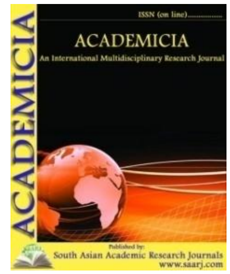
Published by: South Asian Academic Research Journals

ACADEMICIA:

An International Multidisciplinary Research Journal



ROLE OF MICRO FINANCE AS AN APPROACH TO POVERTY ALLEVIATION IN INDIA: A REVIEW

SATYA RANJAN NAYAK*; DR. SUDHAKAR PATRA**

*Faculty of Economics and Business Administration,
Gandhi Institute for Technological Advancement,
Bhubaneswar, India.
**Professor of Economics,
Ravenshaw University,
Cuttack, Odisha, India.

ABSTRACT

Micro Credit which generates micro savings is progressively emerging as one of the effective strategies to alleviate poverty. It can successfully create employment and sustain the income of the households by giving them opportunities of work. The micro finance sector in India has experienced a tremendous growth in last decade due to the efforts of various agencies, including government, international donors and development banks. There is now a reasonably good supply of loan funds in the micro finance sector. Yet the role of micro finance to eradicate poverty is to be re examined. This paper focuses on both the achievements and limitations of Micro Credit to eradicate poverty.

KEYWORDS: *Income generation, Micro Credit, Poverty Alleviation, Self Help Groups.*

1. INTRODUCTION

In a developing country like India where poverty is the chronic disease always disturbs the health of Indian economy. Till now India has been struggling to get rid of this problem and in this mean time a pilot scheme from NABARD , Micro Finance was launched to bridge the gap between demand and supply of funds in the lower level of rural economy. This initiative was taken to develop a supplementary credit delivery mechanism. In the nineties, Micro finance became the catch word to cure the illness of rural poverty with the concept i.e. self-reliance, self-sufficiency and self help. As poverty alleviation tool micro credit finds its most profound expression in Self

Help Groups which are the driving force of a silent socio-economic revolution in rural India. The efforts made by different agencies in documenting the performance of SHGs bring out the following positive impacts: (a) increase the loan volume of SHGs reducing adverse selection (b) definite shift of the loaning pattern from consumption to production activities,(c)highly reduced default rates(d) significant reduction in transaction costs of lending and (e) gradual increase in income levels of SHGs members.

But the most important risk of the micro credit strategy in India are highly imperfect and unstable market, the absence a good transportation system , low literacy rate and overall potential consumers in rural India. Another important limitation of the micro finance is many rural micro enterprise projects tend to be agricultural enterprises that are dependent on vagaries of nature and are therefore risky. The loans are often used for purchasing seeds, fertilizers, pesticides and herbicides which cannot be recovered in case of crop failure. Finally it leads to some unfortunate incidents like farmers are committing suicide in the state of Odisha and Andhrapradesh.

2. REVIEW OF LITERATURE

The growth of MFI's have recorded about 8.5 million clients during the year 2008-09, a growth of 60% over the previous year. More than 50 percent of low income households are covered by some form of microfinance product. Nagesh Naarayana (2009).

There are different arguments concerning how to evaluate the performance of microfinance institutions. Meyer (2002), Citing from Zeller and Meyer (2002), indicated that there is what is called ―Critical Microfinance Triangle‖ that we need to look at it to evaluate Micro-Finance institutions based on their objective. Here, the corners of the triangle represent outreach to the poor, financial sustainability and welfare impact. And ―Performance criteria are required for each objective and all three must be measured thoroughly to evaluate micro-finance performance‖, noted Meyer (2002). Navajas et al (2000) similarly indicated that there are six aspects of measuring outreach: depth, worth of users, breadth, length and scope. Where, depth of outreach refers to ―the value the society attaches to the net gain from the use of the micro credit by a given borrower‖, Navajas et al. (2000). The microfinance institutions participation in several developing economies is escalating from time to time.

P.C Goswami made a study on associated problems of IRDP in its implementation in the State of Assam in 1986. The various shortcomings of the programme as identified by him were the political biasness in the selection of beneficiaries, lack of involvement of the officers in the programme due to their urban bias, absence of horizontal and vertical integration among and within the various implementing agencies, lack of supervision and follow-up action, inertia and immobility of the people, delay, red tapism and corruption in disbursement of funds etc. (Goswami, P.C. 1986).

Indira Hirway made a study in four selected villages in Gujarat. She found 55-75 per cent of the beneficiaries selected for getting assistance belonging to non-poor group. According to her, the programme accentuated inequalities among the people in the villages (Hirway 1984).

A.K. Singh conducted a survey of 100 beneficiaries belonging to 12 villages of Nalanda district in Bihar during 1983 to study the types and nature of various problems associated with implementation of the programme. Not only had he attributed the failure of the programme in the district to inadequacy of loan amount in creating asset but also delay in disbursement of subsidy attached to loan. Besides he pointed out some scheme specific problems, particularly in cases of milch cattle, minor irrigation, weaving, etc. His findings also revealed that only less than 9 per cent of the beneficiaries could cross poverty line (Singh 1991).

