IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

STUDY OF MICRO FINANCE IN INDIA

N.Vani
Lecturer in Finance, Amity Global Business School Hyderabad, Telangana, India.

INTRODUCTION

Microfinance is a program to support the poor rural people to pay its debt and maintain social and economic status in the villages. The concept of microfinance is not new in India. Traditionally, people have saved themselves by taking small loans from individuals and groups within the context of self-help to start businesses or farming ventures. Microfinance is an important tool for improving the standard of living of poor.

The potential for growing micro finance institutions in India is very high. Microfinance market in India is expected to grow rapidly, supported by government of India's initiatives to achieve greater financial inclusion, and growth in the country's unorganized but priority sector. Microfinance has evolved rapidly into a global movement dedicated to provide access to a range of financial services to poor and near poor households. The organizations that provide these services are known as Microfinance institutions (MFIs) operate as formal micro banks, non-bank financial institutions, non-governmental organizations, or community-based financial institutions. These providers offer a range of financial services from small business loans to savings accounts, money transfers, insurance, and consumer loans etc.

MICROFINANCE IN INDIA

In India, Microfinance has been defined by "The National Microfinance Taskforce, 1999" as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and Improve living standards Microfinance is a term used to refer to the activity of provision of financial services to Clients who are excluded from the traditional system on account of their lower economic status. The financial services will most commonly take the form of loan and savings by removing collateral requirement and creating banking system which is based on mutual trust.

"Microfinance offers poor people access to basic financial services such as loans, savings, money transfer services and micro insurance "Microfinance refers to small-scale financial services for both credits and deposits – that are provided to people who farm or fish or herd; operate small or micro enterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in Developing countries, in both rural and urban areas"

EVALUTION OF MICROFINANCE

The term microfinance came into existence in 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Muhammad Yunus, were starting and shaping the modern industry of micro financing. Microfinance in India can map out its origins back to the early 1970s when the Self Employed Women's Association ("SEWA") of the state of Gujarat formed an urban cooperative bank, called the Shri Mahila SEWA Sahakari Bank, with the objective of providing banking services to poor women employed in the unorganized sector in Ahmadabad City, Gujarat. The microfinance sector went on to evolve in the 1980s around the concept of SHGs, informal bodies that would provide their clients with much-needed savings and credit services. Due to large size and population of around 1000 million, India's GDP ranks among the top 20 economies of the world. However, around 400 million people or about 60 million households, are living under the poverty line. It is further predictable that of these households, only about 20 percent have access to credit from the formal sector. As well, the segment of the rural population has no good access to the recognized financial intermediary services, including savings services. Credit on rational terms to the poor can bring about a significant fall in poverty. Hence micro credit assumes significance in the Indian context. About 60 million households below or just above the strictly defined poverty line and with more than 80 percent unable to access credit at reasonable rates, it is obvious that there are certain issues and problems, which have banned the reach of micro finance to the

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

needy. With globalization and liberalization of the economy, opportunities for the unskilled and the illiterate people are not increasing fast enough, as compared to the rest of the economy. In this context, the institutions involved in micro finance have a significant role in reducing inequality and contribution in rural development for overall growth. Microfinance, now clearly a worldwide movement, is embraced by governments, corporation, banks, development agencies, business communities, civil societies. Although the exact scale of the microfinance industry is imperfect because of incomplete data and self-reporting, several data sources shed some light on the industry. According to the estimations, the present total outstanding, including Sa-Dhan members and bank linkages is approximately Rs.700 crores (Rs. 150 crores of Sa-Dhan members and another Rs. 550 crores from the Banking system). The total client base is estimated at 6-8 million as opposed to the Government of India (GOI) intention to reach 25 million clients. The growth of community institutions has taken place with the role to take social and financial intermediation. A numbers of community banks have come into existence in villages and block levels call ' Federation of Self Help Groups'. One kind of MFI is an NGO engaged in promoting Self Help Groups (SHGs) and their federations at a cluster level and linking SHGs with Banks under the Scheme. Examples are Myrada in Karnataka, which has promoted Sanghmitra, a company of its village saving and credit sanghas, PRADAN which has established a large number of SHGs and federated them under Damodar in Bihar, Sakhi Samiti in Rajasthan. Another kind is NGO-MFI directly lending to the poor borrowers, who are either organized into SHGs or into Grameen Bank type of groups after borrowing bulk funds from SIDBI, RMK and FWWB. Examples in this category are Rashtriya Gramin Vikas Nidhi (RGVN) which runs credit and savings programme in Assam and Orissa on the lines of Grameen Bank, Bangladesh. Also we have SHARE in AP, ASA in Tamil Nadu under this category. There are MFIs which are specifically organized as cooperatives, such as over 500 Mutually Aided Cooperative Thrift and Credit Socities (MACTS) in AP, promoted among others by Cooperative Development Foundation (CDF) and the SEWA Bank in Gujarat which also runs federations of SHGs in nine districts. Then we have MFIs, which are organized as Non-Banking Finance Companies (NBFC) such as BASIX, CFTS Mirzapur,SHARE Microfin. Ltd. & Sarvodaya Nanofinance Ltd.

