INTRODUCTION

The world of new order is inching towards prosperity, equality and unanimity with every passing day. The most promising signal of this universal approach is the millennium goal to reduce poverty to half by the year 2015. Governments, Agencies of United Nation and other Facilitators are approaching poverty in divergent ways leading to new solutions and horizon of hope. It is imperative to analyze poverty before going to the economic solution initiated by microfinance movement for eradication of poverty.

1.1 POVERTY

'The Greatest evils and the worst of crime is poverty',

Major Barbara, G.B.Shaw

Poverty is part of a socially and symbolically created hierarchy in which the poor have been allocated the role of underdog. The longer the poverty has existed, the more established the hierarchy has become. All transfers of resources to poor people challenge the balance of such hierarchy. ¹

Poverty deals primarily with living condition stressing either a poor way of life or poor consumption standards or attitude towards living in poverty.

Poverty must be visible, poverty is not how people feel, but how people live and finally it has a dimension of social deprivation.

In the new social order, alienation of the poor has become so acute that it may take a confrontationist proportion if not handled properly in time. State has an important role to play. Poverty applies to individuals and households whereas development relates to large-scale processes of change at social level. So the state initiative to reduce poverty at macro level cannot be treated as a solution to poverty eradication. What is incontrovertible is that many of the world’s poorest people also suffer directly from the consequences of social disintegration and environmental destruction, which together with poverty itself form the ‘threelfold human crisis which is affecting the world more and more deeply.'²
1.2 ROLE OF CREDIT AND SAVINGS

Poverty is approached from various angles by different agencies. Subsidies, grants, free services and materials have been provided by donor agencies and the state, year after year across the globe to support the deprived population. But experience has shown that the distribution process involves unscrupulous elements leading to corruption and widening the gap between the rich and poor. To garner resources for this social support the state has been imposing tax at different fronts making the goods and services costlier, it makes the life of the poor still more difficult in a cyclic manner.

So what is required to be done is supporting the poor to have sustainable source of income for a permanent solution. When he can manage his own finance in a proper way, then only his plight will change.

Economic condition of an individual is not only affected by the meager income the poor is earning, it also involves poor planning of the day-to-day expenses. A sizable part of the earnings of the poor is devoted to the interest paid to the moneylender against loan taken for life cycle and asset building needs. In many cases the little amount of asset that he possesses is taken away by the moneylender against outstanding loan and interest, making him poorer.

The poor need to save and have access to credit.

Straut Rutherford in his book ‘The Poor and their Money’ suggests that poor want to save and do save but it is not easy because

1) He does not have the money
2) Banks and insurance companies do not provide facility of savings to the poor.
3) Savings at their home is difficult considering the dangerous habitat they possess. The thatched house is not safe for storing money inside.

He is a big spender because of

1) Life cycle needs like marriage, funeral, birth etc, and
2) Acquisition of assets like house, television, and land.

They do it by selling or mortgaging the assets they already hold or borrowing money at exorbitant rate of interest.
While savings have commonly been neglected by 'Development Finance Institutions', Credit activities have faced several difficulties. An organization seeking to provide financial services to significant number of poor people needs to adopt approaches that make it attractive for the poor to make savings and that make effective lending feasible. Davind Hulme and Paul Mosley in their book 'Finance against Poverty' suggest few mechanisms widely followed now a days.

1) Intensive loan collection (once in every week) at the doorstep of the borrower reduces the transaction costs and puts pressure for repayment. The Grameen Bank follows this method.

2) A second method of combating the moral hazard inherent in lending without collateral consists of requiring borrower to contribute a specified amount each.

3) A compulsory savings scheme a month, proceeds of which can be used to insure against certain named events like drought, crop loss, flood etc. Savings act as screening device to take loan

4) The third strategy which a lender may use to move the break even interest rate constraint is to set up a structure by which the job of monitoring and encouraging prompt loan repayment is partly delegated to borrower rather than lender alone i.e indirect reduction of risks. The method adopted is to lend to group borrowers rather than to individuals. First transaction cost reduces and probability of default reduces subsequently due to peer pressure.

