Microfinance and Human Development in Kerala

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Abstract

This paper examines how microfinance institutions impact human development indicators using the case of Kerala in southern India. The study uses an institutional approach to understand microfinance institutions with the help of three variables - core activities, total loan portfolio and approach to microfinance. The impact of microfinance institutions on four human development variables namely education, health, income and participation are analyzed. The main conclusion of the study is that microfinance institutions that follow an integrated approach impact human development more than those that follow a minimalist approach. Furthermore, this impact of microfinance institution is due to production functions that generate income and protective function that defends against vulnerability. Therefore, an integrated approach to microfinance has income generating and risk mitigating effects that translate into better human development indicators.

Keywords: Microfinance, Human development, Financial inclusion, Social welfare, Kerala

1. Introduction

Microfinance is a development intervention that provides capital to poor borrowers in order to increase their income, finance their microenterprises, and eliminate poverty (Cull & Morduch, 2017). The introduction of microfinance shifted the responsibility of aligning financial and social goals of communities from governments to market-based mechanisms (Conning & Morduch, 2011). Initially, microfinance was developed as donor dependent credit programs serving specific borrowers in developing and transition economies. Microfinance Institutions (MFIs) were later integrated with formal financial institutions to offer a wide range of financial products using diverse lending strategies and contractual frameworks.

In 1989, the World Bank Conference on Micro Enterprises popularized the term 'microfinance institutions' for financial intermediaries that connected poor communities to formal banking through credit markets. However, the presence of traditional organizations that rotated savings among their members has been noted since the 16th century in the microeconomies of South and South-East Asia, West Africa and the Caribbean (Seibel, 2007). These organizations underwent incremental changes in their objectives based on the new and emerging demands of its members. For instance, many groups that initially passed around work evolved to rotate loans and savings among its membership. Similarly, groups that were involved in non-monetary transactions progressed to various types of currency exchanges. Some short-term lending groups became long-term institutions that dealt with diverse financial and non-financial services for its members. In this manner, traditional financial organizations evolved into self-help groups and various types of informal financial institutions, leveraging credit to communities based on local microeconomic conditions.

The theoretical schism in microfinance literature owes to this institutional and performance diversity that arose out of varying developmental needs (Morduch, 2000). In development economics, modernization theory argued that the war damaged economies of Europe could be modernized by capital infusion via development banks (Seibel, 2007). This approach was then transferred to the newly independent developing countries with the result that cheap credit through donor aid and private capital flows undermined rural development and destroyed the indigenous institutions (Adams, Graham & Pischke,1984). As a result, a new policy framework called 'linkage approach' was proposed to link informal financial institutions such as credit associations and funeral societies, which were already flourishing in these economies, to formal institutions through the introduction of management practices, operational procedures and regulation (Seibel, 2001). MFI is one such intermediary linkage institution.

The mandate of microfinance has been a question of much contention. MFIs have been perceived as a tool for financial inclusion and poverty alleviation through microcredit as well as a much larger transformative socio-economic institution impacting human development. The human development framework uses a pluralistic concept that imagines the role of income, health, education, participation and wider choices to make human life meaningful (Sen, 2000).

In India, the recently concluded national planning framework called the twelfth five-year plan (2012-2017) mandated a target of 90 per cent financial inclusion of the population as part of its poverty alleviation objective (NABARD, 2019). Following this, the National Bank for Rural and Agricultural Development (NABARD), the apex institution for financing rural development, designed an assortment of financial intermediaries such as MFIs and small finance banks, to link informal community institutions with formal financial banking. Since

2013, through the second phase of self-help group bank linkage program, NABARD expanded the objectives of microfinance to include rural livelihood development ushering an integrated approach. In this context, this paper discusses the human development impact of MFIs using the case study of Kerala in India.

Kerala is known for its developmental model of high investments in health and education levels, public action culture of its grass communities, and tiered levels of decentralization of its local governments (Parayil, 1996). This paper examines how MFIs in Kerala extend financial outreach activities and improve human development indicators to its member communities through an analysis of their institutional framework. The second section brings out the debates concerning the mandate of MFIs. In the same section, the correlation between microfinance and human development is traced with the help of case studies. Section 3 gives an overview of the types of MFIs in India. In section 4, the case of MFIs in Kerala is examined with the help of three variables- core activities, loan portfolios and approach to microfinance. The study concludes that an integrated approach to microfinance generate income generating and risk mitigation effects that lead to the improvement of human development indicators in comparison with the minimalist approach. Section 5 summarizes the main arguments and indicates possible avenues for future research.

