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Micro-Financing's Role in Alleviating Poverty – A Critical Review

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Abstract

In rural and urban India, as in various parts of the world, micro-financing has been instrumental in alleviating poverty. In terms of their socio-economic empowerment and healthy livelihoods founded on dignity and self-respect, this paper offers an overview of how micro-financing has changed the lives of the poor. In order to decode the effect of micro-financing on poverty alleviation, especially in the Indian context , the author has examined a number of conceptual and empirical studies. As a holistic intervention technique in the contemporary development model, the paper provides an incisive criticism of micro-financing.

Keywords*: Micro-finance, Poverty Alleviation, India*

Introduction

Micro-finance has evolved over the years as a lifeline for the poor across the world. Micro-finance has been described by the Reserve Bank of India as providing the poor in rural, semi-urban and urban areas with very small amounts of thrift, credit and other financial services and products to allow them to increase their income levels and improve their living standards. Besides Self-Help-Groups, several non-governmental organizations, non-banking financial institutions, commercial banks, private banks, international agencies etc. are engaged in promoting micro-finance in the country as a significant poverty alleviation intervention. The Government of India is very keen to regulate the micro finance sector in order to protect all the stakeholders.

Micro-finance has emerged as a need-based policy and programme in the development model to reach the previously overlooked target groups (women, poor, rural, impoverished, etc.). Its evolution is focused on all developed countries' concern for the empowerment of the poor and poverty alleviation. As a major feature of many poverty alleviation programmes, development organisations and policy makers have included access to credit for disadvantaged people.

There are two prevalent models of micro financing in the country: Micro-finance Institutions and Self-Help-Groups. For one, Micro-finance Institutions (MFIs) have their own fund or equity. The funds come from investor grants in the event that the MFI is a trust or corporation or equity investment and the money of the founders in the case of corporations or shareholdings in the case of cooperative companies. Most of the funds, however, derive from the loans and borrowings of banks and other major financial institutions. The degree to which they exploit borrowed funds makes Indian MFIs special. In the other three major micro finance regions of the world, East Asia, Latin America and Africa, the average capital asset ratio in the country is less than 11 percent, just half the amount.

Self-Help-Group model of micro financing is promoted by senior managers of NABARD and other commercial banks. It is also know as SHG-Bank Linkage Programme (SBLP). According to a rough estimate, SBLP covers around 14 million households as against 7.3 million being served by the MFIs[2]. In recent times, there has been a significant change in the mindset of the bank officials who view SHG financing as profitable as against the previously held paradigm of social banking, which led to micro financing more out of moral obligation, assuming that the poor would probably never repay their debts.

Interestingly, micro finance in India has been primarily promoted by the government as well as non-governmental organizations in rural areas keeping aside the needs of the urban poor. A great number of micro finance institutions are operating in rural areas as compared to urban area. Hence most of the studies on the impact of micro finance have been undertaken in rural settings. Only recently micro finance institutions have started working among the urban poor. No wonder there are fewer empirical studies on the impact of micro finance on the urban poor. The present research thus becomes all the more significant.

Literature Review

A number of scholars have conducted both theoretical and empirical studies on the impact of micro-financing in India and other parts of the world. A brief review of some of the significant studies is presented as under:

Micro-credit, Poverty and Employment: Linking the Triad edited by Neera Bura et al provides six case studies on the impact of micro-credit activities on women's empowerment. The study was sponsored by United Nations Development Programme and ICICI Bank. Chapter 1 of the book introduces micro credit as a tool of poverty alleviation and women's empowerment. In
Chapter 2, Murthy et al evaluate the impact of South Asia Poverty Alleviation Programme (SAPAP) intervention in Mahboobnagar, Kurnool, and Ananthpur districts of Andhra Pradesh. They have emphasized that while strengthening social capital of poor women through self-help groups, it is not adequate to merely strengthen bonding social capital among members. They have outlined the need augmenting their collective power to challenge hierarchies, norms, resource allocation patterns of societal institutions.

