An Overview on Status of Microfinance in India- An Empirical Study

Ms. Chaitra K.S
Assistant Professor, Department of Commerce, St. Claret College.

Ms. Chandana NR
Research Scholar, Bharthiyar university, Coimbotore, Chennai

Abstract

Microfinance acts as a tool which provides financial services to the financially underprivileged groups through various financial institutions in the society. Micro finance play a pivotal role economic development by providing various financial assistance and also by mitigating poverty in the economy.. Micro-finance facilitates thrift, credit and other financial services to poor people who resides in rural areas, semi-urban areas and urban areas to earn income consistently through which they can improve their standard of living. Micro-finance emergence is based upon the principle of co-operation and mutual self-help. Micro-finance institutions (MFIs) are financial institutions that act as an interface among formal credit delivery institutions and credit seekers. Micro-finance and financial inclusion acts as a two faces of a coin. Micro-finance institutions play an important role in facilitating inclusion because they strive very hard to reach out the poor mass in rural area. At the core of micro-finance, providing loans through group based methodology. The dominant micro-finance programme is associated with SHG bank linkage programme shows that effectiveness in connecting the excluded class of poor section of the society. The purpose of this paper is to facilitate a strong base to prove that there is a direct link between micro-finance and SHGs and have promising impact on the overall development of the economy.

KeyWords: *Financial Inclusion, Micro finance, Self-Help Groups (SHGs)*

Introduction

The world bank defines poverty as "The ability to attain a minimal standard of living"**.** Mehta and Shah(2001-02)defines poverty as "the sum total of a multiplicity of factors that include not just income and calorie intake but also access to land and credit, nutrition, health and longevity, literacy and education and safe drinking water, sanitation and other infrastructural facilities. Poor people are particularly vulnerable to adverse events beyond their control. It is also seen that poor doesn't have much voice in the institutions of the state and society". Poor people are more vulnerable to the various adverse events much beyond their control. It is also a fact that poor people may not have much voice in the society. World Bank defines poverty as survival of an individual on less than $ 1.90 per day. Back in 1990s 36% of the world population lived in an extreme poverty conditions. But this share has been reduced to 10% from 11.2% in the year 2013. In the year 2015 the number of people living in extreme poverty stood at 736 million which was reduced from 2 billion in the year 1990.The latest survey with official poverty estimates for India was conducted in 2011–12, so a 2015 lineup would imply adjusting the survey forward four years. With an HFCE growth rate of 21 percent in India from 2011–12 to 2015, the welfare aggregate for all households in the 2011–12 survey would be given a growth rate of 21 percent, and poverty in 2015 would be estimated using this adjusted welfare vector. Given India's importance for the global poverty rate, and the availability of a newer survey (albeit without a full consumption aggregate), it was felt that this extrapolation method needed to be cross-validated. (World bank Report).

Concept of Microfinance

Microfinance in India can be traced back to the 18th century, when Lysander Spooner had written and emphasized on the benefits of small credits to the entrepreneurs and farmers. He had also stressed upon the fact that the microfinance is also one of the best methods to get people out of the Poverty. Perhaps the concept of Microfinance had made its major breakthrough only at end of the World War II with the Marshal Plan II. Today the use and expression of Microfinance roots have been recognized through Grameen Bank along with the Microfinance Pioneer Mohammed Yunus. He had also contributed tremendously in starting and shaping Modern microfinance industry. Another pioneer AkhtarHameed Khan had also contributed in introducing new innovations and bringing new waves of microfinance in this sector. It also worth mentioning here that many prominent enterprises stated to experiment with loaning to the underserved people because during 1970s the program were able to prove that the people can be relied on repayment of loans and also the financial services can be provided to the poor people through the market based enterprise without the concept of Subsidy. The first microfinance and community development bank was "Shore bank" which was founded in the year 1974 in Chicago. (microfinanceinfo.com)In India, the beginning of microfinance movement could be traced to Self Help Group (SHG) Bank Linkage Programme (SBLP) started as a pilot project in 1992 by NABARD. This programme proved to be very successful and has also developed as the most popular model of microfinance in India. In India, the institutions which provides microfinance services include:-NABARD Small Industries Development Bank of India (SIDBI), RashtriyaMahilaKosh, Commercial Banks, Regional Rural Banks, Co. Operative Banks and Non Banking Financial Companies (NBFCs).Microfinance services are provided mainly by two models: - Self Help Group - Bank Linkage Programme (SBLP) Model and Micro-Finance Institutions Model (MFI). These both together have about 7 crores clients. SHG - Bank Linkage Programme (SBLP) and Micro Finance Institutions (MFls).

