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JOURNEY OF INDIAN MICRO-FINANCE SECTOR : A CRITICAL ASSESSMENT

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Abstract: *During last few decades the role of micro-finance in eradicating poverty has been well accepted by the government and development institutions. The SHG- bank linkage program has become a well known microfinance program in our country. The paper evaluates the progresses and problems of various micro-finance models in India. Micro-finance in India has gone through impressive success during last decade. However despite the remarkable growth and progress various challenges are existing in the micro-finance sector. With the policy support from government and RBI it is hoped that it would transform the socio-economic life of poor people in India.*

Keywords: *Self Help Group, SGSY, MFI, Banking Correspondent.*

INTRODUCTION

In India micro finance started with SHG bank linkage programme of the NABARD on a pilot project basis in 1992-95 where in SHGs were set up by MYRADA (Mysore Resettlement and Development Agency). After its success the programme passed through the stages of pilot (1992-1995), mainstreaming (1995-98), and expansion phase (1998 onwards) and emerged as the world's biggest micro finance programme in terms of outreach covering 2.3 million groups to whom banks provided loans Rs. 1139740 million in the year 2006 (EDA, 2006).

This programme has been designed on the basis of combining the 'collective wisdom of the poor, the organizational capabilities of the social intermediary and the financial strength of the banks'. The recovery rate of this programme has been 95% for loans provided by banks to the SHGs. Also, the World Bank policy paper 3646 hails the programme and states that it is particularly suited to India because the model capitalizes on the country's vast network of rural bank branches (Mishra, 2006).

Now micro finance sector has been almost converted into an industry comprising mainly numerous NGOs and MFIs, Self-Help-Group, SHG federation, Cooperatives,

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credit unions, government and private banks. During the last decade the sector has experienced massive growth and expansion with the establishment of numerous Micro Finance Institutions (MFIs) and Non Government Institutions (NGOs) who are providing various micro finance services to the poor people with a view to free them from the trap of poverty.

In India the MFI model of micro finance with the SHG-Bank linkage programme in entire country has provided access to micro finance service to the millions of poor people in entire country. The following section provides a brief description of the achievements, problems and challenges of main models in India.

Micro-Finance Delivery Models in India–Progress and Problems

In India micro finance sector has been almost converted into an industry comprising mainly numerous NGOs and MFIs, Self-Help-Group, SHG federation, Cooperatives, credit unions, government and private banks. During the last decade the sector has experienced massive growth and expansion with the establishment of numerous Micro Finance Institutions (MFIs) and Non Government Institutions (NGOs) who are providing various micro finance services to the poor people with a view to free them from the trap of poverty. In India the MFI model of micro finance with the SHG-Bank linkage programme in entire country has provided access to micro finance service to the millions of poor people in entire country. The following section provides a a critical assessment of the achievements and challenges of main models in India.

1. SHG-BANK LINKAGE PROGRAMME

SHG-bank linkage is the most prominent model in India and has been very successful and effective in providing financial services to the poor people and uplifting their socio-economic status. This programme was started as pilot project in 1991-92 for linking 500 SHGs with bank in partnership with Banks, NGOs and SHGs. The banks were supposed to provide financial support, NGOs were responsible to organize the group of poor people, form their group, develop their capacity and empower them and SHGs were supposed to act as a common and collective voice of poor providing the services at the doorsteps.

Progress and Achievements

The program has matured from the project stage to a dominant indigenous model of microfinance in India which is also known as one of the largest micro finance programmes in world. As on 31st March, 2008 total no. of SHGs were 34,77,965 and the total loan amount given to SHGs were 22,268 crores. This program has been found quite sustainable and scalable in providing micro finance services to the poor people. Overall the recovery rate has been found more than 90 percent which is greater than traditional commercial banking.

Challenges of SHG-Bank Linkage Programme

Though the SHG-bank linkage program has been very successful in its outreach and impact however it faces the following various problems and challenges. Firstly one of the major challenges of linkage program is that it is highly uneven and unbalanced in its presence and growth. Almost 60 percent of the total SHG linkage program is operating in the southern states of India and the northern states which are most poor states of India have less penetration of such programs. Secondly converting the SHGs into established enterprises are a major challenge. For graduating the SHG into matured enterprise it is essential to provide them non financial support such as backward and forward linkages, marketing linkages support and other technical support needed to develop the required skill to run the enterprise. Thirdly there is lack of sufficient quality SHGs. Good record keeping is very essential for the sustainability of financial operations and maintaining the trust of group members.

