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MICRO-FINANCE IN INDIAN POVERTY ERADICATION

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Abstract
Microfinance refers to small savings, credit and insurance services provided to socially and economically disadvantaged segments of society. It is becoming a powerful tool for poverty reduction in India. This working paper attempts to describe the prevailing condition of micro-finance in India, in the light of its emergence till now. The prospect of Micro-Finance is dominated by the Liaison Program Self Help Groups Banks. Its main objective is to provide an efficient mechanism for cost of providing financial services to the poor. Recently Union Rural Development Minister Jairam Ramesh wanted the help of SHGs for the establishment of DRDO designed bio-toilets in rural areas. This article discovers the gap prevailing in the functioning of MFIs such as credit delivery practices, lack of product diversification, customer overlap and duplication, consumption and demand for individual loan with the lack of mitigation, less thrust on business, savings/loans and highest interest rate existing in micro finance sector. All these are clear syndromes, which tell us that the situation is changing without direction. Finally paper concludes with possible suggestions for overcoming the problems and challenges of microfinance in India.

Key Words: Micro Finance, Rural India, Rural Up-Liftment.

Introduction

Micro-finance is seen as an important tool to fight against poverty and over the years, microfinance institutions (MFIs) have placed themselves as fulfilling this development objective. The microfinance movement was initiated by NABARD in collaboration with banks and non-governmental organizations (NGOs) for raw population called bank linkage program Self Help Group in 1992. The program was launched with the government refinancing program banks NABARD.Self Help Group bank linkage program involved NGOs to form Self Help Group (SHGs) and train them. Each SHG usually consists of a group of women / men interested member's access to financial services, including savings, credit insurance, etc. Post training, NGOs provided SHG access to funds by linking them to banks that have provided financial services (including savings, credit, etc.) directly. The role of NGOs is to ensure fiscal discipline self-help groups. In addition to this there are state run SHG program. Therefore, at this stage of microfinance is to promote the government. Microfinance industry began with the participation of the private sector, leading to the development of microfinance institutions formed. The MFIs accessed bulk funds from banks and did on-lending to the end borrowers (either SHG members or joint liability group1JLG members). From there on the microfinance activities were being implemented by the two channels including MFI model and SHG bank linkage model. The sector witnessed high growth rate during the period from 2006 to 2010 supported by funding availability and potential demand in the sector. The growth was mainly driven by the MFIs due to large scale availability of funding in terms of both debt and equity.[1] The overall loan portfolio increased from Rs.13,950 crore as on March 31, 2007 to Rs.38,186 crore as on March 31, 2010 which included growth from SHG bank linkage and MFI model. However focus of the microfinance sector is mainly on micro-credit with other products still evolving including thrift, insurance and remittance.The year 2016 promises to be full of developments that could propel India's microfinance sector past the heights that it touched in 2010. In 2010, Indian MFI's had to face a backlash from loan borrowers and politicians. There was large scale default on loans because of non-repayment by clients which caused the top 5 MFI's to incur heavy losses. Since then MFI's have reigned in their growth and have adopted practices that ensure there is no multiple lending. They have also constituted a self-regulatory organization called Microfinance Institutions Network which addresses grievances of microfinance clients and ensures the MFI's are sticking to their code of conduct.[2]

Microfinance Companies in India

Expect strong loan portfolio growth for the next 2-3 years. MFI's are expected to grow by 30-40% annually which means the top MFI's in India could double in size over the next few years. The asset quality indicators for most MFI's are good though political risk remains, the North Indian state of Uttar Pradesh seem to have over-heated according to some reports. However unlike 2010, this time MFI's are using credit bureaus to prevent multiple lending. More than 8 MFI's have been given bank licenses and some of them would begin operations this year. Bandhan Financial Services was the first to transform into a full-fledged bank. Esaf Microfinance, Equitas, Suryoday Microfinance and Ujjivan Financial Services are looking to offer shares to the public through Initial Public Offers, their issues could hit the markets within the next 6 months. Private Equity investors continue to pour in funds into private unlisted microfinance companies. Many MFI's have also raised substantial amounts through loan securitization which shows that banks have once again reposed their confidence in this sector. During the FY 2015-16, the credit ratings outlook for more than 12 microfinance institutions was upgraded. This shows the sector

