

A Study of Progressive Model of Micro-Finance in India

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ABSTRACT ; Microfinance is describe as associate unit brolly under that money services as well as small credit measure provided to the weaker and low financial group. As we know Poverty alleviation is one of the primary goals of developing economy like India. The suppression of poverty and achieving the sustainable development are the two most important challenges facing by India and also the world in this century. On the basis of this, the role and significance of micro-finance in India cannot be denied. India is the home of 1/3 of the world's poor and equally large number of people does not have an access to remittance and formal banking facilities. In India about 85 percent of the poorest household do not have access to credit. The basic idea of microfinance is to provide credit to the disadvantaged groups and poor people who would not have access to credit services. This paper tries to discuss concrete framework of a microfinance institution in India and how Micro-financing is regarded as a tool for socio-economic up-lift in India. This paper also explains the role and significance of the microfinance and its models in current economic scenario of India.

Keywords: *Micro Finance; sustainable development; disadvantage groups; Remittance services*

I. Introduction

In early 1980's, the banking systems, its measures and policies were not suited to meet the requirements of low income group and backward section of the society. For credit needs and others borrowings poor and remote section largely depend to un-organised financial sector. In 1982 NABARD established and it further recommended that alternative policies, systems and procedures should be put in use to save the poor section from the controls of moneylenders and other unorganised financial sector. Thus microfinance was introduced in banking sector. The main idea of microfinance is to provide credit to the poor people who would not have access to credit services. Micro-finance means arrange or make available credit and loans to the deprived groups through the intermediation of the registered Self Help Groups, who intermediate between the financial institution/banks and needy section of society, to fulfil their economic needs. Financial inclusion is also a major step on the path of providing the basic financial services to the economically weak section of the society. The two main strategies for financial services to such clients are: (1) relationship-based banking for individual business persons and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group. Many inventive tools have been developed across the world to enhance credit to poor. Microfinance is also one of them which make a 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 so as to help them raise their income, thereby improving their standard of living". Micro-credit programme spread small loans to very poor people for self-employment projects that earn income and allow them to support for themselves and their families. Poor and Weaker section always need credit and financial services more than subsidies to become financially self-independent. As we know Absence of formal employment makes them non-bankable and part from formal financial services. So Micro-financing is considered as an instrument for improving the social as well as economical level in India and can play substantial role in poverty alleviation and development. Mohammed Yunus was awarded the Noble Prize for application of the concept of microfinance, with setting up of the Grameen Bank in Bangladesh. Here we have to understand that Micro credit and microfinance are different in some manner as Micro credit is a small amount of money, given as a loan by a bank or any legally registered institution, whereas, Microfinance includes multiple services such as loans, savings, insurance, transfer services, micro credit loans etc. Loans to poor people by banks have many restrictions including lack of financial security for loans, high interest rate and operating cost and so Microfinance was developed as a best alternative to provide loans to poor people with the goal financial inclusion and eliminate financial inequality. Muhammad Yunus a Nobel Prize winner familiarised the concept of Microfinance in Bangladesh in the form of the "Grameen Bank". NABARD took this idea and started concept of Micro Finance in India. Micro Finance is defined as, financial services such as

Saving A/c, Insurance Fund & credit provided to poor & low income groups so as to help them to up-lift their economic level&so improve their standard of living.

II. OBJECTIVES

The present paper pursues to achieve the following objectives:

1. To understand the nature and importance of micro-finance for the developing India.
2. To find the present models and standing of micro-finance in India and its impacts.
3. Measures for ensuring effective implementation of the micro-finance system in India.

III. RESEARCH METHODOLOGY

The present paper is a descriptive study. This study is grounded on secondary data only. Secondary data is collected from numerous sources like journals, magazines and reports. So reliability of the data depends on the trueness of the source.

