International Journal of Research in Finance and Management

P-ISSN: 2617-5754
E-ISSN: 2617-5762
IJRFM 2019; 2(1): 56-60
Received: 22-11-2019
Accepted: 27-12-2019

Parul Maurya
Research Scholar, Dept of Commerce Dr. Shakuntala Misra National Rehabilitation University, Lucknow, Uttar Pradesh, India

Correspondence
Parul Maurya
Research Scholar, Dept of Commerce Dr. Shakuntala Misra National Rehabilitation University, Lucknow, Uttar Pradesh, India

Microfinance: A boon for rural India

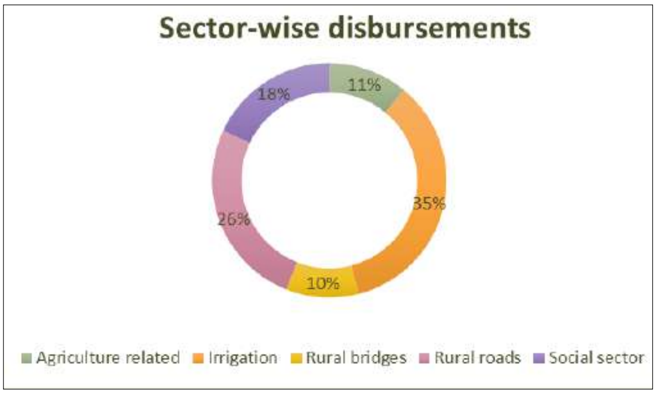
Parul Maurya and Dr. Shakuntala Misra

Abstract
Traditionally, people of India have saved funds and generated capital from small and individual sources by developing self-help groups to support their needs and to also help people in need. This has been done particularly to support farming ventures and to start small agricultural businesses. Thus the concept of microfinance is not new to India. Microfinance is the provision of banking and financial services to those in need or those unbanked and lower strata of the economy where such services are usually not available. Microfinance program is an initiative undertaken by various self-help groups and microfinance institutions (MFIs), primarily, with the help of NABARD to help rural India sustain themselves, to provide them with a livelihood, to reduce poverty, to help farmers pay their debts and to help rural communities uplift their economic and social status. There are more than 30% people who are living below the poverty line in India without access to basic needs. Thus microfinance plays a vital role in to help rural people provide access to basic banking services and their need to be debt free. Formal banking sector has not been able to effectively cater to the needs of rural sector, thus microfinance came into play which is purely dedicated to providing a range of financial services to the rural households. In India, the concept of microfinance is blooming with the help of government agencies that have been instrumental in providing services to the poor household on a regular basis. This paper attempts to study the position of microfinance in rural India, the achievements of various institutions and the road ahead.

Keywords: Microfinance, NABARD, banking services, MFIs, rural credit, NABARD, self-help groups, financial inclusion.

Introduction

The Economic Survey 2017-18 predicted the growth rate for 2018-19 at 7 to 7.5%, RBI also projected a GDP of 7.4%. IMF, World Bank and Asian Development Bank also predicted a higher GDP rate for India. Reasons that have helped India to retain its position of World’s highest growing economy include investment in infrastructure, better policy implementation, increase in FDI, banking sector reforms etc. The inflation rate also recorded the lowest of 3.6% in 2017-18 as compared to 9.5% in 2013-14. This rate was even lower than 4% as predicted by RBI. Overall, the economy has shown considerable improvement over a few years and growth rate is more than expected. There are a few macroeconomic factors that may pose a risk in achieving higher rates of growth in future such as fiscal issues, inflation, external developments. Thus, the economy is in a favorable position where emphasis can be paid to improving the conditions of the rural poor. During the year 2017-18, Rs. 24,993 crores were sanctioned for rural development. Sector-wise distribution of funds can be seen from the figure below- cost recovery, user fees and purchase of medicine. The healthcare system often suffers from socio-political instability. Between 1990 and 2005 the socio-political instability has led to 62% in official development assistance and a reduction in the share of external assistance in gross domestic product from 13.8% to 3.3%. The USAID states in one report (February 2016) that: “nearly 12% of the population in urban and rural zones cannot access health care services for financial reasons. This rate ranges from 4.8% to13.8% across regions. More than 15% of women have no access to health care services due to financial reasons, compared



