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Research Papers

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## ROLE OF MICRO-FINANCE IN ALLEVIATION OF POVERTY

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### Abstract

*The micro-credit programmes focus on organisation of the rural poor at the grassroots level through a process of social mobilization. It enables the poor build their own organisations (SHGs) consisting of 10-20 persons, in which they participate fully and directly and take decisions on all issues concerning poverty eradication. Micro-finance can be a powerful tool in initiating a cyclical process of growth and development. Micro-finance activity can improve the access of rural poor to financial services. Its role in alleviation of poverty is very crucial. The present study attempts to highlight the same.*

*Key words: Micro-finance, poverty eradication, savings, loans.*

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### INTRODUCTION

Since Independence, India has been pursuing a planned approach as a handle of its social and economic change, thereby realizing all-round economic development. Various prudent macroeconomic management policies were taken into consideration, which played an active role in key sectors such as banking, basic industries, utilities and infrastructure. The results of this development strategy were mixed. The economy expanded persistently — GDP per capita growth averaged 1.4 per cent through the 1970s and to less than 30 per cent in the late 1990s. However, as per the recent estimates of the Planning Commission Expert Group, the poverty menace is still considerable — 26.10 per cent in 1999-2000. Till date, there have been nine Five Year Plans, and the Tenth Plan is operative. As per the latest estimates made by the National Sample Survey Organisation's household consumer expenditure distribution, at the national level, the incidence of

poverty in India on the Head Count Ratio declined from 44.48 per cent in 1983 to 26.10 per cent in 1999-2000. Micro credit system may proved to be helpful in eradication of poverty. The present paper intends to discuss the issues regarding micro credit and poverty eradication.

### STATEMENT OF PROBLEM

The micro- finance system is helping in eradication of poverty. The SHGs have inculcated the habit of savings among the women members. The micro-finance has led to the development of competence and entrepreneurship among women.

### OBJECTIVES OF THE PAPER

- 1 To understand the relationship between micro-credit and poverty alleviation
- 2 To study the efforts of micro credit towards poverty eradication.
- 3 To understand the impact of micro credit

### KEY TERMS

Micro-finance, poverty eradication, savings,

loans.

**RESEARCH METHODOLOGY**

The present research paper is based on secondary data. Various references, journals and books have been used for the research paper.

**POVERTY ERADICATION THROUGH MICRO CREDIT**

Poverty can be considered to be a social phenomenon in which a section of the society is unable to satisfy even its basic necessities of life. When a substantial part of a society is deprived of the minimum level of living, that society is said to be plagued with mass poverty. The problem of poverty in India has become very critical. India has completed almost eleven five year plans, but still it has not succeeded in solving this basic problem. The government has been striving hard to address the problem of poverty, but the problem remained serious even today.

Poverty Estimates based on URP

	1993-94	2004-05
Rural	37.3	28.3
Urban	32.4	25.7
<b>Total</b>	<b>36.0</b>	<b>27.5</b>

Source : Planning Commission, Press Release, March, 2007.

The above table indicates the seriousness of poverty in India. Nearabout 36 per cent people were living below the poverty line in 1993-94. This ratio slided down to 27.5 per cent in 2004-05. Of course, this is official figure. Many experts opine that more than 32 per cent of people are living below the poverty line.

As part of the poverty alleviation Programms , the Government of India (GOI) launched the Swarnjayanti Gram Swarozgar Yojana (SGSY) in 1999 where the major emphasis is on self-help group (SHG) formation, social mobilisation and economic activation through micro-credit . In all 13.38 lakh groups were constituted in 33 States and Union Territories till 2003 , of which 33,436 SHGs only could take up economic activities for their economic sustenance. The Government supports the NABARD to take up activities such as group formation, micro-finance and economic activation. Besides this, the Rashtriya Mahila Kosh (RMK, that is, National Credit Fund for Women) and the Department of Women and Child Development have their own programmes under which micro credit is being provided for economic empowerment of the rural poor. The year 2001-02 marked a decade of self-help group-bank linkage programme in India.

