Microfinance and Poverty Alleviation

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***Abstract*- Access to finance, especially by the poor and vulnerable groups is a prerequisite for employment, economic growth, poverty reduction and social cohesion. Further, access to finance will empower the vulnerable groups by giving them an opportunity to have a bank account, to save and invest, to insure their homes or to partake of credit, thereby facilitating them to break the chain of poverty (Committee on Financial Inclusion, 2008). The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance (United Nation, 2006). Building an inclusive financial system, thus, has gained growing global recognition bringing to the fore the need for development strategies that touch all lives, instead of a select few.**

One would find that the popularization of microfinance has given feminist scholars an opportunity to put gender back in focus in the discussions on development planning. Microfinance SHG has become a ladder for the poor to bring them up not only economically but also socially, mentally and attitudinally in India. In the above context, the present papers analyze the economic gains derived by the members after joining the SHGs and discuss the important problems of the microfinance experiments in the study area.

***Index terms*- Microfinance, Poverty Alleviation, empowerment**

INTRODUCTION

It was observed that the poor tended to come together to form Self Help Groups in a variety of informal ways for pooling their savings and dispensing small and unsecured loans at varying costs to group members on the basis of need. The SHG Banking Linkage pilot Programme was initiated in the year 1992 which tried to facilitate the flow of bank credits to these SHGs. The SHG - Bank Linkage Programme is a major plank of the strategy for delivering financial services to the poor in a sustainable manner. The pilot phase was followed by the setting up a working group on NGOs and SHGs by the Reserve Bank of India in 1994 which came out with wide ranging recommendations on SHG and bank linkage as a potential innovation in the area of banking with the poor. SHG - Bank Linkage Model involves the SHGs financed directly by the banks viz., Commercial Banks (Public Sector and Private Sector), Regional Rural Banks (RRBs) and Cooperative Banks. SHG led micro finance approach also helps to reduce the burden of heavy transaction cost faced by formal financial institution.

SHG and Micro-Credit

Financial exclusion of a large segment of population in the country has led to the search for alternative policies and mechanisms for reaching out to the poor to meet their credit requirements. In this context, microfinance interventions were recognised all over the world as an effective tool for raising incomes, contributing to livelihood security and changing the social relations of the beneficiaries (RBI, 2008). Since the SHG is a small group of 10 to 20 persons drawn from relatively homogenous backgrounds, the members, who join the group, know what benefit they would attain from the group through micro-credit. Microcredit has to be utilised in such a way that it benefits the SHGs to improve the quality of life of their members and their productivity to earn a sustainable income. The SHGs need to firm up their financial and economic norms meant for selection of appropriate beneficiaries and subsequent disbursement of credit to the needy.

The borrowing member chooses economic activities for income-generation purposes and knows clearly the goals or objectives he has to attain for his own sustenance and stability of the group which he/she belongs to. Here, the members through participative decision-making process prioritise their goals in terms of their urgency. All the members are aware of their individual needs so as to converge their needs with the group objective. They can utilise team effort in addressing their problems and issues while approaching their target. Unity, group effort and team-work help them in achieving their goals.

Three models have emerged in the SHG Bank linkage programme. (i) SHGs are formed, financed and promoted by banks; the bank itself acts as a self-help group promoting institution (SHPI) (Model 1); (ii) SHGs are formed by formal agencies like NGOs and others (other than banks) but directly financed by banks (Model 2); and (iii) SHGs are promoted by NGOs but financed by banks through NGOs and other agencies as financial intermediaries (Model 3). The second model, where SHGs are formed and nurtured by NGOs, has emerged as most popular among the bankers. The SHG-Bank linkage programme has grown at a tremendous pace during last two decades and emerged as the most prominent means of delivering micro-finance services in India. Though the regional spread of the programme is highly skewed with highest concentration in the southern states, it has started picking up pace in other states. The Commercial Banks, Regional Rural Banks, Cooperative Banks and NGOs have contributed significantly to the rapid spread of the programme.

