

## Progress of Micro Finance in Rural Development

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### ARTICLE DETAILS

#### Article History

Published Online: 20 February 2019

#### Keywords

Development ; Microfinance, Self Help Groups ; National Rural Livelihood Mission ; National Urban Livelihood Mission

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### ABSTRACT

The present paper discusses the detailed role played by the microfinance models like Self Help Groups- Bank Linkage Model, Micro finance Institutions etc in the rural development by focusing on its impact on poverty, women empowerment, technology application and household level role. It basically studies the progress of such models in the terms of loans disbursed and loans outstanding to the beneficiaries under the various schemes like National Rural Livelihood Mission (NRLM) & National Urban Livelihood Mission (NULM). It indicates the needs of rural and women entrepreneurs and challenges faced by them with respect to financial services. The motive is to draw lessons which will be helpful in exploiting the potential of microfinance in India, outlines the areas of concern for the government policy towards this important sector and suggests ways to scale up the access to finance for the poor.

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### 1. Introduction

Voluminous studies have been conducted which reported that India accounts one-third of the world's poor people i.e. 1.4 billion. Presently poverty line stands at Rs 28/- and Rs 32/- per person per day for rural and urban areas respectively (Mahanta et.al, 2012). Thus the expenditure of the poor people always exceeds their meager amount of earnings due to which they are forced to borrow from the money lenders. This often results in getting oneself indebted under the preposterous rate of interest of as much as 120% charged by the money lenders. This realization has led the Government of India to modernize the microcredit practices in order to empower people to start their own work at micro level and solve the problems of credit availability, moral hazard, etc (Hollis and Sweetman, 1998).

According to Gert van Maanen (2004), "Microcredit or Microfinance means providing banking facilities as well as credit and other financial facilities to the Unbankables who are way too poor to be served by the regular commercial banks because they are unable to offer them with the sufficient collateral."

The concept of microfinance is about 30 years old introduced in Bangladesh by Dr. Muhammad Yunus but made it popular in India 15 years back after the crisis of Andhra Pradesh where local Micro Financing Institutions were shut down by the state government due to which the sector faced a huge amount of shortage of funds. Microfinance thus accounts an inevitable tool which includes a wide range of banking services like loans/credit, deposits/savings, money transfers, insurance, microfinance etc. to support the people below poverty line and low level income. The phenomenal growth of micro finance evident from the fact that SHG has increased over 2 million. At present it is estimated that present minimum requirement of microcredit is over 70,000 crore.

As per the Report "Status of Microfinance in India" by National Bank for Agricultural and Rural Development

(NABARD), the overall loans disbursed in rural areas under SHG Bank linkage Model during 2016-17 was Rs.204313.51 crores while the outstanding loans were Rs.127016.62 crores respectively while as per the recent report of NABARD (2017-18), there are 8.7 million SHGs out of which 5.02 million SHGs have outstanding bank loans of Rs.75598 Crores whereas the total deposits with banks was to the tune of Rs19592 crores. Thus the overall growth in Micro finance sector through models like SHG Bank linkage model, MFI Model and Joint Liability Group Model are playing more significant role in inclusive growth of the country by alleviating poverty and helping in rural development.

### 2. Objectives of the study

1. To study the role of microfinance in the alleviation of poverty in rural areas.
2. To analyze the Progress of microfinance Models like SHG- Bank linkage Model and MFI model for the study period of last three years 2014-15, 2015-16 and 2016-17.
3. To study the role of NABARD in the development of micro financing sector and initiatives taken as Microfinance Facilitator.

### 3. Research methodology

This is a descriptive paper based on secondary data. Data has been collected through books, various websites, magazines, newspapers, and publications of recent research papers available in different websites, Research Articles, Research Journals, E-Journals, RBI Report, and Report of NABARD etc.

