Available online @ www.selptrust.org/www.iaraindia.com
SELP Journal of Social Science
ISSN : 0975-9999 (P) 2349-1655 (O)
Impact Factor : 3.655(CIF), 2.78(IRJIF), 2.77(NAAS)
Vol. IX, Issue. 38 | Julu - September 2018 © Author

IMPACT OF MICROFINANCE ON POVERTY ALLEVIATION: A ROLE PLAYED BY SHG

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Abstract

One of the greatest challenges before the Indian sub- continent which accommodates more than one-third of the population is poverty. India, one of the BRIC nations with more than 1.2 billion population is seen by many developed countries as an emerging economy. India s economic growth has failed to make a significant improvement in its poverty figures with 400 million-more than the total in the poorest African Nations- still stuck in poverty. Government of India with its concern started various poverty alleviation programs but they have failed to deliver the objectives to the level which is desired. The reasons may be many such as failure to reach the target group, loopholes in the system, developing a robust mechanism to name a few. The microfinance has come forward to fill up the gap. But the outreach is too small as compared to the requirement and potential. However there is some progress in this regard after active role played by NABARD and formation of SHGs groups. A number of NGOs and MFIs have also delved into the business. Some of them have also started in a big way and have started making profit by issuing IPOs (Initial public offers). But certain development in recent years has brought a fresh focus on the problem of regulation in field of microfinance. The paper delineates three distinct aspects of microfinance, first growth of microfinance in India and some other countries; secondly it discusses the role played by NABARD and other National Banks in growth of SHGs and Grameen Bank. Third, it deals with the role of government in framing legislation for protection of right of micro borrowers. The study also deals with the need for a regulatory body to regulate, develop and guide the numerous MFIs and NGOs who work in the field of microcredit.

***Keywords**: Grameen Banks, India, Microfinance, NABARD, Poverty, SHGs.*

Introduction

The poverty has been described as a situation of "pronounced deprivation in well-being" and being poor as "to be hungry, to lack shelter and clothing, to be illiterate and not schooled" (World Bank, 2000-2001). Mehta and Shah(2001-02)defines poverty as „the sum total of a multiplicity of factors that include not just income and calorie intake but also access to land and credit, nutrition, health and longevity, literacy and education and safe drinking water, sanitation and other infrastructural facilities. Poor people are particularly vulnerable to adverse events beyond their control. It is also seen that poor doesn t have much voice in the institutions of the state and society. World Bank defines poverty as survival of an individual on less than $1.25 per day. The poverty line in India measures only the most basic calories intake. It records not nutrition but the satiation of hunger. At present the poverty line stands at Rs 28/- and Rs 32/- per person per day for rural and urban areas respectively. The official line of government of India delivers a poverty rate of around 32% of the population as opposed to 42% according to World Bank. India still accounts for one-third of the world s 1.4 billion poor people. It is evident from this statistics that, it is all about the line one is drawing, one can slacken it to exclude people or tighten the line to include people.

In India, the history of microfinance dates back to establishment of Syndicate Bank in 1921 in private sector. During the early years, Syndicate Bank concentrated on raising micro deposits in the form of daily/weekly basis and sanctioned micro loans to its clients for shorter period of time. But microfinance came to limelight only when Dr Yunus gave it a mass movement in Grameen Bank experiment.

Microfinance can be called a novel approach to provide saving and investment facility to the poor around world. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smoothen their consumption, manage their risks better, gradually build their asset base, develop their business, enhance their income earning capacity, and enjoy an improved quality of life. In India, microfinance mainly operates through Self Help Group (SHGs), Non Government Organizations (NGOs), and Credit Agencies. It provides poor people with the means to find their own way out of poverty. It put the power squarely in their hands, giving them a larger stake in their own success than one –time donation of food, goods, or cash. The initiatives of Government for poverty alleviation could not succeed to the desired level, may be due to the fact that they do not take cognizance of power of the poor to deal with their own problems. Government tries to help them by way of subsidies and other help but these initiatives hardly reduce their poverty levels and are not a long term solution. This section of society if given with guidance, power of capital and productive assets can emerge as the successful entrepreneur. This can easily be achieved by empowering them with power of microcredit. The poor do not have any worthy asset base. Hence they have to be provided with mortgage free loan (Akula,2008). It has been proved beyond doubt from Grameen Bank experiment. The system of microfinance was introduced about 28 years back with an organization of Grameen Bank in Bangladesh by a famous economist Prof. Mohammed Yunus. He observed that most villagers were unable to obtain credit at reasonable rates. So he began to lend them money from his own pocket, allowing the villagers to buy materials for projects like weaving bamboo tools and making pots (New York Times, 1997). Ten years later, Dr Yunus had set up Grameen Bank as a project in one of the village in Bangladesh in 1976 to assist poor families by providing credit to them. Today micro-finance has been widely spread all over the world as an effective tool to poverty eradication. It is found that microfinance has reached about 80 million households and about, 20000 micro-finance Institution are operating in developing countries of Asia, Africa, Europe and Latin America (Pillai, 2011).

