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Microfinance: Evolution, Extent And Outreach In India

By

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Abstract

Microfinance has been considered as the most successful poverty alleviation, employment generation and women empowerment intervention for the very poor and marginalised sections of the society, all over the world. In evolving economies, this is seen as a medium that has helped women to change the way they see themselves; as an enabler rather than being the dependent. India is one of the rapidly developing economies in which microfinance industry is growing leaps and bounds. As per NABARD report of 2018-19, "The quantum of credit made available to the poor and financially excluded clients has gone past Rs.87,000 crore and number of clients benefitted is close to 12 crore households". In the present study author has discussed the evolution of microfinancing from both International perspective and Indian perspective along with status, growth and outreach of microfinancing in India. The present paper also describes the prevalent delivery channels of microfinancing based on various sources such as NABARD reports, Sadhan reports etc.

Keywords:

Microfinance, Self-Help- Groups (SHG's), Micro Finance Institutions (MFIs), Joint Liability Groups (JLGs) , SHG-Bank channel , SHG-MFI channel

Introduction

Microfinance is a mechanism to provide access to fair financial services through the banking system for the unemployed and the poor; especially for women. The rate of repayment of credit is very high, especially in case of women clients. The high rate of credit repayment by women clients has made the women preferable customer for microcredit by various lending institutions. Since ages very small amount of money is taken on credit by poor people like landless farmers, wage labourers, non-farming self-employed people like weavers, potters, rural artisans, small vendors like hawkers and workers in micro-enterprises and small-scale industries, for meeting their various financial requirements for social needs such as expenses on illness of family member, children marriage, children education as well as for taking up sustainable livelihoods such as for purchasing raw material or other resources. These requirements used to be fulfilled by sahukars, zamindars, local private money lenders on extra ordinarily high interest rate. That too, credit is given only after getting some collateral such as land ownership documents, jewellery etc. There used be a lot of exploitation involved by these private moneylenders. But people had no other option to fulfill their urgent financial requirement.

The need of formal financial institutional arrangement such as availability of Banks was always felt by and many efforts were made in this direction by the government of various countries. But microfinance got maximum attention and popularity in mid of 1970s by Grameen Bank model promoted and founded by Muhammad Yunus in Bangladesh. In Indian context, Pradhan Mantri

Jan Dhan Yojna (PMJDY) scheme that was launched by the Government of India in 2014 expedited the microfinancing efforts in India.

Research Methodology

The research paper is descriptive in nature.

Research Objective

- To study evolution of microfinancing from both International perspective and Indian perspective
- To understand Delivery Model of Microfinancing in India
- To study Status, Growth and Prospects of Microfinancing in India

Data Collection:

Data is collected from various sources of information for the purpose of the study such as libraries, official websites of government, semi-government, and prestigious private agencies like RBI, NABARD, Ministry of Women and Child Development, MFIN etc.

1.1 Evolution of Microfinance

Microfinancing in its modern form finds its roots in Grameen Bank, founded by Nobel Peace Prize laureate Muhammad Yunus, of Bangladesh in year 1983. Grameen Bank's success encouraged same kind of efforts in a hundred plus developing and developed countries. Additionally, some early documented examples of the concepts of microfinancing around the world have been listed below:

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1.1.1 Evolution of Microfinance : An International Perspective

1700s to early 1800s in Ireland (Irish Loan Funds) Irish Loan Funds was a model attributed to be initiated by Irish author Jonathan Swift in 1700s to provide small sums to the poor of Dublin. The success of his model inspired a number of independent charitably funded institutions for lending and accepting deposits. By 1837, they started getting regulated by "Loan fund Board" that grew to be operate about 300 funds by early 1840s in Ireland.

1840s to 1860s in German Federation (Credit Unions) Friedrich Wilhelm Raiffeisen and his followers developed the concept of credit unions. He founded the "Verein für Selbstbeschaffung von Brod und Früchten" (Association for Self-procurement of Bread and Fruits) during the winters of 1846-47. He used private donations to buy flour and baked bread in a self-made bakery. He distributed this bread to the poorest of folks on credit. Raiffeisen founded the first rural credit union in 1864.

