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Role of microfinance in eradication of poverty in India: An overview

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Abstract

Microfinance is a source of financial support for low income people such as rural poor people, low income clients, small entrepreneurs who have limited money to do business. In this system, people who have difficulty in accessing financial support, microfinance helps them to grow their business by providing financial support. They provide various financial services like loans, deposits, savings accounts, money transfers insurance etc. Micro-finance has received extensive recognition as a method for poverty alleviation in India as well as the developing economy. In India Micro-finance today could be a dynamic space with many of players offering different products and services to the poor and low income people small entrepreneurs like banks, NBFCs, Section 25 companies, different cooperatives and NGOs, MFIs all are approaching rural markets. Microfinance is specially designed for the needy people and a section of the society living in underdeveloped areas who want to stand on their own feet and Microfinance service restored to help them. Sector wise position of bank credit disbursed to SHGs during the last three years as shown by Single Factor ANOVA. This paper is an attempt to know about the role of micro-finance on poverty alleviation in India, models and major challenges faced by microfinance in India.

Keywords: Micro-finance, poverty, alleviation NBFCs, NGOs, MFIs

Introduction

India is considered as one of the world's emerging nations. Where poverty has been a concern since independence. Despite the government's financial support, India has not been able to fully succeed on poverty, which hinders the country's development. In the 1980s, many financial, banking and monetary policies were flawed, which directly impacted the poor and the underprivileged. Where banks were hesitant to give loans to the poor and the poor had to take loans from moneylenders and landlords. The non-availability of credit facility as per the fulfillment shows the error in policies somewhere and which was compensated by a poor and needy section by paying exorbitant interest with loans to the moneylender.

According to the World Bank, a large group in India is below the poverty line. But there are many poverty alleviation programs in India which run by central and state government together. Microfinance makes half of a major contribution to poverty alleviation and people who have taken microfinance help. He has been able to increase his income and standard of living.

In the seventies when Muhammad Yunus, Nobel Peace Prize winner (2006)^[7], started giving money to the poor of Jobra, a village in Bangladesh. Yunus unknowingly initiated microfinance programme that became one of the most popular throughout the world as an anti-poverty programme. Then it was successfully repeated in additional villages. In nineteen eighty-three, the project was changed into an independent bank owned mainly by its Institution. Keeping in view one of the objectives of the government to reduce poverty, micro finance facility was arranged for the needy and poor sections of the society. Whose benefit can be availed by a poor section and can move forward in the society by improving their living standards.

Microfinance is a source of financial support for low income people such as rural poor people, low income clients, small entrepreneurs who have limited money to do business. In this system, people who have difficulty in accessing financial support, microfinance helps them to grow their business by providing financial support. Increase in employment through small business activities with the help of microfinance in India is definitely a good step

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towards reducing poverty. For example, China, Vietnam, and South Korea have significantly reduced poverty with microfinance activity. The first goal of microfinance service is to supply money to individuals that they can invest in their startups or business. This will help in reducing poverty and raising the quality of living of the people.

Objective of the Study

- (i) To study the Origin and Key Players of Micro-finance.
- (ii) To study the micro-finance models in India.
- (iii) To analyze the role of micro-finance on poverty alleviation in India.
- (iv) To analyze the Progress of SHG-BLP
- (v) To study the Major challenges faced by microfinance in India.

Review of the Literature

(Sinha & Navin, 2018) ^[6] Undertook a study entitled Indian Microfinance Sector: An Overview. This paper presents the basic introduction, structure of microfinance sector and Social Performance, Financial Performance of MFIs in context of India. Finally, the paper draws out a conclusion that Increase in average loan size given by MFIs raises doubts and MFIs' overall earnings potential has declined with increased risk. Therefore preventive measures should be taken to avoid any financial crisis in future.

(Mohd, 2018) ^[3] An analysis the performance of India's microfinance institutions. A study in India throws insight on several microfinance programs. The different microfinance model in India and role and importance of microfinance in poverty alleviation, women empowerment social welfare etc. The study concluded that the Microfinance has a huge contribution in the poverty alleviation in India, Central Government and RBI periodically step in for the expansion of Microfinance. The state government also informs people about microfinance services and how to start your business and improve economy status by taking loans from microfinance.

(Kannan & Panneerselvam, 2013) ^[1] The research paper evaluate the microfinance in India- An overview. It highlights the history of microfinance, microfinance in India, Inclusive financial systems and therefore the problem related to micro credits in developing countries. Finally, the author describes the microfinance is not only attractive to investors appears to be but there are also several caveats like profitable only MFIs are attractive investments, MFIs are subject to several risks there is little research on it.

