POVERTY ALLEVIATION WITH SPECIAL REFERENCE TO ALLAHABAD DISTRICT”

Abstract

Poverty is the most excruciating blasphemy of human dignity. It alienates people from their homelands and makes the poor subservient of the rich. Poverty reduces productivity of a nation and the consequential malnourishment exposes people to extreme social abnormalities. Thus, poverty triggers most of the social evils. Therefore, elimination of poverty from the face of the planet should receive top priority of governments and citizens.

Indian poverty estimates are based on household consumption expenditure. Any person consuming less than 2400 calories per day in rural area and less than 2100 calories per day in an urban area is considered to be below poverty line. Other aspects of poverty include access to medical care and schooling, indebtedness and insecurity but these do not figure in the official definition of poverty. Incidence of poverty is estimated by the Planning Commission on the basis of the large sample surveys on household consumer expenditure conducted by the National Sample Survey Organisation (NSSO) on a quinquennial basis. The poverty line estimates are based on consumer expenditure periodically as the commodity prices often vary. Thus, during 2004-05 the rural poverty line was estimated Rs. 356. 3 per person per month while it was Rs. 538. 6 in urban areas.

The economic condition of eastern Uttar Pradesh is not very good as it comprises of the majority of the people living below the poverty line. Allahabad being one of the major
districts of Uttar Pradesh, consisting of diversified demographic population has been selected for case study as number of MFIs, JLGs, NGOs are providing credit to the weaker sections for improving their economic conditions. To mitigate poverty, microfinance has evolved through Self Help Groups and Joint Liability Groups.

Microfinance through Self Help Group has become an important instrument to meet the credit needs of the poor, especially in the rural areas. Microfinance helps the poor households meet their credit needs, moreover they enjoy high credit ratings compared to bigger users of loans from Financial Institutions. The government initiative to give credit to the poor has made Self Help Group (SHG)Bank linkage program in India as the largest microfinance program in the world. The Self Help Groups which form the nucleolus of the microfinance program is a close–knit group, which ensures high credit ratings, as their repayment of loan is very high. However, still there is a systematic inbuilt bias against small borrowers by formal banking systems who feel burdened with small and frequent transactions from small time borrowers. The rural poor are efficient managers of credit and finance.

There are two main models of micro-credit in the country and they are ‘SHG Model’(Self Help Group) and the ‘JLG Model’(Joint Liability Group). In the case of the SHG model Self Help Groups are formed and financed by banks. In some cases SHGs are formed by formal agencies/NGOs and financed by banks. These promoting institutions are known as Self help Promoting Institutions(SHPIs). SHG Model can further be bifurcated into two models, SHG- Bank Linkage Model and Swarnjayanti Gram Swarozgar Yojana(SGSY). In the ‘JLG model’ JLGs are formed and financed by the MFIs that obtain resource support from various channels(Financial Institutions). In India, majority of micro-credit activity is under the ‘SHG Model’(NABARD’s Bank-SHG Linkage) and 10-15% of the
activity is through ‘JLG Model’. (Nabard Report 2008)

Now a word about each model.

**Self Help Group Model:**

The first official interest in group lending in India took shape during 1986-87, when National Bank for Agriculture and Rural Development (NABARD) supported and financed research project on saving and credit management of Self Help Group of Mysore Resettlement And Development Agency (MYRADA). In 19991-92, NABARD launched the SHG-Bank Linkage Programme on a pilot basis to finance SHGs across the country through the formal banking system. High repayment rates by the SHGs encouraged the banks to finance SHGs. In 1996, Reserve Bank of India included financing of SHGs as a main stream activity of banks under the priority sector lending programmes. The SHG Bank linkage programme covered over 24.3 million families by March 2005. Under the Bank-SHG Linkage Programme 2.24 million SHGs were linked, up to 31st March 2006, of which 90 percent are women’s groups.

