



Micro Finance in India

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Abstract

Even after six decades of independence, India's achievements in the development sector are moderate. Unemployment and poverty pose major challenges, especially in rural areas due to the dependence of the poor on non-institutional sources of credit. The growth of micro finance in India is a result of the failure of all institutional initiatives and heavy exploitation of the poor by indigenous moneylenders in the informal credit delivery system. The evolution and expansion of the micro finance sector in India has proved to be very useful for women coming forward to mobilize their own savings, eventually leading to gender equality. The dynamics of the rural economy in India has been changing rapidly. Rural banking was traditionally a monopoly of the local money lenders, until the colonial government enacted the Co-operative Societies Act in 1904. The private sector in India is now regarding the Micro Finance Institutions (MFIs) and SHGs as a business opportunity.

Key words: non-institutional source, unemployment, poverty, rural economy, MFI (micro finance Institutions).

Introduction

The SHG concept has promoted participative decision-making, savings, and a varied range of loan products for consumption, production, insurance and social security. The most important aspect of the SHG movement is that it is based on peer pressure, which can be used effectively for recovery. In India, the performance of SHGs and MFIs in the south has been much better than the east, northeast, the central part of India, or even some parts of western India, with an Andhra Pradesh scoring the highest. The strength of the micro finance in India lies in the diversity of approaches and forms evolved over a period. The positive aspects of this informal credit delivery system are that disbursement of credit is easy and relatively quick, with

no collateral required and that credit is given for any activity, especially for consumption and emergency purposes including non-productive purposes¹

2. Profile of Micro Finance in India

The profile of micro finance in India at present can be traced out in terms of poverty it is estimated that 350 million people live Below Poverty Line. The following are some components of micro finance:

- This translates to approximately 75 million households.
- Annual credit demand by the poor in the country is estimated to be about Rs 60,000 crores.
- A cumulative disbursement under all micro finance programmes is only about Rs. 5000 crores.



- Total outstanding of all micro finance initiative in India estimated to be Rs. 1600 crores.
- Only about 5% of rural poor have access to micro finance.
- Though a cumulative of about 20 million families have accepted accessed.
- While 10% lending to weaker sections is required for commercial banks, they neither have the network for lending and supervision on a larger scale or the confidence to offer term loan to big micro finance institutions.
- The non poor comprise of 29% of the outreach².

3. ACTIVITIES IN MICROFINANCE

Some of the major activities included in scope of micro finance are as under:

Micro credit:

Under this type of credit, a small amount of money is loaned to a client by a bank or other institution. It can be offered, often without collateral, to an individual or through group lending.

Micro savings:

Micro savings cover those deposit services which 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 insurance:

It refers to a system by which people, businesses and other organizations make a payment to share risk. Access to insurance enables the entrepreneurs to concentrate more on developing their businesses while mitigating other risks

affecting property, health or the ability to work.

Remittances:

Remittances basically are transfer of funds from people in one place to people in another place, usually across borders to family and in India; over 260 million people live in poverty. The poor are plagued by high levels of unemployment, low levels of income, low level of savings and significant debt. Many are trapped in this financial position. They rarely can offer collateral against their loans and therefore are continually denied access to formal credit institutions. Even when loans are awarded, high interest rates and unrealistic repayment schedules leave families unable to escape vicious circle of poverty.⁹

4. NEED FOR MICRO FINANCE

Micro finance aims at assisting communities of the economically excluded to achieve greater levels of asset creation and income security at the household and community level. Access to financial services and the subsequent transfer of financial resources to poor women enable them to become economic agents of change. Women become economically self-reliant, contribute directly to the well being of their families, play a more active role in decision making and are able to confront systematic gender inequalities. Access to credit has long been considered a major poverty alleviation strategy in India. Micro credit has given women in India an opportunity to become agents of change. Poor women, who are in the forefront micro credit movement in the country use small loans to jump, start a long chain of economic activity.

Micro finance is accessing financial services in an informally formal route, in a flexible, responsive and sensitive



manner which otherwise would not have been possible for the formal system for providing such services because of factors like high transaction cost emanating from the low scale of operation, high turnover of clients, frequency of transaction etc. (Vijay Mahajan and G. Nagasri, 1999).

