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Microfinance and its Impact on Living Standard of Urban Poor

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A B S T R A C T

Microfinance refers to a plethora of financial facilities like savings, deposits, loans, insurance and remittance made available to the under privileged and economically weaker sections of society. From small efforts of starting informal self-help groups (SHG) to accessing the much-needed savings and credit services in the early 1980s, the microfinance sector has grown significantly today. Its relevance can be gauged from the fact that micro-credit is also a part of the priority sector agenda followed by the government since many years. In the current day scenario, it has emerged as a powerful tool of financial inclusion and poverty alleviation. If used judiciously, it can stimulate economic growth in developing nations such as ours. However, the focus of microfinance and microcredit in particular, has always been on rural populace with special attention to women entrepreneurs and agriculture sector. The urban population has been largely ignored. This paper is an attempt to measure the impact of micro-credit on the income and standard of living of the poor of Delhi/ NCR. For the purpose of this study, data has been collected from a sample of 110 respondents. The study infers that majority of the urban poor have availed loans for short term mainly for consumption purpose and that too from money lenders. They do not have recourse to credit from formal institutional lenders due to lack of awareness, accessibility as well as unavailability of collateral which they felt is required by the latter. The study infers that there is a vast untapped but bankable, yet largely uninformed micro-credit market in urban areas. The need is to connect with them, inform and educate them about the benefits of microfinance.

Introduction

Indian financial systems have witnessed rapid expansion of formal credit in the past few years. Yet, a large part of our populace which is still largely dependent on money lenders has been, to a large extent, ignored from this growth trajectory. This relegation is palpable in the case of socially and economically weaker sections of our society like marginal farmers, small traders, landless labourers and artisans whose propensity to save is insignificant for the banking sector.

In this backdrop, microfinance has evolved as an important tool for poverty alleviation and financial inclusion. The concept of microfinance was introduced by the famous economist and Nobel Laureate Prof. Mohammed Yunus with the establishment of Grameen Bank, Bangladesh in 1976. In India, initiated by NABARD along with commercial banks and NGOs, this segment has evolved with private sector participation.

Microfinance refers to a plethora of financial facilities like savings, deposits, loans, insurance and remittance made available to the under privileged and economically weaker masses. However, focus of microfinance sector has mainly been on micro-credit, with other products still being in nascent stage.

As per Reserve Bank of India (RBI), micro credit is defined as the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards. Micro Credit institutions provide these facilities.

Self Help Groups (SHGs) model is the dominant microfinance approach in India. SHG is an association of 15 to 20 people, from homogeneous groups with similar social background and occupation, formed to realize common objectives. In SHGs, the members pool their savings on a daily/weekly basis for a prefixed amount for the benefit of all the group members. The SHGs then provide loans to members for a prefixed period. External financial assistance by Microfinance Institutions (MFIs) or banks augments the capital available to the revolving fund of these SHGs. Infact, NABARD originated and facilitated SHG-Bank Linkage program, a program which involvesdirect lending by commercial banks to SHGs rather than via line of credit to MFIs.

As per RBI guidelines, micro credit and bank lending to SHGs should be included in branch credit plan, block credit plan, district credit plan and state credit plan of each bank and utmost priority should be accorded to the sector in preparation of these plans. These should also form an integral part of the bank's corporate credit plan.The relevance of micro credit can further be highlighted by the fact that it is a part of the priority sector agenda followed by the Indian government since many years.

Robinson (2001) gave a very credible definition of microfinance. He said that "Microfinance refers to small scale financial services for both credit and deposit-that are provided to people who farm or fish or herd; operate small or microenterprises where goods are produced, recycled, repaired or traded; provide services; work for wages or commissions; gain income from renting out small amount of land, vehicle, draft animals, or machinery and tools; and to other individuals and local groups in developing countries in both rural and urban areas"

Hence, the focus should be on both rural and urban underprivileged. However, the focus of microfinance and microcredit in particular, has always been on rural strata with special attention to women entrepreneurs and agriculture sector. The urban population has been largely ignored. If we want to achieve financial inclusion and economic development, we need to address the needs of all sections of society.

Literature

Mahanta, Padmalochan, Panda Gitanjali and Sreekumar (2012) opined that there are three distinct phases of microfinance. First, growth of microfinance in India and some other countries; second contribution of NABARD and other Nationalized Banks in growth of SHGs and Grameen Bank and third, role of government in framing legislation for protection of rights of micro borrowers as well as regulation, development and guidance of the various MFIs and NGOs working in the field of microcredit.