IV. MICROFINANCE GROWTH & MODELS IN INDIA:-

The policy of 'social banking' thought led to the nationalization of commercial banks, implementation of direct lending programmes to rural areas and expansion of credit institutions such as Regional Rural Banks (RRBs) and National Bank for Agriculture and Rural Development (NABARD). Initially the microfinance has developed mostly from the efforts of Non-Governmental Organizations (NGOs), and because of the failure of existing arrangements to providing financial services to the poor. The efforts by NGOs have emerged from grassroots and represent multiplicity. Therefore, it is also difficult to make policy recommendations that impact the sector as a whole. There are different channels for microfinance services in the country. SHG (Self Help Group)-Bank Linkage Channel (SBLC) is the first one, which was developed early

1990s by NABARD. Recently, various Non-Governmental Organizations (NGOs), Community Based Organizations (CBOs) and Self Help Groups have started micro finance delivery systems successfully in rural areas. These organizations encourage the poor to join the credit groups, helps to manage their savings, loan-deposit and recovery process etc. The second channel is Micro Finance Institution (MFI). In India, the commencement of microfinance programme could be traced to Self Help Group (SHG) – Bank Linkage Programme (SBLP) started as an experimental project in 1992 by NABARD. This programme proved to be very successful and has also developed as the most popular model of microfinance in India. Now In India, the institutions which provides microfinance services includes:- NABARD Small Industries Development Bank of India (SIDBI), Rashtriya Mahila Kosh, Commercial Banks, Regional Rural Banks, Co-operative Banks and Non-Banking Financial Companies (NBFCs).

Microfinance services are provided mainly by two models: - **Self Help Group - Bank Linkage Programme (SBLP) Model** and **Micro-Finance Institutions Model (MFI)**. These both together have more than 7 crore clients.

SHG - Bank Linkage Programme (SBLP)

A Self Help Group (SHG) is a small group of 10 to 20 persons of rural poor who come together to mutually contribute to common fund for meeting their emergency needs. SHG - Bank Linkage Programme was announced by NABARD in 1992. Under this programme three different models have emerged:-

- a) Model I: - SHGs promoted, guided and financed by banks.
- b) Model II: - SHGs promoted by NGOs / government agencies and financed by banks.
- c) Model III: - SHGs promoted by NGOs and financed by banks under NGOs / formal agencies as financial intermediaries.

ACHIEVEMENTS OF SHG-BANK LINKAGE PROGRAMME 2016-17

S.NO	Particulars	Achievements	
		Physical (no. in lakh)	Financial (Rs. in Crore)
1	Total number of SHGs saving linked with banks	85.77	16114.23
(i)	Out of total SHGs – exclusive Women SHGs	73.22	14283.42
(ii)	Out of total SHGs – under NRLM/SGSY	37.44	7552.70
(iii)	Out of total SHGs – under NULM/SJSRY	5.45	1126.86
2	Total number of SHGs credit linked during 2016-17	18.98	38781.16
(i)	Out of total SHGs-exclusive Women SHGs	17.16	36103.13

(ii)	Out of total SHGs – under NRLM/SGSY	8.86	17336.26
(iii)	Out of total SHGs – under NULM/SJSRY	1.06	2675.77
3	Total number of SHGs having loans outstanding as on 31 March 2017	48.48	61581.30
(i)	Out of total SHGs - exclusive Women SHGs	42.84	56444.24
(ii)	Out of total SHGs - under NRLM/SGSY	24.91	29994.43
(iii)	Out of total SHGs - under NULM/SJSRY	3.18	4133.29
4	Data on Joint Liability Groups		
(i)	Cumulative JLGs promoted as on 31 March 2017	24.53	
(ii)	Cumulative loan disbursed to JLGs as on 31 March 2017		26848.13

*Source: NABARD Reports 2016-17

NABARD continues to support and modify the complete scheme of support for the SHG-Bank linkage programme and alternative microfinance innovations. Following are some of the major functions under Self Help Group – Bank Linkage Programme (SHG-BLP):

