MICRO FINANCE REVOLUTION: ISSUES AND CHALLENGES

Rajni Arora*

ABSTRACT

Microfinance has been spreading around the world as one of the popular poverty reducing strategy. Micro finance is sense of small scale financial products and services for unbanked, poor and deprived section of society residing in rural and semi-urban areas and urban slums. It provides small amount of loan to very poor people for self employment projects for increasing income level and standard of living. It works as supplementary credit delivery system which is cost effective. This paper makes a modest attempt to show its challenges and suggestions are also submitted in smooth functioning of microfinance.

Key Words: *SHGs, MFIs, Microfinance*

*Assistant Prof in D.A.V College, Pundri

INTRODUCTION

After nationalization, banking system in India achieved significant growth and outreach. But formal banking institutions for long time have perceived less banking transactions by poor due to high risk, high transaction cost and absence of security against loan. So, poor especially poor women in India were suffering from financial exclusion. This weakness gives birth to microfinance activities. It has occupied central stage for extending financial services to unbanked section of population. It means providing small loan to poor families to help them in productive activities. It comprises two words micro and finance i.e. small credit but now microfinance is not limited to credit services. It includes a broader range of services in rural as well as urban areas. In rural areas, it provides service to small farmers and in urban areas, it include shopkeepers, artisans, street vendors etc. It also includes saving, insurance, training, fund transfer and counseling services in most convient way. It is a moment whose object is "A world in which as many poor and near poor households as possible have permanent access to attain the range of high quality financial services. So it becomes necessary to implement microfinance at social and cultural level, political and educational level.

Microfinance, "a means of extending credit usually in form of small loans with no collateral to nontraditional borrowers such as poor in rural or undeveloped areas" (Dictionary.com).

Schreiner and Colombet define microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks." Therefore, microfinance is a source of financial services such as savings, loans and insurance to poor people living in both urban and rural settings lacking access to banking and other related activities.

So, Micro finance service is provided primarily through the following.

a) **Formal Institutions:** Regional rural banks, Co-operatives banks.
b) **Semi-Formal Institutions:** Non-Government Organizations**.**
c) **Informal Sources :** Money Lenders and shopkeepers.

LITERATURE REVIEW

Literature review plays an important role in any study. It gives us experience of various researchers which increase the clarity of concepts. The literature on microfinance gives a variety of findings relating to level of microfinance programmes. Robinson tells in his studies that provision of financial services to poor was mainly in form of subsidized rural credit programme before 1970.Microfinance has roots in 1976's when Muhammad Yunus, a Nobel prize winner introduced this concept in Bangladesh in the form of Grameen bank .After that Hans Dieter Seibel, broad members of European micro finance platform introduced the model of MFI.

Sheokand (2000) and Singh (2003) explained in his study the failure of government anti-poverty programmes due to centrally invented politics in India .So the development of microfinance programme in India started by NABARD in 1992 by establishing self help groups which was consider as a landmark development in banking with poor. Harper (2002) explains differences, outreach and sustainability of SHG and Grameen banking system.

Rutherford (2000) and Armendariz & Morduch (2005) explain the difference between microfinance and microcredit in his study .He tells microcredit provides small loans to poor people but microfinance covers a wide range of services like credit, saving, insurance, training and counseling. Manisha Raj in his research paper state that microfinance have been proven a very important wing to incorporate poor in financial sector .Singh (2001) conducted a survey of microfinance programme in U.P and tells SHG loans were mainly for income generating purpose and helps in compulsory saving by cutting necessary expenditure i.e. microfinance was quite effective.

DELIVERY MODELS OF MICROFINANCE

Microfinance is a dynamic field. Many models of delivering microfinance activities are developed from time to time . In india, microfinance operate through two channels.

