Microfinance: A Way Out for the Poor

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Abstract

Now a days the formal banks are dominated due to financial institutions as they provide the services which are widely accepted by the poor due to easy procedures. These institutions can be governmental, non governmental based. There is common problem with these finances that is interest rate being so high which is faced by all the poor people as they approach the Microfinance institutions (MFIs) for the easy process of taking micro loan but they end having more money for repayment due to high interest rates. The purpose of this study is to analyse the performance of microfinance provided service to people, organizations. This study reveal The performance of micro finance in previous years and at present. Microfinance is an individual focused financial services provided to the poor and small scale businesses who lack access to the mainstream finances.

Key Words: Microfinance, interest, securities, debt, Self help group (SHG), Nongovernmental organisations (NGO).
1. Introduction

Micro-finance refers to small scale financial service including both credits and deposits provided to people who can’t access the capital. Micro-finance: It not only include loan but also savings, insurance, fund transfers. The lender here is concerned with borrower having enough collateral to cover the loan. In 1970’s Muhammad Yunus is the pioneer of the modern version of micro-finance by introducing a bank for micro-finance called as Grameen bank in Bangladesh which now serves over 7 million poor Bangladeshi woman and this idea inspired the world. The highest percentage of this accounts were in India like 188 million accounts representing 18% of the total population. The poor several needs like life cycle needs, personal emergencies, disasters, investment opportunities.

Micro finance and Tribal women entrepreneurs (2016) Navin Kumar Rajpal - This book highlights the status of Microfinance in India with special reference to Odisha. It provides the information about the different stake holders, role and responsibilities and extended support over years. It further involves capturing of information related to grass-root level organisation and execution of programme at Mayurbhanj (one of the tribal dominated district of Odisha). The book analyses prevailing and emerging status of SHGs, market scenario, financial status, socio economic impact and major challenges and opportunities.

Microfinance and poverty alleviation: case studies in Asia and Pacific (2014) Joe Remenyi, B. Quinones-This study collects together the experience of microfinance practitioners to describe the present state of the art. It asks why microfinance is so essential to poverty reduction and what kind of policy framework and regulatory environment is required.

Microfinance and poverty reduction in Nigeria (2014) Uyi Benjamin -The book analysed theoretical issues in poverty and microfinance with reference to incidences of the poverty phenomenon in Nigeria. This book with theoretical and empirical findings investigates the previous attempts by the governments in alleviating poverty and how microfinance have helped in reducing the poverty menace.

The Socio-Economic Empowerment of SHG Women in Dindigul District, Tamil Nadu (2014) Thileepan & Soundararajan reviewed the studies relating to marketing, financial and socio-cultural problems of SHG. With the help of micro finance, the SHGs in India emerged as a popular strategy for the facilitation of micro-enterprise development by government, non-government organisations and educational institutes in rural areas of India.

Self-Help Groups: A Strategy for Poverty Alleviation in Rural Nagaland, India (2014) Nirmala & Yepthomi examined the impact of SHGs micro-financing on poverty alleviation and well-being of the rural poor women in Nagaland. The results revealed the credit to have significantly improved their economic status and household wellbeing. It also led to their empowerment, independence and
social participation. The study recommended training to them for better competitiveness and employment activities, besides assisting with marketing facilities.

Microfinance in developing countries (2013) J. Gueyie, J. Manos, J. Yaron - Microfinance in advancing countries is a of studies by leading researchers in microfinance. It discusses important issues that are rapidly increasing in microfinance industry currently, and suggests interesting views and analysis of matters relating to the microfinance realm.

Microfinance: A way to alleviate poor (2013) Shweta Sawhney - The article traces the Microfinance insurrection in India as an effective tool for poverty mitigation and women empowerment. Almost 70% of population in India is in rural areas with no access to financial institutions, microfinance has a plays an important role in population to uplift. The paper discusses the present scenario of microfinance Institutions (MFIs) in India. as a great opportunity for the financial sector and the economy as a whole.

New Pathways Out of Poverty (2011) Sam Daley Harris- Microfinance is helping poor families in developing countries move out of poverty. This book explores in depth the Campaign's core themes reaching the poorest, reaching and empowering women, huge families and their impact on the schemes provided.

Microfinance: An helping hand (2011) Dushyant Sethiya- The provision of low-income households with permanent access to high-quality financial services has encouraged entrepreneurship and boosted grass-roots development amongst the poor of the poor, with tangible results now becoming manifest in long-term increases in income and consumption, greater financial stability and empowerment. With particular focus on the experience of India as a case study, this volume presents a concise overview of the key principles and workings of Microfinance across historical periods and geographical centres.

