

Role of Microfinance in removal of poverty – A Case of NCR

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Abstract

Microfinance has become an effective mechanism for economic development and to benefit low-income women and men. This includes Micro credit, Micro savings and Micro insurance. The research methodology for this paper was exploratory and research was conducted in the Delhi and NCR. It was concluded that Micro finance has helped the poor public and created wealth in their house. However, most important contribution of micro finance was that it has empowered the poor women economically and socially. It helped them in giving better education and health to their children. Many women who were divorced or single widow were living a respectable life. It was also observed that still a lot need to be done by the government and MFI to remove the poverty.

Key Words: Micro finance, Micro credit, Micro insurance, poverty, poverty alleviation, SHG

Introduction

Microfinance is an alternative financial service designed to help those poor persons who do not have access to formal financial system. It has proved to be the best instrument to create employment opportunities to the poor. It has become an effective mechanism for economic development and to benefit low-income women and men. This includes Micro credit, Micro savings and Micro insurance. Microcredit is about granting short term small loans without traditional guarantees. Micro savings are deposit services that allow people to store small amounts of money for future use. Micro insurance is a risk pooling products that are designed to be appropriate for the low-income market in relation to cost, terms, coverage, and delivery mechanisms. The financial sector reforms motivated policy planners to find products and strategies for delivering financial services to the poor and microfinance in a sustainable manner consistent with high repayment rates. The essential genius of

NABARD in the Bank – SHG programme was to recognize this empirical observation that had been catalyzed by NGOs and to create a formal interface of these informal arrangements of the poor with the banking system. This is the beginning of the story of the Bank-SHG Linkage Programme.

According to United Nations Development Report of (2000) poverty is deprivation which encompasses a wide range of issues including hunger, lack of shelter and clothing, lack of access to health care and education and inadequate or lack of access to policy making. Being poor connote lack of access to resources necessary for achieving a descent standard of living. However the word poor and poverty are debatable and will depend on the intentions and approach of policy makers.

India has different kinds of micro finance institutions which varies in size and types like the Small Industries Development Bank of India (SIDBI), the National Bank for Agriculture and Rural Development (NABARD) and the Rashtriya Mahila Kosh

(RMK). These groups also adopt a variety of approaches. Micro-finance interventions can be identified based on their span of activity, source of funds, route through which it reaches the poor or the coverage. The most common practice is to provide credit through Self-Help Groups. The approach is to make SHGs the main focal point to route all credit to members. Almost all national funding organizations (NABARD, RMK) as well as other Government schemes advocate forming of Self-Help Groups and thus providing or linking with credit.

Objectives of research

The main objectives of this paper are:

- To study the concept of micro financing in India
- To study the problem of poverty in India
- To study the Role of Micro financing in Poverty alleviation
- To study role of microcredit in

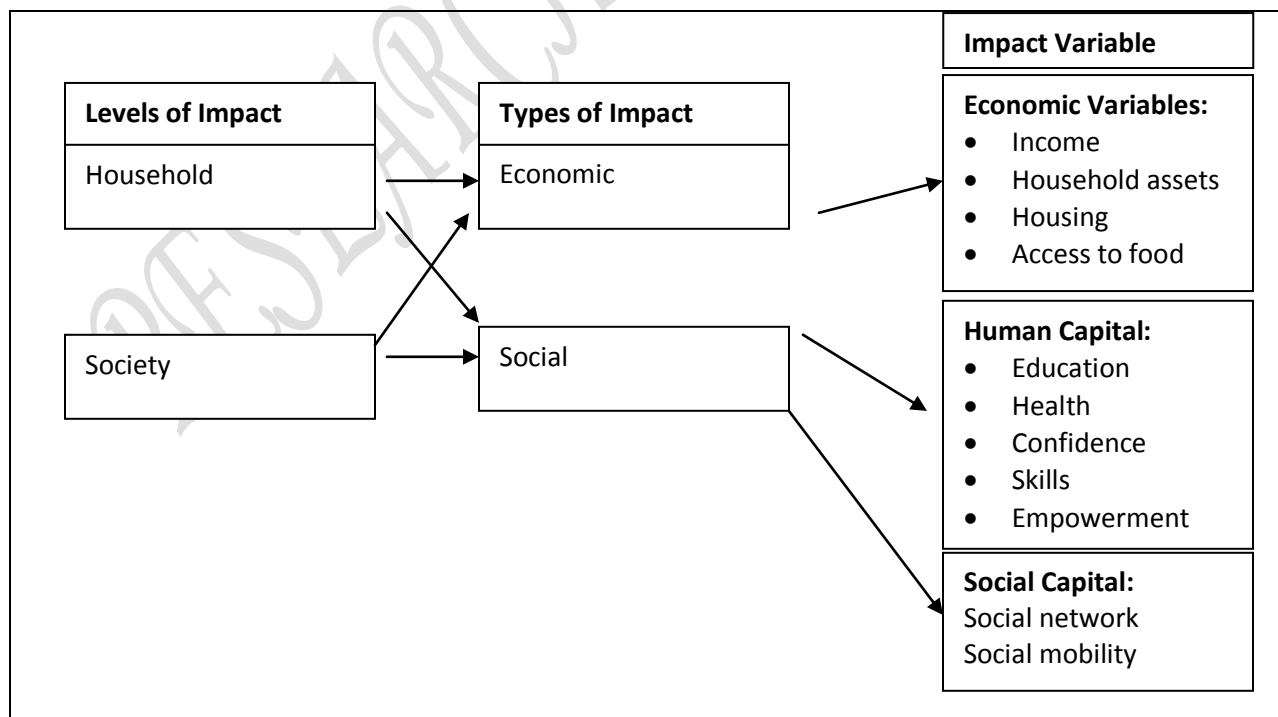
generating sufficient and stable employment opportunities for beneficiaries.