Modes of delivery of microfinance

Micro Finance Institutions (MFIs) around the world follow a variety of different methodologies. The focus of such service is women rather than men for the reason women are more judicious and economical to men. The following are major methodologies employed by MFIs for delivery of financial services to low income families.

Self Help Group (SHGs)

The Self Help Groups(SHGs) is the dominant microfinance methodology in India. In this case the members of Self Help Group pool their small savings regularly at a prefixed amount on daily or weekly basis and SHGs provide loan to members for a period fixed. SHGs are essentially formal and voluntary association of 15 to 20 people formed to attain common objectives. People from homogenous groups and common social back ground and occupation voluntarily form the group and pool their savings for the benefit of all of members of the groups. External financial assistance by MFIs or banks augments the resources available to the group operated revolving fund. Saving thus precede borrowing by the members. NABARD has facilitated and extensively supported a program which entails commercial banks lending directly to SHGs rather than via bulk loan to MFIs. If SHGs are observed to be successful for at least a period of six months, the bank gives credit usually amounting 4 times more than their savings.

Individual banking programmes (IBPS)

In Individual Banking Programmes(IBPs) there is provision by Microfinance institutions for lending to individual clients though they may sometimes be organized into joint liability groups, credit and saving cooperatives. This model is increasingly popular through cooperatives. In cooperatives, all borrowers are members of organization directly or indirectly by being member of cooperative society. Credit worthiness and loan securing are a function of cooperative membership in which member s savings and peer pressure are assumed to be key factors. BAXIS a MFI based in Ahemadabad, offers both the joint liability group and individual lending loans in addition to loans to intermediaries. Bank of Rakyat at Indonesia, arguably the world s biggest and profitable microfinance institution is following this model.

Grameen model

Grameen Model was pioneered by DR Mohammed Yunus of Grameen Bank of Bangladesh. It is perhaps the most well known and widely practiced model in the world. In Grameen Model the groups are formed voluntarily consisting of five borrowers each. The lending is made first to two, then to the next two and then to the fifth. These groups of five meet together weekly, with seven other groups, so that bank staff meets with forty clients at a time. While the loans are made to the individuals, all in the group are held responsible for loan repayment. According to the rules, if one member ever defaults, all in the group are denied subsequent loans.

Mixed Model

Some MFIs started with the Grameen model but converted to the SHG model at a later stage. However they did not completely do away with Grameen type lending and smaller groups. They are a mix of SHG and Grameen model. The main difference between these programs is rather marginal. Grameen programmes have traditionally not given much importance to savings as a source of funds where as SHGs place considerable emphasis on the source of funds. The SHG programs have compulsory deposit schemes in which the members themselves determine the amount. The SHGs model is widely used in India.

According to Vijay Mahajan (2003), Managing Director of BASIX, the SHGs and Grameen models offer economies of transaction cost to MFIs, but at the cost of members time because the unit of dealing is “group” rather than individual. In contrast, MFIs offering individual loans incur higher transaction costs for serving their borrowers. In summary, Exhibit 1 capture the appropriateness of each of the models described and discussed below. Among all methodologies, Self Help Groups

(SHGs) model is more popular in India. There are three models of SHGs.

The salient features are given below:-

i) **SHGs-Bank Linkage model:-**This model involves the SHGs financed directly by the Banks viz. CBs(Public Sector and Private Sector), RRBs, and Cooperative Banks.

ii) **MFI-Bank Linkage model**:-This model covers financing of micro Finance Institutions (MFIs) by banking agencies for on ward lending to SHGs and other small borrowers.

iii) **NGOs-Bank Linkage Model**:-Under this model NGOs promote the linkage between banks and SHGs for savings and credit.

