



ROLE OF MICRO-FINANCING IN DEVELOPMENT OF INDIAN ECONOMY

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ABSTRACT

According to the World Bank, India falls under low income class countries group. With a population of more than 1.2 billion, India is the 2nd largest populated country in the world. Around 67.63% (2014, World Bank Report) of its population lives in rural area. 60% of people depend on agriculture, it contributes 17.01% of total GDP and GVA is around of 19.65 lakh crore INR (2014-15). Low production capacity both in agriculture and manufacturing sector. Lack of facilities to access banking services or institutionalized credit by the low income group people has led to the growth of microfinance in India. Microfinance refers to small savings, credit and insurance service extended to low income people group of society. It is emerging as a powerful tool for poverty alleviation in rural India from last two decade. In India microfinance operates through two main channels viz. (I) through Micro Finance Institutions (MFIs) lending through individual and group approach and (II) banking system through the SHGs under SHG-Bank Linkage Programme and JLG bank lending programme. The present research paper describes the Role of Micro-Finance system in Development of Economy of India.

KEYWORDS: Microfinance, Non-Governmental Organization, Self Help groups, MFIs.

INTRODUCTION

“Microfinance, define as arrangement of small loans and savings facilities to the group of people who are deprived from commercial financial services.” Microfinance is the form of a broad range of financial services such as deposits, loans, payment services, money transfers, insurance, savings, micro-credit etc. to the poor and low income individuals. Microfinance has become a key strategy for poverty alleviation throughout the world. It helps poor people to avail, diversify and invest the small finance to generate new income, which is essential path for out of poverty and hunger. Beyond the direct link with poverty reduction, it is an indirect link to address the issues of health, education and gender. Micro finance cover not only production and consumption loans, but will also include other short loans provided for housing and shelter improvements. The term microfinance originate its roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Mohammad Yunus, were starting and shaping the modern industry of microfinancing. Microfinance in India can trace its origins back to the early 1980s with the formation of informal Self Help Group (SHG) for providing access to financial services to the needy people who are deprived of credit facilities. In India women constitute a vast majority of users of micro-credit and savings services. The Indian Microfinance Sector has witnessed a remarkable growth over the past 15 years. The quantum of credit made available to the poor and financially excluded clients have gone past 33,500 crore and number of clients benefitted crossed 33 million as of March 2014. The Government of India and the Reserve Bank of India has created conducive policy and regulatory framework for Microfinance



Institutions (MFIs) to operate in the country. This has provided necessary legitimacy and impetus to the sector. MFIs in general comply too the regulations, take care of client protection issues; adhere to the Industry Code of Conduct. These factors go a long way in infusing confidence among all the stakeholders.

In India National Agricultural Bank for Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), Housing Development Finance Corporation (HDFC), Commercial Banks, Regional Rural Banks, the credit cooperative societies etc., are the mainstream financial institutions involved in extending micro finance to the poor people. Also these institutions have come up to fill the gap between the demand and supply for micro finance.

REVIEW OF LITERATURE

There are lot of literature already available on role and contribution of micro finance institution towards poverty eradication across the world, though only few studies have been carried out on the related topic, one such study done by Emerson Moses, has deliberated that micro finance has emerged as a catalyst of rural development, especially in the overpopulated country like India.

Sen (2008), Micro-finance is regarded as a useful tool for socio-economic up-liftmen in a developing country like India. It is expected to play a significant role in poverty alleviation and development.

Bakhtiar (2006) concluded that micro credit and microfinance have received extensive recognition as a strategy for poverty reduction and for economic empowerment particularly in rural areas having poor population. Providing poor people the small amounts of credit at reasonable interest rates give them an opportunity to set up their own business at small scale.

Pitt and Khandker's findings center around increases in consumption among borrowers, which they predict will lead to increased income, then to job creation, and finally to poverty reduction.

Mr. Nikhil (2011) considered that the microcredit movement has proved that it is possible to deliver financial services to poor people living in rural areas at a large scale, free from any reliance on subsidies.