(Ravi & Vikkrman, 2012) ^[4] Concluded that Microfinance in India: Challenges and Opportunities. The paper also highlights the background, principles, types and benefits of microfinance. Finally, the paper examines and draws out a conclusion that the Compared to consumers seeking Microfinance facilities in India, the supply of the facility is less. Providing this facility will prove to be a good sign for the economy.

(Shastri, 2009) ^[5] The research paper is an effort to understand the microfinance and poverty reduction in India (A comparative study with Asian countries). The paper provides an overview of Self-Employment can reduce both Poverty and unemployment problem. The microfinance scheme is an effective tool that promotes self-employment opportunities as people move out of poverty. In India too, microfinance has been able to achieve the objective like Bangladesh. But still a poor section in India is completely

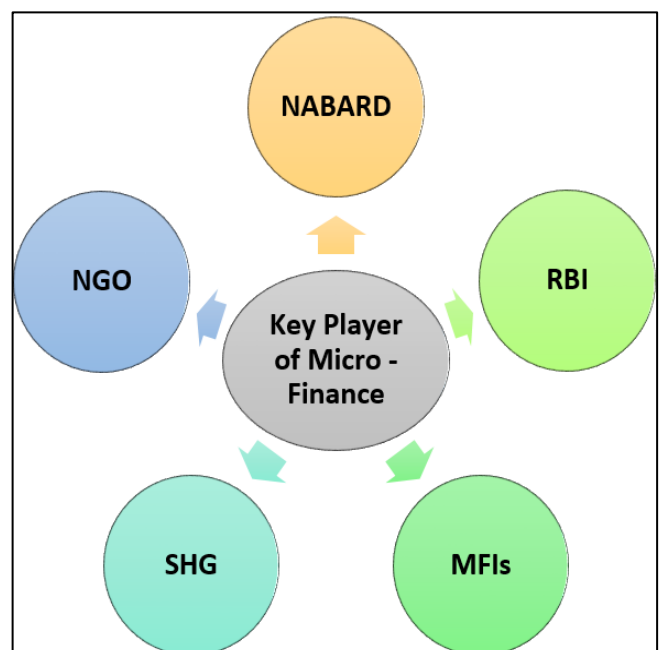
unaware of the microfinance scheme. Where the need to increase a sustainable financial model both Central Government and State Government are continuously working together.

Micro Finance in India

Origin of Micro-finance

Theorist Lysander Spooner was first told about microfinance in middle of the 1800s. They told about the Small credits benefit entrepreneurs and farmers, helping people get out of poverty. Microfinance expanded into a new era in 1970 by Muhammad Yunus with the help of Grameen Bank of Bangladesh. Mohammad Yunus Nobel Prize Winner started lending money to some poor people in Jobra village of Bangladesh. They helped people improve their standard of living and microfinance became a means of poverty alleviation all over the world. In today's time, microfinance has become a means of poverty alleviation, improving the standard of living of the people, increase economic strength, empowering women. Savings and loan groups were formed in many countries of the world to meet the needs of the people as well as for their upliftment. In different countries, even though their name was different, but the work was the same. Like Chit Fund in India and Pasanaku in Mexico.

Microfinance in India was started in 1974 by Shree Mahila SEWA (The Association of Autonomous Women) Co-operative Bank in Gujarat. This organization did the work of social upliftment in Gujarat by helping the poor sections and some non-working women. Microfinance then expanded through the Self Help Group in the early 1980 that provide the financial services to the farmer, local women and the poor. Microfinance in India further strengthened by organizations like NABARD and SIDBI. UNO celebrated 2005 as Micro Credit Year, Whose result was that microfinance became popular in the whole world as a powerful medium to remove hunger, poverty specially in developing countries.



Key Players of Micro Finance

National Bank for Agriculture and Rural Development (NABARD)

NABARD was established in India on 12 July 1982. The purpose of the establish of NABARD is mainly to strengthen and develop small farmers, small scale industries with financial help. NABARD launched several schemes for farmers and self-employed people. With the help of NABARD, many small and big farmers who were not able to increase their production due to finance, they can be successful in their agriculture business. NABARD has launched several credit schemes like Kisan Credit Card to enable farmers to buy modern equipment and increase their produce.