The role of Microfinance and Poverty Alleviation

Poverty continues to be a major problem facing both advanced and less-advanced countries. The main objective of microfinance is to reduce poverty. The microfinance institutions provide the opportunity for clients to create wealth by giving them small loans catering to their needs.

Targeting women in the society who constitute the majority of the poor, microfinance helps to reduce poverty by creating wealth which leads to an increase in the levels of incomes of the vulnerable. The rural financial services contribute to the poverty reduction largely depends on access to these services by the poor.

Flow chart of benefits of Micro finance



Review of Literature:

Sheokand (2000) observed that Regional Rural Banks' security-oriented individual banking system was replaced by the delivery of credit to focused groups. He found that government sponsored programmes had occupied much of the economic space but did not achieve the objective of alleviating poverty. Gurumoorthy (2000) explained the Self Help Group (SHG) as a viable alternative to achieve the objectives of rural development and to get community participation in all rural development programmes. Gaiha et al. (2001) concluded that larger sections among the poor were not covered in the two major anti-poverty programmes (Rural Public Works and IRDP) in India. Singh (2003) explained the failure of government initiated anti-poverty programmes and the success of microfinance programme as an effective poverty alleviation strategy in India. Sarkar (2008) expressed the need of some institutional reforms in the microfinance development strategy of India. Sangwan (2008) empirically ascertained the determinants of financial inclusion and studied the relevance of Self Help Groups (SHGs) in achieving financial inclusion.

International Labour Organisation (ILO) (1998) concluded that microfinance had successfully increased micro-enterprises and self-employment of the clients. Coleman (1999) cautioned against extrapolating these results to other countries since Thailand was rather a developing country. Manimekalai and Rajeswari (2001) found that women SHGs earned the highest profit from agriculture, followed by trade related activities and catering services. Dunn and

Arbuckle (2001) found that the participation in the programme led to nine additional days of employment per month. Chen and Donald (2001) observed that repeated borrowing was especially important, compared to one time borrowing and indicated that microfinance was quite effective. Singh (2001) found that in pre-SHG situation most of the members were dependent on income from labour but in the post-SHG situation their main source of income was dairy. It also revealed that the commercial banks were not prompt in linking SHGs for loans. Mishra (2006) found that all the group members were saving regularly at fixed intervals and dependence on money-lenders was eliminated for 2/3 of the clients. It was found that group members were not willing to borrow to take up economic activity on account of credit risk and absence of skills to undertake some nonfarm activities. Yamuna (2007) found that SHGs had developed women's relationships with government department and banking institutions. They had been equipped with leadership skills through various human resource training programmes and interaction with other SHGs. Women had got lot of courage and self-confidence to speak for their rights after becoming SHG members.

Research methodology:

The research methodology for this paper is exploratory in nature. It is based on the primary and secondary data. Primary data is collected with the help of questionnaire. The sample size was 500 in the area of NCR (Delhi, Faredabad, Gaziabad, Gurgram and Noida). The respondents were the beneficiary of the microfinance institutions.

However, an unstructured interview of the employees of these institutions was conducted in order to understand the basic structure and process of micro finance including the problems. The period of survey was Mar and Apr 2017.

Data analysis and interpretation

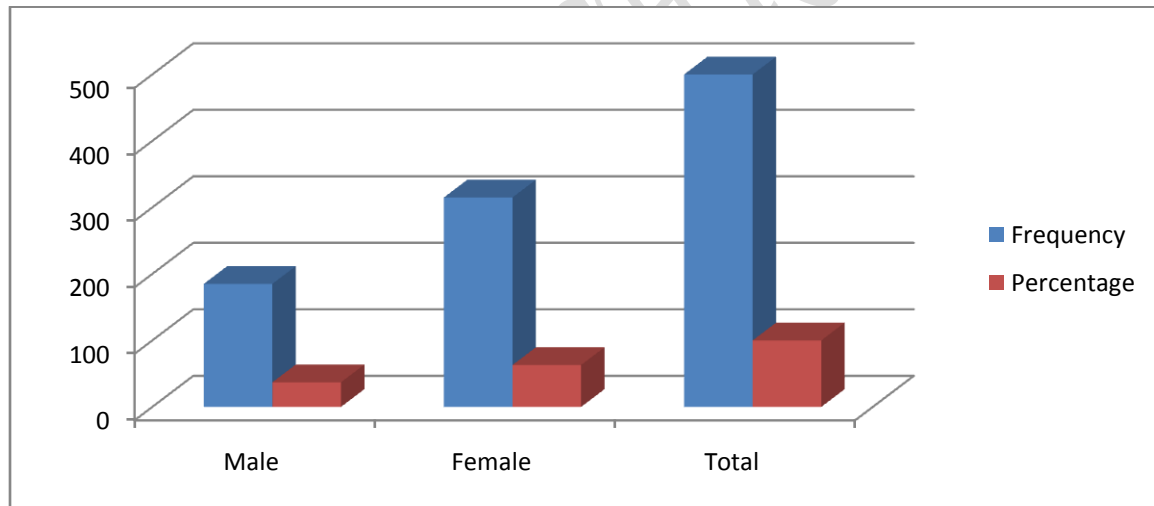
Table 1: Age Distribution of Beneficiary Respondents

