A Critical Study of Micro Finance Institutions & It’s Growth in India

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Abstract:

Since Indian independence in 1947, successive governments have emphasised the link between improving access to finance and reducing poverty. In the year 1950s the creation of a nationwide network of rural cooperative banks was an attempt to improve financial access for India’s poor, 75% of whom are concentrated in rural areas. This was followed by further measures aimed at increasing financial access- the nationalisation of commercial banks in the late 1960s, and an aggressive drive through the 1970s and 1980s to expand rural banking.

India is an agro based economy since beginning and major contributor in national income of country and the majority of the sector comes from weaker section or from below poverty. To develop & rapid the growth of economy the government of India took major initiative after the independence & made the significant provision in various five year planning’s of country to increase food grain & promote the cultivation operations & for the betterment of deprived section of India such as green revolution plan etc. after the independence but along with the promotion of field operation in rural areas and weaker section, the need of financial assistance & promotion was felt for the radical growth of rural areas, weaker section and boost up the agro economy.

The aim of writing this paper is to analysed comparative growth of banking sector in rural area and development of micro finance services in India and to what extant banking & MFS achieved their motive of establishment.

Key words: MDO, SGH, NABARD, RRB’S, Micro Fin, NGOs, SIDBI, MFI, GDP

1. Introduction

The first microfinance program began in the developing world in the early 1960s’ and emerged in the United States in the early 1980s. In India the Microfinance has become an indispensable part of India’s economy. The financial needs of India’s rural areas reflect the volatile, uncertain, and irregular income streams and expenditure patterns. Critical examinations of their prerequisites show that poor people value financial services and want them to be reliable, convenient and flexible. India boasts a range of institutions providing microfinance which consists of formal financial institutions at one end of the spectrum and private moneylenders at the other. Microfinance services are provided by banks, credit unions, and microfinance organizations, which are also known as micro enterprise development organization (MDO). Microfinance, now clearly a worldwide movement, is embraced by governments, corporations, banks, development agencies, business communities, civil societies, and philanthropists. Although the exact scale of the microfinance industry is imperfect because of incomplete data and self-reporting, several data sources shed some light on the industry. For
example, the states of microcredit institutions have reported reaching 92, 270, 289 clients, 66, 614, 871 of whom were among the poorest when they took their first loan. Of these poorest clients, 83.5 percent, or 55, 622, 406 are women.” The “poorest” are defined as persons living below their nation’s poverty line or living on less than one U.S. dollar per day, estimated at 1.2 billion people. Owing to the increase in the economic development and growing Gross Domestic Product (GDP) of India, there is an increasing demand for financial assistance, especially in microfinance. This demand is not only from corporations and financially stronger groups but also from the lower sections of the society. The delivery of financial services to lower sections of the society is called financial inclusion. Most commercial banks in the country cater to the financial needs of people. The poor section of the society is deprived of financial assistance due to the absence of collateral/financial security. For meeting the requirements of this segment, microfinance institutions (MFIs) were set up that acted as a provider for the underprivileged section of the society.

on 12th July 2002 pm Atal Bihari Vajpayee outlined an eight-point agenda to push the economy on a growth path of 8% during the 10th plan microfinance is being practiced as a tool to attack poverty. the world over the growth of micro finance is visible in many aspects. there are more than 2000 no involved in the NABARD shg bank linkage programme out of these 800 ngos are involved in some form of financials interme diation. further there are 350 new generation co-operatives providing thrift & credit services according to our estimate the present total outstanding including sa-dham members & bank linkages is approximately rs. 700 crores other client base is estimated at 6-8 million as opposed to the gov. of India intention to reach 25 million clients the growth of community institutions has taken place with the role to take social & financial intermediation.

2. Research Methodology

Our research methodology requires gathering relevant data from the specified documents and compiling databases in order to analyse the material and arrive at a Comparison between deposit services of banks and other financial institutions.

In this research we will use primary data as well as secondary data. Primary data will be collected by Questionnaire and focussed group interviews and Secondary Data will be collected by reference books, journals and internet.

3. Concept of Microfinance Institutes in India

Microfinance in India finds its roots in the early 1970s’ in Gujarat when the Self Employed Women Association formed a group in order to provide banking services to the poor women of unorganized sector. This concept is called ‘Self-Help Groups’ (SHG). The program which links the Self Help Group and the banking sector was initiated in India in 1989, under National Bank for Agriculture and Rural Development (NABARD). The banks that are associated with this program aid in capacity building and empowerment of the group.
Total number of self-help group in India opportunity.

