

Elevating Living Standard through Apposite Utilization of Microfinance

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Poverty is a curse which deprives an individual to earn his bread with honor in the society. That is the reason why countries and societies which are pretentious by poverty are more prone to terrorism and crime. India is a developing country amalgamised with vivid societies and economic classes. In order to diminish the economic gap between rich and poor the government is running many prestigious programs. One of them is providing financial assistance to the potential entrepreneur in the form of micro financing. This paper ponders on the role of the same in reducing the financial disparity among the citizens of India. This research inculcates statistical tools like factor analysis, KMO test, co-relation, regression and descriptive statics. The study advocates that. Micro financing has helped in reducing the financial stress and establishing small entrepreneurs. The study can help to increase the efficiency of microfinance providers as it analyses the constraints faced by them and proposes suggestions to mitigate the situation. It also speaks of the socioeconomic status of the beneficiaries and what impact it has on the poverty elevation, expansion of the business organisation and increased employability in the study area. The future scope of the research has been spent out as well.

Key words: Microfinance, socio-economic status, poverty alleviation, constraints, living standard

INTRODUCTION

The term 'Micro Finance' is of recent origin though we do not find this word in text books dealing with finance and financial management. But the contemporary trend is that it is freely used in the media, national/international forums, literature relating to development and prosperity of relatively disadvantaged sections of the society. In the developmental paradigm, microfinance has evolved as a need-based policy programme to cater to the so far neglected target groups (women, poor, rural, deprived, etc.). Its evolution is based on the concern of all developing countries for empowerment of the poor and the alleviation of poverty. Development organizations and policymakers have included access to credit for poor people as a major aspect of many poverty alleviation programmes. Microfinance programmes in the recent past have become one of the more promising ways to use scarce development funds to achieve the objectives of poverty alleviation. Furthermore, certain microfinance programmes have gained prominence in the development field and beyond. The basic idea of microfinance is simple: if poor people are provided access to financial services, including credit, they may be able to start or expand a micro-enterprise that will allow them to break out of poverty. Thus, micro-finance has become one of the most effective interventions for economic empowerment of the poor. Microfinance is an economic development approach that involves providing financial services, through institutions, to low-income clients, where the market fails to provide appropriate services.

These services provided by the Microfinance Institutions (MFIs) include credit saving and insurance services. Many microfinance institutions provide social intermediation services such as training and education, organizational support, health and skills in line with their development objectives. Microfinance is considered as a tool for socio-economic development of people and for financing small scale activities/technological applications in the rural areas. It provides credit for investment in small scale activities chosen by the poor people, empowers the poor to build self-confidence, allows developing opportunities for self employment to the underserved people, having the broadest utility and the least cost per beneficiary. Microfinance is a credit methodology, which employs effective collateral substitute for short-term and working capital loans to micro-entrepreneurs. 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). Microfinance in India can trace its origins back to the early 1970s when the Self

Employed Women's Association ("SEWA") of the state of Gujarat formed an urban cooperative bank, called the Shri Mahila SEWA Sahakari Bank, with the objective of providing banking services to poor women employed in the unorganized sector in Ahmadabad City, Gujarat. The continuous failure of the formal financial system to deliver credit and other financial services to the poor and the realization of potential role of microfinance in poverty alleviation led to the emergence of microfinance in India. Microfinance is widely recognized as a strategy to fight against inequality, poverty and vulnerability. Microfinance is a broad category of services, which includes microcredit. The terms micro credit and microfinance tend to be used interchangeably to indicate the range of financial services offered to the poor and vulnerable populations, low income individuals/households and micro-enterprises. Microcredit is provision of credit services to poor clients, although microcredit is one of the aspects of microfinance.

Critics often attack microcredit while referring to it indiscriminately as either microcredit or microfinance, due to the broad range of microfinance services. Microfinance is a movement whose object is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers. Many of those who promote microfinance generally believe that such access will help poor people out of poverty, for others, microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses.

Despite some successes witnessed, all promises of microfinance are yet to be fulfilled in reality the system of microfinance has been designed to give low income communities quick and easy access to socio-economic services, and providing opportunities for self-employment and thus a chance to uplift themselves out of poverty. The non-availability of the funds to the poor is considered the major constraint for getting beneficial opportunities. If the funds are made available to the poor then it is expected that they can change their destiny. Since socio-economic development became institutionalized in the form of the objectives guiding development banking,

the elimination of poverty has been proved elusive. Therefore, it is pivotal for a country like India to address such issues of rapid growth of urban as well as rural population viz-a-viz poverty, social security and youth unemployment. In order to address this issue there is a need for the planners and policy makers to think of alternative source of employment for promotion of sustainable livelihoods for the bottom of the pyramid. It is evident that there are limited number of jobs available in the government, private and public sector which is restricted to the educated lot only. In whole World more than 60% of respondents felt that self employment would be the most effective method of escaping poverty.