In general it has found that they are not able to maintain the records of group and they find it complicated. The group lack sufficient awareness with the financial matters. In addition especially in the initial years they need group management training viz. conducting group meeting, maintaining group record, to make group agenda, idea about rules and regulations of group, rights and duties etc. The group formation and nurturing is a tough task in terms of time and cost. As per the norm of ministry of rural development the cost of forming and nurturing a group is Rs. 10,000.

The NGOs having social intermediation capacity are not given sufficient incentives by government and lack reasonable financial support which does not motivate them to dedicate and devote sufficient effort and time for forming and nurturing the groups. There are various organizations who are engaged in group promotion but they lack capacity and skill which is needed for promoting and nurturing the quality group. The success of SHG program and need on its expansion has dominated the thinking of the policy makers on increasing the total no. of SHG every year without bothering much about the quality aspects of group going to be formed and nurtured which is an essential aspect for the success and sustainability of linkage model.

Another problem is conflict between the SGSY and SHG-bank linkage program. The SGSY program which is a successful government poverty alleviation program has a subsidy element due to which the members of the linkage program move to this program just to avail the subsidy benefit which has negative impact on the linkage program and creates the conflict between these two programs. Inadequacy of loan amount to the member has been found another problem. The member of a SHG group is getting on an average less than Rs. 4000 which is not sufficient for doing some significant livelihood activity.

The growing mentality of better off people to join the SHG linkage program for availing the easy credit is a negative practice which needs to be discouraged and controlled. There is no clear guidelines and rules on the matter of defaults and drop-outs and on the matter of managing the defaulting members. There is lack of clear guidelines on the matter of leaving the group by a member, to share the accumulated surplus in this situation.

2. MFI MODEL

MFI model is another main model which has played a significant role in reaching to the poor people and financial inclusion. Some of the MFI operate at local level, some have presence in a particular region and some of them have a national presence. MFIs consist of NBFC, societies, trusts and cooperatives which get financial support from NABARD, SIDBI, Rashtriya Mahila Kosh, (RMK) and Friends of Women's World Banking and other institutions. Mostly the MFIs are section 25 company having almost 80 percent share of total microfinance loan portfolio.

Progress and Achievements

During the year 2010-11 total 8448 crores loan has been given by the banks. Due to getting financial support from apex financial institutions and banks and specialized position, flexible products and customer friendly approach it has grown much faster than compared to SHG bank linkage program. During the year 2009-10 MFIs served total 26.7 million clients. Total outstanding loans of MFIs were 183.44 billion during the year 2009-10.

Challenges in the Growth and Sustainability of MFIs

Despite the impressive growth and expansion it is facing several problems and challenges which need to be addressed properly for the future growth and sustainability of MFIs. There are various constraints and challenges in the operations, growth and sustainability of MFIs. Firstly in India there is no single comprehensive legal policy regulating the microfinance sector and it is fragmented across many government bodies. Secondly the MFIs in India gets funds from financial institutions and other funding agencies relatively at higher rates than compared to other countries. They have not got benefit of subsidized and grant based funding.

This high cost fund is a major constraint for profitability and growth of MFIs. Thirdly most of the MFIs lack the required skills, capacity and strong MIS system which is needed for efficient and successful functioning in long run. Most of the MFIs lack experienced, expert and qualified micro finance professionals. Finally although microfinance sector has witnessed a very impressive and massive growth during last decade in its outreach and scale but mostly it has been concentrated in the southern part of country namely Andhra Pradesh, Karnataka and Tamilnadu.

3. BANK PARTNERSHIP MODEL

This is an innovative model based on partnership wherein the MFI act as an agent of bank who is the lender. The MFI does the work of credit monitoring, supervision, recovery and responsible for the entire activity starting from first contact to recovery of loan and the loan remains in the books of bank. This model has great potential to provide the services to the poor people on large scale basis as it frees the MFI from capital constraint.

Progress and Achievements

The partnership between CASHPOR in Uttar Pradesh and ICICI bank is one of the example of this model. Here the ICICI bank provides working capital support to the MFI to cover the administrative cost when there is lack of fund and bears the entire risk of loan by giving the loans directly to the SHGs and JLGs of CASHPOR who is responsible for the monitoring and collection of loans. As on 31st March, 2004 total outstanding loans advanced by ICICI under partnership model was US $ 38.56 million.

Challenges in Bank Partnership Model

Despite being quite successful and impressive growth this model is facing some big problems in its operations. Firstly although this model has great potential for those MFIs which are big and have credit rating by the rating agencies however in most of the MFIs the credit rating is not available. So this lack of rating and reliable information about the MFIs and on their loan portfolios becomes a big challenge for the banks to use this model successfully.