### 4. Microfinance – 'A new Mantra in rural finance'

The task force on microfinance established by NABARD defines microfinance as the "creation of provision for providing credit and other financial services of very small amounts to the poor in the rural, semi urban or urban areas and enabling them

to raise their standard of living and income levels" (NABARD, 1999). Microfinance has touted as a promising means to reach the financially undeserved (Vazquez, Francisc, 2005). In the autobiography of Professor Muhammad Yunus, he described how as a professor in Bangladesh he came to understand the importance of finance for the poor. All manners of self employment like sewing machine, handicrafts, delivering small items could be facilitated by small amount of capital access to poor. The wide range of financial services includes insurance, loans money transfers and leasing (Bakhiari, 2006).

The microfinance revolution recognizes many of these problems and attempts to overcome them in innovative ways. Various models were introduced and adopted under microfinance.

1. **Associations:** Under this type of credit lending model, community forms group or associations including youth or women who initiate microfinance activities like lending and savings.
2. **Bank Guarantees:** as the name suggests, under this type of model, Commercial bank or Micro finance bank grant loans to the group of borrowers like self help groups.
3. **Community Banking:** the community banking model treats the whole community as one unit, establishes formal and semi formal institutions through which micro finance facilities are dispensed.
4. **Non-Governmental Organisations (NGO):** NGOs model is the key player in the field of microcredit. They help in creating awareness of the importance of micro credit at local , national and international level.
5. **Individual/ Group Model:** Under individual model, loans are provided to the individual borrowers directly providing them skill development, education like socio economic facilities. Whereas group model was formed

so as to eliminate the short comings of the individual model that is, burden of responsibility of repayment.

Numbers of initiatives have been introduced in the course of last 7 years (Naidu,M.Venkaiah (2002). The allocation of rural development has been increasing substantially. In the year 2001-02,the budgetary outlay for the programmes of the Ministry of Rural Development , Government of India , was Rs.12,265 crore as against Rs.9760 crore in 2000-01.the Sampoorna Grameen Rozgar Yojana has been launched to attain the objectives lie gainful employment, food security, and strengthening of infrastructure in rural areas. The scheme envisages an annual expenditure of Rs.10, 000 crore. The growth of agriculture, sustainable rural development along with social development expressed in terms of educational and health sectors in the main task on the road to future rural development of India.

### 5. Progress of SHG-bank linkage programme

SHG - Bank Linkage Programme since 1992 has come a long way towards the development of the economy. This Programme Since became most Effective micro finance provider with 85.77 lakh SHGs as on 31 March 2017 covering almost hundred million rural households. During 2016-17, 6.73 lakh savings linked SHGs were supplemented during 2016-17 covering a large portion of 70.4% of priority States leading the desire for the uncovered poor households in less developed States to involve themselves with the Rural development process. With the Combined efforts of NABARD and National Rural Livelihood Mission (NRLM) to cover the rural people under NRLM, resulted in increase of nearly 2.9 lakh SHGs under its crease during the year. The community of SHGs consists of 85.4% women groups and is the most important programme for empowerment of the rural women in the country.

Table 1.1 (SHG Savings with Banks on 31<sup>st</sup> March)

(No. of SHGs in lakh, Amount in crore)

	Particulars	2014-15		2015-16		2016-17	
		No of SHGs	Amt	No of SHGs	Amt	No of SHGs	Amt
SHG Savings With Banks as on 31st March	Total No of SHGs	76.97	11059.84	79.03	13691.39	85.77	16114.23
	%	0.0359	0.1174	0.0268	0.2379	0.0853	0.1769
	Of Total, All Women SHGs	66.51	9264.33	67.63	12035.78	73.22	14283.42
		0.0638	0.1561	0.0168	0.2992	0.0826	0.1867
	% of Women Groups To Total	86.41	83.77	85.58	87.91	85.36	88.64
	Of Total, NRLM/SGSY Groups	0.3492	0.7856	0.1327	0.4116	0.083	0.2094
	% of NRLM/SGSY Groups to Total	39.65	40	43.74	45.61	43.65	46.87
	Of Total, NULM/SJSRY Groups	4.33	107181	4.46	1006.22	5.45	1126.86
				3.00%	6.12%	22.42%	11.99%
	%of NULM/SJSRY Groups to Total	5.63	9.69	5.64	7.35	6.36	6.99