Moneylenders in the unorganized structure may not like to follow either of the above suggestions and may not be prepared for the extent of long-term loan even if the interest is accumulating.

So quasi-formal means of lending is a viable alternative to high interest cost. The quasi-formal institutions with the above-described mechanism involve heavy operational cost. But it has been observed in case of 'BRI Unit Desa' of Indonesia, Grameen Bank, Kenya Juhudi Fund, Regional Rural Banks of India that the interest rate and overhead cost has gone down considerably to equal level with unsecured loan of the formal credit institutions.
1.3 CONCEPT OF MICROFINANCE

‘Micro credit is the panacea to rural poor’

Noble Laureate Prof. Muhammad Yunus

In the year 1970 Prof Muhammad Yunus, Noble Laureate for Peace 2006, started the concept of group lending in a very small scale in Bangladesh. The experiment was a huge success with excellent recovery of loan. It grew to be named as Grameen bank of Bangladesh and gave hope to numerous poor in that country. Over the last 35 years this concept of micro finance has envisaged countries like Bolivia, Indonesia, Ghana, Botswana, Nepal, Sri Lanka, India and many other African and Asian countries in various forms. Its purview also includes gender issues, social security, empowerment and livelihood as we discussed below.

Since 1970 the concept of micro finance has been widely accepted as a supplement to general economic framework for alleviation of poverty. Planners, Bankers, Non Government Organizations, beneficiaries, activists have understood and defined it in different ways. Definition coined by different entities is so widely interpreted that it is difficult to find out the basic focus of this term.

"To most, microfinance means providing very poor families with very small loans (micro credit) to help them engage in productive activities or grow their tiny businesses. Over time, microfinance has come to include a broader range of services (credit, savings, insurance, etc.) as it is realized that the poor and the very poor that lack access to traditional formal financial institutions, require a variety of financial products.

Micro credit has largely been a private (non-profit) sector initiative that avoided becoming overtly political, and as a consequence, has outperformed virtually all other forms of development lending. Micro credit can be offered, often without collateral, to an individual or to a group."

This definition given by micro finance gateway represents the widest framework given by any researcher. It explains microfinance as a financial mechanism having its clear-cut agenda and also explains its primacy over other lending agencies.

Asian Development Bank defines

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"Micro finance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their micro enterprises.

Asian Development Bank is most active in development lending as 70% of the poor population of the world live in Asian continent. It stresses more on the volume of financing made to the poor.

According to Robinson: 7
Micro finance refers to small scale financial services both for credit and deposits- that are provided to people who firm or fish or herd; operate small or micro enterprises where goods are produced, recycled, repaired or traded; provide services; work for wages or commissions; gain income from renting out small amount of land, vehicles draft animals or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas.

The renowned researcher focuses more on the type of trade those poor people do. In coming days it will be found that before a financial intervention in the form of microfinance, first the poor should be identified in terms of their trade. It will facilitate better delivery and recovery of loan.

In the opinion of Viji Das Friends of Women’s World Banking, India 8
"Microfinance aims to promote sustainable livelihood options and to ensure reduction in the vulnerability of poor households through asset creation and social security."

In the guise of defining microfinance he expresses his concern for the limited applicability of this concept. Insurance, planning and money transfer financial services are widely ignored by the practitioners of microfinance.

Nancy Barry, President, Women’s World Banking USA 9 gives a women centric definition of microfinance

"Poor women and their families need and want microfinance-not just micro credit. In a World Bank survey with poor women entrepreneurs and producers around the world, they say that they want a safe place to save. They want financial services that fuel their multiple economic activities. They want to build their homes. Poor women around the world want financial products and services geared to helping them build income, assets,
and livelihoods—helping them build their businesses, families and communities. Microcredit implies a mono-product—a small loan. Poor women want to build assets—not debt.”

This definition describes microfinance synonymous to women empowerment. Nancy Barry advocates for wealth maximization instead of creating more liabilities. It indirectly leads to income generation, surplus and savings.