1890s to 1930s in Indonesia (Bank Rakyat Indonesia) Based on the Raiffeisen model, the Dutch colonial administration in Indonesia tried to setup rural cooperative banks to dispel the usurious credit practices. The main purpose of these village lending institutions was to level seasonal fluctuations in rice supply. More than 12,000 units were setup in a fast trial-and-error mode and many of them collapsed as they started charging cost-covering interest rates and started to work on a strictly commercial basis. The government's efforts received little support from the ground and the basic tier of village credit cooperatives needed to be supported by the state in form of district banks. By mid-1930s, ninety district banks were established in Indonesia. In 1934, these ninety district banks were merged into AVB (Algemeene Volkscredietbank); that was renamed as BRI (Bank Rakyat Indonesia) after independence. 9,000 of the small decentralised microfinance institutions came to be commonly known as Bank Perkreditan Rakyat (BPR), or the People's Credit Banks.

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1960s in Venezuela and Brazil (Accion International) In 1961, Joseph Blatchford founded Accion International to help people living in poverty using their own efforts and talents. The early projects were through American volunteers in Venezuela and Brazil to build schools, roads and community centres. Accion began with micro-lending in Recife, Brazil in 1973.. Accion works with an active network of 29 microfinance institutions in 23 countries and serves more than 5 million people with microloans.

1970s in India In 1972, SEWA (Self Employed Women's Association) was formed in Gujarat with an objective to strengthen the bargaining power, to improve income, employment and access to social security for its members. To have access to financial services, SEWA decided to found a bank in 1973; and Mahila SEWA Co-operative Bank was established from the contributions of 4000 women. The bank has been providing services to illiterate, poor, self-employed women for more than forty years now and has around 30,000 active clients.

During the 1980s, more and more evidence established the disappointing performance of the focused credit programs that were resulted by the policy of targeted, subsidized rural credit. As a result, microfinancing programs around the world modified their methodologies of financing the poor. Two significant features were noted out of this modification in methodology that Poor people were willing to repay the loan as well as interest on loan set by microfinance institutions (MFIs). This allowed MFIs to recover costs.

In 1992, BancoSol was established as the first private commercial bank in the world when Accion’s microlending entity PRODEM was joined by Calmeadow Foundation and a number of Bolivian business leaders and Bolivian banks. BancoSol’s mission was to provide an opportunity to low-income families for a better future by providing access to a full range of high-quality financial services.

Throughout the 1990s, the microfinancing sector grew in many countries as it was seen as an effective tool to alleviate poverty and many financial services firms started promoting respective schemes to serve the needs of poor households and small entrepreneurs.

Innovations in Microfinance towards the end of 20th Century

Towards the end of 1999, the contributors as well as the supporters started getting increasingly focused on expanding financial services to the poor in developed countries as well as non-agriculture-based markets. This increased focus led to innovations in microfinancing industry to drive efficiencies and effectiveness of the microfinancing channels through effective policy making and institution building.

Some examples of innovations in financial services for the poor are listed below.

- CCACN (Central de Cooperativas de Ahorro y Crédito Financieras de Nicaragua) CCACN markets its "Agriculture Salary" savings product to farmers to smoothen the income flow from the proceeds of an annual or semi-annual harvest, through credit unions.
- Caja los Andes in Bolivia Caja los Andes offers flexibility in its loan disbursements and its loan repayment options.
- PRODEM in Bolivia introduced technology advancements like biometric fingerprints and smart cards to deliver financial services to its customers.
- Unibanka (Latvia) instituted a credit scoring system that was based on qualitative client data.
- ICICI Bank (India) used existing ATMs in the factories to offer a recurring savings product.
- BASIX in India trained phone booth operators in accounting and basic collection operations and the company operating the phone booths received a fee in lieu of the services being offered.

