



MICROFINANCE IN INDIA: SCOPES AND LIMITATIONS

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ABSTRACT

Microfinance in the eighteen years has become a well known tool for bankers, developmental agencies and even for corporate houses. Microfinance, in many ways, have gone beyond the means of delivering the financial services as a channel and turned out to be focal point for purveying various services to the poor. This paper studies the consolidated data obtained from the banks along with preliminary analysis of the various trends and progress under microfinance sector under the two models viz., SHG-Bank Linkage model and MFI-Bank Linkage model. The data furnished by the banks have been analysed on the region-wise, state-wise, agency-wise, bank-wise and also for SHGs exclusively under Swarnajayanti Gram Swarojgar Yojana and exclusive women SHGs data in the booklet. The major support provided by NABARD under Microfinance Development and Equity Fund relates to promotion and nurturing of SHGs by the Self help promoting Institutions and training and capacity building of the stakeholders in the sector.

KEYWORDS : NABARD, MFI BLP, SHGs, SHGsBLP

INTRODUCTION

The proposed Microfinance Services Regulation Bill of India defines microfinance services as providing financial assistance to an individual or an eligible client, either directly or through a group mechanism for:

1. an amount, not exceeding rupees fifty thousand in aggregate per individual, for small and tiny enterprise, agriculture, allied activities (including for consumption purposes of such individual) or
2. an amount not exceeding rupees one lakh fifty thousand in aggregate per individual for housing purposes, or
3. such other amounts, for any of the purposes mentioned at items 1 and 2 above or other purposes, as may be prescribed.

The bill further defines Micro Finance Institution as an organisation or association of individuals including the following if it is established for the purpose of carrying on the business of extending microfinance services:

1. a society registered under the Societies Registration Act, 1860,
2. a trust created under the Indian Trust Act, 1880 or a public trust registered under any state enactment governing trust or public, religious or charitable purposes,
3. a cooperative society/ mutual benefit society / mutually aided society registered under any state enactment relating to such society or any multistate cooperative society registered under the Multi State Cooperative Societies Act, 2002 but not including:

A cooperative bank as defined in clause (cci) of section 5 of the Banking Regulation Act, 1949 or a cooperative society engaged in agriculture operations or industrial activity or purchase or sale of any goods and services.

Microfinance institutions have witnessed enormous growth during the last couple of decades. The Consultative Group to Assist Poor (CGAP) under UN has give eleven key principles of microfinance. These are as follows:

Key principles of Micro Finance

1. Poor people need a variety of financial services, not just loans.
2. Microfinance is a powerful tools to fight poverty.
3. Microfinance means building financial systems that serve the poor.
4. Microfinance can pay for itself, and must do so it is to reach very large numbers of poor people.
5. Microfinance is about building permanent local financial institutions that can attract domestic deposits, recycle

them into loans and provide other financial services.

6. Microcredit is not always the answer. Other kind of support may work.
7. Interest rate ceilings hurt people by making it harder for them to get.
8. The job of government is to enable financial services, not to provide them directly.
9. Donor funds should complement private capital, not compete with it.
10. The key bottleneck is the shortage of strong institutions and managers.
11. Microfinance works best when it measures and discloses its performance.

Objectives of microfinance

The organisations working to promote microfinance institutions in different parts of the world determine various objectives to microfinance. The important among them are listed as follows.

1. Promote socio-economic development at the grass root level through community-based approach.
2. Develop and strengthen people's groups called Self-Half Groups and facilitate sustainable development through them.
3. Provide livelihood training to disadvantaged population.
4. Promote activities which have community participation and sharing of responsibilities.
5. Promote programs for the disabled.
6. Empower and mainstream women.
7. Promote sustainable agriculture and ecologically sound management of natural resources.
8. Organize and coordinate networking of grass root level organisation.
9. Get benefits by reducing expenditure and making use of local resources as inputs for livelihood activities.
10. Increase the number of wage days and income at household level.

Major Models of Microfinance initiatives

The literature on microfinance listed 12 various models of microfinance institutions working in different countries. This classification is on the basis of regulatory structure and operational methods. Few models are not common in international level and few others are complimentary. NGOs and self help groups are example. Most of the self help groups have a promoter NGO. At the same time many NGOs have direct microfinance chains. Like that commercial banks are implementing microfinance operations through its SHGs. In these cases two models are working together to serve poor.

Some models are working in the informal sector only. Major models are grameen, village bank; credit union, cooperative, self help groups, commercial banks, NBFCs, Association of persons, nidhi model, community banking, NGOs and ROSCAs

Micro Finance Models in India

A wide range of microfinance models are working in India. Experts opinion is that India host the maximum number of microfinance models. Each model has succeeded in their respective fields. The main reason behind the existence of these models in India may be due to geographical size of the country, a wide range of social and cultural groups, the existence of different economic classes and a strong NGO movement. Microfinance Institutions in India have adopted various traditional as well as innovative approaches for increasing the credit flow to the organized sector. They can be categorized into six broad types.

1. Grameen model
2. SHG model
3. Federated SHG model
4. Cooperative model
5. ROSCAs
6. Microfinance companies (MFCs)

1. The Grameen Model

The Grameen model has been a case of exceptional success in Bangladesh. It turns out that many organisations in India have adopted the Grameen Banks model with little variations. Some of the notable examples are SHARE Microfinance Limited, Activists for Social Alternatives (ASA) and CASHFOR Financial and Technical services limited.

2. Self Help Groups (SHGs) model

An SHG is a group of five to 20 people from same income category formed on principle of lending their own savings. They also seek external funding to augment these resources. This groups is a voluntary one, formed on the areas of common interest so that they can think, organise and operate for their own development. The SHGs functions on the basis of cooperative principles and provide a forum for the members to extent support to each other. SHGs play a crucial role in improving the savings and credit and also in reducing poverty and social inequalities. Almost 90% of the SHGs in India are female only due to the known fact that world's poorest households tends to rely more heavily on income generated by women of the house. In India SHGs have been the most popular way to help the poor and make them bankable.

