Does microfinance provide only an illusion for poverty alleviation?

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Abstract---*This papers endeavors to have a constructive appraisal on relevance and importance of microfinance and using the tools to improving the rural sector or poor condition of the economically weaker sections. Microfinance developed the innovative management and business strategy and focus on the fulfilled improve the micro finance services. Microfinance helps to reduce the poverty and it is based on productive employment creation. Its plays the important role for providing the financial services to the rural poor. Microfinance is beneficial for the countries which is not developed other than and rural poor's are faced so many problem. Microfinance also focused on the improving MDG (Millennium development goals) poverty reduction. Government also promotes the microfinance. The study focused on the microfinance and the poverty of India. Sometimes people see microfinance as the illusion for some poor's and villages but microfinance always provided the financial services, target the rural poor's, improve economy and society.*

Keywords--- *Microfinance, Poverty Reduction, Business Strategy, Illusion of Microfinance, Employment***.**

I INTRODUCTION

Microfinance refers to the provision of financial products and services to the economically weaker habitants who are deprived from formal financial system. The basic financial products services comprise of services like micro saving, micro loans and micro insurance. The microfinance is seen as holistic approach which is not only confined to micro loans but it also encompasses support services viz. saving, insurance, remittance, technical assistance as well as capacity building. Thus, Microfinance is the financial services for the poor. Nobel Prize was awarded to Mr. Mohammad Yunus and Grameen Bank of Bangladesh for the contribution in economic and social development of the poor in 2006.

In India, microfinance was started through the Self Help Group in 1992 under the NABARD. There are certain gaps in formal banking network especially in rural spectrum which has been the prime focus of microfinance in India. It started in 1970, when Shrimahila Sewa (Self Employed Women's Association) initiated Sahkari Bank in Ahmadabad and Working Women's Forum in Tamilnadu. SHG is the group of poor women gave loan to them without any collateral but on higher interest rate. Loan is provided on the basis of trust. The accomplishment of Grameen bank provides access of financial services to the financially weaker section. Grameen bank is most popular bank in current scenario and the recent time more than 700 microfinance institutes (MFI) in the world which helped the poor needed people.

Hulme and Mosley (1996) defined that the microfinance provided the micro credit to the rural poor. Micro loans are the most important critical dimension for provision of financial services to the poor and such micro

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loans has increased role in rural development and the contribution of micro loans can't be underestimated. Osmani (1989) highlighted that the initial point is to focus on the livelihood building to eliminate poverty which is essential for building a strong and robust framework where a nice connection can be set between poverty and financial vulnerability which creates hindrances for people to break out from this poverty cycle.

Morduch (2000), a scholar of microfinance, underlined how poor people contribute the small part of their income and generate the revenue from the saving part. Microfinance is very effective to reduce the poverty; it's not illusion that it's really works for the rural poor. In the microfinance rural poor's develops the groups of members which are owner of their group and create the Self Help Groups (SHG). The microfinance movement rests largely on one basic assertion, that poor households have high economic returns to capital.

Qureshi (2006) highlighted that micro loans is meant to provide small amounts of financial help to the people who need to cope up with their financial requirements. The historical Emphasis of microfinance Institutions has been more on the credit sanctioning rather than encouraging them to make more savings and this has become a practical business issue however it seems to help the clients more but microfinance institution should balance on both the bottom lines of savings and loans.

Poverty is a major issue and the important problem in India, those who faced this problem, needs the development in India. In India poverty line is below from the average and so many people come under the poverty line and the reasons behind that literacy ratio, unemployment, lack of awareness, poor condition, and education and so on. Some villages and states are still exists those which are not take the microfinance advantage and opportunities.

II Literature Review

Olayide and Esang (1975) highlighted that provision of monetary assistance to the poor is not a new idea it has been found in even 1950s when there was a need felt to develop the strategies for the development of third world (poor nations) and providing the required amount of working capital to the poor. The term microfinance is not about providing just financial services to the poor as it is also about to eradicate poverty and improve their awareness towards financial system. De Soto (1989) describes the microfinance is a robust system which ensures that all the pools are able to access the financial services and the basic purpose of this is to overcome poverty. The major services comprises of loans, savings, remittance services, payment services as well as providing insurance to all micro enterprises and household.

Bakhoum et al. (1989) highlighted that the poverty is one of the most severe economic issue of an economy. Until and unless all public is able to assess the formal financial system and have adequate resources to meet out the sustainable livelihood. The poverty is an economic issue and poor may come from urban as well as rural backgrounds. In both the cases the poor might be having different issues, having different challenges but this allows microfinance institutions to provide them financial services in different Business models and help them to overcome the poverty.

Hussmanns and Mehran, (1998) explained that developing economies which are characterized by higher unemployment rates and higher economic fluctuations, this informal network of microfinance can be instrumental in channelizing the funds as well as creating plenty of job opportunities. The major issue for micro enterprises remains the lack of working capital and unavailability of sources from where this can be raised.

