

# Micro Finance: An Emerging Horizon of Inclusive Growth

## Authors

<sup>1\*</sup>Vasanthi MK, <sup>2\*\*</sup>Dr. A. Jaya Kumar Shetty

**Abstract:** -It is widely recognized that micro-finance is an effective tool for channeling limited resources for the benefit of the poor and hence an imperative tool for quicker inclusive growth. Often micro-finance activities have a direct bearing on empowering the women, particularly through time-tested models like viz. Self Help Group – Bank Linkage Programme (SHG-BLP). SHG-BLP has grown into world's leading micro-finance idea within a short period of two decades. Simultaneously, the government also supports NABARD and NGOs to take up activities like group formation, micro credit and economic activities. In this context, the main objective of the paper is to highlight the meaning and importance of microfinance in India, its implications on the social sector leading to the inclusive growth. These areas under the social sector are interlinked and interconnected with each other. Improvement in one area will lead to improvement in other interlinked areas. The methodology that is being followed is primarily empirical and analytical. The study is based on secondary data collected from different sources like journals, books and from the related websites. The weaker and downtrodden sections of the society namely the women and poor generally have no access to credit and they are socially as well as economically excluded from the society. It is the concept of microfinance which has brought light into the lives of this section of the society and has been the catalyst of change. The paper highlights these issues and brings about the impact of microfinance on women, poverty and inclusive growth in India.

## Introduction

Micro finance is one those small ideas that turn out to have enormous implications. When Professor Muhammad Yunus, an economics Professor at Bangladesh University started making small loans to local villagers in the 1970s, it was unclear where the idea go, but Inspiration of 1970s and 1980s Grameen's success, social innovations and organizations around the world began to experiment with different programs to bring financial services to the poor. As micro-finance has been taking deep roots in the Asia-Pacific region and making impressive impact on the improvement of standard of living of poor households, Indian rural financial institutions have also accepted it for financing from the year 1992(Patel 2002). The UN declared the year 2005 as the International year of Micro Credit.

It is widely recognized that micro-finance is an effective tool for channeling limited resources for the benefit of the poor and hence an imperative tool for quicker inclusive growth. Often micro-finance activities have a direct bearing on empowering the

women, particularly through time-tested models like viz. Self Help Group – Bank Linkage Programme (SHG-BLP). SHG-BLP has grown into world's leading micro-finance idea within a short period of two decades. Simultaneously, the government also supports NABARD and NGOs to take up activities like group formation, micro credit and economic activities.

## Review of Literature

Divya ET. Al, (2009) a study on "Women's Self Help Groups and Microfinance" and it states that the formation of SHG helped the women members in improving their socio-economic status and self-dependency. The biggest concern was that the groups are more of credit management nature and the meetings were focus more to collection of savings and discussion of loans. Other activities conducted at right time ensure that women members become self-dependent leading to sustainability.

Manish Raj (2011) a study on "Micro finance institutions in India and its legal aspects" showed

that the Microfinance institutions have been proved a very important financial wing to incorporate the poor in the financial sector.

Bairagi and Ghorpade (2008) a study on “Self Help Groups – Microfinance: Emerging Horizons” deals that the Microfinance is the important source of finance to the poor for their socio-economic development.

### **Statement of the problem:**

Majority of the poor in the world have very hard to access to basic financial services which are helpful in managing their assets and create income. They need credit as well as access to savings and investment to overcome their chronic poverty. Improvement in one area will lead to improvement in other interlinked areas. Microfinance is one of the approaches in fighting poverty and making upliftment of the poor in rural areas, where world's poorest people live. It provides funds, insurance, savings and other additional financial services to the poor. This induced the researcher to focus more on the initiatives of Micro finance.

### **Objectives of the study**

1. To understand the role of micro finance in India and its implications on the social sector leading to the inclusive growth
2. To study the special initiatives of Micro finance.
3. To examine the role of NABARD in inclusive growth.