OBJECTIVES OF THE STUDY

1. To understand the concept of microfinance,
2. To examine the role and importance of microfinance in development of Economy.
3. To examine the current status and growth of microfinance in India.

RESEARCH METHODOLOGY

This is a descriptive research paper based on secondary data. Data have been collected through books, magazines, various websites, newspapers, and publications of recent research papers available in different websites, Research Articles, Research Journals, E-Journals, RBI Report, and Report of NABARD etc.

CONCEPT OF MICROFINANCE

Microfinance can be defined as the supply of loans, savings, and other basic financial services to the poor. Microfinance is the provision of savings accounts, loans, insurance, money transfers and other banking services to peoples those have lack access to traditional financial services, and usually because of poverty.

Microfinance constituted by NABARD defined microfinance as " the provision of thrift, saving, credit and financial services and products of very small amount to the poor's in rural, semi urban and urban areas for enabling them to raise their income level and improve their standard of living."

The facility of microfinance was started only a few decades ago. These sectors are registered as non-governmental organizations (co-operatives or trusts). They are registered under Section 25 of the Companies Act. Regional Rural Banks, Cooperative Banks, Commercial Banks and other financial institutions provide these loans to microfinance institutions. Apart from this, other major lenders have also played an important role in providing refinance facility to microfinance institutions. In addition, banks also provide credit facility directly to borrowers through self-help groups. With India's financial inclusion, India's major policy objective has been set in the form of developmental works. The facility of microfinance has been proven to be a better

option in the form of expansion of financial services for the major sections in the non-bank areas. At the same time, those who used their arbitrariness in lending by various lenders, are now interested in providing facilities to various sections of the society. Considering the different needs under microfinance, arrangements are made to provide small financial facilities to the rural population, which are very beneficial for them. Such facilities are very important in terms of generating employment.

The help given under micro finance is given for any business, such as tailoring, agriculture, dairy, pottery, poultry etc. or for any personal needs. In this, the amount from 1 thousand to 50 thousand rupees is given as loan, this loan is returned on a weekly or monthly basis. The loan from this easy process is given to any individual or group.

It is common for people who are poor or illiterate, they do not know much about any loan related process, nor are they able to take advantage of such facilities offered by banks. This is why not only the loan is made available to them under microfinance but also the training of this whole process is also provided. Importantly, the recovery rate in the micro finance loan is more than 90 to 95 percent, it is a proof that this system is working very well.

The main features of microfinance are:

- The loans given in it are of small amount, such as micro credit
- The basic purpose of lending is usually associated with income generation.
- This type of loan is provided to low income group people.
- There are short term loans
- They are repaid at a higher level
- Loan is provided without any parallel arrangement.

TYPES OF MFIs IN INDIA

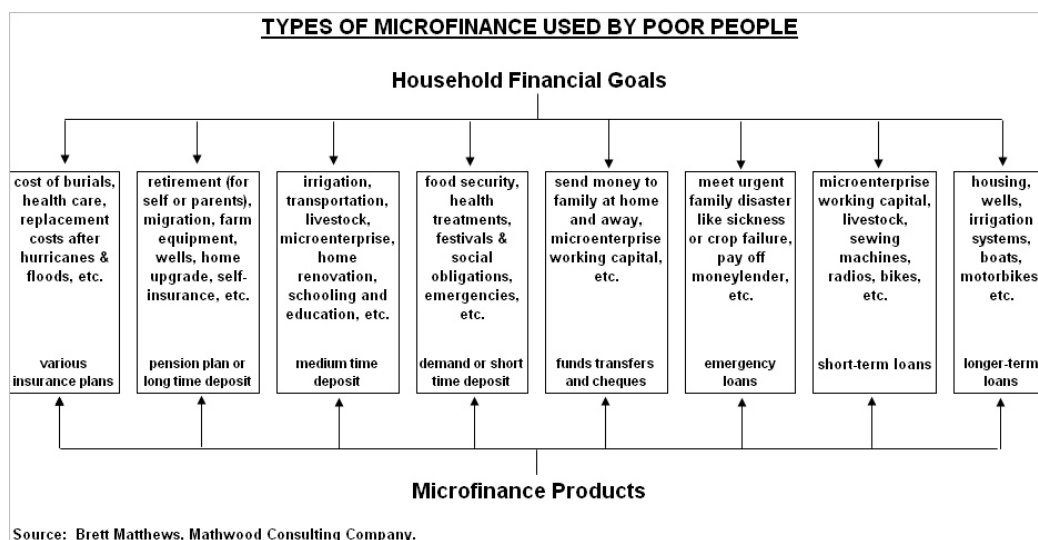
1. Domestic Commercial Banks including Public sector, Private sector and local Banks.
2. Regional Rural Banks.
3. Co-operative Banks.
4. Co-operative Societies.
5. Registered NBFIs.
6. Unregistered NBFIs.
7. Others include Societies and Trusts.

