

Role of Microfinance for Financing Poor People in India

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Abstract: *Microfinance is considered as one of the most potential and successful tools which fight against poverty. Microfinance is a way of financing people with small financial need. Poor people are deprived of getting banking facilities for their inability to provide valuable security. That is why micro financing emerged. Micro financing covers financial services like, savings, insurance, training etc, in addition to micro credit. Traditionally, the position of women in developing nations like India has been poor compared to men. Women are poorer, have low education and go through various social hazards. The early 1990s have witnessed liberalization and globalization. Now liberalization and globalization have opened our eyes. It is well recognized notion that without upliftment of the condition of women in a society a nation cannot be developed in a competitive world. The present paper discusses conceptual framework of microfinance and region-wise progress of Savings Linkage of Self Help Groups (SHGs) with Banks from 2018-19 to 2020-21 in India. Also this paper covers agency wise distribution of SHG Bank Linkage Programme in India. Lastly, this chapter depicts how women are financially benefitted from microfinance institution through Self Help Groups. The findings of this chapter are expected to be a valuable concept for microfinance institutions, Govt. and SHGs in creating policy for overall development of India.*

Keywords: Microfinance, SHGs, Poor, Savings, Bank, Women

1. Introduction

Microfinance is a way of financing people with small financial need. Literary poor people is deprived of getting banking facilities for their inability to provide valuable collateral on the one hand and on the other hand micro financing is not cost-effective in the eye of banking sector. That is why micro financing emerged. Microfinance should not be used interchangeably with micro credit. Micro financing covers savings, insurance, training etc. in addition to micro credit. Gender discrimination is our inborn concept of mind, but human capital (both men and women) is the most important part of a country and the development of a nation is dependent on the quality of its human asset. As women were used to do work in the home, a habit and custom developed in the mind of people that woman is suitable and safe for home work only and no other power is necessary for them. Thus male people empowered them in every respect keeping female people confined within pavilion. In this way year after year gender discrimination was practiced and hidden power of women remains unutilized. After that the development of education and knowledge helps male people to dream otherwise and instances of female success in different sectors triggered this thinking. Present age of globalization is directing towards formation and development of human capital and not the development of men or women. Women empowerment is providing women the opportunities so that they can apply their inherent power to various creative activities and thereby increasing their efficiencies which in turn boost their creativity.

2. Objectives of the Paper

The objective of the present paper is to discuss conceptual framework of microfinance, Region-wise Progress of Savings Linkage of SHGs with Banks from 2018-19 to 2020-21 in India. Also, this paper discusses agency wise

distribution of SHG Bank Linkage Programme in India. Lastly this paper depicts how women are financially benefitted from microfinance institutions through Self Help Groups in India.

3. Data and Methodology

The present study is descriptive and based on secondary data. Secondary data is collected from different sources such as (a) NGO reports; (b) Status of microfinance in India report, 2015-2016, and 2020-21, NABARD (c) Census of India; (d) The Bharat Microfinance Report 2016, Sa-Dhan (e) RBI bulletin; and from different websites which provide microfinance related literature and data.

4. Conceptual Framework of Microfinance

The micro finance sector in India has developed a flourishing and sustainable business model which has been able to overcome challenges traditionally faced by the financial services sector in servicing the lower income population. Indian economy is categorized by low growth rate, supremacy of rural population, dependency on agriculture, lack of education, unequal distribution of income and wealth, high incidence of poverty and unemployment. But poverty and unemployment create major problem to the growth and development of the country. To overcome this problem, some newly developed sectors like micro finance are playing a crucial role in developing countries like India; also, the Micro Finance world of today is a world of speedy growth in an economy and facing a hard competition. According to the Asian Development Bank (2000), microfinance is the provision of broad range of services such as savings, deposits, loans, payment services, money transfers and insurance to poor and low-income households and their micro-enterprises. The SHG (Self Help Group) Bank