The Self-Help-Groups (SHGs) have emerged as a tier below PACS. SHGs comprise a group of 10-20 members. The groups begin by savings that are placed in a common fund. In a way, SHGs are co-operative (credit) societies linked to a commercial bank rather than an apex cooperative bank. Once linked to the bank, the SHGs may access a given multiple of the pooled savings for disbursement to its members. Group selects its leader and the selection of the leader is based on rotation. The SHGs have, moreover, emerged as a form of “social collateral” substituting other forms of ‘collateral security’ insisted upon by banks. High repayment rate has encouraged banks to institutionalize SHGs under the bank-SHG linkage Model. According to RBI Guidelines, banks may give loans to SHGs up to Rs. 5 lakh without insisting on ‘collateral safety’.

The Bank-SHG linkage programme is noticed to have encouraged thrift/savings
amongst the poor. According to one case study, while the average savings per member more than tripled, the increase in assets was about 72 per cent. Out of 234 BPL households surveyed under the particular case study, 122 households were noticed to have been lifted up from poverty. There was, furthermore, a decline in the share of consumption and crop loans and increase in loan for allied agricultural activities and small businesses.

Formulation of SHGs is, however, dependent on the intervening agency, who has so far been NGOs/MFIs, RRBs, Banks and DRDAs. SHGs are being promoted primarily under the two separate schemes of NABARD/Ministry of Finance and the Ministry of Rural Development. During some years, the SHGs formed by the Ministry of Rural Development under SGSY scheme have been twice the number of those formed by NABARD under their bank-SHG programme. The total number of SHGs formed is reported to be approximately 2.3 million that covers nearly 30-35 million BPL households (more than 50 per cent of all BPL households). SGSY is financed on 75:25 cost sharing basis between the centre and state. The main objective of SGSY is to raise income of of BPL families to at least Rs. 2000 p. m.

There is another important difference between the two. While the SHGs promoted by the Ministry of Rural Development enjoys credit-linked subsidy, those promoted by NABARD do not have any such facility. Despite this, the credit disbursed to SHGs under the NABARD programme has been more than under SGSY. The subsidy level, moreover, determines the standard loan size irrespective of what the project needs to be viable.

**Joint Liability Group Model (JLG Model):**

The specialized MFIs or microfinance movement since the 1990’s is a new avenue of reaching the poor for their micro-credit needs. Some of the MFIs are based on the
Grameen Model, which entails formation of a Centre comprising eight solidarity groups of five borrowers. Members of each solidarity group mutually guarantee each other loan. Ten Centres form a Cluster and seven clusters form a (bank) branch and several branches together presumably form the Bank. This is typically based on the model of Grameen Bank of Bangladesh. All members save regularly and loan proposals are approved by the Centre; all loans are, moreover, repayable in 50 weekly instalments.

MFIs in India register themselves either as societies (under the Societies Registration Act, 1960), as trusts under the Trust Acts, as Non-Banking Financial Companies (NBFCs), or as Local Area Banks (LABs). All NBFCs requiring registration with the Reserve Bank of India should have a minimum capital of Rs. 2 crore. NBFCs intending to accept public deposits have to satisfy stipulated criteria and have to obtain specific authorisation from the RBI. The issue of covering of NBFCs’ deposits by Deposit Insurance and Credit Guarantee Corporation (DICGC) was examined several times, and it was found neither desirable nor feasible to extend such coverage.

