

MICROFINANCE FOR POVERTY REDUCTION: TOWARDS IMPROVING THE OUTREACH IN GUJARAT

ABSTRACT

In India, the number of those living in poverty is 363 million, out of which 260 million are in the rural areas and 103 million in the urban areas. (Report of the Expert Group to Review the Methodology for Measurement of Poverty submitted to the Planning Commission 2014). For the overall sustainable development of the country, it is extremely important that the development of the poor also takes place. Although the economic growth of India during the last decade has been very impressive, about half of the population has not been able to participate in the growth story of India. In spite of the several efforts of the Government of India through its poverty alleviation programmes, the rate of reduction of poverty has been very slow. The growing microfinance sector in India is showing good progress, with an increasing outreach during the last three decades. However, various studies on the subject reveal that microfinance services reach those households that are either just below poverty line or above poverty line. The MFIs and the SHG-Bank linkage programmes are working well, but still have limitations to reach out to the poorest of the poor households.

As per the NABARD Financial Inclusion Report (2015), the MFIs in Gujarat are growing at a high rate. This study attempts to assess and identify the financial needs in rural areas of Gujarat, identify the extent to which such needs are fulfilled through microfinance and identify the constraints limiting the outreach of microfinance to the poorest in rural Gujarat.

Extensive literature review has been carried out, both in international and Indian perspective, taking into consideration the objectives of the study. Household surveys have been undertaken in 375 households from 11 districts of Gujarat (Ahmedabad, Anand, Dahod, Dangs, Gandhinagar, Kutch, Mehsana, Patan, Sabarkantha, Surendranagar, Vadodara). More emphasis has been given on the qualitative data received through focus group discussions, household interviews

and case study development. Five hypothesis have been developed which have been tested by the statistical tools like chi square and logistic regression. All the tests have revealed a significant relationship between variables. A discriminant analysis has been conducted to find out the discriminating variable between borrowers and non-borrowers from Banks, MFIs and SHGs. Annual income of households has emerged as a discriminating variable between borrowers and non-borrowers from SHGs and Banks and range of borrowing as the discriminating variable for borrowing and non-borrowing from MFIs.

This study shows that the coverage of formal microfinance sources in Gujarat is not adequate. There are still 69.3% of households surveyed who still need to borrow from the informal microfinance sources. Those who are able to access to the formal sources reported that their incomes have increased, reflecting a reduction in poverty. The study also brings out that with the increase in income, the need for borrowing amount increases and their preference moves towards the formal sources of borrowing.

SHG model brings in money management in the hands of the community which helps them become sustainable. MFIs too are reaching out to those poor households who are not able to access the Banks for borrowings. Once they develop good credit history with MFIs, they also become good clients for the banks. SHGs and MFIs are making the households bankable, by slowly providing them with the financial literacy trainings. MFIs had some examples to share where the client with the support of MFI funds was able to come out of the clutches of the traditional money lender, who charges abnormally high rates of interest from the households.

The study suggests that the SHG model should be promoted as entry point to accessibility to formal microfinance, with a special focus of forming SHGs of very poor households. Once they are nurtured upto a certain level and acquire maturity, they can be graduated and linked up with MFIs and subsequently with Banks.

This study has also identified scope for future research to develop models to suit the diverse microfinance needs of rural households and study the impact of the same on the annual income of the households.