MICRO FINANCE AND INSTITUTIONS CREDIT

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Introduction :-

Micro finance is almost a “buzz word” in the financial zone of every nation, after the united Nations roll out the international year of micro finance (M F)2005.

Micro finance has got further impetus when professor Muhammad younus, the founder of Grameen Banks and spearhead of micro credit for women and accorded Nobel prize for peace. As a matter of fact the concept of micro finance is not a new financial tool in India.

Micro Finance :-

Micro finance refers to small savings, credit and insurance service enlarged to socially and economically weaker sections of the society. The recent task groups on micro finance has other financial services and products of very small amounts to the poor in rural and semi urban areas for empower to escalate their income levels and enhance standards of living.

Micro finance is emerged or popup as a powerful instrument for furnishing basic financial facilities to the rural poor women (In rural, semi-urban area’s) Small and marginal farmers rural artisans and economically weaker sections of the society.

Micro Finance :-

Defined by NABARD “As the provision of thrift, credit and other financial service and products of very small amounts to the poor in rural, semi-urban or urban areas so as to enable them to raise their income”

Micro finance refers to the provision of small loans without collateral security to the poor and low income households, whose access to the commercial bank is limited.

Micro- credit :-

Micro credit has been defined by the micro-credit summit held in Washington D.C in February 1997, as “programmes that provide credit for self employment, other financial and business services to very poor persons”

The term micro-credit refers to a small size loan to be repaid within a short period of time, used mostly low income households and micro business entrepreneurs for the purpose of income generation and enterprise development.

Micro finance can be interpreted in a broader term both as micro-credit and micro savings.

Important Features of Micro finance :-

01) Micro finance is a tool for the empowerment of poor women.

02) Loans under micro finance programmes are very small.

03) Micro finance targets the poor rural and urban households.

04) Credit under micro finance follows thrift i.e. mobilise savings and lend the same.

05) Low transaction cost due to group lendings.

06) Transparencies in operation.
07) Short payment period.
08) Simple procedure for reviewing processing and approving loan application and delivery credit.
09) Chance of mis-utilisation are rare and there is assured repayment.
10) Need based loan disbursements.
11) Prompt repayment.
12) No ceiling from RBI (Minimum and Maximum amount)

Objectives of the study :-

The present study has the following objectives.
01) To examine the institutional and non-institutional credit.
02) To study the alternative rural credit sources.
03) To study the methodology adopted in providing financial services by the micro-finance institutions.

Methodology :-

The secondary data would be collected from the Annual Reports of NABARD, RBI and NGO’s.

Institutions and Non-institutional Rural credit.

Rural development of the country is mainly rely on the convenient of credit and mobilisation of savings. Perhaps one must aware, financial institutions in developing countries whether public or private have ignored rural credit for innumerous problems such as opportunity costs and low financial creditability.

The rural poor men and women. Landless people artisans agricultural labourers and small fisherman were excluded from the financial services.

Sources of Rural credit

<table>
<thead>
<tr>
<th>Institutional or Formal</th>
<th>Non Institutional or Non Formal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial institutions</td>
<td>Financial institutions</td>
</tr>
<tr>
<td>➢ Commercial Banks</td>
<td>Money lenders</td>
</tr>
<tr>
<td>➢ Housing finance institutions</td>
<td>Land Lords</td>
</tr>
<tr>
<td>➢ NABARD</td>
<td>Traders</td>
</tr>
<tr>
<td>➢ Rural Development Banks</td>
<td>Friends and Relatives</td>
</tr>
<tr>
<td>➢ Land development Banks</td>
<td></td>
</tr>
<tr>
<td>➢ Co-operative Banks</td>
<td></td>
</tr>
</tbody>
</table>

Ex :- state co-operative Banks
     District central co-operative Banks
     Primary Agricultural co-operative Societies

01) Institutional or Formal financial institutions :-

Basically these formal financial institutions providing financial services to the commercial activities and loans to middle and upper class income groups various sources such as commercial banks Housing finance, NABARD etc.
These Non formal financial institutions extended their basic financial facilities to the rural poor, women, small and marginal formers, rural artisans, and economically weaker sections of the society various sources (Non-institutional) like money lenders, landlords, traders etc.

**TABLE -01**

Share of different agencies in Rural credit (2004)

<table>
<thead>
<tr>
<th>Agency</th>
<th>Share in Total credit in percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Lenders</td>
<td>70 %</td>
</tr>
<tr>
<td>Public sector Banks</td>
<td>10 %</td>
</tr>
<tr>
<td>Co-operative Banks and society</td>
<td>9%</td>
</tr>
<tr>
<td>Govt Loans</td>
<td>1%</td>
</tr>
<tr>
<td>Self help Groups(SHGS)</td>
<td>1%</td>
</tr>
<tr>
<td>Others</td>
<td>9%</td>
</tr>
<tr>
<td>Total</td>
<td>100 %</td>
</tr>
</tbody>
</table>

Source: Rudradatt and K.P.M.Sundaram 2007

It is clear from the above table that maximum share in the rural credit constituting 70% percent were availed financial help from money lenders. The share of public sector Banks constituting 10% percent followed by co-operative Banks and others 9% percent respectively. A very small percentage of 1% shared by Govt Loans and self help groups.

Thus it is startling to note that money Lenders share in rural credit has 70% and public Sector banks and co-operative banks constitute 19%.

It is asserted from the above that the failure of institutional credit to the rural poor men and women and to meet the needs of farmers, Labourers and coolies in rural area.

