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Microfinance and Vulnerability of the Economically Weaker Section: A study

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Abstract

Uncertainty and unpredictability faced by economically weaker section (EWS) increase their vulnerability making poverty even more unbearable. India's National Bank for Agriculture and Rural Development (NABARD)-initiated Self-Help Group (SHG) program, which is currently the largest and fastest growing microfinance program in the developing world, has been aggressively promoted as a way of combating poverty. This paper investigates whether participation in the Microfinance programs results in reducing risk of poverty and vulnerability. The Pune city is taken under the study where the correlation is shown between the vulnerability and the empowerment of the Microfinance borrowers.

Keywords: Microfinance, Vulnerability, Poverty, Risk

Introduction: -

Microfinance means a variety of financial services that targets low-income groups which are economically weak, particularly women. Microfinance products tend to be for smaller monetary amounts than traditional financial services for those who don't have access to traditional financing systems. The microfinance services include savings, insurance, loans, and remittances. Microloans are given for a variety of purposes on a frequent basis for microenterprise development. Thus the diversification of products and services offered by microfinance reflects the fact that the financial needs of individuals, households, and enterprises can change significantly over time, especially for those who live in poverty. Microfinance institutions mostly use non-traditional methods which the normal banking system don't use, such as group lending or other forms of collateral not employed by the formal financial sector.

Microfinance makes the provisions of savings accounts, loans, insurance, money transfers and other banking services to customers that lack access to traditional financial services, usually because of poverty. Such process of making availability of small loans to individuals who lack the necessary resources to secure traditional credit is known as microcredit.

Microfinance funding is a source of financial services for entrepreneurs and small businesses that lack access to banking and related services. The two main financial delivery mechanisms are: (1) Individual based lending models for entrepreneurs and small businesses; and (2) group-based

lending models, where several entrepreneurs come together to apply for loans and other services as a group.

Microfinance is the provision of financial services to economically weaker sections of the society. It refers to a movement that has a worldwide vision where low-income households that are economically weak, have permanent access to high-quality and affordable financial services to finance income-producing activities, build assets, stabilize consumption, and protect against risks. The term microfinance was closely associated with microcredit that was given in the form of very small loans to unsalaried borrowers with little or no collateral, but the term has since evolved to include a range of financial products, such as savings, insurance, payments, and remittances.

Microfinance:-

Microfinance is understood as a source to make the provision of financial services to micro-entrepreneurs and small businesses, which lack access to banking and related services due to the high transaction costs. Microfinance makes the provision of different range of services such as deposits, loans, payment services, money transfers and insurance products to poor and low income households. Microfinance allows replacement of high cost of debt charged from the informal sources. It inculcates financial discipline amongst borrowers, resulting in ownership of assets, and therefore it helps in enhancing the ability to withstand shocks due to savings products, credit and insurance. Microfinance is considered as an important development tool. It has helped to expand the depth of financial services. Microfinancing history is traced back in the middle of the 1800s when the theorist Lysander Spooner was writing about the benefits received from small credits to entrepreneurs and farmers that helped them to get out of poverty. Spooner and Friedrich Wilhelm Raiffeisen founded the first cooperative lending banks to support farmers in rural parts of Germany.The modern use of the expression "microfinancing" has its roots in the 1970s when Grameen Bank of Bangladesh with the microfinance pioneer Muhammad Yunus, were starting and shaping the modern industry of microfinancing. Akhtar Hameed Khan is the another pioneer in this sector.

Economically Weaker Section (EWS):-

According to the revised definition of the Economically Weaker Section, Families living in cities and towns with annual income of up to Rs. 1 lakh or monthly earning of up to Rs. 8,334 will fall in the category of economically weaker section (EWS). 32.7% of the population of India lives below poverty line.

Vulnerability:-

Vulnerability is defined as lower capacity of an individual or group to cope up with, recover or resist the impact of a natural or man-made hazard. The concept of vulnerability is relative and

dynamic. Vulnerability is associated with poverty, but it can arise when people are completely isolated, become insecure and become unable to face the risk, shock or stress.

People have different exposure to risk as a result of their social or ethnic group, gender, other identity, age and other factors. Vulnerability may also vary in its different types: poverty, for example, may mean that housing is unable to withstand an earthquake or a hurricane and this may result in a lower response to a disaster, resulting into greater loss of life or prolonged suffering.

Vulnerability can be handled with the help of resources available to individuals, households and communities to cope with a threat or to resist the impact of a hazard. Such resources can be physical or material.

Risks of Vulnerability:-

Risk which can also be called as disaster risk, is the disaster losses in terms of lives, livelihoods, health status, assets and services which could occur to a particular type of community or a society over some specified future time period.

