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ROLE OF MICRO FINANCE IN POVERTY REDUCTION IN INDIA

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ABSTRACT

Microfinance is a general term to describe financial services to low-income individuals or to those who do not have access to typical banking services. Microfinance is the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services. More broadly, it is a movement whose object is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers." Those who promote microfinance generally believe that such access will help poor people out of poverty. The dynamic growth of the microfinance industry has been promoted not only by market forces but also by conscious actions of national governments, Non-Governmental Organizations (NGOs) and the donors who view microfinance as an effective tool for eradicating poverty. This paper attempts to study the role of microfinance in poverty reduction.

KEY WORDS: *Gramin Bank, JLGs, Microfinance, NGOs, Poverty Reduction, SHGs,*

INTRODUCTION

The Historical account of the emergence and growth of micro finance sector at the global level has started after the emergence of the Gramin Bank, Bangladesh which was started as an experiment in 1976 and accorded a special banking charter in 1983. In India, Rural Financial markets have been dominated by informal lenders over many centuries. The Volume of finance is large relative to the total size of credit markets. The main role of commission agents however is in reducing information costs of both buyers and sellers, Indigenous bankers are age- old Indian Institutions serving business usually trade. There is a bewildering array of brokers in informal markets whose main and sometimes only role is informational.

As a result, micro- finance has emerged as a new sunshine in the rural life. On should know first about micro- credit before Micro- Finance. It will help in identifying and prioritizing the challenges of universalizing services, assessing impact, documenting learning experiences and broad basing a strategy for making micro- finance an all inclusive tool for reducing poverty and promoting sustainable livelihoods. Micro-finance has a key role to play in meeting the UN's Millennium Development Goals of reducing poverty by half of 2015.

Micro Finance is not enough for poverty reduction, women empowerment and livelihoods. Inputs such as market linkages, investments in infrastructure, education and health services, and capacity building need to supplement microfinance. Thus, micro finance helps to manage risks and cope with uncertainties.

"Micro finance should be so soft to touch the lives of the people they serve but hard enough to leave a distinct impact on their lives." As a result there were sector wide reforms made including substantial deregulation on interest rates for RRB's, Commercial banks, change in the target orientation, a supportive policy environment and experimentation with NABARD-SHG linkage programme.

MICROFINANCE IN INDIA

India's Self-Help Group (SHG) movement has emerged as the world's largest and most successful network of women owned community-based microfinance institution. Self Help Group Bank Linkage programme (SHG-BLP) is a landmark model initiated by the National Bank for Agriculture and Rural Development (NABARD) in 1992 to deliver affordable door-step banking services and has largely achieved the stated goals of financial inclusion; it is a homegrown self-help movement with an objective of creating sustainable livelihood opportunities for the rural poor. Started as a bank outreach programme, SHG-BLP transcended itself into a holistic programme for building financial, social, economic, and of late, technological capital in rural India.

Evolution of Self-Help Group Movement Till the late nineties, financial inclusion was elusive as the common man was out of focus of formal banking system despite nationalization of banks (in 1969 and in 1980) and other policy initiatives like priority sector lending, lead bank scheme, etc. The large spectrum of deposit and loan products of Indian banks could not fulfill the financial needs of thee rural poor. In this context, NABARD conducted various studies to deliver a viable financial model for the Indian rural credit system. It was revealed in the studies that the poor needs better access to adequate, timely and suitable financial products and services rather than cheap credit. Self Help Groups were conceived as community owned, self-managed informal doorstep savings & credit delivery mechanism by a group of 10-20 members having homogeneous socio-economic background and coming from a small contiguous area, who operate on the principle of self-help, solidarity and mutual interest Accordingly, the Self Help Groups (SHGs) were promoted by NABARD based on its successful experiment with Mysore Resettlement and Development Agency (MYRADA) in 1987.The learning from the Action Research led NABARD to launch a pilot in 1992 with a pilot base of just 500 SHGs with policy backing from the Reserve Bank of India advising banks to open savings accounts in the name of Groups. Three radical innovations were introduced through the RBI/NABARD guidelines during the pilot phase which led to a paradigm shift in development banking in India. They were:

(a) acceptance of informal groups as a client of banks-both deposit and credit linkage
(b) introduction of collateral free lending and
(c) permission to lend to groups without specification of purpose/ activity / project.

