



An Economic Analysis of the Growth of Micro-finance in India and Karnataka

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Abstract

Micro-finance programmes not only give women and men access to savings and credit, but reach millions of people worldwide bringing them together regularly in organized groups. Majority of microfinance programmes focus women with a view to empower them. The main focus of the study is to analyse the growth and trends of Microfinance in India and Karnataka and examining the problems of Microfinance in achieving economic empowerment of women. This study is based on purely secondary data; the statistical tools such as CGR, AGR and exponential growth model have been used to analyze the data. Finally, the study suggested that, the micro-finance has been playing a vital role in improving the socio-economic status of women in rural India and SHG programs have gained prominence in the development field and beyond.

Key Words : Micro-finance, Growth, Women and Empowerment

1. Introduction

Micro-finance programmes not only give women and men access to savings and credit, but reach millions of people worldwide bringing them together regularly in organised groups. Although no 'magic bullet', they are potentially a very significant contribution to gender equality and women's empowerment, as well as pro-poor development and civil society strengthening. Through their contribution to women's ability to earn an income these programmes have potential to initiate a series of 'virtuous spirals' of economic empowerment, increased well-being for women and their families and wider social and political empowerment. Micro finance services and groups involving men also have potential to question and significantly change men's attitudes and behaviours as an essential component of achieving gender equality.

Majority of microfinance programmes focus women with a view to empower them. There are varying underlying motivations for pursuing women empowerment. Some argue that women are amongst the poorest and the most vulnerable of the underprivileged and thus helping them should be a priority. A more feminist point of view stresses that an increased access to financial services represent an opening/opportunity for greater empowerment. Such organizations explicitly perceive microfinance as a tool in the fight for the women's rights and independence. Finally, keeping up with the objective of financial viability, an increasing number of microfinance institutions prefer women members as they believe that they are better and more reliable borrowers. Self-help groups intermediated by microcredit have been shown to have positive effects on women, with some of these impacts being ripple effects. They have played valuable roles in reducing the vulnerability of the poor, through asset creation, income and consumption smoothing, provision of emergency assistance, and empowering and emboldening women by giving them control over assets and increased self-esteem and knowledge (Zaman 2001). Several recent assessment studies have also generally reported positive impacts on women empowerment (Simanowitz and Walker 2002).

With this background, the present study tries to analyse the growth of number of Self Help groups, Bank loan and refinance capacity of the beneficiaries and women empowerment in India

as well as in Karnataka. Further it also examines the various problems of SHGs in achieving economic sustainability of women especially in rural area.

2. Objectives

The objectives of the present study are as follows

- To study the growth and trends of Microfinance in India and Karnataka.
- To examine the problems of Microfinance in achieving economic empowerment of women in India.

3. Methodology

On the basis of the specified objectives, the following methodology has been adopted to the present study. This study is both descriptive and analytical in nature. It is descriptive while dealing with the Microfinance and women empowerment and it is analytical while dealing with growth and trends of microfinance in India and Karnataka.

This study is based on purely secondary data. The secondary data have been collected from various sources like published journals, periodicals, news papers and other reports of financial institutions, Women and Children Department, Centre for Monitoring Indian Economy (CMIE), Planning Department etc. The present study has used the statistical tools such as Averages, Compound Growth Rate, Annual Growth Rate and exponential growth model to analyze the data sources.