2. Theoretical Approaches to Microfinance

The underlying rationale behind MFIs is that the financial services available to the poor has serious institutional limitations in terms of cost, risk and convenience. MFIs increase the demand for credit by lending to poor individuals, groups and enterprises at low risk and low cost. They also act as financial intermediaries between poor communities and formal financial institutions. The sustained presence of MFIs could potentially pave way for domestic financial and capital market reforms in contexts where governance structures are not supported economically or politically towards reforms.

Modern MFIs adopt various institutional organizations and strategies for optimal performance based on their microeconomic conditions. For example, the delivery vehicles for credit disbursal could be a non-governmental organization (NGO), commercial bank or some hybrid institution. The functional technology that MFIs use vary from minimalist (providing credit and savings alone) to integrated approach (providing a range of financial and non-financial services). Therefore, the evaluation of MFIs is gauged either at the individual or institutional level, through variables such as outreach to communities, financial sustainability and quality of the service provided (Bhatt & Tang, 2001).

There are broadly two approaches to microfinance - welfarist and institutional. The welfarist approach argues that the objective of microfinance is alleviation of material and non-material poverty through development intervention. The performance of MFI is evaluated with the help of variables such as outreach to poor communities and borrower welfare. On the other hand, the institutional approach argues that the objective of MFI is financial inclusion and its performance is assessed by financial sustainability. These two approaches have given rise to distinct institutional forms of MFIs.

The diversity in institutional objective and legal status impacts the performance of MFIs in specific contexts because the cost of capital is significantly different for a commercial oriented institution than for a not-for-profit organization. For instance, when MFIs have access to external funding through subsidies or private donations, the benefit is passed on to borrowers as affordable credit (Ghosh & Tassel, 2011). On the other hand, MFIs that follow the commercial model of capital expansion through equity and debt funding, have high cost of capital and increased risk of non-payment from its borrowers (Hoque, Chishty & Halloway, 2011). Consequently, MFIs that follow the commercial institutional structure focus on financial sustainability than outreach, whereas those that follow social welfare logic aim for outreach amidst low profitability (Im & Sun, 2015).

In a comparative study between various types of MFIs, it was found that commercial MFIs were more financially sustainable than NGOs because the risk associated with their credit portfolio was lower (Tchakoute-Tchuigoua, 2010). Another study that compared NGO and non-NGO MFIs attributed the difference in performance to the manner in which outputs were chosen for a given set of inputs (Guitierrez-Nieto, Serrano-Cinca & Molinero, 2006). For the inputs namely assets, cost and employees, the outputs for commercially minded NGOs were loans and revenues. For the socially minded NGOs, additional parameters such as poverty alleviation and women empowerment were considered. Overall, NGOs that were financially sound were also socially sound, and there was a positive correlation between women empowerment and poverty alleviation (Guitierrez-Nieto, Serrano-Cinca & Molinero, 2006).

The minimalist approach that proposes microcredit was shown to increase poor communities' access to credit, enable risk mitigation and strengthen social ties. However, in a randomized control trial evaluation, microcredit also led to lower subjective well-being and fewer entrepreneurial activities (Karlan & Zinman, 2011). Another evaluation of microcredit has also shown that while there are benefits such as income generation and consumption smoothing for select individuals in the short term for microcredits, there are negative knock-on effects and opportunity costs in the long run (Bateman & Chang, 2009). It is in this theoretical debate of MFIs designed for financial inclusion as opposed to social welfare that this study examines the impact of MFIs on human development in a developing context such as Kerala in southern India.

2.1 Microfinance and Human Development

Human development envisages the improvement of the human condition so that people enjoy longer, healthier and fuller lives (Ranis & Stewart, 2000). Human development takes a multidimensional view of poverty and proposes raising income as well as improving health, education and allied services to the poor that enlarge their capabilities. Defined in this manner, human development has a physical component that involves variables such as income, health and education as well as a choice component such as participation, political freedom and cultural development. The main characteristics of human development is that its distinct components are heterogeneous and non-commensurate, i.e., an abundance of one component like income does not substitute for the inadequacy of another such as health.