Armendariz (2005) has identified that approximately 75% females are total microfinance recipients. This exclusive letting to women started in 1980 after the validation of the flight from the Grameen banking model that re-payment rates are higher in case of women landing and they also accept small loans as compared to men. Hence the microfinance institutions have quoted the goal of empowerment of females to rationalize more sanctioning of loans to the women. The Nobel Prize Committee for 2006 identified microfinance as a liberating force and an important instrument in fighting poverty" (Adams, 2010). Microfinance is also a very strong tool for promoting economic development along with the social development as it opens good employment opportunities and huge development prospects with the help of various small scale and micro scale enterprises which are essentially the backbone of an economy.

Asiama and Osei (2007) have studied that this concept of poverty elevation was institutionalized in 1944 when the World Bank and IMF took the birth after the World War II and this has been the priority of all the leading as well as emerging economy to ensure that all the habitats of the countries are able to reach to the basic financial services which are essential to survive and also to ensure sustainable livelihood.

Karnani (2007) has studied the microfinance from a different perspective highlighting that in modern microfinance system, there is a provision of huge range of financial products and services and a very constant flow of Finance to lower income individuals who are normally not the part of traditional financial system. Hence microfinance has been instrumental in bringing positive impact in changing the life of these clients by enhancing their livelihood skills and providing them required financial assistance and the participants have also been positive in grabbing the opportunity given and enhancing their livelihood models eventually leading to a higher consumption, health and assets level.

Gupta and Aubuchon (2008) highlighted that microfinance in African continent has been very effective in building accountability towards the economically weaker section and the linkage of micro policy formulation and decentralization for improving the property issue has played a significant role in improving the economic condition of the poor people. Boabeng (2009) has also understood that poor people sometimes are exposed to a very risky and volatile environment and they are subject to various types of diseases natural calamities along with the market instability but with the evolution of the microfinance there has been a significant improvement in situation of borrowers in tackling needs of micro financial system. Diversification of livelihood is also useful in reducing risk.

Creswell (2009) has underlined that microfinance has been instrumental in moving out of poverty and increasing asset levels of poor households and improving productivity of poor people along with giving them exposure to a higher income avenues. There are numerous researches which have underline the fact moving out of the property is not a sudden process, it is a constant process and which is achieved by a series of steps and this is progressive in nature. Chowdhury (2009) have stated that the difficulties that economically weaker section face in interacting with formal financial system is sometimes because of lack of adequate social capital. This is a gap with external groups and this problem is further exaggerated in developing economy where poor keep on striving for a sustainable livelihood and income opportunities to survive. The non availability of smaller amount of loans sometimes is reason for non eradication of poverty (Anirudh et al., 1997; Egyir, 2010).

III Objectives & Methodology

The prime objective of this research is to study that how microfinance is helpful and instrumental in reducing the poverty and highlight that how much microfinance has been successful in intended poverty eradication. This research also wants to attempt study the role and contribution of self help groups in poverty eradication of the poor people.

Self help group is an informal group of certain individuals which are formulated from similar vicinity and background of the people. The purpose of this group is to ensure the moral collateral because poor people are not having physical Collateral. Than in that case it is important that the loans must be provided on the moral collateral so that if any person defaults in the group, the burden is shared by all group members and this is the basic premise of microfinance functioning. Registration under any Societies Act, State cooperative Act, NGOs, govt., local co-operative banks and society, NABARD are also plays role in success of SHG.

The study of methodology is read the various research papers and visit the so many social sites for improve their study, get the idea that how to create and design the papers. All these papers are provided the some content and reviews which is most important of this study. Data provided the view of microfinance about poverty, education, unemployment, savings, and economy. Collection of the data helps to know about the microfinance concepts, poverty in different areas, poverty line below from the average.

3.1 Role of Microfinance in Poverty Alleviation

Relevancy Between the microfinance and poverty provided the financial facilities of microfinance to the rural poor's, and make able them to generate employment. Microfinance also helpful through create the SHG's (self-help groups) in villages. When banks are not able to fulfill the needs of poor's because of issue of their income, while the peoples (with low income) are not able to invest the money or small amount of their income to the bank.

People may does not know about to increase their income, doesn't know about the schemes and so many govt. programs, training program and employment training also. That's why when banks are failures to generate their income. After the all these efforts Mr. Mohammad Yunus decided the self-help group which contributed the some small part of their income and provided each other at same the same level. This is the biggest step when Mohammad Yunus realized the poor's condition of villages. Microfinance concepts are more associated with these concepts. Microfinance adopts the self -help group concepts and provides the fund at the same level. Self-Help Group mainly focused on the women efficiency and employment. These are the groups of women's 10-20 members, members should be more trust worthy. If any individual person make the default with the group that entire group is responsible to repay the amount of loan.