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Linkage Programme of NABARD has emerged as the primary model for providing microfinance services in the country. Promoted by the success of this programme NABARD encouraged the linkage of Micro Finance Institutions (MFIs) with the banking sector. MFIN Micrometer September 30, 2019 data reveals that the access to microfinance is rising at a healthy pace, nationally, and increasing number of small borrowers across the country are paying back their dues on time. This endorses the fact that Microfinance loans are increasingly seen by small borrowers as big economic facilitators, regulated and organized form of finance, over the unregulated forms of availing finance, as per Micrometer data. Over the last 2.5 years, beginning March 2017, which also marked the end of demonetisation period, an estimated 1.83cr unique borrowers have been added, which is an average of 0.73 cr per year (CAGR of 16.87%). As on September 30, 2019, the microfinance industry serves 5.46cr unique borrowers through 9.79cr loan accounts. In context of Covid pandemic NABARD has taken up some special initiatives to support SHG members both in term of health advisory and promotion and livelihood support activities. These include E portal used for sending 40 lakh health advisory SMS to SHG members. SHGs under Eshakti Portal engaged for making face masks, hand sanitizers, PPE kits, distributing essential items/ grocery kits/ vegetable hamper and setting up of grain bank, running awareness drive and so on. All these initiatives have created enhanced scope for SHG members to earn additional income. Keeping in view the COVID-19 pandemic and labourers' reverse migration to rural areas, allocations under MEDPs, LEDPs and Capacity Building were increased substantially to provide adequate skill set for employment in rural areas. The focus is on states of Assam, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan, Uttar Pradesh and West Bengal, where the impact of reverse migration is

expected to be maximum. For 2020-21, in comparison to the previous year, the number of MEDPs were tripled and LEDPs doubled to augment skills of rural folks for enhanced employment.

Region-wise Progress of Savings Linkage of SHGs with Banks (2018-19 to 2020-21)

As savings grow, the eligibility of SHGs for loans from banks/FIs augment and thus business investment potential increases. Table1 provide region-wise performance of savings linkage of SHGs in terms of absolute numbers and percentage share. During 2020-21, banks have reported an addition of 9.8 lakh savings linked SHGs at all India level registering a growth of 9.5 per cent compared to 2.3 in 2019-20. Region-wise comparative data reveals that in terms of number of SHGs savings linked with banks, positive growth was registered across all regions during 2020-21. Among the regions, Central region registered the highest growth of 19%, whereas the Western Region registered the lowest growth of 5%. Six States/UTs viz., Uttarakhand, Nagaland, Chandigarh, New Delhi, Karnataka, Daman & Diu, registered a negative growth. As many as 19 States/UTs viz., Chhattisgarh, Madhya Pradesh, Andaman & Nicobar, Bihar, Odisha, Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Tripura, Haryana, Jammu & Kashmir, Punjab, Andhra Pradesh, Lakshadweep, Puducherry, Telangana and Gujarat registered growth rates higher than the All India average. The decline in savings accounts of SHGs in the six States is mainly due to data sanitization, closure of dormant accounts and reporting errors etc. In terms of savings amount, the Northern Region had the highest growth of 193%, followed by the Western Region (85%), North Eastern Region (73%), Southern Region (45%), Central Region (24%) and the lowest growth of 17% was registered by the Eastern Region.

Table1: Region-wise progress of Savings Linked SHGs with Banks (2018-19 to 2020-21) (Amount in Rs. Lakh)

Sr. No.	Regions	2018-19		2019-20		2020-21	
		No. of SHGs	Savings Amount	No. of SHGs	Savings Amount	No. of SHGs	Savings Amount
1	Northern Region	5, 48, 624	62, 453	5, 77, 122	59, 550	6, 09, 808	1, 74, 345
2	North Eastern Region	5, 23, 469	40, 407	5, 56, 899	48, 141	6, 33, 714	83, 126
3	Eastern Region	26, 54, 358	6, 01, 155	28, 11, 130	6, 64, 333	31, 22, 424	7, 74, 912
4	Central Region	10, 62, 759	1, 33, 230	11, 35, 083	1, 71, 217	13, 45, 575	2, 11, 870
5	Western Region	13, 88, 615	2, 05, 275	14, 73, 853	2, 01, 880	15, 50, 176	3, 74, 023
6	Southern Region	38, 36, 418	12, 89, 928	36, 89, 236	14, 70, 085	39, 61, 703	21, 29, 485
	Total	1, 00, 14, 243	23, 32, 448	1, 02, 43, 323	26, 15, 205	1, 12, 23, 400	37, 47, 761

Agency wise distribution of SHG Bank Linkage Programme

Commercial Banks, RRBs and Cooperative Banks play a pivotal role in strengthening the SHG BLP through provision of savings and credit services. The Agency-wise status of SHG-BLP is given in Table 2. As given in Table 2 average savings of SHGs with Banks has increased for all the Agencies, the increase is particularly significant for

the Cooperative Banks (102%). The average savings have gone up from Rs 25531 to Rs 33392. The average loans disbursed to SHGs have decreased by 19%, mainly due to a decrease of 29% for Commercial Banks. The average loans disbursed by RRBs have decreased by 7%, whereas, there is an increase of 18% in the same for Co-operative banks. The average loans outstanding per SHG have decreased for Commercial Banks, whereas there is an increase in case of RRBs and Co-operative Banks.

