



Microfinance

A Tool for Poverty Alleviation

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Abstract

Microfinance alludes to the monetary administrations given to low-pay people or gatherings that are commonly avoided by conventional banking. Most microfinance foundations center around offering credit as little working capital advances, once in a while called microloans or microcredit.

Microfinance administrations are assisting country ladies with acquiring monetary freedom and engaging them to use sound judgment. This paper aims to give a wholesome idea about microfinance, its history, and existence, the institutions that help in creating the microfinance industry, and finally the success that it carries with it. It provides sufficient evidence that microfinance can be used as a tool for poverty alleviation. It also puts emphasis on how women and the lower class gain not only monetary benefits but also social benefits.

Keywords: *Microfinance, Poverty Alleviation, Monetary Freedom, Social Benefits*

Introduction

The basic concept of microfinance is straightforward: if impoverished individuals are given access to financial services, such as credit, they may be able to start or build a micro-enterprise that will help them escape poverty. Microfinance is a type of economic development that entails providing low-income consumers with financial services through institutions when the market fails to deliver them. Credit, savings, and insurance services are among the services provided by Microfinance Institutions (MFIs). Microfinance is a lending methodology that uses an effective collateral alternative for microentrepreneurs' short-term and working capital loans.

The level of a country's poverty has long been linked with measures of its economic development. Microfinance has demonstrated its potential to assist the poor to make significant strides towards reducing their exposure, improving their purchasing power, paying for basic health care, and bearing their children's education expenses (Littlefield et al., 2003).

The tenth edition of Microfinance Pulse, a quarterly publication by Small Industries Development Bank of India (SIDBI) and Equifax India, revealed that the Microfinance Industry's outstanding portfolio was flat on a year-on-year (Y-o-Y) basis as of June 2021.

As of June 2021, the outstanding portfolio of the Microfinance industry was Rs 2,22,060 crore. During the April-June 2021 quarter, the industry disbursed loans worth Rs 25,808 crore, representing a Y-o-Y increase of 300 percent in value and 209 percent in volume. However, 1-179 day past due delinquency increased to 31.44 percent in June 2021, up from 13.59 percent in March 2021.

As of June 2021, the top five states were West Bengal, Tamil Nadu, Bihar, Karnataka, and Uttar Pradesh. West Bengal is the leading state, with a portfolio outstanding of Rs 31,024 crore; however, West Bengal's 90-day delinquency was 5.15 percent, the highest among the top five states and higher than the industry's 90-day delinquency of 3.01 percent. According to an analysis of borrower distribution by number of loans and portfolio outstanding, 42 percent of customers have three or more loans, and only 15 percent of borrowers have portfolios worth more than Rs 50,000.

Literature Review

Kevane and Wydick (2001) explains that providing small credit to poor families help their household in covering their urgent household expenses and further promotes welfare in society. This credit also helps to spur economic growth.

Kota (2007) explains in her article that commercial banks often find lending money to poor people very risky. These poor people (especially in a developing nation) do not have a credit history, collateral, or guarantors. These poor people often lack formal education and often live in remote locations in which commercial banks do not provide services. These challenges led to the formation of Microfinance organizations in countries like India and Bangladesh. Poor people in developing countries often go to Grameen-type banks and Islamic Banks which function on the principle of providing credit on low-interest rates and sharing risks to elevate poor people from poverty.

Kiiru (2007) research highlights the phenomenal repayment rate of 95-99% of Microfinance institutions from its clients. The interest rates of these loans generally range between 15-30%. The research paper also highlights the dark side of these loans. Often the people availing of this loan facility face urgency of repayment as failure/delay to repay the loan can affect their reputation in society. According to the economist, there is also a possibility of a domino effect if there is a mass default of these loans which will have a devastating consequence on the entire local economy.

