MICROFINANCE INSTITUTIONS IN INDIA: AN OVERVIEW

PROF. (DR.) RAJESH K. YADAV[1], Ms. MEETA RAGHUVANSHI[2]
[1]Professor & Director, School of Management, JagranLakecity University, Bhopal (M.P.)
[2]Research Scholar, Faculty of Management, Barkatullah University, Bhopal (M.P.)
Email -: [1] drrajeshkyadav@jlu.edu.in, [2] raghuvansh_meet@yahoo.co.in

Abstract: *Today's MFI's is a highly competitive marketplace. There are enormous pressure to reduce cost and to improve margins in order to survive. This research will explore the present scenario of microfinance services in India The purpose of this study to get information about how MFI's provided their services to unemployed or low income people or groups. it aims to highlight a number of problems and barriers face by poorer people to get finance from the bank and how microfinance can provided their services and loans without collaterals. The aim of this part of the research is to highlight the compliance decision of customers and employees of microfinance institutions. This study is also defined the broad range of microfinance services and tried to assess its full impact on social development.*

Keyword: *Finance service, finance service provider like Grammen Bank, finance product, model of microfinance.*

1. INTRODUCTION:

In early 1980's, the existing banking policies, procedures and systems were not suited to meet the requirements of poor. For borrowing poor people usually choice to un-organised sector. NABARD recommended that alternative policies, systems and procedures should be put in use to save the poor from the clutches of moneylenders. Thus microfinance was introduced in banking sector. Microfinance is a programme which includes a wide range of financial services such as deposits, loans, payment services, money transfers, insurance, savings, micro-credit etc. to support the poor people and low income individuals. Mohammed Yunus was awarded the Noble Prize for application of the concept of microfinance, with setting up of the Grameen Bank in Bangladesh.

India is today the world's third-largest economy (measured in terms of purchasing power) after the US and China. The economic potential of this country, which has more than 1.2 billion Inhabitants, is, however, far from being exhausted. This is because around half a billion Indians are still excluded from the formal financial sector. This enormous excess demand has driven the powerful expansion of the local microfinance sector – at least until six years ago, when it was suddenly disrupted: In October 2010, the government of the state of Andhra Pradesh decided to prohibit the local microfinance business. This surprising move was ostensibly motivated by considerations relating to consumer protection. As a result, borrowers were urged by the government to refuse to repay their loans.

The situation has since eased. The national microfinance sector has emerged from the crisis stronger than before. It now serves 25 million clients and has been growing by an impressive 30% to 50% per year – a rate that appears to be sustainable. The effective measures taken in the wake of the crisis contributed to this rapid recovery. The sector is now overseen by the Reserve Bank of India. In addition, well-functioning credit bureaus are providing greater transparency. Even the key market of India, which has hundreds of millions of vulnerable households, is expected to grow by around 30% – which is roughly the average for the whole region and represents a faster rate of growth than at any point since 2009.

The present chapter highlights the micro-finance & evaluates the position of micro-finance. The thought of microfinance is not different in India. Traditionally, people have saved with and taken small loans from individuals and groups within the perspective of self-help to start businesses or agricultural ventures. Majority of poor are excluded from financial services. Micro finance is a plan to support the poor rural people to pay its debt and maintain social and economic status in the villages. Micro-finance is playing vital role for educating the poorer peoples. In spite of many organizations of micro finance, micro finance is not sufficient in India. The study discovers some suggestions to make micro finance more active.

2. OBJECTIVES OF THE STUDY:

- To analyse the growth of microfinance organisations in India
- To study about the products of microfinance institutions.
- To study about how microfinance organisations provide their services to its clients.

3. SERVICES PROVIDED BY MFIs IN INDIA:

Microfinance segment has accomplished a long journey from micro-savings to microcredit and then it's become the microenterprises and now moves in the field of micro insurance, micro remittance, micro pension and micro livelihood.

Micro-savings: micro saving is the saving that allowed one to save small amounts of money for future use. It is not necessary to keep minimum balance requirements; these savings accounts permit households to save in order to meet unexpected expenditures and strategy for future expense.

Micro-credit: Microcredit is the next stage of micro loans to the unemployed, to poor businesspersons and to others who are living in scarcity and those who are not considered by the banks. Microcredit can be provided often without collateral, to an individual or through group lending.