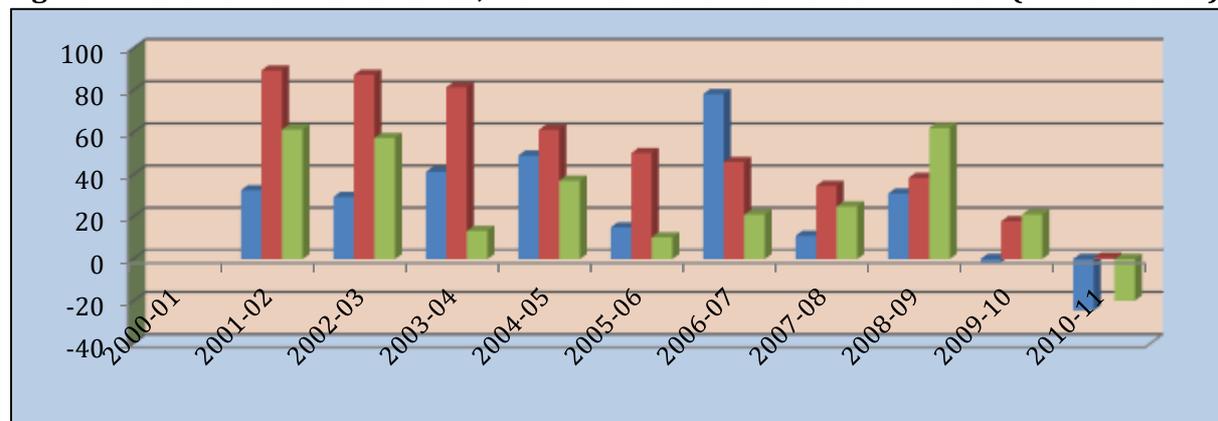
4. Growth of SHG-Bank Linkage Program (MFIs) in India

The performance of Micro Finance in India relating to women economic empowerment is evaluated with the help of the table 1 and chart 1 which shows the Micro Finance performance of India, in terms of number of SHGs, Bank Loan and Refinance for the study period from 2000-01 and 2012-13. Here the AGR and CGR have been used to analyze the performance of SHG bank linkage program in India.

Table 1: Growth of No. of SHGs, Bank Loan and Refinance in India (in Rs. Crores)

Year	No. of SHGs	AGR	Bank Loan (in Rs. Crores)	AGR	Refinance (in Rs. Crores)	AGR
2000-01	149050		287.89		244.85	
2001-02	197653	32.61	545.47	89.47	395.26	61.43
2002-03	255882	29.46	1022.33	87.42	622.47	57.48
2003-04	361731	41.37	1855.53	81.50	705.44	13.33
2004-05	539365	49.11	2994.26	61.37	967.76	37.19
2005-06	620109	14.97	4499.09	50.26	1067.72	10.33
2006-07	1105749	78.32	6570	46.03	1292.86	21.09
2007-08	1227770	11.04	8849.26	34.69	1615.5	24.96
2008-09	1609586	31.10	12253.5	38.47	2620.3	62.20
2009-10	1587000	-1.40	14453.3	17.95	3173.56	21.11
2010-11	1200000	-24.39	14548	0.66	2545.36	-19.79
2011-12	1148000	-4.33	16534.56	13.66	3072.59	20.71
2012-13	4451434	287.76	20585	24.50	1767.42	-42.48
CGR	26.42		41.32		20.98	

Source: NABARD Annual Reports, 2000-2001 to 2012-2013

Figure 1: Growth of No. of SHGs, Bank Loan and Refinance in India (in Rs. Crores)

Note: ■ No of SHGs Annual G R ■ Bank Loan Annual G R
■ Refinance Annual G R

The table 1 and figure 1 shows the growth of number of SHGs, Bank Loan and Refinance for the study period from 2000-01 and 2012-13. Here the Annual Growth Rate (AGR) has been used to measure the performance of SHGs, bank loan sanctioned and refinance. The initial year of the study, No. of SHGs was 1, 49,050 but later on it has increased to 4451434 in the year 2012-13, there was drastic increase in the growth of number of SHGs, it means that SHGs were increased from 1, 49,050 to 4451434 due to financial incisiveness of banking sector.

In the same way there is a wide variation in the annual growth of number of SHGs in India during the study period. There was a steady growth in the annual growth of number SHGs in the year 2000 to 2005, it means that AGR increased from 32.61% to 49.11% in the said period, then the annual growth rate declined to 14.97% in the subsequent year due to high rate of interest after that, there was a tremendous increase in the growth rate which was increased from 14.97% to 78.32% in the year 2006-07. Likewise in the year 2007 to 2009, the annual growth rate was declined to 31.10%, whereas in the subsequent year from 2009-2012, the annual growth rate is decreased negatively from -1.40 to -4.33. Subsequently in the year 2012-13, there was a tremendous increase in the growth of number of SHGs, it means that number of SHGs was increased to 4451434 with the annual growth rate of 287.76%.

