ROLE OF MICROFINANCE IN THE DEVELOPMENT OF INDIAN ECONOMY

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ABSTRACT

In a country like India, poverty remains to be one of the biggest problem. Amongst various measures to eradicate it, microfinance, of late has provided a ray of hope. The taskforce on Supportive Policy and Regulatory Framework for Microfinance constituted by NABARD defined microfinance as " the provision of thrift, saving, credit and financial services and products of very small amount to the poor's in rural, semi urban and urban areas for enabling them to raise their income level and improve their standard of living." (Sen, 2008). Microfinance is emerging as a powerful instrument to eradicate poverty and to achieve inclusive growth. In India microfinance scene is dominated by Self Help Groups (SHGs)-Bank linkage programme aimed at providing a cost effective mechanism for providing financial services to the unreached poor. The present study aims at identifying the role of microfinance in the development of India.

Keywords: Microfinance (MF), Poor, Financial, poverty, loan, programmes.

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INTRODUCTION

Microfinance is the provision of financial services to low income clients or solidarity lending groups including consumers and the self employed, who traditionally lack access to the banking and related services. More broadly, it is a movement whose objective is "a world in which as many poor and near poor household as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance and fund transfers." As these services usually involve small amounts of money small loans, small savings etc – the term "microfinance" helps to differentiate these services from those which formal banks provide. Why are they small? Someone who doesn't have a lot of money isn't likely to want or be able to take out a Rs. 50,000 loan or be able to open a saving account with an opening balance of Rs. 1000. The poor rarely access services through the formal financial sector. They address their financial their financial needs through variety of financial relationship, mostly from informal sector.

Different types of financial services providers for poor people have emerged – non government organizations (NGOs), Cooperatives, Community based development institutions like self help groups (SHGs) and Credit unions, commercial and state banks, insurance and credit card companies, post offices and other points of sale offering new possibilities. These providers have increased their product offerings and improved their methodologies and services over time, as poor people proved their ability to repay loans and their desire to save. In many institutions, there are multiple loan products providing working capital for small business, larger loans for durable goods, loan for children's education and to cover emergencies. Safe, secure deposit services have been particularly well received by poor clients. Those who promote microfinance generally believe that such access will help poor people out of poverty.

OBJECTIVES

The major objectives of the study are to highlight the role of MF in developing Indian economy. The other objectives are listed below.

1. To study the savings mobilized by the micro finance sector.
2. To assess the loan disbursement and recovery.
3. To assess the loan outstanding and non0performing assets.
4. To assess the employment generation by the MF employment generation by the MF programmes.

MICROFINANCE IN INDIAN ECONOMY

The concept of microfinance is not new in India. With the commencement of the co-operatives way back during the 19th century the concept of MF has emerged. In India the first Self Help Group (SHG) emerged in 1985, with the initiative of Mysore Resettlement and Development Agency (MYRADA), a non-governmental organization (NGO) for promotion of self-help affinity groups, watershed, water and wasteland management, forestry, community management of sanitary and drinking water, housing and habitant, improvement of primary education, micro enterprise generation.

There is a huge expansion in MF sector with large client base and increasing innovative financial services for low income groups in the last 45 years. MF has grown to big stature and now at present attracting the attention of research scholars to study the impact of microfinance services on the low income people and large number of studies has been conducted by individual researchers as well as government departments like NABARD and individual organizations like Sadhan, ACCESS including many international organizations. The date provided by NABARD for the last four years is highly valuable and reliable in accessing the significance of MF towards economic development. Though there is growth in SHGs and credit supply certain fundamental issue remained unsolved. Prime among them are its influence on the lives of people involved, its contribution towards poverty eradication and finally its influence on the living standards of people and contribution towards economic development. But one should not also undermine the contribution of MF towards the poor and deserved who have no access to formal financial institutions.