Sa-Dhan, an association of MFIs have argued for a new category of NBFCs, namely, microfinance Company with a minimum equity capital requirement (capitalization) of Rs. 25 lakh. Such MFIs are designed to provide credit only; mobilization of savings is restricted to members and borrowers. The ratio of savings to net owned funds is recommended to be 1 : 1 initially, which may go up to 5 : 1 subsequently. This may, however, pose a problem of supervision by the regulator (RBI) if there are a large number of MFIs. A Microfinance Development Council was therefore proposed for performing the task of regulating such MFIs. The Government has, however, not favoured this idea. It is categorized into following models:
Agency model of MFI:
The Internal Group on Rural Credit and Micro Finance of RBI (July, 2005), came to the conclusion that parking of funds with MFIs is faced with two sets of exposures, namely, once at the MFI/NGO level and thereafter at the level of SHGs/individual borrower level. The RBI has, nevertheless, favoured the Agency model of MFIs. Under this model, in addition to the MFIs, CSOs etc., only those NBFCs which are incorporated under Section 25 of the Companies Act, 1956 are permitted to be appointed as ‘Business Facilitators’ (BFs) or as ‘Business correspondents’ (BCs). In the former case, the MFIs provide the non-financial services, such as, identification of borrower, processing and submission of applications to banks etc. In the latter case, the MFI provide financial services as “pass through” agents for disbursement of small value credit, recovery of principal / collection of interest or sale of micro-insurance / mutual fund products etc. The loan amount, however, remains in the books of the bank. The banks need not obtain prior permission from RBI for appointing BCs and BFs. They are required to conduct thorough due diligence before appointing BFs/BCs, and as principals, are responsible for customer service and control operations. The banks also need to have operational guidelines for the purpose. The MFIs, moreover, provide First Loan Default Guarantee (FLDG) equal to 8 – 15 per cent of the limit sanctioned in the form of security deposit with the bank so as to maintain its stake in the loan portfolio. The banks appear to have positive experience under this model as the MFIs have helped them overcome the problem of outreach in rural areas and have also reduced their transaction cost. In brief, the agency model of MFI is bank driven.

MFI Bulk Lending Model:
While the Agency model may appear more appropriate in the case of small MFIs, the larger MFIs may like to operate independently of banks (e.g. as LABs). This category
of MFIs belong to MFI Bulk Lending (Equity Participation) model whereby they can access funds in the form of cheaper loans, subordinated debts, equity or quasi-equity from agencies, such as, the Rashtriya Mahila Kosh, the SIDBI Foundation for Micro-Credit (SFMC), the Microfinance Development and Equity Fund (under the chairmanship of NABARD) as well as the FWWB.

**Micro Finance and PACS:**

The share of primary agricultural credit societies (PACS) in rural credit stood at 18.6 per cent in 1991. A good deal of this amount went to people who were relatively better-off, that is, to those who do not belong to the BPL households. Notwithstanding this, a certain percentage of the credit flow has benefited the poor. According to the World Bank NCAER study (2004) the share of PACS in micro-credit is as high as 30 per cent or one-third. PACS are, as such, yet another important channel of microfinance.

In terms of retail outlets, the PACS are ahead of the banks and the MFIs at the all-India level, although they are observed to have greater concentration in Maharashtra and Kerala and very low in North Eastern states. The total membership of PACS is reported to be 120 million. The Scheduled Castes and Scheduled Tribes who generally comprise the weaker sections of the society constitute as high as 36-37 per cent or approximately 45 million PACS members. This is much higher membership than under the SHG-Bank linkage programme, (currently around 30 million BPL households) and under the MFIs/LABs/NBFCs (around 1 million clients).

The co-operative structure is ideally based on the norm of “one man, one vote”. The concept of ‘social collateral’ or ‘group guarantee’ holds good for the co-operatives as well. Group guarantee is supposed to be stronger in the cooperatives (of the poor) and the guiding principle is “one for all and all for one”. What appears to work best under this model is greater proximity of PACS to its members and the credit history that
determines the credit worthiness of the clients.

A large number of PACS in rural India have been, however, dominated by the powerful. The prudential norms of banking have also been ignored and loans have been extended to defaulting members. Besides, records are not maintained properly and accounting and book keeping of most PACS are very weak. Political interference of one kind or the other, instead of improving the situation, has only contributed to the decline of PACS. Refinancing facility from apex organizations has consequently declined/stopped and in the absence of emphasis on thrift, the PACS have hardly sufficient funds for credit activity.

