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# THE IMPACT OF MICROFINANCE PROGRAMMES IN INDIA - A STUDY

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## ABSTRACT

*Creating self-employment opportunities is one of the ways of attacking poverty and solving the problems of employment. The scheme of Microfinance has been found as an effective tool for lifting the poor's above the poverty There by providing them increased self-employment opportunities and making the credit worthy. The realization of Microfinance programmes lies in divergence of services. The basic idea of micro-finance is simple if poor people are provided access to financial services, including credit, they may very well be able to start or expand a micro economic enterprise that will allow them to break out of poverty. Thus, micro finance has become one of the most effective interventions for economic empowerment of the poor. The focus of the study is to find the impact of microfinance programmes on poverty abstraction in India.*

***Keywords:*** *Microfinance, Self-employment, Micro-enterprise, Poverty, Alleviation.*

## INTRODUCTION

Microfinance" the most effective intervention for economic empowerment of the poor's is one of the way of attacking poverty and solving the problems of unemployment. As per the survey of Govt. of India Ministry of SSI Office of the Development Commissioner (Small Scale Industries, there are over 24 more people below the poverty line in India. The Scheme of Micro Credit (Loan of very small amount) has been found as an effective tool for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy. The basic idea of micro-finance is simple: if poor people are provided access to financial services, they may very well be able to start or expand a micro-enterprise that will allow them to break out of poverty. In order to cater to the

Micro Finance needs of small entrepreneurs belonging to the target group, the Micro Finance Corporation has introduced a scheme for Micro Financing through nominated Channelizing Agencies.

The innovative idea of Microcredit originated with the Grameen Bank in Bangladesh. In 1976 Professor Muhammad Yunus launched a research project to examine the possibility of designing a credit delivery system to provide banking services targeted to the rural poor. In October 1983, the Grameen Bank Project was converted to an independent bank by Government legislation. Gradually there was establishment of Regional Rural Banks (RRBs), Deposit Insurance and Credit Guaranter Corporation (DICGC), National Bank for Rural and Agricultural Development (NABARD), Small Industrial Development Bank of India (SIDBI), Export Credit Guarantee Corporation (ECGC) and the latest Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSEL The CGTMSE covers collateral free credit up to 250 lakhs. These institutions play supportive roles to ensure uninterrupted flow of credit to small time borrowers. Under the present directive of the RBI, the priority sectors must get a triennium 40% share of a commercial banks' total lending. This includes 10% for the agriculture sector In India; Micro-credit programs are run primarily by NABARD in the field of agriculture and SIDBI in the field of Industry, Service and Business (ISB). The realization of Micro-Credit programme lies in the divergence of services. Micro Finarice Scheme of SIDBI is under operation since January, 1999 with a corpus of 100 crore and a network of about 190 capacity assessed related MFIS/NGOs. Under the programme total amount of 191 crore have been sanctioned up-to 31 December 2003, benefiting over 9 lakh beneficiaries. Under the programme NGO/MFIs are supposed to provide equity support in order to avail SIDBI finance. But they find it difficult to manage the needed equity support because of their condition. The problem has got aggravated due to declining interest rate on deposits. The Office of the Development poor financial Commissioner (Small Scale Industries) under Ministry of MSME is launching a new scheme of Micro Finance Programme to overcome the limitations in the existing scheme of SIDBI, whose reach is currently very low. It is felt that Government's role cane be critical in expanding reach of the scheme, ensuring long term sustainability of NGO'S/MFIs and development of Intermediaries for identification of viable projects.

**Characteristics of microfinance in India**

Indian microfinance is the largest microfinance in India. Till 31st march 2012 about 75 lakhs SHGs were promoted and savings linked with the banks total families covered under the programmes were more than 12 crores the basic characteristics of Indian microfinance are as under.

- Groups generally consist of 10-20 members.

- Domination of women SHGs. They are better managers of credit/resources and are good in repayment.
- SHG members save regularly to the Group Corpus.
- They learn financial discipline and saving habits first.
- Saving first and credit later.
- Repayment is more than 95%.
- Leads to empowerment of group members particularly women.
- Platform for creating social awareness and capacity building.
- Seen as a potential program to promote economic/income generating activities and mitigate poverty and create employment opportunities in India.
- Effective model in channeling credit to rural poor in a simplified and hassle free manner.
- A potential tool for achieving financial inclusion.
- Helpful to banks in increasing the outreach and reducing the transaction cost.
- A number of Government schemes for benefitting rural population particularly poor and disadvantaged are based on SHGs for delivery.

Rural development over economies as strong as the economy of the poorest family in our society Further rural development is not just dispensing credit by banks to rural to facilitate setting up of small enterprises in rural sector For these enterprises to generate adequate surplus, credit should be supported by adequate services in the areas of technology, input sourcing and marketing of products Even accessibility of the borrowers to social sector services such as health, education, sanitation, hygiene, etc. also enhance the productivity of the economic enterprises pursued by them

Despite vast expansion of credit institutions network large number of rural families still depends on non-institutional sources for meeting their credit needs.