Micro-insurance: It is system by which people, business and other organizations makes a payment to share risk, micro insurance products are mainly targeted at low income groups in the unorganized sector, farmers and craftsmen. The amount of premium for these schemes ranges between Rs. 20.00 to Rs. 500.00.

4. SIGNIFICANCE OF MICROFINANCE IN INDIA:

Credit is vital to the poor for overcoming the inevitable and common imbalance between income and expenditure. Credit is also crucial to the poor for income generating activities, like investing in their marginal farms or other small scale self-employment ventures. Their access to formal banking channels, however, is limited due to their low resource bases as well as due to the nature of formal credit institutions. The popularity of the microfinance, self-help groups stems from widespread recognition that formal banking channels are largely ineffective in catering to the credit needs of the poor.

Microfinance is one of the biggest tools of poverty reduction as discussed below:

According to recent RBI estimates, there are over 450 million "unbanked people" in India, most of who live in rural areas. The term "unbanked" refers to people who have no access to formal financial services, but rather must rely on either family, or informal providers of finance, such as the village moneylender. It is undoubted that access to finance is critical for allowing individuals and communities to rise out of poverty. It is also generally agreed that trusting on the limited resources of village moneylenders exposes the poor to coercive lending practices, personal risks and high interest rates, which can be a much as 150%. Therefore the Indian Government and the RBI have a policy of "financial inclusion". As part of this policy, the government needs Indian banks to give to "priority sectors", one of which is the rural poor. Until recently, banks were glad to give money to MFIs who would then on-lend funds, mainly to poor women across rural India[i]. The banks have cheered this policy because traditionally they tended to charge MFIs average interest rates of 12-13% and benefited from 100% repayment rates.

Indian public policy for rural finance from 1950s to till date reflects the forms observed worldwide. Increasing access to credit for the poor has always continued at the essential of Indian planning in fight against poverty. The assumption behind expanding outreach of financial services, mainly credit was that the welfare costs of exclusion from the banking sector, especially for rural poor are very high. Starting late 1960s, India was one of major state involvement in rural credit market and has been indirectly referred to as 'Social banking' phase. It observed that nationalisation of present private commercial banks having a huge development of branch network in rural areas, essential directed credit to importance sectors of the economy, supported rates of interest and formation of a new set of rural banks at district level and an Apex bank for Agriculture and Rural Development (NABARD[ii]) at national level.. It was recognized that the poor tended to come together in a variety of informal ways for pooling their savings and providing small and unsecured loans at variable costs to group members on the basis of need. This concept of Self-help was discovered by social-development NGOs in 1980s. Realising that the only constraining factor in unleashing the potential of these groups was meagreness of their financial resources, NABARD designed the concept of linking these groups with banks to overcome the financial constraint.. It occupies a well-known position in the sector accounting for nearly 80% market share in India.

Under the programme, usually known as SHG-Bank Linkage programme there are largely three models of credit linkage of SHGs with banks. However, the underlying design feature in all remains the same i.e. identification, formation and nurturing of groups either by NGOs/other development agencies or banks, and 10holding and initial period of inculcating habit of thrift followed by collateral free credit from bank in proportion to the group's savings. The achievement of the programme in reaching financial services to the poor has won international admiration. World Bank policy paper[iii] hails the programme and states that it is particularly well-matched to India because the model capitalises on country's huge network of rural bank branches that are otherwise unable to reach the rural poor.

5. CHALLENGES FACING THE MICROFINANCE SECTOR IN INDIA:

It is undeniable that micro finance has had a great impact on the lives of poor Indians and that it has been one of the major contributors towards the goal of poverty eradication, but it has still not managed to have its desired impact. There are several challenges facing the sector. Some of the major challenges are discussed below:

5.1 Financial Illiteracy:

Financial illiteracy is one of the major challenges being faced by the microfinance industry. In most cases, the target clients of MFIs of SHGs are people who are either uneducated or have a very basic level of education which makes them highly unaware about the financial system. Although most of the SHGs and MFIs claim to have their awareness programs but these are rarely successful.