Growth of Microfinance in India

One of the guiding principles of the planning process in India is Poverty alleviation. Government of India has considerably increased the allocation of funds for the provision of education, sanitation, health and other facilities which enhances and promotes the capacity building and overall well being of the poor people in the country. Since Independence the central government has been emphasizing on providing financial services to the poor and financially underprivileged section of the society. In India the banking industry had taken its breakthrough in 1960's when 14largest commercial banks were nationalized. Government of India issued an ordinance ("Banking Company's acquisition and transfer of undertakings ordinance 1969".) after the nationalization of the commercial banks these banks were directed by the government to lend 40% of their loan to priority sector at a concessional rate. This priority sector included primarily the agricultural, rural activities and weaker section of the society. The major objective behind this was to provide financial resources to the poor to help them to start micro enterprises to achieve self sufficiency. The government of India had also implemented various poverty and unemployment alleviation programs such as Integrated Rural Development programme (IRDP) which was started in 1980 in 20 selected districts in the country and later on it was extended to all the districts of the country. The major objective of this scheme is to focus on creating productive assets to take up self employment activities such as agriculture, horticulture, animal husbandry etc., for the families in the rural areas living below the poverty line. This program was merged along with the self-employment program called SwarnJayanthi Gram Swarozgar Tagore in the year 1999. National Rural Employment Programme(NREP) was also launched in the year 1980 with an objective of creating employment opportunities by building and maintain community assets like roads, ponds and wells est., the scheme was expected to generate 30 to 40 crores on an annual basis. Another program was Rural Landless employment Guarantee Programme (RLEGP) was launched in the year 1983 with an aim to provide 100 days of guaranteed employment in a year to rural landless families in order to create community assets. Training of Rural Youth for self-employment (TRYSEM) was started in the 1979. The major objective of these schemes was to develop rural youth but the priority was also given to SC/ST youth and women. Under this scheme training was provided and after the completion of the training credit was provided to set up their own business and trade. In the 1996-97 3.6 lak youth were trained under this scheme. JawaharRozgarYojana(JRY) came into existence in the year 1989 with an intention of creating additional employment for rural under-employed and unemployed by transferring funds directly to the Village Panchayths. This scheme is an output of merging two schemes i.e,NREP and RLEGP. The various other programs included Employment Assurance Scheme(EAS) launched in the year 1994, Minimum Needs Programme (MNP) which was implemented to provide primary education, adult education, rural health, rural water supply roads etc., India AwasYojana which eas started during 1985-86 to provide residential units to SC/ST community. This scheme was later on extended to Non SC/ST categories, families of armed forces and paramilitary forces killed in action. But none of these programs were able to achieve their desired goals due to the malpractices and poor execution of this plan by the government officials. The public funds which were allocated by the government was misappropriated or diverted by the manipulation of the powerful people in those local areas. Although there are certain programme of government which were able to secure success in achieving their desired goals. Some of those programs are:

1. PrdhanamanthriGram SadakYojana: launched in the year 200 by then Prime Minister AtalBihariVajapayee. This scheme was designed to enhance road connectivity in the rural areas and also helps in reducing poverty by promoting access to economic and social services. Nearly 82% of roads have been built till Dec 2017 which has been successfully connected to the several rural areas to cities.

2. DeenDayalUpadhaya Grameen KaushalyaYojana: This is one of the significant schemes which was introduced by the government of India with an objective of catering to the needs of youth who are aspiring for career development in their various chosen sectors. Now this Yojana is implemented in 21 states and union Territories with a target budget of 12,000 crores. As per the governmentrecent reports around 7 lakh aspirants have been trained and around 4 lakh trainees have been placed in various reputed companies in and outside the country.

