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A SYNOPTICAL VIEW OF MICROFINANCE IN INDIA

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Abstract:-Poverty is omnipresent but the third world countries are the main suffers.

The report of World Bank 2010 highlights that 1.2 billion people in the world. In India, despite more than six decades of independence, one third of the population is living below poverty line. The first survey of rural indebtedness (All India Rural Credit Survey) conducted by the Reserve Bank of India (RBI) in 1947 documented that moneylenders and other informal lenders met more than 90 per cent of rural credit needs. The share of banks in particular was only about 1 per cent in total rural household debt. Therefore, government has taken several initiatives from time to time to tackle the scarce of poverty since independence But all initiatives brought almost negligible results. Nevertheless, policy makers, academicians, researchers revealed that poor needed access to financial services rather than availability of cheap credit. Therefore, in this backdrop, SHG- Bank Linkage Programme was launched by NABARD in 1992. The present paper attempts to give a comprehensive view of several aspects – genesis, trends of SHG-Bank Linkage Programme, Challenges faced by microfinance sector and suggestions to overcome the challenges.

Keywords: Microfinance, SHG-Bank Linkage Programme, Self-Help Groups (SHGs).

INTRODUCTION

Poverty is omnipresent but the third world countries are the main suffers. (United Nations) The report of World Bank 2010 highlights that 1.2 billion people in the world are living in extreme poverty wherein the maximum number of poor are living in India (World Bank, 2010). In India, even after more than 65 years of planning, more than 60% of population is living in rural areas and directly or indirectly depend upon agriculture to earn its livelihood, meaning thereby poverty and unemployment are the offshoots of their dependency on agriculture. The first survey of rural indebtedness (All India Rural Credit Survey) conducted by the Reserve Bank of India (RBI) in 1947 documented that moneylenders and other informal lenders met more than 90 per cent of rural credit needs. The share of banks in particular was only about 1 per cent in total rural household debt. Therefore, government has taken several initiatives from time to time to tackle the scarce of poverty since independence. Nationalization of major commercial banks in 1969/1980 was to improve the flow of formal institutional credit to rural households. Although these measures were ambitious and laudable, bank credit did not reach the poor people in adequate quantum. In 1974, establishment of RRBs to concentrate exclusively rural poor was another initiative taken by the government. Moreover, several poverty alleviation programmes like Training of Rural Youth for Self Employment (TRYSEM), Rashtriya Mahila Kosh (RMK) etc have been introduced to address the problem. But all such initiatives didn't bring any fruitful results.

On 12th July, 1982 NABARD was established to look after the credit requirements of all types of agricultural and rural development activities. In late 1980's NABARD took an action research project in consultation with an NGO in the state of Karnataka to search the causes for the failure of all such schemes. It has been revealed that poor needed access to financial services rather than availability of cheap credit. In 1992, SHG- Bank Linkage Programme was launched by NABARD. Today, it became the world's largest microfinance program.

DEFINITIONS OF MICROFINANCE

Microfinance refers to the complete vary of monetary and non-financial services, together with talent upgradation and entrepreneurship development, rendered to the poor for enabling them to beat poverty.

According to Robinson (1998), " Microfinance refers to tiny scale money services for each credits and deposits- that area unit provided to individuals UN agency farm or fish or herd; operate tiny or microenterprises wherever merchandise area unit produced, recycled, repaired or traded; provide services; work for wages or commissions; gain income from renting out tiny amounts of land, vehicles, draft animals, or machinery and tools; and to different people and native teams in developing countries, in each rural and concrete areas.

NABARD (1999) has outlined microfinance as the provision of thrift, credit and different money services and products of terribly tiny amounts to the poor in rural, semi-urban or urban areas for enabling them to boost their income levels and improve living standards.

