ESTABLISHMENT OF MICROFINANCE INSTITUTIONS & SUSTAINABLE DEVELOPMENT

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ABSTRACT

All World economies have recognized the importance of microfinance as a key factor for financial inclusion and combat the economic and social evils. On account of this India has witnessed an unprecedented change in providing credit access since last two decades. The major focus was on provision of seed financing to the micro entrepreneurs, self-help groups, and poor and low income households. As a matter of policy making and governing institution the Governments through various economic and financial reforms brought an enormous change in meeting the credit requirements of needy by bringing all these activities under one umbrella as Microfinance. These evolutionary changes have marked a remarkable growth on improving the standards of down trodden and unprivileged sections of the society. Hence, to achieve greater financial inclusion, financial services should reach the socially deprived and untapped sections in order to provide access to financial systems which help in filling up this gap. This resort can be expected to make micro financing activities can pave way for sustainable development and speed up the economy. In this context the microfinance through financial inclusion is gaining importance as an effective engine in addressing the socio-economic issues. The objective of the present paper is to examine the issues relating to micro financing activities taken up by Government and aims to bring out the challenges in the process of reach of micro financing activities to the targeted sections from Microfinance Institutions and also examine the unprecedented changes by strengthening the role of micro entrepreneurs' and low income groups in achieving sustainable Development.

KEYWORDS*: Microfinance, Financial Inclusion, Micro Credit, Self Help Groups, Micro Entrepreneur, NGOs, Sustainable development*

INTRODUCTION:

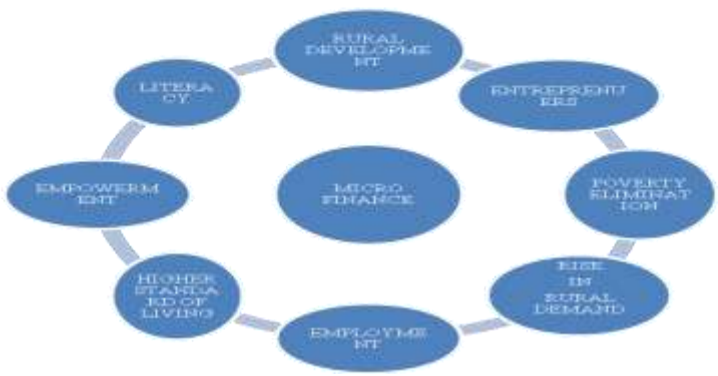
Microfinance started in some rural areas in developing countries like Bangladesh, India and Indonesia in the early 1970's, serving a few thousand clients (Hermes & Lensink, 2007, Lucarelli, 2005). The industry has grown substantially since then and in the late 1990's the number of clients were approximately 10 million (Lucarelli, 2005). Today, the Microcredit Summit Campaign (Reed, 2011) estimates that the number has grown to 190 million clients served. The acknowledgement, and thus the interest for the industry have increased and 2005 was launched as the International Year of Microcredit by the United Nations (UNCDF, 2011). The year after, 2006, the famous Grameen Bank in Bangladesh received the Nobel Peace Prize together with its founder, Muhammad Yunus (Nobel Prize, 2011). The increased knowledge does not only come from socially driven institutions any longer, but also from commercial instances, governments, academics and media as well as from individuals, whom all recognized that microfinance potentially could lead to poverty alleviation.

Features of Microfinance

1. It is an essential part of rural finance.
2. It deals in small loans.
3. It basically caters to the poor households.
4. It is one of the most effective and warranted Poverty Alleviation Strategies.
5. It supports women participation in electronic activity.
6. It provides an incentive to grab the self employment opportunities.
7. It is more service-oriented and less profit oriented.
8. It is meant to assist small entrepreneur and producers.
9. Poor borrowers are rarely defaulters in repayment of loans as they are simple and God-fearing.

Microfinance is a broad category of services, which includes microcredit. Microcredit is provision of credit services to poor clients. Micro credit and micro-finance both are different. Micro credit is a small amount of money, given as a loan by a bank or any legally registered institution, whereas, Micro-finance includes multiple services such as loans, savings, insurance, transfer services, micro credit loans, etc. for poor people.

CHART 1: STRUCTURE OF MICRO - FINANCE:



Evolution of Microfinance in India

The evolution of Indian Microfinance sector can be broadly divided into four distinct phases:

Phase 1: The Cooperative Movement (1900-1960)

During this phase, credit cooperatives were vehicles to extend subsidized credit to villages under government sponsorship.

