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A Conceptual Perspective on the Impact of Micro Finance

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INTRODUCTION

Micro-finance means small-scale transactions of credit and savings. As such, it is largely meant to meet the needs of small- and medium-scale producers and businesses. Since its advent in early 1980s micro-finance has been the focus of many development issues. Besides financial services, micro-finance sometimes offers skill-based training to augment productivity or organizational support and consciousness-raising training to empower the poor. (Shahidur Khandkar, 2003).

The world's income distribution is very revealing. 94% of the world income goes to 40% of the population while 61% of the people live only on 6% of the world income. Half of the world population lives on 2 dollars a day and over 1 billion people live on less than a dollar per day (Bentul Mawa, 2008).

The idea of MFIs is to provide financial services to poor people who are generally excluded from the formal banking system and thereby are unable to receive credit as required (Morduch, 1999). Microfinance has become a buzzword among the development practitioners. "Microfinance" means providing poor families with micro credit) to help them engage in productive activities or develop their livelihood (The Microfinance Gateway, 2008). According to the International Financial Corporation (World Bank), the Microfinance Institutions have evolved through many factors which include the transformation of MFI providers, need for access to banking and financial services and the availability of funding supporting the MFI industry as well as development and usage of technology.

A Microfinance institution is a financial organization that provides banking and financial services to low income populations. However, this changed after the understanding of the fact that huge monies of trade invested in many assignments did not directly lead to the effect of benefiting the lower strata of society that had been expected. This made the change in the focus from all to a focus led group orientation, where MFI's commenced with funding focussed diverse assignments meant to make funding and banking services available to the lower strata of society (Schmidt and Zeitinger, 1997). Littlefield, Murdoch and Hashemi (CGAP, 2003) have opined that Microfinance its impact is just not providing business loans but something beyond. The needy leverage the finances provided not only for their business but also use it for managing their family and personal emergency requirements or maybe even cross utilize in other micro enterprises. Microfinance performs not only the role of a financial stimulator for poor and needy but directly or indirectly has a very large impact on the lives of families of the poor people as well as the social impact in society. In a very restrictive fashion, Microfinance is sometimes referred as providing micro credit for small business, the service being mainly delivered by socially oriented NGOs (Christen et al, 2003). It is believed that MFI programs will increase the per capita income and expand the banking systems by importantly providing finance, including other services to poor, small and semi small scale entrepreneurs (Aghion and Morduch, 2000). Microfinance is a tool to improve the quality of life of people with limited access to permanent financing. There is almost global consensus now that finance to the poor to achieve equitable and sustainable gains is the key element for economic and social development (Mayoux, 1999). Detailed evidence from research globally has proved that Microfinance is an effective and innovative tool for alleviating poverty (Simanowitz et al., 2000).

The MFI have expanded their outreach from a few thousand clients in 1970's to over 10 millions. The poor especially the women have emerged as creditworthy clients, enabling MF service delivery at low transaction costs without relying on physical collateral. The expansion of the outreach of savings services has a potentially significant impact on both institutional sustainability and poverty alleviation (Sharma, 2001)

The new millennium was ushered in by the UN by setting up a historic goal to halve the poverty by 2015. By emphasizing access to Micro Finance, the UN millennium project seeks to focus country strategies and programs on building inclusive financial sectors that will enable the achievement of the Millennium Development Goals (United Nations, Millennium Development Goals, 2005).Highlighting the significance of Microfinance, the UN Millennium project states:

Microfinance is one of the practical development strategies and approaches that should be implemented and supported to attain the bold ambition of reducing world poverty by half.

This is what the focus of this paper: a study of the impact of Microfinance. This brings us to the following research objectives:

- To study how Micro finance will contribute to per capita income
- To establish how Micro finance enhances the women empowerment
- To study how Micro Finance will impact nutrition and health

A key goal of this paper is to recognize all the researches that have been published in the past with regards to and in tandem with the objectives of this research.