Dasari, Naratej and Jeerala (2019) shed light on the origin of Microfinance in South Asian countries. Microfinance was started by Dr. Yunus in Bangladesh as Grameen model in the 1980's. This microfinance model has still been followed in India to date. Currently, the Indian government has tried regulating these institutions by passing Microfinance Development Regulation Act, which empowers these institutions. This law also helps in providing guidelines and regulations for lending/borrowing to provide protection to institutions as well as borrowers.

Anand et al. (2019) describes the SHG (Self Help Groups), SEWA (Self Employed Women Association), etc success in India. The research focuses on Uttar Pradesh state in India which has more than 1,36,169 SHG, providing services to 1.5 million people in the state. The research conducted by the researchers found that SHG has contributed to alleviating people from poverty.

SHG provides quick and easy capital which had led to empowerment among women. The research paper also mentions the challenges of the SHG. Although SHG can help people alleviate poverty, it cannot change the financial condition of the local society completely. The path towards prosperity with the help of SHG is very rare.

Sharma (2021) explains the formation of NABARD by the Indian Government. The Indian Government established NABARD (National Bank for Agriculture and Rural Development) to promote the development of Indian villages and the rural sector. This bank acts as the apex government money lending institution to provide financial support to the rural population and help in promoting SHG.

Mageshwari (2020) further explains that as the NABARD project earned success, banks such as Indian Overseas Bank, Canara Bank, and other government-backed banks started programs to promote SHG in rural India. The massive government-backed financial institutions help in providing capital to SHG and thus bridge the gap between demand and supply of money in the economy. The researcher concludes that SHG help in the empowerment of women, distribute risk and improve the education and nutrition of the local economy.

Jain (2018) explains the strategies and policies started by NABARD to promote rural welfare. Policies/Schemes such as Solar Scheme, Dairy Entrepreneurship Development Scheme, Capital Investment Subsidy Scheme for Commercial Production Units for organic/ biological Inputs, Agriclinic and Agribusiness Centres Scheme. These schemes have revolutionized certain villages which have been able to successfully avail these schemes. The researcher notes that although these schemes have mainly helped women in getting empowered yet there is a reluctance among the rural population to avail credit facilities and government schemes to high illiteracy rate among villagers.

Methodology

This study is designed by descriptive analysis based on secondary data and information. This paper is to understand Microfinance with a bird's eye view. The paper tends to analyze the past theoretical literature to provide a more comprehensive understanding of microfinance on poverty alleviation. The research was followed by an integrated review of past papers' theoretical analysis on microfinance. Information is gathered from various past research papers, books, journals, news articles, and so on. In this study, I have made efforts to follow a proper and appropriate method to collect information and analyze it the light of the prime objective of this study. The paper doesn't cover entire impact of Covid-19 on the industry, however has few abstracts of it. The data collected for stats is taken primarily from the NABARD and RBI websites.

History of Microfinance

Microfinance activities have been a part of the globe for a long time. We've seen that minor operations have existed since the 18th century, but the earliest is the Irish Loan Fund System, which was established by Jonathan Swift to improve the lives of destitute Irish citizens.

The Grameen Bank, founded in Bangladesh by Muhammad Yunus in 1983, was the first organization to offer loans and advice to sign up for its "16 Decisions," a basic list of ways the impoverished can improve their lives.

The "16 Decisions" touch upon a wide variety of subjects ranging from a request to stop the practice of issuing dowries upon a couple's marriage, to keeping drinking water sanitary. Yunus and the Grameen Bank were both given the Nobel Prize in 2006 for their contributions to the development of the microfinance system.

SKS Microfinance, based in India, also serves a huge number of underprivileged people. It was founded in 1998 and has since evolved to become one of the world's largest microfinance organizations.

SKS functions in a similar way to the Grameen Bank, grouping all borrowers into five-person groups that work together to ensure that their loans are paid back.

Other microfinance institutions can be found all over the world. Some larger organizations collaborate closely with the World Bank, whereas smaller organizations operate in various countries. Some organizations allow lenders to pick and choose who they wish to help, categorizing borrowers based on factors including poverty level, geographic location, and type of small business.