Nasir, Sibghatullah (2013) was of the view that the major disconnect in operations of MFIs were on account of credit delivery, lack of product diversification, customer duplications, financing consumption loan demand with less thrust on enterprise loans, collection of savings/loans and very high interest rate in micro finance sector; all of which are clear indicators that the situation is moving without any direction.

Emerlson Moses (2011) has observed that micro finance has emerged as a catalyst of rural development, especially in the overpopulated countries like India.

Devraja T.S. (2011) has studied the India's achievement of the Millennium Development Goals of halving the population of poor by 2015 as well as achieving a broad based economic growth also hinges on a successful poverty alleviation strategy. In this backdrop, the impressive gains made by SHG-Bank linkage programme in coverage of rural population with financial services offers a ray of hope.

Kumar, Bohra, Johari (2010) observed that India, the second populated country in the world, falls under low income class Being agrarian in nature, there is chronic underemployment with very low per capita income resulting in abject poverty, low rate of education, and exploitation. This high incidence of poverty has led to a low asset base and therefore low production capacity. All these factors put together have translated into very low access to institutionalized credit particularly from commercial banks.

Chawla, Sonia (2013) analyzed that micro-finance is one of the ways of building the capacities of the poor and developing them to self-employment activities by providing financial services. Creating self-employment opportunities through micro finance is one way of attacking poverty and solvingthe problems of unemployment. The micro finance movement has almost assume d the shape of an industry, embracing thousands of NGOs/MFIs providing financial and non-financial supports to the poor in an effort to lift them out of poverty. These institutions have assumed the responsibility of making available much needed micro credit to the poor section of the society for generating the self-employment.

Roy, Satyajit (2011) was of the view that microfinance is widely framed as a purely micro issue, centered on the motivation and behavior of specific users and providers. Microfinance was viewed positively as a force for promoting financial inclusion by 'making markets work for the poor,' and at the same time viewed negatively as a smokescreen behind which the state can retreat from a 'social banking' strategy of mobilizing much larger resources to challenge pervasive and chronic indebtedness.

The mainobjectives of this study includes, to study the customer profile availing micro-credit in urban areas. To measure the impact of micro-credit on standard of living and income level of the poor. To analyze the awareness and bankability of urban poor in context of loans from MFIs &Non-banking finance companies (NBFCs)/Banks

Research Methodology

For the purpose of the study primary and secondary data has been collected. Exploratory and Conclusive Research Design have been used. The data has been collected using sampling techniques through a structured questionnaire/schedule from 110respondents living in Noida and surrounding areas of Delhi. The respondents belong to the urban poor category and typically work as house maids, security guards, car cleaners, or earn their livelihood through pulling rickshaws, tea stalls, fruit and vegetable vending and the like. Suitable statistical tools have been used for the study.

Secondary data comprises of publications of various researchers in similar field.

Outcome & Results

Historically, the poor in India have always relied on moneylenders or zamindaars for their financial requirements. In case the amount involved was less, they would also seek the assistance of their friends, relatives or known people for loans. Even though NABARD & SIDBI and commercial banks of late, have been providing micro-credit in the formal sector, the trend of availing loans from money lenders still prevails not only in rural parts of the country but in urban India as well.

Of the 110 urban poor covered under this study, 72 were men and 38 were women. All of them were progressive in nature and aware of modern day concepts like education and small families.

The respondents, despite coming from poor backgrounds themselves, were educated, mostly both partners were working, had small families and were educating their children too. These facts can be corroboratedfrom the data collected which shows that amongst them, 41% were educated till middle level, 47% had completed their education till tenth standard and 12% had studied till twelfth standard; 58% had income from other sources, being the income of their earning spouses; 74% respondents had 1 or 2 children and 74% were sending their children to schools. The 26% respondents who were not educating their children, includes that strata that do not have any children (9%).

The study reveals that the small loans availed by them were mainly for productive and not consumption purpose.

40% of the loans were availed for starting their own small business or expanding an existing one, 19% for repayment of more expensive loans, 9% for educating their children and 4% for construction of house. 28% of loans alone were taken for healthcare or marriage in the family. Infact, with their meagre income levels, taking a loan is a necessity for them as can be seen from the fact that 71% of them had taken more than one loan. However, what is even more noteworthy is that they have been able to enhance their family income by starting new ventures and enhancing disposable income in their hands by productive use of loans availed and substituting high cost loans with low-cost alternatives (78%), educate their children and purchase the asset (100%) they needed to improve earnings and thereby standard of living.