CRITICISM OF MICRO FINANCE

While we have gone through the benefits of Microfinance, there are also many criticisms the microfinance product as such as a tool for poverty alleviation. One of the important criticism of Micro Finance is that it does not reach the poorest of the poor (Simanowitz, 2000). Generally, the approach is that the lender always is calculative about the profits made and hence the lenders discriminate against the poorest and generally the lenders will want the poor people who they believe have a better capacity to repay the loans (Wright, 2000). This criticism is not against Microfinance as such, but this is more on the way micro finance is being delivered to participants (Marcus, Porter and Harper, 1999). Sometimes, the products structured for micro finance may not suit the entire population and therefore leaves some of the potential participants behind and hence it is not all inclusive (Simanowitz, Walter, 2000). Most of the Microfinance companies follow a weekly repayment schedule that could prove challenging for the participants. The income cycle of the poor will change according to their business. Few of them will earn on weekly, few on fortnightly basis and some could be monthly as well and hence the weekly repayment method will be difficult (Marcus, Porter and Hope, 1999). The poor prefer credit with no collateral and will want speedy loans with reasonable fees (Peace Corps 45). To have a holistic impact, Micro finance organizations need to understand how their products match the needs of their potential customers and the way the participants can be pushed away from poverty line.

There is also another argument that microfinance could be harmful for women. Microfinance is thought of to be a path breaker when it comes to providing access to credit and ensuring uniform development. However, it is observed that whenever a woman takes a loan for a business, many times the men are the ones who control as to how the loan should be used (Rahman, 1975). It could also be challenging for the women to manage the business as well as the household (Cheston and Kuhn, 2002). Historically, women take care of the household and it has been the men who have struggled for eking out a livelihood. However, nowadays, more and more women are entering the working environment but they have to do this apart form managing the house (Grasmuck and Espanal, 2000). This does create a sense of stress for many of the women. That said, despite all the arguments, there is a very clear evidence of microfinance having a positive impact on women and women empowerment. Also, though the microfinance program could add increased stress for the women, there is a sense of independence and greater control over their lives as expressed by women (Cheston and Kuhn 2002).

The other general criticism is that Microfinance could create debt for the poor people that they cannot repay (Buss, 1999). While credit is being provided, the small business may not succeed due to various factors and thereby the business could fail (Wright, 2000). However, despite this, it has been observed that decrease of income is rare and Micro finance has a positive impact on the income and standard of living (Rosintan and Cloud, 1999).

SIGNIFICANT VARIABLES FOR UNDERSTANDING THE IMPACT OF MICROFINANCE

There are several factors the study of which can ascertain the impact of microfinance. Few of these factors i.e. per capita income, women empowerment, nutrition and health have been considered for this study.

Increase in per capita income :

One of the key impacts of Microfinance has been increasing the income thereby alleviating poverty. It can be inferred from various studies that various micro finance programs launched across the globe will have an impact on increasing the income levels of the beneficiaries by giving access to finance as well as other benefits to the beneficiaries (Aghion and Morduch, 2000). We can deduce that insufficient income level generates poverty, hence not providing access to basic living needs to people (Khawari, 2004). In the developing countries in Asia, Africa, Latin America, social organizations and NGO’s have leveraged micro finance to pull out people of the poverty (Hossain and Rahman, 2001). Hence, Microfinance is a good leverage to help people to raise their incomes and thereby lift their families out of poverty. It is now a common agreement that economic and social development of the world is only possible through uplifting people from poverty by providing credit for small businesses (Mayoux, 1999)

The micro finance institutions can provide small amount of loans with a higher frequency of disbursements. Micro finance is definitely a unique way of extending finance to the needy and ensure that the incomes of people are enhanced and are lifted out of poverty by engaging in productive activities (Kamal Vatta, 2003). Microfinance organizations direct their energies on poor households especially in the rural areas and offer micro short term loans as well as savings products. The results from studies clearly show the Microfinance Institutions increase the incomes of people thereby alleviating them from poverty (Khandker, 2005). Generally speaking, most of the poor rural households in are idle as they do not have funds for carrying out a livelihood. The poor are found working on the lands of other people in the village with no stable income. Once, the finance has been made available, the poor were able to generate their own livelihood through a small business and thereby improve their lives and increase their income levels (Morduch, 1999). It has also been observed that by eking out their livelihood has also enhanced their housing conditions. Poor people living in thatched huts migrate into living in tin houses or mud houses (Zaman, 2000).

