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Research Article

MICROFINANCE IN INDIA

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ABSTRACT

According to a World Bank, report India accounts for one in three of the world population worldwide. It has most number of the people who live below the international poverty line of $1.90 a day. India's economic growth has been unsuccessful on making a notable difference on the poverty figures. Poverty deprives a segment of society with bare necessities of food, clothing, shelter, education and health. In a fight against poverty the goal should not be only limited to increasing the income level of individual, household or the group but also mainstreaming the marginalized in the development process of the country. The government of India initiated various programmers to ease the burden of poverty holding healthcare, education, nutrition, and support to vulnerable groups. The microfinance has come forward to fill the gap and is considered as an effective tool for poverty reduction and socio-economic development. The impact of microfinance is still questioned and varies from one country to another and from urban to rural. The paper is structured into three parts the first part to analyze the growth of microfinance in India and secondly it examines the role and performance of the NABARD and other institutions in strengthening the SHGs and MFIs and the and lastly the paper presents a brief discussion on the shortcomings and recommendations to be adopted to make microfinance more inclusive.

INTRODUCTION

Poverty is a constant enemy of developing nations with an arsenal of weapons: infant mortality, hunger, disease, illiteracy and child labor, among other things. The list of obstacles the poor most overcome seems endless. These poverty facts highlight the devastating effect poverty has on its victims, especially the most vulnerable. The World Bank projections suggest that global poverty may reach 700 million, or 9.6% of global population, in 2015.Globally, 1.2 billion people (22 percent) live on less than $1.25 per day. Sub-Saharan Africa is home to 43% of global poor and 81% percent of all child deaths in the world.30percentage of the world's extremely poor live in India. The extremely poor people are largely involved in subsistence type of activities. Since rural poor need money regularly and the absence of reliable, flow of credit forces them to borrow money from the traditional moneylenders. Their interest rates are not only significantly higher but they employ violent methods of loan recovery. What was needed was to break the monopoly of doorstep availability by the informal sources at the time of crisis. That is where the microfinance scored .Micro-credit refers to the "Loan of very small amount". It is provided to those individuals that lack collateral, steady employment, and a verifiable credit history and therefore cannot even meet the most minimum qualifications to gain access to traditional credit. The rationale of microcredit is to strengthen the livelihood security of the economically underprivileged sections, and its impact should be measured in terms of reduction achieved in the poverty and hunger. Micro-credit is a part of microfinance. Most of the countries around the world are promoting it as an effective tool for rural development. Micofinance is considered as a tool that has power to collectively address poverty, empower the socially poor, address gender issues and thereby strengthening the society as a whole. Microfinance has therefore emerged as a powerful mechanism, which ensures the social and economic empowerment of the poor (Sriram, 2004).

The Concept of Microfinance

Microfinance is a broader concept encompassing not only the extension of credit to the poor, but also the provision of financial services like savings, cash withdrawals and insurance (Dasgupta,2006:Nagagyya and Rao,2009). Microcredit is the component of microfinance. There are four components of microfinance.

Microcredit: It is a small amount of money lent to a client by a bank or other institution. It can be offered without collateral, to

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an individual or through group lending. The purpose of the loan is to provide credit to those who require it.

Microsavings-These small sums of money allow poor people to save small amounts of money for future use. These saving accounts are often without minimum balance requirements. It helps low households to save in order to meet unexpected expenses and plan for future investments.These are the means of collateral to microcredit (Sinha, 2005)

Microinsurance- It is an economic instrument characterized by low premium designed to service low-income people not served by typical social or commercial insurance schemes and helps in mitigating risks affecting prosperity and health (Khandelwal A.K,2007)

Remittances-These are the transfers of funds from people in one place to another in another, usually across borders to family and friends (Khandelwal A.K, 2007)

Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to the poor and low-income households and their micro-enterprises. Microfinance is defined as Financial Services (savings, insurance, fund, credit etc.) provided to poor and low income clients to help them raise their income, thereby improving their standard of living. The taskforce on Supportive Policy and Regulatory Framework for Microfinance constituted by NABARD defined microfinance as " the provision of thrift, saving, credit and financial services and products of very small amount to the poor's in rural, semi urban and urban areas for enabling them to raise their income level and improve their standard of living." (Sen, 2008). The aim of the microfinance is not just to facilitate credit to the poor, but to serve as an economic development tool by providing wide range of financial services such as credit, insurance, savings and remittances and other non financial services such as training and counseling so that to empower the poor to work their way out of poverty.

Muhammad Yunus is the pioneer of the modern version of microfinance. He was awarded Nobel Peace prize in 2006 jointly with Grameen Bank. Microfinance scheme has been replicated across the world and has been hailed as the most effective way of combating poverty. According to the World Bank(2015) Microfinance industry is estimated at $60-100 billion with 200 million clients around the world.

Growth of Microfinance in India

In early 1970s in India the Microfinance movement started with the formation of informal Self Help Groups (SHGs), engaging in microfinance activities and the first Microfinance institution Shri Mahila SEWA Sahkari Bank was established in 1974 in Gujarat. With the intervention of NABARD in the microfinance sector, the movement of microfinance got a boost in India. The Mysore Resettlement and Development Agency (MYRADA) sponsored project on "Savings and Credit Management of SHGs was partially financed by NABARD during 1986-87. The Government and the RBI has announced several measures to boost microfinance activities in the country. The institutions like NABARD (National Bank of Agricultural and Rural Development), SIDBI (Small Industries Development Bank), RMK (Rastriya Mahila Kosh), Commercial banks, Regional Rural Banks, Cooperatives, and NGOs played a pivotal role in the development of micro finance services in India. Microfinance Institutions (MFIs) are the private institutions that undertake the micro finance activities.

Mode of Delivery of Microfinance

The two famous models of delivery of Microfinance in India are-

Self Help Group-Bank Linkage Programme (SHG-BLP)-In 1992-93, the SHGs were linked to the formal financial institutions for providing the financial services to the unreached and undeserved poor households. Self Help Group is a group of 15-20 people from familiar social background and occupation deliberately pool their savings for fixed period for mutual benefit. The SHGs function on the basis of co-operative principles and provide a forum to the group to extend support to each other. The linking of SHGs with banks aims at using the intermediation of the SHGs between the banks and the rural poor for cutting down the transaction costs for both banks and their rural clients. The Self Help Group - Bank Linkage Programme (SHG-BLP) was an innovation harnessing the synergy of flexibility of informal system with the strength and affordability of formal system. External financial assistance by MFIs or banks supplements the resources available to the group. According to NABARD's "Status of Microfinance in India (2016-17)" report, as on 31 March 2017 more than 100 Scheduled Banks, 349 DCCBs, 27 State Rural Livelihood Missions and over 5000 NGOs are engaged in promoting Self Help Groups. The SHG bank linkage movement has entered its 26th year and covered "10 core families through 85 lakh SHGs with savings deposits of `16,114 crore and 48.4 lakh groups with collateral-free loan outstanding of over 61,500 crore, of which, 88% for rural women"

The different models of this programme prevalent in India are

- Model I Bank – SHG- Members- SHG directly financed by banks-In a model the bank identifies the group and acts as Self-help Promoting Institution (SHPI) and finance the Self Help Groups directly.
- Model II Bank – Facilitator Agency-SHG- Members - In this model NGO or Government agencies promote and nurture SHGs while bank provide the credit support.
- Model III Bank–NGO-Micro-Financial Intermediaries-SHG members- In this Model, NGOs both promote and finance SHGs using funds borrowed from outside agencies.

SHG-bank linkages have been a primary driving force of financial inclusion in the country.