The total number of Self Help Groups stood at 74.30 lakhs in 2014 (NABARD, 2014). However, the growth rate of such groups in India has slowed with time”. The main reason behind this decline is because most of the Self Help Group lack the homogeneity between the members of the group and the lack of unity in the group (Tiwari & Arora, 2015). The microfinance institutions were introduced later than Self Help Group in the country. However, the growth and total turnover of the former has been greater than latter. Various schemes introduced by the present government like Micro Units Development and Refinance Agency (MUDRA) bank and Jan Dhan Yojna has aided in the growth of the micro finance institutions. Both of them target the same poor segment of the society.

Total amount disbursed through microfinance industry in India2

The growth of microfinance industry is above 23%. Its loan portfolio has jumped by 42% in the financial year 2014. As per the reports released by India Ratings and Research (2015), the sector is expected to grow at an average rate of 24% annually from the year 2015 to 2019. The major factors that have fuelled the growth of micro finance in India are:231

230 Source: NABARD, 2014
231 Source: Microfinance Institution Networks, 2015)231 Most People Have No Suitable Option For Saving Money
• Rapid growth in the Business Correspondent (BC) model, opportunity.
• Introduction of differentiated bank license and opportunity.
• Rising participation of the current central government in financial inclusion.

Microfinance institutions in India are expanding with time due to the financial benefits provided to the unprivileged people of the country. Loans granted by microfinance institutions in 2012 stood at Rs. 51 billion higher than the previous year 2011.

4. Kinds of Microfinance Institutions in India

Microfinance institutions are mainly of two types; ‘for profit’ and ‘not for profit’ institutions. The second category institutions are usually the trusts and societies that operate with the help of grants. These institutions are either registered under the Societies Registration Act, 1860 or the Indian Trust Acts, 1882.

On the other hand, the ‘for profit institutions’ are either the co-operative societies or the Non-Banking Financial Company. In the recent period many small financial institutes are turning into Non-Banking Financial Institutions by obtaining a license from the Reserve Bank of India (RBI). For the purpose of obtaining the license, the minimum funds requirement is Rs. 5 crores. Also, the institution may purchase the already existing license of the defunct company.

As per the 2015 report of Reserve Bank, there were only 69 Non-Banking Financial Company and microfinance institutions registered with the apex banks. However, majority of them belonged to the capital city of Karnataka, Bangalore (IRAR, 2015). On the other hand, the remaining banks were non-licensed small scale microfinance institutions. Some of the biggest and most organized small scale financial institution in India include SKS, Bandhan, Ujjivan, Janalakshmi, Basix, Spandana and Satin. The state of Andhra Pradesh presently has the most number of such institutions as well as borrowers.

5. Semi Microfinance Organisations in India

Microfinance in India is running under two basic models of microfinance one is Self-Helping Group (SHG) Model and other one is Micro financial institute model such as -

A) National Bank for agricultural and Rural Development (NABARD) and Microfinance

Microfinance in India is playing an important role in poverty alleviation and is widely credited for its success both nationally and internationally. As we know India’s labour force is composed of Agriculture (60%), Industry (12%) and services (28%) which clearly indicate that even today agriculture is a major source of income and employment, keeping this in view government of India came up with National Bank for Agricultural and Rural Development (NABARD) in the year 1982 as a National development bank. The institute was accredited with all matters concerning to policy, planning and operational in the field of credit for agriculture and economic activities further all necessary matters patterning to providing & Regulation of credit and other facilities for the promotion and development of agriculture, village
industries, handicrafts and other rural crafts. “The corporate mission of NABARD is to make microfinance available to the abject poor and under privileged group of the rural areas. It offers a means for reaching the poor who are left out of the formal financial sector. NABARD is essentially new way to create a scalable and sustainable employment and to meet the unmet availability of funds for business related to agriculture. It has provided linkage to Self Help Group’s since last three decades; NABARD had assigned itself the role of a facilitator and a mentor of the initiative. The focus was on bringing in various stakeholders on a common platform, building capacity among the stakeholders to take the movement forward while extending 100% refinance to all banks participating in the program (NABARD, 2012)”3. Besides that, NABARD conducts large number of seminars, workshops and training programs to create awareness about the microfinance program among all the stakeholder.