Gender	Frequency	Percentage
Male	185	37
Female	315	63
Total	500	100

Source: Field Work, April 2017.

Out of the total 500 respondents, 185 were male and 315 female who mainly reside in the slum areas and doing very small work such as tailoring, Zardoji work and other works.

Figure 1: Age Distribution of Beneficiary Respondents



With regards to educational background 4% had no formal education, 27% had up to primary level, and 56 % forming the larger group had up to JSS/Secondary, 10 % had up to graduate level. The others at least tasted

The tables below presents the Socio-demographic characteristics of the sampled population, in the form of age, gender, marital status, educational status and religion. The analysis is done based on the survey data

education but could not tell the level they got to forming 3% percent. It was also observed that although many of them are well educated but having a very high level of business acumen and vision for their children life.

Table 2: Occupation of beneficiary respondents

Occupation	Frequency	Percent
Farming	90	18
Trading	350	70
Services	25	5
Others	35	7
Total	500	100

Source: Field Work, April 2017

Figure 2: Occupation of beneficiary Respondents



Out of the total respondents, it was found that they were engaged in different types of occupations. In this 18% were farmers, trading the largest group of 70%, service 5% and other occupation forming 7%.

The microcredit and poverty reduction

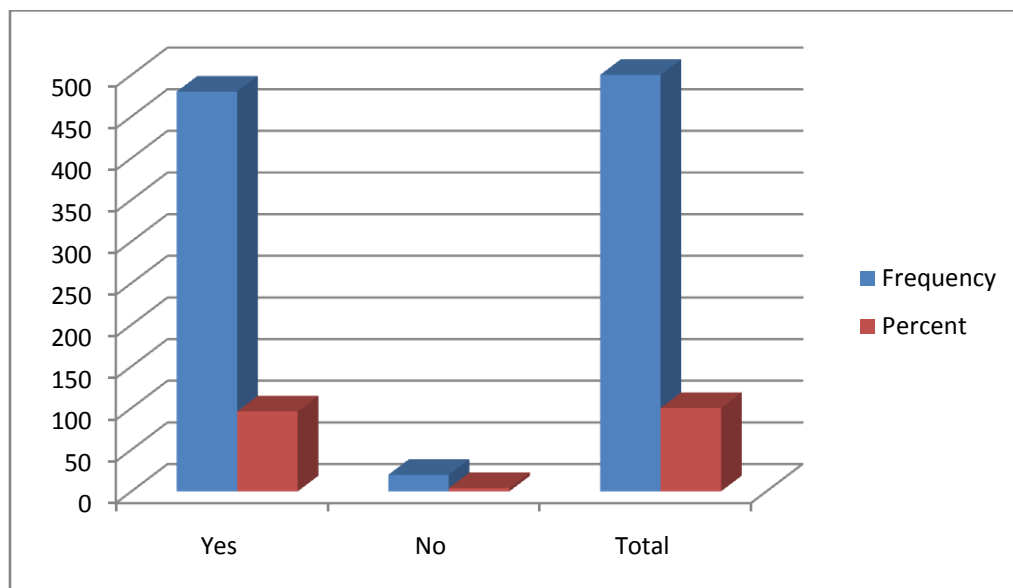
Table 3: Access to Micro-Credit on the level of poverty among Beneficiaries

Response	Frequency	Percent
Yes	480	96
No	20	4
Total	500	100

Source: Field Work, April 2017.

Table 3 shows that as much as 96% of total respondents of microcredit beneficiaries agree that micro credit has helped reduce their level of poverty and only 4% said that microcredit has not improved their poverty levels.

Figure 3: Access to Micro-Credit on Poverty Levels



The research gave a positive answer to the question of whether micro credit can reduce rural poverty. It also proves that the rural poor with access to credit can acquire some

assets and this will go a long way to reduce poverty and the two have positive correlation.

Table 4: Assets owned by programme beneficiaries

Assets	% of beneficiaries who owned various assets in 2014	% of beneficiaries who owned various assets in 2015	% of beneficiaries who owned various assets in 2016
Farm Land	14.3	15	13
Plastered house	7.6	12	9.5
Semi built Plastered House	9.5	11.8	8.5
Mud house	20.4	17	16
Cloths	20.4	24.2	26
Cooking utensils	27.8	20	28

Source: Field Work, April 2017.