Micro Finance Institutions (MFIs)-The institutions that have microfinance as their main operation are known as Micro Finance institutions. They aim at providing financial services and utilities to the bottom of the pyramid (BOP). MFIs lend through the concept of Joint Liability Group(JLG). The lending is made through the group mechanism against mutual guarantee. A microfinance institution under the Microfinance Institutions (Development and Regulation) Bill, 2012 includes the following entities:

1. A society registered under the Societies Registration Act, 1860;
2. A company registered under section 3

3. A trust established under any law for the time being in force;
4. A body corporate; or
5. Any other organization, which may be specified by the RBI if the object of the institution is the provision of microfinance services. It does not include a banking company, co-operative societies engaged primarily in agricultural operations, industrial activities, or any individual who carries on the activity of money lending and is registered as a moneylender under the provision of any State law.

1. Non-Government Organizations engaged in microfinance (NGO MFIs), comprising of Societies and Trusts;
2. Cooperatives registered under the conventional state-level cooperative acts, the national level Multi-State Cooperative Societies Act (MSCA 2002), or under the new State-level Mutually Aided Cooperative Societies Act (MACS Act);
3. Section 25 Companies (not-for profit);
4. For-profit NBFCs; and
5. NBFC-MFIs.

Overall Progress under SHG-Bank Linkage Programme during the past three years

(No. of SHGs in lakh, Amount in Rupees in crore)

	Particulars	2014-15		2015-2016		2016-17	
		No of SHGs	Amount	No of SHGs	Amount	No of SHGs	Amount
SHG Savings with Banks as on 31st March	Total No. of SHGs	76.97 (3.59%)	11059.84 (11.74%)	79.03 (2.68%)	13691.39 (23.79%)	85.77 (8.53%)	16114.23 (17.69%)
	Of Total, All Women SHGs	56.51 (6.38%)	9264.33 (15.61%)	67.63 (1.68%)	12035.78 (29.92%)	73.22 (8.26%)	14283.42 (18.67%)
	% of Women Group to total	86.41	83.77	85.58	87.91	85.36	88.64
	Of Total,NRLM/SGSY Groups	30.52 (34.9%)	4424.03 (78.56%)	34.57 (13.2%)	6244.97 (41.16%)	37.44 (8.30%)	7552.70 (20.94%)
	% of NRLM/SGSY Groups to Total	39.65	40.00	43.74	45.61	43.65	46.87
	Of Total, NULM/SJSRY Groups	4.33	1071.81	4.46 (3.00%)	1006.22 (6.12%)	5.45 (22.42%)	1126.86 (11.99%)
	% of NULM/SJSRY Groups to Total	5.63	9.69	5.64	7.35	6.36	6.99
Loans Disbursed to SHGs during the year	Total No. of SHGs	16.26 (19.0%)	27582.31 (14.84%)	18.32 (12.6%)	37286.90 (35.18%)	18.98 (3.60%)	38781.16 (4.01%)
	Of Total, All Women SHGs	14.48 (25.6%)	24419.75 (16.07%)	16.29 (12.5%)	34411.42 (40.92%)	17.16 (5.34%)	36103.13 (4.92%)
	% of Women Groups to Total	89.05	83.53	88.92	92.29	90.42	93.09
	Of Total, NRLM/SGSY Groups	6.43 (28.4%)	9487.69 (27.26%)	8.16 (26.9%)	16785.78 (76.92%)	8.86 (8.58%)	17336.26 (3.28%)
	% of NRLM/SGSY Groups to Total	39.54	34.40	44.54	45.02	46.69	44.70
	Of Total, NULM/SJSRY Groups	1.05	1871.55	1.11 (5.71%)	2620.22 (40.00%)	1.06 (-4.5%)	2675.77 (2.12%)
	% of NULM/SJSRY Groups to Total	6.46	6.79	6.06	7.03	5.60	6.90
Loans Outstanding against SHGs as on 31st March	Total No. of SHGs	44.68 (6.46%)	51545.46 (20.06%)	46.73 (4.59%)	57119.23 (10.81%)	48.48 (3.74%)	61581.30 (7.81%)
	Of Total, All Women SHGs	38.58 (13.2%)	45901.95 (26.97%)	40.36 (4.61%)	51428.91 (12.04%)	42.84 (6.14%)	56444.24 (9.75%)
	% of Women Groups to Total	86.35	89.05	86.37	90.04	88.36	91.66
	Of Total, NRLM/SGSY Groups	18.46 (41.2%)	19752.74 (94.08%)	21.91 (18.6%)	26610.16 (34.72%)	24.91 (13.69%)	29994.43 (12.72%)
	% of NRLM/SGSY Groups to Total	41.32	38.32	46.89	46.59	51.37	48.71
	Of Total, NULM/SJSRY Groups	3.18	3462.62	3.13 (-1.57%)	3979.75 (14.93%)	3.18 (1.60%)	4133.29 (3.86%)
	% of NULM/SJSRY Groups to Total	7.12	6.72	7.00	6.97	6.55	6.71