- The National Microfinance Bank in Tanzania (NMB) simplified the business model and tightened the managerial oversight to make it commercially viable by correct pricing of products, especially payments and remittance services that were traditionally subsidized by other product lines
- ADOPEM (Dominican Republic) thoroughly evaluated its PDA (Personal Digital Assistants) program and recorded substantial improvements in client retention, disbursement period and paperwork.
- In South Africa, a network of 8,000 armoured trucks that are equipped with advanced technologies like thumbprint recognition and smart-cards, deliver pension payments to 4.5 million South Africans.
- Banco Postal in Brazil used joint venture between the post office and the largest private bank Bradesco.
- EShakti in India uses a real-time e-book-keeping of Self Help Group (SHG) records and related MIS (Management Information System) to help digitization of SHG accounts & activities and also to have an easily searchable database; in alignment with the government of India's mission to create a Digital India.

1.1.2 Evolution of Microfinance : An Indian Perspective

Evolution and history of microfinance in its contemporary form can be discussed in the following phases:

The first phase of co-operative movement between 1900 and 1960: The drawbacks, limitations of loaning from private money lenders, sahukars such as exorbitant rate of interest, requirement of collateral led to requirement of some structured way of fulfilling financing requirement of poor people. Cooperative credit societies act was passed by Government of India in 1904 which provided rule for registration, eligibility of members, share and interest of members, liability of members, audit, inspection etc. The objective of the cooperative societies was to provide loan to its members on "No Profit No Loss" basis and to reduce their dependency

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of private money lenders. In 1914, the Maclagan Committee suggested a three-tier structure in every state (province) for cooperative banking i.e. Primary Agricultural Cooperative Societies (PACS) at the lowest level, Central Cooperative Banks (CCB) at the district level and State Cooperative Banks (SCB) at the state or apex level. Later on, because of increased interference of state and local political groups, multiple authorities, irregular financial services, mismanagement, scams led to the failure of cooperative societies.

The second phase of subsidized social banking from 1960s to 1990: When cooperatives failed due to their incapability to meet increased demand of rural credit because of advent of green revolution in 1960s; the Government of India turned to measures like, nationalisation of banks (1969), expansion of rural bank network and establishment of local level banking layer in form of regional rural banks (1975) as well as apex financial institutions for refinance and development such as NABARD (1982) and SIDBI. This led to increased intervention of govt. making credit as integral part of government's poverty alleviation programs such as Integrated Rural Development Program (IRDP.1978) or Swarnajayanti Gram Swarozagar Yojana (SGSY.1999).

Govt. interference in banking was largely driven by the reasons of political gains. This led to myopic policies like rural branch expansion, subsidies, frequent loan waivers, directed credit and refinancing of loss-making institutions. Though the steps led to availability of credit to larger section of population in rural areas, it also led to large-scale intentional misuse.

The third phase of SHG-Bank Linkage Program from 1990 to 2000: Because of failure of subsidised social banking and encouraged by the success of the Grameen Bank model of Bangladesh, NABARD started the SHG-bank linkage program (SBLP) in 1992. The program used the then banking network to provide credit to rural poor through group lending mechanism rather than individual lending. A significant share of the SHG scheme was later attached to Swarnajayanti Gram Swarozagar Yojana (SGSY).

A number of then newly formed non-profit MFIs joined NABARD under SBLP program.

The fourth phase of commercialization of microfinance in form of MFIs from 2000 onwards: After 2000, there was a paradigm shift in Indian microfinance industry. The growth and sustainability issues have forced non-for-profit institutions to transform into for-profit. The fourth phase was marked with high growth & commercialization between 2000 and 2009. During this period Indian Microfinance industry was growing by leaps and bound. According to Intellecap Report (2007), the compounded average growth rate in industry found to be 79.9% from 2003 to 2007. During this period (Ghate P, 2006), the industry was dominated by two models, the SHG Bank Linkage Program (SBLP) program started by NABARD and the Microfinance Institutions (MFI) model.

