
Role of Microfinance in alleviation of Poverty: Literature Review

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Abstract

This paper covers both the theoretical and empirical literature on microfinance poverty and their relevance to poverty reduction and economic empowerment. It begins with a brief review of the historical background of Microfinance in the context of poverty reduction all over the country and particularly in Uttarakhand. It then reviews the methods of operation of Microfinance Institutions, empirical studies on the impact of Microfinance on poverty reduction and economic empowerment. The experience of microfinance in different states and how it has helped to alleviate poverty in these states are also reviewed. The roles, performance and successes of microfinance institutions in alleviating poverty are also enunciated in this section. This section also discusses various challenges confronting Microfinance Institutions.

INTRODUCTION

Poverty reduction has been an important development challenge over decades. One of the identified constraints facing the poor is lack of access to formal sector funds to enable them to take advantage of economic opportunities to increase their level of output, hence move out of poverty. The wide-spread poverty, with all the problems that comes with it, is the greatest challenge of our time. Traditional aid has not helped in solving this problem. One kind of development work, which promotes financial sustainability for poor individuals in the society, is

Micro finance (Lindvert, 2006). The microfinance revolution has changed attitudes towards helping the poor in many countries and in some has provided substantial flow of finance, often to very low-income groups or households, who would normally be excluded by conventional financial institutions.

Microfinance is based on the premise that the poor have skills which remain unutilized or underutilized. It is definitely not the lack of skills which make poor people poor and charity is not the answer to poverty. It only helps poverty to continue. It creates dependency and takes away the individual's initiative to break through the wall of poverty.

The concept of microfinance originated in the mid-1970s in Bangladesh through a pioneering experiment by Dr. Muhammad Yunus, a Professor of Economics. His aim was to offer poor people:

- Financial services
- Entrepreneurship opportunities
- An end to mistreatment by money lenders
- A system where they could produce, manage and maintain their own assets.

According to Hennessey (2006), Yunus founded the Grameen Bank in 1983, now widely popular and seen as a model being replicated by many including leaders, NGOs, and advocacy groups in dozens of countries.

Literature Review:

Various studies have been conducted to analyze the role of micro financial institutions and self help groups for development of rural people. These studies show that self help group has helped in improvement in the level of income, assets and wealth and also in their standard of living. It has helped them in their socio-economic upliftment. There has been growth in MFI even in private sector.

Nasir, S (2013) tries to outline the prevailing condition of the microfinance in India in the light of its emergence till now and its aim is to provide a cost effective mechanism for providing financial services to the poor. The research finding discovers the prevailing gap in functioning of MFIs such as practices in credit delivery, lack of product diversification, customer overlapping and with practicable suggestions to overcome the issues and challenges associated with microfinance in India.

Barinaga, E (2013) describes the first year of efforts to introduce microfinance as a tool to work with vulnerable groups in Sweden and to discuss whether microfinance can be seen as a tool to analyze social change in developed welfare states such as Sweden. The analysis shows the mobilization and generation of social capital and the frame alignment process set in motion by microfinance.

Das (2012) in his paper carried out the analysis that the role of micro finance through SHG for women empowerment is praiseworthy. It is observed that educated middle aged women show keen interest in joining SHGs. The primary motive behind such is the 'chance to show their talents' and the urge to save money for future use. All members seem to borrow from the revolving and internal fund irrespective of the education level. It is interesting to note that many have expressed good improvement in the level of income, assets and wealth and also in their standard of living. The study concludes that SHG have brought higher psychological and social empowerment than economic empowerment. The respondents of Lumding Development Blocks, Dhalpukuri Development Blocks and Udali Development Blocks are well empowered though both these blocks has different level of socioeconomic conditions. In fact, age and education are not having any influence on empowerment as well as on managerial skill development among rural women. Further, impact of SHGs is appreciable in bringing confidence, courage, skill development and self worthiness in rural areas, particularly women. There is appreciable development in planning, coordination, decision making and financial skills among the leader respondents, but the effect of SHG on communication, organizing, competency and technical, marketing skills and entrepreneurial skills is moderate only. Finally, there is a definite improvement of managerial skills, psychological well being and social empowerment among rural women as a result of participating in micro finance through SHG program. Considering all these parameters of women empowerment it can be stated that the empowerment is achieved through SHG in the districts among the rural women flock.

