"The Impact of Microfinance Schemes on Poverty Alleviation in India"

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Abstract: "Creating self-employment opportunities is one of the ways of attacking poverty and solving the problems of unemployment. The scheme of Microfinance has been found as an effective tool for lifting the poor's above the poverty line by providing them increased self-employment opportunities and making them credit worthy. The realization of Microfinance programmes lies in divergence of services. The basic idea of micro-finance is simple: if poor people are provided access to financial services, including credit, they may very well be able to start or expand a micro-enterprise that will allow them to break out of poverty. Thus, micro-finance has become one of the most effective interventions for economic empowerment of the poor. The focus of the study is to find the impact of microfinance programmes on poverty alleviation in India.

Keywords: Microfinance, Self-employment, Micro-enterprise, Poverty, Alleviation.

1. INTRODUCTION

"Microfinance" the most effective intervention for economic empowerment of the poor's is one of the way of attacking poverty and solving the problems of unemployment. As per the survey of Govt. of India Ministry of SSI Office of the Development Commissioner (Small Scale Industries) there are over 24 crore people below the poverty line in India. The Scheme of Micro-Credit (Loan of very small amount) has been found as an effective tool for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy. The basic idea of micro-finance is simple: if poor people are provided access to financial services, including credit, they may very well be able to start or expand a micro-enterprise that will allow them to break out of poverty. In order to cater to the Micro Finance needs of small entrepreneurs belonging to the target group, the Micro Finance Corporation has introduced a scheme for Micro Financing through nominated Channelising Agencies.

The innovative idea of Microcredit originated with the Grameen Bank in Bangladesh. In 1976 Professor Muhammad Yunus launched a research project to examine the possibility of designing a credit delivery system to provide baking services targeted to the rural poor. In October 1983, the Grameen Bank Project was converted into an independent bank by Government legislation. Gradually there was establishment of Regional Rural Banks (RRBs), Deposit Insurance and Credit Guarantee Corporation (DICGC), National Bank for Rural and Agricultural Development (NABARD), Small Industrial Development Bank of India (SIDBI), Export Credit Guarantee Corporation (ECGC) and the latest Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE). The CGTMSE covers collateral-free credit up to ₹50 lakhs. These institutions play supportive roles to ensure uninterrupted flow of credit to small time borrowers. Under the present directive of the RBI, the priority sectors must get a minimum 40% share of a commercial banks' total lending. This includes 16% for the agriculture sector.

In India, Micro-credit programs are run primarily by NABARD in the field of agriculture and SIDBI in the field of Industry, Service and Business (ISB). The realization of Micro-Credit programme lies in the divergence of services. Micro Finance Scheme of SIDBI is under operation since January, 1999 with a corpus of ₹100 crore and a network of about 190 capacity assessed related MFIs/NGOs. Under the programme total amount of ₹191 crore have been sanctioned up-to 31 December 2003, benefiting over 9 lakh beneficiaries. Under the programme NGO/MFIs are supposed to provide equity support in order to avail SIDBI finance. But they find it difficult to manage the needed equity support because of their poor financial condition. The problem has got aggravated due to declining interest rate on deposits. The Office of the Development Commissioner (Small Scale Industries) under Ministry of MSME is launching a new scheme of Micro Finance Programme to overcome the limitations in the existing scheme of SIDBI, whose reach is currently very low. It is felt that Government's role cane be critical in expanding reach of the scheme, ensuring long term sustainability of NGO'S/MFIs and development of Intermediaries for identification of viable projects.

DIFFERENT TYPES OF MICROFINANCE INSTITUTIONS IN INDIA

The microfinance institution models are developed in India in order to handle with the financial challenges in financially backward areas. The various microfinance institutions operating in India are depicted below:

Joint Liability Group (JLG)

Joint Liability Group is the informal group which consists of 4-10 individuals who try to avail loans against mutual guarantee from banks for the purpose of agricultural and associated activities. This category generally consists of occupants, farmers and other rural workers. They work primarily for lending purposes, although they also offer the savings facility. In these type of institutions, every individual of a borrowing group is equally liable for the credit. These kind of institutions are simple in nature and requires little or no financial administration.

