



STATUS OF MICRO FINANCE IN INDIA- A REVIEW

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ABSTRACT:

The concept of micro finance is not new in India. Micro finance is a general term used to encompass a vast variety of financial services to serve the poor, such as micro credit, micro savings, and micro insurance and fund transfers. Microfinance is an economic development tool whose objective is to assist the Poor to work their way out of poverty. It covers a range of services which include, in addition to the provision of credit, may other services such as savings, insurance, money transfers, Counselling etc. Micro finance is an important tool for improving the standard of living of poor. This present study explains the credit performance provided by various banks and NBFC sectors and explores some suggestions to make micro finance more effective and to describe the role of Micro Finance Institutions in developing the conditions of people who are living in rural areas.

Key words: MFIs, NBFCs, Governance, Regulatory Control.

INTRODUCTION

A micro finance Institution (MFI) is an organisation that provides micro finance services ranging from small non profit organisations to commercial banks. India is one of the largest micro finance markets in the world. Micro finance is a programme to support the poor rural people to pay its debt and maintain social an economic state in the villages. Micro finance can be described as an umbrella under which financial services including micro credit are provided to the low income group. Micro finance refers to small scale financial services for both credits and deposits that are provide to people who farm operate small (or) micro enterprise where goods are produced, recycled, repaired (or) traded. The aim was to provide resources to help the poor to attend self-sufficiency .Micro finance revolution in India as a powerful tool for poverty alleviation and women empowerment where Institutional finance failed micro finance delivered but the outreach is too small.

OVERVIEW OF MICRO FINANCE:

Micro finance has grown rapidly over the past few decades micro finance Institutions (MFIs) India exists as NGOs (Registered as societies or trust), section 25 companies and non-banking financial companies (NBFCs), commercial banks regional rural bank(RRBs),cooperative societies another large lenders have played an Important role in providing refinance facility to MFIs. Banks have also leveraged the self –help group (SHGs) channel to provide direct credit to group borrowers.

SALIENT FEATURES OF MICRO FINANCE:

- Borrowers are from the low Income group.
- Loans are of small amount micro loans.
- Short duration loans
- Loans are offered without collaterals.
- High frequency of repayment
- Loans are generally taken for income generation purpose.

MICRO FINANCE IN INDIA:

The origin of micro finance in India predates its reported existence anywhere in the world by two (or) three millennium, such as chit funds etc..The role played by the government and RBI to have a formal Sector of financing in a country infiltrated the micro finance movement through formal Institutional channels in the sixties through branch expansion in rural areas, mandating priority sector lending for the commercial banks and lending through various village development programmes like Integrated rural development programme (IRDP), National rural employment programmes(NREP),Rural employment guarantee programme (RLEGP) etc. IRDP was cited by bankers and senior government officials as the world’s largest micro finance programme.

The provision of credit to the Microfinance sector is based on the following postulates

1. It addresses the concerns of poverty alleviation by enabling the poor to work their way out of poverty.
2. It provides credit to the section of society that is unable to obtain credit at reasonable rates from traditional sources.
3. It enables women’s empowerment by routing credit directly to women, thereby enhancing their status within their families, the community and society at large.
4. Easy access to credit is more important for the poor than cheaper credit which might involve lengthy bureaucratic procedures and delays.
5. The poor are often not in position to offer collateral to secure the credit.
6. Given the imperfect market in which the sector operates and the small size of individual loans, high transaction costs are unavoidable.

OBJECTIVES OF STUDY

1. To examine the trends and pattern of Micro finance institutions in India.
2. To estimate the demand and supply of credit in rural areas.
3. To examine the Impact of Micro finance institutions in rural Areas.
4. To suggest measures for making Micro Fiancé Institutions more efficient in credit.

GROWTH OF MICROFINANCE IN INDIA

Poverty alleviation has been one of the guiding principles of the planning process in India. Government has considerably enhanced allocation for the provision of education, health, sanitation and other facilities which promote capacity building and well being of the poor. The Indian government puts emphasis on providing financial services to the poor and under-privileged since independence. The commercial banks were nationalized in 1969 and were directed to lend 40% of their loan at concessional rate to priority sector.