Financial inclusion is the development intervention that enables formal financial institutions to connect with economically excluded communities. In addition to credit linkage, financial inclusion also mitigates risk by providing links to market through information and physical infrastructure which enlarges human capabilities (Kuriakose & Iyer, 2015). MFIs help in achieving the goals of financial inclusion.

MFIs can adopt a minimalist or integrated approach to achieve the mandates of financial inclusion. An integrated approach to microfinance has four types of impact on poor communities - economic, political, social and cultural (Zohir & Matin, 2004). The economic benefit accruing from MFI is to increase the liquidity of credit by lowering transaction costs and providing employment opportunities. MFIs also provide social services and strengthen social bonds through solidarity within groups as part of its social component. The political impact of MFI is achieved when members participate widely in representative elections, influence policy and mobilize for rights. Integrated MFIs also influence cultural mores through strengthening the belief systems and norms.

Integrated MFIs thus provide material capital (credit, savings, insurance) with human capital (education and skill development) and social capital (democratic organization and representation). An integrated view of financial inclusion ensures that both heterogeneity and non-commensality of the components of human development is provided to communities (Kuriakose, 2013). In addition to infusing steady liquidity to finance projects, they also help in creating private institutions to provide public services and increase the financial penetration of formal institutions (Otero, 1999). Integrated microfinance enables conditions for improving the living standards of poor communities to the extent that interest rate on credit is reasonable, the process of borrowing is simple and operational assistance is provided in addition to credit and employment opportunities (Khan & Rahaman, 2007). This is substantiated by case studies in a wide variety of developing contexts.

For example, in a comparison of microfinance interventions in Ghana and South Africa, it was found that in addition to credit, microfinance improved business incomes, women's condition and delivery of social services to the communities (Afrane, 2002). In the low-income neighborhoods of Lusaka, Zambia, microfinance interventions had a direct impact of increasing income and an indirect impact of enabling access to services including further credit (Copestake, Bhalotra & Johnson, 2001). MFIs in Malaysian communities were found to lift communities out of poverty by increasing income, expenditure and consumption patterns in addition to improving health and education (Saad, 2010).

The underlying process that make MFIs achieve human development targets is their modus operandi. In developing economies, the mechanism through which MFIs lend to the poor is through joint liability groups (JLGs). JLGs address the problem of information asymmetry in financial inclusion because members of the group have more information about each other than the lending institution (Fischer & Ghatak, 2011). For example, the problem of moral hazard in selecting members is done through monitoring by fellow-members in a self-help group (Banerjee, Besley & Guinnane, 1994). Another inefficient outcome, adverse selection, is avoided through screening by peers (Ghatak, 2000). Through strict auditing, peer-groups reduce transaction costs to the lending institutions whilst enforcing repayment on schedule.

The second method of implementing MFI is through individual contracts in lending. In transition economies such as China, Russia and Eastern Europe, rather than peer-based group lending, individual-based contracts are given based on collateral put up by third party guarantees (Armendáriz de Aghion & Morduch, 2000). In these contexts, the demand is to not only to claim safe and convenient savings products, but also to appropriate investment opportunities because of the risk of depleting purchasing power parity due to high inflation.

A comparison of the method of MFI operation goes back to the basic institutional structure of commercial and welfare models of MFIs (Cull, Demirgüç–Kunt & Morduch, 2011). The choice of modus operandi depends on contracting mechanism, level of commercialization in the local economy, rigor of regulation and the extent of competition from other lenders, especially banks. Commercial MFIs target financial sustainability through large sized loans. On the other hand, welfare lending use joint liability groups, encourage substantial participation of women and provide smaller loans.

It is important to note that financial sustainability and social welfare of MFIs are not mutually incompatible. Non-profit MFIs earn a small amount of profit in their operations even though their model of lending widely differs from the commercial counterparts. Extraneous factors such as competition from banks steer MFIs towards poorer clients. Similarly, rigorous regulation of repayment disproportionately punishes the relatively well-off customers to maintain profitability of the MFI. Therefore, newly emerging hybrid organizational structure of MFIs combines the development aspect of microfinance with the financial inclusion aspect by modifying organizational objectives, hiring practices and socialization (Battilana & Dorado, 2010).