ROLE OF MICRO FINANCE INSTITUTIONS

According to the recent research done by the World Bank, India is home to almost one-third of the world's poor (equivalent to one dollar per day for living). Nearly half of the Indian population is still not a savings bank account and they are deprived of all banking services, Though central government and state government poverty alleviation and development programs are currently running in India, microfinance plays a major contributor to financial inclusion. In the past few decades, it has helped significantly in eradicating poverty and development in GDP. The Microfinance Institute acts as a supplement to the banks and in some sense it is also a better option. These institutions offer not only small loans but also provide other financial facilities such as savings, insurance, remittance and personal counselling, training and non-financial services such as starting their business on their own and most importantly in a convenient manner. The report says that those who have taken small finance have been able to increase their income and living standards. The poor also need financial services to protect their needs such as consumption, asset creation and crisis.

Thus Microfinance plays a major role in upliftment of Indian economy in following ways:-

- ❖ **Debt services to Rural Poor:-**Usually rural sector depends on non-institutional agencies for their financial requirements. Micro financing has been successful in taking institutionalized credit to the doorstep of poor and have made them economically and socially sound.
- ❖ **Poverty Eradication:** - Micro finance helps poor people getting started their business as well as getting employment. Employment increases income level which in turn reduces poverty.
- ❖ **Women Empowerment:-**have greater access to financial and economic resources. It is a step towards greater security for women. Thus microfinance empowers poor women economically and socially.
- ❖ **Development of the financial system:-**Finance plays a key role in stimulating sustainable economic growth. Due to microfinance, production of goods and services increases which increases GDP and contributes to economic growth of the country.
- ❖ **Mobilisation of small Savings:-**Microfinance develops saving habits among people. Now poor people with meagre income can also save and are bankable. The financial resources generated through savings and micro credit obtained from banks are utilised to provide loans and advances to its members. Thus microfinance helps in mobilisation of savings.
- ❖ **Self-Development:-**Micro financing has been a key source of finance for rural entrepreneurs. SHGs encourage its members to set up business units jointly or individually. They receive training from supporting institutions and learn leadership qualities. Thus micro finance is indirectly responsible for development of skills.
- ❖ **Public Welfare:-**With employment generation the level of income of people increases. They may go for better education, health, family welfare etc. Thus micro finance leads to social welfare or betterment of society
- ❖ **It offers a better overall loan repayment rate than traditional banking products:-**When people are empowered, they are more likely to avoid defaulting on a loan. Women are also statistically more likely to repay a loan than men are, which is another reason why women are targeted in the microfinance world.
- ❖ It offers significant economic gains even if income levels remain the same.



GROWTH OF MFIs IN INDIA

The microfinance services in India is expected to grow quickly, supported by the Govt. of India’s initiatives to achieve greater financial inclusion, and growth in the country’s retail sector MFIs have a grass root level reach and understanding of the economic needs of the poor. The growing retail market in India provides opportunities for MFIs to act as intermediaries in the retail supply chain. The banking sector will

also help the microfinance sector grow. Banks are expected to use MFIs to meet their financial inclusion targets by allowing MFIs to open bank accounts, and distribute financial services and other structured products.

