Micro Finance in India- A Study of Bank Linkages to Self Help Groups and Related Issues

Dr.S.V.Shridhara Murthy
Associate Professor & Director Research &Publications
Department of Commerce, NMKRV College for Women (Autonomous), 3rd Block, Jayanagar,Bengaluru

***Abstract:* --**The Indian economy provides a model of lop sided growth with lower strata of the population living in poverty without any significant way out for increasing their financial resources. In the recent past, Microfinance sector has emerged as a panacea for this problem.

Nobel Laureate Muhammad Yunus is credited with laying the foundation of the modern MFIs with establishment of Grameen Bank in Bangladesh in 1976. Microfinance Institutions (MFIs) in India exist as NGOs (registered as societies or trusts), Joint Stock Companies (under section 25 of Indian Companies Act and Non-Banking Financial Companies (NBFCs). Commercial Banks, Regional Rural Banks (RRBs), cooperative societies and other large lenders have played an important role in providing refinance facility to MFIs. This report, which contains only a part of the actual report is based on the research work done as a part of UGC Minor Research Project taken up by the scholar. The research involved study of the past literatures about the microfinance sector, related online research papers and journals. The study also involved survey of all MFIs in the Hassan District of Karnataka state through field visits and online survey.

Objectives of the Study: Following are the specific objectives of the study:

1. To examine the growth and development of Micro Finance in India.

2. To study the SHG Bank linkage in the context of providing Micro Finance for non agricultural enterprises being run by rural poor in Hassan District of Karnataka State.

3. To study the concept of empowerment of Rural Women through SHG-Bank linkages.

4. To suggest measures to overcome the problems being faced by the Micro Finance system in Karnataka State in general and Hassan District in particular.

Important findings of the report have been appended at the end. Pragmatic suggestions have been offered.

***Keywords:* --Micro Finance, SHGs, Bank Linkages.**

Introduction

The Indian economy provides a model of lop sided growth with lower strata of the population living in poverty without any significant way out for increasing their financial resources. In the recent past, Microfinance sector has emerged as a panacea for this problem. Microfinance is not just about giving micro credit to the poor rather it is an economic development tool whose objective is to assist poor to work their way out of poverty. It covers a wide range of services like credit, savings, insurance, remittance and also non-financial services like training, counseling etc.

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Gaps in Financial system and Need for Microfinance

According to the latest research done by the World Bank, India is home to almost one third of the world's poor (surviving on an equivalent of one dollar a day). Though many central government and state government poverty alleviation programs are currently active in India, microfinance plays a major contributor to financial inclusion.

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Research Methodology:

The present study is based on Primary and Secondary data collected by adopted by applying the field survey method of research. Self Help Group members, Bank Managers, Beneficiaries and others were supplied with specifically designed questionnaires and interview schedules. A host of surveyors were enlisted to ensure proper coverage. Interviews were conducted with the surveyors also to collect secondary data pertaining to quality of research input and other related factors. Secondary data was collected through Reports, Minute books of meetings, Records maintained at various offices of Micro Finance Organizations. Sampling Technique:

Stratified Random Sampling method was adopted for ensuring that the samples were distributed in the population and included all possible spheres of the population. In all a total of 500 Self Help Groups were covered consisting of about 5000 members. Personal interviews were held with the members, group leaders and supervisors and also bank officers and intermediaries.

Some Problems and legal solutions:

Although the microfinance sector is having a healthy growth rate, there have been a number of concerns related to the sector, like grey areas in regulation, transparent pricing, low financial literacy etc. In addition to these concerns there are a few emerging concerns like cluster formation, insufficient funds, multiple lending and over-indebtedness which are arising because of the increasing competition among the MFIs.

Legal structure and regulation

Although the SHG-Bank linkage model is well managed in India by NABARD, currently there is no proper regulatory body for the supervision of MFIs. The presence of institutions with a variety of legal forms makes it difficult for the regulation of all such institutions by a single regulatory body in the current Indian legal structure.

Some findings and problems faced by Micro Finance organizations:

Financial illiteracy

One of the major hindrances in the growth of the microfinance sector is the financial illiteracy of the people. This makes it difficult in creating awareness of microfinance and even more difficult to serve them as microfinance clients. Though most of the microfinance institutions claim to have educational trainings and programmes for the benefit of the people, according to some of the experts the first thing these SHG and JLG members are taught is to do their own signature.

Inability to generate sufficient funds

Inability of MFIs to raise sufficient fund remains one of the important concern in the microfinance sector. Though NBFCs are able to raise funds through private equity investments because of the for-profit motive, such MFIs are restricted from taking public deposits. Not-for-profit companies which constitute a major chunk of the MFI sector have to primarily rely on donations and grants from Government and apex institutions like NABARD and SIDBI.

Dropouts and Migration of group members

Majority of the microfinance loans are disbursed on group lending concept and a past record of the group plays an important role in getting new loans either through SHG-Bank linkage or through MFIs. The two major problems with the group concept are dropouts (when one or more members leave the group) and migration (when one or more members move to another group).

Transparent Pricing

Though the concern about the transparent pricing in the microfinance sector has been an older one, it is gaining significance with the growing size and the increasing competition in the sector. Non-transparent pricing by MFIs confines the bargaining power of the borrowers and their ability to compare different loan products, because they don't know the actual price. In absence of the proper understanding of the pricing, clients end up borrowing more than their ability to payback which results in over-indebtedness of the borrower.

Cluster formation – fight to grab established market

MFIs' drive to grab an established market and reduce their costs is resulting in formation of clusters in some areas leaving the others out of the microfinance outreach. By getting an established microfinance market, MFIs reduce their initial cost in group formation of clients, educating them and creating awareness about microfinance. This is one of the reasons for the dominance of the microfinance sector in the southern states.

Multiple Lending and Over-Indebtedness

Both of these are outcome of the competition among the MFIs. Microfinance is one such sector where the Neo-liberal theory of free market operation fails, at least to some extent. Though competition is good for many sectors but in this case it is going against both the parties. In order to eat away each others' market share, MFIs are ending up giving multiple loans to same borrowers which in some cases is leading to over-indebtedness (a situation where the borrower has taken loans more than her/his repaying capacity) of the borrower.

Conclusion:

Based on the research work, a few major recommendations made in the report include field supervision of MFIs to check ground realities and the operational efficiency of such institutions. Offer incentives to MFIs for opening branches in underdeveloped villages, so as to increase rural penetration. Also MFIs be encouraged to offer complete range of products to their clients. Transparent pricing and technology implementation to maintain uniformity and efficiency are among the others which these institutions should adopt.

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