5. OBJECTIVES OF MICROFINANCE:

Micro-finance initiatives are now recognized as a cost effective and sustainable way of expanding outreach of the banking system to the rural poor. The following are the fundamental objectives of micro-finance:

- To offer cost effective approach to formal institutions for expanding outreach to poor.
- To develop collateral substitutes.
- To focus on the rural and the women particularly.
- To pilot test other micro-credit delivery mechanism as alternative channels to the formal banks.
- To effectively pursue the objectives of micro-finance growth.

6. REVIEW OF LITERATURE

Khandkar and Pitt (1996)⁴ said that that microfinance involves training and other related activities, which provides women members with opportunities to travel outside the villages, and expand their knowledge of the world outside the household and immediate community. This increased mobility leads to attain a great sense of self confidence.

Microfinance programme provide the members the means to build up provide assets over time generating income of their own.

Yaron, Benjamin & Piprek (1997)⁵ traced this traditional approach in rural finance leaning heavily towards direct interventions to Keynesian influence. Under this approach, in addition to the assumptions listed above, the key problem areas, visualized in rural financial markets included a lack of credit in rural areas, absences of modern technology in agriculture, low savings capacity in rural areas and prevalence of moneylenders.

Coleman, Brett (1999)⁶ studied the impact of microfinance lending of village banking programme in Thailand. He looked at two microfinance institutions, the Rural Friends Association and the Foundation for Integrated Agricultural Management. A sample survey of 455 households, participants and non-participants, showed no evidence that programme had an impact on any asset or income variable. There was no evidence of increase in the productive activity as the access to bank loans increase. The author cautioned against extrapolating these results to other countries since Thailand was rather a developing country. One of the reasons of weak poverty impact was that there was a tendency for wealthier households to self-select into village banks and then relative small size of loans might be used for consumption purpose



Highlights of the SHG-Bank Linkage Programme, 2011-12

Particulars	Achievements	
	Physical (lakh)	Financial (Rs. crore)
Total number of SHGs savings linked with banks	74.62	7016.30
Out of total [of which] exclusive Women SHGs	60.98	5298.64
Out of total [of which] SGSY SHGs	20.23	1817.12
Total number of SHGs credit linked during 2010-11	11.96	14547.73
Out of total [of which] exclusive Women SHGs credit linked	10.17	12622.33
Out of total [of which] SGSY SHGs credit linked	2.41	2480.37
Total number of SHGs having loans outstanding	47.87	31221.16
Out of total [of which] exclusive Women SHGs	39.83	26123.75
Out of total [of which] SGSY SHGs	12.86	7829.38
Average loan amount outstanding/SHGs (in Rupees)		65223
Average loan amount outstanding/members (in Rupees)		5017
Average loan amount disbursed/SHGs (in Rupees)		121637
Estimated number of families covered millions	97	
No. of Banks and Financial Institutions submitted MIS	441	
Support from NABARD		
(I) Capacity Building for partner institutions		
Number of programme concluded during 2010-11	5621	10.08
Number of participants covered during 2010-11	205748	
Cumulative number of participants trained up to 2011	2660768	55.08
(II) Refinance support		
Refinance to banks during 2010-11		2545.36
Cumulative refinance released up to 31 March 2011		15407.01
(III) Revolving Fund /assistance [RFA] to MFIs		
RFA released to MFIs during the year		14.90
Cumulative released to MFIs up to 31 March 2011		64.25
Capital support released to MFIs during 2010-11		2.53
Cumulative CS released to MFIs up to 31 March 2011		27.40
(IV) Grant assistance to SHPIs for promotion of SHGs		
Grant Assistance sanctioned during 2010-11		37.86
Cumulative sanctions up to 31 March 2011		146.22
Grant assistance for rating of MFIs during 2010-11		0.19

Source (status of micro finance in India 2011-12)



Progress under micro finance- savings of SHGS with banks region-wise/state-wise/agency-wise

