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Role of microfinance in poverty alleviation in India

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Abstract
Low-income individuals, such as those living in rural poverty, low-income customers, and small business owners with little capital for operations, can receive financial assistance via microfinance. In this system, microfinance offers financial support to people who find it difficult to receive financial aid, enabling them to expand their businesses. Numerous financial services are offered by them, including loans, deposits, savings accounts, money transfers, insurance, etc. The number of SHGs with savings was found100.14, 102.43, 112.23, and 118.93 lakhs during 2018-19, 2019-20, 2020-21, 2021-22, respectively. Number of SHGs with loan outstanding varied from 46.73 to 67.40 lakh during 2015-16 to 2021-22 respectively. In India and other developing nations, micro-finance is widely recognized as a tool for reducing poverty. Small businesses like banks, NBFCs, Section 25 firms, various cooperatives, NGOs, and MFIs are all targeting rural markets, making microfinance in India today potentially a dynamic market with many players selling various goods and services to the poor and low-income people. Microfinance is a specific type of financing intended to assist those in need and a segment of society living in impoverished areas who desire to stand on their own feet. By using a single-factor ANOVA, we can see the sector-specific distribution of bank loans given to SHGs during the last seven years. This essay tries to understand the significance of microfinance in reducing poverty in India, as well as its primary models and difficulties.

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

Introduction
India, one of the developing nations in the world, where poverty issues have existed since independence. India's struggle with poverty, which impedes its progress, has not been resolved despite the government's financial help. Many financial, banking, and monetary policies were incorporated in the 1980s, which helped the underprivileged and the poor not significantly. Where banks were loath to lend to the poor, forcing them to turn to moneylenders and property owners for loans (Kumar and Reddy 2015) [8]. The lack of credit facilities as promised demonstrates a policy fault, which was made up by a part of the population that was impoverished and in need of making loans to moneylenders at high-interest rates. (Mohd 2018) [9].
The World Bank estimates that a sizable portion of India's population lives in poverty. However, the national and state governments of India jointly undertake several programs to reduce poverty (Kannan and Panneerselvam 2013) [7]. The reduction of poverty is partially facilitated by microfinance, which contributed to rise in income and enhance their living standard.
A microfinance facility was set up for the underprivileged and needy parts of society to reduce poverty in India. Modest-income individuals, such as those living in rural areas with limited resources, clients with low incomes, and small company owners, can receive financial assistance via microfinance. In this system, microfinance offers financial support to people who find it difficult to receive financial aid, enabling them to expand their businesses. In India, increasing employment through small company operations with the aid of microfinance is undoubtedly a positive step in the direction of eliminating poverty. For instance, the use of microfinance has reduced poverty in China, Vietnam, and South Korea. Microfinance services' primary objective is to give people money so they can use it to start or expand their businesses. This will contribute to lowering poverty and improving the standard of living for all.

Review of Literature

A survey was conducted by Ravi and Vikkraman (2012) [11], Fontenay and Wood (2018) [3] to regulate if microfinance program uplifts the beneficiary out of deprivation. It revealed that if borrowers enter an existing business leading to steal some business from existing firms which thus brings down their profitability. Results of the study also show that higher interest rates charged by microfinance institutions which are above the market rate eliminate the borrowers to innovate. Thus, the study concludes that microfinance does not bring the required satisfaction to its borrower because they do not favour innovating; preferably they enter subsisting businesses. (Sinha and Navin 2018) [13].

Using an observational and case study approach, Hassan, and Islam (2018) [5] investigated whether microfinance initiatives are assisting many impoverished Bangladeshis to get above the poverty line. Using snowball sampling, information from households was collected. The outcome indicated that microfinance has developed to reduce poverty for Bangladeshi poor people, and it gives them fresh hope for building bright futures. Additionally, it was discovered that microfinance authorities prioritize money recovery over the well-being of the underprivileged.