This fourth phase also suffered crisis and volatility from 2010 to 2012. There was a situation of turbulence in microfinance industry, when suicide by microfinance users in Andhra Pradesh, were reported in 2010. The reasons were found to be very high interest rate, coercive methods to collect repayments enforced by MFIs; as MFIs started working for high profit motives with no social cause to help the poor. 2012 onwards, Indian microfinance industry overcome the crisis and witnessed good growth post 2012. According to CARE report (2014), loan portfolio grew at 63% YoY in FY 2013 as compared to 9% fall in FY 2012. During FY 2013, total outstanding loan portfolio of the MFIs covered in the study increased to Rs.12,289 crores in FY 2013 from Rs.8,384 crores in FY 2012. After Andhra Pradesh crisis, to overcome regulatory uncertainty Government of India initiated microfinance bill.

1.2 Mechanism of Microfinance in India

As per NABARD report (2016), "Microfinance in India is channeled via two main means:

- Banking system through the SHGs under SHG Bank Linkage Program (SHG-BLP) and JLG bank lending program.
- Micro Finance Institutions (MFIs) lending through individuals and groups."

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Bank partnership model and banking correspondents are additional operational models that are in nascent stage in India.

In India, banks and MFIs are promoted and refinanced by

- apex financial institutions viz. NABARD, SIDBI, MUDRA Bank that was introduced in 2016
- government owned societies like Rashtriya Mahila Kosh (RMK), Housing and Urban Development Corporation (HUDCO), Friends of Women's World Banking (FWWB)

Microfinance services in India are delivered through group lending mechanism i.e. Self-Help Groups, Joint Liability Groups and individual lending mechanism.

1.2.1 Flowchart of Mechanism of Microfinance in India

The flowchart of mechanism of microfinance in India is a visual diagrammatical representation of flow of funds from various apex financial institutions to the final consumers in the form of SHGs, JLGs and individuals.

1.2.1.1 Promotional and Refinancing Institutions

The various institutions such as NABARD, SIDBI, RBI as well as various governmentt organisations such as RMK, HUDCO, HDFC helps in formation and nurturing of SHG and promoting microfinance by “providing Revolving Fund Assistance/ Capital Support to MFIs by NABARD, refinancing the banks and MFIs, providing training and capacity building of various participants such as bankers, NGOs, Government officials, SHGs, SHG Federations and trainers, granting support to NGOs, Federations of SHGs, RRBs, NGO-MFIs, CCBs, PACS, Farmers’ Clubs, Individual Rural Volunteers (IRVs) for promotion, nurturing and credit linkage of SHGs with the banks.”

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1.2.1.2 Microfinancing through Banks

Microfinancing through banks in India is done via commercial banks, regional rural banks, cooperative banks and newly introduced small finance banks (10 entities granted SFB licence in Sep, 2015.) All these banks primarily lend through SHG-bank linkage program (SBLP), that was introduced in 1990s to directly address the credit needs of poor. Joint liability groups (JLGs) that were conceptualised by NABARD in 2006 and lending to individuals are another delivery methodology used by banks.