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has fully recovered from the setbacks it had faced. Many microfinance companies have taken loans from MUDRA. The launch of MUDRA has helped MFI's to refinance their loans easily. Microfinance has shed its non-profit character. In the last decade, microfinance was the domain of NGO's but the regulations introduced by RBI has totally altered the character of the organizations disbursing loans. Since most NGO's could not meet the stringent financial adequacy requirements, NBFC's now account for more than 90% of the micro-lending taking place in the country.[3] These remain the highlights of this year and going forward one can expect more good news to flow from the sector. The government of India's focus on financial inclusion through Jan DhanYojana has also benefited MFI's enormously as they can now directly disburse money into bank accounts. Though it is too early to pass judgement on the scheme, most observers believe the real benefits will accrue over the entire decade. What is your view of the microfinance sector in India? If you are an employee of a microfinance company do let us know about what you think about the internal practices at your organization in the comments below. The year 2016 promises to be full of developments that could propel India's microfinance sector past the heights that it touched in 2010. In 2010, Indian MFI's had to face a backlash from loan borrowers and politicians. There was large scale default on loans because of non-repayment by clients which caused the top 5 MFI's to incur heavy losses. Since then MFI's have reigned in their growth and have adopted practices that ensure there is no multiple lending. They have also constituted a self-regulatory organization called Microfinance Institutions Network which addresses grievances of microfinance clients and ensures the MFI's are sticking to their code of conduct.[4]

Objective of the Study

This report is an attempt to collect primary data on MFI client outreach, their loan portfolio and other financials of MFIs in India that includes both members as well as non-members of Sa-Dhan. The report purports to provide primary data based analytical information to a wide range of stakeholders such as the Government, policymakers, regulators, banks, investors, researchers, media, MFIs and others, helping them to understand the current status and the underlying trends in the sector in order to take appropriate decisions/actions that are critical for the development of the industry.

Research Methodology

The contributing MFIs have voluntarily provided their data and detailed information as sought through a data acquisition sheet consisting of their financial outreach, geographic spread, credit plus and developmental activities etc. For this report we have compiled data from MFIs representing all legal forms (Societies, Trusts, Sec-25 Companies, NBFC-MFIs, and Cooperatives) which has been collated, validated, and analysed for peer groups. The project team rigorously scrutinized the self-reported data, validated it from the MFIs' financial statements, and reconciled from other secondary sources. The validity of the findings however, is subject to the accuracy of the self-reported data, though reconciliation techniques used would have minimized such errors. The analysis of the report was undertaken on the basis of a predesigned framework and the findings have been improved to the extent possible though advisory inputs from microfinance experts and practitioners. The chapters pertaining to SHGs and the BC model, while culled out from secondary sources, have been further enhanced by inputs from the experts in the field.

Microfinance & Urban Unemployment

Government, private and public sectors, but they are educated only to lower employment. At the same time, providing jobs for our rapidly growing economy, the country has been limited to 93 percent of workers. Account workers in the economy, 63 percent of GDP, they created new wealth get any benefits. Poverty, youth unemployment and social and economic crisis, which is not in the rate of balance is needed? India's urbanization rate is the highest in the world and the problem will increase. In 2004, the severity of the problem, and the fact that 60 percent of urban youth were unemployed. Persons employed in the formal economy, to think about alternative sources, leaving policy makers need to solve that problem. Here, the micro, small business (micro finance) by providing sustainable livelihood through this work can play an important role in. Development agencies, the International Federation, the poor, the Advisory Committee, individuals, loans, insurance and other financial services, according to their diaries threats need to find savings to help better deal would be reached. India, the urban poor, rural micro finance only 95 per cent of 0.01 and cities, all of which are not available to the banks in India, where the government concerned.[5] Urban areas, and space, the poor lack access to livelihoods save any exercise for financial institutions and the economic census in 1998, only 2.8 banks and the credit crunch, these institutions operate percent in poverty. The people present. Education programs, the poverty rate of 1.9 percent while financing received. Villagers and urbanists, cultured legitimate financial only 4.7 percent of the business, it is likely that those who are so caring. Such mortgage loans made money, and the poor little informal Prtu your money problems, he has to pick himself trapped in long-term debt. Therefore, in the urban rather than rural areas, is a great achievement.

