Microfinance: A Tool For Poverty Alleviation

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Abstract
The study highlights the microfinance growth and performance for poverty alleviation in India. The intervention of microfinance through SHGs has brought tremendous changes in the life of beneficiaries. The overall growth of the microfinance industry has been promoted not only by market forces but also by conscious actions of Government, Non-Governmental Organizations (NGOs) and the donors who view microfinance as an effective tool for eradicating poverty. The paper attempts to review the performance of SHG- bank linkage programme in India and across three major institution- commercial banks, cooperative and regional rural banks.

Keywords
Microfinance, SHG, Financial Inclusion, MFI, NGO

I. Introduction

Before the microfinance sector, people around the world have been borrowing and saving using various sources outside of the formal financial sector. Informal financial services ranging from loan providers, community members and saving groups were once the only source for low income individuals who were unbanked or under banked. Such sources are still commonly used in both rural and urban areas, but now microfinance is a new source for loans, savings and insurance for those Indians who do not have access to any type of financial services and the Indians who might be unhappy with the informal financial services they use. The World Bank has estimated over 100 million individuals have taken advantage of microfinance (Tripathi, 2014). As microfinance is to provide financial services like small loans, credit, deposit service and insurance to very poor people for self-employment projects that generate incomes, supporting economically themselves and their family. The objective of present study is to analyze the growth and performance of microfinance sector through SHG and MFI model for poverty alleviation.

Microfinance is an innovation in financial services for the low income groups, self employed persons who face difficulty to take an access towards banking facilities and banking services (Robinson, 2001). Muhammad Yunus is credited as the founder of Grameen Bank and the premier pioneer of modern microfinance and microcredit concepts. Also referred to as "banking for the poor", microfinance has emerged as a simple and viable way to provide financial assistance to the underprivileged for their economic and social empowerment. The idea behind the microfinance is very naive to generate appropriate change in financial systems all over the world. As the traditional financial system provided benefits and safety to the rich segment of the society, the main object of microfinance is to lift the poor segment of the society from the circle of poverty and able them to contribute and participate in the economic activities and development. According to International Labor Organization (ILO):

"Microfinance is an economic development approach that involves providing financial services through institutions to low income clients."

The typical microfinance clients are low-income persons who do not have access to formal financial institutions. (Otero, 1999) Microfinance clients are typically self-employed, often household-based entrepreneurs. In rural areas, they are usually small farmers and others who are engaged in small income-generating activities such as food processing and petty trade. Some of the major Microfinance services are:

1. **Microcredit:** It is a small amount of money loaned to a client by a bank or other institution.
2. **Micro savings:** These are deposit services that allow one to save small amounts of money for future use. These savings accounts allow households to save in order to meet unexpected expenses and plan for future expenses.
3. **Micro insurance:** It is a system by which people, business and organisations make a small payment to share risk. Access to insurance enables entrepreneurs to concentrate more on developing their businesses while mitigating other risks affecting property, health or the ability to work.
4. **Micro Remittances:** These are transfer of small funds from people at one place to people at another, usually across borders to family and friends.

II. Microfinance in Indian context

According to a latest report by 'Intellecap', an independent industry research firm, the Indian microfinance industry has crossed Rs. 11crore borrowers and Rs 1, 35,000crore ($30 billion) in loan portfolio by 2014 . They have put the total estimated demand for micro-credit in India at $ 51.4 billion (Rs. 2, 40,000 crore). There is a huge demand for Microfinance in India. The poor continue to lack access to formal credit and are mainly relying upon informal sources to meet their needs (Sriram, 2007). Microfinance Institutions (MFIs) are trying to bridge the gap between demand and supply. In the same way, state governments and many NGOs are developing and experimenting with various business models, all over the country, with the objective of providing IT means and solutions to the rural masses and at the same time taking care of revenue generation (Sharma, 2013).

The Indian states, including Bihar, Uttar Pradesh and West Bengal, have 421 million "poor" people, the study found. This is more than 410 million poor in the poorest African countries, it said. Thus the demand for microfinance services: savings, credit and insurance– is apparently insatiable in India. In that sense, India is perhaps the largest emerging market for microfinance services. NABARD's SHG- Bank linkage program also provides the "largest microfinance network in the world".

