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Problems of Micro-finance in India : A Study

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Abstract

Microfinance uses as a tool for eliminating poorness in Republic of India and other developing nations. Microfinance evolutionary growth has given an excellent chance to the rural people to achieve affordable economic, social and cultural empowerment, leading to higher living standard and quality of life.

Microfinance is one of the most visible innovations in anti-poverty policy in the last half-century, and in three decades it has grown radically. The most important benefit of microfinance in India is that it helps long-term financial independence in these poverty-stricken areas. Microfinance help sustained impact by educating recipients on how to create their own businesses and how to properly manage and grow their money. There is a rapid growth in the strength of microfinance in India and several other countries. Undoubtedly it has been successful in bringing formal financial services to the poor. People believe that it has provided money to the poor families and it has the strength to increase investments in health, education and empowerment of women.[1]

At the outset of this article it needs to be kept in mind that the focus on women borrowers has been a major feature of microcredit provision in India as in Bangladesh and is frequently cited as one of the ongoing public strategies for women's economic empowerment. However, as pointed out by Kalpana[2] even this linkage has often reflected and accentuated traditional patterns of gender discrimination: 'When they seek access to bank credit, women's groups are in a dependent relationship, and are subject to, and tarnished by, the institutional imperatives, systemic corruption and political compulsions that shape the behaviour of rural development bureaucracies and banks.' Indeed, loan recovery pressures from banks have added to the push factors (such as household livelihood stress, medical costs, migration, etc.) that drive poor women out of microcredit programmes. Bank pressure also creates tensions within SHGs that undermine solidarity and social cohesion among women. It is common to deny SHG membership to women who have experienced or are likely to experience financial stress, which obviously particularly impacts upon women from more deprived and marginalised groups. It is often found that women from Scheduled Tribe or Scheduled Castes communities or other deprived groups are disproportionately excluded from SHG groups or forced to form SHGs of their own, which are viewed as inherently weaker. The very existence of MFIs has therefore sometimes been seen as another vehicle for reinforcing the multiple deprivations of vulnerable women.[3]

Unlike Grameen Bank and similar institutions around the world that are funded primarily by deposits raised from their own borrowers and non-members, Indian MFIs are prohibited by law from collecting deposits. So Indian MFIs did not have a legal framework that would allow them to 'involve the community in the ownership structure of an MFI'. When 'developmental' or donor funds were not forthcoming, they could not access private investors because they could not distribute the profits made, which made it harder for them to access adequate capital for expansion. This led to the drive for 'transformation' of the industry: the move from a notfor-profit to a for-profit format. While the MFIs of the 1990s were all started with the explicit intention of broader public purpose, and therefore spearheaded by NGOs, in the 2000s several of them transformed into for-profit entities and new ones emerged that originated with a for-profit intention. By 2014, the 233 MFIs that reported to the umbrella organisation Sa-Dhan apparently served 22.6 million clients independently of SBLP, with nearly two-thirds of this outreach being accounted for by for-profit MFIs. This process was actively assisted by the public sector.[4]

Microfinance institutions (MFIs) have created a massive social infrastructure uniquely positioned to reach millions of clients on a regular basis. Microfinance is no more a financing channel but it has also emerged as a strong distribution channel with numerous credit products, repayable over a longer period of time, and solar lamps, fuel-efficient stoves are some of them. In the last two years, many companies are manufacturing solar products with microfinance distribution channel to sell their products. There are many areas where slow or negative growth is seen especially in the rural areas. There may be improvement in terms of GDP and in HDI, but the overall development of the country is still under the curtains. The benefits of development have distributed unevenly between rich and poor nations and between rich and poor groups in individual nation. The global number of extremely poor and under nourished have remained high and in some societies it has increased.

One of the major negative impacts of development has been on the environment and on existing social structure. Many traditional societies and villages have been devastated by development of forest, water system and intense of fisheries. Environmental damage of development, if unchecked, may undermine the achievement of development and even collapse of essential ecosystem. The growing awareness of the challenges to traditional development thinking has led to the increasing acceptance of a new concept of development i.e. .sustainable development.[5]

In India, the history of microfinance dates back to establishment of Syndicate Bank in 1921 in private sector. During the early years, Syndicate Bank concentrated on raising micro deposits in the form of daily/weekly basis and sanctioned micro loans to its clients for shorter period of time. But microfinance came to limelight only when Dr Yunus gave it a mass movement in Grameen Bank experiment.