Others are aimed at a certain audience. In Uganda, for example, some groups focus on giving women funds to invest in enterprises such as cultivating eggplants and operating small cafés.

Some organizations concentrate their efforts solely on businesses to improve the community as a whole through activities such as education, job training, and environmental improvement.

Existence of Microfinance

Former World Bank President James Wolfensohn said “Microfinance fits squarely into the Bank's overall strategy. As you know, the Bank's mission is to reduce poverty and improve living standards by promoting sustainable growth and investment in people through loans, technical assistance, and policy guidance. Microfinance contributes directly to this objective”. The emphasis on microfinance is reflected in microfinance being a key feature in Poverty Reduction Strategy Papers (PRSPs)

The global microfinance market was valued at \$178.84 billion in 2020 and is projected to reach \$496.90 billion by 2030, growing at a CAGR of 10.8% from 2021 to 2030.

More than 500 million people have benefited directly or indirectly from microfinance activities, according to the World Bank.

According to the Consultative Group to Assist the Poor (CGAP), more than 120 million people will have benefited directly from microfinance activities by 2021. In addition, the IFC has assisted in the establishment or improvement of credit reporting bureaus in 30 developing countries.

It has also lobbied for the addition of suitable regulations governing financial activities in developing countries.

The advantages of microfinance go beyond simply providing them with a source of capital.

Entrepreneurs who create successful businesses, in turn, create jobs, trade, and overall economic improvement within a community.

Microfinance

Institutions (MFIs)

Beginning late 1960s, India was home to one of the biggest state intercessions in the provincial credit market and has been metaphorically alluded to as the 'Social banking' stage. It saw nationalization of existing private business banks, gigantic development of branch network in country regions, obligatory guided credit to need areas of the economy, sponsored paces of interest, and production of a new set of provincial banks at locale level and an Apex Bank for Agriculture and Rural Improvement (NABARD) at the public level. These actions came about in amazing gains in provincial effort and volume of credit. Therefore, somewhere in the range of 1961 and 2000 the normal populace per bank office fell ten times from around 140 thousand to 14000 (Burgess and Pande, 2005), and the portion of institutional offices in-country credit expanded from 7.3% 1951 to 66% in 1991.

In India Microfinance is provided by three sectors, namely, the government, the private sector and charities. Microfinance establishments have been acquiring fame in the new years and are presently considered as powerful devices for reducing neediness. Most MFIs are very much run with incredible histories, while others are very independent. The essential objectives of microfinance foundations are the accompanying:

- Change into a monetary foundation that aids the advancement of networks that are maintainable
 - Helps in the arrangement of assets that deal back to the lower areas of the general public.
 - There is an extraordinary spotlight on ladies in such a manner, as they have arisen fruitful in setting up pay age ventures.
 - Assess the choices accessible to assist with killing neediness at a quicker rate.
 - Activate independent work potential open doors for the oppressed.
 - Enabling provincial individuals via preparing them in straightforward abilities with the goal that they are equipped for setting up pay age organizations.
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Following are some Indian MFIs and a little about them:

- **Join Liability Group (JLG)**

This is generally a casual gathering that comprises of 4-10 people who look for credits against common assurance. The credits are normally taken for rural purposes or related exercises. Ranchers, country laborers, and occupants fall into this classification of borrowers. Every person in a JLG is similarly liable for the advance reimbursement without wasting much time. This establishment needn't bother with any monetary organization, as it is straightforward in nature.

- **Self Help Group (SHG)**

A Self Help Group is a gathering of people with comparative financial foundations. These little business visionaries meet up for a brief term and make a typical asset for their business needs. These gatherings are delegated non-benefit associations. The gathering deals with the obligation recuperation. There is no prerequisite of a security in this sort of gathering loaning. The loan fees are by and large low also. A few banks have had tie-ups with SHGs with a dream to work on monetary consideration in the provincial pieces of the country. The NABARD SHG linkage program is essential in such manner, as a few Self Help Groups can acquire cash from banks assuming that they can introduce a history of determined reimbursements.