GROWTH OF MICROFINANCE IN INDIA

Indian 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 underprivileged since independence. The commercial banks were nationalized in 1969 and were directed to lend 40% of their loan at concessional rate to priority sector. 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. 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 Swarojgar 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. 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 these supply side programs (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. But it was far from realizing its desired goal. The problem with IRDP was that its design incorporated a substantial element of subsidies (25-50% of each family’s project cost) and this resulted in extensive malpractice and mis-utilisation of funds. The net result is that estimates of repayment rates in IRDP ranged from 25-33%. The two decades of IRDP experience in the 1980s and 1990s affected the credibility of micro borrowers in the view of bankers and ultimately, hindered access of the less literate poor to banking services. This act of government had a serious long term impact on development of micro entrepreneurship among the under privileged of the society. Thus a very good and potential program which once claimed to be “The world’s largest microfinance programme” failed due to poor execution and political interference. The mid-term appraisal of the ninth plan had indicated that these programmes presented a matrix of multiple programmes without desired linkages. The programmes suffered from critical investments, lack of bank credit, over-crowding in certain projects and lack of market linkages. These programmes were basically subsidy driven and ignored the process of social intermediation necessary for success of self-employment programmes. A one-time provision of credit without follow up action and lack of a continuing relationship between borrowers and lenders also contributed to the failure of the programmes. 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 program called Swarnajayanti Gram Swarojgar Yojana (SGSY) was launched by amalgamating programmes like IRDP (Integrated Rural Development Program) 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). The program aims at establishing a large number of micro enterprises in rural areas. 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. 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 initiatives had a much localized operation and were limited to their members only. Hence it failed to take the shape of a mass movement. In India, initially many NGO microfinance institutions (MFIs) were funded by donor support in the form of revolving funds and operating grants. But it is only after intervention of National Bank for Agriculture and Rural Development (NABARD) in 1992 in the field of microcredit, the movement of micro finance got a boost in India.

In India around 70% of landless and marginal farmers did not have a bank account and 87% of poor had no access to credit from formal sources. The share of formal financial sector in total rural credit was 56.6% compared to informal finance at 39.6% and unspecified source at 3.8% (RBI Report 1992). There is a huge potential of microcredit in rural India. The Reserve Bank of India has advocated for financial inclusion of majority of population for economic development of our country. Access to affordable financial services specially credit and insurance enlarges livelihood opportunities of poor. 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. 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. 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.

LOANS TO MFIS BY BANKS/FINANCIAL INSTITUTIONS DURING THE YEAR 2014

Financing Agency	Period	Loans disbursed to MFIs during the year		Loans outstanding against MFIs as on 31 March 2014	
		No. of MFIs	Amount(crores)	No. of MFIs	Amount(Crores)
All Commercial Banks	2010-2011	460	7601.02	2153	10636.84
	2011-2012	336	4950.98	1684	9810.98
	2012-2013	368	7422.66	1769	12467.72
	2013-2014	484	9468.83	2197	14307.57
Regional Rural Banks	2010-2011	9	4.16	23	42.01
	2011-2012	113	13.28	128	37.51
	2012-2013	14	4.58	153	70.66
	2013-2014	16	163.18	124	222
Cooperative Banks	2010-2011	NA	NA	NA	NA
	2011-2012	4	1.61	19	4.75
	2012-2013	3	4	18	6.83
	2013-2014	4	4.48	17	7.97
SIDBI	2010-2011	2	843.78	139	3041.77
	2011-2012	12	239.42	129	1597.11
	2012-2013	41	408.27	102	1880.63
	2013-2014	41	646.01	84	1979.9
Total by all agencies	2010-2011	471	8448.96	2315	13730.62
	2011-2012	465	5205.29	1960	11450.35
	2012-2013	426	7839.51	2042	14425.84
	2013-2014	545	10282.49	2422	16517.43

REFERENCES

1. Ashta, A., Couchoro, M., & Musa Abu Saleh, M. (2014).Dialectic Evolution through the Social Innovation Process: From Microcredit to Microfinance. Journal of Innovation and Entrepreneurship.
2. Appiah, R. (2011).The Impact of Microfinance on the Empowerment of Rural Women. A Case Study of Asuogyaman District in the Eastern Region. (Master Thesis, Institute of Distance Learning (IDL.
3. Bhatia, A., Malik, D., & Sindhi, V. (2013). Microfinance in India and its impact on Poverty Alleviation. Asian Journal of Research in Business Economics and Management.
4. Baldi, G., Sadovskis V., & Sipilova, V. (2014). Economic and Employment Effects of Microloans in a Transition Country. Munich Personal RePEc Archive MPRA Paper No. 52736.
5. Biswas, M. P., & Rao M Rama, M. (2014). Role of NGO in Empowering Women through Microfinance: A Conceptual Study. IOSR Journal of Humanities and Social Science (IOSR-JHSS) Volume, 19(5), Ver. I (May.2014).
6. Definition & Evolution of Microfinance FIJI National Microfinance Workshop Medium Term.
7. Strategy for Financial Inclusion in Fiji Novotel, Lami.
8. Dusuki, A. W. (2008). Banking for the Poor: The Role of Islamic Banking in Microfinance Initiatives.
9. Thorat, Y.S.P. & A.N. Wright, G. Microfinance – Meeting the Challenges to Realise the Potential. Singla, M. L. (2014). MIcrofinance and Economic Development in India: Growth and Challenges. International Journal of Research in Finance &Marketing.
10. Roberts Peter, W. (2013). The Profit Orientation of Microfinance Institutions and Effective Interest Rates.
11. Singh, R.I. (2014). Micro-Finance as an Anti-Poverty Vaccine. Journal of International Academic Research for Multidisciplinary.
12. Sharma, G.L., Puri, H., & Chhatwal, H. (2014). An Empirical Analysis of Causal Relationship Between Micro-Loans and Various Economic Indicators of India. International Journal of Engineering andManagement Sciences.