Since the profile of urban micro-credit borrowers comes from the non-income proof, financially excluded strata of society, the recourse available to them is the financers of the unorganized sector who levy exorbitant rate of interest on their customers. Despite this fact, 68% of the respondents had approached a moneylender, who charge rate as high as 3%-5% p.m. for requirement of funds. 8% of the respondents, who mainly had loan requirement uptoRs 2000, had approached friends and family. It was only the remaining 24% who had taken recourse of NBFC/Banks.

Table.1 Purpose of availing micro-credit

Purpose of loan	Respondents	Percentage
New/ Expansion of Business	44	40.00%
Education	10	9.09%
Marriage	15	13.64%
Medical	16	14.55%
Repay Loan	21	19.09%
Construction / Purchase house	4	3.64%
Total	110	100.00%

Table.2 Sources of Micro- loans

Sources of Loan	Respondents	%
Money Lender	75	68.42
Friend & Family	9	7.89
NBFC/Bank	26	23.68
Total	110	100.00

Table.3 Reasons for apathy towards formal lending institutions

Reasons for not wanting to avail loans from formal sector	Respondents	Percentage
Lack of Awareness of products & processes	17	15.45%
Absence of income documents	45	40.91%
Absence of security/guarantor	19	17.27%
Long time for release of funds	23	20.91%
Fear of bank/NBFCs	6	5.45%
Total	110	100%

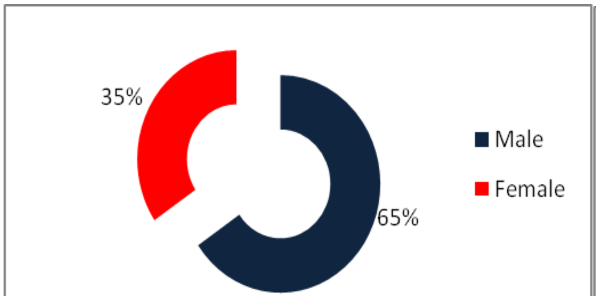


Chart1: Gender of respondents

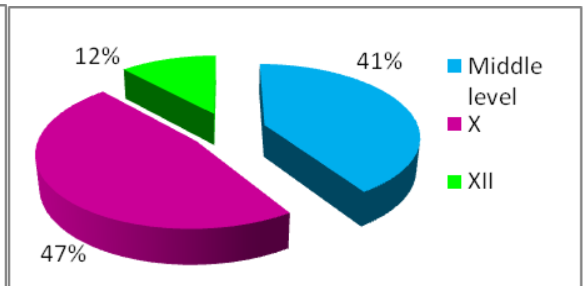


Chart 2: Education Level

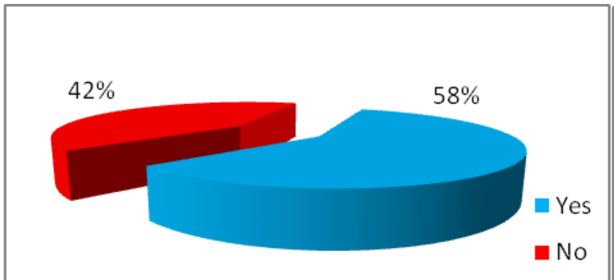


Chart 3: Other Income Source

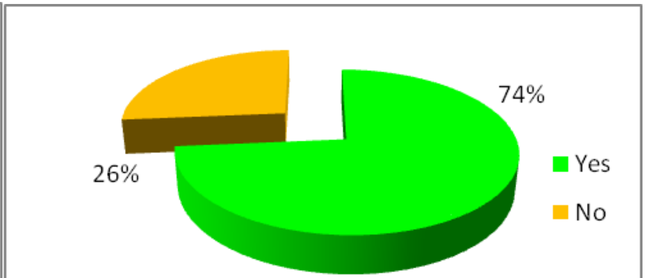
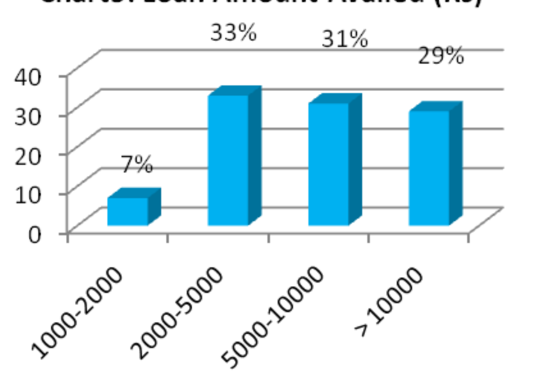


Chart 4: Educated Children

Chart5: Loan Amount Availed (Rs)