Reserve Bank of India (RBI)

The contribution of RBI in improving the sector of micro credit is also commendable. RBI is the apex bank of Indian banks, which controls monetary policy along with giving directions to other banks. RBI also does the work of deciding the bank rate, repo rate and other rates. Along with reviewing the work of the banks, RBI also does the work of giving guidelines. The contribution of RBI is also important in deciding the credit delivery system and how much and at what rate the loan is disbursed to which sector. RBI helps in giving loans to many sectors with the help of other financial institutions like providing agricultural loan facility with the help of NABARD.

Micro Finance Institutions (MFIs)

There are many government and non-government microfinance institutions in India that work and fulfill the needs of the people. Many cooperative societies also work to provide microfinance to the people. The gap between the demand and supply of the needy people has been reduced due to the introduction of large number of organizations in the form of micro finance institutions. SHARE, SPANDANA, CDF, MYRADA, SKS and PREM are the largest MFIs of India, they provide financial services to low income people.

Self Help Groups (SHG)

SHG is a very useful group of few people which usually consists of village women. One who deposits small sums of money at once and after a few months when a good amount is accumulated, and then the women of the member use that money as loan at very low interest according to their need. SHGs are in both registered and non-registered form. SHGs also help women members to come out of financial crisis.

Non-Government Organizations (NGO)

The role of NGOs in promoting SHGs and Microfinance is also important. NGOs also provide training of the banking system to the members of SHGs as well as where to invest the money deposited by them, so that their deposits also increase. NGOs also provide the right path about that due to which the members of SHGs get a lot of help.

Micro Finance Models in India

A wide range of microfinance models are working in India.

SHG – Bank Linkage model (SBLM)

MFIs-Bank Linkage Model

Other models

Grameen Model

Joint Liability Groups (JLG)

SHG – Bank Linkage model

In the country this model was popularized by NABARD in 1992. Bank allows to open members account in their bank under SHG- Bank Linkage model. SHG is a group of 15-20 people whose income is very low usually village women. The amount contributed by all members is saved in bank. That money is used to give loans to members.

MFIs-Bank Linkage Model

MFI is an organisation that provides financial services to the underprivileged in order to improve and develop. MFIs usually collect funds from banks and other financial institutions and provides loan facilities to the people. MFIs also have their own expenses such as paying salary to the employee and agent, which makes MFIs interest rate a bit higher.

Other models

Grameen Model

Social capital is the cornerstone of the Grameen model. It is a model of delivery that is used all around the world. Bangladesh's Grameen Bank was founded by Professor Muhammad Yunus. This model has about 40 members.

Joint Liability Groups (JLG)

Joint Liability Group is a group of people where there are 5 to 10 members. Where group members take loans from banks or other financial institutions for their business or other activities, and the members guarantee each other's loans. JLG can also be referred as an improved version of SHG, which is facilitated by cooperative and RRB banks.

Research Methodology

The present study is descriptive in nature and is mainly based on the secondary data. The secondary data collected from various reliable sources like various study reports published by Government of India, special report on taxation from various institution, publication of various reports by state governments and other researches at national and international level. The data and information so collected were further processed through summarization and tabulation and simple statistical tools were used to analyze the processed data.

Role of microfinance in poverty alleviation

India is a developing country in which most of its population still lives below poverty line. Therefore, poverty alleviation has remained the major focus since the independence. In the research done by the World Bank, it has been found that one third of the total poor population of the world is present in India. Microfinance plays a major role in financial inclusion. It has helped a lot in reducing poverty in the last few decades. The report states that those who have taken small finances are able to raise their income and standard of living. Microfinance has been a huge success in our country, and it is growing rapidly, it has proved to be a powerful tool in the development of poor sections and improving their standard of living. Interest rates on loans from microfinance are higher but still lower than local moneylenders. The availability of loans by microfinance is helpful for the development of people and eradication of poverty, In this way, the government has adopted a very good strategy to give loans to economically backward people for livelihood.

Many NGOs in India have started their own microfinance service. Due to public service and dedication in this field, NGOs are coming towards this which is a good step. The government controls it to meet the challenge facing the MFIs, and periodically the development of the entire region is evaluated. The Government of India and the Research Bank of India have endeavored to reach all the needs to financial services. Microfinance provides financial services to customers, self-entrepreneurs, poor's and those who are deprived of banking dilemma. Microfinance program in India was started by NABARD in 1992. And today it is