### **Research Methodology**

The methodology that is being followed is primarily empirical and analytical one. The study is based on secondary sources of data collected from different sources like journals, books and from the related websites.

### **Study Analysis**

#### **Microfinance and Micro-Credit**

The micro-credit idea became popular in the development discourse of the early 1980s when the currently famous Grameen bank was founded in Bangladesh. Micro credit is a structured programme and the purpose of this microcredit programme is to give loans for self-employment that generates

income and allows them to care for themselves and their family members (Sankaran, 2005). There are three Cs to the microcredit programme: Character, Capacity and Capital. Character is defined as the historical record of the borrowers such as how a borrower has handled his/her past debt obligations, his/her background and a borrower's honesty and ability to repay the loan. Capacity is termed as how much debt a borrower can actually handle, according to their income, and still be able to pay that debt off. Capital is all the current available assets that the borrower has, that will also help him/her to repay the loan on time (Afrin et al 2010). Micro credit programmes have a significant impact on the income and economic security of the lives of rural women. These programmes increase income and help the female borrowers to spend more in order to foster the development of their families. Such programmes also help to increase household income which in turn, improves the consumption patterns and lifestyles of the families (Hossain & Sen, 1992). The access to the microcredit programme for rural women improves their lifestyles through economic solvency and self-sufficiency (Apte, 1998).

#### **Social Sector and Inclusive Growth**

The social sector in India today gives an opportunity to not only contribute towards the betterment of the society but also allows aspirations to explore the various career prospects that this sector has to offer. The ultimate objective of planned development is to ensure human well-being through sustained improvement in the quality of life of the people. The development of human resources contributes to sustained growth and productive employment. The process of economic development is assessed in terms of benefits and opportunities evenly distributed to the individuals in the society. Human capital formation and human development are interlinked by social sector and improvement in this sector would pave the way for equity and economic development.

#### **Women**

In India, the trickle down effects of macroeconomic policies have failed to resolve the problem of gender disparity. Women are the vulnerable

sections of the society and constitute a sizeable segment of the poverty-struck population. Women face gender specific hindrance to access education health, employment etc. Micro finance deals with the people who are under the below poverty line particularly women. Micro loans are available solely and entirely to this target group of women. There are several reason for this: Among the poor , the poor women are most underprivileged –they are characterized by lack of education and access of resources, both of which is required to help them work their way out of poverty and for upward economic and social mobility. The problem is more acute for women in countries like India, despite the fact that women’s labour makes a decisive contribution to the economy. This is due to the low social status and lack of access to key resources. Evidence shows that groups of women are better customers than men; they manage the resources in a better manner. If loans are routed through women, benefits of loans are spread wider among the household.

Since women’s empowerment is the key to socio economic development of the community; bringing women into the mainstream of national development has been a major concern of government. The ministry of rural development has special components for women in its programmes. Funds are earmarked as “Women’s component” to ensure flow of adequate resources for the same. Besides Swarnagayanti Gram Swarazgar Yojana (SGSY), Ministry of Rural Development has been implementing other schemes having women’s component .They are the Indira Awas Yojana (IAJ), National Social Assistance Programme (NSAP), Restructured Rural Sanitation Programme, Accelerated Rural Water Supply programme (ARWSP) the (erstwhile) Integrated Rural Development Programme (IRDP), the (erstwhile) Development of Women and Children in Rural Areas (DWCRA) and the Jowahar Rozgar Yojana (JRY).