REVIEW OF LITERATURE

Sita Devi K., Ponnarasi T. & Tamil Selvi G. (2010) analyzed the impact of microfinance on the socio-economic status of the rural poor in Cuddalore District of Tamil Nadu. Imai, Gaiha, Thapa and Anim (2010) concluded that there is no doubt that microfinance is a powerful tool against poverty but some evidence creates a black spot on its performance. Gurses (2009) concluded that microfinance especially microcredit is a powerful tool to reduce poverty. Shastri (2009) revealed that there is no way better than microfinance in the war against poverty. Creating self employment opportunities is one way of attacking poverty and solving the problems of unemployment. Ahmad (2008) concluded that microfinance is fighting against poverty with full force but due to some facts the role of microfinance is decreasing in some areas of Pakistan. If these facts are cured, microfinance will eliminate poverty in a short period of time. Sangwan (2008) empirically ascertained the determinants of financial inclusion and studied the relevance of Self Help Groups (SHGs) in achieving financial inclusion. Kumar, Bohra & Johari (2008) found that microfinance is the only way to overcome poverty in India. Swain (2007) studied the impact of SHG bank linkage programmes on poverty, vulnerability and social development on participants. Bakhtiari (2006) concluded that microcredit and microfinance have received extensive recognition as a strategy for poverty reduction and for economic empowerment particularly in rural areas having poor population. Providing poor people the small amounts of credit at reasonable interest rates give them an opportunity to set up their own business at small scale. Misra (2006) in his paper discussed the factors and theoretical position associated with the evolution of microfinance and then assessed the socio-economic impact of SHG

bank linkage programme of microfinance in India. Sinha (2005) revealed that microfinance is making a significant contribution to both the savings and borrowings of the poor in the country. Chowdhury et al. (2005) examined empirically the impact of micro-credit on poverty in Bangladesh. The focus was on both objective and subjective poverty and particular attention was paid to the length of time, the programme participants had access to micro-credit. Singh (2003) had explained the failure of government initiated anti-poverty programmes and the success of microfinance programme as an effective poverty alleviation strategy in India. Littlefield et al. (2003) reviewed that microfinance programme was very helpful in attaining the millennium development goals through mobilizing various resources to reduce poverty and hunger, eliminate HIV/AIDS and infectious diseases, empower women, educate all children and lower child mortality. Fisher and Sriram (2002) explained that the financial sector developed in India by the end of 1980s was largely supply and target driven. The government sponsored poverty alleviation schemes experienced poor recovery rates with misutilisation of 26 subsidy and lack of observation of repayment ethics. Mishra et al. (2001) studied the impact of rural SHGs on generation of income and employment among the beneficiaries identified the major constraints and problems faced by the groups, and suggested measures for overcoming these problems in Faizabad district of eastern Uttar Pradesh. Gurumoorthy (2000) reported that the SHGs are linked with banks for the internal credit under the projects of rural development. The appraisal consists of bank managers, rural development officers, NGO's, project implementation units visit the groups for providing financial assistance to the respective entrepreneurial activities. Nanda (1999) conducted the impact studies of self help and found that the most outstanding impact of the linkage programme could be the socio-economic empowerment of the poor more particularly the women. International Labour Organization (ILO) (1998) in its various projects concluded that microfinance had successfully increased micro-enterprises and self employment of the clients. Pitt and Khandker (1998) had studied the impact of microfinance on poverty in Bangladesh.

Objectives of the study

1. To know about the constraints faced by the microfinance provider.
2. To study the socio-economic status of beneficiaries in the study area.
3. To study the impact of microfinance on poverty alleviation.

RESEARCH METHODOLOGY

Data collection:

The study has observed the behavior of people associated with the microfinance and small scale industry in J&K. The study is based on comprehending the constraints faced by the microfinance providers, the socio-economic condition of beneficiaries and the imprint it is creating on the poverty alleviation. For this reason both the primary and secondary data have been assimilated in the study.

Primary data:

In this study the researcher has incorporated stratified random sampling method. Where the data was collected from the people associated with microfinance distribution and beneficiaries in the Kathua region. The data was amassed by personally distributing the questionnaire to the above mentioned. Approximately 150 respondents were requested to fill the questionnaire by selecting the alternate choices available in it. After preliminary examinations, out of 150 filled questionnaires only 139 questionnaires were found to be complete and valid, this constituted 92.66 percent response rate for the study.

Secondary data:

The secondary data has been collected in the form of various websites, doctoral thesis, research papers, books and research articles related to the topic. For this purpose, some information from the internet and reliable website was also accrued.

Instrument Development:

The questionnaire comprises of three sections namely 1st section, 2nd section and 3rd section. The study has investigated the behaviour of people associated with microfinance distribution and beneficiaries on five point Likert scale. Where for each item, 1 represents strongly disagree, 2 for disagree, 3 represents neither agree nor disagree, 4 as agree and 5 represents strongly agree. In order to accomplish the objectives of the study the researcher has inculcated 8 statements in the first section, 8 statements in the second section and lastly 6 statements in the third section of the questionnaire.

Analysis

Adequacy and Scale Purification

Checking sampling adequacy and sphericity is essential before conducting Factor Analysis. In order to analyse if the data collected is fit for conducting Factor Analysis, KMO (Kaiser Meyer Oklin) test was executed on the available data.