Anuradha Rajivan has examined the impact of Share Micro Finance Limited on women's empowerment in the 3rd Chapter of the book. The author visited remote villages in Ranga Redd and Guntur districts of Andhra Pradesh to gather relevant information and insight. Her study specifically emphasises that, in contrast to non-members or new members, the 'credit-for-income generation model' of small women's groups, well-oriented in obtaining loans closely supervised by qualified employees, contributes to substantial first-level changes in the individual lives of members and their households. Women have greater say in the household expenditure, arising directly from their contributions. They are spending on gas stove, fans that reduce the drudgery of domestic work and thus improve the quality of life of the whole family. However, the transition of women from low-wage employees to owner-managers is the most significant effect of Share action. This is generally appreciated not only because of higher opportunities for profits, but also because of a perceived improvement in integrity and power. In addition , higher sales have contributed to a rather concomitant rise in their self-confidence and self-worth, as well as versatility and articulation.
Veena Padia provides an overview of the impact of DHAN Foundation in the 4th Chapter of the book. She observes that the Community Banking Programme (CBP) of the DHAN Foundation has provided poor women the space and opportunities to gain access to resources. This offered the first opportunity for many women to take out loans on their own behalf, helping them to feel more comfortable during emergencies. Women are thus encouraged to have more control over decision-making in the household compared to women doing unpaid work in the home or outside work. Social concerns are also addressed and discussed in the CBP meetings.

Soma Kishore Parthasarathy has provided a case study on Swayam Sikshan Prayog (SSP) in

Micro Finance in Chapter 5 of the book. She has summarized the key processes of SSP as under:

- Focus on horizontal learning through sharing and exchange of knowledge and centrality of women in generation of knowledge

- Decentralization by which the system of management are focused on the lowest rung of the savings and credit groups while SSP is involved in the more complex tasks of requiring higher levels of management.

- Ownership of institutions in the hands of women and capacity enhancement to facilitate management of the same

- Emphasis on the processes of leaning and practice towards achievement of sustainable outcomes, spread and outreach for greater efficiency as well as visibility.

SSP resulted in better access to information resources for women alongside lifestyle changes and mobility.

Shashi Rajagopalan has presented the case of Lokdrusti in Chapter 6 of the book. This organization is active in Nuapada district (Orissa) which is one of the poorest districts of the country. The author conducted her stud on 55 SHGs out of 326 groups run by Lokdrusti. She observed that all the beneficiaries belonged to Scheduled Tribes or other backward castes. First and foremost, Lokdrusti intervention led to women's access to savings and credit, which in turn led to augmented income, acquisition of new skills and assets, increased mobility, high self-esteem, and above all, opportunities of leadership in the community.

Kalpana Shankar has presented an empirical study on the impact of Activists for Social Action Trust (ASA) on social mobilization and empowerment of women in the 7th Chapter of the book. She has examined the role of social mobilization and micro credit on poverty alleviation and empowerment and how far augmented incomes for poor households result in better quality of life in terms of nutritious food, education for kids, better healthcare and leisure time use. According to the author, the ASA intervention has led to increased income of the households so much so that 68% of the respondents covered under the study reported that thei families had completel stopped taking loans from the money-lenders after joining the SHG. Interestingly, all loans elated to micro enterprises have led to creation of assets. The author also found that the women controlled the cash generated through the income generation programmes. Household level study also revealed considerable expansion in mobility of women. Consumption of food has increased
in the families associated with ASA intervention. They were aware of healthy practices related nutrition and hygiene. ASA intervention has led to enhanced intra-household decision making powers of women as well.

Lessons drawn from the six case studies have been summarized by Ranjani Murthy and Joy Deshmukh-Ranadive in Chapter 8 of the book who observe that micro credit programmes enable women members to assume leadership and reduce incidence of povety among them. While poor women have an inherent potential for transformation, an external stimulus seems necessary to unleash the process. In all the case studies reviewed, the process of empowerment was fostered by an intermediary organization from outside. The process occurred not through a top-down but a bottom up approach that released the creative potential of poor women and other oppressed groups.