The Indian microfinance NGOs SHARE, BASIX, SEWA, MYRADA and PRADAN proves and grab attention in to the Indian scenario for its own development and also economic growth also. Micro finance system would change scenario of the economic development. In this development the prime focus would be on the women segment. In the investment bases MFIs reaches to the 52 million borrowers including MFIs solidarity lending methodology -99.3% women client and among over all scenario 51% users are female. In India through banking sector MFIs reaches to the ruler segment and did the milestone work for ruler sector. On an average about three villages have one bank branch; this is the best coverage system all over the world. RRBs provide nationalized commercial banks and credit co operatives. Together, the RRBs, the nationalized commercial banks and the credit cooperatives —

comprising of PACS and P/SLDS, i.e. Primary Agricultural Credit Societies (PACS) and Primary/State Land Development Banks (P/SLDS) — have one branch for every 4,000 rural residents. There are two main models of micro credit in the country and they are 'banking model (SHG linked)' and the 'MFI model' (Swain and Wallentin, 2014).

1. **SHG Bank Linkage Model:** In a way, SHGs are co-operative (credit) societies linked to a commercial bank rather than an apex cooperative bank. Once linked to the bank, the SHGs may access a given multiple of the pooled savings for disbursement to its members. Group selects its leader and the selection of the leader is based on rotation. High repayment rate has encouraged banks to institutionalize SHGs under the bank-SHG linkage model.
2. **MFI Model:** In the 'MFI model', SHGs are formed and financed by the MFIs that obtain resource support from various channels. In India, majority of micro credit activity is under the 'Banking model' (NABARD's Bank -SHG Linkage) and 10-15% of the activity is through 'MFI model'.

III. Origin of Self-help Groups

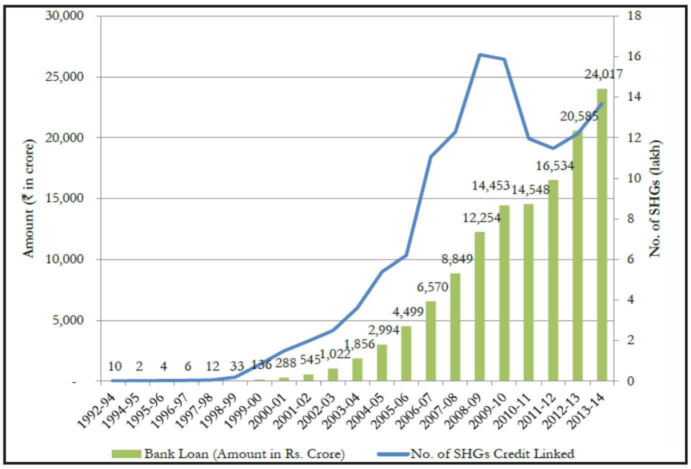
One of the important and fascinating traditional means of financial intermediation has been through the medium of different forms of financial self-help groups or mutual aid savings associations—the rotating savings and Banking on Self-Help Groups credit association (ROSCA), and its more evolved form, the accumulating savings and credit association (ASCA).

1. These associations continue to be important sources of finance for people in urban and rural areas of developing countries of South and South East Asia, Africa and Latin America and the Caribbean. In India too, such informal groups are to be found—though rather more in urban areas, particularly in south India—in the form of chits or chit funds, and variously as nidhis, bishis or shomitis in other areas such as Maharashtra, Gujarat, Assam and Uttar Pradesh. The prevalence of informal financial self-help groups in rural areas is somewhat limited.
2. The chit funds of southern India are a more widespread phenomenon whose subscribers are mainly the nonpoor. Harper et al. (1998) reported that in the Indian rural scenario, chit funds or ROSCAs were omnipresent.
3. In addition, there is a variety of groups such as mahila mandals, village development groups, water user groups and youth groups, which are fairly common. Some of these groups have been involved in thrift and credit activity as well. Revolving loan fund grants, earmarked for these groups were managed and held in trust by NGOs until community capacity for self-management was developed. These larger village-based groups were engaged in an integrated development model with health, education and natural resource management as other components (Fernandez, 1992).
4. These groups were among the first of their kind, i.e., the self-help groups (SHGs) as we know them today. Similarly in Maharashtra (and other states) under the Integrated Child Development Services (ICDS) programme, mahila mandals were established by government with the help of NGOs such as Chaitanya, which in turn looked for new avenues for capacity building and promoting financial access of the group members.
5. MYRADA and other NGOs participated in this process that contributed to the evolution of the formal linkage of commercial banks to these SHGs.