- **Grameen Model Bank**

The Grameen Model was the brainchild of Nobel Laureate Prof. Muhammad Yunus in Bangladesh during the 1970s. It has roused the formation of Regional Rural Banks (RRBs) in India. The essential intention of this framework is the start to finish advancement of the provincial economy. In any case, in India, SHGs have been more fruitful as MFIs when contrasted with Grameen Banks.

- **SHARE Microfin Ltd.**

It is the first MFI in India to secure a Non-Banking Financial Company (Non Deposit) license from the Reserve Bank of India. SHARE has sustained a dream to give microcredit and monetary administrations to low pay networks consequently supporting pay age and progression in the personal satisfaction for them as well as their families.

The current top 10 Microfinance Institutions in India according to bankbazaar.com

- **Equitas Small Finance:** The lender offers small loans between Rs.2,000 and Rs.35,000 to the Economically Weaker Section (EWS) and Low Income Group categories in the country
 - **ESAF Microfinance and Investments (P) Ltd:** ESAF Microfinance is a main MFI in India that has enabled multiple lakh individuals through its 150 branches. It offers a broad scope of business advancement and monetary administrations to the monetarily and socially tested individuals from the general public
 - **Fusion Microfinance Pvt Ltd:** Fusion Microfinance is an RBI enlisted NBFC-MFI that chips away at a JLG loaning model of Grameen. The foundation offers advances to ladies in the rustic and semi-metropolitan areas. Aside from offering monetary help and protection insurance, the organization additionally bestows monetary proficiency to its clients
 - **Annapurna Microfinance Pvt Ltd:** The motivation behind Annapurna Microfinance is to give advances to the monetarily underserved populace. Specialized and monetary instruction is additionally granted to recipients to fortify their innovative abilities. It is one of the main ten NBFC-MFIs in India today
 - **Arohan Financial Services Limited:** Eastern India's biggest NBFC MFI, Arohan Financial Services Limited offers monetary consideration items to 1.9 million clients all through India. The nearby accomplices of the organization help in working on its range to distant areas. Non-monetary items are additionally presented by the organization at reasonable expenses. Arohan likewise has a MSME loaning business in its portfolio
 - **BSS Microfinance Limited:** The organization offers microloans to helpless ladies so they can be essential for money producing exercises that free them once again from destitution. The foundation offers credits in the provinces of Maharashtra, Karnataka, Tamil Nadu, and Madhya Pradesh
 - **Asirvad Microfinance Limited:** This microfinance organization has a broad organization of branches all through 22 states in India. It offers microloans to ladies business people from low-pay families for money age exercises. Presently, three kinds of advances are proposed to borrowers, i.e., Product Loan, Income Generation Program (IGP) Loan, and Small and Medium Enterprise (SME) Loan
 - **Cashpor Micro Credit:** Cashpor is a microfinance establishment that pursues rescuing the monetarily in reverse segments of the general public once again from neediness. The items presented by the organization incorporate credit offices, investment funds administrations, protection inclusion, and annuity administrations
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- Bandhan Financial Services Limited: The thought process of the organization is to lessen financial neediness by producing work open doors for low-pay families. Savvy monetary and non-monetary items are given in such manner
- Fincare Business Services Limited: The Fincare bunch comprises of two NBFC-MFIs, i.e., Disha Microfin Ltd. (presently alluded to as Fincare Small Finance Bank) and Future Financial Services Pvt. Ltd. (FFSPL). The organization takes care of the semi-metropolitan and rustic families of the nation, offering Microenterprise Loans (MEL) and credit against gold with fast disbursals