Confronting Microfinance (2011) Milford Bateman – it is about analysis carried out by development agencies gave attention on what they see as an already beneficial system. Rarely microfinance institutions are questioned. Author provided a study on microfinance that reach of almost all microfinance institutions.

Multiple meaning of money (2009) Smita Premchander, V. Prameela, M. Chidambaramathan, L. Jeyaseelan – it about what microfinance and money are meant to women focusing on the views of individual women and of women-only in groups. It discusses the different views of women of external agencies and those of women who are members of self-help groups (SHGs).

An Islamic Microfinance Enterprise (2008) Dr. Sad Al-Harrad, Alfred Yong Foh Se- The main objective of the exploratory study on the potentiality of Islamic micro financing in the handicraft industry is to encourage students pursuing the Master in Islamic Banking and Finance (MIBF) program to apply the Islamic finance to real life situations like guiding the poor.

Microfinance Poverty Assessment tool (2003) Carla Henry- This was...
developed as to know the depth of outreach of microfinance in poor. This Tool helps in collecting accurate data on the poverty levels in influence of MFIs. The Micro finance Revolution: Sustainable finance for poor (2001) Marguerite Robinson - Around the world, a revolution is occurring in finance for low-income people. The microfinance is providing financial services to the poor on a large scale through competing with financially sufficient institutions. In a few countries this has already happened; in others it is under way. The emerging microfinance industry has profound implications for social and economic development.

Evaluation and poverty reduction (2001) Osvaldo Feinstein, Robert Picciotto - Poverty reduction is examined in innovative ways utilising state of the art techniques of the social and economic sciences. It focuses on poverty reduction programs. The volume is focussed on poor growth.

Although it has many advantages for poor it also has many debts and challenges. The main challenges of micro finance is provide small loan at affordable cost. The main problem is the interest rates are very high of 37%-70%. Of their loan. Due to this the some borrowers were not able to repay their loan back and again falling debts and struggles, Some borrowers in order to repay their pending loan they started reducing the consumption of food, taking their children out school in order to save money for the repayment of loan they have took. The interest rates of these are because these institutions borrow money from banks with interest rate of 12%-15%. Features provided for micro finance are loan given without securities, These loans are for people below poverty, members of SHGs benefit from this loan, maximum loan provided is ₹25000/- terms and conditions are offered by NGOs. This financing system also faced many criticism that it had not increased the income of poor but in fact driven them into more poverty due to more interest rates and even some severe cases it lead to suicide. The last few year micro finance industry in India has grown extremely grown by introducing large number of policies, and making loan financing now even more easy. The Sa-Dhan report of 2016 pointed out that Indian micro finance sector ranked in ₹64000 crores. The top micro finance companies like Asmita Micro-fin Ltd, GVMFL Pvt Ltd, Ujjivan, Spandana sphoorty financial Ltd, Garmeen financial services Pvt Ltd, etc are some of the pioneer companies in India. The Bharat micro finance report of 2016 states that MFI is present at 29 states and 4 union territory,588 districts in India. The clients are recorded 39 million with an outstanding loan of ₹63853 crores. The averaged loan per borrower is ₹11425. The loan outstanding grew by 31% previous year. The southern and east have the highest outstanding loans. The proportion of clients was 67% in 2014-2015 was decreased to 62% in 2015-2016. Recently NABARD(national bank for agriculture and rural development started SHG digitisation this project aims in bringing all SHG members under the fold of financial bodies thereby helping them in wider range . Its portal link is http://eshakti.nabard.org.

Objective: To study performance of microfinance users of public and organisations, drawbacks in mechanism of micro finance, recent trends
developments in microfinance.

**Hypothesis**
Ho: Interest is the only reason for bad debts of poor.
Ha: Interest is not the only reason for bad debts of poor.

2. **Materials and Methods**

The methods used in research study is doctrinal type which involves descriptive and analytical Study. The research studied by using secondary sources of information and data and related articles and books.

3. **Role of Micro Finance Institutions**

1. Poverty reduction tool Microfinance can be an effective element for the reduction of poverty. Improved access to poor for facilities like savings, credit, insurance help them in easy consumption of service provided by MFIs and help them to balance their risks, gradually assets increase thus, help them establish small scale business. The ultimate goal of MFIs is to reduce poverty. Various welfare’s and activities are introduced by Government, NGOs to serve the poor. Microfinance, by providing small loans and savings facilities to those who are excluded from commercial financial services has been developed as a key strategy for reducing poverty throughout the world.