Source-NABARD

Fig 1.1: Sector-wise disbursement of funds

Before the concept of microfinance originated, people depended on traditional system of borrowing from rich individuals which charged them exorbitant rates of interest and exploited them. Even today in many rural areas such systems are still prevalent. But microfinance has changed the way the entire rural lending system operates. The concept of microfinance originated in South Asia with Mohammad Yunus of Bangladesh being the pioneer in its development. The concept gained momentum in the 1970s with the establishment of financial institutions such as agriculture development banks which extended financial help to the farmers in need. The World Bank has mentioned South Asia as the 'Pioneer of microfinance'. Globally over a billion people still live in dearth of financial services. Over 200 million people out of them live in India who have no access to these services. Microfinance helps provide such people with small resources which can help them put their lives in place. The provision of microfinance has proved immensely successful to enrich those in need. Many poor families have benefitted and sustained themselves. A lot income and employment avenues have opened due to provisioning of microfinance and a healthy rural space is sustaining. An effective and efficient ecosystem of microfinancing needs to be put in place for rural areas to become financially independent and to promote a healthy livelihood among poor families. Microfinance has opened avenues for economic growth and its potential shall be utilized by the government to develop a sustainable banking sector.

Literature Review

Adam & Von Pische, 1992 stated that the effectiveness of microfinance in removing poverty was new and the statistical analysis began in 1990 Hollis & Sweetman, 1998 found that poverty in rural areas may be due to various factors such as social stigma, natural disaster, absence of earning member, lack of micro-credit, lack of entrepreneurial capabilities. Thus MFIs need to address both political and social issues attached with the rural community Robinson, 2001 defines microfinance as small scale financial services which include both credit and deposit that are provided to local groups in both rural and urban areas residing in developing countries Jammeh, 2002 stated that microfinance evolution is crucial as it acts as a catalyst to reduce poverty, generate income and employment Siebel & Dieter, 2005 concluded that microfinance was more successful in the early 60s and 70s when it was first incorporated but in the later years it did not gain much significance as it grew only informally

World Bank Report, 2008 reported that India has a very large population of poor people. Around 43% children are malnourished and 35% people are illiterate. Mostly rural people are engaged in subsistence type of activity and their earnings are too meagre to survive. Thus an immediate need for an institutional mechanism was felt. Manish Kumar, Narendra Singh Bohra & Amar Johari, 2010 analyzed that as bankers feel it difficult to extend their services to the lower strata, there is considerable gap between demand and supply of microfinance services and as a result most of the poor people are excluded from enjoying these services.

Aigbokhan & Asemota, 2011 revealed that microfinance variables positively impacted the poverty status of the rural poor. These variables included volume of loan, loan cycle, type of lending institution etc. Lützenkirchen Cédric & Weistroffer C, 2012 the constraints that previously affected the functioning of MFIs now seem to be relaxed due to the consistent efforts of development institutions and local governments Chandrasekhar & Jayati Ghosh, 2012 stated that the innovative idea of keeping no collateral for lending by MFIs has significantly increased the loan applicants and supplemented the development strategy of these institutions

Anbuoli, 2013 the growth of microfinance was achieved due to the introduction of commercialization and professionalism in this sector. More private funds were attracted due to the efforts of the government Singh Robin Inderpal, 2014 the provision of microfinance if done correctly could have a positive impact on the lives of poor households. There is a huge demand of microfinance services in India which if carefully planned could help people lead better lives

Asha Bhatia, SNV Sivakumar & Ankit Agarwal, 2016 more than 10million Indians join the workforce every year. With the better provision of opportunities, microfinance sector can be used to generate employment to absorb atleast some of them.

