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Microfinance A tool for poverty alleviation a study of Punjab

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Abstract

Microfinance is a very efficient tool for the provision of financial services to the poor from last two decades. The term became a social trendsetter to prefer financial services to the poor, who were previously considered non bankable as they have no security or property to give to the bank or to the money lenders. Microfinance has grown in the last few years and recognised as a home name in India by giving a ray of hope to the people living below poverty line, as they do not have any property or valuable to avail banking services. Microfinance has acts as a boon by providing money on social collateral i.e. a group of people give witness or guarantee that the money borrowed will not become a bad debt, if not paid by the borrower then the money will be paid by other group members. There was significantly positive impact of MFI on the living standard of rural masses, in general and rural poor in particular. The SHGs are the mainstay of the poor and landless families. From this point it can be said that SHGs might be the up lifter for the downtrodden.

Introduction

Microfinance also helps safeguard poor household women against the extreme vulnerability that characterises their everyday existence. Loans, savings and insurance all elements of microfinance help smooth-out income fluctuations and maintain consumption levels even during the lean periods. UNDP has defined two crucial routes as imperative for empowerment. First is social mobilization and collective agency, as poor women often need the basic capabilities and self confidence to counter and challenge existing disparities and barriers against them. Second, the process of social mobilization needs to be accompanied by economic security. One strategy which has been found to be promising is participatory institution building in the self help groups, often coupled with saving and microcredit loans (ESCAP, 2002). The world bank has suggested that empowerment of women should be a key aspect of social development programs (World Bank, 2001).

The impact of Microfinance program through SHG is remarkable. The high level of costs is often mentioned to explain the reluctance of the conservative or conventional banks to provide credit to the poor. Given small sizes of the loans, conventional banks simply do not think it is worth the risk or the high cost of appraising the loan (Akula, 2010). Organisations like Hindustan Lever have looked at the potential of these groups as a channel for retailing and have launched a programme called 'Project Shakti' to tap the smaller villages through the micro credit channel. Another discovery followed, that the poor can and will save, and can indeed uses a wide range of financial services such as payment facilities and insurance products.



Review of Literature

Morduch (2002), in the study titled, “Analysis of the effects of Microfinance on Poverty Reduction” highlighted evidence to support the positive impact of microfinance on poverty reduction in particular. There is overwhelming evidence substantiating a beneficial effect on income smoothing and increases to income. There is less evidence to support a positive impact on health, nutritional status and primary schooling attendance. The study concluded microfinance as an instrument, under the right conditions, fits the needs of a broad range of the population including the poorest living below the poverty line supported by empirical indications that the poorest can benefit from microfinance from both an economic and social well-being point-of-view, without jeopardizing the financial sustainability of MFIs. **Khawari(2004)**, in the study titled “Microfinance: How does it hold its Promises?” opined that poverty alleviation has been the main target of developmental projects worldwide but only a few ideas have stirred so much attention in the last two decades. One of them is the provision of microfinance through specialised institutions. The study observed the establishment of microfinance institutions (MFIs) worldwide for the provision of collateral free loans to the poor through mechanisms and instruments which are not known to normal commercial banks and with these. MFIs have set new milestones in the field of financial services. The study concluded that 900 million households in the less developed countries left without any access to formal financial services and this might be the key to address market failures in the financial landscape. **Rabbaniand Sulaiman (2004)**, in the study titled, “Financing SMEs and its effect on Employment Generation” revealed innovations in addressing the credit market failures faced by poor households through microfinance has been a major development breakthrough of recent times. The study critically analyzed the market segment to support both growth and poverty alleviation through employment generation and suggested demand and supply side changes in the traditional microfinance market. The study concluded that more than fifty percent of the new jobs are created by repeat borrowers and represent 38 percent of total number of enterprises and suggested that the first loan has a lower impact on creation of new jobs than successive ones. Thus the importance of sustained access to finance appears to be important from an employment generation perspective of SMEs. **Sadegh (2006)**, in the study titled, “Microfinance and Poverty Reduction: Some International Evidence” suggested that microfinance is not effecting straight on poverty reduction, because poverty is a complex phenomenon and have many constraints that the poor in general have to cope with substitution effect and where additional working capital acquired through loans enables family labour to be replaced by hired labour, the net effect is an increase in child labour within households. The study concluded that widespread poverty and omnipresent child labor create significant barriers to education in India and these barriers will require a re-evaluation of credit policy, ensuring that mechanisms intended to reduce poverty are not undermining themselves through inadvertently discouraging child education and expanding access to credit has been a key element of development strategies across the world and highlighted the capacity for loans to induce credit-stimulated child labor, and reveals the need for institutions to devise new strategies for human capital development through financial services.



Microfinance and Poverty Alleviation

Poverty can be explained through individual income, family income and through financial vulnerability of the participant households. The study also takes into consideration the impact of microfinance programme on income inequalities.

Impact of mfi on various aspects of life

It was decided to evaluate the impact of MFI on various aspects of life such as family income, self education, children education, housing quality, employment, household assets, food buying behavior, etc. It was done so to see the effectiveness of MFI through SHGs.