2. Women Empowerment Microfinance currently focusing on both poverty and women empowerment. Women are living below poverty line in rural areas not able know their potential are now able to develop themselves with the help of self help groups (SHG). This participation make huge impact in both social and economic aspects. Now even the poor below poverty line are having their basic amenities and opportunities for participation in different aspects and empower themselves and their families. various programmes were introduced by both governmental and non governmental organisations to develop them socially and economically. As known that women are not given opportunities in taking decisions of family. Microfinance can provide an way to empower poor women, who are the part of the poor and suffer partially from poverty.

3. Development of the overall financial system Without changeless access to institutional microfinance, most poor family units keep on relying on small self-fund of microfinance, which constrains their capacity to effectively take an interest in and advantage from the development Opportunities. Microfinance can add to the improvement of the general budgetary framework through coordination of money related markets. Microfinance organizations (MFIs) can be little and medium enterpriser at the core of country practical improvement. Their improvement emphatically associates with rural business advancement.
4. Self Employment Poverty reduction through independent work has for quite some time been a high need for the Government of India. Poor people manage to optimize resources over a time to develop their enterprises. Financial services could enable the poor to leverage their initiative, accelerating the process of generating incomes, assets and economic security. However, finance institutions infrequently lend down-market to serve the needs of low-income families and women-headed households. Subsequently principal approach is to make the independent work by financing the rural poor through money related foundations. Microfinance, in this manner, makes the expectation and builds the confidence of the poor by giving the chances to be utilized.

5. **SHG-bank linkage programme** The approach of self help groups in India dominate the Indian microfinance institutes. NABARD in early 1990s introduced this dominant model and now a days This SHG model even links with the informal banks of women in order to outreach all microfinance clients in all parts of world. The SHGS consists a group of 15-20 members. In a way, SHGs are credit societies connected to a business bank instead of a apex cooperative bank and the SHGs have a privilege to access to the funds for installment to its individuals if once it is connected to the banks. The SHG-bank linkage program was imagined with the targets of supplementary credit conveyance administrations for the un-reached poor, building common trust and certainty between the financiers and poor people and empowering managing an account action both on thrift and credit and maintaining a basic and formal system of keeping money with poor people. The linkage program consolidates the adaptability, affectability and responsiveness of the casual acknowledge informal credit system for the specialized and regulatory capacities and money related assets of the formal budgetary segment which depend vigorously on aggregate quality of poor people, closeness of successful social capacities adding to a general strengthening process leading to empowerment of poor.

6. **MICROFINANCE AND POVERTY REDUCTION IN INDIA** Microfinance is the arrangement of monetary administrations to low-wage customers, including shoppers and the independently employed, who customarily need access to managing an account and related administrations. All the more extensively, it is a development whose question is "a world in which however many poor and near poor family units as could reasonably be expected have lasting access to budgetary administrations, including savings as well as investment funds, protection, and reserve exchanges." Those who advance microfinance generally believe it to be a huge helping tool for the poor.

7. Individual out of poverty. The dynamic development of the microfinance business has been advanced by showcase powers as well as by conscious activities of national governments, Non-Governmental Organizations (NGOs) and the contributors who see microfinance as a compelling instrument for annihilating poverty. The capable push behind this immense
and expanding support for microfinance demonstrated that national monetary and social effects are huge and it should be analyzed more effectively.

- Micro Finance-highlights and Principles: Microfinance is considered to be a sufficient instrument for financing small scale activities in the rural areas on account of the accompanying highlights.

- Provide credit for interest in small scale exercises picked by the needy individuals.

- Empower the poor to be self confident that They can accomplish something.

- Can pay for itself with the interest earned.

- Allow to develop opportunities for self employment to the underserved people.

- Have the most of the utilities and the least cost per beneficiary.

1. The principles of sustainable micro-financing are as follows:

   It enables flexible customer friendly services that are preferred by low-income group.

2. It has opportunities for streamlining operations and reducing costs (standardized simple lending process, decentralized loan approval, inexpensive offices, and use staff from local communities).