Self Help Group (SHG)

Self Help Group are formal or informal groups consisting of small entrepreneurs with similar kind of socio-economic backgrounds. Such individuals temporarily come together and generate a common fund to meet the emergency needs of their business. These groups are generally non-profit organisations. These groups assumes the responsibility of debt recovery. The advantage of this micro-lending system is that there is no need for insurance. Interest rates are also generally low and fixed especially for women. In addition various linkups of banks with SHGs have been instigated for the hope of better financial inclusion in rural areas. One of the most important SHG is NABARD SHG link program where many self-help groups can borrow credit from banks, once they successfully present a track record of regular repayments of their borrowers. In year 2005-06 states of Tamil Nadu, Kerala, Andhra Pradesh and Karnataka achieved 60% of SHG linkage credit.

The Grameen Bank

Grameen bank models were introduced by Prof. Muhammad Yunus in Bangladesh during 1970s. It was widely adopted in India in the form of Regional Rural Banks (RRB). The goal of this system has been the overall development of the rural economy which generally consists of financially backward classes. But this model was not been fully successful in India as rural credit and system of recovery was a real problem. Huge amount of non-performing assets also led to failure of these regional banks. Compared with this model Self Help Groups have been more successful as they were more suited to the population density of India and far more sustainable.

Rural Cooperatives

Rural Cooperatives in India were set up during the time of independence by the government. They used the mechanism to pool the resources of people with relatively small means and provide financial services. Due to their complex monitoring structure, their success has been limited. In addition, this system only catered to the credit-worthy individuals of rural areas, not covering a large part of the country's financially backward section.

2. REVIEW OF LITERATURE

Bhasin and Akpalu (2001) conducted a study on Impact of Micro-Finance Enterprises on The Efficiency of Micro-Enterprises in Cape Coast. It was observed by them that the NBSSI was performing very well as far as the training services are concerned. As per the provision of credit is concerned, NBSSI didn't performed well according to the expectations of hair-dressers, dress-makers and wood-processors because of lack of funds. It was observed that the informal sector caters for the needs of these micro-enterprises and they generally take loans from their friends/relatives and suppliers/clients. There exist many disparities in the efficiency of hair-dressers, dress-makers and wood-processors within each group and across these groups, which indicates that there is ample scope for raising the level of efficiency in these micro-enterprises. The most significant factors of technical efficiencies of hair-dressers, dress-makers and wood-processors are the age of operator, business experience, level of education, training programmes, credit, and contact with the lender.

Sam Afrane (2002) conducted a study on Impact Assessment of Microfinance Interventions in Ghana and South Africa Synthesis of Major Impacts and Lessons. Delivery of microcredit to operators of small and microenterprises (SMEs) in developing countries is increasingly being viewed as a strategic means of assisting the so-called "working poor" (ILO, 1973). Over the past decade, a considerable amount of multi- and bilateral aid has been channeled into microfinance programs in the Third World with varying degrees of success. Like all development interventions, donors, governments, and other interested parties demand evaluations and impact assessment studies to ascertain the achievements and failures of these programs. This paper reviews two such studies conducted in Ghana and South Africa that focused mainly on impact results. The outcomes of the two case studies have established that microfinance interventions have achieved significant improvements in terms of increased business incomes, improved access to life-enhancing facilities, and empowerment of people, particularly women.