The main focus of microfinance around the world has been to provide services to women. As an alternative to providing credit in India, microfinance provides services to the people of scheduled castes, scheduled tribes and minority communities. The female customer's share in the total number of MFIs is about 96 percent. Similarly, the SC / ST community also has 20 per cent share in the customers.

Top Microfinance companies in India are as follows:

- ❖ Annapurna Microfinance Pvt. Ltd.
- ❖ Arohan Financial Services Private Limited
- ❖ Ashishwad Microfinance Pvt. Ltd.
- ❖ Bandhan Financial Services Private Limited
- ❖ BSS Microfinance Pvt. Ltd.
- ❖ Cashier Micro Credit
- ❖ Direction Microfin Pvt Ltd
- ❖ Equities Micro Finance Pvt. Ltd.
- ❖ ESAF Microfinance and Investment Pvt. Ltd.
- ❖ Fusion Microfinance Pvt

Between 2005 and 2011, access to MFIs has increased rapidly. But this trend came down during 2012 and 2013 and the number of subscribers dropped. Once again this trend changed in 2014 and the number of customer increased. This trend continued in 2016 due to which the number of subscribers reached the highest level of 3.99 crore till date. The Southern region continues to have the highest share of both outreach and loans outstanding, followed by East.

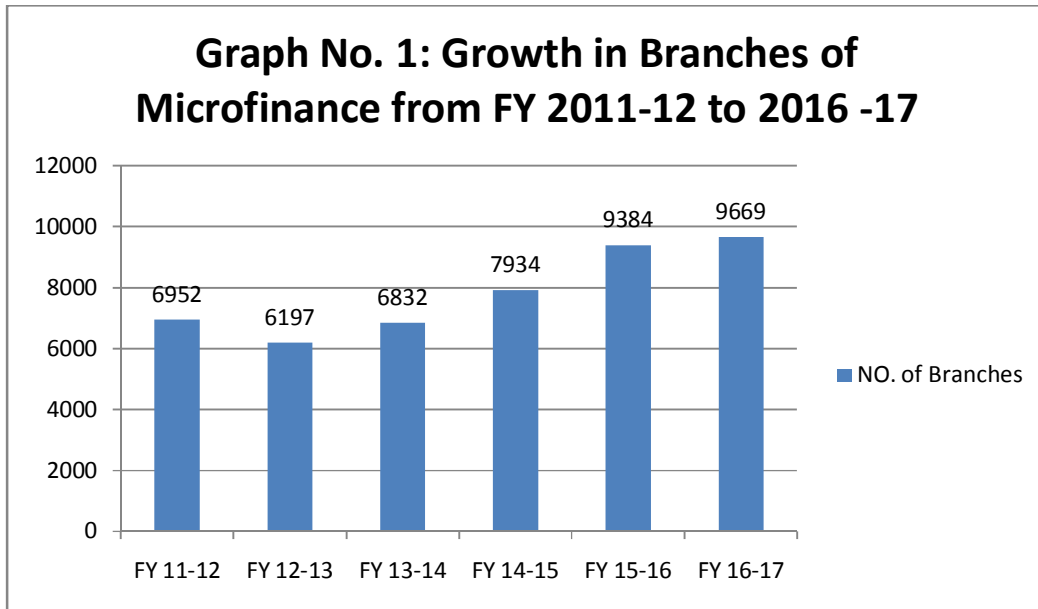
Table-1: Growth Trend of loans outstanding and borrowers

(As of 31st march)