NABARD is one of the main sources of sanctioning bank loan for SHGs. The sanctioned loan by the bank has been increased from 2000-01 to 2012-13 due to more number of SHGs, it means that the overall bank loan sanctioned was increased from 287.89 crores to 20585 crores. But when observed the Annual Growth Rate of bank loan has been decreasing during the period of 2000-01 to 2012-13 which means that, the AGR decreased over the period of time from 89.47 to 24.50. Hence, the compound growth rate of bank loan sanctioned is 41.32.

When we take into consideration of Refinancing facility of the bank is increasing over a period of time that is 2000-01 to 2012-13. The refinance has been increased from 244.85 crores to 1767.42 crores during the study period. But the annual growth of refinance has been drastically decreased from 61.43 to -42.48 because of high rate of interest for the bank loans. Hence, the compound growth of refinance is 20.98.

5. Growth and Trends of Microfinance (SHGs) in Karnataka

The origin of Microfinance in Karnataka way back in 1984 when Resettlement and development Agency(MYRADA). A non-governmental organization(NGO) engaged in rural development and based on Karnataka promoted several co-operative societies that extended loans to their members(Fernandez-2004) later in the mid-1980s, the national bank for agriculture

and rural development (NABARD) took the lead, after launching of SHG- bank linkage program in 1991-92 and under this program the first Micro-credit by private VYSYA bank. The Cauvery Grameena bank of Mysuru district became the first RRB in state to promote and credit-link several SHGS with states intervention. Shreeshakthi and swashakti programs are launched as a part of promoting micro-finance.

The primary objectives of the SHGS-bank linkage programme (SBLP) of NABARD is expand the outreach of the formal banking system to the un-reached rural poor on a sustainable basis. Providence of hassle free access to the financial services and products through formal with low rate of Interest itself has a number of benefits for the poor. In addition, the Programme fulfills several other objectives, first, it provides consumption as well as production loan without any collateral, Secondly, it enables SHG members to reach economic benefit out of mutual help. Solidarity and joint responsibility. The help ensures long-term help from a promotion institution for a number of activities.

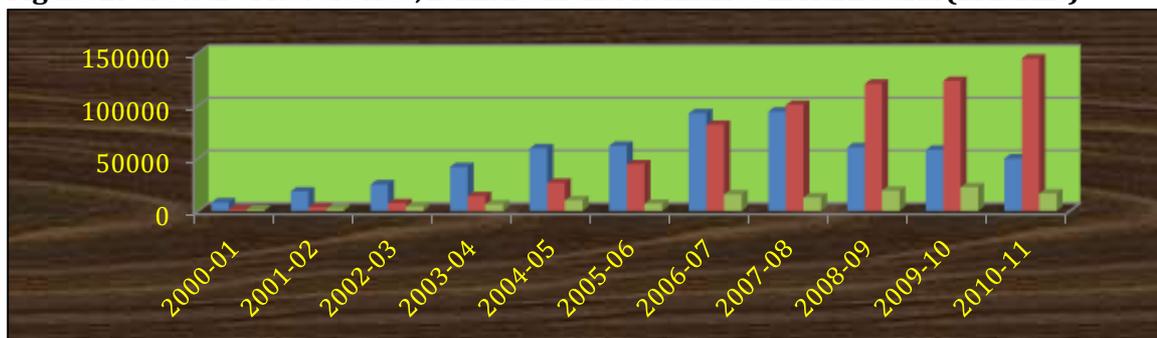
Table 2: Growth of No. of SHGs, Bank Loan and Refinance in Karnataka (in Lakhs)

YEAR	No. of SHGs	Bank Loan (in Lakh)	Refinance (in Lakh)
2000-01	8009	1714.00	1404.00
2001-02	18413	3475.39	2229.00
2002-03	25146	7249.50	4073.55
2003-04	41688	13960.37	6090.22
2004-05	59332	26653.00	9951.00
2005-06	61730	44266.02	6695.43
2006-07	92708	81638.87	15599.24
2007-08	94280	100646.47	12699.52
2008-09	60319	120702.37	19219.00
2009-10	57975	123355.55	22463.30
2010-11	49759	144702.80	16477.80
AVG	51759.90	60760.39	10627.46
CV	53.23	89.90	67.34
CGR	18.23	57.49	29.13

Source: NABARD Annual Reports, 2000-2001 to 2010-2011

Note: AVG - Average, CV - Co-efficient of the variation and CGR- compound growth rate

