

Microfinance: A powerful instrument for economic empowerment of the poor

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It is widely acknowledged that people in the developing world who live on less than \$1 per day, and which constitute the majority of the world's population, do not have access to formal financial services. It is also acknowledged that out of this number, even those who fall into the category of economically active poor and operate micro-enterprises and small businesses that have much potential, still have no access to adequate financial services.

This fact highlights the actuality that the importance in increasing poor people's access to opportunity security and empowerment for economic growth and poverty reduction is often underscored.

This paper attempts to highlight microfinance - which has existed for many years under the shadows but has gained importance in the recent years. Microfinance is a collection of banking practices built around providing small loans mostly without collateral and accepting tiny savings deposits and is said to be nothing short of a revolution.

It emphasizes that microfinance is a successful means of poverty alleviation and empowerment for the poor and that it can make a real difference in the lives served, while contributing to the economic growth and development of the nation in which it is served.

Poverty and poverty alleviation:

Poverty is a condition in which a person or a social group is nearly excluded from means of production and consumption. It could be necessities of life or material resources such as food, water and shelter. From non economic frame of reference, it could be near absence of access to social resources, which could be identified as information, education, health care, social status or the socio-economic opportunities. Inability to avail opportunities is the most detrimental factor that prevents them from achieving a minimum standard of well-being and a decent life-style. That is why, the poor or the deprived section of the population can be found toiling or

engaged in low-wage or low-paid jobs and low-productivity or barely subsistence income generating self-employment and professions. This happens not by choice but out of compulsion. As a result, they face disguised hunger, underemployment, and social exclusion. As a consequence, they are vulnerable to a wide range of health and socio-economic problems.

Factors responsible for poverty:

Identifying factors responsible for existence of poverty is a field that requires focused and in-depth investigation by scholars of different sectors of the economy, which of course is beyond the scope of current discussion. However, it would be enough to quote many different factors that have been identified by concerned authors and experts that sustain or reinforce poverty. Some possible factors if broadly categorised could be identified as environmental, economic or political one. On further investigation, they could be acknowledged as unfavourable demographic, corruption and historical factors, cultural causes and discrimination of various kinds, etc.

It is a known fact that such identified factors make a large section of the people in developing countries lacking in knowledge, skills, assets and access to credit and financial services from institutions, which otherwise could have helped them to find productive jobs, enhance income, acquire resources, accumulate capital and generate wealth. Continued status quo further fuels the "Vicious Cycle of Poverty". As they have a limited capacity to accumulate or arrange capital, their productivity is restricted, incomes are inhibited, domestic savings remain low and again, any increases in productivity is prevented. As a consequence, their entrepreneurial drive and competencies are restricted to fruitless and barely sustaining wealth generating endeavors. Therefore, it can be concluded that the lack of access to financial institutions and their products hinders the ability of economically deprived entrepreneurs in such countries. They fail to engage in productive economic activities and create new business ventures. These circumstances inhibit economic growth and often, the sources and consequences of entrepreneurial activities

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