It considers the probability of harmful consequences such as deaths, injuries, property, livelihoods, economic activity disrupted or environmentally damaged resulting from interactions between natural or human induced hazards and vulnerable conditions.

Risk can be calculated using the following equation:

Risk = Probability of Hazard x Degree of Vulnerability

The researcher studies the risk of vulnerability against the microfinance. How microfinance does helps the Economically weaker section of the society to reduce the risks of vulnerability and increase the level of empowerment amongst them in domestic as well as social sphere. This study is a quantitative study.

Purpose of the present research:-

The purpose of the research is to outline the present status and to point out the prospects of the economically weaker section of the society. This would help in forming a generalized view of the vulnerable social and ethnic group, their living standards, the empowerment taken place due to microfinance and also how the vulnerability is affected with the help of microfinance companies. The purpose is also to study the different lending procedures adopted by the microfinance companies in order to strengthen the economically weaker section if the society.

Research problem: -

The research was undertaken to study the economically weaker section in the Pune city. The research problem is as follows: -

- How far the level of vulnerability is reduced with the help of microfinance companies?

Scope of the research: -

The scope of the research was as follows: -

- A researcher has selected Pune city for the purpose of study.
- This study takes into consideration the different microfinance companies in Pune city that have helped in reducing the vulnerability to povertyof the economically weaker section in the society.

Selection Criteria:-

- The data of past 5 years from 2006-2011is taken for the purpose of the research.
- The researcher has considered people whose annual income is less than 1,00,000 p.a. as per the recent definition of the economically weaker section (EWS).

Data Collection Method:-

The data was collected with simple random sampling with the sample size of 500 households which are economically weak and vulnerable to poverty.

Research Methodology: -

The research methodology used is coefficient correlation method where the relation between the economically weaker section and the vulnerability to poverty is correlated. The relation between the microfinance companies and the reduction in the risks of vulnerability between the economically weaker sections is shown.

Sample Questions taken for the purpose of study along with their responses in scales from 0 to 3 of the sample size of 500: -

Q1) Which is the main indicator of Vulnerability for respondents participating households in Micro Finance Institutions?

Shock and Severity	3
Severity	2
Shock	1

Q2) In case of Shocks

Illness	2
Accident	1
Floods	0
Famine	0

Q3) In case of Severity

Acute Illness	2
Serious Injury	1
Severity of Floods	0
Earthquakes	0

Q4) What are the effects of Vulnerability?

Loss Of Income	3
Lower Yields	2
Loss Of Person-Days Of Employment	1
Cattle	0

Q5) What are the Risk Reduction Measures for Vulnerability by Microfinance institutions?

Borrowing	3
Livelihood Diversification	2
Liquidation Of Assets	1
Technological Choices	0

Q6) Which is the Insurance method given by Micro Finance Institutions in order to prevent the risk of Vulnerability?

Formal (Life Insurance)	2
Informal (Reciprocal Transfers From Friends Or Relatives)	1

Table 1.

Measuring Tools	Q1	Q2	Q3	Q4	Q5	Q6	FINAL RESULT ABOUT VULNERABILITY
Mean	2.96	1.83	1.84	2.73	2.74	1.99	2.38
Median	3.00	2.00	2.00	3.00	3.00	2.00	2.43
Mode	3.00	2.00	2.00	3.00	3.00	2.00	2.43
Standard Deviation	0.24	0.43	0.39	0.46	0.46	0.09	0.20
Kurtosis	45.72	5.67	4.82	0.59	0.68	121.23	3.29
Skewness	-6.60	-2.48	-2.34	-1.36	-1.39	-11.08	-1.59
Count	500	500	500	500	500	500	500
Confidence Level(95.0%)	0.02	0.04	0.03	0.04	0.04	0.01	0.02

The scaling method is used for the purpose of the study. The scales from 0 to 3 are used as the measuring tools for calculating Mean, Median, Mode and standard deviation.

Chart 1.