Impact of MFI on Income of the Family

The data given in Table 1.1 showed that on the overall, the average family income per annum was Rs. 1.54 lakh before joining SHG which increased significantly to Rs. 1.66 lakh after joining SHG. Zone wise analysis revealed that the annual family income increased significantly from Rs. 1.50 lakh to Rs. 1.61 lakh in Zone-I, Rs. 1.55 lakh to Rs. 1.67 lakh in Zone-II and Rs. 1.54 lakh to Rs. 1.69 lakh in Zone-III. This showed that SHGs emerged as income enhancer for the poor people in rural Punjab.

Table 1.1 Impact of MFI on Income of the Family on Various Aspects of Quality of Life

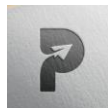
Quality of Life	Zone-I	Zone-II	Zone-III	Overall
Income(Mean □ SD)	Mean □ SD	Mean □ SD	Mean □ SD	Mean □ SD
Before	1.50 □ 0.25	1.55 □ 0.57	1.54 □ 0.59	1.54 □ 0.56
After	1.61 □ 0.55	1.67 □ 0.57	1.69 □ 0.62	1.66 □ 0.58
t-value	2.43*	2.16*	2.51*	2.34*

Impact of Microfinance on Quality of Life

Various aspects of quality of life such as self-education, children education, housing quality, employment and household assets were assessed for extent of improvement after joining SHGs. The results are shown in Table 5.3.2. It can be seen that after joining SHG, 25.20 percent of the total members reported that they got education. The proportion of members who got self education after joining SHG was 29.51 percent in Zone-I, 25.19 percent in Zone-II and 20.37 percent in Zone-III.

Table 1.2 Improvement in Various Aspects of Life after Joining MFI

Quality of Life	Zone-I		Zone-II		Zone-III		Overall	
	No.	%age	No.	%age	No.	%age	No.	%age
Self-Education	18	29.51	34	25.19	11	20.37	63	25.20
Children Education	29	47.54	69	51.11	24	44.44	122	48.80
Housing Quality	14	22.95	38	28.15	12	22.22	64	25.60
Household Assets	18	29.51	49	36.30	13	24.07	80	32.00



The education of children of 48.80 percent of total members improved after joining SHG while this figure came to be 47.54, 51.11 and 44.44 percent in Zone-I, Zone-II and Zone-III respectively. The education of children improved in many ways like school drop outs again joined school, never to school now to school, poor quality to better quality education, etc. The housing quality of 25.60 percent of total members also improved. This was 22.95 percent in Zone-I, 28.15 percent in Zone-II and 22.22 percent in zone-III. Some houses were fully kutcha but converted into partially pucca while some houses already semi-pucca converted into fully pucca houses.

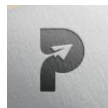
The household assets like electronics, electrical, utensils, furniture, media devices, beddings, etc. of 32.00 percent of members increased after joining SHG. It was 29.51 percent in Zone-I, 36.30 percent in Zone-II and 24.07 percent in Zone-III. The analysis revealed that there was lot of improvement in different aspects of quality of life after joining SHGs in the study area.

Impact of MFI on Food Buying Behavior

The respondents were asked to register their opinion of changing food-buying behavior after joining SHG. Three major items were considered such as milk, green vegetables and non-vegetarian items. They responded in terms of frequency of buying i.e. daily, weekly, occasionally and never. These attributes were assigned weights in the order of 3,2,1 and 0. Weighted mean score of frequency of buying were worked out and the same are presented in Table 5.3.2. A perusal of Table 5.3.2 showed that before joining SHG, the frequency of buying milk was 2.76 which increased significantly to 2.94 in case of all the members. It increased significantly from 2.77 to 2.93 in Zone-I, 2.79 to 2.97 in Zone-II and from 2.65 to 2.88 in Zone-III. The increase in all the situations was significant as indicated by the calculated t-values.

Table 1.3
Impact of MFI on Food Buying Behavior of the Respondents

Food Buying Behavior	Zone-I		Zone-II		Zone-III		Overall	
Milk(Mean □ SD)	Mean □ SD		Mean □ SD		Mean □ SD		Mean □ SD	
Before	2.77 □ 0.46		2.79 □ 0.42		2.65 □ 0.52		2.75 □ 0.46	
After	2.93 □ 0.37		2.97 □ 0.34		2.88 □ 0.42		2.94 □ 0.37	
t-value	2.21*		2.53*		2.34*		2.26*	
Green Vegetables								
Before	2.08 □ 0.53		2.13 □ 0.46		2.22 □ 0.60		2.14 □ 0.51	
After	2.41 □ 0.50		2.51 □ 0.47		2.72 □ 0.53		2.53 □ 0.49	
t-value	2.14*		2.09*		3.67**		2.15*	
Non-Vegetarian								
Before	0.70 □ 0.76		0.67 □ 0.77		0.49 □ 0.72		0.64 □ 0.76	
After	0.98 □ 0.88		1.03 □ 0.89		0.87 □ 0.92		0.98 □ 0.89	
t-value	1.71		2.31*		2.06*		2.42*	