In a related study, Bansal, and Singh (2019) [1] investigated whether microfinance programs in India's National Capital Region helped marginalized women lower their poverty levels and raise their standard of life. A total of 117 respondents from the experimental group (those who participated in the microfinance program) and the control group (those who did not) were included in the study. According to the study's findings, women who participate in microfinance programs are better able to make decisions and have more developed social skills, and the gender inequality gap has been narrowed.

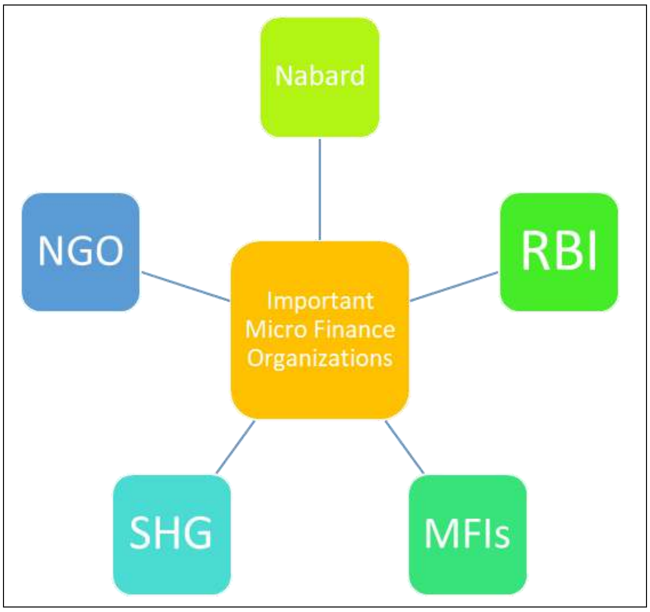
Portes *et al*. (2019) [10] looked at the macroeconomic impact of gender-dominated household decision-making on the economy. The amount of household spending and savings are used to study women's empowerment. According to the study's findings, women who can make decisions spend more money on food consumption. Additionally, women's stronger risk aversion results in greater savings, which in turn contributes more to capital creation through increased investment, which increases national production and worker pay.

Hadidi (2020) [4] investigated how Egyptian microfinance affected the income of urban and rural families. Data from five hundred urban and 280 rural women borrowers were collected cross-sectionally. The findings of logistic regression show that borrowers who have been affiliated with microfinance for three years or longer have higher income levels than new consumers. Additionally, it has been discovered that microcredit has a significant impact on the eradication of poverty for female borrowers in rural regions.

Origin of Micro-finance

Microfinance was initially explained to theorist Lysander Spooner during the nineteenth century. They discussed how small loans for businesses and farmers could lift people out of poverty. With the assistance of the Grameen Bank of Bangladesh, Muhammad Yunus (2006) [14] brought microfinance into a new era in 1970. The Nobel Peace Prize winner Mohammad Yunus began lending money to some low-income residents of Bangladesh's Jobra village. They assisted people in raising their standard of living, and microfinance developed into a tool for reducing poverty globally. Today, microfinance is a tool for eradicating poverty, raising people's standards of living, boosting economies, and empowering women. In many nations around the world, savings and loan organizations were established to suit the requirements of the populace as well as to promote their welfare. Even if their names varied among nations, the labor remained the same. like Pasanaku in Mexico and Chit Fund in India.

Shree Mahila SEWA (The Association of Autonomous Women) Cooperative Bank in Gujarat pioneered microfinance in India in 1974. By assisting the underprivileged and some unemployed women, this organization improved society in Gujarat. In the early 1980s, the Self-Help Group, which offers financial services to farmers, local women, and the needy, helped microfinance grow. Organizations like NABARD and SIDBI have strengthened microfinance in India even more. The United Nations designated 2005 as the "Micro Credit Year," which led to the global emergence of microfinance as a potent tool for eradicating hunger and poverty, particularly in developing nations.