Mehta (2012) in his paper has analyzed that the problem of self-help groups in the Jharkhand state are multifarious and multidimensional. These problems can be solved by changing the attitude of society, family and nation towards the weaker sections of the society, poor men and women. Some suggestions are as follows: Members of the SHG should be educated and when she is educated she can manage her dual responsibility of home and work. Member of the each SHG should be given vocational training in their work so that their efficiency increases. They should be trained to develop their capabilities of decisions making and individual thinking. Women member of the self-help group should be made aware of their constitutional and legal rights both in their work and in the social sphere. The attitude of husband and family member should be changed towards her occupation and husband should come forward to share her burden. They should be given adequate facilities. They should be given financial freedom.

Sarmah and Das (2012) also analysed the role of Micro-Finance and Self-Help-Groups (SHGs) for the socio-economic development of the poor people in Lakhimpur district of Assam. For collecting the primary data a total of 50 SHGs and five (5) members from each SHG (50x5=250 respondents) were randomly selected covering the entire Lakhimpur district. From the study it has been found that after joining the SHGs the poor rural people can increase their income and improve their standard of living by performing economic activities independently.

Tiwari, A. (2012) conducts a comparative study between India and Bangladesh in terms of loan lend by institutes to customers, clientele, financial sustainability of MFIs in order to understand how MFIs in India are performing as against those MFI in Bangladesh as it is considered to be the originator of microfinance. The findings discover that no doubt Indian MFIs are more profitable and operating more efficiently than those in Bangladesh.

Kumar Naveen (2012) in his article has concluded Microfinance has evolved across the world into various operating forms and to a varying degree of success. One such form of microfinance has been the development of the SHG movement; it has become an increasingly utilized tool for providing credit access to the poor in India. The SHG lending approach accounted for strong repayment rate and continuous access to credit services even without collateral. The empirical studies argued that the ability of groups to self-select peer members mitigate adverse selection problems in credit market. Furthermore, it is argued that much of the screening of borrowers actually occur *ex-post* to group formation in the form of group expulsions. To date, to a great extent, the microfinance literature had discussed the group pressure as an enforcement device, rather than stressing the dynamic incentives like progressive lending. The empirical result in this study reveals that the groups increased their loan sizes by many fold and it shows that they are following the dynamic incentives like progressive lending. The study indicates that the practice of principle of progressive lending has contributed in improving the loan size across the groups and regions. The supply of financial services through the SHGs to the poor is found to be efficient and sustainable. It has contributed in filling the gap between the relatively low cost but inaccessible formal banking sector, and the accessible, but high cost informal sector. However, this article is limited in its approach and data to explore the dark side of progressive lending, such as compared with individual lending models—the group lending imposes significant costs to borrowers in

managing the microfinance business. Here, the borrowers are held financially responsible for their screening mistake, by having no small amount of future credit services. Furthermore, the lending institutions always may use the credible threat of refusing credit to the expelled members of groups. As a result, the critical poor would be declined to avail any benefit of microfinance even from the alternative lending institutions.

Dutta, P (2011) studied the contribution of SHG-bank linkage program initiated by NARABRD in poverty reduction and social empowerment of the people, by comparing the pre-SHG and post-SHG scenario. It also studies the regional and intra-regional disparity in the development of SHG-Bank linkage program among the states. The finding shows as a result of collective effort of the Indian government, banks, NGOs and SHGs, more numbers of rural people now have access to the benefits of the modern financial system. The SHGs-bank linkage program is yielding promising outcomes in terms of availing new loans, repeat loan and repaying the loan. Though there is rapid increase in the number of SHGs all over India, but the growth is not uniform throughout the country. The growth of SHGs is dominant in the southern region of India. The ongoing process of training and consultation by NABARD and other organization will help in the development of the other regions of India, to a great extent, the program is successful in poverty alleviation and it uplifted the income and savings of the poor, especially of women.