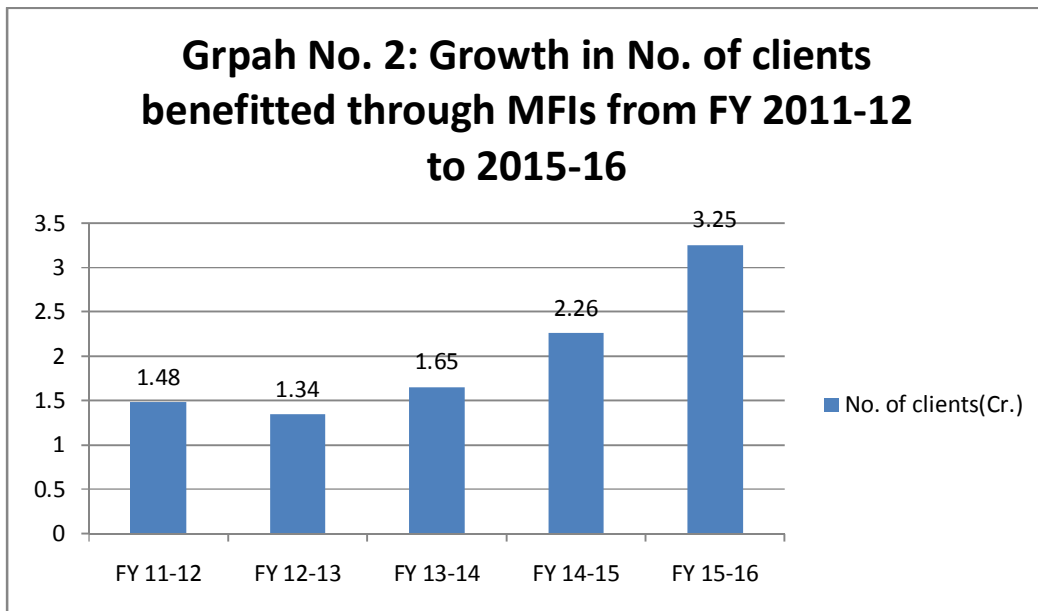
Indicator	FY 15-16	FY 14-15	FY 13-14	FY 12-13	FY 11-12
Branches	9669	7934	6832	6197	6952
Employees	85888	62407	48116	42234	49002
Clients (Cr)	3.25	2.26	1.65	1.34	1.48
Loans disbursed (during the yr, Cr)	3.47	2.55	1.76	1.29	***
Loan amount disbursed (during the year ,Cr)	61860	37599	23682	15814	***
Lives insured*(Cr)	3.7	2.1	1.8	0.9	***
Sum Insured*(Cr)	59834	31761	25929	13477	***
Gross Loan portfolio(Rs Cr)	53233	28940	17100	11636	11183

Source: www.mfinindia.org (data as of 31st Mar 2016)

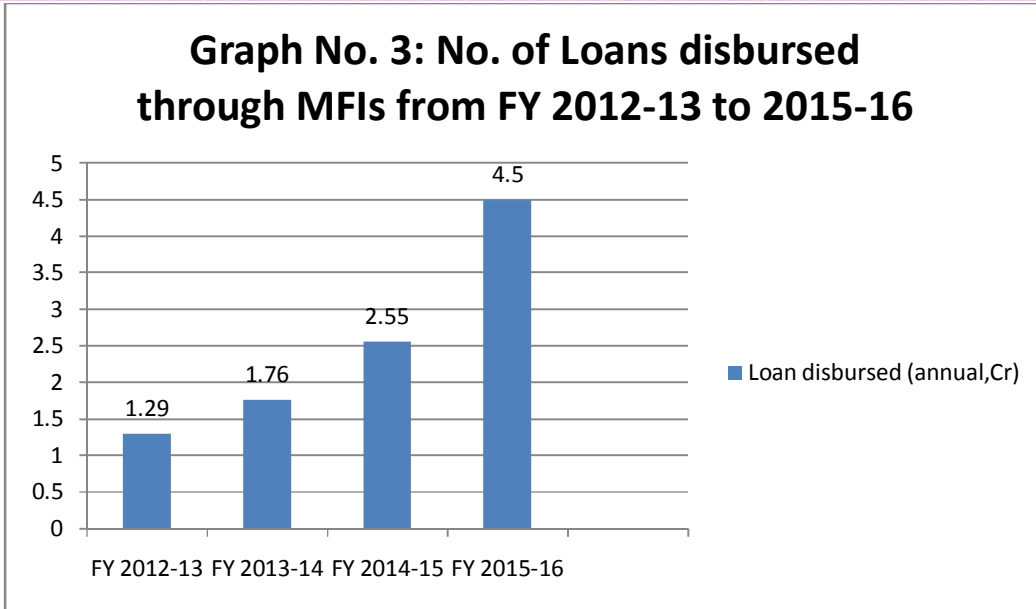
- The client’s number here is the aggregate of clients of member MFIs.
- Data collected from 56 NBFC– MFIs (MFIs)** , all of whom have either received or applied for NBFC-MFI registration from the RBI