National Bank for Agriculture and Rural Development (NABARD)

NABARD was established in India on July 12th, 1982. The primary objective of NABARD's formation was to offer financial support for the growth of farmers and small businesses. Numerous programs were developed by NABARD for farmers and independent contractors. With the help of NABARD, many small and large farmers who were unable to increase their production due to a lack of capital can now be successful in their agricultural businesses. The Kisan Credit Card is one of the lending programs that NABARD has launched to assist farmers in getting new equipment and increasing their output.

Reserve Bank of India (RBI)

It is also admirable that the RBI has improved the microcredit industry. The RBI, which oversees monetary policy and provides guidance to other banks, is the top bank in India. The bank rate, repo rate, and other rates are also decided by the RBI. The RBI performs the task of establishing guidelines in addition to reviewing the activity of the banks. The RBI's involvement is crucial in determining the method of credit delivery as well as the amount and rate of loan disbursement to each industry. With the aid of other financial organizations, such as NABARD, RBI assists in providing loans to many different industries. One such example is the provision of agricultural lending facilities.

Micro Finance Institutions (MFIs)

In India, there are numerous government and non-government microfinance organizations that operate and meet the requirements of the populace. Additionally, a lot of cooperative societies aim to give people access to microloans. The emergence of several organizations in the form of microfinance institutions has narrowed the gap between the supply and demand of the poor. The main MFIs in India, SHARE, SPANDANA, CDF, MYRADA, SKS, and PREM, offer financial services to those with limited resources.

Self-Help Groups (SHG)

SHG is an extremely 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 a loan at incredibly low interest according to their needs. SHGs are in both registered and non-registered form. SHGs also help women members to come out of a fiscal crisis.

Non-Government Organizations (NGOs)

SHGs are a small yet incredibly helpful group that often consists of local women. One who makes frequent little deposits of cash, which the members can subsequently borrow from them at extremely low-interest rates depending on their needs after a period? Both registered and unregistered SHGs exist. SHGs assist its female members in overcoming financial difficulties.

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 opening members' accounts in their bank under SHG- Bank Linkage model. SHG is a group of 15-20 people whose income is incredibly low usually village women. The amount contributed by all members is saved in the bank. That money is used to give loans to members.

MFIs-Bank Linkage Model

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

Other models: Grameen Bank Models

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

Joint Liability Groups (JLG)

A 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 to as an improved version of SHG, which is facilitated by cooperative and RRB banks.

Research Methodology

The present study is descriptive and is based on secondary data. The secondary data was collected from various reliable sources like various study reports published by the Government of India, special reports on taxation from various institutions, publication of various reports by state governments, and other research at the National and International level. Data were recorded on several SHGs with savings, amount of savings, number of SHGs availed loans, amount of loan disbursed, number of SHGs with loan outstanding, amount of loan outstanding, and region-wise status of bank loan disbursed to SHGs. The data and information so collected were further processed through summarization and tabulation and simple statistical tools were used to analyse the data.

Role of Microfinance in poverty alleviation

India is a developing nation where most of the people continue to live in poverty. As a result, since the country's independence, poverty alleviation has continued to be the main priority. According to data conducted by the World Bank, India is home to one-third of the world's poor people. Financial inclusion is significantly influenced by microfinance. In recent decades, it has significantly contributed to the decline in poverty. According to the survey, people who have borrowed a little money can improve their level of living and income. Microfinance has seen tremendous growth in our country and has shown to be a potent weapon in the development of the underprivileged and raising their standard of living. Even while the interest rates on microfinance loans are greater than those of local moneylenders, they remain lower. The government has implemented a very smart strategy to provide loans to economically underprivileged people for livelihood, as the availability of loans through microfinance is beneficial for the development of people and the eradication of poverty.