Objectives of the Study

1. To study the growth of microfinance in India
2. To study the factors responsible for growth of microfinance
3. To suggest the measures to improve the microfinance ecosystem in India

Growth of Microfinance in India

The history of microfinancing can be traced back to early 1800s when local communities of farmers and artisans acted as entrepreneurs and formed collective groups and small societies where individuals helped each other sustain and grow. In India, the extension of rural credit started with nationalization of Banks in 1960s and thereafter the formation of Regional Rural Banks. The microfinancing sector got new recognition with the establishment of NABARD in 1982. The formation SIDBI also helped small scale industries to grow and prosper. It created employment avenues and brought about a revolution in the small scale sector. After that formation of self-help groups and joint-liability groups to extend help to the rural poor further helped the sector. Several Micro Finance Institutions (MFIs) were set up to help serve the purpose of rural upliftment. Today, Indian MFIs are recognized all over the world for their outstanding contribution and have achieved immense success. As per the report by Microfinance Institutions Network (MFINs) which is an RBI recognized self-regulatory organization, the microfinance industry recorded 43.1% growth in December 2018. The total credit extended was Rs. 1,66,284 crores. Non-Banking Finance Company Microfinance Institutions (NBFC-MFIs) extended the largest amount of credit in the industry amounting to Rs. 60,631 crores that is 36.5% of the total credit extended as microfinance. In the last quarter of 2018, around 77 lakh accounts were credited by MFINs. The industry is now moving towards cashless disbursals and around 81% disbursals were made by some or other cashless modes. The area wise distribution of credit disbursal by NBFC-MFI is shown as below-

Table 1.1: Area wise credit disbursal by NBFC-MFI

East & North-east	South	North	West	Central
37%	25%	14%	15%	9%

Out of the total credit extended to micro-finance industry, 36.5% was made by NBFC-MFIs, 32.2% by Banks, 18.2% by small finance banks, 10.7% by NBFCs, 2.4% by non-profit MFIs.

Factors Responsible for Growth of Microfinance

Role of government- With a view to achieve the Sustainable Development Goals (SGDs), poverty alleviation and inclusive economic and social growth, the government has implemented various programs and schemes such as Mudra Yojana, MGNREGA, NRLM, PMAY-G, PMJDY etc. Different schemes are implemented by different ministries to target separate issues. Government has shown an increasing interest in developing rural areas through increased budget allocation to these areas. Investment in rural infrastructure, social inclusion, income generation, reduction in poverty, housing schemes are mainly focused by the government. As India is primarily an agrarian economy and most of the rural households depend upon agriculture to sustain themselves so the government has laid emphasis on providing funds to agriculture and allied activities to support livelihood. Strategies for increasing farmers' income include adoption of activities like animal husbandry, horticulture, dairy, poultry, fisheries. The share of agriculture credit to agriculture gross value added has shown an increasing trend from 34% in 2011-12 to 45.5% in 2017-18. This has been made possible by the immense hardwork of the commercial banks, co-operative banks, RRBs and NABARD.

Agency-wise ground level credit flow (Amount in Rs. Crores)

Table 1.2: Agency-wise ground level credit flow (Amount in Rs. Crores)

Agency	2014-15	2015-16	2016-17	2017-18
Commercial Banks	6,04,376	6,42,954	7,99,781	8,86,771
RRBs	1,02,483	1,19,263	1,23,216	1,42,415
Cooperative Banks	1,38,469	1,53,296	1,42,758	1,50,242
Total	8,45,328	9,15,509	10,65,755	11,79,428

Source-NABARD

2. Development of aggregation- As per the Agriculture Census 2010-11, 85% of the farmers possess 2hectares or less land which is not enough to support a family of a farmer. Small landholders also lack access to modern farming techniques, institutional credit, high quality inputs which lead to low production. Aggregation is a method to mitigate the risks in the lives of farmers particularly small and marginal ones and to improve their livelihood. Aggregation includes organizing small farmers into one unit so that their bargaining power can increase over time and achieve economies of scale. Farmers Producing Organization (FPO) is one such aggregator. Around 6000 FPOs are functioning around the country which is formed by different agencies. NABARD has been instrumental in promoting a large number of FPOs. An FPO can be formed with minimum 10 members. In India, more than 75% of the FPOs belong to small and marginal farmers. The table below shows the distribution of FPOs as per number of members-

Table 1.3: Distribution of FPOs

Membership	Percentage of FPOs
Upto 50	16
51-100	14
101-500	56
501-1000	13
Above 1000	1
Total	**100**

Source-NABARD

The likely benefits of aggregation include reduced cost of production, processing and marketing, adoption of modern technologies of production, capacity building, increased market access, minimizing post-harvest losses, regular supply, quality control, increased access to financial resources at lesser costs, mitigation of risks, building of social capital, professional management, protection from rise in prices, improved access to government schemes and services.