- Innovating and creating product level changes with the existing SHG product, refining risk mitigation systems, building second level establishments of SHGs to handle operational problems.
- Extending support to organizations and NGOs for formation of SHGs and JLGs.
- Organizing and sponsoring sizable amount of training and capacity building programmes, seminars and workshops for the advantage of all stakeholders viz. the bankers, the govt. agencies, the NGO partners and a lot of significantly the SHG members themselves.
- Livelihood promotion: To empower the SHG members to take up livelihood activities, NABARD has been supporting Micro Enterprise Development Programmes (MEDPs) and Livelihood and Enterprise Development Programmes (LEDPs).
- WSHG scheme of GOI: NABARD is implementing and supporting the Women SHG scheme (WSHGs) declared by Govt. of India in backward and Left Wing ideology affected districts
- Digitization of SHGs: The department is making efforts to digitize the bookkeeping of SHGs by launching model

project across the country. The project has gone from strength to strength. Details of the achievement can be viewed from the project website <https://eshakti.nabard.org>

Micro Finance Institutions (MFIs)

MFIs comprise NGOs, trusts, social and economic entrepreneurs, these advance tiny sized loans to people or SHGs. They additionally offer different services like capability building, training, marketing strategies of products etc. for needy and weaker section of the society.

MFIs operate under following models

a) Bank Partnership Model

* MFI as Agent:-

In this model, the MFI acts as an agent and it takes care of all relationships with borrower from first contact to final repayment.

* MFI as Holder of Loans:-

Here MFI holds the individual loans on its books for a while, before securitising them and selling them to bank.

b) Banking Facilitators:-

Banking facilitators / correspondents are mediators who carry out banking functions in remote areas or areas where it is not possible to open a bank branch. In January, 2006, RBI allowed banks to use services of NGOs, MFIs and other civil society organisations to act as intermediaries in providing monetary and banking services to weaker and poor section.

V. GROWTH OF MICROFINANCE SECTOR

S.NO	YEAR	Outstanding Loan Portfolio (Rscore)	Loan Disbursed (Rscore)	Client Outreach (In Lakhs)
1	2009-10	22544	29330	267
2	2010-11	24332	35176	317
3	2011-12	24607	22635	275

4	2012-13	25699	25635	275
5	2013-14	33517	38558	330
6	2014-15	48882	56860	371

Source: Sa-Dhan (2015)

The growth trends as showed in the above table are confirmed that the sector is bouncing back strongly.

VI. ROLE AND IMPORTANCE OF MICRO FINANCE:-

Microfinance institutions are those which provide credit and other financial services and products of very small amounts to poor in rural, semi-urban and urban areas for enabling them to raise their income and improve their standard of living.

* Credit to Rural segment:-

Usually rural sector depends on non-institutional agencies for their financial requirements. Micro financing has been successful in taking institutionalized credit to the doorstep of poor and have made them economically and socially sound.

* Poverty Alleviation:-

Due to micro finance poor people get employment. It also helps them to improve their entrepreneurial skills and encourage them to exploit business opportunities. Employment increases income level which in turn reduces poverty.

* Women Empowerment:-

More than 50% of 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 microfinance empowers poor women economically and socially.

* Economic Growth and development:-

Finance plays a key role in stimulating sustainable economic growth. Due to microfinance, production of goods and services increases which increases GDP and contributes to economic growth of the country.

* Mobilisation of Savings and idle money:-

Microfinance develops saving habits among people. Now poor people with meagre income can also save and are bankable. The financial resources generated through savings and micro credit obtained from banks are utilised to provide loans and advances to its members. Thus microfinance helps in mobilisation of savings.

* Development of Skills:

Micro financing has been a boon to potential rural entrepreneurs. SHGs encourage its members to set up business units jointly or individually. SHGs also arrange

training for them from supporting organisations and also develop leadership qualities. Thus micro finance is indirectly liable for development of skills.

* Mutual Help and Co-operation:

Microfinance promotes mutual help and co-operation among members. The collective efforts of group promote economic interest and helps in achieving socio-economic transition.

* Social Welfare:

With employment generation the level of income and living standard of people increases. This will result better education, health facilities, family welfare etc. Thus micro finance leads to social welfare or improvement of society.