Another major challenge of this model is that in the case of difficulty in MFIs relating to political risk, solvency risk or other problems which make it non operating then in this case the loans created through partnership would be bad debt for the ICICI. A recent example is microfinance crisis in the Krishna district of Andhra Pradesh wherein ultimately ICICI lost its more than seventy percent part of total loan sanctioned in partnership with MFI.

4. BANKING CORRESPONDENT MODEL

BCs are the agent partner of banks providing banking services on behalf of banks to the poor unbanked people in rural areas.

Progress and Achievements

Although BC has great potential to serve financial inclusion to the poor people in rural area but the scheme has not shown any significant achievement and progress. On an average 15-20 banks have started the BC model on pilot basis for expanding their business operations. SBI is leading runner in this respect amongst public sector banks and trying to appoint BC as many as possible. Apart from SBI other public sector banks who are engaged and started this model are Indian Bank, Corporation Bank, PNB, Oriental Bank of Commerce, Andhra Bank and Canara Bank.

At institutional level banks are using MFIs, post offices and NGOs as their BCs and at individual level they have choosen retired bank officials, grocery shops and dealers in agricultural inputs. The various banks have adopted different methods for BCs and providing different services. Some banks are using BCs for giving no frill bank a/c facility, some are using for government payments relating to NREGS, pension and other social payments. The following table shows the examples of bank experiments:

Bank	*Product offered*	*No. of BCs enrolled*	*No. of operational States*	*Clients Reached*	*Loan Disbursed*	*Deposits (in Rs. Crores)*
HDFC	Mainly loans through SHG	203	13	More than 650000	NA	NA
ICICI	Loans, savings, deposits	48	13	More than 500000	NA	NA
SBI	Smart card based No frill savings A/C	33	All India	More than 2700000	NA	NA
KBS Local Area Bank	Savings, loans and deposits	1	AP- 3 districts	More than 13400	11	2

Source: Retreat on the Business Correspondent organized by RBI, ACCESS and C.A.B.

Challenges in Banking Correspondent Model

Presently it is very popular and successful model however it is suffering from some problems. Firstly almost more than 80 percent of savings accounts opened by the clients are inactive and there is no transaction. Secondly the commission paid to the BC is not sufficient to cover their total cost which is causing loss to majority of the BCs and many of them became compelled to stop their business. Thirdly mobilizing the local community and people for savings and deposit is a tough task for the BC as the local people are lacking confidence in BC for saving and deposit. Fourthly BCs need sufficient capacity building training in respect of technology, product and system to work successfully which is not provided by the banks.

Sixthly integrating the existing technology of the BCs with the bank's technology is a challenge for many BCs. Seventhly as per banks norms BCs are required to finish the accounting transaction and settle cash with the bank branch within 24 hours. It becomes a tough task as the BCs operate in the rural and remote areas having accessibility problem. In addition to these problems BCs are also facing various operational problems. First there is high risk of fraud and misappropriation as the BCs staffs works individually and do not work under direct supervision of banks. Second banks have found irregularities in the transactions of the BCs relating to deposit and withdrawal. Thirdly the clients dealt by the BCs are almost illiterate so many times they are misguided by the staffs of the BC. Almost 90 percent transactions are in cash and so handling them is costly and risky. They clients treat the BC as owners do not know about their agency role.

The BC model is in expansion phase and the focus is on inclusion and not on commercial approach. Various models and experiments have been done by the banks and BCs to make it viable instrument of increasing financial outreach. The technology service provider in this model needs to focus more on clients rather than technology itself. In the long run the success of BC model would depend on this fact that the banks take it as business strategy to expand the financial inclusion and not as a charity activity.

CONCLUSION

In this paper the progress and problems of various delivery models of micro-finance in India have been critically assessed. The SHG bank linkage program has emerged one of the largest and most successful model of not only India but in world. There is greater need of improving the quality of SHG, their maturing in enterprises, sufficient no. of dedicated development professionals, balanced expansion in different parts of country and proper training of members which would lead to revolution in SHG model of micro-finance. Banking correspondent has played vital role as a delivery mechanism and with proper government and RBI support it has emerged as a panacea in accessibility to the remote of areas. MFI model has improved a lot viewing the greater expansion in various states and enabling legal support by government of India. Although recently the government and RBI has streamlined the legal environment for MFIs, Banking Correspondent and SHGs however a lot of policy support measures are yet to come so that micro-finance could be fully mainstream with the financial and economic system.

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