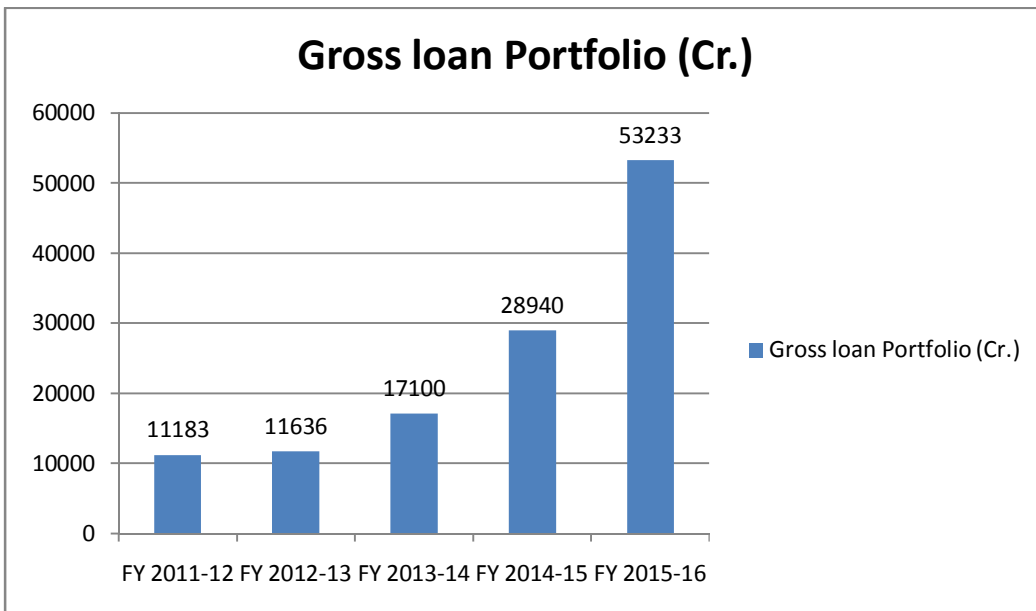
Source: Micrometer Issue 17_Q4 FY 15-16_27th May 2016