Successive Committees constituted to suggest measures for revitalisation of PACS have recommended for enactment of the Model Law of Cooperatives. It is an enabling Law that would make the credit cooperatives free from the State’s prerogative to override the management (the control of the Registrar of Cooperatives). The recommendations also include diversification of credit portfolio by PACS / Cooperative Banks beyond crop loans. The credit cooperatives may thus also give consumer loan, housing loan and provide finance for services sector as well as distribute insurance products. This would call for capacity and infrastructure building of PACS and observance of prudential banking norms by PACS. The revitalisation package proposed is, moreover, restricted only to viable PACS and any new infusion of funds by the apex banks will be linked to signing of a MOU.

**Business Facilitator and Correspondent Models:**

The Reserve Bank of India, in January 2006 issued an order to ensure greater financial inclusion and increase the outreach of the banking sector, through Business Facilitator Model and Business Correspondent Model. This enabled the commercial banks, including the RRB to use the services of NGOs, SHGs, MFIs and Civil Society...
Organization as intermediaries to provide financial and banking services through Business Facilitator and Correspondent Model. Under the Business Facilitator Model the Post Offices can also be used as intermediaries for providing services like (i) identification of borrowers and fitment of activities (ii) collection and preliminary processing of loan applications including verification of primary information/data ; (iii) creating awareness about savings and other products and education and advice on managing money and debt counseling; (iv) processing and submission of applications to banks; (v) promotion and nurturing Self Help Groups/Joint Liability Groups; (vi) post-sanction monitoring ; (vii) monitoring and handholding of Self Help Groups/Joint Liability Groups/ Credit Groups/ others; and (viii) follow-up for recovery.

Under the Business Correspondents Model NGOs/MFIs, Cooperative Societies, section 25 companies, registered NBFCs, not accepting Public Deposit and Post Offices may act as Business correspondent. In addition to the activities listed under the Business Facilitators Model the scope of activities of the Business Correspondent included (i) disbursal of small value credit, (ii) recovery of principal/collection interest (iii) collection of small value deposits (iv) sale of micro insurance / mutual fund products/pension products/other third party products and (v) receipt and delivery of small value remittances /other payment instruments.

The banks are expected to act diligently in employing the Business Facilitators and Correspondents. Both the Business Facilitators and Correspondents may be paid reasonable commission/fee by the banks. No fees can be directly charged by them for the services rendered to the customers. The banks are to specify clearly the role of the Business Facilitators and Correspondents and also give wide publicity both in electronic and print media. The banks are also to constitute Grievance Redressal Machinery within the banks for addressing the complaints about services rendered by the Business
Correspondents and Facilitators.

However, no major headway has been made in this direction. It was found that the banks have not employed both the Business Facilitators and Correspondents to meet the increasing rural credit requirements.

The study is conducted with the following objectives keeping in mind: To study the role of Microfinance Institutions in poverty alleviation in Allahabad District, to gauge the benefits of microfinance to the poverty stricken folks, to compare the impact of Microfinance before and after providing microfinance on the standard of living of the poor.

The present research work is exploratory in nature because in it the researcher had tried to investigate how microfinance has helped the poor to come out from the vicious cycle of poverty and also there is not much data available in this regard with special reference to Allahabad district.

Poverty depends on basically three parameters: education, health and standard of living and further pilot study conducted during the study revealed that the factors responsible for poverty in Allahabad are low level of education, ill health and unawareness towards their social and political rights. Considering these aspects, the hypotheses have been formulated.

There are four hypothesis in the study:

Assumptions:

The following assumptions have been taken in the study:

1. Income level status: If 60% beneficiaries after taking micro-credit utilise it productive purposes annual income after taking loan from MFIs comes from regular sources, poverty is alleviating.
2. Housing structure level: If 60% and more people have pucca houses, poverty is alleviating.

3. Facilities used level: If 60% and more people use facilities as discussed below, poverty is alleviating.

4. Participation level: If 60% and more people participate as discussed below social activities, poverty is alleviating.

The hypotheses taken for the study were:

**Hypothesis-1**

Ho-There is no significant difference in income of the people before taking micro-credit and after taking micro-credit from Microfinance Institutions.

H1-There is significant difference in income of the people before taking micro-credit and after taking micro-credit from Microfinance Institutions.

