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SOME CRITICAL ASPECTS OF MICRO FINANCE IN THE CONTECT OF ECONOMIC DEVELOPMENT

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ABSTRACT

Micro-finance plays an important role in integrating rural development and poverty alleviation. The impact of micro finance on rural development and poverty reduction has been measured in terms of several dimensions such as improved income, employment and household expenditure and reduced vulnerability to economic and social crisis. However, integrated rural development and technology based programmes leading to incoming generating opportunities for rural population can easily be put on fast track by the use of micro financing. For implementing these technologies we have to make efforts to examine location specific technologies and its implementation. People belonging to villages are still unaware of the banking policies and credit systems. They are lacking the knowledge of the technologies available and how micro finance is used. We must make villagers to familiarize about the technologies by conducting training and awareness programmes and the aim of these programmes should be not only on lending and repayment of Microfinance but proper use of micro finance for technology implementation. NGOs should also communicate to them and share their views with villagers. Banks should convert and build up professional system into social banking system for poor. While giving micro finance to the villagers the micro finance institutions should also arrange the experts who are aware of how, when, where and which technology is being used and how best they are useful for villagers so that it will build and sustain the rural developmental activities. In these efforts, the Government of India and the State Government should also provide the support for capacity building initiative and ensure transparency and enhance credibility through disclosures.

INTRODUCTION

Poverty, as a concept, describes the general condition of people which encompasses many aspects of disadvantages. However, what precisely are these disadvantages are debated. Poverty is often related to inadequate incomes. Dreze and Sen (1989: 15) describe poverty as a severe failure of basic capabilities. Chambers (1995) notes that five clusters of disadvantages (lack of assets, physical weakness, isolation, vulnerability and powerlessness) characterise the poor in rural areas.

An analysis of the economic benefits of micro-finance programmes on members of SHGs revealed that the condition of households in the member group was better than those in the comparison group in the following respects:

- The households in the member group had access to credit facility.

- The households in the member group were different from those in the comparison group in terms of total amount saved and number of savings forms used.
- As far as acquisition of productive assets was concerned, a relatively larger proportion of households from the member group had acquired assets such as livestock and land as compared to those in the comparison group.
- Most of the households in the member group had access to more than two livelihood sources as compared to those in the comparison group.
- Most of the households in the member group obtained more than Rs. 20,000 of income in a year. On the other hand, a relatively larger proportion of the households from the comparison group obtained less than Rs. 20,000 of annual income.
- The higher income in the case of member households had a favourable impact on the acquisition of consumer durables and expenditure on food, education and health.

While the micro-finance programme has had positive impact on member households, there were differences across the project areas.

Thus, to be poor implies:

i) an inability to obtain basic needs (food, shelter, health, etc.) as a consequence of low income and insufficient access to productive resources and assets;

ii) lack of opportunities to utilise human resources owing to inadequate access to education and health care;

iii) isolation owing to physical conditions and/or inadequate education;

iv) lack of status and power, making it difficult to influence one's own situation and break out of poverty; and

v) a high degree of vulnerability owing to lack of productive assets, exposure to natural disasters, etc. Poverty in India has ethnic, caste and gender dimensions.

A distinction between poverty alleviation and reduction, therefore, becomes pertinent. Poverty alleviation is a short-term improvement of the poor's capital endowment. Poverty reduction is a long-term elimination of the poor's dependency on social relations, and of vulnerability with respect to changes in their environment.

Four dimensions of poverty can be identified: lack of assets, resources, knowledge and rights. Assets cover material possessions, while resources cover access to credit, extension, education, health, drinking water, etc. Knowledge is essentially information that shapes the cognitive world, ranging from technology to political ideas. And, finally, rights embrace the social, economic and political spheres falling in the legal and traditional domain.

Poverty alleviation is an essential pre-condition required for poverty reduction. Thus, the state should provide pre-conditions required for poverty reduction At the same time, local bodies such as NGOs, micro-finance groups, etc., are needed to enable the poor to represent their interests to the decision-making bodies and secure their interests.

