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TO STUDY THE IMPACT OF MICROFINANCE INSTITUTIONS ON THE BELOW POVERTY LINE FAMILIES

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Abstract

Microfinance was known since mid of 1800s when the theorist Lysander Spooner wrote about the benefits of small credits to farmers and other rural poor. He also studied about poverty alleviation of farmers.

Today use of the microfinance term has roots in the 1976, when Grameen Bank of Bangladesh took birth with the foresightedness of Mohammad Yunus. He understood the financial need of rural population in Bangladesh and shaped this Microfinance Industry.

The main problem with poor population was that, they do not have any collateral for the loan, so Mohammad Yunus designed a group model. Groups were made on the basis of mutual trust and for repayment, peer help and pressure was used. His effort brought social and economic development. Microfinance, these days has been adopted by many developing and under developed countries for poverty eradication.

Introduction

Inclusive growth, which is every government strive to achieve these days. It is possible through various initiatives and also through Microfinance, which provides a variety of financial services to the poor. In general banks are not likely to lend money directly to the poor. So Microfinance plays a crucial role by bridging the gap between poor and financial institutions.

People have many lifecycle needs such as births, weddings, funerals etc. In addition education to their wards, health care issues also exists. There are some one time needs like – making hut/house, buying machinery, investment in land. Need for funds increases in case of emergencies like sudden deaths, floods, droughts, etc. These needs are fulfilled by friends, local money lenders, MFIs, etc.

Main products provided to poor by MFIs include credit, savings accounts and insurance. In Indian context, Government of India is taking many initiatives to develop Microfinance Industry. Main agenda is to combat poverty and increase living standard of poor.

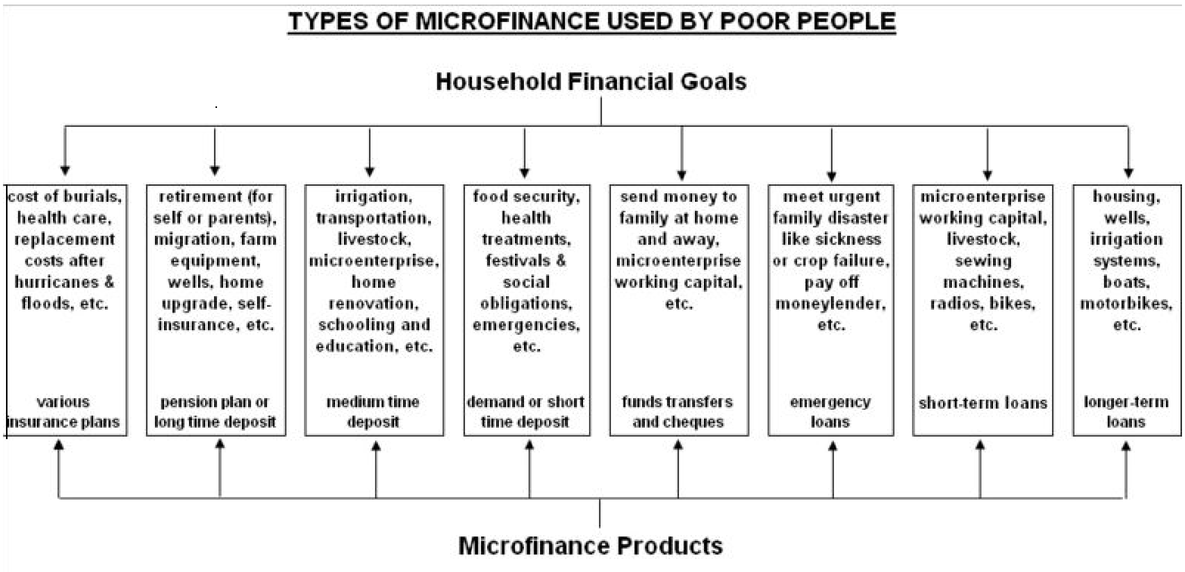
Micro finance Institution in India

A microfinance institution is an organization that offers financial services to very poor.

Both non-profit as well as for profit MFIs exist in country. Non profit MFIs are backed by donors while for profit depends on both donors and financial institutions. MFIS includes credit unions, cooperatives, NGOs, private commercial banks and non – banking financial institutions.

Microfinance comes under priority sector lending, which banks has to lend 40% of their credit to agriculture and weaker section.

TYPES OF MICROFINANCE PRODUCTS USED BY POOR PEOPLE:



Source: Brett Matthews, Mathwood Consulting Company.

1. Insurance plans

It includes various individual and group insurance plans.

Eg: Life insurance plans by SKS Microfinance. Here individual has to pay Rs 20 for 5 years. In case of any death in family, insured amount of Rs 5000 is paid to them.