**Share of Rural credit Market :-**

A recent NSSO(2007) Study reveals the Rural credit market share by the various agencies. The following table provides the details :

**TABLE - 02**

Share of Rural credit Market

<table>
<thead>
<tr>
<th>Access to credit</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional credit</td>
<td>27 %</td>
</tr>
<tr>
<td>Non-institutional credit</td>
<td>22 %</td>
</tr>
<tr>
<td>Not access to credit at all</td>
<td>51 %</td>
</tr>
<tr>
<td>Total</td>
<td>100 %</td>
</tr>
</tbody>
</table>
The above table reveals that majority of the rural population have no access to credit even today. This resulted in emergence of alternative rural credit institutions in country.

**Alternative Rural credit sources :-**

The following are the most important alternative rural credit institutions.

01) Self Help Groups
02) Micro Finance

**Modus of operandi employed by the Micro finance institutions :-**

The following is the modus of operandi employed by the micro finance institutions for distribution of financial services to low income earners.

Self Help groups and SHG Bank Linkage programme :-

The self help group is one of the prime sector mode of Micro finance in India. The self help group formation not only helps to mobilise small savings and disbursement of Loan to its members. This indirectly promotes Leadership development, decentralised decision making, transparency in transactions and enterprise development among rural poor.

During the year 1992 SHG Bank Linkage programme was introduced as a pilot project with a prime idea to link self help groups (SHG’s) with banks with a main idea of mobilising savings and thrift habit among rural poor.

The self group (SHG) Bank linkage programme is said to be the core model of micro finance, This programme (SHG Bank Linkage programme) outreach the micro entrepreneurs small and marginal farmers, Landless labourer, artisans and craftsman and others such as hawking and vending etc in the rural area.

**Progress of SHG Bank Linkage programme :-**

NABARD’s SHG Bank linkage programme (SBLP) has emerged as the world’s largest micro finance movement by organising the poor in to groups and linking them with Banks for credit facilities. The progress of journey so far is summarised as under.
**TABLE NO-03**

**Progress of SBLP**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2017-2018</th>
<th>2018-2019</th>
<th>Change %</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>No of SHG’s (in lakhs)</td>
<td>No of SHG’s (in lakhs)</td>
<td>No of SHG’s (in lakhs)</td>
</tr>
<tr>
<td>1) Loan Disbursed</td>
<td>22.61</td>
<td>26.98</td>
<td>19.33</td>
</tr>
<tr>
<td>2) Loans outstanding</td>
<td>50.20</td>
<td>50.77</td>
<td>01.13</td>
</tr>
<tr>
<td>3) Savings with Banks</td>
<td>87.44</td>
<td>100.14</td>
<td>14.52</td>
</tr>
<tr>
<td>4) NPA Level (%)</td>
<td>10.12</td>
<td>5.19</td>
<td>(-) 15.20</td>
</tr>
<tr>
<td>5) Average loan disbursed per SHG</td>
<td>2.09 lakhs</td>
<td>2.16 lakhs</td>
<td>3.35</td>
</tr>
</tbody>
</table>

**Source:** NABARD 2018-19

It is clear from the above table that 100.14 lakh self help groups and nearly 12.5 crore poor households in India as on 31-03-2019.

The rural poor thought to be unbankable prior to the SBLP era, now have credit outstanding of more than Rs. 87098 crore with the formal lending institutions.

It is startling to note that nearly 27 lakh self help groups (SHG’s) availed credit support of Rs. 58318 crore from various banks during 2018-19 at an average of Rs.2.16 lakhs per SHG’s.

It is evident from the above that credit disbursement during the year increased by 23.6 % over a previous year. The outstanding of institutional credit to self help groups (SHG’s) as on 31-3-2019 increase by 15.2 % over the year and SHG’s savings balance with banks went up from Rs.19592 crore as on 31-3-2018 to Rs.23325 crore as on 31-3-2019.
It could be observed from the study that the Non performing assets dropped to 5.19% in 2018-19 from 6.12% in 2017-18.

Thus SBLP has emerged is a powerful mediation for poverty allegation through.

Supporting self help groups as on 31-3-2019

01) The Grameen Model:

The Grameen model was originally designed by well known Grameen Bank of Bangladesh, developed by Muhammad Yunus.

Dynamics of Grameen Bank:

Homogenous groups of five members are formed at the village level which in turn formed in to centers of around five to seven such groups. The loans for productive purposes are provided by MFO directly to the members of small groups on the strength of group insurance.
02) Co-operative Model:

This has been originated by co-operative development forum Hyderabad. These forums depend upon “credit union” having a motto of savings. Co-operative Development forum established a sound network of Women Thrift Groups (WTG’s) and Men Thrift Groups (MTG’s). These are enrolled and registered under mutually aided co-operative society Act (MAC’s) and mobilise savings from the members.

03) Mixed Models:

Micro financial institutions started with one model and later converted into another model, i.e. Micro financial institutions adopted with Grameen Model but later converted into SHG model.

Conclusion:

Both Institutional and Non-institutional organisations failed to reach the economically weaker sections of the society. Microfinance is crop up as a powerful tool for extending basic financial needs to the rural poor, women (in rural and semi urban areas) small and marginal farmers, rural artisans and economically weaker sections of the society. This in turn helps these peoples to improve their standard of living by increasing their income level. Most of the studies reveals that the impact of microfinance programmes on poverty, money lenders, women empowerment and standard of living of the rural poor.

The study reveals the success of microfinance institution as an alternative rural credit in order to address the problems faced by economically weaker sections of society.

Self help groups Bank linkage programmes, Grameen models etc. are having greater role in overcoming the problems of microfinance institutions.

NABARD continued to support self help groups by granting financial support to its partner agencies with a prime goal to promote and nurture self help groups in the nation.