5.2 Deepening of outreach:

Even though MFIs and SHGs have been able to reach a large number of people, they still have not managed to reach the poorest of the poor. Most of the efforts are utilized for people who are just below the poverty line and can be upgraded by increasing the availability of credit. However, there is little effort made to uplift people who are at the absolute bottom as these are seen as very high risk and are left to survive on Government subsidies.

5.3 The problem of multiple lending:

With an increasing number of MFIs and development of operations, the issue of covering membership and potential over-indebtedness is beginning to emerge, particularly in certain areas of the country. This is an area that needs more research, and clearer strategies for the sector on appropriate practice.

5.4 High NPAs in the sector:

The total NPAs under the SHG-Bank linkage programme for the year 2014-15 is 7.40% with the extreme NPAs in rural areas. A small minority of poor's people can start any new economic activity after taking a loan. Maximum of such credits are used by the people for fulfilment of basic needs. Political, social and economic factors also touch the repayment rates for these loans.

5.5 Dropouts and migration of group members:

Most of the microfinance loans are disbursed on the group lending concept under which the entire group is responsible for the loan taken by one of its members. The past record of the group plays an important part under both the SHG Bank linkage and MFIs in order to secure credit. The two major problems related to groups are dropouts and migration of members.

6. MODELS OF MICROFINANCE IN INDIA:

The non-availability of credit and banking facilities to the poor and underprivileged segments of the society has always been a major concern in India. The Government and the Reserve Bank have taken many steps, from time to time, like as nationalisation of banks, preparation of priority sector offering norms and concessional interest rate for the poor segment of society. It was, however, understood that further direct efforts were essential to address the credit requirements of poor people. In comeback to this necessity, the Micro finance program started in India with the introduction of SHG bank linkage programme (SBLP) in the early 1990s.

At present, there are major two models for serving of Microfinance in India:

1. **SHG – Bank Linkage Programme (SBLP)**
2. **Micro Finance Institutions (MFIs)**

The above models explained below:-

SHG- Bank Linkage Programme (SBLP):- A SHG is a small group of about 10-20 persons from a homogeneous class of rural and urban poor which promoted savings among members and used these resources for meeting their credit needs The group is democratically formed and elects its own leaders. The vital features of SHGs are it consists of members belonging to the same community or society and having common economic goal. In this model, the informal SHGs are credit linked with the formal financial institutions. The SHG-Bank Linkage Model has emerged as a dominant model in terms of number of borrowers and loans outstanding.

Under this model, finance is provided to the SHGs with three different methodologies:

Model I: Banks finance to SHGs: In this model, banks are taking the responsibility of the work of forming and nurturing the groups, introducing their savings accounts and providing them bank loans.

Model II: SHGs Formed by Agencies Other than Banks, but Directly Financed by Banks: In this model, NGOs and other formal agencies in the field of microfinance help organising, creating and nurturing of SHGs and train them in saving and credit management. The banks directly give loans to these SHGs.

Model III: SHGs Financed by Banks Using Other Agencies as Financial Intermediaries: This is the model where the NGOs playing as additional role of financial intermediation along with the formation of group. In areas where the formal banking system faces constraints, the NGOs are stimulated to form groups and to approach a suitable bank for bulk loan assistance. This method is generally used by most of the NGOs having small financial base.

Micro Finance Institutions (MFIs):- The MFI model has also gained momentum in India in the recent past. MFI model is found worldwide whereas the SHG-BLM model is an Indian model. In MFI model MFIs borrow large amount of funds from the apex financial institutions, donors and banks for on-lending to the individuals or groups.

The literature on microfinance listed 12 several models of microfinance institutions occupied in different countries. This cataloguing is on the base of regulatory structure and operational methods. some models are not common in international level and some others are complimentary. NGOs and self-help groups are example. Most of the self-help groups have a supporter NGO. At the same time many NGOs have direct microfinance chains.

Self Help Groups (SHGS)

The Self Help Groups (SHGs) is the leading microfinance methodology in India. In this model the members of Self Help Group pool their small funds regularly at a prefixed amount on daily or weekly basis and SHGs provide finance to members for a fixed period. SHGs are basically a group of 15 to 20 people designed to fulfil the common objectives. Saving thus precede borrowing by the members. NABARD has helped and broadly supported a program which entails commercial banks lending directly to SHGs rather than via bulk loan to MFIs. If SHGs are perceived to be successful for at least a period of six months, the bank provided credit usually amounting 4 times more than their savings.