LITERATURE REVIEW

Christabell & Raj (2012) highlighted that MFIs played an important role to overcome financial exclusion as they operate in limited geographical area having greater understanding of rural poor issues, greater acceptability among them and flexibility in operations. Dadgund (2012) revealed that with the help of scientific establishment of microfinance resulted in poverty alleviation which leads to rural development and Indian economy can rank in top five economies of the world. Das (2004) in his article observed microfinance as a tool to eradicate poverty from the world having self realization & self initiative as the offshoots. Ghosh (2012) in his study provided several challenges with the progress of Self Help Groups that needs to be addressed like deterioration in the quality of SHGs, migration of people from SHG to (SGSY), regional imbalances etc. Hans (2009) emphasized on inclusive growth which can be attained under congenial relationship between financial & social intermediation. Karmakar (2009) found lower dropout rates & better school attendance, increase in the value of assets, better control over decisions affecting them, reduction in child mortality, improved maternal health, ability of the poor to combat diseases, less dependency on informal money lenders etc. as the major offshoots of microfinance. Karnani (2007) suggested that creating employment & increase in productivity are the solutions to overcome poverty. Khandelwal (2007) highlighted that microfinance is not a panacea buteffective tools to help poor people but not extremely poor from a self development perspective. Kumar, Bohra & Johari (2010) investigated more social impact than economic impact and incorporated that microfinance has been fruitful to poor but not for extremely poor. Littlefield, Morduch, & Hashemi (2003) elucidated that microfinance has been very helpful in attaining the millennium development goals (MDG) viz. reduction in poverty and hunger, elimination of HIV/AIDS and infectious diseases, empowerment of women, children education, lower child mortality and environmental sustainability. Moses (2011) revealed that microfinance through SHGs has been effective in making positive social change among all members rather than direct borrowers (non member of SHG). Nagaraja & Kusugal (2013) revealed that SHG leads to self-reliance, self respect, entrepreneurship among rural poor meaning thereby rural development.

OBJECTIVES OF THE STUDY

1.To present the genesis of microfinance in India.
2.To analyze the trends of microfinance in India.
3.To study the challenges faced by the microfinance in India.
4.To provide necessary measures and policy intervention.

CHANNELS OF MICROFINANCE IN INDIA

In India, microfinance is provided through (SHG-BLM) and Microfinance Institutions Model (MFI). (SHG-BLM) which is the offshoot of NABARD's pilot project is dominant in the country.

TRENDS OF MICROFINANCE

Table1: No. of Credit Linked SHGs and Loan

	Cumulative	
Years	**No. of Credit Linked SHGs**	**Loan (in Crores)**
1992-93	255	0.29
1993-03	7,17,360	2,048.7
2003-04	10,79,091	3,904.2
2004-05	16,18,476	6,898
2005-06	22,38,565	11,397
2006-07	29,24,973	12,367
2007-08	36,25,941	17,000
2008-09	42,24,338	22,680
2009-10	48,51,356	28,038
2010-11	47,86,763	31,221
2011-12	43,54,442	36,340
2012-13	44,51,434	39,375

Source: NABARD's 2010-11, 2011-12, and earlier issues.

Table gives an overview of the progress of SHG-Bank Linkage Programme achieved since inception in 1992. No doubt, the microfinance movment based on SHG system has taken firm roots in India and with intensive official support; the coverage has rapidly expanded in past years. NABARD has altered the with effect from 2007. Since 1992 to 2006-07, the reports provide cumulative picture of the number of SHGs and the amount of loans granted. But after 2007, it has changed to outstanding picture. In 1992, the number of credit linked SHGs were only 255 with the amount of loan Rs 29 lakhs. In ten years 1992-93 to 2002-03, the number of SHGs becomes 7,17,360 with an increase of 2800 times. The cumulative amount of loan disbursed increased by 7000 times i.e. Rs 2048 crores during the decade. After three years the number of SHGs again becomes three times of what they were in year 2003 i.e. twenty two lakhs approximately. The cumulative amount of loan disbursed increased to Rs 11,397 crores. The next three years however highlighted twice the number of SHGs with the outstanding loan of Rs microfinance Rs 22,680 crores. At the end of 2010, the cumulative number of credit linked SHGs reached to 48.5 lakhs and the amount of outstanding loan was 28038 crores. After 2010, the cumulative number of credit linked SHGs decreases in the next two years 2011 and 2012. However, the number of credit linked SHGs during 2009-10 and 2010-11were 15.87 lakhs and 11.96 lakhs with the loan outstanding Rs 28,038 crores and Rs 31,221 crores respectively. Finally, the year 2012-13 documented 12.20 lakhs of credit linked SHGs meaning thereby 44.51 lakhs cumulative of credit linked SHGs and the outstanding loan of Rs 39375 crores.