Poverty alleviation has been one of the guiding principles of the planning process in India. Government has considerably enhanced allocation for the provision of education, health, sanitation and other facilities which promote capacity building and well being of the poor. The Indian government puts emphasis on providing financial services to the poor and underprivileged since independence. The commercial banks were nationalized in 1969 and were directed to lend 40% of their loan at concessional rate to priority sector. The priority sector included agriculture and other rural activities and weaker section of society in general. The aim was to provide resources to help the poor to start their micro enterprise to attain self sufficiency. The government of India had also launched various poverty alleviation programs like Small Farmers Development Scheme (SFDS) 1974-75, Twenty Point Programme(TPP) 1975, National Rural Development Programme (NRDP)1980, Integrated Rural Development Programme(IRDP)1980,Rural Landless Employment Guarantee Programme(RLEGP)1983, Jawhar Rozgar Yojna(JRY)1989, Swarna

Jayanti Gram Swarojgar Yojana(SGSY)1999 and many other programs. But none of these programs achieved their desired goal due to poor execution and mal-practices on the part of government officials. Public funds meant for poverty alleviation are being misappropriated or diverted through manipulation by the locally powerful or corrupt.[6]

To supplement the efforts of micro credit government of India had started a very good scheme viz. Integrated Rural Development Programme (IRDP) in 1980. But these supply side program (ignoring demand side of economy) achieved little. It involved the commercial banks in giving loan of less than Rs 15000/- to socially weaker section. In a period of nearly 20 years the total investment was around Rs 250 billion to roughly 55 million families. But it was far from realizing its desired goal. The problem with IRDP was that its design incorporated a substantial element of subsidies (25-50% of each family's project cost) and this resulted in extensive malpractice and mis-utilisation of funds. This situation led bankers to view the IRDP loan as motivated handout and they largely failed to follow up with borrowers. The net result is that estimates of repayment rates in IRDP ranged from 25-33%.The two decades of IRDP experience in the 1980s and 1990s affected the credibility of micro borrowers in the view of bankers and ultimately, hindered access of the less literate poor to banking services. This act of government had a serious long term impact on development of micro entrepreneurship among the underprivileged of the society.

Thus a very good and potential program which once claimed to be "the world's largest microfinance programme" failed due to poor execution and political interference. The mid- term appraisal of the ninth plan had indicated that these programmes presented a matrix of multiple programmes without desired linkages. The programmes suffered from critical investments, lack of bank credit, over-crowding in certain projects and lack of market linkages. The programmes were basically subsidy driven and ignored the process of social intermediation necessary for success of self-employment programmes. A one-time provision of credit without follow up action and lack of a continuing relationship between borrowers and lenders also contributed to the failure of the programmes. The planning commission constituted a committee in 1997 to review the effectiveness of self-employment and wage employment programmes. The committee recommended the merger of all self employment programmes. It also recommended a shift of importance from individual beneficiary approach to a group based approach. It emphasized the identification of activity clusters in specific areas and strong training and marketing linkages. The government of India accepted the recommendations of the committee. On 1st April 1999 a new programme called Swarnajayanti Gram Swarojgar Yojana(SGSY) was launched by amalgamating programmes like IRDP(Integrated Rural Development Programme) and a number of allied programmes such as TRYSEM(Training of Rural Youth for Self Employment), DWCRA(Development of Women and Children in Rural Areas),SITRA(Supply of Improved Toolkits to Rural Artisans), GKY(Ganga Kalyan Yojana) and MWS(Million Wells Schemes). This is a holistic programme covering all aspects of self employment such as formation of Self Help Groups(SHGs),training, credit, technology, infrastructure and marketing. The programme aims at establishing a large number of microenterprises in rural areas. SGSY is a credit-cum-subsidy programme. It lays emphasis on activity clusters. This programme has got tremendous response from the beneficiaries. The number of SHGs under this program is about 2.25million with an investment of Rs 14,403 crore, profiting over 6,697million people (Wikipedia).Similarly, the entire network of primary cooperatives and RRBs, established to meet the need of the rural sector in general and poor in particular, has proved a colossal failure. Saddled with burden of directed credit and a restrictive interest regime, the position of the RRBs deteriorated quickly while cooperatives suffered from the malaise of mismanagement, privileged leadership and corruption born of excessive state patronage.[7]