Furthermore, macroenvironmental factors such as economic policy, geography and institutions determine how a well-functioning MFI market function (Vanroose, 2008). For example, in developing countries with low per capita gross national income, MFI markets function well in service oriented microeconomies with high literacy rates, population density and good infrastructure such as clean water and sanitation, communication technology and interconnectivity. In other words, for MFIs to extend beyond poverty alleviation to human development and entrepreneurship, a certain level of prior investment in the health, education and physical infrastructure is required. In such contexts, the performance of MFIs is determined not only by loan repayment rates, but also, by social performance matrix and entrepreneurial infrastructure. Kerala in southern India is one such case study.

3. Models of Microfinance Institutions in India

The institutional approach to microfinance draws from the formal model that describes the debt contract between the borrower and the lender (Armendáriz de Aghion & Morduch, 2000). The assumption is that borrower has all bargaining power because the borrower has no external source of funding. Consider a two-period model in which a loan of size D is extended at the beginning of each period t. In each period the borrower uses the current loan to invest in a project. There is an incentive compatibility constraint which means there is a likelihood of non-payment after collecting the first tranche of loan. Repayment is considered profitable over non-repayment if

$$\pi + \delta \upsilon \pi \leq \pi - R + \delta \pi$$

where, π is the return from t_1, δ is the discount factor, υ is the probability of being refinanced by the borrower and R is the debt obligation of the borrower. This is the essence of microfinance lending in practice.

Based on this model, the United Nations proposes two institutional approaches to microfinance (Bhaskar, 2015). The first approach is formal financial institution-based program in which banks, cooperatives and credit union networks are involved in microfinance. The second approach is through community-based institutions in which informal community groups are linked to formal financial sector through the linkage method. Correspondingly, MFIs in India can be divided into providers and mutual organizations (Sriram & Kumar, 2007). Providers follow the formal financial institutional approach of being external financial intermediaries that work with the objective of improving financial inclusion by giving credit as well as risk mitigation services.

Mutual organizations are cooperative-enabled institutions that link informal self-help groups (SHGs) with formal thrift groups and cooperatives. Mutual organizations can be facilitated by banks that set up SHGs and finance them, NGOs that set up SHGs and link them to banks or NGOs that select SHGs and fund them. The World Bank defines SHGs as village-based organizations that focus on building savings, credit and empowerment of women (Bhaskar, 2015). SHGs act as financial intermediaries, vehicles for alternative service delivery such as contractual labor, health and childcare services, providing training for vocational skills, and functioning as a platform of civic engagement.

Based on the delivery of services, MFIs in India can come under four institutional types (Viswanath, 2015). The typology is based on the scope of services delivered by MFIs. Broadly, they can be further categorized as following minimalist approach that focusses only on credit-related services, or integrated approach that expands credit facilities with additional services. The typology of MFIs in India based on service delivery is summarized in table 1. The first two types (Type 1 and 2) follow a minimalist approach to microfinance. They are MFIs that deliver strictly microcredit and those that provide microcredit and financial services. The third and fourth types of MFIs (Type 3 and 4) adopt integrated approach to microfinance, providing capacity building initiatives, social and developmental services.

Table 1. Type of MFIs in India based on Service Delivery

MFIs in India			
Minimalist Approach		Integrated (Microfinance Plus) Approach	
Type 1	**Type 2**	**Type 3**	**Type 4**
Microcredit	Microcredit	Microcredit	Microcredit
	Financial Services	Financial Services	Financial Services
		Capacity Building	Capacity Building
			Social and Developmental Services

Source: Viswanath (2015)

In the next section, the case of Kerala is examined to understand the way in which the institutional structure of MFIs based on the minimalist and integrated types function in the specific socio-economic context of the state.