Table-1

Amount of Savings, Loans, disbursed and loans outstanding

Year	No. of SHGs	Average Savings per capita (in Rs.)	Amount of Savings (Rs. In Crores)	Amt. of Loans disbursed (Rs. In Crores) (a)	Amt. of loan outstanding (Rs. In crores) (b)	Loans outstanding with MFI
2006-07	4160584	8442.81	3512.70	6570.50	12366.49	1584.48
2007-08	5009794	7555.98	3785.39	8849.26	16999.91	2748.84
2008-09	6121147	9059.77	5545.62	12253.51	22679.84	5009.09
2009-10	6953250	8914.84	6198.71	14453.30	28038.28	10147.54

2010-11*	7460000	-	7016.00	14547.00	31221.00	(NA)

Source : Authors calculations from NABARD data

Note*: Status of MF in India, NABARD.

Table-2

Recovery Performance

Year	No. of Banks Recovery date	Recovery 95%	Performance 80-94%	50-79%	<50%
2008-09	267	79(29.5)	102 (38.2%)	59(38.2%)	27(10.1%)
2009-10	302	103(34.1%)	100 (33.1%)	70 (23.2%)	29 (9.6%)

Source: NABARD Data

Table-3

Brief Snapshot of Microfinance Sector (Amount in Rs. Crores)

Year Variables	No. of SHGs	2006-07 Amount	No. of SHGs.	2007-08 Amount	No. of SHGs	2008-09 Amount	No. of SHGs.	2009-10 Amount
Saving with SHG	4160584	3512.71	5009794 20.4%	3785.39 7.8%	6121147 22.2%	5545.62 46.5%	6953250 13.6%	6198.71 11.6%
Loan disbursed With SHGs	11005749	1411.02	1227770 11%	8849.26 34.7%	1609586 31.1%	12253.51 38.5%	1586822 12.5%	14453.3 17.9%
Loan Outstanding with SHGs	2894505	12366.49 25.3%	3625941 37.5%	16999.91 33.4%	4224338 33.4%	22679.84 (1.4%)	4851356 23.6%	28038.28
Loan Disbursed to MFIs	334	1151.56	518 55.1%	1970.15 71.1%	581 12.2%	3732.33 89.4%	691 18.9%	8062.74 116%
Loan Outstanding with MFIs	550	1584.48 101.6%	1109 73.5%	2748.84 72.7%	1915 82.2%	5009.09 (21%)	1513 102.6%	10147.54

Source: NABARD Data

MF programmes are currently being promoted as a key strategy for simultaneously addressing both poverty alleviation and women's empowerment. The UN Secretary General calls it "A critical Anti-poverty for the poorest, especially women". MF programmes targeting women have become a major plank of poverty alleviations strategies during the last few decades. A plethora of programmes sponsored so far by the governmental aid programmes could not achieve the estimated results and MF programmes through establishing SHGs seems to be a better alternative strategy aiming at reduction of poverty, unemployment and women empowerment.

Amount of Savings, Loans disbursed and Loan Outstanding:

Table-1 reveals the situation about the savings, loan disbursed and loans outstanding. The data of savings by SHG linkage programme with banks are made available by NABARD in the year 2006 for the first time in the last 15 years about savings of SHGs with Commercial Banks, RRBs and co-operative banks. As on 31st March 2011 there are a total of 746000 SHGs are linked with different banks, which grew with the average of 18.73% in the last four years i.e., from 2006-07 to 2009-10 and 2010-11 a further growth of 7.28 (annual). The amount of savings grew from 3572.70 crores to Rs. 7016 crores in 5 years with an average of 19.64%. The years 2007-08 and 2008-09 have shown remarkable growth in numbers of SHGs linked with banks as that was the expansionary period for the MF sector. The amount of loan outstanding varied from 12,66.49 crores to 31,221.00 crores where in pace of outstanding is uniform over the last four years i.e., from 2006-07 to 2009-10 and the pace of outstanding decreased during the year 2010-11 when compare to the previous years. Further table also reveals the combined loan outstanding (i.e., a+b) for the entire period. It varied from 13,950.97 to 38,185.82 from 2006-07 to 2009-10. The table also provides the date on average savings per SHG. It varied from Rs. 8442.81 to Rs. 8914.84 from 2006-07 to 2009-10.