Rutherford elucidates “Microfinance as the means by which poor people convert small sums of money into large lump sums”.

Characteristics of microfinance as summarized from the above discussions are

1) Microfinance involves credits, savings, insurance and a variety of financial products.
2) It is a private sector initiative and apolitical in nature.
3) Credit offered is without collateral securities for ease and convenience of the poor.
4) Money so received is used for productive uses like growing tiny businesses, for different agriculture and allied services
5) It involves poor families, small loans.
6) The beneficiaries have no access to formal credit information and fund.
7) It is a group lending process.
8) Microfinance may be available through formal, semiformal and informal sources.
9) It offers sustainable livelihood options.
10) Vulnerability of poor is reduced through asset creation and social security.
11) Microfinance is women centric.
12) It is a means of multiplying the savings of poor individuals.

Some basic features like involvement of poor people, small loans; easy availability of loan, collective responsibility is typical to microfinance and has been proved to be very crucial for the success of microfinance movement. But in the present scenario we can question most other features, which are either elusive or illogical.

1.4 MICROFINANCE FRAMEWORK

The process of microfinance and involvement of different stakeholders to empower the poor is conceptualized by United Nations in a diagram as explained in the last two pages of this chapter.
1.5 CONTOURS OF STUDY

The study of 'Evaluation of Microfinance Activities in the state of Orissa - Special Emphasis on Gainful Employment' has been designed through the following chapters.

- Chapter1: Introduction
- Chapter2: Review of Literature, Objectives and Methodology of Study.
- Chapter3: Global Scenario
- Chapter4: National Scenario
- Chapter5: Microfinance in Orissa
- Chapter6: Challenges and Issues of Microfinance
- Chapter7: Results and Analysis
- Chapter8: Inferences

1.6 SUMMARY

The dawn of the new millennium has heralded hope in the midst of despair and poverty at the backdrop of strategies and policies to eradicate poverty through global initiative. Ever pervasive poverty relates to individuals whereas initiatives are done at macro level. So addressing to this micro problem with macro initiatives has become the real challenge for planner at different levels.

In this scenario every poor individual should have a livelihood of his own which is sustainable and sufficient. Poor does not know how to proceed. Prof Md Yunus has successfully shown to the world that credit plays a big role in this process and the poor are bankable. His experiment with credit since 1976 is based on women based group lending. Over the years it has enriched to include four basic factors like 1) Savings 2) Credit 3) Insurance 4) Finance Services. One factor cannot survive without the other. Hence all inclusiveness is an abject necessity.

Basing on the above four basic features some subsidiary characteristics like
1) Apolitical Nature 2) Livelihood Option 3) Multiplication of the Savings of the Poor 4) Asset Creation 5) Productive use of Funds are incorporated to the concept. Our study will test how far all those features are applicable in the state of Orissa in the present scenario.
FIG 1.1 Framework of Microfinance

Donors and Banks → Micro Finance → Government and Banks

Implementing Organization

Individual

Awareness/Promotional Work

Micro Enterprise

Promotion and Formation of SHG

Consolidation of SHG

Micro Enterprise

Production Needs

Consumption Needs

Savings

Credit Delivery

Non-farm Related

Recovery

Follow up monitoring

Income Generation Sustainable and Growth

Economic Empowerment through use of Micro Credit as an entry point for overall

Source: http://www.un.org.in/iawg/iceed/section1.htm
Fig 1.2 Micro-Finance interventions through different Agencies

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2. Allen, Tim and Alan Thomas,'Poverty and Development into the 21st century' by open University world wide limited, Milton Keynes UK 2000)

3. Rutherford, Straut 'Poor and their money' by published by DFID

5. www.microfinancegateway.org

6. www.adb.org

7. Marguerite, Robinson, S ‘Microfinance the Paradigm Shift from credit delivery to sustainable financial intermediation’


9. Hunt, Juliet, and Nalini Kasynathan, Oxfam Community Aid Abroad, South Asia. ‘Reflections on microfinance and women’s empowerment’.