**Hypothesis-2**

Ho-The undertaken facilities used indicators are not associated with poverty alleviation.

H1-The undertaken facilities used indicators are associated with poverty alleviation.

The facilities used indicators adopted in the study were-

1. Time devoted by child at school
2. Sanitary facilities
3. Accessibility to Government hospitals
4. Insurance services

**Hypothesis-3**

Ho- The undertaken participation level indicators are not associated with poverty
alleviation.

H1- The undertaken participation level indicators are associated with poverty alleviation.

The participation level indicators adopted in the study were-

1. Participation in family decisions
2. Visiting and staying with relatives and friends
3. Attending and organizing functions
4. Participation in vote casting

- The difference is measured at 5% level of significance.
- Respondents were the beneficiaries of Microfinance Institutions.
- The parameters selected for the study were income level, time devoted by child at school, Sanitary facilities, accessibility to Government hospitals, Insurance services, participation in family decisions, visiting and staying with relatives and friends, attending and organizing functions and participation in vote casting.

There were 54,521 beneficiaries of microfinance (JLG Model) in the district (SONATA - 27, SKS - 567, 5K5 - 14, 437, UTKARSH - 8, 189, SHARE - 4, 328, MORAL - 1, 035). Since there are five MFIs operating in Allahabad, out of these four (SONATA, SKS, UTKARSH, SHARE) were selected, as MORAL has negligible presence in the district, so it was left out. After that the branches of the selected organizations (SONATA, SKS, UTKARSH and SHARE) were arranged in the decreasing order of performance and the
branches that were placed on top and bottom were selected. For SONATA it was Phulpur and Bhadewra, Naini, Bharatganj for SKS, Karchana and Soron for Utkarsh and it was Naini and Meja for Share. The total client base for selected MFIs for the selected branches was 15022. 2% of the 15022 is 300. 44, therefore researcher had taken 300 respondents.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>MFI</th>
<th>No. of Beneficiaries</th>
<th>Selected branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>SONATA</td>
<td>27,567</td>
<td>Phulpur(4,654), Bhadewra(629)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>SKS</td>
<td>14,437</td>
<td>Naini(6,220), Bharatganj(1,030)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>UTKARSH</td>
<td>8,189</td>
<td>Karchana(1,360), Soron(686)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>SHARE</td>
<td>4,328</td>
<td>Meja(615), Naini(2,256)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>54,521</td>
<td>15,022</td>
</tr>
</tbody>
</table>

Exhibit No.1

The data has been collected from primary and secondary sources. The primary data is being collected through field visit by using schedule. The schedule has been drafted according to certain parameters like annual income from the project, level of asset
owned, facilities used (time devoted by child at school, sanitary facilities, accessibility to Government hospital and insurance services) participation level parameters (participation in family decisions, visiting and staying with relatives and friends, attending and organizing functions and participation in vote casting). Apart from this suggestions have been taken from the microfinance practitioners for the betterment and development of microfinance beneficiaries. A pilot study has been conducted before drafting the final schedule that provides useful insights to the final draft of the schedule. The schedule consist of nineteen detailed questions relating to the above parameters. These questions are both open and close ended. 350 microfinance beneficiaries have been approached, out of these only 300 had given their responses. The questionnaire was open ended to collect qualitative data, to avoid the bias of list of response possibilities, to generate ideas for future close-ended response options and to allow the respondents to suggest a range of possibilities unknown to the researcher. An effort has been made to prepare the questions simple and clear. Depending upon the suitability, interviews have been conducted in both structured as well as unstructured form and were held both in formal as well as in an informal way. Observation technique has also been used to map the missing responses. Secondary data has been collected by visiting various offices like NABARD’s office, District Economics and Statistics department office, MFI offices etc and through Books, Magazines, Reputed Journals, Newspapers and Websites. The secondary data has been collected for the period of four financial years from 2008-2009 to 2011-2012.