(Source: Status of Microfinance in India report 2016-17,NABARD)

A MFI in India acquires permission to lend through registration. MFIs are registered as one of the following five types of entities1:

Microfinance institutions can sell insurance products and offer small loans that are to be paid back in weekly or monthly installments. However, they cannot take deposits. The Indian

MFIs target to serve the BOP customers by giving financial services in the income generating activities. Different organizations follow different framework and business model. The Forbes magazine has listed seven MFIs of India on its list of world's top 50 microfinance institutions. The seven MFIs are Bandhan, Saadhna Microfinance Society, Microcredit Foundation of India, and Asmitha Micro Fin Ltd, SKS Microfinance Private Ltd and Sharada's Women's Association for Weaker Section.

Growth and Outreach of Microfinance in India

According to Sa-Dhan's (The Association of Community Development and Microfinance Institutions) "Bharat Microfinance Report – 2017". MFIs currently operate in 29 States, 4 Union Territories and 563 districts in India. The reported 168 MFIs with a branch network of 10,233 and 89,785 employees have reached out to 29 million clients with an outstanding loan portfolio of `46,842 crore. This includes a managed portfolio of `13,898 crore. Out of managed portfolio, BC portfolio accounts for `10,131crore. The average loan outstanding per borrower stood at `12,751 and 85% of loans were used for income generation purposes.

Outreach fell by 26% and loan outstanding grew by 27% 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 Northeastern and East regions. Outreach proportion of urban clientele has decreased significantly as against the rural population. The proportion of urban clientele, which was 62% in 2015-16, decreased to 39% in 2016-17. Women borrowers constitute 96% of the total clientele of MFIs, SC/ ST borrowers constitute 20% and minorities 10%. Of the total, For Profit MFIs (NBFC/NBFC-MFIs) contribute to 79% of clients outreach and 79% of outstanding portfolio, while NGO MFIs contribute to the remaining. MFIs with portfolio size of more than `500 crore contribute significantly to the total outreach (80%) and loan outstanding (82%) of the sector.

Present Status of Microfinance

The data for the year 2016-17 along with the few preceeding years have been presented and reviewed under the two models of microfinance. (1) SHG-Bank linkage model (2) MFI-Bank Linkage model

SHG - Bank Linkage Programme has traversed twenty-five years of unabated journey towards empowering the rural poor, in general and rural women in particular. Taking a big leap from a pilot in 1992, SHG Bank Linkage Programme has now become the largest community based microfinance initiative with 85.77 lakh SHGs as on 31 March 2017 covering more than a hundred million rural households. There was a net addition of 6.73 lakh savings linked SHGs during 2016-17, a major portion (70.4%) from priority States indicating the urge for connecting the poor households in less developed States with the development process through SHG-BLP. Coordinated efforts by NABARD and NRLM to enhance the coverage of eligible SHGs under NRLM fold has resulted in a net addition of nearly 2.9 lakh SHGs under its fold during the year. The domain of SHGs consists of 85.4% women groups and is the mainstay programme for empowerment of the poor rural women in the country.