'Self-Help-Groups in India: A Study of Lights and Shades of SHGs'[4] is a significant work of research that provides a comprehensive insight into the working of SHG-Bank-linking model. The study was carried by EDA Rural Systems in association with A P Mahila Abhivrudhi Society (APMAS) in four states comprising of Andhra Pradesh, Karnataka, Orissa and Rajasthan. Outcome of the research is based on a survey of 214 SHGs in 108 villages in nine districts selected purposely to obtain a representative sample of differing agro-climatic and socio-economic conditions.

The key findings of the study indicate that I loans are relatively well distributed between members with low average variance, both in terms of the number of loans and the size of the loan; (ii) the percentage of non-borrowers is only seven percent; (iii) the percentage of broken or deceased groups is only seven percent; (iv) members can save and borrow in group mode as long as they need it; and (v) fewer than 10% of the members dropped out and more than a third of the members dropped out for reasons of relocation, death or sickness.

In a global context, the researchers found that new rather than restructured groups were inefficient. They thought that Self-Help Promotion Organizations are urgently required to perform action research to create more versatile frameworks to enable new members to replace existing ones so that their credit access needs can be facilitated directly from the bank without splitting the community. They also advocated a lot of flexibility in admitting new members and streamlining the bookkeeping practices in the SHGs.

However, some troubling patterns were also found by the researchers. While the number of dropouts was stated to be low, only a fifth of them, when they quit, were paid their full interest and other income share on company operations. This usually occurred because a consistent distribution of surpluses over and above cumulative savings was not allowed by the state of group accounts. The exclusion phenomenon, which keeps the outreach depth to 51 percent, is another matter of concern. The group members' self-exclusion as well as exclusion is primarily due to the expected difficulty of fulfilling saving commitments and keeping up with loan repayments; and the lack of understanding and trust in group processes.

'What items do people want to save?" is a qualitative study by S Mullainathan et al aimed at defining the demand, availability and use of savings products among the poor. The study examined the demand side: first, as the income of women differs seasonally, some of them wanted to have access to shot-term investment accounts where after six-nine months they could withdraw their money. Second, most of them favoured a system of agents where they could make regular, weekly , or monthly deposits from their own workplaces. In addition, in case of an emergency, they also wanted to have the option of withdrawing their savings.

The authors found that in the form of gold ornaments, small cash at home, and investment in chit funds etc., most of the respondents had casual savings. Less than half of them had bank accounts, which were also inactive in general.

‘A Study on Self-Help Group-Bank Linkage in Andhra Pradesh’[6] was conducted by AP Mahila Abhivrudhi Society. The study covered 400 Self-Help Groups functioning in eight districts of Andhra Pradesh. The researchers conducting the study found that the overall quality of groups deteriorated after a couple of years to be revitalized after seven or eight years and again face deterioration for the second time. Similar trend was noticed in cumulative savings. They also found that a good repayment track record always resulted in better quality of SHG operation.

‘Do India’s Self-Help Groups Provide Value for Money?’[7] is another remarkable study conducted by L B Prakash et al. After studying 150 Self-Help Groups in five Indian states, they found that the model of micro financing had actually empowered the poor so far as their income and dependence on money-lenders were concerned. Interestingly, hardly any NGOs with better portfolio efficiency, deeper outreach or higher profitability were present in the study field.

The moneylenders were also collapsing under the enthusiastic activism of SHGs. Their major findings may be underscored as below:

i. There was equity in loan distribution within majority of the SHGs chosen for the study;

ii. Although drop out rate was reported to be 15 % with an average membership tenure of 5 years, new members were admitted up to the extent of 9 %;

iii. Life span of the Self-Help Groups promoted was shorter in comparison to self-inspired groups;

iv. Portfolio quality deteriorated with the age of the Self-Help Groups.

The researchers also delineated cost advantage of the SHG model. They observed that cost of launching a group was equivalent to US $ 115 while cost of training and monitoring was US $ 259 per group.

