

Role Of Micro Finance In Rural Empowerment: Review Of Literature

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ABSTRACT

Various studies have been conducted in micro finance in Sri Lanka, India and other countries. These studies have been conducted in considering macro-environmental factors, micro finance and employment, main challenges and issues in microfinance sector and micro finance and poverty alleviation in different methodological and analytical perspectives. This study is aimed at defining micro finance and the role of micro finance in rural empowerment. But, this proposed study is based on literature review. Review has focused on selected countries form SAARC region, the role of micro finance in rural empowerment, success and failures and solutions are mentioned in this study.

KEYWORDS: Literature, Micro Finance, Review, Rural Empowerment.

1. INTRODUCTION

There are number of studies that have been conducted in micro finance in Sri Lanka, India and other countries. Wei, Hongyong and Huanpeng (2019) studied about evaluating the sustainability of microfinance institutions considering macro-environmental factors using a cross-country study. Suhas, Arpita, Sangita, Bharat, Sandesh and Rajeev (2019) studied about potential of employment generation by marine fisheries cooperative organizations in Maharashtra. Rishan and Vidhya (2018) studied main challenges and issues in Microfinance Sector in Sri Lanka. Harshani (2018) studied about impact of micro finance on poverty alleviation in Sri Lanka with reference to Anuradhapura area. Weerasinghe (2015) studied about effectiveness of microfinance for poverty reduction in Sri Lanka. Eric, Alhaji and Esmeranda (2015) studied about achieving long-term poverty reduction and institutional sustainability in microfinance through the dynamic user focused approach. Jayasuriya (2007) studied about impact of the micro finance on poverty alleviation in Sri Lanka with the special reference to Sammurthi Programme. All these studies have been conducted in different context in different methodological and analytical perspectives. This proposed study is based on literature review.

2. OBJECTIVE OF THE STUDY

This study is aimed at defining micro finance and the role of micro finance in rural empowerment.

DEFINITION OF MICRO FINANCE

Several definitions have been given by several scholars, thinkers and institutions. Microfinance is defined as “provision of financial services to low income people” by the Consultative Group to Assist the Poor (CGAP) (Source: www.cbsl.gov.lk). Cambridge Dictionary has defined micro finance is the activity or business of providing financial services to the poor people or new business in poor countries. Brau and Woller (2004) defined that micro finance as formal and informal arrangements offering financial services to the poor. Asian Development Bank (ADB) has defined micro finance as the provision of broad range of financial services that includes services such as deposits, loan, payment, and insurance services to the poor and low income households and their micro enterprises. In Sri Lanka, Microfinance Act, No. 6 of 2016 defined the microfinance business, which is, “accepting deposits and providing (a) financial accommodation in any form; (b) other financial services; or (c) financial accommodation in any form and other financial services mainly, to low income persons and micro enterprises” (Source: www.cbsl.gov.lk).

MICRO FINANCE HISTORY IN SELECTED COUNTRIES OF SAARC REGION

In 1970, Prof. Dr. Mohammed Yunus established a micro credit movement in Bangladesh. He did a project on how financial system works among the poor people. Due to his project work, he contributed to MF, Grameen Bank and social business (Source: Web Sources). Ela Bhatt introduced women’s own SEWA Co-operative Bank in Ahmedabad, Gujrat in 1974. National Bank for Agriculture and Rural Development (NABRAD), India offered financial services to the unbanked women in India. NABRAD tested various models. Among them, SHGs are popular (Source: Web Sources). Sri Lanka has a long history in having a basic system of microfinance. ‘Cheetu’ in Sri Lanka, operating at least since the early 20th Century, is an informal but an effective way of savings and capital accumulation (Source: www.cbsl.gov.lk).

ROLE OF MICRO FINANCE IN RURAL EMPOWERMENT

Role of Micro Finance in Rural Empowerment is depicted in Figure 1.

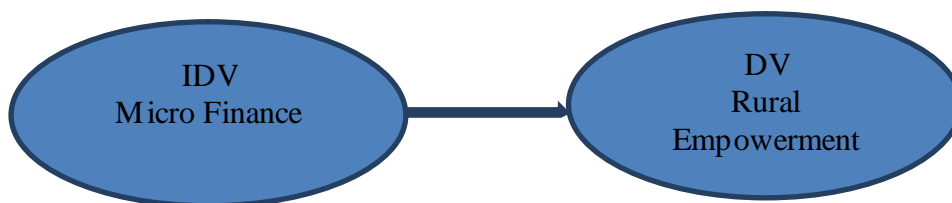


Figure 1: Role of Micro Finance in Rural Empowerment
(Source: Developed for Literature Review by Researcher)

CGAP (2006) has mentioned that increased access to finance would contribute towards (1) income- generating activities and thereby (2) improves savings habit (3) improves the living standards and (4) fights against poverty in sustainable ways (Source: www.cbsl.gov.lk). Increasing access to finance may lead to financial inclusion and economic empowerment. Income generating activities and improved savings may lead to economic empowerment. Fighting against poverty and improved living conditions may lead to social empowerment.

