# CHAPTER- 1

## INTRODUCTION

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INTRODUCTION

1.1 BACKGROUND
Most people think of Micro finance as being synonym of micro credit i.e. lending small amount of money to the poor but Micro finance is not only this, rather it has a broader perspective which includes insurance, transactional services and importantly savings.

According to James Roth, “Micro finance is a bit of a catch-all term. Very broadly, it refers to the provision of financial products targeted at low income groups. These financial services include credit, savings and insurance products. A series of neologisms has emerged from the provision of these services, named as micro-credit, micro-savings and micro-insurance.”

The Canadian International Development Agency (CIDA) defines Micro finance as “the provision of a broad range of financial services to poor, low income households and micro-enterprises usually lacking access to formal financial institutions.”

Since the beginning of its activities in early 1970’s, Micro finance has covered a long distance of success reaching millions of households and needy people not only in their country of origin but also around the developing and underdeveloped world with thousands of units serving worldwide. The exponential and spectacular growth of the Micro finance industry is just not because of any market force, but it has the dedication, service and hard work of many people and organization. Through their commitment and will for the noble cause to help the needy people, they brought the forces together and gave momentum to this cause so that everyone can live a life worth living as a human being and get the opportunity to have something in life which they have not even thought of.
Today the success of the activities of the Micro finance programme needs no reference or introduction, as the lives of the millions of unprivileged people around the world explain and speak for it.

The United Nations (UN) – the organization of all the countries of the world- declared the year 2005 “The UN Year of Micro-credit”. In the year 2006, Mr. Yunus and the Grameen Bank, Bangladesh, were awarded the Nobel Peace Prize “for their efforts to create economic and social development from below”. Since then, Micro Finance has got a solid ground in the socio-economic development of different countries. India is not an exception to that general trend.

The Indian economy has shown a remarkable performance of economic growth since 1990s and the experts have estimated that Indian GDP (Gross Domestic Product) can grow annually @7%-9%. But the Human Poverty Index (HPI) of 2011 which measures deprivation of health, education and income, shows that about 1 out of 3 Indian faces shortcomings of education, health or income. Over the 1990s, though Human Poverty Index shrank by 25%, yet the gains of economic growth appears to be distributed very unequally over regions, social groups and sexes. In 2010, the World Bank reported that 32.7% of the totals Indian people fall below the international poverty line of US$ 1.25 per day (Purchasing Power Parity) while 68.7% lives on less than US$ 2 per day.\(^1\) The percentage of population below poverty line in rural areas was slightly higher at about 28.3 percent compared to the urban areas (Eleventh Five Year Plan 2007-2012). The number of poor in India estimated in absolute terms in rural areas was over 2209.24 lakhs.\(^2\) Thus, in India it’s practically a necessity now to resort Micro finance more and more.


National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), Swarnajayanti Gram Swarozgar Yojana (SGSY) and different NGO-oriented Self Help Groups have already started working in India to meet the needs of the poorest of the poor, through Micro finance. Even a good number of private sector Micro Finance Institutions (mFIs) have come up in the mean time with twin objectives of helping the poor on the one hand and getting access to a new field of work on the other. We have moved a long way in it no doubt but the Micro finance programme has not yet got the overall success because of a number of reasons. Moreover, in the age of free economy, when the livelihood of poor is getting harsher day by day, the need of Micro finance is being felt more and more leading demand for ‘inclusive growth’ in our country. A study in Micro finance has therefore been pertinent to work a better scheme in this respect, so that it can be more helpful to them for whom it is meant.

1.2 LITERATURE REVIEW
Any research work must begin with a survey of the existing literature available on the subject. The concept of Micro finance started just thirty to forty years back and it has got momentum only in the last decade of last century. So, we cannot expect maximum literature on this issue. However, the notable ones of what I have got as existing literature are discussed below in brief.

Signe-Mary Mckernan (1996) [“The impact of micro credit programs on self-employment profits: Do noncredit program aspects matter?”] found that program participation can exert a large positive impact on self-employment profits.

Mark M. Pitt & Shahidur R. Khandker (1998) [“The impact of group-based credit programs on the poor households in Bangladesh. Does the
gender of participants matter?”] used empirical data from Bangladesh over the period of 1991-92 to test the hypothesis that women used borrowed funds more efficiently than men. They used household expenditures, nonland assets held by women, male and female labour supply. The authors find that although the availability of Micro finance positively impacts the all sin areas in aggregate, all areas are significantly affected when women borrow, but only one of the sins is significantly affected when men borrow. They conclude that women use borrowed funds better than men in Bangladesh Micro finance programs.

M.Ghatak (1999) [“Group lending, Local Information and Peer Selection”] concluded that group lending not only increases repayment rates and welfare via social collateral, but also due to peer selection by members of the lending group. Similar to Ghatak, M. Islam (1995) [“Peer monitoring in the Credit Market”] examined that lenders using peer monitoring system can charge lower rates relative to conventional lender and that at the same interest rates, the expected rate of repayment is higher with lower risk when using peer monitoring.

Jonathan Morduch (1999-2000) and Woller et al (1999) [“The Micro finance Promise”] described that an mFI should be able to cover its operating and financing costs with program revenues. The conceptual foundations of the institutions paradigm stems to a large degree from the work of researches at Ohio State University’s Rural Finance Program. This diagnoses led logically to two prinicipal conclusions:

a) Institutional sustainability was key to successful provision of financial service to the poor.

b) Financial self-sufficiency was necessary condition for institutional sustainability.
Jonathan Coaming (1999) [“Outreach Sustainability and Leverage in Monitored & Peer-monitored Lending”] constructed a theoretical model of the contract design of problem facing MFIs that want to maximize impact, target the poor and achieve financial sufficiency.