The average frequency of buying green vegetables was 2.14 before joining SHG which increased to 2.53 after joining the SHG. The increase was statistically significant. In Zone-I, it increased significantly from 2.08 to 2.41, in Zone-II from 2.13 to 2.51 and in Zone-III from 2.22 to 2.72. The significant increase in the buying of green vegetables indicated that the living standard of members improved after joining SHG. The average frequency of buying non-vegetarian items increased significantly from 0.64 to 0.98 in case of total members. The increase in buying frequency was also significant in Zone-II and Zone-III, while the increase was non-significant in Zone-I. It may be due to the fact that in general the consumption of non-vegetarian items is much lower in Zone-I as compared to that in Zone-II and Zone-III.

The above analysis highlighted that there was significantly positive impact of MFI on the living standard of rural masses, in general and rural poor in particular.

Impact of MFI on the Access to Health Care Services

The respondents were asked to register their opinion about the access to different health care services after joining SHG. They responded in terms of 'Strongly Agree', 'Agree', 'Neutral', 'Disagree' and 'Strongly Disagree'. After giving score to the attributes as 5,4,3,2 and 1, mean scores were computed and the same have been presented in Table 1.4 The average score of access to maternity services came to be 4.72 on the overall, while it was 4.72, 4.72 and 4.71 in Zone-I, Zone-II and Zone-III respectively. This showed that the respondents strongly agree that their access to maternity services has increased after joining SHG.

Table 1.4 Extent of Access to Health Care Services after Joining MFI

Statement	Zone-I	Zone-II	Zone-III	Overall	F-ratio
	Mean □ SD	Mean □ SD	Mean □ SD	Mean □ SD	
Access to maternity services has increased	4.72 □ 0.61	4.72 □ 0.55	4.71 □ 0.69	4.72 □ 0.60	0.02
Awareness of health services have increased	4.77 □ 0.59	4.78 □ 0.52	4.79 □ 0.71	4.77 □ 0.57	0.03
Facility for immunization of child has increased	4.81 □ 0.48	4.80 □ 0.56	4.37 □ 0.44	4.81 □ 0.61	4.31**
Facility for immunization of Mother has increased	4.52 □ 0.42	4.85 □ 0.48	4.11 □ 0.52	4.13 □ 0.67	5.19**



Access to sanitation facility has increased	4.43□□0.54	4.62□□0.63	4.34□□0.47	4.51□□0.71	1.47
Access to safe drinking water has increased	4.49□□0.51	4.53□□0.56	4.23□□0.63	4.38□□0.34	1.28

When asked whether their awareness about health services increased after joining SHG, the average score were 4.77 in Zone-I, 4.78 in Zone-II and 4.79 in Zone-III while it came to be 4.77 on the overall. This indicated that the respondents strongly agree that their awareness about health services increased after joining SHG. Similarly, the respondents were found to be strongly agreeing on the increase in facility for immunization of children after joining SHG as its score was near to 5 which stands for strong agreement. However, the extent of agreement was significantly higher in Zone-I and Zone-II as compared to Zone-III as conveyed by the F-ratio (4.31). The average score of agreement on the increase in the facility for immunization of mother worked at 4.13 on the overall, while it came to be 4.52, 4.85 and 4.11 in Zone-I, Zone-II and Zone-III respectively. However, the extent of agreement was significantly higher in Zone-I and Zone-II as compared to Zone-III as conveyed by the F-ratio (5.19).

The average score indicated that the respondents agree upon the increase in facility for immunization of mother after joining SHG. The analysis further revealed that the respondents strongly agree on the increase in access to sanitation facility after joining SHG as the overall average score of agreement came to be 4.51 while it was 4.43, 4.62 and 4.34 in case of Zone-I, Zone-II and Zone-III respectively. The average score of agreement on the increase in access to safe drinking water after joining SHG came to be 4.38. This showed that the respondents generally agreed that their access to safe drinking water increased after joining SHG. The average score was 4.49 in Zone-I, 4.53 in Zone-II and 4.23 in Zone-III.

The study highlighted that their awareness and access to different health care services increased after joining SHG. This reaffirmed that SHG is there for the benefits of the rural poor. These should be encouraged and easily accessible to each and every poor in the rural Punjab.

Conclusion The analysis revealed that there was lot of improvement in different aspects of quality of life after joining SHGs in the study area. There was significantly positive impact of MFI on the living standard of rural masses, in general and rural poor in particular. The SHGs are the mainstay of the poor and landless families. From this point it can be said that SHGs might be the up lifter for the downtrodden. SHGs emerged as income enhancer for the poor people in rural Punjab and NGOs are doing a good job to inspire the people to join SHGs in order to improve upon their socio-economic conditions. The study highlighted that members' awareness and access to different health care services increased after joining SHG. This reaffirmed that SHG is there for the benefits of the rural poor. These should be encouraged and easily approachable to each and every poor in the rural Punjab.



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