Mehta (2011) in his paper concluded that the rural people have been vastly benefited by microfinance. It has helped them in their socio-economic upliftment. The rural poor now feel that they can also be partners in the process of rural development by joining the SHG movement. The training of the members by the NGOs had increased their confidence, restored self worth and improved their social concern about the neighbours. This study has also indicated that even though the members have joined the SHGs for various reasons, all of them have one common goal, which is seeking a better standard of living via a better organization that works for their benefits. Hence, it could be concluded that the SHGs have proved that they could serve as an alternative instrument of financial intermediation for the poor. Also, the microfinance services offered by them have helped to push back. The SHG can contribute to changes in economic conditions, social status, decision making and increases women in outdoor activities. These SHGs play a very important role in social change. SHG not only changes the outer form of a community or a society but also the social institutions as well as ideas of the people living in the society. In other words it also applies to change the material aspects of life as well as in the ideas, values and attitudes of the people.

Samuel, J. et al. (2011) examined the impact of microfinance on the rural women. The study revealed that majority of the SHG members were middle aged, married and belonging to nuclear families from backward castes. The impact was 45.59; employment was 112.48, the asset position of members after joining the self-help group was 53.43 and the consumption change in member household was 25.8 percent. The regression analysis revealed that income of the members increased by 0.50 from one rupee investment, savings increased to Rs 4.92 and employment increased to the income by Rs 40.37. The finding also shows that the major constraints faced by members were conflicts among group members, improper savings or procedures involved and lack of training or skill up gradation as moderate problems.

Mohapatra et al. (2010) concluded that micro finance, micro credit through SHGs has reached the people. There is a steady growth in SHGs and millions of households are being helped through Micro Finance. Therefore SHG will become a harbinger of the overall development of the socio economic development of the rural poor. SHGs is independent in bringing out over all improvement in the socio economic status of the members/clients.

Shylendra, S. H. et al. (2010) examines how the concept of SHG has been adopted under the linkage program and in what ways SHG are able to help the poor obtain access to savings and credit facilities from the formal institutions in relatively backward districts (Sabarkantha) of Gujarat state in western India. The finding reveals that the linkage program has given a fillip to the formation of SHGs in the study district. It also reveals a few potential strengths as well as some inherent constraints of SHGs. An adoptive behavior of SHGs could seem especially in tackling challenges relating to the monitoring and enforcement of loan transactions. Social backwardness of members, including poor development of skill and ability in self managing group affairs and the varied response of FIs to the needs of SHGs are identified as major factors influencing the performance of SHGs.

Vetrivel, S. C. et al. (2010) get an insight of the role of microfinance on women employment through Self Help Groups (SHGs) Bank Linkage Programs which has been successful not only in meeting financial needs of the rural poor women but also in strengthening collective self help capacities of the poor leading to their empowerment. The research presents some findings the microfinance can contribute to solving the problems of inadequate housing and urban services as an integral part of poverty alleviation programs.

Deininger (2009) in his paper has stated that longer program exposure has positive impacts on consumption, nutritional intake, and asset accumulation. Investigating heterogeneity of the impacts suggests that even the poorest households were able to benefit from the program. Furthermore, overall benefits would exceed program cost by a significant margin even under conservative assumptions. The SHG-led approach differs from traditional micro-finance in a number of ways. First, it does not exclusively focus on credit or savings but also includes emphasis on social empowerment, outreach, and capacity building. Recognizing that households' lack of human and social capital may prevent them from making good use of financial resources even if they had access to them, program organizers put a strong focus on encouraging the groups to establish regular meetings among group members and group savings. There is also an emphasis on outreach whereby existing groups are encouraged to help the "leftover poor" in their village to form SHGs. Second, the goal is not to establish a separate micro-finance institution but to use the group to intermediate in dealings with the formal sector and help households to create a "credit history" that will eventually allow them to access regular sources of finance. Finally, federation of SHGs is a central element not only with respect to peer monitoring and diversification of risks on the financial side but federations at village and higher levels are also used to assist in implementation of government programs, help SHGs provide other services -from technical assistance to marketing- and allow members participation in local government.