The study of Anitha and Ashoka (2007) highlights that the success of the SHGs not only improved the economic status of the women but also there is a drastic change in their social status. The study of Surekha Rao and Padmaja (1998) shows that most

of the women have started self-employment ventures (income generating activities) after joining the SHGs by taking advantage of the pooled resources in the group. In this context, one of the major constraints faced by women while opting for any economic activity is lack of information and skills of how to select the activity (Lalitha 1998). A study on DWCRA groups by Damayanthi (1999) revealed that group strategy has generated low socio-economic impact on the women’s households as the process of economic empowerment is influenced by socio-economic backgrounds, unsuitable income generating activities undertaken by them, lack of infrastructure and lack of awareness. The ability of a woman to transform her life through access to financial services depends on many factors- some of them linked to her individual situation and abilities, and others dependent upon her environment and the status of women as a group. Microfinance programmes can have tremendous impact on the empowerment process if their products and services take these circumstances into account.

### **Poverty**

Poverty represents a negative facet of human development and must be replaced by prosperity Aloysius and Vidya (2007).The credit policy for the deprived sections of the poor involves many practical difficulties arising from operation followed by financial institutions and the economic characteristics and financing needs of low-income households. For example, commercial banking institutions have need of those borrowers have a firm source of income out of which principal and interest can be paid back according to the agreed terms. However, the income of many self-employed households is not stable. A huge number of micro loans are needed to serve the poor, but banking institution prefers dealing with big loans in small numbers to minimize administration expenses. They also look for collateral with a clear title – which low-income households do not have. In addition bankers tend to consider low income households a bad risk imposing exceedingly high information monitoring costs on operation.

Microfinance is often advocated as an elucidation to numerous social problems in India. Poor persons with access to credit can make investments in enterprises that bring them away of poverty. Over the last few years, savings and credit groups have also helped to manage some important social programmes of the Indian government, such as the distribution of food grains and school meals in schools.

The self-motivated growth of the microfinance industry has been promoted not only by market forces but also by conscious measures of national governments, non-governmental organizations (NGOs), and the supporters who view microfinance as an efficient tool for eradicating poverty. The commanding drive following this huge and increasing hold for microfinance indicated that national economic and social impacts are noteworthy and it needs to be examined more directly. Microfinance institutions play a significant role in poverty reduction though the results for rural and urban areas vary. In order to create more gender impartiality and alleviate poverty among women in both urban and rural settings, scholars and field practitioners have recognized the importance of empowering women (Mayoux 2000). Micro finance, a poverty alleviation tool to lessen the vulnerability of the people of the weaker section in the society (Rajib Chakraborty and Jayamani 2013).

The SHGs are involved in many activities as a community based organization at the village level like vigilance committees working at village level for supervising the execution and monitoring of the rural development activities in Assam (Ariz Ahmed 1999), emerging as social activists in the implementation of different development schemes. These women groups have also involved in the prohibition of illicit liquor, social forestry, creating awareness on development schemes.

Lokhande (2009) in his paper highlighted that microfinance programme had played a significant role to play in Indian economy for boosting micro entrepreneurial activities for creating production assets coupled with employment generation. As Mahatma Gandhi said; "India lives in their villages". The development of villages is a pre-

condition for balanced economic development. The basic requirements of economic growth are saving, investment and expanding market for industrial products ultimately depending upon rural development in general and agricultural development in particular. Rural development is known to be one of the pillars on which the future of our country stands. Rural development should aim at improving the living status especially to rural poor (M.Meganathan and M.Arumugam 2012).

### **Promotion for Training and Capacity Building of Microfinance Clients**

NABARD gave due recognition to training and capacity building of various stakeholders such as bankers, NGOs, Government officials, SHGs, SHG Federations and trainers. During 2015-16 more than 5100 training programmes were conducted and about 1.81 lakh participants were trained. Cumulatively, around 35.94 lakh participants have been imparted training as on 31st March 2016 leading to a strong team for implementation of the microfinance programmes.

### Grant Support to Partner Agencies for Promotion and Nurturing of SHGs

NABARD extended grant support to NGOs, Federations of SHGs, RRBs, NGO-MFIs, CCBs, PACS, Farmers Clubs and Individual Rural Volunteers (IRVs) for promotion, nurturing and credit linkage of SHGs with the banks. Untiring efforts of all these agencies has led to spectacular growth of the movement and SHG concept is known to a vast majority throughout the country. Banks reported credit linkage of more than 70000 SHGs and account opening of about 25000 new SHGs during these programmes. These programmes resulted in better interface between bankers and SHGs leading to increased credit flow and appreciation of each other's needs.