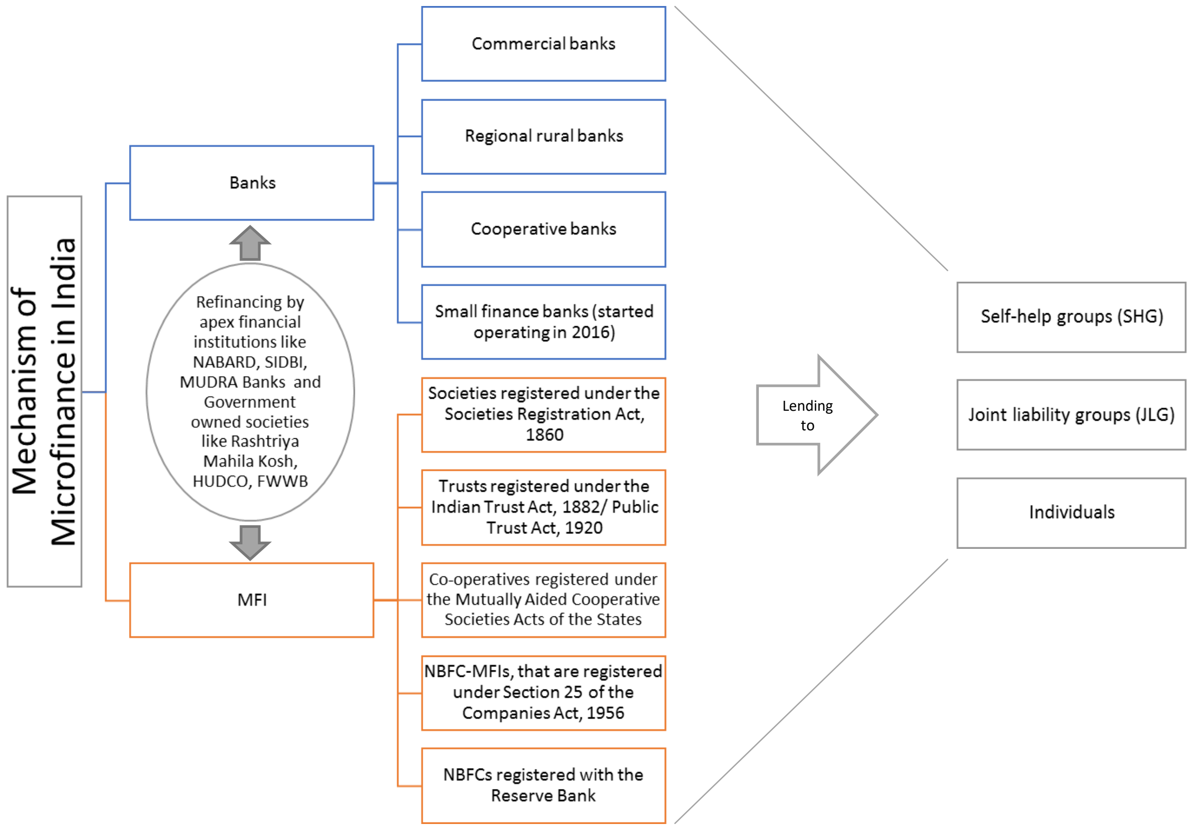
On the basis of number of borrowers and outstanding loans, SBLP model is the most prevalent model in India. As per NABARD report of 2016, "SBLP program has savings & deposits of about Rs.1,36,914 million, annual loan offtake of Rs.3,72,869 million and outstanding loans of nearly Rs.5,71,192 million covering 101 million households through 7.9 million SHGs."

As per RBI, "Under SBLP, three different models have emerged over a period of time. They are

i. SHGs promoted, guided and financed by banks
ii. SHGs promoted by NGOs or government agencies and financed by banks
iii. SHGs promoted by NGOs and financed by banks using NGOs or formal agencies as financial intermediaries"

Out of above three models, the second model has emerged as the most popular model under SBLP program.

Figure 1.1 Flowchart of Mechanism of Microfinance in India



1.2.1.3 Microfinancing through Microfinance Institutions (MFI)

While SBLP is the most widely used model for micro finance in India, MFIs have gained traction in recent times. In India, MFIs exist in a variety of forms

- NGO-MFIs
  - societies registered under the Societies Registration Act, 1860
  - trusts registered under the Indian Trust Act, 1882/ Public Trust Act, 1920
- Co-operative MFIs registered under the Mutually Aided Cooperative (MAC) Societies Acts of the States

- MFIs incorporated under Section 25 of the Companies Act, 1956 or Section 8 of Companies Act 2013
- NBFCs and NBFC-MFIs incorporated under the Companies Act, 1956 and registered with the Reserve Bank

1.2.1.4 Microfinancing Delivery Methods

Both the microfinancing channels in India deliver microfinancing services to either groups or individuals. These groups can be broadly classified as self-help groups and joint liability groups.

1.2.1.4.1 Self Help Groups

A Self-Help Group is an informal group of 10 to 20 people, who team up voluntarily, primarily to enhance financial security for its members by making regular savings and using those pooled savings to provide intra-group interest-bearing loans. This help to bring financial discipline and credit history for the members thereby making them eligible to get bank loans without much need of a collateral. The loans given by the banks to such SHGs are treated as loans to weaker sections under priority sector. Additional common interests like leadership, training, association, motivation, awareness and area development are also pursued via social intermediation programs.