SCHEMES LAUNCHED BY GOVERNMENT

The priority sector included agriculture and other rural activities and weaker section of society in general. The aim was to provide resources to help the poor to start their micro enterprise to attain self sufficiency. In 1970's The micro finance sector started in India in 1970's with the emergence of Informal self-help groups (SITG) to provide access to much needed savings and credit services. The government of India had also launched various poverty alleviation programs like Small Farmers Development Scheme (SFDS) 1974-75, Twenty Point Programme (TPP) 1975, National Rural Development Programme (NRDP)1980, Integrated Rural Development Programme(IRDP)1980,Rural Landless Employment Guarantee Programme(RLEGP)1983, Jawhar Rozgar Yojna (JRY)1989, Swarna Jayanti Gram Swarajgar Yojana (SGSY)1999 and many other programs. But none of these programs achieved their desired goal due to poor execution and mal -practices on the part of government officials. Public funds meant for poverty alleviation are being misappropriated or diverted through manipulation by the locally powerful or corrupt (Mehta,1996). To supplement the efforts of micro credit government of India had started a very good scheme viz. Integrated Rural Development Programme (IRDP) in 1980. But this supply side program (ignoring demand side of economy) achieved little. It involved the commercial banks in giving loan of less than Rs 15000/- to socially weaker section. In a period of nearly 20 years the total investment was around Rs 250 billion to roughly 55 million families. In 1991 the sector witnessed strong growth following the liberalization of the Indian economy in 1991, since private sector. Organisations increasing extended credit to micro finance companies

The planning commission constituted a committee in 1997 to review the effectiveness of self-employment and wage employment programmes. The committee recommended the merger of all self employment programmes. It also recommended a shift of importance from individual beneficiary approach to a group based approach. It emphasized the identification of activity clusters in specific areas and strong training and marketing linkages. The government of India accepted the recommendations of the committee.

On 1st April 1999 a new programme called Swarnajayanti Gram Swarajgar Yojana (SGSY) was launched by amalgamating programmes like IRDP (Integrated Rural Development Programme) and a number of allied programmes such as TRYSEM(Training of Rural Youth for Self Employment), DWCRA(Development of Women and Children in Rural Areas),SITRA(Supply of Improved Toolkits to Rural Artisans), GKY(Ganga Kalyan Yojana) and MWS(Million Wells Schemes). This is a holistic programme covering all aspects of self-employment such as formation of Self Help Groups(SHG),training, credit, technology, infrastructure and marketing. The programme aims at establishing a large number of micro-enterprises in rural areas. SGSY is a credit-cum- subsidy programme. It lays emphasis on activity clusters. This programme has got tremendous response from the beneficiaries. The number of SHGs under this program is about 2.25million with an investment of Rs 14,403 crore, profiting over 6,697million people (Wikipedia).Similarly, the entire network of primary cooperatives and RRBs, established to meet the need of the rural sector in general and poor in particular, has proved a colossal failure. Saddled with burden of directed credit and a restrictive interest regime, the position of the RRBs deteriorated quickly while cooperatives suffered from the malaise of mismanagement, privileged leadership and corruption born of excessive state patronage

2005-2010:

In this phase, the micro finance sector reported strong growth supported by strong demands for loans from borrowers neglected by the invest funds in the high growth industry...

The players in Microfinance Sector

The players in the Microfinance sector can be classified as falling into three main groups

1. The SHG – Bank linkage Model accounting for about 58% of the outstanding loan portfolio.
2. Non – Banking Finance Companies accounting for about 34% of the outstanding loan portfolio.
3. Others including trust, Societies, etc. accounting for the balance 8% of the outstanding loan portfolio. Primary Agricultural Co-operative Societies numbering 95,663 covering every village in the country

MODES OF DELIVERY OF MICROFINANCE

Micro Finance Institutions (MFIs) around the world follow a variety of different methodologies. The focus of such service is women rather than men for the reason women are more judicious and economical to men. The following are major methodologies employed by MFIs for delivery of financial services to low income families.

SELF HELP GROUPS (SHGS)

The Self Help Groups (SHGs) is the dominant microfinance methodology in India. In this case the members of Self Help Group pool their small savings regularly at a prefixed amount on daily or weekly basis and SHGs provide loan to members for a period fixed. SHGs are essentially formal and voluntary association of 15 to 20 people formed to attain common objectives. People from homogenous groups and common social back ground and occupation voluntarily form the group and pool their savings for the benefit of all of members of the groups. External financial assistance by MFIs or banks augments the resources available to the group operated revolving fund. Saving thus precede borrowing by the members. NABARD has facilitated and extensively supported a program which entails commercial banks lending directly to SHGs rather than via bulk loan to MFIs. If SHGs are observed to be successful for at least a period of six months, the bank gives credit usually amounting 4 times more than their savings.

