



MICROFINANCE- AN EFFECTIVE POVERTY ALLEVIATION TOOLS IN INDIA

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Abstract:

This paper focus on the growth and transformation of microfinance organization and SHG in India. Microfinance is become a significant force in India, India is a second largest populated country in the world and approximately 70% of its population lives in rural area, around 60% of rural people depends on agricultural activities. India falls in low income category because of population, Low rate of education, low sex ratio, unbalanced Distribution of Resources, Environmental Degradation, Economic and Demographic Trends and Individual Responsibility and Welfare Dependency. Recent times India's per capita income grew by 15.6 per cent to Rs 53,331 per annum in 2010-11, crossing the half-a-lakh rupees mark for the first time, according to government data. Indian population depend on agriculture but the production level of agriculture is seems to be very low, keeping in mind removes this poverty tries to take initial steps like microfinance so The government and NABARD have recognized this and have emphasized the Small Help Group approach and working along with NGOs in its initiatives. Small help group based microfinance helps to remove poverty and huge gap between supply-demand.

KEYWORDS:

Microfinance, SHG, Poverty reduction,

INTRODUCTION

The concept of microfinance originally from Bangladesh, its experimented by Dr. Muhammad Yunus professor of Economics in the mid-1970s. His aim was to offer poor people. The Bangladesh Krishi Bank and other financial institutions to meet the banking needs of the poor people. Microfinance useful to poor people, who satisfied requirement of financial need of poor people. India governments have link between improving access to finance and reducing poverty. The strategy during the 1970s and 1980s gave the lead role to the nationalized commercial banks, which were charged with loosening the grip of traditional informal sector money lenders through the use of targeted low-priced loans. The 1990s saw competition between banking sector and Microfinance approaches. MFIs include nongovernmental organizations (NGOs), credit union and none banking financial corporation (NBFC) and some of commercial banks.

CONCEPT OF MICROFINANCE

Micro-finance refers to small savings, credit and insurance services extended to socially and economically disadvantaged segments of society, Microfinance programs have received increasing attention as an effective strategy to reduce poverty by providing financial help to the poor people, who have

Title: MICROFINANCE- AN EFFECTIVE POVERTY ALLEVIATION TOOLS IN INDIA
Source:Review of Research [2249-894X] SUNIL LOHIYA yr:2013 vol:2 iss:8

no access to capital and formal financial services. Microfinance also known as help of "small and marginal farmers", "rural artisans" and "economically weaker sections"

It is also defined as:-

“Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban areas enabling them to raise their income levels and improve living standards”

-NABARD & RBI

“Small-scale financial services—primarily credit and savings—provided to people who farm, fish or herd” and adds that it “refers to all types of financial services provided to low-income households and enterprises.”

- Robinson

“Micro finance is an economic development approach that involves providing financial services through institutions to low income clients“

-International Labor Organization

Microfinance is an economic development approach that provided financial help to poor people as well provided small loans to develop their own business; National bodies like the Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) are devoting significant time and financial resources to lower income group people.

HISTORY OF MICROFINANCE

The microfinance means help poor man to set up business such as small store, tailoring shop and expands family business. Microfinance specialist Grameen Bank in Bangladesh pioneered the idea that the provide financial help to impoverished skill. In India, State bank of India, HDFC and UTI banks have focus on microfinance sector in a serious way. Indian multinational banks like ABN Amro, Standard Chartered, Citigroup are moving into microfinance sector. Despite India's point of view 121.7 Cr population, 1.9% annual growth of population at least 26% lives below poverty lines. Microfinance in India through its two major channels – SHG Linkage and MFIs – served over 33 million Indians. 4 out of 5 microfinance clients in India are women. MFIs operate in 209 out of 331 districts of the country. Micro credit of the India was Rs. 22000crore.

OBJECTIVES OF MICROFINANCE

Microfinance is one of the tools that can reduce the suffering financial weak condition of the people and reduce maximum poverty. Financial services enables the poor amongs victims to accelerate their life's and diversifies their livelihoods with more productive sources of the income. main objectives of the microfinance institutions are given below.

- i. To develop collateral substitutes
- ii. Microfinance helps very poor households meet basic needs.
- iii. To improvement of economic welfare and enterprise stability.
- iv. To empower women wealth
- v. To promote gender equity
- vi. To support women economic participation.
- vii. To focus on rural and urban poor women
- viii. To deliver micro credit for alternative channel.
- ix. To offer effective approach to formal institutions for expanding out reach of the poor people.
- x. To pursue micro economic growth of the country

REGULATION OF MICROFINANCE LOANS PROVISION

- 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).
- 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 (i) and (ii) above or other purposes, as may be prescribed.”

