative banks in Kerala as on 31st March 2010[2]. The savings of these SHGs with the DCBs amounted to Rs. 44. 24 crores. The district cooperative banks (DCBs) in Kerala are playing a significant role in micro finance through SHGs. Among the 14 district cooperative banks, Kollam DCB has disbursed Rs. 13.05 crores to 1595 SHGs under micro finance scheme during the year

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2009-10. The Kollam DCB is followed by Palakkad DCB which disbursed Rs. 10. 29 crores and Kottayam DCB (Rs. 6.85 crores) respectively[3].

Statement of the Problem

Most bankers have not regarded micro finance as a genuine option for lending because they believe it unprofitable. It was also seen that households in the lowest asset group were more dependent on non-institutional credit agencies. Higher administrative costs, increasing volume of default, complicated procedural formalities, etc. were the major problems faced by the poor people who require very small amount of loans at frequent intervals. It is after realizing the importance of micro finance; the RBI has issued directions to the commercial banks, Regional Rural banks and Cooperative banks to give more preference to micro financing. Experience in implementing different anti-poverty and other welfare programmes has shown that the key to success lies in starting appropriate community-based organizations with participation at the grass-root level. Moreover, the group approach may be one of the effective ways to reduce the difficulties of small businessmen and agriculturists. Motivating individual farmers, artisans and entrepreneurs to form small groups to pool their resources to handle selected operations may lead to a great success. Micro financing has proved to be a successful lending alternative, specifically in view of poverty eradication in many countries**.** Thus, it is necessary to review the performance in terms of the impact of micro financing on the economic conditions, attitude and social status of the beneficiaries. This may help to make periodical reviews and changes in the lending and utilization policies of the concerned institutions. It is under this background, the present study has carried out.

Methodology

The study is based on the primary data collected from the members who have availed micro credit through the SHGs. Data were collected from 60 members belonging to six different SHGs – three each from Kollam and Kozhikkode districts in Kerala. Ten members each from the selected SHGs were covered under the present study. For this purpose, two districts, one from the south zone and the other from the north zone of the state were selected deliberately. Besides the primary data, secondary data were also used for the purpose of the study.

The study was undertaken with the major objective of knowing the economic and social impact of micro finance in Kerala.

Review of the Literature

Keeping in view the objectives of the present study, it would be worthwhile to make a brief review of the literature available in this connection. Afrane[4], Rajasekhar[5], Cheston and Kuhn[6] , Sinha[7], Abhijit Sharma[8] and Lokhande[9] found in their studies that micro finance interventions have achieved significant improvement in terms of increased income, increased access to life- enhancing facilities and empowerment of people, particularly women. These studies suggested that the strategy of supporting the formation and nurturing of micro finance groups deserve special attention. Jay Anand[10] in his study entitled “Micro Finance in Kerala” observed that those members who have some unit activity earlier could use the micro-credit effectively for expansion/modification and they reaped the maximum benefits. In some cases, the failure of group activity has led to a financial crisis and imbalance for all the members. According to K.G. Karmakar[11] , the micro-credit approach through self-help group would be the only best mechanism to deliver credit to the rural poor. A.P. Sebastian Titus[12] in his study found that the women entrepreneurs who have started small enterprises could expand them into large-scale units. The SHG started making readymade garments and exporting. Amin et.al. [13] remarked that micro finance is successful in reaching the poor while less successful in reaching the vulnerable. The role of NGOs in strengthening the poor and women through micro finance was projected in the studies of Mahajan[14] and Sahu and Tripathy[15] .

Results and Discussion

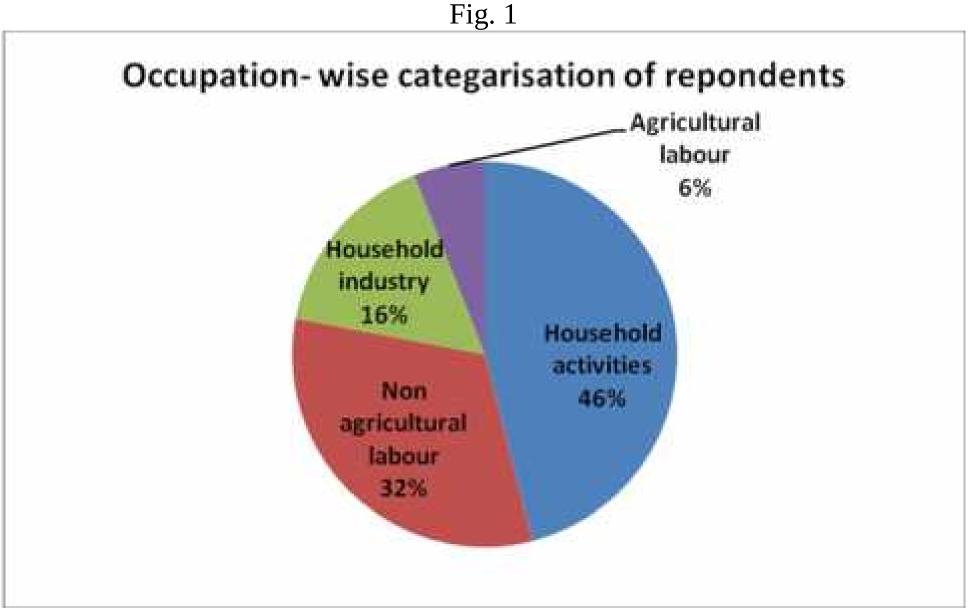
It is interesting to note that all the members covered under the study were women who belonged to the age group of 20-60. Of this, 35 per cent (21 Nos.) was in between 41-50 years and 32 per cent (19 Nos.) in between 31-40 years of age. Eighty per cent was married, 5 per cent unmarried and 15 per cent was widows.