INDIVIDUAL BANKING PROGRAMMES (IBPS)

In Individual Banking Programmers' (IBPs) there is provision by Microfinance institutions for lending to individual clients though they may sometimes be organized into joint liability groups, credit and saving cooperatives. This model is increasingly popular through cooperatives. In cooperatives, all borrowers are members of organization directly or indirectly by being member of cooperative society. Credit worthiness and loan securing are a function of cooperative membership in which member's savings and peer pressure are assumed to be key factors. BAXIS a MFI based in Ahmadabad offers both the joint liability group and individual lending loans in addition to loans to intermediaries. Bank of Rakyat at Indonesia, arguably the world's biggest and profitable microfinance institution is following this model.

GRAMEEN MODEL

Grameen Model was pioneered by DR Mohammed Yunus of Grameen Bank of Bangladesh. It is perhaps the most well known and widely practiced model in the world. In Grameen Model the groups are formed voluntarily consisting of five borrowers each. The lending is made first to two, then to the next two and then to the fifth. These groups of five meet together weekly, with seven other groups, so that bank staff meets with forty clients at a time. While the loans are made to the individuals, all in the group are held responsible for loan repayment. According to the rules, if one member ever defaults, all in the group are denied subsequent loans.

MIXED MODEL

Some MFIs started with the Grameen model but converted to the SHG model at a later stage. However they did not completely do away with Grameen type lending and smaller groups. They are a mix of SHG and Grameen model. The main difference between these programs is rather marginal. Grameen programmes have traditionally not given much importance to savings as a source of funds where as SHGs place considerable emphasis on the source of funds. The SHG programs have compulsory deposit schemes in which the members themselves determine the amount. The SHGs model is widely used in India.

REVIEW OF LITERATURE

According to Vijay Mahajan (2003), Managing Director of BASIX, the SHGs and Grameen models offer economies of transaction cost to MFIs, but at the cost of members time because the unit of dealing is “group” rather than individual. In contrast, MFIs offering individual loans incur higher transaction costs for serving their borrowers.

(Sinha,2003). The microfinance initiative in the private sector in India can be traced back to initiative undertaken by Shri Mahila SEWA (Self Employed Women’s Association) Sahakari Bank in 1974 for providing banking services to the poor women employed in the unorganized sector in Ahmadabad in Gujarat. This Bank was established at the initiative of 4000 self employed women workers who contributed a share of Rs10 each with a specific objective of providing credit to these women so as to empower them and free them from vicious circle of debt. Currently SEWA Bank has over 318,594 account holders with total working capital of Rs 1291.89 million(Mar’09).

(Pellegrino,2006). It can be said that microfinance is not the first to attempt to do this, but it is by far the most successful. Pellegrino, (2006), reinstates and strengthens this point by citing Murray, 2001; Meyer, 2002 in his papers argues for example, that important differences in terms of investment decisions are due to the amount lent.

MYRADA (Mysore Rehabilitation and Development Agency) of Karnataka was another NGO to start in 1968 to foster a process of ongoing change in favour of the rural poor. While the objective is to help the poor help themselves, MYRADA achieves this by forming Self Help Affinity Groups (SHGs) and through partnership with NGOs and other organization in 1984-85. At present it is managing 18 projects in 20 backward districts of Karnataka, Tamil Nadu and Andhra Pradesh. These initial initiatives had a much localized operation and were limited to their members only. Hence it failed to take the shape of a mass movement. Apart from social and political empowerment, financial inclusion imparts formal identity and provides access to the payment system and to saving safety net like deposit insurance. Hence financial inclusion is considered to be critical for achieving inclusive growth (U Thorat, 2007). The RBI Governor,

Y.V.Reddy (2007) gave a simple definition of financial inclusion as “Ensuring bank account to all families that want it”. He said it would be the first step towards reaching the goal of bank credit as a human right as advocated by Nobel laureate Professor Mohammed Yunus. Now the microfinance service providers include apex institutions like National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and Rashtriya Mahila Kosh (RMK). At the lower level we have commercial Banks, Regional Rural Banks and cooperatives to provide microfinance services. The private institutions that undertake microfinance services as their main activity are generally referred to as MicroFinance Institutions (MFIs) in Indian context. There are also some NGOs which lend credit to SELF HELP GROUP (SHGs). The NGOs that support the SHGs include MYRADA in Bangalore, Self Help Women’s Association (SEWA) in Ahmadabad, PRADAN IN Tamilnadu and Bihar, ADITHI in Patna, SPARC in Mumbai. The NGOs that are directly providing credit to the borrowers include SHARE in Hyderabad, ASA in Trichy, RDO LOYALAM Bank in Manipur (Tiwari, 2004).

