

Impact of Microfinance on Poverty Alleviation

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Abstract

A popular term in the credit markets because to its effectiveness in reducing poverty is microfinance. Most people who support microfinance think that giving impoverished people access to it will lift them out of poverty. National governments, Non-Governmental Organizations (NGOs), and donors who see microfinance as a powerful weapon for ending poverty have actively supported the dynamic growth of the microfinance business in addition to market factors. The strong motivation behind this widespread and rising support for micro lending suggests that there are important, warranted national economic and social consequences. The government of India launched several programmes to reduce poverty, but they were unsuccessful owing to a number of factors, including a failure to reach the intended demographics, a lack of progress in the creation of efficient mechanisms, systemic flaws, and a few others. Nonetheless, there is a lot of potential for the microfinance industry, making it the most successful and cost-efficient strategy for eradicating global poverty. In order to combat poverty, microfinance is used in many different parts of the world. Small loans from microfinance institutions (MFIs) are given to the underprivileged to improve their quality of life and ability to make an income.

Keywords: Microfinance, Grammen Banks, SHG, MFI, Poverty Line, Poverty Reduction

Introduction

The new economy is seeing the emergence of microfinance as a potent tool for reducing poverty. Despite the obvious connection to poverty reduction, there is also an indirect connection to the concerns of gender, health, and education. In addition to loans for consumption and production, microfinance will also cover other financial needs, such as renovations for housing and shelter.

Microfinance is described as any activity with the intention of generating social value and including the provision of financial services to the poor, both those who are just above and below the nationally recognised poverty line, such as loans, insurance, and savings. Being poor is defined as “to be hungry, to lack shelter and clothing, to be

uneducated and not in school” and the poverty as a state of “severe deprivation in well-being” (World Bank, 2000-2001). The reason why the poor remain poor is because they lack access to capital, not because they are lazy. When they are in need, they must heavily rely on family members or local money lenders because banks and other institutions are unable to provide loans and other financial services. The interest rates charged by lenders are typically very high. Hence, the economy is caught in a vicious cycle of low income, poor saving, low investment, low production, and low employment rate. Muhammad Yunus thought that the system is what causes poverty and that those who are impoverished are reliable borrowers who may benefit much from small loans.

Since 1970, microfinance has been demonstrated to be one of the most efficient and long-lasting instruments for eradicating poverty. Microcredit provides financial services to low income communities and is crucial in the fight against the many facets of poverty. According to famous economist Robinson, Microfinance refers to small-scale financial services for both credits and deposits-that are provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services. Finally, microfinance aims to provide low income individuals with the means of saving money, borrowing money, and purchasing insurance in order to enable them to achieve self-sufficiency. This is crucial for empowering women and reducing poverty, especially in developing nations like India.

Objectives

- To study the impact of microfinance on per capital income.
- To study the impact of SHG/MFIs loans on members
- To analyse the overall impact of microfinance on poverty alleviation.

Research Methodology

This is a descriptive research paper based on secondary data. Data have been found out from different websites, books, research paper and journals collected. Simple calculation, graph and tables are used by researcher to explain the facts and finding the results.

Origin of Micro Finance

The idea of offering financial services to those with limited resources is a very old one. Many informal credit organisations, such as the Susus in Nigeria and Ghana, Chit funds and Rotating Saving and Credit Associations in India, Tontines in West Africa, Pasanaku in Bolivia, Hui in China, Paluwagon in the Philippines, etc., have been active for many years. It is thought that informal financial institutions first appeared in Nigeria in the fourteenth century. The first lending fund intended for the needy was established in Ireland in 1720, marking the beginning of this sort of

institution's establishment in Europe during the eighteenth century.

Friedrich Raiffeisen established the first cooperative lending institution to assist farmers in rural Germany in the 18th century. Yet when Dr. Muhammad Yunus founded the Grameen Bank in Bangladesh in the 1970s, "Micro financing" expanded. The founder of Grameen Bank, Professor Muhammad Yunus, started an action research project at the University of Chittagong in 1976 to investigate the viability of developing a credit delivery system to offer banking services geared towards the rural poor. This project eventually became the forerunner of Grameen Bank. The Grameen Bank Project (Grameen means "rural" or "village" in Bengali) was established to provide poor people in rural Bangladesh with access to banking services, end exploitation, and open up chances for self-employment.

