MICROFINANCE IN INDIA-A STUDY OF STATUS, PENETRATION AND INCLUSIVENESS

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Introduction

Microfinance is considered as a new tool in the development strategy of the third World Countries. In order to make a dent of poverty and to reduce income inequalities, financial inclusion of the poor and underprivileged has become immediate concern among these developing countries. Varied definitions have been provided by academicians and economies depending upon their understanding and appreciation. Microfinance is defined as "the provision of financial services to low-income poor and very poor self-employed people"[1]. The word "Microfinance" is also defined as an attempt for improving accessibility to those neglected lot by banks of all volumes and to extend tiny loans and encourage small deposits"[2]. In the Indian context, according to the National Bank for Agriculture and Rural Development (NABARD), the definition of microfinance is "the provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling then to raise their income levels and improve living standards" (NABARD, 1999). Besides providing financial services, microfinance programs aim at the holistic development of participants. As such, microfinance includes micro credit, the provision of small loans to poor clients; savings and checking accounts; micro insurance and payment systems[3]. Though microfinance services are initially meant to extend micro loans to poor entrepreneurs and small businesses lacking access to credit, over time they emerged as a larger movement in many countries. Its main objectives are to establish "a world in which as everyone, especially the poor and socially marginalized people and households, have an access to a wide range of affordable, high quality financial products and services, including not just credit but also savings, insurance, payment services and fund transfers[4]". In view of this, microfinance is viewed, not only as a means to promote economic growth and employment, but also as a tool that enables alleviation of the rural poverty.

The proponents of microfinance argued that accessibility to credit will help the poor people to get out of poverty and also enable them to handle their finances efficiently. The

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poor and marginalized groups are thus take advantage of economic opportunities and improve their living standards, thereby contributing for the economic development of the country. However, an attempt is made in this paper to understand the concept of microfinance, its evaluation and the level of inclusiveness in India. The specific objectives of this study are

1. To analyze the historical evolution of microfinance
2. To examine the status of microfinance in India
3. To examine the rural-urban penetration of microfinance institutions in India
4. To analyse the extent of social inclusiveness achieved by the microfinance institutions in India.

Evaluation of Microfinance:

The development strategies of 1950's and 1960's have failed two adders the problems of poverty and inequality in most of the developing countries. It is observed that the fruits of growth are not trickling down to the poor as initially expected in these countries. Further, the collapse of the Bretton Woods system and oil crisis in an early 1970s stressed the need to develop inclusive financial models. This led to the origin of microfinance institutions in the world. However, historicalevidence shows that the concept of small loans was present since the 1800s. It has taken different forms like 'tontines' in West Africa, 'tandas' or 'Cundinas' in Mexico and Central America and 'Chit funds' in India[5]. It is of interest to note that the modern microfinance owes its origin to Dr. Mohammad Yunus, a Nobel Laureate from Bangladesh, who started Grameen Bank in 1976. The GrameenBank model operates on the belief that small loans are better than charity to the poor people who are capable of repayment if given a chance. The Grammeen Bank model was institutionalized in the Eighties and Nineties in many developing countries.

Microfinance evolution in India:

The growth of microfinance can be examined at different intervals depending upon emergence of different economic movements in Indian financial scenario:

i. Cooperative Movement (1900-1969)
ii. Bank Nationalization and Emergence of NGOs (1969-1991)
iii. Self Help Groups (SHGs) Bank Linkage Program and Growth of NGO-MFIs (1992-2000)
iv. Commercialization of the Microfinance (2000-Till today)

i. Co-operative movement (1900-1969)

The origins of Indian Microfinance can betraced to the enactment of co-operative societies Act 1904. The Credit Cooperatives operating in Rural-India for responsible in mobilisation of resources of the poor and extending or facilitating access for varied types of financial services. During the post-independence period co-operatives started too penetrate into remote rural areas in order to provide credit facilities to the poor and marginalized sections. However, over the years rural co-operatives were saddled with the problem of heavy over dues in repayment and also with the problem of frozen assets. With the large scale of failure of credit co-operatives, certain fundamental changes were needed in microfinance institutional delivery mechanisms.

