

MICROFINANCE IN INDIA, ITS SCOPE & IMPACT ON INDIAN ECONOMY

Charan Singh

Abstract : Micro-Finance is emerging as a powerful instrument for poverty alleviation in the new economy. In India, micro-Finance scene is dominated by Self Hel Groups (SHGs) - Banks linkage Programme, aimed at providing a cost effective mechanism for providing financial services to the 'unreached poor'. The study aims at identifying the concept of micro finance, features and role of micro finance in India, reviewing the progress and weakness followed by suggestion for making micro finance as an effective instrument of poverty elevation, women empowerment and rural development in India. The supply side of microfinance in India is still presently grossly inadequate to fill the gap between demand and supply but it holds the promise to act as a great opportunity for the financial sector and the economy as a whole. The paper discusses the state of SHG-based microfinance in India and the opportunity untapped because of the huge existing demand-supply gap.

Key Words: Micro finance, SHG, Micro Finance Institutions, Micro Finance approaches

INTRODUCTION

Micro finance in India is still in its nascent. Micro finance yet remains a powerful tool for development. By reaching the un-reached rural poor in the rural areas, micro finance innovations are yielding results and giving hope to the millions of poor through providing credit. The SHG-Bank linkage and financial through MFIs approaches is no doubt an effective instrument by which very poor can access hassle free formal credit without any collateral security and simultaneously improve their thrift habits. But in order to make the approaches more useful means for poverty alleviation a sustainable rural development, there is a need for sincere intervention by the promotional agencies particularly the banks and block authorities in the areas of awareness building, skill Development and training, etc. There is tremendous scope for the sustaining of micro finance development in India.

INTRODUCTION TO MICROFINANCE

"Microfinance is the provision of financial services to low-income clients who traditionally lack access to banking and related services." Microfinance is not just about giving micro credit to the poor rather it is an economic development tool whose objective is to assist poor to work their way out of poverty. It covers a wide range of services like credit, savings, insurance, remittance and also non-financial services like training, counseling etc. It is a weapon in the hands of marginalized poor people to fight a war against poverty. Today, microfinance is gaining importance by leaps and bonus not only in India but internationality too with revolutionary form aiming at servicing the poorest of the poor. The concept of

microfinance is a new paradigm that can work effectively for achieving the goals in an environment where poor made 'bank-friendly' and the institution made 'poor-friendly'.

MICRO-FINANCE IN INDIA

Microfinance is generally understood as the provision of financial services to low-income households. The Microfinance industry in India has borrowed largely from Grameen Bank in Bangladesh, in terms of methodology, processes and systems. Most of the leading Indian MFIs started out as NGOs during 1985-1999, adopting the Grameen Bank model of group-based lending to women in rural areas. Over the years, the MFIs have grown significantly and have transformed into for-profit non banking finance companies (NBFCs), thus moving towards a more regulated legal setup. Between financial years 2004-05 and 2005-06, the combined loan portfolio of Share Microfin Ltd, SKS Microfinance Pvt. Ltd and Spandana Sphoorty Innovative Financial Services Ltd, three of the largest NBFC MFIs in the country, showed a growth rate of 102%. Their combined outreach (number of active borrowers) showed a growth rate of 114% over the same period.

OBJECTIVE TO STUDY MICROFINANCE IN INDIA

The main objective to study Microfinance in India is to study the future demand and Scope of Microfinance in India and its impact on Indian economy.

CHANNELS OR APPROACHES OF MICRO FINANCE

In India microfinance operates through two channels:

- a) SHG – Bank Linkage Programme
- b) Micro Finance Institutions (MFIs)

First approach

SHG – Bank Linkage Programme (SBLP)

The first approach is popularly known as SHG-Bank linkage model. This model is the dominant model, initiated by the NABARD through the SHG-Bank linkage programme in the early 1990s. Today the SHG model also links the informal groups of women to the mainstream system and it has the largest outreach to micro financial clients in the world.

The second approach.

Micro Finance Institutions (MFIs)

A second approach to microfinance involves delivery of finance to the poor through the creation of specialized microfinance institutions (MFIs). This effort has been led by the Small Industries Development Bank of India (SIDBI).

This model emerged in the late 1990s to harness social and commercial funds available for open lending to clients. Today there are over 1,000 Indian MFIs.