Source : Report Of NABARD: Status of Microfinance In India 2016-17

Table 1.2 Loans Disbursed To SHGs

(No. of SHGs in lakh, Amount in crore)

Loans Disbursed to SHGs During The Year	Particulars	2014-15		2015-16		2016-17	
		No of SHGs	Amt	No of SHGs	Amt	No of SHGs	Amt
	Total No of SHGs	16.26	27582.31	18.32	37286.9	18.98	38781.16

%	19.03%	14.84%	12.67%	35.18%	3.60%	4.01%
<b>Of Total, All Women SHGs</b>	14.48	24419.75	16.29	34411.42	17.16	36103.13
	25.69%	16.07%	12.50%	40.92%	5.34%	4.92%
<b>% of Women Groups To Total</b>	89.05	83.53	88.92	92.29	9042	93.09
<b>Of Total, NRLM/SGSY Groups</b>	6.43	9487.69	8.16	6785.78	8.86	17336.26
	28.45%	27.26%	26.91%	76.92%	8.58%	3.28%
<b>% of NRLM/SGSY Groups to Total</b>	39.54	34.4	44.54	45.02	46.69	44.7
<b>Of Total, NULM/SJSRY Groups</b>	1.06	1871.55	1.11	2620.22	1.06	2675.77
			5.71%	40.00%	4.50%	2.12%
<b>%of NULM/SJSRY Groups to Total</b>	6.46	6.79	6.06	7.03	5.6	6.9

Source : Report Of NABARD: Status of Microfinance In India 2016-17

**Table 1.3 Loans Outstanding against SHGs on 31<sup>st</sup> March**

(No. of SHGs in lakh, Amount in crore)

Particulars	2014-15		2015-16		2016-17	
	No of SHGs	Amt	No of SHGs	Amt	No of SHGs	Amt
<b>Total No of SHGs</b>	44.68	51545.46	46.73	57119.23	48.48	61581.3
<b>%</b>	6.46%	20.06%	4.59%	10.81%	3.74%	7.81%
<b>Of Total, All Women SHGs</b>	38.58	45901.95	40.36	51428.91	42.84	56444.24
	13.27%	26.97%	4.61%	12.04%	6.14%	9.75%
<b>% of Women Groups To Total</b>	86.35	89.05	86.37	90.04	88.36	91.66
<b>Of Total, NRLM/SGSY Groups</b>	18.46	19752.74	21.91	26610.16	24.91	29994.43
	41.24%	94.08%	8.69%	34.72%	13.69%	12.72%
<b>% of NRLM/SGSY Groups to Total</b>	41.32	38.32	46.89	46.59	51.37	48.71
<b>Of Total, NULM/SJSRY Groups</b>	0.18	3462.62	3.13	3973.75	3.18	4133.29
			-1.57%	14.93%	1.60%	3.86%
<b>%of NULM/SJSRY Groups to Total</b>	7.12	6.72	7	6.97	6.55	6.7

Source : Report Of NABARD: Status of Microfinance In India 2016-17

Table 1.1, 1.2, 1.3 indicates total amount of savings, loan disbursement and loan outstanding of total SHGs under NRLM/NULM during 2016-17, 2016-15 and 2015-14. SHG - Bank Linkage Programme is a strong mediation in the stability of economy and employment creation in rural areas by making available the poor with the finance facilities for the creation and promotion of their livelihoods. Number of savings account linked with SHG-BLP programme as well as the credit disbursed and outstanding had shown the positive growth during the past three years. During 2016-17, loans provided by the banks to SHGs were 18.98 lakh (22% of total SHGs) as against to 18.23 lakh SHGs (23.2% of total SHGs) during

2015-16. As on 31 March 2017, 48.48 lakh (56.5%) SHGs were having Loans outstanding of R61,581 crore against 46.72 lakh SHGs (59.1%) and R57,119 crore as on 31 March 2016 which shows the decrease in the amount of Non Payment Accounts. The year 2016-17 has particularly proved a positive growth of SHGs.