Rahmat, Megananda and Achmad Maulana (2006) conducted a study on The Impact of Microfinance to Micro and Small Enterprise's Performance and the Improvement of Their Business Opportunity. Results of this study find several interesting issues, such as Microfinance has positive impact to improvement of MSE's Performance Indicated by sales, the difference of regional characteristic of MSE is also play role in determining its business scale, Since doubling amount of loan has negative impact to the performance, it's very Important to allocate the loan to the productive activities, such as investment, in the way to improve the business opportunity

Maruthi Ram Prasad, Sunitha and Laxmi Sunitha (2011) conducted a study on Emergency and Impact of Micro-Finance on Indian Scenario. After the pioneering efforts by Government, Banks, NGOs, etc the microfinance scene in India has reached in take off stage. An attempt could be initiated to promote a cadre of new generation micro-credit leaders in order to strengthen the emergence of Micro-Finance Institution (MFIs), so as to optimize their contribution towards the growth of the sector and poverty alleviation. Each Indian state could consider forming multi-party working group to meet with microfinance leaders and have a dialogue with them about how the policy environment could be made more supportive and to clear up misperceptions. With one state leading the way, we need to build on a successful model. By unleashing the entrepreneurial talent of the poor, we will slowly but surely transform India in ways we can only begin.

3. OBJECTIVE OF THE STUDY

The specific objectives of the study are to:

- To analyze the total capital invested by micro and small enterprises and to identify the contribution of financing through Micro-Finance Institution (MFIs).
- To study the effective utilization of capital loans provided by Micro-Finance Institution (MFIs) to micro and small enterprises.

- To investigate whether capital loans and services of Micro-Finance Institution (MFIs) to micro and small enterprises lead to the growth and development of the organization.

4. RESEARCH METHODOLOGY

The study is analytical in nature and based on secondary data collected from various published reports like Indian public finance statistics, economic surveys, ministry of statistics India and budget documents. In addition, books, journals, various websites of Government of India and central board of excise and customs were also used for the study. For the analysis of data simple techniques like percentage, simple ranking method and growth rate have been used.

5. FINDINGS

The current study is very important for the development of socio economic activities in developing countries like India and its contribution to the development of micro and small enterprises. The study is essential to identify the role of Micro-Finance Institution (MFIs) products and services in small and micro enterprises sector. This will enhance in their localities to boost their living standards in a sustainable manner. Microfinance evolutionary growth has given a great opportunity to the rural poor to attain reasonable economic, social and cultural empowerment, leading to better living standard and quality of life for participating households. Microfinance has been a panacea for poverty reduction in India and thus it is profoundly promoted by our financial system throughout the economy. Financial constraints need to be removed by make favourable Microfinance policy which can lead to entrepreneurial development in India. For example, improve the environmental conditions for the microfinance to operate including microfinance market, and microfinance infrastructures.

6. CONCLUSION

Indian Microfinance today is a dynamic space with multitude of players offering various products and services to low income clients with different approaches. Banking system along with other legal forms such as NBFCs, Section 25 companies, cooperatives and NGO-MFIs all are approaching rural markets. Many new forms of relationships are emerging among these entities to leverage on each other's strength. However, despite such new developments the penetration of microfinance remains low and spread highly skewed in Southern India. Indeed there are ample gaps to be filled and this would lead to further changes in Microfinance space in future. Microfinance a powerful tool to address challenge of poverty eradication, raise caution regarding overwhelming push for Micro-Finance Institution (MFIs) to become financially self-sustainable, mission drift/questionable practices, call for greater transparency and (public) awareness. Indeed, microfinance in India is a multifaceted and dynamic industry. Microfinance institutions need to educate villagers on the ease of procedures for availing loans. Access to microfinance improved their living standards. From the study, Poor people respondents reported an improvement in their quality of food, clothing, education, housing, health services and access to quality life. From the above findings it is evident that clear micro finance has had a positive impact on its client's living standard hence economically active. Micro-Finance Institution (MFIs) overall continue their efforts to become more efficient and productive. Growth and expansion the essence of microfinance as a programme for reaching the poor and excluded has lost its focus. It is necessary to shift the focus from quantity of microfinance to the qualitative usages of microfinance and it is crucial to supervise the utilization of the microfinance.

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