Figure 2: Growth of No. of SHGs, Bank Loan and Refinance in Karnataka (in Lakhs)



Note: ■ No of SHGs Annual G R ■ Bank Loan Annual G R ■ Refinance Annual G R

Table 2 and figure 2 indicates the Micro Finance performance of Karnataka, in terms of No. of SHGs, Bank Loan and Refinance for the study period from 2000-01 to 2010-11. The Compound Growth Rate is used to identify the progress of SHGs bank linkage programme in Karnataka. In the initial period No. of SHGs was only 8,009 and it has increased to 94,280 till 2007-2008, after that No. of SHGs decreased to 49,759 in 2010-11 due to lack of knowledge & co-ordination of SHGs members about microfinance systems, because of their illiteracy and high rate of interest. The average No. of the SHGs is 51759.90 and coefficient of variation is 53.23 as well as compound growth rate of the SHGs growth is 18.23.

NABARD has been providing loan facility to SHGs. Hence, from the initial period from 2000-01 to 2010-11; the NABARD has provided bank loans continuously from the amount of Rs.1,714 lakhs to Rs.1, 44,702.80 lakhs because of encouragement of the SHGs members to take loan and to attract the nonmembers to join the SHGs. The total average of the bank loan outstanding is Rs.60760.39 the coefficient of variation is 89.90 and compound growth rate is 57.49.

As for as refinance concerned it increased from Rs.1,404 lakhs to Rs.16,477.80 lakhs for the period from 2000-01 to 2010-11 but in the year of 2005-06, 2007-08 and 2010-11 this has been decreased to Rs.6,695.43 lakhs, Rs.12,699.52 lakhs and Rs.16,477.80 lakhs respectively due to high rate of interest. Hence, the beneficiaries have taken low amount of Refinance. So, the average and coefficient of variation of the total refinance is Rs.10627.46 and 67.34 respectively along with compound growth rate of 29.13.

6. Problems of Micro-finance in India

Though there is significant growth in number of SHGs, refinance and loan amount, the financial requirement of rural poor especially women are still excluded, several factors are determined the financial inclusion of rural women in India and several problems are still existed to achieve financial inclusion. Some problems faced by micro finance in India are:

Financial illiteracy of People

One the major confront in India towards achieving growth of the microfinance is illiteracy of the people. This makes difficult to create awareness about microfinance and even more difficult to serve them as microfinance beneficiaries.

Lack of information

There are various sources of credit information in the country, but none of these focused on rural borrowers. Credit information on such borrowers is difficult to obtain because the majority of the rural poor depends on moneylenders and other informal money lenders, and it is not in the interest of such lenders to pass on a borrower's good credit repayment record to other providers of finance.

Regional Imbalances:

There is asymmetrical geographical growth of SHGs in India. About 60% of the total SHG credit linkages in the country are concentrated in the Southern States only. However, in States which have a larger share of the poor, the coverage is relatively low. Because of the state government support, NGO concentration and people awareness.

Failure in generating funds:

MFIs have inability to raise sufficient financial fund in the microfinance which is again an important concerning problem. Through Non Banking Financial Companies are able to raise funds through private equity investment because of the profit motive, such MFIs are restricted from taking public deposits.

Dependency on banks:

MIF's are highly dependent on borrowing from banks. Majority of the MFI's funding sources are restricted to private banks only. In these available banks funds are typically short term i.e. maximum 2 years time. Also there is a leaning among some lending banks to sanction the loans to MFIs around the end of the accounting year in pursuit of their targets.

Interest Rate:

MFIs are imposing very high interest rates, which the poor find difficult to pay the loan amount. They do not get any subsidized credit for their lending activities and that is the reason behind they need to recover their operational costs from the beneficiaries.

It may be concluded that, Micro Finance is a movement where the poor people have permanent access to a range of high quality of financial requirements to finance their income-producing activities, build assets, stabilize consumption, and against various problems. These services are not limited to credit, but included saving, insurance and money transfers. Micro Finance programs have become one of the more promising ways to use scarce development funds to achieve the objectives of poverty alleviation. Finally the study suggested that, the micro-finance has been playing a vital role in improving the socio-economic status of women in rural India and SHG programs have gained prominence in the development field and beyond.

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