There is concrete proof that individuals participating in Micro finance programs do have the pleasant outcome of increase in per capita income (Murdoch and Haley 2002:5, Simanowitz and Walter 2002:20). There have been many case studies to prove that participating in Micro finance programs increases the family income. Elizabeth Dunn in a study of Micro Finance in Lima, Peru has observed that only 28% of micro finance participants live below the poverty line compared to 41% of non micro finance participants. She also observed that the income of the Micro Finance participants were 50% higher than the non participants. The United Nations in a study in Vietnam found out that 97% of the micro finance borrowers were able to increase their income (United Nations Children's Fund, 2006).

Apart from the above studies, there is a classic example of Grameen Bank. In 1974, Mohammed Yunus commenced his journey with $27 just few years post Bangladesh independence. He formulated an alternate banking system starting his project in the village, Jobra. Fighting against all odds, he created Grameen Bank in 1983. Taking Grameen Bank as the model, micro finance programs has been the favourite tool for NGO's across the globe for poverty alleviation (Newaz, 2007). Grameen Bank offers small short term loans to approx. 7 mn individuals with 97% of them being women in 73000 villages across Bangladesh. Grameen Bank gives collateral free income generating loans and also gives collateral free loans to beggars to enable them to have a livelihood rather than begging. The Bank's internal survey disclosed that 58% of their borrowers have been lifted out of the poverty line. Professor Younus comments "I firmly believe that we can create a poverty free world if we collectively believe in it. In a poverty free world, the only place you would be able to see poverty is in poverty museums". The Nobel Committee, 2006 opined that Grameen Bank has positioned Micro finance into a very strategic tool to increase the income of the poor. The success of Grameen Bank is a study for Government policy makers for implementation of microfinance to increase the income and thereby remove poverty (Yaron, 1992). Thus, we can conclude that participation in Microfinance does have a positive impact on increasing the income of the participants.

Women Empowerment :

The United Nations as part of its Millennium Development Goals wants to provide gender equality and empower women. There are ~65% of women below poverty line (NWLC Analysis of 2014). Many of the micro finance programs focus on women with a direction to empower them. According to Page and Czuba, 1999, women's empowerment could be defined as a social multi factorial process that helps women to organize their lives. The empowerment of women has 5 ingredients including the sense of importance, right of decision making, right for resources and opportunities, right to control her life at work and home, ability to influence the direction of the social change to establish a more just social and economic system.

It is observed that betterment of women directly leads to betterment of family (Mayoux, 1997, Kabeer, 2001). With a focus on financial viability, many of the micro finance institutions rather prefer women participants as they believe that women participants are more reliable when it comes to repayment. It was also observed that if funds were channelled through self help women groups, there was a co-ordinated decision making pattern observed with a great focus (Holvoet, 2005). Prabhakara (2012) remarked that there is a dramatic improvement in the societal status and recognition of women in the society after joining the self help group associated with micro finance institutions. Women were able to generate more income and thereby support their families and had brought about a positive impact on the social and financial position of the family (Gowda and Manjula, 2012).