FINANCIAL INCLUSION

Financial inclusion may be an extension of micro finance which is an extension of micro credit/ micro loan. Financial inclusion can be depicted in Figure 2.



Figure 2: Financial Inclusion
(Source: Previous Literature)

Micro credit is micro loan/ grameen credit at micro level. Micro finance includes savings, credit, other financial services such as insurance and payment (Source: Ledgerwood, 1998). Financial Inclusion refers to making the unbanked people into banked people. Micro finance may support to financial inclusion. Globally, there are more than 3000 MFIs. There are 665 million clients’ accounts. Of these 665 million clients’ account, 120 million client accounts have understood MF (Source: Web Sources). When micro finance is available, poor people will have opportunities to start micro enterprises, employment and income generation which may lead to economic empowerment.

FINANCIAL INCLUSION: A FOCUS OF CO-OPERATIVE RURAL BANKS IN SRI LANKA

When cooperative rural banks accept deposits and give loans to rural people they are involving in financial inclusion. Number of Co-operative Rural Banks, deposits and loans contribute to financial inclusion. Numbers of Co-operative Rural Banks in Sri Lanka during 2009 to 2018 are depicted in Figure 3. Deposits and loans activities of Co-operative Rural Banks in Sri Lanka during 2009 to 2018 in Sri Lanka during 2009 to 2018 are depicted in Figure 3.

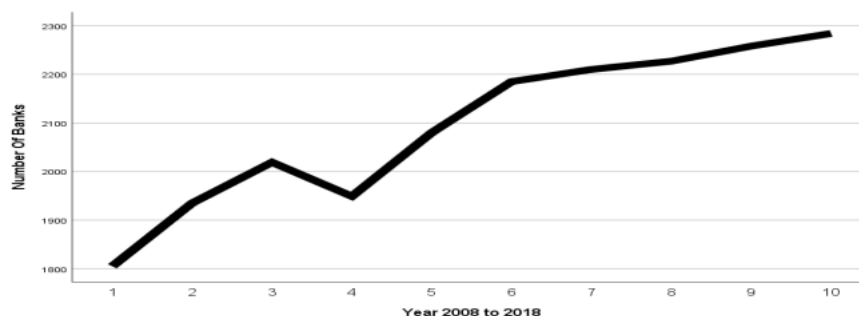


Figure 3: Co-operative Rural Banks in Sri Lanka during 2009 to 2018

There is an increasing trend in number of Co-operative Rural Banks in Sri Lanka during 2009 to 2018.

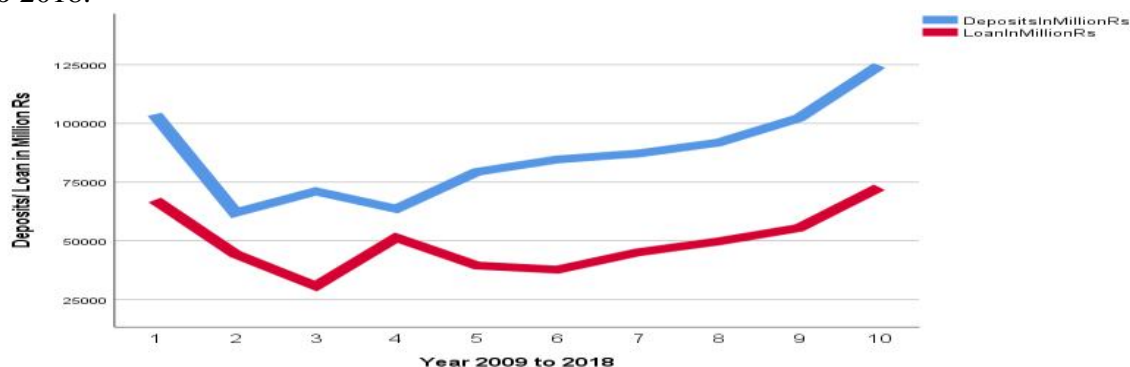


Figure 4: Deposits and loans of Co-operative Rural Banks in Sri Lanka during 2009 to 2018

* Loan is given to Agriculture & Animal Husbandry, Small Industries, Housing, Electrification & Water, Commerce & Other Projects, Other. There is an increasing trend in deposits and loans of Co-operative Rural Banks in Sri Lanka during 2009 to 2018.