Mersland (2009) defined microfinance as the supply of banking services to microenterprises and poor families. The broader term embraces efforts to collect savings from low-income households (Armendariz and Murdoch, 2010) and, in some places, to also help in distributing and marketing clients' output. It is one of the few market-based, scalable anti-poverty solutions providing access to financial services to poor households in rural and urban areas. To most, micro finance means the provision of very small loans (micro credit) to help the poor to invest in or scale up their small business (micro enterprises).

There is now voluminous literature analyzing different aspects of the microfinance revolution that swept across the developing world in last thirty years (Emran et al, 2007). Armendariz and Morduch (2010) further strengthen this by saying that for many observers, microfinance is nothing short of a revolution or a paradigm shift. In simple terms, microfinance presents itself as the latest solution to the age-old challenge of finding a way to combine the banks' resources with the local informational and cost advantages of neighbours and moneylender.

Microfinance refers to a variety of financial services that target low-income clients, particularly women (MIX, 2011). This has become a broadly known sector after the pioneering work and success of Grameen Bank in Bangladesh during the 80's. Following the 'Grameen Bank' model, many companies – Micro Finance Institutions (MFI's) were set up across the world with an aim of aiding the poor in having access to the financial services. The microfinance sector experienced an immense growth during the mid-2000's (India Microfinance Business News, 2010). Due to the global recession during the late 2000's, banks could not provide adequate on-lending funds to some of the MFI's. Faced with liquidity crunch, the MFI's have found new ways to access the capital market by commercialization of the business (Hoque et al, 2011). This paper's goal is to determine the effectiveness and ethical issues in the evolution of converting the non-profit microfinance business model to a profit making model.

The term "Micro credit" did not exist before the seventies (Grameen Bank, 2011). After numerous efforts to try to eradicate poverty either by doling out handouts or subsidies, Noble Prize winner Professor Muhammed Yunus of Bangladesh came up with a unique new concept of providing small loans to the poor as a tool for poverty reduction (SKS, 2011). One of the most important departures since then has involved the shift from "microcredit"-which refers specifically to small loans-to "microfinance.

NEED FOR THE STUDY:

Poor people need not just loans but also savings, insurance and money transfer services. Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks. "Microfinance can pay for itself. Subsidies from donors and government are scarce and uncertain, and so to reach large numbers of poor people, microfinance must pay for itself. Microfinance means building permanent local institutions. Microfinance also means integrating the financial needs of poor people into a country's mainstream

financial system. The job of government is to enable financial services, not to provide them. Donor funds should complement private capital, not compete with it.

The key bottleneck is the shortage of strong institutions and managers. Donors should focus on capacity building. Interest rate ceilings hurt poor people by preventing microfinance institutions from covering their costs, which chokes off the supply of credit. Microfinance institutions should measure and disclose their performance – both financially and socially.

CHALLENGES FACED BY MFIS IN INDIA

Although Micro finance institutions have been profitable in India, there have been regulations and populist politics that have proved to be unfavourable to them. The small size of these institutions imply that they will be affected by small adverse development resulting in fragile finances. Banks usually have multiple products and an assured deposit structure. On the other hand, Micro lending institutions are highly dependent on the market for funding. This means that at the smallest events affecting business, MFI could find it difficult to procure financing, several micro finance institutions have converted into small finance banks. This implies that they lend at higher interest rates, moreover they will have access to deposits that are low cost



TABLE 1: PORTFOLIO CONTRIBUTION OF VARIOUS INDUSTRY

PARTICULARS	FY -2016	FY-2017	FY-2018	FY-2019
BANKS	21,175	33,176	43,914	59,999
SFBS	-	32,384	23,160	29,990
NBFC-MFIS	34,067	31,992	45,794	68,156
NBFCS	20,525	6,974	12,740	18,539
NOT FOR PROFIT MFIS	2,355	1,467	1,616	1,863
TOTAL INDUSTRY	78,123	1,05,994	1,27,223	1,78,547
GROWTH RATE %	---	36	20	40

Source: Micro Finance Pulse Report

Table 1 suggest the portfolio contribution of various industry, portfolio outstanding as on march 31,2019 is 178,547 cr, and it grew by 40%,from 1,27,233 cr, as of march 2018. Among all industries, NBFC MFIs has witnessed highest portfolio outstanding growth at 49% across all categories of lenders as at end of 2019 when compare to previous year.