Timothy H. Nomse (2001) [“The missing path of Micro finance: Services for consumption and insurance”] analyzed the content and rise of Micro finance products and argued that there is a need for savings and insurance services for the poor and not just credit products. He added that MFIs need to provide tailored lending services for the poor instead of rigid loan products. He developed a model of small construction management contractors and MFIs in developing countries that provide a tailored lending structure for micro enterprise contractors.

Michael Kenaw and Bruce Wydie (2001) [“Micro enterprise lending to Female Entrepreneurs: Specifying Economic Growth for Poverty Alleviation?”] used a sample of 342 MFI participants in Guatemala to analyze the assertion that male borrowers produce more economic growth than women and facilitate more poverty alleviation. They find no significant difference between men and women in generating business sales and small advantage of employment generation by men relative to women.

Gambhir Bhatta (2001) [“Small is indeed beautiful but……..” The context of micro credit strategies in Nepal’’] concluded that due to the topology and extreme poverty levels in Nepal, it will be difficult for MFIs to have any meaningful impact on poverty. He suggests that MFIs should expand into the hill and mountainous and target women so to increase the probability of success.

Paul Mosley (2001) [“Micro finance and poverty in Bolivia’’] analyzed four programs in Bolivia and showed that assets and income increased commensurate with initial poverty levels.
Donna Perry (2002) [“Micro credit and women money lenders; the shifting terrain of credit in rural Senegal”] explained the situation of women money lenders in Senegal.

Ross Mallick (2002) [“Implementing and evolution of micro credit in Bangladesh”] criticized the impact of Micro finance on women in society and suggests that Micro finance service can result in gender conflict in Bangladesh.

Laxmi Murthy & Deshmukh Burra (2005) [“Micro credit, Poverty, Empowerment- Linking the Triad”] examined that important drawback to micro-credit programmes is that they don’t reach to poorest members of society. The poorest have a numbers of constraints- fewer income sources, worse health and education – which prevent them from investing the loan in high return activity. It has also been found that the poorest need tiny loans which are not cost-effective even for micro-credit programmes.

Anuradha Rajivan (2008) [“Micro Insurance in India”] examined the scope of Micro insurance in India. She also described how the Micro insurance can boost resources for rural poor, government and private sector.

Samirendra Nath Dhar (2009) [“Financial Sustainability of Micro finance Units- Empirical Evidences from Self-Help Groups in India”] pointed out that the financial stability of the self-help group depends on the effective financial management of the group corpus as this money is used for inter lending between group members for their economic as well as consumption purpose.

The above discussed literature survey is showing that most of the programme on Microfinance have been implemented in foreign countries like Bangladesh, Nepal, Senegal etc. but in our country only a few have been done on this issue. Of these few studies in India, maximum again are done at macro-level and a small amount of work has been done at micro-level. So, I have chosen the topic on micro-finance, as a development tool
for poverty alleviation in our country in general, and in West Bengal in particular, where a case study will be done at SHG-level.

1.3 OBJECTIVE OF THE STUDY

To be meaningful, every work needs some objectives to be followed. Furthermore, objectives are more generally suitable to the research community as evidence of the researcher’s clear sense of purpose and direction. The objectives as such again, crop up out of the issues involved in the study concerned. In the light of the research topic, the issues that need to be dealt with are as follows:-

1. How did the concept of Micro finance evolve in India, especially in West Bengal?
2. What are the basic characteristics of Micro finance that differentiate it from other way of finance?
3. What is the present scenario of Micro finance in India, especially in West Bengal?
4. What is the impact of Micro finance in Indian socio-economy in general and West Bengal in particular?
5. More specifically, how has such Micro finance been able to alleviate the poverty of our country?
6. What are the challenges as well as prospects of Micro finance in our country?

With an attempt to search out the answers to the aforesaid questions, the present study has outlined the followings as its objectives:

- To examine the evolution and need of Micro finance in India.
- To discuss the characteristics and operational aspects of Micro finance in India.
• To identify the extent of Microfinance in India, particularly in West Bengal.
• To justify the role of Microfinance as a development tool in Indian socio-economy.
• To measure the extent to which it has been able to help the poor in their financial well-being.
• To outline the problems and prospects of Microfinance in the present scenario.

1.4 RESEARCH METHODOLOGY
The research work has been done based on both primary and secondary data. The primary data has been collected having based on a questionnaire-based survey of some SGSY-sponsored Self-Help Groups. Some impacts of such programmes on SHG-members can be shown in numeric figures like savings and income, while some other impacts can be expressed only in descriptive ways, like access to education, business experience etc. I have made the questionnaire taking into consideration both these aspects and make it fully structured to get the information as to most of the impact of Microfinance on the poor in particular and on the society in general.
To analyze the numerical data, I have performed the statistical tests such as regression analysis, t-test, ANOVA, multiple regression analysis etc. as and when necessary.
Although the result of research is highly dependent on the primary sources that I have gathered from the structured interview but it also requires some secondary sources to understand the concepts, definitions, theories and empirical results. To work on this part of my study, I have used several books, research literature, articles, journals and thesis, data from NABARD,
SIDBI, SGSY and other NGO based mFIs as secondary sources for my research work. Internet sources have been used as a secondary source for my work.

1.5 PLAN OF WORK

Keeping in view the objectives and the proposed research methodology, the plan of work is divided into six chapters as follows, besides a bibliography at the end.

1. Introduction
2. Nature and Objectives of Micro finance
3. Operational Aspects of Micro finance in India
4. Micro Finance in West Bengal vis-à-vis Other Parts of India
5. Impact of Micro finance on Poverty Alleviation in West Bengal- A Case Study
6. Suggestions and Conclusion