4. a society registered under the Societies Registration Act, 1860,

5. A trust created under the Indian Trust Act, 1880 or public trust registered under any State enactment governing trust or public, religious or charitable purposes,

6. A cooperative society / mutual benefit society / mutually aided society registered under any State enactment relating to such societies or any multistage cooperative society registered under the Multi State Cooperative Societies Act, 2002 but not including :

1. A cooperative bank as defined in clause (cci) of section 5 of the Banking Regulation Act, 1949 or

2. A cooperative society engaged in agricultural operations or industrial activity or purchase or sale of any goods and services.”

MICROFINANCE INSTITUTION IN INDIA

Microfinance institute working in India providing financial service to across in state and whole country. It is try to develop nations for providing the help of financial requirement of poor people.

Table: -1
Microfinance institutions in India

Sr. No.	Microfinance Institute	City/ State
1.	Aadarsha Welfare Society	Andhra Pradesh
2.	Aavishkaar India Micro Venture Capital Fund	Mumbai
3.	BASIX	Hyderabad
4.	CARE India,	New Delhi
5.	Friends of Women’s World Banking (FWWB)	Ahmedabad
6.	ICICI Bank, Social Initiatives Group and Commercial Investment Group,	Mumbai
7.	Intellectual Capital Advisory Services Ltd (Intelcap),	Mumbai
8.	Micro-Credit Ratings International Ltd (M-CRIL),	New Delhi
9.	Microcredit Summit Campaign,	Hyderabad
10.	National Bank for Agriculture and Rural Development (NABARD) – Gujarat Regional Branch,	Ahmedabad
11.	Reserve Bank of India (RBI) – Gujarat Regional Branch,	Ahmedabad
12.	Sa-Dhan,	New Delhi
13.	Self-Employed Women’s Association (SEWA),	Ahmedabad
14.	Swayam Krishi Sangam (SKS),	Hyderabad
15.	National Bank for Agriculture and Rural Development (NABARD)	India
16.	Small Industries Development Bank of India (SIDBI)	India
17.	Friends of Women’s World Banking (FWWB)	India
18.	Rashtriya Mahila Kosh (RMK)	India
19.	Council for Advancement of People’s Action and Rural Technologies (CAPART)	New Delhi
20.	Rashtriya Gramin Vikas Nidhi (RGVN)	Assam
21.	International Fund for Agricultural Development (IFAD)	Rome, Italy
22.	United Nations Development Programme (UNDP)	UNDP-India
23.	World Bank and Department for International Development UK (DFID)	--

Microfinance Institutions- Legal and Regulatory Framework in India

Legal and regulatory framework in India for managed the Microfinance operational channel are given below,

Table:-2
Legal and Regulatory framework of microfinance in India

Type of entity	Non-profit	Mutual benefit	For-profit
Association	Society under Societies Registration Act 1860	Cooperative which can be just a savings and credit cooperative or be further licensed as Cooperative bank.	Association of persons
Trust under Indian Trusts Act 1920	Charitable trust	Mutual benefit trust	Investment trusts
Company under Indian Companies Act, 1956	Section 25 Company	Mutual Benefit (Sec 620A Nidhi Company)	Company which is further either an NBFC or a bank

1.Companies Act, 1956.

The Companies Act 1956 is administered by the Government of India through the Ministry of Corporate Affairs and the Offices of Registrar of Companies, Official Liquidators, Public Trustee, Company Law Board, Director of Inspection, etc. The Registrar of Companies (ROC) handles incorporation of new companies and the administration of running companies. Companies act, 1956 also affected by the NBFC working in India. Central government is satisfied for the work for the companies get permission for the work for Microfinance institutions in India.

2.Indian Trusts Act, 1882:

In India, Some of the Microfinance Institutions registered under the Indian Trusts Act, 1882. Public charitable trusts or private charitable trusts with specified members.

3.Not-For-Profit Companies Registered Under Section 25 Of Companies Act,1956:

Not-for-profit companies registered under section 25 of the Companies Act, 1956 is allowed to be some of the provisional institutions to works as MFIs in India.

4.Current Regulation

Recent regulation discussion surrounds the partial acceptance of the Male gam Report by RBI in May 2011, RBI created by the NBFC-MFI as per acceptations of the Male gam Committee recommendations, though recent drafts of the pending Micro Finance Institutions (Development and Regulations) Bill 2011, has put all microfinance institutions under the jurisdiction of RBI.

Challenges of Microfinance

- i. Geographical limitation of affects density of works.
- ii. Lack of infrastructure facilities.
- iii. Financial transactions are off-site.
- iv. Unsecured lending facilities.
- v. Private sector interest is very low.