TABLE 2 TOTAL NO OF LOANS DISBURSED BY VARIOUS INDUSTRY

PARTICULARS	FY -2016	FY-2017	FY-2018	FY-2019
BANKS	34,859	44,225	54,107	78,596
SFBS	27,054	24,368	24,146	31,673
NBFC-MFIS	33,259	41,819	63,009	83,200
NBFCS	7,290	7,602	14,016	17,448
NOT FOR PROFIT MFIS	2,729	1,508	1,933	2,157
TOTAL INDUSTRY	105,191	119,522	157,211	213,074

Source: Micro Finance Pulse Report

Table 2, refers total no of loan disbursal in terms of volume grew by 20% in FY 18, NBFC MFI have sourced highest loans across all categories of lenders. Banks witnessed highest growth at 32%, from FY 18 to FY 19.

TABLE 3: DELIQUENCY OF LOAN BY DAYS

REPORTING MONTH	1-29 DAYS PAST DUE	30-59 DAYS PAST DUE	60-89 DAYS PAST DUE	90-178 DAYS PAST DUE	1-179 DAYS PAST DUE
MARCH 2016	0.89%	0.06%	0.04%	0.09%	1.08%
MARCH 2017	4.74%	2.60%	2.41%	5.28%	15.03%
MARCH 2018	1.49%	0.26%	0.32%	0.81%	2.88%
MARCH 2019	1.40%	0.31%	0.24%	0.45%	2.39%

Source: Micro Finance Pulse Report

TABLE 3 explicates the delinquency of loan due by days. In the year, 2017, the delinquencies of loan were very highest. Delinquencies witnessed improvements in March 2018 to march 2019. Delinquency of loans have due has been improvised in 90-178 days from March 2017 to 2019, from 5.28% to 0.45%.

TABLE 4 MARKET SHARES OF TOP 10 STATES BY MICRO FINANCE INSTITUTIONS

TOP 10 STATES	2016	2017	2018	2019
WEST BENGAL	10,148	15,166	19,589	26,987
TAMIL NADU	11,042	15,055	18,828	24,611
BIHAR	5,312	8,465	11,685	18,036
KARNATAKA	8,078	9,903	11,030	15,294
MAHARASHTRA	8,091	9,674	8,903	12,420
ASSAM	3,726	5,471	7,966	12,021
ODISHA	3,789	5,166	8,166	11,412
UTTAR PRADESH	7,175	8,072	8,425	10,812
MADHYA PRADESH	5,325	6,043	7,303	9,905
KERALA	2,967	3,839	5,772	6,942
TOTAL TOP 10 STATES	65,654	86,854	107,668	148,440
ALL INDIA	78,123	105,994	127,223	178,547
MARKET SHARE OF TOP 10 STATES	84%	82%	85%	83%

Source: Micro Finance Pulse Report

TABLE 4: narrates market share of top 10 states in overall portfolio outstanding is 83% in march 2019, among top 10 states in India, West Bengal contributes 15% of the total portfolio outstanding as on march 2019, while Bihar witnessed highest growth at 54% from march 2018 to march 2019. Tamilnadu has contributes a overall growth outstanding of 16% Growth outstanding from 2016 to 2019.

Conclusion

Microfinance sector in India has taken a big leap; however, in size and outreach it may not be comparable to the neighbouring Bangladesh. A suitable regulatory framework, innovative products, self-regulation by MFIs, appropriate governance, technology to reduce transaction costs, training and marketing facilities to the micro entrepreneurs are the key factors that can contribute to the growth and deepening of this sunrise sector. In the present state the liquidity crunch faced by the MFIs, and the banks – lifeline of the sector, shying away to lend to MFIs, can sound death knell of the sector. The functioning of Micro Finance Institutions in India is playing an important role in Rural since last two decades. The central government and RBI should take necessary measurements to sustain the growth of the micro finance sector in India Imminent steps by the government are required to sustain the growth of the microfinance sector

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