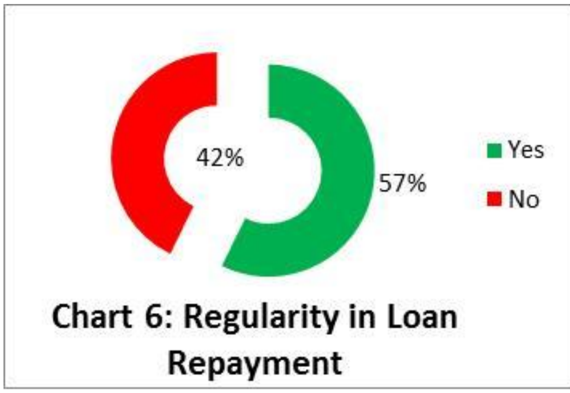


Chart 6: Regularity in Loan Repayment

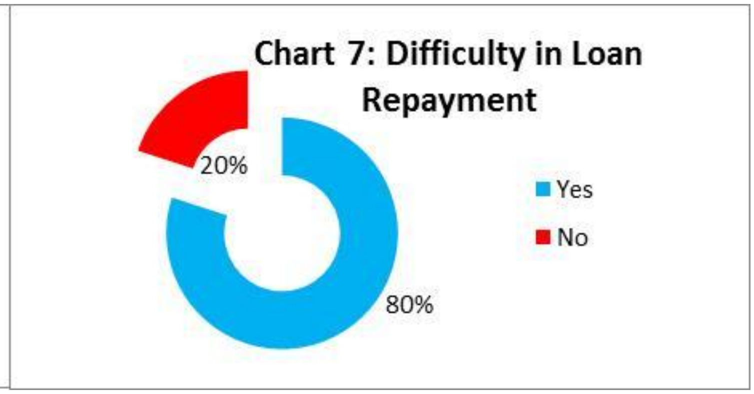


Chart 7: Difficulty in Loan Repayment

As for the loan amount availed from the various sources as above is concerned, 60% of the loans were in excess of Rs 5000 putting to rest the fear of organized sector that the quantum of loans will be very meagre. Further, 57% of the respondents had been repaying their loan regularly at very steep rates even though 80% had expressed difficulty in repayment on account of varied reasons. This analysis should further rest the case about the credit worthiness and bankability of the strata under study.

While the formal sectors of lending, with banks in particular, have not financially included this stratum, this financially excluded populace also has its reservations regarding availing loans from NBFCs/Bank. Infact, 67% of the respondents were reluctant in availing a loan from these institutions.

The main reason for this apathy was absence of income documents and bank account statements which the respondents felt were a must for availing loans from banks. The second reason was the time it took these lenders to reach a decision on their loans and thereafter release the funds. The respondents felt that every day spent by them waiting in the offices of these institutions was loss of earning for those many days. They also have a notion that formal sector would require them to provide some security or guarantor for availing loans which they will be unable to provide. In addition, they are not aware of the various other documentary requirements and nor do they understand the extensive paperwork they need to sign or put their thumb impressions on. Lastly, they feel awkward in approaching these NBFCs/Banks and dealing with the organized sector. These simple people feel out of place in these big buildings with their impressive interiors and employees. They have the perception that the banks cater only to the rich and educated strata of the society.

Conclusion

The study reveals that there are certain issues which need to be addressed by the NBFCs/Banks if they are to penetrate the yet unbanked but reliable urban micro finance market. These include:

(i) Make the urban microfinance customer aware about the various products and services available and the advantages of each of these products/servicesvis a vis the unorganized sector.

(ii) Banks should educate this stratum to open saving accounts under Pradhan MantriJan DhanYojana (PMJDY), deposit income in them and use this banking pattern to avail credit facilities.

(iii)Banks should further inform the customers that under PMJDY if an account shows satisfactory conduct for 6 months, the client would be eligible for an overdraft facility of Rs 5000 which is the loan amount availed by 40% of the respondents under study.

(iv) The banks should realize that microfinance being a part of priority sector lending, funding this segment would help them achieve their targets.

(v) Urban microfinance should be made a separate focus area on lines with the highly successful SHG- Bank linkage programme.

(vi) Banks should educate borrowers about documentation, their rights and each and every thing about their loan

(vii) To make this initiative more people-centric, banks should hold camps on a regular basis to show their microfinance clients that banks are approachable and willing to come to their doorsteps rather than make them wait for the bankers.

The importance of moving the focus from ‘institution’ to ‘people’ can be further highlighted by the concept of a one point contact in banks that can explain all the requirements and ensure speedy processing, disbursement and simplified documentation for such loans.

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