With the help of SHG poor's provided to each other microcredit or loan. Micro finance focused to save the small amount and microfinance also provides the training to the poor's for 7 days to improve their skills and working efficiency. These training periods are compulsory for each member of the groups. And microfinance conduct the meetings with the poor's day-to -day and discuss all the problems regarding members, saving issue, trust, and no collateral rates are charged. Self-help program is the successful platform for the rural's under MFI (Microfinance institutions) which is successfully done in India. SHG mainly target the needed poor's who need the fund from the microfinance. Self Help Group linked with the poor's who is not able to fulfill their requirements. Microfinance is works with the different functions of SHG. Each functions of SHG play the important role in microfinance.

3.2 Functioning of Self Help Groups

The self-help groups are the groups of 10 to 20 members, informal in nature, normally not too large in size because then it becomes difficult to co-ordinate and manage the microfinance operations. Only one person from a family can become the member of a self help group as the more number of families will join the SHG. It is expected that the functioning of the group will be more effective. SHG is normally formed by the groups of females because they are assumed to be good at managing savings, understanding their financial position and utilizing the money with integrity for generating sustainable livelihood. It is also intended that all the members of the group should come from similar social and financial background, then they will empathize more with each other.

The groups are trained to meet in a proper way at least weekly or monthly. If they meet regularly they come to know what is being done and what is being achieved so that they can constantly monitor each other, how the group is performing. All the records of the meeting are kept duly. SHG is also responsible for maintaining the accounts of transactions with the bank and individual loans, re-payments, interest collected, remaining balance etc. This provides the summary of receipts and payments and this record is normally updated in each meeting. Individuals are also provided the passbook to understand the elements of a regular savings. Thus the Self Help Groups (SHG) plays an important role in linking the poor with formal financial system (Layyinaturrobaniyah & et al., 2020).

3.3 Is microfinance is really effective in Poverty Alleviation?

The real question that is appealing to researches is about the effectiveness of the microfinance in poverty alleviation. The institutions of microfinance aim to provide livelihood mechanism to poor so that they establish their basic livelihood venture and start their basic earning cycle and fight against the evil of poverty. The idea of forming self help group is to provide financial assistance to poor using moral collateral so that they utilize the amount for earning their livelihood and repay the loan amount and get a bigger amount for next financing (Bent, 2019).

This model has worked well in fraction with some operational limitations. The high repayment rates of loans and low percentage of defaults highlight the potential feasibility of business model which people doubted earlier and that was a big concern about extending credit to individuals without physical collateral. But it has been proven that if credit is given to worthy and sincere poor there is high probability that they will repay.

However there are certain challenges which affect this scenario, like

- The poor people don't need financial assistance only, they also look for livelihood guidance as they do not have any previous experience for the same.
- The poor people are not literate in maximum cases, hence they doubt on the financial systems as when they put their thumb sign on any paper, they are actually not aware what they are signing for.
- Microfinance has worked well in certain regions of country only, there is a need to understand what is required to be done to make It comprehensively successful.

- It has been found difficult to interact and extend credit to poor people living in urban places as they are so fast in changing their places, it becomes difficult to extend credit to them without any physical collateral.
- There also has been a constant demand for bigger credit after successful repayments, but as all SHG members don’t follow the same success so it becomes difficult to extend credit to all at same pace.

Thus, microfinance is a strong tool for poverty alleviation but there are certain challenges too in the way to achieve the desired mission (Zhang, 2017).

IV Limitations of the Microfinance

However, this Micro Finance has been instrumental in upgrading the performance of the economically weaker section. But there are limitations as the situation of the microfinance is not that great in India when it comes to regional balance. There have been certain States which are having good sanctioning of credit and penetration of financial assistance and some states which are lacking yet in terms of credit disbursement is a concern (Toindepi, 2016).

Though, the repayment rate is good but still needs to be monitored. The major concern in Indian perspective is to ensure that only money is not provided. There has to be enough training to work because the poor people have to learn the art of sustainable livelihood without which the money cannot be utilized for the intended purpose. There have been instances of customers reporting about troublesome processes and this is one of the biggest challenges for basic operations of microfinance (Creswell, 2009).

One more challenge in this particular context remains for the provision of microfinance services to the urban poor because they don't have permanent residence and keep moving on their job assignments so it becomes difficult to provide them financial assistance as compared to rural poor. One more limitation is that poor people are prone to so many financial issues that they have to be provided for adequate comprehension and risk coverage so that they can meet out all such contingencies (Boabeng, 2009)

V Conclusion

In the conclusion can be set that microfinance has been instrumental in providing financial assistance to the economically weaker section of the society. This has been proven that creditworthiness of the poor can be trusted for small amount of loans which can help him or her in developing a sustainable livelihood but apart from financial assistance the poor people also need some training and skills to run a micro business and an information system which help them to be in connect with all the stakeholders (Hadj Miled & Rejeb, 2018).

Therefore, nothing is new in this study; these concepts are very old and dynamic where the poor’s survive their life. Purpose of the study of microfinance create better understanding between the poor’s and financial services and also create the awareness for the development. Main focused on their saving for future benefits, build their confidence and saving habits. Microfinance works to reduce the poverty line and generate the income for the rural poor’s in each level.

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