MARKET SIZE & GROWTH OF MICROFINANCE IN INDIA

Market size for microfinance in India = 58 to 77 million clients and, Annual credit demand = Rs 315 to 1060 billion (USD 7.8 to 26.1 billion) [1 USD = Rs 55 appx.] If low-income families were assumed to be potential microfinance clients, then Market Size = 245.7 million individuals and, Annual credit demand = Rs 2.1 trillion (USD 51.4 billion) Based on the past performance, by 2012, the Indian MFIs are estimated this data.(Source :MFIs report)

Growth Index of Microfinance in India Growth index (No. of financial institutions)

Mar 2003	Mar 2004	Mar 2005	Mar 2006	Mar 2007	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013
100	181	444	876	1219	2370	4589	7474	8005	6290	9,000 estimated

Source: CRILEX, growth index

SCOPE OF MICRO FINANCE IN INDIA

Vast unmet demand for financial services

According to the recent World Bank-NCAER survey, about 70% of the rural poor do not have a bank account and about 87% have no access to credit from a formal source. Assuming that each poor rural family needs about Rs 2000 per month, the total annual requirement of credit would be Rs 150,000 billion. This does not include demand estimates for savings, insurance or housing.

Huge capital requirement of MFIs

Let us assume that all the poor in India require access to microfinance and therefore are potential clients and loans were given in the range of Rs 4000 and Rs 10000 per client. Then, Market size for microfinance in India = 58 to 77 million clients and, Annual credit demand = Rs 315 to 1060 billion (USD 7.8 to 26.1 billion) [1 USD = Rs 55 appx.] If low-income families were assumed to be potential microfinance clients, then Market Size = 245.7 million individuals and, Annual credit demand = Rs 2.1 trillion (USD 51.4 billion) Based on the past performance, by 2012, the Indian MFIs are estimated to have the following:

Current Demand-Supply Mismatch

According to World Bank estimates, the demand for micro credit in the country is Rs 700 billion at an average annual loan size of Rs 7500. However, even by 2011, when the Indian Microfinance industry is expected to reach a size of about Rs 250 billion, only about 50% of the market demand may be covered.

Past Performance

According to Crisil, the Microfinance sector in India is estimated to have outstanding total loans of Rs 160 to Rs 175 billion as on March 31st, 2009. Also, the Microfinance sector has grown rapidly over the past four years at an average compounded annual growth rate of 90%.

RBI pronounces norms for new bank licenses

Reserve Bank of India (RBI) has finally spelt out norms for granting new banking licenses, in support of Government’s agenda of inclusive banking. The final rules permit companies from any sector to apply for new bank licenses. L&T Fin, Shriram and M&M lead banking license race and by this the market size of the Microfinance will increase because there is criteria to obtain a banking license:

- The company should have 10 years of financially sound and successful track record.
- The minimum paid-up capital of the bank should be Rs 500 crore.
- Bank should get listed in 3 years.
- 25% of the branches of the bank should be opened in non-banked rural areas.

IMPACT OF MICROFINANCE ON INDIAN ECONOMY

- High growth rates and business efficiency & Amenable financing environment.
- Funder coordination for retail microfinance, Increase of personal income and Increase education of borrower's children and improvement in nutrition.
- Supporting infrastructure needed.
- The Enterprising Spirit of the Poor is Valuable for the Economy.

FINDINGS

In future demand of microfinance will increase and increase demand will increase the growth rate of Indian economy. By the research of the Govt. reports Indian growth rate will in the double digit in near future. And the poverty line will shift upward. This sector also helps in increasing the per capita income.

CONCLUSION

The strength and sustainability of the Indian microfinance business model lies in the fact that it is serving a large unmet need for financial inclusion. The large size of the

currently unbanked population in India and diversity of geography means that the microfinance sector has great potential for continued high growth. The scale of the Indian MFI industry has exceeded 20 million clients, other consumer product and service providers are beginning to attach greater value to the microfinance distribution network. This industry is in its initial stage and its development could take many forms, but we expect growth, innovation and financial performance from this industry. Scope of this industry is too vast in such a country like India.

REFERENCES

- 1) Annual reports or annual financial statements of the 59 leading MFIs in India with more than 10,000 borrowers on 31 March 2011.
- 2) Annual Report, NABARD, 2006-07.
- 3) APMAS, (2006), "A Study on Community Investment Fund (CIF) in And. Pradesh"
- 4) M CRIL, various. M CRIL Microfinance Reviews 2000, 2003, 05, 2010 and Microfinance Analytics
- 5) M CRIL & MIX, 2007. India Microfinance Review 2007.
- 6) M CRIL, 2009. M CRIL Review of Rural Banking in India.
- 7) Microfinance: A comprehensive review of the existing literature Brau, James C. Woller, Gary M. 2004 Journal of Entrepreneurial Finance Volume 9 Year 2004.
- 8) Microfinance India State of the Sector Report 2009
- 9) T.C. "Economic Performance of Micro Finance in India", 2007.



Mr. Charan Singh (charan.malik@gmail.com), Mob:-09034232636

Asst. Prof. (Mgt. Dept.) Panipat Institute of Engineering and Technology (PIET)
70, Milestone, GT Road, Samalkha Panipat-132102, Haryana, India

Home Address: H. No. 80/1 Gandhi Nagar Ganaur Sonipat-Pin 131101