Features of Microfinance

- i. Microfinance institutes provide a loan for poor people and provide right way of saving.
- ii. Microfinance services without collateral security.
- iii. Microfinance service for poor people without any security.
- iv. Microfinance managed market liquidity.
- v. Microfinance finance promoting market growth.
- vi. Microfinance promoted business expand with every aspects.
- vii. Microfinance reduced poverty.
- viii. Microfinance project micro credit to the right way.

Microfinance progress report last three years

The SHGs now stands at 7.96 million, with a amount of 6551.41 cr. Microfinance sector services build for women so the status of numerical information indicated it is successful to provide maximum help to the poor women. Linked to banks are exclusive women groups, which is one of the most distinguishing features of MicroFinance sector in the country. The balance in the savings accounts of the banks as at the end of March 2012 stood at 6551.41 Crore.

**Table: -3
SHG and Bank linkage progress report (Amount in Cr)**

Particulars		2009-10		2010-11		2011-12	
		No. of SHGs	Amounts	No. of SHGs	Amounts	No. of SHGs	Amounts
SHG savings with bank as on 31st march	Total SHGs	69.53	6198.71	74.62	7016.3	79.6	6551.41
	of which SHSY groups to total	16.94	1292.62	20.23	1817.12	21.23	1395.25
	% of SGSY group to total	24.4	20.9	27.1	25.9	26.7	21.3
	All women SHGs	53.1	448.66	60.98	5298.65	62.99	5104.33
	% of women groups	76.4	72.6	81.7	75.5	79.1	77.9
Loans disbursed to SHGs during the year	Total SHGs	1587	14453.3	11.96	14547.73	11.48	16534.77
	of which SHSY groups to total	2.67	2198	2.41	2480.37	2.1	2643.56
	% of SGSY group to total	16.9	15.2	20.1	17	18.3	16
	All women SHGs	12.94	12429.37	10.17	12622.33	9.23	14132.02
	% of women groups	81.6	86	85	86.8	80.4	85.5
Loans outstanding against SHGs as on 31st march	Total SHGs	48.51	28038.28	47.87	31221.17	43.54	36340
	of which SHSY groups to total	12.45	6251.08	12.86	7829.39	12.16	8054.83
	% of SGSY group to total	25.7	22.3	26.9	25.1	27.9	22.2
	All women SHGs	38.98	23030.36	39.84	26123.75	36.49	30465.28
	% of women groups	80.3	82.1	83.2	83.7	83.8	83.8

Source: - Status of microfinance in India 2011-12, status report, NABARD, <http://www.nabard.org>

Methods of Microfinance

Microfinance methods can be classified into two categories like,
 1 Informal Financial Systems (IFS)
 2 Formal financial Institutions (FFI)

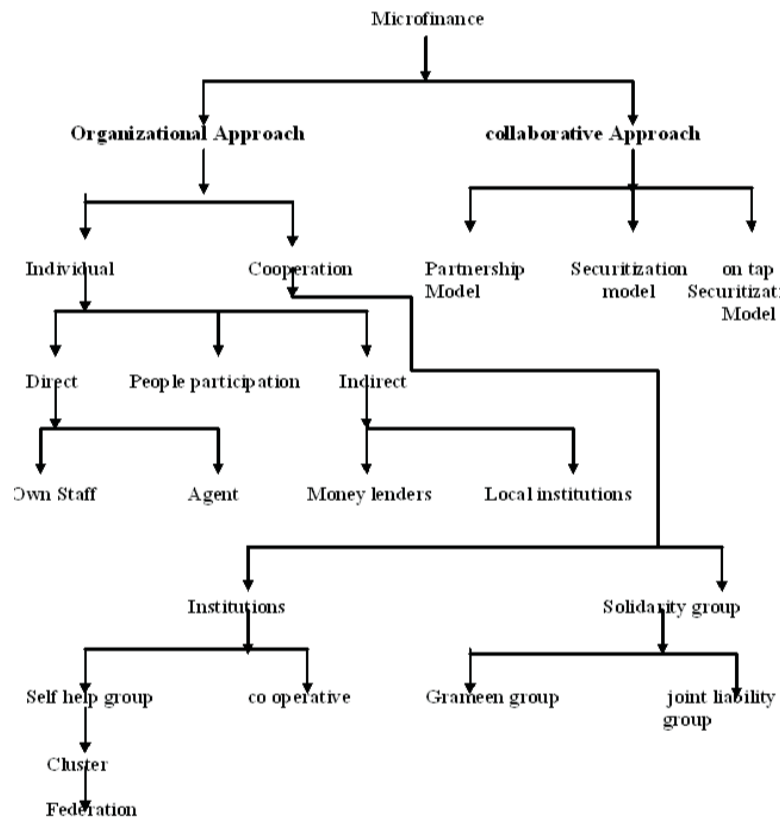
1. Informal Financial Systems:-

Informal systems of micro credit is not a new concepts in India. Informal Financial operates through in local market and easily contact customer, there is a more convenience that easily provide and recover the loans.