3. It operates in market basis charging market interest rates and fees.

4. It strives to recover the costs of the loan.

**Role of Microfinance in Poverty Reduction**

Microfinance work is giving financial services to poor people who are not served by the customary formal money related foundations - it about extending the budgetary administration arrangement to poor. The arrangement of such money related administrations required techniques and service channel in order to serve efficiently. The needs for financial services that allow people to both take advantage of opportunities and better management of their resources. Microfinance can be one effective tool amongst many for poverty alleviation. Microfinance can be one compelling apparatus among numerous for poverty easing. Nonetheless, it ought to be utilized properly-regardless of late claims, the condition amongst microfinance and neediness easing isn't straight-forward, it is fact that poverty is of numerous limitations that the poor by and large need to adapt to. We have to understand when and in what way microfinance is suitable for the poorest; the service channel, techniques and products offered are
all between connected and thusly influence the prospect and guarantee of poverty alleviation. Access to formal saving money administrations is troublesome for poor people. The fundamental issue the poor need to take when strive to gain advances from formal financial establishments is the interest for insurance asked by these organizations. Furthermore, the way toward obtaining a credit involves numerous bureaucratic systems, which prompt additional exchange costs for poor people. Formal financial institutions are not motivated to lend money to them. Generally the formal financial institutions mostly focus for urban over rural sectors, large-scale over small scale and non-agricultural over agricultural loans. Formal money related organizations have little motivators to loan to the rural poor for the following reasons:

**Administrable Difficulties**

The farmer who belong to small rural areas live often scattered like areas having poor communication facilities thus the administration of loan to them becomes difficult.

Systematic risks:

Agricultural production is associated with some systemic risks, such as drought and floods, which is reflected in a high covariance of local incomes.

Lack of information:

The absence of standardized information, Standard lending tools, such as financial statements or credit histories, do not exist in these areas.

Repayment problems:

The repayment of working capital may be required only once a year for example during the harvest season. On the other hand, access to informal loans is relatively easy, convenient, and available locally to low income households.

**Opportunities in Microfinance**

- Microfinance as development tool
- Women oriented financing
- Microfinance tool for rehabilitation
- Commercialization of MFI
- Microfinance sector as an opportunity for commercial banks
- Automation of microfinance system

**Challenges in Microfinance**

- High interest rate and high transaction cost
- Barriers for conventional banking
- Inadequate investment in agricultural and rural development
- Low level of technical understanding of banking and finance
- No innovative mix of products by microfinance institutions.
4. Material and Methods

Research methodology:

The present study demands a analytical and descriptive type of research. Data collection: The data I collected for this research is secondary data from various sources. The sources I took are books, website references, tabular information to determine the growth of SHGs after digitalisation.

Results:

Fig. 1: The rate growth in credit linkage after and before introducing project EShakti(http://eshakti.nabard.com)

Table 1: the information relating eshakti portal where the rate of coverage of SHGs through village, people, agencies . (http://eshakti.nabard.com)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Villagers covered.</td>
<td>18,681</td>
</tr>
<tr>
<td>Group covered</td>
<td>1,33,128</td>
</tr>
<tr>
<td>Members covered</td>
<td>15,27,212</td>
</tr>
<tr>
<td>Aadhaar users</td>
<td>12,50,737</td>
</tr>
<tr>
<td>Women covered</td>
<td>14,81,607</td>
</tr>
<tr>
<td>Banks covered</td>
<td>180</td>
</tr>
<tr>
<td>Partner SHPI</td>
<td>88</td>
</tr>
<tr>
<td>Mobile users</td>
<td>5,05,882</td>
</tr>
</tbody>
</table>

5. Discussion

The figure 1 explains about the growth of SHGs and credit link amount before and after introduction of online digitalisation of micro finance there establishment in people of two regions namely the red bar indicate Ramgarh region and the green bar indicates the region Dhule.

The table 1 explains about widespread of SHGs up to December 8/12/17 in
villages, groups, members, women, number of members enrolled with Aadhar, no of people having mobiles, The no of banks participating in this programme, agencies.

6. Suggestions

Microfinance institutions can reduce the interest rate because the poor are more favourable to micro-financing due to they can’t get the amount at minimum range of 25000 at banks and the process of banks system take much longer to provide them loan after they fill all formalities, As they will not be proper securities to present at bank so they approach microfinance institutions to get loan for full filling their need but again due to interest they are facing the same poverty and falling into debt.

7. Conclusion

Although they are benefits and disadvantages of the finances. I think the microfinance is more helpful in reducing poverty in country though the interest rate is high due to this many women are getting empowered setting up their own business and getting loans without individuals securities. There is a risk even the borrowers might escape from paying the loan back as this process doesn’t take any securities from clients but recently the NABARD started digitisation portal for microfinance called eshakti which is registered under Aadhar card which the banker knowing the information about client. So the microfinance have its own merits and demerits dealing with different organisations. Thus if interests are high and borrowers escape In order to not to pay, it results in loss of both the borrowers and financial lenders.

References


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