4. Analysis of Microfinance Institutions in Kerala

Kerala, the southern-most state, is one among the 29 states of India. It is further subdivided into fourteen administrative units called districts. Kerala has historically had a port-led export-oriented trade economy because of its lack of abundant industrial raw materials (Dreze & Sen, 2007). The region has a microeconomy with high adult literacy rates, education levels and high remittance levels. In comparison with all Indian states in human development index on health, education and income indicators, Kerala ranks first (Government of India, 2019). Moreover, there is a high degree of political awareness among its community as well as the presence of well entrenched community organizations. These organizations are either faith-based from the prominent Hindu, Christian and Muslim communities or secular such as workers' cooperatives with cross-community membership.

Kerala's approach to microfinance was influenced by the reforms of institutional decentralization that took place in mid-1990s. This followed the national policy that mandated political and financial devolution of power through the 73rd and 74th constitutional amendments following economic liberalization in 1991. In 1995, the sub-national government in Kerala transferred the management of departments that dealt with social and development assistance to the local governments. Following this in the next year, the regional government further allotted a third of its financial resources to the local governments and launched a 'people's plan campaign model' of development in which the local communities could make decisions on how development plans could be allocated.

Political and financial decentralization in Kerala was followed by an agenda for poverty alleviation through financial inclusion and human development. In 1998, the sub-national government in conjunction with National Bank for Agriculture and Rural Development (NABARD) began the State Poverty Eradication Mission with women empowerment as its core component (Deepika & Sigi, 2014). Later christened 'Kudumbashree', this initiative encouraged thrift mobilization, informal banking, and funding individual and group microenterprises among women. The integrated microfinance approach adopted by this mission focused on credit through bank linkage programs, livelihood through capacity building and delivery of social services with the help of programs targeting women and children.

This integrated microfinance initiative used the tiered structure of local government institutions to reach out to the communities. As part of credit disbursal, the neighborhood groups that were formed as part of this program helped in providing group savings as collateral for loans as well as selecting the amount of loan, the purpose for which it is to be used and the repayment schedule. As part of the second initiative livelihood, the needs of the community and the availability of local resources were integrated into production activities that were small-scale and relied on local markets and short supply chains. Since the literacy rates of community members was high, the entrepreneurial intervention in Kerala required both short term programs through employment support programs, and long-term support through capital, scaling up and marketing with the help of partnership with stakeholders (Kuriakose & Joseph, 2015).

In 2019, Kerala had a total of 16 MFIs operating across the fourteen districts. The data presented in the analysis is collected from various secondary sources such as the national report on microfinance supported by NABARD and the publicly shared information in the websites of the given MFIs. The institutional analysis of how MFIs in Kerala impact human development is taken with the help of three variables - core activities of MFIs, total loan portfolio and approach to microfinance.

4.1 Core activities

Kerala has two main types of MFIs based on their mode of operation in linking poor communities to formal financial institutions. The first type uses the approach of 'relationship banking' to improve poor communities' relationship to banks via social intermediaries. The second approach is that of ‘linkage banking’ which uses the network of multiple partners resulting in increased outreach through flexible informal relationships. The summary of Kerala’s MFIs is given in Table 2.

From the table, it is clear that MFIs are of different institutional types based on legal status- Non-Banking Financial Corporations (NBFC), trusts, societies or corporation. The type of legal status influences the mode of operation, loan size, classes of communities that are reached out, as well as design of the core activities. The core activities of MFIs indicate purpose of loans, service matrix (the type of services offered) and tenure of active loans, all of which determine outreach to communities. For example, core activities of MFIs vary from strictly microcredits to integrated microfinance approach involving capacity building and provision of development services. The tenure of loans ranges from short to medium-term loans.

Table 2. Microfinance Institutions in Kerala 2019

No	Institution	District-wise presence	Legal Status	Core Activities
1	Asirvad Microfinance Ltd	9	NBFC-MFI	-income generation program -short and medium-term loans
2	Belstar Investment and Finance Pvt. Ltd	1	NBFC-MFI	-credit for microenterprise -small and medium enterprise -education, sanitation -consumer goods
3	Bharat Financial Inclusion	9	NBFC-MFI	- credit for microenterprises - short term loans
4	Blaze Trust	1	Trust	- income generating loans - education and skill building
5	Forum for Rural Environment and Economic Development (FREED)	4	Society	-microcredit -livelihood development
6	Innovative Microfinance for Poverty Alleviation and Community Transformation (IMPACT)	1	Section 8 company	- loans for microenterprise - rehabilitation after natural disasters
7	Jeevankiran	2	Society	-education
8	Life Foundation	2	Trust	-women and children’s shelter -vocational training -community health services
9	Madura Micro Finance Ltd	2	NBFC-MFI	-small and medium-term loans -entrepreneurship training
10	Muthoot Microfinance Ltd	Not available	NBFC-MFI	-income generating loan -community health

