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1. Inclusive Growth in Micro Finance in India

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Abstract:

Microfinance has come as a breakthrough in the philosophy and practices of poverty eradication, economic empowerment and inclusive growth. Yet given the enormity of economic compulsions and complexities in developing countries, microfinance is an unfinished agenda. Over the last several years, the Indian microfinance industry has undergone considerable evolution. The poor need a diverse range of financial instruments to be able to build assets, stabilize consumption and protect themselves against risks.

It is achieved through investing money received through micro finance with or without the help of NGOs in business depending upon their capacity and capability. Micro finance can help the poor to increase income, build viable businesses, and reduce their vulnerability to external shocks. Microfinance the great white hope for inclusive growth shows in some senses the India problems in action. It started as a non-profit mini loans designed to help the very poor to buy means of alleviating the poverty.

Keywords: *Microfinance, Economy, NGOs, Inclusive Growth and Self Help Groups*

1.1 Introduction:

Achieving balanced and inclusive economic growth is a key challenge faced by policymakers in countries around the world. The gains of economic growth are accessible to a greater extent by the relatively advantaged, who find it easier to participate in the growth process.

Poorer people, who are separated by distance from the urban areas where economic activity is concentrated, have to wait much longer to reap the benefits of economic growth. Engaging these sections of society in the economic mainstream is essential to achieve balanced growth, which is critical for the long-term sustainability of social development and economic prosperity.

Microfinance is an economic development tool whose objective is to assist the poor to work their way out of poverty. It covers. a range of services which include, in addition to the provision of credit, money transfers, counseling and enables women’s empowerment by routing credit directly to women, thereby enhancing their status within their families, the community and society at large.

Microfinance sector has transverse a long journey from micro savings to micro credit and then to micro enterprises and now entered the field of micro insurance micro remittance and micro pension. This gradual and evolutionary growth process has given great opportunity to the rural poor in India to attain reasonable economic, social and cultural empowerment, leading to better standard of living and sustainable growth. Microfinance has demonstrated the potential of building the social capital of the poorest communities.

Micro credit is a component of microfinance and is the extension of small loans to entrepreneurs, who are too poor to qualify for traditional bank loans. Especially in developing countries, micro-credit enables very poor people to engage in self-employment projects that generate income, thus allowing them to improve the standard of living for themselves and their families. Microfinance is an economic development tool whose objective is to assist the poor to work their way out of poverty. It covers a range of services which include in addition to the provision of credit many other services such as Savings, Insurance, Money Transfers., and Counseling. Microfinance is an economic development approach that involves providing financial services, through institutions, to low-income clients, where the market fails to provide appropriate services.

1.1.1 Classification of Players in Micro Finance Industry:

Model	Outstanding Portfolio
Self Help Group (SHG) linkage Model	58%
Non-Banking Finance companies (NBFC)	34%
Trusts, Societies	

The SHG-Bank Linkage Model was pioneered by NABARD in 1992. Under this model, women in a village are encouraged to form a Self-help Group (SHG) and members. Of the Group regularly contribute small savings to the Group.

These savings which form an ever growing nucleus are lent by the group to members, and are later supplemented by loans provided by banks for income-generating activities and other purposes for sustainable livelihood promotion. The Group has weekly/monthly meetings at which new savings come in, and recoveries are made from members towards their loans from the SHGs, their federations, and banks. Under the NBFC model, NBFCs encourage villagers to form Joint Liability Groups (JLG) and give loans to the individual members of the JLG. The individual loans are jointly and severally guaranteed by the other members of the Group. Many of the NBFCs operating this model started off as non-profit entities providing micro-credit and other services to the poor. However, as they found themselves unable to raise adequate resources for a rapid growth of the activity, they converted themselves into for-profit NBFCs. Others entered the field directly as for-profit NBFCs seeing this as a viable business proposition. Significant amounts of private equity funds have consequently been attracted to this sector. Self Help Groups (SHG‟s) are major sources of finance these SHGs are refinanced by banks or institutions like NABARD, SIDBI etc. but these days SHGs are also financing micro activities of the economy as they are transforming themselves into Microfinance Organizations (MFOs).

1.1.2 Different Modes of Services Provided by MFIs:

Microfinance sector has covered a long journey from micro savings to micro credit and then to micro enterprises and now entered the field of micro insurance, micro remittance, micro pension and micro livelihood.