Figure 4: Assets owned by programme beneficiaries

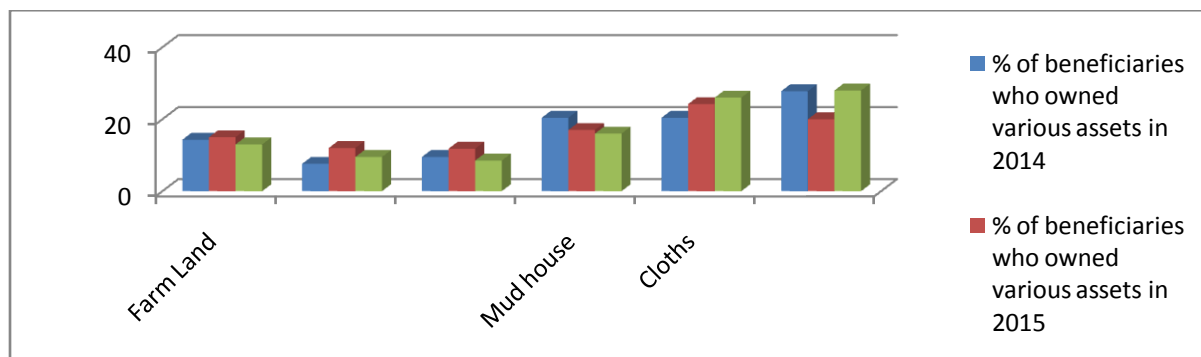
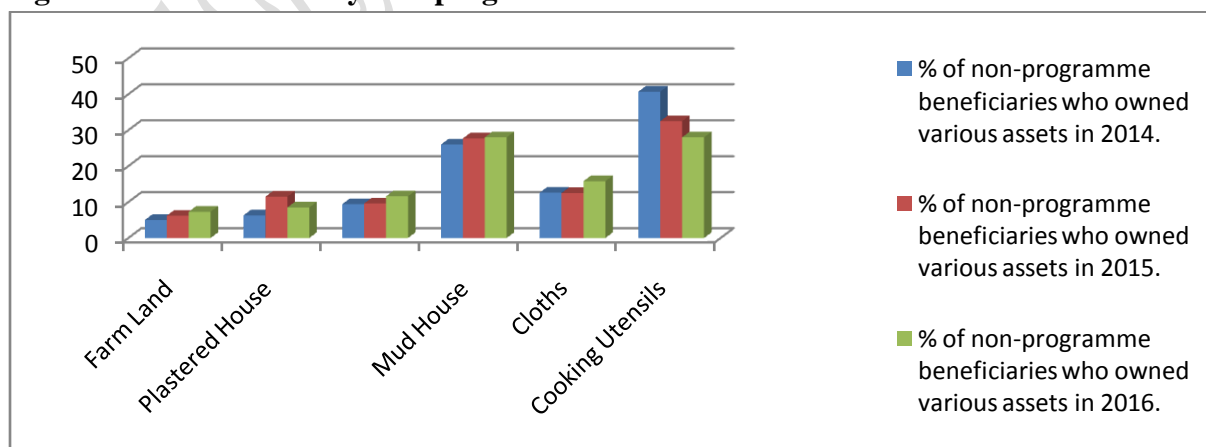


Table5: Assets owned by non-programme beneficiaries

Assets	%of non-programme beneficiaries who owned various assets in 2014.	% of non-programme beneficiaries who owned various assets in 2015.	% of non-programme beneficiaries who owned various assets in 2016.
Farm Land	5.0	6.2	7.3
Plastered House	6.3	11.5	8.5
Semi-Built Plastered House	9.4	9.6	11.6
Mud House	26.0	27.7	28
Cloths	12.6	12.5	15.8
Cooking Utensils	40.7	32.5	28

Source: Field Work, April 2017.

Figure 5: Assets owned by non-programme beneficiaries



Source: Field Work, April 2017.

Assets Owned by Respondents

Table and figures above show acquisition of assets by respondents for the last three years. Data on assets show that programme beneficiaries added to their assets on yearly basis and that clothes and cooking utensils are the most acquired assets as shown above. For the three years that the study cover farm land owned by respondents who were microcredit programme beneficiaries were 14.3%, 15% and 13% for 2014, 2015 and 2016 respectively as against non-beneficiary respondents who owned 5%, 6.2% and 7% for the same period. It also shows that while significant percentages of some of the beneficiaries were able to build mud house, others are able to acquired semi-built houses. On the contrary, from table 5 for non-beneficiaries, cooking utensils are the most significant items they are able to

acquire. Even though they owned houses, most of their houses are made up of mud houses. Comparatively beneficiary respondents who owned plastered houses over the three year period exceeded non beneficiaries who owned plastered house.