'Reaching the other 100 Million Poor in India: Case Studies in Urban Micro Finance'[8] by Centre for Micro Finance is the only substantial empirical work on urban micro finance in the country. Besides providing a critique of the urban micro finance models, this work presents well research case studies on the functioning of six micro finance institutions operating in the urban areas: Ujjivan, SEWA, Working Women's Forum, Village Welfare Society, Sharada Women's Association for the Weaker Sections and Microstate Branch of Indian Bank. These case studies demonstrate that progressive instititutions have increasingly recognized business potential of micro finance and taken radical steps to establish urban operations. The case studies have also discussed the constraints, inflection points and partnerships as well as success and failures of the selected micro finance institutions in a most creative and authentic manner.

In their empirical research on 'A technique for evaluating the effect of micro finance on empowerment and vulnerability'9, Raghav Gaiha and Ganesh Thapa (2006) provided a broad framework for assessing the effect of micro finance projects on rural poor empowerment and vulnerability, transcending the traditional parameters of return rates and financial sustainability of micro finance. This research is focused on a small but extensive survey of members of self-help groups in six Maharashtra villages in the Pune district. The researchers have identified a few main indicators instead of offering a checklist of effect indicators, Aspects of social capital, empowerment of the poorest and risk, insecurity and self-insurance are affected by this.

Bernd Balkenhol in his paper on 'The Impact of Micro Finance on Employment: What do we know?'[10] observes that employment is in deed an indirect effect of micro financing emerging out of the decisions taken at the level of the clients of the micro finance institutions. The expenditure or budget allocation decision is taken by the entrepreneur and not by the micro-finance organisation. The client is selected by the micro finance institution, but the customers determine how to use the money earned via the loan. It has also been found that the micro finance institutions raise the income of the client based on self-employment and unpaid family labour and thus impairs the opportunity of wage employment for other members of the family.

Another important finding of Balkenhol is that virtually few micro-finance institutions are aware of what is happening inside the household enterprise operated by their customers, as it relates to financial management , marketing and labour use. Therefore, the first thing that micro finance institutions need to do is to get data, to build customer profiles and, above all, information systems for customer management. He concludes that there is an urgent need to study the impact of micro finance so as to make it holistic in approach and application.

Jean-Marie Baland, Rohini Somanathan and Lore Vandewalle (2007) in their empirical study titled 'Micro Finance Life Spans: A Study of Attrition and Exclusion in Self-Help-Groups in India'[11] have observed that 10% of the 1,100 Self-Help-Groups created over a period of 1998-2006 are no onger active and 20% of women who joined the group are no longer part of the Self-Help-Group. Furthermore, they found that while factionalism and other social cohesion measures do not systematically affect group failure, they contribute to more membership exits. In addition, to group heterogeneity, the most marginalised ethnic groups are particularly vulnerable.

United Nations has published an interesting report titled ‘Building Inclusive Financial Sectors for Development’[12] popularly known as ‘the blue book’. This publication provides a broad framework of inclusive financing thereby providing credit access to the poor people across the globe who were hitherto outside the ambit of formal credit domain. It provides a menu of options for overcoming financial impediments based on experiences from around the world.
Inclusivity. The novel, based on consultations with multiple stakeholders, mandates that the inclusive financial sector will go a long way towards breaking the vicious cycle of poverty.

Conclusion

Extant literature on micro-financing indicates a very powerful impact on poverty alleviation and holistic empowerment of the most vulnerable segments of society in India. Micro-financing not only helps in providing financial independence but also enables the beneficiaries to take charge of his/her lives, make decisions and survive the odds with dignity and self-respect. It has played special role in empowering women who otherwise lived a life of perpetual sub-jugation, dis-articulation in family as well as community and constant harassment at the hands of men within the family and in the community at large. Self-Help Groups have proved a blessing in disguise so far as rising stature of poor and marginalized women in family and community is concerned. However, penetration of micro-financing is largely restricted to rural areas and there is an urgent need to reach out to urban poor.