Microfinance Institutions

Microfinance institutions to cater to the needs of women. Women may be better and (MFIs) are the organisations or associations of more reliable clients, but in order to increase their individuals that provide financial services to the poor.

Outreach MFIs cannot ignore men as clients. These institutions lend through the concept of Joint Liability Group. A JLG is an informal group High Interest Rate: MFIs are charging very high interest comprising of 5 to 10 individual members who come rates, which the poor find difficult to pay. It has been together for the purpose of availing bank loans either argued that MFIs are private entities and hence need to individually or through the group mechanism against a be financially sustainable. They do not receive any mutual guarantee. In India, there is a wide range of such subsidized credit for their lending activities and that is organisations with diverse legal forms, varying why they need to recover their operational costs from significantly in size, outreach, mission and credit delivery borrowers.

Microfinance Current Status in India

Micro-finance has failed to meet its most noble goal. In the worst cases, some lenders are contributing to a vicious cycle of abuse, as they try to replace usury. Critics say the industry too fast for his own good, is too much greed and too little supervision. The breakdown of credit to borrower's excessive discipline, promotes more debt and allow some unscrupulous players to thrive. Irresponsible lending more loans nodues diligence, consumer durables and Consumer non-productive credit, operations, usurious interest rates, mandatory recycling practices, lack of transparency, poor and very poor for profit MFIs have led to SKS Microfinance, India's largest such, small businesses and farmers for as low as $ 600 as micro-credit institutions for loans, but charge exorbitant interest rates and using aggressive tactics, borrowing money from was charged to recover. The Indian government plans legislation to crack down on microfinance institutions, so that those charged with excessive interest rates to prevent, a Treasury official said. This year, due to the borrower's poor string of suicide by the legislation is expected to come before lawmakers. Andhra Pradesh, India, where the headquarters of SKS Microfinance, micro-credit institutions through legislation in several other major southern states last year, capping lending rates to prevent the strong recovery practices.[6] Most micro-finance crisis in Andhra Pradesh, India began in the southern states where suicide charges provoked a national debate about regulating the industry to gather more mass-indebtedness, and the borrower heavy-handed tactics. Andhra Pradesh, accounting for $ 2.5 billion balance of micro-credit within the $ 7 billion out nationwide, higher interest rates and debt collection arm twisting hook 85 after the suicide of a claim on MFI said. October 2010, the national government in a hurry to paralyze lending and collection rate and SKS Micro-finance, India's largest stock-for-profit micro finance institutions, MFIs reduced and restrictions send. January 19, 2011 the Malegam Committee Report, published by the Reserve Bank of India, the interest rate ceiling, the maximum loan amount and the income threshold for the borrower, including a series of new regulations proposed MFIs.

Growth Prospects

Although the market took a considerable hit from the scandal, as well as 2009's economic downturn, there are signs it is starting to bounce back. In January, YunusíGrameen Capital said it had secured $144m of equity for microfinance groups during 2012, "more than double the amount in the preceding year."Even SKS, with a reduced loan book of $325m, managed to raise $47.5m in equity in 2012. The total loan book for India's microfinance industry is now said to be between $2bn and $3bn; down on the $5bn before its downturn, but still a considerable amount. Ultimately, how the industry survives the coming years depends on what strategies are put in place by regulators to ensure that people are protected from predatory commercial lenders. Providing the poor with an opportunity to break themselves out of poverty is a noble ideal, but it must be achieved through proper training, a localised and flexible strategy, and underpinned by meaningful and tight regulations.How much longer India will need such a form of lending for the poor is also debateable. While the country enjoys its newfound status as one of the economic engines of the East, the disparity between rich and poor is both vast and shameful.Bringing the poor into the tax system through employment will enhance the country's growth prospects, but it should be done in a realistic and sustainable way. It should also avoid allowing an industry to develop collection tactics that bear worrying similarities to those of loan sharks.The caps placed on interest rates implemented in 2011 were necessary, and although many firms have said the caps are stifling the industry's ability to profit, they should be maintained to ensure borrowers are not over-extended. Microfinance should be less about profit and more about helping the poorest in society get on the first step to prosperity.[7]