2. Formal Financial institutions

Formal Financial Institution operating from a remote area which is related with beneficiary. This factors come in the way of relationship between foreign financial institute and micro credit clients, this methods increased both transaction cost and default risks.

Micro Finance working diagram



In above diagram shows that microfinance divided into two part like, Organizational approach and Collaborative. This diagram sub divided into Self help groups and Microfinance institutional model.

- 1. Model-1: - the self Help Grop
- 2. Model-II: -The microfinance institutional model
 - i. SHGs are formed by NGO and credit extended by the bank
 - ii. SHGs are formed by NGOs and avail bulk loan from banks for lending to SHGs

Model-1 Linkage Model (General Model)



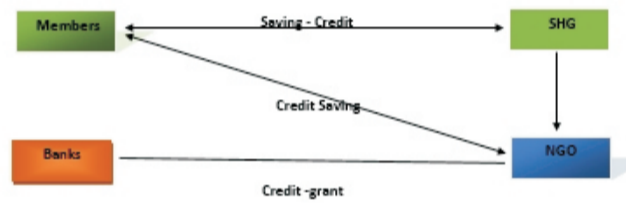
Model-2 Modified Linkage Model (OBC-Dehradun)



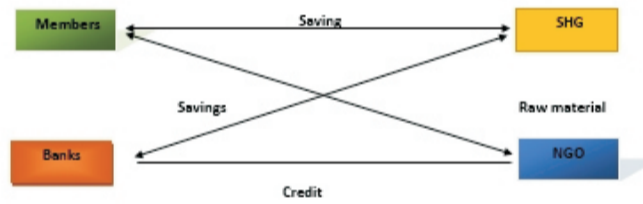
Model-3 NGO Model (UPLDC)



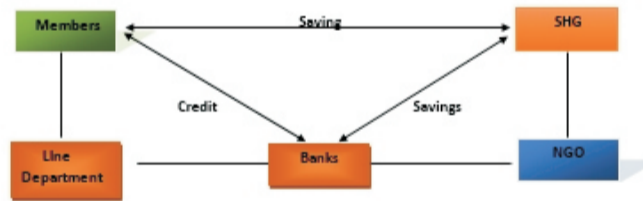
Model-4 Modified NGO Model (BASIX and SHARE-Andhra Pradesh, SEWA-Gujarat)



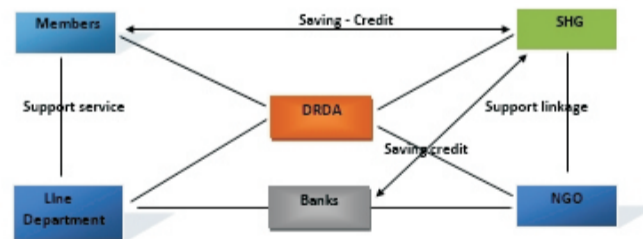
Model-5 Indirect NGO Model (Bob-SEWA Lucknow)



Model-6 IFAD model (Tamilnadu, UttaPradesh and Maharashtra)



Model-7 SGSY Model



RECOMMENDATIONS

1. The committee examined the structure and nature of operations.
2. The Accountability and transparency will needed
3. The Microfinance committee recognized separate operational body.
4. Microfinance institute reduce loan cost.
5. Microfinance institute spread over the country.
6. Governmental body should ensure that microfinance institute provide loan facilities to the poor people.

CONCLUSION:-

In India, almost 70 per cent of the total population stay in rural areas, 36 per cent of the total population people are living below poverty line. Microfinance has a played crucial role to uplift population above poverty line. Microfinance satisfied financial needs of the poor people, simply change rural peoples lifestyle and helping them with small credits. Microfinance has steadily been rises in the past decades, however, so far the evidence of the microfinance suggested some benefits as well some side effects that restricted his activities. The millions of the people take its benefits but loan recovery of the bank linkage model very difficulties so the NPA goes very high, in banks point of view it is a nonproductive activities.

Microfinance helps poor people to improve his skill levels, expand business, increase production and develop rural areas. Microfinance services needed greater acuteness for sustainable successful approach.

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