## 6. Progress under MFI- linkage programme

The Progress under MFI-Bank linkage programme during the last 3 years is shown in Table 1.4 :

Amount in Crores

Particulars	2014-15		2015-16		2016-17	
	No. Of Accounts	Amount	No. Of Accounts	Amount	No. of Accounts	Amount
<b>Loans Disbursed by banks/FIs to MFIs</b>	589	15190.13	647	20795.57	2314	19304.38
		47.73%		36.90%		-7.17%
<b>Loans outstanding against MFIs as on 31st March</b>	4662	22500.46	2020	25580.4	5357	29227.45
		36.22%		1369%		14.25%
<b>Loans outstanding as % of fresh loans</b>		148.13		123		151.39

Source: Reporting Bank

Micro Finance Institutions (MFIs) act as an active programme for providing financial provision to the micro finance sector of the economy by mobilizing resources from the Banks and other financial institutions to the individuals or members of SHGs/ JLGs. The Microfinance Sector in India witnessed a remarkable growth over the period of time. The amount of credit available to the financially poorer section clients has upgraded to around Rs60, 000 crore and number of clients helped were approximately 40 million by March 2017. NABARD has provided financial assistance to MFIs since 2007-08 by the way of capital fund and short term fund in order to enable them to afford commercial borrowings from the banks. During the year 2016-17 apart from demonetization of SBNs, the repayment performance of many MFIs was affected due to rumors of loan waiver announcements.

**7. Role of NABARD as micro finance facilitator**

NABARD plays a crucial role as the main facilitator of microfinance initiatives in the country, particularly through SHG Bank Linkage and MFI models. It continues to provide sustenance in the form of grants for the formation and credit linking of SHGs with the formal institutions, creation of awareness and capacity building of various stakeholders through training, seminars, workshops etc. NABARD makes continue efforts to provide better livelihood among SHG members by establishing Livelihood and Enterprise Development Programme (LEDP), digitalization of SHGs etc.

NABARD has been giving continuous support to banks with 100% refinance facility towards their lending to SHGs and

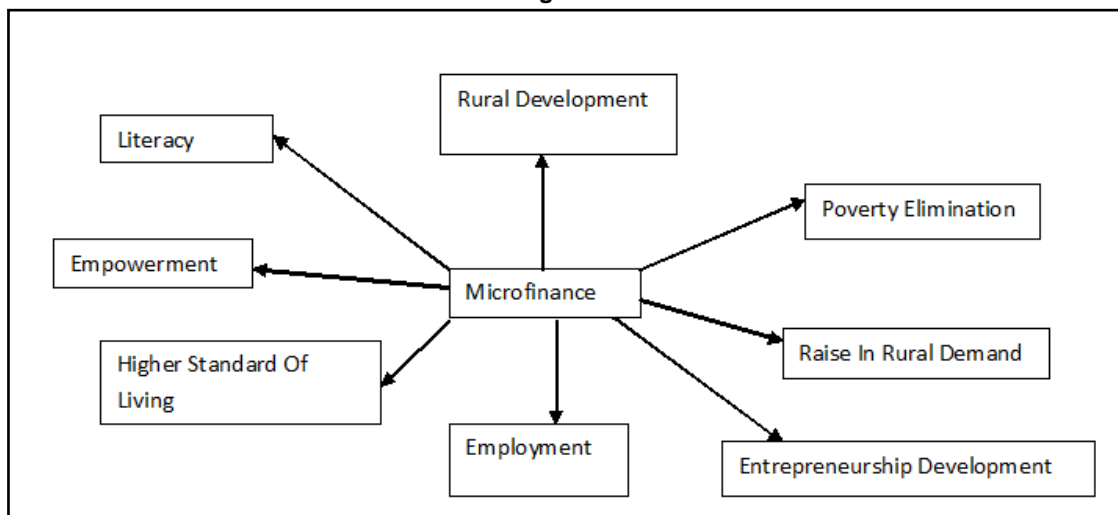
MFIs to enlarge their . During 2016-17, NABARD extended refinance to the extent of Rs 5659.51 crore for investment credit. Cumulative disbursement of refinance by NABARD for SHG lending now stands at Rs 43293.60 crore.