### **Long-Term Initiatives of Livelihood and Enterprise Development Programme**

Generating income and alleviating poverty through the creation of livelihoods, is one of the goals of the SHG-Bank Linkage Programme (SHG-BLP). NABARD has been enabling livelihood promotion and graduation of SHG members through a variety

of programmes that focus on up gradation of skills and developing entrepreneurship abilities. However, skill upgradation trainings alone could generate limited impact on livelihood creation among SHG members. With a view to create sustainable livelihoods among SHG members and to create maximum impact of skill upgradation with hand holding and credit linkages, the Livelihood and Enterprise Development Programme (LEDP) has been launched in December 2015. These programmes are implemented in small batches for a maximum of 150 SHG members in a cluster of contiguous villages on a project basis covering 15 to 30 SHGs in a cluster of contiguous villages. The programme covers agricultural & allied activities as well as rural nonfarm sector activities. There is provision for intensive training for skill building, refresher training, backward-forward linkages offering end to end solutions to the SHG members.

### **Special Initiatives**

Scheme for Promotion of Women SHGs in backward districts of India NABARD, in association with the Department of Financial Services, Ministry of Finance, Govt. of India continued to implement a scheme for promotion and financing of Women Self Help Groups in 150 identified backward districts of the country. The USP of this scheme is that it provides for selection of an anchor NGO in each of the district not only for promoting and enabling credit linkage of these groups with banks (like any other SHPIs under SHG-BLP of NABARD) but also serving as a business facilitator for extending outreach of the banks, regular monitoring of the SHGs promoted and also being responsible for repayment of loans by SHGs to banks. For these services the Anchor NGO is entitled for service charges at 5% of the outstanding loan amount. This approach is expected to facilitate sustained financial inclusion by extending banking services to women members of SHGs, promote sustainable livelihood opportunities to the members and facilitate effective implementation of other social development programmes for women through SHGs.

### **Swarnajayanthi Gram Swarozgar Yojana (SGSY) and National Rurallivelihoods Mission (NRLM)**

SGSY was effective from 1st April, 1999 as a self-employment programme introduced by union government to provide assistance to poor families living below the poverty line in rural areas to take up self-employment by forming SHGs. Persons taking up self-employment are called Swarozgaris. They may take up the activity either individually or in group. Swarozgaris earn Rs.2000 per month, exclusive of bank loan repayment. SGSY was restructured as NRLM. Aajeevika or National Rural Livelihoods Mission (NRLM) was introduced by Ministry of Rural Development with the assistance from World Bank for addressing poverty alleviation with greater focus and momentum and to achieve Millennium Development Goals.

### **Micro Insurance**

To increase awareness regarding micro insurance among SHG members Shri Khsethra Dhramasthala Rural Development Programme (SKDRDP) has been acting a corporate agent from several years. It has sold 11.33 lakh Jeevan Madhura insurance policies of Life Insurance Corporation (LIC) of India in Karnataka. The NGO like SKDRDP was also active in other insurance schemes and promoted more than 100 'Bhima' villages and 21 'Madhura Bhima' villages under its area of operations. In order to enhance their enrolment under the scheme Religare Health Insurance has been sanctioned two pilot projects, one in Alwar district of Rajasthan and another in Ramgarh district of Jharkhand. The projects envisages: provision of Health Insurance and Personal Accident Cover; issuance of a Master Policy in the name of the SHPI and individual cover in the name of SHG member and his/her spouse (the couple being treated as one unit); that the insured must be at least 18 years and not more than 70 years of age; that insurance cover will be provided for a period of one year to each beneficiary from the date the policy comes into effect; and will enable SHG members/families to avail cashless treatment in a hospital for any illness/injury/disease (that is not specifically

excluded) and also for maternity treatment needs upto a maximum limit of ` 50,000/-.