Table 2: Region-Wise Bank Loan Disbursed and Outstanding in India since 2008 to 2013.

Region	**Loan Disbursed (in crores)**			**Loan Outstanding (in crores)**		
	2011	**2012**	**2013**	**2011**	**2012**	**2013**
Northern	377.52 (2.11)	335.43 (2.02)	342.29 (1.66)	903.14 (2.89)	1178.28 (3.24)	1160.68 (2.94)
North East	320.95 (2.20)	451.28 (2.72)	180.21 (0.87)	695.25 (2.22)	993.27 (2.73)	796.76 (2.02)
Eastern	1619.50 (11.13)	1624.06 (9.82)	1290.18 (6.26)	4202.55 (13.46)	4629.80 (12.74)	5538.13 (14.06)
Central	607.55 (4.17)	709.36 (4.29)	698.88 (3.39)	2365.40 (7.57)	2780.29 (7.65)	2776.85 (7.05)
Western	625.91 (4.30)	752.85 (4.55)	709.94 (3.44)	1246.23 (3.99)	1363.78 (3.78)	1466.85 (3.72)
Southern	10996.28 (75.58)	12661.76 (76.57)	17363.82 (84.35)	21808.59 (69.85)	12394.59 (69.89)	27635.36 (70.18)
Total	**14547.73 (100)**	**16534.76 (100)**	**20585.36 (100)**	**31221.17 (100)**	**36340.00 (100)**	**39375.30 (100)**

Source: NABARD's 2010-11, 2011-12, and 2012-13.
Note: The figure in parenthesis indicates percentage of loan disbursed & loan outstanding to SHGs.

Table2 highlights the amount of loan disbursed to SHGS and loan outstanding to SHGs in India since 2008 to 2013. It shows a continuous increase from 14547 crore to 16534 crore in 2012 followed by 20585 crore in 2013. In 2011, 75% of total loans disbursed to southern region. The share of Northern, North-Eastern was only 4.51%. The position of eastern region is better than other regions but except southern. The year 2012 shows a decline in the share of Eastern region while other regions show marginal increase. Southern region get the maximum loan (76.57%) in this year also. The year 2013 ponders tremendous decrease in disbursement of loan in all regions except south. However, it seems that the share of other regions has also transferred to south. There is a decline in the share of eastern and central region i.e. from 9.82% to 6.26% and 4.29% to 3.39% respectively. This is an issue that needs attention on the part of government because the maximum number of poor population is living in these two regions. The case of North-East resembles with these two regions. Its share in terms of percentage decreases from 2.72% in 2012 to 0.87% in 2013.

As far as the amount of loan outstanding is concerned, it is continuously increasing from Rs 31221 crore in 2011 to Rs 39375 crore in 2013. The share of southern region does not depict favourable position. But, 70% of total outstanding loan belongs to southern region in past three years. The position of NorthEastern, Central and western region shows a constant position with regard to outstanding balance. However, Eastern region shows increase from Rs 4629.80 crore(12.74%) to Rs 5558.13 crores(14.06%) in 2013.

Table 3: Agency-Wise Loan Disbursed to SHGs since 2011-2013

Agency	2011	2012	2013
Commercial Banks	9724 (67)	9942 (60)	13,385 (65)
RRBs	3197 (22)	5026 (30)	5626 (27)
Cooperative Banks	1625 (11)	1566 (10)	1573 (8)
Total	**14,546 (100)**	**16,534 (100)**	**20,585 (100)**

Source: NABARD's 2010-11, 2011-12, and 2012-13.
Note: The figure in parenthesis indicates percentage of loan.