For a country like India, poverty remains to be one of the biggest policy concerns. Amongst various measures to eradicate it, Microfinance, of late, has provided a ray of hope. The Task Force on Supportive Policy and Regulatory Framework for Microfinance constituted by NABARD defined microfinance as .the provision of thrift, saving, credit and financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their standard of living. (Sen, 2008).

Punjab witnessed an increasing average income of both the landless and landholder beneficiaries. But the increased income was not sufficient to push the poor beneficiaries well above the poverty line. The program had also marginal impact on the reduction of income-inequality among the beneficiaries. About 40 per cent of the beneficiaries were defaulters in the repayment of loans (Mahajan 1991).

(Routledge, London, 1996), the increase in income of micro-credit borrowers is directly proportional to their starting level of income - the poorer they were to start with, the less the impact of the loan. One could live with this finding in an imperfect world, but what is really troubling is that a vast majority of those whose starting income was below the poverty line actually end up with less incremental income after getting a microloan, as compared to a control group which did not get the loan. This should stop converts from offering microcredit as the solution for poverty eradication, since it seems to do more harm than good to the poorest.

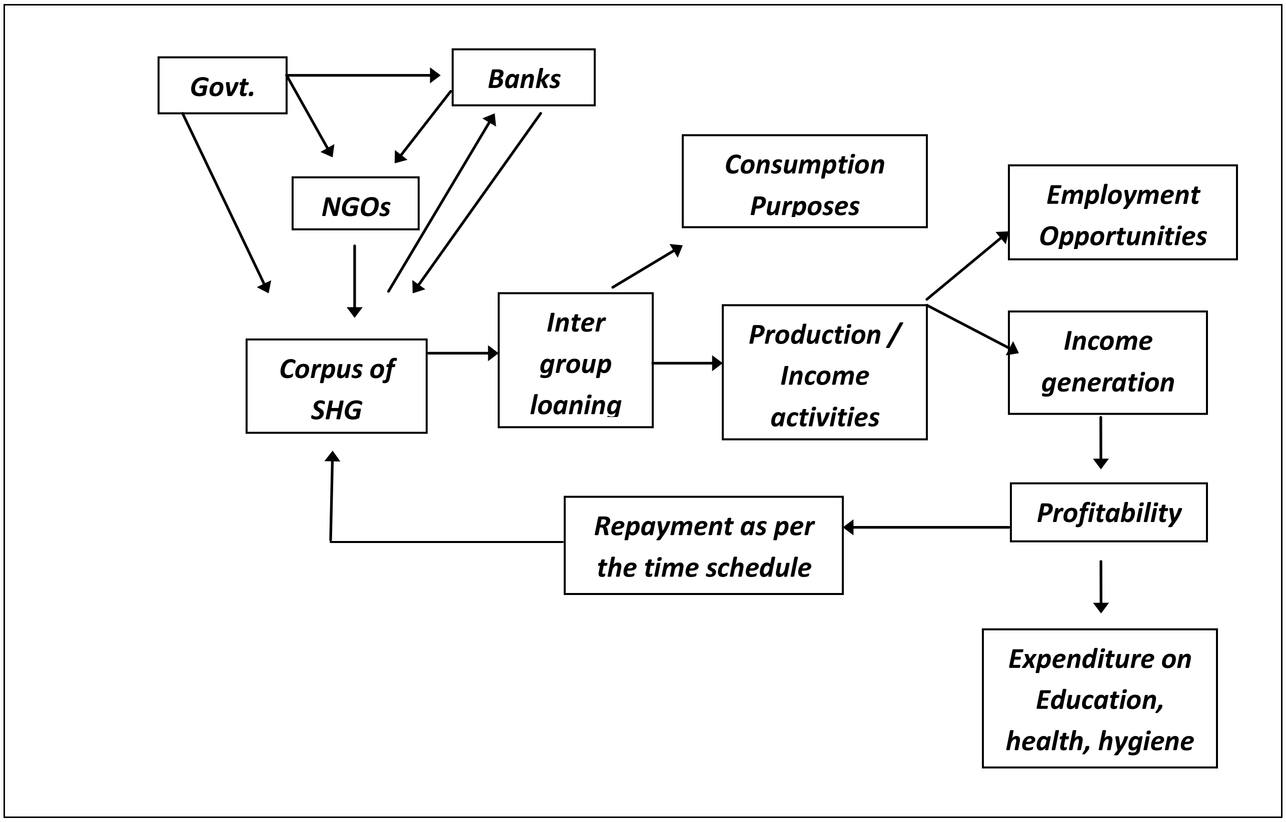
Dr.C.Rangarajan (2006) in his topic 'Microfinance and its future directions' in the introductory part of the book, outline the evolution of SHG through microfinance evolve through in three stages. First, to meet survival requirement need, in the second stage is to meet the subsistence level through investing in tradition activities and in the final stage by setting up of enterprises for sustainable income generation. Robert Peck Christen (2006) in his paper "Microfinance and Sustainable International Experience and lesson for India", he articulates the changing general perception of bankers, that SHGs are profitable clients or bank. Lanmdau Mayoux's study (1998) on Participatory Learning for Women's Empowerment in Micro Finance Programs (IDS Bulletin,Vol. 29 No.4, 1998) proposes a participatory approach for integrating women's empowerment concerns into ongoing programs learning, which itself would be a contribution to empowerment. Micro finance programs for women are currently promoted not only as a strategy for poverty alleviation but also for women's empowerment.