Micro-savings: These are deposit services that allow one to save small amounts of money for future use. Often without minimum balance requirements, these savings accounts allow households to save in order to meet unexpected expenses and plan for future expenses.

Micro credit: Micro credit is the extension of microloans to the unemployed, to poor entrepreneurs and to others living in poverty that is not considered bankable. Micro credit can be offered, often without collateral, to an individual or through group lending.

Micro-insurance: It is a system by which people, businesses and other organizations make 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 in these schemes ranges between Rs.200 to Rs.500. The finance ministry recently considered two schemes- Aam Admi Bima yojna' to extend death and disability insurance and Rashtriya Swasthya Bima Yojna', a health insurance scheme for below poverty line families.

Remittances: These are transfer of funds from people in one place to people in another, usually across borders to family and friends. Compared with other sources of capital that can fluctuate depending on the political or economic climate, remittances are a relatively steady source of funds.

1.1.3 Participants in the Micro Finance System:

Asmitha: Provides rural poor women access to financial resources in the form of collateral free small loans for income generation and livelihood promotion. This enables them to set-off small startup business as a result low-income women become economic agents intrinsic to development rather than simply homemakers

Bandhan: Bandhan was set up to address the dual objective of poverty alleviation and women empowerment. The microfinance activities are carried on by Bandhan Financial Services Pvt. Ltd. (BFSPL), incorporated under the Companies Act, 1956 and also registered as a Non-Banking Financial Company (NBFC) with the Reserve Bank of India (RBI).

Cashpor India: The mission is to identify and motivate poor women in the rural areas and to deliver financial services to them.

Grameen Foundation: Works in 6 key areas: Connecting microfinance institutions with capital markets, strengthening organizations by building people practices, Harnessing the power of technology, Helping track people‘s movement out of poverty, Sharing knowledge widely for broader impact and Social Business.

Hand in Hand: is a development organization whose objective is to eliminate poverty by creating enterprises and jobs. Focusing on help to self-help, we take a holistic approach that combines microfinance and support for women to start enterprises with work in four other areas that matter most to poor communities: education and child labour elimination, health and sanitation, a sustainable local environment and information technology access.

With currently more than 450,000 members in Tamil Nadu, Karnataka and Madhya Pradesh, who have collectively started more than 250,000 micro-enterprises, our goal is to create 1.3 million jobs by 2013. Supported by international offices in the UK and Sweden, we are now taking our model to South Africa, Afghanistan and Latin America.

Micro Credit India: Today MFI works primarily with women. Through its field staff, MFI helps them form Self Help Groups (SHGs), trains them in good financial practice, facilitates access to micro credit loans, equips them with business skills and facilitates access to new markets for their products.

MYRADA: MYRADA is a Non-Governmental Organization managing rural development programmes in 3 States of South India and providing on-going support including deputations of staff to programmes in 6 other States. It also promotes the Self Help Affinity strategy in Cambodia, Myanmar and Bangladesh.

New Life: New Life designs projects based on survey of the socio, economic problems of the project area and support the poor, abused and abandoned children and women by executing the projects with defined goals/objectives.

The current projects of New Life includes orphanages for children of incarcerated parents, Save children from Child Labor, Ensuring primary education for the rural children in India, Early learning centers for children of vulnerable community groups, Read to Lead Project, Taking care of the medical needs of Physically handicapped and Mentally retarded children.

Saadhana: Saadhana is a non- profit organization established in the year 2001 to reach out to the urban and rural poor women with the specific mandate to catalyze the ‗Endeavor of the Poor for Self-Sufficiency.

Samrudhi: Samrudhi's mission is to empower the poor and underprivileged to become economically self-reliant by providing cost effective and need based financial services in a financially sustainable manner.

SKS India: Launched in 1998, SKS Microfinance is one of the fastest growing microfinance organizations in the world. SKS also offers interest-free loans for emergencies as well as life insurance to its members. Its NGO wing SKS foundation runs the Ultra Poor Program. SKS currently has microfinance branches in 19 states across India. SKS aims to reach members 15 million by 2012. In the last year alone, SKS Microfinance has achieved nearly 170 % growth, with 99% on-time repayment rate.

Spandana: Spandan is one of the largest and fastest growing microfinance organizations in India, with 1.2 million active borrowers in March 2008, up from 520 borrowers in 1998-9, its first year of operation (MIX Market 2009). From its birth place in Guntur, a dynamic city in Andhra Pradesh, it has expanded in the State of Andhra Pradesh, and several others. The basic Spandana product is the canonical group loan product, first introduced by the Gramen Bank. A group is comprised of six to 10 women, and 25-45 groups form a center.