3. Swarnjayanthi Gram Swarozgar Yojana(SGSY):The scheme establishes Activity Groups, grouping together workers based on their individual skills and talents. Under the SGSY scheme, funding for these Self-Help Assemblies and Activity Groups is routed through NGOs, banks, and monetary organizations with social outreach programs. Between 1999 and 2015, over 2.25 million Activity Groups and Self-Help teams have been created, and operate with a total capital of over Rs.14,000 crores, providing a sustainable source of income to over 6.5 million people(Bankbazar.com).

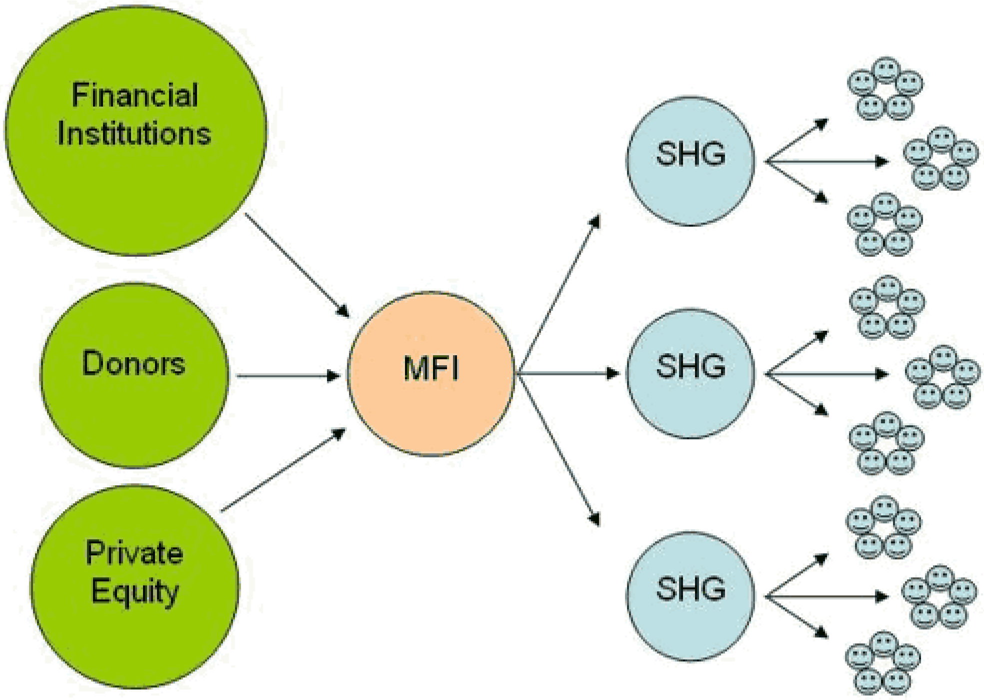
4. Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), was launched in the year 2005 with primary objective of providing guaranteed 100 days of employment in a year to rural people. This program also focuses on strengthening the act of decentralization by providing significant roles and responsibilities to Panchayath Raj Institutions. However, MGNREGA has reached a major milestone by geotagging one crore assets created under it. The scale of assets created under MGNREGA is estimated to be about 2.82 crore since the financial year 2006-07.

5. SwarnaJayanathi Gram Swarozgar Yojana(SGSY): This is an initiative implemented by the central government in the year 1999 to support poor and rural people in the country through the establishment of SHGs. Since it's the program was able to establish more than 2.25 million SHGs profiting more than 7 crore people with an investment of more than 14403 crores. This scheme was also implemented in order to replace the other four self-employment programmes such as (IRDP)integrated rural development programme, Training of Rural youth for self-employment(TRYSEM), Development of Women and Children in Rural Areas(DWCRA), supply of improved tool kits to Rural(SITRA).