For providing a boost to the SHG-BLP a boost, Village Level Programs on SHGs are also initiated by NABARD with the support of banks and NRLM in 13 different States. The motive of these programs is to foster better understanding regarding the requirements of banks and SHGs. Moreover to solve issues like saving linkage, credit linkage and repayment, etc. at the ground level. These programs were well planned in various States viz. Bihar, Chhattisgarh, Assam, Himachal Pradesh, Gujarat, Jharkhand, Madhya Pradesh, Jammu and Kashmir, Odisha, Rajasthan, Uttarakhand, U.P & West Bengal. With such initiative taken by NABARD, Banks reported an increase in the credit linkage as while as account opening of new SHGs and improved repayment of bank loans which has resulted in a better coordination between banks and SHGs leading to a super flow of credit in these 13 not so economically well states. NABARD is taking the success of this initiative to the other level by spreading its outreach to other economically weaker states.

**8. Impact of microfinance**

The impact of microfinance on the different sectors of the economy can be well understood with the help of following figure:

**Figure 1.1**



**9. Conclusion**

Thus , microfinance helps in eliminating poverty by providing a regular source of livelihood, creating jobs, allowing children to go to schools, enabling families to obtain health care and empowering people to make their choices which best serve their needs . Microfinance has been globally established as a leading development tool to combat poverty (Reed, 2011). Experiences throughout the world have proven that microfinance can improve the livelihood of poor and low income people in the significant manner. This helps poor to

have access to savings, credit , insurance and their financial services so that they are able to cope up with the everyday demands more resiliently and confident. Access to microfinance contributes to poverty alleviation by not only helping in the poverty reduction at local economy but also poor participants of country (Kandhker, 2005)

The potential for growing micro finance institutions in India is very high according to the figures. As we compare the figures to check the progress of SHG and MFI models of microfinance from 2014 to 2017, there has been a significant

growth in terms of parameters viz. savings , loans disbursed and loans outstanding. Micro finance has outreached millions of people in the economy who were below poverty line. Though, The loan outstanding will consequently grow from the present level of about 1600 crores to about 42000 crores Annual growth rate of about 20 % can be achieved during the next five years. Government has to play proactive role in this case. People with some special skills have to be given priority in lending microcredit and should also be provided with post loan technical and professional aid for success of their microenterprises. If government and MFIs act together then microcredit can play a great role in poverty alleviation. Moreover more participation and inclusion of small level banks like Grameen banks should be taken into consideration as people are not much aware of the lending activities and the benefits of such rural sector banks.

Eventually it would be ideal to enhance the creditworthiness of the poor and to make them more

“bankable” to financial institutions and enable them to qualify for long-term credit from the formal sector..

No doubt NABARD has played a role of Parent when it comes to terms of lending and promoting the microfinance sector in the economy. Supporting with schemes like NRLM/NULM , Mudra, cash credit , KCC schemes, it has proved to be a crucial facilitator in terms of banking and lending facilities. With NABARD’s extension of refinance of approx. Rs.6000 crores for investment credit and also initiatives like village level programs in 13 states has turned out to be fruitful for the upliftment of the weaker section of the such states.

Microfinance institutions have contributed a lot and are still contributing by building financial discipline and educating borrowers about repayment requirements.

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