- **Self Help Group(SHG)-Bank Linkage Programme :** Self Help Group is a registered or unregistered group of 10 to 20 people having homogenous social-economic background coming together to save small amount regularly and contribute to common fund to meet their emergency needs on mutual help bases .An economical poor individual gain strength as a part of group.The leader of group is selected on majority bases .The group memebers meets regularly once a weak and carry out financial transaction.This group is dominated by female clients.The formation of SHG for saving and credit and their linkage was initiated in india in mid 1980’s as an action research.The findings of the project practically implemented by NABARD in 1992 with policy support of RBI.Finacing through SHG’s provides various benefits .
    - Reduce Transcational cost for lenders because they handle only a single SHG account instead of a large small individual account.
    - Reduce the cost of borrower as their expenses on travel for complete paper work saves and there is no loss of work days in convassing for loans.
    - It provide collective decision making by poor and provide door step banking.

Non Government Organizations(NGO) act as financial intermediaries in SHG programme.They borrow bulk funds from bank for on landing to SHG.Commercial banks ,RRB and co-opeative banks also activily participate in this linkage programme to facilitate smother and more meaningful banking with economically weaker section of society.

The federated Self Help Group Model is revised form of SHG.It brings several SHGs together.This federation have more than one thousand member.It works as a three tier structure.The basic unit is SHG,the middle tyre is cluster and the top most unit is an apex body.Example of this group are PRADAN and SEWA

Table 1 below shows The Overall Progress Under SHG Bank Linkage for Last 3 Years

(Amount ₹ in crore/ Numbers in lakhs)

Particulars		2011-12		2012-13		2013-14	
		No. of SHGs (lakh)	Amount	No. of SHGs (lakh)	Amount	No. of SHGs (lakh)	Amount
SHG Savings with Banks as on 31st March	**Total SHGs**	**79.60 (6.7%)**	**6551.41 (-6.7%)**	**73.18 (-8.1%)**	**8217.25 (25.4%)**	**74.30 (1.53%)**	**9897.42 (20.45%)**
	Of which NRLM/ SGSY/ Other Govt. spons. programmes	21.23 (5.0%)	1395.25 (-23.2%)	20.47 (-3.6%)	1821.65 (30.6%)	22.62 (10.46%)	2477.58 (36.01%)
	% of NRLM/SGSY/ Other Govt. spons. programme Groups to Total	26.7	21.3	28.0	22.2	30.45	25.03
	All women SHGs	62.99 (3.3%)	5104.33 (-3.7%)	59.38 (-5.7%)	6514.86 (27.6%)	62.52 (5.27%)	8012.89 (22.99%)
	Percentage of Women Groups	79.1	77.9	81.1	79.3	84.15	80.96
Loans Disbursed to SHGs during the year	**Total SHGs**	**11.48 (-4%)**	**16534.77 (13.7%)**	**12.20 (6.3%)**	**20585.36 (24.5%)**	**13.66 (12.02%)**	**24017.36 (16.67%)**
	Of which NRLM/ SGSY/ Other Govt. spons. programmes	2.10 (-12.9%)	2643.56 (6.6%)	1.81 (-13.8%)	2207.47 (-16.5%)	2.26 (24.56%)	3480.60 (57.67%)
	% of NRLM/SGSY/ Other Govt. spons. prorgramme Groups to Total	18.3	16.0	14.8	10.7	16.52	14.49
	All Women SHGs	**9.23 (-9.2%)**	**14132.02 (12.0%)**	**10.37 (12.4%)**	**17854.31 (26.3%)**	**11.52 (11.02%)**	**21037.97 (17.83%)**
	Percentage of Women Groups	80.4	85.5	85.1	86.7	84.3	87.6
Loans Outstanding against SHGs as on 31st March	**Total SHGs**	**43.54 (-9.0%)**	**36340.00 (16.4%)**	**44.51 (2.2%)**	**39375.30 (8.4%)**	**41.97 (-5.71%)**	**42927.52 (9.02%)**
	Of which NRLM/ SGSY/ Other Govt. spons. programmes	12.16 (-5.4%)	8054.83 (2.9%)	11.93 (-1.9%)	8597.09 (6.7%)	13.07 (9.55%)	10177.42 (18.38%)
	% of NRLM/SGSY/ Other Govt.spons. programme Groups to Total	27.9	22.2	26.8	21.8	31.1	23.7
	All Women SHGs	**36.49 (-8.4%)**	**30465.28 (16.6%)**	**37.57 (2.9%)**	**32840.04 (7.8%)**	**34.06 (-9.34%)**	**36151.58 (10.08%)**
	Percentage of Women SHGs	83.8	83.8	84.4	83.3	81.2	84.2