ii. <u>Bank Nationalization and Emergence of NGOs (1969-1991)</u>

In order to eradicate poverty and to provide credit access to the poor and weaker sections of the society, 14 major banks were nationalized in 1969. With this priority sector lending has improved and rural credit delivery mechanisms were strengthened. Regional Rural Banks (RRBs) were established in mid 1970s in order to increase rural credit delivery and priority sector lending. The emergence of Integrated Rural Development Program (IRDP) by union government had triggered the credit to the rural masses in 1980-81. Under this program loans up to Rs.15,000 were extended for purchasing productive assets, to the poor. However, on account of misuse of the loans at ground level, credibility of banks was at stake due to negative perception of the borrowers of Microloans. This was considered as a step in retrograde. Notwithstanding, these barriers some of the organizations viz., SEWA, (Ahmedabad), Annapurna Mahila Mandal (Mumbai) and Working Women's Forum (Chennai) were successful in implementing the schemes of microfinance to the needy poor households. The NABARD encouraged the emergence of Self-Help Groups (SHGs) in India in 1980 by promoting increased microfinance to the rural and marginalized category of poor people.

iii. <u>Self Help Groups (SHGs) Bank Linkage Program and Growth of NGO-MFIs (1992-2000)</u>:

The economic in the country witnessed in 1990 paved the way for undertaking economic reforms in the country and at the same time several private sector banks such as ICICI Bank, HDFC Bank, IDBI Bank and UTI Bank, an emerged and they also started working on rural finance at micro level on par with nationalized banks. At this crucial hour NABARD has contributing much to link the Self Help Group to the banks in tuned with the policy of the government. The policy decision of the Reserve Bank of India of 1996 has changed priorities of the banks whereby extension of loans to SHGs assumed importance and such an activity is made a primary and priority activity. There had been a sea change in the outlook of nationalized banks towards the poor. Further, at that time another set of stake holders viz., Microfinance Institutions (MFIs) consisting of refinance institutions, banks, NGOs and SHGs also started operating rural and urban credit in extending loans to the needy poor and thus, became a significant contributors claiming a substantial market share in lending. Other significant step during this period is introduction of “Mutually Aided Co-Operative Societies” (MACS) basing on the recommendations of Brahma Prakash Committee at national level and majority of the states of passed legislations extending autonomy to those societies by keeping them away from the state control or regulation save in an emergency situation. The success in other countries such as Indonesia, Latin America and Bangladesh have opened new vistas for several stakeholders to tap the rural market instead of concentrating on urban and mega finances towards heavy industries.

iv. Commercialization of Microfinance (2000-Till Today)

Since 2000 there has been a shrift in Microfinance activity. Keeping poverty alleviation, inclusive growth and financial inclusion as prime objectives, the microfinance sector has changed its approach from ‘sole social return’ to ‘double bottom line approach’ of financial and social needs, keeping in view, their obligation in the context of social engineering, which resulted in substantial changes in the very functioning of their activity with regard to microfinance. The thrust on “ Bottom of the Pyramid” and also rise in profit of various Micro Finance institutions (MFIs), have made several big banks from India and abroad like ICICI Bank, HSBC, GE money, Fullerton India and DBS Cholamndalametc. to enter into the microfinance sector today microfinance institutions have been playing a significant role in the progress of Pradhana Manthri Beema Yojana (PMBY) and Atal Pension Yojana (APY).It is of interest to note that some of the microfinance institutions have transformed into Small Finance Banks and Payment Banks.

Status of Microfinance in India

Prior to 1990, large chunk of population from rural area was outside the mainstream banking institutions and were forced to depend on informal sources for credit needs.Though the informal native lenders were extending loans without there being any cumbersome process, however with exorbitant rates of interest and barbarous process of recovery, and their life from bad to worst the scenario and made them poor to poorer. In order to change this situation and to provide institutional credit in a transparent manner SHG-BLP (Self Help Group-Bank linkage Program) was launched in 1992. The guidelines of NABARD and RBI have introduced certain policy guidelines to accept informal groups as customers for credit linkage as well as for deposits, facilitating lending without any collateral surety, to permit lending to SHGs without insisting the purpose of lending.