Types of Microcredit Beneficiary

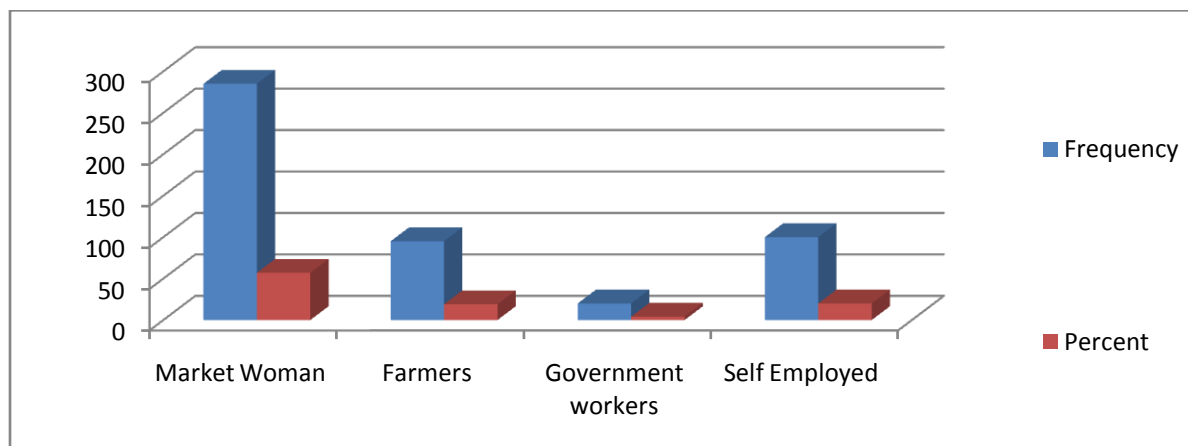
Over the years and before the introduction of Microfinance in India, access to credit was very difficult. However, Microfinance in the country has come to reduce such difficulties. The table below shows the categories of people who benefited from Microcredit. From the table 6, it could be seen that market women benefited most from Microcredit, representing 57% followed by farmers with 19.0%. Government workers 4% and 20% were self- employed.

Table 6: Categories of Microcredit Beneficiaries by Profession

Categories of Microfinance Beneficiary	Frequency	Percent
Market Woman	285	57
Farmers	95	19
Government workers	20	4
Self Employed	100	20
Total	500	100

Source: Field Work, April 2017.

Figure 6: Categories of Microcredit Beneficiaries by Profession



It also confirms 2001 survey by the Special Unit on Microfinance of the United Nations Capital Development Fund (UNCDF) of 29 microfinance institutions which revealed that approximately 60 percent of these

institutions' clients were women. Six of the 29 focused entirely on women. The research gave a positive answer to the question why Micro credit target women.

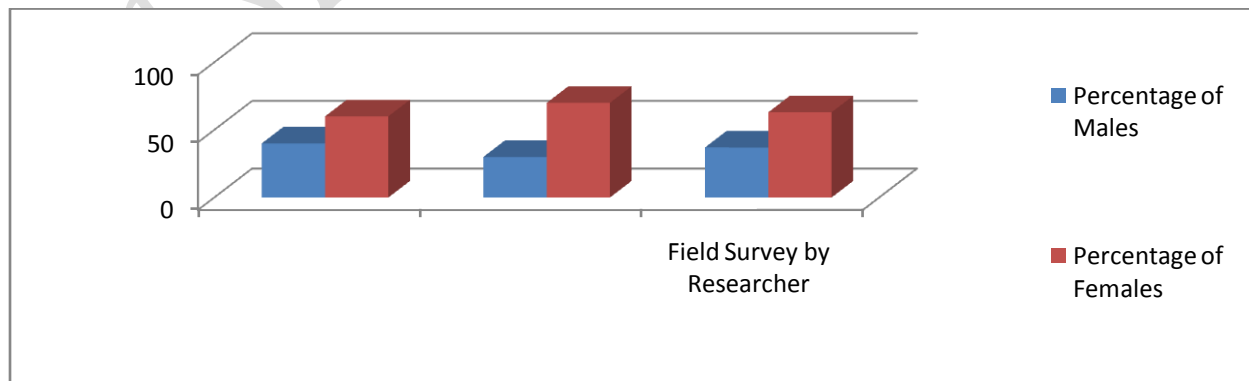
Table 7: Gender Distribution of Microcredit Beneficiaries

Research organization	Percentage of Males	Percentage of Females
United Nations Capital Development Fund (UNCDF, 2009)	40	60
United States Agency for International Development (USAID, 2010)	30	70
Field Survey by Researcher	37	63

The field research shows that out of the total beneficiary 37% were male and 63% female.

This data was in conformity with UNCDF 2009 data and USAID 2010 data.

Figure 7: Gender Distribution of Microcredit Beneficiaries



Source: Field Work, April 2017.

Financial Services tailored to the demand patterns of the borrowers

The table 8 provides that respondents were asked as to whether credit is easily available

to them from their respective financial institutions. 48% responded yes while 52% responded no. A number of reasons were given by the respondents in respect of their no answers.

Table 8: Is credit easily available

Response	Frequency	Percent
Yes	240	48
No	260	52
Total	500	100

Source: Field Work, April 2017.