For analysis of data pie chart, tables and other pictorial representations have been used at relevant places and for hypothesis testing chi-square test have been used. Chi square test is used to determine whether there is a significant difference between the expected
frequencies and the observed frequencies in one or more categories. The formula for chi-square is:

\[ \chi^2 = \frac{(O-E)^2}{E} \]

where, \( \chi^2 \) = chi-square,
O = Observed frequency,
E = Expected frequency.

After the calculation of chi-square, Degree of freedom is determined. The formula for Degree of freedom is \((N-1)\). Then the feasibility of the result is tested on the 5% level of significance. Chi-square is used because the data is non-parametric and cannot be quantified.

The analysis has been done on the basis of data collected on five broader parameters: Income level, housing structure, assets owned (livestock, agricultural tools and implements and other household assets), facilities used indicators (time devoted by child at school, sanitary facilities, accessibility to Government hospitals, insurance services) and participation level indicators (participation in family decisions, visiting and staying with relatives and friends, attending and organizing functions and participation in vote casting).

Hypotheses Testing:

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Critical value of ( \chi^2 )</th>
<th>Degree of freedom</th>
<th>Calculated value of ( \chi^2 )</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>3.841</td>
<td>1</td>
<td>21.22</td>
<td>Rejected</td>
</tr>
<tr>
<td>2.</td>
<td>7.815</td>
<td>3</td>
<td>12.06</td>
<td>Rejected</td>
</tr>
<tr>
<td>3</td>
<td>7.815</td>
<td>3</td>
<td>7.84</td>
<td>Rejected</td>
</tr>
</tbody>
</table>

Exhibit No.2
For hypothesis 1
The critical value of $\chi^2 = 3.841$ and Degree of freedom=1. Since calculated value of $\chi^2 = 21.22$, which is more than the critical value therefore the null hypothesis is rejected.

The rejection of null hypothesis indicates that there is significant difference in income of the people before taking micro-credit and after taking micro-credit from Microfinance Institutions.

For hypothesis 2
The critical value of $\chi^2 = 7.815$ and Degree of freedom=3. Since calculated value of $\chi^2 = 12.06$, which is more than the critical value therefore the null hypothesis is rejected.

The rejection of null hypothesis indicates that the undertaken facilities used indicators are associated with poverty alleviation.

For hypothesis 3
The critical value of $\chi^2 = 7.815$ and Degree of freedom=3. Since calculated value of $\chi^2 = 7.84$ which is more than the critical value therefore the null hypothesis is rejected. The rejection of null hypothesis indicates that the undertaken participation level indicators are associated with poverty alleviation.

Analysis of data shows that sample selected was dominated by female respondents which is a prove of the fact they are efficient managers of finance. Majority of the respondents age falls between 25 to 34 years and 91% of the respondents were married and they were just primary educated. Normal range of micro-credit amount was between 20,001-30,000(29%) and 30,001-40,000(30%) this means this is preferred range of micro-credit by the sample respondents. Majority of the beneficiaries had taken micro-
credit for business purpose like poultry farming, tailoring, bamboo article making etc., this means beneficiaries have utilized their micro-credit amount for productive purposes after receiving it. Before taking micro-credit most of the beneficiaries had annual income below 10,000 whereas after taking micro-credit annual income increased to 40,001-50,000. This means their income level had increased significantly. An alarming fact found was that most of the MFIs were charging interest rate above 24% which is quite taxing for the poor. Majority of the beneficiaries had repaid their micro-credit amount in 26-38 weeks and in some cases in 39-51 weeks and the repayment rate was around 90%. as MFIs included in the sample were practicing the Joint Liability Group Model which has greater monitoring and stringent rule, so a high repayment rate was observed in the selected sample. Micro-credit availability had a positive impact on the housing style of the sample population, before taking micro-credit housing style of majority of the beneficiaries was kachha whereas it became semi-pucca and pucca after taking micro-credit. Level of assets increased and quality of it had improved post micro-credit. Level of agricultural tools and implements increased and the quality of agricultural tools and implements also improved post micro-credit. The level of other household assets had also altered in a positive manner and the quality of other household assets got improved.