Micro Finance in India and Needs

Micro finance in India started in 1974 in Gujarat with Shri Mahila SEWA (Self Employment Women's Association) Sahakari Bank. Micro Finance Later evolved in early 1980s around the concept of informal Self-Help Groups (SHG). During 1992, NABARD started linking SHGs to banks in India. Almost 21.9% of people in India are considered to be poor (According, 2013). The majority of the poorest households — about 60% — lack access to credit. Just 20% of people use loans from official sources. Just roughly 12,000 crores of the anticipated 60,000 crores in annual loan demand by the poor are actually disbursed.

Concept and Features of Micro Finance

Microfinance is an economic development strategy that involves offering low-income consumers financial services through institutions, according to the International Labour Organization (ILO).

According to "The National Microfinance Taskforce, 1999," microfinance is defined in India as "the provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards."

Microfinance features are as follows:

1. It is a tool for the poorest people's empowerment.
2. Distribution typically takes place through self-help groups (SHGs).
3. Its main purpose is to encourage self-employment.
4. It is an instrument for social transformation, particularly for women, and not just a financial system.
5. As microfinance is intended for the poorest people, lending technology must resemble informal lenders rather than lending from the formal sector.

Channels of Micro Finance In India:

In India microfinance operates through two channels:

1. SHG-Bank Linkage Programme: The NABARD started this route of bank-led microfinance in 1992. The SHG concept encourages its participants, typically women in villages to establish groups of 10 to 15 people. Periodically, the group's members donate their savings, and small loans are made to the members using these funds.

2. Micro Finance Institutions: Micro finance institutions are organisations that focus primarily on providing microloans. Several organisations of various sizes and legal structures provide microfinance services. These institutions use the Joint Liability Group idea to provide loans (JLG). JLG is a loose association of five to ten people who get together to borrow money from banks, either individually or collectively, in exchange for mutual guarantees.

Table 1: Agency-Wise Average Saving, Loan Disbursement and Loan Outstanding per SHG

(Amount in Lakh)

Category of Agency	Average Saving of SHGs with Banks			Average Loan Disbursed to SHGs by Banks			Average Outstanding Bank Loans against SHGs		
	2019-20	2021-22	Change (%)	2019-20	2021-22	Change (%)	2019-20	2021-22	Change (%)
Commercial Banks	28,613	44,612	55.91%	2,69,646	2,94,460	9.20%	2,16,156	2,45,495	13.57%
Regional Rural Banks	23,947	38,488	60.72%	2,21,539	2,94,896	33.11%	1,63,966	1,94,620	18.69%
Cooperative Banks	17,767	19,143	9.26%	1,95,094	2,76,485	41.72%	1,22,622	1,68,247	37.20%
Total	25,531	39,721	55.58%	2,46,851	2,93,471	18.88%	1,90,371	2,24,113	17.72%

Source: Status of Microfinance in India report 2021-2022

Interpretation: As given in Table-1, average saving of SHGs with banks has increased across all agencies. Average saving of SHGs with banks, in year 2019-20 was Rs 25531 lakh, the deposits increased by 55.58% in 2021-22 and reached to Rs 39721 lakh. Average Loans Disbursed to SHGs by Bank in year 2019-20 was Rs 2,46,851 lakh, the amount increased by

18.88% in 2021-22 and reached to Rs 2,93,471 lakh. Average Outstanding Bank Loan against in year 2019-20 was Rs 1,90,371 lakh, the amount increased by 17.72% in 2021-22 and reached to Rs 2,24,113 lakh. The Average Loan Outstanding per SHGs has also increased for all agencies, the highest percentage increase being in Cooperative Banks.

Table 2: Overall progress under SHG-Bank linkage programme

(Number in lakh/ Amount in Crore)

	Particulars	2018-2019		2019-2020		2020-2021		2021-2022	
		No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
SHG Saving with Banks as on 31 st march	Total SHGs No	100.14	23324.48	102.43	26152.05	112.23	37477.61	118.93	47240.48
Increase/Decrease (in %) over the previous year		(14.52 %)	(19.05 %)	(2.29 %)	(12.12 %)	(9.57 %)	(43.31 %)	(5.97%)	(26.05 %)
Loan Disbursed to SHGs during the year	No of SHGs extending Loans	26.98	58317.63	31.46	77659.35	28.87	58070.68	33.98	99729.22
Increase/Decrease (in %) over the previous year		(19.33 %)	(23.59 %)	(16.60 %)	(33.17 %)	(-8.23 %)	(-25.22 %)	(17.71 %)	(71.74 %)
Loan outstanding against SHG as on 31 st March	Total No. SHGs Linked	50.77	87098.15	56.77	108075.07	57.8	103289.71	67.40	151051.30
Increase/Decrease (in %) over the previous year		(1.14 %)	(15.21 %)	(11.82 %)	(24.08 %)	(1.81 %)	(-4.43 %)	(16.61 %)	(46.24 %)