### **Micro Pension**

International Network of Alternative Financial Institutions (INAFI) has been sanctioned a micro pension pilot project to be implemented in the tribal district of Dungarpur in Rajasthan. The project envisages educating SHG leaders, federation leaders and NGOs on the micro pension products, through pension literacy/ mobilization meetings and workshops for NGO staff members and technical workshops for finalizing the pension products. The project targets coverage of minimum 1000 SHG members under micro pension.

### **Progress of Project E-Shakti for Digitisation of SHGs**

Keeping in view the Government of India's mission for creating a digital India, NABARD has launched a project for digitization of all Self Help Group (SHG) in the country. The upliftment in economic level of the SHG members, mostly poor rural women, by these measures will ultimately facilitate in increasing the outreach of PMJDY and financial inclusion in poor household.

Digitization of Self Help Groups is a step towards achieving the avowed goals by facilitating the banks to take informed credit decisions on real time basis. Grading reports are being used by banks for appraising SHGs before credit linkage. Large number of first as well as subsequent linkages for many SHGs. Digitization helps in increase in credit flow to SHGs. Increased levels of awareness amongst bank branches about the functioning of SHG dealing with them through MIS generated from the system. The real time SMS alerts brought transparency in the operations /transactions and confidence among the SHG members.

### **SHG2: Revisiting the SHG Bank Linkage Programme**

The SHG-Bank Linkage Programme was given a renewed thrust with the launch of SHG-2. The focus of SHG-2 would be on voluntary savings, cash credit like a preferred mode of lending, scope for multiple borrowings by SHG members in keeping by means of repaying capacity, avenues to meet top

credit requirements for livelihood creation, SHG Federations as non-financial intermediary, rating and audit of SHGs as part of risk mitigation system and strengthening monitoring mechanisms.

Microfinance is a developmental approach towards alleviating poverty and vulnerability. It is also acknowledged as a cost effective tool to provide financial services to the underprivileged. Microfinance through Self-help group Model results in greater impact in transforming the lives of poor. SHG model has emerged as largest and fastest growing successful community based organisation in the developing world. The SHG bank linkage model provides the cheapest and most direct source of funds. However, this has to be set against the low volume of funds that can be made available through this channel in view of the linkage of credit with savings. As in other financial services models the microfinance model also has evolved over the last two decades. India is a country in which stone-age tribal communities and twenty-first century condominiums cohabit. Bullock carts and bullet trains are contemporaries. Likewise even in the financial services sector, despite expansion taking place with increased outreach of mainstream institutions through a range of technology platforms and novel institutions like small finance banks and payments banks coming into being, the niche area for microfinance will continue to exist, not only till the complete eradication of poverty, but even beyond that. In the nook and corner of the country NGO-MFIs, Self Help Groups will keep up their activities, providing services to the needy as long as they are demanded. In this gigantic effort, the spectrum of stakeholders is contributing its mite to nurture and strengthen this institutional infrastructure so that financial services reach the last person in the remotest corner of the country.

### **Conclusion**

Microfinance programmes are currently being promoted as a key strategy for simultaneously addressing the problem of poverty, women's empowerment and inclusive growth. Where financial service provision leads to the setting up or expansion of micro-enterprises there are a range of potential impacts. Following the above discussion

the impact of microfinance on women, poverty and rural development in India include:

1. Increasing women's income levels and control over income leading to greater levels of economic independence.
2. Access to networks and markets giving wider experience of the world outside the home.
3. Access to information and possibilities for development improves attitudes of women and attitude towards women in the household and community.
4. MFIs and SHG is innovative and productive tool for raising the social and economical status of the poor and under privileged people.
5. The SHG- bank linkage approach is found to be an effective instrument by which very poor people can access liberal formal credit without any collateral security and simultaneously improve their habit of thrift.

