

## Role of micro-finance in poverty alleviation- An empirical study

GAURAV GUPTA AND SANJEEV GUPTA

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### ABSTRACT

The objective of the present study is to analyse the role of micro-finance in poverty alleviation. The present study was conducted in block Lakhimpur and Gola (Kumbhi) in District Kheri of U.P. Micro-finance is said to be an important tool of poverty alleviation among rural masses. The results of the study showed that scheme of micro-finance has helped the beneficiaries in enhancing their income, expenditure and savings after joining the scheme. The beneficiaries paid their loan on time and they have started contributing marginally to family kitty, improve their leadership and communication skills. They've established their own recognition and have started playing major role in decision making in their family along with their counterparts. Though the scheme has increased the income of the members marginally, it has the limitation of enabling the family to cross the poverty line.

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Micro-finance is not a new development. Its origin can be traced back to 1976, when Muhammad Yunus set Grameen Bank in Bangladesh. While banks were reluctant to give loans to the poor due to high default risk, Yunus believed that given a chance, the poor would certainly repay their loans. Micro-finance can be defined as the provision of financial services (such as credit, savings and insurance) to the members of low income households, which helps them to augment their income. Often the credit is given to the group of people especially women and the whole group is responsible for the repayment of loan. Having started as a fledgling industry nurtured by charities, micro-finance has now won the backing of the big international financial institutions such as World Bank and IMF.

Micro-finance in its present avatar has been in practice in India for more than 20 years and going by past records, one can infer that poor people repay their loans and use the proceeds to increase their income and assets (Gupta, 2008 and Pandey, 2008). They often start small business which taps into local market and sometimes even provide employment to other inhabitant in the village,

when their venture gains some size. Although the rate of interest charged by MFIs is generally higher than that of formal financial institutions, it is still much lesser than that charged by the local moneylenders. It has been noticed that that women in particular stand to gain a lot from micro-finance because it gives them an independent means of generating wealth and becoming self-reliant in a society that does not offer them much scope for entrepreneurship. And since it is woman who runs the household, a higher level of earnings for women ensures better standard of living for family and a healthier and more prosperous future for the children and also a better future for the nation.

### Recent development and controversies:

Micro-finance has grown at an explosive pace in recent years. It has gained a lot of significance and momentum in the last decade. Despite this growth, recently MFIs find themselves on a sticky wicket as they are facing the charge of levying high and opaque interest rates from borrowers and also of indulging in malpractices such as employment of goons to recover money from defaulters and of being responsible for driving some borrowers to suicide. We can say that the growth of MFIs (micro-finance institutions) has come not without some costs. These costs include over borrowing by the poor, extortionate interest rate and questionable recovery practices. These and the spectacle of promoters reaping huge gains in the name of uplifting the poor have caused a severe political backlash against the sector. All these

#### Correspondence to:

GAURAV GUPTA, Institute of Professional Studies (IPS), LAKHIMPUR-KHERI (U.P.) INDIA  
Email : ggupta.smart@gmail.com

#### Authors' affiliations:

SANJEEV GUPTA, P.G. Department of Commerce, Y.D. College, LAKHIMPUR-KHERI (U.P.) INDIA  
Email : sanjeev\_gupta08@yahoo.co.in