Source: Status of Microfinance in India report 2021-2022

(Figure in parenthesis indicates the increase / decrease over previous year)

Interpretation: In the above table-2, shows SHGs saving with banks, in year 2018-19 the saving deposited in bank was Rs 23324.48crore, the deposits increased by 12.12% in 2019-20 and reached to Rs 26152.05crore. In successive years there was increasing trend and the amount in saving account was Rs 37477.61crore with the growth rate of 43.31.18% during 2020-2021 respectively and the deposits increased by 26.05% in 2021-22 and reached to Rs 47240.48crore. Loan disbursed to SHGs in 2018-19 was Rs 58317.63crore, the amount increase by 33.17% in 2019-20 and reached to Rs 77659.35crore. In 2020-21 amount was Rs 58070.68crore with the reducing growth rate of -25.22% due to covid and amount in-

creased by 71.74% in 2021-22 and reached to Rs 99729.22crore.

Table also showing data about loan outstanding against SHGs and that amount in 2018-19 was Rs 87098.15 crore, the amount increase by 24.08% in 2019-20 and reached to Rs 108075.07crore. In 2020-21 amount was Rs 103289.71crore with the reducing growth rate of -4.43% due to covid and amount increased by 46.24% in 2021-22 and reached to Rs 151051.30crore.

Concept of Poverty-Line in India

Both consumption-based and income-based poverty statistics are used in India. Outside of India, the World Bank and UN organisations assess

poverty among countries, including India, based on nominal relative basis and purchasing power parity (PPP). In India, each state has its own definition of poverty that both reflect local economic realities and the number of people living below the poverty line in that state. In India, there are few techniques used to formally measure poverty.

1. The Task Force (1979): The poverty line was established by the Task Force (reported in 1979) as a monthly per capita consumption expenditure (MPCE) level of Rs. 49.09 for rural regions and Rs. 56.64 for urban areas at national prices in 1973–74. They were equivalent to the monetary worth of a basket of goods and services that would provide the daily caloric needs of each person in rural and urban settings, respectively, of 2400 and 2100 kcal.

2. The Expert Group (Lakdawala Committee, 1993): The Task Force advised continuing the poverty line method with an associated fixed consumption basket that is based in a calorie norm. Yet the Expert Group also suggested that the state-specific poverty thresholds (for the base year 1973–1974) be established.

3. Tendulkar Committee (2009): The Tendulkar Committee's method made four fundamental changes that, in their opinion, represented significant advancements over the currently used official poverty calculation procedure: - (i) purposefully eschewing the calorie anchor; (ii) advocating the establishment of a standard "poverty line basket" (PLB); (iii) endorsing a price adjustment mechanism; and (iv) including an explicit provision in price indices for private expenditure on health and education.

Poverty: Line In India

Based on Tendulkar technique, India currently has official poverty rates. It measures poverty in terms of how much each person spends on a bas-

ket of necessities over a given time period rather than their annual income. This technique also establishes various poverty thresholds for urban and rural locations. The official threshold in India is 26 dollars per day (\$0.43) in rural areas and approximately 32 dollars per day (\$0.53) in metropolitan areas. But these figures are less than the income-based \$1.25 per day recommended by the World Bank.

Impact of Micro Finance on Poverty Reduction in India

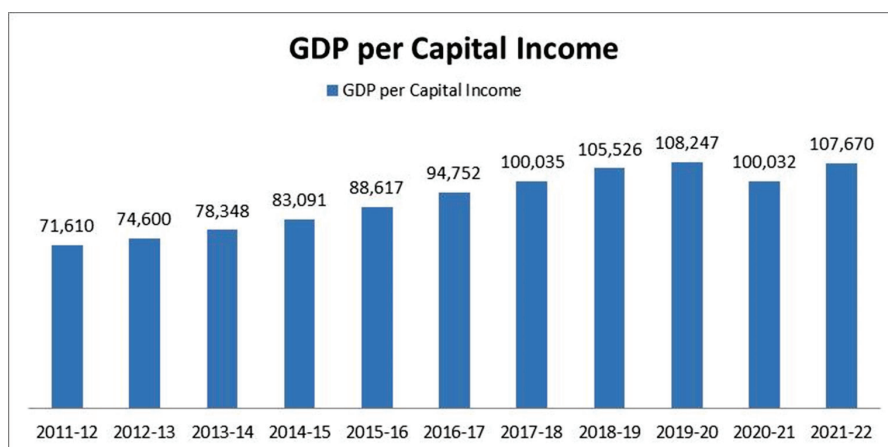
A potent tool for reducing poverty in the new economy is microfinance. The provision of financial services to low-income clients, such as consumers and the self-employed, who typically lack access to banks and related services, is known as microfinance. A movement whose goal is "a world where as many poor and near-poor households as feasible have permanent access to an acceptable range of high quality financial services, including not just credit but also savings, insurance, and fund transfers" is what it is called more generally. Most people who support microfinance think that giving impoverished people access to it will lift them out of poverty.