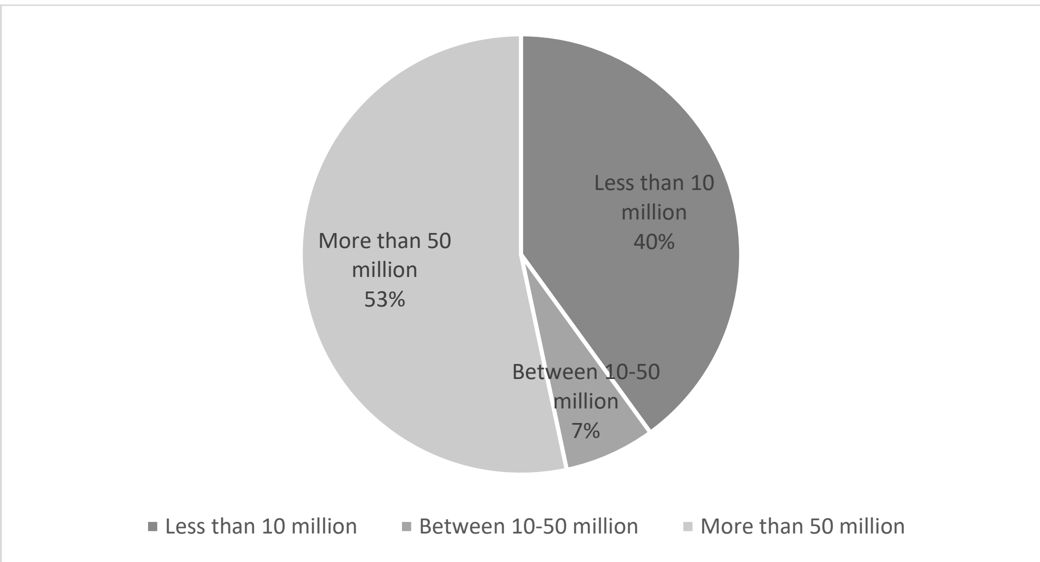
11	Nabfins Ltd	4	NBFC-MFI	-Income generating loans for farmers -skill development loans
12	Shri Kshethra Dharmasthala Rural Development Project (SKDRDP)	1	Trust	-income generating loans -capacity building in agriculture, microenterprises -water and sanitation in communities
13	SMILE Microfinance	1	NBFC-MFI	-income generating loans
14	SML Finance Ltd.	9	NBFC-MFI	-small and medium-term loans
15	Spandana Sphoorty	4	NBFC-MFI	-income generating loans -intermediary assistance with credit -loans against collateral
16	Welfare Services Ernakulam	4	Society	-microcredit -microinsurance -livelihood development

Source: Authors' compilation from data

4.2 Loan Portfolio

The size of loan portfolio of MFIs in Kerala is given in figure 1. Based on size, the loan portfolio is divided into small (less than 10 million), medium (between 10-50 million) and large (above 50 million) sizes. Fifty-three per cent of MFIs in Kerala deal with large portfolio of loans. Interestingly, MFIs with small portfolios of less than 10 million make up 40 per cent of the MFIs. Smaller MFIs use SHGs and joint liability groups to offer loans to a large number of members especially women.