The Indian government and donor agencies assign importance to micro-finance in poverty reduction. Micro-finance implies providing poor people in rural and urban areas, especially women, with savings and credit facilities for setting up or expanding business, for investing in self-employment activities and for increasing household security. The popularity of microfinance programmes in India has been, in part, because of the belief that they will lead to poverty reduction and empowerment of women in the following manner:

1. Micro-finance programmes enable the poor to save, and thereby, improve their confidence and household security.

2. Improved ability of the poor women to borrow for consumption and production purposes leads to decreased dependence on moneylenders.

Increased credit availability for consumption enables them to have food security. Access to credit for health, education, etc., serves to achieve the social goals.

3. Increased credit availability for production purposes enables the poor women to improve their agricultural production and/or enable them to undertake income generation activities (IGAs) through which poverty can be alleviated.

4. Credit for poor women to undertake IGAs enables them to have access to resources and income. This may lead to enhanced decision-making within the household, and thereby, enable them to spend the income on health, education, consumption, etc. Undertaking of IGAs lead to increased interaction between women, on the one hand, and providers of inputs such as raw materials, government, etc., and markets, on the other. This leads to improved mobility of women. Such mobility gradually enables them to play an active role in social, political and economic issues affecting self, household and community. In this, people's institutions promoted by the NGOs give them a helping hand.

5. The micro-finance groups, consisting especially of poor women, enable them to develop leadership qualities, enhance self-management and facilitate them to be self-reliant. These also strengthen the individual and collective decision-making, and bargaining.

6. Regular savings by enabling the people to develop confidence and introducing them to local banks contribute to improved creditworthiness of the poor. This enables an improved interface between banks and people's institutions.

ECONOMIC BENEFITS

An analysis of the economic benefits of micro-finance programmes revealed improved condition of households in the member group as compared to those in the comparison group in the following respects.

ACCESS TO CREDIT

Lending to a member in micro-finance group is less risky because of peer selection, which, in turn, takes care of problems posed by adverse selection. Collateral substitutes such as savings linked to credit and social pressure can improve the access of the poor to credit. The borrowers in each group have the ability to enforce contracts between each other, and they jointly decide which types of activities to undertake. Through exploiting the ability of neighbours to enforce contracts and monitor each other, the micro-finance groups have potential to solve the problem of moral hazard, and offer low interest rates on loans and raise repayment rates.

From a macro perspective, given a huge number of the poor in these two countries, NGO contributions in poverty reduction is reasonably limited. However, they provide an inspiring work to find alternative models or ways in enhancing the standard of living of the poor. Their works actually constitute as islands of excellence in the context of the very slow progress in alleviating poverty in the world. In order to address the limitations and to enhance their performance, NGOs have to deal with some challenges: strengthening local institutions and linking them with supra-local level of development agencies, scaling up their innovative development program, building synergy with the government and the private sector, and engaging in advocacy for pro-poor development policy. The NGO capacity in dealing with these challenges will determine NGO contributions in achieving the MDGs.

Microenterprises has a role to play in economic development of poor countries. A World Bank study pointed out the advantages of microenterprises as increasing the aggregate output, enabling the efficient use of capital and labor, initiating indigenous enterprise and management skills, bringing a regional balance, and improving the distribution of income.

Microenterprises can significantly generate economics activities, employment, and demand and can contribute significantly to the economic development. Access to financial resources is very important for economic development. Access to financial services remains low all over the Muslim world partly due to religious beliefs. This gave rise to the evolution of Islamic Banking to serve the Muslim population with violating their religious beliefs. This new industry got a very welcome response and has witnessed enormous growth since its inception. Although development of Islamic Finance has improved access to finance to some extent but Micro entrepreneurs mainly remain excluded from financial services. They lack collaterals and are unable to fulfill certain requirement to gain access to finance. Conventional Microfinance played an important role in providing financial services to poor entrepreneurs on collateral free basis. Islamic Microfinance needs to be developed in the same manner to help Muslim micro entrepreneurs.