(figures in the parenthesis indicates growth/decline over the previous year)

(https://www.nabard.org/)

- **Micro Finan** ivery through microfinance institutions(MFI) also emerged subsequently in the country.MFI are those institutions which provide thrift,credit and other financial services to poor in rural ,semiurban areas to raise their income level and standard of living.These institutions come up to fill the gap beteen demand and supply for microfinance .MFI is characterisied by diverse institutional and legal forms .These institutions work on the concept of joint liabilty group(JLG) .A JLG is an informal group consisting of 5 to 10 individual members who come together for the purpose of providing bank loans either individually or through the group mechanism against a mutual guarantee. The JLG members offer a joint undertaking to bank for availing loan. These groups primarily consist tenant farmers and small farmers cultivating lend. MFIs are broadly classified into two categories.

- **MainStream Micro finance Institutions**
- **Alternative Micro finance Institutions**

Mainstream MFIs are apex body led by NABARD,small industry development bank of india (SIDBI),Housing development Finance corporation (HDFC),commercial banks,RRB(Regional Rural Bank) and other credit co-operative societies.Alternative MFIs includes NGO under social Registration act 1980or indian trust act1882 ,Non profit companies and Non banking financial companies under indian companies act 1956 and mutual benefit co-operative societies under mutually aided co-operative society act.

Table 2 Shows Progress Under MFI-Bank Linkage Programme

(₹ crore)

Particulars	2010-11		2011-12		2012-13		2013-14	
	No. of MFIs	Amount	No. of MFIs	Amount	No. of MFIs	Amount	No. of MFIs	Amount
Loans disbursed by banks to MFIs	471 (-39.5%)	8448.96 (-21.3%)	465 (-1.3%)	5205.29 (-38.39%)	426 (-8.4%)	7839.51 (50.6%)	545 (27.9%)	10282.49 (31.16%)
Loans outstanding against MFIs as on 31 March	2315 (39.5%)	13730.62 (-2.0%)	1960 (-15.3%)	11450.35 (-16.6%)	2042 (4.2%)	14425.84 (26%)	2422 (18.6%)	16517.43 (14.5%)
Loan Outstanding as % of fresh loans		162.51		219.98		184.01		160.64

(figures in the parenthesis indicates growth/decline over the previous year)

(https://www.nabard.org/)

MICROFINANCE CHALLENGES

Microfinanace is expected to play an important role in providing financial inclusion and inclusive growth. Various regulatory and operational difficulty reduce the smooth functioning of microfinance institutions i.e there is large gap between demand and supply of credit to poor .There are many issuses and challenges which are necessary to dealt with.

- **Unbalanced Regional Spread :** Microfinance programme have grown unbalanced regional spread. There is skewed distribution of this programme.It have high degree of concentration on southern region where credit linkage of SHG's with banks are developed rapidly.So it has not benefited to poverty belt of northern and north-eastern region.Some studies shows that 50% of total microfinance activities benefits to four south indian states i.e Andhara Pradesh,Tamil Nadue,Karnataka and Kerala.So their outreach is very low.
- **Quality of SHGs :** Relevant and prompt quality of SHGs and its sustainbility is a big challenge.But under microfinance programmes, focus is given on no of SHGs rather than their quality. Various factors responsible for poor quality are :
  - ✓ low technical support and business development services.
  - ✓ Govt's centralisation in promoting NGO's which help in sustainable growth.
  - ✓ Low professional skill of MFI memebers .