However, it was only in 1992 that NABARD, the apex bank for agriculture and rural development in India, formally set up a pilot on the modalities for the linkage of SHGs to banks. It provided the framework for the operations of these groups as well as the training and capacity building support at all levels for participating banks, the NGO promoters and the SHGs along with refinance support to the banks that lent to SHGs through SHG–bank linkage model.

IV. Current Status of SHG Bank Linkage

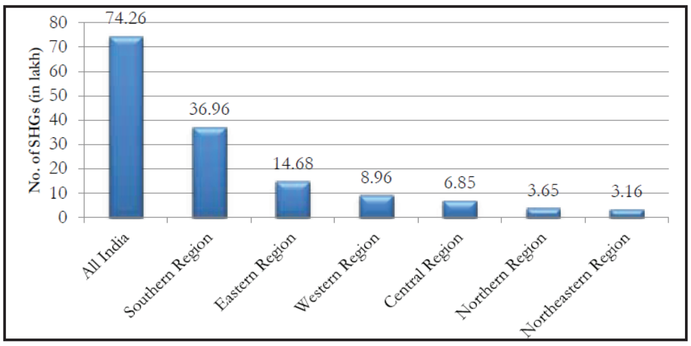
As indicated earlier, NABARD has been a major force in the development of the role for SHGs in the financial system in the form that it is today. NABARD has pioneered the SHG–bank linkage model which positions the SHGs as financial intermediaries to enable the flow of bank loans to poor members without physical collateral. The SHG–bank linkage model as it has developed in India is now a major model of microcredit globally. It has evolved over a period of about 25 years since the first SHGs of MYRADA received NABARD support and 20 years since the launch of the pilot project for SHG–bank linkage. Current trend of SHG bank linkage programme and the amount of bank loan disbursed shown as under.



Source: Various reports of NABARD

Fig. 1: Historical Trend in Credit Linkage and Bank Loan Disbursed

Fig. 1, Reflect the progress and historical trend of SHGs that are financed by bank. Trend of SHGs linked to banks has remained positive since its beginning; though the credit linked SHGs have witnessed a decline during the year 2010-11 and 2011-12 as a consequence of the AP crisis. The credit linkage to banks resumed a positive trend after year 2012-13 and continued in 2013-14.

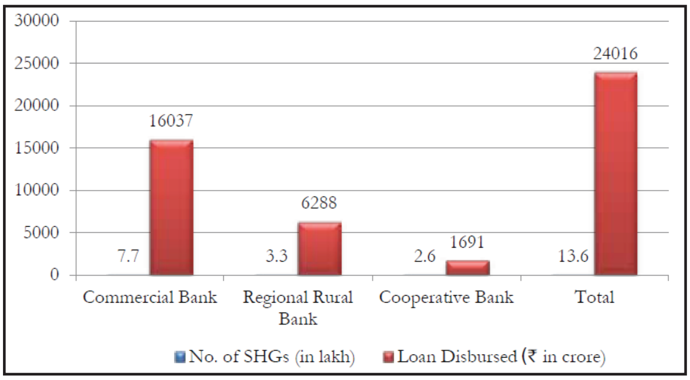


Source: NABARD

Fig. 2: All India and Regional Trend of No. of SHGs

Above fig. 2 reflect the all India and Regional Trend of number of SHGs as on 31st March, 2014. The Southern region leads with the maximum number of SHGs about 36.96 lakh and accounts for around 49% of total SHGs. Eastern region is a distant second with 14.68 lakh SHGs followed by the Western, Central, Northern and Northeast regions respectively. Southern region actively participate in SHG bank linkage programme.