The Pie diagram of the final results of the measuring tools used

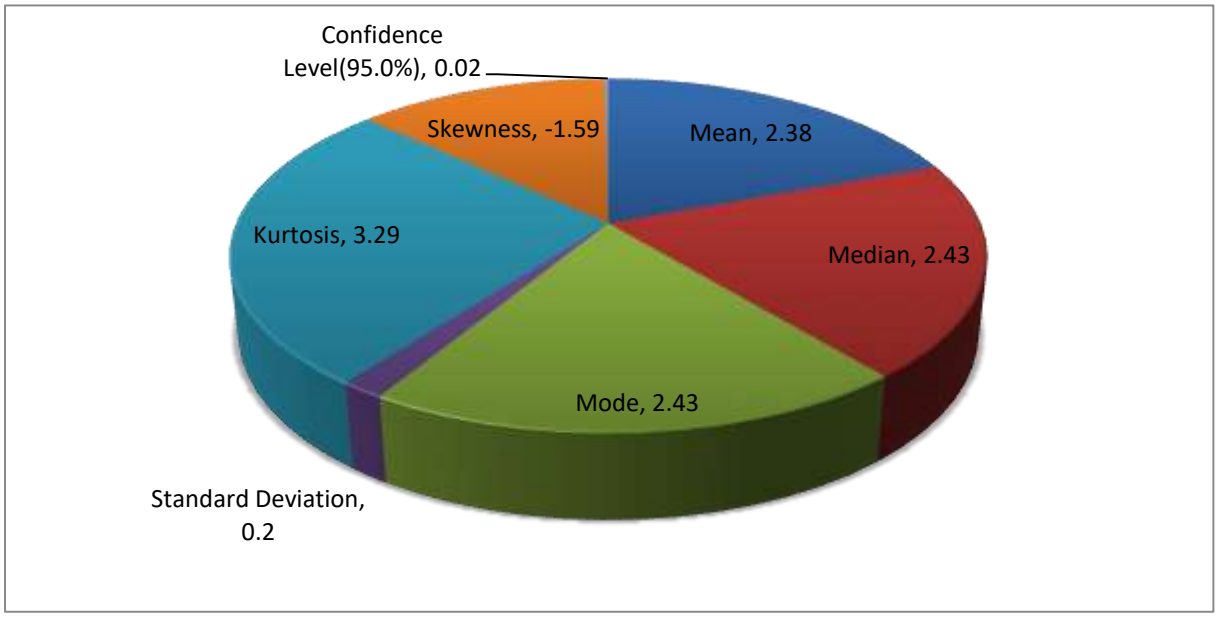
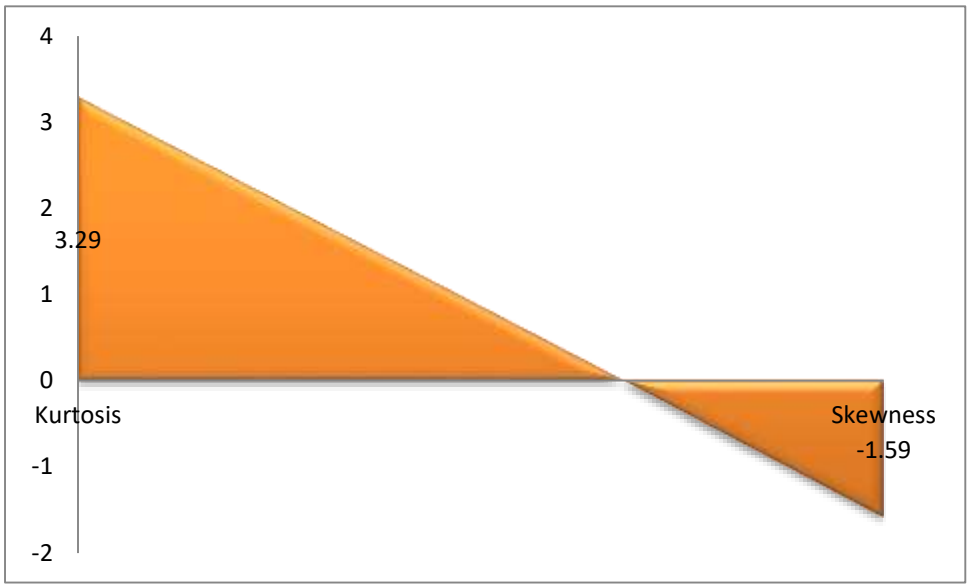


Chart 2.

Measuring the normal distribution with the help of Kurtosis and skewness tests.



Findings:-

- As you could see the average median (2.43) and average mode (2.43) is equal and the average mean (2.38) is less than average median and average mode.
- This represents that the responses revolve around the scales of 2-3.
- Since the responses are less than 2.5 it is considered that the questions have the maximum responses that has the scaling of 2.
- Taking into consideration the responses with scales 2 we can conclude as,
  - The main indicator of Vulnerability for respondents participating households in Micro Finance Institutions is Shock and Severity both which has led to the illness and the acute illness of the Microfinance borrowers.
  - This has led to loss of income due to major illness factor that has given rise to further borrowings of the vulnerable economically weaker section in order to help themselves from their illness caused due to loss of income and defaulting in the payments of the previous loans taken by the households that are economically weak.
  - So, this has the vice versa impact on the economically weak people.
  - In order to prevent the risks of vulnerability, the microfinance institutions have offered the formal insurance methods like Life insurance, but they should promote more of the informal methods of insurance such as mediclaim policies which will be more beneficial for the vulnerable people who are victim of both illness and acute illness.

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