The requirements of the rural poor in terms of sustainable economic activity are the main focus of rural development. Starting income-generating initiatives with an emphasis on microcredit as the fundamental component for socioeconomic development can help reduce rural poverty. Innovative and tenacious micro-entrepreneurs can establish any small business with the help of microfinance. The income from these small companies allows the microcredit borrowers to maintain their standard of living, access to healthcare, education, and nourishment for their families, as well as their optimism for a brighter future.

Table 3: Per-capital Income at 2011-12 Base Price

GDP Per Capital Income of India (At 2011-12 Base Year)											
Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
GDP per Capital Income	71,610	74,600	78,348	83,091	88,617	94,752	1,00,035	1,05,526	1,08,247	1,00,032	1,07,670

Source: Ministry of Statistics & Programme Implementation, India.



Graph 1: Per-capital Income at 2011-12 Base Price

Interpretation: The graph 1 demonstrates that India's per-capital income is continuously increasing, but since the 1990s, the rate of per-capital income increased more as a result of SHGs lending money to the underprivileged for self-employment. By doing so, they are able to work, boost their per-capita income, and escape the poverty line. Based on such observation, it is possible to infer that microfinance may contribute to rising per-capital income and an inverse relationship between per-capital income and the people living below the poverty line. Table-3, shows that the per-capital income of India Rs 71,610 rs in 2011-2012 and increase by 48.95% in 2021-22 and reached to Rs 1,06,670.

From the table 4, it is observed that percentage of poverty in India is continuously reduced. In 1993-94 poverty percentage in India is 45.3%. In rural area the poverty is 50.1% and in urban area the poverty is 31.8%, its shows that rural area is more affected by poverty.

Table 4: Percentage of poor people in India

YEAR	Poverty Ratio in percentage (%)		
	Rural	Urban	Total
1993-94	50.1	31.8	45.3
2004-05	41.8	25.7	37.2
2009-10	33.8	20.9	29.8
2011-12	25.7	13.7	21.9

Source: Planning Commission (Estimated by tendulkar committee methodology)

But the rate of poverty in India is decresies because SHG provide money as a loan to the poor people for self-employment. Impact of microfinance on poverty line is showing in above table. In 1993-94 poverty percentage in India is 45.3% according tendulkar committee method, the percentage of poverty decresies by 8.1% and reached to 37.2% in 2004-05. In 2009-10 poverty percentage is 29.8% and 2011-12 is 21.9% .On the basis of data, we found that the providing of microfinance by SHGs and MFIs helps to reduce the poverty population in India.

Findings & Suggestions

The effectiveness of microcredit and microfinance as a technique for eradicating poverty and promoting economic empowerment has been well documented. Microfinance is a tool for eradicating poverty, especially in rural regions, where the majority of the world's poorest people reside. The following suggestions are made for making the micro finance as effective tool for alleviation of poverty:-

1. A large portion of India's population lives in villages, and as the majority are illiterate, they are still ignorant of banking practises and the credit system. Hence, NGO should interact with them, share their perspective with the villagers, and instruct the SHG members on how to effectively use the funding.

2. Micro-loans Loan amounts are insufficient to significantly reduce poverty and promote growth. Microcredit deals with the accumulation of material, financial, and human resources.
3. The Indian government and state governments should also encourage measures to improve capability, ensure transparency, and boost trust through disclosures.

Conclusion

Microfinance is a powerful and effective instrument for reducing poverty and promoting rural development. By giving the poor more chances for self-employment and establishing their credit worthiness, the Microfinance Program has been proven to be a successful tool for removing them from poverty. According to the results of the current study, microfinance plays a significant role in improving quality of life by raising the population out of poverty and increasing per-capita income.

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