Impact of Microfinance

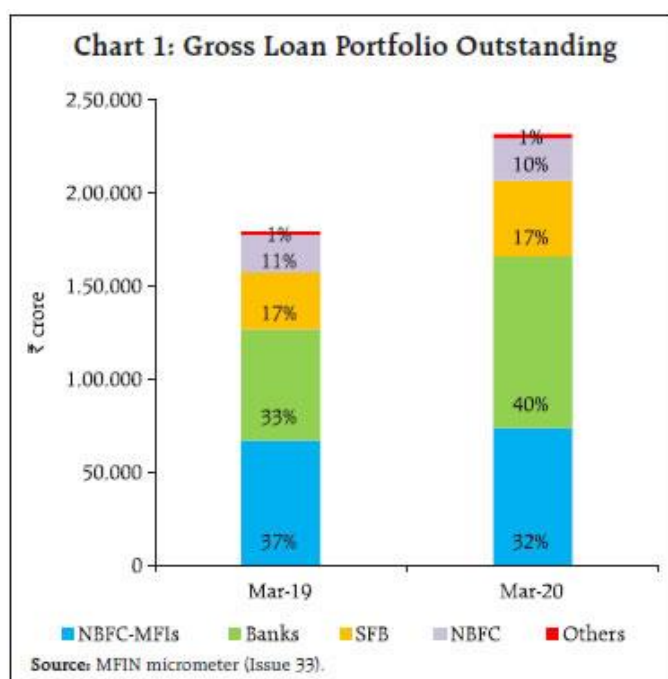
Microfinance in India assumes a significant part in conveying credit to individuals at the lower part of the financial pyramid. Attributable to its grass-roots level interface, microfinance can uphold pay-producing exercises and effect vocations in both rustic and metropolitan topographies. Besides, microfinance goes about as a powerful apparatus for engaging ladies who establish the biggest piece of its borrower base.

The microfinance area confronted a slump in the last part of 2010-11 attributable to announced acts of neglect by some Microfinance Institutions (MFIs) in Andhra Pradesh (A.P) and the subsequent authoritative reaction by the state government. On the rear of these turns of events, the area needed to manage rising misconduct proportions and minimizations by rating offices. Recuperation paces of almost 100% apparently tumbled to a pitiful 10 percent, prompting immense NPAs, which caused huge weight on the working of MFIs (Sinha, 2012). Again in 2016, cash-serious MFIs encountered an ascent in credit wrongdoings, trailed by confined disturbances by virtue of state decisions and declarations of ranch advance waivers in 2017.

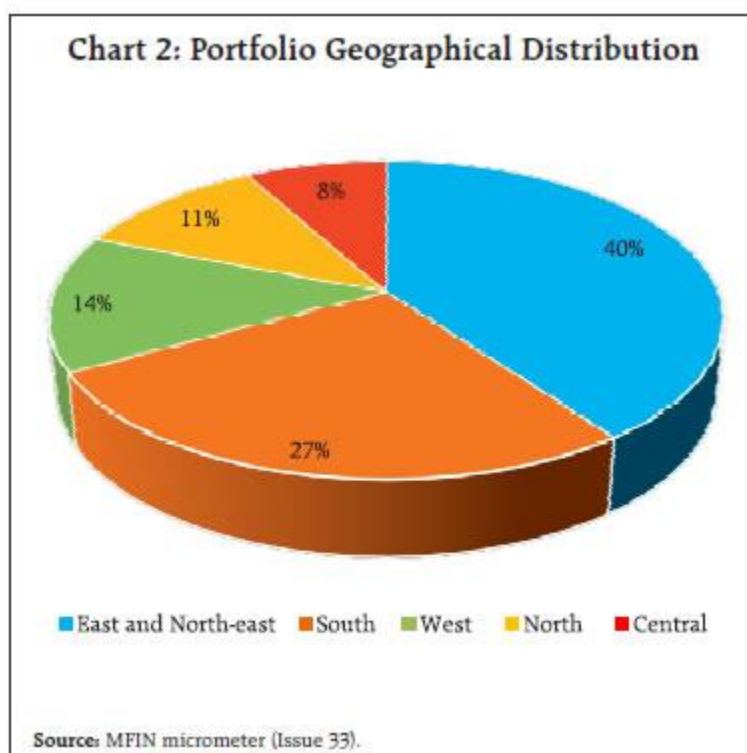
In 2018, the disappointment of Infrastructure Leasing and Financial Services (IL&FS), which was related to the increasing hazard discernment and the subsequent fixing of liquidity conditions, impacted the subsidizing profile of Non-banking Financial Company Microfinance Institutions (NBFC-MFIs). Ecological occasions like floods in Kerala and socio-political occasions in Assam likewise caused restricted misery. With the beginning of COVID-19, the microfinance area is again confronting a trial of its versatility.