Progress Under Mfi-Bank Lingage Model
(Amount in Crore)

Particulars	2014-15		2015-16		2016-17	
	No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
Loans disbursed by banks/FIs to MFIs	589	15190.13 (47.73%)	647	20795.57 (36.90%)	2314	19304.38 (-7.17%)
Loans outstanding against MFIs as on 31st March	4662	22500.46 (36.22%)	2020	25580.84 (13.69%)	5357	29225.45 (14.25%)
Loan outstanding as % of fresh loans		148.13		123.00		151.39

(Source: Status of Microfinance in India report 2016-17, NABARD)

The Indian Microfinance Sector has witnessed a phenomenal growth over the past few years. The number of Institutions providing microfinance services has gone up from a few to several hundreds. The quantum of credit made available to the poor and financially excluded clients has gone past Rs 60,000 crore and number of clients benefitted is close to 40 million as of March 2017.

The expansion of Indian Microfinance Industry has been phenomenal with the support of National Bank for Agriculture and Rural Development (NABARD). As microfinance activity progresses into full-fledged industry, abundance of issues must be resolved. The number of questions regarding the viability of microfinance ranges from reaching to the bottom of the pyramid to the adequacy of microfinance intervention. Some of the main problems of the Microfinance institutions have been

Regional Disparity-The most dominant model of microfinance has been SHG-bank linkage model. As a result, microfinance programmers have been blossoming in those areas where there is huge growth of formal financial institutions. In the southern India, the spread of SHG-Bank Linkage programme and MFIs is very large compared to the northern part of India.

Furthermore, eight of the top 10 MFIs work in South India.

Limited proliferation in the poorer states-The scope of microfinance activities has been low in the states, which have a substantial proportion of the country's poor. The poorer states like Orissa, Chhattisgarh, Bihar, Jharkhand, and Madhya Pradesh are trailing in the expansion of microfinance activities.

Over dependence on banking system- Majority of the MFIs in India are registered as Non Govermental Organisations (NGOs).They are dependent on financial institutions such as commercial banks for stabilized funding for their own lending activities. Around 80% of their funds come from banks. Most of these are private banks, which charge high rate of interest, and the term of loans is of shorter period. Most of the times, banks lend to micro-lending firms in order to meet their so-called priority sector loan targets (Unnikrishan,2012). The over dependence of Indian microfinance industry on banks make them incompetent and less reactive towards dealing with default and delinquencies.

Legal Structure and Regulation- Presently the Reserve Bank of India (RBI) is the regulatory body for the microfinance industry in India. However, it has traditionally catered to commercial and traditional banks rather than MFIs. Moreover, the needs and the anatomy of micro finance industry are supremely different from that of banks(Business Standard ,2016).There is a need of separate regulatory authority for this industry. Regulatory issues have led to sub-optimal performance and failure in the development of new financial products and services through which the poorer section can be benefitted.

Lack of awareness- Lack of awareness of financial services provided by the Indian microfinance industry is a challenge for both, customer and MFIs. This factor not only causes hindrance for villagers to join hands with MFIs to meet their financial needs but also to make them financially excluded. MFIs are faced with a task of educating the people and establish trust before selling the product. Micro finance institutions struggle to make their business more financially viable due to lack of awareness (Ancona,2014)

Heightened Rate of interest-MFIs charge a very high rate of interest as compared to the commercial banks. Recently, the RBI notified the removal of upper limit of 26% interest on MFI loans. This has befitted the industry's players but left the customers but left the customers in the worst situation than before. Due to the issues of over-indebtedness caused by charging of high rate of interest, rate of suicide of farmers increased in states like Andhra Pradesh and Maharashtra.

