



## A STUDY OF MICROFINANCE AND POVERTY ALLEVIATION WITH SPECIAL REFERENCE TO ASSAM

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### ABSTRACT

One of the North Eastern States Assam has a great potentiality of employment generation, but it has a low opportunity in getting employment. It has been facing the problem of low entrepreneurship development till now. More than 30% (2012) people are still in the trap of vicious circle of poverty and about 27 % people are fighting with illiteracy. The capital deficiency is the main problem behind low employment and low-income generation. Therefore, the present economic condition of Assam needs more entrepreneurs for generating employment and reducing poverty. The entrepreneurship, however, in Assam can be created by the opportunity of bank loan. The loan opportunity of the microfinance, hence, is a very important determinant for alleviating poverty. Therefore, with respect to the present economic condition of Assam, this paper will try to look into the role of microfinance in entrepreneurship development and in poverty alleviation.

### INTRODUCTION

Assam is industrially very backward; therefore, employment opportunity is very low. Agriculture is the main sources of the livelihood of most of the people. The population explosion especially due to immigration leads to reduce land per head which it ultimately hinders even in the agricultural production. The immense immigration leads to over-exploitation of the forest area which ultimately impacts on the environment. The present economic condition of Assam requires more entrepreneurs for the creation of employment opportunity. But, although more than 30% people are still living in the below poverty line (BPL), means it has been facing the problem of capital deficiency and income inequality. The capital deficiency and income inequality can be reduced by the hammer of microfinance. Availing loan by the microfinance will create entrepreneurship and this entrepreneurship will bring development by creating employment opportunity and income.

#### The existing Literature

The researchers have already shown the positive relationship between entrepreneurship development and economic development.

Osugwu (2002) defined entrepreneurship as a catalyst to increase the rate of economic growth, creating job opportunities as well as reducing the dependence on import of manufactured products. Entrepreneurship has a positive effect on poverty alleviation (Kareem, 2015). Prof. Oghojafor and his co-authors in the paper "Entrepreneurship as an Intervention Strategy for Poverty Alleviation in Developing Economy" (2011) stated that enhancing entrepreneurship capacity improves the living standard of the people. The state Assam at present needs entrepreneurship development. But, although more than 30% people are still living below poverty line needs financial support at first. This financial support can be provided by the microfinance. Microfinance to fund micro and small enterprise will generate more employment; improve the standard of living, health, education, saving serve as a formidable measure to reduce poverty (Green, Kirpatrick & Munrinde, 2006).

#### Objectives of the Study

- To look into the trend of poverty in Assam.
- To investigate the problem behind the high rate of poverty in Assam.

- To analyze the linkages between microfinance and poverty.

## Conceptual Background

What we generally know about poverty is absolute poverty. Absolute poverty means the people those who are unable to afford for their basic needs, like food, clothing, shelter, education, health, and for sanitation. The Microfinance, on the other hand, is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services (Wikipedia, 2017). This microfinance is a source to provide banking service to the poor people. It is one of the instruments of inclusive growth.

## Unemployment and Poverty in Assam

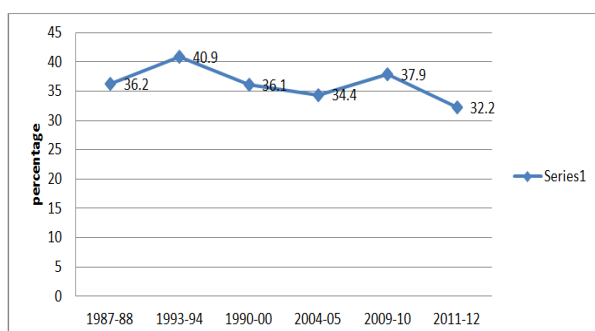
The industrially backward state Assam has a large number of unemployment and poverty rate. Unemployment rate increases with the increase in the educational qualification of the people. The more qualification the more is unemployment. The unemployment problem in Assam leads to migrate to other states and other countries in search of work. The industrial sector could not absorb the excess agriculture labour. The number of rural and urban unemployment according to their educational qualification is shown in the following table.

**Table 1. Unemployment of per 1000 people according to Usual Principal Status**

Sl.no	Educational Qualification	Unemployment (Rural)	Unemployment (Urban)
1	Not Literate	12	225
2	Below Primary	2	-
3	Primary	37	135
4	Middle/Secondary/Sr.Secondary	62	107
5	Diploma/Certificate	104	205
6	Graduate/Above	352	151

Source: Ministry of Labour & Employment (2013)

The data shows that unemployment rate increases with the increase in educational qualification. There is only 2 people are unemployed out of 1000 people whose educational qualification is below primary level.