Significance of Micro-Finance

Poor people cannot access banking services due to their meagre income and inability to handle banking procedures and documentation. It is through micro-finance that a wide range of financial services such as deposits, loans, payment services, money transfers and insurance can be provided to the poor and low income households and their micro-enterprises. Micro-finance institutions, through their NGOs, develop saving habits among poor people. The financial resources generated through savings and micro credit obtained from banks are utilised to provide loans and advances to the members of the Self Help Groups (SHGs). Thus, microfinance institutions help in mobilisation of savings and using the same for the welfare of its members. Loans from the normal banking system require collateral or counter guarantee which poor people cannot offer and therefore, cannot get loan. Again, high interest rates and procedural and documentation formalities act as a deterrent to poor people accessing banks for loans. Microfinance does away with all these obstacles and provides finance to rural and poor

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population on easy terms. Micro-finance allows the poorer sections of the society to get loans at cheaper rates which helps them to start their businesses on a small scale, grow their business and get out of poverty and be independent and self-sufficient. It helps in creating long-term financial independence among the poorer sections of the society and therefore, promotes self-sufficiency among them. Micro-finance is provided through the intermediation of Self Help Groups (SHGs). More than 50% of the Self Help Groups (SHGs) are formed by women. Now, they have greater access to financial and economic resources. It is a step towards greater security for women. Thus, micro-finance empowers poor women economically and socially. Usually, rural sector depends on non-institutional agencies for their financial requirements whereby they are exploited in numerous ways. Micro-financing has been successful in taking institutionalised credit to the doorstep of poor in rural areas and have made them economically and socially sound,[8]this has led to the development of rural population and rural areas. Micro-finance, by providing loans to poor people, helps them to undertake their own small ventures. Such ventures also generate employment in the rural areas. It also helps them to improve their entrepreneurial skills and encourage them to exploit new business opportunities. Thus, micro-finance through self-reliance and employment generation alleviate poverty in rural areas. Micro-finance also contributes to the national objectives of economic growth and social justice. Due to micro-finance, production of goods and services increases, which in turn increases GDP and contributes to the economic growth of the country. It also reduces inequalities in the distribution of income and wealth and thereby contributes to the goals of social justice.