2. Pension Plan/ Long term deposit

Here deposits are made by members for longer duration, in general more than one year.

3. Medium term deposit

Medium term loans are in general for 50-52 weeks, with weekly repayment.

Eg: Vriddhi- Midterm loans by SKS Microfinance.

4. **Short term deposit**
   Short term deposit facilities are provided to the members of SHGs.

5. **Fund transfers and cheques**
   Fund transfers from one place to other and issue of cheques is made available to people.

6. **Emergency loans**
   These loans are given in case of any emergency like flood, draught or any other contingency.

   Eg: Raksha – Emergency loans and advances by SKS Microfinance.

7. Short term loans

These loans are for short duration, for personal consumption.

Eg. Madura Microfinance provides loan of Rs 50000 to at least six month old SHG with 15-20 members.

8. Longer term loans

Long - term loans are for more than one year. These are given to groups with proven track record of repayment. This type of loan is given to start slightly large ventures.

POVERTY:

Basic requirement of human being are Food, Clothes, and Shelter.

Other necessity includes clean water, nutrition, and good health.

So a person or family deprived of these basic facilities can come under poverty. Above definition is of absolute poverty while if one place and people living there are poor than others that it will be called relative poverty.

EFFECTS OF POVERTY:

1. **VERY LOW NUTRITION(SPECIALLY AMONG CHILDREN)**
   It is been very difficult for a poor family to feed their children and themselves. They don't even think about the nutrition like vitamins and proteins.

   For example one third of the developing world's children have Iodine deficiency.

   So due to low nutrition, children are under developed physically and mentally.

2. **ILLITERACY**
   Due to poverty, poor are unable to send their ward to the school for education.

   They from the birth of the child try to make him an earning member. This mentality develops because of poverty.

3. **UNAFFORDABLE MEDICAL FACILITY**

Poor people do not have potential to buy costly medicines. These days many company goes for drug patents, which makes medicines unaffordable. Ultimately people die. As per www.effectsofpoverty.com almost 50,000 people die daily due to poverty. These numbers are more than that caused by Tsunami or any war.

4. **VIOLENCE**
   Poor are unable to reach resources. So when they do not have any option to survive, they go for Bag- Borrow-Steal. This causes violence, as poor fight for survival.

5. **UNHYGIENIC LIVING PLACE**
   Due to poverty people do not have clean place to leave. They live in closely held space and sometime don't even have toilets. This situation leads to unhygienic place, which again causes disease.

ROLE OF GOVERNMENT INSTITUTION IN MICROFINANCE:

Involvement of government is very crucial for various poverty reduction activities. Government has formed some institutions like NABARD and SIDBI for that.

NABARD

NABARD stands for National bank for agriculture and rural development. It is an apex institution promoting sustainable rural development through credit disbursement, institution building and other services.

NABARD is a facilitator for rural development and does following activities:

1. Provides refinance to institutions.
2. Institution development.
3. Evaluating and monitoring client banks.
4. Acts as regulator for cooperative banks.
5. Helps state governments to in providing assistance to eligible institution. Assistance to government and RBI for rural development.

TYPES OF RISKS IN MFIs:

CREDIT RISK: Credit risk arises when MFIs gives loan to members of SHGs, but the repayment is not there. The reason for that may be the incapability of poor.

TRANSACTION RISK: Microfinance involves lots of small transactions.Unless until good database and MIS is not available, transaction risk exists.

PORTFOLIO RISK: Portfolio includes size of loan, no. of people given loan, type of loan and loan structure. So with diversification, portfolio risk exists.

FRAUD RISK: Frauds are caused by employees of microfinance institutions and clients. Employees may take advantages of the power given to them. Risk also involved in case of members. Members may run away with the money.

LIQUIDITY RISK: It exists when MFI do not anticipate changes in future and may go out of cash.

OPERATIONAL RISKS: Operational risk arises from human or computer error within daily service or product delivery. This risk includes the potential that inadequate technology and information systems, operational problems, insufficient human resources, or breaches of integrity (i.e. fraud) will result in unexpected losses.

FACTORS DETERMINE THESE RATES:

Major factors determining these rates are

1. Bank interest rate.
2. Operational cost of MFI
3. Sales & Distribution cost of MFI
4. Transaction cost etc.

MICOFINANCE PRODUCTS:

1. **General Loans**
   These loans are specially designed for daily wage women laborers. These loans vary from Rs 2000 to Rs 20,000.

2. **Small Business loans**
   These products are meant for poor with small businesses like vegetable vendors etc. Loan amount may vary between Rs 4000 to Rs 20,000.

3. **Micro Enterprise loans**
   This product is meant for SMEs and salaried people.