The said guidelines enabled SHG-BLP to promote microfinance to change the lending culture duly benefitting the families of low income groups. The banks extending links to SHGs have been increased from 41,61,000 in 2006-07 to 85,77,000 by the end of financial year of 2017[6]. Data relating to the status of SHG-Bank Linkage Program in India as on31st march 2017 are presented in Table-1. From the data it may be observed that as on 31st march 2017 there are a total of 85.77 Bank linked SHGs covering 112 million poor and marginalized families in India.The total savings of these SHGs are estimated as Rs.16,114crores and the total loan outstanding stood at Rs. 61581 crore. While the average loan disbursed per SHG is estimated as Rs.2,04,314 the average loan outstanding Per SHG stood at Rs.1,27,017. The Gross Non-Performance Asset (NPA) of bank loans to SHGs are estimated at 6.5 per cent. It is of interest to observe that out of the total SHGs 85.4 percent are exclusive women SHGs in India. Another impartment feature of this programme is the wide range of participation of schedule banks of more than 100, 349 District Cooperative Central Banks, 27 State Rural Livelihood Missions and more than 5000 Non-Government Organizations[7]. Thus, in view of its size and population coverage, it can be concluded that SHG-bank linkage programme is a crucial, significant and mega microfinance programme throughout the globe.

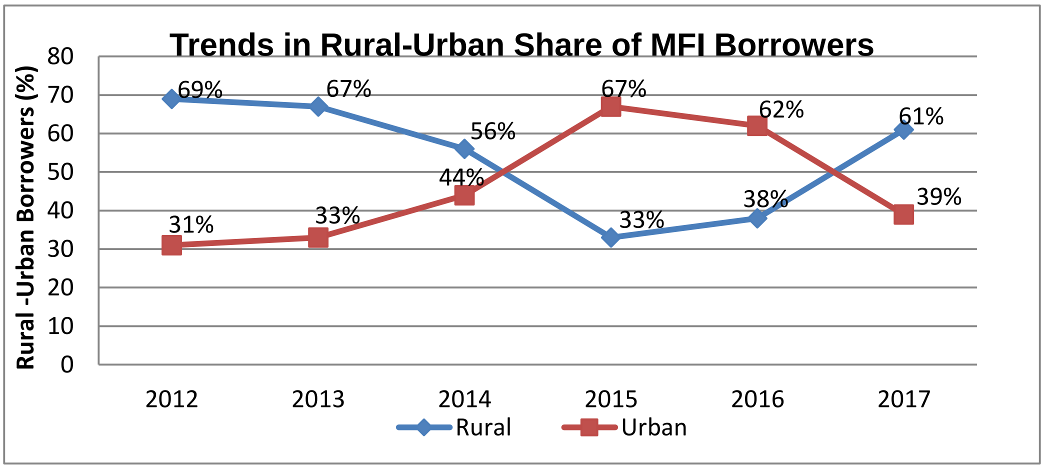
Table-1: SHG Bank Linkage Programme in India as on 31 March 2017

S.No.	Particulars	Figures as on 31st march, 2017
1	Total No of SHGs Linked	85.77 lakh
2	Out of Total SHGs-Exclusive Women SHGs	73.22 lakh
3	No. of Families Reached	112 lakh
4	Total Savings of SHGs	16,114 lakh
5	Total No. of SHGs Credit Linkage	18.98 lakh
6	Gross Loans Outstanding	61,581 lakh
7	Total Loan Disbursed	38,781 lakh
8	Avg. Loan Disbursed Per SHG	2,04,314 lakh
9	Avg. Loan Outstanding Per SHG	127017 lakh
10	NPA	6.50 %

Source: The Bharat Microfinance Report, 2017

Rural-Urban penetration:

The market share of rural-urban microfinance borrowers are presented in the following graph. From this it may be observed that the proportion of rural borrowers under microfinance schemes declined from 69 per cent in 2012 to 56 percent in 2014 and further declined to 33 percent by 2015. However, it started to increase to 38 percent in 2016 and finally to 61 percent by 2017. At the same time, the share of urban borrowers witnessed raise from 31 percent in 2012 to 44 percent in 2014 and peaked to 67 percent by 2015. However, it started to decline to 62 percent in 2016 and further to 39 percent by 2017. From this, it may be concluded that microfinance borrowers from rural area are found to be less when compared to those of urban areas.



Source: The Bharat Microfinance Report, 2017

Social Inclusive Approach of Microfinance Institutions

Data relating to the composition of category-wise borrowers are presented in table-2. From the data it may be observed that the proportion of women borrowers increased from 94 percent of the total borrowers in 2011 to 97 percent in 2015 and declined to 96 percent by 2017. Similarly, SC/ST borrowers increased from 20 percent of the total borrowers in 2012 to 28 percent in 2015 and declined to 20 percent by 2017. On the other hand, the proportion of minority borrowers of microfinance declined from 23 percent in 2012 to 14 percent in 2014 and rapidly increased to 27percent in 2016 and later drastically declined to 10 percent by 2017.Further by the year 2017, the proportion borrowers having BPL card are estimated as 11 percent of the total borrowers under microfinance. It is of interest to note that the proportion of borrowers from backward classes also increased from 15 percent in 2016 to 23 percent by 2017. From this it can be safely concluded that the microfinance has been serving a major chunk of Indian population belonging to socially and economically backward communalities such as SC, ST, BC, EBC, etc.