Table 2: Agency-wise Average savings, Loan Disbursement and Loan Outstanding (per SHG) for 2019-20 & 2020-21

Category of Agency	Average Savings of SHGs with Banks			Average Loans disbursed to SHGs by Banks			Average Outstanding Bank Loans against SHGs		
	2020-21	2019-20	Change (%)	2020-21	2019-20	Change (%)	2020-21	2019-20	Change (%)
Commercial Banks	36, 872	28, 613	28.86	1, 91, 806	2, 69, 646	-28.87	1, 85, 768	2, 16, 156	-14.06
Regional Rural Banks	26, 445	23, 947	10.43	2, 06, 742	2, 21, 539	-6.68	1, 76, 724	1, 63, 966	7.78
Cooperative Banks	35, 838	17, 767	101.71	2, 29, 278	1, 95, 094	17.52	1, 43, 248	1, 22, 622	16.82
Total	33, 392	25, 531	30.79	2, 01, 118	2, 46, 851	-18.53	1, 78, 694	1, 90, 371	-6.13

Financial Benefit by Poor Women from Microfinance Institution through Self Help Groups

Traditionally women have been confined to household activities keeping their capabilities hidden within themselves. But there are numerous examples where women showed their skills. Empowering women may be thought in terms of financial, educational, family planning, decision making, cultural participation, self-reliance, self-esteem etc. They can play important role starting from local to international level. The importance of empowering women may be pointed out as follows:

1. Development of women
2. Eradication of poverty
3. Education of children
4. Family planning
5. Improvement of health of family members
6. Decision making
7. Participation in cultural programme
8. Better housing
9. Participation in social work
10. Participation in politics
11. Minimizing violence against women etc.

A recent World Bank report confirms that societies that discriminate on the basis of gender pay the cost of greater poverty, slower economic growth, weaker governance, and a lower living standard for all people. At a macro level, it is because 70 percent of the world’s poor are women. Women have a higher unemployment rate than

men in virtually every country and make up the majority of the informal sector of most economies. They constitute the bulk of those who need microfinance services. Giving women access to microcredit loans therefore generates a multiplier effect that increases the impact of a microfinance institution’s activity benefiting multiple generations. Microfinance is promising as a commanding instrument for poverty alleviation in the new economy. Skill development is a vital tool for recovering the employability and increasing productivity of the working poor women and thereby reducing poverty and exclusion. Rural poor women typically face difficulties or discrimination in accessing good quality training. Keeping the above in view, NABARD continued with Micro Enterprise Development Programme (MEDP) to take care of the entrepreneurial talents of members of mature SHGs to set up and run micro enterprises as a livelihood option in farm or non-farm sector. Microfinance act in conquered by SHGs Bank linkage programme as a cost effective methods for providing financial services to the poor people, particularly poor and needy women and it has been successful not only in meeting financial needs of the rural poor women but also strengthen collective self help capacities of the poor leading to their empowerment. Rapid progress in SHGs formation has now turned into an empowerment of women in India. The SHG-Bank Linkage Programme started as an Action Research Project in 1989. In 1992, a Pilot Project was settled. The pilot project was planned as a partnership model between three agencies, viz., the SHGs, Banks and Non-Governmental Organisations (NGOs).

Table 3: Progress under SHG-Bank Linkage Programme (2018-19 to 2020-21) (Number in lakh/ in crore)

Particulars	2018-19		2019-20		2020-21	
	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
Total SHG Nos.	100.14 (14.52%)	23324.48 (19.05%)	102.43 (2.29%)	26152.05 (12.12%)	112.23 (9.57%)	37477.61 (43.31%)
All women SHGs	85.31 (15.44%)	20473.55 (17.01%)	88.32 (3.53%)	23320.55 (13.91%)	97.25 (10.11%)	32686.08 (40.16%)
Percentage of Women	85.19	87.78	86.22	89.17	86.65	87.21
Of which NRLM/SGSY	55.8 (33.37%)	12867.18 (23.32%)	57.89 (3.75%)	14312.7 (11.23%)	64.78 (11.9%)	19353.7 (35.22%)
% of NRLM/SGSY Groups to Total	55.72	55.17	56.52	54.73	57.72	51.64
Of which NULM/SJSRY	4.39 (3.29%)	1614.42 (19.52%)	4.69 (6.83%)	1523.57 (-5.63%)	5.29 (12.79%)	1954.09 (28.26%)
% of NULM/SJSRY Groups to Total	4.38	6.92	4.58	5.83	4.71	5.21