REGIONWISE GROWTH TREND IN SELF HELP GROUPS IN INDIA

Regionwise growth trend in Self Help Groups in India is shown in the below table 1

Table 1 Regionwise Growth trend in Self Help Groups in India (Numbers in Lakh)

Year	Region					Amount in Rs Lakh
	Northern	North Eastern	Eastern	Central	Western	Southern
	No. of SHGs	No. of SHGs	No. of SHGs	No. of SHGs	No. of SHGs	No. of SHGs
2006-07**6**	56906	94505	297437	221279	93597	419341
2007-08	208166	203045	1074043	644896	472734	2406910
2008-09**09**	310998	240093	1233635	712915	796262	2827244
2009-10**009**	351801	292188	1374242	765965	945620	3223434
2010-11	372772	324739	1527618	786436	960921	3489460
2011-12	409326	366718	1625714	812767	1062087	3683737
2012-13	372837	323896	1471099	702198	906016	3541505
Total	2082806	1845184	8603788	4646456	5237237	19591631
Mean	297543.7	263597.7	1229113	663779.4	748176.7	2798804
SD	124394.14	92769.24	450574.55	203198.32	345048.88	1140779.08
CV% **%**	41.81	35.19	36.66	30.61	46.12	40.76

Source: NABARD Annual Report

The above table 1 shows that all the regions have shown the progressive growth of SHGs. The coefficient of variation shows that the growth of SHGs was 46.12 per cent in western region, 41.81 per cent in northern region and 40.76 per cent in southern regions. Total number of SHGs in Northern region was 2082806 lakh and in North Eastern region was 1845184 lakh as on 31 March 2013. Further total number of SHGs in Eastern region was 8603788 lakh, Central region was 4646456 lakh, Western region was 5237237 lakh and Southern region was 19591631 lakh as on March 31, 2013.

MICROFINANCE AND POVERTY ALLEVIATION

Poverty alleviation has been one of the key development challenges over the decades. One of the identified key constraints facing by the poor is lack of access to formal sector credit. It will facilitate them to take advantage of economic opportunities to increase their level of output, hence move out of poverty. Credit is considered to be an essential input to increase productivity, mainly land and labour. It is believed that credit boots income levels, increases employment at the household level and thereby alleviates poverty. Credit facilitates poor people to triumph over their liquidity constraints and undertake some income generating activities. Furthermore, credit helps poor people to smoothen their consumption patterns in times of lean periods of the year.

Microfinance programs have a potentially significant contribution to economic, social, political and psychological empowerment of the poor in general, women in particular. Through access to timely credit, savings, insurance and entrepreneurial training, women have become successful entrepreneurs,

increased their household income and well-being. Regardless of their scale, outreach, location and the type of clients, all microfinance programme interventions target one thing in common – human development that is geared towards both the economic and social uplift of the people that they cater for.
Microfinance creates access to productive capital for the poor, together with human capital, addressed through education and training and social capital achieved through local organization building, enables people to move out of poverty. By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society.

REVIEW OF LITERATURE

Sundari, and Geetha (2000) in their work on Poverty, Credit and Micro Enterprises examined the gender disparity in access to institutional credit. In their opinion, the disparity is gradually narrowing down over a period of time. Hence the empowerment of poor rural women will be possible only if they are trained and imparted skills for a certain employment. According to them, skill development and training includes enterprise development, increased access to credit, new approach to markets, social, economic and political strategies and the like.
A study on Impact of micro financing on employment, income and empowerment carried out by Virender Kumar, Sharma and Sharma, (2004) revealed that the microfinance did make a significant first round impact on income, employment and poverty of the member households. However, credit alone is not enough to graduate rural households successfully from survival activities to more productive enterprises and realize larger second round impact on income, employment and poverty. The structural constraints such as low skills, lack of training and market infrastructure have started emerging as binding constraints that need to be addressed on priority basis to make microfinance as an effective instrument against the problem of unemployment and poverty.
Srinivasa Rao and Santhoshkumar (2011)118 in their study on Microfinance-A need for sustainable development expressed that microfinance has served as a vehicle for poverty reduction and for success of microfinance programme in the country. The researcher has also found that the performance of SHGs and MFIs in south has been much better than the east, central part of India and even in some parts of western India.

OBJECTIVES OF THE STUDY

1 To analyze the economic gains derived by the members after joining the SHGs.
2 To discuss the important problems of the microfinance experiments in the study area.

METHODOLOGY

The present study has been conducted in the Udupi District of Karnataka which comprises of three taluks namely Udupi, Karkala and Kundapura. The study is largely based on primary data and supplemented by secondary data wherever necessary. The primary data were collected from 40 SHG members of each taluk which resulted in total sample size of 120 SHG members of the district through an appropriate sampling method. The data were obtained through a structured interview schedule. The beneficiaries were contacted during their group meetings. The secondary data required for this work were collected from the various economic and socio-political journals, publications of the NABARD, Government of Karnataka etc.