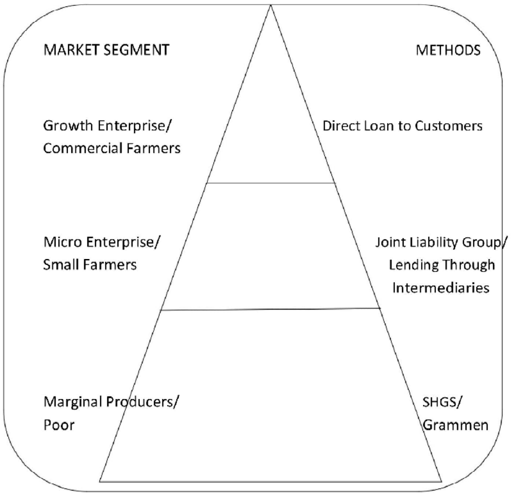

Figure1: Market Segment and Methodology Applied

Present status of microfinance in india

Microfinance sector has traversed a long journey from micro savings to microcredit and then to microenterprises and now entered the field of micro insurance, micro pension. Financial institutions in the country continue to play a leading role in the microfinance program for nearly two decades now. They have joined hands proactively with informal delivery channels to give microfinance sector the necessary momentum. The data for the year 2016-17 along with a few preceding year have been presented and reviewed under two models of microfinance (i) SHG-Bank Linkage model (ii)MFI-Bank Linkage model.

TABLE.1. OVERALL PROGRESS UNDER SHG-BANK LINKAGE

	Particulars	2014-2015		2015-2016		2016-2017	
		No of SHGs	Amount	No of SHGs	Amount	No of SHGs	Amount
SHG Savings with Banks as on 31st March	Total SHGs No	61.21	5545.62	69.53	6198.71	74.62	7016.30
	Of which SGSY groups	15.06	1563.38	16.94	1292.62	20.23	1817.12
	All women SHGs	48.64	4434.03	53.10	4498.66	60.98	5298.65
Loan Disbursed to SHGs during the year	No of SHGs extending Loans	16.10	12253.51	15.87	14453.3	11.96	14547.73
	Of which SGSY Groups	2.65	2015.22	2.67	2198	2.41	2480.37
	All women SHGs	13.75	10527.38	12.94	12429.37	10.17	12622.33
Loan outstanding Against SHGs as on 31st March	Total No SHGs Linked	42.24	22679.84	48.51	28038.28	47.87	31221.17
	Of which SGSY Groups	9.77	5861.72	12.45	6251.08	12.86	7829.39
	All Women SHGs	32.77	18583.54	38.98	23030.36	39.84	26123.75

Source : Status of microfinance in India report 2016-17,NABARD. N.B. In table the amount is in Rupees crore and number in lakhs

Impact of microfinance

A number of field researches have been conducted by various agencies to study the impact of microfinance on socio-economic aspects of the clients. These field studies include study commissioned by NABARD in 2002 with financial assistance from SDC where GTZ which covered 60 SHGs in eastern India. The World Bank Policy Paper details in the findings of Rural Finance Access Survey (RFAS) done by World Bank in association with NCAER. The RFAS covered 736 SHGs in the state of Andhra Pradesh and Uttar Pradesh. These field studies reveal divergent research findings. But the common findings are of the opinion that there is some increase in income levels and household assets in real terms among the clients. These studies also brought out the fact that major occupation of group members was agriculture along with other activities like farm labour and poultry. Being rain fed area, lack of irrigation facility; declining agricultural outputs and fragmentation of land have accentuated their vulnerabilities over a period of time. The group members lack any sort of specific handicraft skills and do not receive any skill development training for undertaking any other non- farm activities. In most of the cases, loans from financial organizations are used by them for meeting their consumptions and emergency requirement. It also shows that group members do not have confidence to use credit for productive purposes in view of lack of opportunities and skills.

Conclusion

Microfinance is multifaceted and works in an integrated system. There are many stake holders and each one has a definite role to play. In the core there is client. There is a second level called micro level where MFIs, NGOs, SHGs and Grameen work to provide financial support to individual client. Apex institutions like NABARD, SIDBI and other nationalized Banks operate in Meso-Level to provide infrastructure, information and technical support to micro level players. Around all these levels, there are financial environment, Regulations, legislations and regulators called Macro level. With passage of time new opportunities and new challenges are being felt in the field of microfinance. In recent years microfinance is in news for bad reasons. There are a number of suicide cases of micro credit clients all over India for excess interest charges and high handedness of recovery agents in recovery of loans. So, government of India has brought out a legislation to check the high interest rate on micro credit and protect the poor from clutches of greedy MFIs.

Lending to the poor through microcredit is not the end of the problem but beginning of a new era. If effectively handled, it can create miracle in the field of poverty alleviation. But it must be bundled with capacity building programs. Government cannot abdicate its responsibility of social and economic development of poor and down trodden. In absence of any special skills with the clients of microcredit, the fund is being used in consumption and procurement of non-productive assets. Hence it is very important to provide skills development training program like handicraft, weaving, carpentry, poultry, goat rearing, masonry, bees farming, vegetable farming and many other agricultural and non agricultural training.

Suggestions

Government has to play proactive role in this case. People with some special skills have to be given priority in lending microcredit. These clients should also be provided with post loan technical and professional aid for success of their microenterprises. If government and MFIs act together then microcredit can play a great role in poverty alleviation.

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