DESCRIPTIVE STATISTICS

Descriptive statistics such as minimum, maximum, sum and means of deposits and loans of Co-operative Rural Banks in Sri Lanka during 2009 to 2018 are tabulated in Table 1.

DESCRIPTIVE STATISTICS

PARTICULARS	N	MINIMUM	MAXIMUM	SUM	MEAN
Number Of Banks	10	1805	2284	20952	2095.20
Deposits In Million SLRs.	10	61984	124640	870420	87042.00
Loan In Million SLRs	10	30781	72788	494425	49442.50
Valid N (listwise)	10				

TABLE NO 1

FINANCIAL INCLUSION: A FOCUS OF CREDIT SOCIETIES IN SRI LANKA

When credit societies accept deposits and give loans to rural people they are involving in financial inclusion. Number of credit societies, deposits and loans contribute to financial inclusion. Numbers of credit societies in Sri Lanka during 2009 to 2018 are depicted in Figure 6. Deposits and loans of credit societies in Sri Lanka during 2009 to 2018 are depicted in Figure 5.

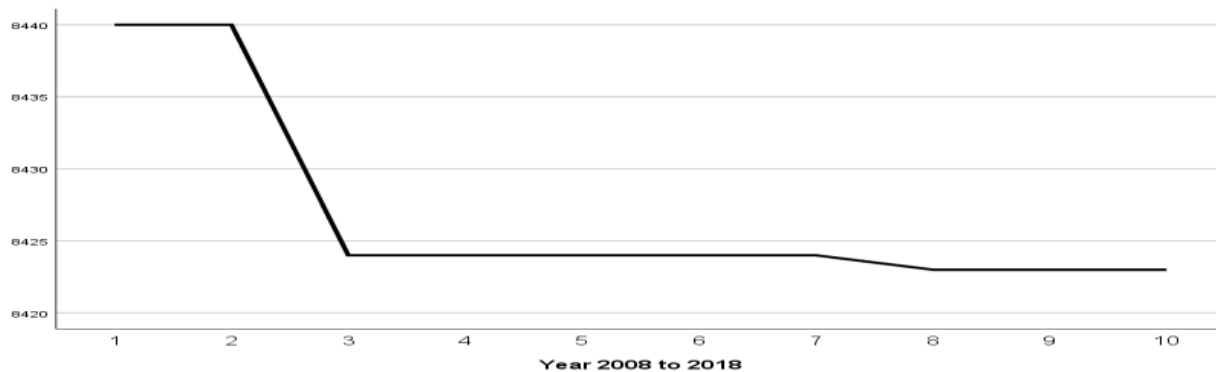


Figure 5: Credit societies in Sri Lanka during 2009 to 2018

There is a slight decline in number of credit societies in Sri Lanka during 2009 to 2018.

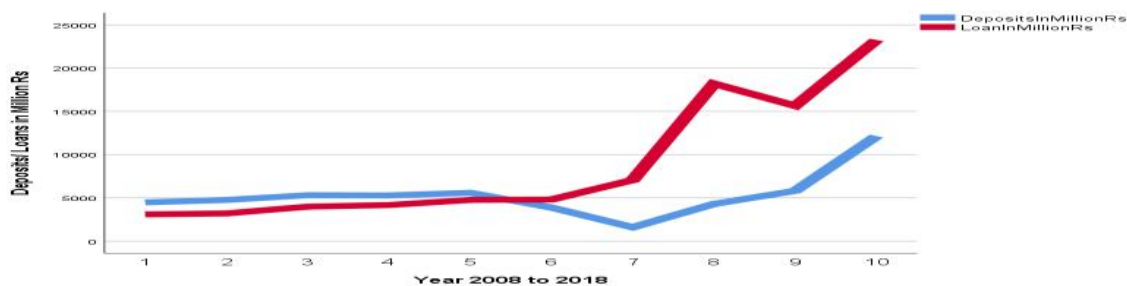


Figure 6: Deposits and loans of credit societies in Sri Lanka during 2009 to 2018

There is an increasing trend of deposits and loans credit societies in Sri Lanka during 2009 to 2018.

DESCRIPTIVE STATISTICS

Descriptive statistics such as minimum, maximum, sum and means of deposits and loans of credit societies are tabulated in Table 2.

DESCRIPTIVE STATISTICS

PARTICULARS	N	MINIMUM	MAXIMUM	SUM	MEAN
Number Of Societies	10	8423	8440	84269	8426.90
Deposits In Million SLRs	10	1603	12145	53184	5318.40
Loan In Million SLRs	10	3093	23256	88193	8819.30
Valid N (listwise)	10				

TABLE NO 2

In a nutshell, micro credit, micro finance and financial inclusion have grown in Sri Lanka recent years.