Figure 1. Loan Portfolio of MFIs in Kerala



Source: Nandi, Nandan & Koshy (2017)

Note: Loan portfolio is given in Indian National Rupee (INR). As of November 11, 2019, I USD=71.38 INR

4.3 Approach to Microfinance

Beyond the microfinance principles of easy, convenient and flexible credit availability at affordable rates that minimalist MFIs adopt, it has been the integrated finance approach of MFIs that have resulted in human development interventions in Kerala. For example, SHG-bank linkage programs that involves communities had scope for the articulation of the financial needs and preferences of the community members. Second, small grants towards specific projects resulted in community infrastructure development, provision of education and health services and skill development before the disbursal of entrepreneurial credit. This method resulted in prior investment in physical and human capital before providing financial capital. Third, donor subsidies complemented the availability of private capital. Performance standards using outputs and evaluation was used as condition for support and exit route for investment. Four, MFIs in Kerala that made an impact on human development had institutional capacity in the form of availability of human resources as well as support from institutions such as the local government or faith-based institutions. This institutional capacity made outreach effective and sustainable in both financial and social terms.

Table 3. Impact of Integrated MFIs on Human Development

Human development variable	**Productive function (income generation effect)**	**Protective function (risk mitigation effect)**
Income	Livelihood generation through employment, micro enterprise	Rehabilitation of extremely poor communities
Health	Nutrition fortification programs	Insurance, access to primary health care facilities
Education	Aid for schooling of children	Adult education programs, skill development workshops
Participation	Democratic elections in the local government	Monitoring and evaluation mechanism

Source: Author's compilation

Table 3 discusses the process by which integrated MFIs contribute to the improvement of human development variables. The human development variables are those that impact economic, social, cultural and political improvement in life. Accordingly, income, health, education and participation that can be quantified using indicators are taken for analysis. Integrated MFIs have productive function and protective function vis-à-vis the communities. Productive function involves income generating activities that improves human development variables. Protective functions deal with risk mitigation strategies to defend against vulnerabilities due to external shocks. Thus, for MFIs to impact human development there are both income generation effects and risk mitigation effects.

The examination of the three variables core activities, loan portfolio and approaches to microfinance conveys what type of MFIs help in improving human development indicators. First, the examination of core activities reveals that purpose of loans, service matrix (the type of services offered) and tenure of active loans determine outreach to communities. Second, MFIs in Kerala are predominantly with large portfolios of more than 50 million INR followed by small portfolios of less than 10 million INR. The size of the portfolio determines the type of communities served. Finally, comparing minimalist and integrated MFIs, integrated MFIs improve human development indicators with the communities with their productive function and protective function vis-à-vis the communities.

5. Conclusion

The case study of Kerala brings out the conditions and processes under which MFIs could become effective interventions for human development. There are two types of MFIs in Kerala based on institutional type. The commercial model of MFI aims at financial inclusion through relationship banking. The social welfarist model of MFI use informal community organizations such as SHGs and link them with formal financial institutions. Further, based on the type of service delivery, there are minimalist MFIs that provide only microcredit. There are also integrated MFIs that assume an integrated microfinance plus approach.

An integrated approach to microfinance involves providing additional financial services, capacity building for livelihood and allied social services for empowering specific classes of people such as women. Before financial outreach programs through MFI, Kerala had reasonable levels of literacy rates, primary health institutions, and a culture of grassroots political mobilization. These investments in human, political and social capital were crucial in utilizing the financial capital that was channelized through MFIs. Integrated MFIs impacted human development through productive activities that produced income generating effects. Furthermore, they also had protective functions against vulnerability through risk mitigation effects. It is a combination of both these effects that improved the standard of living of poor communities beyond poverty alleviation.

If MFIs under specific contexts and institutional conditions function as effective delivery vehicles for development interventions, there are also significant challenges for them in the future. For instance, the effects of climate change are already impacting the cycle of work and land relations in the developing world. The rise in natural calamities such as flash floods, cyclones and droughts are increasing pressure on risk mitigation effects of MFIs. Additional costs are incurred upon integrated microfinance initiatives that work on land such as soil fertility loss, land reclamation costs, accrued loss on borrowings, and collateral damage. Climate change has a disruptive effect on the mandate and institutional capacity of MFIs.

Another major economic challenge that alters the role of MFI is the rise of automation and artificial intelligence. In the era of platform and gigged economy, rural and informal economies in the developing countries are integrated to formal and developed economies in new configurations. The meaning of work and the purpose of credit is undergoing conceptual revolution and the place of credit-based development interventions such as cash transfers, integrated microfinance and universal basic income are being reimagined. The impact of both these effects would potentially influence the meaning and definition of microfinance as an institution as well as the potential it has for poverty alleviation and human development.

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