Table exhibits the amount of loan disbursed by different agencies Commercial Banks, Regional Rural Banks (RRBs) and Cooperative Banks in India since 2011-2013. Commercial Banks have the maximum share in loan disbursement followed by RRBs and Cooperative Banks in all three years. In 2011, 67% of the total loan (Rs 9724) disbursed by Commercial Banks whereas 22% and 11% (Rs 3197 crores and Rs 1625 crores) disbursed by RRBs and Cooperative Banks respectively. However, the share of Commercial Banks in terms of percentage decreased from 67% to 60% while the share of RRBs increased from 22% to 30% i.e. from Rs 3197 crores to Rs 5026 crores in 2012. The year 2013 highlights the share of Commercial Banks increased to Rs 13385 crore (65%) . the share of RRB and cooperative in terms of percentage decreased from 30% to 27% and 10% to 8% respectively.

Table 4: Estimated Poor Households covered under SHG-bank Linkage Programme since 2001 to 2013.

Year	People covered	% Increase
2000-01	4.5	--
2001-02	7.8	73
2002-03	11.6	49
2003-04	16.7	44
2004-05	24.3	45.5
2005-06	33	36
2006-07	58	76
2007-08	70	48
2008-09	86	23
2009-10	97	13
2010-11	97	0
2011-12	103	6
2012-13	95	-7.8

Source: NABARD's Status of Microfinance in India 2012-13, 2011-12, and earlier issues

Table 4 exhibits the number of poor households covered under SHG-Bank Linkage Programme since the year 2001. 4.5 million households accessing the services of microfinance under the programme in 2001. The year 2002 reveals 73% increase in the number of people covered meaning thereby 7.8 million covered. Further, 11.6 million and 16.7 million people were having access to microfinance with 49% and 44% increase in 2003 and 2004 respectively. The number of poor people provided services of microfinance becomes 2.43 crores and 3.3 crores in the next two years (2006 and 2007 respectively). Further, the year 2007 documented maximum increase in terms of percentage (76% increase) and the number of households covered becomes 58 million(5.8 crores). Seventy million and eighty six million poor households accessing microfinance during the year 2008 and 2009. Besides, the number of households for the next two years remain same i.e. 97 million meaning thereby no increase in 2011. On 31st March 2012, 103 million using microfinance services provided through SHG-Bank Linkage Programme. A decline of 8 million has been recorded for the first time with respect to the number of households covered in the year 2013.

In nutshell, it can be said that the percentage increase upto 2009 was significant. But 2010 shows increase of only 13% followed by no increase and 6% increase in 2011 and 2012. The year 2013 was the only year since the launching of SHG-Bank Linkage Programme in which the number of poor households accessing microfinance becomes less than of what they were in 2010. The decrease in the number is not a good indicator and NABARD, policy makers, researchers should search the causes and then remedial measures should be taken to improve the access of microfinance services in the next coming years.

CHALLENGES OF MICROFINANCE

Studies conducted by various institutions/ experts revealed that the programme has indeed helped social and economic empowerment of rural poor, especially the women, causing significant up-scaling of social capital, while at the same time delivering crucial and much-needed financial

services at low transaction costs for both banks and poor borrowers. However, slow progress of graduation of SHG members, the poor quality of group functioning, dropout of members from groups etc., have also been reported by various scholars in different parts of the country, which need to be taken into account while designing the road map for the next phase of the SHG programme.

1.High interest rates: MFIs charge high interest rates as their only competitors are moneylenders. Most MFIs charge interest @ 30-70% per year but the effective interest rates is higher because of commissions and fees charged by MFIs. Other factors such as compulsory deposits for obtaining a loan, frequency of repayments, and the systems adopted to collect repayments also raise the effective interest rates. (Fernando, 2006)
2.Multiple Lending and Over-Indebtedness: In order to eat away each others' market share, MFIs are providing multiple loans to same borrowers which is leading to over-indebtedness (a situation where the borrower has taken loans more than her/his repaying capacity) of the borrower.
3.High Transaction Cost: The administrative costs are inevitably higher for tiny micro-lending than for normal bank lending. Lending out a million rupees in 1000 loans of Rs1000 each will obviously require a lot more in staff salaries than making a single loan for the total amount.
4.Lack of micro insurance: The SHG members have little or no access to insurance services, which are crucial for security and sustainability of these groups. It has found that SHG household did not have any insurance cover and therefore it is quintessential to launch micro insurance products. Notwithstanding, government should encourage insurance companies to provide micro insurance products which cater for life, health, crops, assets and accidents so that requirements of destitute can be fulfilled. (Gunaranjan, 2007)
5.Low Depth of Outreach: Though is expanding, large number of people is provided
with microfinance services but the amount of loans is very small. The average loans per member in both MFIs and SHGs are between Rs.5000. This amount is not still sufficient to fulfill the financial needs of the poor people. The duration of the loans is also short. The small loan size and short duration do not enable most borrowers to invest it for productive purposes. They, generally, utilise these small loans to ease their liquidity problems. (Nasir, 2013)
6.Quality of SHGs: SHG members have low level of skills and therefore low demand and low quality are the offshoots of the products produced by them.
7.Dropouts and Migration of group member: Loans to SHGs are disbursed on group lending concept and a past record of the group getting new loans. Dropouts (when one or more members leave the
group) and migration (when one or more members move to another group) are the two major problems associated with the group concept. Further, most MFIs lend on the basis of the past record of the group i.e. SHG or JLG and also on the individuals repayment performance. Therefore, members are deprived of getting bigger loan amounts and additional services in absence of a good past record.
8.Bypassed poor states: NABARD report (2013) exhibits that 84% of the total loan disbursed to southern region. The share of eastern and central region is 10% wherein the maximum number of poor population 14.52 crore is living (as