The paper is of the view that banks should come forward as the main source of finance provider to rural poor They should promote and nurture SHGs and it can help people find and carry on livelihood activities, solving unemployment improve health and education and also provide a working framework of people's participation in addressing all issues of rural development.

**Microfinance Policy**

The government of India's aim is to provide microfinance to every poor, downtrodden and weaker section of society in India on the basis of this objectives the researcher have to proceed further to incorporate the meaning of microfinance policy framed by the RBI-a representative of central government. The RBI has outlined different initiative to be taken to implement the object of the concept of microfinance.

The governments as well as RBI have been pursuing the goal of the microfinance reaching to every weaker section in India over the last several decades through building the co-operative structure in the 1950s, the social contracts with banks in the 1960s, branch network in the 1970s and 1980s.

The National Sample Survey data reveals that, in 2003 out of the 89.3 million farmer household in the country, 51% did not see credit from either institutional or non institutional sources of any kind.

**The Scope of Micro Finance**

1. Through state driven interventions by way of statutory enactments (for instance the US example, the Community Reinvestment Act and making it a statutory right to have bank account in France).

2. Through voluntary effort by the banking community it for evolving various strategies to bring within the ambit of the banking sectors the large strata of society.

When bankers do not give the desired attention to certain areas, the regulators have to step in to remedy the situation. This is the reason why the Reserve Bank of India is placing a lot of emphasis on microfinance.

In India the focus of the micro finance at present is confined to ensuring a bare minimum access to a savings bank account without frills, to all. Internationally, the financial exclusion has been viewed in a much wider perspective. Having a current account/savings account on its own, is not regarded as an accurate indicator of micro finance. There could be multiple levels of microfinance. At one extreme it is possible to identify the "super included" i.e., those customers who are actively and persistently courted by the financial services industry and who have at their disposal a wide range of financial services and products At the other extreme we may have the financially excluded, who are denied access to even the most basic of financial products. In between are those who use the banking services only for deposits and withdrawals of money. But these persons may have only restricted access to the financial system and may not enjoy the flexibility of access offered to more efficient customers.

**Microfinance: A business opportunity**

Microfinance is providing financial services to disadvantaged and underprivileged at an affordable cost". Till recently, lending to poor and underprivileged is an obligation under the law for commercial banks. Now they are looking at this segment as an opportunity.

Why there is a sea change in the attitude & how microfinance has become a business opportunity now? Why we are not attracted previously? What was the reason which deterred our entry in this major area till recently? Let us glance through the Myths & realities.

**1. Low Returns:** We were under the impression that the returns would be very less if we finance to poor as they cannot afford to pay high rate of interest. Now low returns is found a myth as poor pay more interest than rich: A study revealed that a party at Nariman Point pays average interest of 8% p.a. and where as a rural/urban poor pays average 48% p.a.

**2. Poor Repayment:** It happened because we were providing loans at subsidized rates, which lead to mismatch in demand and supply of credit to poor. Since there was no free flow of credit and there were lot of restrictions, poor did not feel free to repay the debt, as there was no mechanism to re-finance them after repayment. Poor are bankable when lent through SHG/JLG the repayment is more than 95%. As such their repayment is prompt and hence risk is less. They pay more interest, which results in less risk and more return.

**3. Low potentiality for deposit mobilization:** This is found a myth. If customized products are given they proved to be more thrift lovers. First priority of poor is for saving: Global reports say that poor have lost more money than what they have saved due to perennial cheating by non-formal agencies. Hence formal institutions shall customize saving products for poor and help them to save, which will garner more low cost funds for banks. RBI has stipulated ban on NBFC & non-formal agencies for mobilization of deposits from public.

**4. Scalability:** Needs of poor are small and there number is innumerable.Increasing in scale manually is not cost effective. Hence Technology has paved way now to reduce the cost and made microfinance a reality and second aspect is outsourcing of business through Business Facilitators and Business Correspondents have made the microfinance Possible for big players.

**5. If Big Private & Public** Sector engage themselves in microfinance effectively to tackle poverty through enterprise both directly and as a source of insight, advice and skills transfer then the poverty will be history Opportunities & Challenges for the International Community & Big Business Shell Foundation 2005

**6. It is found that poor are remaining poor due to following reasons:**
I. Falling sick-Medical Expenses-Death
II. Usurious rate of interest charged by money lenders on Debt
III More social obligations & superstitions are forcing the poor to borrow & spend in non-productive ways.
IV. Illiteracy which is leading to exploitation & malnourishment
V. Natural calamities

**Pilot project on SHGs - Bank linkage:**

The pilot project of linkage 500 SHGs to banks was launched by NABARD in 1992 with the objective of linking and financing existing SHGS as grass roots intermediaries to banks across the country for the both saving mobilization and credit delivery NABARD supported the pilot project by way of refinance It also provided technical support and guidance to the agencies participating in the programme.