In India, numerous NGOs have launched their microfinance services. NGOs are moving in this direction, which is a good move, because of public service and dedication in this area. The region's growth is routinely assessed, and the government regulates it to address the problem facing MFIs. The Research Bank of India and the Indian Government have tried to meet all the needs for financial services. Microfinance offers financial services to clients, independent contractors, the impoverished, and others without access to traditional banking institutions. NABARD launched a microfinance program in India in 1992. And as of right now, it is available to all clients worldwide. In India, there are many different microfinance models (Shastri RK 2009) [12]. One of them is the Self-Help Group, where poor individuals can borrow money and use it to invest in their businesses. Their standard of living rises with an increase in money. The majority of the three sources-including formal institutions like the Grameen Bank and semi-formal organizations-offer microfinance services. Informal sources including shopkeepers, moneylenders, and donors. They assist those in need in overcoming poverty.

Data Analysis and Interpretation

Table 1: Progress of SHG-BLP during the Past Seven Years (No. of SHGs in Lakh, Amount in Rs crore)

Year	No. of SHGs with Savings	Amount of Savings	No. of SHGs availed Loans during the year	Amount of Loan Disbursed during the year	No. of SHGs with Loan Outstanding	Amount of Loan Outstanding
2015-16	79.03	13691.39	18.32	37286.90	46.73	57119.23
2016-17	85.77	16114.23	18.98	38781.16	48.48	61581.30
2017-18	87.44	19592.12	22.61	47185.88	50.2	75598.45
2018-19	100.14	23324.48	26.98	58317.63	50.77	87098.15
2019-20	102.43	26152.05	31.46	77659.35	56.77	108075.07
2020-21	112.23	37477.61	28.87	58070.68	57.8	103289.71
2021-22	118.93	47240.48	33.98	99729.22	67.40	103289.71

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

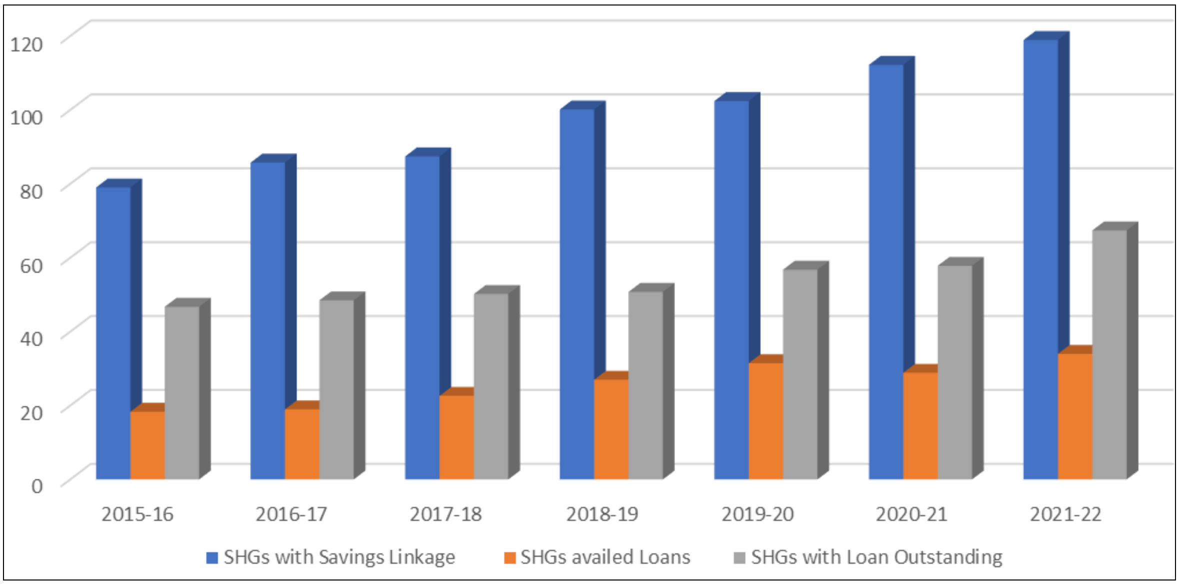


Fig 1: No. of SHGs with Savings, Availed Loans, Loan Outstanding (In Lakhs)