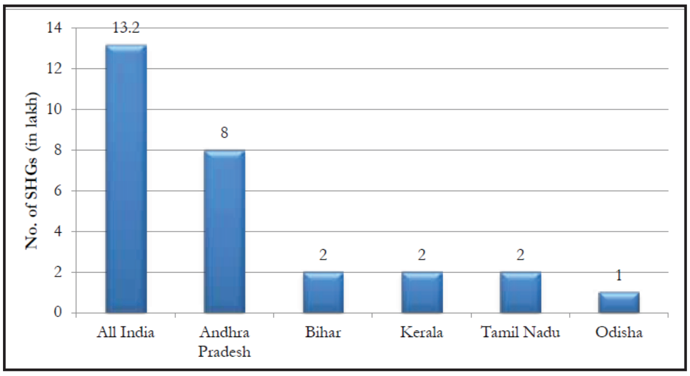
Below Fig3 despite the agencies helped in development of SHGs. There are total of three agencies (Commercial banks, RRBs, Cooperative banks) that focus on enhancing the SHGs in India. Commercial Banks are leading in terms of bank loans disbursed to SHGs during 2013-14 with a huge 16037crore have been given out to 7.7lakh SHGs. Commercial Banks alone account for around 67% of the total loan amount disbursed to SHGs. RRBs and Cooperative banks come in at the second and third positions with 26% and 7% respectively.



Source: NABARD

Fig. 3: Bank Loans Disbursed to SHGs during 2013-14

Below Fig. 4 show the total no of SHGs in five actively participate states in India. It is found that AP has maximum no. of SHG as 8lakh from total of 13.8lakh. Bihar, Tamil Nadu, Kerala and Orissa states followed by Andhra Pradesh in leading no. of SHGs in India. NGOs and GOI helps in promote and development of SHGs for alleviating poverty and overall development of country.



Source: NRLM

Fig. 4: No. of SHG in India

Current role of banks for strengthening SHGs for Poverty Alleviation:

In recent times, banks (both private and public) have gone forward to strengthen SHG saving and credit linkages for alleviating poverty from the country. A total of 2631 blocks have been identified for intensive approach in NRLM states. As of 31 March 2014, intensive implementation has already commenced in 93% of identified blocks. There are 344 districts with intensive blocks in NRLM states. Andhra Pradesh is leading with 1098 in terms of covering highest number of intensive blocks (Figure 4), followed by Bihar, Tamil Nadu, Kerala and Madhya Pradesh (NABARD report 2014).

MFIs need to have customer redressal mechanism in place to address customer grievances. In totality the guidelines were aimed at customer protection principles by the NBFC MFIs. Recently RBI has given recognition status to self-regulatory organisations which adhere to set of functions and responsibilities prescribed by RBI. The table below shows the timelines and amendments of guidelines by RBI for the microfinance sector:

Dates	Key Developments
October 2010	Formation of Malegam Committee by RBI to study the issues and concerns in microfinance sector
January, 2011	RBI released Malegam Committee recommendations for the Microfinance sector
May, 2011	Acceptance of broad framework of Malegam Committee recommendations in Monetary Policy Statement 2011-12 including: Retention of priority sector lending status for bank loans to MFIs, margin cap at 12% and interest rate cap at 26%.
December, 2011	RBI introduced new category of NBFC and termed as 'Non-Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs). Some of the key points include • Minimum Net Owned Fund of Rs.5 crore for new NBFC MFIs and for existing NBFC MFIs w.e.f. April 1, 2012 • Capital Adequacy Ratio of 15% (relaxation for AP based MFIs for FY12 and for NBFC MFIs with loan portfolio less than Rs.100 crore) • Margin cap at 12%, interest rate cap at 26% and processing charges at 1%
August, 2012	Amendment to NBFC MFI guidelines by RBI which included • Registration compulsory for NBFCs intending to operate as NBFC MFIs by October 2012
	• Relaxation in meeting norm of Minimum Net Owned Fund of Rs.5 crore for existing NBFC MFIs. It has to be met in tranches with Rs.3 crore NOF by March 2013 and Rs.5 crore by March 2014 • Removal of interest rate cap and linked to borrowing rate plus fixed margin.
July, 2013	Amendment to NBFC MFI guidelines by RBI which included • Relaxation in margin cap for all NBFC MFIs irrespective of size at 12% till March, 2014. However from April, 2014,margins are capped at 10% for large MFIs and 12% for others
Nov, 2013	RBI has allowed recognition of industry association of NBFC MFIs as Self-Regulatory Organisation (SRO).
Feb, 2014	Amendment to NBFC MFI guidelines by RBI with respect to pricing of credit: it would be lower of two • The cost of funds plus margin • The average base rate of the five largest commercial banks by assets multiplied by 2.75