1.2.1.4.2 Joint Liability Groups

According to NABARD, “a Joint Liability Group is an informal group of 4-10 individuals belonging to same village/ locality, having same socio-economic background who mutually come together to form a group for the purpose of availing loan on mutual basis or through group mechanism against mutual guarantee from a bank without any collateral.” NABARD provides 100% refinance assistance under investment credit to all banks against their lending to JLGs.

1.2.1.4.3 Individuals

These microfinancing channels also provide microcredit directly to individual clients. As per RBI master circular on NRLM (2015), loan amount up to Rs.50,000 per individual comes under

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microcredit. However, in case loan is taken for housing purposes, amounts up to Rs.1,50,000 can be considered.

1.3 Disbursement and Outreach of Microfinance in India

As per NABARD report of 2016-17, "The quantum of credit made available to the poor and financially excluded clients has gone past Rs.60,000 crore and number of clients benefitted is close to 40 million as of March 2016. The SHG bank linkage program has equally grown by covering 103 million families with a total number of 79.03 lakh SHGs with a saving amount of Rs.13,691 crores. A total of 46 lakh SHGs which are credit linked have a gross loan outstanding of Rs.57,119 crores. Average loan disbursed per SHG for 2015-16 is reported at Rs.203,526, whereas average loan outstanding per SHG stood at Rs.122,258."

Lending by MFIs has exhibited robust growth with a compound annual growth rate (CAGR) of approximately 34% in loans disbursed - an increase from Rs.22,635 crores in 2012–13 to Rs.72,345 crores in 2015–16 (NABARD Report).

Gross Loan Outstanding of Microfinance Sector

The gross loan outstanding in the microfinance sector has seen a CAGR of 16.8%, with the loans outstanding increasing from Rs.55,600 crores in FY 2010–11 to Rs.1,20,900 crores in 2015–16.

Table 1.1 Gross Loan Outstanding of Microfinance Sector

(Amount in Rs. Billions)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
MFI Channel	243	246	257	335	489	638
SHG-Bank channel	312	363	394	429	515	571
Overall Gross Loan Outstanding	555	609	651	764	1004	1209

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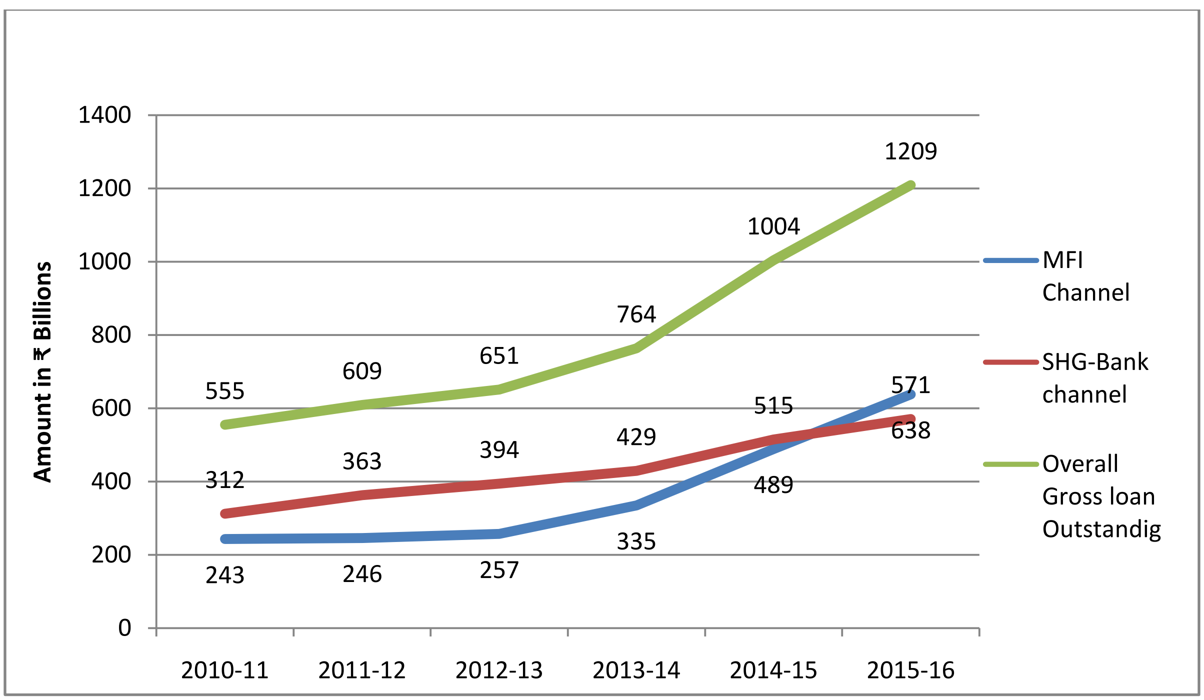
Source: NABARD, Sa-dhan various years reports