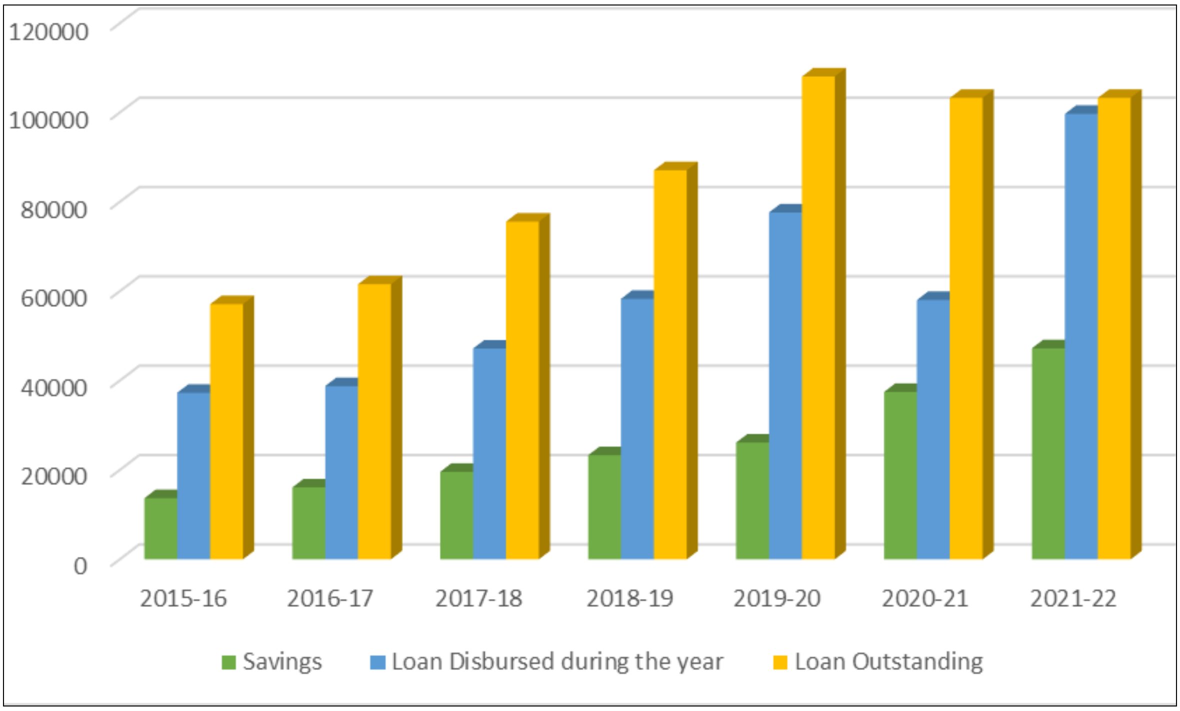


Fig 2: Amount of SHGs with Savings, Availed Loans, Loan Outstanding (in Rs crore)

Table 1 and Figure 1, 2 show of progress of SHG-BLP 47185.88 crore loans that have been disbursed, over the last seven years which 37286.90 Crore increase of about 26% compared to 2015-16. Overall loans have been disbursed in 2015-16. And in 2017-18It revealed significant enhancement. The amount of savings gradually increases. The amount of loan dispersed was 37286.90 crore in 2015-16. However, it revealed 99729.22 crore in the year 2021-22. It showed a highly significant difference during 2015-16 to 2021-22. Number of SHGs with loan outstanding varied from 46.73 to 67.40 lakh during 2015-16 to 2021-22 respectively. Reason-wise loan dispersed to SHGs during the last seven years is given in Table 2 and Figure 2 also exhibited a highly significant difference. It was found that 184636 lakhs in the North-Eastern, 117102 lakhs in the Northern Region, 216983 lakhs in the Central region, 381363 lakhs in the Eastern region, and 6503860 lakhs in the Southern region, the performance of SHG-BLP has been commendable.