The microfinance initiative in the private sector in India can be traced back to initiative undertaken by Shri Mahila SEWA (Self Employed Women's Association) Sahakari Bank in 1974 for providing banking services to the poor women employed in the unorganized sector in Ahmadabad in Gujarat. This Bank was established at the initiative of 4000 self employed women workers who contributed a share of Rs10 each with a specific objective of providing credit to these women so as to empower them and free them from vicious circle of debt. Currently SEWA Bank has over 318,594 account holders with total working capital of Rs 1291.89 million(Mar'09).MYRADA(Mysore Rehabilitation and Development Agency) of

Karnataka was another NGO to start in 1968 to foster a process of ongoing change in favour of the rural poor. While the objective is to help the poor help themselves, MYRADA achieves this by forming Self Help Affinity Groups (SHGs) and through partnership with NGOs and other organization in 1984-85. At present it is managing 18 projects in 20 backward districts of Karnataka, Tamil Nadu and Andhra Pradesh. These initial initiatives had a much localized operation and were limited to their members only. Hence it failed to take the shape of a mass movement. In India, initially many NGO microfinance institutions (MFIs) were funded by donor support in the form of revolving funds and operating grants. But it is only after intervention of National Bank for Agriculture and Rural Development (NABARD) in 1992 in the field of microcredit, the movement of microfinance got a boost in India. In India around 70% of landless and marginal farmers did not have a bank account and 87% of poor had no access to credit from a formal source.[8] The share of formal financial sector in total rural credit was 56.6% compared to informal finance at 39.6% and unspecified source at 3.8%.[9] There is a huge potential of microcredit in rural India. The Reserve Bank of India has advocated for financial inclusion of majority of population for economic development of our country. Access to affordable financial services specially credit and insurance enlarges livelihood opportunities of poor. Apart from social and political empowerment, financial inclusion imparts formal identity and provides access to the payment system and to saving safety net like deposit insurance. Hence financial inclusion is considered to be critical for achieving inclusive growth.[10] The RBI Governor, Y.V.Reddy gave a simple definition of financial inclusion as “Ensuring bank account to all families that want it”.[11] He said it would be the first step towards reaching the goal of bank credit as a human right as advocated by Nobel laureate Professor Mohammed Yunus.

Now the microfinance service providers include apex institutions like National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and Rashtriya Mahila Kosh (RMK). At the lower level we have commercial Banks, Regional Rural Banks and cooperatives to provide microfinance services. The private institutions that undertake microfinance services as their main activity are generally referred to as Micro Finance Institutions (MFIs) in

Indian context. There are also some NGOs which lend credit to SELF HELP GROUP (SHGs). The NGOs that support the SHGs include MYRADA in Bangalore, Self Help Women's Association (SEWA) in Ahmadabad, PRADAN IN Tamilnadu and Bihar, ADITHI in Patna, SPARC in Mumbai. The NGOs that are directly providing credit to the borrowers include SHARE in Hyderabad, ASA in Trichy, RDO LOYALAM Bank in Manipur.[12]

Problems of Microfinance Programme in India:

No doubt, microfinance programme has shown impressive achievements, but a number of questions arise: Did this programme reach the underprivileged? Whether everyone in need of microfinance intervention had been reached by any of the agencies? Even if everyone had been reached, did they get the required quantum of assistance to have sustainability? These questions are still very inconvenient to be answered because there are certain problems associated with this programme. Some of the main problems have been discussed in the following paragraphs.