A. Individual Banking Programmes (IBPS)

Microfinance institutions doing their work for individual borrowers though joint liability groups, credit and saving collectives. This model is gradually famous through collectives. In collectives, all borrowers are members of society directly or indirectly by being member of cooperative society. Credit worthiness and loan securing are a function of cooperative membership in which member's savings and peer pressure are assumed to be key factors. BAXIS a MFI based in Ahemadabad, offers both the joint liability group and individual advancing loans in addition to loans to intermediaries. Bank of Rakyat at Indonesia, possibly the world's majourity and commercial microfinance institution is succeeding this model.

B. Grameen Model

Grameen Model was pioneered by DR Mohammed Yunus of Grameen Bank of Bangladesh. It is perhaps the most well known and widely practiced model in the world. In Grameen Model the groups are formed voluntarily consisting of five borrowers each. The lending is made first to two, then to the next two and then to the fifth. These groups of five meet together weekly, with seven other groups, so that bank staff meets with forty clients at a time. While the loans are made to the individuals, all in the group are held responsible for loan repayment. According to the rules, if one member ever defaults, all in the group are denied subsequent loans.

C. Mixed Model

Few MFIs started their work with the Grameen model and it's become converted to the SHG model at an advanced stage. However they cannot completely do away with Grameen type financing and smaller groups. They are a mixture of SHG and Grameen model..Grameen programmes have usually not given much priorities to savings as a source of funds whereas SHGs place significant importance on the source of funds. The SHG programs have essential deposit schemes in which the members themselves fix the amount. The SHGs model is broadly used in India.

TOP MICROFINANCE INSTITUTIONS IN INDIA:

i. Shri Kshetra Dharmasthala Rural Development Project (SKDRDP)
ii. Bhartiya Samruddhi Finance Limited (BSFL)
iii. Cashpor Micro Credit (CMC)
iv. Asmitha Microfin Ltd (AML)
v. Spandana Sphoorty Financial Ltd (SSFL)

This policy of financial inclusion has seen a reasonable growth trend in the recent past with more than 3000 MFIs and NGOs sharing the market. With CRISIL coming up with the list of top around 50 MFIs and conducting seminars, this segment is all set to raise in the right direction. The growing geographic variety in recent years is a suggestive parameter of the development in this area.

7. CONCLUSION:

Thus, the real issue is the huge number of people, percentage-wise, left out of the financial system. They are left to the sahukars, mahajans, money lenders – these are vultures, getting fed by these people. It thrives because the formal financial sector has not extended its boundary to cover them.

That's the real issue. Whether you call it microfinance or something else – if this does not work, we have to find something else to do it. Its spread (in India) is slow, of course, given the country's vastness. It could have covered the bulk of the population by now but it didn't, not because there of a lack of initiative from the people but simply because the structure did not exist.

The Indian economy at present is at a crucial juncture, on one hand, the optimists are talking of India being among the top 5 economies of the world by 2050[iv] and on the other is the presence of 260 million poor forming 26 % of the total population. The enormity of the task can be gauged from the above numbers and if India is to stand among the comity of developed nations, there is no denying the fact that poverty alleviation & decrease of income differences has to be the top most priority. India's success of the MDG of sharing the population of poor by 2015 as well as reaching a broad based economic growth also hinges on an actual poverty alleviation strategy. In this backdrop, the remarkable gains made by SHG-Bank linkage programme in coverage of rural population with financial services offers a ray of hope. The paper says for mainstreaming of effect assessment and incorporation of local factors in service delivery to maximize impact of SHG –Bank linkage programme on achievement of MDGs and not letting go this opportunity.

RECOMMENDATIONS:

- This microfinance institution's should maintain significant skill and possess business assistances.
- MFI's must be utilizing higher levels of technology with appropriate training and specialization.
- They should have superior policies and programs for the expansion and channelling of entrepreneur talent.
- MFI's should be provided Entrepreneurial training and preparation of young people as well as they can Support to and cooperation with existing business/entrepreneurial.
- The impact of microfinance on poverty reduction should be considered for a variety of poor, with clear descriptions of the different poverty levels.

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