Phase 2: Subsidized Social Banking (1960s - 1990)

With failure of cooperatives, the government focused on measures such as nationalization of Banks, expansion of rural branch networks, establishment of Regional Rural Banks (RRBs) and the setting up of apex institutions such as the National Bank for Agriculture and Rural Development (NABARD) and the Small Scale Industries Development Bank of India (SIDBI), including initiation of a government sponsored Integrated Rural Development Programme (IRDP). While these steps led to reaching a large population, the period was characterized by large-scale misuse of credit, creating a negative perception about the credibility of micro borrowers among bankers, thus further hindering access to banking services for the low-income people

Phase 3: SHG-Bank Linkage Program and Growth of NGO-MFIs (1990 - 2000)

The failure of subsidized social banking triggered a paradigm shift in delivery of rural credit with NABARD initiating the Self Help Group (SHG) Bank Linkage Programme (SBLP), aiming to link informal women's groups to formal banks. The program helped increase banking system outreach to otherwise unreached people and initiate a change in the bank's outlook towards low-income families from 'beneficiaries' to 'customers'. This period was thus marked by the extension of credit at market rates.

The model generated a lot of interest among newly emerging Microfinance Institutions (MFIs), largely of non-profit origin, to collaborate with NABARD under this program. The macroeconomic crisis in the early 1990s that led to introduction of the Economic Reforms of 1991 resulted in greater autonomy to the financial sector. This also led to emergence of new generation private sector banks that would become important players in the microfinance sector a decade later.

Phase 4: Commercialization of Microfinance: The First Decade of the New Millennium

Post reforms, rural markets emerged as the new growth drivers for MFIs and banks, the latter taking interest in the sector not only as part of their corporate social responsibility but also as a new business line. On the demand side, NGO-MFIs increasingly began transforming themselves into more regulated legal entities such as Non Banking Finance Companies (NBFCs) to attract commercial investment. The microfinance sector as it exists today essentially consists of two predominant delivery models the SBLP and MFIs. Four out of five microfinance clients in India are women.

At present, there are mainly two models for delivery of Microfinance in India:

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

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. These MFIs provide financial services to the individuals or to the groups like SHGs. These institutions lend through the concept of Joint Liability Group (JLG). A JLG is an informal group comprising of 5 to 10 individual members who come together for the purpose of availing bank loans either individually or through the group mechanism against a mutual guarantee. MFIs in India exist in a variety of forms like trusts registered under the Indian Trust Act, 1882/Public Trust Act, 1920; societies registered under the Societies Registration Act, 1860; Co-operatives registered under the Mutually Aided Cooperative Societies Acts of the States; and non-banking financial companies (NBFC)-MFIs, which are registered under Section 25 of the Companies Act, 1956 or NBFCs registered with the Reserve Bank. These MFIs are scattered across the country and due to the multiplicity of registering authorities.

Role and Importance of Microfinance

According to the research done by the World Bank, India is home to almost one third of the world's poor (surviving on an equivalent of one dollar a day). Though many central government and state government poverty alleviation programs are currently active in India, microfinance plays a major contributor to financial inclusion. In the past few decades it has helped out remarkably in eradicating poverty. Reports show that people who have taken microfinance have been able to increase their income and hence the standard of living.

Thus Microfinance plays a major role in upliftment of Indian economy in following ways:-
Credit to Rural Poor:-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:- Normally more than 50% of SHGs are formed by women. Now they have greater access to financial and economical resources. It is a step towards greater security for women. Thus microfinance empowers poor women economically and socially.

Economic Growth:-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:-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. They receive training from supporting institutions and learn leadership qualities. Thus micro finance is indirectly responsible for development of skills.

Mutual Help and Co-operation:-Microfinance promotes mutual help and co-operation among members. The collective effort of group promotes economic interest and helps in achieving socio-economic transition.

Social Welfare:- With employment generation the level of income of people increases. They may go for better education, health, family welfare etc. Thus micro finance leads to social welfare or betterment of society.

OBJECTIVES OF THE STUDY:
1. To understand the concept of microfinance, evolution and delivery models of microfinance.
2. To examine the role and importance of microfinance in India.
3. To examine the current status and growth of microfinance in India.

RESEARCH METHODOLOGY:

This is a descriptive research paper based on secondary data. Data have been collected through books, various websites, magazines, newspapers, and publications of recent research papers available in different websites, Research Articles, Research Journals, E-Journals, RBI Report, and Report of NABARD etc.

REVIEW OF LITERATURE

Kaur (2013) studied about microfinance and women empowerment with reference to Punjab and revealed that SHGs have yet fulfilled the basic need of food, but there is a long way to go for SHGs to fulfill social needs also.