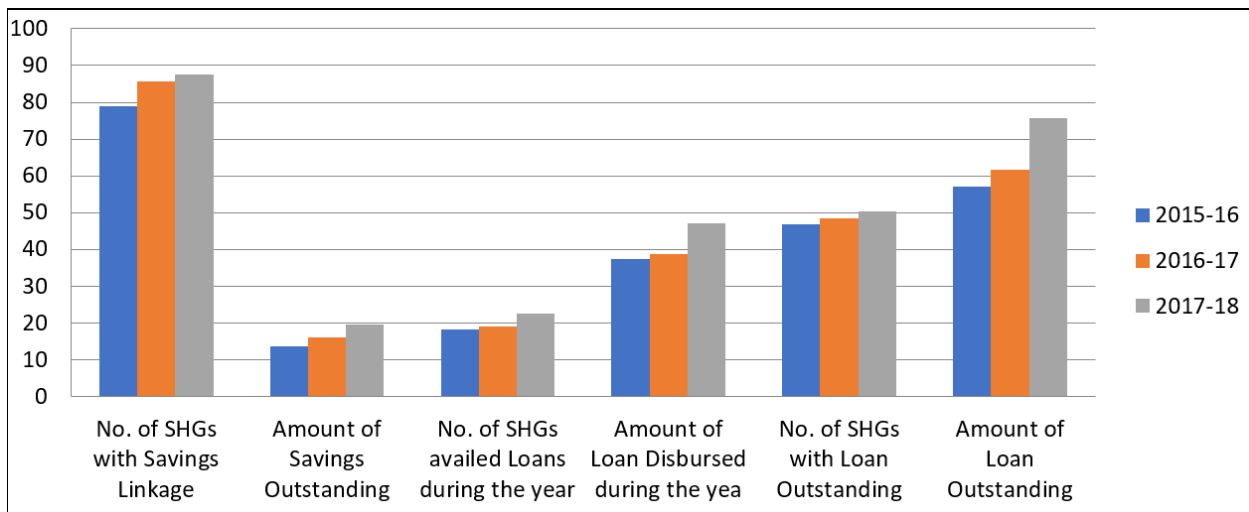
spread to all customers all over the world. There are many models of microfinance in India, one is Self Help Group, from where poor people take loans and invest in their business. Increasing income improves their standard of living. Most of the 3 sources provide microfinance services, such as formal institutions - Grameen Bank, semi-formal institutions non-government Organization. Informal sources such as moneylenders, shopkeepers and donors. They help the poor to overcome poverty.

Data Analysis and Interpretation

Progress of SHG-BLP during Past Three Years (No. of SHGs in Lakh, Amount in Rs 000 crore)

Year	No. of SHGs with Savings Linkage	Amount of Savings Outstanding	No. of SHGs availed Loans during the year	Amount of Loan Disbursed during the yea	No. of SHGs with Loan Outstanding	Amount of Loan Outstanding
2015-16	79.03	13.69	18.32	37.29	46.73	57.12
2016-17	85.77	16.11	18.98	38.78	48.48	61.58
2017-18	87.44	19.59	22.61	47.18	50.2	75.6

Source: <https://www.nabard.org/auth/writereaddata/tender/SMFI%202017-18.pdf>



Progress of SHG-BLP during Past Three Years (Amount in Rs 000 crore)

This graph shows the progress of Progress of SHG-BLP over the last three years in which 37.29 (Thousand Crore) loans have been disbursed in 2015-16. And in 2017-18,

47.18 (thousand crore) loans have been disbursed, an increase of about 26% compared to 2015-16. Overall performance of SHG-BLP has been commendable

Region-wise Status of Bank Loan Disbursed to SHGs during Past Three Years (Total loan disbursed in Rs Crore)

Regions	2015-16	2016-17	2017-18
North Eastern	21969	28421	35721
Northern	48298	57414	54038
Central	119067	67958	55943
Western	188632	148819	155099
Eastern	349489	473172	908950
Southern	3001235	3102332	3508834

Source: <https://www.nabard.org/auth/writereaddata/tender/SMFI%202017-18.pdf>

Anova: Single Factor				
Total loan disbursed in Rs 100 Crore				
Summary				
Groups	Count	Sum	Average	Variance
North Eastern	3	8.4	2.8	0.49
Northern	3	15.9	5.3	0.21
Central	3	24.1	8.033333	11.57333
Western	3	49.1	16.36667	4.563333
Eastern	3	173	57.66667	861.8033
Southern	3	961.1	320.3667	720.1433

Source: Researcher Computation

Anova						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	234716.9	5	46943.38	176.1717	8.49	3.105875
Within Groups	3197.567	12	266.4639			
Total	237914.5	17				