Modes of delivery of Micro Finance

The government of India and Reserve Bank of India had taken several initiatives to provide credit and banking facilities to the lower income and underprivileged section of the society. The central government had implemented various prominent decisions such as nationalization of commercial banks, provision of loans at concessional interest to the weaker section of the society, priority lending etc., but there is also a dire requirement of providing direct access to the various financial facilities provided by the Micro finance institution in India. All over the world lot of basic effort had been step forwarded since 1980s which set a framework for Microfinance efforts in India. The approaches for delivery of Microfinance are varied in nature. There is no specific model which fits into all conditions rather there is an easy and elastic approach needed to meet the credit requirement of poor people. Each model has to be modified as per different situation and local requirements. Various delivery models have been adopted by Microfinance institutions and they can be categorized in to following broad categories. (S. L GUPTA1 & SHAHID AKHTER ANSARI, 2014)



Source: (https://indiamicrofinance.com/credit-delivery-me)

1. Self Help Group: The concept of SHGs originated in India itself. They are also considered as powerful bodies in these days in the development of rural areas due to increase in their prominence they are growing rapidly in the economy. In this model SHGs are directly financed by the commercial Banks. SHGs are small group which consist of 10 to 20 female members who promotes savings among the group and use these financial resources to fulfill the credit needs of the group. They are facilitated by both the Government and NGOs, and they come together to solve various social and financial problems. However it should be noted here that women have shown their outstanding performance in participating in the various activities of SHGs. The Apex institutions NABARD had supported SHGs program extensively by facilitating commercial banks which turn lend financial assistance directly to SHGs.

2. **Individual Banking Programmes (IBPS)**: In this model credit facilities are directly provided to the barrower in the form of micro loans without giving any sort of priority to the formation of groups or creating peer pressure to ensure repayment of micro loans. In this model credit plus programme is initiated to provide credit facilities to support barrowers to promote socio-economic services such as skill development, education and also other outreach progammes and credit puls programmes.

3. Grameen Model: This model has been pioneered by Prof. Mohammed Yunus in Bangladesh in the year 1976. In his model Filed manager will be given a responsibility setting up a bank unit covering area of about 15 to 22 villages. The manager and the workers visit villages to find the prospective clients and also to explain the purpose, functions and mode of operations to the people in the locality. The team of manager and workers also visits the villages on a regular basis in order familiarize themselves with the local population. In the beginning five prospective borrowers are formed and from them two people are selected to issue the loan later on if those two selected repay the loan along with principal and interest over a period of fifty weeks the entire group becomes eligible to avail the loan facility from the Bank

Objectives of the Study

1. To study the Conceptual framework of Microfinance in India
2. To study the various programmes initiated by the government and RBI for development of SHGs in India
3. To study the relationship between Micro-finance, SHGS (self help groups) and financial inclusion.
4. To analyze the progression of SHGs through the support of Grameen Bank.

Review of Literature

1. Jyothi,(2010), on the topic "SWOT analysis of Micro-Finance credit as financial stability model in rural India". The author in her study states that money lending is common in India, but the involvement of MFIs, NGO and private sector in the delivery mechanism ensures towards greater financial inclusion through SHG financing programmes. However to enable the SHGs to perform their multifaceted, empowerment role it is necessary that they are operationally and financially managed towards financial inclusion. Micro-finance is a powerful tool to fight poverty means building financial systems that serve the poor.

2. DR. Devendra Prasad pandey, DR. Devendra Prasad Pandey (2008) on the topic "Inclusive Financing through Micro-Finance" The author in his study Says that MFIs should not set high growth targets since it is against the spirit of corporate social responsibility and it excludes the poor who cannot respond fast enough. Their business should include the poor, distressed, disadvantaged, resource less. Then only it can be justified microfinance programme with greater emphasis of 'Inclusive financing'.Money lending is common in India, but the involvement of MFIs, NGOs and private sector in the delivery mechanism ensures towards greater financial inclusion. any view that reduces SHGs to financial intermediaries or makes them the last link in the delivery chain, which helps to understanding their empowering role, fails to invest in the institutions capacity building of each SHG or which imposes on them a standard pattern savings, lending and repayment undermines the basic structure of SHGs