With the growing importance of the micro-credit through SHG-bank linkage in India, the Reserve Bank of India (RBI) in 1996 included financing to SHGs as a mainstream activity of banks under their priority sector lending. The Government bestowed national priority to the programme through its recognition in the 1999 Budget. It has been estimated that India has the world's largest micro-finance programme in terms of out-reach, with 7.8 million households accessing credit through 17,085 branches of the formal banking system under the micro-credit finance programme.

**SOCIAL MOBILISATION**

The micro-credit programmes focus on organisation of the rural poor at the grassroots level through a process of social mobilization. It enables the poor build their own organisations (SHGs) consisting of 10-20 persons, in which they participate fully and directly and take decisions on all issues concerning poverty eradication. The limitations of formal financial sector in extending credit to the beneficiaries for assuring employment opportunities led to the evolution of the programme of microcredit with the objective of providing poor timely and hassle-free credit without demanding any collateral. The harmony among the group members, cohesiveness in the group followed by group pressure in determining repayment schedule and ensuring prompt and faultless repayment, supervision of co-borrower's activities in the system are the important aspects of the micro-credit.

**IMPACT OF MICRO-FINANCE**

While the Government tries to widen the micro-credit reach for the million poor in India through the self-employment schemes. The NABARD envisages reaching banking services to one-third of the very poor in India, that is, a population of about 100 million rural poor through one million SHGs by 2007-08. With NABARD's support, bank loans were provided to 197,653 new SHGs during 2001-02 and repeat finance was provided to 41,413 existing SHGs during the year. Overall, the NABARD's SHG-bank linkage programme benefited four million families covering an estimated 20 million poor in 2001-02.

The micro-finance plays following important role in poverty alleviation.

- i) Micro-finance can be a powerful tool in initiating a cyclical process of growth and development.
- ii) Micro-finance activity can improve the access of rural poor to financial services.
- iii) The micro-finance interventions help in

inculcating necessary habits for economic independence and self-reliance. Appropriate and participatory credit plans by the members of a group can help in social and economic empowerment.

iv) Increased access signifies the overcoming of isolation of rural women in terms of their access to financial services and denial of credit due to absence of collateral security.

v) The pool of savings generated out of very small but regular voluntary contributions improves access of the poor women to bank loans.

vi) It could also help in strengthening poor families' resistance to external shocks and reducing dependence on moneylenders.

vii) The group utilizes its corpus to disburse loans of small amount amongst the needy members. In the beginning, the members meet out their consumption needs out of their own fund and afterwards they obtain loans from the Banks for taking up some economic activities for their sustained living.

**DEPOSIT MOBILISATION**

The increasing participation of women in SHGs has helped the women to raise their economic standard. The most popular role of SHGs is promotion to savings of women. The SHGs inculcate a habit of thrift among women. The groups also encourage the development of a long-term vision. It enhances the level of confidence in women that they have something to fall back upon in times of distress. It is important to note that 91 per cent of the members reported that they could not save prior to SHGs membership as against 9 per cent members who could do so earlier also. Moreover, 98 per cent of the members confessed that their tendency to save had improved after joining SHGs. Out of these 86 per cent of the respondents reported regularity in savings. 1

Table 1 : SHGs savings

Agency	Position as on	Total SHGs savings with the banks as on 31 March 2009/10		Per SHGs Savings Rupees
		No. of SHGs	Amount	
Commercial Banks	31/03/2009	3549509	2772.99	7812
	31/03/2010	4052915	3673.89	9065
	% growth	14.2	32.5	16.5
Regional Rural Banks	31/03/2009	1628588	1989.75	12218
	31/03/2010	1820870	1299.37	7136
	% growth	11.8	34.7	41.6
Co-operative Banks	31/03/2009	6121147	5545.62	9060
	31/03/2010	6953250	6198.71	8915
	% growth	13.6	11.8	1.6

Source: Annual Report of NABARD 2009-10.

The above table exhibits that as on 31 March 2010, a total of 69.53 lakh SHGs were having saving bank accounts with the banking sector with outstanding savings of Rs. 6198.71 crore as against 61.21 lakh SHGs with savings of Rs.