Figure 8: Is credit easily available

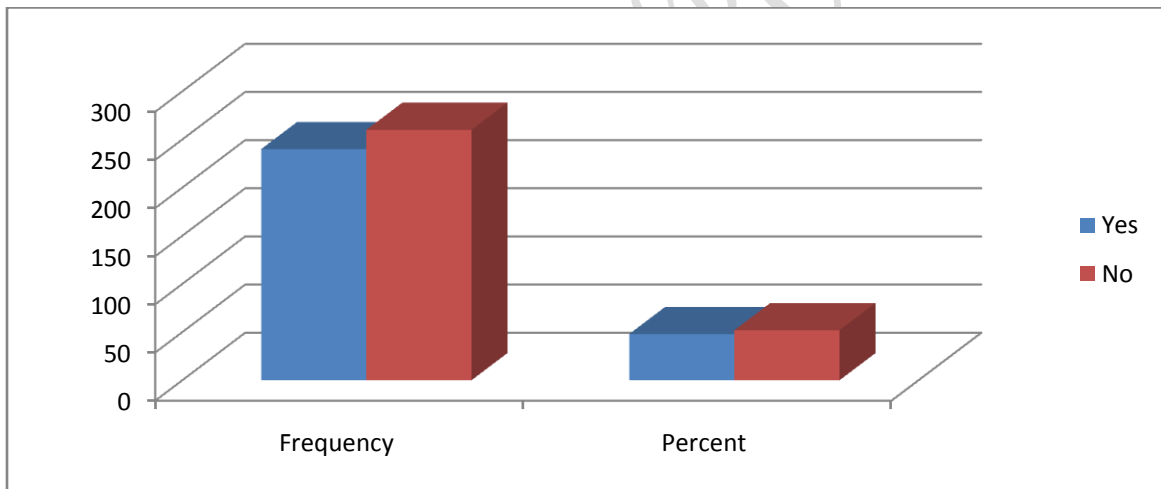
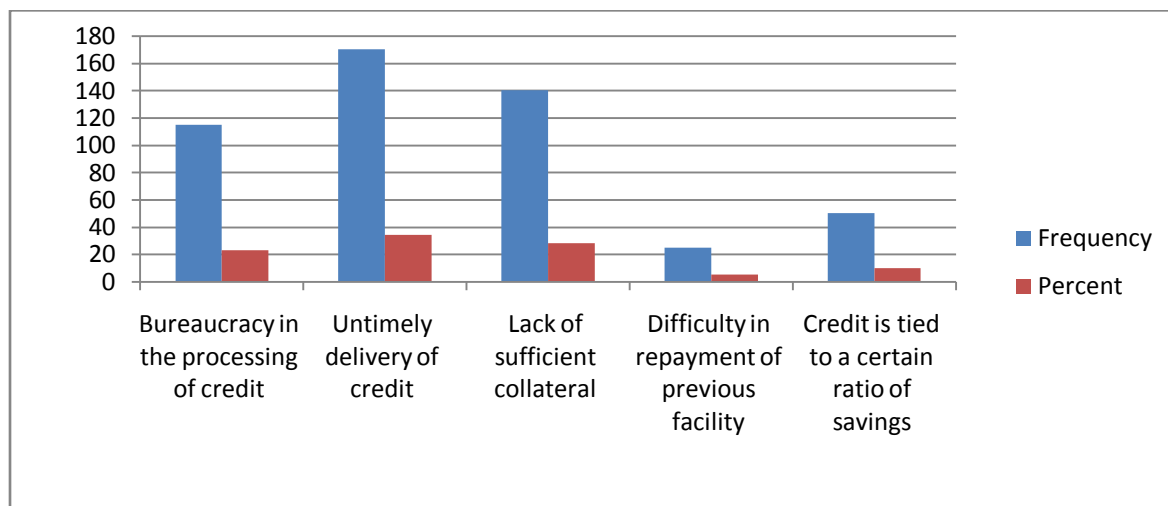


Table 9: Reasons for the difficulty in accessing credit

Reasons	Frequency	Percent
Bureaucracy in the processing of credit	115	23
Untimely delivery of credit	170	34
Lack of sufficient collateral	140	28
Difficulty in repayment of previous facility	25	5
Credit is tied to a certain ratio of savings	50	10
Total	500	100

Source: Field Work, April 2017.

Figure 9: Reasons for the difficulty in accessing credit



Source: Field Work, April 2017.

The table no 9 provide that respondents feels that they face difficulty in accessing credit by Bureaucracy by 23%, time was the problem 34% and 28% feels that they lack sufficient collateral. However many of them

have not felt difficulty in repayment. Only 5% had difficulty in accessing credit because of their difficulty in repayment of their previous facility.