3. SayantanBera (2009) on the topic" "SHG-Bank Linkage programme in India: An Appraisal of Trends and Issues". The author in his Study states that the SHG-bank linkage programme is unique among other micro-finance initiatives is being able to disentangle the task of financial intermediation and institution building. SHG is a group of individuals with an average size of about 15 members from a homogeneous class-usually poor and mostly women- who pool their savings into a fund from which they can borrow through opening an a/c in commercial or regional rural bank.An appraisal of trends and issues of SHG bank linkage programme among the poorest of poor, the total outreach of the programmed at 3.3 million households with only an estimated half of the members as poor and hence highlights the importance of channelizing financial services through other possible routes. Towards this direction in 2006 RBI suggested scheduled commercial banks to use the services of NGOs, SHGs, MFIs and civil society organizations as intermediaries in providing banking services under the business facilitators or correspondent model.

4. S.Porkodi, Dr.D.Aravazhi (2013), on the topic"Role of micro-finance and self-help groups in financial inclusion."The author in his study states that, the micro institutions are an integral part of financial inclusion and instrumental in providing last mile connectivity. At present, these MFI across the country is under stress. While working on this direction of bringing awareness among public, MFI should be more efficient only by having a strong internal auditing, internal control and monitoring systems have unhindered access to the financial services like savings, credit, micro-insurance and remittance facilities.

5. Dr. NuzhathKhatoon, (2014) on the topic" Financial inclusion-how effective is micro-finance? The author in his study states that, Indian micro-finance market is most evolved and developed market in the world. The current obstacles of micro-finance institution are collection method, fraud and multiple loans by the institution in order to recover the previous loan, increased competition in order to have more clients and corruption by the agents to provide loan to the needy. Micro-finance institutions resulting in liquidity crunch for micro-finance institutions which are largely dependent on bank lending as a funding source

Impact of Microfinance

The Number of research study has been conducted by researchers to study the impact of microfinance on social and economic aspects of the customers. These field studies commissioned by NABARD in the year 2002 by availing financial assistance from SDC WHERE GTZ which covered more than 60 SHGs in eastern India. The World Bank policy paper provides details through Rural Finance Access Survey (RFAS) conducted by the World Bank in association with NCEAR Revealed that more than 1000 SHGs have been formulated in the state of Andrapradesh and Uttarpradesh. The survey also revealed that there is a drastic improvement in the income levels and household assets of the clients in those areas. These studies also revealed the fact that the group members of SHGs lack specific handcraft skills and are not undergoing any sort of skill development training to improve their skills. The clients in most of the cases have used the loan availed from the financial institutions for the purpose of consumption and other emergency requirements as they lack confidence to use that money for productive purposes due irregularities of rain and other major problems related to the agriculture.

Discussion and Conclusion

The Microfinance is multifaceted sector of Indian economy which operates in a well-designed integrated system. Each every stakeholder in this sector plays a pivotal role in the overall development of the clients or group members of SHGs. The next level of this sector includes MFIs, SHGs and Grameen Bank also works intensively in order to provide necessary financial support to each and every individual member of the group. The apex and prominent rural development institutions like NABARD, SIDBI and the other public sector or nationalized banks also operates at the different level to provide other basic facilities such as infrastructure, information and technical support to the first level of this sector. Apart from these micro levels there are other macro level which includes financial, regulations, legislations environment which operates and influences this sector at the bigger level. However the Governent of India and RBI are working towards the mitigation of poverty and to financially support underprivileged segment in the economy though the initiation of various rural development programmes and through the development SHGs which are formulated at different levels in different part of nation. All in all more and more initiatives should be taken by the government towards the growth and development of the financially underprivileged people and also reduce the poverty rate in India. In this context Micro finance sector can become a powerful weapon to fight against poverty and it vulnerability which cause huge amount of emotional distress among the people living in the country. Therefore apex institutions, nationalized banks and other unorganized sectors should also join hands towards the increasing the income levels and real assets of the poor people in the country.

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