As shown in Figure 1.2 below, there is a steady growth in overall Loan outstanding from FY 2010-11 onwards. From year 2013-14 onwards there is a steep increase in overall Gross loan outstanding, that shows an increasing growth rate in loan outstanding. However, trend line for SHG-bank channel and MFI channel shows that growth rate in MFI channel from FY 2013-14 onwards is very high as compared growth rate in SHG-BLP channel. In FY YOY growth rate in 2013-14 is 30%, while in SHG-BLP it is only 9%. This may be because of improved regulations on MFIs post Malegam committee recommendation, including NBFC-MFI.

***Figure 1.2** Gross Loan Outstanding of Microfinance Sector*



Source: NABARD, Sa-dhan various years reports

Total Loan Disbursed in Microfinance sector

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Total loan disbursed by MFIs and SHG-BLP during the various financial years shows a positive trend post 2012-13. Loan disbursement in the year 2011-12 is declined because of Andhra Pradesh crisis, commercial banks also reduced refinancing of MFI during this year. But subsequent years shows a sharp increase. CAGR for overall loan disbursement is 17% over a period of 5 years beginning from 2010-11 to 2015-16. However, CAGR for Loan disbursement by MFI is 15.5% and CAGR for SHG-BLP is 20.7% for the same period. This shows that MFI has been hard hit by Andhra Pradesh crisis as compared to SHG-BLP channel.

Table 1.2 Total Loan Disbursed through MFI and SBLP Channel

(Amount in `crores)

	2010-2011	2011-12	2012-13	2013-14	2014-15	2015-2016
MFI Channel	35176	22635	25796	38558	56860	72345
SHG-BLP channel	14553	16535	20585	24017	27582	37287
Overall	49729	39170	46381	62575	84442	109632