Table 10: Average period for the disbursement of credit by MFIs Staff

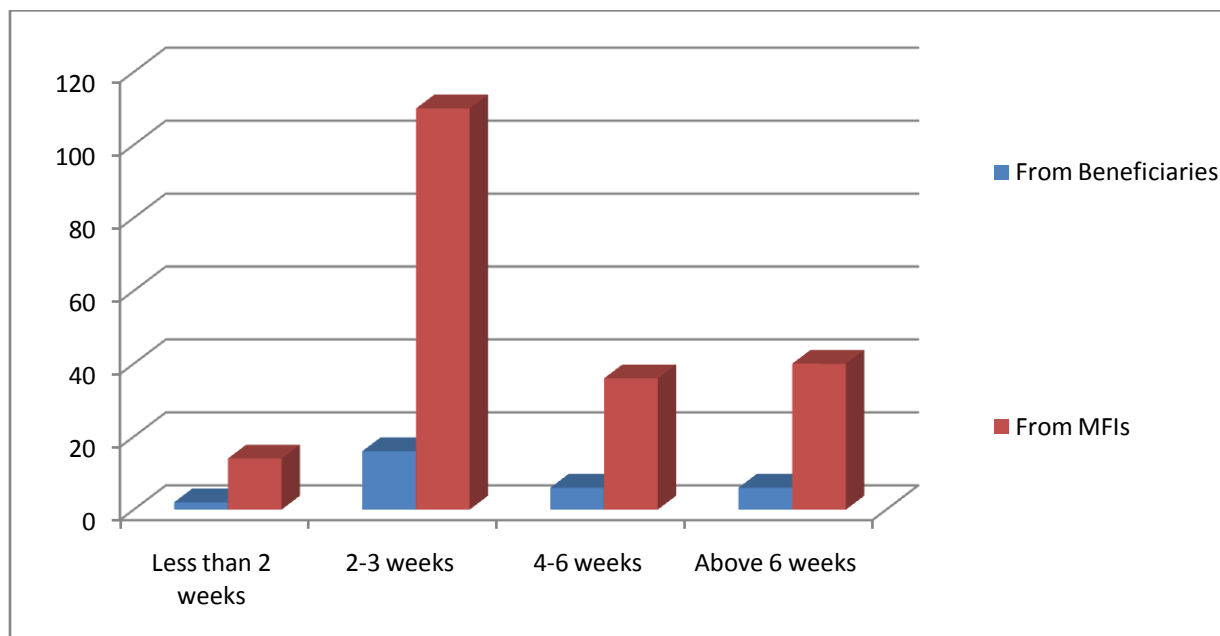
Responses	From Beneficiaries	From MFIs
Less than 2 weeks	2	14
2-3 weeks	16	110
4-6 weeks	6	36
Above 6 weeks	6	40
Total	30	200

Source: Field Work, April 2017

The average period for disbursement of credit by MFI was less than two weeks felt by 2 beneficiary and 14 were from MFI. However majority were 16 beneficiaries and

110 MFI only 6 beneficiary and 40 staff from MFI felt that period is more than 6 weeks.

Figure10: Average period for the disbursement of credit by MFIs Staff



Source: Field Work, April 2017.

An interview conducted by the researcher on 30 microfinance officials who work at the credit units of the various institutions mentioned varied periods with regard to average period the institutions use to process

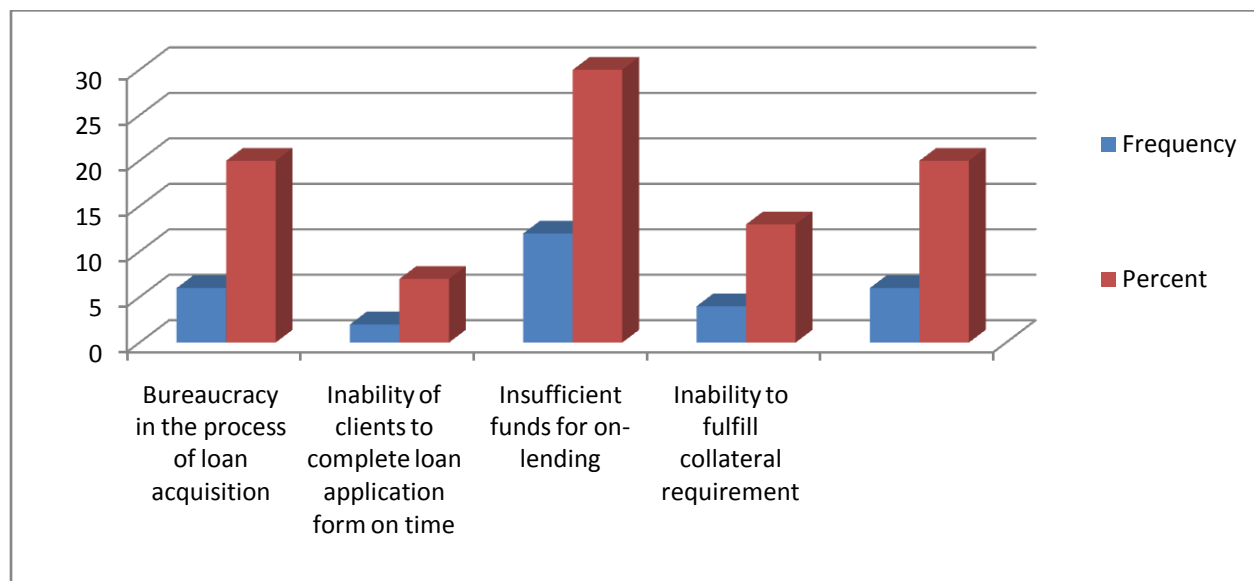
and disburse credit to applicants. The question of whether financial services are tailored to the demand patterns of the borrowers. Different Microfinance institutions have different credit policies.

Table 11: Causes for the delay in processing clients loan request

Reason	Frequency	Percent
Bureaucracy in the process of loan acquisition	6	20
Inability of clients to complete loan application form on time	2	7
Insufficient funds for on-lending	12	30
Inability to fulfill collateral requirement	4	13
High primary and secondary reserve requirement set by Bank of India	6	20

Source: Field Work, April 2017.