Rajendran and Raya (2014) examined about role of Non-Governmental Organisations in Micro Finance through SHGs revealed that NGOs and self motivation of women act as main motivational factors to join SHGs and NGOs play an important role for imparting training to start income generating activities. The study revealed that NGOs played vital role in the formation of SHGs and motivating women to join the groups and linking the groups with the banks for microfinance. But, Non-governmental Organisations played limited role in marketing the products of SHGs and release of subsidies

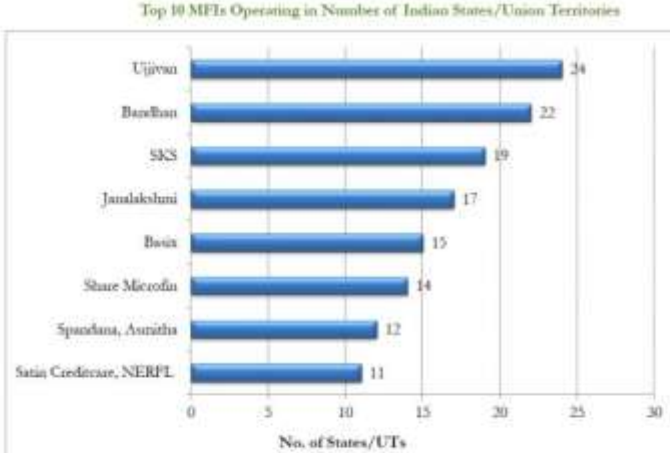
Gundappa and Mudakappa (2014) discussed about the Microfinance and Women Empowerment in the context of SHGs and concluded that commercial banks are playing a vital role for the provision of loanfacilities to SHGs through SHG-Bank linkage programme in India.

Dash and Sanjay (2015) analysed the impact of micro credit on socio-economic empowerment of women. The study was based on both primary and secondary data and primary data was based on the field survey made in West Godavri based in the district of Andhra Pradesh. The study concluded that micro-finance has able to reach the unreached population of women which has further facilitated the poor women to perform their roles more better and take up the idea of micro entrepreneurship.

Top 10 MFI's in India by Geographical Spread

Ujjivan Financial Services has the largest geographical spread with operations across 24 states compared to 22 states for Bandhan Bank and 19 states for SKS Microfinance.

Top 10 MFIs Operating in Number of Indian States/Union Territories



Top 10 MFI's with Loan Portfolio Outstanding

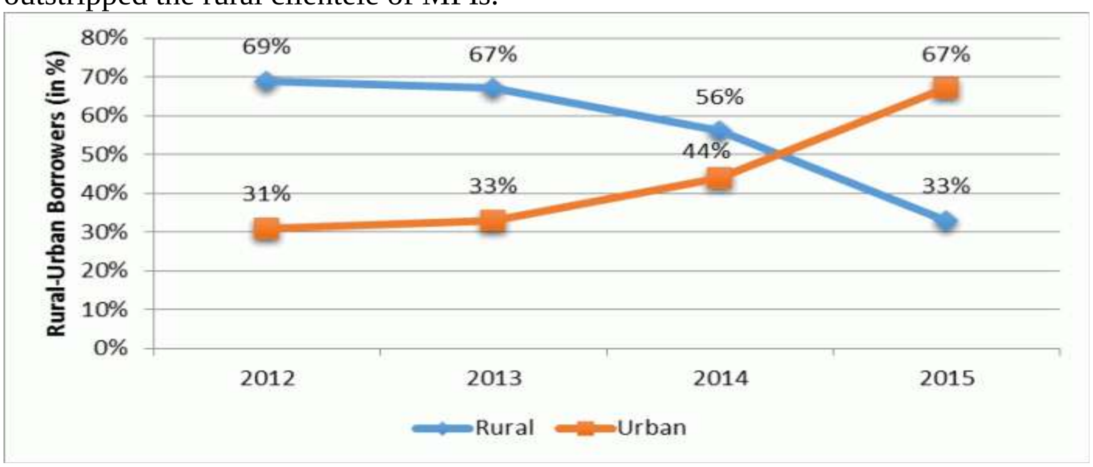
Bandhan Bank is once again the leader followed by SKS Microfinance; Janalakshmi which is an urban focused MFI is placed third with Rs 3774 Crore outstanding.

Table 2.4: List of Top MFIs with Loan Portfolio as of March 2015

S.No	Name of MFI	Gross Loan Portfolio (₹ in crore)
1	Bandhan	9524
2	SKS	4155
3	Janalakshmi	3774
4	SKDRDP	3570
5	Ujjivan	3274
6	Spandana	2665
7	Equitas	2144
8	Satin Creditcare	2141
9	Share Microfin	1603
10	Grameen Koota	1447

Source Bharat Microfinance Report – 2015

According to the Bharat Microfinance Report – 2015, 2014-15 can described as watershed year as far as the rural-urban divide in Indian microfinance is concerned. A very interesting trend is seen in the rural-urban focus of MFIs. The share of rural clientele which was 69 % in 2012 decreased to 56 % in 2014 and has drastically come down to 33 %. The proportion of rural to urban clients for the year 2014-15 is 33% to 67%. For the first time urban clientele has outstripped the rural clientele of MFIs.



CONCLUSION:

The economic development of any country is severely influenced by the availability of financial services. Microfinance is the form of a broad range of financial services such as deposits, loans, payment services, money transfers, insurance, savings, micro-credit etc. to the poor and low income individuals. A well developed financial system promotes investment opportunities in an economy. Therefore it is necessary that govt. of India have to focus on extending financial services to both rural and urban to ensure sustainable and inclusive growth.

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