VII. SUGGESTIONS

Micro finance institutions have expanded the frontiers of institutional finance and have brought the poor, especially poor women, into the formal financial system and enabled them to access credit and fight poverty. Though some significant strides have been made in up scaling the purveyed of micro finance, it is observed that microfinance has had an asymmetric growth across the country with diverse rates of interest being charged to the members, which are areas of concern. The research has sought opinions from a number of persons, such as bank managers and officers, members of the SHGs and NGOs and also some scholars from education field. The views expressed by these people have been condensed in the form of recommendations for the improvement of the scheme:

(a) There is considerable scope for development of microfinance in India since there is enormous unmet demand for financial services in this sector. Therefore, enacting fresh legislation or appropriate amendments in the existing legislation related to Micro-financial institutions is needed.

(b) There is an urgent need to streamline the procedure for applying, seeking and releasing of micro-finance. The procedural difficulties are one of the major problems, which have denied the needy groups, the financial benefits of the banks.

(c) In order to ensure proper utilisation of the credit, there is an urgent need to introduce availability of consumption credit from the formal channel. The need is to sensitize bank staff towards the needs, constraints and inhibitions of the micro-finance clients.

(d) There is a need to evolve new products by the banks to commensurate with the requirements of rural, semi-urban and urban people. The customer-contact programmes especially for the people living below poverty line be organised to disseminate the information of various schemes and financial needs of these groups.

(e) Micro-finance as a permitted activity for societies, NGO's and voluntary organizations may be ensured through amending the existing Indian Income Tax Act, 1956 [Section 2(5), Section 11(5)], Societies Registration Act, 1860, FCRA and RBI Act.

(f) Micro-financing institutions need proper regulation and operation of business transactions. Therefore, RBI, SIDBI, NABARD and other organizations should evolve proper mechanism for monitoring, supervision, direction, appraisal and evaluation of micro-financial institutions as well as self-help promotion institutions.

(g) The factors responsible for poor performance of microfinance and functioning of SHG's should be investigated, examined and analysed scientifically and systematically to resolve the emerging problems, difficulties and challenges being faced.

(h) A lot of analysis ought to be dispensed to assess the impact of micro-credit through SHG's. The impact assessment ought to be a lot of targeted on socio-economic direction of members, social amendment, dynamics of teams, business, leadership, promotion of viable small enterprises, etc.

VIII. CONCLUSIONS

Although Microfinance in India has grown at an extraordinary pace in recent times and also achieved substantial outreach amongst rural households across and remote area of the nation. Microfinance services are provided by the SBLP of NABARD, NGOs, MFIs and various government schemes and programmes. SHGs in India are mostly encouraged by SBLP of NABARD, NGOs and MFIs. Microfinance helped deprived people to gain banking and financial facilities. Despite of the significant role of microfinance programme in enhancing the status of rural poor and nurturing the SHGs, the overall progress of microfinance across the India is not equal. There were regional disparities regarding expansion of microfinance facilities. This programme mainly focussed more in southern region in comparison to other region of India. On the basis of above outcomes, it is perceived that there are so many problems associated with the MFIs and SGHs. There is a large gap between demand and supply of microfinance in India. The Southern regions showed greater progress in this sector. Moreover, Microfinance institutions are lagging

behind in terms of loan and credit the real needy, regional imbalance, a proper regulation etc. These Internal, external and client based challenges are prevailing from starting of the MFIs in India. Finally, MFIs in India have so many spaces in their running, though the MFIs can play an important role in the poverty alleviation and improving the living standards of the poor and weak section.

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ACRONYMS

NABARD	-- National Bank for Agriculture and Rural Development
SHGs	-- Self-help groups
RRBs	-- Regional rural banks
SBLP	-- (Self Help Group)-Bank Linkage Channel
CBOS	-- Community Based Organizations
MFI	-- Micro Finance Institutions
WSHGs	-- Women SHG scheme
NRLM	-- National rural livelihoods mission
SGSY	-- Swarnajayanti gram swarozgari yojana
NULM	-- National Urban livelihoods mission
SJSRY	-- Swarna Jayanti shahari rojgar Yojana
JLGs	-- Joint Liability Groups
LEDPs	-- Livelihood and Enterprise Development Programmes
MEDPs	-- Micro Enterprise Development Programmes