National Bank for Agricultural and Rural Development (NABARD): NABARD was established in 1982 as a Development Bank, in terms of the Preamble of the Act, ―for providing and regulating credit and other facilities for the promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas and for matters connected therewith or incidental thereto‖.

The major support provided by NABARD relates to promotion and nurturing of SHGs by SHPIs, training and capacity building of the stakeholders in the Sector right from SHGs' leaders to policy level officials of the NGOs, banks and Government, equity/ capital support and provision of soft loan assistance to MFIs. NABARD is also experimenting innovative projects for further developing the SHG–Bank linkage, particularly in different areas which are lagging behind and are prioritized for promotional efforts.

NABARD also provides refinance support to banks to the extent of 100% of the bank loans disbursed to SHGs. The total refinance disbursed to banks against banks‘ loans to SHGs during the year 2008-09 was Rs. 2620.03 crore as against Rs. 1615.50 crore during the year 2007-08 registering a growth rate of 62.2 %. Further, the cumulative refinance disbursed under SHGs bank linkage programme by NABARD to Banks upto 31 March 2009 stood at Rs.9688.09 crore.

Reserve Bank of India: The earliest reference to microfinance in a formal statement of monetary and credit policy of RBI was in former RBI President Dr. Bimal Jalan's Monetary and Credit Policy Statement of April 1999. The policy attached importance to the work of NABARD and public sector banks in the area of microfinance.

The banks were urged to make all out efforts for provision of micro credit, especially forging linkages with SHGs, either at their own initiative or by enlisting support of Non-Government Organisation (NGOs).

The micro credit extended by the banks is reckoned as part of their priority sector lending, and they are free to device appropriation loan and saving products in this regard (Y.V. Reddy, 2005). Considerable work had been done by RBI in this sector since 1991. In 1991-92 a pilot project for linking up SHGs with banks was launched by NABARD in consultation with the RBI. In 1994, the RBI constituted a working group on SHGs.

Self Help Groups: The origin of SHGs is from the brainchild of Grameen Bank of Bangladesh, which was founded by Mohammed Yunus SHG was started and formed in 1975. SHG are considered a new lease of life for the women in villages for their social and economic empowerment. SHG is a suitable means for the empowerment of women. Since SHGs have been able to mobilize savings from persons or groups who were not normally expected to have any saving and also to recycle effectively the pooled resources amongst the members, their activities have attracted attention as a supportive mechanism for meeting the credit needs of the poor.

As on 31 March 2009, there are more than 61 lakh saving-linked SHGs and more than 42 lakh credit-linked SHGs and thus, about 8.6 crore poor households are covered under the programme. As on 31 March 2009, total 61,21,147 SHGs were having saving bank accounts with the banking sector with outstanding savings of Rs. 5,545.62 crore as against 50,09,794 SHGs having savings of Rs. 3785.39 crore as on 31 March 2008, thereby having growth rate of 22.2% and 46.5% respectively.

As on 31 March 2009, the Commercial Banks had the maximum share of SHGs‘ savings of 35,49,509 SHGs (58%) with savings amount of Rs. 2772.99 crore (50%) followed by Regional Rural Banks having savings bank accounts of 16,28,588 SHGs (26.6%) with savings amount of Rs. 1989.75 crore (35.9%) and Cooperative Banks having savings bank accounts of 9,43,050 SHGs (15.4%) with savings amount of Rs. 782.88 crore (14.1%).

1.2 Other Micro Finance Institutions (MFIs):

A range of institutions in public sector as well as private sector offers the micro finance services in India. Based on asset sizes, MFIs can be divided into three categories:

a. 5-6 institutions which have attracted commercial capital and scaled up dramatically when last five years. The MFIs which include SKS, SHARE and Grameen Style program but after 2000, converted into for-profit, regulated entities mostly Non-Banking Finance Companies (NBFCs).
b. Around 10-15 institutions with high growth rate, including both News and recently form for-profit MFIs. Some of MFIs are Grameen Koota, Bandhan and ESAF.

c. The bulk of India‘s 1000 MFIs are NGOs struggling to achieve significant growth. Most continues to offer multiple developmental activities.

d. The Non-Government Organizations (NGO‘s) involved in promoting SHGs and linking them with the Formal Financial Agencies (FFAs) perform the following functions:

- Organizing the poor people into groups
- Training and helping them in the organizational, managerial and financial matters
- Helping them access more credit and linkage with formal financial agencies
- Channelizing the group effort for various development activities
- Helping them in availing opportunities, widening the options available for economic development.