per Tendulkar Committee Report). The share of other regions is only 6%. Thus it can be said that poor states have been bypassed by NABARD.

SUGGESTIONS

Transparency of Interest rates: As it has been observed that, MFIs are employing different patterns of charging interest rates and a few are also charging additional charges and interest free deposits (a part of the loan amount is kept as deposit on which no interest is paid). All this make the pricing very confusing and hence the borrower feels incompetent in terms of bargaining power. So a common practice for charging interest should be followed by all MFIs so that it makes the sector more competitive and the beneficiary gets the freedom to compare different financial products before buying.
Provision of Micro-insurance: There should be a provision of micro insurance to the members of SHGs so that natural disasters have least affect on them. It has been found that animals like cows purchased on loan provided by bank died due to sickness and therefore members become insolvent. Thus it is quintessential to provide micro insurance to members of SHGs.
Corruption: Corruption is a common problem which the whole India is facing. Corruption at field staff level such as taking bribe for loans or frauds can result in delinquencies. A staff taking favor from clients cannot enforce discipline or strict repayments. If the staff is committing fraud it will also show up as delinquency.
Regional imbalances: NABARD itself providing 75%, 76% and 84% of total loans to southern region in 2011, 2012 and 2013 respectively. Regional imbalances cannot be removed unless NABARD which is a nurturer not take strict decisions with respect to the disbursement of loan according to the percentage of poor population.
Good Quality: Good quality cannot be assured unless requisite training has been provided by the banks and NGOs to the members of SHGs.
Federations: Federations, if they emerge voluntarily from amongst SHGs, can be encouraged.
ICT technology and product innovation: In the ever changing technology there is good scope for ICT tools to reduce cost of financial inclusion. This needs to be sufficiently explored for the benefit of both banks and rural SHG members.

CONCLUSION

No doubt, Microfinance proved as one of the powerful tool of 21st century for economic development. It has been considered as a panacea for mitigation of poverty among masses. As far as India is concerned, it has shown drastic results in only southern part of the nation. In the year 2013, Rs 17,363 crores have been disbursed by banks to 8,45,936 SHGs. On the contrary, Rs 3222 crores disbursed to 3, 73,885 SHGs in all other regions. The data shows extreme level of regional imbalances and thus it can be said that the SHG-Bank Linkage Programme has failed to cover regions (Eastern and Central) having maximum poor population. Therefore, the study has found major roadblocks that come into way to serve the rural poor of other regions. Some of the major challenges are high rates of interest, dropouts and migration of members to another groups, lack of micro-insurance, concentration of MFIs in southern region, low size of loan, multiple lending and over indebtedness, poor quality of products produced by SHGs etc. Therefore in this backdrop, the study has recommended valuable suggestions like transparency in transactions, reasonable rates of interest, provision of micro-insurance to SHG members, training to improve the quality of products etc. for sustainable development of the rural economy of India. Moreover, government and other concerned authorities like NABARD should be taken keenly for spreading equitable outreach of microfinance in India.

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