The SHG Bank linkage programme spearheaded by NABARD had a modest beginning with 225 credit linked groups and a loan amount in of R29 lakh in 1992. Within 3 years, 4750 SHGs were credit linked with different banks by the end of 3 year phase with bank loan of R6.06 crore covering 28 commercial banks, 60 RRBs and 7 Cooperative banks. The overwhelming success of the pilot led to RBI mainstreaming SHGBLP as normal business activity of banks and rest as they say is history. Later, RBI declared the SHG-BLP as a priority sector lending activity in 1996. Since 1999, Government of India has been supporting by way of special budgetary provision for promotion of the SHGs. For making SHG Bank linkage programme more client friendly and addressing some emerging issues, NABARD suggested certain product level changes under SHG - 2 by reiterating thrust on savings with introduction of voluntary savings, smooth flow of credit with sanction of cash credit limit to SHGs, improved risk mitigation mechanism, leveraging second level institutions like SHG Federations for sustained hand holding support, promoting JLGs out of SHG members, strengthening the monitoring mechanism, etc 1.6 SHG-Bank Linkage Programme has become more popular in India than elsewhere in the world primarily due to its widespread adoption by Scheduled Commercial Banks, Regional Rural Banks and Cooperative Banks. NABARD has continued to support more than 5000 partner agencies such as NGOs, RRBs. District Central Cooperative Banks and other SHPI partners for promoting and nurturing SHGs. 1.7 The success of SHG-BLP also attracted the attention of State governments. Many of the State governments, over a period, undertook, through departmental initiatives, major programmes of SHG promotion. Notable among the state governments was Andhra Pradesh with Podupulakshmi programme, Indira Kranti Patham programme of AP, Jeevika Project of Bihar, Mahalir Thittam in Tamilnadu, Kudumbashree in Kerala and TRIPTI/ Mission Shakti projects in Odisha which were some of the other projects implemented by state governments. The SGSY (Swarna-Jayanti Gram Swarojgar Yojna) of GoI was implemented with group mode of financing. For covering all BPL families. SGSY was restructured in 2011 to form National Rural Livelihood Mission (NRLM) to be implemented in mission mode across the country. NRLM is an entirely group centric, group driven poverty alleviation programme. NRLM's components are: formation, federation and financing of women SHGs; livelihoods programme for rural women farmers and agricultural labourers; value addition in non-timber forest produce in tribal districts; gender rights issues and various programmes. One of the core objectives of the mission is to make rural people particularly women a new category of clients and take them beyond financial inclusion to achieve economic inclusion and enable them to participate and benefit from mainstream economic benefits . It aims to cover all the rural districts in the country intensively, in phases. After more than 25 years of SHG Bank linkage, the programme has grown exponentially, the system has evolved and matured, enabling the SHGs access to large loans under SHG BLP besides loans that SHGs have been able to access from their own federations and the NGO MFIs. As on March 31, 2019 the SHG BLP programme has reached many a milestone with a total membership of about 1 crore groups covering 12.5 Crore households across India. The programme has made an indelible mark on the Indian financial landscape by extending loans to the extent of R87000 crore to 50.77 lakh SHG as on March 31, 2019.

MICROFINANCE CHANNELS

Microfinance in India operates primarily through two channels:

- **SHG-Bank Linkage Programme (SBLP) -** This channel was initiated by NABARD in the year 1992. This model encourages financially backward women to come together to form groups of 10-15 members. They contribute their individual savings to the group at regular intervals. Loans are provided to members of the group from these contributions. SHGs are also offered bank loans at later stages, and these loans can be used for funding income generating activities.

This model has achieved a lot of success in the past and it has also gained a lot of popularity for contributing to the empowerment of women in the country. Once these self-sustaining groups reach stability, they function almost independently with minimal support from NABARD, SIDBI, and NGOs.