3. Federated Self Help Groups (SHG FEDERATIONS)

SHGs have been very successful in empowering women by providing direct and indirect benefits to them. However SHGs are small in size and are limited in the types of financial services they can provide. Since SHGs are a widely successful delivery model a need arises to scale them up without compromising with the success. The Federated SHG model is one such way to scale up the previous model. Federation of SHGs bring together several SHGs. Compared to a single SHG, federation of SHGs have more than 1000 members.

4. Co Operative credit unions

Cooperative credit unions are another important microfinance model developed in the country. The leading organisation that has been successful in using the cooperative form in rural microfinance in India has been the Cooperative Development Forum (CDF), Hyderabad CDF's approach has relied on a credit union model involving a savings first strategy. It has built up a network of financial cooperative based upon women's and men's thrift groups. After the implementation of Andhra Pradesh Mutually-Aided

Societies Act for flexible functioning of cooperative, it has registered the associations of the thrift groups promoted by it under this Act. The MACS Act has become landmark legislation, which has been used by other organisation as well to register associations based on other approaches such as SHGs and Grameen joint liability groups as MACS.

5. Rotating Saving and Credit Associations (ROSCAS)

ROSCAs are an alternative means of providing credit to groups of individuals. Individuals join groups centered around shares features such as community, ethnicity or professors and make periodic donations in order to receive loans in the future. Each member systematically received a loan process. Each member is dependent on the others to repay the loans or else the cycle will stop. Group members provide both support and sanctioning devices for each other.

6. Microfinance companies

Microfinance companies are registered in two regulatory set up; Non Banking Financial Companies (NBFC) under reserve bank of India or companies act. Many microfinance companies are registered in our country as NBFC. NBFCs are collecting savings and utilising their funds for loans and other activities. The microfinance institutions including BASIX, Asmitha, SKS and Janasree microfinance Kerala is registered as NBFC. NBFC is working by forming SHGs and direct lending model exists.

Regulatory structure of Microfinance in India

The goal of non profit institutions are only the financial and social empowerment of the beneficiary class. Such ventures are registering in different formats including as society under societies registration act of 1860, charitable trusts under trust act and as section 25 company. Those are registered under cooperative which can be just a savings and credit cooperative or be further licensed as cooperative bank, mutual benefit trust, under chitties act and mutual benefit section 620 nidhi companies. For profit entity may be registered as association of persons, investment trusts and company which is further either an NBFC or a bank.

NABARD; Government initiative in microfinance in India

NABARD was established by the Government of India in 1982 as a development bank for providing and regulating credit and other facilities for the promotion and development of agriculture, small scale industries, cottage and village industries etc. Later in 1986-87, the NABARD has also included to facilitate and support the orderly growth of the microfinance sector through diverse modalities for enlarging the flow of services to the poor particularly for women and vulnerable sections of society consistent with sustainability. Then NABARD launched a pilot project to provide micro credit by linking SHGs with nationalized and different state cooperative banks in the 1991-92.

Problems affecting Microfinance Institutions

Many problems faced by this sector. Important among them are the following.

1. Ethical Reasons:

Microfinance Institutions can be often viewed as a profit making organisation. The desire to make MFIs an industry, commercialize micro lending or enable them to be a profit making institutions should not distract them from one important aspect for which they are formed in the first place, social service by enabling poor to work on profit making projects or small businesses. Many a times, the lack of this aspect can lead the microfinance institutions to behave similar to the local money lenders. Corruption is another ethical problem. Many MFIs in India or elsewhere in world suffer from corruption at various levels: corruption in the MFI itself, corruption in the Micro Enterprises, these MFIs support

or corrupt channels, officials or individual service providers.

2. Managerial Reasons:

One of the major problems which the MFIs can resolve is managerial problems. Managerial problems are a major factor and they have more effects than any other problems discussed. Poor record keeping and lack of managerial capacity are the major problems. For office bearers and group members, record keeping seems like a waste of time. Lack of record keeping can have its share of problems including increase in defaulters.

3. Legal Reasons:

Microfinance Institutions can be viewed as a social organisation helping the poor and a profit organisation too. In many countries, profit organisations are registered under the different set of acts and non-profit organisations come under different legislations. These legalities sometimes create complications. But a charitable institution is not allowed to indulge in to money lending. The above case was a lack of a legislation especially serving microfinance institutions. These are some random acts which prohibit the growth of microfinance institutions and delimit their impact.

4. Unfortunate Reasons:

Sometimes microfinance institutions have to face problems which cannot be revolved. These problems arise in cases when something "unfortunate" happens to a person or a community. A flood or famine can kill the hopes of farmers to pay their loans. Personal plights are another reason which might affect the MFI.

5. Other Reasons:

There are various other factors for the failure of MFI. They can be listed as follows: Lack of vision is a factor which pushes new MFIs in to extinctions. MFIs need trained staff to operate. In several cases drop out of trained staff is very high which reduces the reach of an MFI. Furthermore, the dropping out rate is more than the coming in rate. MFIs serve society but they are also a profit making institution. In many cases, MFIs achieve a lot of success in their programs in initial period, but they fail to maintain the same record in the long run because of lack of proper commercial orientation, thus making them unsustainable.

CONCLUSION

From the discussions in this matter got an idea about functioning of microfinance institutions in India, its limitations, problems and we discussed interest free microfinance as an alternative and solution for these problems. And also familiarized the growth of interest free micro ventures in the country especially kerala.

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