So, quality of SHGs is necessary to achieve higher recovery levels.

- **High Cost of Delevery:** MFI model is comparatively costly in terms of delivering financial service due to low volume of loan and also cost of funds. High interest rate charged by them as there are private entities and do not get an subsidy for lending activities.So, their operational cost is high due to door step service and little deployment of technology solutions.There is need to develop strategies for increasing range and volume of financial services so that they provide services at affordable cost.
- **Training and Capacity Development :** It remians a big challenge in absence of quality resource centre.Here capacity building relates to various partners involves in microfinance programme like bank officials,NGO officials , SHPI(Self Help Promoting Institutions),SHG members and leaders,MFI officials etc.There is lack of adequate training of persons involved in microfinance implementation.But successful delivery of innovative microfinanace services to poor highly depend on their managerial strengths.So,better recuritment practices,improved training and innovative incentive system are need of an hour.

- **Graduation From Credit to Enterprise :** The more critical challenges is to induce SHGs to graduate from stage of microfinanace to microenterprises and increased access to supply chain,linkage to capital market. Lack of adequate skills creates hindrances in that sector .Another reason is NBFC raise funds through private equity investment for profit purpose ignoring public deposit and NGO's depends on donations and grants.So they are not in a postion to provide SHGs the requiste funds.So there requirements are fulfilled by setting up micro enterprises.There activities have potential to increase level of income.
- **Lack of Regulatory Framework :** Ther is no regulatory mechanism for MFI except for those that are registered as NBFCs. NBFCs are regulated by RBI while others acts as financial intermediaries involve minimal regulation. They take microfinance as a potential business opportunity rather than social responsibility.So, MFI model working on profit basis .They have no standard rules .So need to design transparent pricing for proper regulatory network which helps in improving growth of MFI in orderly approach.
- **Low Outreach :** It is big challenge.Two factors responsible for low outreach are
  - ✓ The clusters formation is restricting MFI from reaching to rural areas where there is actual need for microfinance. MFI drive to grap an established marked and reduce cost by cluster formation because there is no standone rule for them.
  - ✓ Main consumers of microfinance are rural women because men of rural areas busy in agriculture operations and have no time to spend with SHGs.But there is lack of women orientation in marketing,evaluation.

  So there is a need to increase accessibility and reach of MFI to large number of poor.
- **Increased Competition**: It creates two big challenges.
  - ✓ Due to Competition ,many SHPIs have promoted federations of SHGs so that they perform their work in sustainable manner but there is no established model for their working which increase social/economic issues like collective bargaining power and economics which increase the cost and weakers primaries.So need to be designed process and system of these federations in such a way that they become self managed and can function in democrative manner.
  - ✓ It creates problems in growth of microfinance because MFI are giving multiple loan to same borrowers which create overdebtness and affect both MFI as recovery rate is low while borrowers are in under pressure.
- **Others :**

- ✓ Credit Risks due to dependence on seasonality of agriculture income,lack of tangible proof for assessment.i.e risk relating to repayments.
- ✓ Low level of literacy.
- ✓ Rural economic activites have low profitability and use of loan for unproducty activities

FUTURE STRATEGIES FOR MICRO FINANACE

Different strategies used for facing challenges are explained as under

- **Strategies For Reducing Transaction Cost :**
  1. Technology innovation, improved rural infrastructure, borrower education and urban microfinance are few ways to mitigate high operational cost.
  2. NGO's to operate at narrow margins and bear low effective interest rate to maintain balance between MFI's dual objective of commercial viability and serving poor.
- **Strategies for Capacity Building :**
  1 Innovation in social intermediation, strategic linkages and reengineering of financial products are ways to develop capacity building of MFI.

  2 Proper capacity building and business development services should be adopted for successful shifting of microfinance to micro enterprise by making balance between profit motive and social capital motive.

