

Microfinance as a Strategy for Economic Development and the Pathway out of Poverty: The Provision of Financial Service for the Poorest of the Poor

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The alleviation of poverty is necessary for economic development. Most of researchers have pointed out that financial development and poverty alleviation have a positive relationship. The provision of financial facilities for every person who needs financial facilities, will boost economic development and reduce poverty and also have inverse relationship. However, most poor people suffer from a lack of financial facilities because formal finance institutions are reluctant to supply financial facilities for these people because of market failures and the lack of collateral. Therefore, financially destitute people financially depend on informal sources with high interest rates and other barriers, which push them to be poorer in the long term. However, without such sources their life may be more miserable, since they cannot even meet their current financial requirements. Therefore, it is worthwhile to introduce risk managed financial services for the poorest of the poor. It is a common belief that the provision of financial services for the poor is not a profitable business. However, some successful microfinance institutions have shown that the provision of financial services to the poor is a profitable business while these institutions remain as self-sufficient institutions.

The objective of this study is to discuss techniques which help to reach even the poorest of the poor to eradicate poverty while microfinance institutions perform as sustainable self-sufficient financial institutions.

Some techniques can be recommended to achieve this objective. One technique would be to introduce more flexible low cost risk management varieties of financial services for this segment of the population after carefully identifying their economic, financial and social background. Further, instead of eliminating informal money lenders, they can be employed as agents for formal financial institutions' rural financial services by implementing some rules and regulations. Further, microfinance institutions can introduce special financial services for remittance and remittance transfer. Apart from these, it would be worthwhile to introduce an insurance scheme according to the risks faced by poor. Also, it would be cost-effective to supply other services, such as an advisory services, marketing services and technical assistance along with financial services. These techniques themselves are helpful for financial institutions to operate as self-sufficient financial institutions. However, there are many reasons for poverty. By providing financial facilities some problems can be overcome, but to eradicate poverty it is necessary to find solutions for other structural problems in remote areas, along with the provision of financial services.

Key words: Microfinance, the Poorest of the poor, Poverty alleviation