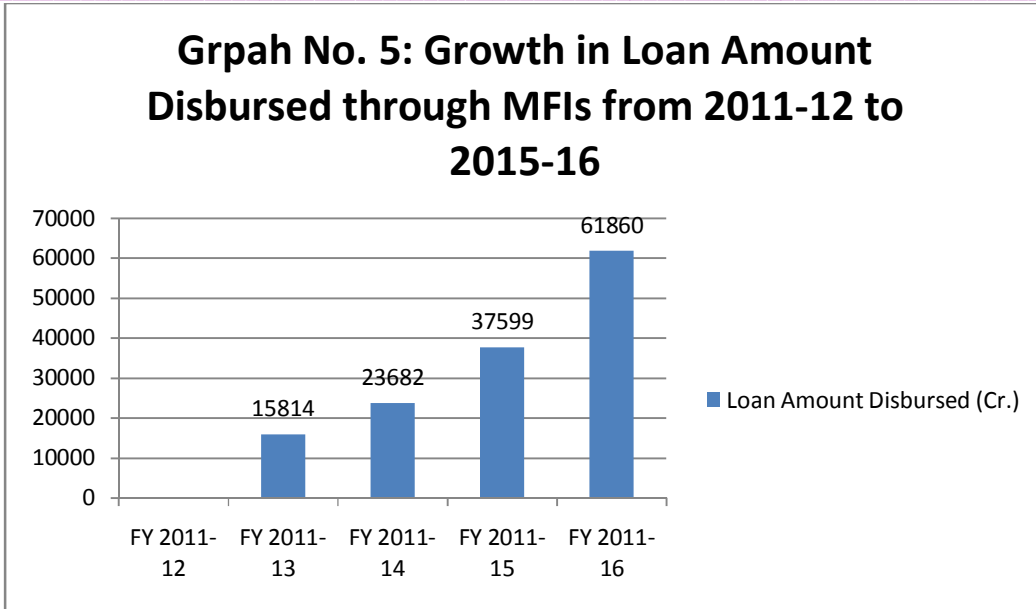
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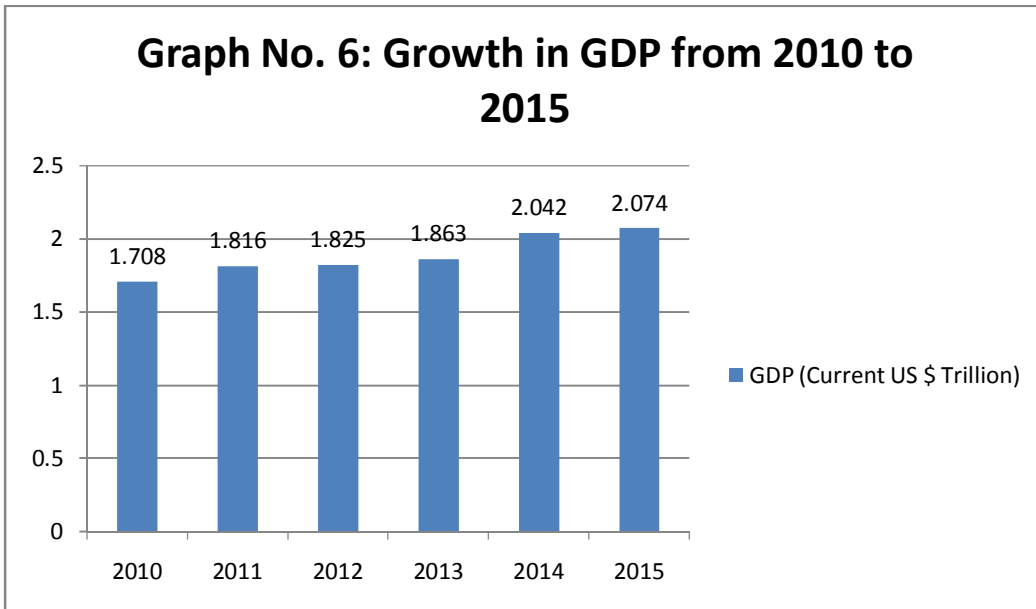
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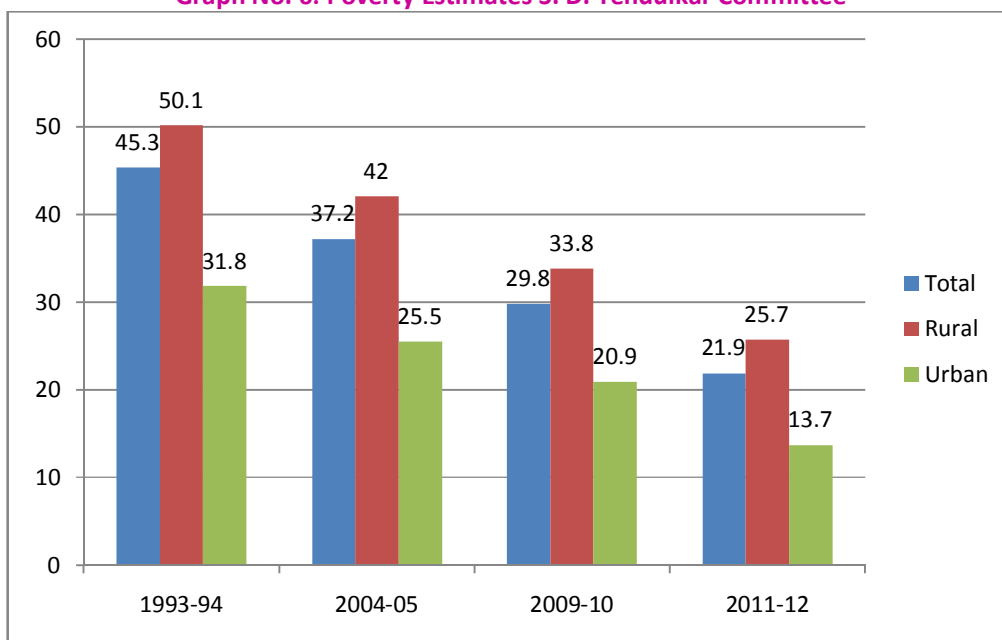