Source: Planning Commission

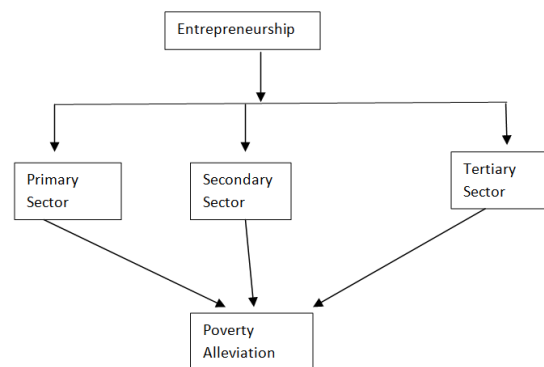
**Figure 1. Trend of Poverty in Assam**

However, its number increases with the increase in educational qualification. Its number are 37, 62, 104 and 352 in the primary, secondary, diploma and graduate and above respectively in the rural Assam. However, in urban Assam, the unemployed person is high in all the stage of the educational qualification. The poverty rate in Assam is stagnating above 30 percent which is higher than the national average. It is one of the challenges of inclusive growth. According to the Headcount Ratio total 36.2 % people are living below poverty

line in 1987-88. It had increased to 40.9% in 1993-94. The trend of poverty rate can be shown by the following diagram. The rate of poverty is above 30% since 1987 to 2012. A large number of vulnerable groups is one of the big problems for development. The problem of poverty is also threatening to the environment. By the observation the people those are illegally occupied in the forest and slum area are poor.

## Entrepreneurship development and Poverty Alleviation

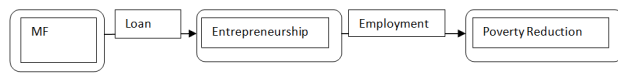
About 27 % people are still illiteracy and a large number of literate people are unemployed in Assam. Acquiring the same type of education may not get employed by all although economic development needs diverse skills. The lack of these skills is one of the important reasons of high poverty in Assam. The present economic condition of Assam needs more entrepreneurship development in the primary, secondary and tertiary sector. Assam has a great potentiality of allied activities like fishery, animal husbandry, horticulture, forestry etc. The development of these allied activities will reduce poverty through the generation of employment. The government cannot provide government jobs to all unemployed youth. Therefore creating self-employment is utmost necessary for the development of the state. However, for creating self-employment, the government should provide the basic facilities to the people. The main problem with creating self-employment is the capital deficiency. Capital deficiency means here both human and physical capital. Therefore, the two important instruments for reducing poverty in Assam are (1) Creating Human Capital and (2) Creating Physical capital. The entrepreneurship development and poverty alleviation can be shown by a following Figure 2.



The above figure shows the linkages between entrepreneurship and poverty alleviation. The entrepreneurship development in the primary, secondary in the tertiary sector will lead to the creation of employment. This employment generation will reduce the poverty to some extent.

## Linkages between Microfinance, Entrepreneurship Development, and Poverty Alleviation

The state Assam needs sufficient capital and entrepreneurship for the development. Lack of industrial development implies insufficient entrepreneurship development in Assam. Moreover, it is not developed in agriculture and allied activities too. Therefore, the present economic condition of Assam needs entrepreneurship development. But, both physical and human capital development is the most required factor for entrepreneurship development. The physical capital development can materialize by the facilities of bank loan.



**Figure 3. Linkages between Microfinance, Entrepreneurship, and poverty alleviation**

Therefore, in this case, the role of microfinance is necessary. The facilities of the bank loan will encourage the people to be entrepreneurs which ultimately lead to creating real entrepreneurs. The state Assam needs more banking coverage and financial education. The banking coverage and financial education or financial inclusion will reduce the role of non-institutional finance. Making more engagement of people with institutional finance will create more entrepreneurship in Assam. The entrepreneurship development will generate employment opportunity and this employment opportunity will create income.

### Conclusion and Policy Implication

Geographically Assam lies in the drought-free zone and it is rich in natural resources too. It has a great potentiality for generating employment and income. But, the present economic condition of Assam is obliged to face the problems of unemployment and poverty due to unexplored or underexplored in its potentialities. More than 30% poverty rate is a really dreadful economic condition. Its per capita is only Rs.49,480 (2014-15) less than national average Rs.87,748. At present what the economic condition of Assam in need is to removal poverty in Assam through different developmental policies. The microfinance can play a great role in reducing poverty in Assam.

### A few of the policy implications have given below.

- There should increase the institutional financial coverage in the state to reduce the role of non-institutional finance.
- Financial education is still neglected in Assam especially below class X. Therefore, financial education should be included in the curriculum.
- Diverse entrepreneurship education should be provided to its people.
- Microfinance institutions itself should involve at the grass root level through their permanent agents. The people, generally, lost their trust in temporary agents due to existence some fake microfinance.
- The government should sharply keep its eye on fake microfinance institutions. The fake microfinance institutions discourage the people to involve even with trusted microfinance although they are still lagging in financial education.

- The government should implement some schemes properly, like Start-Up India Scheme.
- The lending and borrowing rules should make easier to encourage the entrepreneurs.
- After all, different steps can be taken to enhance more role of microfinance. The government, as well as NGOs, can take different initiatives to develop entrepreneurship. The entrepreneurship development in primary, secondary and tertiary sectors will lead to innovation for the development of the state. Geographically Assam is in the middle of the North Eastern states of India and it has a great potentiality of trading with the South East Asian Nations.

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