Table 1.1 KMO and Bartlett's test

Adequacy		0.736
Barlett's Test of Spherity	Approx. Chi-square	196.102
	df	250
	Significance	0.0001

Here, as the value of KMO is 0.736 the researcher has concluded that there is no multicollinearity in the data. Moreover, the data will have no or exceedingly little multiple loading in the rotated factor loading table. Therefore, we have assimilated the available data for the research purpose.

Micro-finance and poverty alleviation

S.No.	Statement	Mean	Standard Deviation
1	You feel that the MFS has helped you to become financially better than earlier.	3.256	.325
2	You feel that you are doing well in your own small business.	3.517	.147
3	You are able to meet your needs better	3.017	.357
4	Your debt is going down day by day after accepting the MFS	2.985	.261
5	You are satisfied with the efficacy of MFS vis-a-vis your business.	3.981	.258
6	You feel that the living standard of your family and yours have improved after implementing MFS.	3.541	.159
7	Your other acquaintances who have accepted MFS have also become financially better than earlier.	2.813	.342

8	All in all you feel that MFS helps to elevate the financial condition of the MFS holder	3.214	.396
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1= Strongly disagree, 2= Disagree, 3 Neither Agree nor Disagree, 4=Agree and 5=Strongly Agree.

The above table that the statement with the highest value is you are satisfied with the efficacy of MFS vis-a-vis your business. (\bar{X} =3.981), followed by you feel that the living standard of your family and yours have improved after implementing MFS. (\bar{X} =3.541), You feel that you are doing well in your own small business. (\bar{X} =3.517), you feel that the MFS has helped you to become financially better than earlier. (\bar{X} =3.256), You are able to meet your needs better (\bar{X} =3.017), Your debt is going down day by day after accepting the MFS (\bar{X} =2.985) and Your other acquaintances who have not accepted MFS have also become financially better than earlier. (\bar{X} =2.813). The overall satisfaction of the respondents associated with the overall feel related to the MFS is (\bar{X} =3.214) with standard deviation of 0.396. The mean value of all variables was found above mid value ($d=2.8$) and less than 5 on 5 point scale, which indicates that customers are moderately satisfied with respect to the assistance provided by Microfinance programs run by the government.

Constraints faced by the MF Providers

S.No.	Statement	Mean	Standard Deviation
1	Did you face lack of government support	2.697	.236
2	Does inappropriate commercialization of MFS effects the smooth functioning of your organization.	3.207	.215
3	Isolation in the area is not causing problems	3.113	.369
4	Lack of proper coverage of the target population due to infrastructural shortage is a problem	3.258	.375
5	You feel that spreading appropriate information among the population is also a challenge.	3.124	.215
6	Lack of well trained employees is a problem	2.987	.395

7	Legal aspects associated with the MFS are also instigating difficulty	2.514	.412
8	Recovery of lent money is another serious problem.	3.281	.437

1= Strongly disagree, 2= Disagree, 3 Neither Agree nor Disagree, 4=Agree and 5=Strongly Agree.

The above table depicts that the statement with the highest value is Recovery of lent money is another serious problem. ($\bar{X}=3.281$), followed by Lack of proper coverage of the target population due to infrastructural shortage is a problem ($\bar{X}=3.258$), Does inappropriate commercialization of MFS effects the smooth functioning of your organization. ($\bar{X}=3.207$), You feel that spreading appropriate information among the population is also a challenge. ($\bar{X}=3.124$), Isolation in the area is not causing problems ($\bar{X}=3.113$), Lack of well trained employees is a problem) ($\bar{X}=2.987$), Did you face lack of government support ($\bar{X}=2.697$). Legal aspects associated with the MFS are also instigating difficulty ($\bar{X}=2.514$). Additionally, the mean value of all variables was found above value ($d=2$) and less than 5 on 5 point scale.

Demographics

The demographics analysis pertaining to the respondents expounds that majority of the respondents were males and their descending age group hierarchy starts from 31 to 35 followed by 36 to 40, 41 and above, 26 to 30, 21 to 25 and finally 18 to 20. As far as the monthly income is concerned the descending order is 16 K to 20K followed by 21K to 24K, 6k to 10K, 26K and above and finally 0 to 5K. Considering, religion maximum respondents are Hindu followed by Sikh, then Muslim, Christian, Buddhist and lastly by others.

Suggestions:

1. More professional training institutes needs to be opened in the remote areas
2. The laws and the legal issues need to be further simplified for swift work and assistance
3. More target oriented management system needs to be incorporated by the concerned government departments.

4. Free or affordable consultancy needs to be established by the government so that regular and specific guidance pertaining to debit management as well as venture management can be rendered to the MFP beneficiaries.
5. Better connectivity and infrastructural development is needed to be further fostered.

Scope for Further Research

The study is equally useful for students, academicians and the people who are looking forward to set up their own business. Moreover, the scope of the study is open for the future research. The researchers have made the following proposals for the same.

1. A separate study can be conducted to know the effect of MFP on employability in the study area.
2. An analysis can also be performed to evaluate the effect of demographics on MFP policy.
3. A comparative study can be done among different MFP devised and initiated in different states of India and abroad.

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