Chapter 34
Reflections on Microfinance:
Poverty Nexus From India – An Empirical Inquest

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ABSTRACT

Microfinance has become the latest buzzword in the credit markets where it shoulders the responsibility of alleviating poverty coupled with socio-economic development. Dealing with microfinance coupled with the issue of poverty reduction, the first concern is to handle the twin objectives of poverty alleviation and achievement of financial self-sufficiency, which are often at loggerheads. To begin with, the present chapter constructs a five-dimensional human poverty index (HPI) in terms of the rate of unemployment, state wise illiteracy rate, state-wise infant mortality rate, state-wise percentage of population below the poverty line, and the percentage of population not having an access to electricity for the states across India. Thus, this will serve as an index for the extent of poverty. Consequently, a fall in the value of the index actually implies poverty alleviation. This empirical model does not justify the hypothesis that "microfinance reduces poverty" at the macro level using cross-state panel data for India.

INTRODUCTION

If you think creating a world without any poverty is impossible; let's do it. Because it is the right thing to do.

The only place where poverty should be is in museums.

(Muhammad Yunus, as cited by Yunus Centre, 2011)

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But are these words of Professor Yunus relevant in the Indian context given every 1 in 5 Indian is poor? Can microfinance institutions solve the problem? So it boils down to "credit" playing a vital role in rural development and poverty alleviation (Pitt & Khandker, 1998). Although the banking system has experienced phenomenal growth in terms of its geographical proliferation, creation of deposits, etc. bank credit remains on the whole inaccessible for the poor. After more than six decades of independence, the formal financial institutions have not been able to ensure better and uniform distribution of credit. The reluctance shown by the Indian poor to engage themselves in formal banking sector has made the things even more worse. A continuous tryst with poverty and lack of adequate rural credit were one of the major constraints in the economic upliftment of rural households in the pre globalization era. As history of development economics reveals in the Indian context that not all poverty eradication programs have been successful in reaching the poorest of the poor. But the microfinance revolution has come out as one of those gifted programmes which not only requires less investment but can also serve a sizeable portion of the poor that conventional banking generally finds unprofitable (Aghion & Morduch, 2004). Some recent statistics suggest that post globalization, there is a lot of enthusiasm that has been building up about a set of remarkable financial institutions flourishing in every nook and corner of the country. These institutions having a collective common goal of driving financial inclusion have all come together under the banner of "microfinance". Microfinance institutions (MFIs) at present span across the 29 States, 4 Union Territories and 588 districts in India. The reported 166 MFIs have a branch network of with 12,221 employees and has reached 39 million clients having an outstanding loan portfolio of Rs. 63,853 crore in 2016. This number of clients is the highest till date. This includes a managed portfolio of Rs. 16,914 crore. The average loan outstanding per borrower stood at Rs. 11,425 and 94 per cent of loans were used for income generation purposes. Interestingly, women borrowers constitute 97 per cent of the total clientele of MFIs. In terms of outreach and reaching out to clients is concerned, it grew by 8 per cent with the Southern region continuing to be the best performer followed by the Eastern region. In addition, growth rates have improved in the Northeastern and Central regions. Does it mean that poverty has gone down?

The main idea of the paper is to emphasize the role played by the formal Self Help Group (SHG) – Bank Linkage model in its pathway of poverty eradication which commenced with a set of guidelines issued by NABARD in 1992. Given this, Self Help Group Bank Linkage Programme (SBLP) is a modest step in bringing the "unbanked" poor to the formal banking system and generating healthier livelihood opportunities by means of access to credit from these financial institutions. Figure 1 clearly illustrates that the total number of SHGs saving-linked with banks stands at 16.3 lakhs with the savings amount of the SHGs linked with banks is Rs. 27582 crore. Even the non-performing assets of these MFIs have declined by 0.59 per cent as compared to 2015 (Sa-Dhan, 2016). With such impressive numbers, by this time, poverty should have come down at its minimum but table 1 tells something else. Poverty is such a deep rooted problem in the Indian context, the key is to re-examine the relationship between microfinance and poverty.

In spite of such a remarkable performance, there is still some doubt regarding the liaison between microfinance and poverty and this paper provides some new empirical evidence on the poverty-reducing effects of MFIs across states in India. The existing studies in the context of Asia have shown great disparity in terms of impact of microfinance having a considerable positive impact in Bangladesh to almost no effect in case of Thailand (Cull et al., 2009). Given this backdrop, this paper argues that the future innovations in the microfinance sector will have an impact on the financial condition of the poor households. In a country like India, poverty as a social evil has been grabbing the eyeballs of policy makers

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