- **Microfinance Institutions (MFIs) -** These institutions have microfinance as their primary operation. These lend through the concept of Joint Liability Group (JLG), i.e., an informal group that consists of 5-10 members who seek loans either jointly or individually.

KEY FEATURES OF MICROFINANCE

Some of the significant features of microfinance are as follows:

- The borrowers are generally from low income backgrounds
- Loans availed under microfinance are usually of small amount, i.e., micro loans
- The loan tenure is short
- Microfinance loans do not require any collateral
- These loans are usually repaid at higher frequencies
- The purpose of most microfinance loans is income generation

ROLE OF MICROFINANCE IN POVERTY REDUCTION

Organizing Award Ceremonies in all States for recognizing good performance of Bankers will further energise the SHG BLP movement. Technology will have to be leveraged for developing training tools like an e-learning portal / App with course contents suitable for Bank Managers, especially the new entrants, with the active involvement of Banks / NABARD's training institutes. 1.38 The potential SHGs may be encouraged to graduate as members of Producers' Organisations of Farm and Non-farm activities. 1.39 Promotion of Business Model for JLG by RRBs through BC network is also another Intervention which would give momentum to the Joint Liability Group Bank Linkage Programme. 1.40 Alternate delivery channels and support mechanisms are to be encouraged to provide the SHG member's timely banking services at a reasonable cost. The NABFINS model by NABARD has shown how an MFI can provide adequate and timely credit to SHGs at a reasonable rate of interest, in a transparent manner without using coercive measures of recovery and still continue to be a profitable entity. It has a client base of 8.9 lakh in 16 states. Efforts need to be made to scale up this model to other areas of the country. 1.41 Financial inclusion (FI) through the JAM trinity (Jan Dhan, Aadhaar, Mobile) is seen as an important tool for financial inclusion. Convergence of the SHG BLP with the FI initiatives of the Government and RBI needs to be ensured. The Credit history of all SHG members needs to be created by linking the E Shakti with CIC. This will ensure credit discipline and facilitate the Banks for higher off take of credit to the SHGs. Expansion of coverage of NABARD's EShakti in the country would increase credit linkage as well as credit deepening for the deserving SHGs in rural areas as also help banks in building up their SHG business portfolio. The 'one-click availability of social and financial related information" of crores of rural families across India on a single platform will have tremendous significance for various stake holders. Leveraging the E Shakti database for making available financial and social security schemes of GoI to rural poor, owing to its pan rural India reach and impact in the E Shakti districts is a positive step in the financial inclusion process. Increased confidence of banks in the project could result in their financial participation in the project and help reduce the gap of savings and credit linked SHGs. Linking of EShakti to the CBS of various banks using online or offline mechanism would help in better offtake of credit linkage and provide valuable data of digitized SHGs and help all the stakeholders in SHG BLP ecosystem.

CONCLUSION

Microfinance is about providing financial services to the poor who are not served by the conventional formal financial institutions - it is about extending the frontiers of financial service provision. The provision of such financial services requires innovative delivery channels and methodologies. The needs for financial services that allow people to both take advantage of opportunities and better management of their resources. Microfinance can be one effective tool amongst many for poverty alleviation. However, it should be used with caution -despite recent claims, the equation between microfinance and poverty alleviation is not straight-forward, because poverty is a complex phenomenon and many constraints that the poor in general have to cope with. We need to understand when and in what form microfinance is appropriate for the poorest; the delivery channel, methodology and products offered are all inter-linked and in turn affect the prospect and promise of poverty alleviation. Access to formal banking services is difficult for the poor. The main problem the poor have to take when trying to acquire loans from formal financial institutions are the demand for collateral asked by these institutions. In addition, the process of acquiring a loan entails many bureaucratic procedures, which lead to extra transaction costs for the poor. Formal financial institutions are not motivated to lend money to them. In general, formal financial institutions show a preference for urban over rural sectors, large-scale over small scale transactions, and non-agricultural over agricultural loans.

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