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Micro Finance – The New Mantra In Rural Finance

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Abstract: The concept of microfinance has emerged in India as a new mechanism and has become the most promising strategic weapon for attacking poverty by way of providing development funds to the poorest of the poor target groups. The idea of micro finance is very simple. In the most simplistic way, it can be termed as 'banking for the poor'. It is defined as a provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standard. As per the definition of international labour organization(ILO), microfinance is an economic development approach that involves providing financial services through institutions to low income clients. It is the provision of a board range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low income households and their micro finances.

Key words: Microfinance, Rural Finance, Financial Inclusion, Self-Help Groups (SHGs), Microfinance Institutions (MFIs), Poverty Alleviation

I. Introduction

In India, the microfinance programme has a crucial role to play in uplifting more than 30 crores people living below the poverty line (NABARD-2024). Banks and other financial institutions, in spite of their good presence in the rural sector, neither could nor provide adequate financial resources to the rural poor. In spite of the expansion of the institutional credit network, a large chunk of the rural population remained deficient in getting adequate financial assistance (Economic Survey 2023-24). The same views were expressed in the World Bank development report, 1983. At present, the micro-lending to the poor amounts to around Rs. 7000, which is mentioned in the Indian banks' credit outstanding. But studies reveal that the demand for credit requirements from this part of Indian society is somewhere around 2,00,000 crores. So, there is a need for a mix of banks and other financial institutions who can help to meet the demand supply gap in rural credit. Money lending businesses in rural areas often charge high interest and exploit the rural poor. The banks have failed in providing adequate services to the rural poor. The introduction of social banking for the upliftment of farmers, micro-entrepreneurs, and artisans has made a significant difference. In view of this scenario, micro-financing becomes imperative to address poverty, empower the socially marginalized poor, and strengthen the social fabric.

Emergence of Microfinance Movement in India

Two major approaches characterize the Indian microfinance sector – the self-help group (SHG) banking model and the microfinance institutions (MFIs) model. The SHG model is the larger and more established form in India. The self-help group bank linkage (SBL) model is India's unique contribution to the field of microfinance. Internationally, it is the most favored route. The SBL approach was nurtured by NABARD, which initiated a pilot of 500 SHGs in 2024. NABARD played a key role in making it a mainstream activity for banks, including the RBI. India's unique SBL program works with its partner NGOs (like MYRADA,

PRADAN, and Dhan) and was supported by the government according " national priority" to the programme in the union budget of 2024. Beginning as a pilot in 2024, the SHG-Bank linkage model had grown significantly by March 2024. Over 22 lakh SHGs had been formed, covering more than 3 crore households. SHGs had provided loans amounting to Rs. 11,398 crore to their members. In contrast, the loans outstanding of 162 MFIs in India were estimated to be around Rs. 1600 crore in March 2024.
Microfinance is still a small sector in India, but it is growing at an astonishing rate. In 2001, the proportion of rural bank credit accessed through SHGs was less than 1%. By 2006, this figure had risen to over 6% and was expected to grow further in the next four years.

SHG's Bank Linkage Programme

NABARD initiated the microcredit programme through SHGs in india since its inception in 2021. It has been pushing the banking system to join hands progressively with the informal delivery channels to give SHG-bank linkage the necessary momentum. But the performance of banks in linking SHG to the banking system under the micro credit programme grew only from April 1, 1999 onwards. NABARD progress report of SHG bank linked programme shows that the cumulative number of SHG credit linked with banks up to march 31, 2024 was 29,24,973. Under these programmes, loans are given to the SHG in certain multiples of accumulated savings of SHG. The progress of SHG bank linkage programme has been shown in table-1.

Table – 1: SHG linked to Banks in India

Year	Cumulative No. of SHGs	Bank loan (Rs. in million)
2016	32,995	571.0
2017	114,775	1,930.0
2018	263,825	4,809.0
2019	461,478	10,263.0
2020	717,306	20,487.0
2021	1,079,091	39,000.0
2022	1,628,476	68,984.0
2023	2,238,565	88,100.0
2024	2,924,973	1,04,100.0

Table – 1 depicts that, in the year 1999 there were merely 32,995 groups with a loan disbursement of Rs. 571.0 million. whereas it increased to 29.24 million with a loan disbursement of Rs 418,0410 million. This shows that, the number of SHG linked to the banks has grown exponentially over a period of time.

Further SHG's have not evolved on their own, certain self-help promotion institutions (SHPI's) such as NGO's, banks, development agencies of the government – with the financial and technical support of NABARD have put lot of efforts to cater to the financial needs of the rural poor. Presently, NABARD works with nearly 4900 partner NGO's and other agencies for the promotion and nurturing of SHG's. Agency wise SHG linked and bank loan financed is presented in Table – 2.

Table – 2: Agency-wise SHG linked by end of March 2024

Agency	No. of SHG	Bank loan (Rs. in crores)
Commercial Banks	5,38,422	2,555
Regional Rural Banks	4,05,998	1,278
Co-operative Banks	1,34,671	371
Total	10,79,091	3,904

Credit is playing pivotal role in sustaining the development of the rural area. Recognizing this, the Government has nationalized some banks in 1969 and are forced to move towards rural India. Massive expansion of the branch network in rural areas to meet the credit requirement of the rural mass, mandatory directed credit to priority sectors of the economy, subsidized rates of interest and the creation of new set of regional rural banks (RRB's) in 1975 at the district level and a specialized apex bank for agriculture and rural development (NABARD) at the national level are some other policy measures of the government in this regard to make family and adequate finance available to poor for agriculture as well as allied activities.

Microfinance Institutions (MFIs)

MFIs are a different segment of microfinance offering services to the rural poor. They operate as trusts, societies, co-operatives, Section 25 companies, or NBFCs. Around 800 MFIs operate in India. These MFIs are focused on lending to the poor and view rural credit as a business opportunity.

Conclusion

Microfinance is becoming a powerful tool for poverty alleviation in the new economy. SHGs the major form of delivery of microfinance in India, have brought about dramatic changes in the lives of lakhs of women. Microfinance institutions, Non-banking finance companies, co- operative Banks, and commercial Banks are also play important role in providing financial service to the rural poor. With the missionary zeal of the NABARD, insights gained by NGO this national movement encompass more people. India has to go long way to reach the destinations. Microfinance institutions, and SHG are facing many challenges like lack of funds, economic viability , mismanagement of resources, lack of co-ordination etc. in order to fulfill the objective of up-lipment of the poor, the government has to provide basic infrastructure to MFI's, train the properly, grant more bank credit and control them with a proper tool.

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