3. MICRO CREDIT AND POVERTY ALLEVIATION POLICY IN INDIA

Over the years a plethora of poverty alleviation programmes has been implemented in India and a huge amount of social and financial investment has been made to achieve the sole aim and objective of poverty eradication, most of the programmes were based on top-down approach and did not consider needs and requirements of the people. Accordingly, the economically vulnerable groups continued to remain under-confident and the guarantee for security of their livelihood was found missing in the entire endeavour to eradicated poverty from the soil of India. Considering the large number of persons still living below the poverty line, there is no doubt that the resources pumped down for poverty alleviation and provision of subsides in the name of poor have not been much effective in achieving the goal of poverty alleviation.

So to implement the micro finance strategy effectively the following model may be a supporting tool which indicates that micro-credit adds to the group cops and is sourced by Government, NGOs, Banks etc. While funds from the Government enrich the group corpus by way of subsidy, the NGOs and Banks supply credit as per the need of the group. The group is then involved in inter-loaning activities for consumption and production purposes. By pursuing productive economic activities, the group enhances its income, repays the loan amount to the bank and spend it on basic health, education etc. so as to drive himself out of the poverty trap.

FIGURE-1



To meet the gaps in the implementation of the erstwhile self-employment programme called integrated Rural Development Programme, the Central Government announced a holistic programme called Swarnjayanti Gram Swarozagar yojana. This programme was based on a group (community) approach to rural development where the rural poor were organized into SHGs, provided micro-credit and took up viable economic activities on their own. SHGs were also formed under Swayam Siddha, Mission Shakti, Rashtriya Mahila Kosh, SHG Bank linkage scheme of NABARD) Small Industries development Bank of India (SIDBI) etc.

There is no doubt that the success of the economic activities taken up by the self-employed persons largely depends on their social influence, their role in the decision making process broader financial base through enhanced thrift and credit activities and widened ownership rights to the assets created by them. Thus, increased community solidarity has to be ensured to have a collective action and address location specific problems.

4. LIMITATIONS OF MICROCREDIT

From the above critical review of different literature the following limitations are drawn which must be taken care of to understand the total benefit from the micro finance strategy to eradicate poverty in India.

1. Lack of adequate quantities of risk capital
2. Lack of long-term finance to pay for creation of the necessary infrastructure and pre-operative expense
3. Lack of well trained staff in adequate numbers at all levels
4. lack of technology
5. Defects in policy design,
6. Infirmities in the day to desist from resorting to measures such as loan waivers.
7. High defaults
8. The banking system - was not able to internalise lending to the poor as a viable activity but only as a social obligation implementation
9. More and more difficult for commercial bankers to accept that lending to the poor could be a viable activity

CONCLUSION

True development is achieved only when the community's plans and policies take into account the roles and the potential opportunities for its present and future stake holders. Sustainable development rightly recognises that all decisions pertaining to development must simultaneously consider various aspects of Economy, Environment, Equity and Society. In a reverse way only when we release micro-credit from "minimalist credit for self-employment for the poorest" and convert it into "financial services and technical assistance for agro- and non-farm enterprises for generating large amount of wage employment for the poor" can achieve its full promise.

REFERENCES

1. Goswami, P.C (1986): "Problems of Rural Sector Development in North-East India", Journal of North Eastern Council, Vol.II, No.5, May-June.

2. http://www.nabard.org/roles/microfinance/

3. Hirway, I (1984): "Garibi Hatao: Can IRDP Do It?", EPW, March 30.

4. Mahajan, R.K (1991): Integrated Rural Development Programme- A Study of Problems and Prospects in Punjab, Concept Publishing Company, New Delhi.

5. Nagesh Naarayana (2009) ―India Microfinance records 30% growth: State of the sector reports‖ http://www.microfinancefocus.com/news/2009/10/26/india-microfinance-records-30-growth-state-of-the-sector-report/

6. Navajas, S., M Schreiner , R. L. Meyer C Gonzalez-vega and J. Rodrigues-Meza(2000), ‗ Micro credit and the poorest of the poor; Theory and Evidence from Bolivia‖, World Development, Vol.28, No.2, pp333-346, Elsevier Science Ltd.

7. Singh, A.K (1991): "Alleviation of Rural Poverty- Can IRDP Do It?" in Ashok Kumar (eds.)Planning and Development in Rural India, Anmol Publications.

8. Zeller, M., & Meyer, R. (2002). The Triangle of Microfinance. Financial Sustainability, Outreach and Impact. The International Food Policy and Research Institute. Washington, USA