Source: NABARD, Sa-dhan various years reports

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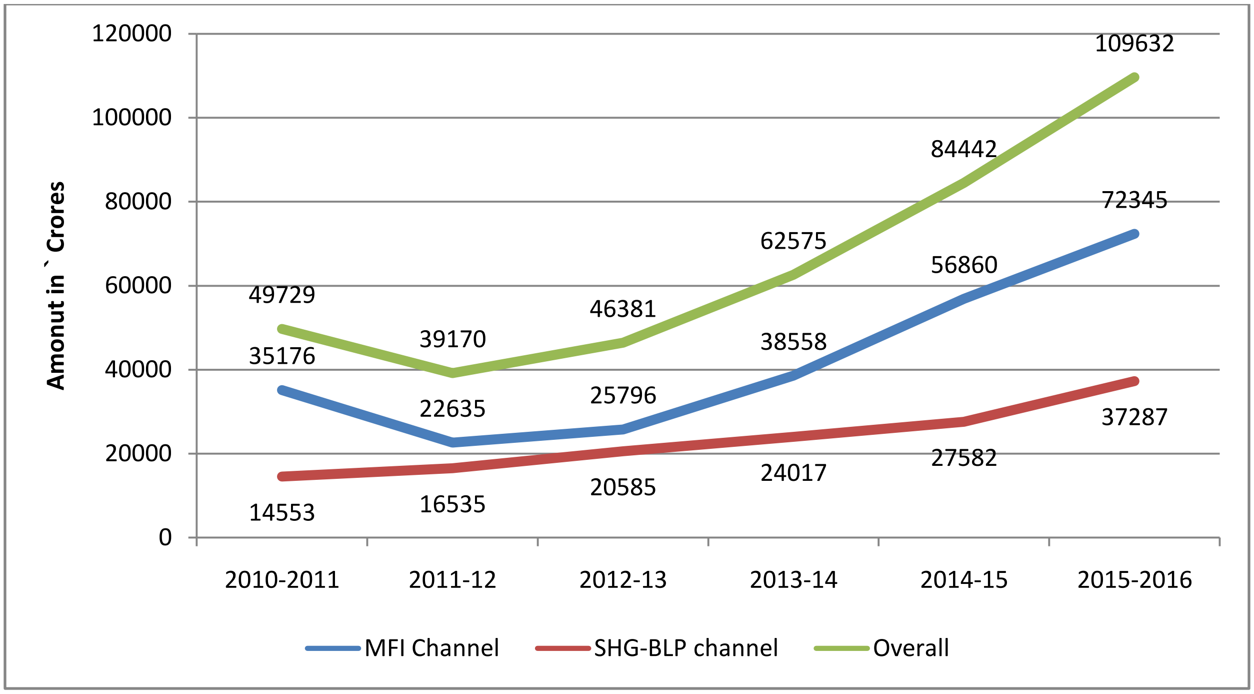
Figure 1.3 Total Loan Disbursed through MFI and SBLP Channel



Source: NABARD, Sa-dhan various years reports

Microfinancing is disbursed in India mainly through Banking system under SHG-BLP and MFI through group mechanism. Microfinance is nothing but a measure to ensure mobilisation of poor, empowerment of poor by equipping them to take skilled jobs or microenterprises leading to increase in their productivity and earnings. Microfinance in India is promoted by NABARD through formation and credit linkage of large number of SHGs under SBLP model. This model has helped the banks to sustainably provide banking services to the unreached people in rural areas in group mode. In recent years Micro Finance Institutions (MFIs) have also joined this move of mobilising more poor people through microfinancing.

Conclusion

Existence of Microfinance can be traced in the history of multiple global civilizations. In India, the concept of money-lending goes hand-in-hand with the concept of money. For several thousand years, "Baniyas" and "Sahookars" have often been quoted as a source of access to money for loans. However, Microfinance in its present form, is inspired from Gramin Bank Model introduced by Mohd. Yunus in Bangladesh. Globally, peer-to-peer lending or peer-to-peer banking has operated for centuries under different names e.g. "tandas" as informal loan groups in Latin America or the "partnerhand" in West Indies, "susu" in West Africa and the Caribbean, "hui" in China, "kye" in South Korea, "tanomosiko" in Japan, "pandeiros" in Brazil, "arisan" in Indonesia and "cundinas" in Mexico. The research shows that in India most prevalent channels of Microfinancing are SHG-Bank channel and SHG-MFI channel. India is having a huge potential for the growth of microfinancing. As per NABARD report of 2016-17, "The quantum of credit made available to the poor and financially excluded clients has gone past Rs.60,000 crore and number of clients benefitted is close to 40 million as of March 2016. The SHG bank linkage program has equally grown by covering 103 million families with a total number of 79.03 lakh SHGs with a saving amount of Rs.13,691 crores. A total of 46 lakh SHGs which are credit linked have a gross loan outstanding of Rs.57,119 crores. Lending by MFIs has exhibited robust growth with a compound annual growth rate (CAGR) of approximately 34% in loans disbursed - an increase from Rs.22,635 crores in 2012–13 to Rs.72,345 crores in 2015–16 (NABARD Report). Further, it has been noticed that microfinancing is more concentrated in southern states of India. So strategic efforts are required by government agencies, NABARD, RBI for increasing the outreach of microfinancing in central, eastern India and north-eastern regions.

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