5545.62 crore as on 31 March 2009, thereby showing a growth rate of 13.6 per cent and 11.8 per cent, respectively. Thus, more than 97 million poor households were associated with banking agencies under SHG-Bank Linkage Programme. As on 31 March 2010, the CBs lead with savings accounts of 40.53 lakh SHGs (58.3%) with savings amount of Rs. 3673.89 crore (59.3 %) followed by RRBs having savings bank accounts of 18.21 lakh SHGs (26.2% ) with savings amount of Rs. 1299.37 crore (21.0%) and Cooperative Banks having savings bank accounts of 10.79 lakh SHGs (15.5 %) with savings amount of Rs. 1225.44 crore (19.8%). The share under SGSY was 16.94 lakh SHGs with savings of Rs. 1,292.62 crore forming 24.4 per cent of the total SHGs having savings accounts with the banks and 20.8 per cent of their total savings amount.

**ADVANCING OF LOANS**

The group disburses loan to members from the savings of the group. The group gets access to credit from the banks and disburses the amount among members. The group decides the rate of interest to be charged, repayment schedule, procedure of recovery etc. The social objective for seeking loans like illness, education and marriage are given priority while disbursing the loan. The actual status of the borrowing indicates that about 63 per cent of the respondents have borrowed loan from SHGs for health purposes. Food and household consumption, social obligations and income generating activities are the other major objectives of seeking loans.

Table 2 : SHGs Loans

Agency	During the year	Total Loans disbursed by Banks to SHGs during the year		Per SHGs Loan disbursed (Rupees)
		No. of SHGs	Amount	
Commercial Banks	2008-09	1004587	8060.53	80237
	2009-2010	977521	9780.18	100050
	% growth	2.7	21.3	24.7
Regional Rural Banks	2008-09	405569	3193.49	78741
	2009-2010	376797	3333.20	88461
	% growth	7.1	4.4	12.3
Co-operative Banks	2008-09	199430	999.49	50117
	2009-2010	232504	1339.92	57629
	% growth	16.6	34.1	15.0
Total	2008-09	1609586	12253.51	76128
	2009-2010	1586822	14453.30	91083
	% growth	1.4	17.9	19.6

Source: Annual Report of NABARD 2009-10.

The above table states that during 2009-10, banks have financed 15.87 lakh SHGs, including repeat loan to the existing SHGs, with bank loans of Rs. 14,453.30 crore as against 16.10 SHGs with bank loans of Rs. 12,253.51 crore during 2008-09, registering a decline of 1.4 per cent of SHGs but a growth of 17.9 per cent in bank loans disbursed. Out of the total loans disbursed during 2009-10,

SHGs financed under SGSY accounted for 2.67 lakh (16.9%) with bank loan of Rs. 2198.00 crore (15.2%) as against 2.65 lakh SHGs (16.4%) with bank loan of Rs. 2015.22 crore (16.4%) during 2008-09. During 2009-10, average bank loan disbursed per SHG was Rs. 91,083 as against Rs. 76,128 during 2008-09. The average loan per SHG ranged from of Rs. 1,00,050 per SHG by CBs to Rs. 57,629 per SHG by Cooperative Banks.

#### CONCLUSIONS

As proven by the success of the Grameen Bank, microloans can help reduce poverty and thereby promote realization of fundamental human rights. However, as with any new industry, there are twin dangers of both ignoring growing problems and over-reacting to the recent abuses. In order to avoid losing the benefits of microlending, national legislators should use international standards and comparative state practice to create more well informed and effective regulations. An attempt could be initiated to promote a cadre of new generation micro-finance leaders to strengthen the micro-finance institutions (MFIs) to optimise their contribution towards the sector's growth. Thus, with some renewed effort, substantial progress may be made in taking MFIs to the next orbit of significance and sustainability. This needs close monitoring of the on-going microfinance initiatives, suitable modification or formulation of innovative and forward-looking policies, based on the ground realities of successful MFIs in India. This, combined with a commercial approach from the MFIs in making micro-finance financially sustainable, will make this sector vibrant and help in achieving its single-minded mission of alleviating poverty through providing financial services to the poor.

#### NOTES AND REFERENCES

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