Loose Credit Extension-Micro finance institutions(MFIs) seeks to create social benefits and promote financial inclusion by providing financial services to clients to financially undeserved and unbanked households. Since MFIs bring the low-income clients to the formal financial sector and do not follow strict credit rules and policies to assess the need and repayment capability of the client.

Indian microfinance industry has been going around since 1970s. It is one of the important steps taken by the government to reach the poorer section who are excluded from the formal financial system. During the course, the industry encountered various ups and downs followed by the crisis over the years. This industry needs to thrive on the quality of services and its operational and financial structure. The Government has to formulate an action plan for the development of the microfinance sector.

Recommmendations

RBI Intervention-In order to improve the ailing microfinance industry. The following corrective measures were taken by the RBI revolving around the idea of risk management in the microfinance sector.

- Not more than 2 different MFIs can lend to the same borrower
- The total Amount outstanding per customer is capped at INR 50,000. Set INR 100,000 as the max level a borrower can owe an MFI
- 24 MFI portfolios must contain at least 85 percent of their assets to be involved in standard meeting loans.

Interest Rate regulations

Lower than the cost of funds plus 10 percent if large MFI and lower than the cost of funds plus 12 percent for medium to small sized MFIs.

The average base rate of the five largest lending banks in India (calculated by assets) and multiplied by 2.75.

Product Design

- Loan Size: INR 35,000 for first loan and INR 50,000 for all loans following the initial loan. If the loan size exceeds INR 15,000 then the tenure of the loan must be greater than 24 months.
- The frequency of loan repayments can be made at the discretion of the borrower (weekly, monthly, etc.) (Microfinance in India - Sector Overview, 2017)

Since MFIs are charged with the responsibility of disbursing loans to the unbanked and untenable members of the society.It is very important for the MFIs to have exhaustive and progressive rules and policies to manage risk effectively.

Inclusion of male Clients-The study of Uganda's microfinance program provides the evidence that once MFIs are well structured and regulated correctly both men and women do pay back regularly.There is general perception in India that women tend to default on loans less often than men.As a result,many micro finance institutions target women as customers. Credit extended to women has a much greater impact on household consumption and quality of life of children.Extension of credit to the qualified male have the possibility of completely transforming the microfinance industry.

Development of digital system-A strong digital system of saving and credit allow the users to track their funds effectively and efficientely. The advancements to the micro finance industry through mobile payments could provide lasting effects in India by strengthening its middle class and reducing poverty (Biswas,2016)

Grievance Redressal Mechanism-There must be a dedicated feedback and rederessal mechanism to handle and receive complaints speedily and efficientely. MFIs shall have appropriate policies and guidelines for ensuring compliance with the Institutional Conduct Guidelines for Microfinance Institutions.

CONCLUSION

This study aimed at giving a brief history of Indian microfinance practices, its shortcomings, and most importantly, suggestions that could help improve its current state of being. Microfinance can contribute to solving the problem of poverty alleviation. The challenge lies in finding the level of flexibility in the credit instrument that could make it match the multiple credit requirements of the low-income borrowers without imposing unbearably high cost of monitoring its end-use upon the lenders. The Microfinance industry has grown exponentially and has positively impacted the poverty-stricken households. The microfinance movement in India has focused on women empowernment, reduction in poverty, human capital formation bringing in social and financial change in the lives of poor people. In order to make microfinance an effective tool to combat various issues ranging from MFIs practices, high interest rates, financial illiteracy, poor policy design, overindebteness, multiple lending must be addressed. It is therefore imperative upon the industry to update itself accordingly by building financial discipline and educating borrowers and improving in terms of outreach and capabilities.

Furthermore increasing initiatives of government organizations such as NABARD in training, developing human capital, creating awareness and promoting financial literacy are expected to provide a boost to this sector.

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