The World Bank Global Learning Conference, 2004 observed that micro finance positively impacts women's leadership, marital stability and control over the family resources. World Bank also reported that contributing to household income played a significant factor in her empowerment (World Bank Reducing Poverty, 2004)

The impact of Microfinance on women empowerment has been studied at a detailed level in the last decade. It was observed that in the backward areas of Assam, India, the Micro finance institutions have contributed significantly to the economic growth and development of women (Sarkar and Baishya, 2012). It was observed that access of credit to women played a positive role in improving their decision making capabilities, enhancing work participations, legal awareness and thereby providing direct opportunity for greater empowerment of women in Assam.

A study was conducted by a Micro Finance Institution in Ghana to understand the impact of micro finance on women empowerment. The study by Sinapi Aba Trust observed that doing a business not only improved their financial well being but also led directly to their empowerment. The access to funding has helped the women to improve their business and become more respected and confident as role models for the others in the community (Cheston and Kuhn 2002).

In a study in Kenya, it was reported that along with the women's income, there was a dramatic increase in the involvement of the women in community development programs and also actively participate in the development and well being of the families. There was a marked increase in the families betterment and upliftment (Jackline, 2013).

Awojobi, 2014 studied the influence of micro finance in women's empowerment in Lagose, Nigeria. The results of the study showed a direct and huge increase in household well being, family income and overall women empowerment. This was attributed directly due to the participation in the micro finance program.

The various case studies above clearly depict the fact that increased participation in microfinance programs lead to a direct impact on increasing the involvement of women in the family and society and thereby lead to higher women empowerment.

Impact of Microfinance on health and nutrition :

We studied the impact of Microfinance on income and women empowerment. Studies also clearly point out that microfinance has a direct impact on the health and nutrition of the needy people especially for women and children (Wright, 2000). We studied earlier that microfinance has a positive impact on income and thereby through increased income by participation in micro finance will definitely have a positive impact on health due to better access for healthcare as well as a higher nutrition (Simanowitz and Walter, 2000).

It was clearly evidenced in Uganda that 95% of the clients who participated in microfinance reported in better health and nutrition for their children as compared with 72% for those who didn't participate in micro finance programs (Foundation for Credit and Community Assistance Microfinance program).When it comes to AIDS, it was observed that at least 32% of microfinance clients have tried one AIDS prevention practice as against 18% of the non participating clients. Likewise, a study conducted in Bangladesh by Khandker proved) that access to microfinance has a beneficial impact on health especially women (Khandker, 1998).

It was categorically observed that having a regular income that was made possible through microfinance can enable the clients to seek access to better health facilities and food (Simanowitz and Walter, 2000)

Murdoch and Haley also conducted an extensive investigation into the effect of microfinance and its contribution towards nutrition with focus on children. When the study was conducted on children in Ghana, it clearly showed that the health status of children clearly was better for microfinance participants as against those who were not clients. The % of malnourished children for microfinance participants decreased by 8% while the malnourished increased amongst the non clients (Murdoch and Haley, 2000)

These studies clearly prove a point that microfinance has a direct impact on the health and nutritional well being especially for children. The income earned from microfinance is channelled towards these requirements by the microfinance participants.

CONCLUSION

Thus, it can clearly be concluded that participation in microfinance programs by poor and needy people can have an impact on their income, women empowerment, and nutrition and health levels. Microfinance has achieved the recognition by providing its services to the poor who are the backbone for microfinance. The microfinance companies do not provide freebies but they provide access to credit for the poor people. In the microfinance programs, poor are provided training and services as to how to help themselves. Also, it can be clearly inferred from the studies that there is a clear interlinkages between the variables. Increase in income leads to women empowerment as well as access to better healthcare and nutrition. Poor and needy people who have access to microfinance programs benefits themselves and family by increasing their income. Due to increase in income, there is an increase in the confidence factor for women and they start contributing positively to the family and community decision making leading to better women empowerment. Due to a better income, the clients are able to pay for better nutrition as well access to better healthcare which they may not have been able to afford earlier.

Thus, introduction of microfinance and access to micro credit has an impact in the income of the participants, increase women empowerment as well as improve the health and well being of people and nutritional levels.

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