On the other hand, thank to women's capabilities to combine productive and reproductive roles in Microfinance activities and society has enabled them to produce a greater impact as they will increase at the same time the quality of life of the women micro-entrepreneur and also of her family.Short-term assistance programmes might aim at increasing the productivity of women's labour by providing credit, technology, and skill training. Long-term objectives could emphasise eliminating institutional constraints which limit women's access to productive resources, creating social, technological, and economic mechanisms to reduce conflicts between women's productive and reproductive roles, as well as defining strategies to address traditional and legal barriers that hamper or preclude the active participation of women in the productive sectors of the economy.

The key issue for successful micro finance program focused on women should consider them in a broader context, as a family nucleus, that is vital for societal improvement and progress. Following this idea, micro finance programmes should provide women with specific adapted products through appropriate methodologies, which can offer competitiveness to their business but also well being to them and their families.

Microfinance phenomenon is one of the most remarkable socio-economic developments of our times. For a long time the poor, because of their economic circumstance, were considered non-bankable. However, the “micro-credit phenomenon” has shown that the poor can be made creditworthy if they are organized in small groups. This clearly has profound implications not just from a finance perspective but, more importantly, from the perspective of poverty alleviation. Inspired by the Grameen experiment that started in Bangladesh around mid-70s, micro-credit has quickly spread in other parts of the developing world, including India. Micro-credit in India really started in a big way in the early 90s with the recognition of self-help groups as conduit for providing credit to the poor. In the late 90s, numerous agencies involved in micro-credit operations in India started adding other financial services, including micro-insurance to its micro-credit operations.

Policy-induced and institutional innovations are promoting insurance among the low-income people who form a sizable sector of the population and who are mostly without any social security cover. Although the current reach of ‘micro-insurance’ is limited, the early trend in this respect suggests that the insurance companies, both public and private, operating with commercial considerations, can insure a significant percentage of the poor. Serving low-income people who can pay the premium certainly makes a sound commercial sense to insurance providers. To that extent imposing social and rural obligations by insurance regulator (IRDA) is helping all insurance companies appreciate the vast untapped potential in serving the lower end of the market.

The main conclusion of this topic is that micro finance can contribute to solving the problem of inadequate housing and urban services as an integral part of poverty alleviation programmes. The challenges lies in finding the level of flexibility in the credit instrument that could make it match the multiple credit requirements of the low income borrowers without improving unbearably high cost of monitoring to end use lenders.

The changing face of Microfinance in India appear to be positive in terms of the ability of Microfinance to attract more funds and therefore increase outreach and we are now interested in measuring how this positions Microfinance in terms of poverty alleviation and social impact a going forward. Micro finance remains a powerful tool for development. It may not be a panacea, but it has brought a sea of change in the lives of many. Only spreading the outreach of micro finance will bring down the cost of capital and the operating cost and to strengthen the bonding between micro finance and the formal financial system. However, for sustainable development the poor rural economy, focus must be on development of rural infrastructure and rural economy, to ensure that there will exist activities that require finance. A main conclusion of this study is that Microfinance can contribute to solving the problem of inadequate housing and urban services as an integral part of poverty alleviation programmes. The challenge lies in finding the level of flexibility in the credit instrument that could make it match the multiple credit requirements of the low income borrowers without imposing unbearably high cost of monitoring its end-use upon the lenders. A promising solution is to provide multi-purpose loans or composite credit for income generation, housing improvement and consumption support. Consumption loan is found to be especially important during the gestation period between commencing a new economic activity and deriving positive income. Careful research on demand for financing and savings behaviour of the potential borrowers and their participation in determining the mix of multi-purpose loans are essential in making the concept work.

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