1.3 The Profile of Microfinance in India

- Estimated that 350 million people live Below Poverty Line
- This translates to approximately 75 million households.
- Annual credit demand by the poor in the country is estimated to be about Rs. 80,000 crores.
- Cumulative disbursements under all microfinance programmes is only about Rs. 8000 crores. (January 2011)
- Total outstanding of all microfinance initiatives in India estimated to be Rs. 4600 crores. (January 2011)
- Only about 5 % of rural poor have access to microfinance.
- Though a cumulative of about 20 million families have accessed microfinance to the extent of Rs. 8000 crores, the total outstanding is estimated to be only about Rs. 4600 crores. The active borrowers are estimated to have a per capita outstanding of only Rs. 2500.
- While 10 % lending to weaker sections is required for commercial banks, they neither have the network for lending and supervision on a large scale nor the confidence to offer term loans to big MFIs.
- The non-poor comprise of 29 % of the outreach.

1.4 The Status of Microfinance in India:

- Considerable gap between demand and supply for all financial services
- Majority of poor are excluded from financial services. This is due to, inter-alia, the following reasons
    - Bankers feel that it is fraught with risks and uncertainties.
    - High transaction costs
    - Unfavourable policies like caps on interest rates which effectively limits the viability of serving the poor.
- While MFIs have shown that serving the poor is not an unviable proposition there are issues that have constrained MFIs while scaling up. These include

  - Lack of an appropriate legal vehicle
  - Limited access to equity
  - Difficulty in accessing low cost on-lending funds (as of now they are unable to offer savings services in a legitimate manner.
    - Limited access to Capacity Building support which is an important variable in terms of quality of the portfolio, MIS, and the sustainability of operations.
    - About 56 % of the poor still borrow from informal sources.
    - 70 % of the rural poor do not have a deposit account
    - 87 % have no access to credit from formal sources.
    - Less than 15 % of the households have any kind of insurance.
    - Negligible numbers have access to health insurance (0.4 %) and crop insurance (0.2 %).

1.5 Features of Indian MF:

- About 60 % of the MFIs are registered as societies.
- About 20 % are Trusts
- About 65 % of the MFIs follow the operating model of SHGs.
- Large concentration in South India
- 600 MFI initiatives have a cumulative outreach of 1.25 crore poor households

- NABARD's bank linkage program has cumulatively reached a total of 9.4 lakh SHGs with about 1.4 crore households.

1.5.1 Projections for the Future:

- Annual growth rate of about 20 % during the next five years.
- 75 % of the total poor households of 80 million (i.e. about 60 million will be reached in the next five years.
- The loan outstanding will consequently grow from the present level of about 4600 crores to about 95000 crores.

1.6 Evolution of Microfinance in India:

- Microfinance has been in practice for ages (though informally).
- Legal framework for establishing the co-operative movement set up in 1904.
- Reserve Bank of India Act, 1934 provided for the establishment of the Agricultural Credit Department.
- Nationalization of banks in 1969
- Regional Rural Banks created in 1975.
- NABARD established as an apex agency for rural finance in 1982.
- Passing of Mutually Aided Co-op. Act in AP in 1995.

With a population of over 1 billion and estimates of the number of poor people ranging from 300 to 400 million, India is one of the largest markets for micro financial services. It is estimated that a large part of the demand for credit in this stratum is currently met by informal sources. The twentieth century saw large-scale efforts to improve the quality of life in rural India. Different approaches were adopted by government agencies and nongovernment organisations (NGOs) to improve the condition of the rural population. These included land redistribution, building economic and political awareness, technology transfer and delivery of a variety of services. Credit in the rural sector was largely supplied by co-operative societies till the mid-1960s with the 'commercial banks' rural operations centered on agri-businesses and marketing. One of the objectives of bank nationalizations in 1969 and 1980 was to increase the flow of rural credit.

However, merely expanding physical presence in rural areas did not achieve the desired results, given the need to overlay mainstream financial service delivery models with the social mobilization skills that were essential to meet developmental objectives.