Coronavirus occasion is maybe the greatest tail hazard occasion in quite a while. Attributable to the interruptions in store network and business tasks, the probability of loss of vocations and subsequent drop in family salaries is high. NBFC-MFIs, being specific establishments stretching out insurance free advances to low-pay gatherings, are especially presented to credit takes a chance in this situation. Further, reimbursement rates have dropped fundamentally, presenting liquidity gambles. More modest NBFCs-MFIs are especially helpless against credit score minimize, which might hamper their capacity to raise new capital and access liquidity.

As of March 31, 2020, there were 56.77 lakh SHGs, with loans outstanding of ₹1.08 lakh crore under SHG-BLP.



In terms of geographical spread, East, North-East and South India account for 67 per cent of MFIs' loan portfolio while the remaining 33 per cent is spread across West, North and Central India. Among different states, Tamil Nadu holds the largest share of microfinance loan portfolio followed by West Bengal and Bihar.



Drawbacks

On reading multiple papers, I understand that even though the market of microfinance has been blooming, it has very specific drawbacks as well, they are as follows:

- Despite the fact that microfinance establishments have been productive in India, there have been guidelines and libertarian governmental issues that have ended up being horrible to them. The little size of these foundations infer that they will be impacted by little unfriendly advancements bringing about delicate funds.
 - Banks ordinarily have different items and a guaranteed store structure. Then again, miniature loaning establishments are exceptionally reliant upon the market for financing. This intends that at the littlest of occasions influencing business, MFIs could find it challenging to get financing.
 - Moreover, banks today have a presence in the microlending space and they are likewise banding together with MFIs through essential stakes. MFIs are additionally finding it challenging to develop autonomously with next to no help from anchor financial backers.
 - Starting at 2017, there were 223 MFIs that included NGO-run units and social orders. 47 non-banking finance organizations - microfinance foundations (NBFC-MFIs) had additionally been enlisted with the Microfinance Institutions Network (MFIN). The best 10 MFIs generally find it simple to get bank advances or values; the more modest substances are typically in a difficult spot here.
 - A few microfinance organizations have changed over into little money banks. This infers that they can loan at higher financing costs. Besides, they will approach stores that are minimal expense. Banks are presently probably the biggest suppliers of miniature money according to MFIN reports. MFI-turned banks are as yet the significant suppliers of miniature money.
 - Since monetary incorporation is on the ascent, MFIs have a lot more long stretches of chance excess. The way in to their endurance is the steady sponsorship from financial backers.
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Conclusion

India is a developing nation and poverty is one of its major problems. I believe that using microfinance enables the rural or the underprivileged to float above the poverty line, if not completely exit it. Microfinance enables people to take loans such that their small businesses can sustain themselves. MFIs play an important role in educating and providing loans. The Indian Government seems to actively take part in alleviating poverty by removing schemes that help the MFIs and the rural areas. I believe that a major problem in microfinance is that it provides loans at a higher interest rate as compared to commercial banks, which is justifiable but also inconvenient to the person availing the loans. Microfinance is and can be used as a tool to alleviate poverty.

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