3. Self-help Groups (SHGs)- these are small groups composed of either 10-20 local men or women who reside

in a community to solve common issues and help each other economically and socially. NABARD had started a Self-help Group Bank Linkage Programme (SBLP) to address the needs of poor families and improve their livelihoods. This programme has helped to empower the rural poor especially women. SBLPs coordination with National Rural Livelihood Mission has resulted in increased access to banks, credit linkage and livelihood promotion.
Progress of SBLP (amount in Rs. Crores)

Table 1.4: Progress of SBLP (amount in Rs. Crores)

	2016-17		2017-18		% change	
	No. of SHGs	**Amount**	**No. of SHGs**	**Amount**	**No. of SHGs**	**Amount**
Loans disbursed	18,98,120	38,781	22,61,132	47,186	19.1	21.7
Loans outstanding	48,48,287	61,581	50,20,358	75,598	3.5	22.8
Savings of SHGs with bank	85,76,875	16,114	87,44,437	19,592	1.9	21.6
NPA level %	6.5		6.12			
Average loan per SHG	Rs. 2.04 lakh		Rs. 2.09 lakh			

Source-NABARD

NGOs, RRBs, District Central Cooperative Banks, rural volunteers, SHG federations and Primary Agriculture Credit Societies are the partner institutions that help these SHGs to carry out their goals.

4. Promoting Financial Inclusion- the rural community stands at the bottom of the pyramid of the society whose banking and financial needs are fulfilled. Financial inclusion means making financial services accessible to all sections of the society. To fulfil the goal of financial inclusion RRBs, NABARD, SIDBI, lead bank scheme, branch licensing policy have been made. Core banking solution was implemented to strengthen RRBs and Rural Cooperative Banks. These banks have also adopted several new technologies such as electronic funds settlement, real time fund transfer which has helped rural population to easily obtain results from banking services.
Technology upgrades used by rural cooperative banks-

Table 1.5: Technology upgrades used by rural cooperative banks

	2016-17	**2017-18**
CBS	382	376
RTGS/NEFT	382	376
Ru Pay Kisan cards	167	350

RBI issued several directives to conduct special camps on ‘Going Digital’ to promote financial literacy among rural people. Banks were advised to cover the unbanked areas and extend their services in such places.
Transactions on the 50 tablet based micro ATMs (2017-18) (in Rs. Crore)

Table 1.6: Transactions on the 50 tablet based micro ATMs (2017-18) (in Rs. Crore)

No. of accounts opened	**Deposit**		**Withdrawal**		**Funds Transfer**	
	No. of transactions	**Transaction value**	**No. of transactions**	**Transaction value**	**No. of transactions**	**Transaction value**
7,596	22.26	55,851	21.81	2,793	0.19	

5. Investment in Agriculture- About 50% of Indian population is still engaged in agriculture as its primary occupation. In order to make develop the rural community, investment in agriculture infrastructure would bring out futile results. The total food grains production is rising every year and India is the leading producer of many crops in the world. Higher public sector investments in agriculture attract private investments as well. MFIs aim to provide loans to those engaged in agriculture sector to nurture their lives. In the recent years, states have increased their share of budgetary allocation to agriculture and allied sectors. The table below shows budgetary estimates for states for agriculture and allied sectors -