Tripathi and Ramji (2009) in their paper have concluded that around 68% of members without access to formal credit received loans from the SHCs during 2005- 06, proportion of loaners to members shows an increasing trend suggesting a rise in access to credit by members. More significant is that the rate of growth in membership has been lower than the rate of growth in loaness. These co-operatives have generated 72.9% of their total loanable funds through internal deposit mobilization. Though the volume of external loans has increased in absolute terms, its proportion to total credit has shown a decreasing trend. The rate of growth of average amount of deposits and credit move in the same direction, suggesting that with the rise in amount of deposits, the volume of credit too has gone up. Similarly, where amount of deposit mobilisation has declined, the amount of credit supply too has slumped. This indicates that the volume of deposits tends to determine the flow of funds in these self-help co-operatives. The Credit Deposit Ratio (CDR) being more than 100% indicates at full utilisation of deposits mobilized. The rate of repayment was about 85%. As members can also raise demand loans, higher frequency of accessing credit by a position holder may not necessarily be conditioned by one's savings in the CD alone.

Samanta (2009) in his paper has concluded that in the empowerment scenario, it has been seen that successful livelihood generation and access to credit and income sometimes empower women to take decisions in some family matters such as food, children's education etc. Women are entering the area of finance management, which traditionally is considered the domain of men, and have also gained access to economic resources to some extent. However, this empowerment is hardly found in case of financial decisions for the family as well as in the decisions regarding the dealings in public life.

Nidheesh (2009) in his paper examined on an evaluation of tribal women's Self Help Groups (SHGs) in an area of Kerala. Groups were evaluated, in terms of their success as in relation to their contribution to gender development. The study reveals that tribal women alleged changes in their identity towards working collectively to pressure for change at the village and panchyat levels. They organized in community and social action programmes, both at the local level and by joining with issues beyond the local. When well thought-out within constructs of empowerment, potential poverty, citizenship and participation in democratic processes, such SHG outcomes, and the community development processes that go together with their work, can be seen to make a modest but significant contribution to broader transformations of repressive structures. Due to SHG movement a lot of changes are a result of the processes of empowerment in tribal women community particularly in Kerala, SHGs are unusually supported by locally based local society organizations and non government organizations. The, honesty, proficiency and assurance of those organizations are critical factor in successful SHGs. The SHG movement and the relationship between the groups and those organizations need to be based firmly on a belief in women's abilities, rather than paternalistically targeting 'deficiencies.' The transformations come into view both out of consciousness of alternatives and collective action to congregate appropriate chains to influence those factors that act as barriers to meeting their aspirations.

Edward, P. and Olsen, W. (2006) examined quantitative local data on microfinance in Southern Andhra Pradesh to study the mayoux's three paradigms of microfinance and give insights into how the paradigms are playing out on the ground in Southern India. Field research was conducted in 2005 within a triangulation methodological framework; translation support was received from

local people during the course of research. A range of secondary quantitative evidence (mainly from Annual reports of a variety of banks and other organizations) was combined with qualitative interviews. The finding shows that micro-finance has expanded rapidly and extremely successfully in AP, it brought considerable benefits for many women, particularly among the non-poor and the marginally poor, it has also diverted many NGOs and their aid donors away from their original mission of poverty reduction and empowerment of their disadvantaged and exploited in society.

Gangaiah. (2006) studied the impact of Self Help Groups on income and employment in Chitoor district of Andhra Pradesh. Totally 202 members from 17 SHGs were randomly selected for their study. It was reported that on an average the loans received generated 184 days of employment per house hold and income on an average Rs. 19,578 per family which was sufficient to bring the poor families above the poverty line. The opinions of sample respondents revealed that they productively made use the income generated after receiving the loans. 39.11% of respondents reinvested their income on agriculture, 20.34% of them revealed that part of the income generated was utilized for educating their children and 15.84% of them spent on health

Khandker (2005) in his paper examines the effects of microfinance on poverty reduction in case of both the participant non-participants and the aggregate levels using panel data from Bangladesh. He observed that microfinance raises per capita household consumption for both participants and non-participants. The results suggest that access to microfinance contributes to poverty reduction, especially for female participants, and to overall poverty reduction at the village level. Microfinance thus helps not only poor participants but also the local economy. Microfinance reduces the average village poverty level by 1 percentage point each year in program areas, some 40 percent of the observed village-level poverty reduction. Microfinance has a slightly higher impact on extreme poverty than on moderate poverty for everybody.

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