Table-2: Composition of Borrowers-Category wise

% to total Borrowers									
Year	Women Borrowers	SC/ST Borrowers	Minority Borrowers	Differently Abled Borrowers	Borrowers Having Aadhaar Card	BC Borrowers	Individual Borrowers	Borrowers Having Personal Bank A/C	Borrowers Having BPL Card
2011	94%								
2012	95%	20%	23%						
2013	96%	21%	23%						
2014	97%	19%	14%						
2015	97%	28%	18%	0.05%	10%				
2016	97%	30%	27%	4%	18%	15%	3%		
2017	96%	20%	10%	0.12%	52%	23%	3%	22%	11%

Note: Data for SC/ST and Minorities is being from 2012; data for differently abled Borrowers and Borrowers having Aadhaar Card is being collected from 2015, data for BC Borrowers and individual Borrowers is being collected from 2016 whereas data for borrowers having personal bank A/C and borrowers having BPL Car started from 2017

Source: The Bharat Microfinance Report, 2017

Major Challenges of Microfinance Sector in India

Though microfinance has assumed to be a significant mission to eradicate the poverty in India, the desired results have not been achieved changing the lives of rural masses from raising their level of living.[8] Such a failure is attributable to some challenges operating against the success of microfinance in our country, which includes:

1. Financial illiteracy among SHG members and other borrowers from MFIs
2. Inadequate efforts by microfinance institutions to reach the bottom segment of the society
3. The issues of multiple lending due to fast growth of MFIs and their extension of business activity.
4. Increasing NPAs due to the unproductive use of credit by the borrowers and political interventions in the functioning of MFIs
5. Lack of adequate regulatory mechanisms to monitor the microfinance institutions in India

Conclusions

Micro finance plays an important role in financial upbringing of poor people in the developing countries in particular and their overall inclusive growth in general. Micro finance institutions globally evolved in the last one century in response to growing population and increasing poverty. In India, micro financing began with the co-operative societies grossly in rural areas in the early to mid-twentieth century, but they became ineffective in achieving their projected goals. Establishment of Regional Rural Banks in the 70s, the micro-lending from the nationalized banks in the 80s to 90s, and contributions from NGOs, with a greater guidance of NABARD provided an important impetus to the steep growth of the micro finance sector. Emergence of private sector banks (e.g., ICICI and HSBC) and their increased participation in the micro finance sector in the late 20th and early 21st centuries added much momentum to the growth of the micro finance sector. Another important factor is the linkage between self help groups and the banking sectors, which recognized the self help groups as their important customers, and it further catalysed the systematic growth, planning and development of technological know-how of precise utilization of funds by the self help groups. Micro finance gained momentum in the last decade by the introduction of various centrally funded schemes that hugely benefited more than 90% of underprivileged women in rural areas, and the benefits are also found to be percolating to the backward and minority communities. Although the overall growth is significant and visible, their disparity between the beneficiaries in the urban and rural areas is obvious with highly fluctuating trends. However, as required, the micro-financing to the poor in rural sector is in an increasing trend in the last five years, when compared to the urban areas. The evolving policies of governments and banking sectors, greater participation of public and private banks, increasing awareness among the poor people, and useful schemes from the state and central governments are together responsible for successful growth of micro finance in India and globally elsewhere. However, the micro finance also met with severe challenges such as financial illiteracy of the poor, inadequate efforts from the financial institutions, increasing non-performing assets and lack of effective regulatory mechanisms. The financial transactions under micro finance in the last one decade reached Rs. 80,000 Crore mark, indicating the commercialization of micro finance sector and thus attracting the global banks such as HSBC and GE finance in the micro finance sector. Overall, the micro finance has an excellent success story. However, it may not have reached the true goal of all-inclusive growth of poor, as the micro finance concept has not yet reached the gross poor both in rural and urban India. Hopefully, the information technology spreads the success story globally, increase the awareness among the poor, so that micro finance becomes accessible to everyone in the poor community.

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