Figure11: Causes for the delay in processing clients' loan request



Source: Field Work, April 2017.

Table and figure above indicate that out of the 30 Microfinance officials who responded to the interview 20% were of the view that delay in processing clients loan request was as a result of bureaucratic nature of loan acquisition. 7% stated that loans are delayed because of inability of applicants to provide enough collateral while 30% stated that institution does not have adequate funding for on-lending to their clients. 7% indicated that the delay is as a result of the inability of applicants to complete loan application form

on time and another 20% responded that the Bank of India statutory requirement for both primary and secondary requirement reduces the banks' ability to lend more.

The strategies the banks use to recover loans

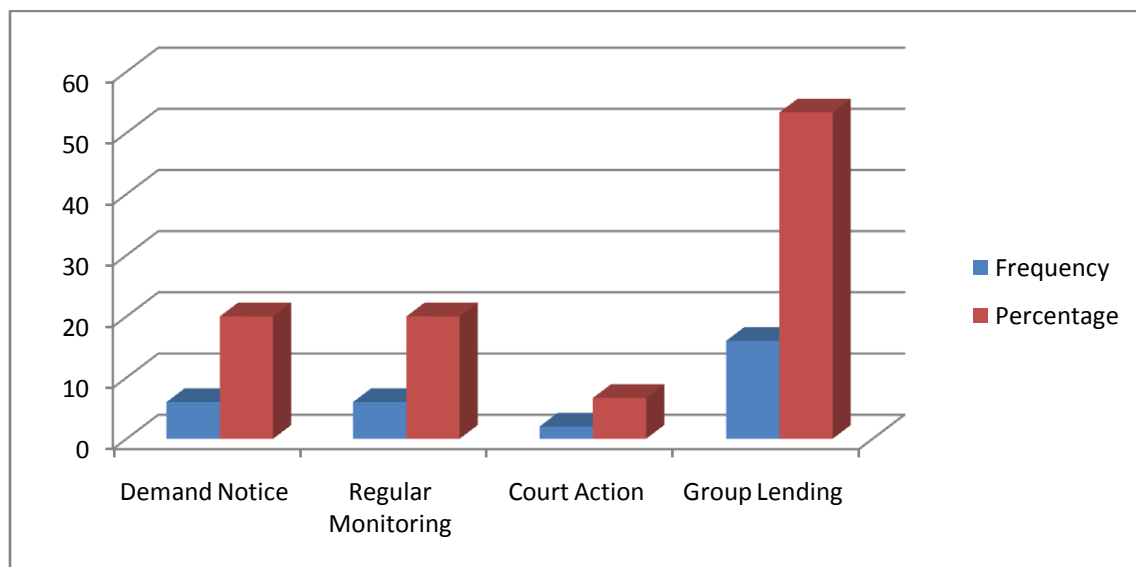
The Micro Credit institutions which were interviewed used some strategies to recover the loans from the Micro Credit beneficiaries. The table 12 below shows the various strategies.

Table 12: Loan Recovery Strategies

Strategy	Frequency	Percentage
Demand Notice	6	20
Regular Monitoring	6	20
Court Action	2	6.666666667
Group Lending	16	53.33333333
Total	30	

Source: Field Work, April 2017.

Figure12: Recovery Strategies by MFIs



Source: Field Work, April 2017.

Face to face interview by the researcher in the Microfinance institutions showed that the major problem was loan recovery from the Microfinance clients. In trying to overcome this challenge almost all the Microfinance institution have employ various strategies to recover their loans from Microcredit clients. The strategies the banks use most is group lending representing 57% this is because group members are held severally responsible for repayment of group loans, meaning this is easy for the group to pay the loan than the individual clients. This is follow by regular monitoring representing 20%. Demand notices and court action representing 20.0% and 3.0 % respectively. This also revealed that the microcredit institutions do not normally use court action because according to them it scares prospective clients to access credit. Though group-lending has long been a key part of microcredit, microcredit initially began with the principle of lending to individuals.

Conclusion

From the data analysis, following points can be concluded:

- The survey data and analysis show positive changes in the in the assets acquired by most programme beneficiaries in relation to non-beneficiaries. They are able to afford cooking utensils, clothing and many more assets than the non-beneficiaries. The most clientele of MFIs are women.
- Microcredit is a tool for socioeconomic development. It also proves that the rural poor with little effort can assess credit. This answers the question why microcredit target women. It does because women are the most venerable in our society and for that matter if the women get access to credit through Microcredit poverty is going to reduce.
- On whether microcredit can help reduce poverty, the result clearly shows that there is positive correlation between credit acquisition and poverty reduction.

- There is a positive correlation between credit and assets acquisition. The research found that farm land and houses which are major measure of wealth in the community are significantly owned by microcredit beneficiaries as compared to non - beneficiaries. On the contrary, for non-beneficiaries, cooking utensils are the most significant items they are able to acquire.
- Even though they owned houses, most of their houses are made up of mud houses.
- It was also learnt that the group lending leads to solidarity amongst groups by building strong cohesion amongst the group members and has given many of the beneficiaries some social status in their communities.

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