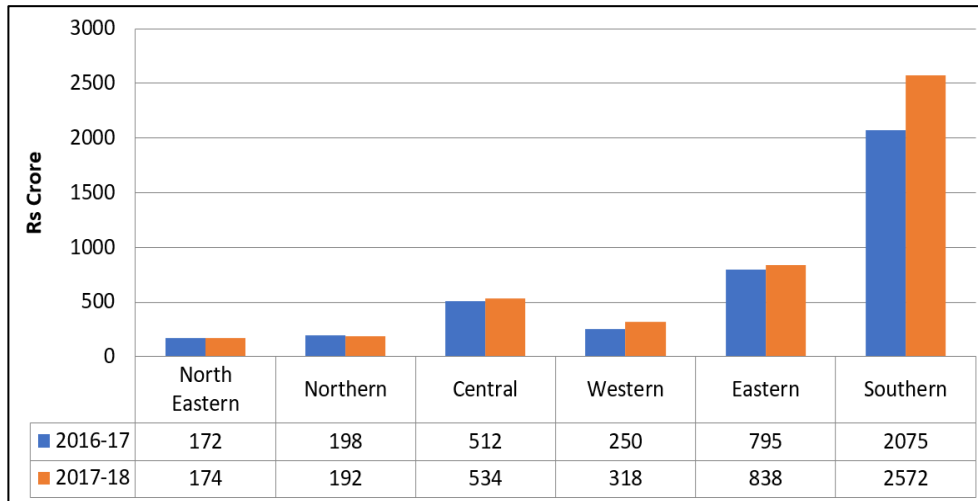
If F statistic > F critical Value, the test is significant, In this result, the value of p is greater than 0.05. It shows

statistically significant results between these groups at the 5% significance level.

Absolute NPA Amount (Rs Crore)

	North Eastern	Northern	Central	Western	Eastern	Southern
2016-17	172	198	512	250	795	2075
2017-18	174	192	534	318	838	2572

Source: <https://www.nabard.org/auth/writereaddata/tender/SMFI%202017-18.pdf>



Region wise absolute NPA amount (Rs Crore)

The graph represents the NPA Amount in different region X-axis shows the absolute NPA Amount in 2 FY (2016-17 & 2017-18) in different region and Y-axis shows the NPA Amount in Crore. The highest NPAs are in the Southern Region, where there has been an increase of about 24% in 2017-18 as compared to 2016-17.

Major Challenges Faced By Micro-Finance Institutions in India Are

Over-indebtedness of clients

Microfinance Institutions give loans to the poor class of the society, so that the right use of money such as starting a business, and on the way to raise their standard of living. MFIs give loans to the poor without collateral, which promotes debt loans. Therefore over-indebtedness is major issue faced by microfinance.

High rate of interest charged by lenders

MFIs' in comparison to commercial banks don't revel the equal rate of monetary success. MFIs charge more interest than banks, which is a concern for the poor. Along with bank loans, they have a challenge to repay the interest on time.

Over-dependence on the banking system by microfinance institutions

Most of the MFIs in India are dependent on commercial and private banks for fund. Overdependence of MFIs over the bank is not proving to be helpful in dealing with default. Because the bank charges more interest from them, especially private banks.

Illiteracy and lack of awareness about the financial services by clients

Many people in India still do not understand the financial concept, they are not aware about the financial services provided by the government, Due to lack of information about the financial services offered by microfinance, people are not able to meet their financial needs at the right time.

Selection of appropriate model by lenders

Most of the microfinance in India follows the Self-Help Group model (SHG model) or Joint Liability Group model (JLG model) and joint liability model. The selection of microfinance model is done by looking at the situation and not in a scientific way. The selection of the model is a major issue which increases the risk of debt.

Conclusion

Poverty is that condition of life where people are not able to fulfill their basic needs according to their requirement In India, many government and non-government organizations and banks are working tirelessly to remove poverty according to the policies of the government. Microfinance as one of a series of innovative financial agreements designed to attract the poor as borrowers or savers. Microfinance has become a very accepted and popularly used tool to eradicate poverty and proven to empower people to pull themselves out of poverty in developing countries. It allows the poor to protect, diversify and increase their sources of income, the essential way to get out of poverty and hunger. Sector wise position of bank credit disbursed to SHGs during the last three years as shown by

Single Factor ANOVA. Where value of p is greater than 0.05. It shows statistically significant results between these groups at the 5% significance level. Micro finance has expanded to almost every region of India in the last several years. Especially in the villages of India where poor and needy people who want to do business and want to improve their standard of living by earning some income. With the help of microfinance, they have been able to increase their income. Loan facility through Microfinance is easily available in rural areas and villages where people need more. Microfinance is also contributing in making people self-reliant.

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