The most important motive behind joining the SHG was the availability of credit easily. Of course, the desire to earn a regular and increased income also has played a dominant role in encouraging them to join an SHG. Among the various motives, easi credit facility was ranked first which is followed by the desire for savings and the desire to maintain relationship with others, respectively. The ranks assigned by the respondents clearly explain that there is a real need for small amounts of financing under easi terms and conditions among the poor people. It also shows that the members of the SHGs in Kerala are willing to undertake entrepreneurial activities in order to earn a regular income.

The religion – wise categorization of the respondents points out the fact that 70 percent (42 Nos.) were Hindus, 20 per cent (12 Nos.) were Muslims and the remaining 10 per cent were Christians. Educational status of the respondents indicates that 70 per cent of them have education above secondary school. Thirty per cent have only primary level education. Fourteen per cent were graduates / post graduates. These facts explain that micro finance is the need of the community, today, irrespective of their religion, caste or level of education.

Data relating to the basic occupation of the respondents shows that 46 per cent are engaged in household activities, 32 per cent are non agricultural labourers, 16 per cent are engaged in household industry and the remaining 6 per cent in agricultural labour. All the respondents were found using the micro credit for undertaking activities in addition to their regular engagements.

Fig. 1



Source: Primary data

Income Generating Activities Started Using Micro Finance

Micro finance ultimately aims the eradication of poverty through undertaking income generating activities. However, the practice of using such amounts for consumption and other purposes is not rare. The success of micro finance scheme, indeed, depends to a great extent on the type of activities for which the finance is utilized. Entrepreneurial activities that require very small amounts of investments are generally recommended for the SHGs.

The data pertaining to the activities started with the micro finance availed by the members explains that 33 per cent of them has invested the amount in livestock and 25 per cent spent the amount for starting tailoring works (see Table 1). Manufacturing and selling of food items were also identified as an important activity. Ten per cent of the beneficiaries could not start any entrepreneurial activity even though they availed micro credit through the SHGs.

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Table 1,Entrepreneurial Activities Initiated by the Beneficiaries

Sl.No.	Activity	No. of Beneficiaries	Percentage to Total
1.	Livestock	20	33
2.	Tailoring Units	15	25
3.	Food Business	12	20
4.	Washing soaps, etc.	4	7
5.	Retail Provision shop	3	5
6.	No Activities	6	10
	Total	60	100

Source: Source: Primary data.

Impact on Income and Savings

The opinion of the respondents relating to the change in their income level was collected. It shows that income level could be increased considerably in the case of 38 per cent (23 nos.) of the respondents, but increased only marginally in the case of 42 per cent (25 nos.) of the total respondents. However, 20 per cent felt that their income remained unchanged. Thus, the earnings of 80 per cent of the beneficiaries could be improved as a result of the micro credit facility through the SHGs.

Similarly, changes in the volume of savings of the respondents bring out the positive impact of micro financing. The SHGs encourage their members to set apart a portion of their earnings as compulsory savings. Savings with SHGs are on a weekly basis although some members are irregular in doing so. Some members were found keeping their savings with post offices, some others with banks and yet another group in the form of chitties. The total amount of savings as categorized and the number of respondents are exhibited in table 2. The amount of savings shown here represents the balance available at the time of collecting data.