**The following criteria were broadly suggested for credit linkage of SHGs**

- The group should be in existence for at least six months
- The group should have actively promoted the saving habits
- Group could be formal(registered) or informal(unregistered)
- Membership of the group could be between 10-20 persons

The advances given by the banks to the groups were treated as advances to weaker sections under the priority sector.

Quick studies conducted by NABARD in a few states to access the impact of the linkage project brought out encouraging and positive features like increase in loan volume of the SHGs, definite shift in the loaning pattern of the members from non-income generating activities to production activities, nearly 100% recovery performance, significant reduction in the transaction cost for both the banks and the borrowers etc., besides leading to gradual increase in the income velvet of the SHGS members Another significant features observed in the linkage project was that about 85% of the groups linked with the banks are formed exclusively by women.

**Working group-**

With a view to study the functioning of SHGs and NGOs for expanding their activities and deepening their role in the rural sector, in Nov. 1994, RBI constituted a working group comprising imminent NGO functionaries, academicians, consultants and bankers under the chairmanship of Shri S.K.Kalia, the then managing director of NABARD. As a follow-up of the recommendation of the working groups, banks were advised by RBI in April 1996 as under:-

(1) SHGs lending as normal lending activity
(2) Separate segment under priority sector
(3) Inclusion in service area approach.
(4) Opening of saving banks accounts
(5) Merging and securing norms.
(6) Documentation.
(7) Presence of defaulters in SHGs.
(8) Training.
(9) Monitoring and review of SHGs lending

**Financing of MFIs by banks**

A joint fact-finding study on microfinance conducted by reserve bank and few major banks made the following observations:

- Some of the microfinance institutions financed by banks or acting as their partners appear to be focusing on relatively better banked area, including area covered by the SHGS-Bank linkage programme.

- Many MFIs supported by banks were not engaging themselves in capacity building and empowerment of the groups to the desired extent.

- Banks, as principal financer of MFIs, do not appear to be engaging them with regard to their system. Practices and adherence to best practices In many cases no review of MFIs operations was undertaken after sanctioning the credit facilities.

A number of government schemes for benefiting rural population particularly poor and disadvantaged are based on SHGs for delivery. Presently provides mainly savings and credit facilities under different models:-

(1) The banks providing 'no frills' deposit. Microfinance in India, facilities of remittances, insurance and small loans

(2) The Self Help Groups bank linkage model.

(3) The microfinance institutions model.

(4) The post offices with 1, 38,000 rural offices have also been providing small savings, remittances facilities and postal life insurance facilities.

(5) Pradhan Mantri JanDhan Yojana

(6) Atal Pension Yojana

(7) Pradhan Mantri SurakshaBima Yojana

(8) Pradhan Mantri Mudra Yojana.

This microfinance has had tremendous impact on the lives of the weaker section of society.

**CONCLUSION**

In order to develop and empower the weaker section, the government has been formulating policies and programs in its economic agenda time to time and recently the new government formulated Pradhan Mantri Jan Dhan Yojana, Atal Pension Yojana, Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Mudra Yojana etc. besides the Self Help Groups Bank Linkage Model, The Microfinance Institution Model the post with 1,38,000 rural offices have also been providing small savings and remittances facilities to rural people.

It has been studied that rigid banking systems and the result is in accessibility of credit to the poor stimulated many NGOs in introducing and expanding microfinance program, the government even formed programs such as Rashtriya Mahila Kosh (RMK) through which SHGs formulated by NGOs could access credit and other support quasi government agencies such as NABARD and the Small Industries Development Bank of India (SIDBI) also formulated programs to link microfinance,

It can be rightly described that to eliminate poverty from the rural areas, the financial inclusion must be highly encouraged in the study above many financial inclusion programs have been described and the most favourite program PMJDY is highly worthy to be mentioned. The studies shows that in spite of the massive scale of government intervention toward upliftment of weaker section, in their continues to be reeling under poverty and related problems and still we have to go a long way to achieve the target of good living of standard of poor people in the semi-urban, urban and rural areas of the country

All the programmes and yojanas were studied thoroughly which have been launched recently by the government. These yojanas are the part of financial inclusion.

At the last but not the least this paper strongly recommend the policies, strategies formulas and techniques which have been used by Mohammad Yunus the Nobel Prize winner of the Bangladesh in his concept of Grameen bank yojana Bangladesh is underdeveloped country and it has got remarkable success in the field of rural development grameen bank and which is highly praised by developing, under developing and developed countries to ameliorate the living standard of their outreached financial people in backward areas. India which is developing country and many of the states in India are still poor and backward and the successful implementation of the grameen bank concept, India can grow to stage of developed country.

**In this research paper, News and articles of The Hindu, Danik Jagran, Danik Bhaskar, Umar Ujala, The Indian Express, Business Line, PIB of India, have been analyzed and the various aspects of Microfinance Programmes have been discussed. As per the requirement the ideas of various economists have been included.**

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