Role of Microfinance in Poverty Reduction

According to research by the World Bank, India is home to nearly a third of the world's poor. Although many programs of poverty alleviation state government and central government are currently active in India, microfinance plays an important contributor to financial inclusion. In recent decades it has significantly helped in the eradication of poverty. Reports show that people who have taken microfinance has been able to increase their income and hence living standards. Microfinance is to provide financial services to the poor who are not served by traditional formal financial institutions - it is about extending the boundaries of the provision of financial services. The provision of these services requires financial channels and innovative delivery methods. The need for financial services that allow people to both take advantage of opportunities, and better management of their resources. Microfinance can be an effective tool among others to reduce poverty. However, it should be used with caution, despite recent assertions, the equation between microfinance and poverty reduction are not straight-forward, because poverty is a complex phenomenon and many constraints that the poor usually have to to face. We need to understand when and in what form microfinance is appropriate for the poorest; channel, methodology and products offered delivery are all interrelated and in turn affect the prospect and promise of poverty reduction. Access to formal banking services is difficult for the poor. The main problem that the poor have to be taken when attempting to acquire formal loans from financial institutions is the warranty claim requested by these institutions. Furthermore, the process of acquiring a loan involves many bureaucratic procedures, which lead to additional transaction costs for the poor. Formal financial institutions are not motivated to lend money to them. In general, formal financial institutions show a preference for urban areas over rural areas, widespread on small scale transactions, and non-agricultural Agricultural Loans. Formal financial institutions have little incentive to lend to rural poor for the following reasons. Microfinance has a long history of helping the bottom of the economic pyramid to build assets and achieve a standard of living. Indian Government has greatly enhanced the allocation for the provision of education, health, sanitation and other facilities that promote capacity building and the welfare of the poor.[9] The Indian government focuses on providing financial services to poor and disadvantaged since independence. The microfinance sector has grown considerably today. The fact that national organizations such as the Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) spend a lot of time, energy and financial resources on microfinance is an indication taking into account the sector. The strength of microfinance organizations (MFO) in India is in the diversity of approaches and forms that have evolved over time. While India has its local origin of SHG model, and mutually aided cooperative societies (MACS), there is a significant learning from other experiences of microfinance around the world, including Bangladesh, Indonesia and Thailand.

Growth and Outreach

“Bharat Microfinance Report – 2015” MFI’s currently operate in 28 States, 5 Union Territories and 568 districts in India. The reported 156 MFI’s with a branch network of 12,221 have reached out to an all-time high of 37 million clients with an outstanding loan portfolio of Rs 48,882 Crore. This includes a managed portfolio of Rs 9854 Crore. The average loan outstanding per borrower stood at Rs 13,162 and 80% of loans were used for income generation purposes. Outreach grew by 13% and loan outstanding grew by 33% over the previous year. The Southern region continues to have the highest share of both outreach and loans outstanding, followed by East. However growth rates are higher in the North-eastern and Central regions. Outreach proportion of urban clientele is increasing year on year as against the rural population. The proportion of urban clientele which was 44% in 2013-14 increased to 67% in 2014-15. Women borrowers constitute 97% of the total clientele of MFI’s, SC/ST borrowers constitute 28% and minorities 18%. Of the total, NBFC-MFI’s contribute to 85% of

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clients outreach and 88% of outstanding portfolio, while NGO MFI's contribute to the remaining. MFI's with portfolio size of more than Rs 500 Crore contribute significantly to the total outreach (82%) and loan outstanding (85%) of the sector.[10]

Future in Microfinance

Huge market potential, there are 33% below poverty line and a huge number of small scale business who don't have access to conventional financial sources, like banks.You need a community model for Microfinance, someone who would introduce reliable people and make sustainable self-help groups.Huge banks like SBI have immense amount of lending power, there is no shortage of funds in the market, the only issue is servicing this low value loans, for which Microfinance is the answer.[11] In spite of all these conducive factors it has not found a grip in the market. After the fiasco of SKS Microfinance IPO that skyrocketed to 1500 INR per share and then dropped to around 70 INR per share after Andhra Government took a strong stance against the sector by cutting down the lending rates from 36% p.a. to 24% p.a. Microfinance has to be a profitable business but it cannot have unrealistic gains from the poor. It otherwise becomes a self-defeating purpose.

Conclusion

Although micro-finance industry has grown rapidly in India in recent years, the supply of micro-finance has failed to match with the needs and demand for it in India. There is an urgent need for a formal institutionalization of micro-finance sector under independent department under Reserve Bank of India (RBI) to assess the demand for micro-finance in India and take effective steps for meeting such demand on time. For this purpose, there is a need for training and strengthening the Self-help Groups (SHGs), which acts as facilitators between the financial institutions and the needy population. These measures will go a long way in quick and timely fulfilment of small needs of poor population. Improve access to finance for poor rural India to meet their diverse financial needs (savings, credit, insurance, etc.) through flexible products at competitive prices is a formidable challenge in a country as vast and varied as India. After six decades of the bank in independent India, the questions that should be asked is not whether MFIs pretty good job, but if there is a better alternative for them.

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