Table 2, Savings of the Beneficiaries under Micro Finance

Amount of savings	Before		After	
	No. of persons	Percentage	No. of persons	Percentage
Up to Rs. 2,000	34	57	12	20
Rs. 2,001 – 4,000	14	23	22	37
Rs. 4,001 – 6,000	9	15	15	25
Rs. 6,001 – 8,000	3	5	7	12
Rs. 8,001 – 10,000	0	0	4	6
Above Rs. 10,000	0	0	0	0
Total	60	100	60	100

Source: Source: Primary data

Table 2 describes that there is a commendable increase in the amount of savings of the respondents as a result of availing micro finance through the SHGs. For example, the amount of savings of 57 per cent of the respondents was below Rs. 2,000 before availing micro finance. However, the savings of only 20 per cent of the respondents fall in this category after they availed the micro finance. It means that 37 per cent of the respondents are shifted to higher categories of savings as shown in the table. The amount of savings was in between Rs. 2,000 and Rs.6,000 in the case of 62 per cent of the respondents after they availed the micro credit. It is also noted that savings of none was above Rs. 10,000. The position of savings is made clear in fig.2.

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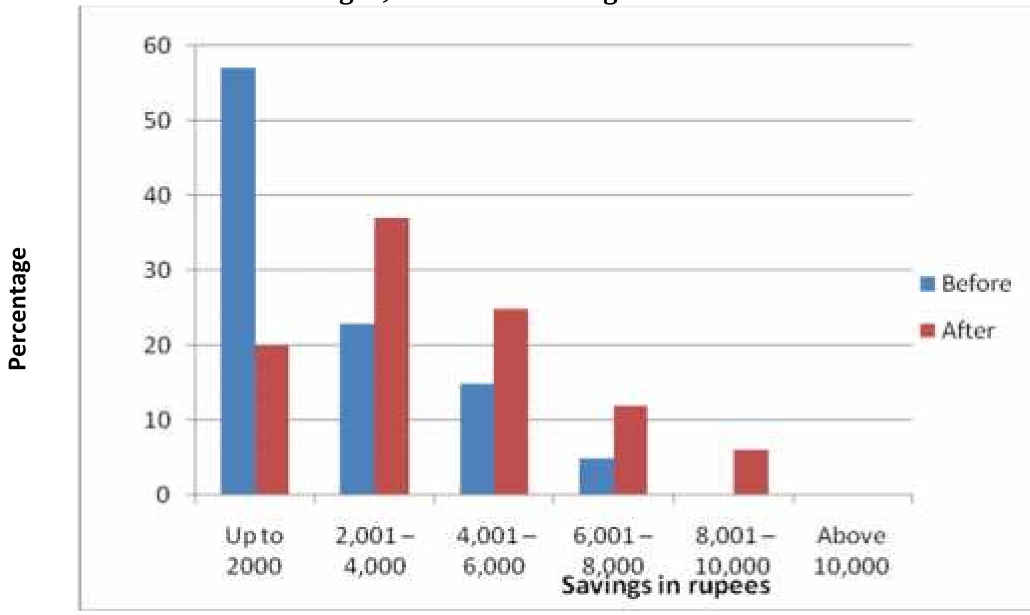
Fig. 2, Position of savings Before and After



` *Source: Source: Primary data.*

The information about the type of activities in which the respondents are engaged into and the figures relating to their savings, clearly support the fact that, as a result of micro finance, the economic position of the respondents could be improved.

The opinions collected from the respondents, about their social relationship indicate that in addition to the economic conditions, they could build and maintain good relations with people, particularly, neighbours. Of the total respondents, 60 per cent opined that they could strengthen the relationships with others through participating in the activities of the SHG. They also highlighted that through their engagement in various types of activities the level of self-confidence could also be increased. Twenty per cent of the respondents opined that they are able to maintain the relationships and the remaining 20 per cent did not feel any change in their relationships.

Repayment

The data relating to the repayment of loans, explains that 85 per cent (51 Nos.) of the respondents are prompt in repayment of the loans. It was found that these members were making the repayment of loans out of their business earnings.

Conclusion

The above analysis leads to the conclusion that micro financing has been helping a large number of people in meeting their livelihood and also in strengthening their relationships. In the present study, 80 per cent of the respondents expressed satisfaction in the scheme. To them the scheme provides employment, earnings and ensures savings though not in large amount. The beneficiaries of micro financing find the availability and repayment of loans very much favourable to them. As the women, who are the members of SHGs, are forced to engage in some selected entrepreneurial activities, the chances of building self-confidence and, thus, to become efficient entrepreneurs are more. Candles, curry powder, pappad, sweets, pickles, ready to cook items, agar bathis, paper covers, rubber band, balloons, carry bags, washing soaps, washing powder, readymade garments, tailoring units, livestock, aquariums fishes, etc. are the best suited product areas in Kerala. Since there is heavy and regular demand for these products in the state, commencement of a small sized individual or joint venture unit will never be a failure. Thus, micro finance is the best option before the economically and socially poor in the community and really a practical solution for the eradication of poverty.

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