Recovery Performance

Table-2 reveals the data on recovery performance. In the year 2009-10 out of total 302 banks who reported data for recoveries, 103 banks have reported recovery performance more than 95% which indicates increased recovery over the year 2008-09. In the year 2008-09, 29.5% banks reported recoveries more than 95%, but in the 2009-10, 34.1% banks have reported recovery more than 95%, 33.1% banks has reported the recovery performance of loans between 80 to 94% in the year 2009-10, and where as 38.2% banks has reported recoveries in same range in the year 2008-09, which shows a drop of 5% in recoveries.

Overall comparison

Table-3 reveals the overall changes of the MF sector. The figures shown in the table are the percentage change over the previous years in respective field. The NABARD data reveals that there is a large number of groups having savings account as comparative to the loan disbursed and loan outstanding. By the end of 2009-10 the number of SHGs having saving accounts stood at 6953250, loan disbursed 1586822 and number of SHGs loan outstanding stood at 4851356. It can be concluded that this sector is covering more and more people year by year and provide financial services to low income groups. The total number of clients are more when we consider the data that MFIs also possess a client base of 2.2 crore households. In short MF provides different financial products according to the needs of the people.

Microfinance and Social Empowerment

The microfinance has a profound social impact. A number of studies conducted on the effectiveness of the programme, have highlighted its impact on the social empowerment process. Important findings with respect to the SHG programme are:

- It has enabled households to spend much more on education than non-client households. Families participating in the programme have reported better school attendance and lower dropout rates.
- It has empowered women by enhancing their contribution to household income, increasing the value of their assets and generally by giving them better control over decisions that affect their lives.
- In certain areas, microfinance has reduced child mortality, improved maternal health and the ability of the poor to combat disease through better nutrition, housing and health – especially among women and children.
- It has contributed to reduced dependency on informal moneylenders and other non-institutional lenders in rural areas.

MICROFINANCE AND ECONOMIC GROWTH

Economic growth requires many things – from relatively stable governments to alleviation of poverty to the creation of a formal business sector to access to clean water, education, and healthcare. Long term growth can be achieved by

1. Putting an emphasis placed on improving overall quality of life, Public goods are missing from many of the small villages and poor slums in which microcredit is extended. Lack of safe wells, paved roads, and so on, limits the growth that successful and entrepreneurial microcredit borrowers can experience.

2. A focus on real businesses (which very possibly means not lending to the poorest of the poor, but lending to the better off who can create real enterprises and employ their less able neighbors) is necessary to create self-sustaining small companies, and to make the push toward a formal sector. Because MFIs have maintained their strong reputation and their ability to reach millions of people, they possess the necessary qualities to bring change.

It is clear from the date available that MF services are including more and more poor and low income people into financial system by providing them distinctive financial instruments like small savings and loan accounts, micro insurance etc., As per the economic theory even 1% growth the one year and with a span 10 years time the income grows by 11%. Therefore even a small changes of increase in the household income definitely influences income and living styles of people. If employment increase, definitely it contributes to the economic development. But it is very difficult to evaluate the exact impact of MF in isolate circumstances since many agencies are working for poverty alleviation. Studies reveals that the access to financial instruments is more important factor in success of any enterprise.

CONCLUSION

The economic development of any country is severely influenced by the availability of financial services. An idealfinancial policy should be drawn and if executed savings and capital formation takes place which in turn influences the quantum of industrialization phase. A well developed financial system promotes investment opportunities to potential business, mobilizes savings enables trading and diversifies risk. An efficient financial system offers improved financial decisions, supports and better distribution of resources and thereby accelerates economic growth.

In conclusion it is necessary to recognize that we in India have to focus on extending financial services to both rural and urban areas to ensure the financial inclusion of all segments of the population to attain sustainable and inclusive growth.

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