Loans Disbursed to SHGs during the year	Total No. of SHGs extended loans	26.98 (19.33%)	58317.63 (23.59%)	31.46 (16.60%)	77659.35 (33.17%)	28.87 (-8.23%)	58070.68 (-25.22%)
	All women SHGs	23.65 (13.98%)	53254.04 (19.51%)	28.84 (21.95%)	73297.56 (37.64%)	25.9 (-10.19%)	54423.13 (-25.75%)
	Percentage of Women Groups	87.66	91.32	91.67	94.38	89.71	93.72
	Of which NRLM/SGSY	16.49 (29.84%)	33398.93 (33.30%)	20.49 (24.26%)	52183.73 (56.24%)	15.84 (-22.69%)	29643.04 (-43.19%)
	% of NRLM/SGSY Groups to Total	61.12	57.27	65.13	67.20	54.87	51.05
	Of which NULM/SJSRY	1.29 (21.70%)	3419.58 (41.07%)	1.59 (23.26%)	3406.22 (-0.39%)	1.13 (-28.93%)	2112.04 (-37.99%)
	% of NULM/SJSRY Groups to Total	4.78	5.86	5.05	4.39	3.91	3.63
Loans Outstanding against SHGs as on 31 March 2021	Total No. of SHGs linked	50.77 (1.14%)	87098.15 (15.21%)	56.77 (11.82%)	108075.07 (24.08%)	57.8 (1.81%)	103289.71 (-4.43%)
	No. of all Women SHGs linked	44.61 (-1.93%)	79231.98 (12.54%)	51.12 (14.59%)	100620.71 (27.00%)	53.11 (3.89%)	96596.6 (-4%)
	Percentage of Women SHGs	87.87	90.97	90.05	93.10	91.89	93.52
	Of which NRLM/SGSY	32.85 (17.62%)	54320.91 (42.11%)	36.89 (12.30%)	67717.07 (24.66%)	33.78 (-8.43%)	57336.62 (-15.33%)
	% of NRLM/SGSY Groups to Total	64.7	62.37	64.98	62.66	58.44	55.51
	Of which NULM/SJSRY	2.25 (-22.41%)	4110.73 (-23.17%)	2.67 (18.67%)	5466.87 (32.99%)	2.23 (-16.48%)	4056.45 (-25.8%)
	% of NULM/SJSRY Groups to Total	4.43	4.72	4.70	5.06	3.86	3.93

Figures in parenthesis indicate increase / decrease over the previous year

Progress of SHG Bank Linkage Programme has indeed become an example of success of a microfinance programme globally with an outreach to 13.87 crore families, providing social, economic and financial empowerment to the rural poor, especially women. The year wise progress (2018-19 to 2020-21) in savings and credit linkage of SHGs under the SHG-BLP is enumerated in Table 3 which gives an account of savings, credit disbursement and credit outstanding of total SHGs including those under NRLM and NULM.

5. Conclusion

In recent years Microfinance has turn out to be an important instrument for the development of Third World Countries. Microfinance services play important role for socio-economic development of poor people. A wide range of services like deposits, loans, insurance, savings, micro credit, payment services, money transfer etc. are provided by microfinance. In India, Microfinance institution is the most persistent features for poverty alleviation in rural areas; in addition, micro finance programmes have an efficient contribution in development through empowering women. In India microfinance has been operating through the two models of Self Help Group and Microfinance Institutions. Both these delivery models have covered various regions of the country, but interestingly the Southern region has almost reached the

maximum concentration of microfinance activities. While the North-Eastern region, which remains backward in terms of coverage by the microfinance sector. The success of microfinance activity in the future would be a function of the participatory approach of the MFIs, NGOs, SHGs, and banks. There is a great need for integration and linkage among these institutions for all types of resources including information sharing and delivery. Constitutional provision of equality and justice must be maintained by the general people and effort should be made to avoid gender discrimination while implementing developmental policy.

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