State	Total State Budget	Revenue+ Capital Expenditure (Agri & Allied Sectors)	Capital Expenditure (Agri & Allied Sectors)	Share (%) of Capital Expenditure in Total Agri & Allied Sectors, Irrigation, etc. Expenditure (Col. 4 as % of Col. 3)	Share (%) of Expenditure on Agri & Allied Sectors in total State Budget (Col. 3 as % of Col. 2)
(1)	(2)	(3)	(4)	(5)	(6)
Andhra Pradesh	1,59,822	21,547	15,013	69.7	13.5
Assam	99,454	9,763	4,308	44.1	9.8
Bihar	1,72,884	9,970	3,271	32.8	5.8
Chhattisgarh	78,623	13,706	2,258	16.5	17.5
Gujarat	1,67,611	19,597	10,327	52.7	11.7
Jharkhand	76,044	6,177	2,627	42.5	8.1
Karnataka	1,76,880	28,725	11,748	40.9	16.2
Kerala	1,11,351	8,668	1,744	20.1	7.8
Madhya Pradesh	1,64,295	19,071	7,351	38.5	11.6
Maharashtra	3,23,652	47,127	14,891	31.6	14.6
Odisha	1,07,235	16,423	7,271	44.3	15.3
Punjab	1,12,797	11,806	595	5.0	15.6
Rajasthan	1,90,615	10,569	2,706	25.6	5.5
Tamil Nadu	2,05,442	16,801	4,022	23.9	8.5
Telangana	1,42,506	27,812	10,554	37.9	19.5
Uttar Pradesh	3,68,401	45,041	5,005	11.1	12.2
West Bengal	1,85,998	8,910	3,142	35.3	4.8

Note: 'Agri & Allied Sectors' here include agriculture and allied activities, irrigation, and flood control.
Source: Budget documents of state governments (calculations by NABARD).

Source-NABARD

Fig 1.2: Budgetary estimates for states for agriculture and allied sectors

Suggestions for Improvement

1. Promoting financial literacy among rural youths and workers is the need of the hour. More and more people should be made aware of their rights and responsibilities. They should know about the financial services that various institutions are offering and ways to obtain credit to meet their needs.
2. Awareness campaigns to educate people about what is going around them. They should know the current policies and programs which they can utilize to obtain maximum benefit. They should be educated about new avenues that can help them generate income.
3. Community participation so that the services of MFIs are fully utilized and community helps and supports each other. Coming together of communities has resulted in various protective and unforgettable instances such as the Chipko movement by the Bishnoi community.
4. Government policies should be practicable and aligned to support the rural families. Even the remotest areas should have access to all the programs started by the government. The government also needs to monitor the progress made by bodies entrusted with carrying forward government programs.

References

1. thehindubusinessline.com
2. cgap.org
3. economictimes.com
4. NABARD annual report 2017-18
5. Hollis A, Sweetman A. Microcredit: What can we learn from the past? World Development, 1998; 26(10):1875-1891.
6. Sinha S. Financial services for low income families: An Appraisal IIMB Management Review, 2003, 15, 2.
7. Chakrabarti Rajesh. The Indian microfinance experience-
8. Accomplishment and Challenges, 2004.
9. Hulme D, Moore K. Why has microfinance been a policy success in Bangladesh (and beyond)? March Institute for Development policy and management, University of Manchestar, 2006.
10. Pal, Debdatta. Efficiency of microfinance Institution in India Indian Institute of Management, Ahmedabad, 2009.
11. James PC. Going from exclusion to inclusion IRDA journal, April, 2009.
12. Srinivasan N. Microfinance India-State of the sector Report, SAGE publications India Pvt Ltd, 2009.
13. Imhanlahimi J, Idolar EJ. Poverty alleviation through microfinancing in Nigeria: Prospects and Challenges Journal of financial management and Analysis. 2010; 23(1):66-82.
14. G55 rshi. Microfinance in India: A critique, 2010.
15. Herrndor Martin. Inclusive partnership for sustainable market Innovations Oikos UNDP young scholars Development Academy, 2010.
16. Dhume S. Crude Remedies for a micro problem Opinion Asia, 2010, 7.
17. Kumar M, Bohra NS, Johari A. Micro-Finance As an Anti-Poverty Vaccine for Rural India, 2010.
18. International Review of Business and Finance. 2010; 2(1):29-35.
19. Lützenkirchen C, Weistroffer C. Microfinance in Evolution an Industry between Crisis and Advancement, 2012.
20. Singh RI. Micro-Finance as an Anti-Poverty Vaccine", Journal of International Academic research for Multidisciplinary. 2014; 2(4):286-394.
21. Ahmeti F. Microfinance as a Tool for Economic Development in Transitional Countries experience from Kosovo. European Scientific Journal. 2014; 10(4):269-287