Source: RBI Various Reports

Fig. 5: Key Developments of Microfinance

V. Contribution of Microfinance for Poverty Alleviation in India

Financial inclusion is aimed at providing composite formal financial services to the excluded population, thereby impacting lives and livelihoods of poor, and alleviation of poverty etc. These services include safe savings, credit for multiple purposes, insurance, pension, remittances and most importantly, basic financial literacy for making suitable financial decisions. It is believed that reaching out to the vast segment of excluded population into the mainstream financial architecture of the country will not only impact the lives of the poor but also lead to economic well being of the nation. The Government of India and the Reserve Bank of India has taken a number of initiatives from time to time to promote financial inclusion. Recently, the Reserve Bank of India has created the Financial Inclusion and Development Department to cater to the needs and challenges of financial inclusion (Littlefield et al 2006).

Pradhan Mantri Jan Dhan Yojana (PMJDY) is a recently launched mission on financial inclusion which aims at opening 7.5 crore bank accounts. The program is gigantic in nature and seems to be a national priority. It gives an equal opportunity for every household to access banking and credit services. PMJDY addresses some of the key aspects of financial inclusion that includes opening up of a bank account, financial literacy and other financial services. However, it misses out one key component i.e. access to credit. The vulnerable sections of society still remains out of reach from formal credit, while the PMJDY program only aims to provide overdraft (OD) of 5000, that too after banking history of six months. There is a huge demand for customized credit services i.e. hassle free, collateral free, adequate, timely and affordable. Conservative estimates show that the total demand for microcredit services is in the range of 500, 000crore but could go up to 12, 00,000 crore.

The SHG Bank linkage model has reached out to approximately 97 million households through 74.29lakh SHGs with a gross loan outstanding of 42,927crore. Micro credit services provided by MFIs in a tailor made fashion have reached out to 33 million individuals with an outstanding loan portfolio of 33,500crore. However, the demand supply gap remains gigantic. On one hand it requires an enabling and supportive policy and regulatory environment. On the other hand, the MF sector has to be responsive, responsible, and sustainable and scalable.

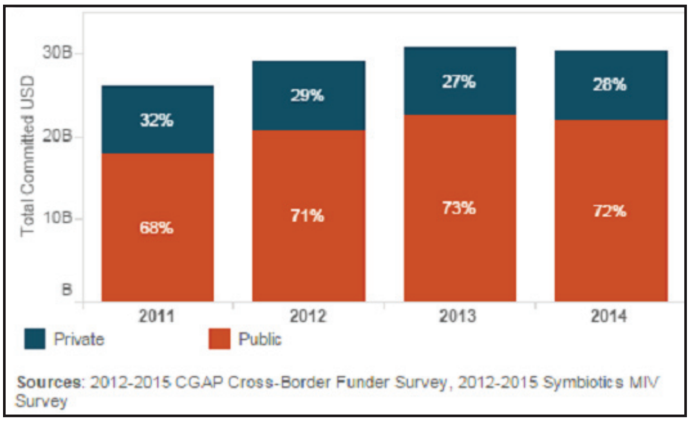


Fig. 6: Global commitment for Financial Inclusion

The 2015 Cross-Border Funder Survey reports commitments from the largest international funders of financial inclusion, as of 31 December 2014. CGAP has conducted the survey annually since 2008 and in partnership with MIX since 2012. After steadily increasing in previous years, international funding of financial inclusion is estimated to have platitude at $31 billion in 2014. The ratio between public and private funding was largely unchanged, with public funding comprising 72% of global funding. Twenty-three funders participated in the 2015 survey, accounting for 66% of this year's global estimate.

VI. Conclusion

The paper concludes that scope of microfinance to outreach and aid the poor and to remain financially profitable in whole world is immense. Indian economy as a whole will be benefited from the usage of microfinance loans through SHGs which target the poor for their upliftment. The paper also analyzes the historic trends of SHG-Bank Linkage programme which remains positive since beginning and southern region have maximum no. of SHGs in India. Commercial banks disbursed 67% loan through microfinance to SHG which is maximum among all the banks. Global microfinance market also shows three tier MFI having microfinance potential of growth in global market estimated at 20% but growth rate may vary according to region. In order to reach and serve the underserved, all microfinance institutions — whether they operate commercially or not — need to be properly self-governed and regulated.

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