  3 Maintain sustainability of SHGs by field supervision in process of formation of SHPI & SHGs.
- **Strategy for Proper Regulation :**
  1. Recognition of M.F.I as specialized activity and NBFC.
  2. Easing of entry norms for loan only companies.
  3. Proper legal, regulatory, organization system should be designed to make working groups more effective.
- **Strategic For Reducing Credit Risk:-**
  1. An effective lending mechanism should be set up and within its periodic review to monitor their working.
  2. Tie up with local panchayat or village head and form an advisory committee.
  3. Proper insurance and services like training marketing and support govt. subsidies etc.
- **Strategic For Reducing Inadequate Source Of Funds:-**
  1. Conversion into for profit companies i.e. NBFC
  2. portfolio buyout

3. Securitization of loans.

- **Others Strategies :**
  1. Ensure transparency and full disclosure of rates.
  2. Encourage rural penetration for high outreach.
  3. Great efforts should be made towards identifying women orientation barriers.
  4. Challenge of creating high outreach into saving and credit can be fulfilled by state machinery.

CONCLUSION

With the overview of microfinance, it concludes that microfinance programmes has a significant positive impact in poverty alleviation and increasing standard of living of poors. It helps in raising greater level of women empowerment by increasing their knowledge, self confidence and economic/social awareness. Thus microfinance in India has grown at amazing pace with the support of SHGs and MFIs among rural people .It is widely accepted paradigm of financial inclusion. But some challenges create hindrance in their smooth functioning .So, efforts are being made to link SHGs to commercial banks to network member owned organizations to achieve economies of scale and to support commercial bank by integrating mobile banking, e-payment and technologies into extensive network i.e. emphasis should be made for scaling up quality financial services to serve large number of low income people at affordable cost.

REFERENCES

1. Muhammad Yunus: ‘Grameen Bank, Micro Credit and Millennium Development Goals’, Economic and Political Weekly,Sept 2004,pp 4077-78.
2. Bansal Hema(2002): “SHG-Bank Linkage Program in India: An Overview”, Journal of Micro Finance,Vol.5,,No.1
3. Basu, P. and Srivastava, P. (2005): Scaling-up Microfinance for India’s Rural Poor”, World Bank Policy Research Working Paper 3646, http://econ.worldbank.org.
4. Raj Manisha (2011): In research Paper entitled “Microfinance Institution in India and its legal Aspects”.
5. Rutherford, Stuart (2000): The Poor and their Money, Oxford University Press, New Delhi.
6. Basu, priya and Srivastava (2005): “Exploring Possibilities” Microfinance and Rural Credit Aceess for Poor in India. Economical and Political Weekly, Vol 40,No 17.

7. Misra, Alok (2006): "Microfinance in India and Millennium Development Goals: Maximising Impact on Poverty", Discussion Paper for Workshop on World Bank, Singapore, 18 September.
8. Armendáriz, Beatriz, and Murdoch, Jonathan (2005):"The Economics of Microfinance" The MIT Press, Cambridge, USA.
9 Sharma, Puspa Raj (2007), "Micro-finance and Women Empowerment", The Journal of Nepalese Business Studies, Vol. 4, No. 1, pp. 16-27.
10 Porteous, D (2006): "Competition and Microfinance Interest Rates ",Focus Note,No 33,CGAP Publication.
11 Ghate, Prabhu (2007): "Indian Microfinance" The Challenge of Rapid Growth, Sage Publication, New Delhi.
12 Karlan, D.S.(2001): Microfinance Impact Assessments: The Peril of using new member as a control group", Journal of microfinance,vol 2,No 3,pp 75-84.
13 Panda, D.K (2009): "Understanding Microfinance", Wiley India Pvt Ltd., New Delhi.
14 Somnath, V.S.(2009): "Microfinance: Redefining the Future",Excel Books,New Delhi.
15 Dr L.Satya Sundaran : " Rural Development
16 http://shodhganga.inflibnet.ac.in/bitstream/10603/3031/10/10_chapter%202.pdf.
17 https://www.nabard.org.
18 http://rural.nic.in/sites/downloads/annual-report/MoRDEnglish_AR2012_13.pdf.