The microfinance delivery models are not exclusively focused on those who are below the poverty line or very poor. Though the programme is spreading rapidly but with a slow progress in targeting the bottom poor households. About 50 per cent of SHG members and only 30 per cent of MFI members are estimated to be below the poverty line. According to Ghate (2008), approximately 75 million households in India are poor and about 22 per cent of these poor households (i.e. 16.5 million) are currently receiving microfinance services. The present study also shows that just 19 per cent of the programme participants were BPL at the time of joining microfinance programme. Therefore, it can be said that substantial groups of poor population have been excluded from availing the benefits of the programme. It may be due to a variety of reasons on both the sides, i.e. institutional and borrower. The SHG-BLP has no explicit social or economic benchmarks for inclusion of members in the groups to be credit linked. Lack of specific benchmarks for group membership lead to inadequate poverty targeting. It is also found that the microfinance promoting institutions are also biased while selecting the programme members. In order to run the groups successively and to achieve higher repayment rates, they generally select the non-poor people as programme beneficiaries.

It has been observed that the microfinance programme is mainly run by formal financial institutions with the help of SHGs. As a result, microfinance programme is progressing in those areas of the country where there is tremendous growth of formal financial institutions. Microfinance institutions were expected to reach those areas where the formal banking system failed to reach and the poor people have to depend on the money-lenders in order to meet their financial requirements. But actually, many big MFIs are activate in those states where the banking network is very strong. In the southern states, such as Andhra Pradesh, Tamil Nadu, Karnataka and Kerala, the spread of SHG bank linkage programme as well as the MFI programme is very large. But the north and north-eastern region is almost neglected.

The coverage of microfinance programme is comparatively low in the states which have a larger share of the poor. Unfortunately, these seven states, i.e. Orissa, Bihar, Chhattisgarh, Jharkhand, Uttaranchal, Madhya Pradesh (MP) and Uttar Pradesh (UP) are lagging behind in microfinance programme.

Affordability of loan is equally important to the access of financial services to the poor. Economic fundamentals exhort that every borrower is interest sensitive and the capacity of borrowing decreases with increase in interest rates. High interest rates may prove to be counterproductive, and weaken the social and economic condition of poor clients. The high interest rate charged by the MFIs from their poor clients is perceived as exploitative. The interest rates are not well regulated for private MFIs as well as for formal banking sector. However, there are certain self-regulated interest rates fixed by intermediate and apex institutions. MFIs adopt different approaches for fixing the interest rates or service charges on loans to members. A complete picture of the MFI sector regarding the terms and conditions of providing loans and financial services to their clients are not available. Although the interest rates of some MFIs are regulated but they impose some charges like transaction costs, the cost of documents and some other charges. This increases the cost of borrowing, and thus making it less attractive.

Another problem faced by the microfinance programme is the depth of services provided. Though the outreach of the programme is expanding, large numbers of people are provided with microfinance services but the amount of loans is very small. The average loans per member in both MFIs and SHGs are between Rs. 3,500 and 5,000. The amount is not sufficient to fulfill the financial needs of the poor people. The duration of the loans is also short. The small loan size and short duration do not enable most borrowers to invest it for productive purposes. They, generally, utilise these small loans to ease their liquidity problems.

The uniqueness of the SHG-BLP is the fundamental requirements of the programme, such as compulsory savings, group meetings, regular repayments etc. But these requirements also lead to the exclusion of the core poor from joining the microfinance programme. Poor people who generally do not have a regular source of income are required to save before getting a loan. These loans are to be repaid regularly in fixed installments. But due to their irregular and seasonal nature of jobs, poor people face difficulties while repaying the loans. It is also found that the initial group loans are utilised for essential non-productive purposes rather than for generating incomes which leads to repayment difficulties. Weekly or fortnightly group meetings are made mandatory, so, the rural poor people who generally earn their livelihood through domestic labour and daily wage earning find it difficult to attend group meetings regularly.

Conclusion

The foregoing analysis makes it clear that lending to the poor through microcredit is not the end of the problem but beginning of a new era. If effectively handled, it can create miracle in the field of poverty alleviation. But it must be bundled with capacity building programs. Government cannot abdicate its responsibility of social and economic development of poor and down trodden. In absence of any special skills with the clients of microcredit, the fund is being used in consumption and procurement of non-productive assets. Hence it is very important to provide skills development training program like handicraft, weaving, carpentry, poultry, goat rearing, masonry, bees farming, vegetable farming and many other agricultural and non agricultural training. Government has to play proactive role in this case. People with some special skills have to be given priority in lending microcredit. These clients should also be provided with post loan technical and professional aid for success of their microenterprises.

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