Source: Micrometer Issue 17_Q4 FY 15-16_27th May 2016



Source: Micrometer Issue 17_Q4 FY 15-16_27th May 2016

Graph No. 6: Poverty Estimates S. D. Tendulkar Committee



Source: S.D.Tendulkar Committee Report of the expert group to review the methodology for estimation of poverty. Press note on poverty estimates, 2009-10 released on 19th March 2012.

- ❖ As of 31st Mar 2016, MFIs on aggregated basis have a branch network of 9,669 and employee base of 85,888 of which 62% are loan officers (i.e. 53,834) who provide door-step credit to low-income clients served by MFIs
- ❖ As of 31st Mar 2016, MFIs provided microcredit to 3.25 Cr clients***, an increase of 44% over financial year 14-15
- ❖ The aggregate gross loan portfolio (glp) of MFIs stood at Rs 53,233 Cr (excluding non-performing portfolio i.e. PAR > 180 days in Andhra Pradesh). This represents a growth of 84% over financial year 14-15 and an increase of 24% over the last quarter
- ❖ Annual loan amount disbursements in fy 15-16 reached Rs 61,860 Cr, representing increase of 65% compared to fy 14-15
- ❖ Total number of loans disbursed by MFIs grew to 3.47 Cr, increase of 36% in fy 15-16 compared with fy 14-15
- ❖ Portfolio at Risk (PAR) figures remained under 1% for fy 15-16
- ❖ Average loan amount disbursed per account last year was Rs 17,805. The figure for fy 14-15 was Rs 14,731
- ❖ In terms of regional distribution (for glp), south is 35%, east at 15%, north at 25% and west at 25%

KEY ISSUES IN MICROFINANCE IN INDIA

- ❖ Low Outreach to the remote areas people
- ❖ Negligence of Urban Poor
- ❖ Client Retention is very low
- ❖ Loan Default by poor loan holders
- ❖ Low Education Level
- ❖ Poor debt Management by MFIs
- ❖ Late Payments by loan holders

CONCLUSION

The main finding of this research paper is that microfinance can play vital role to solve the problems of small finance need of people of rural areas as an integral part of poverty alleviation programmes. It provides finance for socio-economic uplift of poor and low income people in rural & urban areas. As well it developed financial system to promote investment opportunities in the economy. Since 1990s, poverty reduction has taken priority at both national and international development levels. Within this framework, various initiatives have been taken by government. Government started skills development training program as well as make provision for small loans for activities like handicraft, weaving, carpentry, poultry, goat rearing, masonry, bees farming, vegetable farming and many other agricultural and non-agricultural activities in rural areas to increase empowerment. The economic development of any country is severely influenced by the availability of financial services. Therefore it is necessary that Government of India have to focus on extending financial services to both rural and urban to promote economic growth and development.

SUGGESTIONS:

- ❖ Proper training for the clients should be organized in an efficient way so that they could know each and every small thing about their debt.
- ❖ Ensure the uniform distribution of micro financing in both rural and urban areas of each states of India.
- ❖ Presently, there is no distinctive regulatory framework for the MFIs in India.
- ❖ Regulation of the MFIs is largely in the purview of the state governments.

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