PROFILE OF SHG MEMBERS

It is observed that the average age of SHG members was 30 years, lowest being 21 years in highest being 41 years in Putur taluk. Regarding the caste profile of SHG members, the study shows that majority of members belong to Hindu community. Educational background of the SHG members shows that most of them are educated up to primary level. So far as the occupation of the members are concerned, majority of them are engaged in agricultural activities.
Economic Activities Covered by SHG Members
Table 2 Economic Activities Covered by the SHG Members

Item	Udupi (%)	Karkala (%)	Kundapura (%)	Overall (%)
Collection and marketing of	55	48	60	54.33

Minor Forest Products				
Individual business	23	32	14	23
Dairy	15	11	22	16
Others	7	9	4	6.67

Table 2 revels that most of the SHG members are engaged in the collection and processing of minor forest products. These products include broom making, cashew, mahul, turmeric, tamarind, raw broom, etc. Some of the members are engaged in individual businesses like preparing pickle, papad, haldi powder, wax, making bags, vegetable business, tailoring, panshop, etc. They are also engaged in poutry, dairy and goatery business. Some are engaged in other activities. As there is a good demand for milk products, they are preparing sweets with milk, ghee, etc. and are getting good price.

LOAN SUPPORT TO SHGS BY BANKS

There is a bank linkage programme established to SHGs. The SHG members opened their accounts in various nationalized banks such as State Bank of India, Union Bank of India, Karnataka Bank, etc. and also some local banks like Cooperative Banks. SHG members are getting both internal loans and external loans under the security of NGOs. They are also maintaining cashbook, membership register, loan register, individual passbook register, etc. They are taking loans for both product ion and consumption purposes. So far as loan repayment is concerned, the SHG members of Mangalore taluk have repaid 90 per cent of their loans followed by Putur with 84 per cent

DIFFICULTIES IN STARTING AN ENTERPRISE

The SHG members often face many difficulties in the process of starting an enterprise and these problems are analysed below

Table 3 Problems faced by the SHG Members

Problems	Udupi (%)	Karkala (%)	Kundapura (%)	Overall (%)
Marketing	48	42	39	43
Financial	27	24	28	26.33
Institutional	16	18	15	16.33
Technological	7	11	12	10
Others	2	5	6	4.34

When the members who have already started some sort of IGAs were asked about the major constraints in the way of conducting an activity revealed that marketing poses a great problem for the SHGs in the way of organising an enterprise.

It can be observed from the table 3 that in total 43% of the respondents were faced with marketing problems such as low quality of products, non-availability of raw materials, lack of marketing information under microfinance programme.

It can be observed from the table 3 that, 26.33% of the respondents have claimed that they were face with financial problems under microfinance programme. They also claim that amount of loan made available at every stage, must be increased so that they can invest more in the initial stage in their income generating activities, instead of waiting for the second loan after the repayment of the first loan, which in turn hampers the growth of income generating activities

SUGGESTIONS

[1] The members of the SHG should be more active, enthusiastic and dynamic to mobilize their savings by group act ions. In this process NGOs should act as a facilitator and motivator.

[2] Active intervention by district administration, professional bodies and voluntary organizations is precondition for the successful concept ion of micro enterprises in terms of skill training, designing products, providing new technology and access to market.

[3] Though Income Generating Activities promoted through the experiments studied were found to be low in number, it is inspiring to note that microfinance has succeeded in meeting the immediate consumption requirements of the poor families. Otherwise, these families were forced to be the clients of the local money lenders.

[4] Interest on loan given by the microfinance institutions to micro entrepreneurs must be drastically reduced. Microfinance is not money lending and thus microfinance institutions cannot be money lenders to exploit the helpless situation of the poor borrowers.

[5] Education in rural areas must be encouraged by introducing new subject on entrepreneurship development in high schools and colleges.

CONCLUSION

SHGs are developed as a tool for poverty alleviation in different countries of the world. Basically SHGs are developed as a micro finance unit and they gradually move on to more complex income and employment generation activity. In India, a number of SHGs are developed and supported by different NGOs and Government departments. NGOs and Government plays a crucial role as a facilitator form inception to the development and the success of SHGs by providing technical guidance, training, financial support, and marketing of goods and services.

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