1.7 Challenges Ahead:

- Appropriate legal structures for the structured growth of MF operations
- Finding adequate levels of equity for the new entities to leverage loan funds
- Ability to access loan funds at reasonably low rates of interest.
- Ability to attract and retain professional and committed human resources.
- Design of apt MIS including user friendly software for tracking accounts and operations.
- Appropriate loan products for different segments.
- Ability to innovate, adapt and grow.
- Bring out a compendium of small and micro enterprises for the MF clients.
- Identify and prepare a panel of locally available trainers.
- Ability to train trainers.
- Capacity to provide backward linkages or create support structures for marketing.

1.8 Conclusion and Suggestions:

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 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 and reduction of income inequalities has to be the top most priority. India’s achievement of the MDG of halving the population of poor by 2015 as well as achieving a broad based economic growth also hinges on a successful poverty alleviation strategy.

The micro-finance sector in India is at the threshold of massive expansion. However, the sector faces a large number of major issues which need to be addressed so that a congenial environment is created for the continued growth of the sector.

There is a need to strength all the existing mechanisms of micro credit delivery such as the SHG-Bank Linkage programme, the PACs, the MFIs and also bringing in new agencies such as the post-offices to the micro-finance sector. However, the SHG- Bank Linkage programme is a potent initiative for delivering financial services to the poor in a sustainable manner. Presence of large number of SHGs in the State highlights the need for creation of right awareness about conceptual and operational aspects of microfinance approach among banks, NGOs, government officials and others concerned. Massive geographical spread of SHG movement (without dilution in quality aspects) needs commensurate capacity building of all the partners. Capacity building of SHGs at regular intervals ensures their quality and sustainability. The capacity building intervention would focus on training and capacity building of field level functionaries of government departments, banks, NGOs as well as members or leaders of SHGs.

Any strategy for up scaling the SHG movement in the State requires consensus and whole-hearted support from all partner agencies as to the modalities of implementation. Experience of other states which made rapid progress in this field proved that state governments' commitment holds the key to success. Being the major SHG promoting agency, the State Government may bring about uniformity in operational guidelines for all the line departments in formation and nurturing of the groups, encompassing the best practices in SHGs.

Besides this, Rural Development Department at the State level and Zilla Panchayat at the District level may be suitability advised to act as nodal department for collection and dissemination of data relating to SHGs. Grading of the existing SHGs may be undertaken in a time-bound manner and details of good working SHGs may be furnished to the concerned bank branches.

This will facilitate the banks to extend credit to SHGs without any difficulties. For achieving the goal of inclusive growth in the state, it is necessary to adopt a more aggressive linkage plan, through better synergy of interventions and involvement of various partner agencies. The SHGs are mainly being formed by various government agencies such as Zilla Panchayats, Women and Child Welfare Department, Rajiv Gandhi Mission for Watershed Development and Literacy, etc. under various programmes, notable among them being the

Swarnajayanti Grameen Swarojgar Yojna. With a view to ensuring the right direction and appropriate momentum to the linkage programme, it is imperative to have an effective monitoring and evaluation mechanism at all levels. NABARD has been issuing guidelines from time to time in this direction.

Banks are expected to lend at least 10 percent of their net bank credit to weaker sections of the society. The list of the beneficiaries under this group largely refers to the poor and excluded section. Banks need to understand the market and develop products suited to the clients. They need to develop data sets to evolve risk assessment models for proper rating and pricing. Financial inclusion has to be viewed as a business strategy for growth and banks need to position themselves accordingly. Banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low-income group treating it both a business opportunity as well as corporate social responsibility.

It is observed that the real benefit does not percolate to the needy people because of lack of proper planning and identification of problem. So it is suggested that problematic areas and problems of the people should be identified and accordingly, development programme should be initiated. Awareness and action plan of the programme should be communicated to the people, so that they can take interest in its implementation. Otherwise lack of motivation and information about the programme make the scheme partial failure and finally leads to wastage of time and money. So before starting any programme, people should be fully informed, motivated and prepared for it. Further, improvements in rural connectivity, through roads, power, and telecom, can ensure greater penetration by the financial system into remote areas and provide safe and efficient financial services to large segments of the financially excluded and in the areas where banking services are not easily available, there is need to explore other alternative avenues.

In this backdrop, the impressive gains made by SHG-Bank linkage programme in coverage of rural population with financial services offers a ray of hope. The paper argues for mainstreaming of impact 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.

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