4. **Agri family loans**
   This product is meant for small and medium level of farmers. Loan amount varies from Rs 5000 to Rs 30,000.

5. **Dairy loan**
   This loan product is for milk vendors. Amount for loans is from Rs 10,000 to Rs 1, 00,000.

6. **Farm equipment loan**
   This loan product is for small and medium kind of farmers. Loan amount varies from Rs 50,000 to Rs 350,000.

MICROFINANCE AND POVERTY ALLEVIATION

Microfinance can be provided for following activities:

1. **Trade-**
    a. Vegetable Vending
    b. General Stores
    c. Sweet Making Shops
    d. Ice Cream Making
2. **Agriculture-**
    a. Leasing trees
    b. Leasing irrigated farm land
3. **Services-**
    a. Operating a Floor Mill
    b. Tailoring
    c. Roadside Micro-diner
4. **Livestock**
    a. Goat rearing
    b. Buffalo rearing
5. **Production**
    a. Pottery

Clients who participate in microfinance programs expected to enjoy

1. **Increased household income**
   Member of microfinance get loans for their small ventures, due to which their family income increases. In addition to loan these family need some guidance to earn more. Most often this guidance in provided by peers and MFIs through simple training.

2. **Better nutrition and health**
   When earning increases, consumption of food grains increases. Family has more options for food, as now they can afford food items. However nutrition depends on diet of person i.e. foods which he/she consumes. But in broader terms we can say that nutrition level increases as income of family increases.

3. **Opportunity to achieve education:**
   When income of family increases then they are in condition to send their children to school. Families have to pay school fee, buy school dress, notebooks, pencils, slates etc. If a family earns well than it can afford all these things.

4. **Decrease in vulnerability to economic shock:** When income of the family increases, they save some amount for future. In case of any sudden death of a member, flood or draught, family can use saved money. These sudden expenses are met by saved money.

5. **Greater empowerment:** Yes, it is true that when income of family increases, it achieves empowerment. Family becomes independent and they do not fall prey to money lenders.

6. **Ability to completely lift themselves and their families out of poverty:**

Increased income can be used by family to pay debt, to send children school and to fight tough time. Ultimately it leads to improve living standard of the family and brings family out of poverty. Inclusive growth and social security to poor can bring them at the level of rest of population.

What can be done to reduce poverty through MFIs

Following things can be improved in MFIs activities

1. Quick loan disbursement.
2. Flexible loan repayment.
3. More innovative products.
4. Training to SHGs regarding increasing earnings.
5. Reduction in interest rate on small loans to poor.
6. Social security initiatives by Government & MFIs collaboration.

CHALLENGES FOR MICROFINANCE:

1. **Data collection from rural clients.**
   Data collection about new and existing clients needs to be updated on daily, weekly and yearly basis. Proper research tools and manpower is required to collect and analyze data for future growth of these MFIs.

2. **Many small transactions in rural areas.**
   Microfinance includes lots of small transactions daily, which need to be documented in IT database. It involves operational cost.

3. **Convincing BPL families about programs like SHGs.**
   Most of people living under below poverty line are illiterate. So it is difficult to convince those regarding new products, schemes and their benefits

4. **Awareness & training about poverty eradication.**
   Awareness about health problems like AIDS, Pulse polio, schooling, earning options etc. need to be provided through various media.

5. **Coordination of various agencies.**
   Good coordination between government and private agencies are to be accomplished. Corruption is one of the biggest challenges. Funds allotted to MFIs, SHGs need to reach BPL families.

6. **Government regulations**
   IRDA do not allow single player to have both life and non-life business. For poor is unviable to go for separate life and non-life insurance products. BPL families require bundled insurance products.

CONCLUSION:

From small credit to financial services, microfinance has been moving to reduce poverty level and improve livelihoods. This shift is essential for both poor and MFIs.

Many forms of MFIs exists, some of them are copied from abroad. In India socio- economic environment is different, so these MFIs shouldn't copy any model blindly. They must ensure that clients should not leave SHGs, MFIs in large. In case of any operational or cultural problem, the block must be removed.

At the same time wide range of services should be made available to people below poverty line. This service delivery should be efficient. Client responsiveness and cost-effectiveness are the two important things, which need to be taken care at the time of service delivery.

MFIs should communicate to poor in the easiest way, so that BPL families can understand its message.

MFIs should work for long term sustainability of the relationship between BPL families and itself. This is possible by continuous reassessment of their results.

LIMITATIONS OF THE STUDY:-

1. Project study is confined to only Microfinance institutions in India and their impact on below poverty line families in the country itself.
2. It is assumed that Microfinance services given to poor people for productive purpose only.
3. Other assumption are that amount of loan to people is small so as not to attract rich people and credit cannot be a 'one-shot' poverty alleviation mechanism.

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