Sr. No	Region / State	Commercial Bank		Regional Rural Bank		Cooperative Bank		Total	
		No. of SHGs	Saving Amount	SHG	Saving Amount	No. of SHGs	Saving Amount	No. of SHGs	Saving Amount
A Northern Region									
1	Haryana	20397	7891.11	12919	1849.97	2003	179.37	35319	9920.45
2	Himachal Pradesh	28571	1881.90	5955	852.19	18587	974.41	53113	3708.5
3	Punjab	32156	3768.09	3483	211.18	5280	405.89	40919	4385.16
4	Jammu & Kashmir	3828	304.62	596	34.14	1145	48.38	5569	387.14
5	Rajasthan	103817	4808.50	61937	5019.74	68039	4203.46	233793	14031.7
6	New Delhi	3015	307.22	0	0.00	80	16.33	3095	323.55
7	Chandigarh	964	100.66	0	0.00	0	0.00	964	100.66
	TOTAL	192748	19062.1	84890	7967.22	95134	5827.84	372772	32857.16
B. North Eastern Region									
1	Assam	84597	4573.76	136642	2853.01	23881	769.83	245120	8196.6
2	Meghalaya	8484	227.39	2169	148.73	0	0.00	10653	376.12
3	Nagaland	5646	156.19	625	34.08	3595	172.72	9866	362.99
4	Tripura	10979	244.10	17644	2762.21	5689	388.99	34312	3395.3
5	Arunachal Pradesh	5822	92.03	1050	78.75	207	15.53	7079	186.31
6.	Mizoram	1837	49.1	2085	106.20	670	22.30	4592	178.11
7	Manipur	5027	145.18	5279	95.05	0	0.00	10306	240.23
8	Sikkim m	2212	123.70	0	0	599	45.24	2811	168.94
	Total	124604	5611.96	165494	6078.03	34641	1414.61	324739	13104.6
C. Eastern Region									
1	Bihar	109840	6954.55	138357	3902.76	0	0.00	248197	10857.31
2	Jharkhand	58331	12699.95	28874	1495.81	0	0.00	87205	14495.76
3	Orissa	243965	10522.85	199679	19794.78	77508	5037.09	521152	35354.72
4	West Bengal	324200	20985.98	190403	30581.48	151711	28746.68	666314	80314.14



5	A& N Islands (UT)	1180	36.94	0	0.00	3570	78.74	4750	115.68
	TOTAL	737516	51200.27	557313	55774.83	23279	33862.51	1527618	140837.61
D. Central Region									
1	Chhattisgarh	45660	2265.99	50686	5050.57	21821	1112.43	118167	8428.99
2	Madhya Pradesh	81667	5116.40	57870	1891.15	14280	4666.54	153817	11674.09
3	Uttarakhand	23242	2292.19	10270	657.30	10783	1015.88	44295	3965.37
4	Uttar Pradesh	205734	25893.59	255508	10140.05	8915	235.92	470157	36269.56
	TOTAL	356303	35568.17	374334	17739.07	55799	7030.77	786436	60338.01
E. Western Region									
1	Goa	4985	473.66	0	0.00	2941	345.07	7926	818.73
2	Gujarat	111708	12285.44	50625	2507022	30501	2510.47	192834	17303.13
3	Maharashtra	420259	31172.29	52685	3351.09	287217	30255.89	760161	64779.27
	TOTAL	536952	43931.39	103310	5858.31	320659	33111.43	960921	82901.13
F. Sothern Region									
1	Andhra Pradesh	1041184	101288.99	401730	27543.00	23311	1948.23	1466225	130780.22
2	Karnataka	219667	50674.09	164100	15607.23	180778	30221.55	564545	96502.87
3	Kerala	390242	33008.78	40851	1141.09	62254	7993.71	493347	42143.58
4	Lakshadweep	164	10.36	0	0.00	0	0.00	164	10.36
5	Tamil Nadu	704598	80353.24	88789	5697.09	149711	136730.54	943098	99723.87
6	Pondicherry	19495	2297.07	2586	133.80	0	0.00	22081	2430.87
	TOTAL	2375350	267633	698056	50122	416054	53837	3489460	371592
	Grand total	4323473	423007	198339	143540	1155076	135084	7461946	701630



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