India is a country where majority of its population is poor, growth in employment opportunities through micro finance definitely leads to inclusive growth of the economy.

Though the micro finance results seem to somewhat promising but there is still a long way to go. Micro finance & SHGs are still in their infant stages & there is still a need to go layers deep. The basic idea behind the concept of micro finance is that poor just need the money to utilize their unutilized skills but the findings of the study shows that there is also a need of skill development programs among the poor to tap the sleeping skills. Savings which we see as an indicator of growth as mentioned above is still very low and the major reason behind this is that the lending rate of 26% is still very high. Interest rates should be brought down. The question here is why to lend the reached section at a lower rate of interest & the unreached section at such high rate?? Possible brain storming is left for the authorities to decide. Also the definition of poor has not been provided on uniform basis anywhere with respect to SHGs. The MFIs in close collaboration with government, industrial houses and social organizations can definitely create expected impact of microfinance on the poor households in respect of poverty

alleviation, empowerment of women and thereby leading to inclusive growth.

## References

1. Aloysius P.Fernandez and Vidya Ramachandran (2007); "Self Help Group Approach in Karnataka", Southern Economist, November 1, 2007, Vol. 46, No.13,pp.29-34.
2. Anitha H.S and Ashok D. Revankar (2007); "Micro Credit through Self Help Groups for Rural Development" Southern Economist, Aug.15, 2007, Vol. 46, No.8, pp17.
3. Ariz Ahmed. M (1999), "Women Empowerment: Self Help Groups", Kurukshethra, Vol.47 No.7,pp 19, 20&49.
4. Damayanthi U.T (1999), "Development of Women and Children in Rural Areas- an Impact Study", the Asian Economic Review, August, Vol.41 No.2, pp 349-357.
5. Lalitha.N.(1998), "Micro Finance: Rural NGOs and Banks Networking", Social Welfare, October, Vol.45, No.7, pp.13-17.
6. Manish Raj (2011), "Micro finance institutions in India and its legal aspects" retrieved from papers.ssrn.com/Sol3/papers.cfm?abstract\_id\_1884186.
7. Bairagi K.P and Ghorppade N.L (2008), "Self Help Groups – Microfinance: Emerging Horizons", Indian Journal of Commerce, Vol.61, No.4, October-December 2008.
8. Lokhande M.A (2009), "Microfinance Initiative in India", Kurukshethra February 2009, pp 16-18.
9. M.Meganathan and M.Arumugam (2012), "socio-economic impact of microfinance on rural development of puducherry" Arth prabhand: a journal of economics and management vol.1 Issue 3, June 2012, ISSN 2278-0629 prj.co.in/setup/business/paper22.pdf
10. Mayox. L (2000); "Microfinance and the empowerment of women. A review of the key issues" Social finance unit working paper, 23. Geneva:ILO. Retrieved from <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.194.5577&rep=rep1&type=pdf>
11. Patel A.R (2002), "Micro-finance and Micro-finance Institutions-Need For Bank' Initiative

- and Commitment” National Bank News Review, April-June 2002, pg 32-38.
12. Rajib Chakraborty and Jayamani C.V (2013); “Impact of Micro Finance on Women Empowerment in Chittagong”, IOSR Journal of Economic and Finance, Nov-Dec 2013, Vol.2, issue-I pp28-34.
  13. Surekha Rao K. and Padmaja G. (1998), “Self Help Groups in Tirupati, Andra Pradesh”, Social Welfare, April, Vol.4, No.1, pp.25-27.
  14. Tripathy KK, “Microcredit Intervention and Poverty Alleviation”, Kurukshetra: A Journal on Rural Development, Vol.54, No.11 September, 2006.
  15. <https://www.thehindubusinessline.com/news/national/skdrdp-tieup-with-lic-benefits-rural-population/article7053681.ece>