Most of the beneficiaries using facilities like sanitary facilities, accessibility to Government hospital and insurance services and they also started participating in activities like family decisions, visiting and staying with relatives friends and, attending and organizing functions and participation in vote casting post micro-credit this means majority of the beneficiaries become aware of their social and political rights post micro-credit. As a result of it majority of the beneficiaries condition improved regarding level of
managing risk: health related (availing medical advice for minor health related problems, awareness about health related problems) after they had received micro-credit, regarding level of managing risk: emerging domestic problem (Fire outbreak, Medical emergency, Family disputes) after they had received micro-credit, regarding level of managing risk: agricultural related (Drought, pest problems, low productivity) improved to a great extent after they had received micro-credit.

As the major problem in serving the poor is very low education level, to solve this problem Awareness towards literacy should be enhanced through various educative programs, so that they understand the things (agenda, minutes etc) in a proper way. Education should be provided in such a manner that could create employment opportunities.

Second major problem in serving the poor is of high interest rate. Interest rates can be reduced, by using following two options:1. Reduce the premium (also referred to as the ‘spread’) – this is dependent on transport costs, administrative costs, profit, salary expense, risk, etc. which means it can only be reduced if operations become more efficient,
2. Reduce the cost of funds – this can be reduced by obtaining subsidized loans (through development agencies), non-interest loans (e.g. through Kiva), and public deposits.

The procedure regarding diminishing interest rate calculation should be eased. This will enable the MFI beneficiaries and staff to understand and calculate it properly. Microfinance providers must collaborate with one another to limit multiple borrowing. MFIs might be better off by reducing their loans outstanding by letting the other MFI share some of the risk by offering a complementing loan. Monitoring could be shared to
improve repayment resulting in an optimal amount of joint monitoring that reduces costs to both parties. Microfinance Institutions (Regulation and Development) Bill 2012 which has been introduced should be strictly implemented to curtail the malpractices inherent in MFI sector.

Third problem is that they use coercive methods to get back their micro-credit amount. There should be a flexible repayment policy so that MFI beneficiaries should not feel stressed.

Fourth problem is of lack of diversity in their product range. Microfinance providers need to serve the varied needs of individuals in each micro market segments, therefore they need a customized marketing system in place. Innovations in micro-insurance is required from MFI side so that they can protect beneficiaries from various sorts of risks like weather risk, monsoon risk etc.

Fifth problem is that technology is not properly used. MFIs should improve their technology, which will significantly lower their operational costs and efficiencies may be gained during automated loan processing. This will make them cost efficient and thereby they can charge lesser rate of interest.

Sixth problem is that of poor coordination among MFIs. Better coordination among MFIs should be developed regarding pricing, monitoring, repayment conditions, market share, interest rate etc in order to avoid chaos in the sector. Emphasis on Corporate Governance.

There should be a fair and transparent corporate governance policy in place.

Seventh problem is that poor people, particularly agricultural labour and marginal farmers have to move from one place to another for employment. Majority of agricultural
labour and small farmers migrate from least developed regions to well developed regions for livelihood. A proper counseling can be a great help in this regard.

Joint Liability Groups are based on mutual trust, cooperation and coordination. One can easily find differences among members on the ground of caste, creed or religion. Again a proper counseling can be a great help in this regard.

The thesis justifies the role and relevance of microfinance in improving the life of the poor. It brings out the fact that productive use of funds is improving income level and standard of living.

The impact of microfinance on poverty alleviation is a keenly debated issue as we have seen and it is generally accepted that it is not a silver bullet, it has not lived up, in general to its expectation. However, if implemented and managed carefully, and when services are designed to meet the needs of clients, microfinance has had positive impacts, not just on clients, but on their families and on the wider community. There is, however, a need for greater assessment of these wider impacts if the true value of microfinance to development is to be understood. One such tool for measuring wider impact is a livelihood security analysis based on livelihood framework which analyze how a project impacts on the livelihood of beneficiaries.