B) Small Industries Development Bank in India (SIDBI) and Micro Financing

In middle of the band lie semi-formal microfinance providers. Notable formal sector microfinance providers in India are SIDBI (Small Industries Development Bank in India), ICICI Bank, SBI Bank, etc. Despite numerous efforts, the informal sector consisting of landlords and traders provide microfinance facility at high rates. A study conducted by RFAS in 2003, reported that 44% of the rural households still borrow money from informal agents.

Growth rate of the microfinance industry of India

Microfinance in India is running under two basic models of microfinance one is Self-Helping Group (SHG) Model and other one is Micro financial institute model. The SHG model works on the principle of directly financing to SHG by the banks and MFI model covers financing of micro finance institutions(MFIs) by banking agencies for the purpose of lending the same amount to SHG’s and other small borrowers (NABARD, 2009). From one side it is Self Help Group (SHG) which is based upon the saving of groups (SG) that is self-managed community based groups that provide their members access to basic financial services. SHGs are composed of 15 to 25 self-selected individuals who meet regularly (usually weekly or fortnightly) to save and, if desired, borrow for short periods, paying monthly interest at a rate set by the group (Aga Khan Development Network [AKDN]) even government is coming forward to help these SHG’s. From the other side microfinance institutes find out the deprived ones and helps them to have access to finance with their own and from government organizations especially from NABARD and SIDBI.

The financial institutions and SHG’s in India have set their standard to reduce poverty since decades. There are some financial institutions which came into existence but do not budge for the long, however their contribution cannot be ignored. These institutions have added their best to extend microfinance massage to the people and had accord for the up-liftmen of the covered area “. 232

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6. Issues in Micro Financing in India

Microfinance institutions in India have to face a large number of challenges which acts as a barrier to their success. There are some disadvantages in the functioning of these financial institutions such as:

- high interest rates, opportunity.
- no variety in the products offered to the customers and
- lower risk mitigation measures and many such others (Nasir, 2013).

Apart from these other challenges include:

- not covering the urban poor in its reach,
- high non-performing assets (NPAs),
- poor credit appraisal system,
- lack of awareness, poor debt management and
- weak loan collection system.

Despite the disadvantages they form a very important part of the functioning of many industries due to easy loans given to those who otherwise cannot afford better facilities. However, the industry functions imperfectly as it was evident from the 2010 Andhra Pradesh microfinance crisis.

Deposit of MFI

MFI depositors are very heterogeneous. It is important to segment these clients and develop specific strategies for each group with respect to the type of service they are offered, adaptation of existing products to the requirements of each group, creation of new products and growth objectives. It is important to segment clients by deposit size and also by such criteria as age and gender. It is useful for MFIs to analyse their own client databases in greater depth in order to more effectively orient marketing and cross selling efforts. Most MFIs have not done this yet, in some cases because of limited databases, but in most cases because they have not recognized the importance of this work. Banks and other MFIs usually constitute the principal competition for microfinance institutions in attracting savings. The main strengths of MFIs in capturing deposits are their relatively high interest rates, personalized and efficient service, an image of financial solidity, the fact that no commissions or account maintenance fees are normally charged, low minimum amounts for opening accounts, and the local roots of regionally-based MFIs. MFI weaknesses in mobilizing deposits include: the lack of national networks similar to those of banks, which facilitate payments and transfers; their relatively low net worth; the lack of automated teller machines (ATMs); and the limited range of services offered. Attracting deposits creates additional operational risks and significantly affects the market risks that MFIs face: liquidity risk, term mismatch risk, interest rate risk and exchange rate risk. Deposit mobilization has important impacts on MFIs in generating and mitigating each of these risks.

Attracting deposits creates new challenges for MFI marketing activities since MFIs must compete in the market with all of the established intermediaries. A marketing department or unit is needed to plan advertising campaigns, analyse clients and client satisfaction levels, and plan and direct the use of communications media.
7. Conclusion

Economic development through outreach of microfinance program has a key bearing on the development of human capital and thus, in turn, influences the frequency of poverty and under privileged empowerment. Institutions like NABARD and SIDBI have call for the coordination effort with the objective of strengthening and main-streaming the future operations of microfinance for the uplift of each wing of the poor people and society NABARD and SIDBI has improves the sector of microfinance and has witnessed significant amount of resources being earmarked towards meeting the credit needs of the poor. The banking network underwent an expansion phase without comparables in the world and more importantly deprived people got the benefits of the different financial services. These two institution bring the concept of deserve to desire in the world of microfinance in India.

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10. In a study conducted by Kaur and Gandhi (2006), they explore the issue of women empowerment in Jalandhar, Punjab.