International Journal of Science and Research (IJSR)
ISSN (Online): 2319-7064
Index Copernicus Value (2013): 6.14 | Impact Factor (2013): 4.438

Microfinance: A Tool for Poverty Alleviation, A Case study of District Rajouri

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Abstract: ***The present study was designed to examine the role and impact of microfinance on poverty alleviation in the study area. To know how microfinance does increased the income level and standard of the poor from low income level to high income. Microfinance was proved to be a great tool to fight against poverty and to empower the low income households and groups in the study area. Microfinance proved to be a great tool for economic development and for alleviating poverty from the society. It also helped in pushing up low income groups of society, community and merge as unique blend for financial and social intermediation. The study is carried out in four tehsils of Rajouri namely: Budhal, Kalakote, Darhal and Nowshera and the sample size for the study is 50% of the total beneficiaries from different MFI'S. The results of the study also showed that microfinance scheme helped poor people to enhance their living standard and provide them financial opportunities for better life. Microfinance was the key strategy that leads to immediate revitalization of economy; enhance their living standards, women empowerment and employment generation.***

Keywords: Microfinance, living standard, impact, employment generation, poverty alleviation MFI's, strategy.

1. 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 now a day, 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 policy makers 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. The 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 Provide credit for investment in small scale activities chosen by the poor people, empower the poor to build self-confidence, allow 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.

2. Review of Literature

Sita Devi K., PonnarasiT. &Tamil SelviG. (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 Annim (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. Kumar, Bohra & Johari (2008) found that microfinance is the only way to overcome poverty in India..Misra (2006) in his paper discussed the factors and theoretical position associated with 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. 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. Pitt and Khandker (1998) had studied the impact of microfinance on poverty in Bangladesh.

3. Objectives of the study

1) To examine the depth of outreach and level of participation of poor in the microfinance
2) Schemes in district Rajouri.
3) To identify the factors that influences the level of participation of poor.
4) To evaluate the impact of microfinance schemes upon the poor in terms of income, savings and employment generation in the study area.
5) To examine the extent to which microfinance schemes have contributed to poverty alleviation and welfare of beneficiaries in district Rajouri.

4. Research Methodology

District Rajouri is selected for the present study, As per the Census of 2011, the population below poverty line is 1, 33,843. Rajouri has an average literacy rate of68.54%, out of which male literacy is 78.38% and female literacy is 57.20.The total number of units/beneficiaries of the study area worked out from the relevant sources comes to be 300, where the samples are heterogeneous in nature. The sample size for the study shall be 50% of the universe. The respondents shall be selected based on random sampling technique.

Sources of Data: The study is carried out in district Rajouri which is a rural district of Jammu and Kashmir state. Both primary and secondary data's are used. Primary data is enumerated from a field survey in the study region. Secondary data is collected from NGOs' reports and other documents.

Sampling Method: the respondents are selected randomly for data collection.

Sample Size: 150 samples have been collected for the research from all the four rural tehsils of district Rajouri.

Method of Data Collection: A structured interview schedule was prepared and used for collecting data from the rural SHG women members who are engaged in Micro enterprises through microfinance and from different microfinance beneficiaries.

5. Limitation of the Present Study

1) The data was collected only from those who were engaged in income generating activities in the study area.
2) The study is limited to rural area of district Rajouri .Hence the results may not be applicable to urban area.

6. Findings of the Study

The following points discussed the findings of the study:

1. The beneficiaries who are engaged in microfinance schemes have more than three years of participation.
2. It is found from the data that all the beneficiaries were in the state BPL list and a majority of them have no credit and savings in the pre-microfinance period.
3. It is found that more than 70% beneficiaries of microfinance schemes are comes from ST, SC, OBC& RBA families.
4. The different variables such as Age, occupation, caste, Qualification and place of residence, BPL/APL families and years of participation are some of the significant factors that affect the level and amount of borrowing of microfinance.
5. It is found that those beneficiaries who are economically better. They get greater benefits then the weaker clients in the study area.
6. The borrowing of the APL client is more than the borrowing of BPL beneficiaries.
7. The years of participation are also proved to be an important factor in the way of borrowing of microfinance because the one year increased in the participation also increased the total amount of borrowing.
8. The interest rate against microfinance loan is between 5 to 13%.
9. It is found that more than 77% of the beneficiaries utilized their loans for productive purposes.
10. The main type of income generating activities carried out by the clients are animal husbandry, weaving, poultry farming, dairy farming, manufacturing and in agricultural activity.
11. It is found that in the district Rajouri most of the beneficiaries of microfinance schemes were unemployed during the pre-microfinance period but due to the involvement of microfinance schemes they get engaged in some sort work up to some extent.
12. It is also found that microfinance schemes in calculated a habit of regular saving among the beneficiaries.
13. The monthly income of microfinance participant is also increased in comparison with those who are not engaged in such schemes and who are non-participants.

7. Conclusion

From the above discussed points it's to be cleared that microfinance plays an important role in the upliftment of the poor and help in increasing their level of income and in their standard of living, so with the help of following point we will conclude the study:

1) There is no doubt about this that microfinance plays a positive role in alleviating poverty in the study area and increased in the standard of living of the households of the area.
2) The entrance of micro and short term loans provided by microfinance institutions helps in poverty alleviation as well as in upliftment of the socio-economic status of the poor peoples.
3) In rural area like Rajouri it seriously needed an efficient microfinance Strategy for economic development and empowerment of low income households.
4) Microfinance plays a positive role in provision of employment to the poor masses of the study area.
5) 5.It is also concluded from the above study that Microfinance is proved to be key strategy that leads to economic development of microfinance beneficiaries, improved their standard of living and helps in women empowerment in the area.

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