Table 2: Region-wise Status of Bank Loan Disbursed to SHGs during the Past Seven Years (Total loan disbursed in Rs Lakh)

Regions	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
North-Eastern	21969	28421	35721	29001	57,893	1,03,651	1,84,636
Northern	48298	57414	54038	62664	84,694	94,045	1,17,102
Central	119067	67958	55943	72199	1,04,249	1,05,428	2,16,983
Western	188632	148819	155099	184565	2,49,327	2,30,331	3,81,363
Eastern	349489	473172	908950	1197079	17,85,075	14,87,551	25,68,978
Southern	3001235	3102332	3508834	4286256	54,84,696	37,86,063	65,03,860

***Source*:** Nabard

Anova: Single Factor Total loan disbursed in Rs Crore				
Summary				
Groups	**Count**	**Sum**	**Average**	**Variance**
North-Eastern	7	461292	658.99	353240.0697
Northern	7	518255	740.36	63943.52193
Central	7	741827	1059.75	293112.7717
Western	7	1538136	2197.34	642046.4852
Eastern	7	8770294	12529	60264623.33
Southern	7	29673276	42390.39	170765885.2

***Source*:** Researcher Computation

Anova: Double Factor						
Source of Variation	SS	df	MS	F	P-value	F crit
Regions	9585158572	5	1917031714	64.62026	3.77E-15	2.533555
Years	504313809.4	6	84052301.56	2.833277	0.026319	2.420523
Error	889983299.1	30	29666109.97			

If F statistic > F critical Value, the test is significant, in these statistically significant results between these groups at the result, the value of p is greater than 0.05. It shows a 5% significance level.

Clients' lack of literacy and ignorance about financial services

Many individuals in India still do not grasp the basics of finance, and they are unaware of the financial services that the government offers. As a result, they are unable to fulfill their financial demands when they arise. Microfinance is one solution to this problem.

High rate of interest charged by lenders

Comparing MFIs to commercial banks does not show an equivalent rate of financial success. MFIs charge higher interest rates than banks, which worries the poor. In addition to bank loans, they struggle to pay back interest on schedule.

Lenders' choice of the right model

The Self-Help Group model (SHG model) or Joint Liability Group model (JLG model) and joint liability model are the two most common microfinance models in India. Instead of choosing a microfinance model scientifically, the scenario is examined. The choice of the model is a crucial factor that raises the danger of debt.

Over-dependence on the banking system by micro-finance institutions

The majority of MFIs in India rely on funding from commercial and private banks. MFIs' over-reliance on banks is not working out well for them when it comes to coping with default. Mainly because commercial banks charge them higher borrowing rates.

Over-indebtedness of clients is one of the key issues Indian microfinance institutions must contend with

The poor class of society receives loans from microfinance institutions so that they can put their money to effective use, such as starting a business and improving their level of living. MFIs provide unsecured loans to the needy, which encourages debt loans. Over-indebtedness is thus a big problem for microfinance.

Conclusion

When people cannot adequately meet their fundamental necessities, they are said to be in a state of poverty. According to the government's policy, numerous government, and non-government organisations as well as banks in India are making unrelenting efforts to end poverty. Microfinance is one of several innovative financial arrangements made to entice the underprivileged to become savers or borrowers. Microfinance has gained widespread acceptance as a method for fighting poverty and has been shown to give people the tools they need to escape it in developing nations. Escape poverty and hunger, it enables the poor to safeguard, diversify, and expand their sources of income. By using a single-factor ANOVA, we can see the sector-specific distribution of bank loans given to SHGs during the past seven years. Where the value of p exceeds 0.05. At the 5% significance level, it displays statistically significant results between these groups. In recent years, microfinance has practically reached every region of India. Particularly in the poor and needy villages of India, where people seek to do business and raise their standard of living by making some money. They have been able to raise their income thanks to microfinance. The ability to borrow money through microfinance is conveniently available in rural and village regions where there is a greater need.

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