INCOME-GENERATING ACTIVITIES

MFIs give the Micro Credit/ Micro Loan to the poor people. MF gives MC/ ML to lower income people or the poor without collateral for undertaking micro enterprises. The poor people use their MC/ ML in Micro Enterprises. When people do Micro Enterprises they involve in

income generating activities. When people generate income it may lead to economic empowerment.

AMOUNT OF MC/ ML

Various countries such as Sri Lanka and India have defined various amount of loan for MF as tabulated in Table 3.

AMOUNT OF MC/ MF

COUNTRY	AMOUNT OF MICRO LOAN
Sri Lanka	Upto 100000 SLRs.
India	Maximum 25000 INRs.

TABLE NO 3

(Source: Web Sources)

MF taken by poor people can be taken for various purposes. Gant and Durrant (2002) have mentioned that poor people take MF for the following purposes as denoted in Table 4.

PURPOSES OF MF

LOAN LEVEL	LOAN AMOUNT IN SLRS.	LOAN UTILISATION
1	0- 3000	Consumption
2	3000-7500	Consumption and income subsistence micro enterprise
3	7500-30000	Start up
4	30000-100000	Micro enterprise expansion and housing
5	100000-500000	SME formalization and start up

TABLE NO 4

(Source: Richard, Dulan, Anura and Steve, 2002)

When such MF are taken by poor people it has to be taken for starting up a business as depicted in Figure 7.



Figure 7: Micro Finance and starting a business

There are success stories of poor people who have borrowed money from MFIs when they undertake MF in income- generating activities which may lead to economic empowerment.

There are success stories in countries like Paraguay, India, Sri Lanka and many more countries (Source: Web Sources).

WOMEN EMPOWERMENT

Micro finance empowers women. Web sources have indicated that in 2006, there were 704 MFIs Worldwide. There were 52 million borrowers. Of these 52 million borrowers, 51636000 borrowers are females. In percentage, 99.3% are women borrowers. Web sources have also indicated that in 2016, MF loans have been given to MF men and MF women. 84% of MF loans have been given to women. Web sources have indicated that in 2019, World Bank has estimated that more than 500 million people have benefited from MF operations (Source: Web Sources). When women have finance at their hands they may be financially, economically and socially empowered.

IMPROVING SAVINGS HABIT

MF improves savings. Web sources have indicated that Rotating Savings and Credit Associations (ROSCAs) promote savings among poor people in Kenya. There will be women group. Each women group will consist of 15 members. Each day, each woman has to save 100 shillings. Thus, $15 * 100 = 1500$ shillings will be saved per day. These saved 1500 shillings will be given to a woman. Woman who got these saved 1500 shillings from the group will invest this money for business expansion. At the end of the 15th day, 1st round of the savings will finish. Second rotation will start on the 16th day. Third rotation will start on the next month. This process will continue (Source: Web Sources). Savings are used to expand business further and further. Business expansion may also lead to income generation thereby economic empowerment arises.

FIGHTING AGAINST POVERTY

Remenyi (1991) categorized 5 levels of poor into poverty pyramid as depicted in Figure 8.



Figure 8: Poverty Pyramid

In one side, countries are rich. However, poverty is found among countries in varying degrees. In order to resolve the issue of poverty from poor people, MF is important. Using MF, poor people start their businesses and generate income which may support to fight against poverty.

FAILURE STORIES OF MFIS

MCs/MLs are given to few purposes. Although there are several purposes of MCs/ MLs they may be broadly categorized into two categories as depicted in Figure 9.



Figure 9: Broad Purposes of MF

When people use their MCs/ MLs to non-commercial purposes there will be failure. Borrower cannot achieve the purpose of MF. Poor- people will fall in poverty cycle as depicted in Figure 10.



Figure 10: Poverty Cycle

Multiple MLs can be borrowed from several MFIs at the same time. But, these MLs are utilized for non- income generating activities. MF borrowers may take money for agricultural purposes. When they involve in agricultural products agricultural products may not be successful due to bad weather. Agri- products and business may fail.

3. CONCLUSION

There are various definitions for MF. However, there is a consensus with regard to MF. MF is borrowed by poor people for engaging in micro enterprises. MF should be borrowed for starting up micro enterprises. There are success and failures depending on the usage of the MF. Government should intervene in MF whenever necessary. MF plays an important role in rural empowerment when it is used properly. MF plays roles in economic and social empowerment.

SCOPE OF FUTURE RESEARCH

This study is based on review of literature from several sources including web sources. Further researches are welcome in this area.

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